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# Advisory Alert: Tracking transactional footprints in a globalized world

## Introduction

Asset tracing is a common challenge faced by investigators in bankruptcy proceedings, criminal and civil prosecution cases, civil litigation, defalcation investigations, matrimonial disputes, and many other situations. The facts and circumstances of each case — and even the types of cases — vary widely, but the ultimate goal is the same: Finding hidden assets.

Assets are anything of value, and they are transformed through financial transactions. Each transaction has a documentation footprint, the size of which depends on the method used to conduct the transaction. A cash-based transaction, for instance, leaves a much smaller footprint than an international wire transfer conducted at a bank.
The documentation for a wire transfer includes wire transfer forms completed by the initiator at the time of the transfer and subsequent documentation on the bank statements of both the sender and the recipient.

Read correctly, transactional footprints can provide an investigator with the facts and information needed to follow the money trail, including the initiator of the transaction, the asset type, the means of the transaction (e.g., wire transfer, "casa de cambio"), and the recipient.

## Two analytical options

Investigators can use two related but distinct types of analysis to find hidden assets: Net worth analysis and cash flow analysis. These two types are analogous to the financial reporting world's balance sheet and income statement.

Net worth analysis is a point-in-time document that provides a listing of assets and liabilities with corresponding values. The subject of an investigation is the beneficial owner of the asset or the party responsible for the liability. Just as a balance sheet provides a snapshot of the book value of a company, the net worth analysis summarizes a person's overall worth on a specific date.

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A cash flow analysis, in the context of asset tracing, is a summary of the fund flows through an investigation of subject's assets and liabilities, such as a wire transfer through a bank account. This type of analysis is similar to an income statement's view of a company's operations.

The backbone of a cash flow analysis is a documented view of the subject's financial transactions within his or her known assets. Just as an income statement is supported by general ledger detail, a cash flow analysis summary is supported by financial transaction detail. Although the cash flow analysis has the word "cash" in its name, it is not limited to cash transactions, nor is it the same as the cash flow statement of a company. Rather, it correlates the income and expense transactions in which an investigation subject participates, regardless of the form of money.

### Step 1: Define the universe, timeline and beginning net worth analysis

Defining the investigation subject's universe is the starting point for following the transformation of assets through financial transactions. A timeline should be established to document the scope of work to be performed. Typically, the starting point of the timeline should begin before the triggering event (e.g., the suspected point of employee defalcation) that prompted the investigation. A subject's universe consists of all of his or her known assets and liabilities. Although ownership, responsibility or value may not be fully known at the beginning of an investigation, a baseline of assets and liabilities is very important during documentation of the cash flow analysis (see the next step).

Ultimately, the universe an investigator can define will depend on the documentation available in the case. Multiple types of documentation should be used in tandem to define the universe, including tax returns, public records including UCC filings, and bank account opening documentation or initial statements. Documenting assets and liabilities with corresponding values creates the beginning net worth analysis.

Categories in the net worth analysis include bank accounts; loans, notes and other receivables; equity ownership or securities; employment or other income sources; real estate; life insurance; pensions or retirement accounts; vehicles; other assets; loans, notes and other payables; taxes payable; mortgages or loans on real estate; and other debts.

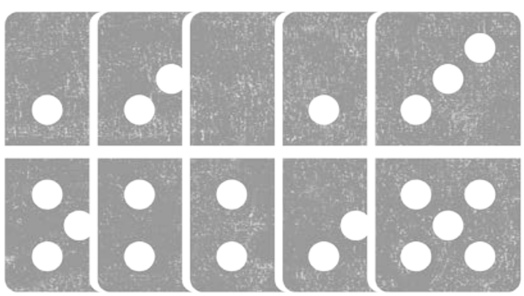
### Step 2: Document the cash flow analysis

The cash flow analysis begins when assets are classified as static (those that are not increasing and decreasing in value on a regular basis, such as automobiles) or dynamic (assets whose value rises and falls throughout the period of review, such as bank accounts). Only dynamic assets are included in the cash flow analysis.

Dynamic asset transactions should be documented to identify the account, date, type, description and amount of the transaction. Once information regarding all transactions is documented, each should be classified as generated internally or externally. Internally generated transactions include bank fees, interest and interaccount transfers. Externally generated transactions (flows of funds either into or out of the universe) should be scrutinized to accumulate information regarding source or disposition. In addition, transactions relating to the known assets and liabilities documented in the beginning net worth analysis should be noted in order to calculate value fluctuations.

### Step 3: Identify the ending net worth analysis and combine it with the cash flow analysis

After the cash flow analysis is completed, a second point-in-time net worth analysis should be created using value fluctuations found in the cash flow analysis as well as additional information — including public records — identified throughout the case. By removing transactions that are associated with known assets or liabilities, or are universe-generated, the investigator is left with transactions that have an unidentified source or disposition. In some cases, documentation that exists within the account statements used for the cash flow analysis provides information regarding the bank, account number or recipient of a transaction. Public records can be used to bolster the information known about these transactions.



Combining cash flow and net worth analyses allows the investigator to identify transactions in excess of known income, document inaccuracies in the known values of assets or liabilities, and determine potentially unknown stores of wealth.

### Conclusion

The nature of today's interrelated, immediate and complex financial system ensures that individuals will leave transactional footprints, no matter how hard they try to tread lightly. At some point, cash has to enter the financial system; burying it means not spending it. The systematic approach outlined above provides a methodology for following a subject's transactional footprints in the globalized world.

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