
ANALYZING BANK RECORDS



Association of Certified Fraud Examiners

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III. FINDING LEADS IN BANK RECORDS

Introduction

Finding leads in bank records means uncovering the bits and pieces of information that will give fraud examiners more information about the investigation. These bits and pieces may be account numbers, dates, amounts of checks, payees, endorsers, notes written on the memo line, locations of transactions, or other areas that money is sent to or received from.

Leads are needed to find potential assets, other accounts, or other beneficiaries of the allegedly illegal activity. For example, if one is looking for assets, he might find a check written for the direct purchase of a car or for a large deposit on a house. He might see payments on an asset, such as car payments or mortgage payments. He might also find payments relating to an asset, such as payments for utilities at a vacation home, rental of a boat slip for a yacht, or rental of storage space where criminal assets are being stored.

When fraud examiners discover checks identified as illegal proceeds being deposited into other accounts, these accounts (and their owners) could become part of the investigation. Examiners may also discover payments that appear to be legitimate because they are paid by one company to a seemingly related company (e.g., a laboratory buying medical supplies). But upon further investigation, the examiner might discover that the second company is a shell company held by the owner of the first company and the payment has no legitimate business purpose. Fraud examiners might see money being deposited into corporate or personal accounts that are conduit accounts; that is, the money moves into and out of the account quickly, moving closer to its final destination.

Leads can allow fraud examiners to find people, companies, or groups that are beneficiaries of the illegal activity. There may be direct payments to these entities, or payments to conduit individuals or companies that are followed by cash withdrawals from the conduit accounts that end in cash deposits to a beneficiary's account. Payments might also be made to a third party on behalf of a beneficiary. For example, the entity generating the money could write a check to a car leasing company for a car in the beneficiary's name. Fraud examiners could have known about such beneficiaries already or they could have been hidden from view.

Checks can provide information on how they were transacted. Many banks, for example, stamp the front of the check if it is cashed. This stamp may include the branch number of the bank and the teller's number. The teller and branch then become a source of information to follow-up on. Also, some tellers will mark on the back of the check if the instrument was used to create a cashier's check, noting the last several digits of the cashier's check into which it was converted. The fraud examiner can then contact bank personnel for more detail on the cashier's checks.

Finally, checks can provide leads to more information about the targets of the investigation. When a check is cashed, for example, sometimes a teller will note the item of identification the payee used on the front or back of the check. If the payee provides proper identification, a bank will cash a check for the payee even if the payee does not hold an account at the bank and the bank does not have a relationship with the company upon which the check was written. These items of identification may include a credit card number, passport number, driver's license number, or account number. A telephone number, however, is not an acceptable form of identification for negotiating a check, and therefore, it is not likely that an examiner will find a phone number on the front or back of the check.

Additionally, because banks are not limited to cashing checks for their account holders or companies with which they have relationships, some banks now require the thumbprints of check cashers who are not regular customers.

Extracting Leads

Extracting leads from bank records is a methodical but simple task. The trick is to avoid missing anything. A cursory review of checks will show to whom they were written and by whom they were endorsed, but it will ignore the majority of the available information. Only by looking at each piece of data on the check can fraud examiners be assured that they have mined it successfully.

There are generally four steps to extracting leads:

- Review the records for information.
- Establish a format in which to compile the data.
- Extract and prioritize leads from the data.
- Follow leads or provide them to fraud examiners to follow.

To illustrate, this section will examine the canceled check provided below. The front of the example check is displayed in Figure III. 1 and the back is displayed in Figure III. 2.

Review the Records

Many leads can be extracted from the front of the canceled check. The check is from a checking account at Hudson City Savings Bank in New Jersey. The check front shows the account holder's name (Emma S. Aitken) and her address (645 Seventh Street, Lakewood). The check number is 199, and the check was written on November 8, 1999, for \$747.17 to the Township of Lakewood. Noted on the memo line is "1999 (4th quarter)." In the upper left corner, there is a handwritten note, "Block 46, Lot 10." The notation and the payee tell us that this is a check for property taxes on the location. It is not known if the address on the check coincides with the tax map's "Block 46, Lot 10," but this could be ascertained by a visit to the county clerk's office.

Figure III. 1: Canceled Check Front



There is also a faint red “PAID” stamp on the front of the check, indicating that the check was transacted at the bank. Also, “0000074717” was printed at the bottom of the check with MICR toner to encode the amount of the check. The MICR text to the left of the encoded check amount contains information about the bank, the account number, and the check number. The microprinted information below the handwritten amount of the check, which reads “580902580 11489 00 099 5801 03,” is the number of the transaction, and this number includes the date the check was returned to the bank (11/14/99).

The back of a check (see Figure III. 2) also provides many leads. It tells fraud examiners where the check has been on its journey from maker to payee, including the banks and clearinghouses involved in the transaction. This particular check shows that it was received by Lakewood Township on November 8, 1999 (11/8/99), the Operator X2 keyed in the data, the transaction time was 16:15:08, and the amount of the check was \$747.17. It also shows that the check was put into account number 2190030574 and marked “For Deposit Only.”

Figure III. 2: Canceled Check Back



Additionally, behind the stamp from Lakewood Township, there is a faint stamp that reads “National Westminster Bank of NJ, Jersey City, NJ,” which is the bank where Lakewood Township does its financial business.

Furthermore, there are three stamps on the left side of the check. The first stamp contains the number 580902580, which is the transaction number, and the date 11/14/99, which is the date at National Westminster. A second stamp that reads “031000011” is displayed below the first stamp. This is the American Bankers Association (ABA) number that is associated with the bank, and it remains constant on checks processed through that bank. Below the second stamp is a third stamp displaying a set of two even fainter numbers.

Based on an initial review, nothing on the back of this relates to the check clearing at Hudson Savings Bank. Instead, there is a red stamp on the front of the check that provides this information.

Establish a Format

After reviewing the check, its information should be compiled in some format. The data can be placed into a table like the one in Figure III. 3. This table summarizes the material that requires further examination. When dealing with voluminous records, this type of table can also be used to prioritize the existing leads to indicate which ones should be examined first.

Figure III. 3: Example Bank Records Leads Extraction Table

CK#	Payee	Date	Amount	Lead
101	Promish, D	6/25/X1	\$1,000	Check deposited into A/C 987654, Union Bank
–	—	7/1/X1	\$50,000	Wire TR to Royal Canadian Bank British Virgin Islands branch, A/C #354654
–	Home Mortgage	6/11/X1	\$25,000	Wire TR to FL Home Mortgage, Tallahassee, A/C#00309087
196	Southwest Electric	7/23/X1	\$65.94	Memo – 70 Main St, Cranville AZ
–	—	8/1/X1	\$2,500	Debit memo to A/C # 123984

Another formatting option is to enter the data into a spreadsheet so that it can be easily sorted by dates, amounts of checks, or other means.

Extract and Prioritize Leads

After establishing a format, the examiner should extract leads from the information and prioritize them. In addition to the information added to the check, other data can give fraud examiners leads to follow. For example, if a check is written out of sequence—this can be determined by looking at the check number and the date it was written—the check should receive additional attention. An out-of-sequence check requires further attention because it is an anomaly; the check could have the payee field left blank for an anonymous payment, or the packet of checks might have been stolen. An out-of-sequence check, however, is not always an indicator of illegal activity. People sometimes mistakenly enter the wrong date on a check (e.g., a person might accidentally enter the date a bill is due rather than the actual date the check is written). Similarly, people make mistakes when writing checks and are forced to void them. Also, businesses located in multiple locations might split check packets among locations, and this may cause the checks to be written out of sequence. Likewise, joint signers with different checkbooks might write checks at different times. Moreover, a person could have access to multiple packets of checks for the same bank account and randomly select checks from the various packets, causing them to be written out of sequence. Similarly, a consecutively numbered series of checks dated over weeks or months may also be significant, and such an occurrence is worth looking into.

Often the memo line on checks is the best source for leads. Makers sometimes note the reason for the payment or link the payment to a particular activity in the memo line. If, however, nothing is noted on the memo line, similar information might be found on check stubs or in the check register. If a criminal wants to keep track of payments or other activities, but does not want that information to appear on the check, he may put this information into the accompanying stub or register space. In one fraud scheme, for example, the phrase “kickbacks” was seen on the check register relating to certain payments, and the fraudster could not refute the handwritten evidence during trial.

Once extracted, the leads should be prioritized. Certain recipients of funds might be known to be involved in illegal activities, making leads associated with them stronger. Also, knowing which leads will be more time-consuming can help examiners manage their time better (e.g., in Figure III. 3, the lead relating to the British Virgin Islands would likely be the most difficult and time-consuming).

Follow the Leads

After the leads are extracted and prioritized, the fraud examiners, agents, or detectives who are responsible for gathering information in the investigation should follow up with them.

Examples of Extracting Leads

Extracting Leads from Checks

The following six checks reflect some of the types of leads that can be derived from financial records.

Check #3266

Check #3266 is a Fleming-Parker check for \$2,000. It was written to ABC Loan Co. on March 12, 20X1. The memo line reads “#83456,” and it was signed by Joseph Parker. The endorser is ABC Loan Co., and it shows an account number at National Westminster Bank. The biggest lead here is the number on the memo line, as it will enable the fraud examiner to contact ABC Loan to try to determine the nature and length of the loan. The examiner might also ascertain the payment history of the loan.

Check #3267

Check #3267 is for \$500 and was made out to “Cash” on March 18, 20X1. The check was signed by Joseph Parker. The stamp on the front indicates the check was cashed. The back shows that the check was transacted at Franklin First, the bank upon which it was written. Absent any other information, one can assume that Parker received the cash.

Check #3268

Check #3268 is for \$1,687.32, and it was written to Joseph P. Parker on March 20, 20X1. The memo line reads “PAYROLL,” which implies that Parker receives a salary from the Fleming-Parker firm. The check was cashed at Franklin First, which indicates that Parker has an account there. The number under his endorsement could be the account number; this can be verified with Franklin First.

Check #3269

Check #3269 is for \$2,000, and it was written on March 26, 20X1, to the ABC Loan Co. The same number (#83456) that appears on check #3266 appears on the memo line, indicating that this check is a payment on that same loan. The endorsement information on the back is similar to that on check #3266. The round amount of the check and the fact that it was written two weeks later than the first should raise suspicion. What is the size of a loan that requires \$4,000 a month in payment? Aren't loan payments usually made in odd amounts? This might lead the fraud examiner to look into ABC Loan Co. to determine whether it is a legitimate lending company, or if it is a shell or a front.

Also, the examiner should try to determine the purpose of the loan. If, for example, the Fleming-Parker check was used to make a mortgage payment on a piece of property, the examiner will need to determine whether the mortgage is a legitimate company expense.

Check #3270

Check #3270 is for \$79.50, and it was written to PSE&G (a utility company) on March 15, 20X1. One thing to note is that the check number is out of sequence. Also of note, the “#1 Sunrise” on the memo line—Fleming-Parker’s address is 271 Quaker Road, not #1 Sunrise. Why is a utility bill for this other address being paid? Is it a non-business-related expense? Might it be for Mr. Parker’s personal residence? Is Fleming-Parker a company that has real estate holdings that it leases but pays the utilities for? Who is the beneficiary of this payment? The fraud examiner could contact PSE&G to determine who is listed as the owner of #1 Sunrise or even drive past the location to check it out.

Check #3421

Check #3421 is for \$1,000, and made out to John Fleming on March 31, 20X1. It is the only check in the series endorsed by John Fleming. The memo line reads “Cons,” which might be short for “consulting” or “construction.” Fleming endorsed the back and there is a number below his name (103-91-7285) that could be the number of an account located at Barnett Bank in Washington, DC, which is noted on the back of the check. Fleming might be the other half of Fleming-Parker, and he might maintain the Fleming-Parker’s office in Washington, DC, which might have a separate stack of checks (hence, the out-of-sequence check numbers). However, “Cons” and similar terminology have appeared on illegitimate checks in past investigations; memos like this should be further investigated.

These six checks have yielded a number of leads to follow and searching all available information will enrich the financial investigation.