

Net Worth Analysis



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Value Touches Everything

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Unknown Source Of Income Methods

**UNKNOWN SOURCE OF
INCOME ANALYSIS**

A tool used to allege or prove illegal revenue generation.

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Unknown Source Of Income Methods

UNKNOWN SOURCE OF INCOME ANALYSIS

A tool used to allege or prove illegal revenue generation.

Financial analysis for intelligence, criminal investigation, and forensics can use two main approaches to solve the problem of identifying the unknown source of income.



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Unknown Source Of Income Methods

DIRECT METHOD

Used when the investigator has full access to all/most of the subject's books and full extent of financial data.

INDIRECT METHOD

Used when the investigator does not have full access to the books, accounting data, or full extent of financial data.

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Indirect Methods



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Indirect Methods

There are four basic indirect methods used to prove the unknown source of income and correlate with criminal activity.

Source and
application of funds

Bank deposit &
transaction review

Unit & volume

Net Worth



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Indirect Methods

Source and application of funds



KSI

\$50k salary

Bank deposit & transaction review



Unit & volume

Spends \$150k in one year



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Indirect Methods

Source and application of funds

KSI

Bank deposit & transaction review



\$50k salary

Unit & volume



In one year, the account has \$100k additional non-salary deposits from **cash** deposits and **transfers**.

→ \$150k - \$50k + \$100

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Indirect Methods

Source and
application of funds

Bank deposit &
transaction review

Unit & volume



\$8500 cash
on hand



- Purchased 1000 bottles
- Has 8500 in the booth
- Sold 1500 x \$2 = \$3000

→ \$8500 - \$3000 + \$5500

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Slide 9

MLO I am not tracking the slide. \$8500, ok. Purchased 1000 with unknown funds? So the value to the calculation is 16,500?

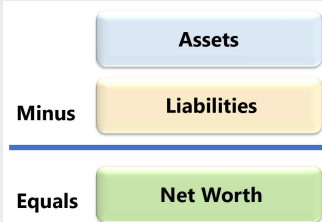
Michael Loughnane, 2023-04-24T15:55:16.868

Net Worth Analysis

Definition

An indirect investigative process used by law enforcement to assess a person's, group of persons, or entity's (usually a business) income, expenditures, and net worth with the purpose to identify the presence of **unexplained income or wealth**.

Simple formula →



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Net Worth Analysis



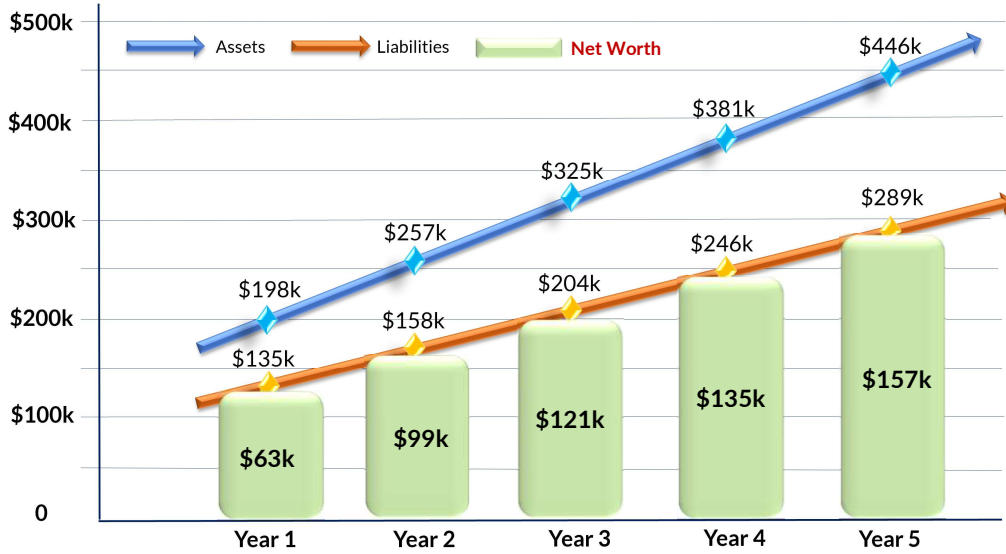
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Net Worth Analysis

Purposes

- Develop a criminal case
- Intelligence
- Prosecution
- Asset forfeiture

Criminal case data



Correlation analysis

- Uncorrelated level of wealth
- Motive
- Criminal association

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Net Worth Analysis



When do we use net worth analysis?

- When the subject's books and records are not available
- Case is still in a "covert stage"
- The subject did not keep any records or information
- When you have 2 years or more of data

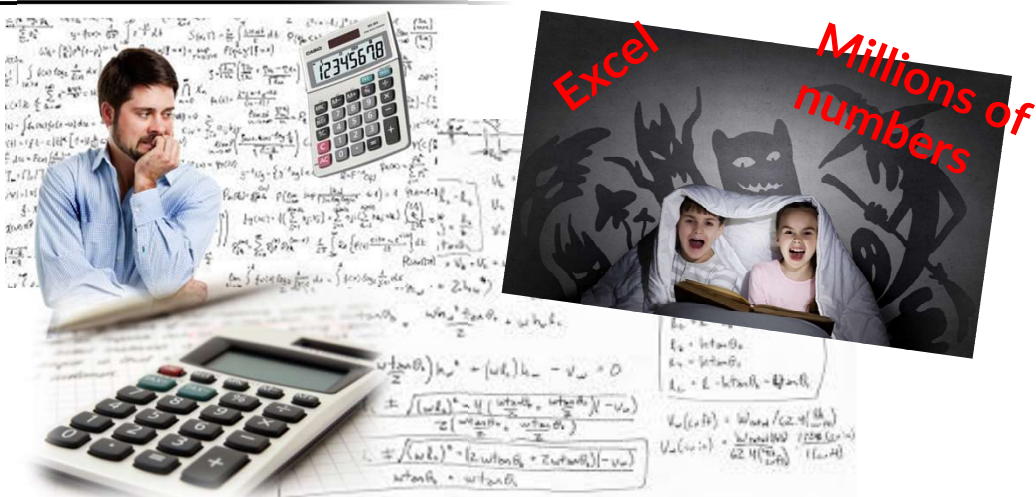
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Net Worth Analysis



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Slide 15

MLO Are you stating that net worth analysis only applies when books and records are not available? Direct net worth is working with books and records. Maybe change to Indirect method to be more specific

Michael Loughnane, 2023-04-24T15:52:31.713

Net Worth Analysis

A simple and elegant formula

NET WORTH CALCULATION FORMULA

Assets

Less:	Liabilities
Equals:	Net worth
Less:	Prior year's net worth
Equals:	Net worth increase (or decrease)
Plus:	Living expenses
Equals:	Income (or expenditures)
Less:	Funds from known sources
Equals:	Funds from unknown sources

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Net Worth Analysis



Let us make it easy...



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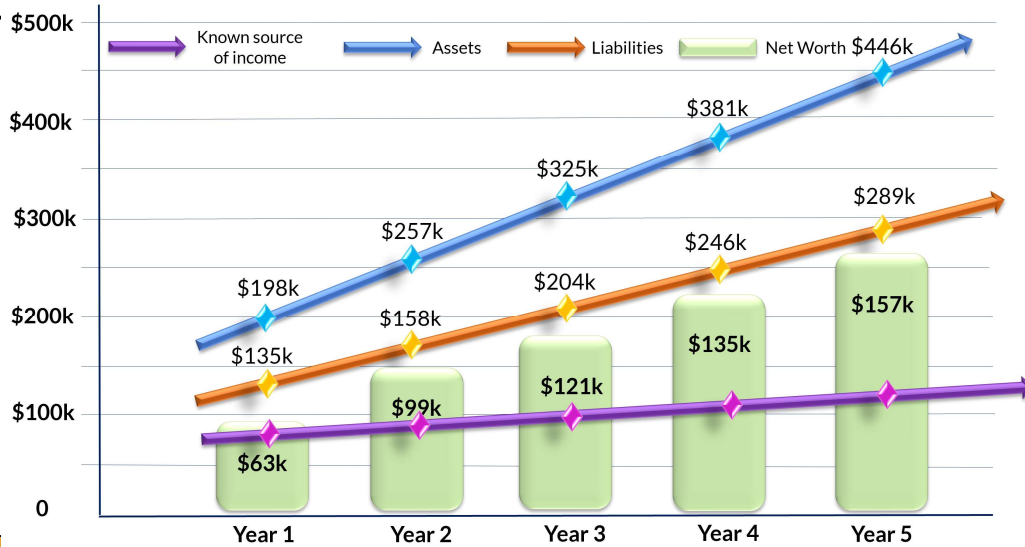
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Slide 17

MLO Are you describing at this slide the need for establishing a base year? And how many years are needed for a true net worth?

Michael Loughnane, 2023-04-24T15:59:43.527

Net Worth Analysis



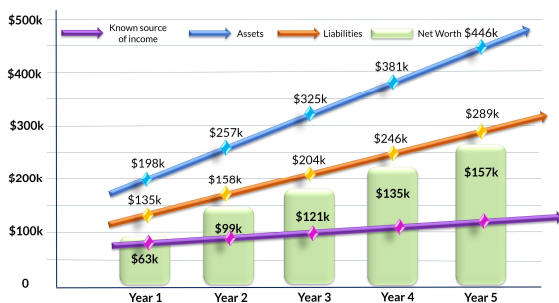
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Net Worth Analysis



- What questions does it suggest?
- How does it compare to the rest of the criminal case data?
- Does it help us to tell a story?

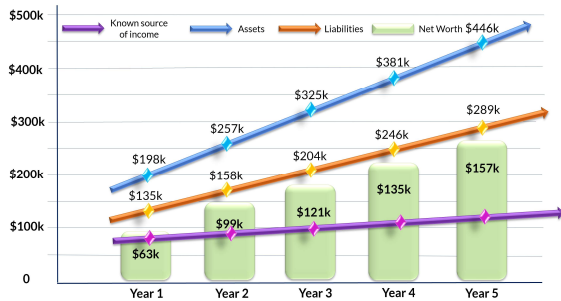
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Net Worth Analysis



- Do we have a problem?
- Is he living beyond his means?
- Profligate spending?
- What are his sources of income?
- What are we going to do?

→ **Collect financial data**

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Net Worth Analysis Steps

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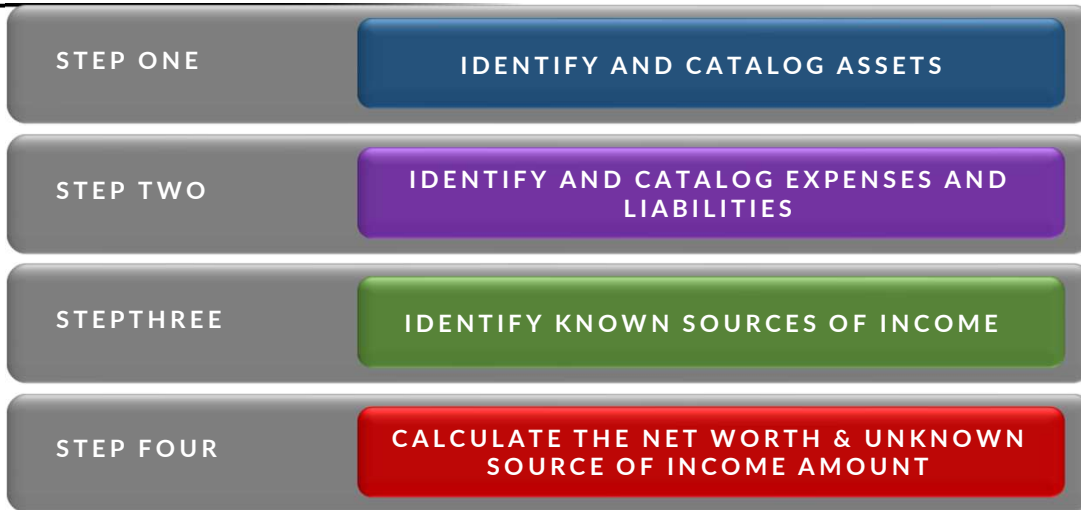
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Slide 21

MLO I really do not like "Do we have a problem". I would suggest "what does the pattern/flow indicate? Draw and analytical response

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Indirect Net Worth Analysis Steps



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Identify And Catalog Assets

STEP ONE

Assets
Cash on hand
Bank accounts balance
Real estate
Vehicle (s)
Jewelry
Valuables (any good)
Art
Properties
Financial instruments
Businesses (the value)
Precious metals & gems
Animals

It is not all about banks...

- Traditional investigative techniques:
 - Interviews/interrogations
 - Surveillance
 - Wire taps
 - Undercover
 - Trash runs
 - LEA/public databases
 - Commercial data aggregators
 - Open source

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Identify And Catalog Assets

As investigators and analysts, what do we see the suspect:

- Purchasing (goods & services)
- Controlling
- Owning



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Identify And Catalog Assets

STEP TWO

Sources of Data:

- Real estate records
- Receipts
- Child support
- Divorce records
- Tax returns
- Motor vehicle ownership
- Court documents
- Credit card data
- Bankruptcy records
- Financial statements
- Etc.

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Identify And Catalog Liabilities & Expenses

Sources of Data:

- Real estate records
- Receipts
- Child support
- Divorce records
- Tax returns
- Motor vehicle ownership
- Court documents
- Credit card data
- Bankruptcy records
- Financial statements
- Etc.

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Identify And Catalog Liabilities & Expenses

As investigators and analysts, what do we see the suspect:

- Paying for (goods & services)
- Owning

STEP THREE

Lifestyle activity detection/observation is important to identify expenses

LOAN



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Slide 27

MLO What is the purpose to the equal sign?

Michael Loughnane, 2023-04-24T16:02:59.457

Slide 28

MLO Suggest changing "Owning" to "Ownership"

A lot of white space after owning. Is there more to add?

Michael Loughnane, 2023-04-24T16:07:00.120

Identify The Source Of Income

Sources of funds:

- Salary
- Gifts
- Insurance payments
- Interests
- Allowance
- Dividends
- Alimony
- Others

Primary information sources:

- Tax returns
- Bank statements
- Surveillance
- Interviews
- Financial statements
- Others

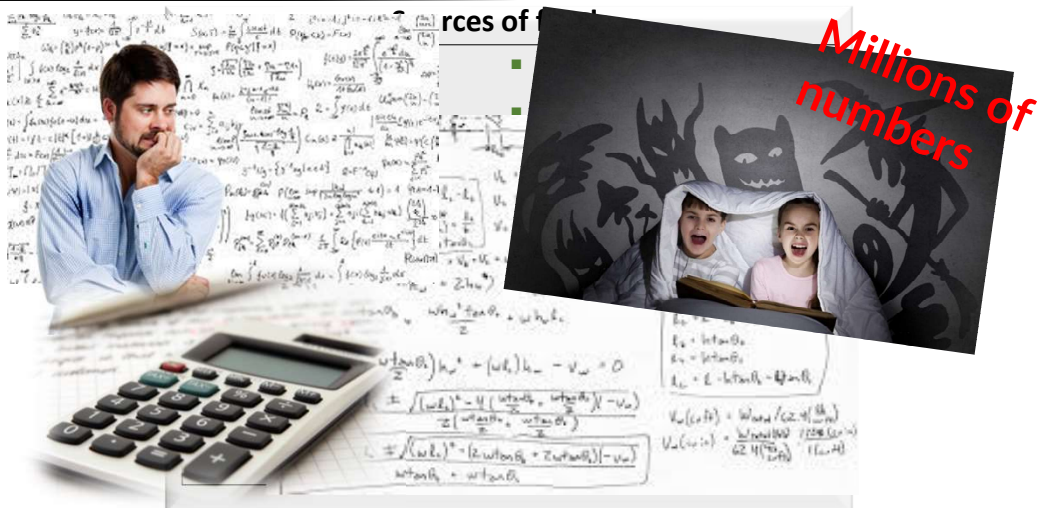
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Calculate The Net Worth & Unknown Source Of Income Amount



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Calculate The Net Worth & Unknown Source Of Income Amount

	Base year 2018	2019	2020
ASSETS			
Cash on hand	\$100		
Bank account balance	\$2,022	\$7,000	\$10,000
Jewelry	\$1,000	\$9,000	\$15,000
Art collection			\$25,000
Chevrolet Silverado		\$45,000	\$45,000
Real estate			\$250,000
Total Assets	\$4,300	\$61,000	\$345,000
LIABILITIES			
Finance company payment	\$500	\$500	\$500
Auto loan		\$15,000	\$12,000
Mortgage			\$125,000
Total Liabilities	\$500	\$15,500	\$137,500
Net Worth	\$3,800	\$45,500	\$207,500
LESS:			
Prior year's net worth		\$3,800	\$45,500
Net worth increase		\$41,700	\$162,000
ADD:			
Personal living expenses, credit card payments			\$14,000
Other personal living expenses		\$7,300	\$10,000
Income		\$49,000	\$186,000
LESS:			
Funds from known sources:			
Interest on bank account		\$300	\$600
Wages		\$4,700	\$1,400
TOTAL FUNDS FROM KNOWN SOURCES		\$5,000	\$2,000
FUNDS FROM UNKNOWN SOURCES (illegal ?)		\$44,000	\$184,000

- Three years of data
- Each line is the same for each year
- All you need is a calculator
- **THIS IS AN ESTIMATE** that helps tell a story or argue that something is wrong.

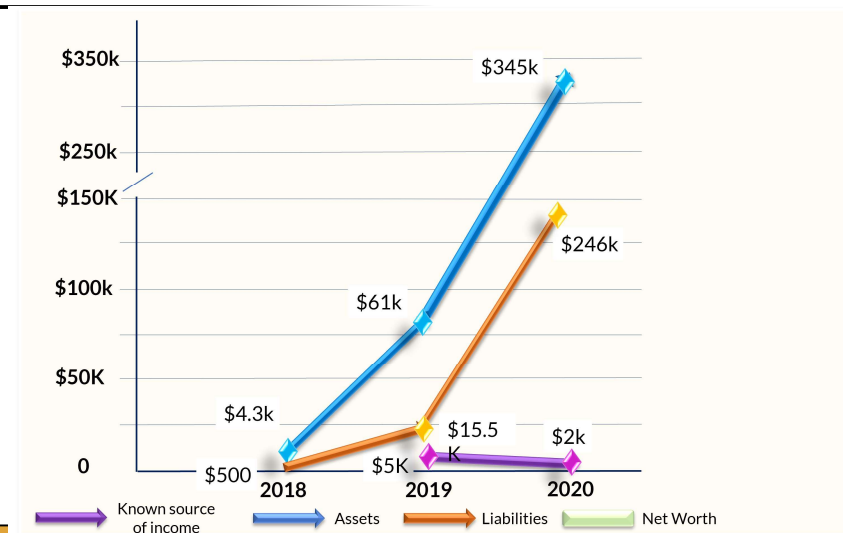
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Calculate The Net Worth & Unknown Source Of Income Amount



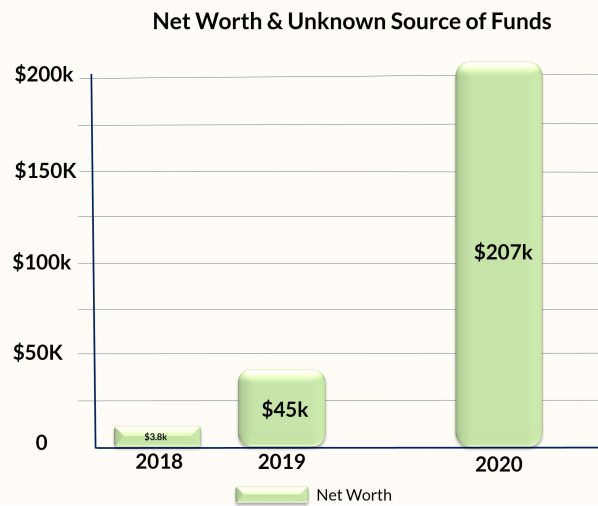
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Calculate The Net Worth & Unknown Source Of Income Amount



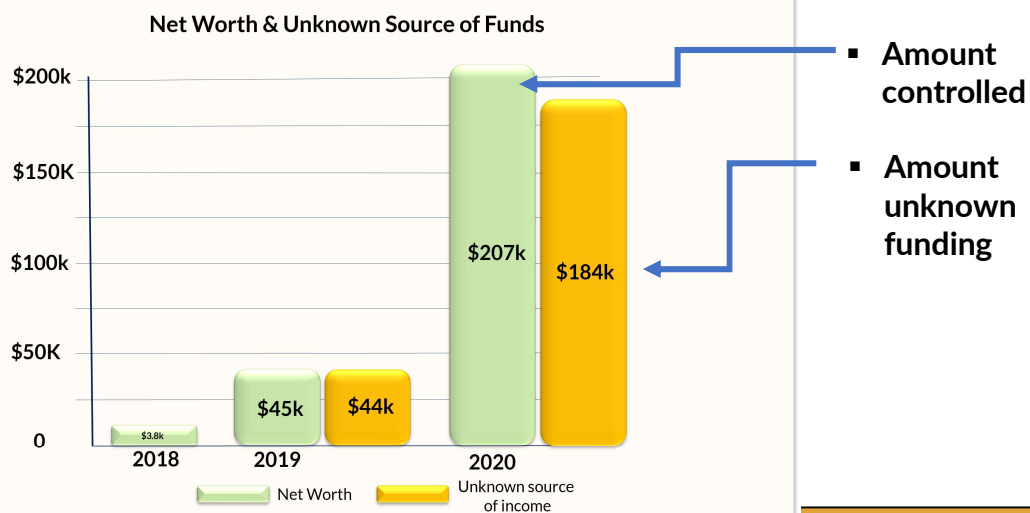
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Calculate The Net Worth & Unknown Source Of Income Amount



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Direct Methods

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Direct (Specific) Method

- Most preferred method
- Uses reported income and expenses, with support in books and records
- Usually summarized in tax returns so it is easier to analyze for anomalies

Can be used to identify:

- Understatement of income
- Overstatement of expenses
- Fraudulent claims for credit and exemptions
- Provides direct evidence
- May include witness/authenticator of records

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Direct (Specific) Method

What John Smith reported:

Payment Records	Date	Amount	Total
Acme Trade	09/01/2014	\$3,000	
Acme Trade	08/01/2014	\$6,000	\$9,000
Brigand Company	06/30/2014	\$8,000	
Brigand Company	03/01/2014	\$5,000	
Brigand Company	02/28/2014	\$2,000	\$15,000
Cleveland Consulting	07/01/2014	\$1,000	
Cleveland Consulting	03/30/2014	\$5,000	\$6,000
Total Reported Paid			\$30,000

What We Find Out:

External Vendors	Date	Amount	Total
Acme Trade	09/01/2014	\$3,000	
Acme Trade	08/01/2014	\$9,000	\$12,000
Brigand Company	06/30/2014	\$8,000	
Brigand Company	03/01/2014	\$7,000	
Brigand Company	02/28/2014	\$2,000	\$17,000
Cleveland Consulting	07/01/2014	\$10,000	
Cleveland Consulting	03/30/2014	\$5,000	\$15,000
Total Paid			\$44,000
Delta			\$14,000

- ✓ Direct communications with external witnesses
- ✓ Very tangible results

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Direct (Specific) Method

What Bill had as receipts:

Bill: Source Records	Date	Amount	Total
Echo Hearing Aids	5/10/2017	\$11,000	
	6/20/2017	\$15,000	\$26,000
Parson Printing	2/15/2017	\$3,000	
	8/10/2017	\$9,000	
	1/28/2017	\$7,000	\$19,000
Johnny's Collar	11/11/2017	\$14,000	
	12/20/2017	\$20,000	\$34,000
Total Reported Receipts			\$79,000

What We Find Out:

Info from External Sources	Date	Amount	Total
Echo Hearing Aids	5/10/2017	\$16,000	
	6/20/2017	\$15,000	\$31,000
Parson Printing	2/15/2017	\$8,000	
	8/10/2017	\$9,000	
	1/28/2017	\$20,000	\$37,000
Johnny's Collar	False	\$0	
	False	\$0	\$0
Total Receipts			\$68,000
Delta			\$49,000

- ✓ Understated receipts
- ✓ Receipts from an unknown source

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Anticipating The Defense

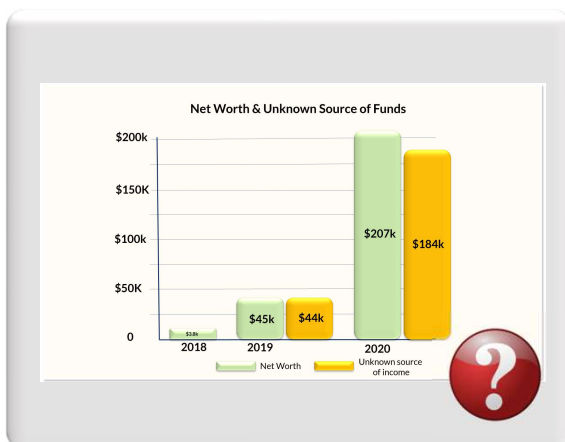
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Anticipating The Defense



If you were the defendant:

- How would you explain yourself when interviewed by law enforcement investigators if presented with this data?
- How would you explain the source of income?

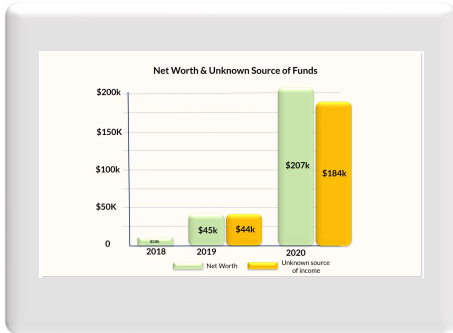
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Anticipating The Defense



Anticipate the theory of defense

As an investigator or analyst, you should:

- Formulate an argument based on net worth analysis that explains that the unknown income is generated by criminal activity.

Show:

- Motive (profit)
- Underlying crime (violation/specified unlawful activity)
- Money laundering
- Evidence of criminal associations

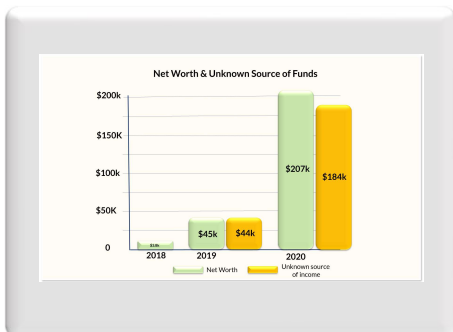
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Anticipating The Defense



Anticipate the theory of defense:

- Cash hoarding defense
- Gift defense (especially forgotten gifts)
- Bad calculations due to inconsistencies or lack of thoroughness
- Found money
- Etc.

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Questions?

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