

Introduction

Forensic Accounting is being used increasingly in conjunction with a wide variety of other crime investigations. It employs the same deductive reasoning principles as scientific forensics in determining who, what, where, when and how the crime was committed.

Criminal organizations, from the simple conspiracy to the complex criminal enterprise, seek financial gain to prosper and expand their criminal activities.

Individuals and legitimate businesses may use fraud, theft and deception to expand their influence by gaining wealth through illegitimate means.

“Following the money” has become an effective means in establishing motive, identifying the perpetrators, and convincing juries as to the guilt of the defendants in investigations of organized crimes, drug trafficking cartels, terrorism funding , and a wide range of criminal conspiracies. It is also used to identify those involved in schemes to steal, by fraud, from individuals and the public at large.

Your office has received a call from a volunteer at one of the homeless shelters in town. The caller was Sheila Khares. She said she was worried that some of the homeless she serves dinner to might be doing something wrong. She overheard them talking about getting fifty dollars in cash for completing a survey form with Direct Help Advocates (DHA). She is afraid that they might be completing additional false forms to get more money. Your background check on DHA reveals the following information:

Direct Help Advocates is a charitable organization, formed to help the indigent in obtaining government assistance. They opened a small office located at 123 Main St., Big City, Maryland 87777 on February 1, 2008. John Mason is the President of the organization, and Ralph Dixon is the Secretary/Treasurer.

Information Obtained from Sheila Khares

She works as a volunteer at the West 7th St. shelter, on Thursdays and Fridays serving meals. She resides at 18765 Turner, Big City, MD; telephone number 111-4321. She has been a volunteer for the past three years.

She overheard Ben and Dave talking in the food line. Ben told Dave that guys were giving out fifty dollars to anyone who would answer a few questions and sign up for government assistance. He said that they came to the day labor center on 5th Street (2 blocks down) and signed up a lot of people. Ben encouraged Dave to go there and sign up.

She was suspicious because Ben said he got cash and was afraid that some of the needy people might try to sign up over and over again and get in trouble with the authorities.

Ben and Dave are regulars for dinner every night. She does not know their last names, but can introduce them to the officers next Thursday during the dinner hours, 6:00 to 8:00 pm.

Information from DHA Interview

A visit to the DHA office finds one receptionist, Gail Settes. She provides the following information:

The office opened on February 1, 2008, and she has worked as the receptionist there since they opened. Her hours are from 8:00 am to 11:00 am, and from 4:00 pm to 7:00 pm.

They assist homeless and poor people to obtain their stimulus checks from the government. She gives the volunteers a packet of forms and \$5,000.00 each morning. The completed forms and remaining cash are returned to her at 6:00 pm each evening. She counts the forms and the cash to make sure they balance and gives the forms to Mr. Dixon on Fridays. The cash is put back in the safe each evening.

They have four volunteers who go to the most likely places to locate the poor and homeless.

Information from Interviews – Ben Withers and Dave Vargas

Both men are staying at the Church half-way house, 1111 Serenity Lane, Big City, MD. They are to be there for six more months.

Ben was contacted by a survey volunteer last Friday, outside the day labor office. He was asked some questions on a survey form, completed the questionnaire, signed it, and another form to get an economic stimulus payment. The survey asked for his name, marital status, number of children, current address, social security number, person to contact, and the last time he filed a tax return. The other form was to allow DHA to represent him in getting the stimulus check. He was told that DHA would also check to see if he was entitled to any other benefits.

He received \$50.00 in cash after completing and signing the forms. The man taking the forms said that each person could only complete one set of forms and if contacted again, to tell the volunteer that you already completed the survey. This will insure that he would be eligible for any future benefits.

Dave completed the survey on the following Monday, and relayed the same information.

Information from Interviews – Mason and Dixon

An appointment was made to meet with Mr. Mason. Mr. Dixon was said to be on the road working to get Federal assistance for the needy and would be gone for at least two weeks.

His full name is John Mason, and he shares an apartment with Ralph Dixon, at 16163 Pines Lane, here in town.. He is the president of Direct Help Advocates which was started in February of this year. He is 56 years of age and retired from an import/export business that he operated in London , England. His residence is in Coral Gables, Florida. They are renting here to set up the basic organizational operation. They operate out of rented office space at 12 Grand St., Big City, MD.

The organization was chartered as a nonprofit organization on February 1, 2008. DHA received a loan from 1st Bank for \$250,000.00 to begin operations. It is a one year note requiring interest only payments until the entire amount becomes due in February of 2009. DHA has made payments over the past few months to reduce the liability. The proceeds were deposited into an account with 1st Bank, less some start up expenses.

In response to requests for records, Mason provided the following:

List of Volunteer contacts: We can't supply that information without the written consent of our clients.

Ralph Dixon telephone number: 654-345-1122

Loan officer at 1st Bank: Jimmy Givvaweigh

1st Bank Account number: 600321

Expense Report:

	February	March	April	May
Computer	\$1,800	-0-	-0-	-0-
Office Supplies	200	200	200	100
Loan	20,000	20,000	20,000	20,000
Mason	2,300	4,500	4,500	4,500
Dixon	2,300	4,500	4,500	4,500
Postal expense	416	444	518	222
Volunteer reimb.	184	256	282	78
Totals	\$7,200	\$29,900	\$30,000	\$29,400

Ralph Dixon's cell phone number is 654-321-1122.

Information from Interviews – Volunteers

Volunteer Backgrounds

Jane Hope: Age 24, single, part-time college student, sales clerk at department store; no criminal record, good student, lives with parents, does other volunteer work once a month at the hospital.

Joey Smitten: Age 25, single volunteers to impress Jane, works for a construction company, no criminal record, college degree in education.

Gayle Storm: Age 37, married, almost a professional volunteer, does work for political party, food bank, and acts as chaperone at school events. No criminal record.

Will Gogh: Age 55, widowed, retired, spends time at retirement homes visiting and volunteers for different charities. He has no criminal record, and drives red minivan.

The volunteers say that together they have helped three or four thousand people through their work at DHA. They are provided with mileage reimbursement for their vehicles which only amounts to no more than \$50 to \$70 per month.

They were not able to provide names of the people they contacted, but stated that they thought Mason kept a list with him that he took home each evening.

Information from Interviews at 1st Bank: Givvaweigh and Balanze

Givvaweigh: James Givvaweigh is a loan officer at 1st Bank, and has been for the past six years.

He handled the loan of \$250,000.00 for Direct Help Advocates, with the proceeds being distributed on February 1, 2008. The collateral on the loan was a personal letter of credit for \$150,000.00 for John Mason and a similar letter of credit for Ralph Dixon. The letters were from Island Bank, 12 Orchid Ave., Cayman Isles, 03-(456) 213-2200.

The bulk of the loan proceeds were deposited into a checking account, #600321.

Givvaweigh called the bank in the Caribbean and verified the letters of credit. The loan was 12 month note to be paid at interest only with a balloon payment of the \$250,000.00 principal at the end of the term.

DHA has made monthly principal payments on the note during the past 5 months and let the interest accrue. Sheila Balanze, a teller at the bank opened the account for DHA and prepared the Currency Transaction Report exemption for the organization, since they expected to be making regular cash transactions in excess of the \$10,000.00 limit.

Balanze:

Sheila Balanze is a teller at 1st Bank, and has been for three years. Both Mason and Dixon are regular customers, and are in the bank several times each week. They make large deposits (usually a package of checks) and large cash withdrawals.

They are exempted from filing currency reports (CTR's). Recently, they have been purchasing cashier checks. Mr. Mason is quite amiable and talkative, and Mr. Dixon is quiet and "down to business". The account was opened on February 1, 2008, and a lot of money has gone through the account.

ACCOUNT NUMBER 600321

1st BANK

The below signed have signatory authority on this account in the name of Direct Help Advocates, opened this 1st day of February, 2008.

Signature: *John Mason*

John Mason, DOB: 03/15/59; SSN: 123-45-6789

Signature: *Ralph Dixon*

Ralph Dixon, DOB: 07/07/70; SSN: 987-65-4321

Account activity summary:

DHA LLC

Account number 600321

Date	Activity	Credit	Debit	Balance
02/01/08	Initial deposit	\$220,000.00		\$220,000.00
02/15/08	Withdrawal		\$20,000.00	\$200,000.00
02/29/08	Withdrawal		\$22,600.00	\$177,400.00
03/01/08	Loan payment		\$20,000.00	\$157,400.00
03/03/08	Withdrawal		\$29,900.00	\$127,500.00
03/15/08	Withdrawal		\$20,000.00	\$107,500.00
04/01/08	Loan payment		\$20,000.00	\$87,500.00
04/04/08	Withdrawal		\$25,000.00	\$62,500.00
04/15/08	Withdrawal		\$35,000.00	\$27,500.00
04/28/08	Deposit	\$280,000.00		\$307,500.00
05/01/08	Loan payment		\$20,000.00	\$287,500.00
05/19/08	Deposit	\$200,000.00		\$487,500.00
05/22/08	Withdrawal		\$39,400.00	\$448,100.00
05/27/08	Withdrawal		\$300,000.00	\$148,100.00
06/01/08	Loan payment		\$20,000.00	\$128,100.00
06/02/08	Deposit	\$220,000.00		\$348,100.00
06/05/08	Deposit	\$180,000.00		\$528,100.00

06/09/08	Withdrawal		\$200,000.00	\$328,100.00
06/11/08	Withdrawal		\$200,000.00	\$128,100.00
06/12/08	Deposit	\$180,000.00		\$308,100.00
06/15/08	Deposit	\$140,000.00		\$448,100.00
06/19/08	Withdrawal		\$150,000.00	\$298,100.00
06/22/08	Withdrawal		\$170,000.00	\$128,100.00
06/25/08	Deposit	\$160,000.00		\$288,100.00
06/30/08	Deposit	\$180,000.00		\$468,100.00
07/01/08	Loan payment		\$20,000.00	\$448,100.00
07/06/08	Withdrawal		\$150,000.00	\$298,100.00
07/07/08	Withdrawal		\$150,000.00	\$148,100.00
07/15/08	Deposit	\$175,000.00		\$323,100.00
07/17/08	Deposit	\$200,000.00		\$523,100.00
07/19/08	Deposit	\$125,000.00		\$648,100.00
07/20/08	Withdrawal - CC		\$240,000.00	\$408,100.00
07/21/08	Withdrawal - CC		\$300,000.00	\$108,100.00
07/23/08	Deposit	\$360,000.00		\$468,100.00
07/24/08	Deposit	\$120,000.00		\$588,100.00
07/29/08	Withdrawal - CC		\$580,000.00	\$8,100.00

Information from the loan file:

DHA is applying for and receiving benefits on behalf of indigent people. DHA acts as a clearing house for the benefits by receiving and cashing the checks and returning the funds to the clientele. Power of attorney forms are given to DHA by each client. The loan file does not reveal any other additional information.

Information from the CTR exemption application:

The reason given for the application for exemption was to provide access to government benefits for indigent citizens. The clientele do not have permanent residences and most do not have bank accounts, so cash is given to them upon receipt of their benefit checks.

Island Bank is a local privately owned bank. The telephone number given in the references to 1st Bank was intercepted and diverted to another phone number. Island Bank never received a call to verify the letters of credit

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No other assets or liabilities were listed on the loan application.

The cancelled cashier checks were cashed at Bank of the World, 1 World Plaza, Jamaica. One cashier check for \$200,000.00 was signed over to Island Charters on 06/15/08 by John Mason.

Cashier's checks were redeemed for cash by Dixon and Mason. One was endorsed by John Mason and redeemed by Island Charters.

Sailboat, Seabreeze, sold to John Mason on 6/15/08 for \$375,000.00. He made an earnest deposit of \$200,000.00 on 6/15/08 and paid the balance on 7/15/08.

Four-plex purchased by Ralph Dixon on 6/8/08 for \$380,000.00. \$45,000.00 down payment, balance of \$335,000.00 paid in full on 6/29/08.

Bar purchased by Ralph Dixon on 7/6/08 for \$500,000.00. \$50,000.00 deposit, \$150,000.00 added to down payment on 7/22/08. Loan payments on balance of \$3,000.00 per month beginning July 15, 2008. Balance paid in full on 8/13/08.

Dixon purchased a new Car on 6/1/08 for \$26,800.00.

Mason purchased marina and snack bar on the beach for \$600,000.00 on 8/10/08.

Mason also purchased a new car on 8/15/08 for \$32,000.00.

Mason purchased \$200,000.00 in gold bullion on 9/1/08.

Dixon purchased \$250,000.00 in gold bullion on the same day.

Personal Expenditures

Dixon – bar remodeling for \$18,000.00 paid off on 7/31/08.

Other documented personal expenses for Dixon total \$100,200.00.

Mason – purchased a new watch for \$4,600.00 on 8/8/08.

Other documented personal expenses for Mason total \$83,400.00.

Other information for the purpose of the scenario exercise:

Neither Mason nor Dixon has any other source of income, legal, illegal, taxable or non-taxable.

Both Mason and Dixon filed claims for economic stimulus checks in their own names.

No other assets, liabilities or expenditures were discovered.

The prior period net worth (as of January 31, 2008) for each subject was zero.

Does the fact that the majority of the illegal income from the fraud scheme was spent on assets and personal expenditures help in deciding which indirect method of proof to use? Why?

What steps are needed to prepare and organize the evidence obtained for the criminal prosecution report?

<u>Date</u>	<u>Money In</u>	<u>Money Out</u>	<u>Explanation</u>
2/1/2008	\$220,000.00		\$250,000 loan less \$30,000 cash
2/15/2008		\$20,000.00	Cash Withdrawal Expenses
2/29/2008		\$22,600.00	Cash Withdrawal Expenses
3/1/2008		\$20,000.00	Loan Payment
3/3/2008		\$29,900.00	Cash Withdrawal Expenses
3/15/2008		\$20,000.00	Cash Withdrawal Expenses
4/1/2008		\$20,000.00	Loan Payment
4/4/2008		\$25,000.00	Cash Withdrawal Expenses
4/15/2008		\$35,000.00	Cash Withdrawal Expenses
4/28/2008	\$280,000.00		Stimulus Checks
5/1/2008		\$20,000.00	Loan Payment
5/19/2008	\$200,000.00		Stimulus Checks
5/22/2008		\$39,400.00	Cash Withdrawal Expenses
5/27/2008		\$300,000.00	Cash Withdrawal
6/1/2008		\$20,000.00	Loan Payment
6/2/2008	\$220,000.00		Stimulus Checks
6/5/2008	\$180,000.00		Stimulus Checks
6/9/2008		\$200,000.00	Cash Withdrawal
6/11/2008		\$200,000.00	Purchase Cashier Check

6/12/2008	\$180,000.00		Stimulus Checks
6/15/2008	\$140,000.00		Stimulus Checks
6/19/2008		\$150,000.00	Cash Withdrawal
6/22/2008		\$170,000.00	Cash Withdrawal
6/25/2008	\$160,000.00		Stimulus Checks
6/30/2008	\$180,000.00		Stimulus Checks
7/1/2008		\$20,000.00	Loan Payment
7/6/2008		\$150,000.00	Cash Withdrawal
7/7/2008		\$150,000.00	Cash Withdrawal
7/15/2008	\$175,000.00		Stimulus Checks
7/17/2008	\$200,000.00		Stimulus Checks
7/19/2008	\$125,000.00		Stimulus Checks
7/20/2008		\$240,000.00	Purchase Cashier Check
7/21/2008		\$300,000.00	Purchase Cashier Check
7/23/2008	\$360,000.00		Stimulus Checks
7/24/2008	\$120,000.00		Stimulus Checks
7/29/2008		\$580,000.00	Purchase Cashier Check
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	\$2,740,000.00	\$2,731,900.00	

Of the \$2,740,000.00 deposited to the account, \$2,540,000.00 came from stimulus check deposits; the remainder came from the loan proceeds.

Of the \$2,731,900.00 withdrawn, \$291,900.00 went to pay operating expenses (\$100,000.00 of which were loan repayments to 1st Bank), \$1,320,000.00 was withdrawn and unaccounted for, and the remainder of \$1,120,000.00 was used to purchase cashier checks.

Thirty thousand dollars from the original note is also unaccounted for, but was probably used to make the initial \$50.00 payments to the “clients”.

How much money should the investigator be looking to track?

Illegal Income analysis:

Gross loan amount		\$250,000.00	
Less: Repayments		<u>100,000.00</u>	
Net Proceeds			\$150,000.00
Stimulus receipts	\$2,520,000.00		
Less: expenses	<u>\$221,900.00</u>		
Net proceeds			<u>\$2,298,100.00</u>
Total			\$2,448,100.00
Less: legal claims			<u>1,200.00</u>
Total illegal income			\$2,446,900.00

In most criminal financial investigations, it is not possible to find every cent taken through the fraud scheme. In our example, we have accounted for the majority of the illegally obtained funds (\$2,446,900.00 of the total illegal funds taken of \$2,740,000.00). In a criminal case, the amounts are based on evidence to support proof beyond a reasonable doubt, and must show sufficient harm to the victims.

In tax cases and in most courts, expenses incurred in carrying out the fraud are not deductible and the subjects would be required to make full restitution.

The determination of the restitution is made civilly after the criminal case is completed. The focus of the criminal case is directed toward proving the specific elements of the crime.

What crimes could be included in the prosecution recommendation?

Once the investigator decides on which charges to pursue, the evidence should be organized to follow through each charge being recommended. It is easiest to present the major charge first; in this case the theft by fraud.

The evidence will be organized in the same sequence as it is presented in the report. If new or different evidence is required to support additional charges, it should follow the primary charges evidence. The investigator should be careful not to fall into the trap of trying to get the very incriminating information out first, in the presentation of the report. Remember that the prosecutor will want a logical flow of the evidence through the report to prepare the case for trial.

The investigator is neither judge nor jury in the case. All evidence in support of the charges, as well as the evidence in favor of the defendant needs to be introduced (the legitimate stimulus claim by each defendant is an example). In addition, the negative proof evidence must establish proof beyond a reasonable doubt that other financial events did not occur that would reduce the proceeds alleged in the criminal case.

How would the case look if it were presented using the Bank Deposits and Personal Expenditures method of proof?