Michael S. McGarry
Assistant United States Attorney
Deputy Chief
Financial Fraud Public Corruption

Prosecution of Investment Schemes using SAR/BSA
Investment Fraud What is it?

An Investment Scam Offering “Fantastic Returns”
- High Yield Investment Programs
- High Return Loan Programs
- Investment Fund
- Hedge Fund Investments
- Unique Investment Opportunity

Common Features
- Fantastic Returns
- Little or No Risk
- Exclusive – Limited Participation
Common Features (continued)

- Linked to a Humanitarian-Type Project (or newsworthy event)
- \text{SECRET}
- Minimum Investment Amount
  - But, Maybe You Can Pool Your Funds, if You’re Lucky.

Trappings of Legitimacy

- Introduced By Friend or Broker
- Church or Social Network
- Contract With Technical Language
  - Purchase and Sale Agreement
  - Delivery Re-Delivery Agreement
  - Joint Venture Agreement
Trappings of Legitimacy (continued)

- Original Signatures
- Bells and Whistles (i.e., seals)
- Corporations and Other Entities
- Non-Disclosure Non-Circumvention Clauses and Agreements
- Payment Schedule

SHhhh! IT’S A SECRET

- Government will Deny Existence or Limit Participation
- Tax Avoidance Issues
- Can’t (or shouldn’t) do it Domestically
- Special Access = Big Returns
- Limited Time to Participate
Due Diligence On Investors

- Make Investors Provide Passports or Driver Licenses
- Must Pass Background Check
- Must Meet Requirements

The Hook – Bait and Take

- Ponzi Scheme Like Features
- Initial Payments
- Roll it Over – Let it Ride
- Bigger Better Program
The Delay

- Series of Lies
  - Didn’t Get into this Round
  - Trading Held Up Due to World Event
  - Problem with YOUR Background
  - Big Payout Next Month
  - Can’t get Money into US
  - Need IMF Number
  - Going to Europe to Get Payout

Catch Me If You Can

- Proactive Investigation
- Historical Investigation
Proactive

- Victim Cooperation
- Cooperators (Knock and Talk)
- Introduce Undercover Agent
- Recorded Calls (by victims)
- Buy Bust Scenario – Give Warnings

Historical

- Keep It Simple
- Get a Financial Analyst
- Trash Run
- Search
Historical (continued)

- We Follow the Money
- Use MLATs
- Subpoenas, Subpoenas, Subpoenas
  - Bank Records
  - Big Purchases
  - Smaller but Intriguing Purchases (BMWs and Hot Tubs)

Historical (continued)

- Interview Witnesses
  - Case Agent or task force officer Should Participate in a Majority of the Interviews, if Possible
    - What Were the Promises
    - What Were the Requirements
    - What Caused the Delays
    - Get the Details

- Find The Best Victims
  - Who Kept Records
  - Who Remembers the Most
  - Whose Money Went to Buy the BMW?
Historical (continued)

- We Don’t Go it Alone
- Coordinate Share Information
  - Check with Other State Agencies
  - Department of Banking
  - SEC/State Securities Regulators
  - IRS
  - FINRA
  - FBI
- Talk to Civil Attorneys

Historical (continued)

- We Talk to Banks
  - Compliance People
  - Wire room
  - SAR Committees/BSA
  - Tellers
  - Branch Manager
  - Video Surveillance
  - Loan Officers
Preparing Indictment

- Keep It Simple
  - Prove that there was Fraud
  - Prove the Money Didn’t Go where Promised
  - Decide Which Part is Provable

- Carefully Consider Indictment
  - Are Brokers Co-Conspirators
  - Follow the Money
  - Who Lost Money
  - Who Gained Money

Possible Defenses

- It Wasn’t Me
- Zoinks
- I was Duped, too

- I Passed the Money Along
- I Only Took My Commission

- I Thought They were Real
- I Spent the Money Looking for a Real Investment
- They were just Business expenses
Trial

- We Keep It Simple
- We Don’t Disprove All Lies
- We Prove He Didn’t Do What He Said
- We Get Some Engaging Witnesses
- We Might Consider Using an Expert
- We will try to Show Some Opulent Spending

Trial

- Graphics
  - Show the Lies
  - Show the Money Trail
  - Follow the Money
  - Examples of Chart
Warning Signs

- Promised Yields are Too High
  - If a deal looks too good to be true, it probably is. What returns can be expected on normal bank instruments?

- Lack of Logical Transactional Basis
  - It is always difficult to understand the legal and transactional nature of these deals. Are they promissory notes? Letters of credit? From whom? For what?

Warning Signs

- Flawed Documentation
  - What is the documentation which would typically accompany legitimate banking or investment transactions?
  - Why can’t the individual understand or explain the transaction?
Spending of $17 Million Invested with Defendant

Joseph D'Amico $2 million Investment
December 20, 1999

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Pharmacist actually a con man, jury told

**FEARS SAY INVESTORS TAKEN FOR $17 MILLION**

By Mark Schlichtstein

Chattanooga pharmacist Melki K. Sudan was found guilty Monday of 38 counts of conspiracy, fraud and money laundering by a jury in U.S. District Court in New Orleans for running what prosecutors described as a "cosmopolitan international Ponzi scheme" that bilked investors out of more than $17 million.

He faces a maximum penalty of 28 years and a fine of as much as $42 million, though the maximum penalty is usually reserved for defendants with criminal records.

During a recess after the verdict, Sudan composed of those palms and was taken to Chauffeur Hospital, where he is being held overnight for observations.

The jury still must decide whether Sudan will forfeit $17 million to investors who say they were cheated.

**Not for faint hearts**

"If he had gone out to solicit investors and there was no profit, then he ought to go to jail," Castaing said. "But this is what we're talking about," he said showing the jury photographs of the proposed fertilizer plant site, including a water well under construction.

"This was a high-risk investment," Castaing said. "The risk was mainstream, not for the faint of heart.

And if Sudan belongs in court, Castaing said, investor should be setting their differences with him in civil court.

"If Mr. Sudan was a crook, he would have taken $17 million and gone to Europe and stayed there and led a life of a king," he said.

******

Mark Schlichtstein can be reached at meschlichtstein@newspress.com or 504-868-3205.
Expenditure of Investor and Loan Funds

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<th>Name of Fund</th>
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<td>Mississippi</td>
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Total Funds Provided by Investors and Lenders: $1,750,000.32

Other Deposited Funds: $62,828.61

NOTE: Difference between total deposited funds and total expended funds is the negative balance in Account 3431 and the positive balance in Account 1887, which remained when the accounts were closed.

SUMMARY CHART #2

Investor and Loan Fund Expenditures

- Non Mississippi: 69.10%
- Mississippi: 30.82%
- Not yet determined: 0.02%

Total: 100.00%
United States v. Castellano

- Castellano operated various entities out of offices in Wallingford, including Casbo Investments, Wallingford Investors Limited Partnership, AIM Realty Investors, and Castellano & Co., LLC

- As a Certified Public Accountant Castellano established a base of clients to which he offered financial services and investment opportunities.
CASTELLANO falsely represented to victim-investors that he had clients who were in need of capital to fund businesses or real estate development projects, but were unable to secure funding from traditional sources such as financial institutions.

There were no actual investments or investment opportunities, and the money was not invested with or loaned to other clients of CASTELLANO. CASTELLANO diverted the funds for his own use and benefit, including for international travel. He also used some of the invested funds to make phony “interest” payments to other victim-investors.
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**Schedule from Bank records**
Spending Victim Funds

Spending Victim Funds
In the winter of 2012, Mr. Castellano approached our family with a business proposition and urged us to invest in his company which loaned money to other clients. We were informed that the investment would have an estimated return rate of five percent, and that we were able to request the principal investment back with interest at any time.

My wife [ ] met Mr. Castellano at her place of employment [ ], where she began her career in 1978 as an office manager, she was a single mother focused on building a secure future for herself and my stepson [ ].

I was a factory worker and together we worked hard and planned for our future, what some call the “Golden Years.”

“Our entire life savings, all that we worked for, was swindled from us and gone.”
**Victim Impact Statement**

[Joseph Castellano] made us physical, physiology and emotionally sick and we will never be able to put it behind us. It is something we will continue to have nightmares over for the rest of our lives.

We will never be able to forget what you did to this family or to our grandparents.

I hope someday you are made to pay back every cent to every person you robbed and stole from with interest.

**Sentencing**

JOSEPH A. CASTELLANO, 59, of Wallingford, was sentenced yesterday by U.S. District Judge Robert N. Chatigny in Hartford to 68 months of imprisonment, followed by three years of supervised release, for operating an investment scheme that defrauded individuals of more than $1.4 million.
Wallingford man gets 5½ years in prison for defrauding clients of $1.4 million

It started with a business proposition to friends and extended family members that promised a 6 to 8 percent return on investments.

It ended with Joseph Castellano, 59, of Wallingford, defrauding those clients of more than $1.4 million and using the money to pay his credit card bills and take vacations, according to federal prosecutors.

"He went into their homes, shared meals with them, attended their weddings, and built a tremendous level of trust with them," prosecutors wrote in a sentencing memo. "He had prepared their taxes and served as a financial advisor for them for many years."

“Mr. Castellano effectively stole the hard-earned money of people who could ill-afford to lose the money,” United States District Judge Chatigny said prior to imposing the 5 ½ year sentence.
Don’t Forget Forfeiture Allegation

- Take their Stuff
- Crime Doesn’t Pay.

Questions? Comments?

- Thank you for all the work you do and cooperation with our office.
- Any Questions?
- Any Comments?
Michael S. McGarry
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