

105112

President's Commission on Organized Crime

**Record of Hearing II
March 14, 1984
New York, New York**

**ORGANIZED CRIME
and
Money Laundering**



PRESIDENT'S COMMISSION ON ORGANIZED CRIME

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INTRODUCTION

On July 28, 1983, President Reagan established the President's Commission on Organized Crime. Under Executive Order 12435, which established the Commission, the Commission is required to

make a full and complete national and region-by-region analysis of organized crime; define the nature of traditional organized crime as well as emerging organized crime groups, the sources and amounts of organized crime's income, and the uses to which organized crime puts its income; develop in-depth information on the participants in organized crime networks; . . . evaluate Federal laws pertinent to the effort to combat organized crime[;] . . . advise the President and the Attorney General with respect to its findings and actions which can be undertaken to improve law enforcement efforts directed against organized crime[;] and make recommendations concerning appropriate administrative and legislative improvements and improvements in the administration of justice.

In addition, the Commission is required to report to the President from time to time, and to submit its final report no later than April 1, 1986.

Money laundering -- the process by which one conceals the existence, illegal source, or illegal application of income, and then disguises that income to make it appear legitimate -- has long been a vital component of the activities of organized criminal groups. In the 1960s, the use of bank accounts in Switzerland and other foreign countries by organized crime figures, and the shielding of records on those accounts by foreign secrecy laws, became so substantial that Congress passed the Bank Secrecy Act, which requires financial institutions to maintain certain records and to report certain categories of financial transactions to the U.S. Department of the Treasury. Since the passage of the Bank Secrecy Act, however, professional money launderers have displayed increasing sophistication in the methods used to launder vast sums of money from narcotics trafficking, illegal gambling, and other illegal activities.

Because it is specifically charged with defining "the sources and amounts of organized crime's income, and the uses to which organized crime puts its income," the Commission decided to hold its second hearing, in March, 1984, on the topic of money laundering. At the hearing, the Commission sought to understand the problems associated with estimating the amount of organized crime's income, as well as the scope and dimensions of money laundering in this country. To that end, it called on members of its staff, cooperating witnesses with first-hand knowledge of the practices of organized criminal groups in concealing their income from detection by law enforcement agencies, and representatives of the Treasury Department with responsibility for overseeing compliance with the Bank Secrecy Act.

THE PRESIDENT'S COMMISSION
ON ORGANIZED CRIME

Public Hearing

The Association of the Bar
of the City of New York
New York, New York

March 14, 1984
10:00 o'clock A.M.

DEBRA SALINE
Court Reporter

THE CHAIRMAN: I would like to welcome you to this meeting of the President's Commission on Organized Crime. When the Commission first convened in Washington, D.C., we explored the wide range of activities in which organized criminal groups are engaged. The Attorney General, the Director of the Federal Bureau of Investigation and others informed this Commission of the broad scope of organized criminal activities, and encouraged us to conduct our investigation with a view towards developing new strategies to challenge criminal cartels.

Today we are gathered to build upon the foundation laid in Washington. As our investigation progresses, we shall meet in different locations across the country to examine both the regional and national problems engendered by criminal syndicates. We will also consider legislative and institutional reforms which will enable law enforcement authorities to confront more effectively the awesome power exercised by organized crime.

Organized crime today is a pervasive force which has spread its reach throughout society.

Although many think that organized crime is an institution which does not directly concern them, its pernicious influence affects the life of every citizen. Criminal cartels engage in a wide variety of activities and extract a toll from all sectors of our economy. The construction costs of many new buildings are inflated by these invisible exactions which enrich the coffers of organized crime. Many of the products we buy and much of the food we consume are made more costly because of the levy by organized crime. Too often we ignore these facts, because we are unaware of this silent toll levied by organized crime, but the influence of criminal cartels on our nation is real, and the threat is too great to ignore. No citizen is immune from the reach of organized crime.

At future hearings and in our reports, the President's Commission will expose the costs imposed by organized crime on our society. This Commission will strive to identify the means through which organized crime has made itself an integral aspect of our economy, and we shall recommend reforms which will allow law enforcement

authorities to rid the body politic of this disease.

As I indicated at our inaugural hearing, money is the lifeblood of criminal cartels. These groups are active in a wide variety of illegal undertakings, and they have demonstrated a marked propensity to expand into other areas which offer the prospect of substantial gain. It is this single-minded dedication to the pursuit of wealth, whatever the costs to society and innocent citizens that is the identifying feature of organized crime. As a free nation we cannot allow these organizations, concerned solely with self-enrichment, to continue expanding their influence and consolidating their power.

President Reagan has charged this Commission with the task of identifying the sources and amounts of organized crime's income, and this is the subject of today's hearing. Although law enforcement officials have long recognized the existence of criminal cartels, there has never been a reliable approximation of organized crime's wealth.

Despite the absence of specific figures, it is beyond dispute that the proceeds of organized criminal activity are enormous, and must be tallied not in the millions, but rather in billions of dollars. These funds are derived from a broad array of activities, including the distribution and sale of narcotics, labor racketeering, loan sharking, extortion, fraud, and gambling. The profits, however, cannot be utilized directly, but must be "recycled" so they may be invested in legitimate enterprises. In addition, criminal cartels seek to prevent law enforcement authorities from tracing their funds to the illegal activities from which they were derived, and laundering schemes fulfill this objective by creating a circuitous and sometimes baffling paper trail.

These schemes are conducted in a number of different fashions. A criminal may simply deposit large sums of cash with an off-shore financial institution. More sophisticated schemes rely on American banks to transfer funds to countries where the disclosure of such transactions is prohibited under so-called bank

secrecy laws. Criminal organizations have also employed foreign and domestic brokerage firms to purchase securities which can be easily transferred and converted into untraceable cash, and recently, legalized gambling operations have become a conduit for funds derived from organized criminal activity.

Whatever technique is employed, the result is the same. When criminals launder funds they avoid both taxation and the possibility of loss in civil forfeiture proceedings. Moreover, these foreign banking transactions, which include the deposit of tens of billions of dollars in off-shore banks, also adversely affect both the national and international economies. The problem with which we are most concerned, however, is that these schemes enable organized crime to invest the proceeds of its illegal activities in the legitimate economy without fear that they may be traced by law enforcement authorities.

In our final report, we shall explore in some detail the various techniques employed to launder funds, and we shall examine the economic implications and costs of such schemes.

Today our inquiry is more limited. We will receive testimony concerning a laundering operation conducted in New York City over a period of several years, which successfully recycled hundreds of millions of illegally-obtained dollars. The participants in this scheme did not earn the funds they were laundering. Instead, they occupied a unique position in the underworld -- they were specialists, who, for a fee, laundered money for narcotics dealers and others engaged in organized criminal activities. We shall also examine the difficulties inherent in calculating organized crime's income, and some of the economic consequences of financial laundering schemes.

Our hearing today represents only the beginning of a long journey. Organized crime has become such a pervasive force in our society, and its implications and consequences are so widespread, that we can only scratch the surface of the problem at this hearing. We shall continue with our investigation, however, and through our public hearings and reports we shall expose to the American public the cancer of organized crime.

As always, our work shall be directed to the mandate which the President has directed us to fulfill. As I have noted, we shall proceed with our investigation with a view to developing new strategies, proposals for legislative reform and institutional recommendations which will enable federal, state and local authorities to respond with greater efficacy and success to the threat of organized crime.

On behalf of the Commission I would like to express our regret that several of our members could not join us today. Chairmen Thurmond and Rodino must attend to their pressing duties in Congress. Justice Stewart is also unable to attend today's hearing because he is engaged in an international arbitration proceeding abroad.

(continued on following page.)

THE CHAIRMAN: (continued) Mr. Harmon,
please call your first witness.

MR. HARMON: Thank you, Mr. Chairman.

The first witness is Manuel J. Gonzalez;
the chief investigator for the President's
Commission.

I would ask you to take the stand and raise
your right hand.

M A N U E L J. G O N Z A L E Z, having been
first duly sworn by the Marshal, was examined
and testified as follows:

EXAMINATION

BY MR. HARMON:

Q Investigator Gonzalez, would you please tell
the Commission what your background was before obtaining
the position of chief investigator with the President's
Commission?

A Beginning in 1967, and during my first years
with the New York City Police Department, I was assigned
to the Central Intelligence Bureau. I was part of an
undercover unit which was targeted at organized crime.

The unit was made up of officers with varied
ethnic backgrounds, i.e., Italian, Hispanic, Black, Irish,
Jewish, et cetera. Our responsibility was to collect

intelligence information targeted at New York organized crime families. Our ethnic backgrounds were used as a cover and a means to infiltrate ethnic criminal activity, associated with the five families of La Cosa Nostra in New York City.

The intelligence information collected by the unit was then disseminated to investigative units within the department for appropriate action. On occasions, we were given specific assignments to ascertain information in a particular area or attempt to infiltrate a group.

Q At some point did you become a special agent with the Federal Bureau of Investigation?

A In 1973, I became a special agent of the F.B.I. Initially, I was assigned to the investigation of general criminal activity, then organized crime. This was followed by investigative assignments regarding Cuban and Puerto Rican terrorist groups, including the FALN. Until my assignment as chief investigator to the Commission, I had been the supervisory agent in charge, first, of the Bonanno crime family squad, then the Luchese crime family squad in New York City.

THE CHAIRMAN: Is that Luchese?

THE WITNESS: Yes.

Q Investigator Gonzalez, the President has asked the Commission to assess the economic impact of organized crime in all its forms.

Have you begun along with the staff to undertake this task?

A One of the mandates of this Commission is to determine the amount of income generated by organized crime.

In order to accomplish this goal, the staff elicited the cooperation of many Federal, State and local law enforcement agencies to assist in compiling this information. In addition, the staff reviewed studies, reports and testimony that have been made public in the past several years, and some which have not been made public.

In addition, we have conferred with many experts in the field of organized crime.

The staff has concluded that there is presently no available estimate of organized crime income that could bear close scrutiny.

Q Based on your own experience, Investigator Gonzalez, based on your analysis and conversations which you have had with law enforcement agencies, including your own, the F.B.I., are there any factors which may begin to

explain the absence of any such estimate which is credible of organized crime income overall?

A The fact that law enforcement has not undertaken the task of determining the income of organized crime is a reflection of the criminal justice process served by its agents.

Our system of justice holds accountable persons who have committed specific crimes. Gross revenues of the organization to which a criminal defendant belongs is ordinarily not important to the investigation of particular cases.

Even the compiling of data which had been gathered incidentally on a case-by-case basis would not give a true picture of the income of organized crime.

Finally, the fragmented jurisdiction of federal law enforcement agencies insures that no one agency has all of the information from which a determination of income from organized criminal activity might be determined.

Q Well, have there been any efforts to estimate the income of organized crime taken as a whole?

A There has been an effort to estimate the amount of income generated from illegal sources, which occasionally has been repeated as an estimate of

organized crime's income. In 1979, Jack Key, staff investigator for the Permanent Subcommittee on Investigations, using only information publicly available, concluded that income from illegal sources ranged from \$121 billion to \$168 billion annually.

Mr. Key was astute enough to recognize that these figures were "subject to debate" because the way in which the underlying data was collected was unknown and not verifiable.

Key also pointed out that his computations were incomplete because they did not take into account criminal activity such as auto theft, loansharking, hijacking and labor racketeering in all its forms.

But even if Key's estimate is only a rough approximation of the economic power of organized crime, or serves as a starting point for the work of the Commission, the magnitude of the problem is evident. Using Key's low estimate of \$121 billion and even reducing that by 30 percent as an arbitrary margin for error \$84 billion as income generated by organized crime and comparing it to several industries and the GNP of several countries, the economic potential of organized crime becomes apparent:

The revenue for General Motors in 1983

was \$74.6 billion.

The revenue for the aerospace industry in 1983 was \$74.7 billion.

The revenue for the steel industry in 1983 was \$53.7 billion.

The gross national product of several countries compared to this \$84 billion figure. Austria, \$68.4 billion.

Denmark, \$66.4 billion.

Greece, \$43.8 billion.

At the outset then there exists some opinion that the revenues of organized crime are comparable to those of major industries.

The staff of the Commission cannot accept Mr. Key's approximation of the income from illegal sources any more than he could.

However, assuming the correctness of his estimate and that the figure used today of \$84 billion were subject to an income tax of 50 percent, the \$42 billion thereby collected as income tax would dwarf the Department of Justice budget, fiscal year, 1985, \$3.86 billion and that of the City of New York, fiscal year for 1983 and 1984, \$18.3 billion.

Q Well, has the Commission staff formulated a plan to attempt to estimate the income of organized crime?

A The Commission is retaining a group of economic consultants to develop an approach to determining the amount of organized crime's income. In turn, information from local, state and federal law enforcement agencies will provide the factual basis for the work of the economists.

 This will mark the first time that a unified, centralized effort has been made to determine organized crime's income based on information available to law enforcement.

Q Well, would such an estimate be of value to law enforcement?

A Estimates of organized crime's total income would not be of any particular value to street agents and detectives. However, accurate estimates would define the nature of their work by causing law enforcement resources to be focused on specific problems.

 The extent of the economic influence of organized crime also may be valuable to policy makers. What might otherwise be viewed as extraordinary measures to prevent the distribution of the proceeds of narcotics trafficking could be warranted by the magnitude of the problem presented.

 For example, the solution to the money

laundering which we will explore at today's hearing, might be found in far-reaching decisions made at the highest levels of government, which could affect the financial institutions of this and foreign countries, as well as foreign governments.

Q Now, do traditional organized criminal elements which we come to know as the Mafia and La Cosa Nostra, to your knowledge, have any way, any centralized way of keeping track of their own income?

A Based upon my experience in law enforcement, the traditional organization of a family of La Cosa Nostra contains no individual who is responsible for keeping records as to the income generated by that particular family.

These families do not have a position of treasurer or controller which, if it existed, would lead one to believe that there is a central depository for this information. The reason for not having such a position is obvious.

If this information were centralized, it would naturally become the target of all law enforcement efforts. The seizure of these records, if they existed, would be devastating to the group. In addition, traditional organized crime does not have a central

meeting place where all members congregate to discuss business.

Again, the reason is obvious. These traditional groups are factionalized to the point that an individual member only knows the other members of his crew, but may not be aware of other members in other crews. Only the highest levels of the family hierarchy in the traditional groups know the identities of the membership as a whole.

This compartmentalization has contributed to the success of La Cosa Nostra, and to its entrenchment in many of the institutions of American society.

Q Given the fact that it is difficult to ascertain organized crime income and criminal organizations themselves may not fully recognize the magnitude of their own economic power, does the extent to which these groups launder money provide some approximation of income earned by them?

A At this hearing today, we have isolated one grain in the sand of organized crime. Through the testimony of Special Agent Edward Guillen of the Drug Enforcement Administration, we will explore how it was possible for one man to launder over \$150 million on behalf of narcotics traffickers.

Future developments will tell whether we will be able to report back to the Commission the impact of many such men. But investigations such as Agent Guillen are a positive indication as to the amount of money generated by organized criminal activity.

Q Well, how do the families of La Cosa Nostra keep track of their own finances?

A There are few people available who are in a position to answer that question. One of those is James Fratianno, former acting boss of that LCN faction in Los Angeles.

Mr. Fratianno has testified in Cleveland, Los Angeles, New York, Miami and Chicago, resulting in the conviction of approximately forty defendants. Included in this figure were Frank "Funzi" Tieri, Boss of the Genovese Family in New York.

James Licavoli, Boss and Angelo Lonardo, underboss, Cleveland Family. Dominick Brooklier, Boss and underboss Michael Rizzitello, Los Angeles Family.

In addition, he has testified at a sentence hearing which resulted in high sentence for Colombo Family Capo Tommy Farese and John "Johnny Irish" Matera. His testimony is still being utilized by the government in other areas.

Fратианно's testimony may also provide some basis for comparing the way in which certain elements of traditional organized crime have handled their financial affairs, as compared with emerging groups such as South American cocaine traffickers.

MR. HARMON: Thank you, Investigator Gonzalez.

Mr. Chairman, the witness is available for questions by the Commission, if there are any such questions.

THE CHAIRMAN: I have no questions.

Do any of the Commissioners have any questions?

COMMISSIONER ROGOVIN: I am just concerned about one thing you said, Mr. Gonzalez.

You said that the economists were going to base their theories on fact, but, you say it is very hard to collect the facts.

How are we going to collect these facts from local enforcement regarding money?

THE WITNESS: One of the first things they have to study is the feasibility to conduct the study's feasibility.

COMMISSIONER ROGOVIN: Okay.

THE CHAIRMAN: Thank you.

MR. GONZALEZ: Thank you, Judge.

THE CHAIRMAN: Call your next witness.

MR. HARMON: The next witness is
James Fratianno.

We have taken certain security precautions
in view of Fratianno's past involvement with
La Cosa Nostra.

THE CHAIRMAN: I ask that the cameras
be turned off at this point.

MR. HARMON: We would like the cameras
cut off until Mr. Fratianno has taken his position
as a witness.

(continued on following page.)

THE CHAIRMAN: Call Mr. Fratianno.

MR. BRILL: Step away from the cameras,
Members of the Press.

You will have better sound if you move to the
right.

MR. HARMON: May I proceed, Mr. Chairman?

THE CHAIRMAN: Yes.

MR. HARMON: Could you raise your right
hand and give your attention to the Marshal.

J A M E S F R A T I A N N O , having been first
duly sworn by the Marshal, was examined
and testified as follows:

EXAMINATION

BY MR. HARMON:

Q Tell the Commission your name.

A James Fratianno.

Q How old are you, Mr. Fratianno?

A Seventy.

Q Now, Mr. Fratianno, at some point, did you
become what is known as a made member of a family of
La Cosa Nostra?

A Yes, I did.

THE CHAIRMAN: Would you please try to
speak into that microphone. Please get closer.

THE WITNESS: Yes, I will.

Q In your own words, would you explain to the Commission how it was that you became a member of a family of La Cosa Nostra?

A Well, number one, you have to be proposed. Somebody has to propose you.

THE CHAIRMAN: Speak up, please.

A (continuing) Somebody has to propose you. I think I came to Los Angeles in 1946 and they made me in late '47 or early '48.

Q Now, could you in some more detail explain how that took place to the Commission?

A Well, I, myself, didn't know what was happening, but they decided to put me in and Johnny Roselli was my sponsor and he told me that -- don't worry, you are going to be taken care of and that one of these days you are going to meet a lot of nice people.

So, the day arrived and they took me to a winery.

Q Who was Johnny Roselli at that time?

A Well, he was just a soldier.

Q A soldier in what?

A In the La Cosa Nostra.

Q In what part of the country did you live at the

time that this took place, Mr. Fratianno?

A Southern California.

Q Had you, prior to Johnny Roselli telling you this, had you been engaged in any criminal conduct on your own part?

A Yes, sir.

Q In general, can you describe that to the Commission, please?

A Well, at that time I don't recall if I did anything serious, but they were having a problem with Mickey Cohen.

Mickey Cohen was Jewish and he did not belong to the La Cosa Nostra. They tried to cut in on what he had. He had all the gambling and all the illegal activities.

So, we start trying to cut in with him and we more or less got into a war where there was a lot of people killed.

THE CHAIRMAN: Mr. Fratianno, please, we are having difficulty with the amplifying system.

Will you please speak louder and speak right into the microphone. Get a little closer to it.

Q Did you participate at all personally in this war that existed between elements of La Cosa

Nostra who were attempting to move in on Mickey Cohen's gambling business?

A Yes. Quite a bit after I was a made member.

Q So, you were taken to a winery, you testified, and you really didn't know what was going to take place, is that correct?

A That's correct, sir.

Q What did take place when you arrived at this winery?

A Well, when we arrived there, there was a long table with about fifty to sixty people present.

Q What occurred when you walked into the room?

A Well, they took me in first and as I walked in there, there was this long table with a sword and a gun crossing one another.

I just stood up and they stood up and they locked hands and the boss of the family, Jack Dragna said a few words in Italian. It took maybe two, three minutes and then they pricked my finger with a sword and drew blood and he took me around to every member, introduced me and kissed them on the cheeks.

Q Now, what was the result of having gone through this ceremony?

A Well, you have to go through this ceremony and then you are a made person.

Q What does that mean?

A Well, a made person, you are in the La Cosa Nostra.

Q Now, are there certain rules once one is made a member that became obvious to you during the course of the ceremony?

A Yes, sir.

Q What were those rules?

A Well, they tell you later, they tell you what -- while I was in the room, they says that you could not fool around with narcotics.

Q Why was that?

A Well, because it drew too much heat on the families. They never fool with narcotics as long as I can remember.

Q That means that the family as an institution was not involved in the narcotics trade?

A No.

If you wanted to, you would have to do it on your own.

In other words, there wasn't a law that you couldn't, but they rather you didn't.

Q And, if you were arrested for narcotics trafficking would the family back you by providing you with lawyers and other services?

A No, they would not.

Q What were some of the other rules that were explained to you?

A Well, they said that you could never talk to any official of any sort, F.B.I., policeman, District Attorney. If you did, you had to lie.

They also tell you, you come in alive, you go out dead.

They also say you never fool around with anybody's wife, their daughters, their girlfriends. They are very strict on that rule.

Q Now, as a result of becoming a member of a family of La Cosa Nostra, did that mean something for you in the way of being able to earn money?

A Yes, it did.

Q Can you explain that, sir?

A Well, it gives you recognition.

You can go all over the country. You are more or less introduced to people. Nobody would ever bother you, whatever you did, so, you more or less had a free ride, carte blanche, let's put it.

Q Now, Mr. Fratianno, initially after becoming a member of the family, what type of income earning business did you get involved in at the beginning?

A Well, I was shylocking, booking horses. I had a couple of bars. I had a dress shop in Los Angeles.

Q At any time did you get involved with labor unions?

A Yes, we did.

Q For what reason?

A Well, to just more or less move in on them, you know, get some money and open a dress shop or open a factory. We got involved with that.

Louie Dragna opened up a dress factory and in order to do that we had to -- we met with some people from New York that were involved with the garment industry, Dubinsky, and he told us to hurt the guy that they sent to Los Angeles and in return he would -- after he got hurt, he would return to New York and they would send them to us and that is what happened.

Q Well, how would controlling a labor union able you to make more money as a member of La Cosa Nostra?

A Well, by being involved with the labor union,

you could go and if somebody didn't belong to the union, you could go and kind of shake them down. You could get materials cheap. You could open a factory and get a lot of the business. They would recommend that they buy from you.

Q So, in essence, are you familiar with the term known as the edge?

A You have the edge, you're right.

Q What does that mean, Mr. Fratianno?

A Well, you have the edge on other people because you are in with the bosses of the union and they're not.

Q Now --

A We're giving them protection.

Q Which family were you made a member of in the winery, Mr. Fratianno?

A The Los Angeles family.

Q At any point, did you hold any position with that family other than being a member of the family?

A Yes, sir.

Q What position did you ultimately obtain in that family?

A Well, in 1952, I became a capo, which you call a captain and in 1975, I became the acting boss with

Louie Dragna.

Q Now, Mr. Fratianno, once you obtained the rank of capo and ultimately became the boss of the Los Angeles family, was there any way that you as the boss of the family were able to keep track of the income, the money made by your subordinates in the family?

A Well, no, you don't keep track. You just put people there that you can trust, members of the family or sometimes you use front men, but you don't keep records. That was proven when they found that slip with Frank Costello.

Q What do you mean by that, Mr. Fratianno?

A Well, since then they found a slip in his pocket with some earnings from the Tropicana and they lost millions of dollars, they had to sell the place.

So, actually, they don't keep no records. They just put people there that they can trust.

Q Now, at any point in your career, Mr. Fratianno, did you own a piece of a casino in Las Vegas?

A Well, yes. We had a casino in 1965.

Q Which one was that?

A Well, now it is the Aladdin. At that time they called it the Tally Ho.

Q When you say, "we", who are you referring to?

A Our family.

Q When you say that you owned a piece of that casino, was your name on the deed?

A No. No, it wasn't, sir.

Q What do you understand to be by ownership, owning a part of a casino?

A Well, we had -- our man was going to run the casino.

In other words, we didn't own part of it on paper, but we were going to run and we would count the money and we would take what we wanted and leave the rest for dividends for the people that owned it.

Q Now, Mr. Fratianno, were you ever told by anyone the amount of money that a particular casino earned in a certain year and I am specifically referring to a Mr. Rothkopf?

A Yes, sir.

Q Would you explain that to the Commission?

A Well, Jack Dragna and myself were talking to Louie Rothkopf in 1952.

Q Who was he, Mr. Rothkopf?

A He was the main owner of that, the Jewish

family that was there at the time. There was Morris Kleinman, Lou Rothkopf, Morris Dalitz, Georgie Gordon, it was a combination that came out of Cleveland and they bought that casino from Wilbur Clark.

Q What was Dragna's position at that time?

A Dragna was the boss of the Los Angeles family and we were good friends so, he told us that they made so much money the year before that they only declared 12 million and they made 36 million so, they skimmed 24.

Q Now, as individual members of a particular family earned income, is there any requirement in any way that that member of the family pass a certain percentage of this money on up the ladder to the capital, for example, and ultimately to the boss?

A Not necessarily, no.

It all depends how you make the money or if it's -- what the amount is. You are more or less on your own. If you only make a few thousand dollars, they don't bother you.

If you make maybe three, 400,000, then that is another story. You would have to go to the boss and he would take, you know, split it up the way he saw fit.

Q Well, you referred to previously the need to trust the people that you work with as a member of the family.

Were there instances where money earned by an individual member was not properly accounted for by that member?

A I don't get what you mean, sir.

Q What action was taken in certain instances?

A Oh, if he took money and stole it, would you say?

Q Well, for example, yes.

A They would kill him.

Q Are you aware of situations like that, that took place?

A Not exactly. I know one instance that this guy had a business dealing and the boss called me and we killed him and buried him.

Q Now, Mr. Fratianno, aside from the structure of the Los Angeles family, is there something known as the Commission within La Cosa Nostra?

A Yes, sir.

Q What is the role of the Commission?

A Well, the Commission has nothing to do with the families, all they do, if there is a problem between

one family to another, they more or less, you go to them and they settle the dispute, but they have nothing to do with what we do, who we kill, who we do business with. They don't participate in that.

Q Now, in 1976, did you come to New York City?

A Yes, sir.

Q What was the reason for that, Mr. Fratianno?

A Well, I met a fellow that had 25 percent of the Westchester Premium Theatre and he didn't know too many people and he thought I found this out later that he had a million four hundred thousand in the club and he thought that he was going to get muscled out of it, so he needed some help and he took me along with him and told everybody that I was his partner.

So, he more or less used me as a protection, so he wouldn't lose his money.

Q Why did you come to New York then?

A Well, to see the Sinatra concert. I was at all his concerts.

Q At anytime did you meet an individual named Paul Castellano when you came to New York?

A Yes, sir.

Q What was the reason for that?

A Well, he wanted to talk to me in regard to something that happened in Los Angeles.

Somebody in his family was in partners with a bookmaker and we told this person that he could not come in to California and do business unless he got permission from us.

So, we more or less had what they call a sit down. I met with Paul Castellano who was the acting boss. Joe Gallo was the consigliere of the family, and the acting underboss was Bruno at that time, somebody was in jail.

Q This was to resolve the territorial dispute where one of the New York families was coming into your operation in Las Vegas?

A That's correct.

Q To your knowledge, did Paul Castellano own any legitimate businesses in New York City or any place else?

A He is in business, meat packing.

Q Now, at anytime that you were in New York, did you attend a meeting of the Commission?

A No.

Q Were you present when any Commission business was discussed?

A No, they don't meet like they used to.
See, they meet like one on one.

I was with Funzi Tieri where he had to go to Chicago and talk with Joey Aiuppa so, they don't meet all at one time because they are afraid maybe of getting caught or whatever, you know, exposed.

(continued on following page.)

BY MR. HARMON: (continued)

Q If I can just change the subject for a minute, Mr. Fratianno.

You have spent a number of years in jail, is that correct, sir?

A That's correct, sir.

Q Either when in jail or at any other time, did you deal with any other criminal organizations aside from La Cosa Nostra?

A Well, I knew a lot of the people in the Mexican Mafia.

Q Would you explain that in your own words to the Commission?

A It originated in Folsom.

Q That is Folsom Prison?

A Yes.

Q Where is that located?

A Sacramento.

Q Okay.

Would you explain that.

A Well, the Town of Folsom, that is right outside of Sacramento.

Q Explain that.

A Well, this Irishman that started this, by the

name of Joe Morgan --

Q Started what?

A Mexican Mafia. He was Irish, but he talked very fluent Mexican. He's got one leg and they got together, ten or twelve Mexicans and they formed this Mexican Mafia.

Q Did they consult you at all in their operations?

A Well, later years, in 1970, they used to just kill people right out in the yard, they didn't care. They just were crazy and they were going to kill two other guys and I told the guy that was the head of the Mexican Mafia in San Quentin, I said if you are going to do something, why don't you do it so you can get away. Do it in the show.

So, about two months later they killed both of these guys in the theatre and nobody got caught.

Q Now, aside from your dealings with the Mexican Mafia, and their consulting you in jail, outside, did La Cosa Nostra at least, the Los Angeles Family, ever operate along with or rely upon the Mexican Mafia?

A No, they didn't.

Q What was the difference in the nature of what they did as opposed to the nature of what La Cosa Nostra did?

A Well, the Mexican Mafia dealt just in narcotics, that is all they dealt in is narcotics.

Q Now, Mr. Fratianno, you said that you at some point owned part of a casino.

How was it that you paid for your ownership interest in that casino? How actually was it done?

A Well, this fellow, Eddie Nealis, he was the owner. He was the originator of the casino and he had other people put shares in like Shirley McLaine's husband had 15, 20 percent and I mean on paper, and a couple of guys from Los Angeles went to shake them down and he knew he needed some help.

So, he called Frank Bompensiero and myself and he said look these guys are after me and he said, get them off my back and you got half of the casino.

Q Now, one of the things that the Commission is exploring today is the laundering of money outside of the United States moving them from inside the country to outside the country.

Was that ever done by your family in Los Angeles, to your knowledge?

A No, it never has and I never heard of it in families. They more or less use front men to -- like if they want to open a casino, generally they don't put no money in anything. They are their protector.

In other words, when they are involved in a casino nobody will bother it.

Q As far as income taxes are concerned, Mr. Fratianno, is there any way that you handled on your tax return income that you had received from illegal sources?

A Myself?

Q Yes.

A Well, I would put miscellaneous down.

Q What do you mean by that?

A Well, the Internal Revenue Service asked me and I said, well, it's just money I have won gambling, miscellaneous, bookmaking, gambling, just illegal things and I put miscellaneous.

Q Why did you even bother to report on your tax return the fact that you had earned income?

A Well, you have to report something.

Q For what reason?

A Well, they put you to jail. You have to either borrow some money or something if you want to buy

a house. They would say where did you get the money.

Q Okay.

 Mr. Fratianno, well, when you were the boss of the family in Los Angeles, were you able or did you find it necessary to know the income of your family as a whole in order to run the family and control the family?

A I don't understand. You mean how much money was made?

Q Right.

 By the family as a whole, is that important to you?

A No, a lot of the people in the family had their own legitimate businesses and what they made was their business.

 The only thing we were involved in was the illegal activities.

 In other words, shylocking, bookmaking, labor racketeering, extortion. We knew what was going on with that end of the situation.

Q And your family kept no records as to the income which it had received from various sources, is that right?

A None whatsoever.

Q Now, are you able, in any way, Mr. Fratianno, to provide any estimate of the income of the five families here in the New York City area?

A I don't think there is anybody in the world that could tell you that or -- it would run into millions and billions.

MR. HARMON: I have no further questions for this witness.

Mr. Chairman, the witness is available for questions by the Members of the Commission.

THE CHAIRMAN: I would like to ask you two or three questions, Mr. Fratianno.

EXAMINATION

BY THE CHAIRMAN:

Q At one point you said in your testimony that the members of the La Cosa Nostra don't put in any money and they get an interest and what they give in return is protection.

What did you mean when you said about a moment or two ago in response to Mr. Harmon that the bosses of La Cosa Nostra didn't concern themselves very much with the legitimate businesses because that was the business of the individual member.

Did you mean that he put any money into that?

A Oh, sure. They invest their own money.
I didn't mean that. I'm saying that in Las Vegas,
that I know, like I will take the Dunes --

Q You are talking about gambling?

A Right.

Q Loansharking and so forth?

A Right.

See, somebody that owns a place in Las Vegas,
that is a little shady, he needs a little help because
if somebody bothers him who is he going to get to get
him off his back.

Let's take Morry Shenker, Anthony Giordano
from St. Louis, he was his man. Nobody could go to
Shenker and try to do anything to him because he would
call Tony, Anthony Giordano would take care of him.

There is times they would put up money,
they were going to buy a club in North Lake Tahoe,
the Crystal Bay. We had a guy who was going to buy
it for us and the Chicago family was going to put up
the bankroll. We needed at that time two, \$300,000.

Well, they put up the money like for
bankroll, they do, but what I'm saying is, a lot of times
they don't have to put up a nickel, because the person
that buys it needs protection.

Q So, that if a member of the mob goes in to the dress business he puts up some money of his own?

A Oh, absolutely.

Q What happens when you get down to buying a house or a car or something of that nature, do you do that in your own family?

A Absolutely.

Q You put up your own money?

A Oh, sure.

Q You don't use anybody else's name, put it in somebody else's name?

A To buy a home, if it's a big business, they more or less -- see, if a person can show the money they more or less use front men.

Q Supposing you were to make some money in La Cosa Nostra, how would you shield your activities so that you could spend that money without fear of detection by the Internal Revenue Service?

A I can't do it. They more or less hide it.

Q Hide it?

A Oh, yes.

Q You hide the cash?

A Well, sure. There has been a lot of people

that they went and found a million dollars, 275,000.

Q Where do you hide it?

A They found one in New York where they had it in the attic in shoe boxes, a million dollars. One of the bosses in Buffalo, they found, I think five, \$600,000. Here, last three or four years, they found 275,000 in Joe Batters' house. They found \$275,000 in Joe Valachi's, under the sofa. This is all the F.B.I. found.

So, they more or less hide their money. They don't -- I've never heard of them laundering the money through banks. I have only heard of one person that had money in banks in Switzerland, a guy by the name of Joe Adamo and Meyer Lansky, that's a few years ago.

Q One last question.

Is there any method by which the boss of the family knows whether he is getting his fair take from the members of the family, their earnings?

A No, he doesn't.

As a rule, I'd say 99 percent, they usually have members of the families, a soldier running it, and they're trusted.

THE CHAIRMAN: That is all I have.

Do any members of the Commission have any

questions?

Commissioner Manuel.

EXAMINATION

BY COMMISSIONER MANUEL:

Q Mr. Fratianno, when you were active with the La Cosa Nostra, did you have occasion to meet the man by the name of Sidney Korshak?

A Yes, sir.

Q Would you tell the Commission what you know about him and what function, if any, he provides for organized crime?

A He is a Chicago man for 30 years that I know of. He practically runs the Mafia industry.

I happen to know this because at one time we went to him, he runs the Teamsters in Western Conference. I happen to know that Chicago -- when we talked to Sidney Korshak, they called us in.

We had a meeting and he told us to let him alone because he's been their man for thirty years. Well, I have known this right along, but, he operates all the unions, get a million dollar fee. He pays his taxes on that money and he gives them the cash under the table.

Q Would Sidney Korshak be the type of person

you had in mind when you were telling the Commission about front men that operate for organized crime?

A He is one of them, yes, sir.

Q Would you name some others for the Commission, please, specifically those in Vegas?

A Jimmy Napoli, from New York.

Q Okay.

A He was a front man for the Tieri family for years, although in the past seven, eight years, they made him a member.

Gussie Alex from Chicago.

Q You mentioned Meyer Lansky a moment ago. How important was Meyer Lansky in terms of handling money or providing front activities?

A He always had front activity.

Gus Greenbaum was one of his front men for years. He was owner of the Flamingo and they eventually killed him.

Morry Shenker, more or less a front man for the St. Louis family. There was a lot of them, a lot of them that I don't know.

COMMISSIONER MANUEL: Okay, Mr. Chairman.

THE CHAIRMAN: Commissioner Methvin.

EXAMINATION
BY COMMISSIONER METHVIN:

Q Mr. Fratianno, you mentioned the Cleveland group, that in 1952, they had a casino in Las Vegas.

Can you tell us anything about the distribution of the proceeds from that group in Cleveland amongst the Cleveland associates?

A Well, they would skim the money and I know that the person that they bought the place from was -- 17 percent, Wilbur Clark, he never got one nickel. They wouldn't allow him in the counting room and he was original owner.

They would count the money and divide it amongst themselves, although, they would give the Cleveland family a percentage of the money.

Q You mentioned Moe Dalitz, is he one of these?

A Yes, he is.

Q Can you tell us who else in the Cleveland family?

A Morris Kleinman, Moe Dalitz, Sammy Tucker, Ruby Kolod.

Q These are not in the Cleveland family?

A No, see, they are Jewish.

Q Tell us who in the Cleveland family shared proceeds.

A Johnny Scalish, Al Polizzi.

I was there when they met with Morris Kleinman and Moe Dalitz in 1952, where they had a meeting where they got a certain percentage of the skin money.

Q Can you tell us who is Maishe Rockman?

A Johnny Scalish's brother-in-law. He handled the Pressers. He handles all the payoffs for the Cleveland family.

Q Which Presser are you talking about?

A Both of them, Bill Presser and Jackie Presser.

Q You are using --

A I had dealings with them, so I know. Anytime I had to meet with Jackie Presser I would go to the Cleveland family, the boss, and they would call Maishe Rockman and he would get a hold of them and he would meet.

Q You would meet with both of them together?

A No, Maishe would bring him and I talked to Jackie myself.

Although, there were times when Maishe was present.

Q Where would he bring him?

A Well, I met at Maishe's house one time.

I met him on Mayfield Road on the hill, two or three times.

I met with Jackie at his -- at the union hall.

Q What was the nature of your business?

A With Jackie Presser?

Q Yes.

A Well, we were starting a dental clinic in Warner, Ohio, with Allen Dorfman. At that time, Allen Dorfman was on the outs with the Teamsters and he told me at the time that he doubted if his name being brought up would do any good and I said, let me handle that.

So, when I talked to Presser, he knew that the Cleveland family was involved with me on this dental clinic and he told me to tell Allen Dorfman that he had his bluffing.

Q When was this, please?

A 1975, '74, one of them years.

Q This was involving money from the dental clinic in Warren, Ohio?

A We were going to start one. In fact, it is running now.

Q You mentioned other meetings. Could you tell us about some of those other meetings, what they dealt with?

A Well, one of the meetings was with Rudy Tham

who was the International Organizer in San Francisco, he wanted to get straightened out with the Teamsters, because he was a Hoffa man and he told me if I would straighten him out he would give me his dental program and I had to go to Jackie Presser to try to straighten Rudy Tham out. So, Jackie told me, you know, he's a Hoffa man and could you control him and I says, don't worry about it, I can control him and I set up a meeting with Jackie Presser.

Fitzsimmons, at the La Cosa Nostra --

Q Did you attend that meeting?

A No, I did not.

Q There was one occasion or more than one occasion where you had some phone calls to Jackie Presser, I believe, from a pay phone near your dress shop in San Francisco?

A I called him a few times. I don't recall from where.

Oh, another thing, I met him at the Aladdin Hotel during a convention.

Q When was that?

A When they had the convention, I think, it was 1976.

Q Do you remember what the business was on that

occasion?

A No, just social.

He was there and I happened to be there and we just discussed a lot of things.

Q Do you remember what the phone calls were about?

A No, I don't.

THE CHAIRMAN: I have one question.

EXAMINATION

BY THE CHAIRMAN:

Q You mentioned Scalish?

A Yes.

Q Was he involved in the Apalachin?

A Yes.

EXAMINATION

BY COMMISSIONER SCLAFANI:

Q Although you can't give us an estimate as to the amounts of organized crime in 1975, when you were boss of the Los Angeles family, what was the approximate income from your organized crime there and can you break it down for us in reference to skimming, loansharking and labor racketeering?

A In California?

Q When?

A When I was boss they didn't have anything and I was more or less starting to create something and --

Q In 1975, were you just creating something?

A Yes, because all the New York family had all the pornography in Los Angeles.

You see, the bosses, I guess never tried to get anything. They didn't believe in this pornography, but they made a lot of money so, I more or less persuaded that part of the -- in fact, that is one of the reasons I was in New York.

See, the Gambino family had all the pornography in California.

Q For the year you were boss there, what was the approximate estimate of the income from your organized crime operation?

A We didn't have too much of an income as far as illegal activities. We were creating something. See, I was only acting boss until these fellows got out of jail, which was like nineteen months and at that time --

Q Until who got out of jail?

A The boss and underboss went to prison and that is how I became acting boss until they got out

of prison.

Louie Dragna and I, we both shared the responsibility.

Q You don't know how much money you made in the year that you were boss?

A No, I really don't. We made some money shylocking and stuff, but I couldn't tell you any amount.

Q You didn't keep track of it?

A No, we don't never keep track of it. We make 100,000, we split it up right there, period. You go your way, I go mine.

COMMISSIONER SCLAFANI: Thank you.

THE CHAIRMAN: Commissioner Brewer, you may go ahead.

EXAMINATION

BY COMMISSIONER BREWER:

Q You indicated that the family had a rule against dealing in narcotics.

Does that rule still follow today?
Has it been violated between then and now?

A Well, as far as I have known, I have been in the program now for six, seven years. I know that I tried to get some narcotics in 1975, 1976 and I came

to New York and there was no way. They told me the Cubans and --

THE CHAIRMAN: Be specific, you mean the Witness Protection Program?

THE WITNESS: That's correct.

So, maybe a soldier might fool around with it, if he ain't got no money, but I never heard of a boss dealing in narcotics. They don't need it. It causes too much heat and they just more or less shy away from it.

COMMISSIONER BREWER: Thank you.

EXAMINATION

BY COMMISSIONER MILLER:

Q In the middle of the 60's you were involved in the trucking business and you obtained a substantial loan from a Chicago bank in your endeavor.

Was there any mob influence at all exerted in obtaining that loan?

A Yes, sir.

Q Could you describe how that occurred?

A Well, Frank LaPorte got the loan in a Chicago bank. He knew the president. I think it was -- I don't remember the amount, but I got \$150,000. I think he borrowed 250 if I am not mistaken. That was

it, just word of mouth.

Q Would you say then that there are certain bank connections that the mob has that permits them to obtain loans rather easy?

A Absolutely.

COMMISSIONER MILLER: That is all I have.

THE CHAIRMAN: Thank you, Commissioner.

EXAMINATION

BY COMMISSIONER ROGOVIN:

Q When you became a Capo, did that become a step of value to you in that the family either gave you certain businesses or permitted you to start certain businesses that you could not have entered into as a mere soldier?

Do you understand my question?

A Yes, I do.

No, it didn't matter. My being a Capo, you had men under you. It didn't matter if you are a soldier, a Capo, you are equal. If you want to go in business, you can go into business.

Q In an organized crime family, are there assets, you know, what I mean by the word assets?

A Yes.

Q A business like a dress shop or factory

or anything else?

A Yes.

Q Are there assets that an individual has during his life which upon that individual's death are then reallocated, given to someone else?

A Well, it more or less goes to the family.

Q You mean the blood family?

A Oh, absolutely.

Like, I know one person that has a dress shop in Los Angeles, his sons more or less take over now.

Q Suppose I told you that law enforcement intelligence files would reflect that an individual member of a family has control over things like an automobile dealership and there is no recorded ownership and after that person's death that same business passes into the control of somebody not in his blood family, but a different member of the organization?

A That's true.

Q Do you know of instances like that?

A No, I don't, but that could happen because maybe this fellow got this business through the organization.

That is very possible.

Q The organization made it available to him?

A Absolutely.

Q Then, who would decide after that person's death, who the successor would be?

A Well, they more or less would have somebody there as an assistant, you know.

Q The family would have an assistant?

A Sure, absolutely.

Q You mean the crime family, not the blood family?

A Absolutely.

THE CHAIRMAN: All right.

EXAMINATION

BY COMMISSIONER McBRIDE:

Q You testified, Mr. Fratianno, that there was a policy not to keep the national records and you mentioned that Costello attempted assassination and the slip of paper that was found in his coat pocket.

You mentioned when you had conversations over the telephone about loansharking, bookmaking, or what have you.

Did you worry much about wiretaps, hidden microphones, surveillance and if you did, what steps did you take to avoid those?

A Well, later years we did, but, like see, I was the first person that ever went to jail on a wiretap in Los Angeles.

It is a precedent case and I never knew at that time that I could go to a pay phone and could go to jail for a wiretap which I did go to jail for.

What they did, they had five policemen on the other end with permission to tap this other guy's phone and it was -- you know, I didn't know that at that time, I didn't know that they could do that, but these five policemen came into court and testified that that was my voice and I went to jail for conspiracy to consort, but later on in years, they more or less went from pay phone to pay phone.

Q The atmosphere changed at the F.B.I. and police tactics changed?

A Yes.

Q What about hidden bugs, microphones?

A They are always getting trapped like that, because they never dreamed it would be there.

I know Johnny Roselli was very careful because he would never talk to me unless it was outside and then it got to be that they could pick up that conversation with -- I forget what they call it. Yes, they call it

a shotgun microphone.

THE CHAIRMAN: Mr. Dintino, you may question Mr. Fratianno.

EXAMINATION

BY COMMISSIONER DINTINO:

Q In your prior testimony, am I correct, that it is your opinion that that is an internal struggle between Bruno or is the Commission involved?

A No, sir, it is a family deal with Testa and Bruno. They never liked each other and what happens in a case like that, when one guy gets killed, then his friends will start killing the other guys.

The Commission doesn't have anything to do with families. If anybody gets killed in a family, it's theirs because if they did they would have a war. They never had a war since the 20's.

Q What you are saying, the New York families have no involvement in that struggle, that is strictly a struggle between the Bruno family itself?

A Exactly.

Q One other thing you mentioned, you said you met Jackie Presser at that location. Can you tell us about LaCosta?

A I can't tell you too much about LaCosta.

I can tell you a lot of people meet down there. I really can't tell you too much about LaCosta.

Q What kind of people meet down there?

A Well, I used to meet Bompensiero down there, Dorfman goes down there. A lot of people, Sam Giordano went down there.

Q A lot of organized crime people?

A Absolutely. It was years ago.

Q How about the ownership of LaCosta?

A What about it?

Q Is there organized crime?

A Well, Moe is -- Moe Dalitz, he has been involved with organized crime for years.

Now, the other two guys, I don't think so. Well, I would say they are involved because they were involved with Moe Dalitz.

THE CHAIRMAN: Commissioner Hope.

EXAMINATION

BY COMMISSIONER HOPE:

Q You testified about going to Cleveland and meeting with Jackie Presser and others in connection with the dental clinic.

Why would the Los Angeles family be interested in the medical facilities in Cleveland, Ohio?

A I am from Cleveland so, I had friends there and we discussed this and we thought we could make some money.

Q Is there a lot of involvement by organized crime in medical services in Ohio, in that area of Ohio, as you know?

A Absolutely.

Q For example?

A A guy by the name of Camino has some in Columbus, Ohio. Another kid, by the name of Montana has some dental clinic in Buffalo.

THE CHAIRMAN: Sam Montana?

THE WITNESS: No, this fellow is not even Italian. He is not a relative.

THE CHAIRMAN: He was tried in the Apalachin case.

Q Is there not a connection in Ohio between the union, organized crime in medical services and what is that connection?

A Well, I couldn't tell you exactly.

All I know is who has something there that I know about, but I would just be speculating if I would tell you they do. I know they do in different parts of the country. I know we tried. We was going

to do in San Francisco, they did it in Warner, Ohio.

Camino has places in quite a few cities in the United States, either medical or some kind of insurance.

COMMISSIONER HOPE: Thank you, Mr. Chairman.

THE CHAIRMAN: Anything else?

EXAMINATION

BY COMMISSIONER SKINNER:

Q You mentioned the Witness Protection Program, there has been, as you know, you may know, a great deal written about that program, both pro and con.

On a very general nature, I wonder if you would give us, having first hand experience with that program your thoughts as to how the program can be improved?

A I could go on and on and on on this part, sir.

The program, my experience isn't worth a nickel.

Number one, they don't give you enough money to live on.

Since I have been in this program, I have spent over \$150,000 of my own money.

Just here a couple of years ago, if I went someplace they would give me \$15 a day to live on. They raised that to 30 now, so, in other words, if I go someplace and they put me in a hotel, they give me \$30 a day.

Q Well, I assume you have some constructive comments that you would share with our staff concerning the program, so that the Commission can evaluate the program and make any appropriate recommendation.

A Absolutely.

I can tell you a lot of things about the program, although I will say it is a good program, but the problem is they don't give people enough money to live on, so, I know if I was to do it over again, I would never go into this program and I've had a lot of problems.

I still have a lot of problems and in fact I told the lawyers of the Commission about some of the problems.

THE CHAIRMAN: We will take one more question.

EXAMINATION

BY COMMISSIONER REYES:

Q In the time that you were active, were

you related with any family in the State of Florida?

A Was I related?

Q Yes, your business?

THE CHAIRMAN: Did you have anything to do with a family in Florida?

Q In Florida --

A Well, there is no family in Florida. The only family there is is in Tampa.

Q Tampa?

A Yes.

Q Could you elaborate further more on that family in Tampa?

A Well, what could I tell you?

Q What type of business do they have? Who are their front persons?

A Well, I don't know too much about Tampa. In fact, I don't know anybody in Tampa, but I have been in Florida where I had met people in different families from New York or Cleveland. That is an open city, Miami is an open City.

Q Are they related in business in Miami or in part of Florida?

A Well, they did in business together on certain things.

Q What kind of a business?

A Shylocking, bookmaking, maybe racketeering.

Q What kind of labor racketeering?

A Well, I think -- I can't think of the guy's name, but they tried to shake him down. I think he was on the Witness Protection Program. I knew one person that was involved in an extortion deal. I don't recall his name, but I think it was Teitelbaum, Teitelbaum.

THE CHAIRMAN: Thank you.

Mr. Harmon.

MR. HARMON: May I ask a couple of questions to follow up?

THE CHAIRMAN: Yes.

EXAMINATION

BY MR. HARMON:

Q You mentioned the Apalachin meeting, Mr. Fratianno.

Were you aware of that meeting at the time it took place or did you find out about it afterwards?

A Well, I was in prison, sir, and at that time the boss of our family was Frank DeSimone. He was an attorney and --

THE CHAIRMAN: He came from California.

THE WITNESS: Yes.

Frank DeSimone, that's correct.

He was at the Apalachin and I didn't know that it was going to take place, but he did come down and see me a couple of weeks before and it came out in the papers that he came down to see me to take my place at the Apalachin, but I didn't know it was going to happen. No.

Q That meeting drew a lot of attention after law enforcement had realized that the meeting took place.

Did that have any impact on the operation of the family in Los Angeles?

A Well, yes, it did.

Q In general terms, would you explain that to the Commission.

A Well, one of the guys got deported. He went to jail for five, six months and that is when he stopped making people, after the Apalachin.

Q For what reason?

A Well, they didn't want to make anyone more and they stopped meeting altogether.

Q Is it correct then, Mr. Fratianno, that the attention drawn to the mob as a result of that Apalachin meeting affected or adversely affected the

acts of the mob to operate?

A Yes, it made an impact. It didn't stop them to operate, you know, that never stopped them, but it made an impact because they got to know something, that something was going on.

You see, they never heard the word of La Cosa Nostra. They made up this word, the Mafia.

We never used that word and the only time that they found out that there was a La Cosa Nostra is when Joe Valachi got picked up, that is the first time that word was known.

Q Commissioner Hope asked you a question, you are interested in a dental clinic. Why would the Los Angeles family have an interest in a dental clinic in Ohio and you said that was a way to make money.

THE CHAIRMAN: He said he comes from there.

A I wouldn't care if it was in Timbuktu if I had the connection to get union members, I would go anyplace, although if it was in a town where there was a family, I would have to go to them and get, you know, get their approval and chances are whatever money it would make they would get a percentage of it.

Q Now, could you explain to the Commission how through a dental clinic you would be in a position

to make money?

A Well, they offered me \$10,000 every month under the table if I got them Rudy Tham's -- how they make their money, I don't know.

I couldn't tell you, but Dorfman is one of the first persons to start these dental and medical clinics and how they get their money out, I don't know, but he would offer me \$10,000 under the table.

Q If what?

A If I got him the Rudy Tham -- his local, you see his local had 8,000 members and at that time, I think, the dental was \$23 a month. So, 8,000 times 23 is like 184,000, right, a month?

Q So, that if you could deliver a union's dental plan's business to somebody designated by the mob, then you in turn stood to gain the amount that you described, \$10,000?

A 10,000 and plus put a couple of guys on the payroll.

Q To the payroll of what?

A Doing something with the dental program. In other words, legitimately, you know, get them some kind of a job where they had to do something to make a salary.

THE CHAIRMAN: I understand you have one more question, Commissioner.

EXAMINATION

BY COMMISSIONER METHVIN:

Q Did you ever have occasion to get a loan from the Teamsters Union or to try to get a loan from the Teamsters Union?

A Well, I tried, sir, but they had a moratorium at the time.

Q When was that?

A '74, '75, '76.

I tried to get a loan through Jackie Presser and they had a moratorium.

Q Did you go to Jackie Presser for this purpose?

A Yes, I brought him a couple of packages on apartment houses and I tried to buy a place in Nevada, a gambling house and they had a moratorium and he did tell me at the time that he had some other banks that he knew that he would try to get the loan, but he said it didn't look too good.

Q Did you go through the Cleveland family before you approached Presser on this occasion?

A Absolutely, every time.

Q And the Rudy Tam trial you said you did this because -- would you tell us what you said?

A What do you mean?

Q I believe you said that Presser doesn't do anything unless he checks with Blackie?

A That's right. He doesn't make any move.

Q What kind of a move?

A Anything that I had to do with.

Q Anything involving --

A He was saying that pertaining to me that anything I had to do I had to go through them first.

Q Involving relationships with the syndicate, the LCN, the family?

A Right.

THE CHAIRMAN: All right.

MR. HARMON: You are excused, Mr. Fratianno.

Thank you.

(continued on following page.)

THE CHAIRMAN: You may call your next witness.

MR. HARMON: Let's remove the screen.

The next witness is Special Agent Edward Guillen of the Drug Enforcement Administration.

THE CHAIRMAN: Is the witness here? Is the witness on the way in?

I suppose we ought to be more patient.

The Marshals are probably taking care of Mr. Fratianno.

MR. HARMON: I wonder if you could stand, Agent Guillen. Face the Marshal.

E D W A R D G U I L L E N, having been first duly sworn by the Marshal, was examined and testified as follows:

EXAMINATION

BY MR. HARMON:

Q What position do you hold, sir?

A Special Agent with the United States Department of Justice, Drug Enforcement Administration.

Q For how long have you been an agent?

THE CHAIRMAN: Move the microphone closer to you and speak right in it.

Q How long have you been an agent with DEA?

A Approximately nine years.

Q Initially what types of assignments did you have?

A I had been working in undercover capacity, working to develop conspiracy investigation for drug traffickers.

Q Were you ever a member as what is known as the conspiracy group within the Drug Enforcement Administration?

A Yes, it is a special unit which mans a unit both in the Eastern District and Southern District court-houses to develop an ongoing long term conspiracy investigation.

Q At some point, Agent Guillen, did you become involved in the investigation of an individual named Eduardo Orozco who you later determined had laundered large amounts of money on behalf of various narcotic traffickers?

A Yes, I did.

Q Would you explain to the Commission the way in which that investigation first commenced?

A I had received information from the Federal Bureau of Investigation regarding a witness that they

had by the name of Harvey Krat who had informed them that he had been opening up several bank accounts on behalf of Eduardo Orozco into which large sums of cash were being deposited.

He was presently looking for a new bank to establish an account because he had had one of his long term accounts closed by Marine Midland because of their suspicions of the activity that was going on in the account, specifically he had tried to deposit \$2 million in cash through a single account.

Q So, you received information from the F.B.I. that Harvey Krat had in fact information from him that he had been engaging in large cash transactions, is that correct?

A That's correct.

Q What was Harvey Krat's occupation?

A He was an attorney here in New York.

Q Was he under investigation by the F.B.I.?

A No, he was not.

Q Was he involved in an investigation that F.B.I. was conducting?

A He was a witness in a F.B.I. case involving embezzlement.

Q Who was conducting that particular

investigation?

A Specifically, John Flanagan from the Brooklyn-Queens office with Manuel Gonzalez.

Q What transpired after you received the information from the F.B.I. that Harvey Krat reported to the F.B.I. that he was depositing large sums of money and Marine Midland told them, told him they were no longer interested in the business?

A I met with him to discuss the detail, the activities that he had been involved with, Orozco, concerning the number of accounts that he had opened and the type of activity that was being conducted through those accounts.

It was at this time, again, that he informed me that he had presently had an account cancelled and that Eduardo Orozco was looking for a new account to establish in order to be able to deposit large sums of cash again.

Q Did Harvey Krat, the attorney, tell you how much money he was expected or had deposited as of that point in time?

A He could not say exactly how much money, but it was several billion dollars through the several accounts that he had already handled on behalf of

Orozco.

Q Did Krat offer information as to the source of these moneys insofar as he knew?

A He was told that the money was being generated as a result of fluctuation of coffee prices that Orozco was working on behalf of and representing coffee brokers here in the United States that would purchase shipments of coffee.

Q Was there any way to know whether Orozco did have any connection with a legitimate coffee business?

A He was determined that he was an employee of a Colombian coffee corporation, a coffee brokerage house located at 120 Wall Street.

Q Marine Midland advised him to take his business elsewhere.

Did Krat indicate whether or not on behalf of Orozco he had deposited large sums of money? In other words, in New York City?

A Yes.

Q Which banks were those?

A Besides Marine Midland he had established accounts and deposited large sums of cash in Irving Trust, Manfred, Tordella & Brook, Credit Swiss Bank, Swiss Credit Bank, and I believe, Chase Manhattan were

all operating here in New York.

Q Now, at the time that you first met Krat, what was Orozco asking him to do?

A To establish a new bank account through which he could deposit large sums of cash so he could wire or at least transfer the moneys out of the account quickly to several other accounts that he had represented.

Q Now, to your knowledge, did these other banks which you have mentioned, did they take any action or response to Krat's deposit of large amounts of cash on behalf of Orozco?

A Harvey Krat at that same meeting informed me that his accounts or the accounts that he had managed on behalf of Orozco were also handled in some of the other financial institutions.

Among them, Irving Trust, Credit Swiss and Swiss Bank.

Q Did you devise a plan then after hearing Orozco was using this attorney to deposit large amounts of cash?

A Yes.

Q What was that plan?

A Since Orozco was interested in establishing a new account and what we had agreed upon is that Harvey

Krat would introduce me as an account manager employed by Citibank here in New York with whom a new account could be established.

Q And what was your role to be?

A I was to be an account manager responsible for the handling of the account.

Q And did Citibank agree to permit you to operate in an undercover capacity as apparently an employee of Citibank?

A Yes, they did.

Q Now, what took place then after you first began to work in an undercover capacity within Citibank?

A Eduardo Orozco caused almost immediately large sums of cash to be deposited into the account.

What happened though is that he continued to use Harvey Krat as the intermediary or the buffer between himself and I for the initial stage of handling the account.

Besides depositing the large sums of cash, he would then instruct Harvey Krat who would then forward the instructions to me that upon crediting the cash to the account that the money was almost immediately wired, transferred out of the account to several other accounts, primarily off-shore banks in Panama.

Q Now, were the cash transactions of which Krat made you aware, were they consistent in any way with the manner in which narcotics traffickers laundered large sums of money?

A It did in almost every respect.

What happened is because the deposits were in such large cash deposits, it is really what the drug trafficker -- his initial problem, that converting large sums of cash into a more manageable form --

Q Why is it that that is a problem for narcotic traffickers, why a large amount of money is a problem for narcotic traffickers?

A A study that was conducted, estimates for the year 1981, the retail sales of controlled substance here in the United States generated approximately \$79 billion dollars in United States currency.

So, as a result of these street sales of controlled substances the amount of cash that is generated is normally small bills and quite sizeable when you consider the amount of drugs that are being purchased.

Q What is the solution for money launderers and narcotic trafficking to get access to this money?

A What they need to do initially is to transfer or change the bulk cash now into more manageable form and

the way they accomplished that is to deposit those moneys into domestic accounts here in the United States and from that point they can by draft or electronic transfer, effect those moneys to be transferred to other corporate accounts or other domestic accounts or overseas and at each stage it would afford the drug trafficker of anonymity as far as ownership of those moneys.

Q Is it in that way that the drug trafficker is able to place his money in a form that is then usable for him?

A Yes.

Q Now, once Citibank agreed to permit you to operate in an undercover capacity, how were cash deposits delivered to the bank?

A Initially Eduardo Orozco would have the money delivered to the bank and since he did not deal directly with me, but through Harvey Krat, it was -- it took some time before we knew that the money was in fact being delivered, but he would normally have at the initial stage of our investigation, have his own money couriers deliver the money to the bank and then he would inform Harvey Krat of the fact that the moneys were on their way to the bank and then provide him further

instructions for the transfer of those moneys once they were put into the account.

Q Now, was the account at Citibank opened in the name of Orozco or in the name of his corporation?

A The initial undercover account that was established was opened up in the name of Harvey Krat, special account.

Q So, at the outset Orozco was using an attorney to arrange for the delivery of moneys and the moneys were delivered into an account bearing his name, is that correct?

A That's correct.

Q Well, does the use of an attorney, generally speaking, in investigations does that provide the money launderer and the narcotics trafficker with an additional level of insulation?

A Yes.

Q Can you explain what you mean by that to the Commission?

A Well, again, for the information that would be available to law enforcement for a particular account, if the usual currency transaction report, the Treasury report known as 4789 was filed, it was identified that the individual who made the transaction or delivered

the money and under the second part of the report would identify the account to which the money was deposited.

So, in the instance of this particular 89 at the bank, we would not have had the benefit of actually knowing the true identity of the owner of that money.

Q So cash deposits were made by couriers delivering money to Citibank initially, is that right?

A That's correct.

Q Now, had you ever met Orozco before some of these transactions took place?

A Not, it wasn't until after the establishment of the account and moneys being deposited that I actually met Eduardo Orozco face-to-face.

Q Were you dealing with the attorney up to that point, is that correct, sir?

A That's correct.

Q Would you describe for the Commission the circumstances under which you met Eduardo Orozco on April 9, 1981?

A Through Harvey Krat.

I had asked to have a meeting with Eduardo Orozco so that we could -- he could better explain to me

where the moneys were being generated in such large cash denominations and to be able to see if there was any way we could better serve his account, but basically what we wanted to do is to be able to meet with him directly so I could get some interface with Eduardo Orozco to determine the true origins of the money.

Q Did you ask him that, that is, what the source of the money was that Krat was giving you to launder?

A Yes, I had asked him if the moneys were being generated by his import-export company located at 120 Wall Street by the name of Cirex, International.

He informed me that the moneys that were being deposited had nothing to do with that particular business, but rather a money laundering network which he operated.

Q Up to this point is it correct that the investigation had not disclosed fully the source of the moneys deposited on behalf of Orozco?

A That's correct.

Q Did the moneys continue to be deposited?

A Yes, they were.

Q On May 7, 1981, at Harvey Krat's office, did you have occasion to meet another individual working

with Orozco by the name of Rodrigo Mendoza?

A Yes.

Q Describe the purpose of the meeting and what took place?

A At that meeting Eduardo Orozco had wished to speak to me in order to discuss some of the details and some of his concerns regarding the handling of the account.

He was concerned over the fact that the -- once the moneys were delivered to the bank that there was a considerable delay before the money was transferred to Panama via the wire transfers.

It was also at that meeting that he introduced to me for the first time an individual, Rodrigo Mendoza, who he identified as his partner and the individual who was most concerned with the day-to-day operations of his money laundering operation.

Q Did you again ask either one of them, either Orozco or Mendoza what the source of the money was?

A Yes, I did. I asked them as to the source because, using the basis, the fact that the cash deposits were much larger and much more numerous than I had earlier expected or led to believe and wanted them to identify

the source of the moneys.

They went on to explain that the moneys were being generated again as a result of their money laundering operation whereby they would facilitate international transactions by multinational corporations who in an attempt to avoid the high tariff and high taxation rates in Colombia would undervalue their goods on their invoices and then make up the difference in the form of cash.

That is Mendoza and Orozco's explanation as to the source of the money.

Q So, they said in essence that the moneys were coming as a result of those coffee broker dealings; is that correct?

A That's correct.

I also requested them as a result of having a money laundering operation would they not also be laundering drug money, although even at the first meeting Orozco explained perhaps some of the money was generated from drug trafficking, that the majority was not, but rather from this attempt to avoid the taxes and high tariffs in Colombia, that because of the nature of the business that he was involved in, but a very small portion was related to drug trafficking.

Q According to the story that was given to you up to that point, in essence, you were told that the money was being physically transported into the United States and then laundered through Citibank among other banks, is that correct?

A That's correct.

Q Was any explanation offered to you at that point as to how these moneys were physically transported into the United States?

A I had questioned them at that time. If all these moneys were being generated overseas and then transported into the United States for deposit, first from South or Latin America to Miami and then on to New York, what problems he had been encountering with reporting those moneys upon bringing them into the country when he was supposed to report it to the United States Customs Service.

Their explanation at that time by Rodrigo Mendoza, they were only reporting 30 percent of the money they were bringing into the country to the United States Customs Service.

Q Was there also discussion of a bank in Miami?

A Yes, there was.

I had asked Eduardo Orozco since he had mentioned that a friend of his had recently purchased a bank in Miami, would he not better utilize their services since that was the initial entry point to the United States for the cash.

He said that he would prefer to conduct his business in the New York area because of all the attention being given to the banks operated in Florida by federal law enforcement.

Q So Mendoza claimed that the laundered moneys were imported into the United States.

Did your investigation determine what the true origin of the bulk of those moneys were?

A Although some of the moneys were in fact imported into the United States from overseas, our investigation after the arrest, documents that we were able to seize, disclosed a great deal of moneys were in fact being collected domestically here in the United States as well as admissions made by Eduardo Orozco at the subsequent meeting where he had confided in me the fact that the majorities of the money was collected here domestically.

Those documents that we seized identified some of the cities where the money was being collected,

that was New York, Miami, Boston, Massachusetts.

Los Angeles and San Francisco in California as well as some other cities.

Q Now, did something take place which caused these cash deposits to stop?

A Yes.

(continued on following page.)

the money deposited quickly and transmitted out of the account in a quick and orderly fashion, that it would also help if we were to work one on one with each other.

Q Did Orozco agree to that?

A Yes, he did.

He thanked me for my coming forward and explaining my hesitancy or my questions over the way that Harvey Krat had been handling the account and offered to open up a new account under a Panamanian corporation that he had established in order -- so, that I could handle the account directly and he and I would deal on a one to one basis.

It was also at this point that Eduardo Orozco had offered to me a one tenth of a one percent commission on all cash deposited into the account.

Q Was this new account opened in August of 1981?

A Yes, it was.

Q At about that time did you have a discussion with Orozco concerning what should be the disposition of these cash deposits and the way in which that deposited should be effected?

A As far as -- again, my explanation to him was the fact that there had been some growing concern on behalf of my superiors and the bank over the type of

the money deposited quickly and transmitted out of the account in a quick and orderly fashion, that it would also help if we were to work one on one with each other.

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A Yes, it was.

Q At about that time did you have a discussion with Orozco concerning what should be the disposition of these cash deposits and the way in which that deposited should be effected?

A As far as -- again, my explanation to him was the fact that there had been some growing concern on behalf of my superiors and the bank over the type of

activity that the account had taken on.

That being that large cash deposits were being made, immediately upon crediting to the account the moneys were electronically transferred to foreign banks operating in the United States and as a result it was raising more and more suspicion on behalf of my superiors at the bank.

I then asked him if he could change his operation slightly in order to make it less suspicious at the bank, thereby having perhaps bonded money couriers deliver the money to the bank rather than having his own personal couriers delivering it and as far as the disbursements were concerned to avoid the constant use of the electronic wire transfers, but to use the normal checks that he would have in his corporate checking account.

THE CHAIRMAN: May I interrupt for a moment?

MR. HARMON: Yes.

THE CHAIRMAN: I think you said at the outset, Citibank knew and cooperated with you and put you in a particular slot in the bank.

THE WITNESS: That's correct.

THE CHAIRMAN: When you are talking about your superiors what are you referring to?

THE WITNESS: That was my undercover story

to Orozco to show or to play on his behalf, to show I was in fact more concerned with his operation rather than that of Citibank.

THE CHAIRMAN: But all your superiors knew what you were doing?

THE WITNESS: Exactly.

BY MR. HARMON:

Q What was it that you asked Eduardo Orozco to change from using wire transfers to using checks drawn or charged against his account?

A The wire transfers in effect, once they went from Citibank account through the corresponding bank and then on into Panama, for instance, it led law enforcements to a dead end because of the bank secrecy laws in Panama.

Our investigation at that time would have been curtailed as far as determining the recipient of that money.

So, by requesting that he then use the checks in the normal checking account, it provided us with a longer paper trail to follow so that we might better identify the individuals to whom those drafts or bank checks were made and then determine what account they were being deposited into.

6 Q Well, Orozco agreed to that, in essence, to help you do your job by using checks instead of wire transfers?

A Yes, he was thankful that I was offering him this additional advice and I also explained to him at this time that with handling of a new account that I would also consider placing his account if he were to take these extra precautions, placing it on the bank exception list, which would in effect give him -- give me, as the account manager for the account, the opportunity to not be required to transmit the 4789 usual currency transaction report to the Treasury Department.

By explaining that, as a result of the normal course of his business, it was normally done in large cash amounts and as a result would make the report, the reporting requirements within the bank but that information would not be transmitted to the Government.

Q We will get back to the exemption list later.

Late in the summer of 1981 at Orozco's office, was there a discussion concerning a banker who was arrested in an F.B.I. operation in Banco Shares in Florida?

A Yes.

Q Would you explain that?

A Eduardo Orozco at that time explained that he was

most familiar with the arrest and the operation of Banco Shares that was conducted by the Federal Bureau of Investigation in Florida and my concern at the time, again as part of my undercover story was that I was very concerned since the banker operating in a national bank in Florida had been arrested for laundering money, I was concerned the same fate may befall me.

So, Orozco assured me at this time that he was aware of the investigation and the method utilized by federal agencies in order to investigate such types of investigation.

Q Did he have a cover story?

A Yes, he did.

He explained to me that in the event law enforcement would question him as to the source of the money his documentation within his office would be able to identify the couriers and the owners of the money by having Xerox passports that the money couriers or the owners of these moneys once they were delivered to his office in New York.

Thereby, take the responsibility of identifying the owners then to law enforcement and making it incumbent upon law enforcement to track down these individuals, many who were foreign nationals,

putting the burden on the Government to locate these individuals and then compel to inform us as their true identities and owners of the money.

Q As a result of your investigation, Agent Guillen, were you able to determine a number of bank accounts not only with Citibank but with other banks that Eduardo Orozco used to launder various moneys?

A Yes, we were.

Q Approximately how many different accounts and approximately how many different financial institutions?

A We were able to find eighteen different accounts that Eduardo Orozco maintained or controlled in different institutions in the United States.

Q Into which of these banks was the bulk of the cash deposited on behalf of Orozco and its customers?

A He maintained an account at the foreign Currency exchange house named Deak-Perera under the name of Interdual, account number 3552.

Q Were there any other banks that were utilized on Orozco's behalf?

A Yes.

Again there are approximately ten other financial institutions that he had used from time to time.

Q Now, was the Continental Bank used?

A Yes, it was.

Q What amounts of funds were put through the Continental Bank?

A Approximately \$24 million, I believe, was transferred into the Continental National Bank located in Florida.

Q What was the next bank that was used on Orozco's behalf?

A The next sizeable financial institution would have been Citibank and again much of the money represented by the total that went through Citibank again were the accounts that the Government at the time were monitoring.

Citibank was accommodating us.

Q If I can indicate, Agent Guillen, as you are testifying, graphically there is a display of the figures which are explaining this to the Commission.

Other than the two banks that you mentioned, Continental National Bank and Citibank, in what amounts were the bulk of those moneys deposited?

A In cash.

Q What other banks?

A There were several institutions among

Manfred, Tordella & Brooke.

Q How much money went through Deak-Perera?

A Approximately \$97 million.

Q For a total of how much, Agent Guillen?

A With those 37 institutions as well as the others there is approximately over \$151 million deposited.

Q The total being \$151 million, approximately, how much went through the account at Deak-Perera?

A 97.4.

Q Drawing your attention to the account at Deak-Perera and drawing your attention as an example, the manner in which the funds were deposited in May of 1982, would you explain to the Commission the sequence in which deposits were made?

A For May, 1981, the Interdual, Humberto Grozco deposited starting on May 1st, he was able to deposit \$347,000 followed on May 4th \$347,000, \$571,000. May 5th, \$568,000. May 6th, \$568,015. May 7th, \$1,352,000, \$120,000.

May 8th, \$1,073,000. May 17th, \$1,384,000. May 15th, \$400,000. May 18th, \$399,980. May 19th, \$457,000. May 19th again, \$607,520.

May 20th, \$219,450. May 26th, \$954,455. May 26th, \$415,020. May 27th, \$222,000.

That is the activity, this is actually delivered by Humberto Orozco, his brother. This is for the Interdual account.

Q That is at Deak-Perera, is that correct?

A Correct.

Q You said the money deposited at that account, that was transferred to various locations. Would you describe those locations to the Commission, please?

A The money deposited into the account over \$65.8 million were in fact transferred to overseas or to foreign banks operating in the United States.

Q And what about the balance?

A They would end up going through several other accounts maintained through the United States.

Q Now, what portion of these moneys, cash deposits to Deak-Perera, in turn were converted, if any, of them were to your knowledge into currency into foreign countries?

A To my knowledge all of the deposits were made by Eduardo Orozco into the Interdual account was in the form of United States currency and the subsequent transfers were also in United States currency.

Q Did Orozco ever change his story and tell you what the true source of the moneys was that he

was asking you to launder and which he had laundered otherwise?

A After several months into the investigation, on October 15th Eduardo Orozco disclosed to me that the moneys being generated and being deposited into his account were in fact a 50 to 60 percent of them were in fact drug trafficking.

Q During the course of your investigation, did you determine that in fact Orozco had corrupted an official of Citibank?

A We were able to identify after the arrests were made that he had in fact been paying or had paid a certain amount of money to a Citibank branch manager in Brooklyn.

Q Why would that be of advantage to a money launderer to corrupt a bank official?

A Having the bank official on the money launderers side, he would be able to counsel him as to how the account should be managed and in the event of a Government inquiry would be able to identify that inquiry to the money launderer ahead of time.

THE CHAIRMAN: In fairness to all concerned, practically all of this you have given us this morning and it was the subject

matter of the testimony at a trial, wasn't it?

THE WITNESS: Yes.

THE CHAIRMAN: So, it has been made public and the participation and the cooperation of Citibank has come out at this trial.

THE WITNESS: Yes, it has, your Honor.

BY MR. HARMON:

Q Now, in January of 1982, did your undercover investigation terminate?

A Yes, it did.

Q In general terms, what caused that?

A The compromising of my undercover identity within Citibank.

Q Now, drawing your attention to that -- before I ask that question, will you explain the way in which Orozco dealt with his customers, customers being the people who brought these large amounts of cash to him, what service he performed for those people and how he did it?

A He was able to either send his couriers to collect the moneys or have the moneys collected and brought to his office here in New York.

Once he would have that money he would be able to then prepare it for deposit into one of the

eighteen accounts that he maintained here in the United States and in effect give the owner of the money, the anonymity which he so richly needed in order to conduct his business.

Eduardo Orozco would then have the money deposited and be able to wire transfer that money overseas to an offshore tax haven, where the drug trafficker could maintain an account or launder it through corporate accounts and have the money brought back into the United States with some air of legitimacy to it in the form of a loan or some fraudulent business document could also be used in order to provide a facade of legitimate business transaction, having taken place between a corporation here in the United States and one doing business overseas.

Q Does Orozco actually keep records of moneys which had been given to him by various persons or on behalf of various persons?

A Because of the scope of Eduardo Orozco's operation it demanded that he have a strict accounting record of his transactions and as a result he had prepared his own forms so that when moneys were delivered to him or that he had collected he would be able to identify the dates which the moneys were received by him.

The individuals or the account name that should be credited, his customer's name and when so far as to break down the combinations of the bills that he in fact had collected from that particular individual.

Q Now, through records which were seized during the course of your investigation, records that Orozco had kept, were you able to identify Paul Forand, an individual named Paul Forand as one of Orozco's customers?

A Yes, we were.

Q Were you able to identify the fact that on one occasion a \$270,000 cash amount was given to Orozco for the purpose of laundering on Forand's behalf?

A That's correct.

Q And does this money that appears on the table represent a reconstruction in the same denominations as the moneys given on Forand's behalf to Orozco?

A Yes, it does.

The documents that we received after the arrest indicated on March 4, 1981, Eduardo Orozco had collected on behalf of Paul Forand under the account name of Phillips, \$270,000, with the breakdown of denominations as follows: 1,700 \$100 bills.

Q Aside from the denominations, if I can just interrupt you for a minute.

Did you then examine the records of the Interdual account of Deak-Perera to determine whether there had been a \$270,000 wire transfer out of that account?

A For that period of time there was no deposit that we could identify as the \$270,000 deposit since almost all of the deposits made into Deak-Perera were sizeably larger than \$270,000 collected by Eduardo Orozco.

Q Did you find a wire transfer of \$270,000 out of the Interdual account of Deak-Perera?

A Yes.

Q Did you trace that through?

A Yes.

Q Could you explain that to the Commission?

A Those same records showed on March 11th, Eduardo Orozco had instructed Deak-Perera to wire transfer \$270,000 from his Interdual account maintained as the Deak-Perera, to Collier Shipbuilding in Alabama.

We were able to determine that that \$270,000 to Collier Shipbuilding was final payment for the purchase of a fishing vessel which was subsequently picked up and identified as the Northern Edge.

Q When you say this fishing vessel was subsequently picked up and identified as the Northern Edge, would you describe for the Commission the circumstances under which it was picked up?

A Well, our documents also show that the Collier Shipbuilding, that the purchase was in fact for the Northern Edge and the buyer identified on the purchase agreement was an individual by the name of Mahlon Clark.

On May 10th, that was the first time that the Northern Edge had come to the attention of the law enforcement which is when the Northern Edge captained by Mahlon Clark was seized by the Colombian Navy, laid into its shores, 14,000 pounds of marijuana.

Using the estimates at that time period, approximately the wholesale value at \$300,000 per pound, the wholesale would be \$4.2 million.

An estimate on the retail price for the marijuana at \$650 per pound would have brought up the value of that same marijuana to \$9.1 billion.

Q Were you able to trace a cash amount given to Orozco which was reinvested in a narcotics operation in the manner of purchasing a ship?

A Yes, which again provided the owner of the money, Paul Forand with anonymity throughout the process.

The subsequent purchase of the vessel and his name not being able to being identified with the purchase of the vessel.

Q One last thing, Agent Guillen.

A Yes.

Q At the Commission's initial hearing, the Administrator Mullen of the Drug Enforcement Administration told the Commission that this case, the case about which you just testified, shows the relationship between traditional organized crime and the emerging Colombian groups dealing in cocaine.

Do your investigations confirm that fact?

A Yes.

Q Would you explain that to the Commission.

A Among the documents that we were able to analyze afterwards, we were able to determine one of the accounts which belonged to the individual, Antonio Turano who had been arrested by DEA in October of 1982 for the attempted importation into the United States of 32 pounds of heroin.

Q What was the value of that heroin?

A Approximately three million dollars.

Q At the time of his arrest with whom was Turano at that time?

A He was accompanied by a guy by the name of Gaetano Giuffrida.

Q At some time did Giuffrida enter with law enforcement?

A Yes, after Mr. Giuffrida returned to Italy, he was arrested by Italian authorities with the attempted exportation from Italy to the United States of 80 kilograms of heroin in Florence, Italy.

Q Is it correct to summarize, Agent Guillen, in the moneys laundered through various banks about which you have testified were used to finance, were used to launder the proceeds of cocaine, marijuana and heroin trafficking according to your investigation?

A Yes.

MR. HARMON: Yes.

THE CHAIRMAN: Thank you.

We will have a lunch recess until 1:45.

(Whereupon, a luncheon recess was taken.)

A F T E R N O O N S E S S I O N

THE CHAIRMAN: May I just ask one or two questions, Mr. Guillen.

THE WITNESS: Certainly, your Honor.

EXAMINATION

BY THE CHAIRMAN:

Q Were there any efforts to break your cover while you were in this investigation?

A During the course of the undercover stage Eduardo Orozco had hired at least two private investigators that we know of, Margaret Clemmons and Raymond Benoit, whose responsibility it was to determine my true identity through the use of countersurveillance. They utilized their CAT scanners to intercept our radio communications as well as direct inquiry at the bank in my personnel file which would have been held at the bank.

Q Do you know whether any use was made of the Freedom of Information Act with respect to you?

A Yes.

Eduardo Orozco through an attorney, Jerry Feldman, here in New York, had filed for Freedom of Information request in order to determine if his client, Eduardo Orozco was in fact the target or involved in any current investigation.

Q Are you aware at the first meeting on the Commission when Mr. Mullen, who is head of the DEA, your superior --

A Yes.

Q -- he testified that the DEA received 82 percent of these requests for criminal elements?

A Yes, I was aware of that.

Q Do you agree with that?

A Yes, I do.

THE CHAIRMAN: That is all I have.

EXAMINATION

BY COMMISSIONER REYES:

Q Mr. Guillen, you started dealing with Mr. Orozco in 1981?

A That's correct.

Q Do you have any recollection of your investigation that he was dealing before you and for how long in this illegal situation?

A There was information received prior to that investigation to the initiation of our investigation that he was working as a money launderer for drug traffickers and from analyzing the accounts which totaled the \$151 million.

The accounts were first established as early

as 1978 which is actually the time period from '78 through the time of his arrest in 1981, which is where he had come up with the figure \$151 million.

Q Is he a foreign national?

A Yes, of Colombia.

Q Did you have your meetings here in the United States?

A All of our meetings were here.

Q How did he come to the United States?

A I understand he had come on a visa.

Q A legal residence visa?

A Yes.

Q As a resident?

A Yes.

Q Given by the Immigration Department?

A Yes.

THE CHAIRMAN: Anyone else?

COMMISSIONER HOPE: Yes.

EXAMINATION

BY COMMISSIONER HOPE:

Q You said there was a substantial amount of money laundered through Deak-Perera, \$97 million, I believe you said.

What kind of fee does Deak-Perera get

for using money, for taking money in and transferring it to another account, whether they know it is laundered or not?

A Their fee structure in terms of Deak-Perera, I'm not familiar with that information.

Q Do you have any knowledge about -- you said also that someone within one of the banks had been compromised and do you know whether that person was paid off by Mr. Orozco?

A For the handling of my account? The accounts that I was responsible for, I was paid a fee by Eduardo Orozco totalling \$13,000 for the handling of the two accounts that I had established on his behalf.

The other individuals, the other employee within Citibank had from our estimate received perhaps three or \$4,000 themselves.

EXAMINATION

BY COMMISSIONER CORRIGAN:

Q Mr. Guillen, you mentioned at one point that you offered to place Mr. Orozco and his account on the bank exception list.

Can you elaborate on that for us and tell us what the current state of the law is to allow you to give him that kind of accommodation?

A My understanding of the law is that the bank has the opportunity if they can to determine that a particular client during the course of their regular business produces or generates large sums of cash, can place them on an exemption list, such as a large retail concern, let's say in New York City, whose deposits would regularly be in amounts far surpassing \$10,000 at a time.

As a result, in order not to overburden the system, they would be able, the bank would be able to place these particular accounts on an exemption list so that the information is retained at the bank, it isn't necessarily forwarded to the Treasury for their own reporting.

Q Is there a particular kind of showing that has to be made at the outset before such an addition can be made?

A My understanding is that it is really to the discretion of the bank, the account manager to determine whether or not that particular account or business is in such a type of business that would generate that amount of cash and then there are certain controls within the bank that the list would have to be made available upon request to law enforcement officers whenever

the need arises.

EXAMINATION

BY COMMISSIONER MILLER:

Q Is there any current way in which to recover any of those funds that were laundered?

A Because of the methods of operation of a money launderer the money that goes -- these accounts are really not his full concern -- his biggest concern is really to move the money as quickly as possible.

Since the majority of those moneys were moved overseas, we had very little, if any chance of ever recovering those moneys. The money that was in the account at the time of the arrests totaled approximately \$1.2 million and is presently under civil litigation now as far as the seizure to the Government of those moneys.

EXAMINATION

BY COMMISSIONER ROGOVIN:

Q You mentioned two private investigators who were apparently obtained to investigate you?

A That's correct.

Q Were they licensed investigators of the State of New York?

A I understand they were, yes.

Q Did the investigation disclose that they were

aware of the real purpose for which they were retained to investigate you?

A One of the inquiries made by Raymond Benoit to Citibank directly, when the information was about to be made available to the investigator in terms of my identity, my undercover identity would be made available to him, Mr. Benoit, the investigator told the employee within Citibank that he was no longer interested in the information since he had already disclosed that he knew it to be an undercover Government operation and no longer needed the information.

To your knowledge, have either State or Federal authorities initiated any criminal or administration actions against either or both of these private investigators?

A There were discussions initially in order to see if the statute concerning obstruction of justice would cover such a situation and it is my understanding that the statute does not clearly define that type of activity, that, being the compromising of an undercover agent either knowingly or unwittingly is not clearly defined by the statute under obstruction of justice.

Q What about administrative action looking to revoke or suspend their license?

A Again that would be up to the State Regulation Commissions and we were not involved with them, for the purpose of our investigation.

If any such actions is being contemplated now, I am not now aware of it.

EXAMINATION

BY COMMISSIONER SKINNER:

Q What is the time process from the moment the indictment was returned, the case is now on appeal, has the appeal been decided?

A We are awaiting decision from the Second Circuit.

THE CHAIRMAN: That has been argued.

THE WITNESS: Yes.

Q How long from indictment to trial, how long was the period and how long was the trial and how long has it been over?

A Our arresting indictment was announced and the arrests were made in November of 1982.

We proceeded with the trial in April of 1983 and after a seven week trial convictions were announced on May 26th of 1983.

All arguments under appeal were heard earlier this year in January and we are still awaiting the decision

of the Second Circuit.

Q The defendant is on bond?

A Yes, he is.

Q What is that bond?

A Two million dollar bond, one of which I -- one million dollars, I think, is secured with some property and the rest is by virtue of a bond, signature.

THE CHAIRMAN: Go ahead.

EXAMINATION

BY COMMISSIONER ROWAN:

Q You said that some bank discontinued accepting moneys from Mr. Orozco and his attorney. Were there banks which continued to do business with him and if so, which ones?

A Most notably Deak-Perera continued their operation. There were accounts at the Continental International Bank and some other accounts in some other institutions of which I can't recall right now.

Manfra was another account he had maintained that our investigation never disclosed.

Q Were you able to determine whether any individual in those banks received commissions as was offered to you?

A There was information from Harvey Krat to

the effect that Eduardo Orozco would make it a practice to make available fees or commissions to the bankers that he dealt with, but it was only in the instance of the one particular bank official who was arrested and myself, where we could document such payments.

Q Okay.

You also said someone in Citibank compromised your identity, is that in addition to the information that you have just spoken about?

A Let me clarify that.

Citibank did not compromise. Attempts were made within Citibank to learn my true identity. It was not through those attempts that the information had been uncovered, but rather through the investigators' countersurveillance and some of the other information that they were able to undercover.

Q My last question.

All of the deposits to Deak-Perera were made in cash at one branch?

A I'm not sure of the branch. The particular branch, but yes, the deposits were made in cash and primarily at their lower Manhattan office.

Q Is there anyone in Deak-Perera who received a commission for handling this amount of cash that you

1
2 know of?

3 A To my knowledge, I really don't know.

4 Q Other than their normal fees for cash
5 handling?

6 A Correct.

7 THE CHAIRMAN: Go ahead, Mr. Methvin.

8 EXAMINATION

9 BY COMMISSIONER METHVIN:

10 Q Did you learn of any other sources of this
11 illegal cash outside of narcotics operations?

12 A Eduardo Orozco alluded to the fact that some
13 other moneys were alluded from other businesses,
14 although he never mentioned any specifics.

15 EXAMINATION

16 BY COMMISSIONER ARANZA:

17 Q Do you have any knowledge as to what Mr.
18 Orozco is doing presently?

19 A His activities, he is trying to operate
20 while on bond. I have no idea as to his present
21 activities.

22 EXAMINATION

23 BY THE CHAIRMAN:

24 Q Is it fair to characterize his activities as
25 that of a professional launderer?

A Most definitely, your Honor.

THE CHAIRMAN: All right, that is all
we have --

COMMISSIONER SCLAFANI: I do have a question.

EXAMINATION

BY COMMISSIONER SCLAFANI:

Q With respect to this private investigation,
what date were they able to obtain your undercover
capacity?

A There were questions throughout or --
questions by Orozco throughout the course of the undercover
operation, but it was in January of 1982, that Eduardo
Orozco had confronted me with the information that he
had received, some information that I was in fact an
undercover agent and it was at that point that all
further activity through the account had ceased.

Q Up until that period of time then, how
long were you operating in that undercover capacity?

A I was working as an undercover agent
posing as a Citibank employee for nearly ten months.

Q For how long a period of time did their
countersurveillance operate against you?

A For at least the last four months that I
was aware.

Q He still kept doing business with you during that four month period of time?

A That's correct.

THE CHAIRMAN: Mr. Harmon?

MR. HARMON: Your Honor, I think if I may pursue with this witness, I would like to ask a few more questions.

THE CHAIRMAN: Yes.

(continued on following page.)

EXAMINATION

BY MR. HARMON:

Q Agent Guillen, there is a requirement --

THE CHAIRMAN: I always caution counsel, rebuttal opens up rebuttal, but go ahead.

MR. HARMON: I learned that lesson, not necessarily at your hands, but at other hands.

Q In excess of \$10,000 there is a requirement that a report be made concerning that transaction.

Were those reporting requirements observed by the banks about which you have testified here, to the best of your knowledge?

A Yes.

Q Was the way in which the reports were completed in any way misleading from your viewpoint as an investigator?

A In many instances, the reports were misfiled in that they didn't properly identify the individuals who actually transported the money to the bank or conducted the transaction and as such would prevent law enforcement from being able to identify those other participants in a money laundering operation.

There were also instances where the banks were aware that the true owner of the money was in fact

Eduardo Orozco, but continued to identify the account holder on the owner of the account under the corporate identity rather than identify Eduardo Orozco who they knew to be the actual owner of the money.

Again, thwarting the Government attempt, if all we had were the 4789 reports to properly identify the owners of the money.

Q Is it fair to say that the currency transaction report as they were completed in this case, did not prevent the laundering of \$151 million on behalf of various narcotic traffickers as you testified?

A That's correct.

THE CHAIRMAN: Mr. Harmon, I warned you.

Now Commissioner Guste wants to ask a question.

EXAMINATION

BY COMMISSIONER GUSTE:

Q Having been on the inside of a particular laundering operation involving \$151 million, what recommendations can you make to this Commission whereby stating that the Government could better trace an illegal laundering operation and present it?

A Commissioner, I would like to remind you that as a Special Agent of the Drug Enforcement Administration,

that question would probably be better directed toward one of our upper echelon in a policy function rather than at a field agent.

So, I respectfully request that that question be asked of someone else.

THE CHAIRMAN: The witness may be excused.

COMMISSIONER SKINNER: I would like to state for the record, I would like to say publicly that I commend Agent Guillen for the efforts and commend the efforts of the Citibank without whose full cooperation this could not have occurred.

The easy way for institutions is to look the other way. I think it is a credit to Citibank that they would put the time and effort that is required with working with this Agent into this matter and on at least my behalf --

THE CHAIRMAN: The reporter will record that it comes from all of us.

THE WITNESS: Your Honor, I would like to --

THE CHAIRMAN: If I were you, I would leave.

Do you have to say something?

THE WITNESS: I wanted to make a point to inform the Commission that this investigation, although it was headed by the Drug Enforcement Administration, it was also through the cooperation of the Internal Revenue Service, the United States Customs Service and Federal Bureau of Investigation, without whose help we would not have been as successful.

THE CHAIRMAN: Very good.

Thank you.

MR. HARMON: The next witness who was requested to testify is Nicholas Deak, one of the owners of Deak-Perera, who I do not see.

I would like to state the reasons for his request.

THE CHAIRMAN: Go ahead.

MR. HARMON: On March 2, 1984, Chief Investigator Gonzalez and I interviewed Nicholas Deak at his office at 29 Broadway in New York City.

This interview followed many discussions with Deak-Perera's general counsel over our request that Mr. Deak appear and testify before the

Commission today.

During one of these discussions, Deak's general counsel asked whether the Commission had subpoena power. In turn, I advised the general counsel that the Commission did not, but that Senator Thurmond and Congressman Rodino, members of the Commission, recently had introduced bills which would provide that power to the Commission.

The general counsel was further told that, in the event that Mr. Deak declined to appear and to answer questions posed by the Commission, his refusal would be reported publicly to the Commission.

Our purpose in requesting Mr. Deak's testimony was to solicit his response and that of his company to certain ideas under study by the staff of the Commission.

During this interview, Mr. Deak was asked whether his company had adopted internal controls which could prevent or detect the use of company's facilities for laundering funds by criminal enterprises.

It was explained to Mr. Deak that we were certain that he shared the Commission's

interest in combating money laundering as a way of deterring criminal activity in the first instance.

I suggested to Mr. Deak that the assistance of financial institutions like Deak-Perera was essential to the ability of law enforcement to detect and apprehend narcotics traffickers and other criminals.

Mr. Deak was also asked whether his company's internal controls, if they existed, included a requirement that law enforcement authorities be notified in the event that any Deak employee suspected that Deak-Perera facilities were being used for illegal purposes.

Mr. Deak responded by asking the company's general counsel, who was present, whether the reporting requirement for cash transactions was \$5,000.

In fact, it is \$10,000 as Agent Guillen has explained. Mr. Deak then said that he was too far removed from the problem to be of any assistance to the Commission.

I then told Mr. Deak that the Commission was in the best position to decide whether he could

be of any assistance.

Later, after the interview, the general counsel of Deak-Perera was asked whether the company had a security staff to which she replied that she was it. The general counsel did advise us that Deak-Perera did have written internal controls but that the attorney-client privilege would prevent the Commission's having access to them.

I pointed out to Mr. Deak that currently the Secretary of the Treasury may impose a fine of \$1,000 for a failure to file domestic currency transaction reports as required by law.

I explained to Mr. Deak that the Commission wished to inquire of him whether this provided adequate incentive for some financial institutions to take active measures to prevent money laundering.

Furthermore, the Commission sought to explore his view of the effectiveness of giving the Secretary of the Treasury the discretion to assess a civil penalty up to the amount of the currency deposited, withdrawn or exchanged.

Mr. Deak was also advised that the Commission wished to question him in regard to several instances in which, over the years, millions of dollars have been laundered through Deak-Perera by various criminals. Mr. Deak asked this question, "Is it only drug money?", to which I responded that, in part, that is true.

Mr. Deak was also requested to appear before the Commission to explain what impact, if any, upon Deak-Perera, could result from requiring the computerization of domestic cash transactions and international transfers of funds whether by wire or by physical transportation.

Mr. Deak responded that any such requirement would represent an increased cost which any such requirement would represent an increased cost which would be passed on to his customers.

Neither I nor Chief Investigator Gonzalez asked Mr. Deak which of Deak-Perera's customers would be most affected by the computerization idea under study by the Commission staff.

With your permission, Mr. Chairman,
I would request that Commission Staff Investigator
David Williams be called to advise the Commission
as to certain instances, limited to cases of
public record at present, beyond the Orozco case,
in which customers of Deak-Perera used its
facilities to further heroin and cocaine
trafficking and black marketeering.

May I, your Honor?

THE CHAIRMAN: Before you call Mr. Williams,
I would like to once again state what I stated
this morning and that is, that this Commission
has not received as yet from Congress the power
to subpoena witnesses.

Bills are pending and I will be testifying
next week on the House of Representatives.

I don't know exactly when the Senate will
call the Bill but this is a perfect illustration
of an instance where we cannot call an important
witness simply because we haven't got subpoena
power as yet.

I do state the facts correctly,
would he have been subpoenaed otherwise?

MR. HARMON: Yes, your Honor, and he was so

advised.

The next witness is Staff Investigator David Williams.

D A V I D W I L L I A M S, having been first duly sworn by the Marshal, was examined and testified as follows:

THE WITNESS: My name is David Williams. I am a staff investigator with the President's Commission on Organized Crime.

Prior to my assignment with this Commission, I served as a Special Agent with U. S. Military Intelligence, Vietnam, a Special Agent with the U. S. Secret Service, Chicago and a Special Agent in charge of the Department of Labor's Office of Organized Crime and Racketeering in Chicago, Cleveland and most recently in New York City.

My assignment regarding today's proceedings has been to examine the role played, either wittingly or unwittingly, by the currency exchange firm Deak-Perera Group in several large money laundering schemes.

The Deak-Perera Group is the oldest and largest retail foreign exchange dealer in the

United States. Approximately 50 percent of its offices are in the United States, with the remainder located worldwide. The firm controls approximately one half of the domestic market for foreign currency exchange. Deak and Company also owns real estate holdings, travel agencies and banks in Switzerland and the Grand Cayman Islands.

In examining criminal cases involving Deak-Perera, I have focused solely upon completed investigations rather than those ongoing or not yet adjudicated.

I have examined criminal investigations spanning the past decade and have selected those which illustrate various methods and techniques used by money launderers, who are dependent upon services provided by the firm of Deak-Perera.

In none of these investigations did Deak-Perera personnel alert authorities as to the activities of their clients. The bizarre nature of these illicit laundering schemes, which used the firm's services, were not reported to law enforcement agencies, despite the managers' and employees' extensive experience with normal

patterns of cash transactions and the firm's routine internal and external audits of its exchange and bank branches.

The first case study focuses on the years 1969 to 1975, when Deak and Company played an instrumental role in the massive, exotic bribery network established by the Lockheed Aircraft International Corporation of Burbank, California.

When the bribe payments were needed by the corporation for upper echelon business and Government officials in Japan, Lockheed called upon Deak-Perera to move the cash from Los Angeles to Hong Kong and to exchange U. S. Dollars for Japanese Yen which could be given inconspicuously to the Japanese officials.

Once dollars had been exchanged in Hong Kong, Deak-Perera presented the cash to Lockheed's bagman, a Spanish born priest named Father Hoze Aramiza, AKA Jose Gardeano.

Father Aramiza then flew with the money, which he carried in either corrugated cardboard boxes labeled oranges or in a flight bag, to Tokyo. In Tokyo, he followed a variety of

delivery routes, outlined in Deak-Perera's foreign money transfer receipts. These delivery instructions were often unusual, to say the least.

Once such set of instructions led Father Aramiza to a hotel, placing the bribe package into the hands of the Lockheed manager in Tokyo, A. H. Elliot.

Those instructions read:

"To: Mr. A. H. Elliot, Okura Hotel, Tokyo, Japan. Deliver on Sunday, January 31st. If impossible on Sunday, deliver on Saturday, January 30th. Contact Mr. Elliot only at hotel."

This delivery route appears to have been designed to insulate the cash movements from the Lockheed Corporate Offices.

In the fifteen deliveries, Deak-Perera moved \$8,300,000 from Lockheed's corporate headquarters through Father Aramiza to the corrupt elite of the Japanese business and political communities.

A subsequent criminal investigation of the money's recipients resulted in numerous arrests including that of Japan's former Prime Minister Kakuei Tanaka.

It was also discovered that Lockheed had used Deak-Perera in 1960 in a similar bribery scheme where at least \$1.7 million was used to bribe Japanese Defense Ministers to influence the purchase of Lockheed F104J fighter planes.

Following these international criminal investigations, both Lockheed's Chairman Dan Haughton and its president Carl Kotchian were forced to resign from the corporation.

The second case study focused on a Filipino money laundering scheme using at least one Deak-Perera vice president as a willing and knowledgeable co-conspirator.

The Vice President and Deak-Perera were charged criminally. Deak-Perera's managers in Honolulu and Los Angeles were also involved in the conspiracy, but were not indicted.

On May 16, 1978, Deak and Company and one of its vice presidents, Willi Beusch, were found guilty of wilfully failing to file currency and monetary instrument reports on approximately \$11 million deposited at Deak-Perera's San Francisco branch by two businessmen from the Philippines.

The indictment charged Deak and Company

with 378 counts of wilful violation of currency transaction reporting requirements. Deak-Perera was fined \$20,000 and had civil penalties assessed, which totalled an additional \$40,000.

Customs Agents discovered the money laundering scheme when envelopes, containing cash, but marked as business records, were intercepted while entering the U.S. in San Francisco, Honolulu and Los Angeles from the Philippines.

The envelopes containing the cash were addressed to various Deak-Perera employees with the street address of Deak-Perera's branches.

The Philippine nationals involved in the scheme were George Lai Man, a travel agent and Arthur Giminez of the Giminez Stock Brokerage Company.

The two Filipinos operated as a bank for a network of black market money exchange operators.

Willi Beusch, Deak-Perera's San Francisco Vice President, admitted to Customs Agents that his reason for failing to file the required reports was to cover up the illegal activities

of his clients from the Philippine authorities.

The next study focused on three Deak-Perera accounts which figured prominently in a large money laundering operation and cocaine distribution ring in Los Angeles and Miami.

This laundering group became known to authorities as the Grandma Mafia, because of its recruitment of middle class and middle aged female operatives.

The Deak-Perera accounts which were located in Stamford, Connecticut, received \$7,650,000 and were linked together by a special agreement with Deak-Perera and were subsequently emptied, with the proceeds being transferred to Miami, Panama and Colombia.

Two of these accounts also received at least \$500,000 of the moneys laundered by Eduardo Orozco, as already testified to by Special Agent Guillen.

The laundering operations leader, Barbara Mouzin, dealt on a frequent basis with Deak-Perera's vice president in Stamford, Connecticut, a man named Senor Porta.

Mouzin, now serving a 25 year prison

sentence in California, was interviewed by me on March 8, 1984 and stated that given the activity in the account and transfers traveling to Colombia, Panama and Miami, she found it difficult to believe that Deak-Perera's vice president was naive as to the purpose of the account.

When Senor Porta was interviewed by agents of the DEA, he denied having knowledge of how the accounts were being used. However, he indicated that two of the three account holders never came into the office to open the account and none of the account holders provided identification.

When asked if such practices were routine, Porta replied, and I will paraphrase here, "Deak-Perera puts financial accounts into whatever name people tell us they want. You make up a name, we give you your account and we give you a key code number to access the account."

The last case study was a joint U.S. Customs, IRS, and DEA investigation that focused on Deak-Perera account number 3552,

which played an instrumental role in the laundering scheme of Eduardo Orozco between November 1980 and March 1982.

Orozco opened an account at Deak-Perera in the corporate name Interdual, Inc. Interdual purported to be a retail currency exchange dealer which purchased foreign currency and checks in exchange for U.S. currency.

However, in dealing with Deak-Perera, Interdual deposited only U.S. currency not foreign currency. In less than sixteen months this account received 232 cash deposits totalling \$95.7 million.

These cash deposits were often made in huge amounts and carried in cardboard boxes to the Deak-Perera branch in New York City.

One such series of deposits in October 1981 involved a \$3,405,000 deposit, followed two days later by a \$999,000 deposit, followed a day later by a \$537,000 deposit, with an \$879,000 deposit within five days and a \$1,476,000 deposit three days later, all in cash.

The deposits had customarily remained only

a few days and were transferred to other accounts in nine U.S. cities and six foreign countries. Out of \$95,700,000 of total deposits, \$65,000,000 or 67 percent were transferred out of the United States by Deak-Perera.

In addressing another service provided by Deak-Perera, that of dealing in gold bullion, Chief Executive Officer Nicholas Deak said in a NEW YORK TIMES interview, "We in the business can usually spot a phony operator faster than anyone else. What our industry ought to do is form a self-regulating group."

Given this ability to spot illegal operations, it is troubling that, in the significant cases reviewed, this capability apparently and inexplicably failed.

In another interview with the LOS ANGELES TIMES, Nicholas Deak defended Deak-Perera's criminal convictions in the Filipino black market laundering case saying that he led his firm in a two decade effort to help nationals of other countries break exchange control laws in order to remove money from their home countries.

These efforts included the use of undercover corporate operatives inside foreign nations and facilitated such schemes, according to Deak. He explained that he broke no U.S. laws and merely wanted to aid foreign nationals in moving their funds through underground channels.

Deak admits that one half the countries in the world have such laws. This nation is currently seeking to encourage banks of foreign nations not to cooperate with U.S. citizens who are breaking our laws.

It is therefore troubling to learn that Nicholas Deak's firm actively provides similar financial services to criminals of other nations.

Mr. Chairman, this concludes my statement before the Commission regarding the Deak-Perera group.

THE CHAIRMAN: Call your next witness.

MR. HARMON: Your Honor, I call Clifford Karchmer.

I will ask you to stand up and raise your right hand and face the Marshal.

C L I F F O R D K A R C H M E R, having been
first duly sworn by the Marshal, was examined
and testified as follows:

EXAMINATION

BY MR. HARMON:

Q What is your present occupation?

A I am a research scientist affiliated
with the Battelle Institute located in the Washington,
D.C. office of that research organization.

Q What is the nature of the business of the
research organization?

A We are a contract research organization
performing a wide variety of policy on client's services
and contract both government and private sectors.

Q Go ahead.

A I am primarily engaged in criminal justice
research.

Q What is your educational background?

A I received a BA degree from Princeton
University. A degree in political science from the
University of Wisconsin. A Master of public
administration from John F. Kennedy School of Government,
Harvard University.

Q Have you ever held positions in any

way related to the enforcement of criminal law?

A I served as an investigator, special agent for the Pennsylvania Crime Commission in 1969, 1972.

Part of that time I was a special assistant to the Attorney General in charge of organized research.

In the year 1976 and in the year 1977, I served as Director of the Massachusetts Organized Crime Control Council.

Q Mr. Karchmer, as you are aware there is a reporting requirement in the event of \$10,000 cash transactions, domestic cash transactions, and I would like to address a certain number of questions to you in regard to that as well as to the foreign reporting requirement.

A Certainly.

Q The Bank Secrecy Act of 1970 included in that way a provision intended to provide integrated system for tracing and documenting financial transactions involving specific amounts of currency and criminal penalties for a failure to comply.

Understanding that there are other methods used to transfer funds, I would like to address for

those the credibility of the completed CTR forms 4789 and 4790 and to ask you to give the Commission your view of the effectiveness of those two forms, those two reporting requirements in preventing the laundering of moneys for various criminal purposes and perhaps you can start by explaining to the Commission the circumstances under which each one of those reports are required to be completed.

A Yes.

I believe a form 4789 is to be completed whenever an individual seeks to exchange an amount of currency, \$10,000 or greater.

A domestic -- at a domestic institution, a form 4790 which is referred to as a currency or monetary instrument report is required to be filed whenever currency or a monetary instrument such as a bearer instrument, negotiable instrument is brought into the United States or leaves the United States in a denomination of \$5,000 or greater.

Q Are those reporting requirements in your opinion sufficient to stop the problem of money laundering which the Commission heard about today?

A No, one of the problems with both of those forms, it is very difficult to validate, to authenticate

the identity of the persons completing the form, whether the currency that is being exchanged is actually owned by the person completing the form or whether it is owned by someone else in which case the person who is completing the form is serving in sort of a courier's capacity.

It is almost impossible for the kind of false identification which are bound to validate that the person is in fact that person.

Q Do you suggest any modification in the form?

A The form itself could require a number of other forms of identification. I think that there are a number of technological changes which could be brought to bear a signature with respect to this problem.

This particular -- the addition of a number of invoices in the area that is commonly known in this field as identification technology, a foolproof identification system to effect improvements in this area.

Q You are saying if financial institutions had the ability to enter and retrieve more information which had been authenticated at the point where the

currency enters the system it would be of greater assistance to law enforcement?

A Yes, if they could authenticate it and validate it at that point. When the currency enters the system, yes.

Q Based upon your experience and perhaps you can give us the source of this experience, is there a gap in time between which a currency transaction of what is prepared in a bank until the time that an investigative agent, for example, a DEA agent, could have access to that particular form?

A Yes, there is a gap.

In recent memory, say within the past year or eighteen months, that gap was as long as six months.

I am advised by Customs Service investigators, and personnel to maintain the paper and computerized system that that lag period has been reduced to an average, average time of 45 days, which is somewhat of a substantial reduction.

Q Why would that make a difference to the investigation of a money laundering operation?

A If the investigators are looking for a discernible pattern in either reference to a particular institution that is laundering a substantial amount of money.

or an individual who is serving a courier for a major trafficker or for a number, it is important how many transactions, currency exchanges that individual is engaging in over a period of time and you have to wait longer than a minimal period of time, say longer than 45 days, it is very likely that that currency, drug trafficking organization and laundering organization can come together, can group, can change couriers before that pattern is discernible to law enforcement authorities.

Q We have had testimony here today explaining that it is difficult to trace and to track moneys which have been wired outside of the country.

A Yes.

Q Could you explain why that does present a difficulty for law enforcement?

A I will try to do so, briefly.

First of all, the identity of the account into which money is wired, for example, off shore, from a domestic institution, is usually in the name of an individual or a corporation such as a shell corporation entity that is different from the name of the person who is doing the laundering, such as a drug trafficker.

Secondly, when that money that has been wired off shore is wired back into this country, because that trafficker wants to liquidate some of the assets, buying a boat, buying more drugs, buying a condominium, the entity into which it is wired in this country can have a different name and if the law enforcement authorities who are trying to track these, doesn't know the names of the identities, doesn't know the amounts involved and if I don't know the date of these transactions it is difficult, if not next to impossible to reconstruct them for criminal case development purposes.

(continued on following page.)

BY MR. HARMON: (continued)

Q Are you aware of proposed regulations with the Department of the Treasury that could effect the situation?

A Yes, I will comment as much as I know and then the Commission could raise that question with the appropriate Treasury Department officials.

There has been a proposal for some time to take several of the financial institutions that are engaged fairly regularly in currency transaction activity and in particular the wiring of funds either domestic, United States, or wiring these funds off shore, selecting those institutions that are engaging in extraordinary amounts of wiring currency transactions to report in a special mode to the Treasury Department and to make available some sort of a record of those rather large transfers so that a lead could generate from that and to do so in a manner such that all financial institutions engage in wire transfer and do not have to assume this rather enormous paper work burden for no particular reason.

Q Now, if we could just change the subject for a minute, I will ask you to consider the role in the electronic surveillance, in the investigation of

money laundering schemes.

Does wiretap have a real role to play in the investigation of some of the money laundering schemes which we heard described today?

A Yes.

There are two particular instances or types of situations which electronic surveillance can be helpful.

A trafficker who wants to authorize his assets to be wired someplace, someplace off shore, will make a verbal telephonic authorization to someone who is acting as his legal adviser to then authorize a bank to draw funds from the bank and have it wired, that is very often, not always, but very often a verbal authorization which is effected over the telephone.

Number one, that financial adviser or legal adviser who receives that information on the basis of personal banking relationships with the financial institution in which those are deposited, authorizes a transfer of those funds, off shore for the purpose of evading the United States tax laws, currency reporting requirements or this country's narcotic laws.

At the present time, it is, I think,

difficult to get a court authorized wiretap involving a currency investigation because so-called Title 31, Bank Secrecy Act violation does not constitute predicate.

I believe this is an amendment to the Comprehensive Crime Control Act, 1984, which has passed the Senate and pending in the House to rectify the situation.

Q What you are saying, a crime that is under investigation is currency transaction, currency violations, no matter what the law enforcement does, it does not have the ability to apply another court order to conduct --

A They don't have the ability to get a court order and I think that is an important point.

You have an example with the telephone, it is a central instrument in one or more type of crimes and because the way the law enforcement system is structured, those communications are unlikely to come to the attention of law enforcement authorities.

Q Now, if I could direct your attention to this chart and ask you to express an opinion to the Commission on this.

A It is a good chart.

Q If you assume that the 4789, which is a cash reporting requirement to the Treasury be required to be

retained by computer, by financial institutions and if you assume further that the wire transfers be required into an off shore bank, be required to be recorded by computer in a financial institution, represented by point one of the chart and if you assume that at point two, financial institutions are also required to record by computers those wire transfers. And if you assume further, that all of those computers recordable and transfers of funds are able to be collated and retrieved by the Department of Treasury computer, would you say that that type of a system and this is just an idea, would be of any value to law enforcement?

A Yes.

If all of those hypotheticals were in fact realities, the answer, I think is categorically, yes.

Q Would you explain why that would be?

A Well, in the first place, you asked several moments ago before the currency works its way to our transfers and then to the access in a foreign account and they are liquidated back, it can take a period of time from one day to several months, perhaps years.

The lag time as we discussed between the filing and the reporting and the retrieval of those reports can be on the average 45 days.

If you had, and I understand by use of the term computer system, sort of on line system, which would go to the system in Utah, I would have instantaneous input of that data and almost again instantaneous ability to retrieve that data which means at the end of that day, rather than at the end of a month or multi month periods, you would know whether or not you had a new laundering organization operating or if a courier was functioning in a very, very active capacity.

You would know within a matter of hours, surely by the end of that business day, if you had an on line system.

MR. HARMON: I have no further questions of this witness.

This witness is available for questions.

Are there any questions?

THE CHAIRMAN: There being no questions, you can call your next witness.

MR. HARMON: Thank you, Mr. Karchmer.

I call Honorable John M. Walker, Jr.

J O H N M. W A L K E R, JR., Having been first duly sworn by the Marshal, was examined and testified as follows:

THE CHAIRMAN: Go ahead.

THE WITNESS: If I may, I would like to proceed by reading a short statement and making a short statement for the record and then discuss certain typical money laundering schemes that I think might be of some help to the Commission.

THE CHAIRMAN: Yes.

THE WITNESS: Mr. Chairman, I appreciate the opportunity to appear before this Committee to discuss the ongoing work of the Treasury Department in financial investigations directed against organized criminal activity. In Treasury's view, financial investigations are an indispensable weapon against a multiplicity of violations of U.S. laws.

Investigations based upon the reporting requirements of the Bank Secrecy Act can trace the proceeds of illicit enterprises and lead investigators to the upper echelons of criminal organizations.

They can also lead to forfeitures that disrupt these organizations by depriving them of the capital they need to continue their crimes.

The seized currency is potentially devastating evidence in a criminal trial. Furthermore, the reporting requirements themselves serve as the basis for substantive charges.

President Reagan's overall crime strategy recognizes the advantages that financial investigations offer in the control of crime.

This administration has accordingly made them a prominent component of the twelve organized crime/drug enforcement task forces, which the President announced in October of 1982.

These task forces combine the investigative talents of DEA, IRS, U.S. Customs, ATF, the F.B.I. and the U. S. Attorneys, with further support from the Coast Guard and the U. S. Marshals Service. Treasury has contributed to the Task Forces 185 agents from IRS and 133 from Customs.

The task forces have already initiated cases against 494 drug-related organizations, even though they have been fully operational for less than a year. In 146 of these cases, 309 indictments have been returned. So far, 1,631 individuals have been indicted.

Treasury's participation in the task forces reflects a strong emphasis on attacking the financial base of criminal organizations. Indeed, of the 494 cases, IRS is involved in 361, and Customs is involved in 220.

I want to emphasize, however, that Treasury, though IRS and Customs, is also conducting financial investigations through Treasury task forces comprised of agents and support staff.

These task forces are now located in 30 major U. S. cities and are modeled after the highly successful Operation Greenback in Miami.

Treasury initiated Operation Greenback to investigate the cause of the huge currency surpluses reported by Federal Reserve Banks in Florida. Greenback's investigations are directed principally against the laundering of narcotics proceeds. The other task forces attack narcotics proceeds as well, but are also investigating numerous other forms of organized crime.

Treasury's financial investigations, when integrated with the Grand Jury process, can produce evidence of violations of income tax

laws, racketeering, continuing criminal enterprises, perjury, drug smuggling and distribution, and other serious offenses.

Treasury supports its financial investigations with analytical information generated by the Treasury Financial Law Enforcement Center, or T-Flec, which Treasury instituted at Customs Headquarters in 1982.

T-Flec analyzes reporting data to trace currency flows, reveal corporations possibly involved in organized criminal activity, and identify individuals making suspect transactions.

Once identified, other investigative tools can be used against these operatives. Another function of T-Flec is providing analytical support to ongoing active investigations. In this manner, T-Flec is having a direct impact on the development of law enforcement strategies to exploit whatever vulnerabilities a criminal organization may have with respect to its business practices.

Access to information generated by T-Flec is not limited solely to federal enforcement

agencies. Treasury's Office of Enforcement and Operations also provides such information to state, local and foreign law enforcement agencies on a case-by-case basis.

Treasury is committed to the broadest possible use of this information, provided that the requests pertain to actual targets of ongoing investigations.

With your permission, Mr. Chairman, I would now like to describe, very briefly, three money laundering schemes that Treasury uncovered during recent investigations.

Although each of these schemes was used to conceal the source of narcotics proceeds, there is, of course, no reason why such schemes could not also be used in connection with proceeds, of other illegal activity.

As Chart 1 indicates, some money laundering schemes involve the smuggling of currency out of the country to off shore banks in countries with strict bank secrecy laws. Circles represent individuals; squares depict organizations. Cash flow in dollars is shown in green and the red lines trace flows of foreign currency.

In this illustration, a professional money launderer or currency exchanger accepts shipments of cash from a drug trafficker. He is providing two services here -- he is disguising the origin and source of the money by depositing it into the off shore bank and withdrawing it as wire transfers or loans to shell corporations. He is also arranging for payment to the source of supply, in the currency used in that country. By the way the shell corporation might make interest payments to his affiliate account-holder off shore, and take a tax deduction for them.

The basic scheme I have described is a relatively simple, off-shore laundering of cash. Many domestic schemes were once this simple also, involving little more than suitcases of cash carried into banks and conspiracies to avoid filing requirements.

Our increased enforcement efforts have made it riskier for money-launderers to simply carry cash into banks in return for wire transfers.

Hence, this elaborate scheme (Chart 2)

involving a person in business as a currency exchanger. If the individual is not a currency exchanger, he could also engage in this type of a money-laundering scheme, provided that he has some relationship with a seemingly legitimate business that handles large amounts of cash.

The currency exchange or other business could process the crime proceeds under the cover of the business and withdraw it in the form of cashier's checks. These checks would be made payable not to the criminal clients, but to their intended payees or to individuals whom they control. Other cashier's checks would be carried abroad to pay the foreign source of supply.

In simplified form, this was the scheme used by the Zapata organization. A Greenback investigation culminated in the arrest and conviction of seven individuals who had been laundering approximately \$100 million a year, in addition to trafficking in cocaine. The seizures included a cocaine processing laboratory and sophisticated communications equipment.

The Zapata organization, by the way,

didn't limit itself to use of a currency exchange. It also established U. S. bank accounts in false names, maintained its own foreign bank accounts, and offered its customers overseas cash deliveries as well. The variations on any of these schemes are almost endless.

My last example (Chart 3) is a rather sophisticated operation that was used by an established foreign currency exchanger.

He maintained both domestic and foreign accounts and had a managing agent in the United States to collect and transport currency.

An important feature of this scheme was that no cash or monetary instruments need actually leave the United States. The principal money launderer merely receives notification from his U. S. agent that a deposit has been made to the account in the United States.

He then makes the payment to the suppliers, as designated by the client criminal organization. Later, wire transfers unconnected with specific drug transactions restore the balance between the two accounts.

At the same time, this money launderer offers another service -- he exchanges dollars for foreign currency. For narcotics traffickers in Colombia who need pesos, this is a valuable service. They are unable to exchange vast amounts of dollars through exchanges in their own country without arousing suspicion.

The scheme I have outlined is similar to one used by the Sonal organization, which was destroyed as a result of a Greenback investigation in 1981. The currency exchange was controlled by Colombian nationals.

The cash shipments coming into the United States were wrapped in Colombian newspapers, indicating their origin, and no corresponding currency reports were filed for their importation.

A total of over \$9.4 million was seized and later forfeited in this case. It is interesting that the Colombian leader of the organization appeared in Miami to defend his title to a portion of this money. He was promptly arrested upon the completion of the civil forfeiture proceeding, as was his U.S. agent. Both were subsequently convicted.

Each of the methods I have briefly described was used to launder enormous amounts of currency. The Sonal organization I mentioned earlier was responsible for laundering in excess of \$240 million in drug proceeds.

Another individual, who used the scheme pictured in Chart 1, among other schemes, claimed to have laundered \$1 billion. Treasury's financial investigations were the key to uncovering these organizations and putting them out of business.

By attacking the financial underpinnings of organized crime, we can not only imprison participants, but also deprive criminal organizations of their cash reserves.

Inasmuch as every business, legal or illegal, depends on its financial resources, investigations directed at financial transactions can result in the eventual destruction of the enterprises themselves.

In the last three years, I believe Treasury has made great strides in attacking the money side of drug trafficking and other organized crime.

We are continuing to build a solid base of experience from which future investigations will emerge.

Mr. Chairman, this concludes my statement. I would now be pleased to answer any questions you or members of the Commission may have.

(continued on following page.)

THE CHAIRMAN: Do you want to proceed first?

MR. HARMON: I have one question.

EXAMINATION

BY MR. HARMON:

Q Mr. Secretary, in general terms, you are familiar with the idealized computer model as a study by the Commission staff which would give the Treasury T-Flec computer system access to deposit and transfer, whether by wire or otherwise and give an instantaneous analytical capability to the Department of the Treasury.

What is your view of the value of such a capability to the Department of the Treasury and to law enforcement in general?

A Well, Mr. Harmon, the Treasury Department currently has a computerized system that includes the data reflected on the Internal Revenue Service form 4789 and the Customs form 4790, as well as Treasury Department form 90-22.1, the foreign bank accounts and we are in the process of refining this and considering the addition of information pertaining to retail firms and others whose transactions would have been exempted from the reporting requirement.

While we would, of course, try to have the

data concerning questionable wire transfers, the difficulty is in separating the relatively few questionable transactions from many thousands of legitimate transactions that occur daily.

Any attempt to create such reporting requirement would impose a very large burden on the private sector as well as the Treasury Department.

In view of its enormous course we believe any such program would have to be subjected to an in depth study or review of both the course and benefits of such a proposal.

My personal belief is that our limited resources at present time could be better spent in more intensive analysis and use of the data currency in our possession.

Unlike large currency transactions, there is nothing wrong about a wire transfer. Indeed, they are the every day means of making payments for a broad range of legitimate commercial activity.

I should point out, however, that we do have under consideration at the Treasury at the present time, a regulation which would enable us to target specific classes of wire transfer between specific institutions by identifying a limited number of institutions

for a limited period of time and requesting the reporting of those wire transfers.

Presumably by other limiting factors such as the designation of the wire transfers and the like, and that is currently under view at the present time at the Treasury Department.

So, we recognize the importance of wiring.

MR. HARMON: I have no further questions.

THE CHAIRMAN: Mr. Secretary, we are very grateful that you came before the Commission today to give this testimony which is tremendously important to us.

However, I speak for myself by saying that you leave me rather frustrated.

In the first place, can you tell me why it has taken the Treasury Department so long to adopt proper regulations that would deal with the Bank Secrecy Act and so forth and plug these loopholes that you have talked about?

THE WITNESS: Mr. Chairman, I should point out that the regulations presently enforced currently provide very comprehensive measure that deter money laundering.

This includes international transportation

and foreign financial accounts as well as the currency reporting on special record keeping requirements for financial institutions.

Obviously when you are dealing with sophisticated criminal activity, sophisticated criminal minds will always be trying to find ways to get around the problem.

THE CHAIRMAN: I am talking about regulations that the Treasury has been considering and you mentioned something about it in your testimony and yet these regulations have not been adopted.

Has there been any opposition to these regulations? Has the banking fraternities been opposed to these regulations because it would interfere with legitimate businesses? What is the problem?

THE WITNESS: I think that you correctly point out that every regulation of this sort will affect an industry and that industry has its voices and wishes to be heard and it is an attempt by our Treasury Department at the present time to understand these concerns but then to go forward with the

regulation which will be the -- which will satisfy our law enforcement needs, well, obviously taking into account the concerns--

THE CHAIRMAN: Can we be optimistic about it?

THE WITNESS: Yes.

THE CHAIRMAN: About how long do you think?

THE WITNESS: I think with respect to the transaction, the reporting transactions that I just mentioned five minutes ago, that we can look forward to something in the quite near future.

I would say in the next forty to sixty days.

THE CHAIRMAN: Thank you.

One or two other questions and that is it.

There is a so-called casino exception, would you explain that to us?

THE WITNESS: Well, historically the casinos have not been regulated as "financial institutions," they are in our judgment, could be considered financial institutions and the regulation could encompass casinos.

We have had testimony and testimony has recently been elicited by the House Subcommittee on Crime.

We at the Treasury firmly believe there is a loophole here that has to be addressed.

At the present time we are entertaining the views of the affected industry involved and indeed that is one of the things that I will be turning my attention to as soon as I get back to Washington.

We intend to take those views into account and then to proceed forward with what we consider to be appropriate regulations in this area.

THE CHAIRMAN: Can you tell us very briefly how did that operate, the casino?

THE WITNESS: What we find are drug traffickers, money launderers, are going into casinos with large amounts of cash.

They cash them for chips, perhaps not even playing any of the games and then going back and they turn their chips back in and request the casino to wire the money out and that would be one way to transfer money as between a casino and then take the money out or to transfer

the money between the casino where the launderers have gone in and some foreign account somewhere.

THE CHAIRMAN: And casinos are exempt from reporting transactions?

THE WITNESS: At the present time.

THE CHAIRMAN: Are you contemplating some regulation on that?

THE WITNESS: Yes, we definitely are.

THE CHAIRMAN: My last question is, it is a hard one and that is, can you think of any way that we can completely halt up money laundering?

THE WITNESS: Excuse me?

THE CHAIRMAN: Any way that we can completely halt money laundering?

THE WITNESS: This is -- I don't think there is a magic answer to this problem because the transfer of money is, of course, the life blood of our commercial industry and we cannot inhibit the transfer of money.

I do think that the regulations, the level of regulations that we have in place, that is the \$10,000 reporting requirement

has been a workable situation.

However, we are finding now that money laundering schemes are utilizing couriers to get under the \$10,000 limit.

They will run couriers out to various banks and make it \$9,000. Unless they are aggregated in a single day, it would not require reporting so, we are concerned about that, and one consideration would be to lower the limit, but when that occurs you have more transactions that has to be reported.

So a balance has to be struck.

THE CHAIRMAN: Would you mind writing if you don't have a solution, write to our Executive Director and get the best brains and give us some help on this?

THE WITNESS: I would be happy to give the Commission anything that the Treasury can provide.

EXAMINATION

BY COMMISSIONER ARANZA:

Q Realizing the difficulty of money laundering, what have your investigations led to as far as --

A Well, currently, in organized crime and drug enforcement task forces, I would say that we have got about 25 to 30 percent of those cases resulting in Title 31 charges being filed, and, I think that is a fair sample.

That is the kind of current picture.

It wasn't that large years ago, but I would also say that financial investigations are important not only when the currency reporting violations charges involved, but also as a means for developing important evidence for a drug case or another case.

EXAMINATION

BY COMMISSIONER SKINNER:

Q Secretary Walker, I would like to take a couple of questions on the organization of the Treasury as it relates to several functions that report in the fight against organized crime.

Number one, it is my understanding that the intelligence division of the Internal Revenue Service does not fall under your direct jurisdiction, is that correct?

A That's true.

Q You have the responsibility for Customs and Secret Service?

A That's correct.

Q It appears that a good portion of the information that has been developed at the Internal Revenue Service on ongoing cases is information that could be of great assistance to other law enforcement agencies and vice versa.

I have heard recently a number of people from your agency and from law enforcement testified that recent laws have prohibited the dissemination, primarily outgoing from Internal Revenue Service, what is Treasury's official position on that?

And I mean by that, I don't mean the Commissioner or yours, I mean Secretary Regan and what can be done to insure that the information that is gathered by financial experts such as those working for you could be shared with the entire law enforcement community?

A As far as an organization under my supervision we have no trouble with exchanging that information.

With regard to the IRS information, it is Section 6103 of the Internal Revenue Service Code which is the barrier towards the complete disclosure of tax related information and the reason that that was

enacted in the mid 1970's was basically to protect information of taxpayers. We have been able to address that problem by the use of Grand Juries and by producing this information in the context of Grand Jury and where various agencies are working together, the Grand Jury and any information can be freely exchanged but always within the Grand Jury process itself.

We have sought and obtained some relaxation of the circumstances under which this law is to be applied, some amendment to the law.

At the present time, striking the balance that is required here between the Internal Revenue Service, its needs and the Treasury needs financial related information and we think we have an appropriate balance and that would be the position of the Secretary.

Q That is you would agree?

A I agree that that is not shared.

O That is not shared and the conventional wisdom of law enforcements that were around, that were around during, and after 1970, tightening up the IRS is a great great hamper, has a great hampering effect on law enforcement.

A Putting my hat of law enforcement on, I agree with you entirely.

Q To your knowledge, which other nations that are on the top of the list has off shore banks in these kinds of schemes with financial institutions with the organized crime?

A Panama, Grand Cayman, Bermuda, other principals, but those are the ones that come to mind.

Q Colombia?

A There we do not see money laundering directly so, I wouldn't address them as being in the top echelon as far as money laundering problems.

Obviously, as far as drugs are concerned, yes, Panama is the country of choice among money launderers today.

Q You would say that is number one?

A Yes.

THE CHAIRMAN: The reason is because they trade in United States dollars?

THE WITNESS: Yes.

Also they have very strict bank laws.

EXAMINATION

BY COMMISSIONER HOPE:

Q Secretary, we heard a great deal of testimony here today about the use of financial institutions and money laundering and about the desire

of the people who are doing the money laundering to get a man or woman on the inside of these financial institutions so that legitimate requirements of the Treasury of the United States Government, filing requirements can be debated.

How big a problem do you think it is? The problem of having people on the inside as Treasury or the United States Government doing anything about it?

A It has been a problem and we have seen it time and again in various context, but with our increased efforts to obtain requirements by the banks and approaching higher levels of management by the banks, and basically telling any bank president to allow this to go on in his bank, if he wants to hold himself criminally accountable, but we are holding him morally accountable and by indicting banks where the knowledge reaches up in the higher level we are having an effect and I think banks are trying to clean their own house.

This has resulted in a greater effort on the part of the money launderers to transport the money abroad by passing United States banks so the problem of money laundering still remains.

EXAMINATION

BY COMMISSIONER McBRIDE:

Q There have been considerable advances in computer technology, particularly by the Internal Revenue Service.

I did read an article in the NEW YORK TIMES about the Internal Revenue Service's proposal of having on line access to real estate data in the State of Texas as part of their investigative process.

There is a problem which is relative isolation of Internal Revenue Service, particularly intelligence activities because of the provisions of Section 6103.

I frankly cannot believe there is not some technological solution to the problem we are talking about. There may be policy reasons, volume reasons and other things that would make them unpredictable, but I have a strong feeling they haven't been explored and designed and accepted, modified and rejected.

What I am suggesting is with those great capacities, within the Internal Revenue Service and even the cooperation of private banking, you couldn't figure out using the information technologically that we have now, ways of whether it is by sampling reporting, whether it is by a device we used to use, computer profiling, specific transactions that we come up with a better system and I guess I am raising this, not so much

to ask for an answer, but for a request.

Will you please take it seriously.

I think it really could be done and I have the feeling as a twenty year veteran with the federal bureaucracy that it requires an extraordinary push to get it done?

A Right.

Q One more question and this is more in the nature of a question.

We do have in the Internal Revenue Service a sort of reward system so if anyone is aware of tax evasion problems they can get a reward.

Has anyone thought of a similar system for currency exchange employees?

A We have pending in Congress at the present time a bill which would provide for incentive awards for currency violations.

COMMISSIONER McBRIDE: Good. Thank you.

THE WITNESS: I might say, Mr. Commissioner, I certainly endorse the whole works of this Commission, not only as a fact finder, but also as a stimulus for those of us in the public sector and I certainly appreciate the comments you made on that score as well as those of the Chairman.

EXAMINATION

BY COMMISSIONER SCLAFANI:

Q Following up on that, Mr. Walker, can you give us the number of that bill?

A I will be happy to supply it for the record.

THE CHAIRMAN: Do you have a question?

EXAMINATION

BY COMMISSIONER ROWAN:

O You say perhaps cracking down on the bank will cause transfers in specific banks -- would it be possible for the Treasury through regulations to require tagging of our currency, say in denominations over a thousand dollars and by that I mean metallic ink or wire mesh in the currency so that it could be picked up on the mechanism such as that we have outside the door?

If somebody transported cash on their person or in their luggage leaving the country --

A This is an idea that is not unfamiliar to us. It is obvious when one is talking about a ring changing currency, that is somewhat of a delicate subject -- from a public perception viewpoint it is a delicate subject, but it is an idea that I think it deserves further study and I think we need to look

into the technological feasibility of it and to try and ascertain what the costs would be, but I do think this has some merit and we are pursuing this and similar ideas.

This, of course, would enable us to detect -- it might be more difficult with the situation where the person is not going through a check point, but it certainly is an idea worth pursuing.

EXAMINATION

BY COMMISSIONER METHVIN:

Q Mr. Walker, we heard about the laundering of funds from illegal narcotics activities, one case of the American corporation shipping money abroad to bribe foreign officials.

What other illegal activities would generate a need that you have run across in your investigative activities?

A The traditional organized crime activities, racketeering, prostitution, gambling, any activity which would ultimately lead to the accumulation of large amounts of cash which would be an appropriate source for money laundering.

THE CHAIRMAN: Well, thank you, Mr.

Secretary.

We are grateful for the time you have taken and we hope you will give us more attention.

We hope that Secretary Regan will heed our request and it will be given a top priority because it is a very serious problem as you can see, not only is the economy affected but every individual in this country is affected.

So, I want to express to you on behalf of Jim Harmon and his staff your help today and certainly on behalf of the Commission.

Does that complete the presentation of your witness, Mr. Harmon?

MR. HARMON: Yes, it does.

THE CHAIRMAN: Thank you very much.

I would simply want to say in closing that this is the second in the series of open hearings by this Presidential Commission on Organized Crime.

We have a long road ahead. You heard me say on several occasions today that it has not been made any easier by reason of the failure to grant us subpoena power up to this point,

but I think that that will be corrected before long.

It isn't only subpoena power, but we must have the power to grant immunity and there is a broad range of other authority and powers this Commission should be given if we are going to be properly attack the organized criminal cartels and so without belaboring the point any more, I am personally very grateful to the members of the Commission for the courtesy, not only to the Chairman but to the witnesses today.

It was a splendid staff that had an opportunity to show what it could do under very difficult circumstances.

With that, we will stand adjourned.

Thank you.

(Whereupon, these proceedings were concluded.)

CONCLUSION

As the hearing record indicates, several factors currently limit the ability of the law enforcement community and the Commission to estimate the total amount of organized crime's income. These factors include the lack of utility of such data for the investigation of specific crimes, the incompleteness and fragmentation of such data among various law enforcement agencies, and the absence of highly reliable techniques for extrapolating from these partial data. While the Commission staff suggested \$84 billion as a rough, and concededly conservative, benchmark figure to approximate the economic power of organized crime, the Commission does not assert that this figure represents the true total of organized crime's income, and is continuing to develop more accurate and reliable estimates of that income.

The hearing record also demonstrates that while some organized criminal groups in the past have depended less heavily than other groups on money laundering methods, organized crime groups throughout the country have become increasingly aware of the services that professional money laundering operations can provide. In the New York area, for example, one money laundering organization headed by Eduardo Orozco laundered approximately \$151 million through various banks and currency exchanges for Colombian cocaine traffickers. Ironically, subsequent disclosures have shown that Orozco's operation was modest when compared to other money launderers who are known to have handled billions of dollars over the course of several years. The Orozco case, however, demonstrates with particular clarity that to conduct their operations successfully, money launderers are often highly dependent on financial institutions that either do not recognize the indications of money laundering activity or accept funds for laundering without asking questions.

The hearing also highlighted the value of the Bank Secrecy Act, and the reporting of currency transactions thereunder, to the Internal Revenue Service and the Customs Service in detecting and successfully investigating money laundering operations. As a result of this hearing, the Commission undertook an intensive investigation of the problem of money laundering through domestic financial institutions. While that investigation has continued to the present day, it has already resulted in the publication of the Commission's first interim report, The Cash Connection: Organized Crime, Financial Institutions, and Money Laundering.

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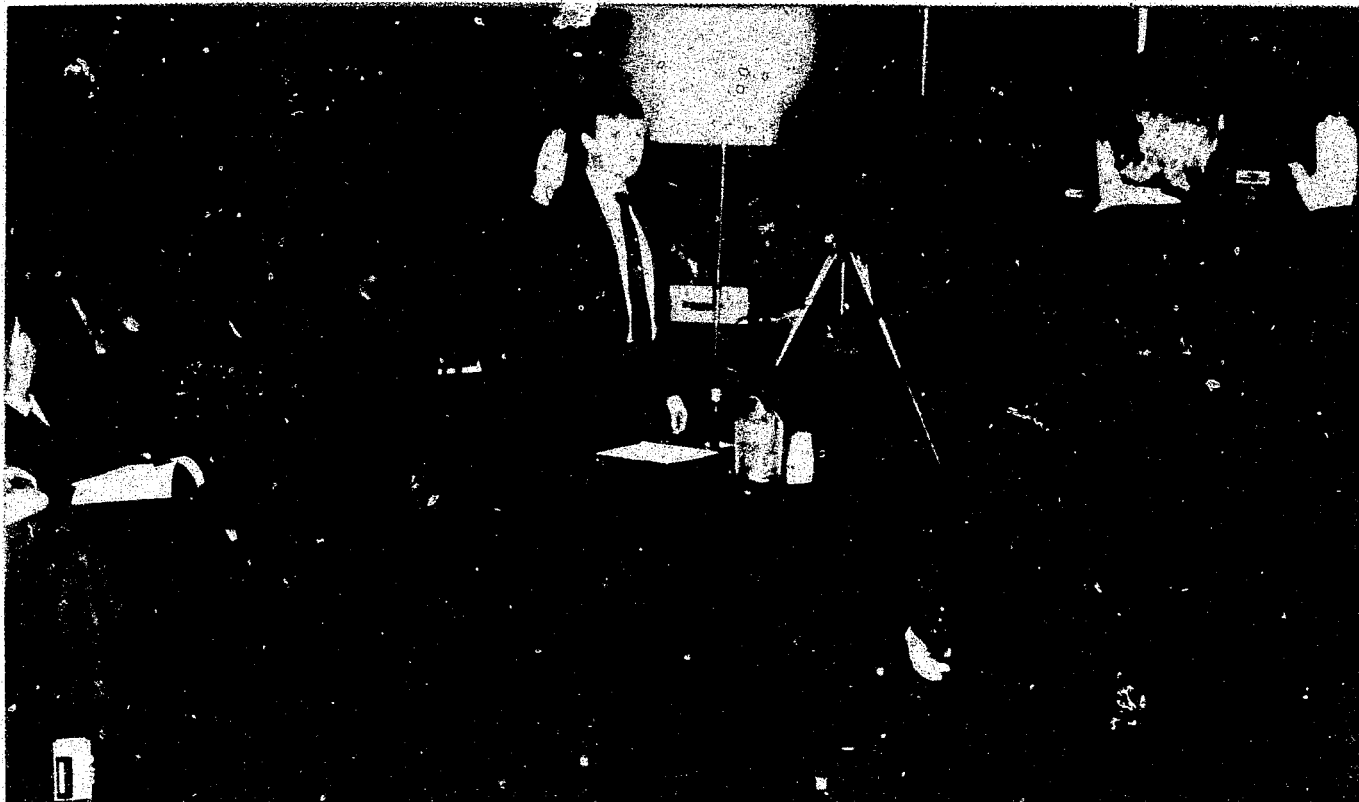
Commission Chairman Judge Irving R. Kaufman briefs the press.



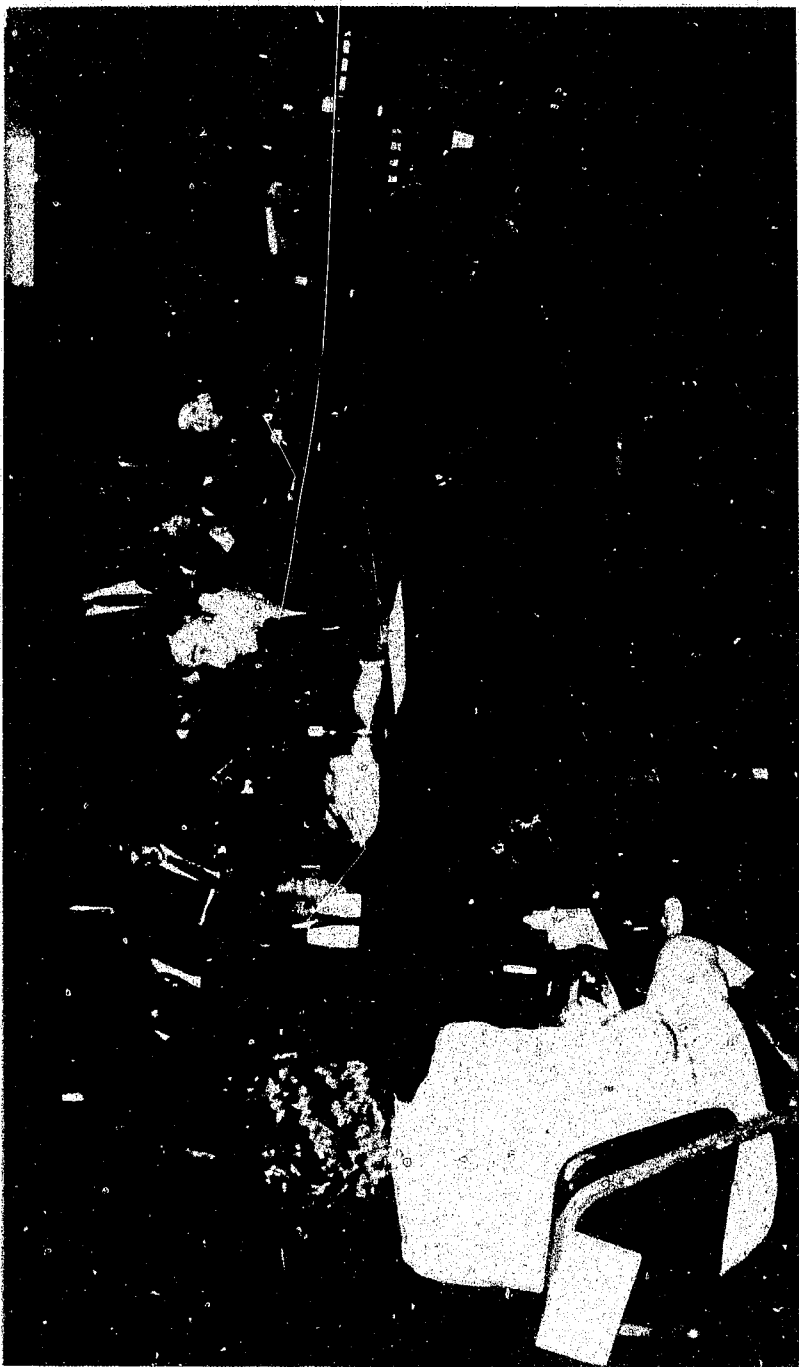
The Commission hears a witness's testimony.



Commission Chief Investigator Manuel J. Gonzalez testifies on the income of organized crime.



Commission Investigator David Williams is sworn in prior to testifying on the role of Deak-Perera Group in money laundering.



John M. Walker, Assistant Secretary of the Treasury for Enforcement, describes Treasury's financial investigations into organized crime.