

**STATE OF IOWA
MONEY LAUNDERING THREAT ASSESSMENT
JANUARY 2004**



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



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

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January 2004

INTRODUCTION

PURPOSE

The purpose of this assessment is to establish a threat-driven strategy for the State of Iowa to combat money laundering. Most law enforcement efforts have traditionally focused on the underlying, or predicate, criminal offenses. Increasingly, law enforcement's focus or attention is being placed on the proceeds of (or profits derived from) criminal activity. In other words, additional effort is being placed on combating money laundering. Money laundering can have a large impact on the state of Iowa, its economy, and its citizens.¹

What is Money Laundering?

Money laundering is the process in which illegally-earned – or “dirty” – money (often in the form of cash) is made to appear legitimate – or “clean.” Among other things, money laundering:

- distorts the economy;
- promotes negative role models and criminal activity;
- facilitates continuing criminal networks; and
- 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.² Global money laundering has been estimated at \$2.85 trillion a year, heavily concentrated in Europe and North America.³

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.⁴

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.

¹ Iowa Attorney General, Iowa LEIN, Iowa Economic Remedies Act Manual – July, 1996

² U.S. Treasury – FinCEN – Strategic Plan – 2002-2005

³ New Jersey – 2001 Money Laundering Threat Assessment – Walker, John – pg. 1 – March, 2000

⁴ U.S. Treasury – FinCEN – Strategic Plan – 2002-2005

The State of Iowa currently has laws to 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.

In the aftermath of the September 11, 2001 terrorist attacks, the federal government also passed the United States PATRIOT Act. One of the goals of the PATRIOT Act is to tighten the federal anti-money laundering laws. In combination, these two acts will assist law enforcement in tracing the profits generated by illegal activities, not only in Iowa but also in the United States.

GOALS

The goals of this assessment are to (1) increase awareness and understanding of the nature and extent of money laundering activities in Iowa; and (2) increase the effectiveness of law enforcement's efforts against it. Iowa law enforcement efforts will continue to be directed toward collecting, evaluating, analyzing, reporting, and disseminating the most accurate and relevant information to combat crimes that generate or are financed with illegally-derived proceeds. This intelligence will help project trends, draw conclusions, provide recommendations, and make decisions on how to effectively combat criminal activity by focusing on the process of money laundering.

AN OVERVIEW OF IOWA

Iowa is situated in the north-central region of the United States, often called the “heartland of America.” 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. Covering 55,869 square miles, Iowa’s population consists of approximately 2,936,760 million residents⁵ (ranking 30th in population)⁶. Iowa’s population increased 5.4% from 1990 to 2000.⁷

With a population density of 52.4 persons per square mile,⁸ Iowa is generally considered to be a rural state. Iowa’s metropolitan areas are as follows:

City	July 1, 2002 Population Estimate (MSA) ⁹
Council Bluffs, IA (includes Omaha, NE)	784,463
Des Moines, IA (State Capital)	497,253
Davenport, IA (includes Quad Cities area)	375,140
Cedar Rapids, IA	241,485
Waterloo, IA (includes Cedar Falls, IA)	163,091
Sioux City, IA and NE	142,802
Iowa City, IA	135,406

Demographically, the population of Iowa is 94% white. The population of the state, however, is becoming more racially and ethnically diverse. Iowa’s demographic characteristics are as follows:¹⁰

Gender/Race/Ethnicity	Percent
Male	49.1%
Female	50.9%
White	93.9%
Black	2.1%
Hispanic/Latino	2.8%
Asian	1.3%
American Indian	.3%

⁵ U.S. Census Bureau, Population Estimates for Iowa, accessed February 15, 2004 at <http://eire.census.gov/popest/data/counties/tables/CO-EST2002/CO-EST2002-01-19.php>.

⁶ U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, accessed February 15, 2004 at <http://www.census.gov/prod/2002pubs/01statab/pop.pdf>.

⁷ U.S. Census Bureau, State and County *Quickfacts* for Iowa, accessed February 15, 2004 at <http://quickfacts.census.gov/qfd/states/19000.html>.

⁸ U.S. Census Bureau, State and County *Quickfacts* for Iowa, accessed February 15, 2004 at <http://quickfacts.census.gov/qfd/states/19000.html>.

⁹ Metropolitan areas as defined in 2003. Source: U.S. Census Bureau, Population Division, (301) 457-2422, Released April 17, 2003, Provided by State Library of Iowa, State Data Center Program, 800-248-4483, <http://www.silo.lib.ia.us/specialized-services/datacenter/index.html>. Accessed February 15, 2004 at <http://www.silo.lib.ia.us/specialized-services/datacenter/data-tables/MetroArea/metroestpopcomp20002002.pdf>.

¹⁰ 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 Hispanic immigrants. Perry and Marshalltown are also showing an increase in the Hispanic population.

The Northeast Iowa town of Postville has experienced a large diversification in its population after an Orthodox Jewish family purchased a closed meat-packing plant in 1999 and opened a kosher slaughterhouse which resulted in hundreds of immigrants from Mexico, Guatemala, Ukraine, Nigeria, Bosnia and Czechoslovakia moving to accept jobs at the plant. The diversity is also reflected in the kosher slaughterhouse itself where safety warnings are posted in Russian, Hebrew and Spanish as well as English.¹¹

Compared to most other states, Iowa has a higher proportion of older residents, as shown by the following national rankings:¹²

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

Older residents are sometimes vulnerable and at risk for scams and other money schemes. 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 discovers 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.

Iowa is a leading agricultural state with more than 97,000 farms. Iowa is also home to the second (2nd) largest concentration of insurance companies in the United States and serves as the “payer-agent” for a number of insurance plans across the country.¹³ Some of the leading occupations and industries in Iowa:^{14 15}

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

¹¹ Diversity’s Arrival in Tiny Iowa Farm Town Makes for Uneasy Mixing of Cultures” Copyrighted from *Los Angeles Times*, Sunday, February 21, 1999. Accessed February 24, 2004 at <http://www.americancivilrightsreview.com>

¹² Iowa Department of Elder Affairs – July, 2001

¹³ Iowa Department of Workforce Development – July, 2002

¹⁴ U.S. Census Bureau, Table DP-1. Profile of General Demographic Characteristics - 2000

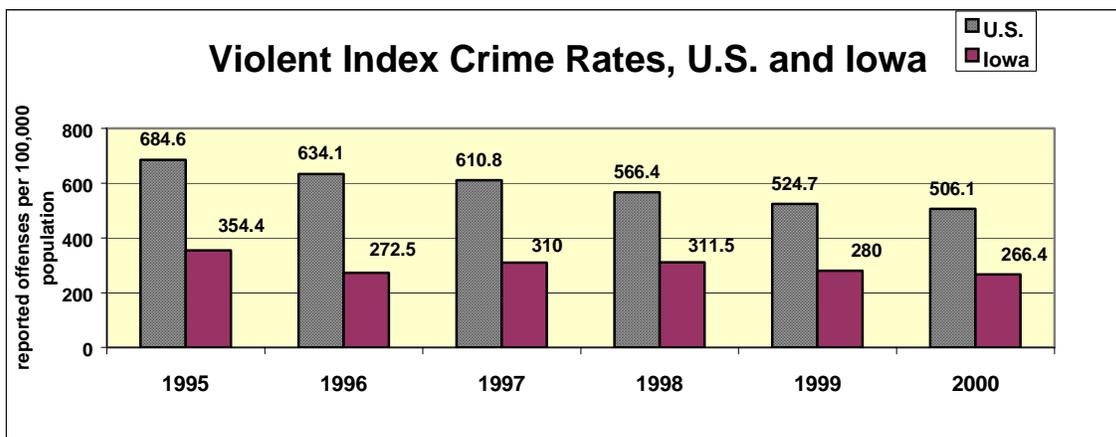
¹⁵ Contrary to what might be popularly believed, farming occupations (including fishing and forestry) accounts for only 1% of the occupations in Iowa.

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

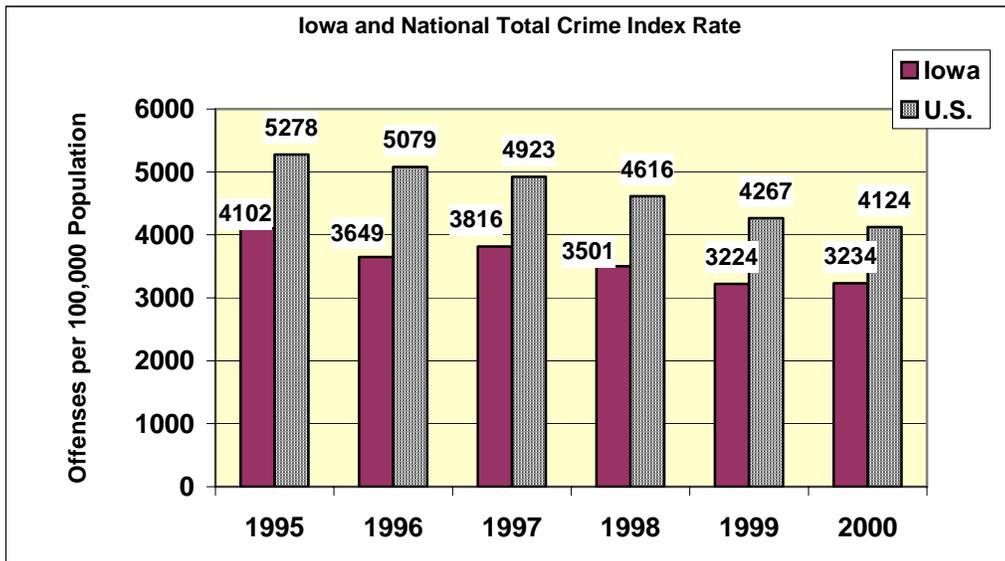
As of December 2003, the unemployment rate within Iowa was at 4.2 percent. Iowa is currently running approximately 1.5% below the national average. The median household income (dollars) in Iowa is \$39,288. The per capita income (dollars) is \$20,032.¹⁶

CRIME IN IOWA

There have been a variety of attempts to evaluate the relative “quality of life” in American states in recent years. Commonly, Iowa is at or near the top in these ratings. A major reason for Iowa’s achievement of these high ratings is its relatively low crime rate. The following chart tracks comparisons of Iowa’s overall index crime rate and violent index crime rate with corresponding national rates since 1995. While consistently comparing favorably with the country as a whole both on overall crime rate and on violent crime rate, the contrast is more marked for violent crimes. In 2000, Iowa’s violent index crime rate was about 53 percent of the national rate, and was about 24 percent lower than the 1995 Iowa violent crime rate. However, over a long period of time, Iowa’s relative advantage in the infrequency of occurrence of violent crimes has been eroding. That is to say, while Iowa’s violent crime rate remains markedly lower than the national violent crime rate, over time, Iowa’s violent crime rate is converging, albeit slowly, with the national rate, and Iowa’s relative advantage in this regard is decreasing.



¹⁶ U.S. Census Bureau – 2002 American Community Survey Profile



Selected data about reported crimes in Iowa were obtained for this report to assess the potential types of criminal activity that might be facilitated by money laundering. Categories of criminal activity that were selected are similar to those 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 1998 through 2002.

Incident-Based Report – 1998-2002 Statistics (Number of Incidents)

Offense	1998	1999	2000	2001	2002	+ / - (from 2001)
Bribery	4	2	3	6	3	-50%
Fraud	1,351	1,454	1,795	2,288	2,721	+18.9%
Counterfeiting/Forgery	3,456	3,168	3,716	4,312	4,035	-6.4%
Embezzlement	401	424	432	452	402	-11%
Intimidation	2,853	2,916	3,078	3,034	3,584	+18%
Extortion/Blackmail	20	27	12	27	14	-48%
Robbery	1,108	1,063	1,071	1,154	1,170	+1.4%
Drugs	8,935	9,207	9,561	9,735	10,897	+11.9%
Pornography	40	59	73	65	68	+4.6%
Prostitution	307	258	267	292	371	+27%
Gambling	5	32	45	12	4	-66.7%
Weapons	1,142	981	980	1,077	1,053	-2.2%

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 three fiscal years in Iowa courts.

Conviction Report (Charged-Based) – FY'01-03 Statistics¹⁷

Offense	FY'01	FY'02	FY'03
Ongoing Criminal Conduct	21	18	18*
Money Laundering	0	1	2*

*Through June 30, 2003

Overall, the total number of reported crimes in Iowa increased 7.7% from 2001 to 2002. The crime rate (i.e., number of reported crimes per capita) reflected an increase of 4.8 percent.¹⁸

PROFIT-MOTIVATED CRIMINAL ACTIVITY IN IOWA

Many crimes are committed for profit. In addition, illegally-derived funds can be used to finance other forms of criminal activity. These types of criminal activity can therefore be suppressed by focusing on the money laundering process. To effectively focus law enforcement efforts on the process of money laundering, it can be beneficial to understand some of the underlying predicate crimes that generate illicit proceeds, or that are financed with illegally-derived profits.

Like any other jurisdiction, profit-motivated criminal activity in Iowa takes many forms, and is committed by a diverse mix of individuals and organized groups. Law enforcement agencies in Iowa have a limited number of available resources that are dedicated to work anti-money laundering investigations. When an enterprise or organization is identified, the case is investigated based upon many factors including, but not limited to, criminal/intelligence information that is available, law enforcement resources (staffing, budget), and prosecution input.

Enforcement decisions will also take into account the predicate offenses and their potential negative impact on society. As well, in order to focus on those criminal activities or groups which are considered to be the most threatening to Iowa and its citizens, this assessment focuses on narcotics trafficking (and specifically methamphetamine production and sales), fraud, and localized groups of criminal profiteers.

NARCOTICS TRAFFICKING

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.¹⁹ The illicit drug trade thus offers the potential to generate substantial profits. Because of the substantial profits derived from illegal drug trafficking, money laundering is a necessary component of the illicit drug trade. The actual dollar amount of money laundered in the United States from the proceeds of drug trafficking is unknown, although interagency estimates suggest that

¹⁷ Iowa Department of Public Safety – Program Services Bureau – January 2004

¹⁸ Iowa Department of Public Safety – Program Services Bureau – January 2004

¹⁹ Office of National Drug Control Policy, www.whitehousedrugpolicy.gov, August, 2002.

between \$100 billion and \$300 billion in U.S. currency is laundered annually.²⁰ According to a May 2001 report from the National Drug Intelligence Center, after drug money is laundered, traffickers use the funds with little risk of detection or seizure. Traffickers use the funds to finance drug operations and other crimes, bribe law enforcement officers and other public officials, and provide luxurious lifestyles for themselves and their associates.

Nationally, the bulk shipment of currency, as well as of monetary instruments such as money orders and checks, is a principal money laundering method used by traffickers.²¹ The smuggling of bulk cash and monetary instruments out of the United States occurs via private vehicles and aircraft; commercial trucks, buses, trains, and aircraft; air and maritime cargo; and couriers on foot.²²

While the prevalence of the bulk shipment of currency is significant and avoids regulations associated with placing funds in the U.S. financial system, traffickers still launder billions of dollars in drug proceeds through the financial system using techniques of varying complexity.²³ Across the U.S., traffickers launder drug proceeds through money service businesses such as money remittance, money exchange, and check cashing firms. Money service businesses have been implicated in federal drug investigations for accepting and transferring drug proceeds on behalf of drug trafficking organizations.²⁴

Iowa's Methamphetamine Problem

Like some other parts of the United States, Iowa has a significant drug problem. According to data compiled by the Program Services Bureau of the Iowa Department of Public Safety, the number of all reported drug incidents in Iowa increased from 1997 through 2002; the increase from 2001 to 2002 was 11.9%. In 2002, Iowa law enforcement agencies reported 10,897 drug arrests. Finally, the Iowa State Patrol seized, over \$83.9 million dollars worth of narcotics and over \$7.7 million dollars in cash between January 1, 1999 and December 7, 2003.²⁵

The methamphetamine problem in Iowa is especially acute. According to the National Drug Intelligence Center in 2003, Iowa is one of the primary market areas for methamphetamine in the United States, along with Los Angeles, Phoenix, San Diego, San Francisco, and the states of Arkansas, and Missouri.²⁶ Iowa has also been listed as a source of methamphetamine for other parts of the United States. According to the National Drug Threat Assessment in 2001, Mexican drug

²⁰ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

²¹ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

²² National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

²³ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

²⁴ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

²⁵ Iowa Department of Public Safety, Intelligence Bureau, January 2004.

²⁶ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Johnstown, PA: U.S. Department of Justice, National Drug Intelligence Center, p. 13, 22.

trafficking organizations in Chicago, a city that did not appear to have a major methamphetamine production or use problem at that time, received methamphetamine from California, Iowa, and Texas.²⁷



Iowa law enforcement agencies reported the discovery of 1,020 methamphetamine clandestine laboratories in 2002, and 1,132 in 2003.²⁸ According to information collected by the El Paso Intelligence Center (EPIC), as of February, 2004, Iowa was ranked second in the nation for overall methamphetamine clandestine laboratory reported incidents. Missouri was ranked number one while California was ranked third. Of the top ten clandestine laboratory producing states, the majority are located in the Midwest.

Clandestine manufacturing operations occur in rural, metropolitan, and suburban areas. Because of the explosive problem of methamphetamine, six states – including Iowa – now comprise the Midwest High Intensity Drug Trafficking Area (HIDTA), designated in 1996. Midwest HIDTA consists 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.²⁹

²⁷ National Drug Intelligence Center. 2000 (October). *National Drug Threat Assessment 2001: The Domestic Perspective*. Johnstown, PA: U.S. Department of Justice, National Drug Intelligence Center, accessed February 15, 2004 at <http://www.usdoj.gov/ndic/pubs/647/meth.htm#Top>.

²⁸ Iowa Department of Public Safety, Intelligence Bureau, January 2004.

²⁹ Iowa Department of Public Safety – HIDTA 2000 Threat Assessment

According to data provided in part by the El Paso Intelligence Center (EPIC) there were 547 interdictions of illegal drugs and/or currency relevant to Iowa between January 1, 1994 and December 31, 2003. These interdictions were destined for Iowa, passed through Iowa, or were logically destined to pass through Iowa. Of the 547 total interdictions reported, 144 were specifically destined for Iowa communities.

- Des Moines was the most common Iowa destination for cocaine, crack cocaine, marijuana, and methamphetamine.
- The most common source state for cocaine, crack cocaine, and methamphetamine was California, followed by Texas, Arizona, Nevada, and the country of Mexico.
- The most common source state for marijuana was Texas, followed by Arizona, California, and Nevada.

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. The FBI has recognized that terrorists, their networks, and support structures require funding in some form to exist and operate. Whether the funding and financial support is minimal or substantial, it leaves a financial trail that can be traced, tracked, and exploited for proactive and reactive purposes. Being able to identify and track financial transactions and links after a terrorist act has occurred or terrorist activity has been identified represents only a small portion of the mission; the key lies in exploiting financial information in efforts to identify previously unknown terrorist cells, recognize potential terrorist activity and planning, and predict and prevent potential terrorist acts.

Suspicious Activity Reports: A National Overview on Terrorism

FinCEN continues to examine the SAR database to determine the extent to which Suspicious Activity Reports (SAR) have been filed by institutions nationwide that suspect certain activities which may relate to terrorism and terrorist financing.³⁰ A review undertaken for activities from October 1, 2001, through March 31, 2003, revealed several interesting trends:

- The number of SARs submitted from financial institutions reporting terrorism or terrorist financing has continued to decline steadily since the events of September 11, 2001. During the 4th quarter of CY 2001, 985 reports were filed as compared to 121 incidents reported the 1st quarter of CY 2003.
- Of all SARs filed referencing terrorism, one-third were filed as a result of names appearing on government lists or Section 314(a) Information Requests made by federal agencies. Eighty-four SARs (29%) filed were the result of apparent matches.
- The remaining two-thirds of all SARs reviewed appeared to be submitted as a direct result of proactive initiatives by institutions, which are becoming more aware of possible indicators of financial activity and transactions by suspected terrorists and terrorist organizations.
- Financial institutions indicated that of the 985 SARs filed, only 23% were reported directly to law enforcement.

³⁰ FinCEN – The SAR Activity Review, Trends & Tips, Issue 6, November, 2003

Iowa Links to Terrorism

Investigative leads regarding terrorism also come to the attention of Iowa law enforcement officers in other ways. The following examples provide insight into events with a terrorism nexus to Iowa that have been publicly disclosed:

- **Man arrested in Iowa for identity theft and fraud testifies in Detroit “Sleeper Cell” trial.** Soon after the attacks on America on September 11, 2001, Iowa LEIN members in eastern Iowa worked with federal agents to arrest a man for identity theft and fraud. The man, Youseff Hmimssa, later testified as a key witness in a terrorism-related trial in Detroit, Michigan, and appeared before the Senate Finance Committee in 2003 to describe how he was able to obtain fake Social Security cards, drivers’ licenses and other documents that could be helpful to terrorists operating in the United States. In August 2002, four men were indicted in eastern Michigan for conspiracy to provide material support to terrorism. The group, described as a “sleeper operational cell,” was involved in obtaining weapons, recruiting members, gathering intelligence, and operating a support network for terrorist activity. Although not charged as a co-conspirator, Hmimssa of Cedar Rapids, Iowa was named in the indictment. Hmimssa, who cooperated with federal prosecutors, aided the group by providing various fraudulent identification documents. Two of the four men were ultimately convicted on terrorism charges, and Hmimssa still faces charges relating to a separate credit card fraud operation.³¹
- **Midwest methamphetamine ring ships money back to Middle East terrorist groups.** 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.³²
- **ALF and ELF.** 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 and 2003 when none occurred). ALF claimed responsibility for the September, 2000, release of approximately 14,000 mink in Iowa, making it the largest animal release in North America to date.

In a proactive effort to identify financial activity and trends that might have a terrorism nexus to Iowa, the Intelligence Bureau of the Iowa Department of Public Safety regularly reviews the U.S. Department of Treasury’s FinCEN “Project Gateway” System for unusual banking or financial activity. Information gathered through the Project Gateway System is researched and analyzed, and when appropriate, ultimately referred to the local jurisdiction and the appropriate Joint Terrorism Task Force.

³¹ (AP) Detroit, MI. www.cnn.com – August 29, 2002

³² *The Des Moines Register*, “Probe Ties Midwest Drug Ring to Terror Groups,” September 2, 2002.

FRAUD

Fraud is defined in Barron's Law Dictionary as "intentional deception resulting in injury to another." This includes 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.

One of the largest increases in reported crimes in Iowa was fraud. It reflected an increase each year from 1998 through 2002, with an 18.9% increase from 2001 to 2002.

According to statistics from the Financial Crimes Enforcement Network (FinCEN), suspected fraud accounted for 14% of the Suspicious Activity Reports (SARs) filed by Iowa financial institutions from April 1996 to June 30, 2003. These included check, credit card, debit card, and wire transfer fraud.

In 2003, Consumer Sentinel, the complaint database developed and maintained by the Federal Trade Commission, revealed that consumers nationwide reported losses from fraud of more than \$437 million. In Iowa, that loss figure was \$1,525,979, with the number of complaints totaling 2,288. The top fraud complaint categories for Iowa consumers are as follows:

Type of Fraud	Number Reported	Iowa Percentage	National Percentage
Internet Auctions	660	29%	15%
Advance-Fee Loans & Credit Protection/Repair	155	7%	4%
Shop-at-Home/Catalog Sales	388	17%	9%
Internet Services & Computer Complaints	277	12%	6%
Prizes/Sweepstakes and Lotteries	119	5%	5%

Federal Trade Commission – January 2004

According to the Federal Trade Commission, the following Iowa cities were those in which the largest number of Iowa fraud victims resided during 2003:

Victim City	Number of Complaints
Des Moines	241
Cedar Rapids	136
Iowa City	83
Sioux City	78
Davenport	74

Fraud and Theft by Iowa Workers

An analysis conducted by the *Des Moines Register* of both open and closed fraud cases showed that Iowa workers have been responsible for at least \$6.9 million in thefts since the beginning of 2000. A synopsis of some of the Iowa cases is as follows:³³

- A former company bookkeeper was sentenced in April, 2003 to probation after pleading guilty of taking nearly \$228,000 from the company. Owners of the family-run business said at the time the individual had forged checks and destroyed records of the illegal transactions.
- An individual pled guilty in July 2003 to a felony theft charge that stemmed from an illegal credit card linked to accounts at the investment business where the suspect worked. The employer estimates the former employee stole more than \$50,000 in 2001 and 2002 by cashing unauthorized checks and buying electronic equipment that the office never received.
- The former chief administrator of a privately-owned nursing home pocketed more than \$500,000 during two-and-a-half years of employment. The suspect was sentenced up to 50 years in prison despite his request for leniency due to a gambling addiction.
- A former insurance agent took more than \$1 million from his company, money that should have been invested in elderly clients' retirement accounts. The suspect stole more than \$1.2 million between 1988 and 1996 and replaced about \$280,000 before his arrest.
- A former lawyer and risk manager for insurance firms took \$692,540 from one company and \$286,713 from another. The suspect was sentenced to two-and-a-half years in prison and ordered to repay the money. She was arrested as she attempted to cross from Canada into the United States.

Investment Fraud

Investment fraud may be on the increase, according to information provided by Iowa Superintendent of Securities Craig Goettsch in 2003. The State of Iowa's Securities Bureau regulates the 68,000 investment representatives registered to sell securities in Iowa, about 10 percent of whom actually reside in the state of Iowa. When discrepancies are found, referrals are often made to law enforcement agencies for investigation and prosecution.

In the past two years the average number of referrals for prosecution has been four times the norm. The majority of the criminal investigations are from eastern Iowa – specifically the city of Cedar Rapids. The two areas that seem to be the target of the investment fraud is the “sale of unregistered promissory notes” and “prime bank obligations.” Goettsch states that it has become such a concern that an annual conference of law enforcement professionals now focuses on the topic.³⁴

³³ *The Des Moines Register*, “Women Top Men in Embezzling,” August 24, 2003.

³⁴ *The Gazette*, “Investment Predators Thrive in Bear Market,” July 21, 2003, Vol. 120 No. 193, www.gazetteonline.com

Insurance Fraud

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

Year	Number of Referrals	Dollar Amount
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	390	\$5,253,252.00
2003	380	\$5,313,045.00

Loss amounts are not mandatory for fraud referrals. Only one in three insurance companies report any financial information associated with fraud referrals.

Fraud Victimized Older Iowans

The Iowa Department of Elder Affairs defines the elderly as someone at least 60 years of age. This age group has been, and continues to be, a target for financial exploitation. Recent cases in Iowa have involved scams where monies lost by the elderly have exceeded hundreds of thousands of dollars.

In 2003, the Intelligence Bureau of the Iowa Department of Public Safety indicated there were twenty-two (22) reported incidents involving Iowa elderly victims. Twelve (12) of those incidents were focused on home repair scams, and ten (10) other incidents involved fraud, theft, embezzlement, or financial exploitation of the elderly.

A recent case in Cedar Rapids, Iowa involved an independent insurance agent and a long-time client that was residing in a nursing home. The victim was a widowed woman that knew the insurance agent through her now-deceased husband. The insurance agent convinced the victim to change her will to list him as a beneficiary. Additionally, she cashed out her annuities upon his request, whereby the insurance agent would then invest the money in the stock market for his personal gain. These monies were split-deposited in various personal accounts. The insurance agent would also prey on other clients by forging their signatures on insurance-related transactions, which would financially benefit him. The insurance agent has been charged with money laundering, theft, securities fraud, and ongoing criminal conduct.

The Iowa Department of Public Safety, Division of Criminal Investigation (DCI) indicates that the leading crime trend against the elderly is exploitation by their own relatives. The "Power of Attorney" appears to be the most frequent method used to exploit the elderly. Criminal investigations conducted by the Iowa DCI reflect that both court appointed and personal appointed Power of Attorney are being used.

According to Barron's Legal Guidelines Law Dictionary: "Power of Attorney" is an instrument in writing by which one person, as principal, appoints another as his or her agent and confers upon him or her the authority to perform certain specified acts or kinds of acts on behalf of the principal.

The following statistics were provided by the Iowa Department of Inspections and Appeals on alleged cases of elderly theft and financial exploitation. The numbers indicate a continued upward trend.

Category	FY '01	FY '02	FY '03
Financial Exploitation	45	159	201
Theft	149	217	280

Identity Theft

Identity theft occurs when someone obtains another person's personal information without that person's knowledge, to commit fraud and/or theft. Identity theft is becoming more common, in part due to the ability to access large amounts of information rapidly via the computer. Identity theft can be perpetrated easily, by searching a few web sites to gain identifying personal information about another. Once the necessary information is obtained, the identity thief then assumes the victim's identity and obtains credit, identification, or other benefits, often leaving the victim responsible for the thief's actions.

The Des Moines (IA) Police Department reported an increase of 122% in the filing of identity thefts complaints between 2001 and 2002. In 2003, the numbers increased 24% over the previous year, with 350 reported incidents.

Incidents of Identity Theft Des Moines Police Department

Year	Number
2001	127
2002	282
2003	350

Source: Des Moines PD, Intelligence Unit

State-wide, in 2003, 900 Iowans reported to local law enforcement that they had been victims of identity theft – an increase of 63% over 2002. With respect to the type of fraud perpetrated against identity theft victims, available data indicates that Iowa victims appear to suffer the same types of experiences as other victims nationally. The Identity Theft Data Clearinghouse of the Federal Trade Commission provided the following figures and trends for January 1 through December 31, 2003.

Type of Fraud	Number Reported	Iowa Percentage	National Percentage
Credit Card	311	35%	33%
Phone/Utilities	184	20%	21%
Bank	170	19%	17%
Gov't Documents / Benefits	65	7%	8%
Employment –Related	88	10%	11%
Loan	53	6%	6%
Other ID Theft	172	19%	19%
Attempted ID Theft	65	7%	8%

Federal Trade Commission – January, 2004

*Above figures based on the 900 victims reporting from Iowa. Percentages and numbers are higher because approximately 19% of the Iowa victims reported experiencing more than one type of identity theft.

According to information provided to the Federal Trade Commission, the following Iowa cities were those in which the largest number of Iowa identity theft victims resided during 2003:

Victim City	Number of Complaints
Des Moines	118
Cedar Rapids	43
Council Bluffs	41
Davenport	36
Sioux City	32

The U.S. Department of Treasury's FinCEN identified 3,164 Suspicious Activity Report (SARs) filed nationally by financial institutions involving identity theft in 2003. Only three of those SARs were filed by Iowa financial institutions. Because 2003 marks the first year that identity theft was added to the SAR reporting form as a separate category, no trend information about SAR reporting of identity theft is available.

Trademark Counterfeiting

Trademark 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 who use the proceeds from the sale of counterfeit goods to fund other illegal activities such as drug trafficking and terrorist activities. Reported counterfeit and forgery crimes increased in Iowa during the years 2000 and 2001, but decreased 6.4% in 2002 compared to the previous year.³⁵

The music industry is reporting an increase in "bootlegging." The production of counterfeit compact discs (CD's) from not only the Internet but from the reproduction of original music is on the increase. In an effort to combat Internet music piracy, the music industry launched an ad campaign in September 2002 in which nearly 90 recording artists and songwriters made a plea to the public to stop illicit downloads, indicating that it threatens the livelihood of everyone in the industry from artists to record store clerks. It is estimated that more than 2.6 billion songs are distributed each month across unlicensed file-swapping services.³⁶

Iowa is not immune from these activities. In January 2002 an investigation of a suspicious compact music disc (CD) purchased in Mason City, Iowa, led to the seizure of more than 215,000 illegal compact discs in Iowa, Arizona, and Florida. In this particular case, the Recording Industry Association of America conducted a joint investigation with the Mason City, Iowa Police Department to uncover "bootlegged" copies of CDs that had a street value of more than \$1 million.³⁷

³⁵ Iowa Department of Public Safety – Program Services Bureau

³⁶ [The Des Moines Register](#) – "Recording Stars Ask Fans: Stop Music Theft" – September 27, 2002

³⁷ TOA Entertainment – Illegal CD's Confiscated in Iowa" – toadjservice.tripod.com/toaentertainment/id69.html

LOCALIZED CRIMINAL PROFITEERS

In 2003 a sports bookmaker in Iowa was charged with money laundering and ongoing criminal conduct that involved an illegal bookmaking operation. This illegal betting network operated nationwide, with at least one bettor who wagered up to \$30,000 to \$40,000 dollars per weekend on football games. The “bookie” opened bank accounts and safety deposit boxes in at least two additional states outside Iowa. Illegal proceeds from the bookmaking operation were used to open and maintain these bank accounts. Funds from one of the out-of-state bank accounts were used to pay off the mortgage of the bookie’s Iowa home.

Several other the illegal bookmaking cases in Iowa contained either public officials or candidates seeking public office. One of the cases involved a current seated county supervisor that operated a bar and allowed illegal bookmaking to operate out of the business. Another case involved a seated county supervisor that was operating as a “bookie” and taking bets from members of the community, which included the athletic director and coach of the local community college.

Two additional individuals that were seeking local public office were identified as placing illegal wagers with a bookie. One was seeking a mayoral seat and the other a city council position. No public corruption was specifically identified with these public offices, but the appearance and potential is a concern to law enforcement and the general public in the state of Iowa.

There are other areas of concern that law enforcement in Iowa is aware of and is currently monitoring. These include but are not limited to: Hispanic gangs, street gangs and outlaw motorcycle gangs and the violent potential that exists within them. These gangs are often times not only involved with local criminal activity but nationally as well. In today’s society the gang member can move around nationally, as well as internationally, with ease.

POTENTIALS FOR MONEY LAUNDERING IN IOWA

Persons and groups who profit from criminal activity use various methods to launder their illegally-obtained proceeds. For example, one principal money laundering method used by drug traffickers and other criminal profiteers is the bulk shipment of currency, as well as of monetary instruments such as money orders and checks.³⁸ A second way that criminals launder money is to introduce illicit proceeds into legitimate financial systems by structuring currency transactions in amounts that fall under threshold reporting requirements.³⁹ Additional ways to launder illegally-derived profits is to place them in the U.S. financial system by commingling the illicit proceeds with funds generated at legitimate businesses, by purchasing real estate, vehicles, and other assets, and by exploiting the legalized gaming industry.⁴⁰

³⁸ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

³⁹ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

⁴⁰ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

This section of the assessment describes some of these money laundering methods, provides an overview of financial systems in Iowa that might be exploited for this purpose, and assesses the impact of these money laundering methods on Iowa and Iowa's financial systems.

LAUNDERING POTENTIAL THROUGH SMUGGLING OF BULK CURRENCY

The smuggling of bulk cash and monetary instruments across and out of the United States occurs via private vehicles and aircraft; commercial trucks, buses, trains, and aircraft; air and maritime cargo; and couriers on foot.⁴¹

When evaluating the smuggling of bulk currency, including money laundering, it is important to consider Iowa's transportation systems. These systems can play a significant role in money laundering in Iowa by being used to transport bulk money or contraband. This assessment focuses on the movement of bulk currency primarily on interstate highways, but includes references to other transportation systems. Iowa is in close proximity to several major urban cities in the Midwest, which are easily accessible from Iowa via interstate highway or air transportation.

Interstate Highways

In 2001, there were 113,414 miles of publicly-owned highways and roads in Iowa, as well as 25,406 bridges.⁴² Travel on Iowa's highways has been steadily increasing, and this is especially true of travel on the state's rural interstate highways.⁴³ Three major interstate highways traverse Iowa:

- Interstate 80 traverses the middle of the state in an east-west direction. This interstate runs from New York to California.
- Interstate 35 traverses 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 traverses 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 and movement of illegal goods and contraband.⁴⁴ According to the Iowa Department of Public Safety, approximately \$7.7 million dollars in cash and \$83.9 million dollars in narcotics have been seized on Iowa's highways since January 1, 1999.⁴⁵

A new four-lane highway is also 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 and along 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.

⁴¹ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

⁴² Iowa Department of Public Safety. 2003 (February). *Iowa Department of Public Safety Strategic Plan*.

⁴³ Iowa Department of Public Safety. 2003 (February). *Iowa Department of Public Safety Strategic Plan*.

⁴⁴ Iowa Department of Public Safety – [HIDTA 1998 Threat Assessment](#)

⁴⁵ Iowa Department of Public Safety – Intelligence Bureau – January, 2004

Other Methods of Transportation

Information about the smuggling of bulk currency most often relates to interstate highways. However, other methods of transportation may also be used. This assessment highlights some of the other methods of transportation that might be used for this purpose.

Air Transportation. Iowa supports eight (8) scheduled commercial airports, and approximately 105 general aviation airports that handle the 2,540 active, general small aviation aircraft registered in Iowa.⁴⁶

The largest airport in Iowa is the Des Moines International Airport which is currently ranked in the top 50 airports for air cargo tonnage in the United States. It is also 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.⁴⁷

Rail Transportation. Chicago, IL is Amtrak's Midwest hub with fifteen (15) Amtrak passenger trains serving Chicago, IL.⁴⁸ Two Amtrak passenger railroad train routes pass through Iowa. One of these makes five (5) scheduled daily stops in Iowa and the route completely traverses the southern part of the state as it travels from Chicago, IL to San Francisco, CA. The other Amtrak route traverses the southeastern tip of Iowa with one scheduled daily stop in Fort Madison, as it travels from Chicago, IL to Kansas City, MO.

Bus Transportation. Several commercial bus systems operate in Iowa. They include:

- Greyhound Bus Lines, with 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, with terminal sites in Burlington, Cedar Rapids, Davenport, Des Moines, Iowa City, Muscatine, and Sioux City.
- Jefferson Bus Lines, which operates extensively in Iowa.

Waterway Transportation. The Mississippi River on the east and the Missouri River on the west define two of Iowa's borders. Both 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.⁴⁹ 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. In 1999, over 38 million tons of commodities (mostly grain, coal and aggregates) moved to, from, within and past Iowa.⁵⁰

⁴⁶ <http://www.dot.state.ia.us/Aviation.html> - November, 2000

⁴⁷ www.dsmaairport.com - January, 2004

⁴⁸ <http://www.dot.state.ia.us/Rail.html> - July, 2002

⁴⁹ <http://www.dot.state.ia.us/barge.html> - July, 2002

⁵⁰ <http://www.dot.state.ia.us/dotoverview/transportationfacts.html> - August, 2002

Smuggling of Bulk Currency in and Through Iowa

Drug proceeds frequently are collected and stored at “stash houses” in primary market areas before being transported out of the country.⁵¹ On the west side of Des Moines, \$1.3 million in cash was seized from a “stash house” after a raid in 2002 by local, state, and federal law enforcement officers. Four immigrants from El Salvador were charged with running a methamphetamine conspiracy and hiding drugs and bulk cash in the rented house.⁵²

Data provided to the Iowa Department of Public Safety’s Intelligence Bureau indicates that between 2001 and 2003, the majority of bulk cash being seized on Iowa’s interstates and highways was intercepted while en-route to other destinations. A review of thirty-three interdictions where the cash amount was \$10,000+ revealed that only one was destined for Iowa. Although unable to confirm how the money was generated, the majority of the cash seized was destined for those states that we know to be sources of supply for illegal drugs (California, Arizona, Texas and Nevada).

LAUNDERING POTENTIAL THROUGH FINANCIAL INSTITUTIONS AND SERVICES

Financial Institutions: Banks, Savings & Loans, and Credit Unions

Financial institutions⁵³ are often used by criminals to launder illicit proceeds. Because of the reporting and recordkeeping requirements they follow, financial institutions can play a key role in the detection, apprehension, and prevention of money laundering activities.

Banks are often used during 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 (i.e., \$10,000) in an effort to avoid the requirement of the Bank Secrecy Act. Banks are also used at the “layering” stage of the money laundering process. This may involve multiple bank accounts, often out-of-state or out-of-country. Use of multiple bank accounts helps create complexity and confusion along the path of the money flow before ending up at its final destination.⁵⁴

In 1970 the United States Congress passed the Bank Secrecy Act (BSA), in response to 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) affirmatively report certain data. For example, banks were required to report cash transactions larger than \$10,000 to the U.S. Department of the Treasury. These reports are called “Currency Transaction Reports” (or

⁵¹ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

⁵² *Des Moines Register*, article dated March 29, 2002

⁵³ The United States Code, Title 31, Subtitle IV, Chapter 53, Subchapter II, Section 5312, offers a detailed definition of the term “financial institution.”

⁵⁴ Financial Analysis Group, Division of Criminal Justice. 2001 (August). *Money Laundering in New Jersey: A Preliminary Assessment*. Trenton, NJ: State of New Jersey, Department of Law and Public Safety, Division of Criminal Justice.

CTRs). In general, FinCEN estimates that ten percent (10%) of the Currency Transaction Reports (CTRs) reflect any type of illegal activity.

These BSA regulations have been modified over the years, including the addition in 1992 of the requirement to file Suspicious Activity Reports (SARs) on any transaction the banks believe are suspicious. The focus should be on the Suspicious Activity Reports (SARs).

Chapter 527.2 (9), *Code of Iowa*, defines a “financial institution” to mean, and include, 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. Iowa’s traditional financial banking type industries come under several categories. They are as follows:

Type Of Financial Institution	Number Of Iowa Institutions
Banks	400
Savings and Loan Associations	22
Credit Unions	171

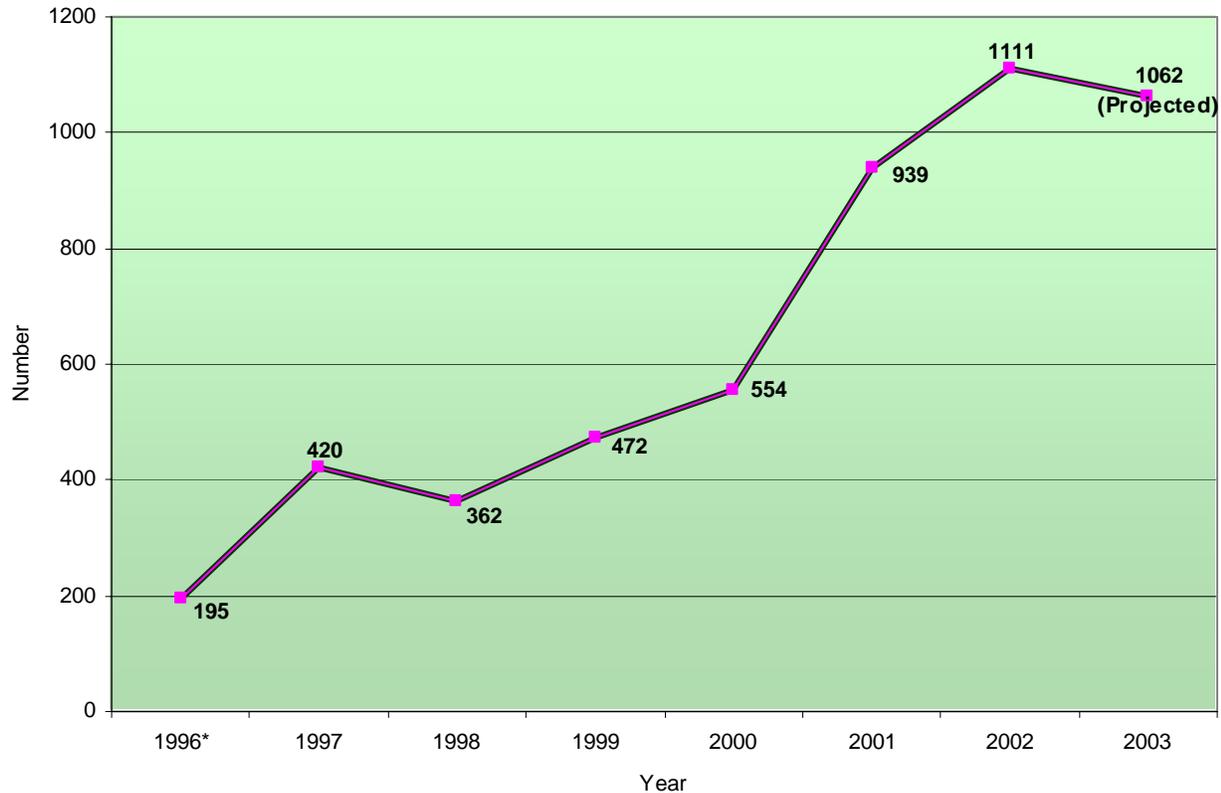
Iowa is also home to ten out-of-state banks and five out-of-state savings and loan associations, all which have branches within the state. There are 1,366 total bank branch offices and 153 total savings and loan association branch offices in Iowa.⁵⁵

⁵⁵ FDIC – <http://www2.fdic.gov> – Scott Casey – January 29, 2004

General Trends in SARs Filed by Iowa Banking Institutions

The following graph reflects the reported Iowa Suspicious Activity Report (SAR) filed by financial institutions and the projected 2003 reported Iowa SARs:

Number of Iowa SARs reported to FinCEN, April 1, 1996 through December 31, 2003 (Projected)
(*1996 data from April 1 through December 31; **2003 data projection based on monthly average of filings through June 30)



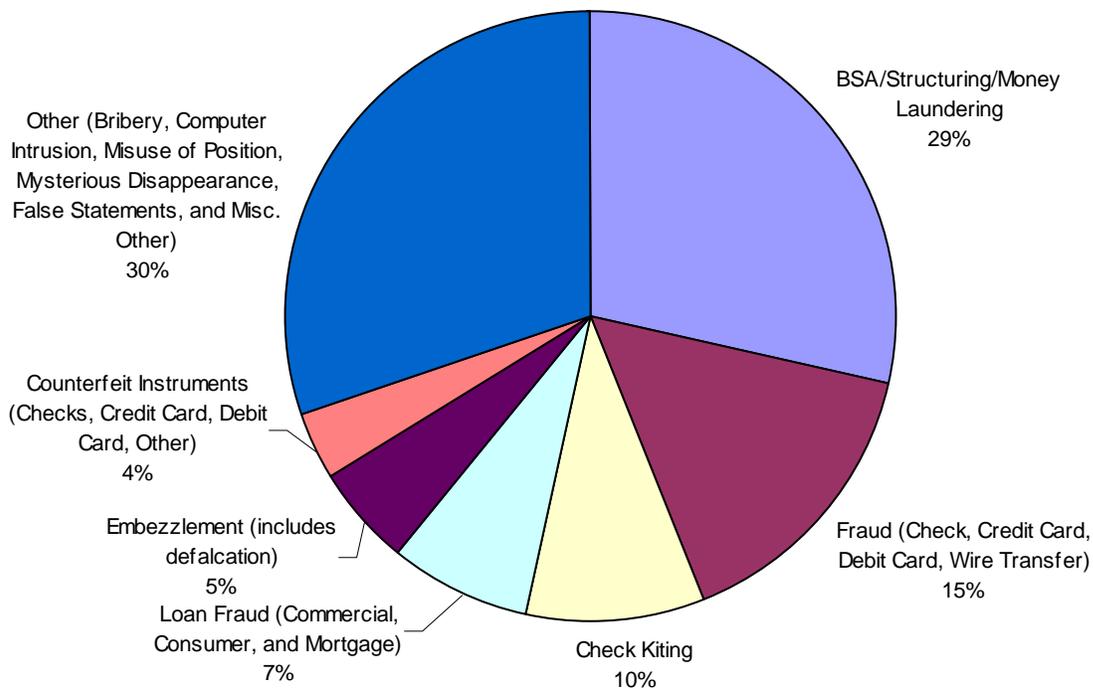
The trend indicates that SARs being reported within Iowa may be leveling off. However, the increased filing in recent years since 9/11/01 may indicate heightened educational awareness within the financial institutions. Banks may not only be more aware of the reporting requirements but also appear to have increased awareness as to what constitutes suspicious activity and are substantively improving the quality of their SAR reporting.

Suspicious Activity Reports are capturing more criminal activity as the reporting requirement expands to additional financial industry sectors.⁵⁶ In addition to casinos and money service businesses reporting such activity, the securities and futures industries were required to begin reporting suspicious activity (SAR-SF) as of January, 2003. Within Iowa, a total of twenty-eight (28) SAR-SFs were filed for 2003. Of those twenty-eight, only ten (10) were filed on Iowa residents, and the remaining 18 were individuals from other states but filed by an Iowa-based business.

⁵⁶ FinCEN – The SAR Activity Review, Trends & Tips, Issue 6, November, 2003

The following pie graph reflects the proportions of Iowa banking SARs filed over the seven-year reporting period:

Proportion of Iowa SARs by Type of Violation, April 1, 1996 - June 30, 2003 (n = 5,115)



BSA violations represent one of the largest and most reported crime categories over the past seven (7) years. Only one percent ahead, the “Other” category reflects 30% of the SAR filings in Iowa. The suspicious activities comprising the “Other” category are not clearly described in the data provided by FinCEN.

The Fraud category reflected 15% of the SAR submissions over the same seven (7) year reporting period.

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

Money Service Businesses

Criminals may launder drug proceeds through money service businesses such as money remittance, money exchange, and check cashing firms.⁵⁷ Money service businesses have been

⁵⁷ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

implicated in federal investigations for accepting and transferring illegal proceeds on behalf of criminal organizations.⁵⁸

Federally, a final rule issued in 1999 by the U.S. Secretary of the Treasury placed certain businesses into a category called “money service businesses,” or MSBs. They are defined by 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.⁵⁹ This change allowed FinCEN to revise the regulating definitions of certain non-banking financial institutions for the purpose of the Bank Secrecy Act (BSA). The new federal reporting requirements became effective January 1, 2002, and are similar to the requirements for the banking industry. Thus, the Bank Secrecy Act (BSA) regulations apply to these types of businesses. MSBs and the services they provide include:

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 Casher
Currency Exchange	Currency Exchanger
Currency Dealing	Currency Dealer
Stored Value	Issue, sell, or redeem stored value

Money Transmitters

A money transmitter is any non-bank financial institution with a global network through which it can transfer money. Money transmitters 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.

In 1994, the Financial Crimes Enforcement Network (FinCEN) developed a money-laundering threat assessment for New Jersey which observed, in part, that money transmitters had proliferated in northeastern New Jersey ethnic communities, presenting a major money laundering problem. Money transmitters owned by Colombians also had increased in Atlantic City.⁶⁰

Iowa has at least 1,500 money transmitters in Iowa as of 2004. As of January 1, 2002, all money service businesses were required to begin filing Suspicious Activity Reports (SAR-M).⁶¹ This should

⁵⁸ National Drug Intelligence Center. 2003 (January). *National Drug Threat Assessment 2003*. Washington, DC: U.S. Department of Justice, National Drug Intelligence Center. Accessed February 15, 2004, at <http://www.usdoj.gov/ndic/pubs3/3300/money.htm>.

⁵⁹ 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 - August 30, 2002).

⁶⁰ Financial Analysis Group, Division of Criminal Justice. 2001 (August). *Money Laundering in New Jersey: A Preliminary Assessment*. Trenton, NJ: State of New Jersey, Department of Law and Public Safety, Division of Criminal Justice, pp. 7-8, citing U.S. Department of the Treasury, Financial Crimes Enforcement Network, *New Jersey Project*. March 24, 1994, at pp. 5-6. Accessed February 15, 2004 at http://www.state.nj.us/lps/dcj/njmoneylaundering/pdfs/threat_assessment.pdf.

⁶¹ Iowa Department of Commerce – Division of Banking

reveal some relevant information for future use to better understand and evaluate the SAR activities in the money services business.

To assist in licensing and regulating these businesses, the Iowa General Assembly passed, and the Governor signed, Senate File (SF) 372, the Iowa Money Transmitter Regulation Act. SF 372 was based on the model Money Transmitter Regulation Act drafted by the National Conference of Commissioners on Uniform State Laws (NCCUSL) and will be noted in the upcoming version of the *Code of Iowa* as Chapter 533C.101. The Iowa Money Transmitter Regulation Act became effective October 1, 2003. This Act requires Internet-based money transmitters, traditional wire-transfer businesses, bill payment services, and check sellers to be licensed and regulated by the State of Iowa. The Iowa Attorney General's Office, the Iowa Department of Public Safety, and the Iowa Division of Banking all played a significant role in drafting the legislation, and in meeting with industry representatives and other interest groups as well as legislative committees.

Delayed Deposit Service Businesses

Some businesses in Iowa operate as “delayed deposit service businesses.” This is a business that conducts either of the following transactions for a fee:

1. Accepts a check dated subsequent to the date it was written.
2. Accepts a check 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.

Under the existing Iowa regulations found in Chapter 533D, *Code of Iowa*, these businesses must obtain a license from the Iowa Superintendent of Banking, pay the required fee, and post the required \$25,000 surety bond. There are 160 delayed deposit businesses registered in Iowa.⁶²

In Iowa, a 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). Considering these two factors, delayed deposit services may not be considered the most efficient way for individuals to launder illegal proceeds. However, Iowa Department of Public Safety will continue to work with the Iowa Division of Banking to monitor this particular area for any potential issues that may arise.

LAUNDERING POTENTIAL THROUGH THE LEGALIZED GAMBLING INDUSTRY

It is estimated that \$500 billion a year is legally wagered at all casinos in the United States.⁶³ 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.

⁶² Iowa Department of Commerce – Division of Banking

⁶³ Financial Analysis Group, Division of Criminal Justice. 2001 (August). *Money Laundering in New Jersey: A Preliminary Assessment*. Trenton, NJ: State of New Jersey, Department of Law and Public Safety, Division of Criminal Justice, p. 12, citing U.S. Department of the Treasury, Financial Crimes Enforcement Network. January 28, 1998. Accessed February 15, 2004 at http://www.state.nj.us/lps/dcj/njmoneylaundering/pdfs/threat_assessment.pdf.

Casino gambling, pari-mutuel betting, and a state-operated lottery are legal forms of gambling in Iowa. Between July 1, 2000 and June 30, 2001, Iowa patrons wagered \$13.2 billion in Iowa's legalized gambling industry.⁶⁴ In addition to the state lottery, Iowa is home to sixteen legalized gambling facilities as of January 1, 2004, where large currency transactions may take place:

- Ten riverboat casinos (six on the Mississippi River in eastern Iowa; three on the Missouri River in western Iowa; and one on West Lake in Clarke County in south-central Iowa). The ten riverboat casinos allow unlimited betting on table games and slot machines.
- Three pari-mutuel betting facilities with live dog or horse racing. These facilities are also permitted to operate slot machines, and simulcast horse or dog racing; table games are not permitted.
- Three Native American land-based casinos located in central and western Iowa. These facilities, with both slot machine and table games, are located in Onawa, Sloan, and Tama.

In January, 2004, three individuals were arrested in a casino scam. These individuals were manipulating an IGT Game King slot machine. The game being played was "Keno."

The scam involved the player putting a \$20 bill into the machine and then immediately cashing it out for coins. The player would then insert another \$20 bill and begin playing the machine with a combination of coin and credits from the recently inserted \$20 bill. The player would use a pack of cigarettes to cover up the credit display window on the machine, as credits would either increase or remain the same even if it were a losing game. The credit window was covered up so as not raise suspicion from other patrons or casino surveillance. After playing the game for a length of time the player would then cash out the credits that were illegally generated on the machine.

The players in this scam had a history of frequenting casinos across the country. They had casino Cash Transaction Reports (CTR-C) from Indian casinos in California, Arizona and a bank CTR from the state of Nevada. When the individuals were arrested, over \$25,000.00 in cash, coin and tokens were seized.

Beginning in 1985, casinos were subject to the Bank Secrecy Act (BSA) reporting requirements on Currency Transaction Reports (CTRs), which is a cash transaction greater \$10,000. Effective October 28, 2002, casinos were required to also report suspicious transactions to the Department of Treasury by filing a Suspicious Activity Report (SAR-C).⁶⁵ The applicability date of this ruling was March 25, 2003.

Iowa casinos reported 101 total Suspicious Activity Reports (SAR-C) from 1999 to 2002. In 2003 alone, SAR-C filing totaled 111, representing an increase of 146% over 2002. This is most likely attributed to the BSA requirement of casinos to file SAR-Cs effective October 28, 2002. The applicability date of the ruling was March 25, 2003, and its effects are seen in the number of filings (86) which took place after that date.

Year	Total SAR-Cs Filed
1999	7
2000	27

⁶⁴ Iowa Department of Inspections and Appeals – Iowa Racing and Gaming Commission

⁶⁵ Department of Treasury – Federal Register, Vol 67, No. 187

2001	22
2002	45
2003	111

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.

An educational outreach program is currently under way in Iowa between the Iowa Department of Public Safety – Intelligence Bureau and the casino industry. This program attempts to connect the law enforcement community and the casinos in the exchange of information of suspected criminal activity and the laundering of money and the casinos. The outreach focuses on the importance of the casinos completing Suspicious Activity Reports (SARs) and passing that information onto law enforcement in a timely manner. Communication between law enforcement and the private sector is a key component to successfully combating money laundering.

LAUNDERING POTENTIAL THROUGH BUSINESSES

Several types of businesses can be exploited by criminals who need to launder their illegally-earned profits. These include, but are not limited to:

- Restaurants and Bars
- Auto Sales/Auto Repairs/Auto Detailing
- Self-Employed
- Real Estate

Restaurants and Bars

Iowa's restaurants and bars have been used to launder money as well as facilitate other criminal activity. Specifically, drug trafficking groups have used restaurants as business fronts in attempts to facilitate or conceal their illicit activities, and to commingle illicit proceeds with legitimate funds. Some of these drug trafficking groups are associated with 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.⁶⁶

Auto Sales/Auto Repairs/Auto Detailing/Auto Auctions

As of September 2002, the Iowa Department of Transportation reported approximately 2,900 new and use vehicle dealers operating in Iowa.⁶⁷ Automobile businesses can be used by criminals to facilitate or conceal illicit activities, and to commingle illicit proceeds with legitimate funds. Automobile transactions can be made to look legitimate 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.

⁶⁶ Iowa Department of Public Safety – HIDTA 2000 Threat Assessment

⁶⁷ Iowa Department of Transportation – September 3, 2002

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.

Both a covert and overt operation was conducted by the Anti-Money Laundering Unit and the Iowa Department of Public Safety – Division of State Patrol – Vehicle Theft Unit. This operation was focused on small used car dealers in the Des Moines, Iowa area.

Information revealed that several of the businesses were willing to engage in any type of money transaction that would be needed to complete a car sale. This would include the “structuring” of the cash used to purchase the vehicle(s). While inspecting business records and in open conversation with the dealership, it was apparent that IRS Form 8300’s were not being completed as required by law.

One of the used car lots was connected both physically, as well as proprietorship, with a check cashing business MSB (Money Service Business). This situation uncovered the business taking in vehicle(s) for collateral on the check cashing business, and then in turn selling the vehicle without having met the proper Iowa auto dealer licensing requirements, thus avoiding the IRS 8300 Form filing requirement.

During the covert operation information indicated that there were used auto dealers that were possibly involved in insurance fraud and illegal narcotics trafficking. On one occasion an undercover officer observed approximately \$30,000 dollars cash sitting in one of the businesses.

Based on previous law enforcement information and information from this operation it is apparent that the smaller used auto dealer is an area that has great potential to launder money. This seems to be possible due the value of vehicles in general as well as the large number of these types of dealers and the lack of government resources to oversee and enforce both administrative and criminal violations.

Self-Employed

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.”

Self-employed businesses are an effective way to conceal criminal activity and launder money.

A special order vehicle engine rebuilding business was identified in northern Iowa. This business was operated by one individual who advertised for customers only in car magazines that are distributed in northeastern United States. Correspondence between the proprietor and the customer

was either by telephone or mail. There were no face-to-face dealings due to the geographical distance between them. This was part of the scheme put in place by the accused. Potential customers would call the business and the owner would require that down payments be made, which many of them provided.

The ploy also included a facet where a customer would call and the owner (one person) would disguise his voice to make the victim think they were talking to other employees of the operation. These false employees would identify themselves as being in the painting section or the shipping section and would not be able to answer other questions that the victim may have. The accused also had at least different telephone lines that were going to the same location but labeled, paint shop, shipping etc. to disguise it for the customer (victim).

Several independent insurance agents were identified as operating business out of their homes. These operations were conducting legitimate business as well as illegal criminal activity. The legitimate business operations would oftentimes identify new potential victims and establish a trust between the independent agent and unwitting customer. The independent insurance agent would prey upon them when they felt the timing was right. These victims were often times elderly and long time clients that are now either widowed or have a diminished capacity.

Brokerage Firm/Dealer

A Loan Broker is defined in Chapter 535C, *Code of Iowa* 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.

Purchase of Real Property and Other Assets

When assets (such as real estate, vehicles, boats, airplanes, jewelry, and artwork) 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.⁶⁸

The purchase of real estate is not, in and of itself, unusual. Some circumstances may give rise to suspicious real estate transactions, such as when real property is purchased by known or suspected criminals who use a nominee (i.e., using the names of children, or of deceased or elderly family members).

An investigation in 2003 provided evidence that an Iowa-based sports bookmaker used illegal proceeds from his nationwide bookmaking operation to pay off the mortgage of his Iowa home. At the time the final payment was made, the balance of the mortgage was \$70,000.

⁶⁸ New Jersey – 2001 Money Laundering Threat Assessment

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.

Cyber Laundering (Internet)

Electronic banking is a growth industry. Along with its global spread comes the increased risk of criminal abuse by those individuals engaged in money laundering. Indications from Department of Treasury's FinCEN show, thus far, that financial fraud has occurred and has been perpetrated by online banks against their customers.⁶⁹ Internet banks in these particular instances are not chartered, nor are they a lending institution or covered by FDIC or FSLIC insurance.

Like traditional banks, there most likely are Internet banks which may be located in areas known for money laundering and offer online financial services. As in the past, Iowa will continue to work closely with FinCEN to monitor situations that may have Iowa ties.

IOWA'S SUSPICIOUS ACTIVITY REPORTS (SAR)

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

Iowa has seen a steady increase in the reporting of Suspicious Activity Reports (SARs) by financial institutions for the filing period April 1, 1996 – June 30, 2003.⁷⁰ The reporting numbers are as follows:

Year	Number of SARs Filed	Percent Change Over Previous Year
1996	267	-----
1997	363	+ 35%
1998	325	- 11%
1999	427	+ 31%
2000	493	+ 15%
2001	838	+ 70%
2002	960	+15%
2003	453 (June 30)	-----

⁶⁹ Department of Treasury – FinCEN, *A Survey of Electronic Cash, Electronic Banking, and Internet gaming*. Accessed February 26, 2004, at <http://www.fincen.gov/e-cash.pdf>

⁷⁰ U.S. Treasury – FinCEN – October, 2003

The chart below reflects the frequency distribution of SAR filings by characterization of suspicious activity for April 1, 1996 through June 30, 2003. The Bank Secrecy Act violations (i.e. – structuring/money laundering) represented 26% of the filings.

**NUMBER OF VIOLATIONS – Iowa
April 1,1996 – June, 30, 2003**

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 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	1111	333	1	98	80	49	4	41	35	1	0	30	9	39	71	28	7	18	18	249
2003**	531	126	1	42	41	19	1	30	33	1	3	13	10	19	41	28	3	10	7	103
TOTAL	4584	1309	4	425	443	185	13	127	156	10	6	160	53	235	249	140	30	114	59	866

*Starting April 1

Source: FinCEN, October 2003

**Through Jun 30

SAR activities can be used extensively in the development of indicators for the funding of terrorism, money laundering, check fraud, and other illegal activities.⁷¹ The chart below reflects the percentage of bank SAR filings in Iowa.

PERCENTAGE OF SAR FILINGS - Iowa
April 1, 1996 – June 30, 2003

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 Loan 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	30	0	9	7	4	0	4	3	0	0	3	1	4	6	3	1	2	2	22
2003	100	11.3	0	4	4	2	0	3	3	0	0	1	1	2	4	3	0	1	1	9
Total	100	25.6	0	8	9	4	0	2	3	0	0	3	1	5	5	3	1	2	1	17

*Starting April 1

**Through June

2003 (Projected): 1,062

The BSA/Structuring/Money Laundering violations reflect 26% of the filings over the seven-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 17% of the filings. The “Other” violation category is one that FinCEN uses to place any crime that is not depicted in a category. FinCEN was not able to provide any details for the current list of categories and what any of the “Other” violations might be.

⁷¹ U.S. Treasury – FinCEN – SAR Bulletin, Issue 4 – January, 2002

MONEY LAUNDERING TRENDS IN IOWA

Iowa drug dealers have pinpointed casinos as ideal places to launder the large bills they earn selling illegal drugs. Former drug dealers have confessed to using Iowa casinos to break large bills that might attract attention elsewhere and get rid of bills that they worried may have been marked by undercover drug officers. Many of these individuals were aware of reporting requirements and were careful to avoid transactions over \$10,000 that would trigger the filing of a Cash Transaction Report (CTR-C).⁷²

According to the Iowa Department of Public Safety – Division of Narcotics Enforcement (DNE), their drug investigations are indicating that cash that is being seized from safety deposit boxes, in residences, and upon a person is being claimed as winnings from one of the gambling casinos. These cash seizures range from minimal seizures to \$500,000 dollars.

Criminal investigations by the Iowa Department of Public Safety – Division of Criminal Investigation (DCI) are also showing this as a pattern for justification on the part of the defendant on seized cash. These patterns would reflect that defendants are going to the casino and placing their illegally obtained monies into the gambling industry and then trying to justify having the cash when it is seized. The obstacle being encountered by the defendants is that the casinos pay out winnings with an IRS W-2G Form. Law enforcement can go to the casinos and pull previous W-2G's and compare them with the given circumstances.

During 2003 the Iowa Department of Public Safety and the Governor's Office of Drug Control Policy administered a survey to law enforcement agencies in the state of Iowa. The *2003 Iowa Illicit Drug Survey* was conducted in order to develop a better understanding of the nature and extent of the drug problem in Iowa, based on the perceptions of local law enforcement agencies. The survey instrument contained 20 questions; one of those asked about perceptions of money laundering:

Based on information developed from your investigations, what types of businesses or methods are currently used by drug traffickers in your jurisdiction to conceal or launder drug proceeds?

The following results indicate the top three (3) methods used to launder illegally obtained money. Approximately 152 Iowa law enforcement agencies participated in the survey which represented a 78% return rate on responses.

Concealment Method Used	Percentage - %
Hide cash in the home	21
Launder through a casino	14
Purchase investments	11

The results from the *2003 Iowa Illicit Drug Survey* suggest that law enforcement officers may not routinely be asking drug trafficking suspects where they are concealing or laundering their drug profits. This type of information could prove to be extremely valuable in combating money laundering and the related predicate crimes.

⁷² *The Des Moines Register*, "Drug Cash Laundered at Casinos", Monday, December 22, 2003

IOWA'S CONNECTION TO CHICAGO (IL) – HIFCA LOCATION⁷³

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.

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

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.

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.

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.

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.

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.

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.

⁷³ Illinois State Police – C-FIC Grant Application - 2000

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 and this population is oftentimes easy targets for scams and fraud. Iowa criminal investigations are reflecting an increase in the misuse of the Power of Attorney position. This illegal conduct is from self-, family- and court-appointed Power of Attorney. The elderly are quite vulnerable in this area as they tend to trust everyone.

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. According to the 2003 National Crime Intelligence Center (NDIC) survey, Interstate 80 and 35 are major courier routes for methamphetamine from the west coast, not only to the Midwest but to other areas of the country. The survey indicated that Des Moines and Sioux City were the Iowa destinations for this methamphetamine.

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.⁷⁴

There is limited information available as to what is done with illegally obtained cash. Iowa trends are indicating that criminals are retaining/storing their illegally obtained proceeds in stash compartments (i.e. on their personal property). If the bulk cash is discovered, defendants are oftentimes attempting to justify the money as winnings through one of Iowa's casinos. The area of criminal investigations that is often overlooked is the area of the money flow. Law enforcement personnel must do a better job of asking those questions which deal with that money flow if we are to understand how illegally obtained money is dealt with and how it is re-introduced back into society's financial system.

Iowa's unemployment is currently 1.5% 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. These organizations smuggle the most cocaine, marijuana, and methamphetamine sold in the United States.⁷⁵ With Iowa being a hotspot for

⁷⁴ U.S. Treasury – Budget Initiatives

⁷⁵ New Jersey – 2001 Money Laundering Threat Assessment

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. Continued 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. As of 2004, there are no federal proposals to require the real estate business to file Suspicious Activity Reports.

Money Services Businesses (MSBs) could play a significant role in money laundering in Iowa. As of October 1, 2003, Iowa Code 533C.101 will assist in licensing and regulating these businesses.

Inspections or audits of licensees will assist in detecting any money laundering or financial violations that may also be occurring within the MSB for its own gain. Licensees filing Suspicious Activity Reports (SAR-M) will assist in exposing patrons who may be trying to use MSBs as a way to launder proceeds.

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. As of January 1, 2002, MSBs are now regulated by federal government to file Suspicious Activity Reports (SAR-M).

In 2003, there was a significant increase in the reporting of Suspicious Activity Reports (SAR-C) by Iowa’s casinos. New federal guidelines mandating the filing of these reports was applicable March 25, 2003. Iowa anticipates a continued increase in SAR-C filings as the casinos’ awareness increases in recognizing suspicious activity.

The C-FIC Grant Program must continue to educate both the law enforcement profession and private financial institutions on the importance of communication between the two facets of society. This area would include, but is not limited to, the significance of completing the required BSA forms, coordinated communication with local law enforcement, and the need of financial institutions to report any suspicious financial transactions as required by law.

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.

MATTERS TO COVER

Continued review, evaluation and analysis of data from Department of Treasury's FinCEN (Suspicious Activity Reports filed by casinos, financial institutions, money service businesses, futures and securities industry, Cash Transaction Reports, International Transportation of Currency, IRS 8300 Forms, Foreign Bank Financial Accounts).

Pursue the ability to download FinCEN data for manipulation, in an effort to identify financial crimes trends and patterns within Iowa.

Establish a SAR Review Team protocol, which will include U.S. Attorney's Office, IRS, FBI, and DEA.

Training attended by the Money Laundering Initiative Team.

Continue educational outreach to financial institutions, casinos, law enforcement and prosecuting attorneys.

Review of current and future criminal cases to ensure that agencies are utilizing the asset forfeiture provision as stated within the *Code of Iowa*.

Monitor impact of the new Iowa law regarding regulation and licensing of Money Service Businesses.