

U.S. Department of Justice  
Office of Justice Programs



Bureau of  
Justice  
Assistance

116424

ASSET  
FEITURE

# Tracing Money Flows Through Financial Institutions

6<sup>th</sup>  
in a series



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## THE BUREAU OF JUSTICE ASSISTANCE

The Bureau of Justice Assistance provides Federal assistance to state and local units of government for programs which improve the functioning of the criminal justice systems. The Bureau administers two major grant programs and a number of direct assistance programs.

The Justice Assistance Program provides grant assistance to state and local criminal justice agencies to fund programs which improve the functioning of the criminal justice system with an emphasis on violent crimes and serious offenders. The states, District of Columbia and the territories receive a block grant award which is used to implement the program at the state level. Discretionary programs which are designed to demonstrate the effectiveness of new programs, to provide training and technical assistance to criminal justice personnel and to address issues which are national or multi-state in nature are administered by the Bureau.

The State and Local Assistance for Narcotics Control Program provides grant assistance to enhance state and local drug control efforts. Programs eligible for funding include those which improve the apprehension, prosecution, adjudication, detention and rehabilitation of drug offenders. Eradication programs, treatment programs and programs which concentrate on major drug offenders are also eligible for funding. The states, District of Columbia and the territories receive a block grant award which is administered at the state level. The discretionary grant program administered by the Bureau is used to enhance, coordinate and fill gaps in state and local efforts through national and multi-state programs.

Direct Assistance Programs administered by the Bureau include Public Safety Officer's Benefits, Emergency Federal Law Enforcement Assistance, Regional Information Sharing Systems, Mariel-Cuban Reimbursement, Surplus Federal Property and the Prison Industry Certification Program.

**The Bureau of Justice Assistance  
633 Indiana Avenue, N.W.  
Washington, D.C. 20531  
(202) 272-6838**

116424

# ASSET FORFEITURE

## Tracing Money Flows Through Financial Institutions

Charles H. Morley

NCJRS

MAY 8 1989

ACQUISITIONS

February 1989

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**U.S. Department of Justice**  
Office of Justice Programs  
Bureau of Justice Assistance

**U.S. Department of Justice**  
Dick Thornburgh  
*Attorney General*

**Office of Justice Programs**  
Richard B. Abell  
*Assistant Attorney General*

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Fred Wm. Becker  
*Asset Forfeiture Program Manager*

Prepared under cooperative agreement No. 87-DD-CX-K090 by the Police  
Executive Research Forum.

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The Assistant Attorney General, Office of Justice Programs, coordinates the activities of the following programs offices and bureaus: the Bureau of Justice Statistics, National Institute of Justice, Bureau of Justice Assistance, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime. Points of view or opinions in this document are those of the authors and do not necessarily represent the official position or policies of this Agency.

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U.S. Department of Justice  
Office of Justice Programs  
Bureau of Justice Assistance

Office of the Director

Washington, D.C. 20531

Dear Colleague:

Illicit drug traffic continues to flourish in every part of the country. The cash received by the traffickers is often converted to assets that can be used by drug dealers in ways that suit their individual tastes. Since 1981, federal authorities have increased their attack on these assets through both criminal and civil forfeiture proceedings with remarkable success. The recent passage and use of state asset forfeiture laws offers an excellent means for state and local jurisdictions to emulate the federal success.

The Bureau of Justice Assistance (BJA), in the Office of Justice Programs, has funded a nationally focused technical assistance and training program to help state and local jurisdictions facilitate broader use of such laws. BJA selected the Police Executive Research Forum to develop and administer this program because of its history of involvement in practical, problem-oriented research to improve police operations and the Forum's central role in developing training materials for use by police agencies and chief executives.

As part of this project, the Forum has contracted with experts in the area of asset forfeiture and financial investigations to prepare a series of short manuals dealing with different concerns in the area of asset forfeiture. We hope these manuals help meet the rapidly unfolding needs of the law enforcement community as more and more agencies apply their own forfeiture laws and strive to learn from the successes and problems of their peers.

I welcome hearing your comments about this program. We have structured this project so that most requests for information or assistance can be handled through the Forum staff in Washington, D. C., by calling 202/466-4820.

Sincerely yours,

  
Charles P. Smith, Director  
Bureau of Justice Assistance

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# **ASSET FORFEITURE**

## **Tracing Money Flows Through Financial Institutions**

Charles H. Morley

February 1989

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Office of Justice Programs  
Bureau of Justice Assistance

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Office of Justice Programs  
Bureau of Justice Assistance

Office of the Director

Washington, D.C. 20531

Dear Colleague:

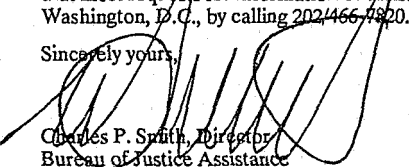
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Sincerely yours,



Charles P. Smith, Director  
Bureau of Justice Assistance



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## Exhibit 1

### Bank Document Request Language

- I. All Bank Records \_\_\_\_\_ - Present
- A. All open or closed checking, savings and NOW accounts
    - 1. Signature cards
    - 2. Bank statements
    - 3. Cancelled checks
    - 4. Deposit tickets
    - 5. Credit and debit memos
    - 6. Wire transfer records
    - 7. Forms 1099 or back-up withholding statements
  - B. Retained copies of all open or closed bank loan or mortgage documents
    - 1. Loan application
    - 2. Loan ledger sheet
    - 3. Copy of loan disbursement document
    - 4. Copy of loan repayment document
    - 5. Loan correspondence file
    - 6. Collateral agreements
    - 7. Credit reports
    - 8. Copies of notes or other instruments reflecting the obligation to pay
    - 9. Copies of real estate mortgages, chattel mortgages or other security for bank loans
    - 10. Copies of annual interest paid statements
    - 11. Copies of loan amortization statements
  - C. Certificates of Deposit (purchased or redeemed)
    - 1. Copies of the certificates
    - 2. Records pertaining to interest earned, withdrawn or reinvested
    - 3. Forms 1099 or back-up withholding statements records
  - D. *Open or closed investment or security custodian accounts*
    - 1. Documents reflecting purchase of security
    - 2. Documents reflecting negotiation of security
    - 3. Safekeeping records and logs
    - 4. Receipts for receipt or delivery of securities
    - 5. Copies of annual interest paid statements
  - E. All open or closed IRA, Keogh and Other Retirement Plans
    - 1. Statements
    - 2. Investment, transfer and redemption confirmation slips
    - 3. Documents reflecting purchase of investment
    - 4. Documents reflecting redemption of investment
    - 5. Copies of annual interest earned statements
  - F. Customer correspondence file
  - G. Retained copies of all Cashier's, Manager's, Bank, or Traveler's checks and money orders
    - 1. Copies of documents used to purchase check/money order
    - 2. Copies of documents reflecting negotiation of check/money order

- 
3. Retained copy of application
  4. Retained copy of negotiated check/money order
- H. Wire transfer files
1. Fed. Wire, Swift or other documents reflecting wire transfer of funds to, from or on behalf of (the subject)
  2. Documents reflecting source of funds for wire out
  3. Documents reflecting disposition of wire transfer in
- I. Retained copies of all open or closed safe deposit box rental and entry records
- J. Open or closed credit card files
1. Applications for credit card
  2. Monthly statements
  3. Copies of charges
  4. Copies of documents used to make payments on account
- K. Retained copies of Currency Transaction Reports (Forms 4789)
- L. Retained copies of bank's CTR Exempt List (if subject is exempt) and documents reflecting justification for exemption.
- 

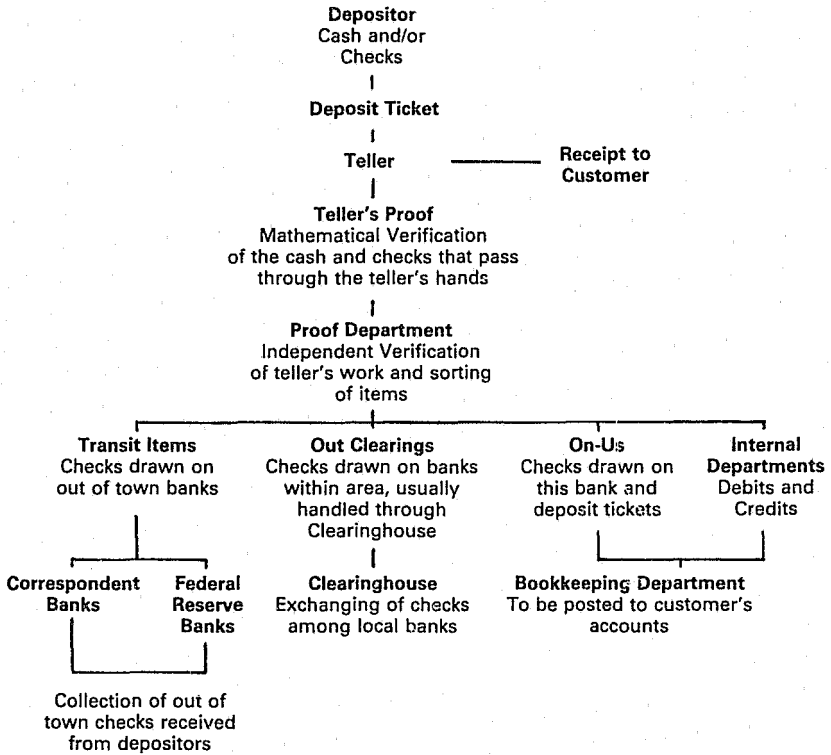
The second type of transaction is the nonaccount transaction. Loans fall into this category, as does the purchase or sale of securities (including certificates of deposit, stocks, bonds, and Treasury bills). The purchase or negotiation of bank checks is also a nonaccount transaction, as are cashier's checks, money orders, traveler's checks, and cash transactions (the exchanging of cash for cash and the cashing of third-party checks). Wire transfers and entries into a safe deposit box are also nonaccount transactions.

### **Flow of Transactions Through Banks**

Tracing transactions through a bank is like any other asset-tracing procedure—you search for the ultimate source of the funds coming into the bank and you search for the ultimate disposition of funds leaving the bank. Both ends of the transaction can lead to hidden sources of income, hidden assets, previously unknown witnesses, and other principals.

To understand the nature of account transactions, one must

**Exhibit 2a**



understand how transactions flow through a bank through deposits, withdrawals, and memo entries (Exhibit 2a & 2b). The transaction begins at a transaction entry point. This may be a teller, a memo entry from another department, or input from the cash services department.

The teller serves as the transaction entry point when, for example, he or she receives a deposit through the mail, from an automatic teller machine, or directly from a bank customer. The cash services department handles deposits for larger cash customers, such as department stores and grocery stores.

From the entry point, transactions go to the proof depart-

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## Exhibit 2b

### Types of Banking Transactions and Records Maintained

#### I. Account transactions

##### A. Deposits

1. Teller tape
2. Deposit ticket
3. Item deposited
4. Cash in ticket
5. Credit memo

##### B. Withdrawals

1. Teller tape
2. Check
3. Cash out ticket
4. Debit memo

#### II. Non-account transactions

##### A. Loans

1. Loan application
2. Loan ledger
3. Correspondence file
4. Loan Disbursement Documents
  - a. Teller tape
  - b. Bank check
  - c. Credit memo
5. Loan repayment documents
  - a. Teller tape
  - b. Copies of checks
  - c. Cash in tickets
  - d. Debit memos

##### B. Securities—CDs, Stocks, Bonds, etc.

1. Bank copy of security (delivered)
2. Security held in safe keeping
3. Payment instrument
  - a. Teller tape
  - b. Copy of check
  - c. Cash in ticket
  - d. Debit memo
4. Disbursement instrument
  - a. Teller tape
  - b. Bank check
  - c. Credit memo

##### C. Bank Checks—Cashier's Checks, Treasurer's Checks, Money Orders, Traveller's Checks

1. Copy of bank check
2. Copy of application

##### 3. Purchase document

- a. Teller tape
- b. Copy of check used
- c. Cash in ticket
- d. Debit memo

##### 4. Redemption document

- a. Teller tape
- b. New bank check issued
- c. Credit memo
- d. Cash out ticket

##### D. Wire Transfers

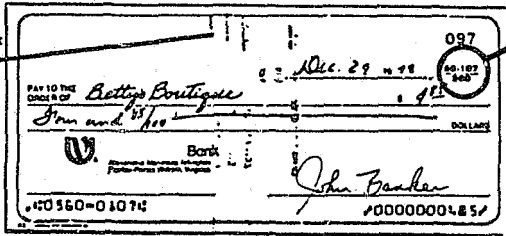
1. Application for wire
2. Federal Reserve wire memo
3. Swift message memo
4. Funds out documentation
  - a. Teller tape
  - b. Copy of check used
  - c. Cash in ticket
  - d. Debit memo
5. Funds in documentation
  - a. Teller tape
  - b. Bank check
  - c. Credit memo

##### E. Safety Deposit Box

1. Signature card/contract
2. Entry Record

**Exhibit 3**  
**Negotiated Check**

Marking on face of check by drawee bank

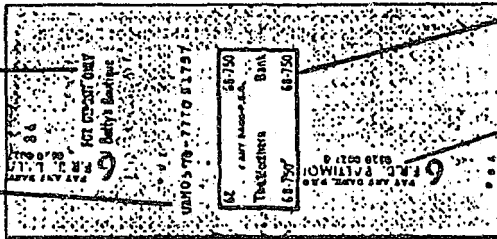


ABA Transit Number

Front

Depositor; bank of deposit

Proof machine notation, including date of deposit



P.E.G. means prior endorsement guaranteed; additional endorsements as transit item

Endorsement of receiving Federal Reserve Bank at the time check forwarded to drawee bank

Back

ment. Here each item is encoded with a discreet number so it can be located in the bank's records system (Exhibit 3). In addition, the MICR number (that series of computerized numbers which appear at the bottom of checks) is encoded at this point. That number will be read by high speed computer readers during the clearing process (Exhibit 4).

Each item is then microfilmed. Items that enter the bank together are generally filmed together in the order of their receipt. The items are entered into the bank's computer system at this point.

All items are then batched by high speed machines to facilitate further processing. Items are generally batched in four (or

**Exhibit 4**

**MICR Encoded Check**

STANDARD BANK & TRUST COMPANY			1-087 210	
No. _____			May 19, 1981	
PAY TO THE ORDER OF <u>John Baker</u>			56 <sup>00</sup>	
<u>Fifty six and 70/100</u>			DOLLARS	
J. B. AGENT			<u>J. B. Agent</u>	
⑆0210⑉0987⑆2200842670⑆			1042⑆0000005670⑆	
CHECK ROUTING SYMBOL	ABA TRANSIT NUMBER	ACCOUNT NUMBER	PROCESS CONTROL	AMOUNT
PREQUALIFIED			POSTQUALIFIED	

more) categories: "on-us" items, clearinghouse items, transit items, and special items. *On-us* items are all those that can be cleared totally within the bank. *Clearinghouse items* are those which must clear through other local banks and are thus cleared through a local clearinghouse. *Transit items* are those which must be sent outside the bank's area for clearing. They are sent through correspondent banks and Federal Reserve banks. For our purposes, *special items* consist of cashier's checks, debit and credit memos, certificates of deposit, loan transactions, wire transfers, etc. They require special handling by the bank.

Items requiring further handling, such as transit items and special items, are sent to the appropriate department for final processing.

The last step in transaction processing occurs in the bookkeeping department, into which all items eventually flow. There, they are filed in a manner that allows quick retrieval. The bookkeeping department, which often contains an error resolution unit, maintains those files and searches them for other departments.

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## Requesting Bank Records

The first step to take, even before drafting any subpoenas, is to determine the existence of checking or savings accounts, loan accounts, investment accounts, and safe deposit boxes. Always ask the bank to check for both open and closed accounts. In most cases, one can obtain this information by interviewing a bank official. However, some banks will not voluntarily assist you in determining whether your subject has an account. They will require a subpoena stating the exact name of the account, etc. Fortunately those banks are few, and bank employees with this attitude can sometimes be overruled by their superiors.


### *Ask for Signature Cards and Account Statements*

Once you have received account and other information, you can request several items simultaneously. Ask for the signature cards of all accounts, account statements, loan records, and safe deposit records. Those records are requested first for several reasons. They are generally easily retrievable by the bank. This means you get the information quickly and with little initial cost to your agency. Second, you must analyze the account statements before you can request the detailed information concerning checks, deposits, and memo entries.

Signature cards not only reveal who owns the account but also can serve as handwriting exemplars (Exhibit 5). In addition, they often refer to corporate board resolutions, partnership agreements, or other business agreements on file at the bank. Those resolutions can provide leads to other witnesses, principals, or co-conspirators.

Before requesting account statements, determine what time period you need to cover. Be certain to request enough statements so that a complete history is compiled. The cost of obtaining account statements is generally negligible, as is the bank's time to procure them. So ask for all the statements that might be relevant, within reason. Remember, banks must retain records for periods specified by law. If the bank states that

# Exhibit 5

 <p>Post Office Box 627 McLean, Virginia 22101</p>	<h2 style="margin: 0;">PERSONAL ACCOUNT APPLICATION/SIGNATURE CARD</h2>						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;">Customer (1)</td> <td style="width: 50%; text-align: center;">Customer (2)</td> </tr> </table>	Customer (1)	Customer (2)				
Customer (1)	Customer (2)						
Customer Name							
Residence (type mailing address on bottom part)							
Date of Birth							
Home Phone No.							
Employer							
Employment Address/ Business Location							
Work Phone							
Other Accounts with First American Bank of Virginia	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top;"> <input checked="" type="checkbox"/> Checking   <input type="checkbox"/> Savings   <input type="checkbox"/> Visa  <input type="checkbox"/> Mastercard   <input type="checkbox"/> Check-A-Line  <input type="checkbox"/> Loan   <input type="checkbox"/> Mortgage   <input type="checkbox"/> Trust  <input type="checkbox"/> Safe Deposit Box   <input type="checkbox"/> Other  <input type="checkbox"/> MONEY EXCHANGEsm Card                 </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Checking   <input type="checkbox"/> Savings   <input type="checkbox"/> Visa  <input type="checkbox"/> Mastercard   <input type="checkbox"/> Check-A-Line  <input type="checkbox"/> Loan   <input type="checkbox"/> Mortgage   <input type="checkbox"/> Trust  <input type="checkbox"/> Safe Deposit Box   <input type="checkbox"/> Other  <input checked="" type="checkbox"/> MONEY EXCHANGEsm Card                 </td> </tr> </table>	<input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings <input type="checkbox"/> Visa <input type="checkbox"/> Mastercard <input type="checkbox"/> Check-A-Line <input type="checkbox"/> Loan <input type="checkbox"/> Mortgage <input type="checkbox"/> Trust <input type="checkbox"/> Safe Deposit Box <input type="checkbox"/> Other <input type="checkbox"/> MONEY EXCHANGEsm Card	<input type="checkbox"/> Checking <input type="checkbox"/> Savings <input type="checkbox"/> Visa <input type="checkbox"/> Mastercard <input type="checkbox"/> Check-A-Line <input type="checkbox"/> Loan <input type="checkbox"/> Mortgage <input type="checkbox"/> Trust <input type="checkbox"/> Safe Deposit Box <input type="checkbox"/> Other <input checked="" type="checkbox"/> MONEY EXCHANGEsm Card				
<input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings <input type="checkbox"/> Visa <input type="checkbox"/> Mastercard <input type="checkbox"/> Check-A-Line <input type="checkbox"/> Loan <input type="checkbox"/> Mortgage <input type="checkbox"/> Trust <input type="checkbox"/> Safe Deposit Box <input type="checkbox"/> Other <input type="checkbox"/> MONEY EXCHANGEsm Card	<input type="checkbox"/> Checking <input type="checkbox"/> Savings <input type="checkbox"/> Visa <input type="checkbox"/> Mastercard <input type="checkbox"/> Check-A-Line <input type="checkbox"/> Loan <input type="checkbox"/> Mortgage <input type="checkbox"/> Trust <input type="checkbox"/> Safe Deposit Box <input type="checkbox"/> Other <input checked="" type="checkbox"/> MONEY EXCHANGEsm Card						
Special CIS Information	<table border="1" style="border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center;">C</td> <td style="width: 20px; text-align: center;">I</td> <td style="width: 20px; text-align: center;">S</td> </tr> <tr> <td style="width: 20px; text-align: center;"> </td> <td style="width: 20px; text-align: center;"> </td> <td style="width: 20px; text-align: center;"> </td> </tr> </table>	C	I	S			
C	I	S					
First Name MI Last Name	<input type="checkbox"/> DDA <input type="checkbox"/> SAV						
Branch	Account #						
First Name MI Last Name	Date Opened/by						
Payable on Death to	<input type="checkbox"/> Type <input type="checkbox"/> Service Charge						
Special Instructions							
Address for Statements							
<input type="checkbox"/> SOLE OWNERSHIP <input type="checkbox"/> JOINT ACCOUNT WITH SURVIVORSHIP <input type="checkbox"/> JOINT ACCOUNT—NO SURVIVORSHIP							
(1) _____	ID/SSN _____						
(2) _____	ID/SSN _____						

The bank is hereby authorized to recognize the signature(s) executed herewith in payment of funds or transaction of any business for this account, including stop payment on any check(s) issued by any party. I (we) authorize the bank, and if a joint account each of us authorizes the other, to endorse for deposit in this account all checks and other items for payment of money payable to me, either, any, both or all of us. The bank is authorized to charge at any time against this account, any indebtedness owing to the bank by me, either, any, or both of us, if the bank shall feel insecure, irrespective of whether this account or indebtedness shall have matured or not at the time of the charge. I (we) waive protest for and notice of the dishonor and/or non-payment of any items. This account is also subject to the provisions of the rules and regulations of the bank regarding such accounts.

 Service Mark of the MONEY EXCHANGE Service Corporation



**Exhibit 6a**



JAMES DAVID HARDING  
 150 MALLORY DR. APT 2F  
 ST. SIMONS ISLAND, GA 31522  
 (912)555-5151

04

Customer Account  
 2697089100 PAGE 1  
 FROM 2-27-85 TO 3-28-85

10 CHECKLOAN	AVAILABLE CREDIT IS	\$2,000.00	CREDIT LIMIT IS	\$2,000.00			
PREVIOUS BALANCE	NUMBER/TOTAL CREDITS		NUMBER/TOTAL DEBITS	FEES	NEW BALANCE		
10 CHECKING	8,364.21	3	45,196.13	26	35,623.99	5.00	17,921.35

10 CHECKING	DATE	DESCRIPTION	AMOUNT	AMOUNT	DAILY BALANCE
3-04	CHECK	114		358.00	8,006.21
3-04	CHECK	116		3,500.00	4,506.21
3-05	CHECK	120		11.00	4,495.21
3-08	CHECK	122		8.00	4,487.21
3-11	CHECK	110		26.25	4,460.96
3-12	DEPOSIT		43,433.03		47,693.99
3-12	DIRECT DEPOSIT		876.55		48,770.54
3-12	CHECK	124		25.00	48,745.54
3-12	CHECK	125		400.00	48,345.54
3-13	CHECK	121		500.00	47,845.54
3-14	CHECK	123		14.00	47,831.54
3-15	CHECK	119		3,402.50	44,429.04
3-18	CHECK	151		132.30	44,296.74
3-20	CHECK	161		21,719.52	22,577.22
3-21	CHECK	159		22.18	22,555.04
3-21	CHECK	162		40.50	22,514.54
3-22	CHECK	152		64.52	22,450.02
3-22	CHECK	155		1,389.31	21,060.71
3-25	CHECK	156		35.50	21,025.21
3-25	CHECK	164		500.00	20,525.21
3-25	CHECK	157		610.84	19,914.37
3-25	CHECK	158		2,200.00	17,714.37
3-26	DIRECT DEPOSIT		876.55		18,590.92
3-26	CHECK	160		287.44	18,303.48
3-26	CHECK	163		300.00	18,003.48
3-27	CHECK	154		7.08	17,996.40
3-27	CHECK	165		20.00	17,976.40
3-27	CHECK	153		50.05	17,926.35

it does not possess the records, check with your counsel for possible noncompliance with banking regulations.

*Examine Statements to Facilitate Further Requests*

Analyze all statement entries (Exhibits 6a, 6b, and 6c) to help narrow your requests for records. Most cases do not require pulling all bank records pertaining to the subject. A careful analysis of statements can help determine which items to request next. For example, interaccount transfers can often be identified from statements and thus eliminated from further detailed follow-up.

# Exhibit 6b

## Bobtail Statement

STATEMENT OF YOUR PERSONAL CHECKING ACCOUNT						
ACCOUNT NO.	DATE AND BALANCE ON LAST STATEMENT		DEPOSITS AND OTHER ITEMS ADDED			
650110	APRIL 1981	\$ 222.07	AMOUNT		NUMBER	
	40181	\$	528.62		3	
CHECKS AND OTHER ITEMS CHARGED		SERVICE CHARGES	DATE AND BALANCE OF THIS STATEMENT			
AMOUNT		PERCENT	CHECK FEE	MONTH	DAY	YEAR
\$ 543.60		1.4	\$ 1.40	25	501	\$ 205.44

F J Waxer  
4161 S HARBOR DRIVE  
ENDICOTT NEW YORK

PLEASE EXAMINE THIS STATEMENT AND CANCELLED CHECKS PROMPTLY. THE FORM ON THE BACK OF THIS STATEMENT WILL BE HELPFUL IN BALANCING YOUR ACCOUNT.

# Exhibit 6c

P.O. BOX 100  
COLUP. DEP, S.C.

29402

724-5148

JAMES DAVID HARDEN  
850 HULLERY DR. APT 2F  
ST SIMONS ISLAND, GA 31522  
(912)555-5151

29405

M

PAGE 1 OF 1

SCH NOW CHECKING SUMMARY ACCOUNT NUMBER 0213-0182-4  
SOCIAL SECURITY / TAX ID NUMBER 124820001

CURRENT CHECKING BALANCE 04/05/85 55.37  
PREVIOUS CHECKING BALANCE 03/06/85 96.27  
2 CHECKS AND OTHER SUBTRACTIONS TOTALING 38.10  
SERVICE CHARGE 2.80  
LOWEST DAILY BALANCE WAS \$ 55.37 ON 04/05/85

OTHER SUBTRACTIONS.

DATE	AMOUNT	DESCRIPTION	SERIAL NBR	REF NO
03/11	29.83	MASTER CARD II TRANSACTION	ON 02/24 AT	
		ECONG LODGE	SUMMERVILLE SC	60000607
03/12	8.27	MASTER CARD II TRANSACTION	ON 02/02 AT	
		ROCK N EASY	BRUNSWICK GA	60000402

If you are searching for a specific deposit known to have occurred, account statements may reveal the amount(s) and date(s).

In the absence of known deposits, one can look for large deposits or various patterns in the deposits noted on the state-

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ments. In general, look for larger deposits, particularly if your subject is part of a large narcotics organization. If a case involves a small-scale trafficker, you may want to request smaller deposits or even all deposits. In addition, be alert for business deposits that appear to be out of the ordinary, such as large, even amounts deposited in an account of a retail business where receipts are normally received in small, uneven amounts.

Among the deposit patterns to look for on statements are at least two transactions of \$10,000 or more on the same day; large deposits in round numbers; and repeated deposits of the same amounts, especially when they are deposited with noticeable regularity. Also look for patterns in the timing of the transactions, such as deposits that occur shortly after an observed narcotics transaction. Those patterns not only suggest criminal activity but also may provide probable cause for search or arrest warrants or for civil seizure of assets.

You may also choose to trace money by checking the accounts for deposits over a certain amount, such as all transactions over \$5,000 or all of those made in even hundreds over \$1,000.

Finally, you could search according to the type of deposit transaction, such as by focusing on all currency transactions and/or all large or unusual memo entries. The latter may indicate wire transfers, loans, certificates of deposit, investments, or other hidden assets.

### *How Many Records Should be Requested?*

Determining how much material to request can be difficult. It depends on the bank. If the bank can retrieve the documents easily, obtain more than you think you will need. If, on the other hand, the bank will have difficulty obtaining the items, select carefully. Remember, you can always get more from the bank. Your workload and public relations with the bank will help you decide how much to request and when to request it.

Note that some accounts may dictate a 100-percent search. That would be called for if the account is obviously a laundering account or if it is a hidden account.

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### *Ask for Front and Back*

Request both the front and back of each document selected, including deposit tickets, memo entries, and canceled checks. You need both the front and back to get endorsements, encoded numbers, and bank stamps. Remember, almost all document locator encoding is on the back of each item (Exhibits).

### *Requesting a Back-up Search*

If the bank tells you there is no microfilm, or the requested item cannot be found or read on the film, consider requesting a back-up search. For example, some banks film all statement items just before they are sent out. This, in effect, is a second set of film for the items, the first being shot when the items come through the proof department. This second set is an excellent source of back-up data if the item cannot be found on the proof film.

The teller's tape and proof envelope are also good back up material. They are coded with numbers representing every transaction. Those numbers indicate the type of transaction—deposit, withdrawal, exchange—and the amount. In addition, the bank's computer reports may give the required details concerning a lost transaction, though these generally contain only numbers.

Always ask the bank about other types of back-up systems they may have. But this is an expensive proposition and must be chosen carefully. The back-up items may not give you the type of information needed. For instance, payee names, names of depositors, and endorsements will probably not be revealed. Always discuss this choice carefully with a knowledgeable bank officer who can tell you exactly what you are getting for your time and money.

### **Analyzing Deposit Documents**

Once the requested deposit-related items arrive, analyze the *deposit tickets* (Exhibit 7) and *memo entries* (Exhibit 8a and 8b). Most deposit tickets and memo entries will not have much useful information on them, so the next step is to obtain the

**Exhibit 7**

**DEPOSIT TICKET**  
 JOHN BANKER  
 22 MAIN STREET  
 ARLINGTON, VA. 12345  
 DATE May 11 1981

CURRENCY	24	00
COIN	1	89
1 64-1	24	11
2 1-2	50	00
3 15-1	435	18
TOTAL FROM OTHER SIDE		
<b>TOTAL</b>	<b>535</b>	<b>18</b>

RECEIVED FOR  
 HOLDERS USE  
 DATE OF DEPOSIT  
 BR-454  
 814  
 FOR BANK'S USE ONLY  
 No. ITEMS

DEPOSITED IN

**F&T BANK**  
**Colo, Va.**

0 00 00000P 5000 /0000053518/

**Exhibit 8a**

**1ST AMERICAN** P.O. BOX 627 McLEAN VIRGINIA 22101  
 DEBIT TELEPHONE (703) 821 7777

WE DEBIT YOUR CHECKING ACCOUNT 19

FOR: \_\_\_\_\_

ACCT NUMBER \_\_\_\_\_

TO: \_\_\_\_\_

BR/DEPT \_\_\_\_\_  
 Tele: \_\_\_\_\_  
 Prepared By \_\_\_\_\_

**Exhibit 8b**

**1ST AMERICAN** P.O. BOX 627 McLEAN VIRGINIA 22101  
 CREDIT

WE CREDIT YOUR CHECKING ACCOUNT 19

FOR: \_\_\_\_\_

ACCT NUMBER \_\_\_\_\_

TO: \_\_\_\_\_

BR/DEPT \_\_\_\_\_  
 Tele: \_\_\_\_\_  
 Prepared By \_\_\_\_\_

items deposited and the items represented by the memo entries.

Requesting copies of the fronts and backs of items deposited and credit memos will reveal the actual source of the deposits. Note that the items deposited are not the deposit slips. The items deposited are copies of the actual checks and other docu-

ments that are listed on the deposit ticket.

Requesting the bank to make a careful search of the proof microfilm when *cash* deposits are found is important. A good idea is to have the bank examine at least the two items before and the two items after the cash transaction. This kind of search will help reveal cash splits. Those might include a large

### Exhibit 9

Form <b>4789</b> (Rev. December 1985) Department of the Treasury Internal Revenue Service	<b>Currency Transaction Report</b> ▶ File a separate report for each transaction. ▶ Please type or print. ▶ For Paperwork Reduction Act Notice, see page 3. (Complete all applicable parts—See instructions)	OMB No. 1545-0183 Expires 10-31-88 If amended report, see instructions and check here.	
<b>Part I Identity of individual who conducted this transaction with the financial institution</b>			
1 If multiple individuals involved, see instructions and check here. <input type="checkbox"/>			
2 Last name	3 First name	4 Middle initial	5 Social security number
6 Address (number and street)		7 Occupation, profession, or business	
8 City	9 State	10 ZIP code	11 Country (if not U.S.)
12 Method used to verify identity: a Describe ▶			
b Issued by ▶		c Number ▶	
13 Reason (Items 2-12 are not completed):			
b <input type="checkbox"/> Mail deposit/shipment		a <input type="checkbox"/> Armored car service (enter name) ▶	
		c <input type="checkbox"/> Night deposit or ATM transaction	
		d <input type="checkbox"/> Multiple transactions (see instructions)	
<b>Part II Individual or organization for whom this transaction was completed</b>			
14 If multiple individuals or organizations are involved, see instructions and check here. <input type="checkbox"/>			
15 Individual's last name	16 First name	17 Middle initial	18 Social security number
19 a Name of organization		b Check if: (1) <input type="checkbox"/> broker/dealer in securities, or (2) <input type="checkbox"/> financial institution (see instructions)	
20 Employer identification number		22 Occupation, profession, or business	
21 Address (number and street)		26 Country (if not U.S.)	
23 City	24 State	25 ZIP code	26 Country (if not U.S.)
<b>Part III Customer's account number(s) affected by transaction</b>			
27 <input type="checkbox"/> Savings ▶		<input type="checkbox"/> Securities ▶	
<input type="checkbox"/> Checking ▶		<input type="checkbox"/> Loan ▶	
		H <input type="checkbox"/> CD/Money market ▶	
		O <input type="checkbox"/> Other (specify) ▶	
<b>Part IV Type of transaction. Check applicable boxes to describe transactions</b>			
28 <input type="checkbox"/> Currency exchange (currency for currency)			
29 CASH IN:			
d <input type="checkbox"/> Deposit		f <input type="checkbox"/> For wire transfer	
g <input type="checkbox"/> Security purchased		A <input type="checkbox"/> Receipt from abroad	
p <input type="checkbox"/> Check purchased		R <input type="checkbox"/> Other cash in (specify) ▶	
		R <input type="checkbox"/> CD/Money market redeemed	
		U <input type="checkbox"/> From wire transfer	
		T <input type="checkbox"/> Security redeemed	
		W <input type="checkbox"/> Withdrawal	
		Y <input type="checkbox"/> Other cash out (specify) ▶	
31 Total amount of currency transaction (in U.S. dollars). ▶ \$		32 Amount in item 31 in \$100 bills or higher \$	
33 Date of transaction (month, day, and year)			
34 If other than U.S. currency is involved, please furnish the following information: a Exchange made <input type="checkbox"/> for or <input type="checkbox"/> from U.S. currency			
b Currency name		c Country	
		d Total amount of each foreign currency (in U.S. dollars) . . . ▶ \$	
35 If a check or wire transfer was involved in this transaction, please furnish the following information (see instructions):			
a If more than one check or wire transfer is involved, see instructions and check here. <input type="checkbox"/>			
b Date of check or wire transfer		c Amount of check or wire transfer (in U.S. dollars)	
		d Payee	
e Drawer of check		f Drawee bank and MICR number	
<b>Part V Financial institution where currency transaction took place</b>			
36 Check applicable box to indicate type of financial institution			
b <input type="checkbox"/> Savings and loan association		c <input type="checkbox"/> Credit union	
		d <input type="checkbox"/> Security broker/dealer	
		e <input type="checkbox"/> Other	
37 Name of financial institution		38 Employer identification number	
39 Address (number and street)		40 Social security number	
41 City	42 State	43 ZIP code	44 MICR number
45 Signature (preparer)		46 Title	
47 Date		48 Type or print preparer's name	
49 Approving official (signature)		50 Date	

cash deposit that is split among several accounts, or cash withdrawals from several accounts which make up one deposit in the account being searched.

Most currency transactions over \$10,000 require that a currency transaction report (CTR) be filed by the bank in accordance with the Bank Secrecy Act (Exhibit 9). The Bank Secrecy

**Multiple Transactions**

(Complete applicable parts below if box 1, 14, or 35a on page 1 is checked)

**Part I Continued—Complete if box 1 on page 1 is checked**

2 Last name	3 First name	4 Middle initial	5 Social security number
6 Address (number and street)		7 Occupation, profession, or business	
8 City	9 State	10 ZIP code	11 Country (if not U.S.)
12 Method used to verify identity: b Issued by ▶		a Describe ▶ c Number ▶	

2 Last name	3 First name	4 Middle initial	5 Social security number
6 Address (number and street)		7 Occupation, profession, or business	
8 City	9 State	10 ZIP code	11 Country (if not U.S.)
12 Method used to verify identity: b Issued by ▶		a Describe ▶ c Number ▶	

**Part II Continued—Complete if box 14 on page 1 is checked**

15 Individual's last name	16 First name	17 Middle initial	18 Social security number
19 a Name of organization		b Check if: (1) <input type="checkbox"/> broker/dealer in securities, or (2) <input type="checkbox"/> financial institution (see instructions)	
20 Employer identification number		22 Occupation, profession, or business	
21 Address (number and street)		22 Occupation, profession, or business	
23 City	24 State	25 ZIP code	26 Country (if not U.S.)

15 Individual's last name	16 First name	17 Middle initial	18 Social security number
19 a Name of organization		b Check if: (1) <input type="checkbox"/> broker/dealer in securities, or (2) <input type="checkbox"/> financial institution (see instructions)	
20 Employer identification number		22 Occupation, profession, or business	
21 Address (number and street)		22 Occupation, profession, or business	
23 City	24 State	25 ZIP code	26 Country (if not U.S.)

**Part III Continued—Complete if box 35a on page 1 is checked**

35 b Date of check or wire transfer	c Amount of check or wire transfer (in U.S. dollars)	d Payee
e Drawer of check		f Drawee bank and MICR number

35 b Date of check or wire transfer	c Amount of check or wire transfer (in U.S. dollars)	d Payee
e Drawer of check		f Drawee bank and MICR number

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Act and related money-laundering issues are beyond the scope of this paper, but you should at least be aware of some of the information contained in CTRs, such as the names and addresses of the persons involved in the transaction and the social security numbers of the person conducting the transaction. Banks are required to file these reports; willful failure to file constitutes a felony. U.S. Customs Service headquarters maintains a data base of CTRs filed.

Other deposit items can be broken down into two types: *on-us items* and *clearinghouse items*. Both should be traced to their ultimate use or source within or outside the bank.

The first step is to request the ultimate use or source of *on-us* items deposited. Those are such items as loan proceeds, certificates of deposit or other securities negotiated, wire transfers in, bank checks deposited, and checks from other accounts at the bank.

If the deposit is the proceeds from a loan, obtain and analyze the loan file. *How* to do this is covered later; *what* it may uncover is discussed here.

Tracing loan proceeds to their ultimate use source may reveal hidden assets. This could be real estate either purchased with the loan or used to secure the loan; other assets purchased with, or used as collateral for, the loan; or bank or securities accounts.

The discovery of a loan could also lead to other witnesses, principals, or co-conspirators. They might be co-signers of the loan, others making loan payments, or actual owners of the securities serving as collateral. Credit file leads can also be found in the loan file.

The important point to remember is to follow-up when loans are discovered. For example, tracing securities (used as collateral for, or purchased with the proceeds of, the loan) to their ultimate source may reveal that the funds used to purchase them came from other hidden assets. The point is, do not just stop with the security. Go back to the security file and find the origin of the funds used to purchase it. Keep tracing until you reach the final source.

If the deposit came from a wire transfer, trace the wire to



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the originating bank to see where the funds for the wire originated. Again, this search could lead to other accounts, other witnesses, principals, coconspirators, or offshore transactions.

Bank checks deposited, such as cashier's checks and money orders, could be an indication of "smurfing" operations (structured currency transactions), particularly if large numbers of even-amount cashier's checks appear on a regular basis. Even occasional bank checks should be traced to their ultimate source, for bank checks are a favorite means of hiding the source and disposition of illegally gotten gains.

Cashier's checks often lead to other hidden accounts. They can lead to the discovery of hidden assets, for such checks are often used to distribute the proceeds of loans, the sale of securities, real estate closing proceeds, and similar items. Those checks can also lead to other witnesses, principals, or coconspirators who purchased or endorsed the check deposited into the subject's account.

On-us third-party checks deposited in the account in question may indicate their purpose on their face, and thus require no further follow-up. In such instances, the payment may be from a known source within the bank or it may have sufficient identifying information on it to allow you to locate and interview the witness regarding the purpose of the payment.

Other on-us checks deposited should be traced through the bank to their ultimate source. This may require a subpoena to open up yet another account to investigate. Once that account is opened, the investigative process begins again.

Another source of deposits is *clearinghouse items*. For our purposes, we will include both local clearinghouse and out of town transit items in this category. Since clearinghouse items will probably require legal process to trace them through third-party banks, carefully weigh which ones are worth pursuing. Some clearinghouse items will have sufficient identification to permit you to find and interview a witness—generally a cheaper and quicker method than trying to run the item through another bank.

Whether an item is an on-us item or a clearinghouse item can be determined by looking at the bank name on the check

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## Exhibit 10a

### American Bankers Association Code

Also known as ABA Transit Number

No. 1-49 identifies the city  
No. 50-99 identifies the state

→ 68-424 ← This number identifies the bank  
514

Thus the number 68-424 is identified as follows  
68—State of Virginia  
424—Arlington Trust Co., Arlington, Virginia

#### Federal Reserve Routing Code

No. 1-9 identifies the Federal Reserve District → 68-424  
514

This number identifies:  
1- Head office of the Federal Reserve District  
2-5 Branch offices of Federal Reserve District

This number signifies:  
0- Available for immediate credit  
1-5 Deferred credit  
Designates the state in which the drawee bank is located  
6-9 Special collection arrangements

Thus the number 514 is identified as follows:  
5—Fifth Federal Reserve District  
1—Head office in Richmond, Virginia  
4—Deferred credit and the State of Virginia

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(is the name the same as that of the bank at which the deposit was made?), or by looking at the bank endorsements on the back of the item. If the item has a different bank's endorsement or a Federal Reserve bank endorsement, it is a clearinghouse item (Exhibit 3).

Many bank endorsements include the bank's transit number (Exhibit 3, 10a, 10b, and 10c). Those will help you locate the third-party bank, particularly if the rest of the bank endorsement is illegible.

Tracing clearinghouse items consists of taking the item in question to the third-party bank with appropriate legal process to allow you to track the item to its ultimate source.

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## Exhibit 10b

### The Numerical System of The American Bankers Association

#### *Index to Prefix Numbers of Cities and States*

Numbers 1 to 49 inclusive are Prefixes for Cities

Numbers 50 to 99 inclusive are Prefixes for States

Prefix Numbers 50 to 58 are Eastern States

Prefix Number 59 is Hawaii

Prefix Numbers 60 to 69 are Southeastern States

Prefix Numbers 70 to 79 are Central States

Prefix Numbers 80 to 88 are Southwestern States

Prefix Numbers 90 to 99 are Western States

Prefix Number 89 is Alaska

#### *Prefix Numbers of Cities in Numerical Order*

1 New York, N.Y.	35 Houston, Texas	66 North Carolina
2 Chicago, Ill.	36 St. Joseph, Mo.	67 South Carolina
3 Philadelphia, Pa.	37 Fort Worth, Texas	68 Virginia
4 St. Louis, Mo.	38 Savannah, Ga.	69 West Virginia
5 Boston, Mass.	39 Oklahoma City, Okla.	70 Illinois
6 Cleveland, Ohio	40 Wichita, Kan.	71 Indiana
7 Baltimore, Md.	41 Sioux City, Iowa	72 Iowa
8 Pittsburgh, Pa.	42 Pueblo, Colo.	73 Kentucky
9 Detroit, Mich.	43 Lincoln, Neb.	74 Michigan
10 Buffalo, N.Y.	44 Topeka, Kan.	75 Minnesota
11 San Francisco, Calif.	45 Dubuque, Iowa	76 Nebraska
12 Milwaukee, Wis.	46 Galveston, Texas	77 North Dakota
13 Cincinnati, Ohio	47 Cedar Rapids, Iowa	78 South Dakota
14 New Orleans, La.	48 Waco, Texas	79 Wisconsin
15 Washington, D.C.	49 Muskogee, Okla.	80 Missouri
16 Los Angeles, Calif.		81 Arkansas
17 Minneapolis, Minn.		82 Colorado
18 Kansas City, Mo.		83 Kansas
19 Seattle, Wash.		84 Louisiana
20 Indianapolis, Ind.		85 Mississippi
21 Louisville, Ky.		86 Oklahoma
22 St. Paul, Minn.		87 Tennessee
23 Denver, Colo.		88 Texas
24 Portland, Ore.		89 Alaska
25 Columbus, Ohio		90 California
26 Memphis, Tenn.		91 Arizona
27 Omaha, Neb.		92 Idaho
28 Spokane, Wash.		93 Montana
29 Albany, N.Y.		94 Nevada
30 San Antonio, Texas		95 New Mexico
31 Salt Lake City, Utah		96 Oregon
32 Dallas, Texas		97 Utah
33 Des Moines, Iowa		98 Washington
34 Tacoma, Wash.		99 Wyoming
		101 Territories

#### *Prefix Numbers of States in Numerical Order*

50 New York	85 Mississippi
51 Connecticut	86 Oklahoma
52 Maine	87 Tennessee
53 Massachusetts	88 Texas
54 New Hampshire	89 Alaska
55 New Jersey	90 California
56 Ohio	91 Arizona
57 Rhode Island	92 Idaho
58 Vermont	93 Montana
59 Hawaii	94 Nevada
60 Pennsylvania	95 New Mexico
61 Alabama	96 Oregon
62 Delaware	97 Utah
63 Florida	98 Washington
64 Georgia	99 Wyoming
65 Maryland	101 Territories

## Exhibit 10c

### Routing Symbols

Routing symbols (in italics) of banks that are members of the Federal Reserve System

All banks in area served by a Federal Reserve bank or branch carry the routing symbol of the Federal Reserve bank or branch

#### Federal Reserve Banks and Branches

1. Federal Reserve Bank of Boston Head Office	5-1 <u>770</u>	9. Federal Reserve Bank of Minneapolis Head Office	17-8 <u>970</u>
2. Federal Reserve Bank of New York Head Office	1-120 <u>270</u>	Helena Branch	93-26 <u>920</u>
Buffalo Branch	10-26 <u>220</u>	10. Federal Reserve Bank of Kansas City Head Office	18-4 <u>7070</u>
3. Federal Reserve Bank of Philadelphia Head Office	3-4 <u>370</u>	Denver Branch	23-19 <u>1020</u>
4. Federal Reserve Bank of Cleveland Head Office	0-1 <u>470</u>	Oklahoma City Branch	39-24 <u>7030</u>
Cincinnati Branch	13-43 <u>420</u>	Omaha Branch	27-12 <u>7040</u>
Pittsburgh Branch	8-30 <u>430</u>	11. Federal Reserve Bank of Dallas Head Office	32-3 <u>7170</u>
5. Federal Reserve Bank of Richmond Head Office	68-3 <u>570</u>	El Paso Branch	88-1 <u>7120</u>
Baltimore Branch	7-27 <u>520</u>	Houston Branch	35-4 <u>7130</u>
Charlotte Branch	66-20 <u>530</u>	San Antonio Branch	30-72 <u>7140</u>
6. Federal Reserve Bank of Atlanta Head Office	64-14 <u>670</u>	12. Federal Reserve Bank of San Francisco Head Office	11-37 <u>7270</u>
Birmingham Branch	61-19 <u>620</u>	Los Angeles Branch	16-16 <u>7220</u>
Jacksonville Branch	63-19 <u>630</u>	Portland Branch	24-1 <u>7230</u>
Nashville Branch	87-10 <u>640</u>	Salt Lake City Branch	31-31 <u>7240</u>
New Orleans Branch	14-21 <u>650</u>	Seattle Branch	19-1 <u>7250</u>
7. Federal Reserve Bank of Chicago Head Office	2-30 <u>770</u>		
Detroit Branch	9-29 <u>720</u>		
8. Federal Reserve Bank of St. Louis Head Office	4-4 <u>870</u>		
Little Rock Branch	81-13 <u>820</u>		
Louisville Branch	21-59 <u>830</u>		
Memphis Branch	26-3 <u>840</u>		

**Exhibit 11**



Cash



Deposit

MACHINE STAMPING EXAMPLE OF CHECK CASHED

Date	Teller Identification	Transaction Number	Signifies Cashed	Amount of Check
May 1 - 81	22	007	CC	100.00
MAY-1-81 22 007 CC** 100.00				

**Tracing Withdrawals/Disbursements**

While tracing deposited items to locate the ultimate source of funds entering the subject's bank account, you can trace the other end—the check withdrawals and other disbursements—at the same time.

Investigating disbursements is the same, in reverse, as the technique just discussed. In fact, it consists of fewer steps, for you can normally go right from the check endorsement or payee to the ultimate disposition. Again, disbursements are of two types, on-us items and clearinghouse items.

The first step is to review the checks for "cash" stamps and endorsements (Exhibit 11). Ask the banker to explain the cash-stamp and endorsement system. As previously noted, requesting a careful search of the proof microfilm for all *cashed* checks is important, including checks payable not only to cash but also to third parties and subsequently cashed.

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As with cash deposits, an analysis of both sides of the cash item on the microfilm may reveal what the cashed item was used for. The item could have been redeposited into one or more hidden accounts. On the other hand, it might have been used to purchase nonaccount items such as hidden certificates of deposit or securities.

Cashier's checks might have been purchased. If those are discovered, they should be traced, since tracing cashier's checks may reveal additional undisclosed assets. In addition, the money may have been used to make payments on loans used to purchase undisclosed assets, such as houses, yachts, and airplanes. Again, remember to look for compliance with the reporting requirements for transactions over \$10,000 under the Bank Secrecy Act.

An analysis of canceled checks may identify checks which require no further bank follow-up because either the payee is obvious or the purpose of check is obvious.

Trace the ultimate disposition of all on-us checks (payable to bank, cash, or third parties and negotiated at the bank). First, request evidence of the check's deposit to another account within the bank (trace for leads as noted above). Once such evidence is obtained, review the third-party's account statement and the deposit ticket containing the item deposited. In addition, review the other items deposited with the check. Look for leads to other witnesses and/or for questionable transactions that need further follow-up.

Trace all payments to nonaccount items for leads. Trace loan payments through the loan records, and trace the purchases of securities and certificates of deposit to their ultimate disposition. It is important to determine what happened to the proceeds of the securities and certificates of deposit when they were ultimately negotiated. In addition, wire transfers out should be followed through the wire transfer department, as discussed later.

Bank checks purchased with checks from the account should be traced through the bank's records to determine where they were ultimately negotiated. If you find that cashier's checks were deposited into someone else's account, you may have to

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open that account to understand fully the purpose of the payment.

Finally, determine whether to pursue clearinghouse items. Obviously, tracing transactions via third-party bank endorsements is another step which takes time. But if the payee or the purpose of the check is not obvious, or if the payee is hostile, you have no choice but to initiate the trace.

### **Searching Nonaccount Records**

Nonaccount transactions can also provide you with a significant amount of investigative information.

#### *Loans*

If the subject has opened or closed loans with the bank or has ever applied for loans there, fully document the transaction. Request all loan documents since they are usually very easy for the bank to retrieve, so cost and time are not factors in requisitioning them. Those records should be requested when you initially ask for the account ledgers.

Loan documents usually maintained by a bank consist of the loan ledger, the loan application, and the loan correspondence files.

The loan ledger details the loan and the payments made on it. The loan application is usually a financial statement full of leads to other assets (Exhibit 12). In fact, some banks require an application plus a full set of financial statements as well as the prior year's federal income tax return. Loan correspondence files contain letters and internal memoranda regarding the loan. In addition, the loan file may also contain notes, real or chattel mortgages, assignments, and corporate resolutions.

The first step in an analysis of loan documents is to review the loan ledger entries. This analysis will help determine which follow-up records to request, if any. For instance, a normal business operating loan with regular repayments from the business bank account may require no follow-up. On the other hand, unusual loans should be traced from beginning to end.

### Exhibit 12

**First National Bank**  
of South Carolina

NAME \_\_\_\_\_ POSITION OR OCCUPATION \_\_\_\_\_  
 BUSINESS NAME \_\_\_\_\_  
 BUSINESS ADDRESS \_\_\_\_\_ PHONE \_\_\_\_\_  
 RESIDENCE ADDRESS \_\_\_\_\_ PHONE \_\_\_\_\_

The following is submitted for the purpose of procuring, establishing and maintaining credit with you in behalf of the undersigned or persons, firms or corporations in whose behalf the undersigned may either severally or jointly with others execute a guaranty in your favor. The undersigned warrants that this financial statement is true and correct and that you may consider this statement as continuing to be true and correct until a written notice of a change is given to you by the undersigned.

DATE \_\_\_\_\_, 19\_\_\_\_  
**PLEASE DO NOT LEAVE ANY QUESTIONS UNANSWERED. USE "NO" OR "NONE" WHERE NECESSARY.**

ASSETS						LIABILITIES
Cash on hand and in banks						Notes payable to banks--secured
Marketable Securities--see Schedule A						Notes payable to banks--unsecured
Non-Marketable Securities--see Schedule B						Due to brokers
Securities held by broker in margin accounts						Amounts payable to others--secured
Restricted or control stocks						Amounts payable to others--unsecured
Partial Interest in Real Estate Equities--see Schedule C						Accounts and bills due
Real Estate Owned--see Schedule D						Unpaid income tax
Loans Receivable						Other unpaid taxes and interest
Automobiles and other personal property						Real estate mortgages payable--see Schedule D
Cash value--life insurance--see Schedule F						Other debts--itemize:
Other assets--itemize:						
						TOTAL LIABILITIES
						NET WORTH
<b>TOTAL ASSETS</b>						<b>TOTAL LIAB. AND NET WORTH</b>

Are all bad and doubtful assets excluded from this statement? \_\_\_\_\_ If no, explain: \_\_\_\_\_

Income taxes settled through what date? \_\_\_\_\_ Additional assessments \$ \_\_\_\_\_

ANNUAL SOURCES OF INCOME	PERSONAL AND GENERAL INFORMATION
Salary, bonus & commissions \$ _____	Do you have a will? _____ If yes, name of executor.
Dividends _____	Are you a partner or officer in any other venture?
Real estate income _____	Are you obligated to pay alimony, child support, or maintenance payments? If so, describe.
<b>TOTAL \$ _____</b>	Social Security No _____ Age _____
<b>CONTINGENT LIABILITIES</b>	Are any assets pledged?
Do you have any contingent liabilities? If yes, give details:	Are you defendant in any suits or legal actions?
As endorser, co-maker or guarantor \$ _____	Personal bank accounts carried at:
On leases or contracts \$ _____	Have you ever taken bankruptcy? Explain.
Legal claims \$ _____	
Other special debt \$ _____	
Amount of contested income tax liens \$ _____	

(COMPLETE SCHEDULES AND SIGN ON REVERSE SIDE)



**SCHEDULE A - U.S. GOVERNMENTS AND MARKETABLE SECURITIES**

No. of Shares or Face Value (Bonds)	Description	In Name Of	Total Market Value	Source of Value

**SCHEDULE B - NON-MARKETABLE SECURITIES**

Description of Securities	No. of Shares Outstanding	Book Value Per Financial Statement		No. of Shares Owned	Total Value
		Dated			

**SCHEDULE C - PARTIAL INTERESTS IN REAL ESTATE EQUITIES**

Location of Property	% of Ownership	Type	Yr. of, Puch.	Cost (C) or Market (M)	Mortgage	Value of Equity

**SCHEDULE D - REAL ESTATE OWNED**

Description of Property and Improvements	Date Acquired	Title in Name of	Cost	Market Value	Mortgage	
					Amount	Maturity

**SCHEDULE E - LIFE INSURANCE CARRIED, INCL. N.S.L.I. AND GROUP INSURANCE**

Face Amount	Name of Company	Beneficiary	Cash Surrender Value	Loans

**SCHEDULE F - NAMES OF BANKS OR FINANCE COMPANIES WHERE CREDIT HAS BEEN OBTAINED**

Name and Address	Original Date	High Credit	Owe Currently	Secured or Unsecured

THE UNDERSIGNED CERTIFIES THAT BOTH SIDES HEREOF AND THE INFORMATION INSERTED THEREIN HAS BEEN CAREFULLY READ AND IS TRUE, CORRECT AND COMPLETE.

SIGNATURE \_\_\_\_\_

DATE SIGNED \_\_\_\_\_ 19 \_\_\_\_\_ SIGNATURE \_\_\_\_\_  
(USE ADDITIONAL SCHEDULES WHEN NECESSARY)

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Unusual loans would include those involving no record of loan proceeds going to the subject's bank account. As this is contrary to normal banking practice, you may find that the funds went to another account or were used to purchase an undisclosed asset.

Loans in odd amounts may also be unusual. Whether the amount is truly odd depends upon the subject's business. That must be considered when deciding whether to trace the loan.

The loan records may also indicate when a bank is in collusion with the subject. When the records show that a loan repayment is long overdue or the loan has an extended rollover, collusion between the borrower and the bank may exist. Likewise, loans made or maintained in violation of bank policy may also indicate a "special" arrangement between the two that you should know about.

A loan that appears to be way above the individual's ability to repay also suggests collusion, although this particular circumstance may instead be indicative of a hidden financial statement showing the subject's net worth to be much higher than that on the filed financial statement.

Loans that show unusual repayments should also be traced. Lump sum repayments and odd-amount repayments are generally considered unusual. Payments that are consistently late or otherwise against bank policy should also raise suspicions, as should payments that did not come from the subject's bank account.

In all those cases, you are looking for leads to other people or to other assets. For example, loan proceeds may have been deposited in hidden accounts, or those accounts may be used to make loan payments. Loans are frequently secured by hidden assets or may be co-signed by previously unknown associates. Alternatively, your subject may have taken out the loan for someone else. Tracing the ultimate disposition of the loan proceeds and the ultimate source of the loan repayments will uncover those leads.

The possibilities of the final disposition of the loan are similar to those discussed with respect to tracing account transactions. The disposition may be within or outside of the bank.

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Within the bank, the money may have been deposited into your subject's account, which would be the normal disposition, or into someone else's account. It may have been used to purchase a certificate of deposit or security through the bank's brokerage department. In some cases, one loan will be used to replace another in a rollover loan situation.

If the loan proceeds were sent out of the bank, you might be able to trace their path within the bank; before tracing them to their ultimate disposition, consider the cost/benefit of taking that step. The trace may not be worth the effort.

In tracing the funds within the bank, you may find that they were sent to the wire transfer department for transfer out of the bank. However, more commonly the proceeds are sent out of the bank via a bank check that the subject negotiates elsewhere. This check could be traced within the bank to determine the name and location of the bank where it was cashed.

Also trace the ultimate source of loan repayments. Again, it could be from within the bank. If so, repayment normally would come from the subject's account, but it could come from an undisclosed negotiated certificate of deposit or security.

In addition, repayments could come from a third party's account in the bank, which may mean that the loan really belongs to the third party and not the subject. For instance, what is the significance of the loan being in your subject's name, the proceeds being used to buy a luxury car the subject is known to drive, and the repayments coming from a third party's account? Obviously all these factors can become critical when trying to determine whether you have found an asset that can be seized. If the repayments come from outside the bank, you need to decide whether follow-up is justified.

In your review of the loan files, thoroughly examine all other loan documents, such as credit applications, financial statements, internal memoranda, letters, etc. Those can often lead to other witnesses or assets not previously uncovered. The figures on the financial statement or credit application can also be invaluable if you are using an indirect method of proof as part of your case against the subject.

**Exhibit 13**

Branch \_\_\_\_\_ Type \_\_\_\_\_ Certificate of Deposit No. № 911357

**1ST AMERICAN**  
FIRST AMERICAN BANK OF VIRGINIA

**Certificate of Deposit**

Date \_\_\_\_\_ Source of Funds \_\_\_\_\_ Amount \$ \_\_\_\_\_ Dollars

Received from: \_\_\_\_\_ Tax Identification Number \_\_\_\_\_  
(Under which interests to be reported to the Internal Revenue Service)

\_\_\_\_\_ Day Phone # \_\_\_\_\_

Term of Certificate \_\_\_\_\_ Interest Rate \_\_\_\_\_

Interest will be paid:  Monthly  Quarterly  at Maturity

Method of Interest Payment: \_\_\_\_\_

Add to Principal  by Credit to Account No. \_\_\_\_\_  Check via Mail

This certificate is  Automatically renewable  Nonrenewable and is non-negotiable/non-transferable.

Federal regulations prohibit the withdrawal, in whole or in part, of Certificates of Deposit prior to maturity without consent of the Bank, except where the depositor has died or has been judicially declared mentally incompetent. Early withdrawal penalties will be assessed as prescribed in the Bank's Certificate of Deposit Rules and Regulations.

First American Bank of Virginia by \_\_\_\_\_ Authorized Signature \_\_\_\_\_

This certificate must be presented for redemption (See other side.)

Payable on death to \_\_\_\_\_

The Bank is hereby authorized to recognize the signature(s) executed herewith in payment of funds or transaction of any business for this account. For joint accounts, the Bank may make payments upon the orders of both or either of the signers hereto. The signer(s) waive(s) protest for and notice of the dishonor and/or non-payment of any items.

I/we have received a copy of the Rules and Regulations governing this Certificate of Deposit.

Under penalties of perjury I certify that the Taxpayer Identification Number shown on the certificate and with my signature is my correct number.

Principal Owner's Signature: \_\_\_\_\_ Co-Owner's Signature: \_\_\_\_\_

T.I.N. \_\_\_\_\_ T.I.N. \_\_\_\_\_

496 R(11/83) 1st copy - Customer 2nd copy - Branch 3rd copy - C.D. Operations

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### *Certificates of Deposit and Securities*

Assume you are examining a subject's bank records and you see a check written for the purchase of a certificate of deposit (Exhibit 13). Later you find another check used to purchase a security through the bank's discount brokerage department. First have the bank retrieve the certificate of deposit and securities files. Then obtain whatever additional records needed to trace the ultimate source of funds used to buy the certificates of deposit and securities. Likewise trace the ultimate disposition of the funds disbursed when those instruments were finally negotiated. You should also look in the file to see if those items were pledged for loans which may have been obtained to purchase yet other assets.

### *Bank Checks*

Bank checks (Exhibits 14a, 14b, and 14c) can present difficult problems because, normally, they are extremely time consuming and expensive to locate, unless you know the date or number of the check.

However, if you locate deposits of bank checks into your subject's account or discover that he or she has purchased a bank check with a check from his or her account, then finding those checks will not be difficult. The bank can locate them quickly by obtaining a microfilm copy of the check deposited or purchased. From that you can get the check register of the check deposited (Exhibit 14a). The register may tell you who purchased the check. If not, the bank will be able to determine that from its internal records. The bank can also obtain the microfilm copy of the check purchased from your subject's account. Endorsements on the back of the check will allow you to trace it to its ultimate disposition.

If, on the other hand, you know only that your subject has a habit of buying bank checks at the bank and the purchase was not made from any known bank account, retrieval of these items will be extremely difficult—for in most banks this retrieval requires a search of every bank check written. This could total thousands of checks a day. Despite this, discussing

**Exhibit 14a**

**FIRST AMERICAN BANK**  
FIRST AMERICAN BANK OF VIRGINIA

CASHIER'S CHECK

6413192

FEB 4 1984 6030 451 0828 415

4/25/

11 88

\*\*\*4,518.84\*\*

PAY TO THE ORDER OF

\*\*Chevy Chase\*\*

⑆06413192⑆ ⑆056004241⑆ 00051322⑆

**FIRST AMERICAN BANK**

**OFFICIAL CHECK APPLICATION (Please Print)**

BANK USE ONLY

Purchased By _____		Date _____	BANK _____
Address (Street, City, State, Zip) _____		BRANCH _____	
<input type="checkbox"/> Account Holder/Account No. _____ <input type="checkbox"/> Non-Account Holder (Foreign Drafts Only) _____		CASHIER CHECK No. _____	amt \$ _____
Payee Name _____		FOREIGN DRAFT No. _____	amt \$ _____
Payment Method _____ Amount _____ <input type="checkbox"/> Cash \$ _____ <input type="checkbox"/> Check \$ _____ <input type="checkbox"/> Debit Account No. _____		FOREIGN AMT. _____	RATE _____
TOTAL \$ _____		US \$ _____	
Purchaser Signature _____		Date _____	Identification _____
Issued By _____		Teller No. _____	Social Security No. _____

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your problem carefully with the appropriate bank official is always a good idea, since all banks differ in their treatment of bank checks. You may find a shortcut.

Another option is to interview employees at the branch levels to see if you can locate witnesses who can pinpoint the transactions more closely. If the subject goes to the same branch, officer, or teller, that person may be able to help you narrow the search. On the other hand, if the teller or officer is in collusion with your subject, that type of contact may do more harm than good.

**Exhibit 14b**

**1st AMERICAN**  
FIRST AMERICAN BANK OF VIRGINIA

153403

1-87-210

PAY TO THE ORDER OF FEB 25 1988 500 AND 00/100 CTS \$ \_\_\_\_\_

DOLLARS

**IRVING TRUST COMPANY**  
ONE WALL STREET, NEW YORK

AUTHORIZED SIGNATURE

⑆00153403⑆ ⑆021000678⑆ ⑆80A 3002521⑆ 066

Issued by **BARCLAYS BANK**

**142 1639 257 636**  
**5 (FIVE) \$20**

**TRAVELERS CHEQUES**  
Starting with Serial Number indicated above.

Total Value **US\$ 100**

Low of 1 percent of exchange rate  
If applicable

Commission

Cost to Purchaser

\* Return Purchases to keep Part 3 separate from Travelers Cheques

⑆ 14216392576368⑆

**Exhibit 14c**

**FIRST AMERICAN BANK OF VIRGINIA MONEY ORDER**

407500

REMITTER \_\_\_\_\_ <sup>68-424</sup> April 19 19 88 <sup>560</sup>

PAY FEB 25 1988 500 AND 00/100 CTS \$ \_\_\_\_\_

TO THE ORDER OF \_\_\_\_\_

BEFORE CASHING READ NOTICE ON BACK

**1st AMERICAN**  
FIRST AMERICAN BANK OF VIRGINIA

⑆00407500⑆ ⑆056004241⑆ 06493041⑆

**FIRST AMERICAN BANK OF VIRGINIA MONEY ORDER**

REGISTER COPY

407500

PURCHASED BY \_\_\_\_\_ <sup>68-424</sup> April 19 19 88 <sup>560</sup>

FEB 25 1988 500 AND 00/100 CTS \$ \_\_\_\_\_

**NOT NEGOTIABLE**

PAYABLE TO \_\_\_\_\_

**1st AMERICAN**  
FIRST AMERICAN BANK OF VIRGINIA

⑆00407500⑆ ⑆056004241⑆ 06493041⑆

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Obviously, if you decide that bank checks are worth requesting, both the source of funds used to purchase the checks and the ultimate disposition of the checks should be traced.

### *Currency Exchange*

Documenting pure currency exchanges is equally difficult. Unfortunately, the use of currency and the use of cashier's checks are the two primary methods of laundering funds since these methods leave few paper trails to follow.

If you suspect that the subject is engaging in cash-for-cash transactions, the primary avenue of investigation will have to be the branch personnel where the transactions took place. Pure cash-for-cash transactions are normally very hard to document. They generally require a search of all teller tapes and proof film by date, and even that is not conclusive. That procedure is not only expensive and time consuming but may be futile as well. Nonetheless, such evidence can be useful to corroborate the testimony of a bank employee.

Some banks now require customers to make deposits and withdrawals rather than exchanges. This leaves a paper trail to follow.

Many banks now capture large cash transactions separately, which may make them easier to locate. You need to discuss the record-keeping system with appropriate bank personnel to determine the best approach to this problem.

If you isolate a date of a certain cash transaction, have the bank copy several transactions before and after the cash transaction you are interested in, as it may give you a trail to the source or disposition of the cash. Remember to check for compliance with the Bank Secrecy Act when you locate large currency transactions, particularly if they are over \$10,000.

### *Wire Transfers*

Once the bad guys think they have their money safely deposited in a bank, they tend to attempt to launder their funds by wire transfers to other banks in the U.S. or abroad (Exhibit 15). There is nothing mysterious about wire transfers. Like anything else, if you see a memo entry in the account indicating a



6. Lessor will retain no keys which will open any leased box, and upon the surrender of said box, the keys thereto must be returned immediately. Any expense incurred by the lessor in opening or repairing said box, or the doors enclosing the same, or in changing the locks thereon occasioned by the loss of a key or keys or by failure to deliver the same at the time of cancellation or surrender, must be paid by the lessee. Lessee must notify lessor at once if a key is lost.

7. Lessee shall give the lessor his signature and that of his agent or deputy, should he appoint any, and such signature shall be conclusive evidence of the lessee's knowledge of and assent to the rules and regulations, and this shall, without repetition, apply to all renewals and subsequent leases of boxes from the lessor to the lessee.

8. The liability of lessor in respect to property deposited in said box is limited to ordinary care in the performance by employees and officers of lessor of their duties, and shall consist only of (a) keeping the box in the vault where located when this rental contract is entered into, or in one of equal specifications, the door to which box shall be locked at all times except when an officer or an employee is present, (b) allowing no person access to said box, except lessee or authorized deputy or attorney-in-fact having special power to act, identification by signatures being sufficient, or his legal representative in the case of death, insolvency or other disability of lessee except as herein expressly stipulated. An unauthorized opening shall not be presumed or inferred from proof of partial or total loss of contents.

9. All rentals of boxes shall be payable in advance, and if possession of the box rented is not given up and its keys returned to lessor at the date of cancellation or surrender of the box at the expiration of this lease, or of its renewal, then the lessee shall be and remain a tenant at sufferance, and lessee shall not be permitted access to said box but may be debarred therefrom at any time at the option of the lessor; and after ten days' notice to lessee by mail to his or her place of residence or business, as given by lessee on the books of lessor, lessor shall have the right to forcibly open such box and the door thereto, at the expense of lessee, and in the presence of any two of its officers or employees whom the President may select, and if the contents thereof shall prove of sufficient value, in the estimation of these witnesses, the lessor shall take charge of such contents as a special deposit, subject to the payment of all rentals that may have accrued, subject to its rules, regulations and charges as to special deposits; if the contents shall be thus estimated not of sufficient value for deposit, lessor shall have the right to remove them from said box and shall make such disposition thereof as lessor may deem proper without further liability.

10. Lessor shall not be liable for any delay caused by failure of the vault doors or locks to operate.

11. Lessee shall not use said box, or permit the same to be used, for the deposit of any intoxicating liquors, narcotics or any property of an explosive or destructive nature.

12. This contract is personal to the lessee and shall not be assigned or transferred, and any assignment or transfer thereof shall immediately terminate it.

13. Lessee hereby acknowledges the receipt of two keys to said box and space.

14. Lessee shall be immediately notified in writing of any change of address of lessee, and in the absence of any notice in writing, a notice forwarded to the address given by lessee at the time of making this contract shall be sufficient for all purposes.

15. Neither the lessor nor any officer or employee thereof, in his private or official capacity, shall be authorized to act as deputy or agent for the lessee in respect to any matter or thing connected with said box.

16. Lessor reserves the right to make such other and further reasonable rules and regulations, without notice, as may from time to time be needful for the safety, care and cleanliness of the premises and for the preservation of good order therein.

Dated \_\_\_\_\_ at **FIRST AMERICAN BANK OF VIRGINIA**

BY \_\_\_\_\_ LESSOR  
FOR SAFE DEPOSIT DEPARTMENT

LESSEE

Address \_\_\_\_\_  
Street \_\_\_\_\_ City \_\_\_\_\_

State \_\_\_\_\_ Zip Code \_\_\_\_\_

DATE \_\_\_\_\_

I HEREBY CERTIFY THAT ALL OF THE PROPERTY STORED IN BOX NO. \_\_\_\_\_ COVERED BY THIS CONTRACT,  
HAS BEEN SAFELY WITHDRAWN AND THE SAID BOX IS HEREBY SURRENDERED.

LESSEE

BY \_\_\_\_\_

KEYS GIVEN TO AND  
BOX FOUND EMPTY BY \_\_\_\_\_

FOR THE BANK  
37(4 78)



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## Summary and Conclusion

The techniques described in this paper can be used to trace anything that leaves a paper trail. For example, cases have been broken by detection of small, seemingly insignificant items in a bank account. Hidden real estate in another town has been discovered by small payments of utility bills, phone bills, retail charges out of town, taxes, or insurance. Hidden brokerage accounts, either in or out of town, have been discovered by detection of small payments of interest on a margin account paid from a known bank account.

Other bank accounts often surface from small items in a known bank account. A deposit to a hidden account may inadvertently clear a known account. Other interaccount transfers or wire transfers between accounts may occur. A third-party check may clear a hidden account. A credit application may list both accounts.

Thus, tracing financial records is much more than just a paper chase. The trace can quickly lead you to assets that can be seized using civil procedures, which are much quicker and easier than those associated with the criminal seizures most enforcement officers are used to.

Unlocking bank records provides the leverage to uncover hidden assets and previously unknown witnesses, principals, and coconspirators.

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## **About the Author**

Charles Morley is President of the Morley Group, a financial investigations and law enforcement training group located in Arlington, Virginia. He is a former IRS Criminal Investigator and Chief Investigator for the United States Senate Permanent Subcommittee on Investigations.

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Dated \_\_\_\_\_ at FIRST AMERICAN BANK OF VIRGINIA

BY \_\_\_\_\_ LESSOR  
FOR SAFE DEPOSIT DEPARTMENT

LESSEE

Address \_\_\_\_\_ City \_\_\_\_\_  
Street \_\_\_\_\_

State \_\_\_\_\_ Zip Code \_\_\_\_\_

DATE \_\_\_\_\_

I HEREBY CERTIFY THAT ALL OF THE PROPERTY STORED IN BOX NO \_\_\_\_\_ COVERED BY THIS CONTRACT.  
HAS BEEN SAFELY WITHDRAWN AND THE SAID BOX IS HEREBY SURRENDERED.

LESSEE

BY \_\_\_\_\_

KEYS GIVEN TO AND  
BOX FOUND EMPTY BY \_\_\_\_\_ FOR THE BANK

37(4 78)



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## Police Executive Research Forum

The Police Executive Research Forum is the national professional association of chief executives of large city, county, and state police departments. The Forum's purpose is to improve the delivery of police services and the effectiveness of crime control through several means:

- the exercise of strong national leadership;
- public debate of police and criminal justice issues;
- research and policy development; and
- the provision of vital management and leadership services to police agencies.

Forum members are selected on the basis of their commitment to the Forum's purpose and principles. The principles which guide the Police Executive Research Forum are that:

- Research, experimentation, and exchange of ideas through public discussion and debate are paths for development of a professional body of knowledge about policing;
- Substantial and purposeful academic study is a prerequisite for acquiring, understanding, and adding to the body of knowledge of professional police management;
- Maintenance of the highest standards of ethics and integrity is imperative in the improvement of policing;
- The police must, within the limits of the law, be responsible and accountable to citizens as the ultimate source of police authority; and
- The principles embodied in the Constitution are the foundation of policing.

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Wanda Bryant, Staff Attorney

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