



Drug Prospectus

FINANCIAL: Money Laundering in Maryland

151510



Maryland State Police
Criminal Intelligence Division
1992
X-97-01022

INTELLIGENCE REPORT

The information in this report may be indicative of illegal drug availability and or trafficking in the

State of Maryland

Copies of this report are available from the
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Money Laundering in the State of Maryland

Money laundering, while most often associated with illicit drug trafficking, is not solely the prerogative of the drug dealer. Any endeavor that produces illicit funds such as organized gambling, requires some type of money laundering. However, the large amounts of cash money generated by the illicit drug trade is the principal source of funds being laundered.

Today the makeup of organizations controlling international drug smuggling is comprised of many nationalities. Drug organizations are generally divided along social and ethnic lines, providing both recruits as well as potential havens in which to blend. In addition, Maryland is an important market for controlled dangerous substances (CDS) and, as long as illicit drug trafficking is a significant financial force in the State of Maryland, money laundering will remain an important target for law enforcement.

Maryland's first money laundering law, Article 27, §297B, of the Annotated Code was enacted in 1990. Joint efforts by law enforcement and the State's Attorney General's Office to bring money laundering cases before the courts are only now coming to fruition. The first case under the new money laundering statute was brought before the Circuit Court for Harford County on May 27, 1992, and it is anticipated that as many as six (6) money laundering cases may go before the Maryland Courts during 1992. Because court cases under the money laundering statute are just having their debut, there is no state level money laundering history to research.

Why we need to learn about Money Laundering

Money laundering is the mechanism by which monetary funds obtained illegally are made to appear legal or are hidden from government scrutiny. Under Maryland's new State Statute, MD. Ann. Code, Art. 27, §297B., money laundering only pertains to illicit drug related funds which exceed ten thousand dollars (\$10,000.00). Maryland is one of the six (6) states among the nineteen (19) states that have enacted money laundering legislation to restrict its enforcement to drug related crime.

Retail sales of CDS will almost always be in the form of cash transactions. As this cash money flows upward in an illicit drug distribution organization the need to hide these illicit profits increases. The drug organization may first attempt to hide the money's origin, and then they may attempt to find a safe means to transfer the money in a manner that will make tracing it back to its CDS source as difficult as possible. The criminal element uses money laundering to insulate both their money and themselves from law enforcement.

If we are going to be successful in the war against drug abuse we must know the typical methods used to launder CDS money and to what extent money laundering is a financial factor in the State of Maryland. The information needed to answer these two questions is only partially available today.

As to the monetary extent of money laundering in the State of Maryland, there are no exact statistics. In its February 1990 report, the Financial Action Task Force, a multinational group established at the July, 1989 Economic Summit, estimated that sales of cocaine, heroin, and cannabis totalled about \$122 (one hundred twenty two) billion annually in the United States and Europe. As much as \$85 (eighty five) billion of this total could end up as laundered money.¹ Estimates broken down by state are considered less accurate and are seldom published. An additional hindrance in compiling money laundering information stems from the way criminal investigations are classified. Records of types of cases initiated before 1985 seldom included money laundering as a category. Also, a case is usually listed under the highest primary charge being prosecuted, thereby concealing its money laundering component. Developing precise statistical data will have to wait for additional informational resources.

¹ U.S. General Accounting Office, Money Laundering "The U.S. Government Is Responding to the Problem", (Washington, D.C.:GAO/NSLAD-91-130, 1991), pp. 12.

The development of information about money laundering is not a subject restricted only to academic interest. Law enforcement efforts will be less effective if they employ resources tailored to incorrect estimates of the size and nature of the problem. Improved knowledge of the scope of the Maryland money laundering problem can be a useful planning tool. Law enforcement will be more productive if it is able to train its forces to fight today's money laundering methods, thus providing proactive opportunities to begin investigations based solely on financial information.

To better understand how money launderers operate, we can look at the methods commonly used both nationally and internationally. These techniques, however, may not be commonly found in the State of Maryland because much of the cash generated by CDS sales in the State may quickly be moved out of the State to higher levels in the drug trafficking organization. The discovery of money laundering schemes in other areas of the country such as New York City or Miami, Florida may, in fact, involve drug money first obtained on Maryland streets. While the number of possible approaches available to launder money are limited only by human imagination, those most often mentioned by law enforcement are listed below under Money Laundering Techniques.

Money Laundering Techniques

While there is not enough specific information about money laundering in Maryland, as indicated earlier in this report, there is considerable information about the subject on a national level. The following outlines the most popular processes and methods used.

I. Processes Used to Launder Money

A. Placement - the physical disposal of bulk cash through various means including:

1. Commingling of illicit funds with legitimate business proceeds (or legitimate appearing business funds)
2. Smuggling
3. Structuring
 - a. Smurfing, exchanging unreportable dollar amounts of cash for cashiers checks, money orders etc.
 - b. Paying for automobiles, property, etc. in multiple unreportable dollar amounts.
4. Underground financial institutions

It is during placement that the illicit cash money is closest to it's illegal source and is most vulnerable to law enforcement efforts.

B. Layering - the efforts to confuse and disguise the source of illicit funds by intentionally using several money laundering methods at any one time. This avoids exposing large amounts of currency to law enforcement. Also, by weaving complex combinations of financial transactions investigative efforts to develop an audit trail become very difficult. Examples of methods often combined for this purpose are:

1. Bearer Bonds
2. Wire Transfers
3. Money Orders
4. Cashiers Checks
5. Letters of Credit

C. Integration - assimilation of illicit money back into the economy usually combining different methods & types of physical transportation. At this point the laundered money is fully absorbed back into the economy and available for use by the criminal.

1. Methods for bringing laundered funds back into the legitimate economy with the appearance of having a legal source:

- a. real estate transactions
- b. loans through foreign front organizations
- c. import export invoicing
- d. financial transfers
- e. double invoicing & reverse structuring

2. Physically moving laundered money, in person or by employing mules, using multiple delivery methods that avoid patterns law enforcement might find suspicious:

a. Public Transportation

- (1) buses
- (2) trains
- (3) U.S. Postal Service
- (4) airlines
- (5) air express shippers
- (6) common freight carriers

b. Private or rental vehicles

c. Boats

d. airplanes

II. Other Methods to Launder Money

A. Offshore Financial Connections

1. Business relationships are formed with foreign Front Corporations who hide the illegal source of money transferred between them.

2. Provide indirect access to Swiss-type banking accounts.

3. Legitimate business transactions may be carried on by the Front to further the money laundering effort. Double invoicing is a variation.

4. A foreign lawyer, who is a co-conspirator, will be an asset to any offshore money laundering effort and needs to be identified.

B. Other Methods to Hide Money

1. Title Company Approach

a. Illicit groups will propose an apparently legal business arrangement that requires the participants to accumulate money for title acquisition.

b. As each new investor joins, cash money is put into the title company account but, before the transaction is finalized, the deal fails and the money is taken back as a refund check.

2. Pre-pay Credit Cards

a. Make advance payment to credit card company.

b. Later withdraw at money stations by credit card, check, or by credit card purchases.

3. Buying Down of large Cashiers Checks or Money Orders

a. The original money instrument becomes a bank.

b. As cash money is needed, a second smaller money instrument is purchased with a cash remainder in a less than reportable amount.

4. Travel Agents

a. Can arrange for money to be transferred to banks.

b. Plan itinerary for transfer.

5. Buying Real Estate

a. Use a nominee's name.

b. Over or under appraise property to hide or transfer funds.

c. Use the property which was bought to launder illegal funds as collateral for a loan from a legitimate financial institution.

6. Loan Back Method

a. Use money in a Swiss-type bank account as collateral.

b. Money to finance a legal business venture is borrowed, providing a seemingly clean financial picture to other investors or IRS auditors.

7. Domestic and Foreign Currency Brokerage Houses

- a. Can assist in the transfer of money to foreign accounts.
- b. Legitimate brokerages are sometimes deceived into believing they are handling a transaction for an important customer of a foreign bank.

8. Cash Management Accounts

- a. Available from financial institutions these accounts offer most financial services.
- b. Bank transfers between domestic drug dealers is a convenient way of paying for CDS.

III. Models and Centers For Money Laundering

A. Centers for Money Laundering

1. Casas de Cambio - Mexican Boarder Money Exchange Houses with a wide range of financial services such as: money brokers, transportation of money out of the country, issuing of cashiers checks and money orders, and association in financial networks.
2. Giros (Mini Casas) - Usually limited to money transmitters and wire transfer houses; however, some offer message and answering services.
3. Auction Houses - Can be used to manipulate the value of transferred goods and often offer financial services such as wire transfers, and advance credit accounts.
4. Canadian Currency Exchange Houses - Offer a wide range of financial services.
5. Money Transmittal Houses - Found in Spanish speaking area's they have bundled groupings of financial services such as: wire transfers, money couriers, and international bank accounts.
6. Illicit Lotteries - I.E. Bolito or shadow lottery of Puerto Rico.

B. Models

1. Using a Single Business as a Cover

This uses cash sale business as a means to hide the source of illicit drug money which is commingled with the legitimate cash income of the business.

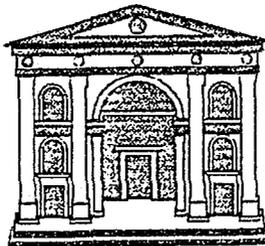
Types of businesses often used for this cover:

- a. Travel Agencies
- b. Bars and Restaurants
- c. Pawn Shops
- d. Car Washes
- e. Motels & Hotels
- f. Movie Theaters
- g. Rental Businesses (i.e. tools, VCR tapes, furniture and appliances)
- h. Garages
- i. Bail Bond Companies
- j. Grocery Supermarkets
- k. Fast Food

ILLICIT CASH \$ IN



**ANY
RETAIL**



**COMMINGLED
CASH \$ TO THE
BANK**



**CUSTOMER
CASH \$ IN**



BUSINESS

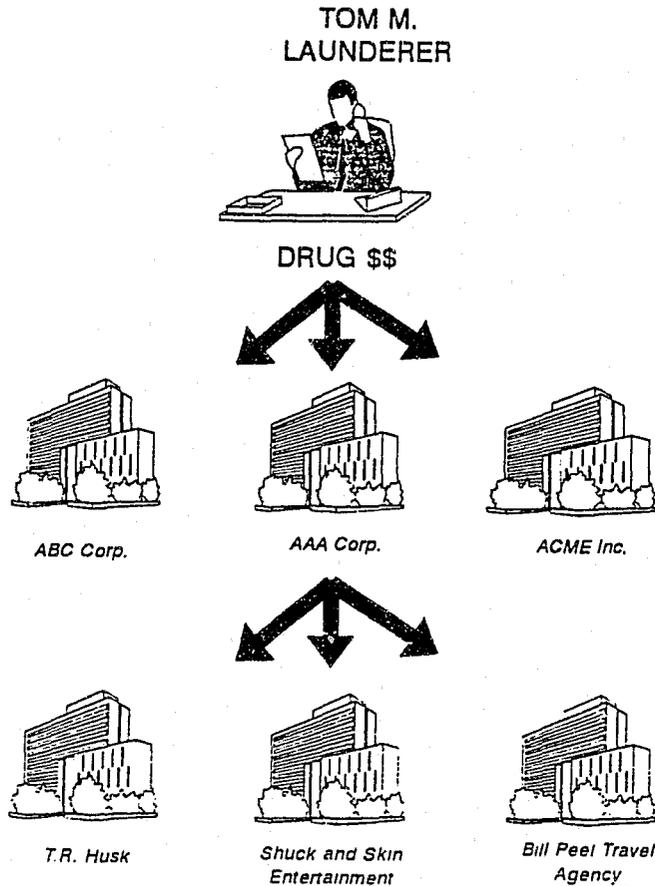
2. Corporate Business Model as a Cover

This is accomplished by setting up a group of incorporated businesses with varying legal relationships, but under the control of the money launderer. A portion of the business activity can be legitimate which further hides the illicit portion. In addition, by having this complex corporate relationship the criminal ownership can be shielded from law enforcement view.

a. Tom M. Launderer, the head of a drug trafficking organization, develops a network of businesses through which illicit funds can be transferred, and within which cash money can be commingled.

b. In order to insulate Tom M. Launderer from law enforcement efforts, businesses are owned by corporations who are indirectly owned by the organization.

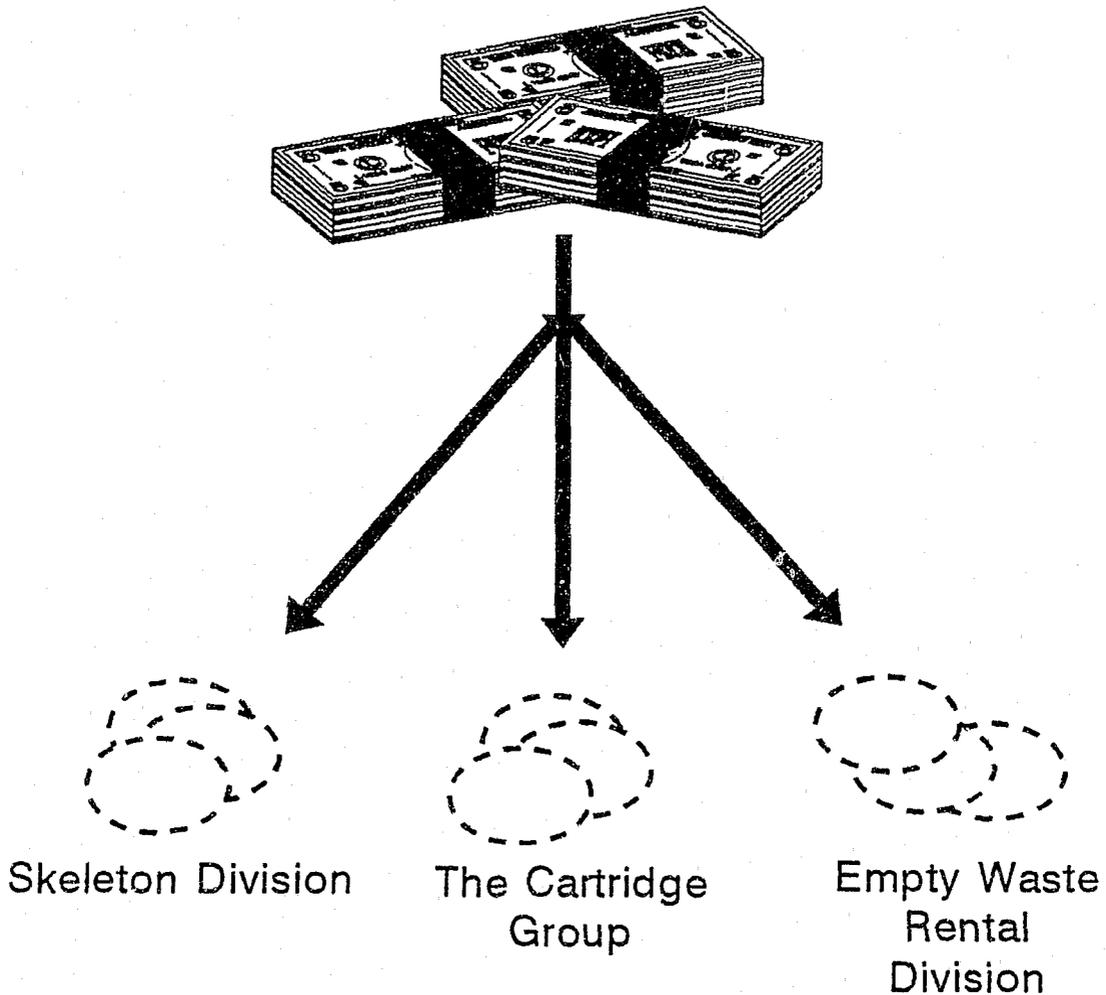
c. The financial activity of the legitimate portion of the network lends additional credibility to the overall operation.



3. Shell Corporation Business Model as a Cover

Another variation of the business cover approach involves some or all of the businesses existing only on paper. Some off-shore caribbean countries have laws which encourage the formation of shell corporations to the extent that brass plate businesses are common occurrences. The configuration may be similar to the set-up used in the corporate business model; however, none of these businesses are legitimate. The structure of these business organizations are layered to provide insulation from law enforcement scrutiny. These phantom businesses have no real assets or personnel and, if they are discovered as money laundering fronts, are abandoned at little cost.

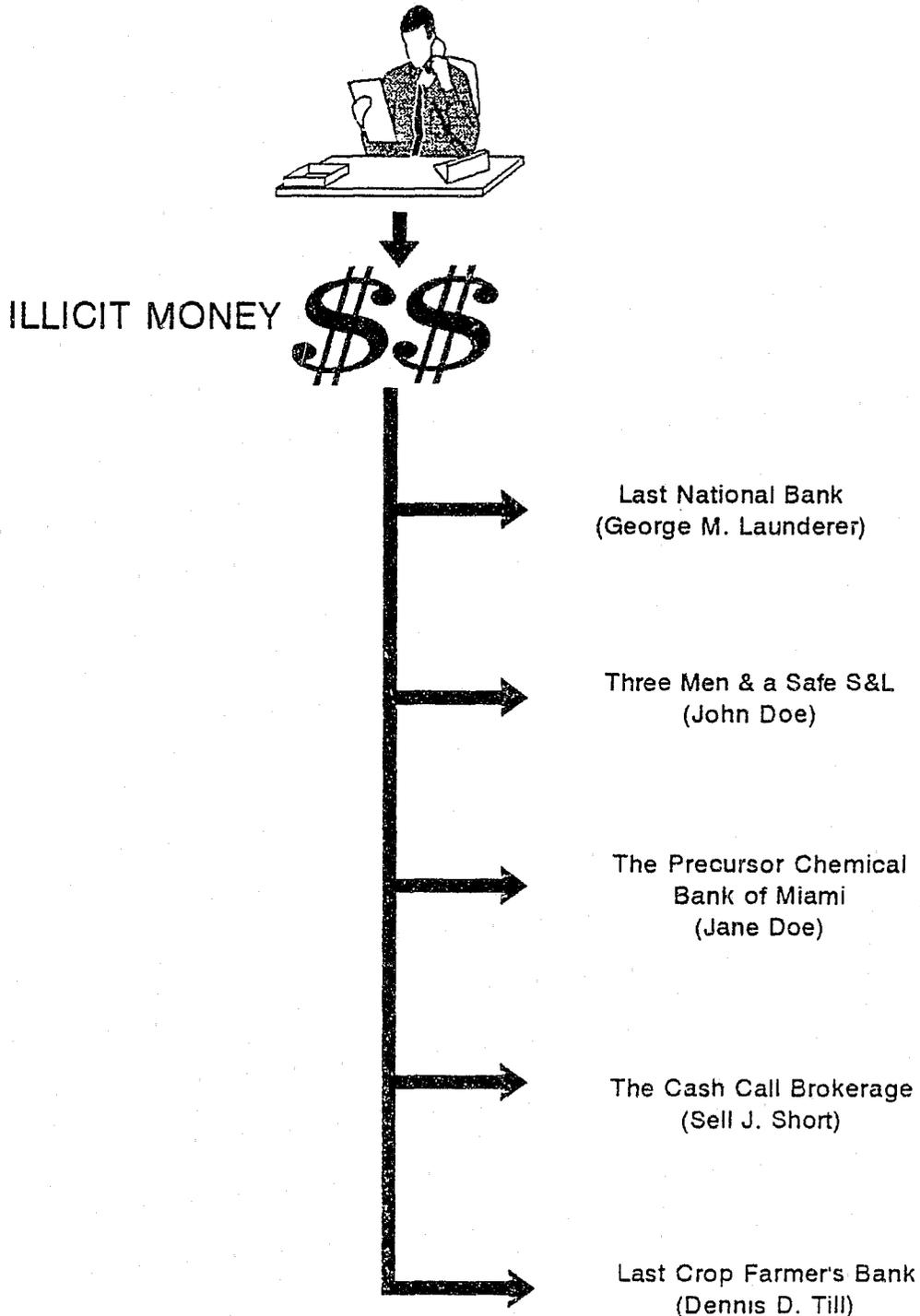
ILLICIT MONEY



4. Simple Banking Model as a Cover

Many times the easiest way is the best way to hide illicit money. Using a layer of many bank accounts with possible fictitious account names, money is structured into these accounts in amounts intended not to bring suspicion.

Tom M. Launderer



5. The Loan Model as a Cover

This scheme uses property ownership or business ownership, which may be overvalued, to secure loans of clean money at financial institutions. This money is used to support the illicit drug trade. The loans are paid back through the ostensibly legitimate business by utilizing drug profits, thus laundering the money and providing the money launderer with an enhanced business credibility.

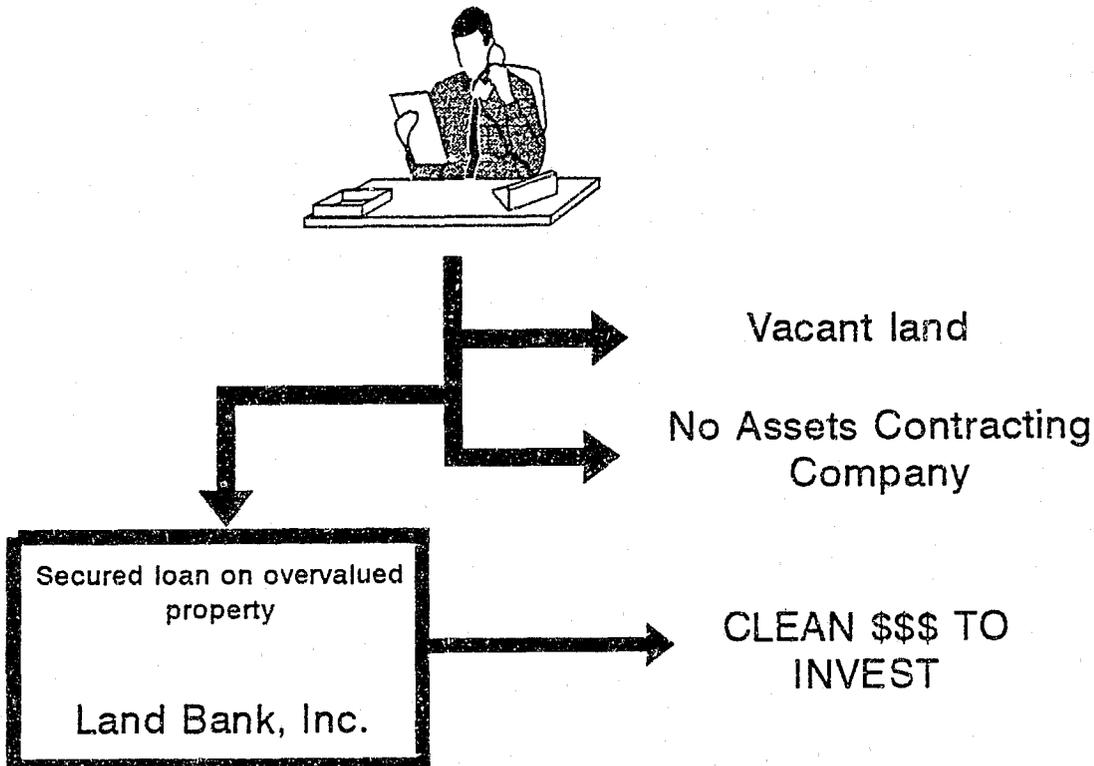
a. Undeveloped property near a growing metropolitan area is purchased by Tom M. Launderer.

b. Ownership of the No Assets Contracting Company from a nearby county is also acquired by Tom M. Launderer.

c. A large bank loan is obtained to develop the property using the land as collateral. The property value is estimated to have appreciated because of promised tenants for the developed land.

d. The drug organization has clean money from the bank loan for investment. Dirty profits are used to pay back the loan increasing the credibility of the business. A large criminal organization may go ahead and develop the property.

Tom M. Launderer



6. The Domestic Loan Back Model as a Cover

This scheme is a variation of the Loan Model where the dirty money is moved in stages to a business controlled by the money launderer. Then a loan is obtained with the controlled business as collateral. The dirty money is transferred to the controlled business as needed to pay off the loan.

a. Illicit drug profits are transferred to an overseas numbered bank account.

b. A real operational business, the Aplomb Produce Company, an importer of South American fruit controlled by the drug organization, is used to secure a large bank loan.

c. Illicit drug profits are transferred from the overseas numbered bank account to the account of an overseas business, Deluxe Shelled Nuts, also controlled by the drug organization.

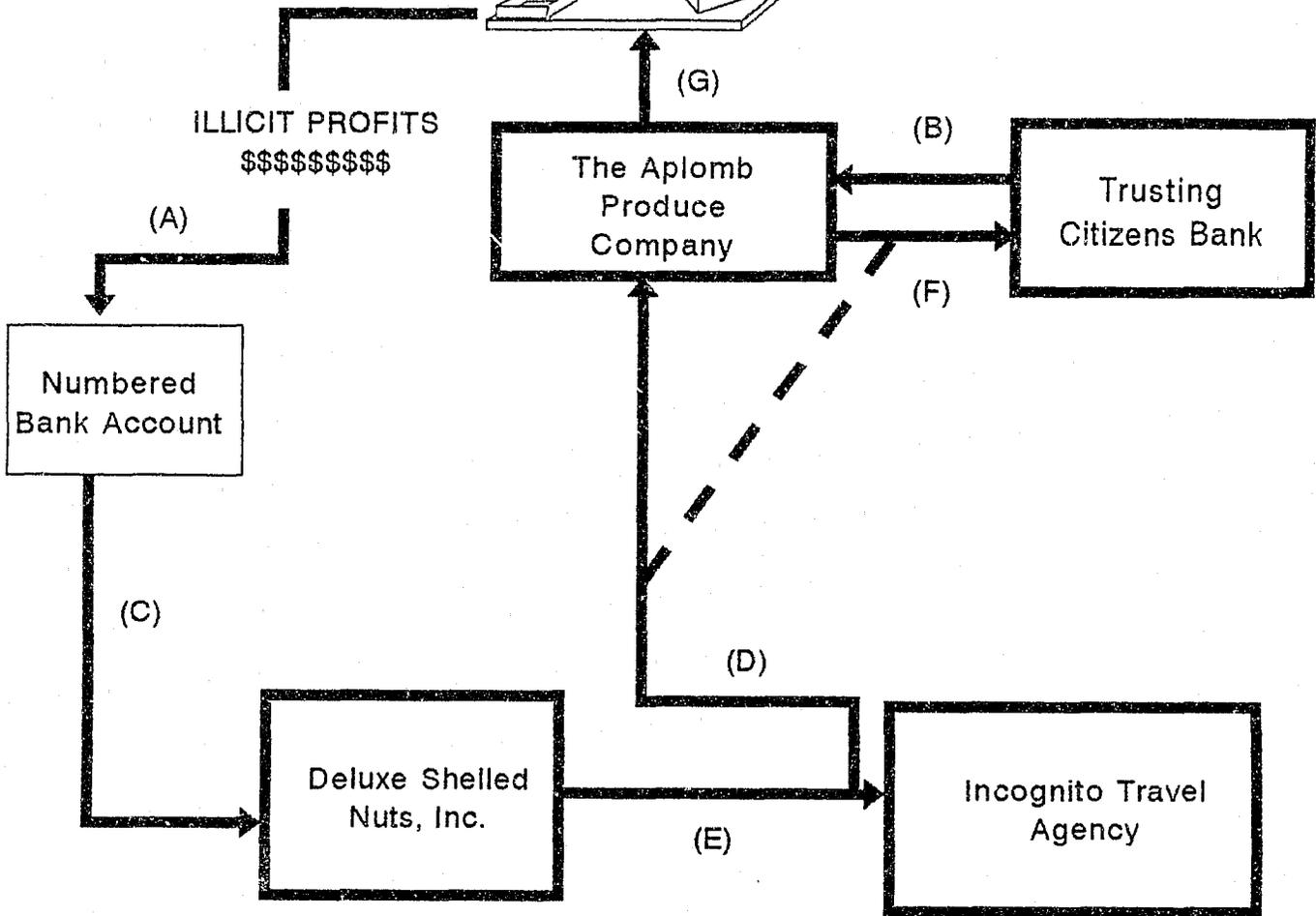
d. Clean money from Aplomb Produce along with money borrowed by Aplomb is seemingly used to purchase a third business, The Incognito Travel Agency.

e. Deluxe Shelled Nuts invests in the Incognito Travel Agency using dirty money.

f. The dirty money is then transferred to Aplomb Produce and used to pay off the bank loan.

F. The clean money originally made available to purchase the Incognito Travel Agency can now be invested or used to support additional drug activity.

Tom M. Launderer



7. The Under Invoice Model as a Cover

In this scheme products are ordered by company B for considerably less than their value. Company A ships and invoices for the smaller amount of money, effectively transferring (laundering) the difference in value from company A to Company B. This would be an example of the invoice model.

a. The El Coca Company of Bogota Columbia orders heavy machinery and electronic office equipment from the HIDTA Equipment Company of New York City.

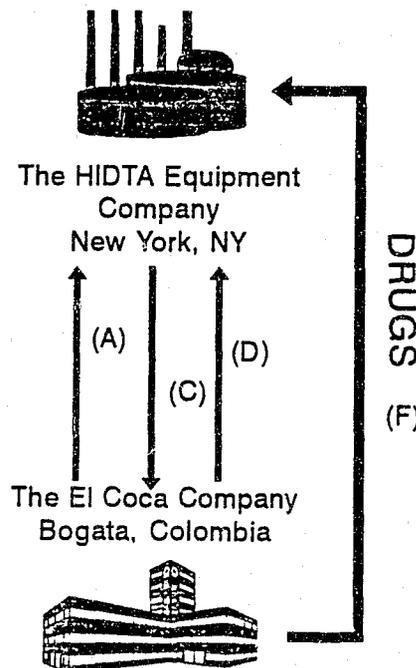
b. The real value of this order is \$500,000.

c. The HIDTA Company invoices a letter of credit arrangement for a total of \$150,000.

d. The shipment is made and then payment through the letter of credit arrangement is completed. The El Coca Company has merchandize in excess value of \$350,000.

e. In this scenario the drug money is first laundered in the United States and then transferred to the source of the drugs in a way which will not bring attention by Drug interdiction efforts.

f. The next drug shipment is made having been paid for with clean, safe money resulting from the profits of selling the machinery and office equipment.



8. The Over Invoice Model as a Cover

In the over invoice model scheme no merchandise changes hands, a paperwork shuffle takes place instead. This approach is sometimes found in the construction industry where it is common practice to have several subcontractors performing different specialty jobs. In these cases the general contractor simply prepares a fictitious invoice for payment to a non-existent contractor. In this way money is laundered through an overvalued building. In the below example a retail supply company and a shell corporation are used.

- a. Tom M. Launderer owns (through nominees) two companies, The Not Up-Front Plumbing Supply Company and The Never Ships Nut & Washer, Inc.
- b. A fictitious order is placed by The Not Up-Front Plumbing Supply Company with The Never Ships Nut & Washer, Inc.
- c. The Never Ships Nut & Washer, Inc. sends an invoice to The Not Up-Front Plumbing Supply Company for goods or services not delivered.
- d. The Not Up-Front Plumbing Supply Company pays the invoice by company check.
- e. The money is then deposited into the owner's numbered bank account by The Never Ships Nut & Washer, Inc., effectively laundering the money.

Tom M. Launderer



Illicit \$\$\$\$

T.M.L.'s Bank Account

Laundered \$\$

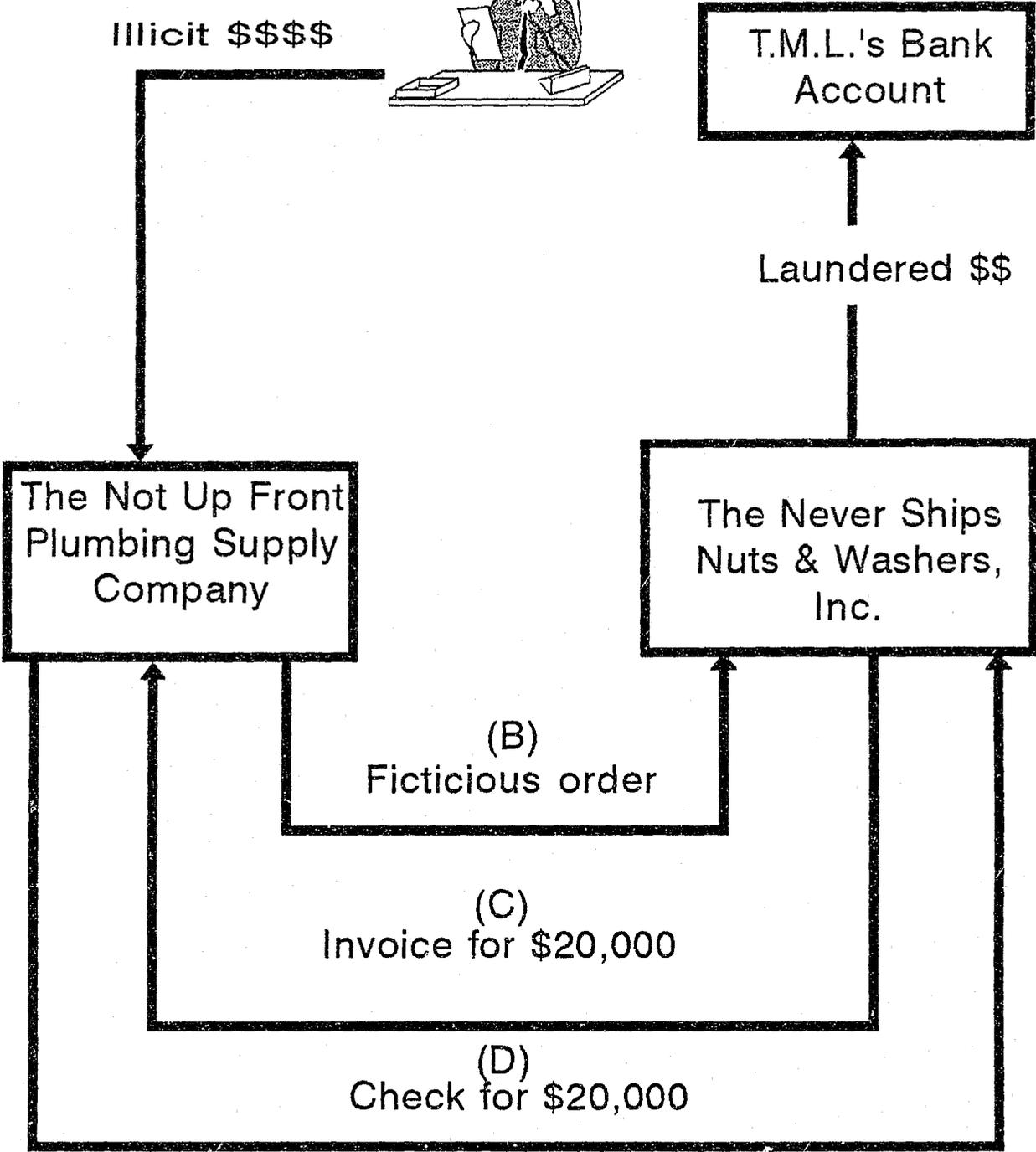
The Not Up Front Plumbing Supply Company

The Never Ships Nuts & Washers, Inc.

(B)
Fictitious order

(C)
Invoice for \$20,000

(D)
Check for \$20,000



9. The International Buy back Model as a Cover

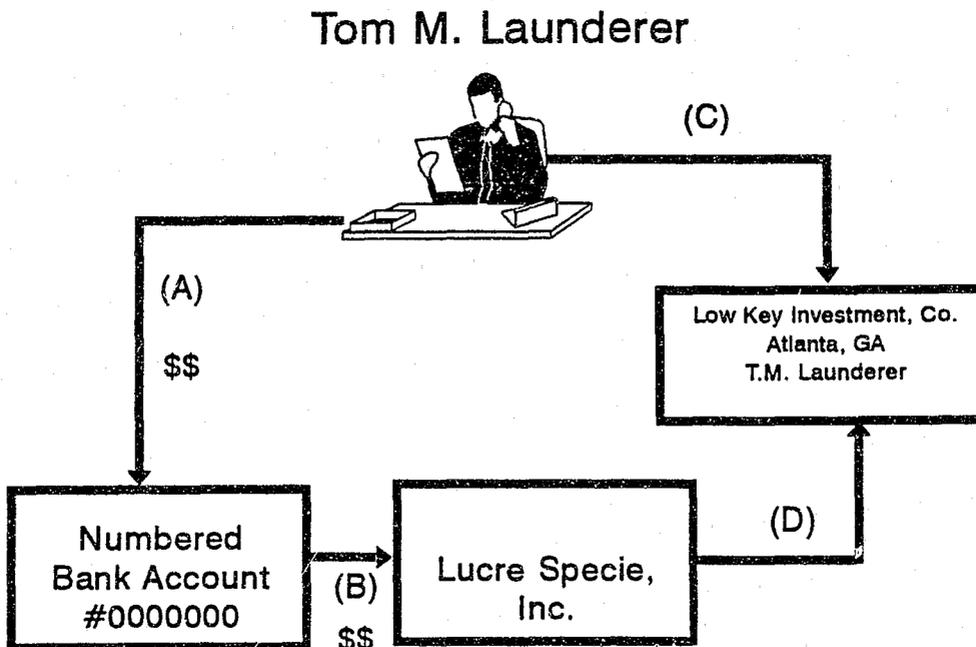
In this scheme illicit dirty money is first transferred out of the country. Then the money is moved between bank accounts or shell corporations to obscure its origin. Finally, the money is used to tender an offer to buy a shell corporation owned by the money launderer who, on paper, sells the shell corporation and uses the apparently clean money for other investments. The process could look like this.

a. Tom M. Launderer has illicit cash profits gained through drug trafficking. This money is smuggled out of the country and taken to a tax haven country (ie. Libya) for deposit in a numbered bank account.

b. The money is then transferred by wire to an off-shore corporation owned by Tom M. Launderer, but listed in a fictitious name, called Lucre Specie Inc.

c. Tom M. Launderer establishes paper ownership of a shell corporation (or buys a near worthless American business) known as The Low Key Investments Company.

d. Lucre Specie Inc. buys stock shares, or full paper ownership, in Low Key Investments Company using the illicit money that was originally smuggled to the numbered bank account. This completes the transfer of apparently clean money to Tom M. Launderer.



Recommendations

The State of Maryland, while one of the smaller states in total land area, is extremely diverse both geographically and demographically. The Port of Baltimore is one of the largest shipping areas on the East Coast and is very active in handling all forms of shipboard freight. The eastern and western shore lines of the Chesapeake Bay are the home of hundreds of small boat landings. In addition to being a trading center, Maryland is a travel route for air and highway traffic between the state of Florida and New York City, which are the two major cocaine trafficking centers on the east coast. Maryland's population is influenced by the international commerce associated with Baltimore City and the diplomatic community of Washington D.C.; influences which have helped give Maryland a multi-national community. This multi-national community has the same problems of drug abuse widely found in the United States today. A companion problem identified with the illicit sale of drugs is money laundering.

The future of Maryland State Police financial money laundering investigations and of other law enforcement agencies in the State of Maryland may be decided over the next twelve (12) months. This is based on the positive or negative results coming from the money laundering cases going through Maryland courts this year.

1. As each of these first six (6) court cases are processed under the new Maryland law they should be reviewed. The results of these reviews should then be compared, analyzed, and used as the basis for an assessment which could become a training tool or hand book.

2. Additional research is needed to locate or recommend the creation of statistical information about money laundering in the State of Maryland.

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and Correctional Services
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