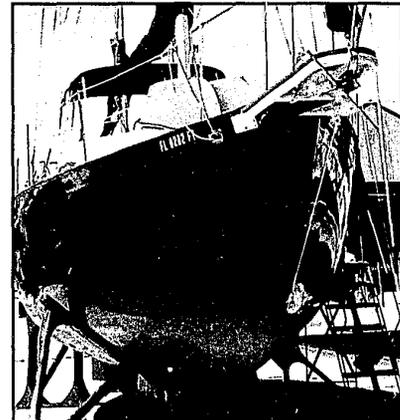
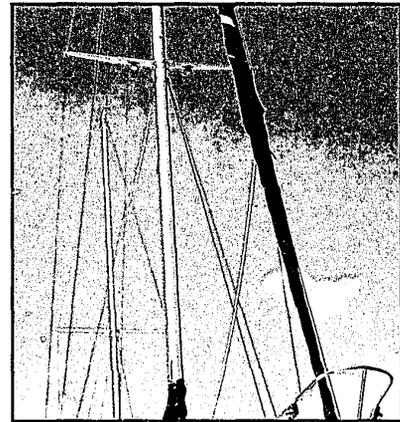
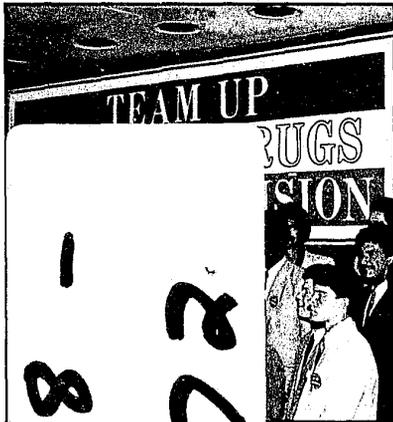
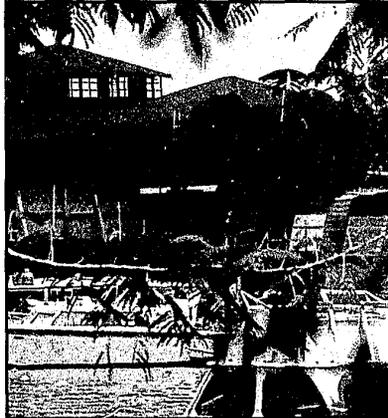
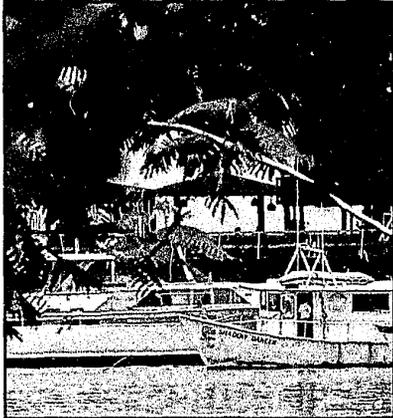




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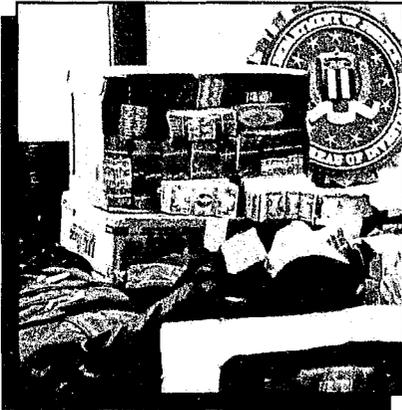
Law Enforcement Bulletin



Combating America's Drug Problem



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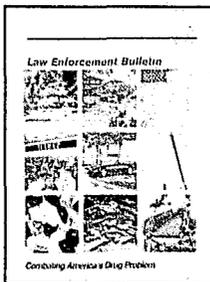
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The Cover: This issue focuses on law enforcement's efforts to combat the drug problem.

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Washington, DC 20535

William S. Sessions, Director

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Money laundering is perceived by law enforcement as the most difficult area of drug trafficking to understand, much less penetrate with traditional investigative tools. Part of the difficulty is not knowing the who, what, where, and how of money laundering schemes. Yet, recent investigations have successfully penetrated and dismantled several Colombian money laundering organizations.

Within the past 3 years, the Federal Bureau of Investigation (FBI), the Drug Enforcement Ad-

ministration (DEA), and the U.S. Customs Service concluded major undercover operations that led to the seizure of both drugs and money and the identification of money laundering organization members. In both Operation CASHWEB (FBI) and Operation PISCES (DEA), agents infiltrated the highest levels of Colombian drug traffickers and money launderers operating in the United States, Canada, Mexico, Panama, Colombia, the Bahamas, Aruba, the Cayman Islands, and the Turks and Caicos Islands. Operation C-CHASE, a Customs investiga-

tion, resulted in the indictment of 85 individuals, including several officials affiliated with international banks.

In each case, undercover agents positioned themselves inside the money laundering organizations, where they observed people collecting drug money. They learned how and to where the money was sent, and in some cases, identified the people who received the laundered funds. Those indicted were successfully prosecuted for violations of U.S. Code Title 21 (The Controlled Substance Act),

Title 31 (The Bank Secrecy Act), and various Title 18 violations, including The Money Laundering Control Act.

This article examines Colombian money laundering by describing who money launderers are and how they launder money. It presents a typical situation and then gives an account of the three-step money laundering process.

AN OVERVIEW

Drug trafficking revenues are estimated to be as high as \$300 billion annually worldwide, one-third of which is collected in the United States.¹ The Internal Revenue Service (IRS) estimates that traditional organized crime figures report only 40% of their income.² Colombian drug traffickers report even less, and in many instances, remove all their cash assets from the United States. Recently, Federal agents seized \$20 million from Colombian money launderers preparing to send the money to Colombia.³

Because criminals have to do something with their money besides just accumulating it, they try to conceal the origin of the cash using legitimate interests. Money laundering is the process that conceals and converts illegally earned cash to another payment medium by altering the appearance of the money's origin from illegal to legal.⁴

THE COLOMBIAN MONEY LAUNDERER

Many Colombian money launderers have legitimate businesses involved in the flow of cash between the United States and Colombia, making them natural conduits for drug traffickers to use. Others are associated with black

market exchange houses in Colombia or are freelance operators travelling to and from Colombia, the United States, and Panama for the sole purpose of laundering drug-generated monies.

For many of these operators, money laundering is socially acceptable. They rationalize that they are involved in the money market, not in the drug trade. They usually avoid using couriers or hiring employees who have criminal records or have any type of associa-

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tion with drugs. These money launderers make every effort to separate the two worlds of drug trafficking and money laundering. Yet, while they mentally disassociate themselves from the drug trade, they use high-tech devices, countersurveillances, and clandestine meetings to conceal their activities from law enforcement.

Many launderers operating in Colombia are naturalized citizens who immigrated to Colombia before the drug traffickers gained power through their illegal enterprises. With their vast financial skills and expertise, they were quick to join the drug traffickers as their reign of influence expanded. Working in the major cities of Cali,

Bogota, Medellin, and Barranquilla, the money launderers move the traffickers' cash through intricate international networks that hide the original source of the cash.

A TYPICAL TRANSACTION

Colombian money laundering operations are usually run by people in Colombia with ties to a money exchange house. A typical transaction begins when a launderer asks a drug trafficker, with whom he has direct contact, if money needs to be moved out of the United States. If drug money is available for transfer, the trafficker gives the launderer the necessary information to make the pickup.

While the drug trafficker's distribution organization collects the money to take to a certain city on a specified date, the money launderer instructs his U.S. broker to have a courier at this mutually agreed on transfer point. After making the connection with the distribution organization, the courier delivers the cash to whomever the broker is using to move the money out of the country. The money is then wire-transferred through several foreign accounts before it is forwarded to Colombia.

Those involved in the transfer process get paid based on either a preset amount for each transaction or a percentage of the amount of cash moved. Percentages may range from as low as 1 percent to as high as 8 percent. For instance, on a \$1 million transfer, a U.S. broker may get 5 percent or \$50,000 for moving the money out of the country.⁵

Both the CASHWEB and PISCES undercover operations placed operatives in a position to facilitate the movement of cash

received from couriers in the United States to Panamanian banks. This allowed law enforcement to identify the money laundering organizations, as well as the drug supply and distribution rings. Two undercover agents in Operation CASHWEB, both Anglo-Americans who spoke very little Spanish, were accused numerous times of being "Federales" (police officers); yet, the Colombians continued to use their services because their money delivery system was efficient and reliable.

THE MONEY LAUNDERING PROCESS

Money laundering is a three-step process. First, illicit money is generated from the distribution and sale of drugs. Second, the money is turned over to a money launderer for transfer out of the United States. Third, the money is moved out of the country into international channels by wire transfers, conversion, or smuggling. What follows is a brief discussion of the three ways money is moved out of the United States.

Wire Transfer

The use of wire transfers depends on a U.S.-based financial institution willing to accept huge cash deposits. One way to accomplish this is simply to bribe key bank personnel. Between 1980 and 1981, drug traffickers bribed the head teller, a loan officer, and the vice-president of the Great American Bank in Miami. The bank then processed large amounts of cash for a fee, which was divided among the three individuals and the bank. In exchange, the three employees agreed not to file curren-

cy transactions reports (CTRs), which are required by law for deposits over \$10,000. The employees also issued cashier checks disguised as loan proceeds to the traffickers and made wire transfers. Within a 13-month period, the bank laundered \$94 million.⁶

Some launderers avoid using bribery of bank officials by making several deposits under \$10,000 and only one large deposit. By doing so, only one CTR is generated, which

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usually does not flag Federal investigators. These deposits can be either cash, converted money orders, cashier checks, or another negotiable instrument. Launderers may also make single large deposits in rural banks throughout the United States, transfer the funds to a central domestic bank account, and then move the entire amount in a single transaction.

Conversion

The conversion method of money laundering is a lengthy process, but is used by many launderers because of the relative ease of carrying paper documents out of the United States. This method starts when the money launderer receives a large amount of cash, usually in small denomination

bills, from the trafficker's distribution network. The central money launderer then hires 5 to 10 persons to go to different banks, post offices, or other places that sell cashier checks, money orders, or travelers checks. Those hired purchase cashier checks for under \$10,000, to avoid the CTR reporting regulations, or money orders for \$500, which are then used to purchase larger cashier checks. The converted items are then moved out of the country by mail, through commercial shipping, or by someone hired to take a flight out of the country.

For example, during a typical pre-boarding passenger check of a flight from Miami to Bogota, U.S. Customs agents discovered a woman carrying several cashier checks totaling \$40,000. Each check was made out to her for an amount less than \$10,000. Also, an additional \$40,000 was sewn into the lining of her purse and taped under her arms.

Converted items can also be deposited in a domestic bank and then wire transferred to a foreign bank account. A good operation can easily convert \$1 million in one day, using 10 people with \$100,000 each to complete 15 to 20 transactions.

Smuggling

The third method for transferring illicit cash is smuggling, although this is not a preferred method because it increases the possibility of loss through accident, theft, or seizure by authorities. Any money launderer who accepts a consignment of cash is responsible for it from the time of pickup until it is delivered to the trafficker in Colombia. If something happens to the

money, he must be prepared to make good the loss.

Also, smuggling money is not an easy task. Drug money can be bulky and heavy because it usually consists of large amounts of small denomination bills. For instance, a suitcase filled with \$1 million in \$20 bills would weigh just over 100 pounds.

To smuggle money, money launderers usually hire a "mule," a person paid to physically transport the cash or converted items out of the country on their persons or in their luggage. Some launderers hide the cash in items for export, such as cars, televisions, or stereos. It is not uncommon for traffickers to provide the money launderers with the items to be used for smuggling purposes. As can be surmised, many money launderers operate legitimate import/export companies.

Launderers also use private airplanes to smuggle cash out of the United States. In one investigation, U.S. Customs agents seized a Lear jet in Texas, as it was preparing to cross the border with \$5 million in cash on board.⁷ Smuggling money out of the country by private aircraft is usually used when exchange rates are high and the launderer wants to use the trafficker's money to realize a profit over and above his fee by exchanging U.S. dollars for Colombian pesos.

For the most part, Colombians use their illicit monies to reinvest in the drug trade and to purchase real estate and other assets in Colombia. Once in Colombia, the illegally generated monies appear as legitimate funds free of the taint of criminality. Even so, most of the people in Colombia know that the vast wealth of certain individuals is

directly attributable to the drug trade.

MONEY LAUNDERING ORGANIZATIONS

The numerous groups involved in money laundering are in constant competition for drug traffickers' business. Competition is reflected in the percentage rates charged. For instance, a cash smuggler might request a 5-percent fee,

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...law enforcement agencies can make a significant impact by continued investigations into money laundering organizations.
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while a wire transfer group might charge 8 percent. Wire transfer provides a fast means of moving money with little risk of loss to the trafficker. However, the launderer's use of legitimate banks creates a paper trail, increasing the risk of exposure to law enforcement. Hence, the higher rate.

The group with the best contacts and the best business record (no seizures, no losses, no arrests) usually handles the most money. A good money laundering organization can easily handle \$100 million or more each year.

CONCLUSION

Law enforcement officials throughout the United States are

repeatedly frustrated when they learn of the vast amounts of monies reaped by Colombian drug traffickers from their criminal enterprises. However, successful Federal undercover investigations have targeted money laundering organizations to strike at the profits of that criminality.

Coupled with traditional investigations of organized drug trafficking groups, law enforcement agencies can make a significant impact by continued investigations into money laundering organizations. The results of these investigations are taking the profit out of the drug trade, one of the keys to stem the flow of drugs into this Nation.

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Footnotes

¹ "Drug Money Soils Cleanest Hands," *Insight*, August 21, 1989, p. 9.

² Wharton Econometric Forecasting Associates, "The Income of Organized Crime," in *The President's Commission on Organized Crime: The Impact, Organized Crime Today* (Washington, DC: Government Printing Office, 1986), p. 486.

³ "\$20 Million Seized, 11 Arrested in N.Y.," *The Washington Post*, January 6, 1989, p. 4A.

⁴ Clifford L. Karchmer, *Illegal Money Laundering: A Strategy and Resource Guide for Law Enforcement Agencies* (Washington, DC: Police Executive Research Forum, 1988), p. 4.

⁵ Information drawn from conversations with money launderers and observation of their activities.

⁶ *President's Commission on Organized Crime, The Cash Connection: Organized Crime, Financial Institutions, and Money Laundering* (Washington, DC: Government Printing Office, 1985), pp. 39-41.

⁷ The money was seized by agents during Operation GREENBACK. This information was obtained from an interview with a U.S. Customs agent.

SA Florez and Ms. Boyce are assigned to the Economics and Financial Crimes Training Unit at the FBI Academy.
