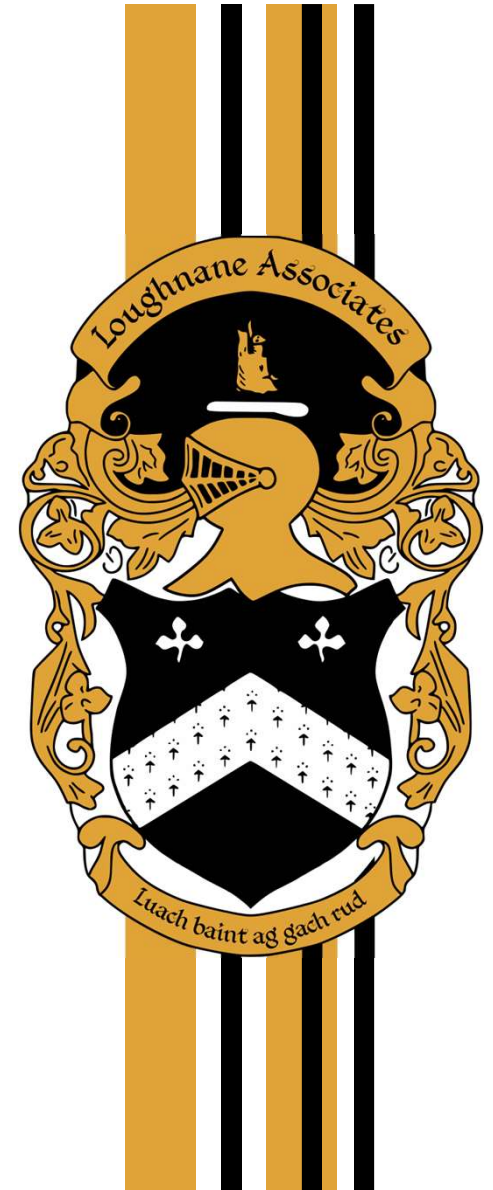


Net Worth Analysis

Loughnane Associates LLC
Value Touches Everything



Huxley Orion



UNKNOWN SOURCE OF INCOME ANALYSIS

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

- **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



INDIRECT METHODS

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

1. Net worth
2. Source and application of funds
3. Bank deposit and transactional review
4. Unit and volume

Date	Flow	Amount (\$)	Counterparty	Counterparty #	Acc. Act. Type	Case #/In. #/ID	Counterparty #/In. #/ID
Mar 28 2009	Inbound	45000	Emerald Forest Inc	819817	Business	0167-0896-1248-4088-4108-1248	0896-1248-4088-4108-1248
Apr 13 2009	Inbound	1500	Emerald Forest Inc	819818	Business	0167-0896-1248-4088-4108-1248	0896-1248-4088-4108-1248
Apr 14 2009	Inbound	20000	Harold S. Brown Jr	813493	Business	0167-0896-1248-4088-4108-1248	0896-1248-4088-4108-1248
Apr 18 2009	Outbound	12000	Keating, A.	146073	Personal	0167-0896-1248-4088-4108-1248	01670215474108
Apr 21 2009	Outbound	12000	Keating, A.	146170	Personal	0167-0896-1248-4088-4108-1248	01670215474108
Apr 22 2009	Outbound	100000	Acme Supply	8991212	Business	0167-0896-1248-4088-4108-1248	0896-1248-4088-4108-1248
Apr 22 2009	Inbound	500	Wells, G.	41761	Personal	0167-0896-1248-4088-4108-1248	01670215474108
Apr 27 2009	Inbound	1500	Kerr, M.	819819	Personal	0167-0896-1248-4088-4108-1248	01670215474108

Sample Sources and Uses of Funds

TABLE 29.3 Sources and uses of funds for Executive Paper Corporation (figures in \$ millions)

	\$ millions
Sources:	
Net income	74.5
Depreciation	53.3
Operating cash flow	127.8
Issues of long-term debt	---
Issues of equity	---
Total sources	\$181.6
Uses:	
Investment in net working capital	---
Investment in fixed assets	---
Dividends	---
Total uses	\$181.6

Cost-Volume-Profit BreakEven at \$1,200M in Sales and 1,200M in U

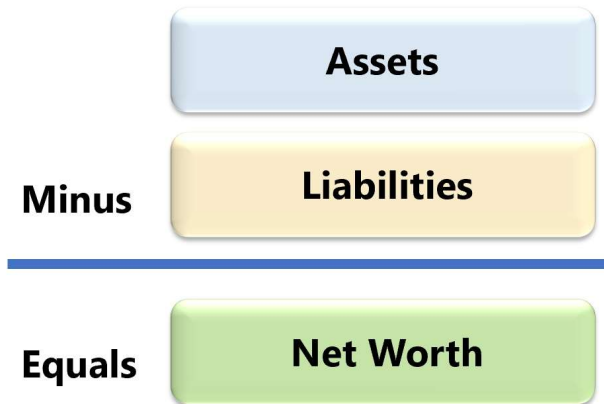


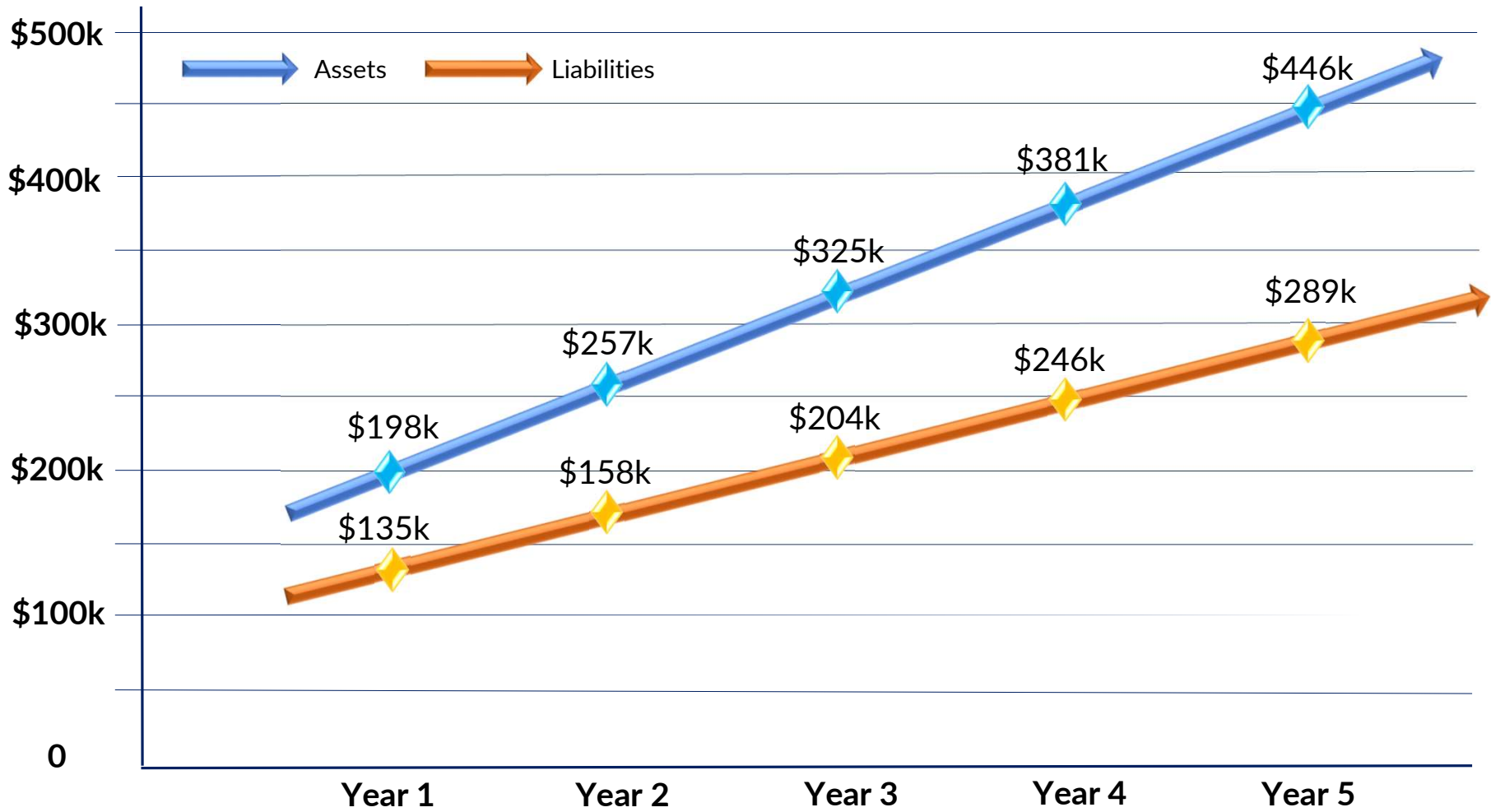
NET WORTH ANALYSIS

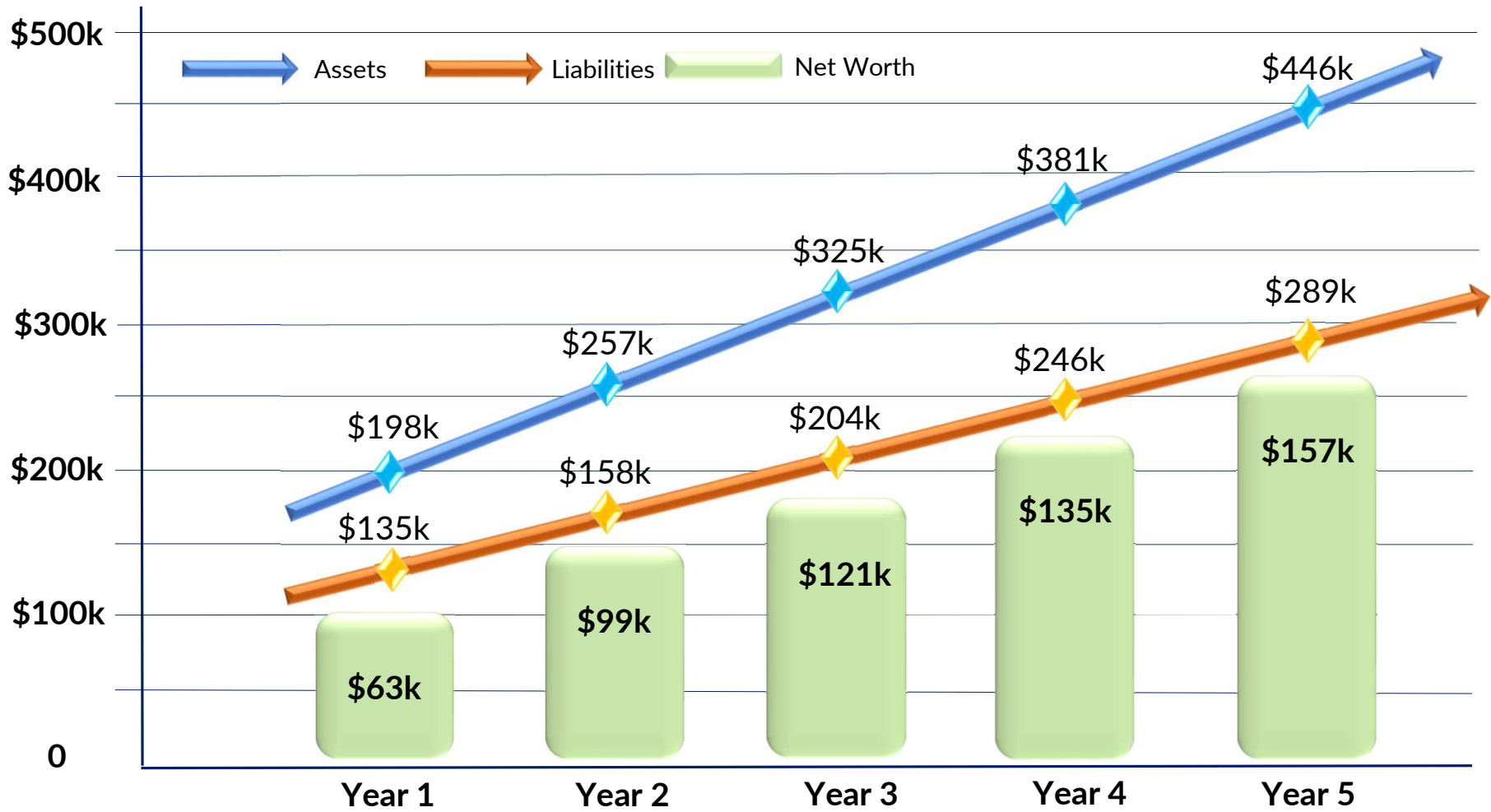
Definition:

An indirect investigative process used by law enforcement to assess a person, 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**.

The simple formula:





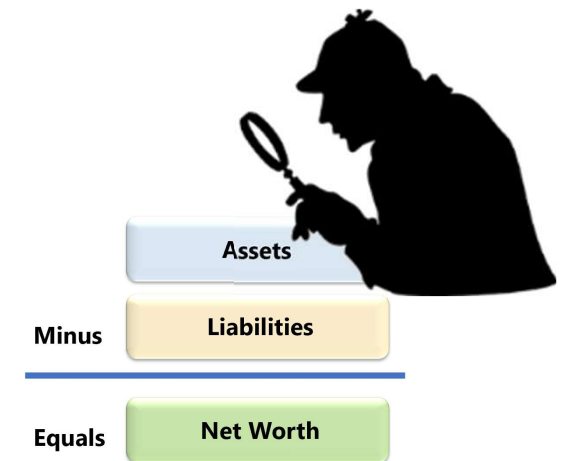


NET WORTH ANALYSIS

Uses:

- **Criminal case intelligence or precursory investigation**
 - Develop an initial investigative lead
 - Develop hypotheses (primary & competing)
 - Develop association analysis
 - Develop the theory of the case
 - Reach a standard of proof

- **Criminal investigation**
 - Reached a needed standard of proof
 - Identify evidence
 - Money laundering charges
 - Develop the theory of the case



When shall 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



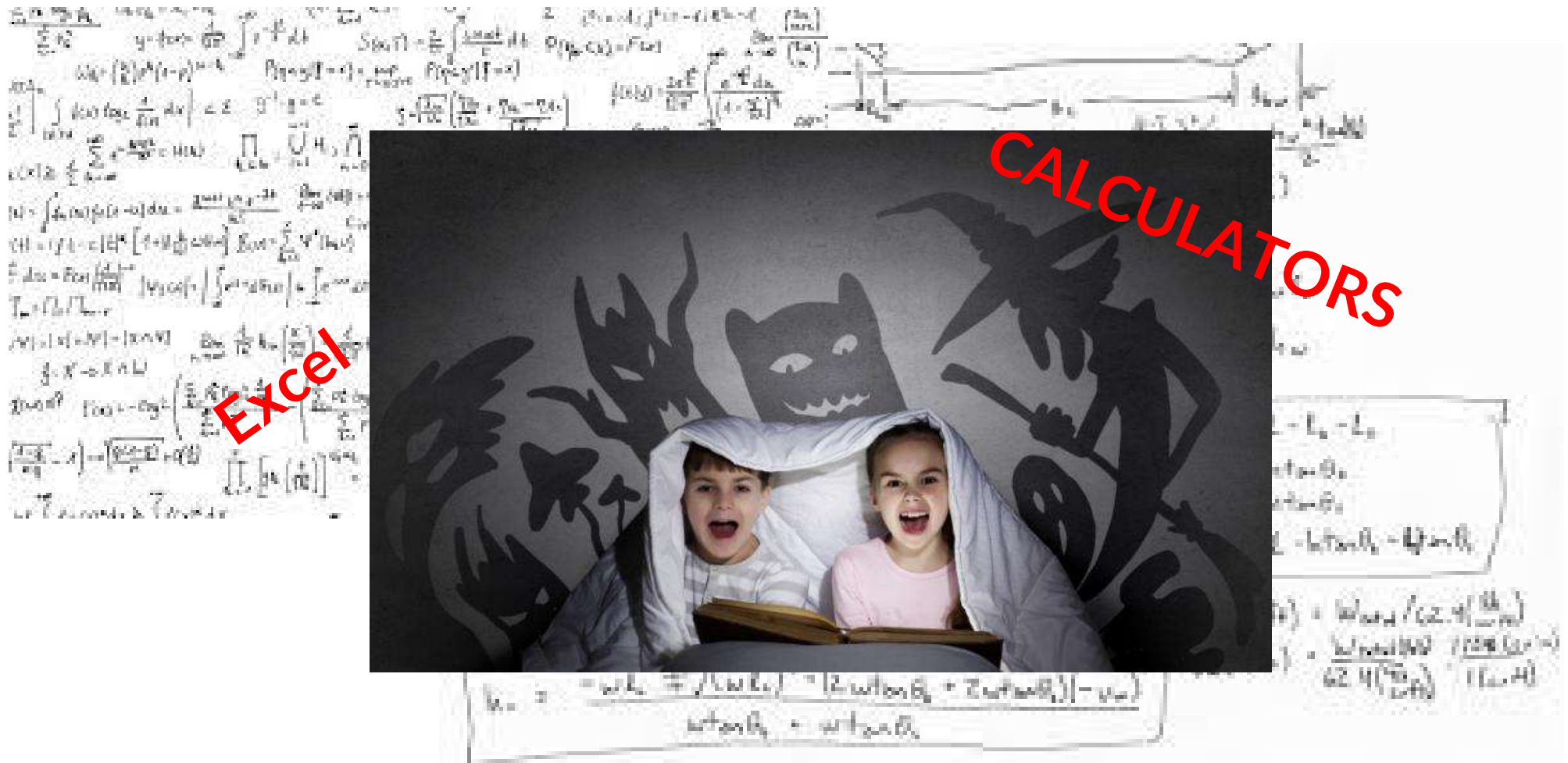
NET WORTH ANALYSIS - A simple and elegant formula

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





Excel

CALCULATORS



Let's make it easy...

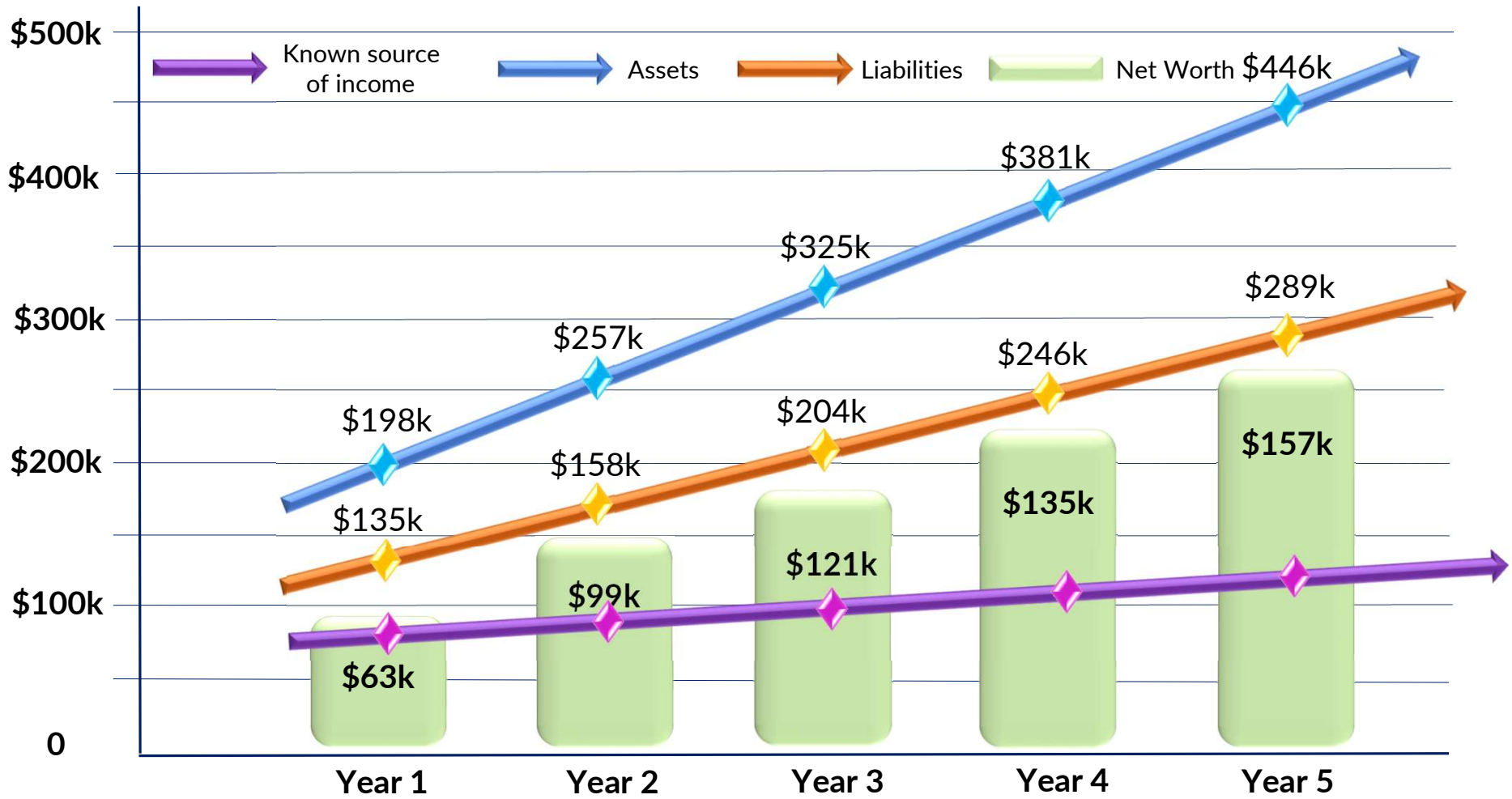


We have a subject (suspect) who is believed to be involved in criminal activity (for profit).

Personal data:

Subject's basic data	
Name:	MCKENZIE, Thomas
SSN:	320-00-3210
DOB:	Nov 25 1989
Occupation:	Plumber
Place of work:	Silver Plumbing
Home address:	240 Elm St, Saint Bosco, KY 98745
Criminal record	Negative



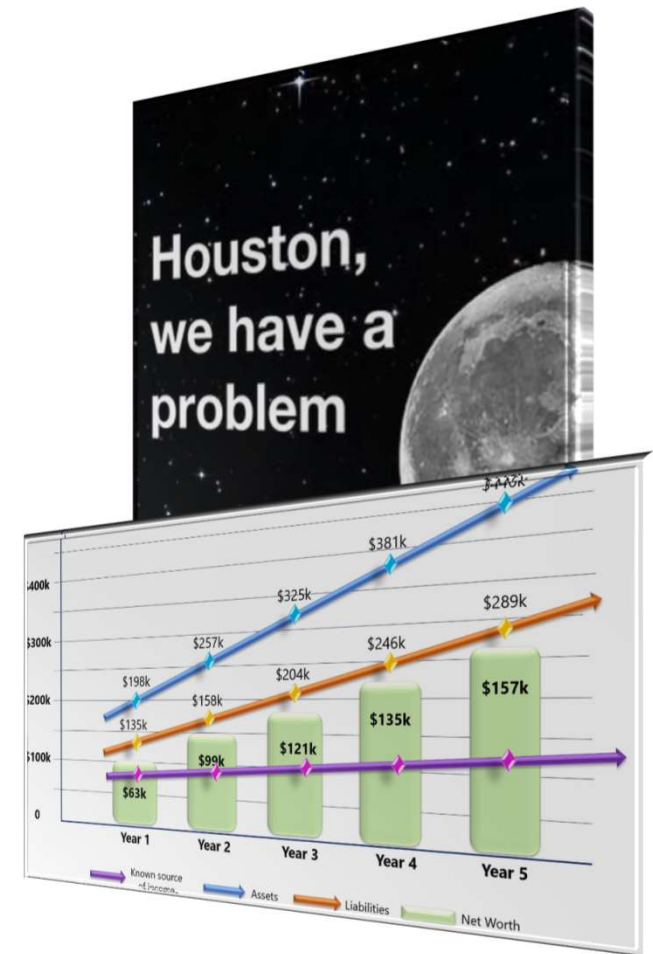


Do we have a problem?...

- Is he living beyond his means?
- Profligate spending?
- What are his sources of income?

What are we going to do?

Collect financial data





Net Worth Analysis Steps

1. Identify and catalogue assets
2. Identify and catalogue expenses and liabilities
3. Identify known sources of income
4. Calculate the net worth & unknown source of income amount



Identify and Catalogue Assets



Small PE



1. Identify and catalogue assets

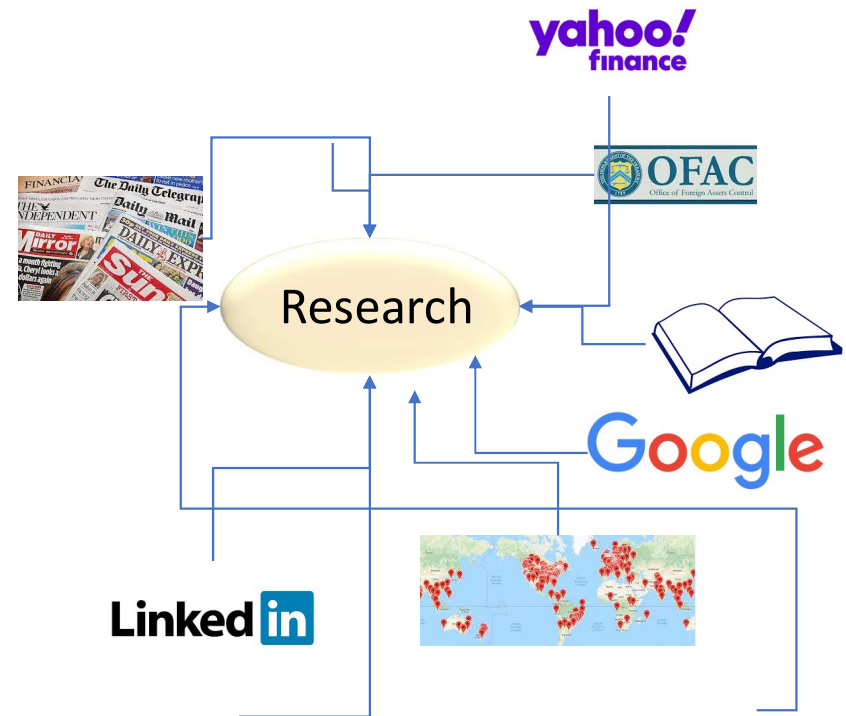
- It is not all about banks...
- Traditional investigative techniques:
 - Interviews/interrogations
 - Surveillance
 - Wire taps
 - Undercover
 - Trash runs
 - LEA/public databases
 - Commercial data aggregators

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



PRECUSORY RESEARCH - EVALUATE SOURCES

- Is the information/data useful?
 - Accurate
 - Current
- Is the source trustworthy?



1. Identify and catalogue assets

Source	Open source	Fourth amendment
Institutions		
Banks		PROTECTED
Financial services		PROTECTED
Insurance companies		PROTECTED
State public institutions	SOME DATA	SOME DATA
Municipal records	SOME DATA	SOME DATA
Federal records		SOME DATA
State tax records		PROTECTED
Federal tax records		PROTECTED
Companies		
Utilities		PROTECTEC
Auto sales		PROTECTEC
Real estate		PROTECTEC
Case relevant companies		PROTECTEC
Accounting firms		PROTECTEC
Attorney offices		PROTECTEC
Information providers		
Commercial data aggregators	LICENSE	
Financial Intelligence Unit		
FinCEN	ACCOUNT	
State FIUs	ACCESS	
Others		
Trash run	DEPENDING ON THE EXPECTATION OF PRIVACY	PROTECTED
Open source (no logging)	ALL DATA	
Open source (logging required)		PROTECTED
Social networks (no logging)	ALL DATA	
Social networks (logging required)		PROTECTED

Financial data collection

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



***Identify and Catalogue Liabilities
and Expenses***



2. Identify and catalogue liabilities & expenses

Source	Open source	Fourth amendment
Institutions		
Banks		PROTECTED
Financial services		PROTECTED
Insurance companies		PROTECTED
State public institutions	SOME DATA	SOME DATA
Municipal records	SOME DATA	SOME DATA
Federal records		SOME DATA
State tax records		PROTECTED
Federal tax records		PROTECTED
Companies		
Utilities		PROTECTEC
Auto sales		PROTECTEC
Real estate		PROTECTEC
Case relevant companies		PROTECTEC
Accounting firms		PROTECTEC
Attorney offices		PROTECTEC
Information providers		
Commercial data aggregators	LICENSE	
Financial Intelligence Unit		
FinCEN	ACCOUNT	
State FIUs	ACCESS	
Others		
Trash run	DEPENDING ON THE EXPECTATION OF PRIVACY	PROTECTED
Open source (no logging)	ALL DATA	
Open source (logging required)		PROTECTED
Social networks (no logging)	ALL DATA	
Social networks (logging required)		PROTECTED

Financial data collection

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

Lifestyle activity detection/observation is important to identify expenses



Identify Source of Income



3. Identify known sources of income

Source	Open source	Fourth amendment
Institutions		
Banks		PROTECTED
Financial services		PROTECTED
Insurance companies	SOME DATA	PROTECTED
State public Institutions	SOME DATA	SOME DATA
Municipal records		SOME DATA
Federal records		PROTECTED
State tax records		PROTECTED
Federal tax records		PROTECTED
Companies		
Utilities		PROTECTED
Auto sales		PROTECTED
Real estate		PROTECTED
Case relevant companies		PROTECTED
Accounting firms		PROTECTED
Attorney offices		PROTECTED
Information providers		
Commercial data aggregators	LICENSE	
Financial Intelligence Unit		
FinCEN	ACCOUNT	
State FIUs	ACCESS	
Others		
Trash run		DEPENDENT ON THE EXPECTATION OF PRIVACY
Open source (no logging)		ALL DATA
Open source (logging required)		ALL DATA
Social networks (no logging)		ALL DATA
Social networks (logging required)		ALL DATA

Sources of funds

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

Primary information sources

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





***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

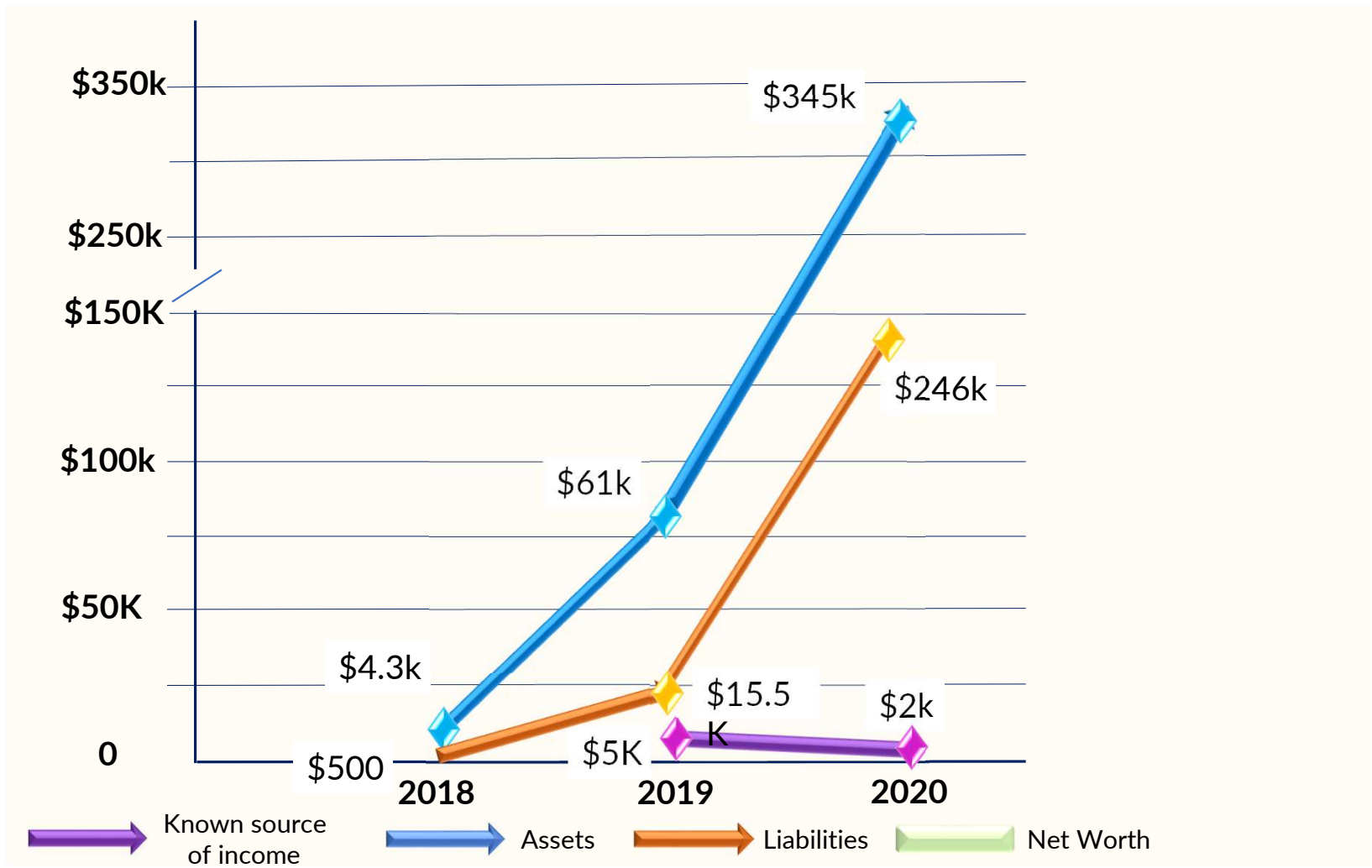
Reasonable suspicion

- Surveillance
- Interviews
- FinCEN data review (CTRs-8300s-SARs)
- Trash runs (poisonous tree issue)
- Public databases
- Commercial databases
- Commercial data aggregators

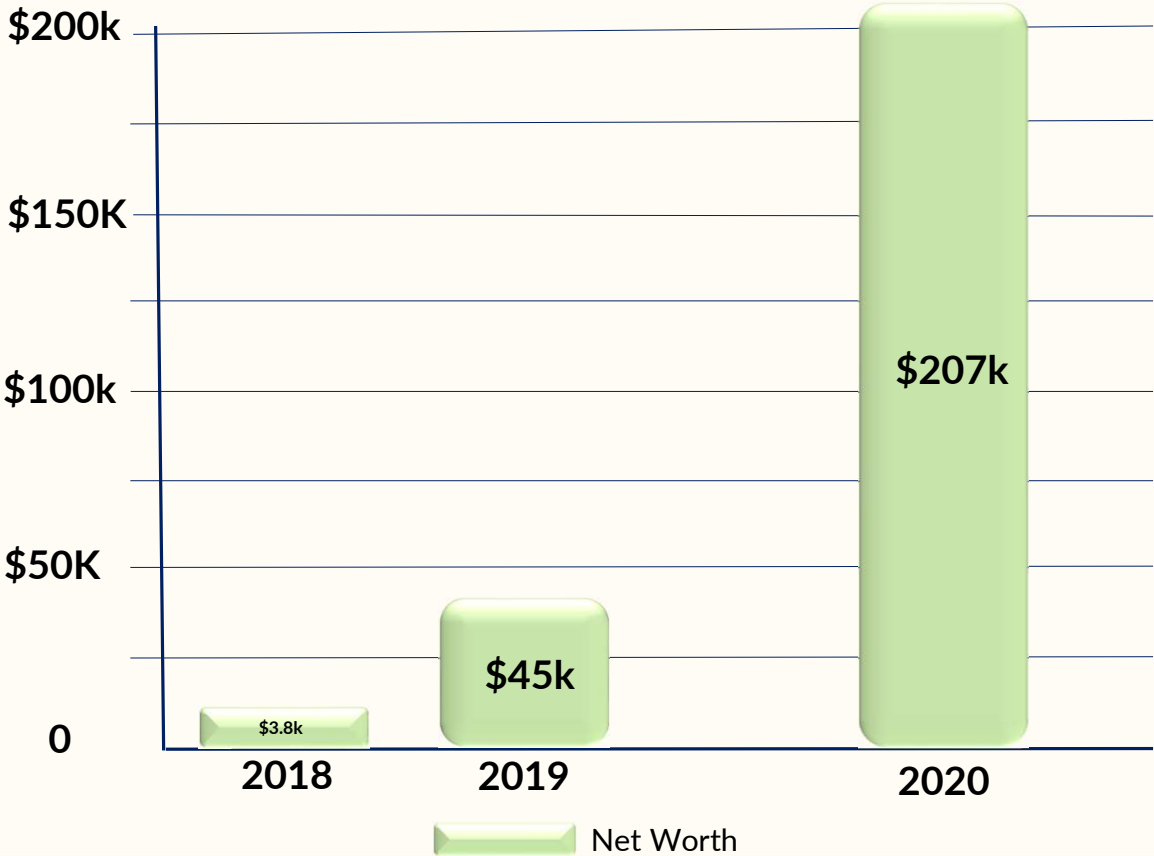
Probable cause (prosecutor support)

- Subpoenas, warrants, seizures, etc.
- Interviews

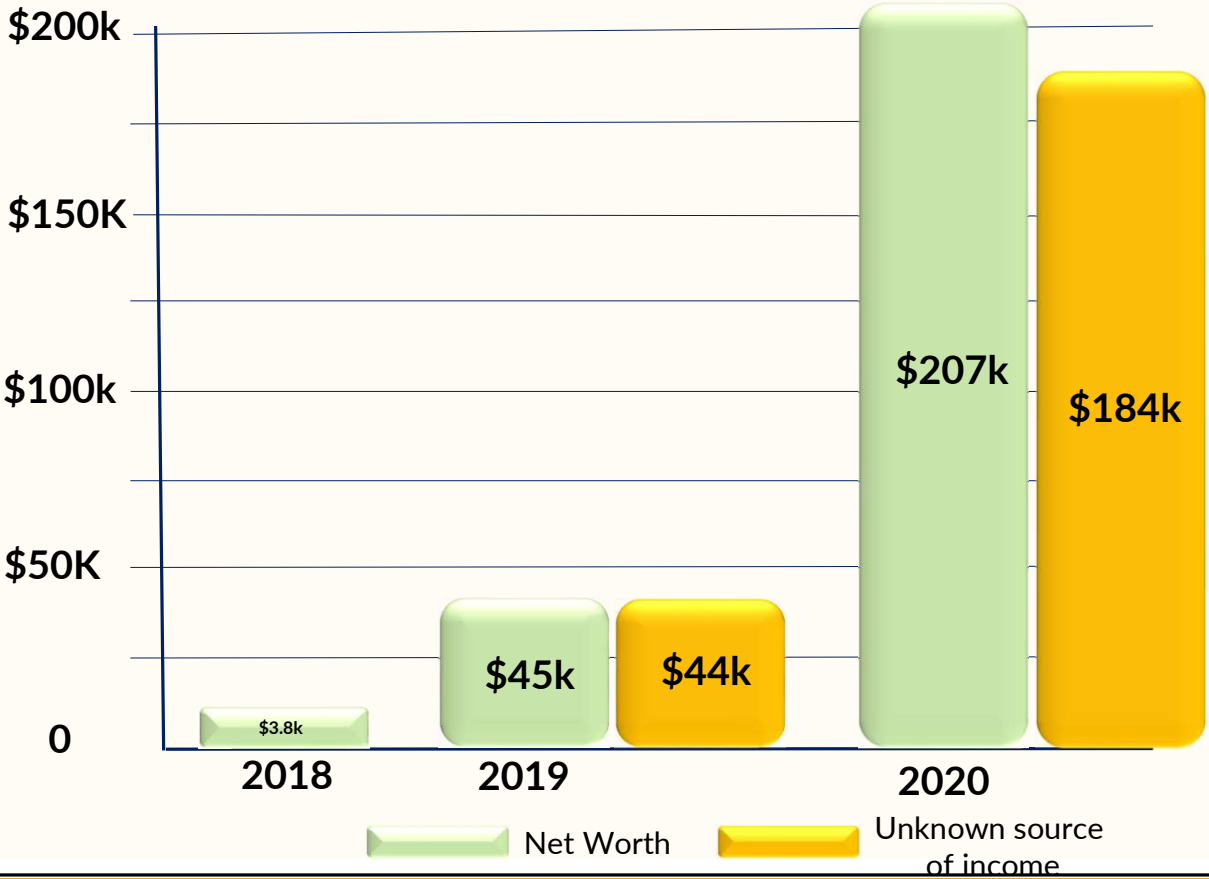




Net Worth & Unknown Source of Funds



Net Worth & Unknown Source of Funds



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?



As an investigator or analyst...

You will:

- Formulate an argument based on net worth analysis that explains that the unknown income is generated by criminal activity
- Support the theory of the case by showing:
 - Motive (profit)
 - Underlying crime (violation/specified unlawful activity)
 - Money laundering
 - Evidence criminal associations
- Anticipate the theory of defense



Defense tactics

You must anticipate:

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



Questions?

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