



The **Cornerstone** Report

Safeguarding America Through  
Financial Investigations

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Cornerstone is U.S. Immigration and Customs Enforcement's (ICE's) comprehensive investigative initiative for fighting financial crime.

The Cornerstone Report is a quarterly bulletin highlighting key issues related to ICE Homeland Security Investigations (HSI) financial, narcotics and special operations investigations.



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## **INTERSTATE FUNNEL ACCOUNTS – Raising The Money Off The Streets**



**O**ver the past few years, the money laundering trend known as “interstate funnel accounts” has grown in popularity particularly among drug and alien smuggling organizations. Interstate funnel accounts, or interstate cash accounts, are currently one of the most efficient means for drug and human smuggling organizations to rapidly move illicit proceeds within the interior of the U.S. (destination states) to those states bordering the Republic of Mexico (source states).<sup>1</sup>

While interstate funnel accounts have not replaced other traditional means of moving cash, like transportation of bulk currency in vehicles, they are an evolution of money laundering practices. To criminal organizations, interstate funnel accounts offer several benefits. The two most

important benefits are the rapid movement of money across great distances with minimal fees and the anonymity of the depositors since the cash deposits are usually under the reporting thresholds. Additional benefits of funnel accounts are the consolidation of the physical volume of the cash.

<sup>1</sup> The border states are known as “source states” as they are the initial source or transit point for the majority of the drug and human smuggling activity in the U.S. Eventually, the illegal drugs or aliens will transit to the interior of the U.S. to “destination states.”



## INTERSTATE FUNNEL ACCOUNTS – Raising The Money Off The Streets *Continued*

For example, cash deposits can consist of a mixture of low and high bill denominations while the subsequent withdrawals can be made into high-denomination bills. The decrease in volume makes it easier for organizations to subsequently move and conceal cash loads. Another benefit is the literal cleaning of the bills, as cash deposited by a drug trafficking organization (DTO) may hold strong narcotic residue and odor while the cash withdrawn from the bank in a different state is clean and free from concentrated residue. Furthermore, the use of interstate

funnel accounts allows criminal organizations to avoid highway, airport and parcel interdiction efforts by law enforcement.

### Interstate Funnel Account Attributes

The banking customer who opens the interstate funnel account is usually a nominee (front or straw person) for the criminal organization and typically does not engage in the crime of drug trafficking or human smuggling. In most cases, the account holders are paid a fee by the criminal organizations to utilize existing accounts or open new accounts. This fee may range from \$200

to \$500 per transaction. Account holders are paid to accept deposits, make withdrawals, and deliver the illicit proceeds withdrawn from the account to the criminal organization representative.

Once the account is opened, the criminal organization representative communicates the account number(s) to their co-conspiring customers around the U.S. Shortly thereafter, the conspiring customer deposits cash into the organization's account, which in turn, is instantly available for withdrawal in the source state. This method of paying for alien smuggling fees, or any other illicitly gained proceed,

## Red-Flag Indicators

- Account(s) with multiple deposits which are shortly transferred to other accounts;
- Accounts with high aggregate dollar deposit activity but with low account balances;
- Accounts with deposits from multiple, different individuals or companies;
- Accounts with multiple deposits from multiple locations outside the banking area; (e.g., a California domiciled bank with deposits from Illinois and Georgia);
- Accounts with multiple deposits from multiple sources (e.g., cash, ATM deposits, checks, wire transfers, etc.);
- Accounts opened in the U.S., by individuals temporarily within the U.S. who are bearing immigration identity documents (such as border crossing cards), then used to wire transfer funds back to Mexico;
- Deposits are immediately (or within 1 to 2 days) withdrawn or wired from the account;
- Accounts with an unusually high number of charge-backs;
- Financial activity not commensurate with stated business or occupation of the depositing individual;
- Anonymous cash deposits made in destination states followed by rapid cash withdrawals made in source states;
- Abrupt change in account activity; and
- Branch-shopping at various financial institutions to disguise nexus of the deposited funds with movements across the U.S.' international borders.

is as convenient as making trips to local bank branches.

Analysis of Bank Secrecy Act (BSA) reporting has identified that the following account activity is often associated with funnel accounts: out-of-state, anonymous cash deposits in multiple states; rapid cash withdrawals for amounts similar to cash deposits; use of counter deposit slips; individual deposits and withdrawals intentionally under \$10,000 (structuring); limited account credits besides cash deposits (i.e., no payroll, wire transfers); no legitimate business purpose evident; and deposit activity greater than expected income.

Currency transaction reports (CTRs) may be filed on interstate funnel account activity if multiple deposits aggregate greater than \$10,000. CTRs filed on funnel accounts often indicate that multiple transactions occurred in geographically distant bank branches.

### Case Examples

#### **Waine Vassel Drug Trafficking Organization**

In June 2008, HSI Phoenix initiated an investigation regarding a bank employee that was facilitating “interstate funnel account” activity for a fee. The investigation revealed that an account opened by the bank employee in his name was being utilized by a DTO as a primary method to move their illicit funds



in furtherance of their criminal enterprise. Initial findings of the bank employee’s account showed a pattern of suspicious financial transactions involving anonymous cash deposits at financial institutions located on the east coast of the U.S. Subsequent cash withdrawals were made by the employee in Phoenix, Arizona. The DTO utilized numerous bank accounts to move over \$700,000 in illicit proceeds from elsewhere in the U.S. to Arizona.

The conspiracy widened when the investigation identified members of the DTO that operated a narcotics mailing and money laundering operation from Phoenix, Arizona. Two of the targets of HSI Phoenix’s investigation,

Waine Vassel and Anton Holt, were instrumental in smuggling thousands of pounds of marijuana through the U.S. mail system from Arizona to East Coast states. Vassel and Holt found willing individuals to open bank accounts and receive and deposit the illicit funds derived from the contraband sold in the destination states. Each of the bank account holders would then withdraw cash in Phoenix and hand deliver the money to Vassel, minus a \$300 transaction fee.

In April 2010, Vassel and Holt were sentenced to 70 and 36 months imprisonment, respectively, for their role in the drug smuggling and money laundering operation. Four other co-conspirators pled guilty



## INTERSTATE FUNNEL ACCOUNTS – Raising The Money Off The Streets *Continued*

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to violations of 18 U.S.C. § 1960, for engaging in unlicensed money transmitting businesses.

### **Shawn Falando Smith Drug Trafficking Organization**

In September 2009, HSI Phoenix received information regarding bank accounts that involved numerous out-of-state cash deposits and subsequent cash withdraws within the state of Arizona. The deposits and withdrawals from the bank accounts were structured to avoid BSA reporting requirements. In addition, most of the deposits were made using counter deposit slips to implement an additional level of anonymity. Further analysis of the bank accounts revealed that a number of individuals funneled over \$2.5 million in illicit funds through the financial system. HSI Phoenix noted a discrepancy because the bank accounts were opened at branches in Phoenix, while the nominee information showed the account holders resided outside the state of Arizona.

HSI Phoenix confirmed that the personal information utilized to open the bank accounts in Phoenix was derived from the victims of personal identity theft. The identity theft was traced to

Shawn Falando Smith, who obtained copies of birth certificates of males in the same age range as those opening the bank accounts in Phoenix from a compromised county employee in Pennsylvania. Smith and his co-conspirators used the birth certificates to obtain Arizona driver licenses and subsequently open bank accounts. Investigators identified the five conspirators as members of a DTO involved in a large narcotics trafficking operation who used bank accounts to move their proceeds across the U.S. In June 2010, all of the suspects with the exception of one defendant pled guilty and received sentences up to five years in prison for marijuana distribution, money laundering, and identity theft.

### **The Way Forward**

HSI has developed a comprehensive national strategy to address the susceptibility of interstate funnel accounts. A holistic approach encompassing collaboration with the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN), the financial industry and the Department of Justice (DOJ) will ensure this vulnerability is addressed. The national strategy includes, but is not limited to, the following:

- Sharing typologies and lessons learned with the financial institutions;
- Encouraging financial institutions to require identification for cash deposits to third party accounts; and
- Identification/tracking of interstate funnel accounts based on existing BSA and investigative data.

The combination of successful criminal enforcement actions, report filings under the BSA, and anti-money laundering (AML) compliance efforts by financial institutions strengthen banking systems and force criminal organizations to seek other means to move illicit funds. HSI will continue to work with private and public sector stakeholders to identify new trends and money laundering schemes and share information by providing red-flag indicators, tips and insight to more effectively investigate these complex and sophisticated criminal schemes.

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