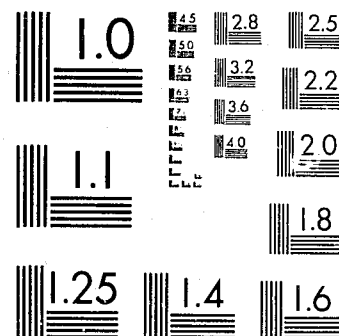


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## INTRODUCTION

When crimes of passion are removed, what type of crime remains? Crimes for profit. Crimes for profit come in all forms, such as shoplifter, burglar, armed robber, embezzler, corrupt politician, tax violator, or stock swindler. The common motivating factor of nonpassion crimes is money (wealth).

A working knowledge of financial investigative techniques is a must for anyone involved in the investigation of what has come to be called "white-collar" crimes. At the end of this course you will be able to recognize the value of these techniques in the investigation of any crime for profit.

This course is structured to:

1. Generate an awareness of the sources and means for obtaining financial evidence of crimes.
2. Teach techniques for applying financial evidence to the apprehension and prosecution of those committing crimes for profit.

Financial investigative techniques principally deal with tracing the activities involved in the movement of money. These activities must not be viewed as nonpersonal. When pieced together they can tell a complete story and provide the principal or corroborative evidence of a criminal offense.

However, the tracing and piecing together process cannot be oversimplified. The methods of exchanging wealth take many complex forms. Don't expect to master all the techniques presented in this course. Hopefully your appetite will be awakened to the extent you will recognize the value of these techniques and continue your studies until you can master and apply them. The benefits to yourself, your profession, and our society are worth it.

## FINANCIAL INVESTIGATIVE TECHNIQUES

### COURSEBOOK

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ACQUISITIONS

## LESSON 1

### FINANCIAL INTERVIEWING

This lesson is about the process of financial interviewing. The interview, if properly conducted, can greatly enhance the success of an investigation when monetary interest or a greed for wealth was the principal motive of the participants. Too often criminal investigators have been reluctant to broaden the scope of their investigations into the financial area. They thereby sacrifice the potential value of leads that might have been successfully developed if properly explored. The purpose of this chapter is to acquaint you with the process of financial interviewing, and with concepts in planning and conducting interviews and recording information obtained from interviews.

### ACKNOWLEDGEMENTS

The information on planning and conducting interviews, Guidelines for Information to be Collected in Interviews, and Guidelines for Preparing a Comprehensive Package for the Prosecuting Attorney, are taken from The Investigation of White-Collar Crime, a Manual for Law Enforcement Agencies. It was prepared for the Enforcement Program Division, Office of Regional Operations, Law Enforcement Assistance Administration, U.S. Department of Justice, under a grant to the Battelle Law and Justice Study Center. Additional information on materials and training programs is available from:

Battelle  
Human Affairs Research Centers  
National Center on White-Collar Crime  
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### OBJECTIVES

At the end of this lesson you will be able to:

1. State what should be accomplished in the interview
2. Develop an outline which will assist in meeting the objective of the interview and serve as a guide for questioning
3. Prepare a written record and mechanical recording

### FINANCIAL INTERVIEWING AND INTERROGATION

Few skills are so important to your effectiveness as a white-collar crime investigator as having firm command of interviewing techniques. It is from interviews that you can achieve the following significant objectives:

1. Obtain and develop information which establishes the essential elements of the crime
2. Obtain leads for developing cases and gathering other evidence
3. Obtain the cooperation of victims and witnesses in recounting their experiences in court

4. Obtain information concerning personal background and personal and economic motives of those to be considered for witnesses at the trial

Interviewing for financial data involves the systematic questioning of persons who have knowledge of the events, of the people involved and of the physical evidence surrounding the case under investigation. Interrogation, on the other hand, involves questioning of suspects and uncooperative witnesses to obtain evidence or proof of significant omissions, or to give the subject of the investigation an opportunity to volunteer facts which might put the transactions being investigated in a different light.

Financial interviewing is not much different from other kinds of interviewing to which you are already accustomed. However, the evidence develops in bits and pieces which, when viewed separately, may appear to lead nowhere. Frustration is common, and tactics and techniques may have to be modified and carefully employed because diligence, patience, and persistence are essential to successful results. White-collar crime investigations often take a long time to complete, require a tremendous amount of leg work, and are often very slow to result in arrests. Thus, you will depend more on the interview as a major investigative tool and less on interrogation.

#### INTERVIEW PLANNING

Every investigator should follow a set of guidelines to insure that objectives will be met. The actual approach to and the conduct of an interview depend a great deal on your personality, background, knowledge, and experience. Planning, therefore, serves to get the most from the interview and lessen the time spent.

#### Information To Be Obtained

Before the interview, you must know what types of information you are trying to collect. This will be determined by your knowledge of the information sources and what may be obtained from them. Figures 1 and 2 illustrate the types of information generally important to white-collar crime

investigations. They list the types of information that might be collected from subjects, victims, potential witnesses, or third parties who may have peripheral information or expertise relating to the case under investigation. They are presented as guides only, and should be modified as the particular occasion demands.

#### Why Plan?

Proper planning makes your success and effectiveness in the interview more probable. Planning begins by determining the status and title of the subject or interviewee. Background checks and scrutiny of intelligence files can serve as a starting point. If the interviewee is of reputable stature in the community (for example, a banker, broker, or lawyer), extensive background searches may not be necessary. Usually, however, complete background inquiries are merited and should be undertaken.

Before conducting any interview, you should ascertain as many facts as are reasonably available, including careful review of relevant documents to refresh your memory. Rarely will you be able to follow a format which is routine, that can be committed to memory. It is therefore advisable to prepare an outline of questions or areas to question in advance.

You should keep an open mind that is receptive to all information regardless of its nature, and be prepared to develop the information. If you are not flexible, you may waste a great deal of time and ask unnecessary questions, resulting in a voluminous statement of little or no value. Although you may find it easier to adhere to a fixed pattern of interviewing, or to rely upon a series of questions or topics, rigid adherence to any notes or outline will seriously handicap flexibility. The outline and data should serve only as aids and not as a substitute for original and spontaneous questioning. A carefully planned outline will provide enough leeway to allow you to better cope with any situation that may occur and permit development of leads that may arise.

## Time and Place

There are very real advantages (principally to the efficiency of the investigation) in conducting the interview at your own office. In many cases, however, it may be far more advisable to visit the witness at his or her home or office--a method which has several advantages:

1. The interviewee is more likely to have papers, appointment books, etc., available for production if they become relevant to the interview. The interviewee may also be in a position to immediately call on family members or co-workers for additional information and corroborative evidence.
2. It may be more convenient for the interviewee, thus making it more likely that he or she will agree to the meeting for the interview.
3. You will have a more difficult time eliminating distractions, such as inquiries from supervisors or colleagues who need help, if the meeting is at your own office. Interviewees, for whom the process will be a unique and impressive experience, will not have such problems in their office or home.
4. It also may be advantageous to catch the potential interviewee off guard, before he or she can have second thoughts, talk to someone else, develop fear, or be contacted by the subjects of the investigation.

When the interview is to be held away from the office, you should make a specific appointment, unless there is some special reason not to do so, such as indicated in (4) above.

Interviews should always be arranged so that there is enough time to conduct a full interview. It is always better to have extra time than to create additional irritations by terminating an interview early or making excuses for breaking or delaying appointments which are scheduled to follow. When you know you are going to be late, telephone, apologize, and inform the person to be interviewed when you will arrive, or schedule another appointment immediately.

If interviews are attempted without prior appointment, you may not find the person or the person may be completely unprepared. This problem is particularly important when you want to obtain documents such as cancelled checks of a victim, sales literature from a witness, or advice and supporting documents from an expert. Be sure to tell the interviewee what information you would like to have at the interview, or to assemble and have on hand. When calling on a person without an appointment, it is important to select a time that would be least likely to irritate the interviewee. This seems like an elementary point, but enough witnesses have been disgusted by failure to follow this obvious precaution, so that it is well worth stating again.

You should take the interviewee's special characteristics into account. When dealing with witnesses/victims whose native language is not English (and when you do not speak their language), appointments should be made by other office personnel familiar with the foreign language, if at all possible. The investigator should take special pains to be certain there is no misunderstanding as to time and place and should, if possible, arrange for someone fluent in the foreign language to go along.

Schedule appointments as quickly as possible after the first contact with an interviewee--within 24 hours if possible--and take the time to telephone to confirm the appointment a few hours before it is to take place. Misunderstandings and faulty memories can cause you more trouble than recalcitrant witnesses in such situations, because confusion easily triggers loss of confidence on the part of the victim/witness.

You will find that the process of making the appointment will itself be a source of valuable information, both for effectiveness and efficiency. The response of a witness or victim to the request for the interview should alert you to special problems that might be encountered (such as language problems, fear, lack of awareness on the part of the witness that he or she was a victim) which will help you to properly plan the forthcoming interview.

## Setting

When under your control the setting for an interview should be selected to provide a minimum number of obstacles to talking and, more importantly, listening. Distractions such as telephones, other voices, other conversations, other persons, can have a disastrous effect on the recall capabilities of a victim or witness. Interruptions will often convey to the interviewee that you are not really interested in what is being said. When the interview is conducted at your agency, an interviewing room designed for pleasant but serious conversation, without too many decorative distractions, which insures privacy, should be used.

You should also consider other possibilities for creating an environment which will help obtain information, all directed toward putting the witness at ease and heightening the witness' trust in you. For example, the witness should be encouraged to tell the story in his or her own way, even if it rambles; you should interrupt only for clarification and refrain from pointed questions until the witness, particularly the victim/witness, has unburdened himself or herself.

## Investigator's Demeanor

When dealing with any member of the public, whether in person or via the telephone, you must always be efficient, courteous, polite, and careful with your language. You represent your agency and the impression you leave is the impression the public will have of the agency.

The following are some suggestions for your conduct during an interview.

1. Avoid talking down to the person you are interviewing. Don't assume that the subject is less intelligent than you. Hints of disrespect or condescension can quickly turn a cooperative subject into an uncooperative one.
2. Avoid use of language which disparages the intelligence or competence of the interviewee, even if you may think he or she acted foolishly in being victimized, in not preventing victimization of a friend or associate, or in

failing to notify law enforcement officers when it would have been common sense to do so.

3. Be sensitive to the personal concerns of the victim or witness, especially when these involve perceptions of how the interviewee may be treated because of sex, race, religion, or ethnic background.
4. Be businesslike. Conduct the interview in a professional manner. You should be friendly, but not familiar. Certain pleasantries are sometimes necessary but the interview should not become a social occasion.
5. Avoid becoming authoritarian or attempting to dominate the interview.
6. Make it clear that anyone, no matter how smart or well-trained, may be victimized, that there are others who are and have been in the same boat. If possible, cite examples of well-known people or professional groups who have been similarly victimized.
7. Always be sympathetic and respectful to victims and complainants. Never suggest that a victim is a victim because of something he or she did. You must be extremely careful not to injure the victim's pride in his or her own judgment, not to belittle the loss, and not to build up any false hopes as to the possibilities of recouping all or part of the loss.
8. Give careful thought to the language you employ during the interview to make sure that it is consistent with the approach and understandable to the interviewee. Avoid law enforcement or other bureaucratic jargon.
9. Compliment the victim or complaining witness for taking the trouble to complain and cooperate, explaining that not to complain and cooperate would be playing into the hands of the subject of the investigation.
10. End every cooperative interview with thankful sincere appreciation. Perhaps this will encourage the subject to maintain contact if he or she recalls more information.

The following can be helpful in conducting an interview:

1. Use short questions confined to one topic which can be clearly and easily understood.
2. Ask questions that require narrative answers; whenever possible, avoid "yes" and "no" answers.
3. Whenever possible, avoid questions that suggest part of the answer, that is, "leading questions."
4. Question the witnesses about how they learned their facts. They should also be required to give the factual basis for any conclusions stated.
5. Be alert to prevent the witness from aimlessly wandering. When possible, require a direct response.
6. Prevent the witness from leading you away from your topic. The witness should not be allowed to confuse the issue and leave basic questions unanswered.
7. Concentrate more on the answers of the witness than on the next question.
8. To avoid an unrelated and incomplete chronology, you should clearly understand each answer and insure that any lack of clarity is eliminated before you continue.

The interviewee should completely answer the following basic questions:

Who? - Complete identification should be made of all persons referred to. This includes: description, address, alias, "trading as," "also known as," citizenship, reputation, and associates. If the person cannot be named, a physical description should be requested and should include: age; height; weight; color of eyes, hair, skin; description of build; clothing; unusual markings; scars; and mental or physical defects. Questions also should cover any aids worn by the individual, such as glasses, hearing aids, wig or toupee, cane, braces and other items.

What? - Complete details of what happened. Trace the events from beginning to end. Every detail should be determined.

Where? - Complete details regarding locations where all events took place. A description of the location should include the general area, as well as the identification of the person or people having control.

When? - The time may be established by direct questioning, by relating the incident to some known event, or by associating the event to some person, place, or thing.

Why? - Everything is done for a reason. Determine the motive by questioning the witnesses about their actions. What caused them to act? Who caused them to act? Why did they act as they did? Because these are the most important questions, especially when relating to or reflecting an evil purpose, they should receive special consideration.

You should maintain full control of the interview. You can do this by limiting each participant to the rights, duties, and privileges they are entitled to at the interview. Any deviation should be corrected immediately by informing the individuals of their roles and by not allowing them to go beyond them. If you cannot maintain complete control of the interview, an arrangement to continue should be made after the situation is corrected. If this cannot be done, the interview should be terminated. The record should show all the attempts to correct the situation and the reasons for terminating the interview.

#### Other Considerations

The white-collar crime investigator often faces problems and obstacles related to certain characteristics or personal situations of victims/witnesses. There may also be different problems with interviewees who are only victims, than with those who are only witnesses.

A witness who is not a victim may be uncooperative for a variety of reasons such as fear of reprisal, dislike of law enforcement, and fear of self-incrimination. Even totally innocent witnesses just



may consider it too much trouble to spend their time assisting law enforcement.

Technical experts may be reluctant to participate at the outset of an investigation for fear of eventually inviting a civil liability suit. For example, an honest certified public accountant who prepared the financial statements for a business which was defrauded might be concerned about being sued for negligence because the fraud was not uncovered in the course of performing professional work.

Both privately-owned and Government enterprises operate on the basis of public trust and confidence. Banks, savings and loan associations, business organizations in general, brokerage houses, fiduciary organizations, and Government agencies rely, in large part, on public confidence for their success. The commission of a white-collar crime may not only cause an immediate financial loss, but the attendant publicity may also cause a loss in public confidence and a corresponding drop in business prestige or public trust. The enterprise may prefer to conceal the occurrence and forego a prosecution rather than risk a loss of public confidence.

Personal embarrassment of victims is your greatest obstacle; first, in locating them and secondly, in getting them to participate in an interview or on a witness stand. Most victims do not welcome appearances in court, particularly when they know there is nothing to gain or little chance that it will help to restore their loss.

You also must consider the emotional state of victims or witnesses being interviewed. The loss of all or part of their money has been a shock if they are victims; nonvictims may have great apprehensions about being involved. Victims will often have unsupported opinions regarding the circumstances connected with the crime. These should not be disparaged, but should be pursued to a logical conclusion. Apparently unsupported opinions ultimately may prove justified; people's feelings often have some logical basis even though they may not be able to clearly articulate that basis.

## RECORDING INFORMATION OBTAINED FROM INTERVIEWS

The principle purpose of an interview is to obtain all the facts helpful in resolving the case. This places a responsibility on investigators to maintain the evidence they collect; therefore, it is necessary to prepare a permanent record of every interview. Informal notes, statements, and mechanical recordings are the usual forms in which information from interviews are recorded.

### Informal Notes

Informal notes should contain sufficient details to permit you to refresh your memory of what transpired. Any method of recording the entries is sufficient, if it shows the time, place, persons present, and what occurred. A memorandum of interview should be prepared when details of an interview are too numerous to be fully and properly related in notes. An example of informal notes is as follows:

On Wednesday, July\_\_\_\_, 19\_\_, at 10:00 a.m., I questioned David Mardin of 1122 Reaver Street, S.W., Washington, D.C., 20017, in his office, 117 Elm Street, Washington, D.C., about his purchase of a 19XX El Dorado Cadillac from Southwest Cadillac, Inc. Mardin stated that the Cadillac, bearing serial number 1122346, was purchased for \$13,500 from Gambel Bur, President of Southwest Motors, and that a personal check dated \_\_\_\_\_ 19XX, number 002 for \$13,500 was given to Bur. Mardin agreed to submit an affidavit relating to this purchase. Douglas Spruce, Investigator of the Washington Police Department, Washington, D.C., witnessed the interview which was concluded at 10:47 a.m.

/S/ James Aarons  
Investigator



## Statements

In a general sense, a statement is a declaration of fact. It may be prepared in any form and should be signed and dated by the person preparing it. It also should be signed by the witness from whom it was obtained. Statements generally are taken from witnesses in the form of memorandums of interview, affidavits and question and answer statements.

A memorandum of interview is a written record of an interview including what you want to remember, either for evidence or as an investigative lead. Considering the problem of discovery applicable to the jurisdiction, investigators should confine memorandums to the facts developed in their interviews, and should avoid opinions, conclusions, and other extraneous matters. If discovery is no problem, such opinions may be stated at the end of the memorandum along with any recommendations for additional investigative steps.

The memorandum should show the date, time, place, and persons present as well as what transpired. If the witness is advised of his or her constitutional rights during the interview, note this in the memorandum. Figure 3 is a suggested format for a memorandum of interview. Modification should be made when applicable. Figure 4 is a record of interview prepared using the format discussed above.

An affidavit is a written or printed declaration or statement of facts made voluntarily, and confirmed by the oath or affirmation of the party making it, before an officer having authority to administer such oath. No particular form of affidavit is required by common law. The affidavit is one of the most commonly used forms of recording testimony. It can be used during a trial to impeach a witness, refresh memory, or be introduced as evidence. An affidavit should not contain hearsay or information about which the witness has no direct knowledge. An affidavit may be used for the same purpose as a memorandum.

If a witness or subject was advised of rights, this also should be included in the affidavit. Figure 5 is an affidavit prepared using the facts developed in the section on the memorandum of interview. This also serves as a suggested format.

A question and answer statement is a complete transcript of the questions, answers, and statements made by each participant at an interview. It may be prepared from a recorder's notes or by mechanical recording devices. The source used to prepare the transcript should be preserved and associated with the investigative file as it may be needed in court to establish what was said. The question and answer statement should contain the following:

1. The time and place where the testimony is obtained
2. Name and address of person giving testimony
3. The matter the testimony relates to including the purpose of the interview
4. Name and title of person asking questions and person giving answers
5. The names and titles of all persons present, including attorney, officers, or other witnesses, and the reason for each person being present, if not obvious
6. The consent of the witness to use a tape recorder if a mechanical recording is being made
7. Information given to the witness concerning rights to counsel and against self-incrimination, if appropriate
8. Administration of the oath
9. Questions and answers establishing that the statement was made freely and voluntarily, without duress, and that no promises or commitments were made by the investigators
10. Signatures of the officers who conducted the interview and the witness questioned
11. Signature and certificate of person preparing the statement, showing the source of the original information used to prepare it
12. Information that the witness or subject was given the opportunity to examine the statement to correct errors and to sign it

Off-the-record discussion between the investigator and subject should not be permitted during a recorded interview of a subject and should be kept to a minimum during a recorded interview of a witness.

A typical question and answer statement format is shown in figure 6. Normally a witness will review and sign a statement after it has been put in final form. Many times, for various reasons, the subject or witness may change position and refuse to sign a statement. If you are faced with such refusal, you should request that the statement be read and verified for correctness. In such situations, the following legend should be inserted at the end of the statement when applicable:

"This statement was read by \_\_\_\_\_, on \_\_\_\_\_, 19\_\_\_\_, who stated that it was true and correct, but refused to be placed under oath or to sign it."

#### Mechanical Recordings

A mechanical recording device may be used to record statements when a stenographer is not readily available, if all parties to the conversation consent. A recording device also may be used in conjunction with a stenographer or recorder, when necessary, provided the above rule is followed. When mechanical recording devices are used, the following guidelines are suggested:

1. Use good equipment, in good working condition. Check batteries carefully. You should be able to testify as to past experience with the equipment and that the equipment was in good operating condition.
2. Before recording the interview, verbally identify on the tape the individuals engaged in the conversation, any other persons present, the time, date, and location.
3. Immediately after the original has been made, make a copy for use in transcribing the conversation. If the recording was made during an undercover operation, seal and store the original after a transcribed copy has been made.

4. Keep a written record of the custodians and storage from the time it is recorded to the time it is submitted as evidence.
5. When tape recordings are going to be used in taking a confession, advise the suspect of his or her rights and have the subject state at the start of the tape recording that he or she is aware that a recording is being made.

#### SUMMARY

There can be little standardization of technique in the approach to and conduct of financial interviewing. Financial interviewing is much the same as you have been accustomed to. Only the financial emphasis is different, and may initially appear awkward to you. The outcome of financial interviewing will, therefore, depend strongly on your personal qualities. Proper planning, time, place and setting, and knowledge of the information you seek will contribute to the success of the interview. Your demeanor and understanding of human elements also will help to produce positive results.

After you have conducted the interview, you must decide which form the results will be preserved in. Knowledge of and use of informal notes, statements, and mechanical recordings will dictate your choice. The value of the evidence and leads obtained will be determined by your selection.

This chapter has covered some useful concepts in the process of financial interviewing. They will serve value only if you apply them in day-to-day interviewing of witnesses and suspects. This will inevitably increase your knowledge of the interview process and expand your experience.

CONDUCTING INTERVIEWS  
DISCUSSION EXERCISE

The testimony of Lana Holly, 108 Hickory Drive, Arlington, Va., given in the office of the Vice Squad, Room 210, Arlington Police Department, Arlington, Va., at 9:30 a.m. on Friday, November 5, 19--, about David Mardin of 1122 Reaves Street, S.W., Washington, D.C. 20017.

Present: Lana Holly, Witness  
John Blue, Investigator  
James Aarons, Investigator

(Questions were asked by Investigator Aarons unless otherwise specified.)

1. Q. Miss Holly, you are here in response to a request made to you in order to answer questions concerning a wholesale furniture business operated by David Mardin during 19\_\_\_. I must advise you, Miss Holly, that we will be recording this interview and I would like to have your permission to do so.  
A. Yes, sir, you have my permission to record it and I am aware that it is being recorded.
2. Q. Would you please stand and raise your right hand? Do you, Lana Holly, solemnly swear that the answers you are about to give to the questions asked will be the truth, so help you God?  
A. I do.
3. Q. Miss Holly, would you please explain your occupation and length of employment?  
A. I'm a student at Georgetown University taking my masters degree.
4. Q. Are you employed by David Mardin in any capacity?  
A. Yes, I work for him whenever he needs me, part time. I guess you could call me a Girl Friday.
5. Q. How long have you been employed by Mr. Mardin?  
A. Well, he hired me on Christmas vacation beginning the year before last. So I would have been there about a year and half to date, I guess.

6. Q. Were you employed by Mr. Mardin in this capacity during last year in its entirety?  
A. Yes, sir, I was.
7. Q. Would you explain what specifically you do for Mr. Mardin in the way of secretarial work?  
A. Well, I type letters to customers whenever he has any. He writes those in long hand and I'm not a very good typist so I have to take my time. He also will give me bills or his travel expenses and tells me who to write the checks to. Then I write up the checks and if he is not here, I just put them on his desk for his signature and I guess he mails them or delivers them because I do not see them after that.
8. Q. Is that all you do for Mr. Mardin?  
A. Well, sometimes he gets commission checks and has me make up deposit slips to put these in the bank.
9. Q. Do you put those checks in the bank?  
A. No, I put the whole package together, which would be that deposit slip and the list of checks and I give these to Mr. Mardin. I don't know what he does with them.
10. Q. What companies are these checks from, Miss Holly?  
A. Well, if I recall, they are from Basswood, another one is Sunray, the last one is Earthstar.
11. Q. In other words, when you transcribe the information from these checks to deposit tickets you would put Basswood, Sunray, or Earthstar or whatever source the check is from. Is that correct?  
A. Oh no, that's not what I do. Mr. Mardin has instructed me that I am to take, let's say Basswood, which is sending us money for three or four different shops that Mr. Mardin has sold to. Then I list the amount, and the shop name on the little lines on the back of the deposit slip. And then I put down the amount of money. And since I only get one check at a time, the total of those amounts then will equal the amount of the check he is depositing.
12. Q. In other words, Miss Holly, you are listing on the deposit ticket, the names of the retail stores Mr. Mardin has sold to rather than the manufacturer who issued the check, is that correct?

- A. Yes, that's right.
13. Q. Well, what account are these checks and deposit slips being deposited to?
- A. Well, to the bank.
14. Q. To be a little more specific, Miss Holly, what particular bank?
- A. The Arlington Trust Company Bank.
15. Q. Is that Mr. Mardin's business account?
- A. I don't know. I just make them up.
16. Q. Miss Holly, I feel that it is time that I must caution you and must remind you that you are giving this testimony under oath. And we would like to caution you against possibly perjuring yourself in this instance. Do you understand this?
- A. Look, Mr. Aarons, whatever your name is, you are asking me questions and I'm trying to answer them in the best way that I know how, but what is it you want from me?
17. Q. You stated earlier in the interview that you also paid some of Mr. Mardin's business expenses by check. Were these expenses paid by checks drawn against the Arlington account only or did you also pay some of these expenses with checks drawn on the Clarendon account?
- A. Well, it depends. You see he pays some of these things in cash. He gives me these cash things to file because he told me that they had something to do with his tax return. The other things that I pay out of there are the repair bills on his car, also restaurants and office supplies. There are things he buys around here like office supplies. Those things are paid out of the Arlington account. Do you want to know about his credit cards?
18. Q. Do you pay his credit card expenses?
- A. Well, that's about all that is paid out of the Clarendon account. The Clarendon account is mostly credit cards and he's got them coming out his KAZOO.
19. Q. Could you be more specific, Miss Holly? In other words you pay some general business expenses that Mr. Mardin may incur through his Arlington account and you're also saying he uses credit cards and those bills for expenses

are paid from the Clarendon account. Is that true? And if so, what particular charges or credit cards does he have?

- A. Yes, Mr. Mardin has a lot of times when he is traveling, and he will have car rentals and things like that he has mailed directly to us for payment. He also has certain accounts at restaurants around town for entertaining and these are paid out of Arlington and I guess they are entertainment of business clients. But, it's kind of funny. Sometimes when he is not here, I look through the cards and slips and there are some weird things, like massage parlors, and I don't think he is really in that good of shape.
20. Q. What particular expenses do you pay out of the Clarendon account for Mr. Mardin?
- A. Well, credit cards as I can recall. He has several: Bank Americard, Master Charge, and American Express. And he writes an awful lot of checks to cash.
21. Q. You're saying these expenses and these checks for particular charges are written on the Clarendon account. Is this true?
- A. One time, I wrote one of the American Express checks out of his Arlington account, and that was another time I thought I was going to lose my job. He got very upset with me and I was given strict instructions that all of the credit cards were to be written out of the Clarendon account.
22. Q. Alright, Miss Holly, we have established that you make out deposit slips for Mr. Mardin's commissions to be deposited to the Clarendon account and the Arlington account under his specific directions, and write checks for some of his business expenses on both of these accounts; what other duties do you perform for Mr. Mardin?
- A. Well, as I told you I sometimes write letters to his customers.
23. Q. Do you maintain any other books and records for Mr. Mardin---any ledgers, anything of that nature?
- A. Oh, no. I'm an anthropology major. I have trouble reconciling my own bank account. I don't do anything like that for Mr. Mardin.

24. Q. Miss Holly, have I or any other investigator threatened you or intimidated you in any manner?  
A. No.
25. Q. Have I or any other investigator offered you any rewards, or promises of reward or immunity, in return for this statement?  
A. No.
26. Q. Have you given this statement freely and voluntarily?  
A. Yes.
27. Q. Is there anything further you care to add for the record?  
A. No.

I have carefully read the foregoing statement consisting of pages 1 to 6, inclusive, which is a correct transcript of my answers to the questions asked me on the 5th day of November 19\_\_, at the offices of the Vice Squad, Arlington Police Department, Arlington, Virginia, relative to David Mardin. I hereby certify that the foregoing answers are true and correct, that I have made the corrections shown and have placed my initials opposite each correction, and that I have initialed each page of the statement.

\_\_\_\_\_  
LANA HOLLY

Subscribed and sworn to before  
me, this 5th day of November  
19\_\_, at Arlington, Va.

\_\_\_\_\_  
James Aarons  
Investigator

\_\_\_\_\_  
John Blue  
Investigator

I, Jack Pacific, do hereby certify that I prepared the foregoing transcript consisting of 6 pages, from a tape-recording of the testimony of Lana Holly, given in Arlington, Virginia, on November 5, 19\_\_, and that I have initialed each page of the transcript.

\_\_\_\_\_  
Jack Pacific  
Secretary

FIGURE 1

GUIDELINES FOR INFORMATION TO BE COLLECTED IN INTERVIEWS

ABOUT THE INTERVIEW

Location, date and time  
Names of investigators

ABOUT THE SUBJECTS BEING INVESTIGATED

Names of promoters, their representatives, agents,  
etc. (individuals and company names)

Addresses of individuals and companies

Legal status of companies (corporations, partner-  
ships, state of incorporation, etc.)

Telephone numbers of individuals and companies

Physical descriptions

Title, salary, tenure, duties, and responsibili-  
ties of suspect (particularly important in em-  
bezzlement cases)

ABOUT CONTACT BETWEEN SUBJECTS AND WITNESSES

How was initial contact made? -- e.g.,

Advertisement in newspaper, radio, or televi-  
sion

Get name of paper, station and dates

Sales letter

Get copies of letter, envelopes, other  
material included

Personal contact

By telephone or in person--get dates,  
names, locations, and content of conver-  
sation

Reference through third party (attorney,  
friend, etc.)

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Were there any previous relationships between  
promoter and victim?

How did the promoters or their representatives get  
the victim's name--or learn about the victim?

ABOUT THE SITUATION AND CONTENT OF MEETINGS, CONVERSATIONS,  
TRANSACTIONS, ETC.

Date, location and time of occurrence

Names, addresses, titles, etc., of all who were  
present

Full details of all representations (promises)

Method of representation

What was said?

What was shown? What was handed out (let-  
ters, brochures, prospectuses, sales litera-  
ture, warranties, guarantees, contracts,  
etc.)?

Which person made each representation?

Victim's degree of reliance on representation

Did victim have any mental reservations?

Did he or she express them?

Did he or she ask any questions?

What were the answers? Who made them?

How were his or her mental reservations  
overcome? By whom?

Was anything done to discourage victim from a  
detailed reading of papers, or consulting  
friends, attorneys, accountant, banker, etc.?

Representations which victim believes were false

Representations which victim believes were omitted  
but should have been told

Was victim put under any time or other severe  
pressure to enter into transaction? How?

Full details of transaction

Amount of dollars

Method of payment--check, cash, agreements  
or contracts to pay in future, etc.

Date and circumstance of payment--in  
person, by mail, to whom, etc.

1-23

4124-05

ABOUT THE VICTIM

Name, address, telephone numbers (home and business)

Motivation behind the complaint:

- To recover losses
- Anger or outrage
- To protect others from same scheme

If information as to victim motivation not based on victim statement, what is basis for above information?

Circumstances will dictate when the investigator should advise victim that criminal action does not guarantee restitution nor does it insure success in a civil action, but it is proper to point out that one possible outcome of action is restitution following criminal or government civil action.

Victim's background (may assist in finding out how promoter got victim's name and thus help in locating other victims)

How and when victim discovered representations were false

Has victim complained to promoter?

- What did victim do or say?
- Did victim complain himself or herself, or through a friend or attorney?
- Has victim complained to any other private or public agency? With what results?

Financial losses suffered

Victim's source of funds lost

Psychological suffering

Has victim withheld information from members of his or her family or business associates?

Victim's willingness to assist in investigation and testify in court (circumstances will dictate appropriate timing for addressing these issues, for example, this may not be suitable in the early stages of interviewing non-complaining witnesses)

Will victim sign statement or affidavit swearing to truth of what was said?

ABOUT PHYSICAL EVIDENCE

Borrow or copy all physical evidence--cancelled checks, receipts, brochures, sales literature, prospectuses, warranties, guarantees, letters, envelopes, contracts, etc.

Give receipt for all items borrowed.

Have interviewee initial and date each page of each item.



FIGURE 2

GUIDELINES FOR INFORMATION TO BE COLLECTED IN INTERVIEWS  
WITH SUBJECTS

IDENTIFICATION

1. Full name
2. Alias
3. Reason for alias

BIRTH

4. Date
5. Place
6. Citizenship
7. Father's name
8. Living?
9. Mother's name
10. Living?

ADDRESSES DURING PERTINENT YEARS

11. Residence
12. Phone Number
13. Business
14. Phone Number
15. Any other present or prior addresses

MARITAL STATUS (Helpful in Locating Undisclosed Bank Accounts)

16. Present status; if married, date and place of marriage
17. Divorced--when, where
18. Spouse's maiden name
19. Spouse's parents living?
20. Children's names and ages--dependents?

OCCUPATION

21. Present position
22. Company name and address
23. Present salary
24. Length of time employed
25. Any part-time or additional employment
26. Prior occupations
27. Spouse's occupation

GENERAL BACKGROUND

28. Physical health
29. Mental health
30. Education
31. Military service
32. Social security number (for identification purposes)
33. Ever been arrested?
34. Ever been bankrupt?

FINANCIAL INSTITUTIONS, BUSINESS AND PERSONAL

35. Checking accounts
36. Savings accounts
37. Safe deposit boxes (Request inventory of safe deposit boxes)
38. In whose name
39. Contents:
  - a. Generally
  - b. Largest amount of cash? When held?
40. Contents last visit
41. Does anyone else have access?
42. Trusts: Beneficiary, donor, or trustee
43. Credit union
44. Brokers
45. Currency exchanges used
46. Cashier's checks
47. Money orders, bank drafts, travelers checks

SOURCES OF INCOME

49. Salaries, wages, business receipts
50. Interest and dividends
51. Sale of securities
52. Rents and royalties
53. Sale of assets, pensions, trusts, annuities, etc.
54. Gifts (money, property, etc.)
55. Inheritances
56. Loans
57. Mortgages
58. Municipal bond interest
59. Insurance settlements
60. Damages from legal actions
61. Any other source of funds, ever

NET INCOME AND EXPENDITURES

Assets

62. Current cash on hand, including cash in safe deposit boxes, but not including cash in bank accounts.
64. Location of current cash

63. Largest amount of cash ever on hand, location
65. End of year cash balances
66. Notes receivable
67. Mortgages receivable
68. Life insurance policies
69. Automobiles
70. Real estate
71. Stocks, bonds and other securities
72. Jewelry, furs
73. Airplanes, boats
74. Any other assets, valued over \$500

Liabilities

75. Payables
76. Loans
77. Assets purchased by financing
78. Mortgages

Expenditures

79. Debt reduction
80. Insurance premiums
81. Interest expense
82. Contributions
83. Medical
84. Travel
85. Real estate and other taxes
86. Servant's wages
87. Casualty losses

Business Operation

88. Name and address
89. Date organized and nature (corporation, partnership, etc.)
90. Title and duties
91. Investment, where and when
92. Associates

Books and records

93. Accounting system, cash or accrual
94. Period covered
95. Location
96. Name of person maintaining and controlling
97. Types: journals, ledgers, minute books, cancelled checks, bank statements, invoices, cash register tapes, appointment books
98. Name of outside auditor

Business Receipts

99. Form, checks or cash
100. Are all receipts deposited? Where?
101. Are business receipts segregated from personal?
102. Are expenses ever paid with undeposited receipts?
103. Cash checks for customers?
104. Checks to cash or other withdrawals

FIGURE 3

EXAMPLE OF MEMORANDUM OF INTERVIEW

In re: Name and address of subject(s) being investigated

Date and Time of Interview: Tuesday, June 20, 19\_\_  
\_\_\_\_\_ A.M. to \_\_\_\_\_ P.M.

Place: Location of interview

Present: \_\_\_\_\_ (Subject, witness, etc.)

\_\_\_\_\_ (Attorneys, etc.)

\_\_\_\_\_ (Investigators)

Interview conducted by \_\_\_\_\_ (Name,  
Title)

-----  
Note: All pertinent information relating to the interview  
should be in the memorandum in some logical manner, either  
in order of topics discussed, importance, chronological, or  
any other appropriate order.  
-----

\_\_\_\_\_  
Investigator, title

\_\_\_\_\_  
Investigator, title

If pertinent the following may be included:

I (prepared) (dictated) this memorandum on \_\_\_\_\_,  
19\_\_, after refreshing my memory from notes made during  
and immediately after the interview with the (subject)  
(witness).

\_\_\_\_\_  
Investigator, title

I certify that this memorandum has recorded in it a  
summary of all pertinent matters discussed with the  
(subject) (witness) on \_\_\_\_\_ (date)

\_\_\_\_\_  
(Any other investigator who was  
present at interview but did not  
prepare memo)

FIGURE 4

MEMORANDUM OF INTERVIEW

In re: David Mardin  
 1122 Reaves Street, S.W.  
 Washington, D.C. 20017

Date: Monday, June 12, 19\_\_

Place: Mulberry Realty Company, Inc.  
 1420 99th St., N.W.  
 Washington, D.C. 20018

Present: Parry Waters, Witness  
 James Aarons, Investigator  
 Douglas Spruce, Investigator

On the above date, Investigators Aarons and Spruce interviewed Parry Waters in regard to his business dealings with David Mardin of 1122 Reaves Street, S.W., Washington, D.C. 20017. In response to questions, Waters revealed the following information:

- He was introduced to Mardin in early March, 19\_\_, by Jeffery Cherry, a stock broker employed at the Black Cedar Investment Company, Arlington, Virginia. Cherry indicated at that time that Mardin was a client of his.
- On July 17, 19\_\_, Mardin made an offer to purchase a house and lot from Waters for \$50,000. Subsequently, on July 30, 19\_\_, the transaction was finalized.

At the end of the interview, an affidavit was obtained from Waters relative to the purchase of a house by Mardin. Investigator Aarons swore Waters to the statements contained in the affidavit. Waters indicated his willingness to testify to all matters contained therein if necessary.

\_\_\_\_\_  
 James Aarons  
 Investigator

\_\_\_\_\_  
 Douglas Spruce  
 Investigator

AFFIDAVIT

FIGURE 5

United States of America \_\_\_\_\_ )  
 District of \_\_\_\_\_ ) ss

I, Parry Waters, state that:

I reside at 120 Moso Ave. N.W., Washington, DC.

I am currently employed as a real estate salesman for Mulberry Realty Co., Inc.,

1430 99th St., N.W. Washington, DC. I have been employed in this capacity since

19xx. In early March 19xx I was introduced to David Mardin of Washington, DC,

by Jeffery Cherry, a stock broker, employed at the Black Cedar Investment Co.,

Arlington, VA. On July 17, 19xx Mardin made a formal offer to purchase a lot

and house which I owned. On July 30, 19xx Mardin gave me a check for \$50,000

drawn on the Palmetto Bank of Arlington, VA. I have examined a photocopy of

cashier check #178 and dated July 30, 19xx in the same amount. I have identified

the endorsement as being my signature. This is the check given to me by Mardin on

July 30, 19xx. I deposited the check into my checking account at the Last

National Bank, Sunset, VA.

I have had no other business or personal dealings with Mardin since that date. I

have given Investigator James Aarons the sales agreement relative to the sale

of the above property and have received a receipt.

I have read the foregoing statement consisting of this page only. I fully understand this statement and it is true, accurate and complete to the best of my knowledge and belief. I made the corrections shown and placed my initials opposite each.

I made this statement freely and voluntarily, without any threats or rewards, or promises of reward having been made to me in return for it.

Subscribed and sworn to before me this 13th  
 day of August, 19\_\_\_\_,  
 at 120 Moso Ave. N.W.  
Washington, DC.

\_\_\_\_\_  
 (Signature of affiant)

\_\_\_\_\_  
 (Signature)

\_\_\_\_\_  
 (Title)

Internal Revenue Service

\_\_\_\_\_  
 (Signature of witness, if any)

SUGGESTED FORMAT FOR QUESTION AND ANSWER STATEMENT

Testimony of Parry Waters, 1122 Reaves Street, S.W., Washington, D.C., given in the office of the Washington Police Department, \_\_\_\_\_ Squad, Room \_\_\_\_\_, City Hall, 301 Blue Street, N.W., Washington, D.C., at 9:30 a.m. on June 12, 19\_\_, about David Mardin of 1122 Reaves Street, S.W., Washington, D.C.

Present: Parry Waters, Witness  
James Aarons, Investigator  
Douglas Spruce, Investigator

(Questions were asked by James Aarons, Investigator, and answers given by Mr. Waters.)

(Mr. Waters, this interview is being recorded, as we agreed, by means of the tape recorder on your left, table, etc.)

1. Q. Mr. Waters, you were requested to appear at this office to answer questions concerning the sale of a lot and house to David Mardin of Washington, D.C. (If appropriate advise the witness of his rights to counsel).
2. Q. Please stand and raise your right hand. Do you, Parry Waters, solemnly swear that the answers you are about to give to the questions asked will be the truth, so help you God?

(Note: After the questioning is concluded the meeting is brought to a close with the following questions.)

120. Q. Mr. Waters, have I, or has any other investigator, threatened or intimidated you in any manner?  
A. No.
121. Q. Have I, or any other investigator, offered you any rewards, or promises or immunity, in return for this statement?  
A. No.

122. Q. Have you given this statement freely and voluntarily?

A. Yes.

123. Q. Is there anything further you care to add for the record?

A. No.

("After this statement has been transcribed, you will be given an opportunity to read it, correct any typographical errors, and sign it.")

I have carefully read the foregoing statement consisting of pages 1 to \_\_, inclusive, which is a correct transcript of my answers to the questions asked me on the 12th day of June, 19\_\_, at the office of the \_\_\_\_\_ Squad, Washington Police Department, Washington, relative to David Mardin of 1122 Reaves Street, S.W., Washington, D.C. I hereby certify that the foregoing answers are true and correct, that I have made the corrections shown and have placed my initials opposite each correction, and that I have initialed each page of the statement.

/S/ Parry Waters

Subscribed and sworn to before me at 9:45 a.m., this 30th day of June, 19\_\_, at Washington, D.C.

James Aarons, Investigator

Douglas Spruce, Investigator  
Witness

## LESSON 2

### SOURCES OF FINANCIAL INFORMATION

Most criminal investigators have had academic training as well as considerable experience in cultivating a broad variety of informational sources. The financial sources identified here should be viewed as other such information sources. Their primary purpose is to help you trace financial transactions as they relate to white collar crime.

#### OBJECTIVES

At the end of this lesson you will be able to:

1. Identify appropriate sources to obtain specific information
2. Determine the appropriate person(s) who can furnish the desired information
3. Adequately describe the information and/or records desired

#### AUTHORITY TO OBTAIN

Because of the wide variety of agencies for which this text material is intended and the resultant divergent statutory authorities involved, no effort has been made to describe the availability of documentary evidence from any particular informational source. However, even though documentary evidence may not be readily available from a particular source, the possibility of developing informants and/or cooperative individuals within various organizations should not be discounted.

Also, in many instances the subject of an investigation, in an effort to give the appearance of cooperation, will authorize the release of otherwise restricted information.

#### BUSINESS AND GOVERNMENT RECORDS

##### Business Records

1. Abstract and title company records
  - a. Maps and tract books

- b. Escrow index of purchasers and sellers of real estate (primary source of information)
  - c. Escrow files (number obtained from index)
  - d. Escrow file containing escrow instructions, agreements, and settlements
  - e. Abstracts and title policies
  - f. Special purpose newspapers published for use by attorneys, real estate brokers, insurance companies, and financial institutions. These newspapers contain complete reports on transfers of properties, locations of properties transferred, amounts of mortgages, and releases of mortgages.
2. Agriculture records
- a. County veterinarians
  - b. Commission merchants
  - c. Insurance companies (insure shipments)
  - d. Transportation companies
  - e. Storage companies
  - f. County and state fair boards
  - g. County farm agents
  - h. State cattle control boards (some states maintain records of all cattle brought in and taken out of state)
3. Automobile manufacturer and agency records
- a. Franchise agreements
  - b. Financial statements of dealers
  - c. New car sales and deliveries (used car purchases, trade-ins, and sales)
  - d. Service department (mileage, order, and delivery signature to indicate presence in area)

- 4. Bonding company records
    - a. Investigative and other records on persons and firms bonded
    - b. Financial statements and date
    - c. Address of person on bond
  - 5. Credit reporting agencies
- The Fair Credit Reporting Act of 1971 restricts the availability of information from credit reporting agencies to governmental investigative agencies. Credit reports may only be furnished to governmental investigative agencies:
- a. In response to the order of a court having the jurisdiction to issue such an order;
  - b. Upon written request of the consumer; or
  - c. To a person who has a legitimate business need for the information in regard to a business transaction involving the consumer, including but not limited to credit, insurance, and employment purposes.

There is no specific exception provided in the act which will allow law enforcement agencies to obtain credit reports for investigative purposes. The act provides criminal penalties for obtaining information under false pretenses and for unauthorized disclosures by officers or employees of consumer reporting agencies.

The identifying information which is available under the act is limited to a consumer's name, address, former addresses, places of employment, and former places of employment.

If identifying information is needed for investigative purposes the following credit reporting agencies can be checked.

- a. Dun and Bradstreet, Inc.
- b. Local credit rating and collection agencies



- c. Local office of National Association of Retail Credit Men
- d. Insurance applicants
  - (1) American Service Bureau
  - (2) Hooper Holmes Agency
  - (3) Retail Credit Company
- e. Mortgage loans
  - (1) Loan exchange (clearing house for loan information)
  - (2) Retailers' Commercial Agency (performs credit investigations for credit cards, banking, and mortgages)
- f. Manufacturers
 

The "Census File of Manufacturers" contains a census of manufacturing plants in the United States.
- g. Marketing services
  - (1) Dun and Bradstreet, Inc.
  - (2) Market Service Bureau
  - (3) Middle Market Directory (business guide of firms with a net worth between \$500,000 and \$1,000,000)
  - (4) Million Dollar Directory (business guide of firms with a net worth of \$1,000,000 or more)
  - (5) Metal Working Directory (marketing directory of metal working plants in the United States)
  - (6) Vendor Account Services (used by retail stores in processing accounts payable, buying, and merchandise control)
- h. Transportation
  - (1) TRINC (furnishes statistics on the trucking industry)

- (2) Motor Carrier Directory (lists motor carriers with revenues totaling \$50,000 or more)

i. International

- (1) International Credit Reports (a division of Dun and Bradstreet which furnishes credit reports on overseas credit)
- (2) International Market Guides (Middle and South America only)
- (3) Continental Europe (lists European businesses in 39 countries)
- (4) Guide to Key British Enterprises (lists prominent firms throughout the United Kingdom)
- (5) Synopsis of Dun-Mexico
- (6) Synopsis of Dun-Brazil
- (7) Reference book-Argentina
- (8) Bradstreet Register
- (9) International Mercantile Claims Division

6. Specialized commercial credit organizations

In addition to the above credit reporting agencies, there are specialized commercial credit organizations.

- a. United Beverage Bureau
- b. National Fuel Credit Association
- c. Jewelers Board of Trade
- d. Lumbermen's Credit Association
- e. Produce Reporter Company
- f. Packer Produce Mercantile Agency
- g. Paper and Allied Trade Mercantile Agency

- h. Lyon Furniture Mercantile Agency
- j. American Monument Association
- 7. Department store records
  - a. Charge accounts
  - b. Credit files
- 8. Detective agency records
  - a. Investigative files
    - (1) Civil
    - (2) Criminal
    - (3) Commercial
    - (4) Industrial
  - b. Character checks
  - c. Fraud and blackmail investigations
  - d. Divorce evidence
  - e. Missing persons search
  - f. Security patrols and guards
  - g. Undercover agents
  - h. Shadow work
  - i. Lie detector tests
  - j. Personnel screening and fingerprinting
  - k. Service checking
    - (1) Restaurants
    - (2) Public transportation
    - (3) Stores
- 9. Distributors' records
  - a. Gambling equipment

- b. Wire service
- c. Factory, farm, home, office equipment, etc.
- d. Wholesale toiletry (cash rebates are paid by some toiletry manufacturers). Details of available contracts which pay rebates to wholesale toiletry distributors are contained in publications issued by the Toiletry Merchandisers Association, Inc., 230 Park Avenue, New York, New York 10017, and the Druggist Service Council, Inc., 1290 Avenue of the Americas, New York, New York 10019.
- 10. Drug store records
  - Prescription records (name, address, date, and physician issuing prescription)
- 11. Fraternal, veterans, labor, social, and political organization records
  - a. Membership and attendance records
  - b. Dues, contributions, and payments
  - c. Location and history of members
- 12. Hospital records
  - a. Entry and release dates
  - b. Payments made
- 13. Hotel records
  - a. Identity of guests
  - b. Telephone calls made to and from room
  - c. Credit record
  - d. Forwarding address
  - e. Reservations for travel (transportation companies and other hotels)
  - f. Payments made by guest
  - g. Freight shipments and luggage (in and out)

14. Insurance company records

Life, accident, fire, burglary, automobile, and annuity policies

- a. Applications (background and financial information as well as insurance carried with other companies)
- b. Fur and jewelry floaters (appraised value and description)
- c. Customers' ledger cards
- d. Policy and mortgage loan accounts
- e. Dividend payment records
- f. Cash value and other net worth data
- g. Correspondence files
- h. Payment records on termination (life), losses (casualty), or refunds on cancellations
- j. Payments to doctors, lawyers, appraisers, and photographers hired directly by the insurance company to act for the company or as an independent expert

15. Laundry and dry cleaning records

- a. Marks and tags (marks are sometimes invisible and are brought out by the use of ultraviolet rays)
- b. Files of laundry marks
  - (1) New York State Police, White Plains, New York, and other local or State police departments
  - (2) International Fabricare Institute, Joliet, Illinois

16. Lenders Exchange or Consumer Loan Exchange

An organization known as the Consumer Loan Exchange or Lenders Exchange exists in all of the large cities in the United States, as well as in some of the smaller cities. It is a

nonprofit organization, supported by and for its members. Most of the lending institutions are members of the exchange. It can supply information concerning open and closed loan accounts with member companies, and is a good source of general background information. These organizations are not listed in directories or telephone books. Their location in a city may be obtained through local lending agencies.

17. National charge plan records

National agencies, such as American Express, Diners Club, and Carte Blanche, which provide credit cards for use in charging travel, entertainment, goods, and services, can determine whether an individual or business has an account from their central index files. If details of the account are needed, information requests should indicate whether only copies of the monthly statements or copies of both the statements and charge slips are desired, the time period to be covered, the subject's address, and the name and address of the subject's employer or business. Requests should be directed to American Express Company, Box 13779, Phoenix, Arizona 85002, and/or Diners Club, Incorporated, Adjustment Department, 10 Columbus Circle, New York, New York 10008. Carte Blanche will not honor direct requests by mail.

18. Newspaper records (morgue)

Clippings are assembled in one file with photographs, notes, unpublished data, etc.

19. Photograph records

- a. Relatives, associates, and friends
- b. Previous places of employment (employee or company publications)
- c. Police and FBI files
- d. Schools (yearbooks, school papers, etc.)
- e. License bureaus (drivers, chauffeurs, taxis, etc.)

- f. Military departments
  - g. Fraternal organizations
  - h. Church groups
  - i. Race tracks
  - j. Photographs made of checks and persons presenting checks for cashing
  - k. Newspaper morgue
  - l. Nightclub or sidewalk photographers and photography studios
20. Public utility company records
- a. Present and previous address of subscriber
  - b. Payments made for service
  - c. Payments made for "major" purchases
21. Publications
- a. Who's Who in America and various States
  - b. Tax services
  - c. City directories
  - d. Billboard (amusements, coin-machines, burlesque, drive-ins, fairs, stage, radio, TV, magic, music machines, circuses, rinks, vending machines, movies, letter lists, and obituaries)
  - f. Variety (literature, radio, TV, music, stage, movies, obituaries, etc.)
  - g. American Racing Manual (published by Triangle Publications, Inc., 525 West 52d Street, New York, New York 10019). Records showing amounts paid to owners of winning horses by each race track in the United States, Canada, and Mexico.
  - h. Professional, trade, and agriculture directories and magazines
  - i. Moody's Investors Service, Inc., and Standard and Poor's Corporation
22. Real estate agency or savings and loan association records
- a. Property transactions
  - b. Financial statements
  - c. Loan applications. Do not contain quite the same information as loan applications given to a bank. A savings and loan association depends primarily upon real estate security rather than upon the other assets and liabilities of a borrower.
  - d. Payments made and received (settlement sheets)
  - e. Credit files and files of a confidential nature
23. Telephone company records
- a. Local directories (alphabetical and reverse; library of "out of city" directories)
  - b. Toll calls
  - c. Investigative reports on telephones used for illegal purposes
  - d. Message unit detail sheets (in some areas) which list numbers called by a particular telephone
  - e. Payments for service
24. Transportation company records
- a. Passenger lists, reservations
  - b. Destinations
  - c. Fares paid
  - d. Freight carriers-shippers, destinations, and storage points
  - e. Departure and arrival times

25. Western Union money orders

- a. The St. Louis office of the Western Union Telegraph Company is the records storage center for all Western Union paid money orders in the United States.
- b. A Western Union money order transaction results in two documents: The original telegram application prepared by the purchaser or sender, and the bank draft drawn by Western Union to the person receiving the money. The Western Union canceled drafts, after clearing through banking channels, are associated with the original telegram applications and sent to the St. Louis office for storage under the jurisdiction of its money order auditor. These records (except for money orders over \$1,000) are destroyed month by month after 3 years.

State and Local Law Enforcement Agency Records

1. State police (central records section)

- a. Criminal cases
- b. Criminal intelligence
- c. Inflammable liquid installations
- d. Firearms registrations
- e. Investigations conducted for other departments
- f. Traffic arrests and motor vehicle accident investigations
- g. Noncriminal and criminal fingerprint records
- h. "Rogues gallery"
- i. Investigation of aviation rules and non-carrier civilian aircraft accidents
- j. Police training school files

2. City police

a. Criminal identification

- (1) Records of arrests, accidents, and general information
- (2) Alphabetical indexes of every complainant or suspect
- (3) "Aided" cards (citizens assistance)
- (4) Gun permits or applications and registrations
- (5) Lost or stolen articles
- (6) Pawn shop files
- (7) Towed or repossessed autos
- (8) Ambulance files
- (9) Business information files
- (10) "Scofflaw files" (consistent violator of minor offenses--primarily traffic)

b. Other divisions:

- (1) Criminal division files
- (2) Forgery squad (check squad)
- (3) Juvenile division
- (4) Morals or vice squad files
- (5) Narcotics bureau
- (6) Organized crime division
- (7) Police force personal history files
- (8) Public relations office (press file)
- (9) Traffic division files

3. Small town police

a. Criminal index cards

- b. Criminal arrest cards
  - c. Accident reports
  - d. Complaint forms
  - e. Offense reports
4. County police (sheriff)
- a. Criminal Records
    - (1) Crimes involving bodily violence
    - (2) Crimes involving theft
    - (3) Crimes involving worthless checks
    - (4) Personal history sheets on people connected with the crimes
    - (5) Juvenile division records
    - (6) County business owners
  - b. Traffic records
 

Name, address, license plate number, driver's license number, arrest number, date and place of birth, sex, color, age, occupation, height, weight, complexion, color of hair, eyes, marks, and facts of arrest.
5. National Sheriffs Association Directory
- a. List of State institutions and their superintendents
  - b. State and Federal enforcement agencies and territorial jurisdictions
  - c. Associate members of National Sheriffs Association
  - d. County sheriffs
  - e. Address of National Auto Theft Bureau
6. Other State and local law enforcement and quasi-law enforcement organizations

- a. Specialized police organizations
- b. Public, semi-public, and private organizations
- c. The industrial security officer
- d. International Association of Chiefs of Police
- e. The monthly police administration review list of police publications

Federal Government Records

- 1. Bureau of Alcohol, Tobacco and Firearms (ATF)
  - a. Distillers, brewers, and persons or firms who manufacture or handle alcohol as a sideline or main product
  - b. Inventory of retail liquor dealers and names of suppliers as well as amounts of liquor purchased by brand
  - c. Names and records of known bootleggers
  - d. Processors, manufacturers, and wholesalers of tobacco products
  - e. Names of subjects of investigations by ATF
  - f. List of all Federal firearms license holders, including manufacturers, importers, and dealers
  - g. List of all Federal explosive license holders, including manufacturers, importers, and dealers
  - h. Capability of tracing any firearm from manufacturer or importer to retailer
  - i. Services of the ATF Forensic Laboratory may be obtained by writing the Director, Bureau of Alcohol, Tobacco and Firearms, 1200 Pennsylvania Avenue, N.W., Washington, D.C. 20004.
- 2. Drug Enforcement Administration (DEA)
  - a. Licensed handlers of narcotics

- b. Criminal records of users, pushers, and suppliers of narcotics
3. Federal Bureau of Investigation (FBI)
- a. Criminal records and fingerprints
  - b. National Stolen Property Index (stolen Government property, including military property)
  - c. Nonrestricted information pertaining to criminal offenses and subversive activities
  - d. National Fraudulent Check Index
  - e. Anonymous Letter Index
4. Bureau of the Public Debt
- a. U.S. savings bonds (registered bonds) purchased and redeemed
  - b. Requests for information must be addressed to:
 

Director, Division of Loans and Currency  
Bureau of the Public Debt  
U.S. Treasury Department  
536 South Clark Street  
Chicago, Illinois 60605
  - c. Requests must include:
    - (1) Surname, given name, and middle name or initial of each person in whose name bonds probably were purchased
    - (2) Married woman's given name
    - (3) Current and former addresses of each person
    - (4) Years for which information is desired. Indicate whether issue date, payment date, or both dates are desired.
    - (5) If known, the series of bonds involved. The following schedule shows the dates when the sale of each series began and ended.

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<u>Series</u>	<u>Dates</u>
A	March 1935 through December 1935
B	January 1936 through December 1936
C	January 1937 through December 1938
D	January 1939 through April 1941
E	May 1941 through present (sales continuing)
F	May 1941 through April 1952
G	May 1941 through April 1952
H	June 1952 through present (sales continuing)
I	May 1952 through April 1957
J	May 1952 through April 1957

(6) A statement that the request has been carefully screened and that the information requested is necessary and its intended use.

d. Bureau of the Public Debt provides penciled worksheets showing complete data with respect to all bonds purchased and/or redeemed.

5. Federal Aviation Agency (FAA)

- a. This agency maintains records which reflect the chain of ownership of all civil aircraft in the United States. These records include documents relative to their manufacture and sale (sales contracts, bills of sale, mortgages, liens, transfers, inspections, and modifications).
- b. Information will be furnished in response to telephone requests. However, certified copies of information or documents will not be issued without an official written request addressed to:

Aircraft Registration Branch AC 350  
Federal Aviation Agency  
Field Box 1082  
Oklahoma City, Oklahoma 73101

6. Department of Agriculture

- a. Licensed meatpackers and food canners
- b. Inspections made under Pure Food and Drug Act

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- c. Transactions with individuals and businesses (subsidiaries and adjustments)

7. Department of Defense

- a. Data concerning pay, dependents, allotment accounts, deposits, withholding statements (Forms W-2), and any other financial information relative to military personnel. This information is available at one of the following offices, depending upon the branch of the Armed Forces to which the individual was or is presently attached.

- (1) Army  
United States Army Finance Center  
Indianapolis, Indiana 46249

Request to include the complete name and Army serial number.

- (2) Air Force:  
Air Force Finance Center  
3800 York Street  
Denver, Colorado 80205

- (3) Navy:  
Director, Bureau of Supplies and Accounts  
Department of the Navy  
13th and Euclid Streets  
Cleveland, Ohio 44115

- b. Requests for information should be forwarded to the respective finance center. It is important that the subject be adequately identified, preferably by name, address, and military serial number. However, if the serial number is unknown or cannot be furnished, the data may be secured if the inquiry includes the serviceperson's full name, date of birth, and places of induction and/or discharge from the service.

- c. Addresses of military personnel:

- (1) Form 2223, Request for Address of Military Personnel, should be used to obtain the current or last known address of an individual who is a

member of (or who has recently been separated or discharged from) the Armed Forces. All Forms 2223 should be prepared carefully. The full name of the individual should be entered accurately, and also the pre-service address and serial number, if known. If available, include the last known military address of the individual and the date such address was known to be current. The correct mailing addresses for the military service branches are printed on the front of Form 2223 and the address corresponding to the member's branch of service must be entered in the space provided. Make sure the return address of the requestor has been inserted. Otherwise, even though a current address may be available, the military service branch will be unable to return the completed Form 2223.

- (2) Many of the Forms 2223 will have to be forwarded by the military service branches to various record centers located throughout the United States. Therefore, no followup inquiry should be made within 90 days from the date of the original request. If a followup inquiry is necessary, a second Form 2223 should be prepared and mailed to the proper military service branch. However, the second Form 2223 should not be identified as a followup request or as a second request, and no reference should be made to the original Form 2223.
- d. Data concerning the personal and medical history of former Army personnel (discharged subsequent to 1912) and former Navy and Marine personnel are located at: Military Personnel Records Center, GSA 9700 Page Boulevard, St. Louis, Missouri 63132. Requests should include: Complete name, including middle name; service serial number; date and place of birth; dates of service, military organizations; and the name of the individual's next to kin.

- e. Records of contracts and all original vouchers covering payments made to persons and firms dealing with the U.S. Air Force are retained at:

U.S. Air Force Accounting and Finance Center  
AFO--Accounts and Mail Branch  
3800 York Street  
Denver, Colorado 80205

8. Department of State

- a. Passport records (date and place of birth required). Recent data may be obtained from the local district court.
- b. Import and export licenses
- c. Foreign information

9. Bureau of Customs

- a. Record of importers and exporters
- b. Record of custom house brokers
- c. Record of custom house truckers (cartage licenses)
- d. List of suspects

10. U.S. Secret Service

- a. Records pertaining to counterfeit, forgery, and United States security violation cases
- b. Secret Service's central files in Washington, D.C., contain an estimated 100,000 handwriting specimens of known forgers. An electronic information retrieval system facilitates comparison of questioned handwriting with the specimens on file for identification purposes.

11. U.S. Postal Service

- a. Mail watch or cover
- b. Photostats of postal money orders. Requests for such records must be addressed

to the Money Order Division, U.S. Postal Service, Washington, D.C.

- c. Addresses of post office box holders. These requests should be made only when efforts to obtain the information from other sources have proved unsuccessful. Information can be obtained from the Inspector-in-Charge or Postal Inspector. Check with the local post office to learn the identity of the inspector who can furnish the information.

12. Immigration and Naturalization Service

- a. Records of all immigrants and aliens
- b. Lists of passengers and crews on vessels from foreign ports
- c. Passenger manifests and declarations (ship, date, and point of entry required)
- d. Naturalization records (names of witnesses to naturalization proceedings and people who know the suspect)
- e. Deportation proceedings
- f. Financial statements of aliens and persons sponsoring their entry

13. Interstate Commerce Commission (ICC)

- a. The ICC has information concerning individuals who are or have been officers of transportation firms engaged in interstate commerce. This information includes the officer's employment and financial affiliations.
- b. In addition to the record information available in ICC, most safety inspectors of ICC are good sources of "reference" information because they have personal knowledge of supervisory employees of the various carriers in their region.

14. Securities and Exchange Commission (SEC)

- a. Records of corporate registrants of securities offered for public sale, which usually shows:

- (1) A description of registrant's properties and business
  - (2) A description of the significant provisions of the security to be offered for sale and its relationship to the registrant's other capital securities
  - (3) Information as to the management of the registrant
  - (4) Certified financial statements of the registrants
- b. Securities and Exchange Commission News Digest (a daily publication giving a brief summary of financial proposals filed and the actions taken by the SEC)
- c. Bulletin (issued quarterly and contains information of official actions with respect to the preceding month). It also contains a supplement in which are listed the names of individuals reported as being wanted on charges of violations of the law in connection with securities transactions. It is available, upon request, at any of the SEC regional or branch offices in the following cities:
- |                 |                    |
|-----------------|--------------------|
| Atlanta, GA     | Miami, FL          |
| Boston, MA      | New York, NY       |
| Chicago, IL     | Salt Lake City, UT |
| Cleveland, OH   | San Francisco, CA  |
| Denver, CO      | Seattle, WA        |
| Detroit, MI     | St. Louis, MO      |
| Fort Worth, TX  | St. Paul, MN       |
| Houston, TX     | Washington, D.C.   |
| Los Angeles, CA |                    |
- d. Securities Violations Files (Securities Violations Section maintains comprehensive files on individuals and firms who have been reported to the Commission as having violated Federal or State securities laws. The information pertains to official actions taken against such persons, including denials, refusals, suspensions, and revocations of registrations; injunctions, fraud orders, stop orders, cease and desist orders; and arrests, indict-

ments, convictions, sentences, and other official actions.) Information in these files, with respect to any particular individual or firm, is available upon request from the Director, Division of Trading and Exchanges, Securities and Exchange Commission, Washington, D.C. 20225.

- e. Securities and Exchange Commission Official Summary (lists the changes in beneficial ownership by officers, directors, and principal stockholders of securities listed and registered on a national securities exchange, or securities relating to public utility companies and certain closed-end investment companies)
15. Federal Reserve Bank (FRB)  
United States Treasury Bonds
16. Veterans Administration (VA)
- a. Records of loans, tuition payments, insurance payments, and nonrestrictive medical data related to disability pensions are available at regional offices in several large metropolitan areas throughout the country. This information, including photostats, may be obtained by writing the appropriate regional office.
  - b. All requests should include a statement covering the need and intended use of the information. The veteran should be identified clearly and, if available, the following information should be furnished:
    - (1) VA claim number
    - (2) Date of birth
    - (3) Branch of service
    - (4) Dates of enlistment and discharge
17. United States Coast Guard
- a. Persons serving on United States ships
  - b. Vessels equipped with permanently installed motors

- c. Vessels over 16 feet long equipped with detachable motors

18. Treasurer of the United States

- a. Checks paid by the U.S. Treasury are processed through the Office of the Treasurer of the United States. Photostats of the cancelled checks may be obtained by writing to:

Check Claims Division  
Attention: Stop-Pay Branch  
Treasurer of the United States  
Liberty Loan Building  
401 14th Street S.W.  
Washington, D.C. 20226

- b. All requests should include the name of the payee, date of check, amount of check, check number, and disbursing office symbol. If the copy of the check is for use in a trial or procedure requiring certification, the request for certification should be included in the original request. Checks and related records are subject to the destruction policy of the Check Claims Division and may not be available for certification at a later date.
- c. Photostats of canceled U.S. Government checks which relate to alleged forgery violations are obtainable through the U.S. Secret Service.
- d. When information must be obtained from the issuing disbursing office, the investigation may be expedited by asking that office to obtain the copy and the necessary certification from the Check Claims Division.

19. National Crime Information Center (NCIC)

- a. The National Crime Information Center is a repository of data relating to crime and criminals gathered by local, state, and Federal law enforcement agencies to combat crime on a nationwide basis.

- b. The NCIC's computer equipment is located at FBI Headquarters in Washington, D.C. The present equipment includes rapid access storage units (memory) with a capability of accommodating nearly 2 million records on criminal activities. In a matter of seconds, stored information can be retrieved through equipment in the telecommunications network. Connecting terminals are located throughout the country in police departments, sheriffs' offices, State police facilities, and Federal law enforcement agencies. Dispatchers can respond quickly to requests. NCIC, as well as operating statewide systems, furnishes computerized data in a matter of seconds to all agencies participating in the centralized State systems. The goal of NCIC is to serve as a national index to fifty statewide computer systems and heavily populated metropolitan area systems.

- c. NCIC Headquarters might be compared to a large automated "file cabinet" with each file having its own label or classification. Such a cabinet of data contains information concerning:

- (1) Stolen, missing, or recovered guns
- (2) Stolen articles
- (3) Wanted persons
- (4) Stolen/wanted vehicles
- (5) Stolen license plates
- (6) Stolen/embezzled/missing securities-- stocks, bonds, currency, etc.
- (7) Stolen/wanted boats

These labels describe the types of records available in the NCIC files. Most of the files are self-explanatory. An "article" is considered a serially identified item of property not designated under other classifications. Articles consist of auto accessories, camera equipment, tools or measuring devices, household appliances,

musical instruments, office equipment, personal accessories, radio and sound entertainment devices, optical viewing equipment, etc.

## 20. The Federal Courts

This system is basically a three step process. The first step is the U.S. District Court; the second, the U.S. Court of Appeals; and the third, the U.S. Supreme Court.

### a. U.S. District Courts

- (1) There are U.S. District Courts in every State (the larger States have several) and in the District of Columbia, Guam, Puerto Rico, the Canal Zone and the Virgin Islands.
- (2) The U.S. District Court has exclusive jurisdiction in bankruptcy, maritime and admiralty, patents, copyright penalties, fines under Federal law, and proceedings against consuls and vice consuls of foreign states. In addition it has jurisdiction when the United States or a national bank is a party, and in cases where the law specifically states that the U.S. District Court has original jurisdiction.
- (3) The U.S. District Courts have concurrent jurisdiction with State courts on "Federal questions" when the dispute arises under the Constitution, laws, or treaties of the United States; disputes between citizens of different States; one U.S. citizen and one citizen of a foreign state; or a citizen and a foreign state.
- (4) The U.S. District Court has broad criminal jurisdiction over all offenses against the laws of the United States. When both Federal and State laws are violated by one committing a crime, the offender is subject to prosecution in both the Federal and State courts for the separate crimes.

- (5) The administrative office of the U.S. Courts has its office in Washington, D.C., and performs the administrative duties for the Federal court system.
- (6) The files of the clerk's office of a U.S. District Court are not as complex as those of a State court of original jurisdiction. For the investigator the most important records in the custody of a clerk of a U.S. District Court are the case records. These records consist of the files (case papers), the minutes, and the dockets.
- (7) The files consist of the pleadings, process, and written orders and judgments of the court and such other papers as pertain directly to the case.
- (8) The minutes are the record, in summary form, of what happened during the proceedings before a judge in open court or in chambers. The minutes in some courts are an integral part of the file.
- (9) The docket sheet on each case is a chronological summary, not only of what takes place in court but also of the papers in the file. The docket sheet can be very valuable to an investigator who is looking for only one item in a huge file. In most U.S. District Courts there are separate sets of dockets for bankruptcy and civil and criminal cases. Some clerks have found it to their advantage to keep a set of miscellaneous dockets, but most clerks keep the docket sheets for closed cases in a separate area.
- (10) The clerk of a district court will have a record of banking institutions that have been designated as depositories for money of estates in bankruptcy.
- (11) The United States District Courts have jurisdiction to naturalize aliens and maintain copies of the certificates of

naturalization as well as a name index of the individuals naturalized. If an alien elects to change his or her name at naturalization, both the old and new name appears in the index. In addition, a copy of the subject's Application to File Petition for Naturalization appears in the court records. This form (N-400) contains considerable information about the alien being naturalized.

b. Other Federal Courts

To handle particular types of cases, Congress has established special courts. They are described in the Guide to Court Systems as follows:

- (1) Court of Claims--The U.S. Government permits certain claims to be brought against itself in the U.S. Court of Claims.
- (2) U.S. Customs Court--When certain merchandise is imported into the United States, customs duties have to be paid to the U.S. Government. Customs collectors at various ports in the United States classify merchandise and appraise it. When an importer complains on the rate, or that the merchandise was improperly excluded, the U.S. Customs Court is the court to which the case must be brought. Appeals from the U.S. Customs Courts are taken to the Court of Customs and Patent Appeals. This court also reviews certain decisions of the Patent Office and the U.S. Tariff Commission.

State, County, and Municipal Government Records

Because of the different organizational structures in the State, county and municipal governments, no attempt has been made to identify the source for the records listed below:

1. Sale and transfer of property
2. Mortgages and releases

3. Judgments, garnishments, chattel mortgages, and other liens
4. Conditional sales contracts
5. Births, deaths, marriages, and divorces
6. Change of name
7. Auto licenses, transfers, and sales of vehicles
8. Drivers' licenses
9. Hunting and fishing licenses
10. Occupancy and business privilege licenses
11. Building and other permits
12. Court records of civil and criminal cases
13. Parole officers' and probation departments' files
14. Registration of corporate entities and annual reports
15. Registration of noncorporate business entities
16. Fictitious names index
17. School and voter registrations
18. Professional registrations
19. State income tax returns
20. Personal property tax returns
21. Real estate tax payments
22. Inheritance and gift tax returns
23. Wills
24. Letters of administration
25. Inventories of estates
26. Welfare agency records

27. Workmen's compensation files
28. Bids, purchase orders, contracts, and warrants for payment
29. Civil Service applications
30. Minutes of board and agency proceedings
31. Public utility records
32. Health department records
33. State Unemployment Compensation records

## BANK RECORDS

### Types of Banks

Banks are classified primarily by their major services:

1. Commercial Banks (offer businesses and individuals such services as checking accounts, loans, exchange instruments, etc.)
2. Savings banks and savings and loan associations (handle savings accounts and mortgage loans)
3. Trust companies (handle property for others under various types of fiduciary accommodations)

Many banks combine all three services.

Banks are organized under either State or national banking laws.

The basic bank functions are:

1. Receive deposits
2. Pay checks
3. Transfer funds
4. Make loans
5. Collect sundry financial instruments
6. Hold and administer property for others
7. Perform other services, such as safe deposit box rentals

### Importance of Bank Records

Bank records are perhaps the single most important financial source available to you as an investigator. In addition to their use as evidence to prove a criminal violation, they may provide leads on sources of funds, expenditures, and personal affairs.



### Internal Bookkeeping Procedures

Internal banking recordkeeping practices and procedures are not only complex but are constantly changing due to the growing sophistication of computer technology. The nation's banks are moving steadily toward an "electronic funds transfer" system which will eliminate the use of checks. Such a system will automatically transfer money from the account of the purchaser to the account of the seller. The "paper trails" would disappear.

Detailed familiarity with the intricacies of internal bank operations is not essential to you in order to obtain the types of information necessary for your investigations. What is essential is the knowledge that records of customers' transactions are maintained and retained.

### Retention of Records

The provisions of Titles 1 and 11 of Public Law 91-508, Financial Recordkeeping and Currency and Foreign Transactions Act, make it mandatory to retain records of customers' transactions.

U.S. Treasury Regulations, implementing Public Law 91-508, provide, in part, that an original, microfilm, or other copy or reproduction of most demand deposits (checking account) and savings account records must be retained for 5 years. The records must include:

1. Signature cards
2. Statements, ledger cards, or other records disclosing all transactions; that is, deposits and withdrawals
3. Copies of customers' checks, bank drafts, money orders, and cashier's checks drawn on the bank or issued and payable by it

In addition, banks must retain for a 2-year period all records necessary to:

1. Reconstruct a customer's checking account. The records must include copies of customer's deposit tickets.
2. Trace and supply a description of a check deposited to a customer's checking account.

All of the above requirements apply only to checks written, or deposits made, in excess of \$100. It should be noted that most banks find it cheaper to microfilm all pertinent records, including the checks and deposits in amounts less than \$100, rather than sort their records into two categories. Therefore, if a particular transaction is less than \$100 and appears to be of particular interest, there is a strong likelihood that the necessary records to identify the transaction are available.

The Regulations further provide that whatever system banks use to photocopy or microfilm checks, drafts, or money orders, both sides must be reproduced unless the reverse side is blank.

The Regulations also provide that banks maintain their records in a manner so they can be made available, upon request, within a "reasonable period of time."

Public Law 91-508 provides for civil and/or criminal penalties for willful violations of the law.

Detailed information concerning Public Law 91-508 can be obtained from the U.S. Department of the Treasury by requesting, Currency and Foreign Transactions Reporting Act - Statute, Regulations, and Forms, a publication prepared by the Office of the General Counsel and issued in June 1972.

Requests should be addressed to the Deputy Assistant Secretary (Enforcement), The Department of the Treasury, Washington, D.C.

### Bank Records

The bank records which are identified and discussed are limited to those of particular interest to criminal investigators.

1. Signature card

The signature card (figure 1) is the evidence of a contract between the customer and bank.

FIGURE 1

Signature Card

The undersigned enter into this bank-depositor agreement with BANK OF AMERICA National Trust and Savings Association and agree that this account shall be carried by said Bank as a

CHECKING account and that all funds on deposit in said account shall be governed by said Bank's by-laws, all future amendments thereof, all regulations passed or hereafter to be passed by its Board of Directors pursuant to said by-laws, and by all rules and practices as to interest and service charges of said Bank relating to said account. Undersigned authorize said Bank to endorse checks, when presented for deposit to said account, if presented unendorsed. Bank is authorized to mail or hold statements as indicated on reverse hereof. Undersigned agree that this agreement shall be governed by the National Banking laws and the law of the State of California. Undersigned further agree that all funds now on deposit or which hereafter may be placed on deposit of said account shall be the property of the undersigned as

INDIVIDUAL  TRUSTEE (See Beneficiary Identification attached, if applicable)

JOINT TENANTS with right of survivorship - who may withdraw funds upon number of signatures indicated below except in the event of conflicting demands of the undersigned, the Bank may require all signatures of the undersigned. Undersigned further agree that in the event of death of any of the joint tenants the survivor(s) will notify the Bank at once.

The Bank is hereby authorized on JOINT TENANCY account to accept and cash, or to deposit to said account all checks payable to any, or all of the undersigned when endorsed by any of us, or one for the other.

Number of signatures required to withdraw funds \_\_\_\_\_ SOC. SEC. NUMBER \_\_\_\_\_

Please Sign

1. Mr./Mrs./Miss \_\_\_\_\_ Signature

2. Mr./Mrs./Miss \_\_\_\_\_ Signature

3. Mr./Mrs./Miss \_\_\_\_\_ Signature

(Continued on Reverse)

	1ST SIGNATURE	2ND SIGNATURE	3RD SIGNATURE
STREET ADDRESS			
CITY			
TELEPHONE			
BUSINESS OR OCCUPATION			
EMPLOYER			
BIRTHPLACE			
MOTHER'S MAIDEN NAME			

Said Bank is hereby authorized to:

MAIL all statements, vouchers and notices to the address indicated above.

HOLD all statements, vouchers and notices until called for, if not called for after 30 days said Bank may mail statements, etc., to the address indicated above. If the above mailed statements, vouchers and notices are returned undelivered, said Bank is hereby authorized to destroy some two (2) years thereafter.

Bank is relieved of all liability for items lost in delivery by U.S. Mail or otherwise, or not called for by the depositor.

FOR BANK USE ONLY			
PREVIOUS BANK/BRANCH	DATE OPENED	OPENED BY	TYPE OF I.D.
			OPENING DEPOSIT \$
			SAVINGS ACCT. NO.
	DATE CLOSED	CLOSED BY	CLOSING \$ BALANCE \$
REASON CLOSED			REVIEWED BY

TEL-100 8-66 (REV.) SIGNATURE CARD: INDIVIDUAL, TRUSTEE OR JOINT TENANCY

When a depositor opens an account, the bank requires that a signature card be signed. By signing the card the depositor becomes a party to a contract with the bank under which he or she accepts all rules and regulations of the bank and authorizes the bank to honor orders for withdrawing funds. For a corporation or a partnership account, the signature card is accompanied by copies of resolutions of the board of directors or partnership agreements naming the persons authorized to draw checks on the accounts.

The signature card is a source of valuable information. Although its form varies, it usually contains such data as banking connections, the date and amount of the initial deposit, etc. The initial deposit traced through the bank's records may disclose a source of income. The identification of the official who opened the account might be significant, especially if the depositor used an alias.

Many banks investigate the banking references given by the new customer. They may also make inquiries of various credit reporting agencies. This information is contained in a correspondence file or a credit file, which may contain comments of the official who opened the account showing information given by the depositor when he or she opened the account.

In banks using ADP (Automatic Data Processing), the signature card also contains an account number assigned to the customer. In tracing information about a subject's transactions with the bank, the account number must be used. If it does not appear on the signature card it can be located in the bank's cross-reference file. These assigned account numbers are encoded on other documents relating to the depositor by means of a system called MICR (Magnetic Ink Character Recognition). The card may also contain the depositor's social security number.

The signature card may define the account as either a regular or a special checking account. The main difference between the two accounts is the service charges made by the

bank. The regular checking account is used mostly by businesses and individuals who maintain large average balances. The special checking account is used by individuals who usually have small account balances.

When requesting the signature card you should check whether the bank maintains any type of central file. Most large banks maintain some type of central file, which lists all the bank's departments with which a customer has had dealings. If the bank has such a file, you need not check with each department to obtain complete information.

It is important to remember that the subject may at one time have had a bank account which was later closed. Requests for information from a bank about a subject should always include a reference to both active and closed accounts. Usually records of closed accounts are maintained in a separate file.

The length of time records are retained varies according to State laws, or the bank's policies if there is no statutory requirement. Therefore, you should not only ask what the bank's retention schedule is but also whether the records have been destroyed.

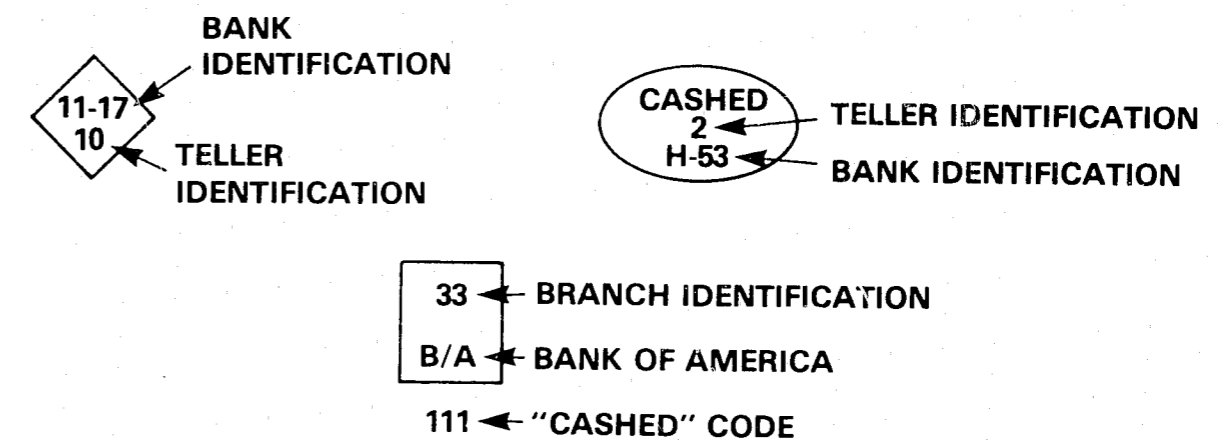
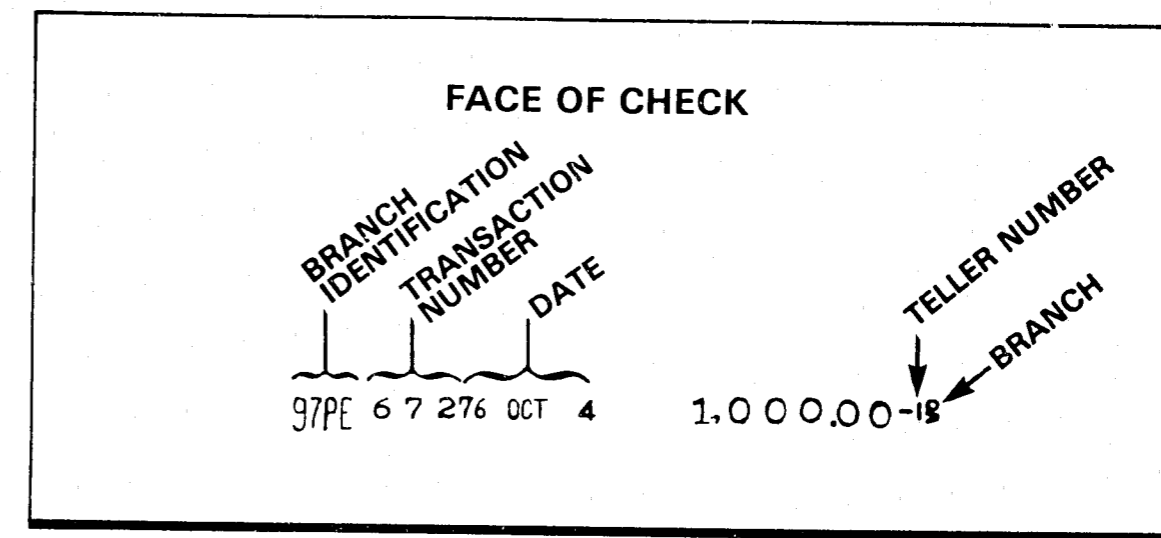
2. Negotiated checks

Canceled checks written by a subject or received from others provide you with much more than amounts, payees, and endorsees.

a. Recognizing "cashed" checks

Of particular interest to you are the checks which have been cashed. All banks use a series of codes or symbols which they usually imprint on the front of a check to show that it has been "cashed." Figure 2 shows some examples of cashed codes used by banks. The specific codes used in your particular area can be obtained locally.

FIGURE 2



EXAMPLES OF "CASHED" CODES USED BY BANK  
(IN EACH INSTANCE THE CODES ARE STAMPED  
ON THE FACES OF CHECKS)

b. Tracing checks

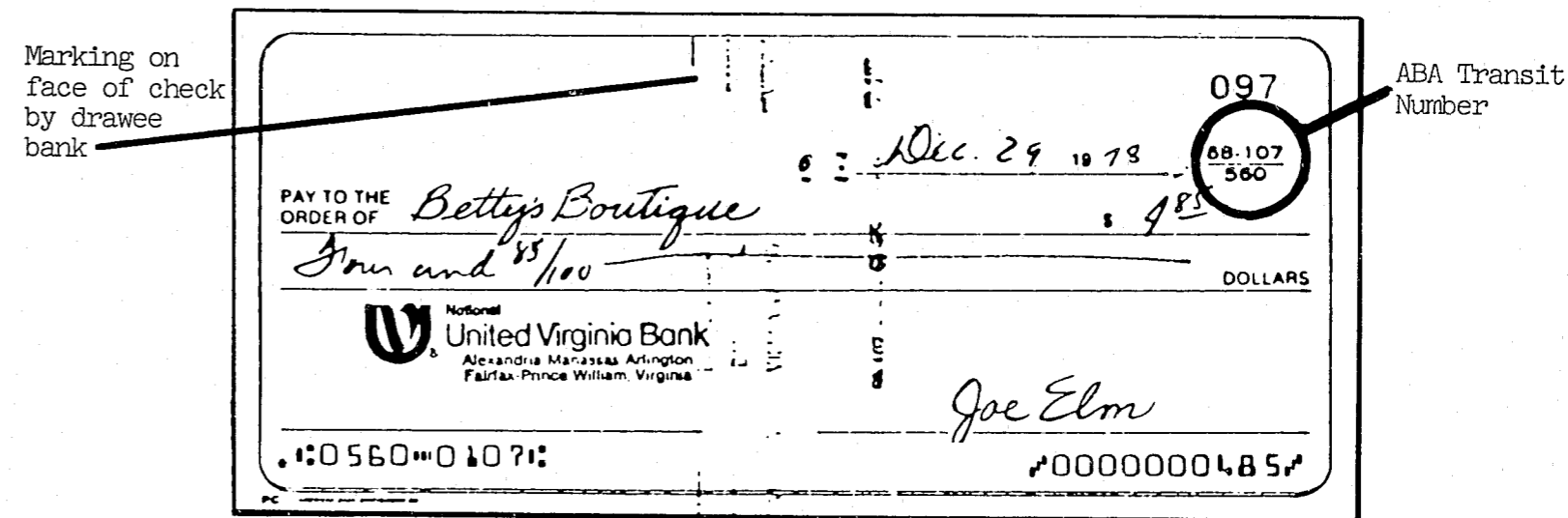
Tracing checks is facilitated by the use of bank identification symbols.

As stated earlier, you do not have to understand the internal bookkeeping procedures used by banks. However, the concept of bank identification symbols should be of interest.

All checks printed for banking institutions contain an "ABA transit number" (figure 3). These numbers represent an identification code developed by the American Bankers Association. The ABA transit number allows for the routing of a check back to the bank of origin. In the process of routing a trail is left which enables the tracing of each specific item.

The ABA transit number identification code is illustrated in figure 4.

See figures 5 and 6 for a complete listing of the ABA Numerical System Identification Code.



Marking on face of check by drawee bank

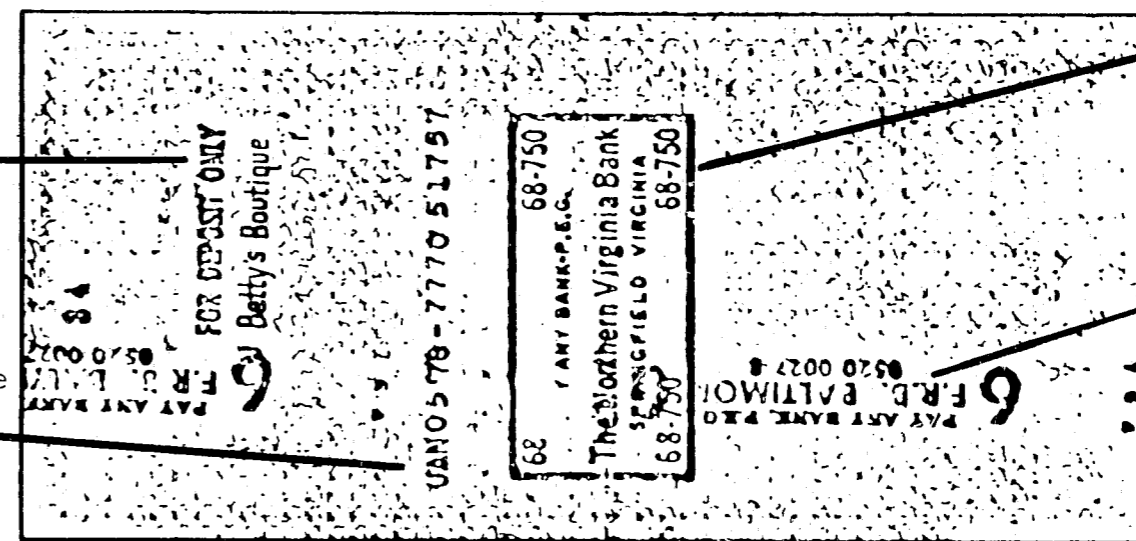
ABA Transit Number

FRONT

2-39

Depositor; bank of deposit

Proof machine notation, including date of deposit



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

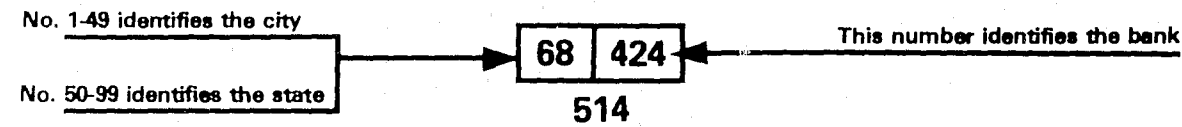
Endorsement of receiving Federal Reserve Bank at the time check forwarded to drawee bank

BACK  
NEGOTIATED CHECK

4124-05

FIGURE 4

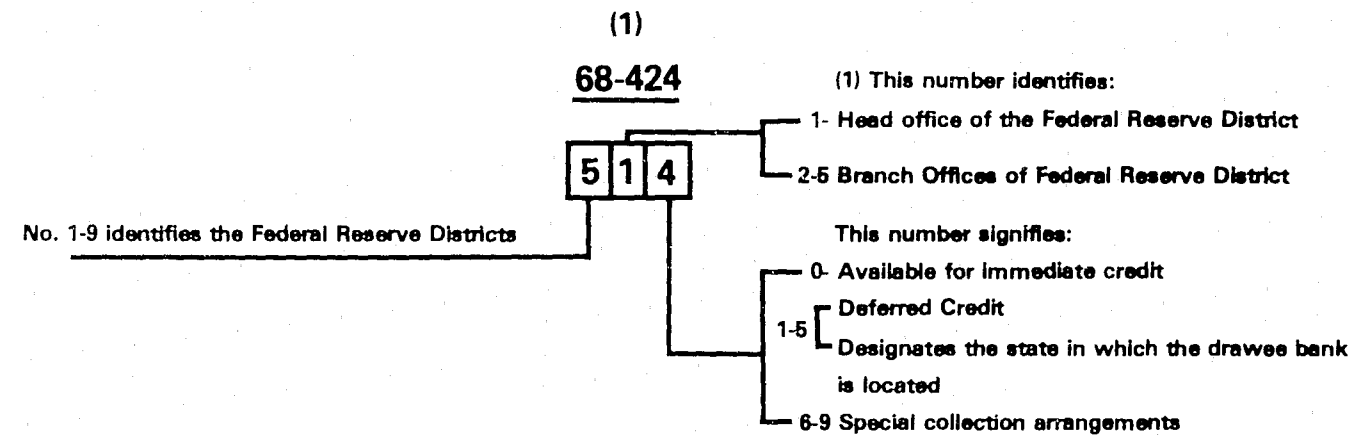
**AMERICAN BANKERS ASSOCIATION CODE**  
Also known as ABA Transit Number



Thus the number 68-424 is identified as follows:

- 68- State of Virginia
- 424- Arlington Trust Co., Arlington, Virginia

**FEDERAL RESERVE ROUTING CODE**



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

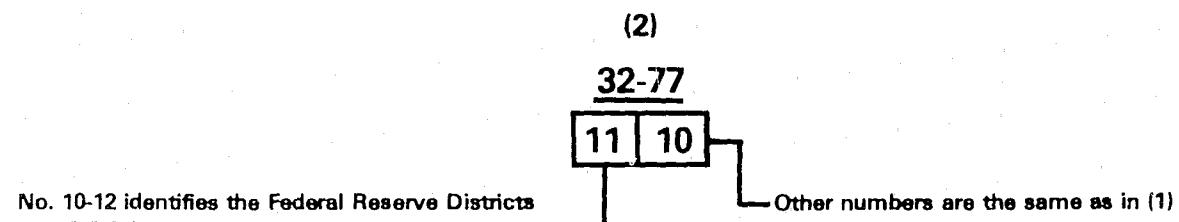


FIGURE 5

**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		
		8. Federal Reserve Bank of St. Louis Head Office <i>4-4</i> <i>810</i>
		Little Rock Branch <i>81-13</i> <i>820</i>
		Louisville Branch <i>21-59</i> <i>830</i>
		Memphis Branch <i>26-3</i> <i>840</i>
		9. Federal Reserve Bank of Minneapolis Head Office <i>17-8</i> <i>910</i>
		Helena Branch <i>93-26</i> <i>920</i>
		10. Federal Reserve Bank of Kansas City Head Office <i>18-4</i> <i>1010</i>
		Denver Branch <i>23-19</i> <i>1020</i>
		Oklahoma City Branch <i>39-24</i> <i>1030</i>
		Omaha Branch <i>27-12</i> <i>1040</i>
		11. Federal Reserve Bank of Dallas Head Office <i>32-3</i> <i>1110</i>
		El Paso Branch <i>88-1</i> <i>1120</i>
		Houston Branch <i>35-4</i> <i>1130</i>
		San Antonio Branch <i>30-72</i> <i>1140</i>
		12. Federal Reserve Bank of San Francisco Head Office <i>11-37</i> <i>1210</i>
		Los Angeles Branch <i>16-16</i> <i>1220</i>
		Portland Branch <i>24-1</i> <i>1230</i>
		Salt Lake City Branch <i>31-31</i> <i>1240</i>
		Seattle Branch <i>19-1</i> <i>1250</i>
1. Federal Reserve Bank of Boston Head Office	<i>5-1</i> <i>110</i>	
2. Federal Reserve Bank of New York Head Office	<i>1-120</i> <i>210</i>	
Buffalo Branch	<i>10-26</i> <i>220</i>	
3. Federal Reserve Bank of Philadelphia Head Office	<i>3-4</i> <i>310</i>	
4. Federal Reserve Bank of Cleveland Head Office	<i>0-1</i> <i>410</i>	
Cincinnati Branch	<i>13-43</i> <i>420</i>	
Pittsburgh Branch	<i>8-30</i> <i>430</i>	
5. Federal Reserve Bank of Richmond Head Office	<i>68-3</i> <i>510</i>	
Baltimore Branch	<i>7-27</i> <i>520</i>	
Charlotte Branch	<i>66-20</i> <i>530</i>	
6. Federal Reserve Bank of Atlanta Head Office	<i>64-14</i> <i>610</i>	
Birmingham Branch	<i>61-19</i> <i>620</i>	
Jacksonville Branch	<i>63-19</i> <i>630</i>	
Nashville Branch	<i>87-10</i> <i>640</i>	
New Orleans Branch	<i>14-21</i> <i>650</i>	
7. Federal Reserve Bank of Chicago Head Office	<i>2-30</i> <i>710</i>	
Detroit Branch	<i>9-29</i> <i>720</i>	

FIGURE 6

**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 Alaska, American Samoa, Guam, Hawaii, Puerto Rico, and Virgin Islands

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 Numbers of Cities in Numerical Order

1 New York, N. Y.	18 Kansas City, Mo.	34 Tacoma, Wash.
2 Chicago, Ill.	19 Seattle, Wash.	35 Houston, Texas
3 Philadelphia, Pa.	20 Indianapolis, Ind.	36 St. Joseph, Mo.
4 St. Louis, Mo.	21 Louisville, Ky.	37 Fort Worth, Texas
5 Boston, Mass.	22 St. Paul, Minn.	38 Savannah, Ga.
6 Cleveland, Ohio	23 Denver, Colo.	39 Oklahoma City, Okla.
7 Baltimore, Md.	24 Portland, Ore.	40 Wichita, Kan.
8 Pittsburgh, Pa.	25 Columbus, Ohio	41 Sioux City, Iowa
9 Detroit, Mich.	26 Memphis, Tenn.	42 Pueblo, Colo.
10 Buffalo, N. Y.	27 Omaha, Neb.	43 Lincoln, Neb.
11 San Francisco, Calif.	28 Spokane, Wash.	44 Topeka, Kan.
12 Milwaukee, Wis.	29 Albany, N. Y.	45 Dubuque, Iowa
13 Cincinnati, Ohio	30 San Antonio, Texas	46 Galveston, Texas
14 New Orleans, La.	31 Salt Lake City, Utah	47 Cedar Rapids, Iowa
15 Washington, D. C.	32 Dallas, Texas	48 Waco, Texas
16 Los Angeles, Calif.	33 Des Moines, Iowa	49 Muskogee, Okla.
17 Minneapolis, Minn.		

Prefix Numbers of States in Numerical Order

50 New York	65 Maryland	83 Kansas
51 Connecticut	66 North Carolina	84 Louisiana
52 Maine	67 South Carolina	85 Mississippi
53 Massachusetts	68 Virginia	86 Oklahoma
54 New Hampshire	69 West Virginia	87 Tennessee
55 New Jersey	70 Illinois	88 Texas
56 Ohio	71 Indiana	89 .....
57 Rhode Island	72 Iowa	90 California
58 Vermont	73 Kentucky	91 Arizona
59 Alaska, American	74 Michigan	92 Idaho
Samoa, Guam,	75 Minnesota	93 Montana
Hawaii, Puerto Rico,	76 Nebraska	94 Nevada
and Virgin Islands	77 North Dakota	95 New Mexico
60 Pennsylvania	78 South Dakota	96 Oregon
61 Alabama	79 Wisconsin	97 Utah
62 Delaware	80 Missouri	98 Washington
63 Florida	81 Arkansas	99 Wyoming
64 Georgia	82 Colorado	

c. MICR (Magnetic Ink Character Recognition)

MICR was developed by the American Bankers Association as a machine language and as a standard in check design to which all banks must conform. Numeric information is printed in magnetic ink on the bottom of bank checks and other documents. This coding is electronically scanned by computers, which convert the magnetic ink notations into electronic impulses intelligible to a computer.

MICR information is printed in groupings called fields (figure 7). On bank checks, the first field on the left is the Federal Reserve check routing code and the next is the ABA transit number. These numbers also appear in the upper right corner of the check. The middle group of numbers, (the account number field) shows the drawer's assigned account number at the bank. The MICR information in these two fields is imprinted on blank checks furnished to the customer. The right field contains a control number used for processing and the amount of the check. The dollar amount of the check should always equal the encoded MICR amount. These two figures should be compared to be sure the subject did not alter the returned check.

As of September 1, 1967, all checks, drafts, and similar items which are not encoded with magnetic ink can no longer be cleared through the Federal Reserve system without special handling and delay.

FIGURE 7

MICR encoded check

STANDARD BANK & TRUST COMPANY 1-987  
210

No. \_\_\_\_\_ Any City, Any State Jan. 11, 196-

PAY TO THE ORDER OF J. R. Drowee \$ 56<sup>70</sup>/<sub>100</sub>

Fifty-six and 70/100 DOLLARS

A. B. DEPOSITOR  
MARY F. DEPOSITOR  
Mary F. Depositor

SAMPLE-VOID

10210009871220084267011  
 CHECK ROUTING SYMBOL    ABA TRANSIT NUMBER    ACCOUNT NUMBER

1042000000567011  
 PROCESS CONTROL    AMOUNT

PREQUALIFIED    POSTQUALIFIED

d. Deposit tickets and credit memorandums

The deposit ticket is the principal source document for crediting the customer's account.

Deposits are first recorded on the deposit ticket or slip (figure 8), which usually segregates currency, coins, and checks. The checks are listed separately. In many localities the depositor writes the ABA number on the deposit ticket or the name of the maker of the check. Either of these may help to identify the source of the check. In other localities the bank writes the ABA number on the deposit ticket and in some banks no identifying data is entered on the deposit ticket.

Regardless of the detail contained on a deposit ticket, bank recordkeeping systems are such that items of deposit can be identified and traced to their source. Unfortunately, the records which enable this tracing may be retained for only 1 to 2 years.

2-44

4124-05

2-46

4124-05

**The First National Bank**  
OF QUANTICO  
QUANTICO, VA.

In receiving items for deposit or collection, this Bank acts only as depositor's collecting agent and assumes no responsibility beyond the exercise of due care. All items are subject to the usual conditions of deposit and collection. Deposits are not payable in full until the maturity of the instrument. Deposits are not to be made in transit, and each correspondent so selected shall not be liable except for its own negligence. This check or the corresponding cash must, upon receipt, be presented to the issuing bank or the corresponding bank, and any time before final payment, whether returned or not, also any item drawn on this bank not paid by a bank of business on this date.

CURRENCY \_\_\_\_\_ DOLLARS  
SILVER CHECKS AS FOLLOWS \_\_\_\_\_ CENTS

PLEASE DO NOT WRITE IN THIS SPACE

TOTAL \$	
----------	--

SEE THAT ALL CHECKS AND DRAFTS ARE ENDORSED  
DEPOSIT TO THE ACCOUNT OF \_\_\_\_\_

DATE \_\_\_\_\_ 19\_\_

Deposit Ticket

DEPOSIT TICKET

JOHN A. DOE  
1000 ANY STREET  
ANYWHERE, U. S. A. 00000

DATE January 30, 19 68

This deposit is accepted subject to verification and under the provisions of the uniform commercial code and the rules and regulations of this Bank.

DEPOSITED IN

**ARLINGTON TRUST COMPANY**  
ARLINGTON, VIRGINIA

CURRENCY	24	00
COIN	1	89
CHECKS LIST SPECIALLY	1 64-1	24 11
	2 1-2	50 00
BE SURE EACH ITEM IS ENDORSED	3 15-1	435 18
	4	
TOTAL FROM OTHER SIDE		
TOTAL	535	18

88-424  
514

FOR BANK'S USE ONLY  
No. ITEMS

0 00 0000011 5000 0000005351811

PDT-REV. 2

FIGURE 8

In working with deposit tickets, remember that sometimes the depositor "splits" the deposit: only part of the checks presented are actually deposited. In these instances the customer either receives cash or requests part of the proceeds to be applied to a note or interest due the bank. In some instances it may be important to determine the total amount of cash and checks presented for deposit before deductions. When this is the case, learn from the bank how split deposits are handled.

e. Credit memorandums

Telegraphic transfers. Based on a customer's instructions, funds may be transferred from one bank account to another by wire or telephone. Although the transfer shows as a deposit to the customer's account by means of a credit memo, the detailed records of transfers are usually kept in a special file.

If the subject of an investigation has accounts with banks in several cities, the possibility of obtaining funds by wire should be investigated.

Other departments within a bank can credit the depositor's account for funds collected, such as the proceeds of loans, items held by the bank for collection, etc.

Note that items held by the bank for collection are not always deposited to the customer's account but remitted directly to the customer.

f. Time deposits

Savings accounts are referred to as time deposits because they are not as readily available to the customer as deposits to a checking account. Funds in a savings account may be subject to a 30 day notice of withdrawal.

Certificates of deposit are funds left with a bank for a definite period of time for example, 2 years, and draw a higher rate of interest than the ordinary savings account. When these are cashed in advance, Federal Reserve regulations require a hardship reason.

Bank Ledgers and Bank Statements

Each bank has a bookkeeping department which maintains customer accounts. The basic processes performed in the bookkeeping department are sorting checks to prepare them for posting; posting checks to customers' accounts; posting deposits and other credits; taking care of special items



such as, stop payments; and proving and balancing with general ledger totals for various types of accounts.

The manner in which this work is performed depends on whether a manual or ADP system is used. Accordingly, different types of records are generated by the two systems. However, a customer's account can be reconstructed under either system.

Bank Ledger Cards--Manual System

Ledger cards are the basic records produced by any manual system. They show all checks, deposits, and other transactions affecting customers' accounts. Ledger cards are the customers' monthly statements. The bank keeps the ledger cards and second or duplicate copies of the customers' statements. Some banks microfilm these records and also the checks returned to the depositors with the monthly statements.

Ledger Card  
**THE CITY BANK**  
of Washington, D.C.

FIGURE 9

In  
Account  
With TASA TARBUSH

CHECKS		DEPOSITS	DATE	NEW BALANCE
Balance Brought Forward From Last Statement			FEB 1	6,760.82* S
FEB 2	40.00		FEB 2	6,720.82*
		440.00CM	FEB 2	7,160.82*
FEB 3	44.00		FEB 3	7,116.82*
FEB 4	558.41S		FEB 4	6,558.41*
FEB 6	1.50SC		FEB 6	6,556.91*
FEB 7	24.60		FEB 7	6,532.31*
FEB 8	2,000.00		FEB 8	4,532.31*
FEB 9	85.75RT		FEB 9	4,446.56*
FEB 10	4,447.21		FEB 10	65 OD
		6,000.00	FEB 10	5,999.35*
FEB 11	44.00	630.20		
		20.56		
FEB 11	33.87	3.31		23.67
FEB 11	35.21	4.00		85.00
FEB 11	33.84	44.80		3.30
FEB 11	4.60	5.50		3.00
FEB 11	4.47	5.50		89.00
FEB 13	54.00		54.00EC	FEB 11
FEB 14			85.00	FEB 13
			20.00CM	FEB 14
FEB 15	2.00SC			FEB 14
FEB 16	64.00DM			FEB 15
FEB 17	33.00CC			FEB 16
			20.00CM	FEB 17
FEB 18	4.00	66.00		FEB 17
FEB 18	26.72	33.75		FEB 18
FEB 20			55.00	FEB 18
FEB 21EC	55.00			FEB 20
FEB 22	3,000.00			FEB 21
FEB 23	1,576.00			FEB 22
FEB 24	000.00		EC 300.00	FEB 22
FEB 25DM	2.00			FEB 23
			50.00	FEB 23
FEB 27	3.00	67.00		FEB 24
		21.00		FEB 24
				FEB 25
				FEB 25
				FEB 25
				FEB 27

EC—Error Correct  
DM—Debit Memo  
LS—List  
SC—Service Chg  
CC—Cert Check  
RT—Return Check  
IN—Interest Coll  
CM—Credit Memo

PLEASE EXAMINE AT ONCE  
Pass book should be presented to obtain  
statement. If no errors are reported  
in thirty days the account will be  
considered correct.  
NOTIFY PROMPTLY OF CHANGE OF ADDRESS

Bank Statements--ADP System


In an automated system no historical ledger cards are produced. This is the fundamental difference from bookkeeping records produced under a manual system. However, in the ADP system, statements are produced periodically (generally monthly) for checking accounts. The bank has either microfilm or duplicates of all statements. There are two basic types of statements: detailed statements (figure 10), similar to bank ledger cards, and the summary or "bobtail" statements (figure 11).

It is easier to trace transactions and records with detailed statements which show all transactions. When only summary or bobtail statements are available, all the transactions making up the statements must be reconstructed.

FIGURE 10

Detailed statement

JOHN A. DOE  
1000 ANY STREET  
ANYWHERE, U. S. A. 00000



ACCT. NO. 0-00-00-000

PLEASE NOTIFY US OF ANY ADDRESS CHANGES

DATE	CHECKS	DEPOSITS	BALANCE
2 JAN 68	138.64		1,648.56
5 JAN 68		307.80	1,956.36
8 JAN 68	3.84		1,952.52
10 JAN 68	172.90DM	182.70	1,896.32
11 JAN 68	1.44		1,894.88
12 JAN 68	68.40		1,826.48
16 JAN 68	12.31	591.33	2,417.81
	64.08	220.50	2,472.98
17 JAN 68	15.00		2,044.76
18 JAN 68	6.07		2,011.29
19 JAN 68	112.63		1,898.66
	655.98	932.06	2,174.74
22 JAN 68	25.00		1,848.21
	170.00		1,712.44
23 JAN 68	24.56		1,612.44
24 JAN 68	100.00		1,690.24
25 JAN 68	220.00	297.80	1,988.24
26 JAN 68		298.00	1,744.07
29 JAN 68	95.77	535.18	2,279.25
30 JAN 68			2,277.33
31 JAN 68	1.92		2,276.43
31 JAN 68	.90SC		

PLEASE EXAMINE AT ONCE AND REPORT ANY ERROR TO BANK'S AUDITOR. IF NO ERROR IS REPORTED WITHIN TEN DAYS, ACCOUNT WILL BE CONSIDERED CORRECT. ALL ITEMS ARE CREDITED SUBJECT TO FINAL PAYMENT.

**FOR BANK BUSINESS ONLY**

29	61	40	90	2,159	3.20	2,159
----	----	----	----	-------	------	-------

00 - OVERDRAWN BALANCE  
CC - CERTIFIED CHECK  
DM - DEBIT MEMO  
SC - SERVICE CHARGE  
EC - ERROR CORRECTION  
RT - RETURN ITEM  
SP - STOP PAYMENT FEE

YOUR BALANCE	WAS	NO.	TOTAL	LESS SERVICE CHARGE	NO.	TOTAL	MAKING YOUR BALANCE
30 DEC 67							31 JAN 68
1,787.20		29	2,875.24	.90	8	3,365.37	2,276.43

SEE REVERSE FOR RECONCILEMENT

FIGURE 11

Bobtail statement

THE UNIVERSAL NATIONAL BANK										
STATEMENT OF YOUR PERSONAL CHECKING ACCOUNT										
ACCOUNT NO.	DATE AND BALANCE ON LAST STATEMENT			DEPOSITS AND OTHER ITEMS ADDED						
	MONTH	DAY	YEAR	AMOUNT			AMOUNT			NUMBER
0650110	4	01	58	\$	222	07	\$	528	62	3
CHECKS AND OTHER ITEMS CHARGED		SERVICE CHARGES			DATE AND BALANCE OF THIS STATEMENT					
AMOUNT		NUMBER	CHECK FEE	STATEMENT CHG.	MONTH	DAY	YEAR	AMOUNT		
\$ 54360		14	\$ 140	\$ 25	5	01	58	\$ 20544		

F J WESTLAKE  
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.

accounts, stock, real property, or other assets. Because they can be held indefinitely, subjects sometimes purchase cashier's checks instead of keeping large amounts of currency. In reconstructing a subject's transactions with cashier's checks, be sure that all checks are accounted for because subjects sometimes exchange previously purchased checks for new ones.

FIGURE 12

Cashier's Check

Savings Account Statements

Under a manual system, most banks use ledger cards similar to checking accounts to maintain records of savings accounts. A few banks use a system in which statements are mailed to depositors at stated intervals.

In an ADP system the procedure for reconstructing a savings account is similar to that used for checking accounts. In some instances copies of periodic statements are available to expedite the process; if not, the account must be reconstructed item by item.

Exchange Instruments

Exchange instruments are vehicles by which the bank transfers funds. They are cashier's checks, bank drafts, traveler's checks, bank money orders, and certified checks.

1. Cashier's checks--Checks issued by the bank (figure 12). These checks, also called treasurer's checks when issued by a trust company, are frequently an excellent lead to other bank

The RIGGS NATIONAL BANK  
of WASHINGTON, D. C.

15-3  
511  
353493

Washington, D.C. 9 February

Pay to the order of \_\_\_\_\_

Income Revenue Service

15 Dollars

**CANCELLED**

**CASHIER'S CHECK**

09500001000031050197553

AUTHORIZED SIGNATURE

2. Bank drafts--Checks drawn by the issuing bank on its account with another bank (figure 13). Often this account is in the area where the purchaser desires to make a payment. Bank drafts may also be used when a subject does not want to carry a large amount of cash.

FIGURE 13

Bank Draft

The RIGGS NATIONAL BANK  
of WASHINGTON, D. C.  
WATERGATE OFFICE

1-12  
210 B

Washington, D.C. No. WG 37

Pay to the order of

200.00 Dollars

CHEMICAL BANK NEW YORK TRUST COMPANY  
20 PINE STREET  
NEW YORK, N. Y.

AUTHORIZED SIGNATURE

⑆0210⑆0012⑆ 311⑆003087⑆

The local bank that sold the checks may keep a copy of the sales order from which the serial numbers can be obtained. If the numbers are not available, the issuing bank may be able to supply the information if they know the date the checks were purchased. The canceled checks may be obtained from the American Express Company or other issuing banks.

A subject may purchase large amounts of traveler's checks from one bank and deposit them in another to avoid arousing suspicion by having the deposit ticket reflect cash.

3. Traveler's checks--Checks issued in predetermined amounts by the American Express Company and several large United States banks (figure 14). Local banks purchase them from issuing companies or U.S. banks and then sell them to the public. Traveler's checks require two signatures of the purchaser: one when purchased and the other when cashed.

All accounting for and tracing of traveler's checks is done by serial numbers. Usually the issuing company keeps records of traveler's checks sent to them by the selling bank.

**CONTINUED**

**1 OF 3**

FIGURE 14

Traveler's check

FIRST NATIONAL CITY BANK NEW YORK TRAVELERS CHECKS PURCHASE AGREEMENT		QUANTITY	\$	CHECK NUMBERS - FROM	TO (INCL)	U.S. \$ TOTAL
I, the undersigned purchaser, have read carefully and hereby subscribe to the Purchase Agreement on the reverse side. PURCHASER'S SIGNATURE _____ NAME _____ HOME ADDRESS _____ PRESS PEN FIRMLY			10			
			20			
			50			
			100			
			500			
			1000			

ORIGINAL - SEND TO FNCB

TOTAL SALE  
TOTAL COMMISSION  
AMOUNT COLLECTED FROM PURCHASER  
AMOUNT DUE TO FNCB

NO. \_\_\_\_\_ DATE OF SALE \_\_\_\_\_

SIGNATURE \_\_\_\_\_

SPECIMEN                      0                      123-456-789

**FIRST NATIONAL CITY BANK**  
NEW YORK, N.Y., U.S.A.

WILL PAY TO THE ORDER OF  
**SPECIMEN**

TWENTY DOLLARS UNITED STATES CURRENCY

SPECIMEN

COUNTERSIGNATURE - MUST BE AFFIXED IN THE PRESENCE OF THE PERSON CASHING THIS CHECK \_\_\_\_\_ DATE \_\_\_\_\_

1:02100008: 123456789

- Bank money orders--Similar to cashier's checks, but are usually for small amounts (figure 15). Many banks use money orders for small amounts and cashier's checks for larger amounts. Like cashier's checks, money orders may be used by subjects who do not want to use cash.

FIGURE 15

Bank money order

CUSTOMER'S RECORD COPY OF REGISTER PERSONAL MONEY ORDER DRAWN ON  
*The Riggs National Bank* 15-3

REGISTER PERSONAL MONEY ORDER BANK'S REGISTER COPY  
*The Riggs National Bank* 15-3

REGISTER PERSONAL MONEY ORDER

**The Riggs National Bank**  
OF WASHINGTON, D. C.  
1503 PENNSYLVANIA AVE., N. W.  
WASHINGTON, D. C. 19 No. 374471

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

04 OCT 1964 \$ 20.00

NOT VALID OVER \$200.00

SIGNATURE \_\_\_\_\_  
ADDRESS \_\_\_\_\_

# 374471 # :05110003: 0109600010

SAVE THIS RECORD

- Certified checks--Customer's check on which "certified" is written across the front of the checks by the bank. This certification is a guarantee that the bank will pay the checks. Certified checks are liabilities of the bank and, when paid, are kept by the bank. These checks are immediately charged against the customer's account by means of debit memorandums. Customers get copies of the debit memorandums with their bank statements. Some

banks permit customers to obtain the original checks by surrendering the debit memorandums.

Information about bank exchange items is maintained by means of a register record which may be a separate register for each type or one register with separate columns for each kind of exchange item. Banks often use multicopy forms to issue these instruments. When the item is paid, it is transferred from the outstanding file to the paid file.

Issuing exchange instruments under an ADP system is not very different from a manual process, but under ADP all reference to the instrument must be made by check number. A master file of outstanding exchange instruments is kept on punchcards or magnetic tape. When the instrument is presented for payment it is matched against the outstanding file and removed from it. Printouts are made showing the exchange instrument number and amount. You must obtain the instrument number from either the bank's copy or the canceled document itself; and, to trace payment of the instrument, you must know the date it was paid.

Bank exchange instruments are often purchased with currency; therefore, they may be good sources of information about a subject's currency transactions.

### Loans

This function of a bank is often an important source of information regarding a subject. In keeping records of the loans, the collateral that secures them, and the results of (bank) credit investigations, a bank has a wealth of information that can prove to be very important to an investigation of a subject's affairs.

When a bank makes a commercial loan to an individual it requires a detailed statement of the assets and liabilities of the borrower (figures 16(a) and (b)). The loan file also includes the results of credit inquiries showing paying habits, amounts of loans, and present unpaid balances.

Basic records maintained by a bank credit department are:

1. The credit or loan file contains the loan application, financial statement, and general economic history of the subject.
2. In the liability ledger, loans to a customer are posted on one page to show the liability to the bank at both the present time and the past. These sheets contain information such as the loan date, note number, amount of the loan, interest rate, due date, and payments.
3. The collateral register usually contains a complete description of the items pledged as securities for loans. Records of such collateral can provide valuable information about a subject's assets.

Borrower's financial statement  
(front)

FIGURE 16(a)

NAME \_\_\_\_\_ (SPOUSE) \_\_\_\_\_  
 Occupation or Business \_\_\_\_\_  
 Home Address \_\_\_\_\_ Business Address \_\_\_\_\_

To ARLINGTON TRUST COMPANY, INC., Arlington, Va.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

ASSETS				LIABILITIES			
Cash on hand				Notes payable to banks—(Itemize on back)			
Cash on deposit Arlington Trust				Notes payable to others			
Cash on deposit other Banks				Open accounts payable			
Notes Receivable (good)				Mortgages or liens on real estate			
Accounts Receivable (good)				Taxes			
Real Estate (See Supplemental Sheet)							
Equipment and Office Furniture used in business							
Household Furnishings and Other Personal Property							
Stocks and Bonds (Itemize reverse side)							
1st and 2nd Mortgages—(Itemize reverse side)							
Cash Surrender Value Life Insurance							
Automobiles							
				Total liabilities			
				Net worth			
TOTAL				TOTAL			

SCHEDULE OF LIFE INSURANCE CARRIED:

Face Amount	Name of Company	Beneficiary	Cash Surrender Value	Loans
\$			\$	\$

State annual net income from real estate and securities \_\_\_\_\_ \$  
 State annual income from business or profession \_\_\_\_\_ \$  
 Salary per annum \_\_\_\_\_ \$  
 Other income \_\_\_\_\_ \$  
 Amount of liability insurance: Auto \$ \_\_\_\_\_ Property \$ \_\_\_\_\_  
 Give details of contingent liability of any kind or nature, as endorsed or guarantor, or accommodation endorser \_\_\_\_\_  
 Are any of your assets, other than real estate, pledged or hypothecated in any way? \_\_\_\_\_  
 Are you a partner in any firm? \_\_\_\_\_

TAYLOR'S INC (over)

Borrower's financial statement  
(back)

FIGURE 16(b)

STOCKS AND BONDS:

Number of Shares	Name of Company	Kind of Stock or Description	Market Values	If pledged as security state amount of loan
			\$	\$

BANKS OR FINANCE COMPANIES WHERE CREDIT HAS BEEN EXTENDED

Name of Company	Branch	High Credit	Amount Owning	Terms
		\$	\$	\$

FIRST MORTGAGES OR FIRST TRUST NOTES (as shown on asset side of statement):

Property	Street and Number	Lot	Sq.	Total Trust	Amount Owned
				\$	\$

SECOND MORTGAGES OR SECOND TRUST NOTES (as shown on asset side of statement):

Property	Street and Number	Lot	Sq.	Total 1st	Total 2d	Amount Owned
				\$	\$	\$

REFERENCES: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein. In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made above prove to be untrue, or if the undersigned fails to notify you of any material changes as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you. I further certify that I owe no other taxes except as indicated on this statement.

Date signed \_\_\_\_\_, 19\_\_\_\_ Signature \_\_\_\_\_



Check Credit Loans

Check credit is another loan service more and more banks are offering under various names, such as, "Redi Credit" and "Instant Credit." Under a check credit plan, the bank agrees to extend credit to a customer up to a maximum amount. The customer writes a check for any amount up to the maximum. If that amount is not in the checking account, the resulting overdraft is set up as a loan. The bank then bills the customer for the loan.

Another plan is a specialized checking account used only when checks are written up to a predetermined amount under a loan agreement; the outstanding balance is treated like an installment loan by the bank. Copies of loan agreements and statements for both plans can be obtained from the bank files.

Credit Cards

Banks are doing an increasing business in credit cards. Under bank credit card plans, the cardholder can charge purchases at stores, restaurants, and other places which agree to accept the charges. The cardholder is billed monthly for purchases. In most plans, the cardholder can elect to pay the entire balance in one payment or pay in installments under arrangements similar to an installment loan account. The charge plan records you need are the application for a card and the bank's copies of monthly statements sent to the cardholder. In some banks, copies of the individual charges are also available. The monthly statements and/or individual charge documents listing the stores where the cardholder has made purchases can furnish valuable leads to the spending habits of the subject.

Most banks offering credit card plans are affiliated with a national credit card system, for example, BankAmericard (now known as VISA) and Master Charge. Figure 17 is a sample monthly statement issued by BankAmericard.

2-62

4124-05

2-63

4124-05

BANKAMERICARD STATEMENT					NOTICE SEE REVERSE SIDE FOR IMPORTANT INFORMATION		
4368 110 388 839		MAY 1976		1000			
Notice—See accompanying statement for important information regarding your rights to dispute billing errors.							
TYPE OF TRANSACTION		DESCRIPTION OF CHARGES AND CREDITS			AMOUNT		
PREV BAL		PREVIOUS BALANCE FROM LAST STATEMENT			00		
PURCHASE	04 10	JAMES RIVER BRASS SHOP	RICHMOND	VA	44 20		
PURCHASE	04 17	HOFMEIERS 40	RICHMOND	VA	9 35		
PURCHASE	04 20	DRUG FAIR 161	RICHMOND	VA	15 67		
NEW BAL		NEW BALANCE			69 22		
		MINIMUM PAYMENT DUE			10 00		
TYPE OF CREDIT	What kind of credit is it?	How long has it been used?	How much has been used?	FINANCE CHARGE	Annual Percentage Rate	Billing Period	Annual Percentage Rate
BankAmericard	1.00	17.00	0.00	0.00	0.00	05-20-76	
Master Charge	1.00	17.00	0.00	0.00			
Other	1.50	18.00	0.00	0.00	5-21-76	1 OF 1	0.00

BankAmericard statement

FIGURE 17

The first four digits of the account number located in the upper left corner of the statement identify the name of the member bank. Other credit card companies have similar means of identifying member banks. The identities of the various member banks can be obtained on a local basis.

#### Safe-deposit boxes

When banks rent safe-deposit boxes they are renting private vault space to customers. Since State laws differ, the nature of the relationship varies. Banks keep no record of the contents of safe-deposit boxes and generally do not know what the boxes contain.

The rental contract records identify the renters, the person or persons who have access to the boxes, their signatures, and the dates of the original agreements and later renewals and may contain other identifying information. Some contracts contain the name of the initiating bank officer. The officer's name could be significant if it is necessary to identify the subject (who may have used an alias in renting the box).

The records showing access to the boxes vary from bank to bank. They contain the signatures of the persons entering the boxes and usually the dates and times of entry. The entry records are filed in box number order.

The frequency of entry and the times and dates of entries may be significant and may correspond to the times and dates of deposits or withdrawals from other accounts or to the purchases and sales of securities, property, etc.

## BROKERS AND OTHER SOURCES FOR SECURITIES INFORMATION

Before delving into brokers as a source of information, a brief overview of the securities market is warranted. Securities is one of two basic markets; the other is commodities. Securities involves the buying and selling of stocks and bonds; commodities involves the buying and selling of grain, livestock, etc. Both markets operate under similar structures although the terminologies may differ somewhat. For the sake of simplicity, only the securities market will be discussed here.

### Fundamentals of Securities

#### Stocks

##### 1. Classes

When a corporation is formed, capital stock representing the ownership of the corporation is authorized in the corporate charter. There are two principal classes of stock--common and preferred. If only one class of stock is authorized, it is common stock. The number of shares authorized can be changed by formal approval of the stockholders.

Shares issued and subsequently reacquired by the corporation through purchase or donation are referred to as treasury stock. The number of shares outstanding will always equal the number of shares issued, less the number of shares of treasury stock.

Each stockholder is part owner of the corporation, since each share of stock represents a fractional interest in the corporation. The stockholder is entitled to a stock certificate showing ownership of a specified number of shares of stock in the corporation.

If a stockholder desires to buy more stock, it is not necessary to obtain the permission of the corporation. The stockholder acquires it by purchase in the open market or privately. Conversely, if a stockholder desires to sell shares, he or she cannot demand the corporation to buy the stock. Instead, a stockholder is free to seek a buyer for the stock either in the market or by private sale.

After the sale terms have been agreed upon, the mechanics of transfer are simple. The seller signs his or her name on the back of the stock certificate and delivers it to the buyer or the buyer's broker. A record of all outstanding certificates is kept by the corporation or by its duly appointed transfer agent, often a bank. The transfer agent has a record of the names and addresses of the stockholders and the number of shares owned by each. After determining that the old certificate is in proper form for transfer, the transfer agent issues a new certificate to the new owner. Most companies have a registrar. The duty of the registrar is to double check the actions of the transfer agent to prevent improper issue of stock or fraudulent transfer.

## 2. Rights

A common stockholder may usually subscribe (at a stated discount price) to new issues of common stock in proportion to his or her holdings. This privilege, known as a stock right, is usually offered to stockholders for a limited time. During this period, the stockholders may exercise the right to purchase additional shares under the terms of the offer or may choose to sell the rights. If the stockholder allows the time limit to run out without acting, the rights become worthless.

## 3. Warrants

A stock warrant is a certificate which gives the holder the privilege to purchase common stock at a stated price within a specified time limit or perpetually. Warrants are often issued with bonds or preferred stock as an added inducement to investors. The stockholder may exercise the right to purchase additional shares or choose to sell the warrants.

## 4. Splits

When the price of the common stock of a corporation reaches a high market value, the corporation may choose to bring the price down to a more favorable trading range. To do this, the

corporation splits its shares, that is, it increases the number of shares outstanding without issuing additional stock. If, for example, a stockholder owned 100 shares which had a market value of \$150 per share, a 3:1 stock split would increase the stockholder's shares to 300 and decrease the market price to \$50 per share. Although the stockholder now owns a greater number of shares, the value of the stock and proportionate interest remains unchanged.

## 5. Dividends

A corporation may pay a dividend in cash, in stock, or in property. When cash dividends are paid, the company, or its dividend disbursing agent (usually a bank), sends checks to all the stockholders whose names appear on the books of the company on the so-called record date. A dividend is a prorated distribution among stockholders and when cash dividends are paid they are in terms of so much per share.

Some companies, in order to conserve cash, pay a dividend in their own stock. A stock dividend has an effect similar to that of a stock split in that the stockholder's proportionate share of the ownership remains unchanged. A stock dividend is usually stated as a percentage of the outstanding shares (up to a maximum of 25 percent, above which it is called a stock split).

When a corporation pays a property dividend it is usually in the form of stock of another corporation which has been acquired for investment or some other purpose.

## Bonds

When a corporation or governmental unit wishes to borrow money for some period, usually for more than 5 years, it will sell a bond issue. Each bond, generally of \$1,000 denomination, is a certificate of debt of the issuer and serves as evidence of a loan to the corporation or governmental unit. The bondholder is a creditor of the issuer. A bond pays a stated rate of interest and matures on a stated date when a fixed sum of money must be repaid to the bondholder.

1. Types of bonds

Railroad, public utility, and industrial bonds are called corporate bonds. The obligations of States, counties, cities, towns, school districts, and authorities are known as municipal bonds. U.S. Treasury certificates, notes, and bonds are classified as Government securities. Bonds are issued in two principal forms: coupon bonds and registered bonds.

a. Coupon bonds

Coupon bonds have interest coupons attached to each bond by the corporation which issues it. Because the corporation keeps no record of the owner of the bonds, they are called bearer bonds. On the due dates for the interest, the owner clips the coupons and presents them to the authorized bank for payment. The principal, when due, is payable to the holder or bearer of the bonds.

b. Registered bonds

Registered bonds have the name of the owner written on the front of the bond. The company, or its authorized agent (usually a bank), has a record of the name and address of the owner. When interest is due, it is paid to the bondholder by check.

2. Types of transactions

a. Long transactions

In a long transaction an account holder purchases a security with the expectation that the market price of that security will appreciate or advance.

"Long" simply means ownership of a security.

b. Short transactions

In a short transaction an account holder sells a security he or she does not own with the expectation that the market price of that security will decline.

"Short" signifies a liability position in a security.

3. The securities markets

a. Organized securities exchanges

Securities exchanges or stock exchanges neither buy nor sell securities themselves. An exchange functions as a central marketplace and provides facilities for executing orders. Member brokers representing buyers and sellers carry out these transactions.

The two major exchanges are the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), both located in New York City. While there are approximately a dozen additional regional exchanges (Midwest, Pacific Coast, Philadelphia-Baltimore-Washington, etc.), the NYSE and AMEX together handle more than 90 percent of the trading done through organized exchanges.

If a security is to be traded on an exchange, the issue must be approved for listing by that exchange. Securities traded on the NYSE or AMEX may also be listed and traded on a regional exchange but no security is listed on both the NYSE and the AMEX.

b. Over the counter market

The over-the-counter securities market handles most of the securities transactions that take place in the United States. In fact, its operations are so extensive that the easiest way to describe it is to indicate what it does not do in securities transactions. The over-the-counter market does not handle the purchase or sale of securities that actually occur on securities exchanges, but it handles everything else in the way of securities transactions. Thus, securities not listed on a securities exchange are "unlisted," that is, traded over-the-counter.

Many different types of securities are traded over-the-counter. These include:

- (1) Bank stocks
- (2) Insurance company stocks
- (3) U.S. Government securities
- (4) Municipal bonds
- (5) Open-end investment company shares (mutual funds)
- (6) Most corporate bonds
- (7) Stocks of a large number of industrial and utility corporations, including nearly all new issues
- (8) Securities of many foreign corporations

The over-the-counter market is not located in any one central place. Rather, it consists of thousands of securities houses located in hundreds of different cities and towns all over the United States. These securities houses are called brokers or dealers and are engaged in buying and selling securities usually for their own account and risk.

c. Ownership of securities

There are two principal ways securities are held--in the name of the account holder and in street name. In the first instance the securities owned simply reflect the name of the customer who maintains the account. When securities are held in street name they are registered in the name of the broker. This occurs when securities have been bought on margin or when a cash customer wishes the security to be held by the broker, rather than in his or her own name.

Brokers

The broker is an agent who handles the public's orders to buy and sell securities, usually for a commission. A broker may be a corporation,

partnership, or individual and is often a member of a stock exchange, or a member of a stock exchange/over-the-counter securities firm.

A registered representative (also known as a securities salesperson or account executive) personally places customers' orders and maintains their accounts. While commonly referred to as a broker, a registered representative is usually an employee of a brokerage firm rather than a member.

The broker can furnish virtually all source documents relating to securities account activity. The principal documents available from a broker are:

1. Customer account cards (broker's personal) (figure 18)
2. Applications for account (figure 19)
3. Signature cards and margin agreements (figure 20)
4. Securities receipts (figure 21)
5. Cash receipts (figure 22)
6. Confirmation slips (figure 23)
7. Securities delivered receipts (figure 24)
8. Canceled checks
9. Form 1087 (figure 25)
10. Monthly account statements (figure 26)

Customer Account Card  
(Broker's personal)

FIGURE 18

CLIENT Tom Tirogan ACCT. NO. 40-380X  
 HOME ADD 14291 Hamlet Lane, Justin HOME TEL. 844-1414  
 BUS ADD 1111 Constitution Ave, N.W., Wash. BUS TEL. 555-1212  
 INVESTMENT OBJ growth NAME OF POWER OF ATTORNEY (IF ANY) NO  
 SPECIAL INST prepare schedule D for income tax return

DESCRIPTION	BOUGHT			SOLD			APPROXIMATE	
	DATE	NO OF SHARES	PRICE	DATE	NO OF SHARES	PRICE	PROFIT	LOSS
<u>Sterling Drug</u>	<u>4/17/71</u>	<u>10</u>	<u>22 5/8</u>	<u>6/30/71</u>	<u>10</u>	<u>17 1/4</u>		<u>54-</u>
<u>✓</u>	<u>8/10/71</u>	<u>12</u>	<u>23 1/4</u>					
<u>✓</u>	<u>11/4/71</u>	<u>20</u>	<u>17 1/8</u>					
<u>Dr. Pepper</u>	<u>1/25/72</u>	<u>40</u>	<u>16 1/2</u>	<u>3/15/72</u>	<u>40</u>	<u>23 1/2</u>	<u>280-</u>	
<u>Sterling Drug</u>	<u>7/14/72</u>	<u>6</u>	<u>19 3/8</u>					
<u>Dr. Pepper</u>	<u>5/24/72</u>	<u>15</u>	<u>18 1/4</u>					
<u>Dr. Pepper</u>	<u>11/25/72</u>	<u>22</u>	<u>20 3/4</u>					
<u>Campbell Soup</u>				<u>11/25/72</u>	<u>50</u>	<u>30 1/8</u>		

Form No. 27 P. S. - Unger Stationery & Printing Co., Inc.

Application for account

FIGURE 19

FOLGER NOLAN FLEMING DOUGLAS  
INCORPORATED

TYPE ALL INFORMATION

NEW ACCOUNT APPLICATION

1. WHITE COPY - NEW ACCOUNTS - 2ND FLOOR  
2. YELLOW COPY - R. R.

NAME - MR. MISS I. R. SERVICE	OFFICE 16	ACCOUNT 01362	R.R. 819
RESIDENCE ADDRESS: NUMBER AND STREET 1111 Constitution Avenue, N.W.	<input type="checkbox"/> CASH <input checked="" type="checkbox"/> MARGIN		
CITY STATE ZIP Washington, D. C. 20224	TRUTH IN LENDING LETTER DELIVERED <input checked="" type="checkbox"/>		
HOME PHONE (202) 184-3281 BUSINESS PHONE ---	SOCIAL SECURITY NUMBER 691-36-4177		
EMPLOYER None	DATE October 7, 1974 OVER 21 <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO		
EMPLOYER'S BUSINESS --- CUSTOMER'S OCCUPATION Retired	U.S. CITIZEN <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO COUNTRY OF NON-RESIDENT ALIEN		
IF MARRIED WOMEN - STATE HUSBAND'S NAME, OCCUPATION & EMPLOYER ---	EVER HAD AN ACCOUNT WITH COMPANY? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO		
BANK OR COMMERCIAL REFERENCE AND ADDRESS Fairfax County Ntl. Bank, Yorktowne Branch, Fairfax, Va.	RELATED TO ANY COMPANY OFFICER OR EMPLOYEE? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO WHOM?		
HOW WAS ACCOUNT OBTAINED? <input type="checkbox"/> REFERRAL <input checked="" type="checkbox"/> WALK-IN <input type="checkbox"/> ADVERTISING <input type="checkbox"/> OTHER	HOW LONG HAVE YOU KNOWN CLIENT? Walk-in		
WAS CREDIT CHECK MADE? IF SO, STATE WITH WHOM Yes - Capitol Service Bureau, Washington, D. C.	INITIAL TRANSACTION Rec'd 50 s PYC common		
IF POWER OF ATTORNEY STATE IN FAVOR OF WHOM M. Bierman, Annandale, Virginia	EMPLOYEE OF NYSE, BROKER, BANK, INSURANCE CO., OR TRUST CO.? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO		
SPECIAL MAILING INSTRUCTIONS None	REG. REP. SIGNATURE James A. Milligan PLEASE TYPE REG. REP. NAME James A. Milligan		
	OFFICER'S APPROVAL		
	OFFICER (VOTING) APPROVAL		

INVESTOR'S INDICATED OBJECTIVE: It is understood that this is a general outline and can change from time to time.

COMMENT AS TO INVESTOR'S GENERAL OBJECTIVES

Short to Intermediate Term Gains

STANDING INSTRUCTIONS:

SALES:  PAY PROCEEDS  HOLD FUNDS  TRANSFER & SEND  TRANSFER & HOLD  SEGREGATE

REMARKS: (as directed by client)

FIGURE 20

Signature Card

TO FOLGER NOLAN FLEMING DOUGLAS INCORPORATED  
AUTHORIZED SIGNATURE OF

SIGN HERE J. A. Service KIND OF ACCOUNT MARGIN  CASH

ARE YOU AN EMPLOYEE OF NEW YORK STOCK EXCHANGE, OF A BROKER DEALING IN SECURITIES, OR OF A BANK, INSURANCE OR TRUST COMPANY?  No

OCCUPATION Retired S.S. No. 691-36-4177

CITIZEN OF USA RESIDENT ALIEN  NON-RESIDENT ALIEN

ADDRESS: RESIDENCE 1111 Constitution Ave., N.W., Wash. D.C.

ADDRESS: BUSINESS ---

MAILING INSTRUCTIONS None

TELEPHONE NO RESIDENCE 184-3281 BUSINESS ---

BANK REFERENCES Fairfax County Ntl. Bank, Fairfax, Va,

IF MARGIN OR JOINT ACCOUNT, ALSO SIGN ON REVERSE SIDE. DATE. 10/7/1974

(OVER)

Margin Agreement

Washington, D.C., October 7, 1974, 19.....

FOLGER NOLAN FLEMING DOUGLAS, INCORPORATED

I hereby consent: That all transactions are subject to the rules and customs of the Exchange and Clearing House where executed and to the Securities and Exchange Act and the rules and regulations issued thereunder. That all securities from time to time carried in my marginal account or deposited to protect the same may be loaned or may be pledged by you either separately or together with other securities, either for the sum due thereon or for a greater sum, all without notice to me; That on all marginal business you may close transactions and may sell all securities from time to time carried in my account or deposited to protect the same whenever the margin may be deemed insufficient by you, all without demand for margin, notice of the closing or of sale or of the time or place thereof.

This agreement shall cover individually and collectively all accounts which the undersigned may open or re-open with you, and shall endure to the benefit of your firm, and any successor firm or firms, irrespective of any change or changes at any time in the personnel thereof, for any cause whatsoever, and of the assigns of your present firm or any successor firm, and shall be binding upon the undersigned, and/or the estate, executors, administrators and assigns of the undersigned.

Signed..... J. A. Service

16438 PACKWOOD PRINTING CO FAIRFAX VA PHONE 273-8800

Security Receipt

FIGURE 21

RECEIVED OF: I. R. Service Folger Nolan Fleming Douglas INCORPORATED  
1111 Constitution Avenue, N.W. 725 15TH STREET, N.W.  
Washington, D. C. 20224 WASHINGTON, D.C. 20005  
783-5252

01362-2-819 DATE October 7, 1974

CUSIP NO.	NO. SHARES	SECURITY/DESCRIPTION/NUMBER
263535-10-9	50	POLYCHROME CORP. Common # C-3722468

PER Denise Kelly, cashier

8478 P.P.CO.

FIGURE 22

Cash Receipt

WASHINGTON, D. C. October 8, 1974

RECEIVED OF I. R. Service

Eleven Thousand Six Hundred Thirty-Seven and <sup>35</sup>/<sub>100</sub> DOLLARS

CREDIT YOUR ACCOUNT # 01362-2-819

drawn on Fairfax County Ntl. Bank, Fairfax, Virginia ABA 68-752

FOLGER NOLAN FLEMING DOUGLAS, INC.

\$ -11,637.35-

PER Denise Kelly, cashier

Folger Nolan Fleming Douglas, Incorporated  
725 15TH STREET, N.W.  
WASHINGTON, D.C. 20005  
783-5252

8462 P.P.CO.

STERLING 3-5252

FOLGER NOLAN FLEMING DOUGLAS

INCORPORATED  
725 15TH STREET N. W., WASHINGTON, D. C.

YOU BOUGHT

YOU SOLD

DESCRIPTION

PRICE

100

ZERON INDUSTRIES

65 5/8

MEMBERS  
N Y STOCK EXCHANGE  
AMERICAN STOCK EXCHANGE  
PHILA BALTO STOCK EXCHANGE

EXCHANGE	TYPE ACCT.
1 N Y	CASH 1
2 AMER	MARGIN 2
3 PHILA BALTO	SHORT 3
4 O T C	SPEC SUR 4
5 OTHER	SPEC MISC 5
6 9*	

6562.50	81.00				6643.50
AMOUNT	COMMISSION	INTEREST OR FOREIGN EXCH	TAXES	REG FEE AND/OR POSTAGE	NET AMOUNT

2	819	01362	2
MKT.	S R.	ACCOUNT	TYPE

"ON OTHER THAN ROUND LOTS (NORMALLY 100 SHARES) AN ODD LOT CHARGE IS INCLUDED IN THE PRICE. ON THE N.Y.S.E. AND A.S.E. THIS IS 12 1/4 PER SHARE. IN ALL OTHER CASES AN EXPLANATION WILL BE PROVIDED ON REQUEST."

TRADE DATE		SETTLEMENT DATE		
10	09	10	16	74
MO	DAY	MO	DAY	YR

\* THE CAPACITY IN WHICH WE HAVE ACTED IS INDICATED ON THE REVERSE SIDE

THIS TRANSACTION IS SUBJECT TO AGREEMENT ON REVERSE SIDE.

RETAIN THIS CONFIRMATION FOR YOUR INCOME TAX RETURN.

Confirmation Slip

FIGURE 23

2-76

4124-05



FOLGER NOLAN FLEMING DOUGLAS  
INCORPORATED  
725 FIFTEENTH STREET, N. W.  
WASHINGTON, D. C. 20005

No. 4504

I. R. Service  
1111 Constitution Avenue, N.W.  
Washington, D. C. 20224

ACCOUNT NO. 01362-2-819

WE ENCLOSE CERTIFICATE (S) FOR: DATE Nov. 13, 1974

CERTIFICATE NOS.	SHARES	SECURITY	REGISTERED IN NAME OF
R 1936477	100	du Pont (E. I.) de Nemours	I. R. Service

Kindly Acknowledge Receipt of the Above Securities by Signing and Returning This Letter to Us.

RECEIVED THE ABOVE SECURITIES

DATE 11/16/74 SIGN HERE I. R. Service

2-77

4124-05

Securities Delivered Receipt

FIGURE 24

FIGURE 25

Form 1087

63-0000000  
 Davis & Davis  
 Furks Head Building  
 Providence, Rhode Island 40401

Statement for Recipients of  
**Dividends and Distributions 1973**

Copy B  
 For Recipient

Type or print NOMINEE'S Federal identifying number, name, address and ZIP code above.

1	2	3	4
Gross dividends and other distributions on stock	Dividends not qualifying for exclusion (Included in box 1)	Capital gain distributions (Included in box 1)	Foreign tax paid (Applicable only to taxes eligible for foreign tax credit)
328.94			

RECIPIENT'S identifying number ▶ 691-36-4177

I. R. Service  
 1111 Constitution Avenue, N.W.  
 Washington, D.C. 20224

This information is being furnished to the Internal Revenue Service and appropriate State officials.  
 An "X" in the upper left corner indicates this is a corrected form.

Department of the Treasury—Internal Revenue Service

Type or print RECIPIENT'S name, address and ZIP code above.  
 Form 1087-DIV

STATEMENT DATE  
 MO DAY YR  
 10 31 74

I. R. SERVICE  
 1111 Constitution Avenue  
 Washington, D. C. 20224

... ACCOUNT WITH  
**FOLGER NOLAN FLEMING DOUGLAS**  
INCORPORATED  
 725 15TH STREET N.W.  
 WASHINGTON, D. C.  
 STERLING 3-5252

ADJUSTMENT		BALANCE	
+	-		
		01362	2,819

MEMBERS  
 NEW YORK STOCK EXCHANGE  
 AMERICAN STOCK EXCHANGE  
 PHILA BALTO STOCK EXCHANGE

DATE	BOUGHT OR RECEIVED	SOLD OR DELIVERED	DESCRIPTION	PRICE	DEBIT	CREDIT	BALANCE DEBIT UNLESS MARKED "CR"
Oct 01			Balance Forward				00:00
Oct 07	50		Polychrome Corp.	Rec			
Oct 08			Funds Received			11637.35	
Oct 14	30		Merck & Co.	60 1/4	1844.35		
Oct 14	200		Chesebrough-Pond	24 1/8	4896.50		
Oct 15	50		Polychrome Corp.	Jnl			
			Stock Split 2:1				
Oct 16	100		Zeron Industries	65 5/8	6643.50		
Oct 16			Funds Received			10000.00	
Oct 28	100		E. I. Dupont Denemours	77 3/4	7853.00		
			Closing Balance Oct 31				400.00 CR
			Position				
Oct 31	30		Merck & Co.	Psn			
Oct 31	200		Chesebrough-Pond	Psn			
Oct 31	100		Polychrome Corp.	Psn			
Oct 31	100		Zeron Industries	Psn			
Oct 31	100		E. I. Dupont Denemours	Psn			

**Legend**

- REC - receipt of securities by broker from customer
- DEL - delivery of securities from broker to customer
- JNL - journal entry
- PSN - position: securities of customer remaining unsold or undelivered in account
- STK - stock dividend
- DIV - dividend received or charged
- EXC - exchange of securities
- INT - interest income
- LIEU - cash paid in lieu of fractional shares of a distributed stock dividend
- WTS - stock warrants

NOTICE MONTHLY ACCOUNT STATEMENT

Monthly Account Statements

FIGURE 26

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2-79

4124-05

The two most often used accounts are:

1. Cash: An account that requires securities purchased to be paid in full.
2. Margin: An account that allows securities to be purchased on credit.

Margin is the percentage of the purchase price of a security that the customer must pay. The margin requirement is established by the Federal Reserve Board.

To open a margin account, a minimum of \$2,000 is required. Stock purchased on margin must be registered in street name while in the account.

#### Analyzing Customer Security Account Statements

The customer's security account statement (issued monthly) contains all transactions from the last statement date. These statements are the basic documents used to reconstruct a subject's security position. The following rules are applicable when analyzing security account statements.

1. Buying (entries in all the following columns)
  - a. "Bought or Received"
  - b. "Description" (name of the security)
  - c. "Price or Symbol" (purchase price per share)
  - d. "Debit" (amount of the purchase charged to the customer's account)
2. Selling (entries in all of the following columns)
  - a. "Sold or Delivered"
  - b. "Description" (name of the security)
  - c. "Price or Symbol" (sales price per share)
  - d. "Credit" (proceeds from the sales credited to the customer's account)

When a subject purchases stock he or she has the option of taking "delivery" of the certificates

from the broker or leaving them in the broker's custody.

If the subject takes delivery of the certificates the number of shares would be noted in the "Sold or Delivered" column and the "Date" column would show the date of delivery. In addition, there would be no entry in the "Price or Symbol" column. If there was a price in the "Price or Symbol" column, the entries would reflect a sale rather than a delivery.

If there are no entries indicating delivery of the securities, they are, in fact, being held by the broker and the subject is in what is commonly referred to as a "long" position. Usually the broker will list at the bottom of the customer's December statement a summary of his or her "long" position, that is, a listing of the number of shares of each stock being held for the subject.

#### Transfer Agent

The transfer agent keeps a record of the name and address of each stockholder and the number of shares owned, and checks that certificates presented for transfer are properly canceled and that new certificates are issued in the name of the transferee.

In many small firms, the transfer agent is usually an attorney, a bank, or the corporation itself. In most large firms the transfer agent is a bank. The transfer agent can furnish the following information:

1. Stockholder identification
2. Stockholder position
3. Stock certificate numbers
4. Number of shares represented by certificates
5. Dates certificates were issued or surrendered
6. Evidence of returned certificates
7. Names of transferees and transferors

The principal documents available from the transfer agent are:

1. Stockholder ledger cards
2. Stock certificate(s)

The names and addresses of transfer agents may be found in Moody's or Standard and Poor's, or may be obtained from the main offices of the corporations.

#### Dividend Disbursing Agent

Most large corporations distribute their dividends through agents known as dividend disbursing agents.

The dividend disbursing agent is generally a bank and can furnish the following information:

1. Stockholder identification
2. Stockholder position
3. Amount of dividends
4. Form of dividends
5. Dates paid
6. Evidence of payments

The principal documents available from the dividend disbursing agent are:

1. Canceled checks
2. Forms 1099

It is common practice for separate financial institutions to serve as transfer agent and dividend disbursing agent. However, a single financial institution can serve both functions.

Names and addresses of institutions providing these services can be found in:

1. Securities publications such as:
  - a. Financial Stock Guide Service. This is the most comprehensive service. It includes name changes, mergers, dissolutions, etc., from 1927 to present. It also includes information about Canadian corporations.

b. Moody's Investors Service, Inc.

c. Standard and Poor's Corporation

2. Local brokerage houses

3. Local or main offices of subject corporations

Information or documentation can be obtained by writing directly to the separate transfer agents and dividend disbursing agents.

## LESSON 3

### ACCOUNTING FOR THE INVESTIGATOR

This lesson gives an overview of the art of accounting--the necessity for it and how it is used in the books and records of various business organizations--and sets out some audit techniques. A basic understanding of accounting principles combined with good audit techniques will help you during a financial investigation to identify new leads and discover discrepancies that may exist in a set of books and records.

#### OBJECTIVES

At the end of this lesson, you will be able to:

1. Analyze the balance sheet and income statement and determine their relationship to each other
2. Explain the difference among various business entities and their capital structure
3. Determine which accounts are affected by transactions
4. Trace entries from original source documents into journals, accounts, and ledgers

#### BACKGROUND

##### Why Accounting?

Accounting is more than three thousand years old. Stone and clay tablets containing financial records have been discovered by archeologists in several locations throughout the world. The Roman Empire developed methods of recording and summarizing numerical information. The Romans kept elaborate records for such purposes as keeping track of their military personnel and their military payroll. The American Indian used notches on sticks and strings of beads to denote the accumulation of data.

The art of accounting evolved slowly over thousands of years until trade and business reached a complexity which required something more sophisticated. During the Industrial Revolution in Europe

large pools of capital were needed to finance the purchase of machinery and equipment. Partnerships, joint-stock companies, and corporations evolved to meet this need. New accounting procedures had to be developed for these new business organizations.

While the art of accounting is very old, the profession of accounting, in comparison to other professions, is extremely young.

#### Accounting Personnel

As accounting became more sophisticated, so did the people who used it. Thus it becomes important to the investigator that he or she have some understanding of the duties and functions of the accounting personnel who may be encountered during an investigation. This will assist you, as an investigator, in knowing who to ask what questions.

The internal accounting staff can be viewed as a three tiered hierarchy. At the top is the principal responsible financial officer. This person may have the title of President, Vice President, Treasurer or Comptroller. At any rate, when making initial contact, it is a good policy to seek out the principal financial officer to obtain approval and cooperation. An initial approach at any other level will probably elicit the response "Sorry, we don't give out that information."

The principal financial officer generally will pass you along to the second level, the chief accountant who heads the accounting staff. From this person you can obtain general information about the accounting system, where the records are located, and who is most familiar with them. In the event you are running down some particular item or type of account, the chief accountant will turn you over to the next level, the accounting or posting clerks. These employees are most familiar with the day-to-day entries to the books of account. They can be a big help in tracing items in the books.

Many businesses employ outside accountants whose responsibility is to audit the books and verify the accuracy of a company's financial statements. These outside accountants are generally certified public accountants (C.P.A.'s) who are licensed and

regulated by each state. Often, if for some reason the records of a company are out of reach, it may be possible to get the information sought from interviewing the C.P.A. and examining his or her workpapers.

During the course of an independent audit, the C.P.A. sends letters to customers, creditors, and lending institutions to verify sales, receipts, outstanding balances and cash transactions of the company. These documents are only a part of the C.P.A.'s workpapers. They also contain analyses of the company's individual ledger accounts, comments on internal control, and various computations that become a permanent part of the C.P.A.'s workpapers. Your review of all of these workpapers could provide valuable leads as well as documentary evidence.

#### Definition of Accounting

The American Institute of Accountants has defined accounting as "the act of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof."

#### FORMS OF BUSINESS ORGANIZATION

The proprietorship, also called sole proprietorship, is the simplest to set up and is the most common business form. Usually no legal red tape is involved--the proprietor just commences business. BUT, a license may be required to engage in a particular activity (regardless of whether it is done by proprietorship, partnership, or corporation), such as funeral home, liquor store, or restaurant.

A partnership is created when two or more persons agree to do business together. In a general partnership each partner has authority to participate in the management of the business, although the partnership agreement may divide the management in specific ways (one person handling sales, another bookkeeping). Profits and losses are usually divided equally, although the agreement may specify another division of profits or losses.

A corporation is an entity legally separate from the persons owning it. Corporations are created

by State governments (in a few cases, also by the Federal Government). Actions taken by a corporation are restricted to what is permitted by State corporate law and what is authorized by the charter of the corporation. A corporation is owned by its stockholders (also called shareholders), who hold stock (also called shares) in the corporation. A corporation can own property, buy, sell, enter into contracts, borrow money or take any other business action an individual can take, subject always to the limitations imposed by law and by the corporation's charter.

### Comparison of Forms of Business Organization

<b>Sole Proprietorship</b>	<b>General Partnership</b>	<b>Corporation</b>
<i>Advantages</i>	<i>Advantages</i>	<i>Advantages</i>
Ownership of all profits Ease of organization Freedom of action Minimum of legal restrictions Maximum personal incentive Freedom from tax on business income Ease of dissolution	Larger capital resources than sole proprietorship Better credit standing than single individual More managerial talent than single individual Few legal restrictions High degree of personal incentive Freedom from tax on business income Ease of dissolution	Limited liability of stockholders Very large capital resources possible Ease of transfer of ownership Long or perpetual life Ease of expansion Legal entity distinct from owners
<i>Disadvantages</i>	<i>Disadvantages</i>	<i>Disadvantages</i>
Unlimited liability for business debts Limited capital resources Life ends with death of proprietor	Unlimited liability for business debts Existence ends with death or withdrawal of any partner Restricted transfer of ownership	Tax on business income Extensive legal restrictions and regulations Expenses of organization Possibly limited personal incentive

A limited partnership permits partners to limit their risk to the amount of their investment. Their risk is similar to the limited liability of a stockholder of a corporation. A limited partnership agreement must be in writing (usually a copy of the agreement is filed in the county courthouse, as required by most State laws). There must be at least one general partner, who has unlimited liability. Limited partners may not participate in the management of the firm, although they may meet from time to time to vote on general policies of operation. This form has recently been popular in oil well drilling, cattle feeding, and real estate ventures.

A cooperative is a corporation in which profits are distributed to shareholders not in proportion to the number of shares each owns, but in proportion to the amount of business each shareholder (also called member) does with the cooperative. Unlike in a business corporation, which generally allows one vote per share, in a cooperative each member has one vote.

A mutual company is a type of corporation that has no stockholders. It is common in the fields of life insurance and savings. It is owned by its customers (policyholders or depositors), who may have the right to vote for the directors or may not, depending on the provisions of the charter. If any profits are distributed, they are paid out according to the size of the policy or the size of the deposit.

If Company A holds enough voting stock in Company B to control Company B, Company A is called a holding company (also called the parent company) and Company B is called a subsidiary of Company A. By controlling Company B, Company A can borrow money from Company B at attractive terms (such loans are called upstream loans), sell to Company B at attractive prices or buy at low prices, and enjoy various other benefits. If Company B becomes bankrupt, Company A loses only its investment in stock in Company B, as do other stockholders, if any, holding Company B stock.

A shell corporation is one that has no assets or liabilities. It simply has a charter to do business. Attractions of shell corporations are speed and confidentiality. Original application may take weeks to approve. Names of persons on the

original application for charter to the State government are on record with the Secretary of State and might be investigated before a charter is issued. Names of subsequent stockholders and directors are not on record with the Secretary of State.

## SYSTEMS

The ultimate object of any accounting system is to show, in summary form, the results of transactions. This can be done in many ways. We will discuss the two systems most commonly used: single-entry recording and double-entry bookkeeping.

### Single-Entry Bookkeeping

This is the system that has been used for most of the three thousand years of accounting. It is the simplest form of noting a financial transaction. With the advent of more complex financial organizations, it has declined in use. However, it is still in use by some small businesses. In its most sophisticated form, it is merely the entering of information from all sources in one place--usually in columnar form. In other words, it is a system of accounting for financial transactions without making an effort to balance the records.

### Double-Entry Bookkeeping

This concept in accounting is that every transaction affects two or more accounts with equal debits and credits and is recorded in them. Thus two or more adjustments must be made, never just one. The name "double entry" is derived from this fact.

The object of the double entry system is to show, in summary form, the results of the many transactions and forces affecting a business. To do this requires an organized and convenient system for classifying all business transactions.

## THE FUNDAMENTAL EQUATION

The basic concept of the double-entry system is that every item of value of whatever kind is owned or claimed by someone. This may be expressed in the form of an equation.



Items of Value = Claims

Items of Value--The various things owned by a company are called assets. They include cash, supplies, machinery, furniture, fixtures, land, and other tangible things too numerous to mention. There are many other assets which are not physical things, such as the right to collect money from others, patents, investments, goodwill, etc. To be treated as an asset, the item should be of value to the owner; if it has no value to the owner, it is not the concern of the accounting system.

Claims--There are two kinds of claims against the assets. The first is the claim of the owners for the total value invested. This is called equity, capital, or net worth. This represents the original investment of the owners of a business minus any losses sustained plus any profits retained in the business. In a proprietorship all of the net worth belongs to the proprietor. In a partnership the share of the net worth belonging to each partner is designated. In a corporation the net worth is divided into at least two accounts--capital stock and surplus (or retained earnings). The capital stock account might be divided into preferred stock and common stock.

The second kind of claim arises from those who extended credit to the business. Such claims may be from suppliers, banks, investors, mortgages, etc. The claims of these creditors are known as liabilities.

The previous equation can now be converted to the fundamental accounting equation.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

$$A = L + C$$

Although business transactions affect the composition of one or more of the items in the equation, the total of assets must always equal the total of claims. If the equation is to be maintained, it is impossible to change a single item alone without destroying it. For instance, when an asset is increased, a corresponding adjustment must be made in the equation or it will not balance; either another asset must be decreased, or a liability or net worth increased.

The following table classifies the effects of any business transaction under double entry bookkeeping:

The Change	The Result
Increase in an asset	Decrease in another asset, or Increase in a liability, or Increase in an item of net worth.
Decrease in an asset	Increase in another asset, or Decrease in a liability, or Decrease in an item of net worth.
Increase in a liability	Decrease in another liability, or Increase in an asset, or Decrease in an item of net worth.
Decrease in a liability	Increase in another liability, or Decrease in an asset, or Increase in an item of net worth.
Increase in an item of net worth	Increase in an asset, or Decrease in a liability, or Decrease in another item of net worth.
Decrease in an item of net worth	Decrease in an asset, or Increase in a liability, or Increase in another item of net worth.

All of these transactions are classified into various types of accounts. An account is a heading, or title, pertaining to the various assets, the various liabilities, or factors which affect net worth. The increases and decreases resulting from business transactions expressed in terms of money are recorded in two columns under each of these account headings. The column on the left is called the debit column and the column on the right is called the credit column. "Debit" refers only to the left column of an account; "credit" to the right column. The rules for recording the increases and decreases resulting from transactions are as follows:

Assets

Increases on the left (debit)	Decreases on the right (credit)
Normal balance	

Liabilities and Net Worth (Capital)

Decreases on the left (debit)	Increases on the right (credit)
	Normal balance

Income

Decreases on the left (debit)	Increases on the right (credit)
	Normal balance

Expenses

Increases on the left (debit)	Decreases on the right (credit)
Normal balance	

In analyzing transactions, the following steps should be taken in conformity with the above rule:

1. Determine the accounts affected by the transaction.
2. Determine the effect on each account; that is, increase or decrease.
3. Apply the appropriate designation in the account; that is, debit or credit.

Example 3

EXAMPLES OF DEBIT AND CREDIT BOOK ENTRIES

Example 1

Company Y buys a desk for \$200, paying cash.

ENTRY:

CASH					FURNITURE				
	PR	DR	CR	BAL		PR	DR	CR	BAL
				\$ 500-					\$ 6000-
			\$ 200-	300-			\$ 200-		6200-

Company Y sells \$2,000 in merchandise; \$500 in cash is paid by the customer C.O.D. and balance is to be paid on account.

ENTRY:

CASH					ACCT'S RECEIVABLE					SALES				
	PR	DR	CR	BAL		PR	DR	CR	BAL		PR	DR	CR	BAL
				\$ 600					\$ 950					\$17,000
		\$ 500		1100			\$ 1500		2450				\$ 2000	19,000

A final note - "Anything that is recorded as a debit (credit) in one set of books is recorded as a credit (debit) in somebody else's books."

Example 2

Company Y buys a desk for \$200, paying \$50 cash and \$150 on account.

ENTRY:

FURNITURE					CASH					ACCT'S PAYABLE				
	PR	DR	CR	BAL		PR	DR	CR	BAL		PR	DR	CR	BAL
				\$ 6000-					\$ 500-					\$ 400-
		\$ 200-		6200-			\$ 50-		450-				\$ 150-	550-

## METHODS

There are two methods of accounting: cash basis and accrual basis. However, there are three ways that these methods can be used: (1) cash basis only; (2) accrual basis only; (3) a combination of these methods, called the hybrid method.

Cash basis means that revenues are recorded in the period when the cash collections are received and that the expenses are recorded in the period when the cash is paid out.

(Note: the "pivotal" words are "received" and "paid." In other words, only when you physically have received the collection--not the promise to pay--or have paid the expense do you have the basis for making an entry in the books.)

Accrual basis means that revenues are recorded in the period earned (regardless of when collected) and expenses are recorded in the period incurred (regardless of when cash was disbursed).

The fundamental difference between the cash and accrual bases is in the matter of "timing." Accountants often describe the process of determining periodical net income as a proper "matching" of revenues and expenses by periods. This is achieved by the accrual basis of accounting; it is not achieved by the cash basis of accounting except for those transactions that normally are completed within the given period.

### Example 4

You order \$500 worth of widgets to use for heating in December for delivery in December. However, you do not pay for the widgets until January.

Cash basis method: You would record the \$500 as an expense when paid in January.

Accrual basis method: You would record the \$500 as an expense when incurred (or committed for) in December.

### Example 5

You are in the business of tree removal. You receive an order in April to remove a tree. You

remove the tree for \$190 in April, but the customer does not pay you until June.

Cash basis method: You would record the receipt of the \$190 as income in your books in June when you received the payment.

Accrual basis method: You would record the \$190 as income in April when it was earned.

The hybrid method of accounting is a combination of the cash-basis and accrual-basis methods. It can be used if it is consistently applied and clearly reflects income. It is most commonly used when inventories (items held for resale) are involved. In a small business, it simplifies the recordkeeping because in determining net income only sales and cost of sales accounts are recorded on the accrual basis, while all other accounts are kept on the cash basis. In a small business, the "timing" of incurring expenses and paying them is usually of short duration. There is little distortion of net income; thus, in these circumstances it is an acceptable method. However, it is not acceptable to use the cash basis for recording income and accrual basis for recording expenses because the distortion could be material.

When investigating a small business, you may find it uses the hybrid method for recording transactions. Larger businesses, as a rule, will use the accrual basis method because of the volume and complexity of recording the transactions and such management practices as making future business projections, analyzing cash flow through the business, and realistically costing their product or service.

## THE BALANCE SHEET

To understand the complete accounting cycle, you would begin by studying the balance sheet. The balance sheet is a financial statement depicting at a specific time and in a systematic manner the assets (A), liabilities (L), and capital (C) of a business organization.

The fundamental equation  $A = L + C$  can also be stated  $A - L = C$ . Thus balance sheets can be prepared in two basic forms, report form and account form. The following examples show a

simple set of accounts arranged first by report form (Example 6) then by account form (Example 7).

Example 6

REPORT FORM  
Persimmon Inc.

Balance Sheet  
June 30, 197X

Assets:

Cash	\$ 3,000
Packing Machine	12,000
Delivery Equipment	<u>40,000</u>

Total Assets \$55,000

Liabilities:

Accounts Payable	\$ 5,000
Notes Payable	<u>25,000</u>

Total Liabilities \$30,000

Capital:

Authorized & outstanding 2500 shares @ \$10 per share	<u>\$25,000</u>
--	-----------------

Fundamental Equation A-L=C  
\$55,000 (A) minus \$30,000 (L) = \$25,000 (C)

Example 7

<u>ACCOUNT FORM</u>			
Persimmon Inc.			
Balance Sheet June 30, 197X			
<u>ASSETS</u>		<u>LIABILITIES</u>	
Cash	\$ 3,000	Accounts Payable	\$ 5,000
Packing Machine	12,000	Notes Payable	<u>25,000</u>
Delivery Equipment	<u>40,000</u>	Total Liabilities	\$30,000
		<u>CAPITAL</u>	
		Authorized & outstanding 2500 shares @ \$10 per sh.	<u>\$25,000</u>
Total Assets	<u>\$55,000</u>	Total Liabilities/Capital	<u>\$55,000</u>

Fundamental Equation:  $A=L+C$   
\$55,000 (A) equal \$30,000 (L) plus \$25,000 (C).

You will notice that there are no changes in the figures or in the designation of the groupings under which they fall. These groupings and amounts are simply reorganized in a different form. Regardless of the arrangements, in the general groupings (that is, assets, liabilities, and capital) the relationship of each to the other was not changed. All that changed was the placement of the presentation of the grouping.

Analyzing the Balance Sheet

We have studied the fundamental equation ( $A = L + C$ ) which is the basis for organizing the balance sheet; we have reviewed the forms (report and account) which are most commonly used in balance sheet presentation. Now we are going to take a look at the set up of the balance sheet and the accounts which commonly appear there.

Balance Sheet Heading identifies the business name, sets out the fact it is a balance sheet, and gives the date (the financial picture as it stood on that particular day).

CURRENT ASSETS (HEADING)

Current assets include cash and all other assets which could be converted into cash within one year.

Some examples of current assets are:

CASH

The bills and coins in the business as well as the money on deposit in a bank. These deposits may take the form of savings accounts or checking accounts.

NOTES RECEIVABLE

A formal written promise by a debtor to pay a specified amount of money, usually with interest, at a definite time.

ACCOUNTS RECEIVABLE

Claims against customers arising from the sale of merchandise or services on credit.

ALLOWANCE FOR BAD DEBTS

An estimated amount of accounts receivable which will probably be uncollectible due to nonpayment by a customer of a sale for credit. This account is normally shown as a reduction to accounts receivable.

MERCHANDISE INVENTORY

Goods purchased or produced for the purpose of sale to customers.

PREPAID EXPENSES

Expenses paid in advance such as rent and insurance.

FIXED ASSETS (HEADING)

Those assets not intended for sale and which are used over and over again in order to manufacture the product, display it, warehouse it, or transport it. Some examples of fixed assets are:

FURNITURE AND FIXTURES

The furnishings and fixtures which are owned by the business.

ALLOWANCE FOR DEPRECIATION

The total amount set aside for the decline in the useful value of the fixed assets due to wear and tear from usage and the passage of time. This account is normally shown as a reduction to fixed assets.

DELIVERY EQUIPMENT

The vehicles used to get the goods from the business to the customer.

BUILDING

The physical structure which houses the company.

CURRENT LIABILITIES (HEADING)

All debts of the company which fall due within a 12-month period. Some examples of current liabilities are:

NOTES PAYABLE

A promissory note given by the business to a bank, individual, or other business entity evidencing a debt owed for the purchase of merchandise or some other assets and usually due in less than one year.

ACCOUNTS PAYABLE

A short-term liability usually arising from the purchase of merchandise for credit. Unlike the note payable, no formal written promise to pay is issued.

ACCRUED EXPENSES PAYABLE

Expenses which are owed but not yet paid. A common example is salaries owed to the employees but not paid until the end of the pay period.

LONG-TERM LIABILITIES (HEADING)

Debts of a business with distant maturity dates. As an example:

MORTGAGE PAYABLE

Debts secured by mortgages on specific assets of the business. Failure by the business to pay this obligation would give the creditor a legal right to force the sale of the pledged asset as a means of obtaining payment.

CAPITAL (HEADING)

What the business is worth. The difference between the assets and the liabilities.

As we have just seen, the assets and liabilities shown on the balance sheet are arranged in a definite order. In most commercial enterprises this arrangement of assets is in the order of liquidity. Liquidity of assets is the quickness in which an asset can be converted into cash in the ordinary course of business. With regard to liabilities, liquidity is that liability which falls due or matures first. These are generally listed first. Those which mature later are listed later.

Again it is worthwhile to mention that the balance sheet only shows the assets, liabilities, and capital for one business entity on a given day.

#### HOW CAPITAL STRUCTURES DIFFER

There are many ways in which the capital structure can be presented. We will confine our discussion to the three major forms of business organization; namely, the proprietorship, the partnership, and the corporation. By reviewing the capital structure set out on the balance sheet, you can usually tell which type of organization a business is.

The amount shown in the balance sheet as the equity or capital account cannot be regarded as representing "net worth" in the sense that it is what the owners would receive on immediate disposal of the assets. It represents the difference between assets and liabilities because all assets and liabilities are listed at cost and not their fair market value (current salable price).

#### Example 8

Capital section of a balance sheet for a proprietorship, net income is \$8,000.

#### Capital

Elsen Sedge beg. bal.		\$14,000	
Net income for period	\$8,000		
Less: Withdrawals	<u>6,000</u>		
Net increase to capital		<u>2,000</u>	
Elsen Sedge ending balance			<u>\$16,000</u>

Generally the only difference between the financial statements of a proprietorship and those of a partnership will be located in the capital (owner's equity) section of the balance sheet.

The following example illustrates the capital section of a partnership balance sheet. We will assume that there was no specific partnership agreement as to how the profits should be divided. Therefore, they are split equally between the partners.

#### Example 9

Capital section of a balance sheet for a partnership. Net income is \$36,000.

#### Capital

Hicks Fernshaw beg. bal.		\$47,000	
Net income for period	\$18,000		
Less: Withdrawals	<u>16,000</u>		
Net increase to capital		<u>2,000</u>	
Hicks Fernshaw end bal.			\$49,000
Turks Kartaba beg. bal.		\$39,000	
Net income for period	\$18,000		
Less: Withdrawals	<u>20,000</u>		
Net decrease to capital		<u>(2,000)</u>	
Turks Kartaba end balance			<u>37,000</u>
<u>Total Capital</u>			<u>\$86,000</u>

Withdrawals are those amounts that are taken out by the partner for nonpartnership-related expenditures. They are recorded in an account called a drawing account. This account is directly related to the partner's capital investment in the business as you see in the examples above.

The example that follows will contain those accounts most commonly found in the capital section of a corporate balance sheet.

#### Example 10

Capital section of a balance sheet for a corporation. Net income is \$400,000.

#### Stockholders Equity (Capital)

Capital Stock:		
Preferred Stock, 5% Cumulative \$100 Per Value Each; Authorized, Issued & Outstanding 6,000 shares *		\$ 600,000
Common Stock: \$5 Per Value Each Authorized, Issued and Outstanding 300,000 shares **		1,500,000
Accumulated Earnings (Beg of Period)	\$1,300,000	
Net Income for Period	<u>400,000</u>	
Accumulated Earnings (End of Period)		<u>\$1,700,000</u>
Total Stockholders' Equity		<u>\$3,800,000<sup>(1)</sup></u>

(1) Equivalent to ending Capital balances of two previous examples.



Retained earnings (surplus) are the accumulated profits and losses of the corporation.

Ownership of a corporation is represented by stock. Par value is the value assigned to each share of stock in the charter of the corporation and printed on the face of stock certificates. If no dollar figure is printed on the face of a certificate, the stock is no-par.

Preferred Stock \*

Priority in payment of Dividend  
Dividend limited in amount  
Priority in liquidation of corporation  
Share in liquidation limited  
Non-Voting

Common Stock \*\*

One vote per share for directors  
Dividend payable after preferred  
Last to be paid in liquidation  
Dividends may vary according to profits

Value of Stock:

Par value - see above.

Book value - for preferred it is par value (usually plus any preferred dividends overdue and unpaid). For common it is net worth minus book value of preferred. To get book value per share for common, divide the above figure by number of common shares outstanding.

Market value - whatever price the stock can be sold for. This may be above or below book value or par value.

THE INCOME STATEMENT (Also called PROFIT AND LOSS STATEMENT)

An income statement reflects money earned and expenses incurred by an entity or individual for a designated period of time. While the balance sheet reflects the financial condition at a given date, the income statement shows the record of a company's operating activities for the whole period. The income statement matches the amounts received from selling the goods and other items of income against all the costs incurred in order to operate the company. The result is a net profit or net loss for the period. See figure 2 for a sample of an income statement.

FIGURE 2

REEVES-SURINAM, INC.  
INCOME STATEMENT  
FOR YEAR ENDED DECEMBER 31, 19XX

Revenue:			
Gross Sales			\$83,300
Less: Sales Returns and Allowances			<u>650</u>
Net Sales			82,650
Cost of Goods Sold:			
Merchandise Inventory January 1, 19XX		7,750	
Purchases	\$49,400		
Less: Purchase Returns And Allowances		<u>275</u>	
Net Purchases	\$49,125		
Add: Freight-In		<u>1,100</u>	
Net Cost Purchases			50,225
Goods Available for Sale			\$57,975
Merchandise Inventory December 31, 19XX			<u>8,950</u>
Cost of Goods Sold			49,025
Gross Profit From Sales			\$33,625
Operating Expenses:			
Selling Expenses:			
Sales Salaries	\$6,200		
Rent Expense, Selling Space	\$4,800		
Advertising Expense	900		
Freight-Out And Delivery Expense	\$1,350		
Store Supplies Used	425		
Depreciation Expense Store Equipment		<u>775</u>	
Total Selling Expenses			\$14,450
General And Administrative Expenses:			
Office Salaries	\$3,100		
Rent Expense, Office Space	600		
Expired Insurance	65		
Office Supplies Used	125		
Depreciation Expense, Office Equipment		<u>110</u>	
Total General and Administrative Expenses			4,000
Total Operating Expenses			<u>18,450</u>
Net Income			<u>\$15,175</u>

Let's take a look at the preceding income statement and determine what accounts have been affected by the company making a profit of \$15,175.

#### Income Statement Heading

Like the balance sheet, the income statement has a heading which consists of the name of the company, the name of the financial statement, and the date. But unlike the balance sheet the income statement date is preceded by the term "for the year, period, or month ended." The income statement reflects the net income or loss for the entire period stated in the heading.

#### GROSS SALES

Total revenue received from the sale of merchandise.

#### SALES RETURNS AND ALLOWANCES

The sale price of all merchandise returned to the company for which it has given an allowance.

#### NET SALES

The net dollar amount of all merchandise sold.

#### MERCHANDISE INVENTORY 1-1-XX

The dollar cost of the goods available to sell on 1-1-XX, or the beginning balance.

#### PURCHASES

The cost of the merchandise purchased for the purpose of resale.

#### PURCHASE RETURNS AND ALLOWANCES

The goods returned, for any reason, for which the company received an allowance.

#### NET PURCHASES

The net dollar cost of merchandise purchased for the purpose of resale.

#### FREIGHT-IN

The transportation costs incurred to get the merchandise to the company's place of business. Freight-in is added to purchases in determining the cost of the goods purchased for resale.

#### NET COST OF PURCHASES

The total of net purchases and freight in. The cost of the merchandise plus additional costs of getting the merchandise to the company's place of business.

#### GOODS AVAILABLE FOR SALE

The total goods available to sell. The total of beginning merchandise inventory and cost of purchases.

#### MERCHANDISE INVENTORY 12-31-XX

The dollar cost of the merchandise on hand and not sold at the end of the year or the ending balance.

#### COST OF GOODS SOLD

The difference between the goods available to sell and the ending merchandise inventory--the merchandise not sold.

#### GROSS PROFIT

The difference between the dollar amount of goods sold and the cost of these same goods.

#### OPERATING EXPENSES

The expenses incurred in the process of operating the business. Operating expenses are generally broken into subgroups of selling and administrative expenses.

#### SELLING EXPENSES

The expenses allocated to the selling of merchandise.

#### ADMINISTRATIVE EXPENSES

The expenses allocated to the management and administration of the business.

TOTAL OPERATING EXPENSES

Total of all expenses incurred in the sale of merchandise.

NET INCOME

The profit earned. The difference between the gross profit and total operating expenses.

RELATIONSHIPS BETWEEN THE BALANCE SHEET AND INCOME STATEMENT

The double-entry system of recording will always affect at least two accounts. You will recall that earlier in this lesson we discussed the "debit-credit" action when a transaction was recorded. Now let's look at the interaction of accounts between the balance sheet and the income statement. This table (figure 3) is not complete. However, it will give you an understanding of how various accounts relate to each other.

FIGURE 3

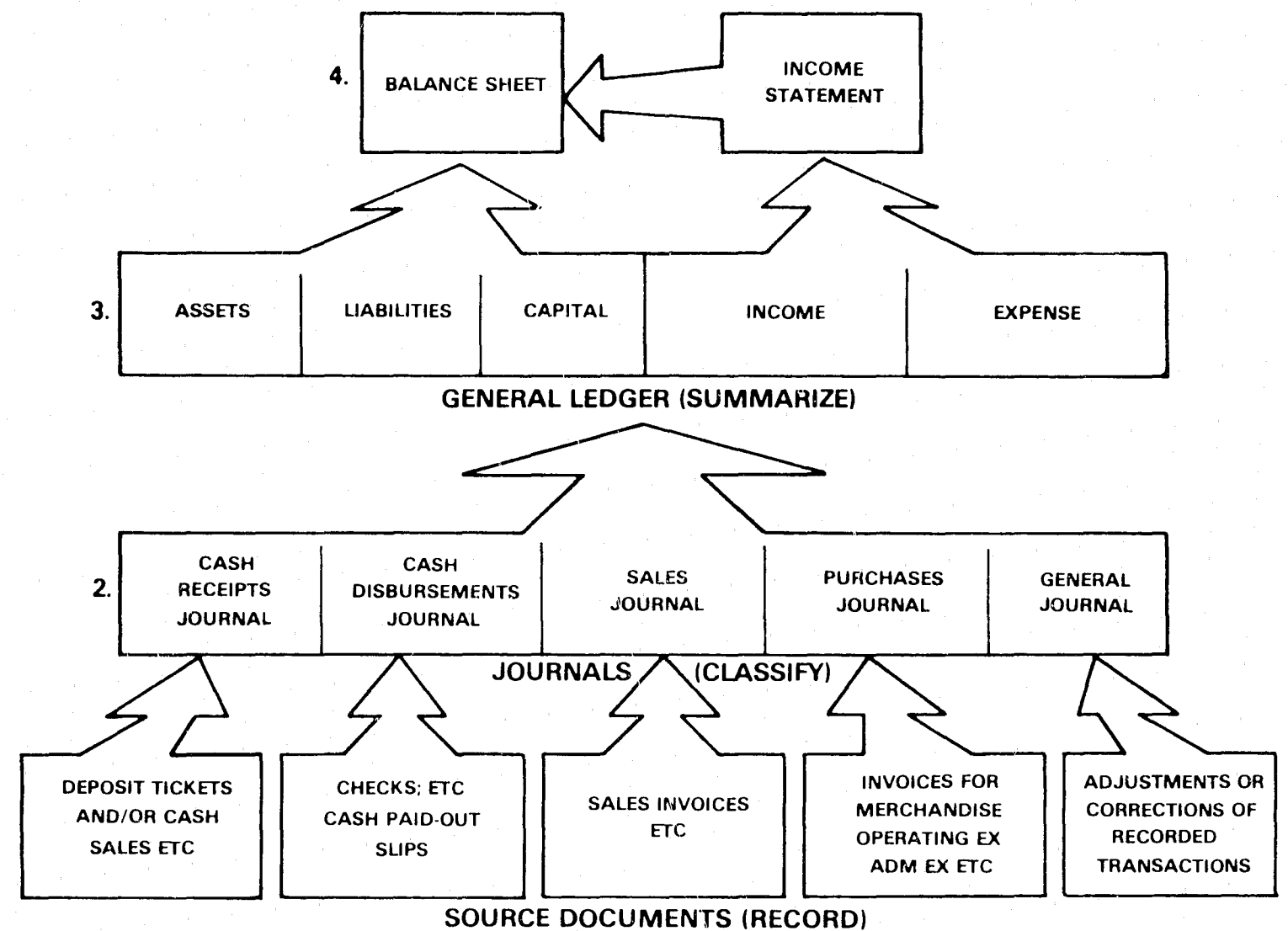
TABLE OF RELATIONSHIPS

<u>Balance Sheet Account</u>	<u>Income Statement Account</u>
<u>Current Assets:</u>	
Cash	Sales; cash paid out; expenses; any form of cash outlay for operating the business
Notes Receivable	Interest Income
Accounts Receivable	Sales
Allowance for Bad Debts	Bad Debt Expense
Merchandise Inventory	Cost of Goods Sold
Prepaid Expense	Various expense accounts, i.e. Rent; Insurance; Supplies, etc.
<u>Fixed Assets:</u>	
Furniture & Fixtures	Depreciation; Interest Expense; repairs Sales of Furniture & Fixtures
Allowance for Depreciation	Depreciation; Sales of Furniture & Fixtures
Machinery	Depreciation; Repairs; Sales of Machinery
Building	Depreciation; Repairs; Property Taxes; Insurance Expense
<u>Current Liabilities:</u>	
Notes Payable	Interest Expense
Accounts Payable	Various Expenses & Purchases
Accrued Expenses	Payroll Expense; Payroll Tax Expense
<u>Long-Term Liabilities:</u>	
Mortgage Payable	Interest Expense; Property Taxes; Insurance Expense
<u>Capital:</u>	Net Profit and Loss

ANATOMY OF THE BALANCE SHEET AND INCOME STATEMENT (Financial Statements)

Where do the figures come from? How are transactions recorded? Classified? Summarized? In order to simplify this process, think of it as a series of building blocks made up of books and records and forming a pyramid (figure 4). Watch how the arrows flow from one set of blocks to the other until the final product is achieved.

**ANATOMY OF FINANCIAL STATEMENTS**  
(BALANCE SHEET AND INCOME STATEMENT)



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FIGURE 4

BOOKS AND RECORDS

Source Documents

These are all of the "pieces of paper," whatever their form, that affect the business operation as stated in dollars (1st step of pyramid). These are the basic documents from which all transaction entries will be compiled. Listed below are some of these source documents.

Deposit tickets (figure 5)--Documents that reflect amount deposited in the bank. Each usually gives a breakdown by ABA number of the checks included in that deposit.

Checks/checkbooks (figure 6)--In addition to the canceled checks themselves, the check stubs or remittance advices (nonnegotiable portions of checks) may show such things as true purpose of payment, person authorizing payment, and handling instructions.

Invoices/purchase receipts--Source records showing dates, shipping points, delivery instructions, descriptions of items bought or sold, etc. They are maintained and stored separately and are not part of the general ledger or journals. See figure 7 for sample.

Notes payable/receivable--A document showing date of loan, interest percentage, makers, and other terms, and signator.

Miscellaneous

Leases--Show terms, dates, conditions of the lease, signator, and property owner.

Insurance policies--Contain the original application, effective date, face amount of policy, original premium, riders to the policy, method of payment, and beneficiaries.


Cash paid-outs--Are notated slips of small currency expenditure that show date, amount, and reason for payment.

FIGURE 5


DEPOSITED IN		DOLLARS	CENTS	
<b>THE NORTHERN VIRGINIA BANK</b>		75	-	
Springfield, Virginia				
<small>SUBJECT TO CONDITIONS AS PRINTED ON THE REVERSE SIDE OF THIS TICKET</small>				
DEPOSIT TICKET	NAME	A. Partnership Company		
	ADDRESS	Springfield, Virginia		
	DATE	June 10 19 XX		
	<small>ACCOUNT NUMBER</small>			
		1	2	3
		4	5	6
		7		
		TOTAL \$	1300 00	

FIGURE 6


NO. 901	\$529.72
1-15	19 XX
TO: XYZ	
FOR: Office Supplies	
BALANCE	6434 17
DEPOSITED	
IF	
TOTAL	
AMT. THIS CHECK	529 72
TOTAL	
OTHER DEDUCTION	
BAL. FWD	5904 45

A. Partnership Company #901  
 DATE January 15 19 XX  
 PAY TO THE ORDER OF XYZ Stationery Company \$ 529.72  
 Five hundred and twenty-nine and 72/100----- DOLLARS  
 **northern virginia bank**  
 SPRINGFIELD, VIRGINIA  
 FOR Office Supplies John Doe  
 ⑆0560⑈0750⑆

NO. 902	\$500.00
1-16	19 XX
TO: ABC Company	
FOR: Supplies	
BALANCE	5904 45
DEPOSITED	
IF	
TOTAL	
AMT. THIS CHECK	500 00
TOTAL	
OTHER DEDUCTION	5404 45
BAL. FWD	

A. Partnership Company #902  
 DATE January 16 19 XX  
 PAY TO THE ORDER OF ABC Company \$ 500.00  
 Five hundred and 00/100----- DOLLARS  
 **northern virginia bank**  
 SPRINGFIELD, VIRGINIA  
 FOR Supplies John Doe  
 ⑆0560⑈0750⑆

NO. 903	\$32.10
1-16	19 XX
TO: Cleano Company	
FOR: Equipment	
BALANCE	5404 45
DEPOSITED	
IF	
TOTAL	
AMT. THIS CHECK	32 10
TOTAL	
OTHER DEDUCTION	
BAL. FWD	5272 35

A. Partnership Company #903  
 DATE January 16 19 XX  
 PAY TO THE ORDER OF Cleano Company \$ 32.10  
 Thirty-two and 10/100----- DOLLARS  
 **northern virginia bank**  
 SPRINGFIELD, VIRGINIA  
 FOR Equipment John Doe  
 ⑆0560⑈0750⑆

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FIGURE 7

**CAR INVOICE**

**LINDSAY CADILLAC COMPANY**  
 1525 KENWOOD AVENUE PHONE 683-0350  
 ALEXANDRIA, VA. 22302

06487

DATE 7/10/xx	DESCRIPTION OF MOTOR VEHICLE	TERMS OF TIME CONTRACT
SOLD TO A. Suspect Springfield	MAKE Cadillac YEAR 19xx MOTOR NUMBER ST 191046 SERIAL NUMBER PO 213028 MODEL 14/4 BODY STYLE Tudor IGN. KEY 17842 TRUNK KEY 34763 NEW OR USED New CAR TRADED 19xx Buick	FINANCE COMPANY Riggs National Bank PAYMENTS OF \$ EACH PAYABLE ON THE DAY OF EACH MONTH BEGINNING SUMMARY OF INSURANCE COVERAGE FIRE \$ TERM THEFT \$ TERM COMPREHENSIVE \$ TERM COLLISION-UPSET \$ TERM P.D. & P.L. \$ TERM
SALESMAN	TELEPHONE	COMPANY - BROKER - AGENT Anne Arundel Company
OPTIONAL EQUIPMENT AND ACCESSORIES		
DESCRIPTION	PRICE	
BASIC PRICE OF CAR TRANSPORTATION OPTIONAL EQUIPMENT AND ACCESSORIES		
ALL OTHER CHARGES		
TITLE OR SALES TAX \$.....		
PERSONAL PROPERTY TAX .....		
INSPECTION FEE .....		
REGISTRATION FEE .....		
CERTIFICATE OF TITLE .....		
NOTARIAL AND RECORDING FEES .....		
OTHER (ITEMIZE) .....		
CASH SALE PRICE		\$6500.00
DEPOSIT		1000.00
CASH ON DELIVERY		3000.00
TRADE-IN ALLOWANCE		
TOTAL CASH PRICE BALANCE		\$2500.00
TOTAL COST OF INSURANCE		
CREDITOR'S LIFE INSURANCE		
AMOUNT OF FINANCE CHARGE		
TOTAL TIME PRICE BALANCE DUE FROM THE PURCHASER		\$2500.00

**NO LIABILITY INSURANCE INCLUDED**

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JOURNALS

The books described below are all called journals or books of original entry. This means that information from the source documents has been recorded in the proper journals and classified in the process (2d step of pyramid). The journals of a company can include any or all of the following:

Cash Receipts Journal (figure 8)--Will show the source and amounts of money received.

Cash Disbursement Journal or Check Register (figure 9)--Generally reflects the dates, amounts, and recipients of payments made. It will also show the check number and the balance sheet or income statement account(s) that the payment is to be recorded in. (Also see Voucher Register description.)

Sales Journal (Accounts Receivable Journal)--Lists sales invoices in date or numerical order for sales made on credit.

Purchases Journal (Accounts Payable Journal)--Is used to record all acquisition of merchandise or services purchased on credit that the business uses. (Also see Voucher Register description.)

General Journal (figure 10)--Will reflect transactions not covered by specific-purpose journals. Will also be used to record adjustments to the books and records.

Voucher Register--When using the voucher system, the methods of recording transactions are changed considerably. Under the voucher system, vouchers are prepared for all purchases and expenses incurred and are entered into the voucher register. When entered into the Voucher Register, the appropriate account is debited and the liability is always entered in the vouchers payable account. When the voucher is paid, the liability (voucher payable) is decreased. The voucher system eliminates the need for the Purchases Journal and the Cash Disbursements Journal.

Transactions:

Received \$250 from Redbay and Co. on account.  
 Sold \$175 merchandise for cash to Reed Manufacturing.  
 Received \$215 from Jean Hazel on account.  
 Received a \$300 payment from Bur, Inc., for cash sale.  
 Received a \$90 payment from M.A. Pine for cash sale.

Entries -- Cash Receipts Journal:

CASH RECEIPTS JOURNAL

DATE 19xx	RECEIVED FROM	CASH DEBIT (101)	ACCTS. REC. CREDIT (102)	SALES (CASH) CREDIT (501)
14	Redbay & Co.	250 --	250 --	
18	Reed Manu.	175 --		175 --
21	Jean Hazel	215 --	215 --	
22	Bur, Inc.	300 --		300 --
30	M.A. Pine	90 --		90 --
		3250 --	1575 --	750 --
		(✓)	(✓)	(✓)

FIGURE 9

Transactions:

\$500 is paid to Sylvester Sage on account.  
 \$ 75 is paid to the Telephone Company for the monthly bill.  
 \$250 is paid to John Woods on account.  
 \$300 is paid to Realty Management.

Entries -- Cash Disbursements Journal:

CASH DISBURSEMENTS JOURNAL

DATE 19xx	PAYEE	CHECK NUMBER	CASH CREDIT (101)	ACCTS. PAY. DEBIT (201)	MISC. EXP. DEBIT
25	Sylvester Sage	275 --	500 --	500 --	
25	Telephone Co.	276 --	75 --		75 --
27	John Woods	277 --	250 --	250 --	
29	Realty Mgt.	278 --	300 --		300 --
			4297 --	1320 --	783 --
			(✓)	(✓)	

FIGURE 10

Transaction:

Company O buys a desk for \$200, paying \$50 cash and \$150 on account.

Entry: General Journal Page 6(GJ6)

GENERAL JOURNAL				
DATE	EXPLANATION	P.R.	DEBIT	CREDIT
3-15-xx	Furniture	105	\$200--	
	Cash	101		\$ 50--
	Accounts Payable	201		\$150--
	To record purchase of office desk on account.			

Entry: General Ledger

FURNITURE #105				
PR	DR	CR	BAL	
	GJ6 \$ 200-		\$ 6,000-	6,200-

CASH #101				
PR	DR	CR	BAL	
	GJ6 \$ 50-		\$ 500-	450-

ACCT'S PAYABLE #201				
PR	DR	CR	BAL	
		GJ6 \$ 150-	\$ 400-	550-



LEDGERS

The books described below are called ledgers. They are periodical postings (entries from the journals in summary form) into a series of numbered accounts (3d step of pyramid).

General Ledger (figure 11)--A compilation of all journals, balance sheet accounts, and income statement accounts. Each account is usually given a designated number. This number comes from a document known as a chart of accounts. The chart of accounts is a listing of the accounts in balance sheet order with a designated number. This number is used in the journals to classify the various transactions (figure 12).

Subsidiary Ledgers--Separate records usually used for accounts receivable, accounts payable, and equipment and showing specific names, invoice numbers, descriptions, etc., as opposed to just "total" figures that are reflected on the general ledger sheets (figure 13).

Other

Corporate Minute Books--Contain minutes and resolutions of corporate stockholder or board of directors meetings. May reflect persons authorized to sign on bank checking accounts, the making of loans to corporate officials, the borrowing of large sums by the corporation, nominee agents of the corporation, and functions of responsible corporate officials.

Corporate Stock Book--Shows how many shares of stock, date purchased, who purchased stock, and amounts paid for stock.

FIGURE 11

Two examples of General Ledger accounts are shown below. The words appearing in parentheses are placed there only to indicate the purpose of each column and, in many cases, are not used in actual accounts.

(Debit)				(Credit)					
Year		Explanation	LF	Amount	Year		Explanation	LF	Amount
MO	Day				MO	Day			

Year		Explanation	LF	Debit	Credit	Balance
MO	Day					

FIGURE 12

Sample  
Chart of Accounts

ASSETS		REVENUE	
101	Cash on Hand	301	Sales
102	Cash in Bank	302	Sales Returns and Allowances
103	Accounts Receivable	303	Sales Discount
105	Merchandise Inventory	311	Purchases
106	Prepaid Insurance		
117.0	Delivery Equipment	OPERATING EXPENSES	
117.5	Accumulated Depreciation - Delivery Equipment	401	Delivery Expenses
118.0	Office Furniture	402	Depreciation Expenses - Delivery Equipment
118.5	Accumulated Depreciation - Office Furniture	403	Salaries Expense
119.0	Office Equipment	404	Payroll Expenses
119.5	Accumulated Depreciation - Office Equipment	405	Miscellaneous Selling Expenses
120	Goodwill	406	Express-O-Charge Expense
		407	Depreciation Expense - Office Furniture
		408	Depreciation Expense - Office Equipment
		409	Insurance Expense
		410	Office Supplies Expense
		411	Rent Expense
		412	Bad Debt Expense
		413	Miscellaneous General Expense
			OTHER INCOME
		501	Gain on Disposal of Plant Assets
		502	Interest Income
			OTHER EXPENSES
		601	Interest Expense

FIGURE 13

An Example of Relationship  
of General Ledger to Subsidiary Ledger

GENERAL LEDGER	SUBSIDIARY LEDGER
<u>ACCOUNTS RECEIVABLE</u>	<u>ACCOUNTS RECEIVABLE</u>
1,500	T. Albert 100
	R. Brown 500
	R. Clark 300
	E. Drew 600
	Total 1,500

From the example we can see more clearly that the accounts receivable control account in the General Ledger reflects that \$1,500 is owed to us. The subsidiary ledger breaks down the \$1,500 by customer and shows us how much each customer owes us. At the end of any accounting period the Subsidiary Ledger and the control account must be in balance.

Figure 14 shows postings from the Cash Receipts Journal to the General Ledger and Accounts Receivable Subsidiary Ledger; figure 15 illustrates postings from the Cash Disbursements Journal to the General and Accounts Payable Subsidiary Ledgers. Note that each individual entry is not posted in the ledgers: Monthly columnar totals are posted to the General Ledger and individual items to the Subsidiary Ledgers.

FIGURE 14

CASH RECEIPTS JOURNAL

DATE 19xx	RECEIVED FROM	CASH	ACCTS. REC.	SALES (CASH)
		DEBIT (101)	CREDIT (102)	CREDIT (501)
14	Redbay & Co.	2.50--	25.00--	
18	Reed Manu.	1.75--		1.75--
21	Jean Hazel	2.15--	21.50--	
22	Bur, Inc.	3.00--		3.00--
30	M.A. Pine	.90--		.90--
		32.50--	157.50--	7.50--
		(✓)	(✓)	(✓)

GENERAL LEDGER

CASH 101					ACCT'S REC. 102					SALES 501				
PR	DR	CR	BAL		PR	DR	CR	BAL		PR	DR	CR	BAL	
				\$ 2700-				\$ 2525-					\$ 1500-	
CR3	\$3250-			5950-	CR3		\$ 1575-		950-	CR3		\$ 750-		2250-

SUBSIDIARY LEDGER

REDBAY AND CO.					JEAN HAZEL				
PR	DR	CR	BAL		PR	DR	CR	BAL	
				\$ 500-				\$ 215-	
CR3		\$ 250-		250-	CR3		\$ 215-		-

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FIGURE 15

CASH DISBURSEMENTS JOURNAL

DATE 19xx	PAYEE	CHECK	CASH	ACCTS. PAY.	MISC. EXP.
		NUMBER	CREDIT (101)	DEBIT (201)	DEBIT
25	Sylvester Sage	275--	5.00--	50.00--	
25	Telephone Co.	276--	.75--		7.50--
27	John Woods	277--	2.50--	25.00--	
29	Realty Mgt.	278--	3.00--		3.00--
			42.97--	132.00--	7.83--
			(✓)	(✓)	

GENERAL LEDGER

CASH 101					ACCT'S PAYABLE 201					RENT EXPENSE 601				
PR	DR	CR	BAL		PR	DR	CR	BAL		PR	DR	CR	BAL	
				\$ 7943-				\$ 5500-					\$ 300-	
C3		\$4297-		3646-	C3	\$1320-		4180-	C3	\$ 300-			\$ 300-	

SUBSIDIARY LEDGER

TELEPHONE EXPENSE 602					SYLVESTER SAGE					JOHN WOODS				
PR	DR	CR	BAL		PR	DR	CR	BAL		PR	DR	CR	BAL	
				\$ 75-				\$ 500-					\$ 750-	
C3	\$ 75-			75-	C3	\$ 500-		-	C3	\$ 250-			500-	

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## WORKING TRIAL BALANCE

After the books are closed (that is, the last entry is made for the period), it is advisable to take a post closing (after closing) trial balance to be sure that the debits equal the credits in the ledger. This is another safeguard against any errors made in the closing of the books. A trial balance is simply running totals of debits and credits to be sure they are equal. A working trial balance is a listing of these account balances on a worksheet in the same order as they are kept in the General Ledger (figure 16).

### Working Trial Balance

Refer to Figures 16 and 17 as you read the following information. In terms of our pyramid, we are between the General Ledger and the statements leading to the figures we will use in our formal presentation of the income statement and the balance sheet (financial statements).

Heading--Should contain description of worksheet and date.

Account Number--The designated number of the account name from a chart of accounts.

Trial Balance 12-31-XX--A listing of the balances reflected in the General Ledger for the account names. After they are listed, they are added--notice in figure 14 that in the first two columns the debits equal the credits.

Adjustments--Usually contains four columns, one each for the adjusting journal entry numbers (figure 16) and one each for debits and credits that are posted here. When these columns are added, debits equal credits.

Income Statement--Contains the income and expense balances from the general ledger after the adjusting entries have been included. When first added, these columns do not balance. Net income is the difference between the two figures--\$307,000 minus \$272,760 = \$34,240.

Balance Sheet--Contains the adjusted balances of the assets, liabilities, and capital. When totaled, it does not balance until we add the income for this period. Note that the final totals show that debits equal credits.

Remarks--Contains typical kinds of notations that you might find on a working trial balance. These notes can be leads to other documents or workpapers that you can use in your investigation.

Let's take a minute to look at the trial balance and the adjusting entries. You are looking at two more intermediate steps in achieving our final product.

The working trial balance and related adjusting entries can be a useful investigative tool. Reading the explanation of each adjusting entry is useful in developing leads to third parties.

### Adjusting Entries

At the end of any particular period we want the financial statements (income statement and balance sheet) to be accurate. Due to the changes in the amount of accounts, such as insurance, the records do not always reflect the correct amount. Before the financial statements can be prepared accurately, consideration must be given to those accounts which do not appear, or are not correctly stated in the various accounts.

Example 11

We purchase a 6-year insurance policy for \$360 on 1-1-XX. This transaction would be recorded in the Cash Disbursements Journal at the date of purchase as follows.

	Debit	Credit
Prepaid Insurance	360	
Cash		360

At the end of the first year, 1/6 of \$360, or \$60, of insurance is used up. The transaction to record this using up of insurance over the course of the year is recorded in the General Journal as follows:

Insurance Expense	\$60	
Prepaid Insurance		\$60

To record amortization of 1/6 of a 6 year premium of \$360.

This transaction, recording insurance expense of \$60, is an adjusting entry. (See figures 16 and 17).

The adjusting journal entries are recorded in the General Journal at the end of the accounting period. Remember, too, that all adjusting entries should be followed by a brief explanation of the purpose of the entry.

CLOSING ENTRIES

Owners wants to know the results of their business activities for each business period. They do not want to confuse the results for one period with those of another. It is necessary to develop a way of starting the income and expense accounts for each period with a clean slate. This is accomplished by means of closing the General Ledger at the end of each period.

The process of closing the General Ledger is accomplished by transferring the balances of all income and expense accounts to a summary account, called P & L Summary or Income and Expense Summary, and then to the capital section of the General Ledger.

Prepared By	Initials	Date
Approved By		

FIGURE 16

EVERGREEN, INC.  
WORKING TRIAL BALANCE  
12-31-XX

Acct. No.	ACCOUNT	TRIAL BALANCE 12-31-XX		J.E. #	ADJUSTMENTS		JE#	INCOME STATEMENT		BALANCE SHEET		REMARKS
		DR.	CR.		DR.	CR.		DR.	CR.			
100	Cash	15100-								15100-		Cash counted - Bank rec.
101	Accounts Receivable	27500-								27500-		Confirms amt - aged
103	Prepaid Insurance	360-					-1-			300-		See analysis
105	Office Supplies - Inv.	900-					-2-			300-		See analysis
110	Office Equipment	4800-								4800-		See analysis
111	Accu. Dep. - Of. Equip.		560-								560-	See schedule
112	Automobiles & Trucks	19300-								19300-		See schedule
113	Accu. Dep. - Auto & Trucks		2600-								2600-	See schedule
114	Machinery	47800-								47800-		See schedule
115	Accu. Dep. - Machinery		9500-								9500-	See schedule
116	Building	127000-								127000-		See schedule
117	Accu. Dep. - Building		2800-								2800-	See schedule
201	Notes Payable		8000-								8000-	Confirmed
202	Accounts Payable		2200-								2200-	Spot-check analysis - aged
205	Mortgage Payable		105000-								105000-	See letter - Mtg. Co.
300	Capital Stock		20000-								20000-	200 sh. @ \$100 Par - issued and authorized - 50,000 sh.
305	Retained Earnings		57000-								57000-	
400	Sales		307000-						307000-			
501	Salaries	178000-							178000-			
502	Insurance	3700-		-1-		60-			3700-			
503	Supplies	2900-		-2-		600-			2500-			
504	Repairs	38900-							38900-			
506	Interest Expense	11000-							11000-			
507	Automobile Expense	17000-							17000-			
510	Depreciation	12600-							12600-			
511	Property Taxes	8000-							8000-			
	<b>Totals</b>	<b>514660-</b>	<b>514660-</b>			<b>660-</b>	<b>660-</b>		<b>272760-</b>	<b>307000-</b>	<b>241900-</b>	<b>207660-</b>
	<b>Income</b>								<b>34240-</b>			<b>34240-</b>
									<b>307000-</b>	<b>307000-</b>	<b>241900-</b>	<b>241900-</b>

FIGURE 17

INVESTIGATOR'S WORKPAPERS

EVERGREEN, INC.  
Adjusting Entries  
12-31-xx

		Acct. No.	Dr.	Cr.
1	-1-			
2	Insurance Expense	502	60-	
3	Prepaid Ins.	103		60-
4				
5	Do write off 1/6 of			
6	a 6-yr. premium			
7				
8	-2-			
9	Supplies	503	600-	
10	Prepaid of. Sup.	105		600-
11				
12	Do write supplies			
13	down to actual			
14	on hand			
15				
16				
17				
18				
19				
20				

Your workpapers are important. Because of their importance, workpapers should be headed to show clearly their contents and purposes. They should be neat, legible, and complete. You should initial and date your workpapers so that they can be identified as such at a later date.

During the course of inspecting and analyzing financial records, you will be preparing written memos, lists, transcripts, reconciliations, computations, etc. These documents are generally referred to as workpapers. These workpapers are important because:

1. They are a record of what you did, and what books and documents you inspected.
2. They serve as a source for you to refresh your recollection at a later date.
3. They permit your managers or the prosecuting attorney to review your work.
4. They allow for a check on computations and calculations.
5. They make it possible for a successor investigator to take over your investigation and pick up on what was done up to that point.
6. They permit verifying addition and tracing of any mathematical errors.
7. Should the original books and records be destroyed or later withheld on constitutional grounds, the workpapers may be the most competent evidence of what was in the records.

AUDIT TECHNIQUES

You have been studying the flow of recordkeeping to gain an understanding of how "pieces of paper" become complete formal financial statements. As an investigator, you will rarely reconstruct a set of records. However, you will be working with books and records or fragments of books and records. From these, you will attempt to tie the financial transactions to various kinds of criminal activity.

Audit techniques are an investigative tool. You can use them in cases involving suspected political corruption, embezzlement, fencing operations, and narcotics violations.

Audit techniques are based on three action words--analyze, scrutinize, compare. They are key terms in dissecting and tracing financial transactions.

Remember that as an investigator you have been trained to look below the surface. Investigating books and records requires the same kind of skeptical approach that you apply when investigating any kind of criminal activity.

Look beyond the written figure in books and records. To do this in the accounting sense is to:

Analyze--Break a ledger balance into its component parts. This simply means that you list those figures that make up the balance to see if they are compatible with the account they were charged to.

Scrutinize--Review those documents used to arrive at the figure in your analysis. Look for leads in alterations, absence of business purpose, and notations on the documents.

Compare--Evaluate the two different sources for accuracy or proper recording. In other words, compare the source document to the analysis, again looking for those things that are out of the ordinary.

Let's take a look at an example of how these techniques are used in a case of suspected political corruption.

#### Example

It has been alleged by several sources, that some city building inspectors are on "the take." One building contractor seems to be the focus of these allegations. An inspection of the books and records reveals the following transactions:

1. The contractor, Tee Contracting Company, writes a check to the supplier, XYZ Company, for "service" for \$10,000 (figure 18). You see that the check was endorsed and deposited by the XYZ Company. In reviewing the Cash

Disbursements Journal of Tee Contracting Company, you notice that other checks to XYZ Company have never been issued for more than a \$1,000.

Audit technique--You scrutinized the check. You went one step further and compared the other payments made to XYZ Company to the \$10,000 check. You have found something out of the ordinary.

2. Inspection of XYZ Company's Cash Receipts Journal shows no entry for the Tee Contracting Company payment (figure 19).

Audit technique--You scrutinized XYZ Company's journal and compared it to what should have happened. (Remember a debit in one set of books is a credit in another set of books.)

3. You looked at XYZ Company's General Ledger and notice a large debit entry to Miscellaneous Expenses. You also noticed a credit of \$10,000. This credit represents the deposit that did not appear in the Sales Journal. The canceled check shows that the president of the XYZ Company drew a check to cash for "Miscellaneous Expense" and cashed the check (figure 20). You noticed a "CC-1-59199" below the endorsement.

Audit technique--You analyzed the ledger balance, scrutinized the check for leads as to why it was cashed. You noted "CC-1-59199."

4. The cashed check was used to buy a cashier's check #1-59199 (the bank usually notates this on the back of the check). You obtained cashier's check #1-59199 from the bank and discovered it has been endorsed by Bache & Co. (figure 21).

Audit technique--You scrutinized the cashed check, picked up on the cashier's check notation and again scrutinized the endorsement of the cashier's check.

5. You asked Bache & Co. how the cashier's check was recorded by them. You are told that it was credited to the account of a customer. Bache & Co. records show the person to be a city building inspector, William D. Inspector


(figure 22). The monies were used to purchase stock which is held in the "street name" for the inspector.

Audit technique--You compared the date and amount of check to the amount and date on the Bache & Co. statement of the inspector's account.

You now have the documentary evidence to show to the president of XYZ Company. Confronted with this information, the "go-between" (president of XYZ Company) admits his involvement and outlines the entire scheme.

When tracing financial transactions remember that dates can be as important as amounts. In the example you just read, if the contractor was known to "payoff" after completion of a job, comparing dates of job completion with large disbursements might have given leads to other "go-betweens." However, never discount use of informants for this information. How many variations of audit techniques are there? As many as the situation and your imagination can devise.

FIGURE 18

Tee Contracting Company		68-750/560
DATE 7/10 19 <del>58</del>		
PAY TO THE ORDER OF	XYZ Company	\$ 10,000.00
Ten Thousand -----		no/100 DOLLARS
 northern virginia bank		
SPRINGFIELD, VIRGINIA		
FOR	R. S. Tee, President	
⑆0560⑆⑆0750⑆		01000000

XYZ Co.  
For Deposit Only



FIGURE 19

*XYZ Company  
Cash Receipts Journal*

DATE	CUSTOMER	AMOUNT
7/10	ABC Company	800-
7/10	DEF Company	500-
7/10	GHI Company	450-
7/11	JKL Company	910-
7/11	MNO Company	1000-
7/11	PQR Company	200-
7/11	STU Company	600-
7/12	VWX Company	500-
7/12	YZC Company	700-
7/12	BDG Company	950-
7/12	RJV Company	300-

FIGURE 20


XYZ Company

68-750/560

DATE 7/11 19XX

PAY TO THE ORDER OF Cash \$ 10,000.00

Ten Thousand ----- no/100 DOLLARS

 **northern virginia bank**  
SPRINGFIELD, VIRGINIA


FOR Expenses X. Y. Zee, President

⑆0560⑆⑆0750⑆ 01000000

/s/ X.Y.Zee, Pres.

CCI-59199

THIS FORM IS A  
**CARB-OUT**  
MANUFACTURED BY DELUXE CHECK PRINTERS, INC.

 <b>northern virginia bank</b> SPRINGFIELD, VIRGINIA 22150		1- 59199
PAY TO THE ORDER OF <u>Cash</u>		7/12 19 <sup>xx</sup> $\frac{68-750}{560}$
<b>SPECIMEN</b>		\$ 10,000.00
Ten Thousand <u>-----</u> <b>SPECIMEN</b> <u>-----</u> no/100 <b>DOLLARS</b>		
<b>CASHIER'S CHECK</b>		
		G. H. Eye <small>AUTHORIZED SIGNATURE</small>
@:0560@0750: 009 697@0@		

3-58

4124-05

<p>Bache &amp; Co. For Deposit Only</p> <p>7-12-xx</p>
--

FIGURE 21

PERIOD ENDING

7/30/xx

A 123-4567-8

William D. Inspector  
Anytown, USA

**BACHE & CO.**

Founded 1879

MEMBER NEW YORK STOCK EXCHANGE - AMERICAN STOCK EXCHANGE  
MEMBER NEW YORK BOARD OF STOCK AND COMMODITY EXCHANGES  
30 WALL ST. • NEW YORK 5, N. Y.

KINDLY MENTION YOUR  
ACCOUNT NUMBER WHEN  
REFERRING TO THIS  
STATEMENT OR OTHER  
TRANSACTIONS.

TYPE OF QUANT	DATE	QUANTITY BOUGHT OR RECEIVED	QUANTITY SOLD OR DELIVERED	DESCRIPTION	PRICE OR SYMBOL	AMOUNT DEBITED (CHARGED) TO YOUR ACCOUNT	AMOUNT CREDITED TO YOUR ACCOUNT	BALANCE (BY TYPE OF ACCOUNT)
	7 12	100		Sweetbrier, Inc.	100	10,000	10,000	-0-
3-59				Position 100 Sweetbrier, Inc.				
4124-05								

KINDLY DIRECT INQUIRIES CONCERNING THIS STATEMENT TO THE BACHE OFFICE WHICH SERVICES YOUR ACCOUNT. SEE REVERSE SIDE FOR ADDRESS AND TELEPHONE NUMBER.

**LEDGER**

FOR DESCRIPTION OF TYPE OF ACCOUNT AND EXPLANATION OF SYMBOLS USED, SEE REVERSE SIDE.

FIGURE 22

SUMMARY--INVESTIGATIVE ACCOUNTING CONCEPTS

The significant advance in commerce, industry, and government has created many advances in the accounting field. Our study has concentrated on understanding these advanced concepts and the flow of documents to financial statements. We have discussed how these concepts could be manipulated for personal gain and how the investigator can detect these through review of the books and records.

It is important to note, however, that the total proficiency of the investigator, that is, the investigator's ability to avoid wasting time and effort on a hopeless case, to avoid fruitless investigative steps, to innovate, and build a sense of professional confidence, demands continual supplementing of these fundamental concepts by examination of what succeeds and what fails. When you detect fraud, your primary goal should be prosecution and conviction.

Fraud investigations usually are initiated by indicators, a composite of small events which together point to a possible pattern of deception (figure 23).

FIGURE 23  
INDICATIONS OF SUSPECTED FRAUDULENT TRANSACTIONS IN BUSINESS ENTERPRISES

1. Maintaining two sets of books and records
2. Concealment of assets
3. Destruction of books and records
4. Large or frequent currency transactions
5. Payments to fictitious companies or persons
6. False or altered entries and documents
7. False invoices or billings
8. Purchase or sale of under- or over-valued assets
9. Use of nominees
10. Large company loans to employees or other persons
11. Frequent cashing of checks received
12. Frequent use of cashier's checks
13. Using photocopies of invoices or receipts instead of original documents
14. Personal expenses paid with corporate funds
15. Payee names on checks left blank and inserted at a later date
16. Excessive billing discounts
17. Excessive spoilage or defects
18. Double payments on billings
19. Unnecessary use of collection accounts
20. An individual negotiating checks made payable to a corporation
21. Second- or third-party endorsements on corporate checks

22. Excessive use of exchange checks or clearing accounts

What you have learned should not be considered tools to be rigidly applied, but rather it should be an inventory of perspectives which will broaden the base of your knowledge as an investigator.

#### Review--Major Chapter Points

The fundamental accounting equation is:

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

The balance sheet will show you the assets, liabilities, and equity for an entity or person at a given date.

An income statement reflects money earned and expenses incurred by an entity or person for a certain period of time.

A financial statement is a combination of an entity's or person's balance sheet and income statement accounts. It is usually used to support and verify an application for credit.

Double-entry bookkeeping uses a system of debits and credits to record financial transactions in the books and records.

Debits are used to record: Increases in assets

Reductions in liabilities

Incurring of expenses

Credits are used to record: Increases in liabilities

Reductions in assets

Earning of income

Increases in capital

A debit to one set of books is a credit to another.

When a balance sheet or income statement transaction takes place, the totals of debit and credit

entries used to record the transaction in the books must equal each other.

#### The Accounting Cycle

Financial statements are prepared at regular intervals selected by management. These intervals are called accounting periods. During each accounting period a sequence of procedures, called the accounting cycle, is followed.

1. Opening the books: At the end of the prior accounting period a procedure was followed to "close the books." Therefore, the first step in the new accounting cycle is to "open the books." This means that all account balances carried forward are entered in the books as of the first day of the new period.
2. Journalizing and posting: This involves classifying transactions into corresponding debits and credits and entering them on the books. This is done daily throughout the accounting period.
3. Taking a final balance: At the end of an accounting period, the net debit and credit balances in every account are listed on a worksheet. This is called a trial balance. Total credits must be made to equal total debits before going on. This is called balancing the books.
4. Adjusting and correcting entries: These entries are made to account balances needing adjustment or correction.
5. Closing the books: Balances listed for operating accounts are carried to a profit or loss account. This has the effect of clearing these accounts and reducing the balances to zero preparatory to beginning a new accounting period.
6. Preparing the balance sheet and income statement. The balance sheet is prepared from the balances of the asset, liability, and proprietorship accounts. The income statement is prepared from the profit and loss accounts.

**CONTINUED**

**2 OF 3**