Local experts fighting US battle on money laundering

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John Zdanowicz

Charles Intrigo heads a Brickell-based firm that teaches how to guard against money laundering.

While US government agents keep a watchful eye on banks as conduits for money-laundering, tax evasion and fraud, the Florida International University finance professors say abnormal international trade prices can serve as a better cover for the same crimes.

John Zdanowicz and Simon Pak, co-founders of Trade Research Institute, a profit consulting company, say they've developed computer software that analyzes US import and export records for suspicious transactions — possible signs of money-laundering.

"What we have found consistently, this activity is continually increasing over the years as money launderers realize the banks are being monitored. They realize no one is monitoring the trade-transaction prices. We see this as the money-laundering technique of the future," Mr. Zdanowicz said.

As a result of their research, the professors estimated about $42.6 billion in lost US tax revenue in 1999 as companies under-report taxable income. Figures for 2000, they said, are not yet available.

"I look at money-laundering, tax evasion and import duty fraud like a balloon. You squeeze one end and the other gets bigger. As the banks are watched more closely," Dr. Zdanowicz said, perpetrators "find another way."

He said criminals use international trade to hide money flow between countries through under-valued exports and over-valued imports.

Dr. Zdanowicz uses an example of a US entity with $1 million available in cash. They use the money to buy 200 $5,000 watches. The entity exports the watches to a foreign country for $1 each. A partner in a foreign country sends a check for only $1,000 when he receives the watches. The partner then sells the watches for $5,000 each.

In the end, "you've basically moved $1 million out of the US," Dr. Zdanowicz said.

The same scenario can be repeated on the import side.

"The key thing is nobody is watching the back door of money-laundering. Everyone is watching the banks, the front door," Dr. Zdanowicz said.

He said that while the company's research can spot suspicious transactions, it does not label transactions as criminal, just suspicious.

"That's for a government agency to decide," he said.

The research cannot tell them who or what companies are participating, Dr. Zdanowicz said. When they purchase the import-export records on a CD from the US Department of Commerce, the names of the companies are expunged from the records.

Mr. Zdanowicz said he and partner Dr. Pak have served as consultants and expert witnesses in trials and investigations, including an investigation of money laundering that involved the parliament of India.

Mr. Zdanowicz is one of 36 speakers scheduled to make presentations at 'Money Laundering Alert's 6th annual international conference under way this week at the Fontainebleau Hotel Resort in Miami Beach, said Charles Intrigo.

Mr. Intrigo is publisher of the Brickell Avenue-based Alert Global Media, which produces the monthly newsletter. About 600 people from 42 different countries in banking, law, finance and government sectors are expected at the conference, Mr. Intrigo said.

"Money-laundering," he said, "is the hottest, most dangerous topic a banker can face."

If found guilty, he said, bankers and their institutions can face fines, prison terms, a huge blow to the institution's reputation and possible loss of license.

Among the many topics, experts from the field will examine new vehicles for money-laundering: using the Internet — called cyber-laundering — debit cards and international trade.

Another current hot topic among financial professionals is the vulnerability of US banks to money laundering through correspondent institutions in other countries. Yearlong hearings of the US Senate Permanent Subcommittee on Investigations are underway on this practice, Mr. Intrigo said.

The way it works, for example, is that a person making money through criminal activity goes to a brass plate bank perhaps in the Caribbean — a bank with no physical presence — and deposits a $25,000 deposit. The money is then moved to a corresponding account in a bank in the US.

Correspondent banking is the service by which one bank provides services to another bank to move funds, exchange currencies or carry out other transactions. In some correspondent relationships, the foreign bank's local customers are permitted to conduct their own transactions, including wire transfers through the foreign bank's US account.

With such direct access to the US financial system, once the funds are received in the US correspondent account, customers can move the money in or out of the United States, according to the March edition of 'Money Laundering Alert.'

In addition to the warning, Intrigo and colleague, Michael McDonald, a 27-year veteran of the IRS Criminal Investigation Division, are worldwide consultants for businesses that need to stay current on federal money-laundering compliance regulations.

They and a team of experts also provide customized training on compliance, lectures and seminars, litigation support in civil cases and expert witness testimony.

Alert Global Media Inc. has an active website at moneylaundering.com, available in English and Spanish.