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President's Commission on Organized Crime

Interim Report to the President
and the
Attorney General

THE CASH CONNECTION:
Organized Crime, Financial Institutions, and Money Laundering

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This report does not purport to be a definitive treatment of all issues associated with the problem of money laundering. Certain elements of international money laundering, such as the use of foreign banks and the legal impediments created by foreign secrecy and blocking statutes, have been expressly reserved for future consideration, as the Commission continues its program of public hearings and investigation and research by its staff in this area. Nor does it purport to be a comprehensive assessment of the effectiveness of law enforcement agencies in pursuing the problem. It does, however, constitute an invitation to the financial community and the Federal Government to continue and expand the dialogue that they have begun to deal with the problem. By issuing this report, the Commission seeks to develop a closer and continuing collaboration with the Congress, the Treasury Department, and financial institutions in devising a sound and effective program of legislative, administrative, and voluntary actions to combat money laundering.

SECTION ONE

MONEY LAUNDERING: THE PROBLEM AND THE RESPONSE

WHAT IS MONEY LAUNDERING?

> *Laundering money is to switch the black money, or dirty money . . . [to] clean money . . . .*
>
> Michele Sindona[3]

"Money laundering" is the process by which one conceals the existence, illegal source, or illegal application of income, and then disguises that income to make it appear legitimate.[4] Narcotics traffickers, for example, often seek to change large amounts of cash received from "street-level" sales into an ostensibly legitimate form, such as business profits or loans, before using those funds for personal benefit or reinvesting them in new narcotics purchases and distribution. In addition, corporations otherwise engaged in legitimate commerce may develop surreptitious channels for the use of corporate funds in the payment of commercial bribes or unlawful political contributions.

Law enforcement agencies recognize that narcotics traffickers, who must conceal billions of dollars in cash from detection by the government, create by far the greatest demand for money laundering schemes. It must be noted, however, that numerous other types of activities typical of organized crime, such as loansharking and gambling, also create an appreciable demand for such schemes. Moreover, violations of tax laws are an inevitable byproduct of laundering schemes that conceal the existence or illegal source of income. No matter what type of crime produces the income to be laundered, income tax evasion, with the resulting loss of public revenue, may persist long after the commission of other crimes has ended. In any event, money laundering has become increasingly valuable to organized crime because it enhances and expands the already substantial profitability of the illegal activities in which organized criminal groups engage.

Because a broad spectrum of techniques—many of them completely legal—can be used to launder funds, the suitability of a laundering technique for a particular criminal will depend in part upon the criminal's

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ultimate objective. At one end of the spectrum, a narcotics trafficker who wishes merely to increase the immediate portability of his cash receipts can simply exchange smaller-denomination bills (*e.g.*, one-, five-, and ten-dollar bills) for larger-denomination bills. At the other end of the spectrum, a high-level member of a large organization that derives vast sums of money from continuing illegal activities will need more sophisticated techniques to conceal those funds for longer periods of time from detection by law enforcement agencies. Such techniques are likely to include multiple international transfers of funds, by various types of financial institutions, to or from foreign countries whose laws, customs, or practices operate (by design or fortuity) to place potentially incriminating financial and business records beyond the reach of U.S. law enforcement authorities. Such techniques may also include the use of courier services or electronic fund transfers, the processing of funds through layers of fictitious entities, and the creation of false documentation to improve the appearance of legitimacy.

Ultimately, the degree of sophistication and complexity in a laundering scheme is virtually infinite, and is limited only by the creative imagination and expertise of the criminal entrepreneurs who devise such schemes. Traditional organized crime, of course, has engaged in some forms of laundering for years, directing its assets through a variety of controlled, legitimate businesses. In recent years, however, an increasing number of persons such as Michele Sindona have mastered the details of modern technology, international finance, and foreign secrecy laws to create a select fraternity of money laundering professionals. As a result, organized crime today uses banks and other financial institutions as routinely, if not as frequently, as legitimate businesses.

THE SCOPE OF THE PROBLEM

Sindona has stated to the Commission that one can launder "a hundred thousand dollars (or) a hundred million dollars" in even a single transaction. This statement suggests that the scope of the problem is enormous. In spite of the elaborate recordkeeping systems required by law, no one has yet calculated precisely how much money is laundered. All of the methods available to the Federal Government for measuring the scale and scope of concealing illegal, as well as legal, profits are indirect.

The principal means by which the government can measure, detect, and punish money laundering is the Bank Secrecy Act.[5] Under the Act, financial institutions have the responsibility to report domestic transactions of currency or its equivalent in amounts of more than $10,000.[6]

Regulations under the Act, issued by the Secretary of the Treasury, provide law enforcement agencies with four basic tools to investigate money laundering:

- A paper trail of bank records that must be maintained for up to five years.
- A Currency Transaction Report (CTR) that must be filed by banks and other financial institutions whenever a currency transaction is more than $10,000. CTRs are filed with the IRS. Notably omitted from the reporting requirements are wire transfers, bank checks, bank drafts or other written orders of transfer.
- A Currency or Monetary Instruments Report (CMIR) whenever currency or monetary instruments of more than $5,000 are taken into or out of the U.S. CMIRs are filed with the Customs Service. Cashier's checks and bearer bonds made out to cash—rather than to an individual—are not covered by the reporting requirements.
- A Foreign Bank Account Report (FBAR) required whenever a person has an account in a foreign bank of more than $5,000 in value.

Criminal penalties for violations, such as the failure to file a properly completed CTR, are generally misdemeanors but can be elevated to a felony when the violation is part of a pattern of illegal activity involving transactions exceeding $100,000 in any twelve-month period.[7] Civil monetary penalties can be assessed at a maximum of $1,000 per violation.[8]

For most of the first decade after passage of the Act, the Federal Government did not vigorously enforce its provisions.[9] Today, by contrast, the amount of information available from CTRs and CMIRs is so great that it poses a challenge to the effective use of that information. Annual filings of CTRs and CMIRs, as recorded by the Department of the Treasury, reflect a growth of more than 400% in the last 5 years:[10]

	CTRs			CMIRs	
Year	Number	Dollar Amount (in Billions)	Year	Number	Dollar Amount (in Billions)
1979	121,000	*	1979	76,909	*
1980	229,000	12.9	1980	114,268	15.3
1981	348,000	17.8	1981	144,704	24.7
1982	425,000	18.6	1982	158,122	30.7
1983	535,000	20.6	1983	185,498	22.9

*Not currently available

These filings constitute a vast and constantly growing haystack of information, in which criminal investigators are expected to find the needles that represent criminal proceeds or unreported income being laundered. Because law enforcement agencies need to know where to begin to look for laundered money, information pointing to a particular portion of the haystack (*i.e.*, a particular institution) is invaluable.

The magnitude of the money laundering problem is also evidenced by the variety of schemes and the diversity of participants uncovered since the inception of the Bank Secrecy Act in 1970.

THE ANTHONY SCOTTO CASE

Anthony Scotto, vice-president and general organizer of the International Longshoreman's Association and a member of the Gambino family of La Cosa Nostra, was convicted in 1979 of racketeering, tax evasion, and accepting illegal pay-offs. Scotto received $210,000 over three years from one company in return for his help in reducing fraudulent and exaggerated workmen's compensation claims filed by members of Scotto's local union.

The scheme involved a plan to keep the payments off the company's books by wiring the money from a Philadelphia bank to a bank in Geneva, Switzerland and then back to an account at Brown Brothers Harriman and Co., a private New York bank. Cash drawn from the account was returned to the company via a Chase Manhattan Bank safe deposit box.

THE CARLOS MARCELLO CASE

Joseph Hauser, a former insurance executive, and later a government witness, was convicted in 1979 on Federal charges arising out of a scheme to swindle substantial sums from the International Brotherhood of Teamsters' health, welfare, and pension plans. Hauser was charged with converting $3.5 million in illegal proceeds, about $1.8 million of which was secreted in a Swiss bank account. With Hauser cooperating in an undercover operation, the FBI was able to convict Carlos Marcello, the head of the New Orleans La Cosa Nostra family, for his role in union racketeering.

THE CASINO CASE[11]

In 1983, a Baltimore drug trafficker was convicted of Federal narcotics violations after using an Atlantic City casino to launder his drug

profits. The trafficker's network, which consisted of at least sixty to eighty people, included a number of juveniles who worked as "runners," delivering heroin to customers on Mopeds that the trafficker had bought for that purpose.

According to Congressional testimony by W. Hunt Dumont, the United States Attorney for the District of New Jersey, the trafficker and his associates took $118,000 in drug profits to the casino, opened an account, and stayed several days but did not gamble. They left the casino with checks, made payable to third parties, which they deposited in a securities firm. The money was later withdrawn and used to refurbish a number of legitimate businesses owned by the trafficker and his associates.

On still other occasions, the trafficker deposited cash in the casino in small denominations, gambled, and left with most of the cash in $100 bills. At the time that search warrants were executed in the case, $300,000 in $100 bills were found with the casino's wrappers still on the money. Law enforcement authorities have estimated that the trafficker and his group laundered approximately $500,000 in heroin proceeds through the casino in question.[12]

HELL'S ANGELS

Sergei Walton, former head of the Oakland, California chapter of the Hell's Angels, in an interview with the Commission, described the Angels' "buy out, burn out, bomb out" program to launder the profits of its illegal methamphetamine traffic. Walton explained that the gang's profits were laundered by the purchase, through "front men," of failing businesses, thus legitimizing cash from drug sales. Those businesses which resisted the Angels' "buy out" overture were then subjected to the other two-thirds of the outlaw gang's acquisition program.

Walton also described ways in which the Hells' Angels utilize real estate purchases as a means to legitimize and invest these same drug proceeds. Although the Hell's Angels, according to Walton, did not routinely attempt to corrupt bank officials, their business operations involved the flow of illegal monies through financial institutions.

FORTUNE 500 CORPORATIONS

Although the Commission focused on organized crime during its investigation, it became clear that money laundering is not limited to traditional organized crime. Money laundering techniques can be used by large legitimate businesses as well.

Gulf Oil Corporation, Lockheed Aircraft Corporation, and McDonnell Douglas Corporation were each involved in schemes to make illegal payments to foreign government officials in order to win lucrative overseas contracts.

Gulf Oil's payments in excess of $4 million to Korean and Bolivian politicians were capitalized through the yearly disbursement of $500,000 to a corporate subsidiary in the Bahamas. These disbursements, characterized as operating expenses, were funneled back to the United States to be used as bribes by a corporate accountant who carried packages of $25,000 in cash between the Bahamas and the United States.

Lockheed Aircraft's illegal payments totaling $25.5 million between 1969 and 1975 were disguised through false accounting entries and the utilization of cash and "bearer" drafts payable directly to the foreign officials. Deak-Perera Company in Los Angeles facilitated the Japanese briberies by wiring $8.3 million to its Hong Kong office, where the U.S. dollars were changed to Japanese yen and presented to Deak personnel for delivery in Japan.

McDonnell Douglas recouped its illegal payments to high-level Pakistani officials by inflating the cost of each DC10 aircraft sold to Pakistani Airlines. Payoffs to top-level executives of Korean Airlines, Philippine Airlines, and Linea Aereopostal Venezolano were concealed through false statements made to the Export-Import Bank.

Bethlehem Steel Corporation and the Southland Corporation each established "slush funds" from which illegal payments were made in the United States to influence the outcomes of their commercial contracts.

The Bethlehem Ship Repair Yard division of Bethlehem Steel paid kickbacks to shipping line agents to direct their vessels into Bethlehem's shipyards for refitting. Padded invoices for service contracts in South and Central America were used to generate cash for a Swiss "slush fund." In 1980, the corporation pleaded guilty to violations of the Bank Secrecy Act and was fined $300,000.

The Southland Corporation, owner and franchiser of the "7-11" convenience food stores, conspired with a former New York City councilman to bribe a New York State tax official. The cash for the payoff was laundered through the councilman's escrow account and then to a bank in Toronto, Canada. These events led to the conviction of Southland and the councilman in 1984 for tax evasion and bribery conspiracies, respectively.

DEAK-PERERA

A scheme to launder $11 million by two Filipino businessmen resulted in the conviction of Deak-Perera in May 1978 for Bank Secrecy Act

violations. The currency, deposited at Deak's San Francisco branch, was sent into the country in envelopes marked as business records by the two Filipinos, who operated a network of black market money exchanges. Deak-Perera willfully failed to file Bank Secrecy Act reports on the deposits, and upon conviction was fined $20,000; in addition, a Deak-Perera subsidiary was assessed $40,000 in civil penalties.[13]

INTERNATIONAL CASH FLOW

Tracing the cash flow between the United States and foreign countries provides an additional indication of the scope of the money laundering problem. In 1984, several Federal law enforcement agencies and the intelligence community participated in an analysis of the international laundering of drug profits, and made the following principal judgments:

> Some $5-15 billion of the $50-75 billion in illegal drug money earned in the United States probably moves into international financial channels each year:
>
> - More than two-thirds of the $5-15 billion is moved on behalf of foreign traffickers bringing drugs to the United States, as well as Colombians and Mexicans involved in distributing cocaine and heroin in the United States. The remainder comes from funds earned by US drug dealers and distributors.
> - About one-third of the illegal drug money moves overseas in the form of currency, and much of the remainder is wired abroad after being deposited in the US banking system.
> - More than two-thirds of the $5-15 billion probably passes through Colombia, or the offshore banking centers of the Caribbean Basin, mainly Panama, the Bahamas, and the Cayman Islands.[14]

Since 1980, the government has been tracking information which points to Panama as a banking center for the cocaine trade, and Hong Kong as a banking center for the heroin trade. While the international list of offshore havens is lengthy, Panama and Hong Kong deserve special attention because, in addition to being banking centers for the narcotics trade, they are also notorious transshipment and meeting points for the traffickers. In addition, they illustrate well the international aspects of the money laundering problem.

officials are far too lenient. Under sections 215 and 216 of Title 18, the maximum criminal penalties for bribery of officers, directors, employees, agents, or attorneys for FDIC-insured banks, Federal land banks, and small business investment companies are $5,000, one year's imprisonment, or both.

Second, many of the institution's employees involved in these cases adopted a posture of deliberate indifference to suspicious transactions or customers. Because of their longstanding concern for their customers' privacy, financial institutions typically have been unwilling to question customers closely about their financial transactions, or to notify law enforcement authorities of their suspicions concerning a customer unless the evidence of illegal activity is clear and unambiguous. In some instances, financial institutions have told customers suspected of money laundering that their business was no longer welcome, but they did not inform the authorities of their suspicions.[39]

Third, even when financial institutions have been willing to notify Federal authorities of suspicious transactions, the Right to Financial Privacy Act, which closely confines the authority of Federal agencies to obtain the records of financial institutions' customers, provides that certain categories of financial institutions (*e.g.*, banks and savings and loan associations) may notify a government authority only that they have "information which may be relevant to a possible violation of any statute or regulation."[40] Because this provision does not itself authorize a financial institution to disclose the information that it believes to be relevant to the violation of law, the financial institution could be subjected to substantial civil liability, including actual and punitive damages and attorney's fees, if it voluntarily disclosed any information in a customer's financial record without first receiving either the customer's authorization or a subpoena, summons, or search warrant. Under these circumstances, many financial institutions have been reluctant to risk incurring civil penalties for cooperating with law enforcement.

Fourth, in some instances, officials of financial institutions that have been contacted by law enforcement authorities for information concerning the accounts of customers have notified the customers of the authorities' interest, even when it was clear to those officials that violations of the law were being investigated. Such notification can obstruct the conduct of criminal investigations. As Justice Thurgood Marshall recently wrote in a unanimous opinion of the United States Supreme Court in *Securities and Exchange Commission* v. *Jerry T. O'Brien, Inc.*:[41]

> [Notice to third parties] would substantially increase the ability of persons who have something to hide to impede legitimate investigations by [an agency]. A target given notice of every subpoena issued to third parties would be able to discourage the recipients from complying, and then further delay disclosure of damaging information by seeking intervention in all enforcement actions brought by the [agency]. More seriously, the understanding of the progress of an . . . inquiry that would flow from knowledge of which persons had received subpoenas would enable an unscrupulous target to destroy or alter documents, intimidate witnesses, or transfer . . . funds so that they could not be reached by the Government.

Moreover, United States Attorney for the Central District of California, Robert C. Bonner, stated to the Commission that this problem of notification "is pervasive and has become an impediment in conducting major white collar and narcotics financial investigations. There have already been reported incidents of such disclosures in pending cases in this district and elsewhere."[42]

In a number of cases, financial institutions have also asserted that under their state financial privacy statutes, their failure to disclose to a customer that they have received a Federal grand jury subpoena for that customer's records would subject them to potential civil or criminal liability under state law. A few judicial decisions in recent years have held that under the Supremacy Clause of the United States Constitution, any provision of state law purportedly requiring a financial institution to notify the customer must give way to provisions of Federal law with which the state law is in conflict.[43] To date, however, neither Congress nor the courts have definitively resolved this issue.

On some occasions, financial institutions that have been suspicious about particular customers and their transactions have not known which law enforcement agency to contact, or have contacted one or more agencies without seeing any of the agencies actively investigate the matter. In addition to the law enforcement agencies, such as the FBI and the DEA, that have infrequently participated in various money laundering investigations, as previously noted, eight agencies have responsibility for assuring compliance with the Bank Secrecy Act. While the overall responsibility for coordinating the procedures and efforts of these agencies rests with the Treasury Department, no one agency within the Treasury Department has been designated as the principal contact and investigative entity for pursuing Bank Secrecy Act violations.

THE PIZZA CONNECTION

On April 9, 1984, thirty-eight individuals were charged in an indictment filed in the Southern District of New York, as a result of a Federal

investigation into heroin trafficking and money laundering in this country and in Europe by various elements of La Cosa Nostra, including the Bonanno crime family. Informally known as the "Pizza Connection," the network was one of the largest importers of heroin into the United States, and used pizza parlors throughout this country to distribute heroin smuggled in from Southeast Asia's Golden Triangle via Sicily.

Law enforcement authorities have generally recognized that members of La Cosa Nostra and the Italian Mafia have been involved in heroin trafficking since the late 1930s and early 1940s. According to the 1984 analysis by Federal law enforcement agencies and the intelligence community,

> Heroin has always been the drug commodity preferred by [the Mafia]. Much of the heroin handled by American [Mafia] figures has been processed in laboratories under the control of their Italian counterparts in Sicily. A downpayment, ranging from a small fraction to 100 percent of the delivered price, reportedly is required in advance of shipment. Out of a total take of some $2.5 billion from heroin sales, US [Mafia] families probably send up to $1 billion annually in payments to suppliers in Sicily. There is considerable probability that a substantial share of US profits is reinvested directly within the [Mafia] economic empire or laundered domestically for legitimate investment purposes, although some US family drug money finds its way into Swiss bank accounts.

The "Pizza Connection" case provided new evidence of the extent to which elements of La Cosa Nostra and the Italian Mafia have jointly participated in narcotics trafficking and the laundering of narcotics proceeds through financial institutions in the United States.

According to a criminal complaint filed in the case on April 19, 1984, Joseph Bonanno, born in Sicily in 1905, emigrated to the United States in 1925 and became active in the New York La Cosa Nostra. Bonanno is believed to be a major figure in the planning of the heroin network operated by organized crime in the United States, Sicily, and elsewhere.

Bonanno attended three meetings to discuss, among other matters, the Bonanno family's role in heroin trafficking. In October 1956, Bonanno met at Binghamton, New York, with his "underboss," Giovanni Bonventre, and his consigliere (counselor), Carmine "Lilo" Galante. The second meeting occurred in late October or early November 1957, in Palermo, Sicily. In addition to Bonanno and Galante, other known La Cosa Nostra members attended this meeting, including, Gaspare Maggadino, John Di Bella and "Lucky" Luciano.[44] The third meeting took place on November 14, 1957, at Apalachin, New York

and included fifty-seven La Cosa Nostra leaders and associates in addition to Bonanno. Bonanno disappeared in 1964, and was not observed again by law enforcement authorities until 1966, when he settled in Tucson, Arizona, where he presently resides.

The heroin importation network relied upon a faction of the Bonanno crime family headed by Salvatore Catalano to distribute the heroin in this country. In turn, the heroin business of this Bonanno crime faction was tied directly to organized criminal groups in Sicily, the rest of Italy, Switzerland, Spain, and Brazil. Direct evidence of the existence of the network was first obtained in 1980 when couriers were observed transferring enormous amounts of cash through investment houses and banks in New York City to Italy and Switzerland. Tens of millions of dollars derived from heroin sales in this country were transferred overseas in this fashion, apparently in violation of the Bank Secrecy Act.

According to the complaint, the function of the couriers was to transport cash out of the United States. Generally, the cash was in $5, $10, and $20 denominations, or "street money," and was transported out of the country by private jet to Bermuda, by commodity account transfers between New York City and Switzerland, and various other means. These funds were then channeled from Switzerland or Bermuda back to the narcotics sources in Italy. The money was used to pay for the raw opium converted into heroin in the Sicilian laboratories, to finance additional laboratories, and otherwise to support and profit the overall network of heroin trafficking.

One of the couriers for this laundering operation was Franco Della Torre, a Swiss resident. In March 1982, Della Torre deposited slightly more than $1 million in $5, $10, and $20 bills in the "Traex" account at the Manhattan office of the brokerage firm Merrill Lynch Pierce Fenner & Smith. Thereafter, Della Torre made 4 additional cash deposits totaling $3.9 million in the "Traex" account at Merrill Lynch in late March and mid-April 1982.

In making large cash deposits at Merrill Lynch, Della Torre's practice was to request that security personnel accompany him from his hotel to Merrill Lynch offices. After several such deposits, security employees determined that Della Torre's funds could not be afforded proper security, and arrangements were made to escort the money from Della Torre's hotel directly to Bankers Trust, where Merrill Lynch maintained accounts. A Merrill Lynch security official, noting the suspicious nature of transactions and Della Torre's reluctance to enter the "money room" at Bankers Trust due to the presence of surveillance cameras, contacted the Merrill Lynch manager in Zurich, Switzerland, regarding the legitimacy of the "Traex" account. In spite of assurances that the account was in order, Merrill Lynch closed the account in April 1982,

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whereupon Della Torre moved his laundering operation to the Manhattan office of the brokerage firm E. F. Hutton & Company.

From April 27 through July 2, 1982, Della Torre made 7 cash deposits totaling $5.2 million in a "Traex" account at E. F. Hutton. Between July 6 and September 27, 1982, Della Torre made 11 similar cash deposits totaling $8.25 million in the account of "Acacias Development Corporation" at E. F. Hutton in Manhattan.

Of the total $18.3 million deposited by Della Torre in the Merrill Lynch "Traex" account and the two E. F. Hutton accounts, an undetermined portion was transferred to a "P.G.K. Holding" account at E. F. Hutton. According to Swiss authorities, P.G.K. Holding was listed as an importer and exporter of precious gems. Records of this account reflect that nearly $13 million was eventually transferred out of the United States to pay for commodity futures contracts in Switzerland.

Commission interviews established that in April 1982, an E. F. Hutton senior vice-president directed an employee to arrange for large cash deposits at Bankers Trust for a then unidentified client. Della Torre arrived at Bankers Trust for the first such arranged deposit with two gym bags filled with small-denomination bills, excused himself from the counting room, and returned a short time later with an additional bag filled with money. After two deposits totaling nearly $4 million were made, Bankers Trust refused to accept further transactions of this nature with Hutton, ostensibly because of an inability to free employees for counting money. In reality, Banker's Trust officials were concerned about the legitimacy of the cash deposited, and one official shared those concerns with an E. F. Hutton official. The Hutton official responded that E. F. Hutton was making the deposit and that Bankers Trust would not be liable for anything. When interviewed by the Commission, this E. F. Hutton official stated that he did not recall this conversation with the Bankers Trust official.

Hutton officials subsequently arranged for Della Torre's cash deposits into the "Traex" and "Acacias" accounts at other New York financial institutions, and established security protection from Della Torre's hotel to the depository institution on three separate occasions. The Hutton employees responsible for the delivery of Della Torre's cash, when interviewed by the Commission, stated that no efforts were made to contact their legal department regarding Della Torre's deposits despite the admittedly highly unusual nature of the transactions.

In addition, on October 5, 1982, E. F. Hutton was served with a Federal grand jury subpoena regarding Della Torre and the "Traex" and "Acacias" accounts. Hutton officials, including Hutton's general counsel, promptly notified an associate of Della Torre in Switzerland of the subpoena, despite requests by the government that no such

disclosure be made. On October 10, 1982, P.G.K. Holding deregistered itself in Zurich and moved to Zug, Switzerland. Della Torre made no further deposits.

According to the complaint, information from confidential sources indicates that other indicted members of the heroin network were involved in money laundering activities. Adriano Corti, a member of the Catalano faction, identified himself to a European financier as a principal of COOP Finance in Switzerland. Corti explained that he had a client, a "prominent industrialist," in New York City, who was interested in transferring $5 million to $6 million cash from the United States to Switzerland. Between October 20 and November 21, 1980, approximately $1.78 million in cash was shipped to Switzerland from deliveries arranged by Corti in New York City. Another confidential source observed approximately $2 million in cash denominations of $5, $10, and $20 bills being delivered in New York City at Corti's direction between October and December 1980. This source stated that the cash deliveries were made by automobile by several members of the Catalano faction who transported the cash in gym bags, suitcases, and cardboard boxes. Yet another confidential source indicated that another member of the heroin network, Phillip Salamone, customarily transported currency from New Jersey to a location in New York State, where another individual smuggled the currency across the border into Canada. The ultimate destination of the money was believed to be Sicily.

The complaint states that agents believe that between October 1980 and February 1981, approximately $6.9 million in cash was collected and transported from New York City to banks in Bermuda and Switzerland. Together with amounts deposited by Della Torre, authorities believe that the heroin network laundered at least $25.4 million between October 1980 and September 1982.

THE EDUARDO OROZCO CASE

Over a four-year period ending in November 1982, Eduardo Orozco and a number of associates deposited approximately $151 million in cash in eighteen bank and currency exchange accounts, and transferred it to accounts elsewhere in the United States, Panama, the Bahamas, and the Cayman Islands. While much of the money came from Colombian cocaine dealers, Orozco's laundering customers also included Sicilian heroin traffickers of La Cosa Nostra, including Antonio Turano, who was found murdered in New York City in March 1983.

A joint Customs, DEA, and IRS investigation was initiated in 1981 when Orozco's attorney became suspicious that the numerous bank accounts which he had established and managed on behalf of Orozco were

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being used to launder illegal proceeds. The attorney apparently knew Orozco as a Colombian importer and exporter of coffee, but became concerned about the frequency, manner, and size of deposits which were being made into these accounts. The attorney introduced an undercover DEA agent, acting as a Citibank official, to Orozco, who quickly took the agent into his confidence.

In the three months that followed, the undercover DEA agent was given a desk at Citibank and established an account through which Orozco laundered almost $3.5 million, with approximately one-third of that amount transferred to accounts in Panama, another one-third to other foreign bank accounts, and the remainder to domestic U.S. banks. Another account which the undercover DEA agent established for Orozco was in the name of a Panamanian corporation; the account holder was listed as an individual other than Orozco, to avoid identifying Orozco with the account.

Orozco was so pleased with the undercover DEA agent's assistance that he offered to pay the agent a commission of 1/10th of 1% of all cash deposited into the account. Later, he increased the commission when the agent agreed to place Orozco's account on a bank exemption list, thereby eliminating the completion of CTRs for that account. Orozco made a profit because he charged his customers a percentage fee to launder their money and another fee to convert the laundered dollars into the specific South American currency requested. Early in the sting operation, Orozco stated to the government agent that the money was generated by a laundering network he headed on behalf of South American coffee merchants. Several months later, however, Orozco admitted that the money originated "60% to 70%" from drug trafficking. Orozco took care to insulate himself, he explained to the undercover agent, by dealing only with intermediaries who delivered the money to him, thereby creating a buffer between himself and the drug dealers.

Seven months after his initial meeting with Orozco, the undercover DEA agent had been paid $13,000 in commissions for the $4 million deposited into the accounts. Although Orozco severed his connection with the agent once he suspected the agent's true identity, the government's investigation continued with further analysis of Orozco's accounts and the use of the first court-authorized telex intercept order. Records recovered after the arrest of Orozco and members of his organization showed that telex messages were sent to his counterparts in Colombia with detailed information reporting the receipt and transfer of monies along with the specific banks and accounts involved.

On June 30, 1983, Orozco was found guilty of conspiracy to violate drug laws and was sentenced to eight years in prison and was fined $1 million.

Orozco used several methods to conceal the source and amounts of currency in his operation:

- Small-denomination bills were converted into larger-denomination bills.
- Amounts just under $10,000 were deposited, many times using couriers, to avoid the filing of CTRs.
- Shell corporate entities were set up, and deposits into these accounts were made through inter-corporate transfers, adding another level of insulation.
- False "bills of lading" were used to substantiate the deposit and transfer of funds among export/import companies.

Orozco used eleven banks, each receiving a portion of the total $151 million which he laundered. One of the institutions involved accepted fifty-three cash deposits from an "R. Cespedes," an Orozco accomplice, although he in fact made only four deposits himself. The Orozco case grew in magnitude because most of the financial institutions he used failed to verify the depositor's identity.

More than two-thirds of the money moved by Orozco—approximately $97 million—went through his accounts with Deak-Perera, a currency exchange based in New York City. The Deak-Perera account was used between November 1980 and March 1982. Orozco opened this account in the name of Dual International (Interdual), which purportedly was a retail currency exchange. Although Interdual claimed that it purchased foreign currency and checks in exchange for U.S. currency, in dealing with Deak-Perera Interdual deposited only U.S. currency. In fewer than sixteen months, this account received 232 cash deposits totaling almost $97 million. These deposits were often carried in cardboard boxes to the Deak-Perera New York City branch. One series of deposits in October 1981 involved a $3.4 million deposit, followed two days later by a $999,000 deposit, followed one day later by a $537,000 deposit, followed within five days by a $879,000 deposit, and three days afterward by a $1.5 million deposit—all in cash. Customarily, the deposits remained only a few days before they were transferred to other accounts in U.S. cities, Panama, the Bahamas, and the Cayman Islands.

In an interview with DEA agents, Deak-Perera officials admitted that Deak-Perera employees did not verify the identity of individuals opening accounts, and that Deak-Perera did not require the account holder to open the account in person or to present himself at the Deak-Perera branch to transact business. At its March 14, 1984 hearing on money laundering in New York City, the Commission sought the voluntary cooperation of Deak-Perera's chairman, Nicholas Deak, in providing

additional details about the Orozco case and responding to questions from Commission members.

Deak refused to testify voluntarily, and the Commission was unable at that time to compel his testimony. Previously, in an interview with the Commission, Deak failed to explain how millions of dollars could have been laundered through Deak-Perera. Instead, he professed not to know the threshold amount for reporting and asked whether the money laundered through Deak-Perera was *only* drug money. Deak also stated that he was too far removed from the problem to be of any assistance to the Commission.

Four of the New York banks used by Orozco—Chase Manhattan Bank, Marine Midland Bank, Irving Trust Company, and Credit Suisse—terminated his privileges and refused to accept his business at some point in the course of his scheme. In interviews with knowledgeable bank officials, the Commission found that with the exception of Marine Midland Bank, none of the banks took active steps to notify law enforcement officials about Orozco's suspicious transactions:

- Orozco opened an account for the Calypso Travel Agency at Chase Manhattan Bank, with a $60,000 cash deposit. Thereafter, Chase Manhattan accepted two other cash deposits, of $40,000 and $50,000, to the account. Calypso Travel initially had been placed on Chase's exemption list; it was removed from that list because of a "change in bank policy" which, an employee told the Commission, was unrelated to suspicions about Orozco's transactions.
- Credit Suisse allowed an Orozco nominee, Alvarez Segura, to make a cash deposit of $57,795, which was followed the next day by a cash deposit of $249,000. While the bank eventually closed this account, it never contacted law enforcement officials to report any concerns. A review of the bank's daily cash deposit records readily revealed that these two Orozco-related deposits were far larger than any others logged for the same time period.
- Irving Trust Company allowed Orozco's attorney to maintain an account for his client and to deposit large sums of cash on behalf of Orozco almost without question. Officials of Irving Trust have since informed the Commission that under Irving Trust's current "personal banker" system, immediate steps would be taken to close accounts of any customers suspected of criminal activity.
- Marine Midland Bank's branch in Jamaica, Queens accepted a cash deposit of $830,000, which Orozco's couriers had brought into the bank in a bag. Orozco's attorney, who was a well-known customer at the bank, called the branch manager to alert him to the arrival of the $830,000. Although the branch initially accepted the deposit and completed a CTR, the branch manager became concerned about it and called the bank's associate counsel for instructions on how to handle the transaction.

  The counsel instructed the manager to put a hold on the Orozco account, to ship the cash directly to the Federal Reserve with a note that it be kept segregated and inspected for counterfeits, and to prepare and express-mail the CTR (on which a bank employee had independently noted suspicion about the transaction) to the IRS's processing center for CTRs in Ogden, Utah. When interviewed by the Commission, the bank's associate counsel said that he gave these instructions because he felt that this transaction would be of "interest to law enforcement."

  The next day, Orozco's attorney again asked the bank to accept a $1 million cash deposit. The branch manager was then instructed by his superiors to close the account. In spite of a request from the FBI that Marine Midland keep the account open and accept the deposits from Orozco's attorney, the account was closed.

Representatives of these four banks unanimously noted that, with the benefit of hindsight, suspicious transactions such as Orozco's would cause the bank to close the customer's account "without question." All of the representatives said that depositors need proper identification and references. All, however, were uncertain about whether they could or would report suspicions to law enforcement authorities, and were unclear which Federal agency should be contacted.

GREAT AMERICAN BANK

As a result of Operation Greenback, a Federal grand jury indicted the Great American Bank of Dade County, Florida (GAB) and three employees, including the vice president of the installment loan department, a loan officer, and the head teller. The indictments, returned as a series from December 1982 through April 1984, charged that the bank laundered more than $94 million from January 1980 through February 1981, and willfully failed to file 406 CTRs during that period. In addition, the bank's depositors—three separate narcotics organizations—were charged in three companion indictments. All defendants who are not fugitives have pleaded guilty to various charges, including failure to file CTR reports and conspiracy to provide money laundering services for narcotics-related organizations.

to submit a false, fictitious, or fraudulent statement to the IRS, and was fined $25,000. The bank cashier also pleaded guilty to the above charges after testifying for the government, and was placed on probation. The vice-chairman of the board, convicted on all three counts after a trial by jury, is currently awaiting sentencing; the chairman was acquitted.

LIU CHONG HING BANK

From July 1982 until April 22, 1983, four individuals associated with the Liu Chong Hing (LCH) Bank (headquartered in Hong Kong with a branch in San Francisco) agreed to launder $1.5 million in supposed "narcotics proceeds" for two undercover IRS agents.

The agents used an informant to obtain an introduction to Aaron Lee, owner of the Canada-Asia Finance Group, Ltd. of Vancouver, British Columbia. Representing themselves as narcotics traffickers, the agents said that they were looking for a way to launder their drug proceeds and asked Lee for his assistance in arranging a laundering scheme through Hong Kong banks. Lee said that he could arrange for large amounts of cash to be moved through U.S. branches of foreign banks, and advised that his services would cost $10,000 and 5% of each month's deposits.

After the agents accepted his plan, Lee traveled to Hong Kong and made preliminary arrangements with LCH Bank vice president So Kwong Sing. A bank account in the name of a fictitious company, controlled by Lee, was set up so that funds in the United States could be transferred to it. Another account was created to be used and controlled by the agents to receive some of the funds derived from the currency deposits. Lee returned to the United States, met with the agents, and escorted them to a San Francisco branch vice president, who accepted a deposit of $442,500 for which he did not file a CTR.

Two weeks later, the agents were given an address in Hong Kong by the branch official and were instructed to meet with LCH Bank vice president So and a Hong Kong accountant. In Hong Kong, the agents were told by So and the accountant to divide their deposits into specified smaller amounts, to vary their pattern of deposits and to "build in some odd figures so that the whole lot could not add up to a round sum"—all to circumvent the currency reporting requirements. The agents were given completed deposit slips of eleven different persons, on the LCH Bank accounts specifying amounts of currency to be deposited at the San Francisco branch. After these funds were deposited, they were to be transferred among other bank accounts at the Hong Kong LCH bank, until they ultimately were deposited into an account under the control

of the two IRS agents. To avoid any uncertainty, the agents were given a diagram to help them better understand the flow of funds between dummy and control accounts.

At this stage of the operation Aaron Lee had been removed by the agents, who now dealt directly with the bank officials. Under a new agreement, the agents were to pay 1% of their monthly deposits to the bankers for their "services," and in turn were to receive a 1% commission for any new "customers" they introduced to the Bank.

Four individuals were indicted in September 1983 on conspiracy and false statement charges, as well as currency transaction violations relating to $500,000 that had been laundered.

Aaron Lee was convicted, although he testified against his co-conspirators as a government witness, and has just completed his six-month sentence. The San Francisco branch official was acquitted but So, the vice president in Hong Kong, was convicted after trial. The case against the Hong Kong accountant is pending.

GARFIELD BANK

In July 1981, a Federal grand jury in Los Angeles indicted the Garfield Bank and seven individuals, including the Bank's chairman and two former vice presidents, for the willful failure to file CTRs and conspiracy to defraud the government. Twenty-nine transactions, ranging in size from $36,020 to $491,790 and totaling more than $3.3 million, were tracked through the bank over a two-year period. Concealment of narcotics proceeds was the apparent motive for directing funds through the bank.

Nathan Markowitz, an attorney who provided laundering services for narcotics traffickers, established "nominee" accounts at Garfield, foreign corporations in Panama and Liberia, trusts at the Bank of Bermuda, and sham corporations in California. Large amounts of currency were deposited into various accounts over which Markowitz maintained control. This money was then wire-transferred to trusts at the Bank of Bermuda or was used to purchase cashier's checks at the Garfield Bank for Markowitz's clients. To conceal the nature, and disguise the amounts, of currency flowing from offshore corporations to the United States, Markowitz used false documents to give the appearance of legitimate, non-taxable income for his clients.

The key to the success of the laundering operation in this case was the complicity of bank officials who willingly and knowingly failed to file CTRs. The chairman and president of the bank, John A. Gabriel, was charged with "willfully causing the bank not to file" CTRs for Markowitz's transactions. Gabriel permitted his private office to be used