

**STATE OF IOWA**  
**MONEY LAUNDERING THREAT ASSESSMENT**  
**September 2002**

---



**OFFICE OF THE ATTORNEY GENERAL**  
**DEPARTMENT OF JUSTICE**



**OFFICE OF THE COMMISSIONER**  
**DEPARTMENT OF PUBLIC SAFETY**

**Prepared by:**

**Iowa Department of Public Safety – Intelligence Bureau**  
**Wallace State Office Building**  
**Des Moines, IA 50319**  
**Telephone: (515) 242-6124**  
**Fax: (515) 281-6108**

# TABLE OF CONTENTS

SECTION	TITLE	PAGE
I.	PURPOSE .....	1
II.	GOALS .....	2
III.	IOWA'S DEMOGRAPHICS/GEOGRAPHY .....	3
	A. LAW ENFORCEMENT .....	4
	B. IOWA'S ELDERLY POPULATION .....	4
IV.	IOWA'S PUBLIC TRANSPORTATION .....	5
	A. INTERSTATE HIGHWAYS .....	5
	B. AIRPORTS .....	6
	C. RAIL .....	7
	D. BUS .....	8
	E. WATERWAYS .....	8
V.	IOWA'S ECONOMIC FACTORS/INFORMATION .....	9
VI.	IOWA'S CRIME ANALYSIS .....	10
VII.	HOW IS ILLEGAL MONEY GENERATED? .....	11
	A. NARCOTICS .....	11
	B. FRAUD .....	11
	C. TERRORISM .....	13
	D. SCAMS (ELDERLY) .....	13
	E. CHECK KITING .....	14
	F. IDENTITY THEFT .....	14
	G. TRADEMARK COUNTERFEITING .....	15
VIII.	IOWA'S FINANCIAL INSTITUTIONS/GAMBLING FACILITIES .....	16
	A. BANKS/SAVINGS & LOAN ASSOCIATIONS AND CREDIT UNIONS ...	16
	B. MONEY SERVICE BUSINESSES .....	17
	C. DELAYED DEPOSIT SERVICE BUSINESSES .....	17
	D. CASINOS .....	18
IX.	IOWA'S SUSPICIOUS ACTIVITY REPORTS (SARs) .....	19
X.	IOWA'S CONNECTION TO CHICAGO, IL – HIFCA LOCATION .....	25
XI.	IOWA IS PART OF THE MIDWEST HIDTA .....	26
XII.	IOWA'S POTENTIAL MONEY LAUNDERING LOCATIONS .....	27
	A. RESTAURANTS AND BARS .....	27
	B. CASINOS AND LEGALIZED GAMBLING .....	27
	C. AUTO SALES/REPAIRS/DETAILING .....	28
	D. SELF-EMPLOYED (STOREFRONTS) .....	28
	E. REAL ESTATE .....	29
	F. FINANCIAL INSTITUTIONS .....	29
	G. BROKERAGE FIRM/DEALER .....	29
	H. MONEY SERVICE BUSINESSES (MSBs) .....	30
	I. MONEY TRANSMITTERS .....	30
	J. DELAYED DEPOSIT/CHECK-CASHING BUSINESS .....	31
	K. ASSETS PURCHASED .....	31
	L. CYBER-LAUNDERING (INTERNET) .....	32
XIII.	SUMMARY .....	34
XIV.	MATTERS TO COVER .....	36

**STATE OF IOWA  
DEPARTMENT OF PUBLIC SAFETY  
MONEY LAUNDERING THREAT ASSESSMENT**

**September 2002**

## **I. PURPOSE**

The purpose of this assessment is to establish a threat-driven strategy for the State of Iowa to combat money laundering. Traditional law enforcement efforts have been on the underlying, or predicate, offense(s) in fighting crime. More focus or attention is being placed on the proceeds/profits of criminal activity. Money laundering can have a large impact on the state of Iowa, its economy, and its citizens.<sup>1</sup>

What is Money Laundering?

Money laundering is taking “dirty” money, cash made from crime, and making it “clean,” making it appear legitimate.

- Money laundering facilitates continuing criminal networks.
- Money laundering distorts the economy.
- Money laundering promotes negative role models and criminal activity.
- Money laundering is a weak link in a criminal enterprise.

Money laundering undermines confidence in the integrity of our financial systems, facilitates crime and corruption, and allows criminals to savor the rewards of their illegal actions. It is a critical adjunct to underlying criminal activity, and if unchecked, can taint the country’s financial institutions.<sup>2</sup> Global money laundering has been estimated at \$2.85 trillion a year, heavily concentrated in Europe and North America.<sup>3</sup>

A front line of defense against organized and international crime, drug trafficking, and money laundering is to monitor the flow of the funds that support these activities and identify methods and patterns used to commit these crimes.<sup>4</sup>

One of the foundations for this assessment was a review of open source documents and confidential records. This includes, but is not limited to: data available through the Financial Crimes Enforcement Network (FinCEN); public records; law enforcement reports; and other criminal justice publications and records.

---

<sup>1</sup> - Iowa Attorney General, Iowa LEIN, Iowa Economic Remedies Act Manual - July, 1996

<sup>2</sup> - U.S. Treasury - FinCEN - Strategic Plan - 2000-2005

<sup>3</sup> - New Jersey - 2001 Money Laundering Threat Assessment - Walker, John - pg. 1 - March, 2000

<sup>4</sup> - U.S. Treasury - FinCEN - Strategic Plan – 2000-2005

The state of Iowa currently has laws that combat money laundering. These laws are known as the Iowa Economic Remedies Act and were enacted in 1996 to focus enforcement on the profits of illegal activity. The Iowa Economic Remedies Act has four (4) provisions, which took effect July 1, 1996:

- Division I provides for a completely revamped forfeiture law. It includes many of the features of the federal civil forfeiture law, and provides far more flexibility and access to additional assets that might be hidden in Iowa or in other jurisdictions.
- Division II creates the crime of Money Laundering, similar to the federal provision.
- Division III creates the crime of Ongoing Criminal Conduct, a RICO-type statute that allows law enforcement and prosecutors to reach organized criminal networks.
- Division IV institutes a state Financial Transaction Reporting Act, which is tied to the federal reporting requirements for regulated businesses such as banks, credit unions and casinos.

The federal government also passed the United States Patriot Act, with one of its goals to tighten the federal anti-money laundering laws. The Patriot Act was enacted in the aftermath of the September 11, 2001 terrorist attacks. In combination, these two acts will assist law enforcement in their fight against the profits generated by illegal activities, not only in Iowa but also in the United States.

## **II. GOALS**

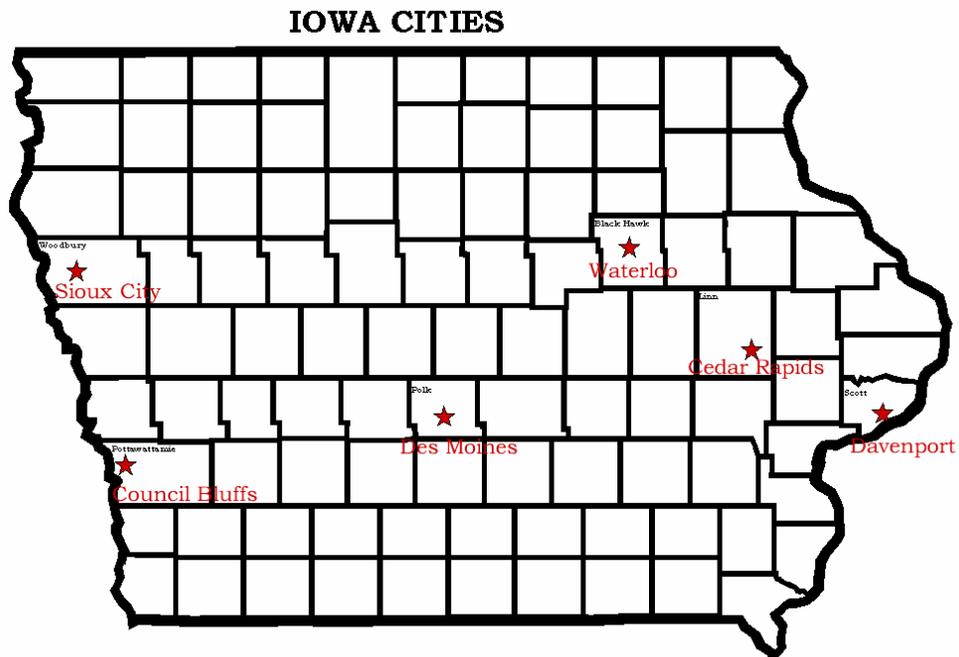
The goals of this assessment are (1) to increase awareness and understanding of the nature and extent of money laundering activities in Iowa; and (2) to increase the effectiveness of law enforcement's efforts against it.

### III. IOWA'S DEMOGRAPHICS/GEOGRAPHY

Iowa is in the heartland of the United States and is considered rural. Iowa has an aging population and demographically is 94% white. There does appear to be an increase in the immigration population coming to the state.

Iowa is located in the north-central region of the United States. Iowa currently has a population of approximately 2.9 million residents (30<sup>th</sup> ranking) and covers 55,869 miles. The Mississippi River on the east and the Missouri River on the west define two of Iowa's borders. The immediate surrounding states are Minnesota, Wisconsin, Illinois, Missouri, Nebraska, and South Dakota. Some of the major, urbanized areas in Iowa are as follows:<sup>5,6</sup>

CITY	U.S. RANK	POPULATION (MSA)	PERCENT CHANGE SINCE 1990
Council Bluffs, IA (includes Omaha, NE)	61	716,998	+12
Des Moines, IA (State Capital)	91	456,022	+16
Davenport, IA (includes Quad Cities area)	116	359,062	+2
Cedar Rapids, IA	173	191,701	+14
Waterloo, IA (includes Cedar Falls, IA)	227	128,012	+3
Sioux City, IA and NE	236	124,130	+8



<sup>5</sup> - State Library of Iowa – U.S. Bureau of Census - July, 2002

<sup>6</sup> - Metropolitan Statistical Area (MSA) figures obtained at <http://www.census.gov/population/cen2000/phct3/tab03.pdf> - August 27, 2002

Iowa's demographic characteristics are as follows:

<b>GENDER/RACE/ETHNICITY</b>	<b>PERCENT</b>
Male	49.1%
Female	50.9%
White	93.9%
Black	2.1%
Hispanic/Latino	2.8%
Asian	1.3%
American Indian	.3%

United States Bureau of Census – State Library of Iowa – July, 2002

The cities of Des Moines, Muscatine, and Sioux City areas are popular destinations for Mexican immigrants. Perry and Marshalltown are also showing an increase in the Hispanic population. The median household income (dollars) in Iowa is \$39,469. The per capita income (dollars) is \$19,674.

### **A. Law Enforcement**

As of October 31, 2000, law enforcement agencies across the nation employed an average of 2.5 full-time officers per 1,000 inhabitants.<sup>7</sup> As of December 31, 2000, the state of Iowa had approximately 5,100 full-time sworn officers, which averages 1.7 full-time officers per 1,000 inhabitants.<sup>8</sup> According to Resident Agent in Charge Al Spiece of the Internal Revenue Service (IRS-Des Moines), the IRS has seven (7) special agents that can work federal money laundering cases in Iowa.

### **B. Iowa's Elderly Population**

Iowa has an aging population and is vulnerable and at risk for scams and other money schemes. Iowa has the following national rankings in its elderly population:<sup>9</sup>

- (2<sup>nd</sup>) in the nation, in percentage, of people aged **85 and older – 2.2%**;
- (4<sup>th</sup>) in the nation, in percentage, of people aged **75 and older – 7.7%**;
- (5<sup>th</sup>) in the nation, in percentage, of people aged **65 and older – 14.9%**;
- (4<sup>th</sup>) in the nation, in percentage, of people aged **60 and older – 19.2%**.

The elderly are often times frail and alone. These persons often have accumulated wealth that may draw the interest of con artists or self-serving relatives, and their physical and mental condition may deteriorate and make them more vulnerable targets of financial crime. Usually, by the time anyone figures out what is going on, the money is gone.

According to a report by CNN Financial Network, November 2000, nearly half of the victims of financial exploitation are at least 80 years old. More than 60% are female, and the percentage of black victims is higher than white victims.

With Iowa being a leading state in elderly population, two (2) special agents of the Department of Public Safety's Division of Criminal Investigation have been assigned to work Financial Exploitation of Vulnerable and Older Iowans. It is anticipated that this Iowa Money Laundering Initiative will work in conjunction with crimes against the elderly.

<sup>7</sup> - U.S. Department of Justice - Federal Bureau of Investigation - Crime in the United States 2000

<sup>8</sup> - Iowa Department of Public Safety - Program Services Bureau - 2000 Iowa Uniform Crime Report

<sup>9</sup> - Iowa Department of Elder Affairs - July, 2001

## **IV. IOWA'S TRANSPORTATION SYSTEMS**

Iowa's public transportation could play a significant role in money laundering in Iowa. The public transportation systems could easily be used to transport bulk money or contraband. Iowa is at the crossroads of two (2) major U.S. interstate highways and is bordered by two (2) major U.S. Rivers. Iowa is in close proximity to several major urban cities in the Midwest.

### **A. INTERSTATE HIGHWAYS**

Three major interstate highways traverse Iowa:

- Interstate 80 runs across the middle of the state in an east-west direction. This interstate runs from New York to California.
- Interstate 35 runs across the middle of the state in a north-south direction. This interstate runs from the Mexican border (Texas) to near the Canadian border (Minnesota).
- Interstate 29 runs across the western edge of the state in a north-south direction. This interstate runs from Missouri (Kansas City) to the Canadian border (North Dakota).

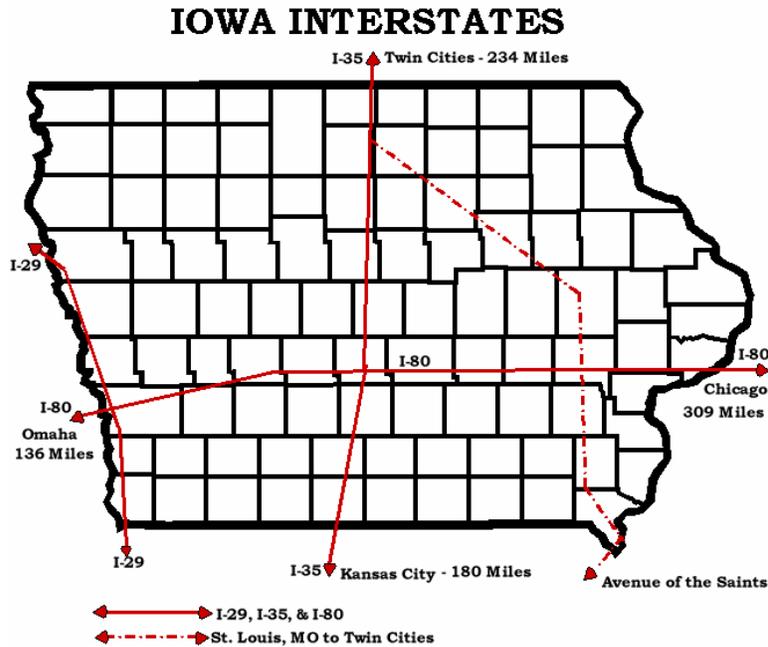
All three interstate highways are known pipelines for the transportation/movement of illegal goods and contraband.<sup>10</sup> According to the Iowa Department of Public Safety, there have been approximately \$3.1 million dollars in cash and \$35 million dollars in narcotics seized on Iowa's highways since January 1, 1999.

There is also a new four-lane highway being constructed from St. Louis, MO to St. Paul, MN (commonly known as the "Avenue of the Saints"). This is near completion and will traverse north south across the eastern edge of Iowa. Completion of the "Avenue of the Saints" project in the next few years will provide another major highway linkage to Minneapolis/St. Paul, as well as to the St. Louis metropolitan area.

---

<sup>10</sup> - Iowa Department of Public Safety - [HIDTA 1998 Threat Assessment](#)

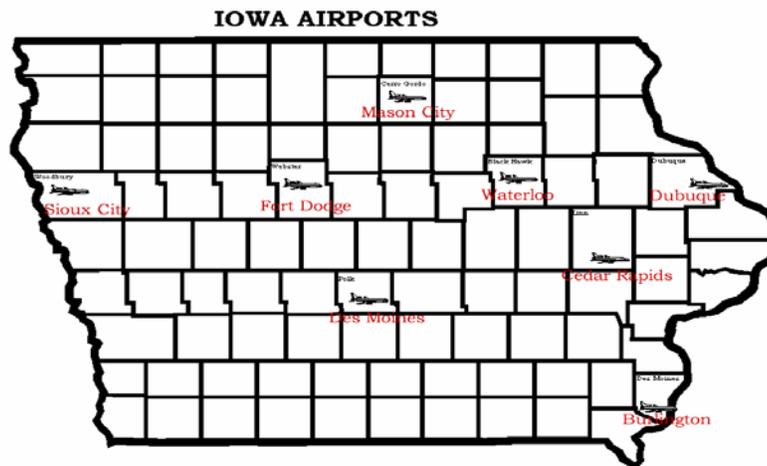
Via these interstates, several major U.S. cities are currently within easy access of Iowa. The following map depicts their distance from Des Moines (which is approximately in the center of Iowa):



## B. AIRPORTS

Iowa supports eight (8) scheduled commercial airports in the cities of:

- Burlington
- Cedar Rapids
- Des Moines
- Dubuque
- Fort Dodge
- Mason City
- Sioux City
- Waterloo



Less expensive flights, with more connections, can easily be obtained by driving to Omaha, NE, Kansas City, MO, Chicago, IL, and Minneapolis, MN. In addition to larger city airports, Iowa also has approximately 105 general aviation airports that handle the 2,540 active, general small aviation aircraft registered in Iowa.<sup>11</sup>

<sup>11</sup> - <http://www.dot.state.ia.us/Aviation.htm>, - November, 2000

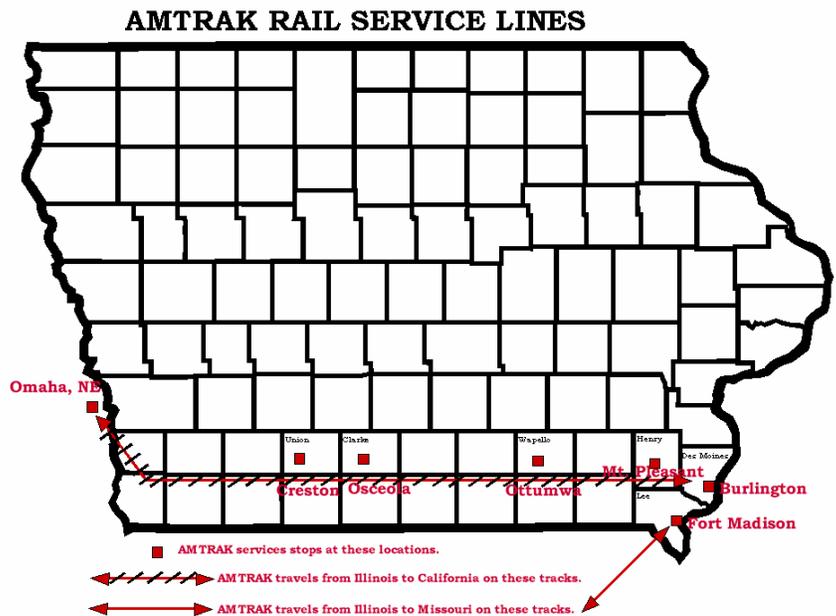
The Des Moines International Airport is currently ranked in the top 50 airports for air cargo tonnage in the United States. Cargo vendors serving the Des Moines International Airport are Airborne Express, Emery Worldwide, Federal Express (FedEx), United Parcel Service (UPS), and the United States Postal Service. According to the Des Moines International Airport's FY'02 figures on the cargo, UPS was 56% of the market, followed by FedEx at 32%. The others were in the single percentile range. The same report shows the months that move the most cargo (in descending order) are: December, August, November, April, May, March, January, July, September, October, June, and February.<sup>12</sup>

All cargo carriers are currently moving 72% of domestic and 50% of international air cargo. The Federal Aviation Administration anticipates air cargo growth to be 6.2% for domestic and 8.2% for international over the next 10 years.<sup>12</sup>

The Des Moines International Airport is the only Port of Entry located in Iowa. As the Port of Entry, Des Moines has on-site U.S. Customs and U.S. Department of Agriculture inspectors.<sup>12</sup>

### C. RAIL

One of two Amtrak passenger railroad trains make five (5) scheduled daily stops in Iowa. They are: Burlington, Mt. Pleasant, Ottumwa, Osceola, and Creston. The route is across the southern part of the state running from Chicago, IL. to San Francisco, CA. The other Amtrak train runs across the southeastern tip of Iowa with one (1) scheduled daily stop in Fort Madison, while running from Chicago, IL. to Kansas City, MO. Chicago, IL. is Amtrak's Midwest hub with fifteen (15) Amtrak passenger trains serving Chicago, IL.<sup>13</sup>



<sup>12</sup> - [www.dsmaairport.com](http://www.dsmaairport.com) - August, 2002

<sup>13</sup> - <http://www.dot.state.ia.us/Rail.htm> - July, 2002

## D. BUS

Several commercial bus systems operate in Iowa. They include, but are not limited to:

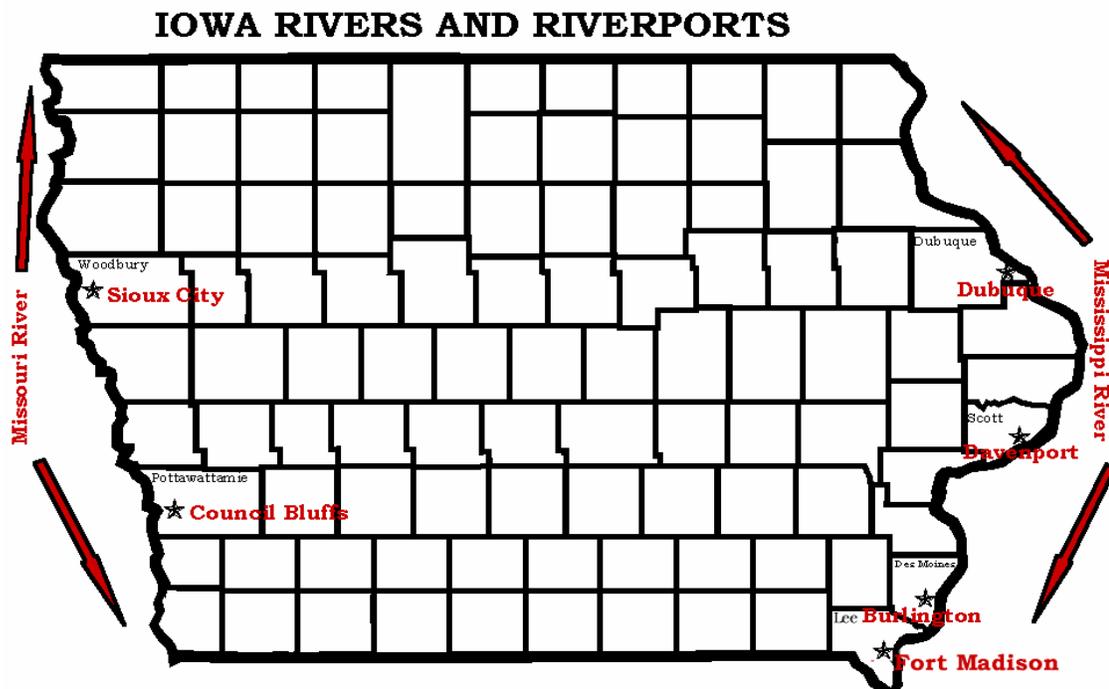
Greyhound Bus Lines has 44 terminal sites in Iowa for passenger and cargo loading and unloading. Greyhound also provides the service of strictly ground shipment of cargo. Their main cities are Davenport, Des Moines, and Waterloo.

Trailways Bus Lines has terminal sites in Burlington, Cedar Rapids, Davenport, Des Moines, Iowa City, Muscatine, and Sioux City.

Jefferson Bus Lines operate extensively in Iowa.

## E. WATERWAYS

The Mississippi and Missouri Rivers both move cargo on commercial and private barges. The Mississippi River has sixty-one (61) barge terminal facilities; river ports are located in Burlington, Davenport, Dubuque, and Fort Madison.<sup>14</sup> On the western side of the state, the Missouri River has eight (8) barge terminal facilities; river ports are found in Council Bluffs and Sioux City.<sup>14</sup> In 1999, over 38 million tons of commodities (mostly grain, coal and aggregates) moved to, from, within and past Iowa. These commodities had a combined value of more than \$6.7 billion. Grain comprised the largest quantity of this tonnage, totaling nearly 66 percent overall. Coal followed as the second largest commodity, totaling 13.5 percent of the tonnage.<sup>15</sup>



<sup>14</sup> - <http://www.dot.state.ia.us/barge.htm> - July, 2002

<sup>15</sup> - <http://www.dotstate.ia.us/dotoverview/transportationfacts.htm> - August 27, 2002

## V. IOWA'S ECONOMIC FACTORS/INFORMATION

Iowa is a leading agricultural state, with more than 97,000 farms<sup>16</sup> and is also home to the second (2<sup>nd</sup>) largest concentration of insurance companies in the United States and serves as the “payer-agent” for a number of insurance plans across the country.<sup>16</sup>

Some of the leading occupations and industries in Iowa:<sup>17,18</sup>

OCCUPATION	PERCENT
Management, professional, and related occupations	31%
Sales/Office	25%
Production, transportation, and material moving	18%
Service	14%

INDUSTRY	PERCENT
Educational, health and social services	21%
Manufacturing	17%
Retail	12%
Finance, insurance, real estate, rental	6%

### Certified Public Accountants (CPAs)

The number of licensed CPAs in several states surrounding Iowa is listed below. This information was obtained from each states’ respective state board of licensing and accountancy.

STATE	NUMBER OF LICENSED CPAs
Iowa	9,273
Illinois	12,044*
Minnesota	6,551
Missouri	9,000*
Nebraska	1,600*
South Dakota	1,600*
Wisconsin	10,076

\*Approximate Number-September 2002

The unemployment rate as of July 2002 in Iowa is 4.0%. Iowa is currently running approximately 2.0% below the national average.<sup>19</sup> The Iowa median household income (dollars) is \$39,469. The per capita income (dollars) is \$19,674.<sup>17</sup>

<sup>16</sup> - Iowa Department of Workforce Development - July, 2002

<sup>17</sup> - U.S. Census Bureau, Table DP-1. Profile of General Demographic Characteristics - 2000

<sup>18</sup> - Contrary to what might be popularly believed, farming occupations (including fishing and forestry) accounts for only 1% of the occupations in Iowa.

<sup>19</sup> - The Des Moines Register Business - “Bumpy Ride” - September 4, 2002

## VI. IOWA'S CRIME ANALYSIS

To assess the potential types of criminal activity that might be facilitated by money laundering, selected data about reported crimes in Iowa were obtained for this report. Categories of criminal activity that were selected are similar to those that are used by the Financial Crimes Enforcement Network (FinCEN) to classify Suspicious Activity Reports (SARs). The table below depicts reported crime in Iowa for these categories, from 1997 through 2001.

### Incident-Based Report – 1997-2001 Statistics

OFFENSE	1997	1998	1999	2000	2001	+ / - (from 2000)
Bribery	1	4	2	3	6	+ 100%
Fraud	1,249	1,351	1,454	1,795	2,288	+27.5%
Counterfeiting/Forgery	3,410	3,456	3,168	3,716	4,312	+ 16%
Embezzlement	356	401	424	432	452	+ 4.6%
Intimidation	3,245	2,853	2,916	3,078	3,034	- 1.4%
Extortion/Blackmail	25	20	27	12	27	+ 125%
Robbery	1,113	1,108	1,063	1,071	1,154	+ 7.7%
Drugs	8,468	8,935	9,207	9,561	9,735	+ 1.8%
Pornography	35	40	59	73	65	- 11.0%
Prostitution	287	307	258	267	292	+ 9.4%
Gambling	4	5	32	45	12	- 73.3%
Weapons	1,003	1,142	981	980	1,077	+ 9.9%

Incident-Based Report, Iowa Department of Public Safety

As noted earlier, the Iowa Economic Remedies Act (which defines violations for ongoing criminal conduct as well as money laundering) was enacted in 1996 to focus enforcement on the profits of illegal activity. The next table depicts the number of convictions for those charges during the past two fiscal years in Iowa courts.

### Conviction Report (Charged-Based) – FY'01-02 Statistics

OFFENSE	FY'01	FY'02
Ongoing Criminal Conduct	21	18
Money Laundering	0	1

Convictions Report (Charge-Based), Iowa Department of Public Safety

Overall, the total number of reported crimes in Iowa increased 2.8% from 2000 to 2001. However, the crime rate (i.e., number of reported crimes per capita) reflected a 1.8% decrease.<sup>20</sup>

<sup>20</sup> - Iowa Department of Public Safety - Program Service Bureau - July, 2002

## **VII. HOW IS ILLEGAL MONEY GENERATED?**

There are many crimes that are committed for profit. Some crimes may be more attractive to money launderers, especially if they are more profitable, easier to execute and/or conceal. Iowa law enforcement efforts will continue to collect, evaluate, analysis, report and disseminate the most critical and reliable information that is available to combat these and other crimes. The collected data will also serve to better project and draw conclusions on decisions and recommendations on how to effectively combat money laundering.

### **A. NARCOTICS**

Iowa's drug problem is a concern to law enforcement for various reasons. In specifically addressing the crime of money laundering, it becomes apparent that it is a necessary component of the illicit drug trade. According to a report from May 2001, the U. S. Department of Justice – National Drug Intelligence Center indicates that after drug money is laundered, traffickers can use the funds with little risk of detection or seizure. They are then able to finance drug operations and other crimes, bribe public officials and law enforcement officers, and provide luxurious lifestyles for themselves and their associates.

Nationally in 2000, Americans spent approximately \$36 billion on cocaine, \$10 billion on heroin, \$5.4 billion on methamphetamine, \$11 billion on marijuana, and \$2.4 billion on other controlled substances.<sup>21</sup>

Iowa statistics compiled by the Iowa Department of Public Safety – Program Services Bureau, show from 1997-2001 Iowa has had an increase each year in reported drug incidents. The increase from 2000 to 2001 was 1.8%. There were 9,735 drug arrests in 2001. (Additional information on the common source and/or destination of the drugs and cash can be found in the section of this report entitled “Iowa is Part of the Midwest HIDTA”).

According to the Iowa Department of Public Safety – Intelligence Bureau, the Iowa State Patrol seized, over \$35.1 million dollars worth of narcotics and over \$3.1 million dollars in cash between January 1, 1999 and August 26, 2002 on Iowa's highways.

There were 614 methamphetamine clandestine laboratories discovered through September 3<sup>rd</sup>, 2002 in Iowa.<sup>22</sup>

### **B. FRAUD**

Fraud is defined in Barron's Law Dictionary as: intentional deception resulting in injury to another. This would include any wrong, or damage done to another, either in his/her person, rights, reputation, or property. Fraud is a crime that can come in many forms and can impact any age, financial or ethnic group.

---

<sup>21</sup> - Office of Drug Control Policy - [www.whitehousedrugpolicy.gov](http://www.whitehousedrugpolicy.gov) - August 30, 2002

<sup>22</sup> - Iowa Department of Public Safety - Intelligence Bureau - September 3, 2002

In 2000 the American Bankers Association (ABA) survey on check fraud reported that the total check fraud related losses in 1999 – considering both actual losses (\$679 million) and loss avoidance (\$1.5 billion) – against commercial bank accounts reached \$2.2 billion, which is twice the amount of 1997, an increase of 33 percent.<sup>23</sup>

One of Iowa’s largest increases in reported crimes was fraud. It reflected an increased each year from 1997-2001 with a 27.5% increase from 2000 to 2001.

In June of 2002, the former chief executive officer of Easter Seals in Iowa was sentenced for taking nearly \$231,000 from charity. The defendant gambled away roughly \$400,000 between 1999 and 2001.<sup>24</sup>

In August of 2002, a Des Moines woman was charged with embezzling from Make-A-Wish Foundation charity. The former bookkeeper was forging checks in amounts of less than \$500.00. Over a four-year period she allegedly embezzled approximately \$8,700.00. The alleged criminal activity was discovered after the defendant gave a false social security number to the employer for a criminal background check that was to be done. The volunteers at the foundation have a background check done every three years.<sup>24</sup>

**Insurance Fraud Referrals Received by the Iowa Insurance Fraud Bureau  
Since July 1, 1998**

<b>YEAR</b>	<b>NUMBER OF REFERRALS</b>	<b>\$ AMT ASSOCIATED</b>
1998	136	\$1,052,438.94
1999	308	\$5,585,792.98
2000	307	\$4,813,202.37
2001	335	\$5,258,655.13
2002*	276	\$1,667,666.31*

\* As of August 2002

\*In 2002, approximately 30% of the referrals reported the dollar amount associated with the referral. In prior years, approximately 60% of the referrals showed the dollar amount associated the referral.

According to the statistics from the U.S. Department of Justice, FinCEN, from April 1996 to May 31, 2002, fraud made up 16% of the Suspicious Activity Reports (SARs) that were filed with Iowa financial institutions. These included check, credit card, debit card and wire transfer fraud.

<sup>23</sup> - [www.consumer.gov/idtheft/reports/gao](http://www.consumer.gov/idtheft/reports/gao) - September 1, 2002

<sup>24</sup> - [The Des Moines Register](#) - “Former Employee of Charity Charged” - September 6, 2002

## **C. TERRORISM**

The FBI defines terrorism as the unlawful use of force or violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political or social objectives.

One of six men indicted and arrested in Cedar Rapids, Iowa shortly after the September 11, 2001, terrorist attack is alleged to be involved in a conspiracy to cause economic harm to U.S. businesses. Federal agents believe that they have uncovered a broad effort by some U.S. residents to use credit card thefts, illegal cigarette sales, diverted charitable funds and cash smuggled in airline luggage to enrich anti-American and anti-Israeli terror groups.<sup>25</sup>

The Federal Drug Enforcement Administration (DEA) is reporting that evidence gathered since January 2002, indicates that a methamphetamine drug operation in the Midwest involving men of Middle Eastern descent has been shipping money back to terrorist groups in the Middle East. The drug smuggling involved large quantities of the chemical pseudoephedrine from Canada into two primary Midwest locations, Chicago and Detroit. Pseudoephedrine is an essential ingredient in the creation of methamphetamine.<sup>26</sup>

According to FBI estimates, the Animal Liberation Front (ALF) and the Earth Liberation Front (ELF), a closely affiliated group, have committed more than 600 criminal acts and done over \$40 million dollars in property damage since 1996. The Animal Liberation Front publicly claimed responsibility for animal releases in Iowa during each year since 1997, except for 1999.

Iowa was the location of the largest ALF “liberation” in the United States when approximately 14,000 mink were released from a farm in Chickasaw County in 2000. Iowa also received national attention in ALF’s 2001 Year-End Direct Action Report. Iowa’s back-to-back releases in October 2001 were listed as the most impressive animal action. Historically, the various tactics employed by members of the Animal Liberation Front have included arsons, bombings, animal releases, and vandalism.

## **D. SCAMS (ELDERLY)**

The Iowa Department of Elder Affairs defines the elderly as someone at least 60 years of age.

The elderly are often times victims of fraud and scams. Home repair scams are often times used against the elderly. These scams may include waterproofing, lightning rod sales, asphalt paving and seal coating, landscaping, yard work and tree trimming. The elderly are very vulnerable to virtually every type of financial crime. The elderly are attractive targets because they often times have the characteristics of trust, predictability, inexperience and most, important, they have assets.

---

<sup>25</sup> - (AP) Detroit, MI. [www.cnn.com](http://www.cnn.com) - August 29, 2002

<sup>26</sup> - [The Des Moines Register](#) - “Probe Ties Midwest Drug Ring to Terror Groups” - September 2, 2002

The following statistics were provided by the Iowa Department of Inspections and Appeals on reported cases of financial exploitation of dependent adults and resident adults of health care facilities.

<b>Complaint</b>	<b>FY02</b>	<b>FY01</b>	<b>FY00</b>	<b>FY99</b>
Exploitation of Dependent Adults	N/A	249	146	150
Exploitation of Resident Care Adults	48	45	47	N/A

## **E. CHECK KITING**

Check Kiting involves opening a series of checking accounts using small amounts of cash and a bad check from a different account. The person then obtains cash through the accounts.

In July of 2002, a former Iowa resident was arrested for check kiting in three different midwestern states, including Iowa. The defendant created a fictitious obituary in the Des Moines Register in order to conceal the fact that she was committing criminal activity. The three states involved are all filing criminal charges in the case. The potential to generate a large amount of money from the banking community is a real threat, especially if they work in groups and are able to cover a larger area.<sup>27</sup>

In September of 2002, an alleged bank scam in Des Moines combined the elements of a confidence game, identity theft and check counterfeiting to net a \$35,000.00 profit in just eight days. Police allege that the scam artists would confide to strangers that they were setting up a business and needed to deposit a check in their bank account. The perpetrators would then withdraw cash on the account and disappear before the check would bounce, and the victim that had the original account is then left owing the bank for the missing money, according to investigators.<sup>28</sup>

## **F. IDENTITY THEFT**

Identity theft occurs when someone obtains your personal information without your knowledge to commit fraud and/or theft. Identity theft is becoming more common in today's society with access to so much information via the computer. Identity theft can occur as easily as logging onto the computer and searching a few web sites to gain the pertinent personal information. The identity thief then can assume the victim's identity and obtain credit, identification or other benefits, or hold the victim liable for the thief's actions.

The Des Moines (IA) Police Department reported that identity theft is on the rise. In 2001 the police department had 127 incidents of reported identity theft. As of August 2002, the Des Moines Police Department had 159 cases reported.<sup>29</sup>

<sup>27</sup> - [The Des Moines Register](#) - "Missouri Woman Faked Death, Police Say" - August 29, 2002

<sup>28</sup> - [The Des Moines Register](#) - "Intricate Bank Scam Nets \$35,000 in 8 days" - September 5, 2002

<sup>29</sup> - [The Des Moines Register](#) - "Chance of ID Theft at Schools a Concern" - September 2, 2002

In 2001, Iowa reported 324 victims of identity theft. The Federal Trade Commission – Identity Theft Data Clearinghouse provided the following figures and trends for January 1 – December 31, 2001.

<b>TYPE OF FRAUD</b>	<b>NUMBER REPORTED</b>	<b>IOWA PERCENTAGE</b>	<b>NATIONAL PERCENTAGE</b>
Credit Card	142	43	42
Phone/Utilities	65	20	20
Bank	41	13	14
Gov't Documents / Benefits	28	8	6
Employment –Related	28	8	9
Loan	16	5	7
Other ID Theft	51	16	19
Attempted ID Theft	32	10	9

Federal Trade Commission - 2001

The 2001 top identity theft victim locations according to the Federal Trade Commission.

<b>VICTIM CITY</b>	<b>NUMBER OF COMPLAINTS</b>
Des Moines	39
Council Bluffs	16
Davenport	16
Cedar Rapids	13
Iowa City	13

According to the June 2001 FinCEN News, from January to November 2000, there were 617 Suspicious Activity Reports (SARs) filed across the country that indicated identity theft as the area of suspicion. This is up from 44 filed in 1997, the first full year of SAR filings.

## **G. TRADEMARK COUNTERFEITING**

Counterfeiting is a full-fledged criminal “activity,” with links to organized crime and criminal gangs. The vendors on city streets who peddle fake perfumes, handbags, watches, T-shirts, etc. often are a cover for even more notorious enterprises. The money paid by unwitting consumers does not stay in the street vendors’ hands for very long. It goes to criminal gangs who actually run the counterfeit businesses and use the proceeds from the sale of counterfeit goods to fund other illegal activities like drugs, pornography and terrorist activities. Counterfeit/Forgery crimes have shown an increase in Iowa over four out of the past five years, with a 16 % increase from 2000 to 2001.<sup>30</sup>

<sup>30</sup> - Iowa Department of Public Safety - Program Services Bureau

## VIII. IOWA'S FINANCIAL INSTITUTIONS/GAMBLING FACILITIES

### A. BANKS/SAVINGS & LOAN ASSOCIATIONS/CREDIT UNIONS

Financial institutions (banks) are often times at the forefront in money laundering. These institutions by their vary nature play a key role in the detection, apprehension and prevention of money laundering activities.

Chapter 527.2 (9), Code of Iowa, defines "Financial Institutions" as means and includes any bank incorporated under the provisions of any state or federal law, any savings and loan association incorporated under the provisions of any state or federal law, any credit union organized under the provisions of any state or federal law, any corporation licensed as an industrial loan company under chapter 536A, and any affiliate of a bank, savings and loan association, credit union, or industrial loan company.

The United States Code, Title 31, Subtitle IV, Chapter 53, Subchapter II, Section 5312, has a very lengthy and detailed definition of "financial institution" which is different and more comprehensive than Iowa's definition.

In 1970 the United States Congress passed the Bank Secrecy Act (BSA). This was in response to the increasing reports of people bringing bags full of illegally obtained cash into financial institutions for deposit. The BSA required the banks to: (1) keep records of the transaction, and (2) report the data. This data was on cash transactions in excess of \$10,000. The reports went to the U.S. Treasury. These BSA regulations have been modified over the years, including in 1992 the requirement to file Suspicious Activity Reports (SARs) on any transaction the banks thought were suspicious.

Iowa's traditional financial banking type industries come under several categories. They are as follows:

<b>TYPE OF FINANCIAL INSTITUTION</b>	<b>NUMBER OF IOWA INSTITUTIONS</b>
Banks	416
Savings and Loan Associations	22
Credit Unions	181

There are 10 out-of-state banks and five (5) out-of-state savings and loan associations which have branches in Iowa. There are 1,309 total bank branch offices and 180 total savings and loan association branch offices in Iowa.<sup>31</sup>

<sup>31</sup> - Iowa Department of Commerce - Iowa Credit Union Association – FDIC – Scott Casey – July 23, 2002

## B. MONEY SERVICE BUSINESSES

A final rule issued in 1999 by the U.S. Secretary of the Treasury allowed FinCEN to revise the regulating definitions of certain non-banking financial institutions for the purpose of the Bank Secrecy Act (BSA). This regrouping put certain businesses into a category called “money service businesses” or MSBs. These businesses and services they provide are:

PRODUCT OR SERVICE	CAPACITY (TYPE OF MSB)
Money Orders	Issue, sell, or redeem money orders
Travelers Checks	Issue, sell, or redeem travelers checks
Money Transmission	Money Transmitter
Check Cashing	Check Cashier
Currency Exchange	Currency Exchanger
Currency Dealing	Currency Dealer
Stored Value <sup>32</sup>	Issue, sell, or redeem stored value

Iowa has approximately 1,500 money transmitters (businesses that transfer or wire money, issue traveler’s checks/money orders). They currently are under very minimal state or federal licensing requirements and operating regulations.<sup>33</sup> New federal reporting requirements became effective January 1, 2002, and are similar to the bank industries. The Bank Secrecy Act (BSA) regulation will apply to these types of businesses. The U.S. Department of Treasury is currently working on the operating procedure guidelines that should be released in late 2002. There is pending legislation to be presented to the 2003 Iowa General Assembly, which convenes in January 2003, on more stringent regulations on Iowa MSBs.

## C. DELAYED DEPOSIT SERVICE BUSINESSES - (Chapter 533D, Code of Iowa)

Iowa has businesses that are called “delayed deposit service businesses.” This is a business that does either of the following for a fee:

- Accepts a check dated subsequent to the date it was written.
- Accepts a check dated on the date it was written and holds the check for a period of time prior to the deposit or presentation pursuant to an agreement with, or any representation made to, the maker of the check, whether expressed or implied.<sup>33</sup>

These types of money service businesses in Iowa are less rigorously regulated and can involve large quantities of cash. Iowa’s current regulations on these types of businesses consist of obtaining a license from the Iowa superintendent of banking, paying the required fee and posting the required \$25,000 surety bond. There are no regulations requiring that the businesses document their transactions, keep records, or produce records to banking regulators or law enforcement officials.

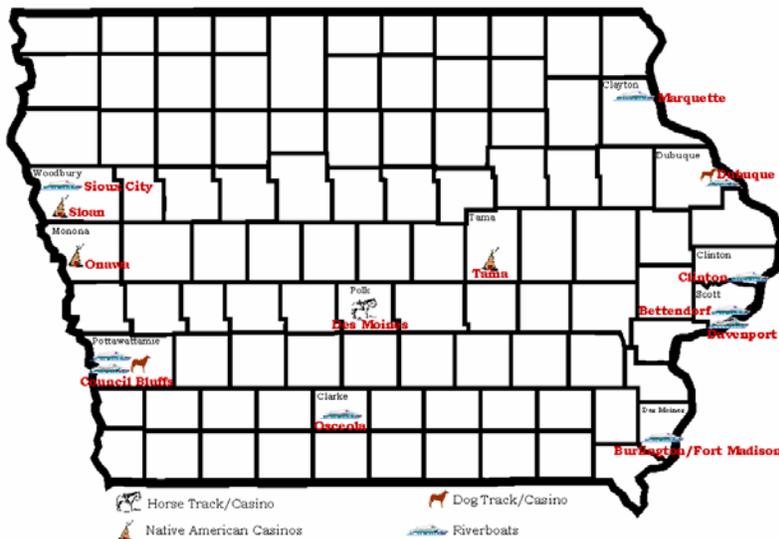
---

<sup>32</sup> - Stored Value definition: Funds or monetary value represented in digital electronics format and stored or capable of storage on electronic media in such a way to be retrievable and transferable electronically. [www.msb.gov](http://www.msb.gov) - August 30, 2002.

<sup>33</sup> - Iowa Department of Commerce - Division of Banking - [www.idob.state.ia.us](http://www.idob.state.ia.us) - August 30, 2002

#### D. CASINOS – (Chapter 99F, Code of Iowa)

Iowa has 10 riverboat casinos which allow unlimited betting on table games and slot machines. There are three (3) pari-mutuel dog/horse race tracks with live racing, as well as simulcasting. The dog/horse tracks have slot machines.<sup>34</sup> There are three Native American land-based casinos in Iowa. They are located in Onawa, Sloan, and Tama.<sup>35</sup>



### IOWA'S POTENTIAL MONEY LAUNDERING TRENDS

Beginning in 1985, casinos were subject to the Bank Secrecy Act (BSA) reporting requirements on Currency Transaction Reports (CTRs), which is a cash transaction > \$10,000. Suspicious Activity Reports (SARs) are currently not required to be completed by the Iowa casinos. There is a target date of January 1, 2003, requiring that SARs be reported at Iowa casinos.<sup>36</sup>

In November of 2000, federal authorities arrested an “Asian Organized Crime Enterprise” on racketeering charges in an alleged table game-cheating ring that took place in casinos in Nevada, New Jersey and Canada. There were other casinos involved, but were not named in the indictment. This took place from November 1994 to February 1999. An exact figure is not known, but authorities allege that at least \$2.3 million of the money has been laundered after the cheating and often the money laundering took place back into the casino.<sup>37</sup>

New Jersey law enforcement officers arrested four (4) employees of several Atlantic City casinos for allegedly laundering more than \$400,000. The money was believed to be drug money and the casino employees were allegedly laundering the money for the drug dealers.<sup>38</sup>

<sup>34</sup> - Iowa Department of Public Safety - Gaming Unit - Division of Criminal Investigation - July, 2002

<sup>35</sup> - Iowa Department of Inspections and Appeals - Iowa Racing and Gaming Commission - July, 2002

<sup>36</sup> - U.S. Treasury - FinCEN, Shelly Waxman - August 28, 2002 (202/354-6387)

<sup>37</sup> - Las Vegas Business Express - “Ring Leader, Eight Others Nabbed in \$2.3 Million Casino Scam” - November 23, 2000, Vol. 17, Issue 45

<sup>38</sup> - New Jersey Casino Best - June 15, 1998, Vol. 1, Issue 24

## IX. IOWA'S SUSPICIOUS ACTIVITY REPORTS (SARs)

Suspicious Activity Reports (SARs) could play a significant role in the money laundering activities in Iowa. The Iowa SAR activity will be collected, evaluated, collated, analyzed in order to make a more informed decision in combating money laundering in Iowa.

Iowa has shown an increase in the reporting of Suspicious Activity Reports (SARs) for the filing period April 1, 1996 – May 31, 2002.<sup>39</sup> The reporting numbers are as follows:

Year	# of SARs Filed	% Change (+/-) From the Previous Year
1996	267	-
1997	363	+ 35%
1998	325	- 11%
1999	427	+ 31%
2000	493	+ 15%
2001	838	+ 70%
2002	410 (May 31)	-

The chart below reflects that from April 1, 1996 through May 31, 2002, the frequency distribution of SAR filings by characterization of suspicious activity revealed that Bank Secrecy Act violations (i.e. – structuring/money laundering) represented 29% of the filings.<sup>39</sup>

NUMBER OF VIOLATIONS – Iowa  
April 1, 1996 – May 31, 2002

REPORTING YEAR	TOTAL	BSA/Structuring/ Money Laundering	Bribery/Gratuities	Check Fraud	Check Kitting	Commercial Loan Fraud	Computer Intrusion	Consumer Loan Fraud	Counterfeit Check	Counterfeit Credit/ Debit Card	Counterfeit Instrument (Other)	Credit Card Fraud	Debit Card Fraud	Defalcation/ Embezzlement	False Statement	Misuse of Position or Self Dealing	Mortgage Loan Fraud	Mysterious Disappearance	Wire Transfer Fraud	Other
1996*	195	31	0	20	60	3	0	1	3	0	0	2	1	14	10	8	1	9	3	29
1997	420	96	0	35	59	23	0	14	6	1	1	20	12	25	29	9	2	10	7	71
1998	362	91	1	33	55	11	0	10	4	2	1	26	4	29	18	14	0	10	4	49
1999	472	169	0	43	45	21	0	9	15	2	1	15	7	27	21	10	3	17	7	60
2000	554	218	0	49	41	32	1	5	18	0	0	14	7	33	23	11	7	13	5	77
2001	939	245	1	105	62	27	7	17	42	3	0	40	3	49	36	32	7	27	8	228
2002**	480	132	1	41	35	19	3	26	15	0	0	18	1	14	40	13	2	8	8	104
TOTAL	3422	982	3	326	357	136	11	82	103	8	3	135	35	191	177	97	22	94	42	618

\*Starting April 1

Source: FinCEN, August 2002

\*\*Through May 31

2002 (Projected)      **1152**

<sup>39</sup> - U.S. Treasury - FinCEN - August, 2002

SAR activities can be used extensively in the development of indicators for the funding of terrorism, money laundering, check fraud, and other illegal activities.<sup>40</sup> The chart below reflects the percentage of SAR filings in Iowa.

**PERCENTAGE OF SAR FILINGS – IOWA**  
**April 1, 1996 – May 31, 2002**

REPORTING YEAR	TOTAL	BSA/Structuring/Money Laundering	Bribery/Gratuity	Check Fraud	Check Kitting	Commercial Loan Fraud	Computer Intrusion	Consumer Loan Fraud	Counterfeit Check	Counterfeit Credit/Debit Card	Counterfeit Instrument (Other)	Credit Card Fraud	Debit Card Fraud	Defalcation/Embezzlement	False Statement	Misuse of Position or Self Dealing	Mortgage Load Fraud	Mysterious Disappearance	Wire Transfer Fraud	Other
1996*	100	16	0	10	31	2	0	1	2	0	0	1	1	7	5	4	1	5	2	15
1997	100	23	0	8	14	5	0	3	1	0	0	5	3	6	7	2	0	2	2	17
1998	100	25	0	9	15	3	0	3	1	1	0	7	1	8	5	4	0	3	1	14
1999	100	36	0	9	10	4	0	2	3	0	0	3	1	6	4	2	1	4	1	13
2000	100	39	0	9	7	6	0	1	3	0	0	3	1	6	4	2	1	2	1	14
2001	100	26	0	11	7	3	1	2	4	0	0	4	0	5	4	3	1	3	1	24
2002**	100	28	0	9	7	4	1	5	3	0	0	4	0	3	8	3	0	2	2	22
<b>TOTAL</b>	<b>100</b>	<b>29</b>	<b>0</b>	<b>10</b>	<b>10</b>	<b>4</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>6</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>

\*Starting April 1

Source: FinCEN, August 2002

\*\*Through May 31

The BSA/structuring/money laundering violations reflect 29% of the filings over the six-year reporting period.

Many of the crime categories seem similar. When they are individually reported, the numbers seem low. When some of the categories are combined, a better overview can be seen on the following chart entitled “Collapsed Percentages On SAR Reports – Iowa.” This chart reflects the combination percentages on similar or like crimes. For this threat assessment several of the uncommon crime categories were combined with FinCENs “Other” category.

The “Other” category reflects 18% of the filings. The “Other” violations is a category that FinCEN uses to place any crime that is not depicted in a category. FinCEN was not able to provide any reason for the current list of categories and what any of the “Other” violations might be.

<sup>40</sup> - U.S. Treasury - FinCEN - SAR Bulletin, Issue #4 - January, 2002

The chart below reflects the percentages of the SARs after similar categories were combined in order to get a better overview of the type of crime(s) that be more commonly reported.

**COLLAPSED PERCENTAGES ON SAR REPORTS – IOWA**  
**April 1,1996 – May 31, 2002**

REPORTING YEAR	TOTAL	BSA/Structuring/Money Laundering	Fraud (Check, Credit Card, Debit Card, Wire Transfer)	Check Kiting	Loan Fraud (Commercial, Consumer, and Mortgage)	Embezzlement (includes defalcation)	Counterfeit Instruments (Checks, Credit Card, Debit Card, Other)	Other (Bribery, Computer Intrusion, Misuse of Position, Mysterious Disappearance, False Statements, and Misc. Other)
1996*	100	16	13	31	3	7	2	29
1997	100	23	18	14	9	6	2	28
1998	100	25	19	15	6	8	2	25
1999	100	36	15	10	7	6	4	23
2000	100	39	14	7	8	6	3	23
2001	100	26	17	7	5	5	5	35
2002**	100	28	14	7	10	3	3	35
<b>TOTAL</b>	<b>100</b>	<b>29</b>	<b>16</b>	<b>10</b>	<b>7</b>	<b>6</b>	<b>3</b>	<b>29</b>

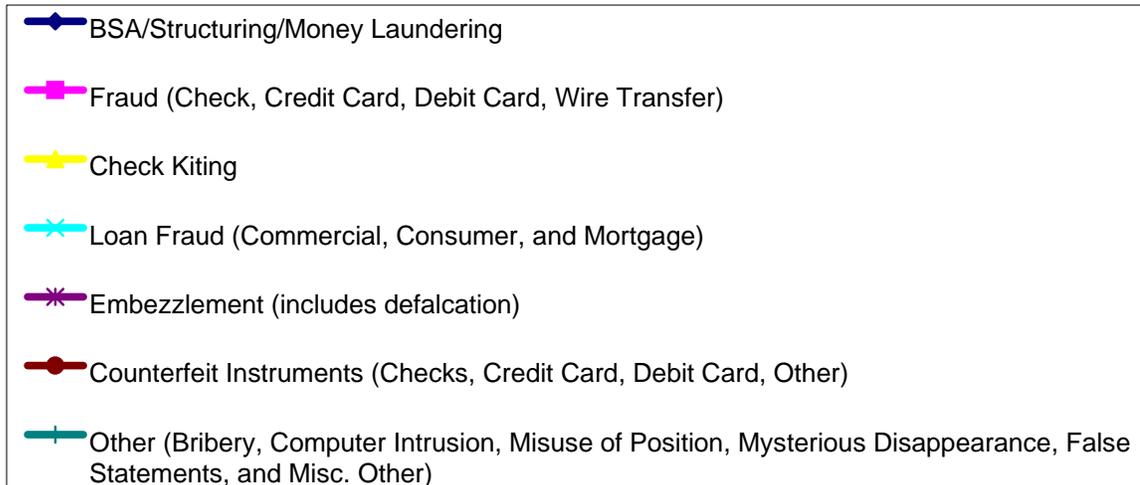
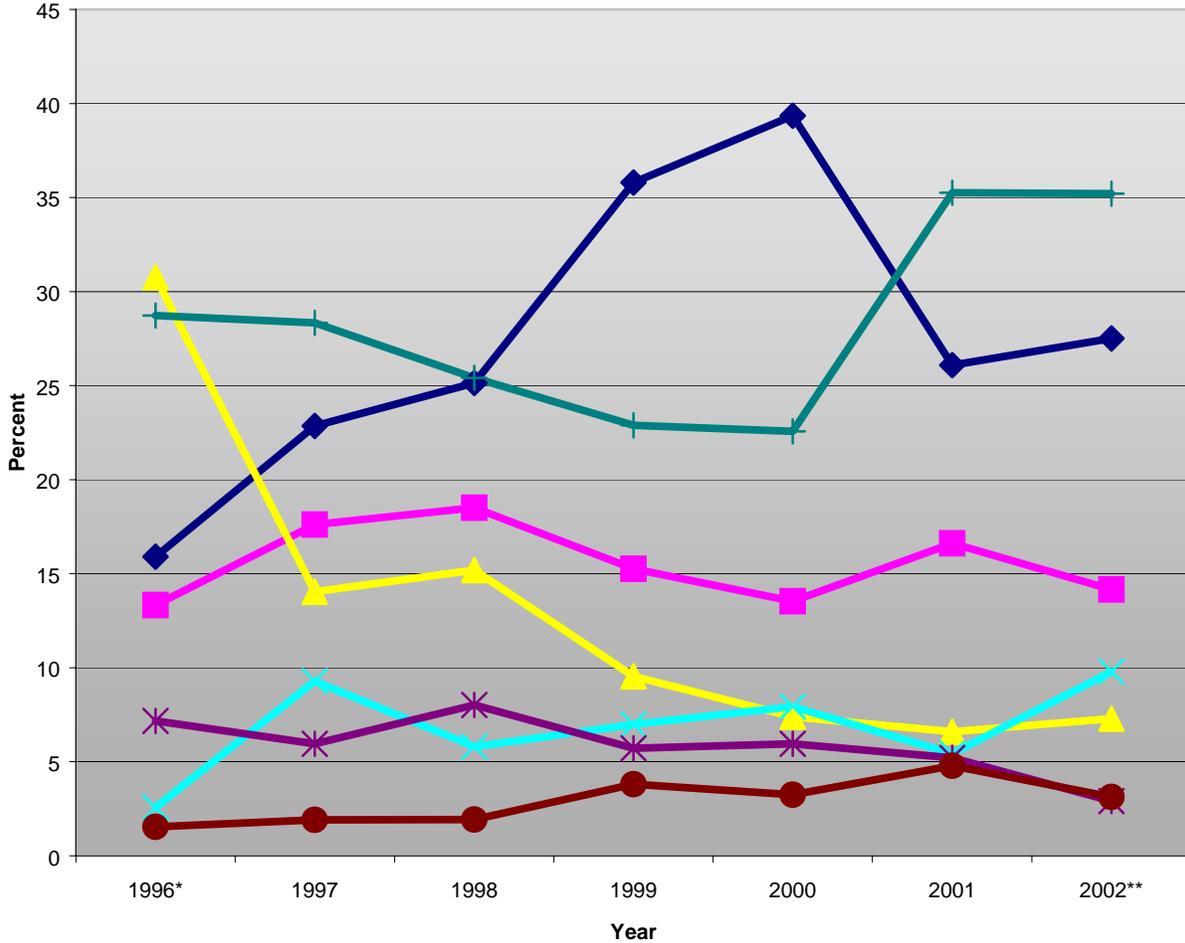
\*Starting April 1

\*\*Through May 31

The total BSA violations show the highest percentages of filings along with “Other” violations. Fraud accounted for 16% of the filings.

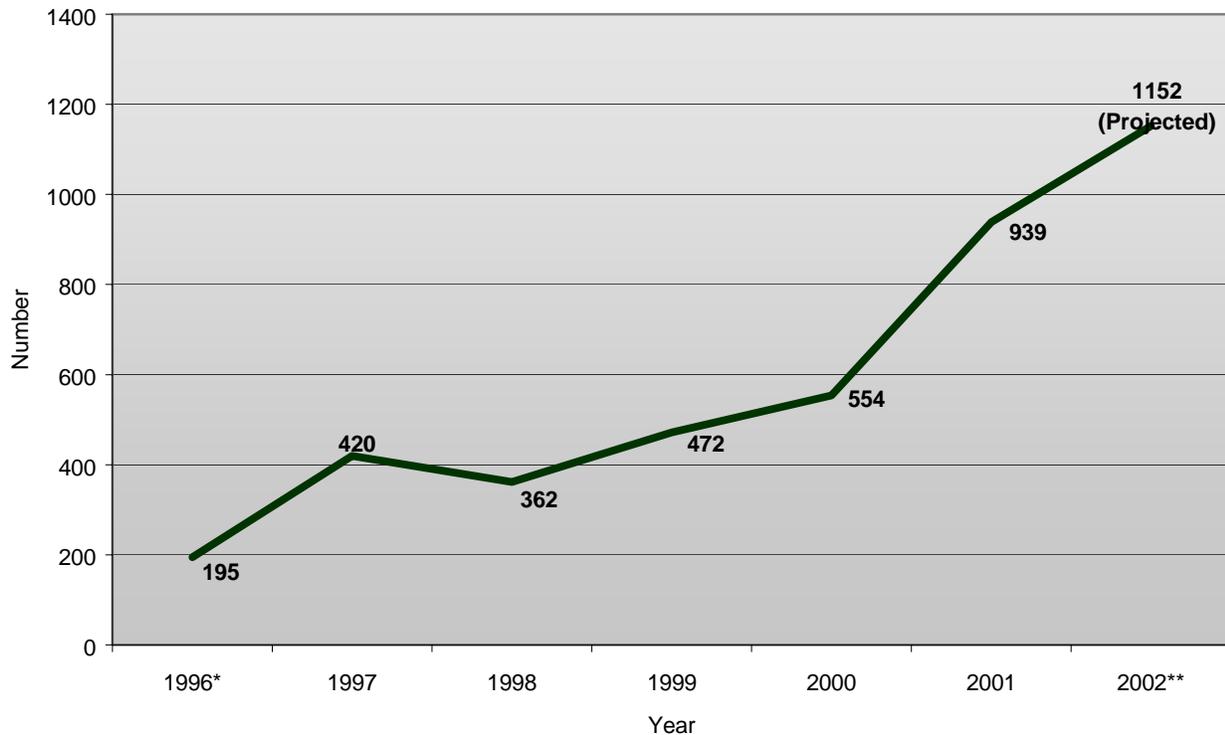
The following graph reflects the pattern of the proportion of Iowa's SARs over the six year reporting period.

**Proportion of Iowa SARs Filed Annually, by Type of Violation,  
April 1, 1996 - May 31, 2002 (n = 3,422)**



The following graph reflects the reported Iowa SARs and the projected 2002 reported Iowa SARs.

Number of Iowa SARs reported to FinCEN, April 1, 1996 through December 31, 2002 (Projected)  
(\*1996 data from April 1 through December 31; \*\*2002 data projection based on monthly average of filings through May 31)

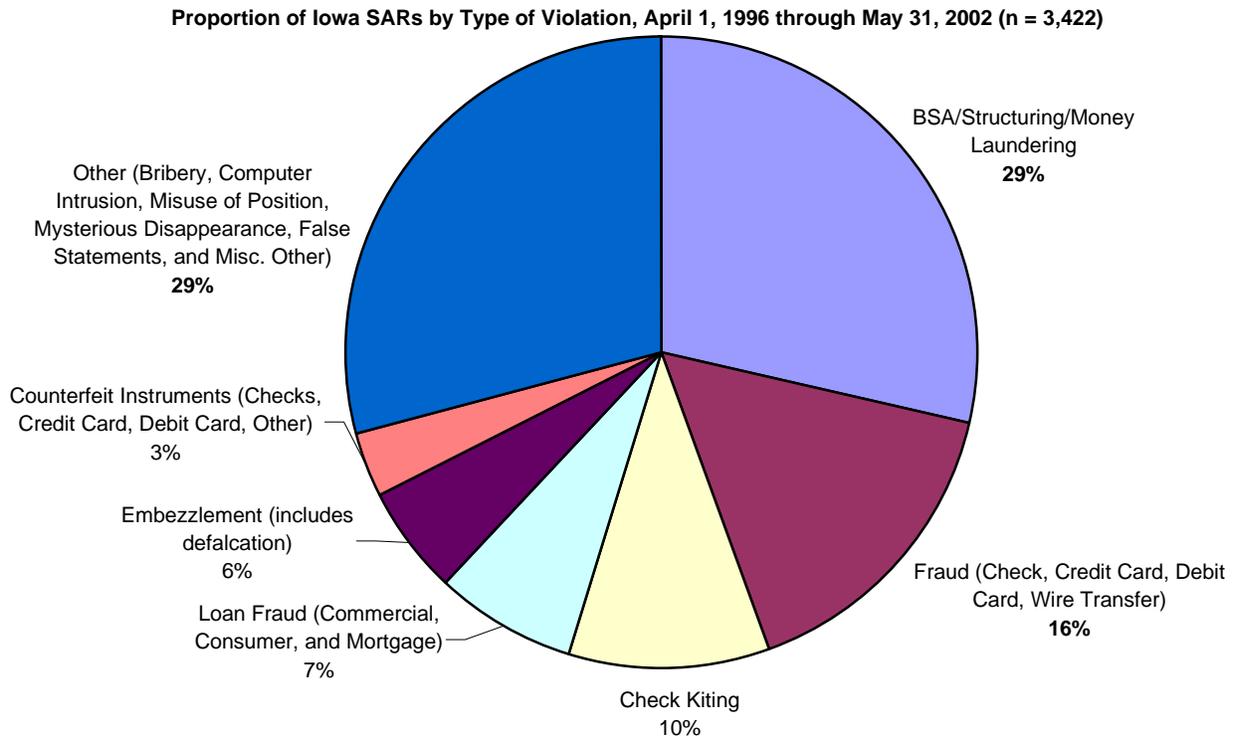


The trend indicates that SARs being reported will continue to increase. This could be a result of increased and accurate reporting by financial institutions as well as other money-based businesses beginning to file SARs. It could also reflect additional suspicious activity is taking place. It may be a combination of both.

MSBs began reporting under the BSA January 1, 2002.

Iowa casinos should begin filing SARs by the beginning of 2003.

The following pie graph reflects the proportions of Iowa SARs filed over the six-year reporting period.



BSA violations represent the most reported crime category over the past six (6) years.

The Fraud category reflected 16% of the SAR submissions over the same six (6) year reporting period.

The “Other” category reflects 29% of the SAR filings in Iowa. The suspicious activities comprising the “Other” category are not clearly described in the data provided by FinCEN.

It would appear that money laundering efforts should focus on the BSA violations and fraud-type violations.

## **X. IOWA'S CONNECTION TO CHICAGO (IL) - HIFCA LOCATION<sup>41</sup>**

Chicago (IL) has been declared a High Intensity Money Laundering and Related Financial Crimes Area (HIFCA), according to the 1998/1999 National Money Laundering Strategy Acts. The HIFCA program is intended to concentrate law enforcement efforts at the federal, state, and local level to combat money laundering in designated high intensity laundering zones. These are determined by demographic and general economic data, patterns of the Bank Secrecy Act (BSA) filings and related information, and descriptive information-identifying trends and patterns in money laundering activity and the level of law enforcement response to the money laundering in the region.<sup>41</sup>

Chicago is the home to the Federal Reserve Bank of Chicago and is a highly influential money center. Chicago is home to the seventh (7<sup>th</sup>) largest bank and five (5) of the top fifty (50) banks by total assets in the country.<sup>41</sup>

The city has six (6) counties that encompass the Chicago area and generate 58% of the statewide SAR activity. Money laundering and BSA violations account for 25% of all SARs filed in Illinois.<sup>41</sup>

Information provided by the El Paso Intelligence Center (EPIC) supports the fact that Chicago is an epicenter for drug and money laundering activity. Chicago continues to operate as a major transport area for illicit drugs, particularly cocaine and heroin. Chicago is also a center for cocaine distribution throughout not only the state, but also other areas of the Midwest.<sup>41</sup>

In 1999, 16.2 million dollars were seized nationwide and 23.4% of all cash seized originated in Illinois. Illinois ranked as the number one point of origin for drug-related cash seizures. The largest seizure to date was \$9.9 million that originated in Chicago and was seized in Texas.<sup>41</sup>

Chicago also has a casino riverboat industry with seven (7) riverboats in the Chicago area. The casino riverboats have been attracting the interests of street gangs as a money laundering medium. If left unchecked, these and other groups will continue to expand their illicit activities throughout the Midwest and reap the profits from their criminal acts.<sup>41</sup>

Intelligence suggests that several Money Services Businesses (MSBs) in the Chicago area are engaging in money laundering activities. One of the MSBs was previously charged with money laundering in another (unknown) state.<sup>41</sup>

It is widely suspected in the law enforcement community that MSBs have been used as a vehicle to launder the proceeds of criminal activity, including narcotics trafficking. Law enforcement agencies in California, New York, and elsewhere have effectively used various types of federal/state FITFs (Financial Investigative Task Forces) to effectively target, investigate, and prosecute criminal organizations, which have made use of MSBs as a means to launder criminally derived money. The collection and analysis of SARs has played an instrumental role in the successful investigation of these types of cases.<sup>41</sup>

---

<sup>41</sup> - Illinois State Police - C-FIC Grant Application - 2000

## **XI. IOWA IS PART OF THE MIDWEST HIDTA (HIDTA – High Intensity Drug Trafficking Area)<sup>42</sup>**

The Midwest HIDTA, designated in 1996, addresses the explosive problems of methamphetamine in a six state region consisting of counties in Iowa, Kansas, Missouri, Nebraska, South Dakota and North Dakota. The region's position in the "Heart of America" provides a fertile environment for the production and distribution of methamphetamine that is either produced locally or imported primarily by Mexican organizations. The region is predominantly rural with an economy firmly rooted in an agricultural related industry that employs thousands of Mexican-Americans and Mexican Nationals who are often exploited by trafficking organizations in their effort to import and set up methamphetamine distribution networks. Additionally, an abundance of jobs available in food and cleaning services, the roofing industry, and meatpacking plants has resulted in an increase in undocumented immigrants who often facilitate methamphetamine importation. Clandestine manufacturing operations occur in rural, metropolitan and suburban areas.<sup>42</sup>

Narcotics' trafficking is very prevalent in our society today and Iowa is one of the leading states, per capita, in certain types of drug activity. According to the El Paso Intelligence Center (EPIC), there were 434 interdictions of illegal drugs and/or currency relevant to Iowa between CY 1994 and CY 2002 (YTD). These interdictions were destined for Iowa, passed through Iowa, or were destined to pass through Iowa.<sup>42</sup>

Out of the 434 total interdictions reported, 119 were specifically destined for Iowa.<sup>42</sup>

Des Moines was the most common destination for cocaine, crack cocaine, marijuana, and methamphetamine. Davenport was second followed by Council Bluffs, Fort Dodge, Muscatine, Perry, Sioux City, Storm Lake, and Waterloo.<sup>42</sup>

The 241 kilograms of methamphetamine destined for Iowa was the largest amount destined for any of the Midwest HIDTA states (Iowa, Kansas, Missouri, Nebraska, North Dakota, and South Dakota).<sup>42</sup>

California was the most common source state for cocaine, crack cocaine, marijuana, and methamphetamine. Texas was second followed by Arizona, Nevada, and Mexico.<sup>42</sup>

Out of the 434 total interdictions, 49 interdictions occurred in Iowa including 14 that were destined for Iowa. The most common destination states for drugs were Illinois and Minnesota followed by Michigan and Nebraska. The destination states for currency included Arizona, New Mexico, Washington, and Mexico.<sup>42</sup>

---

<sup>42</sup> - Iowa Department of Public Safety - HIDTA 2000 Threat Assessment

## **XII. IOWA'S POTENTIAL MONEY LAUNDERING LOCATIONS**

There are several ways, or types of businesses, within Iowa that can be exploited by money laundering. These include, but are not limited to:

- Restaurants and Bars
- Casinos and Legalized Gambling
- Auto Sales/Auto Repairs/Auto Detailing
- Self-Employed (Storefronts)
- Real Estate
- Financial Institutions (Banks, Credit Unions, Money Service Businesses)
- Cyber Laundering (Internet)

### **A. RESTAURANTS AND BARS**

Iowa's restaurants and bars have been used to launder money as well as facilitate other criminal activity. Specifically, Mexican drug trafficking groups have used restaurants as business fronts in attempts to conceal their illicit activities and operate unsuspectingly in the migrant communities. These drug trafficking groups are associated with much larger organizations in the southwestern U.S. and Mexico that are responsible for the distribution of the majority of illegal narcotics throughout the country and Iowa.<sup>43</sup>

### **B. CASINOS - (CHAPTER 99F, CODE OF IOWA) AND PARI-MUTUEL WAGERING - (CHAPTER 99D, CODE OF IOWA) IOWA LOTTERY - (CHAPTER 99E, CODE OF IOWA)**

Casino gambling, pari-mutuel betting, and a state operated lottery are legal forms of gambling in Iowa. Iowa is home to 16 legalized gambling facilities where large currency transactions may take place. These include ten riverboat casinos (six on the Mississippi River in eastern Iowa and three on the Missouri River in western Iowa and one on West Lake in Clarke County in south-central Iowa); three pari-mutuel betting facilities which operate slot machines and simulcast horse/dog racing; three Native American land-based casinos located in central and western Iowa. Iowa patrons wagered \$13.2 billion in FY'01 in Iowa's legalized gambling industry.<sup>44</sup>

The state of Iowa's lottery games include Powerball, \$100,000 Cash Game, Hot Lotto, Pick 3, pull tabs and scratch tickets.

Iowa casinos reported 58 SARs from 1999 to 2002 (YTD – August, 2002). Most of these (82%) have been provided by Ameristar Casino in Council Bluffs, according to FinCEN.

Although all of the legalized gambling facilities mentioned previously can be exploited for the purposes of money laundering, only six of the riverboats/tracks have submitted any SARs.

---

<sup>43</sup> - Iowa Department of Public Safety - HIDTA 2000 Threat Assessment

<sup>44</sup> - Iowa Department of Inspections and Appeals - Iowa Racing and Gaming Commission

Native American casino reports are considered confidential, per Code of Iowa, Chapter 10A.105. The records are provided to the Iowa Department of Inspections and Appeals, but under an agreement, or compact, pursuant to the Indian Gaming Regulatory Act, they are not for publication nor are they accessible to law enforcement. The amount wagered at these facilities is unknown.

It is estimated that \$500 billion a year is legally wagered at all casinos in the United States.<sup>45</sup>

The large volume of cash involved in casino play and the casinos access to varied non-traditional banking systems worldwide continue to make casinos particularly vulnerable for money laundering.

### **C. AUTO SALES/AUTO REPAIRS/AUTO DETAILING/AUTO AUCTIONS**

The used auto business has always been a way to hide money, yet look like a legitimate business. Automobile transactions can be made to look legal on paper, but in reality the vehicle either no longer exists or the vehicle is damaged beyond repair. The paper trail will often times try to hide the true condition of the vehicle, but yet reflect a considerable amount of money on the transaction. This would enable the proprietor to justify the amount of money that they may be depositing or spending.

Auto repairs and detailing are done under the same pretense whereas the alleged work done on a vehicle can be shown on paper or receipts. In reality, the work was either not done or was not done to the extent that is shown. This is attempting to disguise or justify the money flow in the business. These can be run out of a single garage or a small business with little overhead. This can also be done in a large business and an attempt is made to commingle the money laundering with the legitimate business.

Iowa currently has approximately 2,900 new and use vehicle dealers.<sup>46</sup>

### **D. SELF-EMPLOYED (STOREFRONTS)**

The self-employed proprietor can appear to have a legitimate, cash-generating business. These are often times run out of a basement or small office/garage/warehouse with little or no overhead. The hours of business are not regular, and in fact, they usually are not open. The proprietor really does not want legitimate business. There may be a small number of legitimate business transactions, but very few. The business will have documents that will reflect the business that they want the government to believe they are conducting. The proprietor will attempt to show on paper that he/she is doing a certain amount of business, thus trying to justify the cash flow that they are revealing. They may also combine illegal money with legitimate money, thus doing what is called “commingling with legitimate business.”

---

<sup>45</sup> - New Jersey - 2001 Money Laundering Threat Assessment

<sup>46</sup> - Iowa Department of Transportation - September 3, 2002

## **E. REAL ESTATE**

The purchasing of real estate, in itself, is not unusual. It becomes suspicious when property is purchased using children's names or deceased or elderly family members' names (a nominee). Real estate is usually a good investment due to the fact that it will traditionally increase in value as well as have excellent resale potential. Whenever false names, the names of young, elderly or deceased persons, or corporations are used in purchasing real estate or property, the transaction should be examined in more detail.

## **F. FINANCIAL INSTITUTIONS – (CHAPTER 524, CODE OF IOWA - BANKS)**

Banks (as well as casinos) are normally the “placement” stage of money laundering, that is, putting cash into the traditional banking system. This could include “smurfing” (where money launderers divide their cash into amounts less than the reporting requirement (\$10,000) in an effort to avoid the requirement of the Bank Secrecy Act.<sup>47</sup>

Banks are also used for the “layering” stage. This may involve multiple bank accounts, often out-of-state or out-of-country. They attempt to create confusion along the path of the money flow before ending up at its final destination.<sup>47</sup>

In general, FinCEN estimates that ten percent (10%) of the Currency Transaction Reports (CTRs) reflect any type of illegal activity. The focus should be on the Suspicious Activity Reports (SARs).

It is unclear if “Cyber currency” is a threat. “Cyber currency” is defined as Electronic Cash or Digital Money. It is involved when actual assets are transferred through digital communications in the form of individually-identified representatives of bills and coins. Internet banks are then used and the reporting requirements are then avoided. Rules and regulations in this area are unclear and whether FDIC applies.<sup>48</sup>

Overseas banks in the following countries are traditionally non-United States hotspots: Switzerland, Panama, Bahamian Islands, and Luxembourg.<sup>48</sup>

## **G. BROKERAGE FIRM/DEALER (CHAPTER 535C, CODE OF IOWA – LOAN BROKERS)**

A Loan Broker is defined in the Iowa code as: A person who promises to obtain a loan or credit card or assist in obtaining a loan for another, from a third person, or who promises to consider making a loan or offering to issue a credit card to a person. (There are exceptions to this definition). It is unclear if brokerage firms play a role in money laundering in Iowa. This is a business that is highly susceptible due to the large flow of money and often complicated transactions. More information needs to be developed before a conclusion can be drawn.

---

<sup>47</sup> - New Jersey - 2001 Money Laundering Threat Assessment

<sup>48</sup> - Mark Bortner. “Law and the Internet” A Seminar at the University of Miami (FL.) School of Law – 1996 - [www.marktwain.com/money](http://www.marktwain.com/money)

## **H. MONEY SERVICE BUSINESSES (MSBs)**

They are defined by the U.S. Treasury – FinCEN as: Money Transmitters, Issuers, Redeemers, and Sellers of Money Orders and Traveler’s Checks, Check Cashers, Currency Exchangers/Dealers, and issuer of Stored Value. (Stored Value definition: Funds or monetary value represented in digital electronics format and stored or capable of storage on electronic media in such a way to be retrievable and transferable electronically. [www.msb.gov](http://www.msb.gov) - August 30, 2002).

## **I. MONEY TRANSMITTERS – (CHAPTER 533B, CODE OF IOWA)**

A money remitter is any non-bank financial institution with global network through which it can transfer money. Money remitters are differentiated from check cashers in that they take cash and send it elsewhere (or sell checks or money orders in return for cash), whereas check cashers provide cash in return for checks. According to the 1998 state of New Jersey Money Laundering Threat Assessment, their information revealed that there were several particular ethnic groups that seemed to be prevalent in communities where money transmitters flourished. This could be an indication of money laundering or an indication of money being transferred to their home country.

In the 2002 HIDTA Threat Assessment - Outlook section, indications are that Mexican groups currently dominate the wholesale distribution of illicit drugs in the HIDTA region (North Dakota, South Dakota, Nebraska, Kansas, Missouri, and Iowa). This information may indicate a need to examine more closely the MSB transactions in communities with a high immigration population.

Iowa has at least 1,500 money transmitters in Iowa as of 2001. Filing Suspicious Activity Reports (SARs) by all the money service businesses became effective January 2002.<sup>49</sup> This should reveal some relevant information for future use to better understand and evaluate the SAR activities in the money transmitter business.

Wire transfers are estimated to be \$700,000 daily in the United States, moving over \$2 trillion dollars. The federal estimate is \$300 billion is laundered annually in the United States.<sup>50</sup>

---

<sup>49</sup> - Iowa Department of Commerce - Division of Banking

<sup>50</sup> - Mark Bortner. “Law and the Internet” A Seminar at the University of Miami (FL.) School of Law – 1996 – Office of Technology Assessment, Congress of the United States, Information Technology for the Control of Money Laundering , iii (1995) (OTA – ITC - 630)

## **J. DELAYED DEPOSIT – (CHAPTER 533D, CODE OF IOWA) AND CHECK-CASHING BUSINESS**

This is a business whereas the licensee may accept up to two (2) checks from any one maker as long as the aggregate of those checks does not exceed \$500.00. The maximum term, or scheduled delay until the check is redeemed, is 30 days (14 days is common). The fee ceiling is 15% on the first \$100.00, and 10% thereafter. For example, on a \$100.00 check, the customer would receive \$85.00, with the licensee collecting a \$15.00 fee when the check is redeemed. For a \$200.00 check, the customer receives \$175.00, with the licensee collecting a \$25.00 fee when the check is redeemed. Two weeks later, the check is either deposited or the borrower must come in with the entire \$200.00.

There are 160 delayed deposit businesses registered in Iowa.<sup>51</sup> The delay-deposit business is vulnerable to money laundering due to the lack of regulations and the lack of accountability they have to show on monies that go through their businesses.

Effective January 1, 2002, Suspicious Activity Reports (SARs) are required to be completed and submitted to the U.S. Treasury under the Bank Secrecy Act (BSA). The U.S. Treasury is currently working on the operating procedure guidelines.

## **K. ASSETS PURCHASED**

When assets (vehicles, boats, airplanes, etc.) are purchased with cash, it eliminates the “paper trail,” which can complicate the tracing of assets and linking them to their owners. Violators are often times use “nominees” (friends, relatives, or aliases) in an attempt to hide the transaction and the funding source(s). This is also popular in an attempt to prevent law enforcement from seizing assets due to forfeiture.<sup>52</sup>

Currently, the Internal Revenue Service 8300 Form is required to be completed by these types of businesses on any such transaction over \$10,000 cash. The form is similar to the Bank Secrecy Act (BSA) requirement on the Currency Transaction Report (CTR).

The United States Patriot Act, which became effective October 25, 2001, requires financial institutions and businesses, such as car dealerships, to:

- develop policies, procedures, and controls to prevent *money laundering*;
- appoint a compliance officer to oversee the program;
- train employees to follow the program; and,
- conduct an independent audit to make sure that the program is followed.

These programs are slow in getting implemented.

---

<sup>51</sup> - Iowa Department of Commerce - Division of Banking

<sup>52</sup> - New Jersey - 2001 Money Laundering Threat Assessment

## L. CYBER LAUNDERING (INTERNET)<sup>53</sup>

*Money laundering* is the age-old practice of taking “dirty” *money* obtained through criminal enterprises like narcotics trafficking and organized crime, and “cleaning” it – that is, getting it into circulation without attracting the attention of bank regulators and other officials on the lookout for sudden deposits of large amounts of cash. (The term *money laundering* is purported to go all the way back to the days of Al Capone. Supposedly, the Chicago gangster used coin-operated laundries to hide illegal gambling profits).<sup>53</sup>

Criminals have laundered cash by physically smuggling *money* to offshore banks or by channeling it through seemingly legitimate cash-based businesses. The advent of faxes and wire transfers streamlined the process, eliminating the need to transport cash over long distances. Though the Internet doesn’t make it much easier to get large sums of dirty cash online and into circulation, once criminals place the *money* there through other means, the Internet makes it much easier to manipulate the *money*. He/she can move funds around and manage them quickly and anonymously from virtually anywhere in the world.<sup>53</sup>

“The Internet has made life amazingly easy for *money* launderers,” explains Tom Spillane, a vice president at Retail Decisions, a financial-service firm offering software tools that use artificial intelligence to detect *money laundering*. The Internet, he says, “ensures speed and anonymity. There’s no audit trail, no face-to-face contact, no need to even go to the bank.”<sup>53</sup>

Cyber launderers have used various techniques to filter illicit gains. Typically, they rely on electronic banks or online gambling casinos then facilitate schemes with digital cash, Internet *money* transfers, and online payment systems. A criminal can access the Internet from a laptop, surf to an Internet bank, open a dozen accounts and then transfer *money* with the press of a keyboard button. A smuggler can use dirty *money* to bankroll a debit card, insert it into a card reader linked to a personal computer, and program the computer to transfer funds to an Internet-based business, claiming the clean *money* as a legitimate profit.<sup>53</sup>

Pure-play Internet banks and online gambling sites, licensed in off-shore havens, are particularly susceptible to cyber *laundering*, according to the Financial Action Task Force on *Money Laundering*, an international organization set up to combat the practice. There are hundreds of Internet banks, and most are licensed in one of the 19 nations and territories that the task force recently deemed friendly to *money* launderers – a list that includes Egypt, Nigeria, and Lebanon.<sup>53</sup>

Scores of Internet web sites have sprung up to provide tax havens for the would-be *money* launderer. Requiring little or no identification or *money*, a site will open an off-shore Internet bank account or establish an off-shore International Business Corporation, a tool that *money* launderers use to hide profits and owners’ identities; some sites will even open trust funds.<sup>53</sup>

---

<sup>53</sup> - ON - “Cyber Laundering” - January 2002, Vol. 7 -Carolynn Marshall

While all of these financial instruments are legal, if reported properly, poor government oversight of off-shore banking helps criminals avoid scrutiny. One site even offers to help visitors buy an off-shore bank for only \$20,000 – a deal that the site says is “almost like printing your own *money!*”<sup>53</sup>

“These sites are designed to facilitate criminal activity,” says Tom Cash, who was a DEA agent for 30 years and now works in Miami with the investigative firm from Kroll Associates. Cash says cyber launderers typically tap off-shore Internet accounts using debit or “smart” cards, which carry embedded microchips that store monetary value. One Miami-based online firm legally peddles cards that serve suspect banks in off-shore tax havens; the cards even bear the Visa, MasterCard, and American Express logos. “The bank gets a fee, the credit card company gets a fee, the bill gets paid and you get your *money*. Everyone’s happy,” says Cash.<sup>53</sup>

Since *money* launderers are rarely apprehended, reliable statistics are hard to find. The International Monetary Fund estimates that between \$500 billion and \$1.3 trillion is laundered annually by traditional methods, with half that amount running through United States banks. Only 1% to 5% of the total is laundered via the Internet, according to Fletcher Baldwin, professor of constitutional law at the University of Florida and director of the Center for International Financial Crime Studies. Baldwin believes that cyber *laundering* will explode once criminals figure out how easy it is to evade the law.<sup>53</sup>

---

<sup>53</sup> - ON - “Cyber Laundering” - January 2002, Vol. 7 -Carolynn Marshall

### **XIII. SUMMARY**

The threat of money laundering has the potential to be spread throughout Iowa and its major cities, which include, but are not limited to: Cedar Rapids/Iowa City, Des Moines, Council Bluffs/Omaha area, and Davenport/Moline (Quad Cities) area. These cities' casinos, financial institutions, and businesses and their proximity to major drug markets, make them susceptible to money laundering.

Iowa's demographics include a very high elderly population. Iowa ranks in the top five (5) of each of the elderly age categories. The elderly are often times easy targets for scams and fraud.

Iowa's overall transportation systems, which include highways, air, rail, bus, and waterways, make them susceptible to bulk money movement, not only around the Midwest, but the entire country. Iowa is traversed by two of the major interstate highway systems in the country, which are Interstate 35 from Mexico to Canada and Interstate 80 from New York to California.

An organized and coordinated approach in dealing with criminal organizations associated with the transportation of bulk quantities of currency is essential. The use of large sums of cash is one of the most reliable warning signs of drug trafficking, terrorism, money laundering, tax evasion, and other similar crimes. The prevention, investigation, and prosecution of such crimes depend largely upon the ability of law enforcement to deter and trace such movements of bulk cash.<sup>54</sup>

Iowa's unemployment is currently 2% below the national average. A majority of Iowans are working in management and professional-related occupations. These types of jobs can provide an easy opportunity to either launder money directly or get involved with others to launder money. The Iowa farmer only makes up 1% of the workforce.

Iowa experiences a variety of crimes. Many of these are in the fraud and narcotics areas. Iowa is part of the Midwest HIDTA Initiative. Columbian and Mexican drug trade organizations will continue to pose the greatest money laundering threat.<sup>55</sup> These organizations smuggle the most cocaine, marijuana, and methamphetamine sold in the United States.<sup>55</sup> With Iowa being a hotspot for methamphetamine in the Midwest, special attention may need to focus on where the most methamphetamine arrests and/or seizures are taking place.

Money laundering is a threat to our financial systems and economy in general by using the structured bank deposits called "smurfing," which is the commingling of illegal money with legitimate revenues when making deposits. Iowa's financial institutions (banks) account for 29% of the Suspicious Activity Reports (SARs) filed since 1996. A good review of the state's SARs should identify potential targets in this area. The purchasing of real estate and vehicles in a (nominee's) name is another common ruse used by money launders. An examination of the IRS 8300s needs to take place, which will assist in identifying potential vulnerabilities in the private business arena that sell such items as cars, boats, real estates and so forth.

---

<sup>54</sup> - U.S. Treasury - Budget Initiatives

<sup>55</sup> - New Jersey - 2001 Money Laundering Threat Assessment

Money Services Businesses (MSBs) could play a significant role in money laundering in Iowa. The fact that they have very little government control makes them very vulnerable. Currently, there is draft legislation, developed by the Iowa Attorney General's Office, to establish guidelines and regulations on MSBs for the 2003 General Assembly.

State financial transaction reporting laws - such as those included in the Iowa Economic Remedies Act of 1996 (Anti-Money Laundering Law) - and state and federal regulations on financial institutions, requiring them to maintain certain records and to report specified transactions (including suspicious transactions) should result in a better overall understanding and enforcement of money laundering violations.

Iowa's casinos are currently submitting very few, if any, SARs. The casino industry is indicating that as long as they are not required to complete SARs, they are not going to do so. New federal guidelines are pending which will mandate the filing of SARs and should be in place by late 2002 or early 2003.

Money laundering is not only a fundamental element of the drug trade, but is a major incentive to most criminal activity. A coordinated effort must be carried out at the federal, state, and local levels of law enforcement to combat money laundering. Money laundering will continue to be a serious threat to the economic integrity and security of Iowa and the United States.

## **XIV. MATTERS TO COVER**

- Obtain Money Service Businesses (MSBs), Currency Transaction Report (CTRs), Suspicious Activity Report (SARs) statistics from FinCEN. Once available, evaluate and analyze the data.
- Obtain 8300 information from Iowa businesses and evaluate and analyze the data.
- Obtain SAR information from FinCEN on casinos and other money-generated businesses. Once available, evaluate and analyze the data.
- Obtain Iowa fraud statistics that deal with Bunco/confident scams, specifically against the elderly.
- Examine how the brokerage firm/dealer and insurance industries are impacted by money laundering.
- Establish a SAR Review Team protocol, which will include U.S. Attorney's Office, IRS, FBI, and DEA.
- Implement Iowa Money Laundering Action Plan
- Establish a contact with the Federal Reserve Board (Bank) – Special Investigations Unit
- Training attended by the Money Laundering Initiative Team.
- Asset Forfeitures.