

SARs and 314(b) Call Lead to Guilty Plea in Ponzi Scheme

In a case initiated from a proactive review of SARs, an individual pled guilty to fraud when authorities discovered a scheme to defraud individuals and businesses out of millions of dollars. The SARs which triggered the investigation described in detail transactions related to the fraud. In addition, the 314(b) provision of the PATRIOT Act enabled institutions to work together and share information, resulting in the closing of suspect accounts and slowing the spread of the fraud.

The case began when a SAR review team identified reports filed by a financial institution with a total dollar amount of several million dollars. The defendant opened an account with a small cash balance and soon deposited more than \$100,000. He then sent an out-going wire for over \$100,000. Several days later, he attempted to deposit a check withdrawn from another bank for several million dollars and then wire the funds out of the bank. The bank put a 5-day hold on the check to verify that the funds existed. The defendant asked for the check back the next day. The bank later reported that the check had been altered and the true amount was for only a few hundred dollars. The bank also conducted Internet queries on the defendant and found links to lawsuits filed against him.

A SAR filed a few weeks later by another bank described fraudulent activity by the defendant. The bank reported that the defendant opened a new account and made deposits that totaled about \$10,000. However, the bank soon found itself with checks totaling over \$150,000 for which there were insufficient funds to cover the payments. The bank made a 314(b) call to the other financial institution where the defendant attempted to deposit the altered check and learned of the defendant's activities.

The second bank explained in the narrative that while their SAR filing reported activity on checks returned for insufficient funds, there were strong indications of fraud and deception that point to a possible Ponzi scheme. In addition to the SARs filed on the defendant, casinos filed more than 20 CTRs on the defendant over a 3-year period.

Prosecutors charged the defendant with wire fraud occurring over a period of more than 2 years. The essence of the scheme to defraud was the use of materially false and misleading statements and omissions of material fact in the solicitation of investment/loan funds from various family members, friends, and business acquaintances, purportedly for funding purchases for existing business contracts.

The funds, unbeknownst to the investors, were actually used, among other things, to pay off previous investors, other existing business debts and obligations, underwrite gaming activity, and purchase a personal residence and automobiles for cash.

Because of this scheme, victims suffered a combined loss of more than \$3,500,000. The defendant admitted that he utilized the U.S. Postal Service to take money under false pretenses. He was charged with possession of counterfeit checks with the intent to

deceive. The defendant pled guilty in Federal court to mail fraud and has agreed to pay more than \$3,500,000 in restitution.

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