

## CHAPTER 9

# Conversion Investigation Methods

### LEARNING OBJECTIVES

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After studying this chapter, you should be able to:

- Explain why it is important to find out how perpetrators convert and spend their stolen funds.
- Understand how federal, state, and local public records can assist in following the financial “tracks” of suspected perpetrators.
- Access information via the Internet to assist in the investigation of a suspected fraud perpetrator.
- Perform net worth calculations on suspected fraud perpetrators and understand how net worth calculations are effective in court and in obtaining confessions.

### TO THE STUDENT

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The Phar-Mor case at the beginning of this chapter is a classic fraud case. As you read this case and the rest of the chapter, consider ways in which fraudsters spend the money they embezzle. If you had a seemingly easy source of money, where would you spend it? Where would those you know spend it? How would you as an investigator discover these purchases?

**P**har-Mor, a dry goods retailer based in Youngstown, Ohio, was founded in 1982 by Mickey Monus.<sup>1</sup> Within 10 years, Phar-Mor was operating in nearly every state, with over 300 stores. The retailer's business strategy was to sell household products and prescription drugs at prices lower than other discount stores. Phar-Mor's prices were so low and expanded so rapidly that even Wal-Mart, the king of discount prices, was nervous.

Unfortunately, what appeared to be one of the fastest-growing companies in the United States was actually a massive fraud; the company never made a legitimate profit during the fraud years. Investigators eventually determined that Phar-Mor overstated revenues and profits by over \$500 million. Mickey Monus personally pocketed more than \$500,000.

Monus loved the good life and was often found in the middle of the action. For example, he diverted \$10 million from revenues to prop a now-defunct minor league basketball venture. He also provided a portion of the original funds for the Colorado Rockies baseball team, and he personally assembled the All-American Girls, a professional cheer-leading squad. His stolen money was spent drinking at expensive bars, playing golf at exclusive country clubs, paying off credit card balances, and adding additions to his house. Monus purchased a lavish engagement ring for his fiancée, and at their pool-side wedding at a Ritz-Carlton hotel, his bride wore an 18-karat gold mesh dress worth \$500,000. Monus's spendaholic personality exhibited itself in countless ways. Many times he would walk into the office at 3 p.m. and say, "Let's go to Vegas" —and he meant right then! Once there, a limo would whisk him to Caesars Palace, where a suite awaited him seven days a week, 24 hours a day.

Monus routinely gave employees around \$4,000 to gamble with. As one employee said, "He was at home in the 'world of big bets and make-believe.'" To Monus, life was truly a game.<sup>2</sup>

The Phar-Mor fraud is not the only one where the perpetrators enjoyed "the good life." In another case, a perpetrator who confessed to embezzling \$3.2 million was asked in her deposition the following question:

*How would you describe your lifestyle during the period when the fraud was being perpetrated?*

Her response was:

*Extravagant. I drove expensive, very nice cars. We had an Audi 5000 Quattro, a Maserati Spider convertible, a Jeep Cherokee, and a Rolls-Royce. We bought expensive paintings, art, and glasswork. We held expensive parties, serving steak and lobster. We bought a condominium for my parents. We took cruises and other expensive vacations. And I wore expensive clothes, fur coats, diamonds, and gold jewelry.*

The lifestyles of Mickey Monus and this embezzler were extreme, but they demonstrate a common theme: rarely do perpetrators save what they steal.

### Remember this ...

*With few exceptions, perpetrators spend what they steal. Because of this, looking at spending patterns is a primary investigation technique.*

Although most perpetrators begin their thefts because of a perceived critical need (the perpetrator initially stole the \$3.2 million to repay a debt consolidation loan), they frequently continue to embezzle after their immediate need is met. Rather than saving or investing their stolen money, perpetrators almost always spend it to improve their lifestyles. An important focus in investigations, therefore, involves determining how perpetrators "convert" or spend the stolen funds. As we discussed previously, conversion is the third element of the fraud triangle plus inquiry approach to investigations (see Figure 7.1). Certain frauds, such as kickback schemes, do not generate fraudulent company records; investigating the theft and concealment elements of some frauds is, for practical purposes, impossible. Accordingly, these frauds are most easily detected

and investigated by focusing on lifestyle changes and other conversion attempts. Even when other theft investigation techniques yield fruitful results, conversion investigation should be done to strengthen the case.

Most investigations of conversion involve searching public records and other sources to trace purchases of assets, payments of liabilities, and changes in lifestyle and net worth. When people enter into financial transactions, such as buying assets, they leave tracks or “financial footprints.” Even in the so-called secrecy districts, like some island-based countries, financial footprints can be found because transactions involve many parties, countries, and financial institutions. Cash transactions can limit a person’s financial tracks, but it is usually difficult to use cash for purchase transactions—especially for those involving large sums of money. Further, the popularity of the Internet has made searching much easier than it was in the past. Trained investigators who know how to follow, study, and interpret these tracks, often find valuable evidence that supports allegations of fraud.

## Conversion Searches

Conversion searches are performed for two reasons: (1) to determine the extent of embezzlement and (2) to gather evidence that can be used in interrogations to obtain a confession. The most common technique used to investigate and resolve fraud is by interviewing. An **interview** is a question-and-answer session designed to elicit information. Early in an interview, effective interviewers can often get suspects to admit that their only income is earned income (in other words, a statement by the suspect that he or she has no inherited

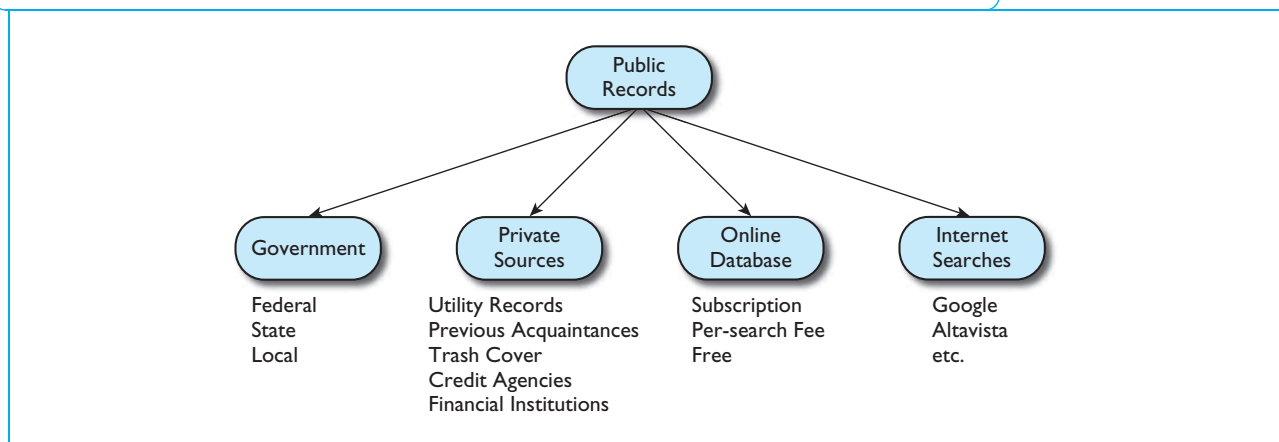
or non-earned income). Then, by introducing evidence of a lifestyle and associated expenditures that cannot be supported by the suspect’s earned income, interviewers make it difficult for the suspect to explain the source of the unknown income. Cornered suspects sometimes break down and confess. Interviewing will be discussed in further detail in Chapter 10.

To become proficient at conversion investigations, fraud examiners need to understand that information can be gleaned from (1) federal, state, and local agencies and other organizations that maintain information that can be accessed in searches; (2) private sources of information; (3) online sources of information; and (4) using the net worth method of analyzing spending information, which is especially helpful in determining probable amounts of embezzled funds. Figure 9.1 provides a breakdown of the information sources relevant to investigators.

The advent of a large number of online resources has made conversion investigation activities much more efficient than they used to be. However, the large number of resources now available can be daunting and even overwhelming. Keeping up to date on the resources available, paired with careful planning and execution of investigative tasks, is key to an efficient, effective search. The following Web sites provide overview information on how to investigate and conduct searches:

1. **HowToInvestigate.com:** [www.howtoinvestigate.com](http://www.howtoinvestigate.com)  
This site gives information on how to conduct an investigation.
2. **Investigative Resources International:** [www.factfind.com](http://www.factfind.com)  
Investigative Resources International gives information on public and open source records and corporate records.

**FIGURE 9.1 INFORMATION SOURCES FOR CONVERSION SEARCHES**



3. **Legal Resource Center:** [www.crimelynx.com](http://www.crimelynx.com) The Legal Resource Center gives numerous government links, criminal justice statistics, record searches, and other valuable information.

### Remember this ...

*Conversion searches are performed for two reasons: (1) to determine the extent of embezzlement and (2) to gather evidence that can be used in interrogations to obtain a confession.*

## Government Sources of Information

Many federal, state, and local agencies maintain public records in accordance with various laws. Much of this information can be accessed by anyone who requests it, but some of it is protected under privacy laws that prevent disclosure to the public. Federal records are generally not as useful as state and local records in fraud investigations, but they are helpful in certain situations. Because of the bureaucracies involved, accessing federal records can be time-consuming and costly.

### Federal Sources

Most federal agencies maintain information that can be helpful in fraud investigations. Several, but not all, of these agencies are described in this section.

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**STOP & THINK** *Why are state and local sources of information generally more useful than federal sources of information?*

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### Department of Defense

The Department of Defense maintains records on all military personnel, both active and inactive. Military information is maintained by branch of service. This department also contains information on individuals who may be a threat to national security. The department regularly shares information with other federal agencies, such as the Federal Bureau of Investigation (FBI) and the Central Intelligence Agency (CIA).

Military records are not confidential and provide valuable information that can help you trace a person's whereabouts through changing addresses. Military records are also helpful in searching for hidden assets, because individuals often buy property and other assets

using previous addresses. The Web site of the U.S. Department of Defense is [www.defense.gov](http://www.defense.gov).

### Department of Justice

The Department of Justice is the federal agency charged with enforcing federal criminal and civil laws. It maintains records related to the detection, prosecution, and rehabilitation of offenders. The Department of Justice includes U.S. attorneys, U.S. marshals, and the FBI. The Drug Enforcement Administration (DEA) is a component of the Department of Justice and is responsible for enforcing the controlled substances laws and regulations, including drug trafficking.

The FBI is the principal investigative agency of the Department of Justice. Criminal matters not assigned to other U.S. agencies are assigned to the FBI. For example, the FBI normally investigates bank fraud, organized crime, terrorism, and illegal drug trade. The FBI is responsible for national security within U.S. borders.

The FBI maintains several databases and other records that can be accessed by state and local law enforcement agencies. The major database maintained by the FBI is the **National Crime Information Center (NCIC)**. The NCIC contains information on stolen vehicles, license plates, securities, boats, and planes; stolen and missing firearms; missing persons; and individuals who are wanted on outstanding warrants. The FBI also maintains the **Interstate Identification Index (III)**, which is an outgrowth of the NCIC and benefits state and local law enforcement agencies. The III retains arrest and criminal records on a nationwide basis.

Some states maintain databases for their states similar to the one maintained by the NCIC. To gain access to all databases, you must present identifying information, such as your birth date or Social Security number (SSN). These databases are not generally available to private investigators. Involving local law enforcement in a fraud investigation is one way to obtain access to these databases. The Web site for the U.S. Department of Justice is [www.justice.gov](http://www.justice.gov).

### Federal Bureau of Prisons

This agency operates the nationwide system of federal prisons, correctional institutions, and community treatment facilities. The Bureau is responsible for maintaining records on those who have been detained in various facilities. Since fraud perpetrators are often repeat offenders, information on previous incarcerations can often provide important evidence. The Web site of the Federal Bureau of Prisons is [www.bop.gov](http://www.bop.gov).

### ***Internal Revenue Service***

The Internal Revenue Service (IRS) enforces all internal revenue laws, except those dealing with alcohol, firearms, tobacco, and explosives, which are handled by the Bureau of Alcohol, Tobacco, and Firearms. IRS records are not available to the public, so access to its databases normally requires the involvement of law enforcement officials. The Web site of the Internal Revenue Service is [www.irs.gov](http://www.irs.gov).

### ***Secret Service***

The Secret Service is part of the Department of Homeland Security and is responsible for protecting the president of the United States and other federal dignitaries. However, many investigators do not know that the Secret Service also investigates counterfeiting, theft of government checks, interstate credit card violations, and some computer crimes. The Web site of the Secret Service is [www.secretservice.gov](http://www.secretservice.gov).

### ***U.S. Postal Service***

The U.S. Postal Service is a quasi-governmental organization that is responsible for U.S. mail and for protecting citizens from loss through mail. **Postal inspectors** are some of the best and most helpful federal investigators. They handle major fraud cases involving the use of mail, and they work for the prosecution of offenders who violate postal laws. Postal inspectors share jurisdiction with other federal, state, and local agencies.

Postal inspectors can be very helpful in investigations of employee fraud, investment scams, or management frauds. Perpetrating a fraud in the United States is difficult without using the mail system. For example, bribes and kickbacks and false advertisements are often made through the mail, and stolen checks and funds are often deposited into banks by sending them through the mail. Because the use of mail is so common in frauds, the federal mail statutes are the workhorse statutes in federal crimes. You should become familiar with mail fraud statutes and your local postal inspectors as these sources are often very helpful in all kinds of fraud investigations. The Web site of the U.S. Postal Inspection Service is <https://postalinspectors.uspis.gov/>.

### ***Central Intelligence Agency***

The CIA is accountable to the president of the United States. It investigates security matters outside the United States, whereas the FBI has jurisdiction for security within the United States. The CIA can provide

useful information when cases involve international issues like money laundering in the Cayman Islands or other secrecy jurisdictions. The Web site of the CIA is [www.cia.gov](http://www.cia.gov).

### ***Social Security Administration***

The Social Security Administration (SSA) has information about individuals' SSNs. This agency can be helpful in identifying the area where a perpetrator was residing when a SSN was issued. Because every SSN contains information about the area (first three digits), the group (middle two digits), and the person's serial number (last four digits), Social Security information is extremely useful in fraud investigations. Once an individual's unique SSN is known, numerous federal, state, local, and private records can be accessed. In addition, many private sources, like credit agencies or "people finder" Web sites, are significantly more useful when searched with SSNs.

The government publishes lists of "dead" SSNs each month. The lists include SSNs for individuals who have died; these numbers are sometimes used by spouses, family, or illegal aliens to continue to receive benefits or to create bogus Social Security cards. For a small fee, companies can subscribe to this list and get the monthly updates. The Web site of the SSA is [www.ssa.gov](http://www.ssa.gov).

### ***Other Federal Sources of Information***

Many other federal sources of information are available. The ones discussed previously indicate the range and variety in the types of records available. For additional federal sources, see the U.S. Federal Government Agencies Directory at [www.lib.lsu.edu/gov/](http://www.lib.lsu.edu/gov/) or [www.usa.gov](http://www.usa.gov).

### ***State Sources of Information***

State resources are often very helpful in fraud investigations. Several, but not all, of these are listed in the following section.

#### ***State Attorney General***

The attorney general for each state enforces all state, civil, and criminal laws in cooperation with local law enforcement agencies. Most state attorneys generally have investigative arms (similar to the FBI for the Department of Justice), such as the State Bureau of Investigation. This agency contains records relating to individuals who have been convicted of a breach of state civil and criminal laws. Visit the National Association of Attorneys General's (NAAG) Web site at [www.naag.org](http://www.naag.org).

### **State Prisons**

The Federal Bureau of Prisons also maintains the network of state prisons and administers state corrections departments. It maintains records on all individuals who have been incarcerated in state prison systems, as well as on individuals who are on probation or parole. State prison records are available on the Federal Bureau of Prison's Web site by searching using the Facility Locator at [www.bop.gov/DataSource/execute/dsFacilityLoc?fl\\_StartSearch=reset](http://www.bop.gov/DataSource/execute/dsFacilityLoc?fl_StartSearch=reset).

### **Secretary of State**

The Secretary of State maintains all types of records relating to businesses and Uniform Commercial Code (UCC) filings. Every corporation must file documents in the state in which it was chartered. These documents, which are usually maintained by the office of the Secretary of State, reveal incorporators, bylaws, articles of incorporation, the registered agent, and the initial board of directors and officers. These records are public information and can be beneficial in gathering information about organizations that are perpetrating fraud. They can confirm whether an organization is legally conducting business and whether its taxes have been paid. They can also provide names of partners, principal shareholders, board members, and business affiliations. This information allows for the tracing of assets, establishing conflicts of interest, identifying dummy companies, and determining changes in financial status.

Secretary of State offices usually maintain UCC filings. These filings contain information about chattel mortgages (non-real estate transactions) and loans to individuals or businesses on equipment, furniture, automobiles, and other personal property. UCC records can identify collateral on purchased and leased assets, the nature of the lending company, where a person banks, and whether the person has a need for money. UCC records are sometimes available in a county clerk's office (depending on the state). Much of the information maintained by a Secretary of State's office concerning businesses and UCC filings is online at the National Association of Secretaries of State (NASS) at [www.nass.org](http://www.nass.org).

### **Department of Motor Vehicles**

Driver's license records are maintained by the Department of Motor Vehicles (DMV) and are publicly available in most states. These records enable you to access a person's driving history, address, convictions for traffic violations, name, date of birth, address of birth, and

photograph. Driver's license records may be a source of a person's SSN. In addition, driver's license numbers are used for identification in many transactions, such as those involving written checks. Every state has its own unique Web site. For example, view the state of California's DMV site at [www.dmv.ca.gov/](http://www.dmv.ca.gov/).

### **Department of Vital Statistics**

This department maintains birth records. These records, although quite difficult to obtain and often for a fee, contain information about a person's birth date, place of birth, and biological parents. Since many people have an affinity for the places in which they grew up, local records in these areas may provide useful information. For example, a perpetrator might convert stolen money by purchasing private land or funding public projects in the area in which they grew up. In addition, individuals who know important information about a perpetrator may live near the person's birthplace. Many states have a Web site to locate vital records. See the state of Ohio's vital records at [www.odh.ohio.gov/vitalstatistics/vitalstats.aspx](http://www.odh.ohio.gov/vitalstatistics/vitalstats.aspx).

### **Department of Business Regulation**

Most states have a department of business regulation or a similar agency that maintains licensing information about various professionals. Licensing information is generally maintained on accountants, attorneys, bankers, doctors, electricians, plumbers, contractors, engineers, nurses, police officers, firefighters, insurance agents, bail bondsmen, real estate agents, security guards, stockbrokers, investment bankers, teachers, servers (food handler's permit), and travel agents, among others.

Licensing information that helps you access industry guidelines also leads you to an individual's memberships, specializations, current business addresses, history of business complaints, grievances, charges, investigations, and professional credentials.

As an example of how helpful this information can be, suppose you are investigating a fraud similar to the Elgin Aircraft example in Chapter 5, in which dummy doctors are set up. A quick check with the Department of Business Regulation in the relevant state will disclose whether the doctors being paid are legitimate.

### **County and Local Records**

Counties and other local agencies maintain records that are especially useful in fraud investigations. The detailed nature of these records makes them very valuable; however, the availability of these records varies

from state to state and from county to county. Below are some examples of county records that are kept.

### **County Clerk**

County clerks maintain numerous records on local citizens, including voter registration records and marriage licenses. Marriage and voting records are always useful in fraud investigations. Voter registration records, for example, list a person's name, current address, past addresses, age, date of birth, SSN, signature, and telephone number, whether listed or unlisted. Even if a person has not voted, his or her family members (such as son, daughter, and spouse) may have voted; thus, voter registration records still provide valuable information.

Marriage records are maintained in the county clerk's office in the county of residence at the time of marriage. They often list the full legal names of the couple, their dates of birth, their SSNs, their addresses at the time of marriage (and sometimes their parents' addresses as well), driver's license numbers, passport numbers, prior marriages, and the witnesses to those marriages. Once this information has been obtained, further searches in online and other databases are much more productive.

### **County Land Office and Tax Assessor's Office**

These offices contain real estate records for land located in the county. There are two common ways to trace real estate records. First, land ownership is normally found in the county land office or in the office of the recorder of deeds. County land office records identify owned assets, indebtedness, mortgage holders, trustees or straw buyers, and people who knew a person before and after a sale. Second, property tax records, maintained by the county assessor's office, also contain property records. Property records may be indexed by address or legal description or by the owner's name, or they may be indexed by the name of the seller or the buyer. Property tax records contain information about a property's legal description and current assessed value and the taxpayer's current status. These records are helpful in identifying assets purchased and liens removed by a perpetrator.

### **County Sheriff and Other Officers**

Offices such as that of the city police, the county constable, probation officers, and bail bondsmen contain information about criminal charges, indictment statements, pretrial information reports, conviction statements, incarceration information, and probation information. Since many fraud perpetrators are repeat offenders, these sources may have information on past embezzlements.

### **Local Courts**

Various local courts maintain records on past law violators, including pretrial information like personal history, employment history, personal and physical information, prior charges, divorces and property settlement agreements, personal injury lawsuits, financial claims and litigation, fraud claims and co-conspirators, bankruptcies, wills, and probates. Bankruptcy information, which can also be found at various online Web sites such as [www.bankruptcyinformation.com](http://www.bankruptcyinformation.com), includes the current status of bankruptcy cases, creditor lists, debts, assets, and information on character. These records can show how assets might be hidden. Information about wills and probates helps identify the assets (and sources of the assets) of perpetrators. Many perpetrators often justify their extravagant lifestyles by claiming to have inherited money. Such claims can be validated or dismissed from information contained in wills and probate.

### **Permit Departments**

Permit departments supply information on fire permits (hazardous chemicals), health permits (pollutants), elevator permits, and building permits. Permit-issuing departments can be helpful in identifying the nature and location of businesses, new leases, and recent construction.

## **Private Sources of Information**

Hundreds of sources of private information are available to those willing to search for them. Utility records (gas, electric, water, garbage, and sewer), for example, supply the names of people billed, show whether or not a person lives or owns property in the service area, and identify the types of utilities a business uses.

Another way to gain financial information is through previous acquaintances. For example, a former spouse of a suspected fraud perpetrator may have documents—including bank documents—that turn out to be key in investigations.

A surprising source of valuable financial information is trash cover. **Trashing** a suspect involves looking through a person's trash for possible evidence. Note that searching trash while it is in the possession of a person is against the law. However, once the trash leaves the suspect's home, sidewalk, or fenced area, investigators can usually freely and legally search the trash. The U.S. Supreme Court case of *California vs. Greenwood* in 1988 stated that the Fourth Amendment does not prohibit the warrantless search and seizure of garbage left for collection outside the curtilage of a

home. In the first months of the year, these searches can uncover valuable tax information. During all times of the year, it is possible to find credit card information, bank statements, and other valuable information.

Even shredded documents are not as safe as they were once assumed to be. A cursory search of the Internet reveals a number of software products that specialize in piecing shredded documents back together. After scanning in the remains of the documents, the user simply waits for the software to fit the puzzle back together. Some law enforcement agencies even employ specialists in manually reassembling shredded documents.

Finally, since most documents are now stored on computers, original files are often found on one's personal computer. While users might religiously destroy hard copies of documents, they often fail to do the same on their computers. Investigators often find significant sources of evidence in e-mail and other files on seized computers. See Chapter 7 for more information on these types of computer forensics.

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**CAUTION** *Even though information may be available, be sure you have the legal rights to gather and use the information. Laws, especially those dealing with the Internet, are still changing and evolving. Going into legal gray areas may jeopardize your case.*

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Various credit-reporting companies maintain private credit records on both individuals and organizations. Reporting agencies are of two types: (1) file-based credit-reporting agencies, which develop information from their credit files, and (2) public records and investigative agencies, which gather most of their information through interviews. Credit bureaus are used primarily by retail organizations.

Credit-reporting companies typically maintain the following information:

- *Consumer information, such as addresses, ages, family members, and incomes*
- *Account information, such as payment schedules, items purchased, and buying habits*
- *Marketing information, such as customer breakdowns by age, sex, and income levels*
- *Information on current and former employees*

Information maintained by credit-reporting agencies is governed by the Fair Credit Reporting Act (FCRA) of 1971. This act regulates activities of credit, insurance, and employment investigations. Under the law, a consumer-reporting agency must, on request, furnish information to an individual that is also

furnished to a third party. If adverse action is to be taken against an employee as a result of third-party information, the employee must be given advance notice. The three major credit-reporting agencies are as follows:

- *Experian, [www.experian.com](http://www.experian.com)*
- *Equifax, [www.equifax.com](http://www.equifax.com)*
- *TransUnion, [www.transunion.com](http://www.transunion.com)*

In 2003, the Fair and Accurate Credit Transactions Act added new sections to the FCRA regarding information sharing and privacy and new consumer rights to disclosure. It also restricted individual states from adopting stronger laws than the Federal acts.

Financial institution records (including banks, brokerage, and insurance companies) are essential elements of investigations. Bank records can be obtained through a court subpoena, search warrants, a civil summons, or civil discovery. Financial institutions often sell the rights to search and retrieve records from their databases.

Until 1999, when the **Gramm-Leach-Bliley Act** was passed, investigators could only gain information from a financial institution by using false pretenses. Using false pretenses is illegal under the new act, but it does allow banks and other financial institutions to share customer information with anyone they want, including selling it to database companies. Before financial institutions can sell or disclose confidential customer information, they must provide customers the opportunity to “opt out” of information sharing; that keeps their information private. However, most people do not provide written notice to the bank denying the bank the right to sell their personal bank information (**opting out**), so bank information is more readily available than ever before. Many Internet sites, for a fee, provide information such as bank account number, bank name, bank address, approximate account balance, city and state of the bank, withdrawals, deposits, savings, wire transfers, full transactions of the bank accounts, credits, collateral records, debits, transactions of loans, bankruptcies, transaction details, and outstanding loans.

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**STOP & THINK** *The Gramm-Leach-Bliley Act protects against the use of false pretenses. In what ways did this act have positive investigative consequences?*

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## Online Databases

An increasing number of online, commercial databases provide helpful information. Databases may be subscription-based, have a per-use fee, or allow

unlimited free searching. Some databases overlap one another, but most contain unique information that may be useful to a case. For example, most investigators consider searching through Accurint, AutoTrackXP (ChoicePoint), and other record Web sites to be standard practice in cases. In recent years, a significant amount of consolidation among the largest players has occurred (such as LexisNexis' parent company purchasing ChoicePoint and many related products in 2008). Despite single players gaining more information through this consolidation, it is wise to search multiple sources. Information on one person may be in one database, while information on another person may be in other databases. Many of these databases contain information on bankruptcy, court records, real estate, tax lien, UCC filing, and other important financial information. Some of the most valuable Web sites of commercial and/or public databases, along with a brief description of the type of information available on each, are listed here in alphabetical order.

Please note that due to the dynamic nature of the Internet, while these sites are current at publication time they may change over time.

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**STOP & THINK** *This book lists only a few of the many resources available online. What other sources do you know about or can you find through searching?*

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**Accurint:** *www.accurint.com* Accurint contains information about individuals from banking, human resources, government, law enforcement, legal, and media sources.

**AutoTrackXP:** *atxp.choicepoint.com* AutoTrackXP, now owned by ChoicePoint, contains billions of records about individuals, including property records, bankruptcies, links to other people, and so forth.

**Black Book Online:** *www.blackbookonline.com* Black Book Online provides searches on bankruptcies, mail drops, corporations, real estate, businesses, death records, state records, federal records, and other valuable information.

**BRB Publications, Inc.:** *www.brbpub.com* BRB Publications is a public records research library that offers access to records of over 26,000 government agencies. It also has links to 3,500 record vendors.

**ChoicePoint:** *www.lexisnexis.com/risk/* ChoicePoint, now part of LexisNexis' risk group, contains billions of records about individuals and businesses.

**Confi-Chek Online Public Records:** *www.confichek.com* For a fee, Confi-Chek conducts background checks and asset identifications and searches for criminal records. Information on personal real property, bankruptcy, tax liens, civil judgments, and criminal records can be obtained here.

**Data Quick:** *www.dataquick.com* These databases contain property profiles, mortgage information, asset ownership information, and other valuable information.

**Dialog:** *www.dialog.com* Dialog's databases contain over 15 terabytes of content from the world's major publishers. Content areas include business, science, technology, media, news, property, law, government, and more. Dialog is now owned by ProQuest.

**Discreet Research:** *www.discreetresearch.com* Discreet Research offers an extensive line of public records, including business reports, telephone searches, pre-employment information, motor vehicle records, license verifications, county criminal records, metro criminal records, state criminal records, outstanding warrants, prison records, civil records, and other valuable information.

**Dun & Bradstreet:** *www.dnb.com* (also see *www.zapdata.com*) The Dun & Bradstreet databases contain information on over 140 million business records. Dun & Bradstreet also publishes several directories that provide background and financial information on businesses.

**EBSCO Publishing:** *www.ebscohost.com* This site contains many large databases that include full-text periodicals, scholarly journals, U.S. and international newspapers, reference books, and even detailed pamphlets.

**Harte-Hanks:** *www.hartehanksmi.com* Harte-Hanks's databases track technology installations, business demographics, and key decision makers at more than 4 million locations.

**IRBsearch LLC:** *www.irbsearch.com* IRBsearch is a database that helps researchers connect individuals. It allows searching by name, address, SSN, or phone number. Results include current and past addresses with links to possible relatives, possible associates, and neighbors along with their addresses and phone numbers.

**KnowX:** *www.knowx.com* One of the most comprehensive databases available, KnowX can help users find out where a former tenant lives, what

business name is being used, whether a potential employer is involved in any lawsuits, and what assets an employee has. KnowX is now a LexisNexis company.

**LexisNexis:** [www.lexisnexis.com](http://www.lexisnexis.com) LexisNexis provides access to thousands of worldwide newspapers, magazines, trade journals, industry newsletters, tax and accounting information, financial data, public records, legislation records, and data on companies and executives. Through a series of purchases by both LexisNexis and its parent company, it has become one of the definitive sources of information available.

**Merlin Information Services:** [www.merlin-data.com](http://www.merlin-data.com) Merlin includes public record and skiptracing databases.

**National Driver Register:** [www.nhtsa.gov](http://www.nhtsa.gov) The National Driver Register is a computerized database of information on drivers who have had their licenses revoked or suspended, or who have been convicted of serious traffic violations, such as driving while impaired by alcohol or drugs.

**NETROnline:** [www.netronline.com](http://www.netronline.com) NETROnline is an information portal to official state Web sites and tax assessors' and recorders' offices that have developed Web sites for retrieving public records. The public records include copies of deeds, parcel maps, GIS maps, tax data, ownership information and indexes, and other information.

**ProQuest:** [www.proquest.com](http://www.proquest.com) ProQuest provides access to thousands of current periodicals, as well as out-of-print and rare books, dissertations, newspapers, and other valuable information.

**PublicData:** [www.publicdata.com](http://www.publicdata.com) PublicData is an online database containing criminal, sex offender, driver's license, license plate, civil court, and voter information from most states.

**Public Record Finder:** [www.publicrecordfinder.com](http://www.publicrecordfinder.com) This Web site lists over 6,000 links to government sites that offer free searches of public records.

**Public Records:** [www.docusearch.com/free.html](http://www.docusearch.com/free.html) Public Records is a detailed collection of 300 links to databases containing public information.

**SearchSystems:** <http://publicrecords.searchsystems.net> SearchSystems claims to be the largest collection of free public records databases on the Internet.

**SEC's EDGAR Database:** [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml) This database is useful for investigating companies.

The Web site offers free access to financial information on all public companies.

**Social Security Death Index:** [www.ancestry.com/search/db.aspx?dbid=3693](http://www.ancestry.com/search/db.aspx?dbid=3693) Go to this site to access information provided by the SSA from 1875 to the most previous year. With a fee-based subscription, more current lists (as of last month) can also be downloaded directly from the government.

**TransUnion Background Data Solutions:** [www.transunion.com](http://www.transunion.com) Instant online reports, including credit reports, Social Security checks, criminal investigations, and eviction and rental histories.

**US Search:** [www.ussearch.com](http://www.ussearch.com) US Search offers instant people searches, background checks, and instant civil and criminal court record searches. A free online credit report is available.

**USA Records Search:** [www.usarecordsearch.com](http://www.usarecordsearch.com) This site offers background searches on people, including background checks, VIN car searches, employment screening, business credit reports, and more.

**Web Detective:** [www.freeality.com/webdetective.htm](http://www.freeality.com/webdetective.htm) Public record checks for people and business for both U.S. and Canadian residents.

## Internet Search

The publicly available Internet is an increasingly valuable source of information. While search engines like Google, AltaVista, and Yahoo! do not search internal databases like AutoTrackXP or LexisNexis, they index a significant amount of the public Web. Results usually include media hits, corporate Web sites, and other public sites. The fact that public search results usually contain a surprising amount of information about an individual is evidenced by the increasing use of phrases such as "I googled Joe Brown on the 'Net' and found ..." As an example of the depth a search engine can provide, we discuss several advanced techniques available on Google; many of these techniques are available on other search engines as well.

- **Search by phrase:** Including words in quotation marks (e.g., "Bill Clinton" rather than Bill Clinton) forces results to have an exact phrase. An exact phrase is made up of words immediately next to each other rather than simply on the page together. This can be extremely useful when searching for the exact name of a perpetrator. One technique that generally provides effective results is to include the

person's name in quotes followed by something specific about the person, such as a business name, city, or other information that limits results to your subject.

- **Minus search terms:** If your initial search contains a significant amount of unwanted results, filter out pages you don't want by placing a minus sign before unique terms found on the unwanted pages. For example, a search for "Paul Allen" alone yields many hits for the Microsoft cofounder. A search for "Paul Allen" -microsoft shows results for other Paul Allens on the Internet.
- **Domain restrictions:** Google allows a search to be targeted at a specific domain ending. For example, if your subject is likely to be found on German Web sites, searching for "Subject Name" site:de will limit results to those with domain names ending in ".de" (Germany). A full listing of country codes can be found at [www.iana.org/cctld/cctld-whois.htm](http://www.iana.org/cctld/cctld-whois.htm). Domain restrictions can also limit results to a single Web site, such as Windows Update site: microsoft.com, to search for information on Windows Update only within Microsoft's Web site.
- **Google groups:** Google has indexed the last 20 years of the Usenet archives, a group discussion forum that predates the World Wide Web by many years. This repository is entirely separate from the regular Google search engine and the Web. If a subject has been involved in online discussions (or has been the subject of online discussions), Google Groups is the best place to search. The URL for this service is [groups.google.com](http://groups.google.com). As a side note, Google Groups can be an extremely useful source of solutions to both technical and nontechnical topics.
- **Cached results:** Google provides a "cached" link following most search results that links to a cached version of the result page on Google's site. In effect, Google has cached much of the publicly accessible Web! The cached versions of pages are useful when sites are temporarily inaccessible or no longer available. A similar service, the Internet Archive ([www.archive.org](http://www.archive.org)), provides saved copies of previous versions of Web sites.
- **Google News:** The Google News service is limited in its usefulness because it indexes only the last 30 days of news articles available on the Web. This is a significant difference from LexisNexis, which provides a historical repository of news articles found both on and off the Web.

- **Google Images:** This service provides a search of images published on the Internet. These images can be useful when looking for pictures of a suspect with other individuals or activities in which the suspect might be involved.
- **Google Earth:** This and other services like it have become increasingly useful in investigations. Because Google Earth shows satellite pictures of most of the Earth, it is useful to quickly learn about businesses and homes in a case. In one case, for example, Google Earth revealed pictures of a home (with a pool and large yard) built on a location where a public building was supposed to be built using public funds.

To become fully conversant with the methods of your favorite search engine, pick up a book like *Google Hacks* from O'Reilly Publishers.

## The Net Worth Method

Once investigators compile information about spending and lifestyle from public records and other sources, they usually want to determine the extent of the stolen funds. The most common way to make such determinations is through net worth calculations. Essentially, the **net worth method** uses the following formula, which is based on a person's assets (things owned), liabilities (debts), living expenses, and income.

The Net Worth Calculation

1. Assets – Liabilities = Net Worth
2. Net Worth – Prior Year's Net Worth = Net Worth Increase
3. Net Worth Increase + Living Expenses = Income
4. Income – Funds from Known Sources = Funds from Unknown Sources

From public records and other sources, investigators determine an individual's purchases of real estate, automobiles, and other assets. Such records also state whether liens have been removed, thus identifying whether loans have been paid. Combining public sources information with information collected from interviews of landscapers, furniture and automobile dealers, and other relevant parties, and with information gathered through subpoenas provides a reasonably accurate accounting of assets and liabilities.

When people have income, they either purchase additional assets, pay off liabilities, or improve their lifestyles, thus increasing living expenses. Known income subtracted from unknown income gives a reasonable

estimate of unknown funds. Verifying or eliminating other sources of funds (such as inheritances, gambling winnings, and gifts) gives a good estimate of the amount of stolen funds.

**STOP & THINK** *What is the best time during an investigation to calculate the net worth method on a subject?*

The net worth method for determining amounts embezzled has gained favor among fraud investigators in recent years. The FBI regularly uses this method, as does the DEA, which uses it to determine whether suspected narcotics traffickers have income from illegal drug sales. The IRS uses it to estimate unreported income in tax fraud cases. Because only assets and reductions in liabilities that can be discovered enter into the calculation, net worth calculations tend to give a conservative estimate of stolen funds. Unfortunately, embezzlers typically spend increasing amounts on food, jewelry, vacations, and other luxuries that are difficult to track and cannot be factored into net worth calculations. However, because these calculations are conservative, the amounts determined to be stolen are usually readily accepted as evidence by courts. They also often facilitate obtaining confessions from suspects. An effective and often fruitful way to interrogate suspects is to present accurate information regarding their expenditures and lifestyle that they cannot justify from their income. When asked where the additional income came from, suspects often cannot quickly think of explanations that account for the large amounts of money; cornered without excuses, they often confess.

To illustrate the net worth method, reconsider the following example that was described in a case at the end of Chapter 2:

*Helen Weeks has worked for Bonne Consulting Group (BCG) as the executive secretary in the administrative department for nearly 10 years. Her apparent integrity and dedication to her work has quickly earned her a reputation as an outstanding employee and has resulted in increased responsibilities. Her present responsibilities include making arrangements for outside feasibility studies, maintaining client files, working with outside marketing consultants, initiating the payment process, and notifying the accounting department of all openings or closings of vendor accounts.*

*During Helen's first five years of employment, BCG subcontracted all of its feasibility and marketing studies through Jackson & Co. This relationship was subsequently terminated because Jackson & Co. merged with a larger,*

*more expensive consulting group. At the time of termination, Helen and her supervisor were forced to select a new firm to conduct BCG's market research. However, Helen never informed the accounting department that the Jackson & Co. account had been closed.*

*Since her supervisor allowed Helen to sign the payment voucher for services rendered, Helen was able to continue to process checks made payable to Jackson's account. Because her supervisor completely trusted her, he allowed her to sign for all voucher payments less than \$10,000. The accounting department continued to process the payments, and Helen would take responsibility for distributing the payments. Helen opened a bank account in a nearby city under the name of Jackson & Co., where she would make the deposit. She paid all of her personal expenses out of this account.*

Suppose we are investigating Helen's fraud. As part of our investigation, we have searched public records and other sources and have accumulated the financial information on Helen in Table 9.1.

With this information, we can use the net worth method to estimate how much Helen may have embezzled. These calculations are shown in Table 9.2.

Based on this calculation, we determine that Helen had at least \$46,800 of unknown income in Year 2 and

**TABLE 9.1 FINANCIAL DATA FOR HELEN WEEKS**

	YEAR 1	YEAR 2	YEAR 3
<b>Assets:</b>			
Residence	\$100,000	\$100,000	\$100,000
Stocks and bonds	30,000	30,000	42,000
Automobiles	20,000	20,000	40,000
CD	50,000	50,000	50,000
Cash	6,000	12,000	14,000
<b>Liabilities:</b>			
Mortgage balance	90,000	50,000	0
Auto loan	10,000	0	0
<b>Income:</b>			
Salary		34,000	36,000
Other		6,000	6,000
<b>Expenses:</b>			
Mortgage payments		6,000	6,000
Auto loan payments		4,800	4,800
Other living expenses		20,000	22,000

**TABLE 9.2 COMPARATIVE NET WORTH—ASSET METHOD**

	END YEAR 1	END YEAR 2	END YEAR 3
<b>Assets:</b>			
Residence	\$100,000	\$100,000	\$100,000
Stocks and bonds	30,000	30,000	42,000
Auto	20,000	20,000	40,000
CD	50,000	50,000	50,000
Cash	<u>6,000</u>	<u>12,000</u>	<u>14,000</u>
Total assets	<u>\$206,000</u>	<u>\$212,000</u>	<u>\$246,000</u>
<b>Liabilities:</b>			
Mortgage balance	\$90,000	\$50,000	\$ —
Auto loan	<u>10,000</u>	—	—
Total liabilities	<u>\$100,000</u>	<u>\$50,000</u>	\$ —
Net worth	<u>\$106,000</u>	<u>\$162,000</u>	<u>\$246,000</u>
Change in net worth		<u>\$56,000</u>	\$84,000
Plus living expenses		<u>30,800</u>	32,800
Total Income		\$86,800	\$116,800
Less known income		<u>40,000</u>	42,000
Income from unknown sources		<u>\$46,800</u>	<u>\$74,800</u>

\$74,800 of unknown income in Year 3. This information can be used in court to obtain a criminal conviction, civil judgment, or even an order against Helen, and it can also be used to obtain a confession. A good investigator, armed with these data, may get a confession from Helen. She would first be asked to state her income and other sources of funds. The investigator would then show that she cannot maintain her lifestyle and pay her debts without additional income. Seeing that her story and reality conflict, Helen might confess.

## Review of the Learning Objectives

- **Explain why it is important to find out how perpetrators convert and spend their stolen funds.** Conversion, or discovering how perpetrators convert and spend their stolen funds, is an important investigative technique. Individuals rarely steal and save; rather, they spend. Often, tracking or investigating how they spend their ill-gotten gains is the best way to catch perpetrators. When people spend money, they create financial footprints that can be examined to help detect fraud.
- **Understand how federal, state, and local public records can assist in following the financial “tracks” of suspected perpetrators.** Federal, state, and local public records are important sources of information about the financial “tracks” of suspected perpetrators. There are many federal, state, and local public records, such as voting records, driver’s license records, real estate and property tax records, incorporation records, UCC records, and others, that provide information about how, where, and when people spend money. The information from these records is extremely useful in investigation fraud.
- **Access information via the Internet to assist in the investigation of a suspected fraud perpetrator.** Private and online sources of information are important sources of information during an investigation. Today, information about almost everyone is on the Internet, including boards on which people have served on, where people have lived, property tax records, employment, marriages, etc. These records can be a very helpful, almost instantaneous source of information about individuals. To see how helpful this information is, go to Google and type in the name of someone you know. You will be amazed at how many references there are to most people.

- **Perform net worth calculations on suspected fraud perpetrators and understand how net worth calculations are effective in court and in obtaining confessions.** Net worth calculations on suspected fraud perpetrators are effective in court and in obtaining confessions. Net worth calculations can provide evidence that someone is spending significantly more money than he or she can account for from known sources (wages, inheritance, etc.). Net worth calculations provide great background information for investigators before potential perpetrators are interviewed, provide evidence that can be used in court to support the fact that an individual spent more money than he or she reported for tax purposes, and are very helpful in getting people to admit that they embezzled funds.

## KEY TERMS

interview, p. 253

national crime

information center  
(NCIC), p. 254

interstate identification  
index (III), p. 254

postal inspectors, p. 255

trashing, p. 257

Gramm-Leach-Bliley  
Act, p. 258

opting out, p. 258

net worth method, p. 261

## QUESTIONS

### Discussion Questions

1. What are common ways to investigate conversion of stolen assets?
2. What are “financial footprints”?
3. Why is it important to know how perpetrators convert and spend their stolen funds?
4. What are the differences between public and private sources of information?
5. How do state, federal, and local public records assist fraud investigations?
6. How does the Internet assist in determining the net worth of suspected perpetrators?
7. Why are net worth calculations so valuable?
8. What are some of the advanced techniques available when searching for information on Google (or other search engines)?
9. How do these advanced techniques aid in the information-gathering process?
10. When searching public records, what are the four different types of information sources available to investigators?
11. What is the Gramm-Leach-Bliley Act? How does it apply to investigators?
12. What is “trashing”? In what ways can it (and the electronic form of it) help an investigation?

### True/False

1. Perpetrators usually save what they steal.
2. One common investigation procedure determines how perpetrators convert or spend their time.
3. Investigations of perpetrators’ net worth and lifestyles help investigators know what class of society the perpetrators are from.
4. It is always necessary to involve a federal law enforcement agent when accessing federal databases.
5. The secretary of state maintains many types of records relating to business and Uniform Commercial Code (UCC) filings.
6. Counties and other local agencies that contain records are usually not very useful in fraud investigation.
7. Private credit records are maintained on both individuals and organizations by various credit-reporting companies.
8. Several publicly available databases provide information that can be helpful in investigations.
9. The net worth method is rarely, if ever, helpful in actual fraud investigations.
10. For various reasons, the net worth method tends to be a conservative estimate of amounts stolen.
11. Conversion is the third element of the fraud investigation triangle.
12. The Gramm-Leach-Bliley Act of 1999 made it more difficult for officials and private citizens to access information from financial institutions.
13. Before financial institutions can sell or disclose confidential customer information, they must provide customers with the opportunity to “opt out” from information sharing.
14. Federal agencies provide better records than state or county agencies for conversion investigations.
15. When people convert stolen cash by entering into financial transactions, such as buying assets, they usually leave tracks that investigators can follow.
16. Private financial institutions can usually sell confidential customer information.