

Colin F. Campbell, 004955
Geoffrey M. T. Sturr, 014063
Timothy J. Eckstein, 018321
Joseph N. Roth, 025725
John S. Bullock, 034950
BriAnne Illich Meeds, 036094
OSBORN MALEDON, P.A.
2929 North Central Avenue, 21st Floor
Phoenix, Arizona 85012-2793
(602) 640-9000
ccampbell@omlaw.com
gsturr@omlaw.com
teckstein@omlaw.com
jroth@omlaw.com
jbullock@omlaw.com
billichmeeds@omlaw.com

Attorneys for Plaintiff

IN THE SUPERIOR COURT OF THE STATE OF ARIZONA

IN AND FOR THE COUNTY OF MARICOPA

Peter S. Davis, as Receiver of DenSco
Investment Corporation, an Arizona
corporation,

Plaintiff,

v.

U.S. Bank, NA, a national banking
organization; Hilda H. Chavez and John
Doe Chavez, a married couple; JP Morgan
Chase Bank, N.A., a national banking
organization; Samantha Nelson f/k/a
Samantha Kumbalek and Kristofer
Nelson, a married couple; and Vikram
Dadlani and Jane Doe Dadlani, a married
couple,

Defendants.

No. CV2019-011499

**PLAINTIFF'S 20th SUPPLEMENTAL
RULE 26.1 DISCLOSURE
STATEMENT**

(Assigned to the Honorable
Dewain D. Fox)

For his 20th Supplemental Disclosure Statement, Plaintiff Peter S. Davis, as
Receiver of DenSco Investment Corporation, sets forth the following in addition to his
prior disclosure statements:

VI. Expert Witnesses

Pursuant to the Court scheduling order, the Receiver produces:

1 Jeff Gaia's Supplemental Report on USB, dated November 1, 2022.

2 Jeff Gaia's Supplemental Report on Chase Bank, dated November 1, 2022.

3 DATED this 1st day of November, 2022.

4 OSBORN MALEDON, P.A.

5
6 By 

Colin F. Campbell

Geoffrey M. T. Sturr

Timothy J. Eckstein

Joseph N. Roth

John S. Bullock

2929 North Central Avenue, 21st Floor

Phoenix, Arizona 85012-2793

7
8
9
10 Attorneys for Plaintiff

11
12 COPY of the foregoing served via email
this 1st day of November, 2022, on:

13 Nicole M. Goodwin

14 Adrianna Griego Gorton

GREENBERG TRAURIG, LLP

15 2375 East Camelback Road, Suite 800

Phoenix, Arizona 85016

16 goodwinn@gtlaw.com

17 gortona@gtlaw.com

hershbergera@gtlaw.com

18 aranat@gtlaw.com

19 Paul J. Ferak

Jonathan H. Claydon

20 GREENBERG TRAURIG, LLP

77 West Wacker Drive, Suite 3100

21 Chicago, Illinois 60601

22 ferakp@gtlaw.com

claydonj@gtlaw.com

23 *Attorneys for Defendant JP Morgan Chase Bank, N.A.,*

24 *Samantha Nelson f/k/a Samantha Kumbalek,*

25 *Kristofer Nelson, Vikram Dadlani, and Jane Doe Dadlani*

1 Gregory J. Marshall
2 Taryn J. Gallup
3 Amanda Z. Weaver
4 SNELL & WILMER, LLP
5 400 East Van Buren Street, Suite 1900
6 Phoenix, Arizona 85004-2202
7 gmarshall@swlaw.com
8 tgallup@swlaw.com
9 aweaver@swlaw.com
10 ehenry@swlaw.com
11 pdooley@swlaw.com

12 Kenneth C. Rudd
13 David B. Chenkin
14 ZEICHNER ELLMAN & KRAUSE LLP
15 1211 Avenue of the Americas, 40th Floor
16 New York, New York 10036
17 krudd@zeklaw.com
18 dchenkin@zeklaw.com

19 *Attorneys for Defendants U.S. Bank National Association and Hilda H. Chavez*


20
21
22
23
24
25
26
27
28


9661025

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28

1. DenSco Investment Corporation is the Plaintiff for the above-entitled action.
2. I have read the Plaintiff's 20th Supplemental Rule 26.1 Disclosure Statement and know the contents thereof.
3. The statements and matters alleged are true of my own personal knowledge as the receiver for DenSco Investment Corporation, except as to those matters stated upon information and belief, and as to such matters, I reasonably believe them to be true.

**DENSCO INVESTMENT
CORPORATION, an Arizona
corporation**


Peter S. Davis

Supplemental Expert Report of Jeffrey P. Gaia

In the matter of :

Peter S. Davis, as Receiver of DenSco Investment Corporation,
an Arizona Corporation,
Plaintiff,

v.

US Bank, N.A., a national banking organization; Hilda H. Chavez and John Doe Chavez, a married couple; JP Morgan Chase Bank, N.A., a national banking organization; Samantha Nelson f/k/a Samantha Kumbalek, and Kristofer Nelson, a married couple; and Vikram Dadlani and Jane Doe Dadlani, a married couple,

Defendants.

No. CV2019-011499

Third Amended Complaint

Report dated November 1, 2022

Table of Contents

<i>Section</i>	<i>Page</i>	<i>Title</i>
1.0	3	Introduction
2.0	5	The USB Employee Depositions Industry Practices Involving Cashier's Checks US Bank Operating Procedures Manual for Cashier's Checks and Personal Money Orders
3.0	7	The Menaged Money Laundering Scheme Explained
4.0	12	The Complicity of USB Employees The Serial Numbers Match to Arrowhead Branch Cashier's Checks USB Failed to Produce Cashier's Check Logs Account Ending Daily Balances Do Not Support Verified Funds USB Branch Personnel Were Willing Participants in the Scheme The Overdraft Problems of the -4457 Account The Orphan Check Solution Chavez' Explanation of an Unwritten Practice The Testimony of USB Employees The Irrefutable Facts
5.0	29	Summary of Opinions -- USB Employee Deposition Testimony
6.0	30	Receipt of Unredacted AML Log Entries The Wayne Thompson Investigation What Thompson Knew
7.0	34	Other Investigations of the -4457 Account Chris Wolters Investigation Barry Lundin Investigation
8.0	37	Concluding Opinions The Thompson Investigation The Wolters Investigation The Lundin Investigation
	40	Exhibit (1) Inventory of "Round-Tripped" Cashier's Checks
	41	Exhibit (2) List of Documents Reviewed in this Matter

1.0 Introduction

The purpose of this report is to supplement both the original Expert Report dated January 10, 2022, as well as the Supplemental Report dated May 5, 2022, relating to the actions of US Bank (USB) in the subject litigation. This supplement results from two recent events:

- Deposition testimony of USB employees: Leslie Rocha, branch manager; Hilda Chavez, assistant branch manager; and tellers.
- Receipt of unredacted Anti-Money Laundering (AML) Log Entries of three internal investigations of the -4457 account.

The USB Employee Depositions

With respect to the USB employee depositions, this Supplemental Report examines the discovery of images of twenty USB cashier's checks found on the personal computer of DenSco that were involved in the fraud against DenSco. These documents were not produced by USB in its submissions in response to Plaintiff's production requests. USB claims that it has no record of these twenty cashier's checks, nor the supporting transaction documents (counter withdrawal tickets, proof documents, and account statement records). However, the subject checks are numbered sequentially consistent with other USB records, and Leslie Rocha, Hilda Chavez, Maria Villa and Tatjana Sulaver have testified as to the veracity of their signatures on these checks. The evidence surrounding these "orphan checks"¹ demonstrates that USB branch personnel were directly involved in the fraud against DenSco. Importantly, all the evidence establishes that USB personnel issued these checks.

The Unredacted AML Investigation Log Entries

With respect to receipt of the unredacted AML Investigation Log Entries, this Supplemental Report will re-examine the testimony of Wayne Thompson based on his unredacted investigation of the -4457 account in January 2013, as well as

¹ So named because these checks have no supporting documents, nor is there any record of these instruments in USB corporate records.

comments relating to two subsequent investigations generated by two other AML analysts.²

Whereas the first Supplemental Report dated May 5, 2022, which commented on the Thompson deposition and his related investigation, contained my opinions of what Thompson should have observed in his review of that account, we now have full visibility of his investigation, as well as that of Wolters and Lundin – the transactions they reviewed, their understanding of the nature of the business operations of Easy Investments, and their conclusions.

² In addition to the Thompson investigation (1-23-12), the Menaged account relationship, which included the -4457 account, was investigated by two other analysts – Chris Wolters (9-18-13) and Barry Lundin (4-29-14).

2.0 The USB Employee Depositions

This Supplemental Report will examine, based on my professional training, experience, and knowledge;

- Industry practices regarding the control and issuance of “cash equivalent” monetary instruments, including cashier’s checks.
- USB’s internal Operating Procedures Manual.
- The testimony of Rocha and Chavez in this matter.

2.1 Industry Practices Involving Cashier’s Checks

Cashier’s checks are considered equivalent to cash. A cashier’s check is a specific type of check involving a guarantee by the issuing bank to honor payment. These instruments, per the Federal Reserve, are considered “guaranteed funds” which ensures that the recipient will be paid by the issuing bank. Cashier’s checks are often used fraudulently in some forms of criminal activity. Due to the “cash equivalent” nature of these checks, these instruments are subject to the stringent fraud controls and audit requirements common to all cash and monetary equivalents. Common controls include:

- Magnetic Ink Character Recognition (MICR) encoding to prevent counterfeiting.
- Blank check stock secured at night.
- Explicit policies for issuance and voiding checks.
- Stringent inventory control, audit procedures, and audit trails.

Corporate operating procedures attached to the management, issuance, control, and auditing of cashier’s checks are implemented consistently throughout an organization; operating procedures are granular; and audit controls and reporting are extremely detailed. Deviations from these corporate practices by field personnel are not allowed, and there are NO unwritten practices.

2.2 US Bank Operating Procedures Manual for Cashier’s Checks and Personal Money Orders

In its Operating Procedures Manual, USB noted that it treated cashier’s checks “...as the equivalent of cash.” And its Operating Procedures Manual contained extensive procedures, consistent with industry practices, governing the control,

issuance, periodic reporting, and audit protocols for its cashier's checks. These procedures included:

- MICR encoding to prevent counterfeiting.
- Validation of customer cash on deposit.
- Controlled access of blank check stock.
- System-issued serial numbers.
- Mandatory Cash Transaction Reporting (CTR) if cash was used to purchase the cashier's check.
- Specific procedures governing voiding checks.
- Stringent inventory reporting, including:
 1. Daily check void reports w/daily supervisory review.
 2. Periodic check detail reporting (daily/weekly/monthly).

Based on my professional training and experience with corporate internal controls and banking practices, it is my professional opinion that USB's Operating Procedures Manual covering Cashier's Checks³ published in September 2013 was consistent with normal and customary banking industry standards.

³ USB_DENSCO001079 through 001083.

3.0 The Menaged Money Laundering Scheme Explained

In my original report, I explained the history of Menaged's accounts at USB, including what was identified as the -4457 account – the primary bank account through which Menaged perpetrated his fraud scheme – and noted that in late 2013 Menaged re-engineered his fraud scheme after DenSco had discovered that most of its outstanding loans were inadequately secured.

Specifically, until late 2013, Menaged's fraud consisted of borrowing funds from both DenSco and another hard money lender using the same property as security, which resulted in DenSco being in a second lien position and under secured on hundreds of properties. This fraud was discovered by DenSco in late 2013 and prompted DenSco to alter its procedures to ensure that future loan advances to Menaged were, in fact, secured by a first lien position.

The new procedure consisted of DenSco's wiring new advances to accounts that Menaged maintained at USB, and then having Menaged provide copies of cashier's checks, issued by USB, and made payable to the sale trustee, as proof that the funds were being used as closing funds on successful trustee sale bids. Purportedly, DenSco's continued involvement with Menaged was based on a belief that this continued business relationship would ultimately result in the full repayment of all prior loan balances.

Unfortunately, Menaged, with the active assistance of USB, developed a "work-around" to this control procedure which allowed the fraud against DenSco to continue unabated. This "work-around" involved Menaged's contacting DenSco with the details of his purportedly successful bids at trustee sales. This triggered DenSco to wire the requested funds to Menaged's -4457 account at USB. The wires identified the specific property addresses for which the funds were intended to purchase. Then, Menaged, through his employee Veronica Castro, would initiate the issuance of USB cashier's checks based on the details of what he claimed were his successful trustee sale bids. The cashier's checks restated the particular property addresses noted on the incoming wire instructions.

Almost all of the transactions reported to both DenSco and USB under this new procedure were fraudulent (i.e., Menaged was NOT the winning bidder at the auctions). Veronica Castro would request USB to issue the cashier's checks in the amounts requested, made payable to a sale trustee for a specific property. At the

USB branch, Veronica Castro would snap a picture of each individual cashier's check using a cell phone camera, send the photo to DenSco, and then immediately redeposit these checks back into the -4457 account. Branch personnel stamped these checks as "not used for the purpose intended."

The redeposited funds would be used for purposes unrelated to the purchase of properties, notably to immediately send a portion of the funds back to DenSco fraudulently identified as proceeds from the sale of other properties against which DenSco had lent monies (the Ponzi scheme), fund personal expenses, transfer funds to relatives, and fund gambling losses.

Branch personnel, notably Leslie Rocha and Hilda Chavez, were the primary account contacts with Menaged, and were aware of this new procedure. Both employees willingly assisted Menaged in the issuance, voiding, and redeposit of cashier's checks under the false premise that they were "Not used for the intended purpose." (Referred to as "round-tripping").

There is no evidence of round-tripped cashier's checks issued from the -4457 account connected to this fraud prior to November 15, 2013. On that date, a USB cashier's check in the amount of \$24,000⁴ payable to Reconstruct Company was issued and immediately redeposited.⁵ This was the start of the new scheme, and unlike Menaged's prior frauds against DenSco, this scheme required the active participation of USB to issue these fraudulent cashier's checks.

Following this transaction, USB was involved in the issuance, voiding, and redepositing of an additional 44 fraudulent cashier's checks⁶ in its support of this fraud scheme. USB has supporting documents for these 44 cashier's checks including withdrawal slips, proof work copies of the checks, copies of the redeposited checks, and deposit slips. All of these transactions took place from November 15, 2013 to April 7, 2014, in a total amount of \$7,376,727. All of these cashier's checks were issued against non-existent trustee sales bids. The funds from these cashier's checks were redeposited into the -4457 account.

As was his practice, these redeposited funds sourced from DenSco would be used by Menaged in a manner inconsistent with their intended purpose, including

⁴ DIC0012917-12936

⁵ *Id.* at DIC0012931

⁶ See Exhibit (1) for a list of these cashier's checks.

hundreds of thousands of dollars spent at casinos, personal living expenses, other business operating expenses, payments to relatives, and millions of dollars in repayments to unrelated third-party lenders. Often, Menaged would wire back to DenSco on a same-day basis lesser amounts of cash that he would communicate as purported “repayment” of outstanding loans from DenSco in settlement of previous loan transactions.

This last item is a classic “tell” of a money laundering technique known as a Ponzi scheme. In simplest terms, this Ponzi scheme funneled DenSco’s new advances back to DenSco disguised as repayments of prior loan advances. Commencing in late 2013, the overwhelming activity in the -4457 account was related to the Ponzi scheme of receiving wires from DenSco, washing the funds through the issuance and cancellation of fraudulent cashier’s checks, and then immediately round-tripping a substantial proportion of these funds back to DenSco (i.e., Receive Funds—Wash Funds—Return Funds).

Essentially, USB controlled the intersection between DenSco’s cash advances and Menaged’s fraud. Consider several simple, but instructive, examples of USB’s role.

- On December 16, 2013, the -4457 account received a wire-in from DenSco in the amount of \$185,300.⁷ Later that day a cashier’s check in the amount of \$168,578⁸ payable to David W. Cowles, Trustee was issued. This cashier’s check was cancelled and credited back to the -4457 account in a posting on December 17, 2013.⁹ The cashier’s check noted “Not Used for The Intended Purpose.” On that same date, these funds were used to pay for various operating expenses,¹⁰ including insurance premiums, subcontractor reimbursements, rent expense, payroll expense, and payments to Menaged relatives. There is no contemporaneous record that any DenSco funds were used to purchase real property on this date.
- On January 3, 2014, the -4457 account received an incoming wire from DenSco in the amount of \$426,701.¹¹ Later that day a cashier’s check in the

⁷ USB_DENSCO000771

⁸ DIC0015135

⁹ USB_DENSCO000768

¹⁰ See DIC0015141, DIC0015138, DIC0015140, DIC0015139, DIC0015137, DIC0015142

¹¹ USB_DENSCO000748

amount of \$113,901¹² payable to Servis One, Inc. was issued. On that same day this cashier's check was cancelled and credited back to the -4457 account in a posting on the same date as issued.¹³ Within the next two business days, these funds were used to pay for various operating expenses, including insurance premiums, bid checks, legal fees, taxes, retail purchases, utilities, and a repayment to an unrelated third-party lender. On this date there was one real property funding in the amount of \$129,200.

- During a two-day period in late January 2014 (January 23, 24) the -4457 account received two wire-in transactions from DenSco in the amounts of \$174,500¹⁴ and \$354,501,¹⁵ respectively. The intended use of funds from each of these wires was to purchase properties. USB issued two fraudulent cashier's checks. The first cashier's check was made payable to "David W. Cowles, Trustee" in the amount of \$164,509,¹⁶ with the notation that it was to fund the purchase of a property located at 14338 W Amelia Ave. The second cashier's check was made payable to "Recon Trust Company" in the amount of \$344,501,¹⁷ with the notation that it was to fund the purchase of a property located at 824 W Azalea Drive. Both cashier's checks were cancelled and redeposited into the -4457 account on the same day as issued. It appears that these funds (in addition to funds available in the account from the prior day) were used to cover incoming check clearings¹⁸ which included:

- Check #1663 in the amount of \$10,000 payable to Julie Thomas for an upcoming trustee bid.
- Check #1609 in the amount of \$1,300 payable to George Nesemeier for interest due.
- Check #1652 in the amount of \$70,350.57 payable to Active Funding Group, LLC.
- Check #1664 in the amount of \$31,051 payable to Keg Inspections.

¹² DIC0015188

¹³ DIC0013807-0013808

¹⁴ USB_DENSCO000749

¹⁵ USB_DENSCO000750

¹⁶ R004485

¹⁷ R002728/DIC0013829

¹⁸ See January 2014 bank statement for -4457 account, USB_DENSCO000746 through USB_DENSCO000766

- Check #1665 payable to Joseph Menaged, a relative of Yomtov Menaged, in the amount of \$196,400.
- Check #1666 payable to DenSco in the amount of \$167,587 purportedly in satisfaction of a prior loan.
- Check #1667 payable to DenSco in the amount of \$121,570 purportedly in satisfaction of a prior loan.

There is no contemporaneous record that any of the DenSco funds from the referenced “wire-in” transactions on those dates were used to purchase real property. Instead, these proceeds were used to satisfy other Menaged obligations and to support the Ponzi scheme through the “round-tripping” of DenSco funds back to DenSco.

The issuance and redeposit of cashier’s checks was the mechanism by which Menaged “washed” the funds and created the false impression that the cash proceeds for these return payments were sourced from other completed transactions. All of the funds sourced from the DenSco “wire-in” transactions on January 23 and 24 were employed for purposes unrelated to the intended use of these funds.

4.0 The Complicity of USB Employees

In addition to the 44 cashier's checks with supporting documentation, Plaintiff has discovered an additional twenty USB cashier's checks on DenSco computing equipment, none of which had been previously disclosed by USB in its document production. USB has no documentation whatsoever as to these twenty cashier's checks.

The Serial Numbers Match to Arrowhead Branch Cashier's Checks

There is irrefutable evidence that USB branch personnel issued these cashier's checks. As noted earlier in this report, USB cashier's checks are MICR printed with unique serial numbers issued by the technology platform at the time of printing. These serial numbers commence with a four digit number representing the originating branch location. For example, cashier's checks with serial numbers beginning with "6545" originate from the Arrowhead Fry's in-store branch. This is the branch in which Leslie Rocha and Hilda Chavez were employed as Branch Manager and Assistant Branch Manager, respectively.

The bank records reflect that the "round-tripped" cashier's checks involved in the fraud were generated from the Arrowhead Fry's branch managed by Rocha and Chavez. Exhibit (1) provides an inventory of these cashier's checks.

All of the orphan checks originated from the Arrowhead Fry's branch. The "orphan" cashier's checks (so noted as "orphan checks" because USB has no record of these items) have been catalogued in Chart (1) below:

Chart (1)

Orphan Cashier's Checks (no US Bank records of issuance)					
Transaction Date	Description	Withdrawal	Bates #	CC #	Signer
01/22/14	Cashier's Check – Orphan	\$ 136,009	R-002704	6545500126	Rocha
02/01/14	Cashier's Check – Orphan	\$ 103,009	R-002706	6545500149	Chavez
02/03/14	Cashier's Check – Orphan	\$ 186,200	R-002705	6545500150	Chavez
02/05/14	Cashier's Check – Orphan	\$ 397,000	R-002707	6545500156	Chavez
02/11/14	Cashier's Check – Orphan	\$ 182,000	R-002708	6545500177	Chavez
03/24/14	Cashier's Check – Orphan	\$ 186,400	R-002709	6545500284	Chavez
03/25/14	Cashier's Check – Orphan	\$ 104,200	R-002712	6545500287	Chavez
03/25/14	Cashier's Check – Orphan	\$ 82,500	R-002711	6545500288	Chavez
03/25/14	Cashier's Check – Orphan	\$ 266,800	R-002710	6545500289	Chavez
03/26/14	Cashier's Check – Orphan	\$ 176,200	R-002713	6545500292	Chavez
03/28/14	Cashier's Check – Orphan	\$ 184,310	R-002715	6545500298	Maggie Villa
03/28/14	Cashier's Check – Orphan	\$ 117,400	R-002714	6545500300	Maggie Villa
04/01/14	Cashier's Check – Orphan	\$ 173,300	R-002716	6545500314	?
04/02/14	Cashier's Check – Orphan	\$ 192,209	R-002717	6545500318	Chavez
04/02/14	Cashier's Check – Orphan	\$ 173,309	R-002718	6545500319	Chavez
04/03/14	Cashier's Check – Orphan	\$ 92,600	R-002719	6545500323	Chavez
04/04/14	Cashier's Check – Orphan	\$ 133,800	R-002720	6545500325	Maggie Villa
04/04/14	Cashier's Check – Orphan	\$ 125,800	R-002723	6545500326	Maggie Villa
04/04/14	Cashier's Check – Orphan	\$ 179,209	R-002722	6545500327	Maggie Villa
04/04/14	Cashier's Check – Orphan	\$ 263,209	R-002721	6545500328	Maggie Villa
		\$ 3,455,464			

As noted in Chart (1), each of these checks contain unique serial numbers beginning with the “6545” prefix, denoting that the checks originated in the Arrowhead Fry’s branch.¹⁹ Now, combining the cashier’s check numbers of both the “round-tripped” checks with the “orphan” checks yields Chart (2) below:

¹⁹ Refer to Leslie Rocha deposition dated 9/5/2022, Pg. 64, lines 21-22.

Chart (2)

Redeposited, Negotiated, and Orphan Cashier's Check Sequence Numbers					
Account #	Issue Date	Payee	Withdrawal	Bates #	CC #
Easy - USB 4457	11/14/13	Recontrust Company	24,000.00	DIC0012931	
Easy - USB 4457	12/16/13	David W. Cowles, Trustee	168,578.00	DIC0012908	
Easy - USB 4457	01/03/14	Servis One, Inc.	113,901.00	DIC0012882	
Easy - USB 4457	01/03/14	Western Progressive Arizona, Inc.	139,200.00	DIC0012882	
Easy - USB 4457	01/13/14	Recontrust Company	86,500.00	DIC0012885	65454500116
Easy - USB 4457	01/16/14	David W. Cowles, Trustee	99,309.00	DIC0012888	6545500188
Easy - USB 4457	01/17/14	FATSS	159,000.00	DIC0012888	6544500120
	01/22/14		136,009.00	R-002704	6545500126
Easy - USB 4457	01/23/14	David W. Cowles, Trustee	164,509.00	DIC0012889	6545500130
Easy - USB 4457	01/24/14	Recontrust Company	344,501.00	DIC0012890	6545500135
	02/01/14		103,009.00	R-002706	6545500149
	02/03/14		186,200.00	R-002705	6545500150
	02/05/14		397,000.00	R-002707	6545500156
Easy - USB 4457	02/10/14	David W. Cowles, Trustee	129,509.00	DIC0012862	6545500172
	02/11/14		182,000.00	R-002708	6545500177
Easy - USB 4457	02/24/14	Western Progressive Arizona, Inc.	50,001.00	DIC0012868	6545500197
Easy - USB 4457	02/24/14	Eric C. Anderson, Esq.	172,000.00	DIC0012868	6545500198
Easy - USB 4457	02/27/14	David W. Cowles, Trustee	74,401.00	DIC0012869	6545500214
Easy - USB 4457	02/28/14	Quality Loan Services Corp.	352,100.00	DIC0012870	6545500221
Easy - USB 4457	03/04/14	Shapiro Van Ess & Sherman, LLP	122,000.00	DIC0012834	6545500234
Easy - USB 4457	03/04/14	Recontrust Company	122,400.00	DIC0012834	6545500233
Easy - USB 4457	03/04/14	David W. Cowles, Trustee	134,200.00	DIC0012835	6545500235
Easy - USB 4457	03/04/14	David W. Cowles, Trustee	162,509.00	DIC0012835	6545500236
Easy - USB 4457	03/05/14	Les Zieve, Trustee	236,200.00	DIC0012835	6545500241
Easy - USB 4457	03/05/14	Quality Loan Services Corp.	252,500.00	DIC0012835	6545500242
Easy - USB 4457	03/07/14	Jason Cotton Trustee	164,200.00	DIC0012836	6545500246
Easy - USB 4457	03/07/14	Shapiro Van Ess & Sherman, LLP	260,100.00	DIC0012836	6545500245
Easy - USB 4457	03/10/14	Quality Loan Services Corp.	218,800.00	DIC0012837	6545500252
Easy - USB 4457	03/10/14	David W. Cowles, Trustee	245,200.00	DIC0012837	6545500253
Easy - USB 4457	03/11/14	FATSS	163,600.00	DIC0012837	6545500258
Easy - USB 4457	03/12/14	Recontrust Company	164,800.00	DIC0012839	6545500261
Easy - USB 4457	03/12/14	Clear Recon Corp.	224,200.00	DIC0012839	6545500262
Easy - USB 4457	03/13/14	David W. Cowles, Trustee	122,100.00	DIC0012840	
Easy - USB 4457	03/14/14	Recontrust Company	125,600.00	DIC0012840	
Easy - USB 4457	03/14/14	Recontrust Company	131,900.00	DIC0012840	
Easy - USB 4457	03/14/14	Recontrust Company	132,800.00	DIC0012840	
Easy - USB 4457	03/17/14	Quality Loan Services Corp.	83,500.00	DIC0012841	
Easy - USB 4457	03/17/14	Recontrust Company	218,600.00	DIC0012841	
Easy - USB 4457	03/18/14	Quality Loan Services Corp.	354,600.00	DIC0012842	
Easy - USB 4457	03/19/14	David W. Cowles, Trustee	181,100.00	DIC0012842	
Easy - USB 4457	03/19/14	David W. Cowles, Trustee	226,200.00	DIC0012842	
Easy - USB 4457	03/20/14	Quality Loan Services Corp.	111,400.00	DIC0012843	5109504417
Easy - USB 4457	03/20/14	Quality Loan Services Corp.	127,300.00	DIC0012843	5109504419
Easy - USB 4457	03/20/14	Quality Loan Services Corp.	129,200.00	DIC0012843	
Easy - USB 4457	03/21/14	Quality Loan Services Corp.	132,500.00	DIC0012843	6545500277
Easy - USB 4457	03/21/14	First American Title Insurance	173,600.00	DIC0012843	6545500276
	03/24/14		186,400.00	R-002709	6545500284
	03/25/14		104,200.00	R-002712	6545500287
	03/25/14		82,500.00	R-002711	6545500288
	03/25/14		266,800.00	R-002710	6545500289
	03/26/14		176,200.00	R-002713	6545500292
Easy - USB 4457	03/26/14	David W. Cowles, Trustee	134,110.00	USB_DENSC0000575	6545500293
Easy - USB 4457	03/26/14	Republic Media	24,170.81	USB_DENSC0000573	3545500294
Easy - USB 4457	03/27/14	Quality Loan Services Corp.	153,200.00	DIC0012846	6545500296
	03/28/14		184,310.00	R-002715	6545500298
Easy - USB 4457	03/28/14	Trustee Corp	140,761.00	USB_DENSC0000579	6545500299
	03/28/14		117,400.00	R-002714	6545500300
Easy - USB 4457	04/01/14	David W. Cowles, Trustee	126,709.00	USB_DENSC0000093	6545500313
	04/01/14		173,300.00	R-002716	6545500314
Easy - USB 4457	04/01/14	Waterford and Tatum	1,030.00	USB_DENSC0000087	6545500316
Easy - USB 4457	04/02/14	Auction.Com LLC	165,000.00	USB_DENSC0000091	6545500317
	04/02/14		192,209.00	R-002717	6545500318
	04/02/14		173,309.00	R-002718	6545500319
Easy - USB 4457	04/02/14	Republic Media	30,971.73	USB_DENSC0000089	6545500320
	04/03/14		92,600.00	R-002719	6545500323
	04/04/14		133,800.00	R-002720	6545500325
	04/04/14		125,800.00	R-002723	6545500326
	04/04/14		179,209.00	R-002722	6545500327
	04/04/14		263,209.00	R-002721	6545500328
Easy - USB 4457	04/07/14	David W. Cowles, Trustee	108,009.00	DIC0012809	6545500334
Easy - USB 4457	04/07/14	Quality Loan Services Corp.	134,400.00	DIC0012809	6545500333
Easy - USB 4457	04/07/14	First American Title Ins.	182,500.00	DIC0012809	
Orphan Cashier's Checks are highlighted in Tan.					

It is readily apparent that the unique serial numbers of the “orphan” checks fit the sequence pattern of serial numbers of the “round-tripped” cashier’s checks provided by USB in this matter. As noted earlier, these serial numbers are system-generated, with the first four digits used as a branch identifier. So, it is without question that the twenty “orphan” cashier’s checks noted in Chart (1), and placed in sequence in Chart (2), were generated by USB personnel in its Arrowhead Fry’s branch location.

USB Failed to Produce Cashier’s Check Logs

None of these checks could be found by USB in its records. And there are no records of these checks in the monthly bank statements for the -4457 account. Plaintiff has requested production of cashier’s inventory control reports as described in USB’s corporate Operating Procedures Manual for Cashier’s Checks and Personal Money Orders,²⁰ namely those periodic reports described therein as CA-View Reports, including:

- Daily Check Void Report (V17D007-VOID in SAJ)
- Check Detail Reports, noted in the Procedure as Daily, Weekly and Monthly Check Detail Reports (V17D005/V17W30011052/V17M30011035, respectively)

These periodic reports list all issued serial numbered cashier’s checks, and their disposition status. USB stated that these records no longer exist; that is, they were not retained.

Account Ending Daily Balances Do Not Support Verified Funds

The existence of these twenty checks for which USB has no documentation poses simple questions: Why? What is different about the creation of these twenty checks? The answers lie in the daily cash balances of the -4457 account.

It is possible to reconstruct the potential impact of these “orphan” checks on the daily cash balance of the -4457 account. As noted in the USB Operating Procedures Manual for Cashier’s Checks, since these checks are a “cash equivalent,” and are an obligation of USB, the operating procedure requires

²⁰ Policy Manual dated 09/2013. See USB_DENSCO001079 through 001083.

verification of funds in an amount sufficient to cover the value of the cashier's check.

Accordingly, by subtracting the value of the "orphan" check from the daily ending balance noted on the monthly bank statements of the -4457 account provides a proxy of what the branch employee discovered in her verification of "good funds" at the time the cashier's checks were created. This proxy is documented in Chart (3) below:

Chart (3)

Adjusted Ending Daily Balance with Orphan Checks									
Account #	Issue Date	Payee	Withdrawal	Bates #	CC #	End of Day Reported Balance	Ending Balance Adjusted for Orphan Check Amounts	Comments	
Easy - USB 4457	11/14/13	Recontrust Company	24,000.00	DIC0012931		\$ 112,894.48	\$ 112,894.48		
Easy - USB 4457	12/16/13	David W. Cowles, Trustee	168,578.00	DIC0012908		\$ 54,199.62	\$ 54,199.62		
Easy - USB 4457	01/03/14	Servis One, Inc.	113,901.00	DIC0012882					
Easy - USB 4457	01/03/14	Western Progressive Arizona, Inc.	139,200.00	DIC0012882		\$ 346,318.10	\$ 346,318.10		
Easy - USB 4457	01/13/14	Recontrust Company	86,800.00	DIC0012885	65454500116	\$ 78,679.55	\$ 78,679.55		
Easy - USB 4457	01/16/14	David W. Cowles, Trustee	99,309.00	DIC0012888	6545500188	\$ 107,716.56	\$ 107,716.56		
Easy - USB 4457	01/17/14	FATSS	159,000.00	DIC0012888	6544500120	\$ 99,801.31	\$ 99,801.31		
	01/22/14		136,009.00	R-002704	6545500126	\$ 107,620.66	\$ (28,388.34)		
Easy - USB 4457	01/23/14	David W. Cowles, Trustee	164,509.00	DIC0012889	6545500130	\$ 273,785.82	\$ 273,785.82		
Easy - USB 4457	01/24/14	Recontrust Company	344,501.00	DIC0012890	6545500135	\$ 30,944.67	\$ 30,944.67		
	02/01/14		103,009.00	R-002706	6545500149	\$ 127,812.64		1/31/14 ending bal.	
	02/03/14		186,200.00	R-002705	6545500150	\$ 220,420.77	\$ (68,788.23)	2/1 was a Saturday.	
	02/05/14		397,000.00	R-002707	6545500156	\$ 221,373.10	\$ (175,626.90)		
Easy - USB 4457	02/10/14	David W. Cowles, Trustee	129,509.00	DIC0012862	6545500172	\$ 37,094.96	\$ 37,094.96		
	02/11/14		182,000.00	R-002708	6545500177	\$ 259,843.07	\$ 44,843.07		
Easy - USB 4457	02/24/14	Western Progressive Arizona, Inc.	50,001.00	DIC0012868	6545500197				
Easy - USB 4457	02/24/14	Eric C. Anderson, Esq.	172,000.00	DIC0012868	6545500198	\$ 141,090.77	\$ 141,090.77		
Easy - USB 4457	02/27/14	David W. Cowles, Trustee	74,401.00	DIC0012869	6545500214	\$ 318,593.32	\$ 318,593.32		
Easy - USB 4457	02/28/14	Quality Loan Services Corp.	352,100.00	DIC0012870	6545500221	\$ 155,774.72	\$ 155,774.72		
Easy - USB 4457	03/04/14	Shapiro Van Ess & Sherman, LLP	122,000.00	DIC0012834	6545500234				
Easy - USB 4457	03/04/14	Recontrust Company	122,400.00	DIC0012834	6545500233				
Easy - USB 4457	03/04/14	David W. Cowles, Trustee	134,200.00	DIC0012835	6545500235				
Easy - USB 4457	03/04/14	David W. Cowles, Trustee	162,509.00	DIC0012835	6545500236	\$ 417,086.02	\$ 417,086.02		
Easy - USB 4457	03/05/14	Les Zieve, Trustee	236,200.00	DIC0012835	6545500241				
Easy - USB 4457	03/05/14	Quality Loan Services Corp.	252,500.00	DIC0012835	6545500242	\$ 183,449.97	\$ 183,449.97		
Easy - USB 4457	03/07/14	Jason Cotton Trustee	164,200.00	DIC0012842	6545500246				
Easy - USB 4457	03/07/14	Shapiro Van Ess & Sherman, LLP	260,100.00	DIC0012836	6545500245	\$ 411,644.53	\$ 411,644.53		
Easy - USB 4457	03/10/14	Quality Loan Services Corp.	218,800.00	DIC0012837	6545500252				
Easy - USB 4457	03/10/14	David W. Cowles, Trustee	245,200.00	DIC0012837	6545500253	\$ 246,081.20	\$ 246,081.20		
Easy - USB 4457	03/11/14	FATSS	163,600.00	DIC0012837	6545500258	\$ 213,701.08	\$ 213,701.08		
Easy - USB 4457	03/12/14	Recontrust Company	164,800.00	DIC0012839	6545500261				
Easy - USB 4457	03/12/14	Clear Recon Corp.	224,200.00	DIC0012839	6545500262	\$ 124,987.91	\$ 124,987.91		
Easy - USB 4457	03/13/14	David W. Cowles, Trustee	122,100.00	DIC0012840		\$ 37,804.22	\$ 37,804.22		
Easy - USB 4457	03/14/14	Recontrust Company	125,600.00	DIC0012840					
Easy - USB 4457	03/14/14	Recontrust Company	131,900.00	DIC0012840					
Easy - USB 4457	03/14/14	Recontrust Company	132,800.00	DIC0012840		\$ 192,585.05	\$ 192,585.05		
Easy - USB 4457	03/17/14	Quality Loan Services Corp.	83,500.00	DIC0012841					
Easy - USB 4457	03/17/14	Recontrust Company	218,600.00	DIC0012841		\$ 52,001.85	\$ 52,001.85		
Easy - USB 4457	03/18/14	Quality Loan Services Corp.	354,600.00	DIC0012842		\$ 79,206.48	\$ 79,206.48		
Easy - USB 4457	03/19/14	David W. Cowles, Trustee	181,100.00	DIC0012842					
Easy - USB 4457	03/19/14	David W. Cowles, Trustee	226,200.00	DIC0012842		\$ 114,558.09	\$ 114,558.09		
Easy - USB 4457	03/20/14	Quality Loan Services Corp.	111,400.00	DIC0012843	5109504417				
Easy - USB 4457	03/20/14	Quality Loan Services Corp.	127,300.00	DIC0012843	5109504419				
Easy - USB 4457	03/20/14	Quality Loan Services Corp.	129,200.00	DIC0012843		\$ 11,257.96	\$ 11,257.96		
Easy - USB 4457	03/21/14	Quality Loan Services Corp.	132,500.00	DIC0012843	6545500277				
Easy - USB 4457	03/21/14	First American Title Insurance	173,600.00	DIC0012843	6545500276	\$ 224,539.43	\$ 224,539.43		
	03/24/14		186,400.00	R-002709	6545500284	\$ 301,446.70	\$ 115,046.70		
	03/25/14		104,200.00	R-002712	6545500287				
	03/25/14		82,500.00	R-002711	6545500288				
	03/25/14		266,800.00	R-002710	6545500289	\$ 262,046.42	\$ (191,453.58)		
	03/26/14		176,200.00	R-002713	6545500292	\$ 127,194.96	\$ (49,005.04)		
Easy - USB 4457	03/26/14	David W. Cowles, Trustee	134,110.00	USB_DENSCCO000575	6545500293				
Easy - USB 4457	03/26/14	Republic Media	24,170.81	USB_DENSCCO000573	6545500294				
Easy - USB 4457	03/27/14	Quality Loan Services Corp.	153,200.00	DIC0012846	6545500296	\$ 436,604.66	\$ 436,604.66		
	03/28/14		184,310.00	R-002715	6545500298				
Easy - USB 4457	03/28/14	Trustee Corp	140,761.00	USB_DENSCCO000579	6545500299				
	03/28/14		117,400.00	R-002714	6545500300	\$ 538,107.98	\$ 236,397.98		
Easy - USB 4457	04/01/14	David W. Cowles, Trustee	126,709.00	USB_DENSCCO000093	6545500313				
Easy - USB 4457	04/01/14		173,300.00	R-002716	6545500314	\$ 62,121.72	\$ (111,178.28)		
Easy - USB 4457	04/01/14	Waterford and Tatum	1,030.00	USB_DENSCCO000087	6545500316				
Easy - USB 4457	04/02/14	Auction.Com LLC	165,000.00	USB_DENSCCO000091	6545500317				
	04/02/14		192,209.00	R-002717	6545500318				
	04/02/14		173,309.00	R-002718	6545500319	\$ 244,890.32	\$ (120,627.68)		
Easy - USB 4457	04/02/14	Republic Media	30,971.73	USB_DENSCCO000089	6545500320				
	04/03/14		92,600.00	R-002719	6545500323	\$ 35,706.65	\$ (56,893.35)		
	04/04/14		133,800.00	R-002720	6545500325				
	04/04/14		125,800.00	R-002723	6545500326				
	04/04/14		179,209.00	R-002722	6545500327				
	04/04/14		263,209.00	R-002721	6545500328	\$ 364,431.96	\$ (337,586.04)		
Easy - USB 4457	04/07/14	David W. Cowles, Trustee	108,009.00	DIC0012809	6545500334				
Easy - USB 4457	04/07/14	Quality Loan Services Corp.	134,400.00	DIC0012809	6545500333				
Easy - USB 4457	04/07/14	First American Title Ins.	182,500.00	DIC0012809		\$ 725,391.12	\$ 725,391.12		

Orphan Cashier's Checks are highlighted in Tan.

This chart intersperses the “orphan” checks with the “round-tripped” checks, and notes both the “End of Day Reported Balance” as documented in the monthly bank statements of the -4457 account, and an “Ending Balance Adjusted for

Orphan Check Amounts” which provides a proxy of what the branch employee would have seen in her verification of funds. Extracting the dates associated with the “orphan checks” yields Chart (4) below:

Chart (4)

Adjusted Ending Daily Balance with Orphan Checks								
Account #	Issue Date	Payee	Withdrawal	Bates #	CC #	End of Day Reported Balance	Ending Balance Adjusted for Orphan Check Amounts	Comments
USB -4457	01/22/14		136,009.00	R-002704	6545500126	\$ 107,620.66	\$ (28,388.34)	
USB -4457	02/01/14		103,009.00	R-002706				1/31/14 ending bal. 2/1 was a Saturday.
USB -4457	02/03/14		186,200.00	R-002705	6545500149	\$127,812.64		
USB -4457	02/05/14		397,000.00	R-002707	6545500150	\$ 220,420.77	\$ (68,788.23)	
USB -4457	02/11/14		182,000.00	R-002708	6545500156	\$ 221,373.10	\$ (175,626.90)	
USB -4457	02/11/14		182,000.00	R-002708	6545500177	\$ 259,843.07	\$ 44,843.07	
USB -4457	03/24/14		186,400.00	R-002709	6545500284	\$ 301,446.70	\$ 115,046.70	
USB -4457	03/25/14		104,200.00	R-002712	6545500287			
USB -4457	03/25/14		82,500.00	R-002711	6545500288			
USB -4457	03/25/14		266,800.00	R-002710	6545500289	\$ 262,046.42	\$ (191,453.58)	
USB -4457	03/26/14		176,200.00	R-002713	6545500292	\$ 127,194.96	\$ (49,005.04)	
USB -4457	03/28/14		184,310.00	R-002715	6545500298			
USB -4457	03/28/14		117,400.00	R-002714	6545500300	\$ 538,107.98	\$ 236,397.98	
USB -4457	04/01/14		173,300.00	R-002716	6545500314	\$ 62,121.72	\$ (111,178.28)	
USB -4457	04/02/14		192,209.00	R-002717	6545500318			
USB -4457	04/02/14		173,309.00	R-002718	6545500319	\$ 244,890.32	\$ (120,627.68)	
USB -4457	04/03/14		92,600.00	R-002719	6545500323	\$ 35,706.65	\$ (56,893.35)	
USB -4457	04/04/14		133,800.00	R-002720	6545500325			
USB -4457	04/04/14		125,800.00	R-002723	6545500326			
USB -4457	04/04/14		179,209.00	R-002722	6545500327			
USB -4457	04/04/14		263,209.00	R-002721	6545500328	\$ 364,431.96	\$ (337,586.04)	
Orphan Cashier's Checks are highlighted in Tan.								

The twenty “orphan” checks were issued on twelve separate dates.²¹ On nine of these dates, it is more likely than not that the branch employee preparing the checks would have discovered that “good funds” were insufficient to cover the value of the requested cashier’s check. Stated directly, on nine of these dates, the -4457 account did not contain sufficient “good funds” to allow the issuance of the “orphan” cashier’s checks.

There are three dates in which it appears that even with the deduction of the “orphan” check amounts, the -4457 account would still be positive at the end of the day. But a closer examination of the monthly bank statements on these three days reveals the following:

²¹ Note that February 1, 2014 was a Saturday, and deposit system transactions on weekends are typically updated the following business day, in this case that would have been Monday, February 3, 2014. On Saturday, February 1, the deposit system would have noted an ending balance as of Friday, January 31, 2014.

- On February 11, 2014, Menaged made two mobile transfers²² in a total amount of \$40,000. The account also received a DenSco wire in the amount of \$192,000. This wire originated with DenSco's Bank of America account. These three transactions are the last posted "Other Deposits" in the February 2014 bank statement. "Other Deposits" are posted chronologically in the monthly statements. It is more probable than not that these deposit transactions posted subsequent to the branch printing the "orphan" check in the amount of \$182,000. While Bank of America has produced time stamped wire details of the wire it initiated, the stamp represents the time the wire in question was transmitted to USB, not the time of receipt by USB. USB, like all banks, has wire procedures relating to incoming wire transactions that delay the posting of such wires to the customer account. For example, prior to USB posting a wire amount to a customer account, it must perform an OFAC screening. OFAC is a government agency within the U.S. Department of the Treasury. OFAC stands for Office of Foreign Assets Control, which administers and enforces economic sanctions based on U.S. foreign policy. Although incoming wires must be credited to the receiving account within a 24-hour time limit, the actual time that a wire is credited to a customer account is dependent on the volume of wires processed in a given day. Accordingly, the appearance of a positive balance in the account at the end of the day, even considering the value of the orphan check, does not mean funds were available when the check was requested.

Further, on the prior day (February 10, 2014), the -4457 account was in an overdrawn condition in the amount of -\$77,080.39, and USB notified Menaged that the bank had returned items in the amount of \$113,462.39 that day.²³

- On March 24, 2014, the last posted "Other Deposit" was a wire transaction from DenSco's Bank of America account in the amount of \$306,000. It is more probable than not, for the reasons stated above, that this wire

²² Mobile Banking Transfers of \$20,000 and \$20,000 from his other accounts ending in -4440 and -6416. See USB_DENSCO000726.

²³ DIC0070704

deposit posted subsequent to the branch printing the “orphan” check in the amount of \$186,400, and at the time of the printing, the account would have shown insufficient funds to cover the cashier’s check.

- On March 28, 2014, the last posted “Other Deposit” was a wire transaction from DenSco’s Bank of America account in the amount of \$472,451. It is more probable than not, for the reasons stated above, that this wire deposit posted subsequent to the branch printing two “orphan” checks in the amounts of \$184,310 and \$117,400, and at the time of the printing, the account would have shown insufficient funds to cover the cashier’s checks.

USB Branch Personnel Were Willing Participants in the Scheme

Menaged’s Ponzi scheme depended on an uninterrupted flow of DenSco wires in order to continue the fraud. Any interruption in this funding source (and it was the ONLY funding source that allowed the Ponzi scheme to continue) would end the fraud. As noted earlier, DenSco had established a new process in late 2013 to validate that its funds were used as intended (i.e., to purchase properties). The new procedure consisted of DenSco’s wiring new advances to accounts that Menaged maintained at USB, and having Menaged provide copies of cashier’s checks, issued by USB, and made payable to the sale trustee, as proof that the funds were being used as closing funds on successful trustee sale bids.

With this new requirement in place, Menaged became reliant on the assistance of USB branch personnel to continue the fraud scheme, because the issuance of fraudulent cashier’s checks was the linchpin of the scheme. Rocha and Chavez, as managers of the Arrowhead Fry’s branch, were critical to this fraud. However, the scheme required not only the complicity of these USB employees, but also a sufficient level of cash balances to allow Rocha and Chavez to issue cashier’s checks.

From its start in November 2013, this new procedure created cash flow problems for Menaged in the -4457 account. The procedure now entailed additional steps (contact USB with property addresses, collect the cashier’s checks at the branch, photograph the cashier’s checks and submit to DenSco, redeposit the cashier’s checks into the -4457 account), and imposed a requirement that the -4457 account contain sufficient cash to support the issuance of cashier’s checks that

kept the scheme operational. This additional coordination resulted in a series of overdraft issues in the -4457 account beginning concurrently with the new procedure.

The Overdraft Problems of the -4457 Account

The -4457 account was in overdraft numerous days commencing on November 22, 2013, only one week after the first cashier's check had been round-tripped. On that date, USB notified Menaged that the -4457 account was in overdraft, and the bank returned \$89,175.00 of items presented for payment. This was not an isolated incident. Consider the overdraft history²⁴ from November 2013 to April 2014, a period that coincides with USB's issuance of "orphan" cashier's checks:

Chart (5)

<i>History of -4457 Account Overdrafts</i>			
Date	Balance if all Items Paid	Items Returned	Ending Balance
11/22/2013	\$ (90,123.76)	\$ 89,175.00	\$ 1,056.76
12/18/2013	\$ (280,419.33)	\$ 3,106.03	\$ (277,709.30)
12/24/2013	\$ (19,326.69)	\$ 45,186.48	\$ 25,823.79
12/26/2013	\$ (1,482.02)	\$ -	\$ (1,518.02)
2/10/2014	\$ (77,080.39)	\$ 113,462.00	\$ 36,345.61
2/25/2014	\$ (10,949.45)	\$ 13,189.00	\$ 2,167.55
4/4/2014	\$ 3,938.96	\$ 367,891.40	\$ 363,916.44
4/11/2014	\$ (12,893.39)	\$ 46,256.00	\$ 33,326.61

As shown, on an ongoing basis Menaged had difficulty balancing the new DenSco procedural requirements with his need to fund the Ponzi scheme with new DenSco advances.

In spite of his process to "round-trip" cashier's checks, wherein the money funding the issuance of these cashier's checks never really left the bank, the process of issuing these cashier's checks did, in fact, require that the -4457 account contain sufficient cash balances to cover the amount of the checks issued. Once the checks were redeposited, Menaged siphoned off the cash for other purposes, leaving the -4457 account short of cash and needing to be replenished with new DenSco advances. But he needed to submit copies of

²⁴ As documented in DIC0070696 through DIC 0070731

cashier's checks to DenSco in order to receive subsequent advances. And personnel at USB were required, by policy, to verify "good funds" in an amount sufficient to cover the amount of each cashier's check. As with all Ponzi schemes, since substantial amounts of cash were misdirected, each subsequent round of cash advances needed to be increasingly larger. So as time progressed, the Ponzi scheme became increasingly more difficult to repeat.

The Orphan Check Solution

The orphan checks were the solution to insufficient funds. Over a period from January to April 2014, when Menaged needed to submit to DenSco "proof" that the DenSco advances were used for new property purchases, he ordered new batches of cashier's checks. However, there were days when the -4457 available account balance was insufficient for branch personnel to verify "good funds" for the total number of cashier's checks requested. In those instances, the "orphan" check process kicked in.

Essentially, it appears that USB employees issued orphan cashier's checks in the amounts requested by Menaged. These checks, as noted above in Chart (4), were issued in amounts that were in excess of the available "good funds" in the -4457 account. Menaged and/or Castro were handed these checks allowing them to take cell phone pictures of the checks which would then be forwarded to DenSco as proof that the funds were used as intended.²⁵

Consistent with the process involving "round-tripped" cashier's checks, these items would then be returned by Castro to banking personnel. However, unlike the "round-tripped" checks, which would be noted as *"Not used for the intended purpose,"* and re-deposited into the -4457 account, these "orphan" checks were never processed through the deposit system. Instead, they simply disappeared – no transaction record in monthly statements, no counter withdrawal tickets, no

²⁵ Chavez confirms that these orphan checks were handed to the customer, photos were taken, and the checks returned to Chavez. See Hilda Chavez deposition dated August 12, 2022, Pg. 138, lines 12-20. She modifies her prior testimony in which she stated that the check photos were sent to the "partner" as proof of the transaction to now state that this was not always the purpose of the photos. See Pg. 138, lines 6-11. This contradicts her prior testimony.

proof copies, and no counter deposit tickets. In short, no record of any such checks in USB corporate records or data bases.²⁶

The process by which USB employee Chavez reversed these “orphan” check transactions appears to have been accomplished through a function known as a “*non-printing reversal*,” a feature common to all deposit transaction systems. Hilda Chavez, the assistant branch manager, refers to this as a reversal.²⁷ A “*non-printing reversal*” is a function that allows a teller to reverse a prior mistaken entry such that the mistake does not appear at month end on any affected bank statements. For example, a teller may post a customer deposit to an incorrect account. When the error is found, the teller can post a “non-printing reversal” (assuming the error is found and corrected within the monthly statement cycle) wherein the incorrect entries are completely eliminated, and no record of the error is found on customer statements.

Even though the transactions are reversed, there are still records within bank systems as to the reversal. For example, in the case of reversed cashier’s checks the serial number would be captured on monthly reports (see discussion of cashier’s check periodic reports earlier in this report), and teller tapes and, dependent on the software, electronic transaction records. USB states any such records were not retained.

Chavez’ Explanation of an Unwritten Practice

Hilda Chavez, the assistant branch manager, provided a tortured explanation for why she decided to “reverse” these transactions as opposed to marking the check as “Not used for the intended purpose,” and redepositing the check proceeds back into the -4457 account:

“Q.—why would you just not redeposit it like you did with all the other checks?

A. Because the – at the time it was a thing that we could do.”

²⁶ The only corporate record would have been the CA-View Reports as noted in USB’s Policy Manual dated 09/2013. See USB_DENSCO001079 through 001083 (see also footnote 20). As previously noted, USB claims not to have retained these records.

²⁷ See Hilda Chavez deposition dated August 12, 2022, Pg. 138, lines 17-25.

Later in her deposition, she was asked about the practice of reversing cashier's checks and stated that there was no written policy describing this procedure:

"It is just a practice that we know we could do up until nowadays."

To be clear, there is no reference in the Operating Procedures Manual for Cashier's Checks that defines, explains, mentions, or allows the practice described by Chavez. The referenced corporate procedures manual explains, in detail, the requirements to cancel, reverse and void a cashier's check that, by Chavez' own admission, had already been printed, given to the customer, and photographed by that customer in her presence. The policy unambiguously states that once the cashier's check is given to the customer, it cannot be "reversed."

In fact, her description of an unwritten practice involving reversal of a cash equivalent instrument where there is no supporting policy documentation stretches the boundary of belief. In my professional bank training and experience, which stretches over thirty years, there are no unwritten policies or practices regarding the handling of negotiable instruments. No bank would put itself at risk of monetary loss by allowing "unwritten" procedures governing the handling of "cash equivalent" instruments. Policies and Procedures are created for a reason: They are to be followed.

Aside from reversing a transaction after Hilda Chavez gave the cashier's check to the customer and allowed the customer to photograph the check, Hilda Chavez's testimony as to how she handled the documents for the reversed transaction is also contrary to USB policies and procedures. USB has an unambiguous policy on voiding cashier's checks. The teller has to write "void" on all three copies of the check, give them to branch management for audit purposes, and then branch management ensures that management has all copies and management destroys the voided items. For any voided check, a branch manager has to be involved.²⁸ Branch management is responsible for daily review of voided items.

Back in 2013, Hilda Chavez was not aware of the daily list of voided checks.²⁹ When asked what happened to the cash withdrawal slip on a reversal, Ms. Chavez testified that "[w]e weren't able to destroy anything at the time. I remember

²⁸ See Hilda Chavez deposition dated August 12, 2022, Pg. 63, lines 6-15.

²⁹ See Hilda Chavez deposition dated August 12, 2022, Pg. 65, lines 5-10.

putting everything in an envelope with our teller tape. We would stamp it to our teller tape."³⁰ This included the proof copy of the cashier's check and "everything we did."³¹ The testimony is again contrary to bank policy.

Hilda Chavez portrays her actions as normal course of business activities. In banking organizations that I led during the course of my career, I would describe her actions differently – These were actions justifying termination of employment for cause.

Hilda Chavez testified that she saw Menaged/Castro photograph the checks.³² They told her the photographs of the checks were taken to prove to their partner that properties were being purchased.³³ Issuing cashier's checks on insufficient funds, knowing they are photographed to show proof that property is being purchased, and reversing the transaction as if it did not exist, is aiding and abetting a fraud.

The Testimony of USB Employees

Hilda Chavez and Leslie Rocha both have recollections of Veronica Castro and the Menaged cashier's checks.

In Rocha's deposition, she is asked to review a number of cashier's checks that had been issued at the request of Menaged, all of which had been returned noting, "Not used for the intended purpose." In each such instance, Rocha was asked if this activity of issuing and then immediately returning and depositing these checks in a matter of five to thirty minutes after issuance was unusual. Consistently, her response was *"I wouldn't say unusual."*

When Hilda Chavez received returned checks, she testified she would ask about them and was told "we didn't purchase the property. The auction didn't go through."³⁴

³⁰ See Hilda Chavez deposition dated August 12, 2022, Pg. 110, lines 12-17.

³¹ See Hilda Chavez deposition dated August 12, 2022, Pg. 110, lines 22-24.

³² See Hilda Chavez deposition dated August 12, 2022, Pg. 42, lines 7-17.

³³ See Hilda Chavez deposition dated August 12, 2022, Pg. 43, lines 1-3.

³⁴ See Hilda Chavez deposition dated August 12, 2022, Pg. 91, lines 2-8.

In fact, based on my bank training and experience, such instances of “round-tripping” cashier’s checks, often approaching or exceeding \$500,000 at her branch, and in particular with Menaged as her customer, were extremely unusual.

As noted earlier, this “round-tripping” activity was non-existent in the -4457 transaction records until November 2013, when the first such transaction occurred. The account was opened in late 2012, and such reversing transactions did not occur until a year later, in late 2013. In fact, until this practice started with the -4457 account, high volumes of cashier’s checks, and cancellations of same, rarely occurred in that account, or at that branch.

In spite of the abrupt historical change in the nature of transactions, Rocha did not view these transactions as unusual. According to her testimony, the significant increase in the request for cashier’s checks, the almost simultaneous cancellation and redeposit of these instruments, and the practice of Castro’s snapping images of these instruments inside the branch was not a cause for concern.

After completing a year (December 2012 through November 2013) during which there were no “round-tripped” cashier’s checks issued, Rocha’s branch from November 14, 2013 through April 4, 2014, issued 44 documented transactions in a six month period, and 20 “orphan” checks. At least one of these “orphans” Rocha said she signed.

From November 14, 2013 through April 4, 2014, the -4457 account was used to purchase exactly four properties — four legitimate real estate transactions using cashier’s checks in payment. Concurrently, there were 44 fraudulent transactions using “round-tripped” cashier’s checks, and twenty “orphan” cashier’s checks issued.

Cashier’s checks were ordered and returned within minutes, typically within ten to 30 minutes. Hilda Chavez testified she heard Veronica Castro on the phone with Scott Menaged before returning the checks, and understood the purchase of the property had fallen through. This testimony lacks any reasonable sense. No explanation is given as to why one would need a check before the Sale price of the property is determined at public auction.

The Irrefutable Facts

However, this is what we do know about the “orphan” checks and the practice of “round-tripping”:

- There is no question that the twenty cashier’s checks, whose images were discovered on DenSco computing equipment, are authentic and were issued by USB branch 6545 (Arrowhead Fry’s In-store branch).
- Signatures have been verified on at least thirteen of the “orphan” checks as having been signed by either Rocha or Chavez as noted below:

Adjusted Ending Daily Balance with Orphan Checks												
Account #	Issue Date	Payee	Withdrawal	Bates #	CC #	End of Day Reported Balance	Ending Balance Adjusted for Orphan Check Amounts	Comments	Signer	Signature Confirmed		
USB -4457	01/22/14		136,009.00	R-002704	6545500126	\$ 107,620.66	\$ (28,388.34)		Rocha	confirmed		
USB -4457	02/01/14		103,009.00	R-002706				1/31/14 ending bal. 2/1 was a Saturday.	Chavez	confirmed		
USB -4457	02/03/14		186,200.00	R-002705	6545500149	\$127,812.64	\$ (68,788.23)		Chavez	confirmed		
USB -4457	02/05/14		397,000.00	R-002707	6545500156	\$ 221,373.10	\$ (175,626.90)		Chavez	confirmed		
USB -4457	02/11/14		182,000.00	R-002708	6545500177	\$ 259,843.07	\$ 44,843.07		Chavez	confirmed		
USB -4457	03/24/14		186,400.00	R-002709	6545500284	\$ 301,446.70	\$ 115,046.70		Chavez	confirmed		
USB -4457	03/25/14		104,200.00	R-002712	6545500287				Chavez	confirmed		
USB -4457	03/25/14		82,500.00	R-002711	6545500288				Chavez	confirmed		
USB -4457	03/25/14		266,800.00	R-002710	6545500289	\$ 262,046.42	\$ (191,453.58)		Chavez	confirmed		
USB -4457	03/26/14		176,200.00	R-002713	6545500292	\$ 127,194.96	\$ (49,005.04)		Chavez	confirmed		
USB -4457	03/28/14		184,310.00	R-002715	6545500298				Maggie Villa			
USB -4457	03/28/14		117,400.00	R-002714	6545500300	\$ 538,107.98	\$ 236,397.98		Maggie Villa			
USB -4457	04/01/14		173,300.00	R-002716	6545500314	\$ 62,121.72	\$ (111,178.28)		?			
USB -4457	04/02/14		192,209.00	R-002717	6545500318				Chavez	confirmed		
USB -4457	04/02/14		173,309.00	R-002718	6545500319	\$ 244,890.32	\$ (120,627.68)		Chavez	confirmed		
USB -4457	04/03/14		92,600.00	R-002719	6545500323	\$ 35,706.65	\$ (56,893.35)		Chavez	confirmed		
USB -4457	04/04/14		133,800.00	R-002720	6545500325				Maggie Villa			
USB -4457	04/04/14		125,800.00	R-002723	6545500326				Maggie Villa			
USB -4457	04/04/14		179,209.00	R-002722	6545500327				Maggie Villa			
USB -4457	04/04/14		263,209.00	R-002721	6545500328	\$ 364,431.96	\$ (337,586.04)		Maggie Villa			
Orphan Cashier's Checks are highlighted in Tan.												

- Chavez has confirmed that she handed the checks she prepared (twelve in total) to Castro, who then photographed the checks.
- Chavez has stated that she understood that check images of both the “round-tripped” and “orphan” check images were sent to Menaged’s “partner” for the purpose of proving that the properties were purchased.
- Once photographed, the checks were returned to Chavez or other branch personnel, who “reversed” the transactions. She expressed no concern over Castro’s anomalous behavior when the “proof of purchase” was immediately cancelled.
- DenSco wired funds to the -4457 account based upon receipt of cashier’s check images. Rocha and Chavez understood that these funds were

intended to fund property purchases. Each check reflected the property address for which the funds were intended to purchase. These funds were not used as intended. Both Rocha and Chavez were keenly aware of this fact.

- The issuance of fraudulent cashier's checks was the linchpin of the fraud. Without the complicit involvement of Rocha and Chavez, this fraud would not have occurred.

5.0 Summary of Opinions – USB Employee Deposition Testimony

- Leslie Rocha and Hilda Chavez were instrumental and willing participants in the money-laundering fraud perpetrated by Menaged against DenSco.
- Rocha and Chavez allowed the fraud to continue when DenSco modified its documentation procedures in late 2013. Through their participation in the issuance and “round-tripping” of fraudulent cashier’s check, Menaged was enabled to continue the fraud against DenSco.
- The issuance of “orphan” checks by Rocha and Chavez magnified DenSco’s losses when the lack of funds in the -4457 account would have otherwise stopped the fraud. The lack of “good funds” prevented Rocha and Chavez from issuing additional “round-tripped” cashier’s checks. By their disregard of corporate policies and procedures, Rocha and Chavez created the “work around” needed by Menaged to continue the fraud.

6.0 Receipt of Unredacted Anti-Money Laundering (AML) Log Entries of three internal investigations of the -4457 account.

In my original report dated January 10, 2022, I discussed the Wayne Thompson investigation of the -4457 account which was summarized in an AML Entry log³⁵ on January 3, 2013. Subsequently, my first Supplemental Report was issued to address issues arising from the deposition of Wayne Thompson. Now, this second Supplement Report is submitted to address issues relating to Plaintiff's receipt of the unredacted copy of Thompson's investigation, as well as two subsequent investigations noted on the unredacted AML Entry Log.

The Wayne Thompson Investigation

As documented by Thompson, his investigation was prompted by two suspicious alerts:

- Purchases of cashier's checks in amounts of \$10,000 which were later redeposited, and;
- Large outgoing wire transactions.

The referenced entry log document was heavily redacted, so at the time of the initial Supplemental Report it was difficult to review Thompson's work in a granular manner. Accordingly, I documented the period of his review (12-12-2012 through 1-22-2013) and identified the account transactions of that period, observing the obvious discrepancy that many of the account transactions were unrelated to the nature of the business, and under USB's Anti-Money Laundering policies and training manuals, should have been "flagged" as "suspicious" and investigated further.

Subsequently, USB has provided a less-redacted copy of this AML Entry log³⁶ which also contains comments generated by two additional AML analysts.³⁷ Whereas the first Supplemental Report dated May 5, 2022, which commented on the Thompson deposition and his related investigation, contained my opinions of what Thompson should have observed in his review of that account, we now have

³⁵ USB_DENSCO001150

³⁶ USB_DENSCO001316 through -001318

³⁷ In addition to the Thompson investigation (1-23-12), the Menaged account relationship, which included the -4457 account, was investigated by two other analysts – Chris Wolters (9-18-13) and Barry Lundin (4-29-14).

full visibility of his investigation – the transactions he reviewed, his understanding of the nature of the business operations of Easy Investments, and his conclusions.

What Thompson Knew

Thompson's investigation comments confirm that he clearly understood the nature of the business of Easy Investments:

*"Easy Investments LLC is a real estate investment company. Yomtov Menaged AKA Scott Menaged is featured on the show Property Wars on the Discovery Channel as an expert in purchasing properties at auctions and then flipping the homes (emphasis added)."*³⁸

Furthermore, Thompson noted that in his review of account transactions, there were 13 incoming wire transfers, seven of which were from DenSco, which he described as:

"DenSco Investments is a business that targets the funding of Trust Deeds on Real Estate that is highly marketable, has sufficient equity, and the borrower is competent in fulfilling the obligation of the note...Most of these loans will be to Residential and Commercial Foreclosure Specialists that will renovate and then flip the properties in a relatively short period of time."

Clearly, Thompson understood that Easy Investments LLC both bought and sold properties. Thompson understood that properties purchased by Easy Investments were financed through loans from DenSco. And he also understood that the properties would be resold, generally within a brief period of time after the initial purchase.

In his review of account credits, he correctly identifies 13 incoming wires in an aggregate amount of \$2,286,525.15. Seven of these wires, in an aggregate amount of \$2,100,000 originated from DenSco. And the balance of credits originated from a variety of sources, including Magnus Title, Bond Properties, TSA Title, and numerous cashier's checks issued from other financial institutions (e.g., Bank of America, Chase, Wells Fargo), remitted by Yomtov Menaged. While these latter credits were somewhat unusual (Menaged as remitter), the transactions generally conformed to the nature of the business as described.

³⁸ USB_DENSCO001316

However, he also reviewed a disturbing pattern of expenditures which clearly were not related to known business activities. The more significant expenditures within Thompson's review period are summarized in Chart (6) below:

Chart (6)

	Sources	Business Uses				Third-Party Loan Repayments	Personal Expenditures					
Day	DenSco Wires In	Property Purchases	Keg Inspections	Cash Withdrawals - Bid Checks/Busi- ness Related	DenSco Repayments	Active Funding/Other Paydowns	Transfers to Furniture King	Easy Acct @ BoFA -5496	Cash Withdrawals - Personal	Joseph Menaged	Aria/St Regis Hotels	Barrett Jackson Auto Auctions
13-Dec	\$ 400,000											
14			\$ 40,000				\$ 40,000			\$ 86,258	\$ 17,000	
16												\$ 9,000
17					\$ 26,235							
18				\$ 19,147		\$ 11,156						
21				\$ 10,000								
26				\$ 44,731				\$ 100,000				
27	\$ 200,000			\$ 48,218	\$ 22,740							
28	\$ 290,000			\$ 14,000			\$ 30,000					
31-Dec								\$ 250,000	\$ 10,000			
2								\$ 248,177				
3	\$ 210,000		\$ 13,992	\$ 31,097								
4	\$ 520,000		\$ 39,574	\$ 30,000	\$ 66,355	\$ 100,000			\$ 10,000			
7			\$ 10,838			\$ 49,097				\$ 150,000		
8						\$ 135,698						
9		\$ 27,459							\$ 10,000	\$ 150,000		
11	\$ 150,000		\$ 19,109	\$ 10,000								
14					\$ 20,430	\$ 200,000			\$ 15,000	\$ 110,015		
15				\$ 30,000								
16	\$ 330,000											
17						\$ 143,451						\$ 73,500
18				\$ 14,755		\$ 114,225						
22					\$ 18,765					\$ 134,325		
23-Jan			\$ 36,473									
Totals	\$ 2,100,000	\$ 27,459	\$ 159,986	\$ 251,948	\$ 154,525	\$ 753,627	\$ 70,000	\$ 598,177	\$ 45,000	\$ 630,598	\$ 17,000	\$ 82,500

Several issues are immediately apparent from this chart. First, for the period reviewed by Thompson, of the \$2.1 million in DenSco wires earmarked to fund trustee sale purchases, there was *ONE* transaction³⁹ in the amount of \$27,459.29 payable to Security Title Agency that related to a property acquisition by Easy Investments (approximately 1% of the DenSco funds advanced).

As Thompson meticulously noted in his AML Entry log, he reviewed a variety of account debits. Notably, Thompson identifies \$135,325 paid to Joseph Menaged, a relative; \$598,177 paid to a Bank of America account in the name of Easy

³⁹ DIC0013113

Investments;⁴⁰ \$82,500 paid in two separate checks to Barrett Jackson;⁴¹ and a veritable laundry list of payments for personal lifestyle expenses. In this regard, Thompson lists, among other payees, American Express, Porsche Credit, Aria Resort and Casino, and the St. Regis Bahia Beach Resort. He makes no further investigative effort to assess the appropriate nature of these expenditures, all of which were funded from DenSco advances which were intended to fund property purchases.

Incredulously, he concludes:

"The vast majority of the transactions are associated with businesses that are involved with the purchase of foreclosed homes, short term investments in real estate and the selling of the fixed foreclosed homes."

How he reaches this conclusion, particularly in view of the significant transfers to relatives, expenditures at resorts and gambling casinos, and a classic car auction, is not explained.

⁴⁰ This is a suspicious transfer that should have been investigated through a 314b request to Bank of America. Section 314(b) of the USA PATRIOT Act provides financial institutions with the ability to share information with one another, under a safe harbor that offers protections from liability, in order to better identify and report potential money laundering or terrorist activities. 314b requests are commonly filed by banks for the purpose of facilitating the filing of more comprehensive and complete SAR than would otherwise be filed in the absence of 314(b) information sharing.

⁴¹ Thompson identifies this expenditure as "Barrett Jackson (Car Collectors auction)."

7.0 Other Investigations of the -4457 Account

As noted above, the AML Entry log also included investigation comments from two additional USB investigators.

Chris Wolters Investigation

Analyst Wolters investigated transactions for the period 6-18-2013 through 9-17-2013 triggered from unusual "cash deposits and withdrawals."⁴² His comments include:

- He noted one cash deposit in the amount of \$80,000 but makes no comment other than to list this transaction.⁴³
- He also notes 83 cash withdrawals in an aggregate amount of \$2,690,216. Of this amount, 73 of these withdrawals were to purchase cashier's checks (\$2,537,318) and he documents that "a majority of the cashier's checks were made payable to Magnus Title."
- Multiple wires from DenSco, which he notes "invests in foreclosed real estate."

He offers no opinions regarding the nature of these transactions. Essentially, he documents an "inventory" of account transactions, with no opinion as to their applicability to the business. But it is apparent from his descriptions of these transactions that he did review the account in some depth.

However, his investigation failed to mention the following:

- Fifteen funding wires from DenSco in an aggregate amount of \$8,795,540.
- Eight wires/checks payable to DenSco in an aggregate amount of \$982,881.
- Eight wires/checks payable to Joseph Menaged in an aggregate amount of \$722,951.
- Fifty-five checks payable to Active Funding Group (AFG) in an aggregate amount of \$2,895,825 with notations indicating that many of these payments were related to indebtedness to AFG.

⁴² USB_DENSCO001317 (see also footnote 36)

⁴³ Wolters also fails to note that nine days later, Menaged withdrew \$100,000 in cash in an "over the counter" transaction. See DIC0056951-52

These last two debit categories (payments to Joseph Menaged and AFG) are particularly troublesome since DenSco funds were used to make these third-party payments, and as previously noted, DenSco funds were intended to fund specific property purchases from successful trustee sales. It is irrefutable that these payments were an obvious misuse of DenSco funds. Wolters was conspicuously silent on this issue. Wolters offers no comments on the suspicious nature of these transactions. The Menaged fraud continued.

Barry Lundin Investigation

Analyst Lundin investigated the -4457, and related Menaged accounts, on 4-29-2014 resulting from an alert described as “cash withdrawals.” His period of review covered 1-29-2014 through 4/28/2014, which coincides with the period during which the Arrowhead Fry’s branch was issuing both “round-tripped” cashier’s checks and orphan checks (refer to earlier parts of this Supplemental Report). This investigation resulted from a series of cash withdrawals during that period.⁴⁴ Lundin documented his review of the following transactions:

- Six cash deposits in an aggregate amount of \$182,804.50.
- 136 cash withdrawals in an aggregate amount of \$10,833,935.22 which were used to purchase cashier’s checks.
- Other credits which he identifies as originating from Bank of America (DenSco wire transactions), transfers from other Menaged accounts at USB, and credits from GE Capital, Progressive Financial and Quantum Resources Group.

As noted in prior investigations, Lundin’s review appears to be an inventory of transactions, but makes no mention of the unusual, and suspicious nature of the cancelled and redeposited cashier’s checks which were prominent in the transaction records of this account. Specifically, of the 44 “round-tripped” cashier’s checks noted earlier in this Supplemental Report, 36 of these posted (in an aggregate amount of \$6,077,229) within the period of Lundin’s investigation.

Nor does he note the suspicious transaction pattern easily recognized wherein DenSco advanced 37 wires (in an aggregate amount of \$13,477,051), and on an almost simultaneous basis Menaged issued paper checks (60 checks in an

⁴⁴ USB_DENSCO001318 (see also footnote 36).

aggregate amount of \$9,804,268) payable to DenSco purportedly in satisfaction of prior loan advances. These transactions, as noted previously in my reports, were embarrassingly transparent Ponzi scheme transactions. Incredulously, Lundin was silent on this matter. There is no reasonable way to review these transactions and conclude that the funds from incoming DenSco wires were being used for the purpose of funding new property purchases.

Instead, Lundin highlights six Cash Deposits (in an aggregate amount of \$182,804.50), 48 deposits (in an aggregate amount of \$129,406) from GE Capital, 84 deposits from Progressive Financial (in an aggregate amount of \$132,883), one deposit from Quantum Resources (in an aggregate amount of \$112,900), and six internal transfers from other Menaged-controlled accounts (in an aggregate amount of \$297,300) in an embarrassingly shallow investigation.

Approximately eight days later, Lundin updated this investigation log, but the contents were similarly shallow.

8.0 Concluding Opinions

- The Menaged relationship, and more specifically the -4457 account, created AML alerts based on unusual cash transaction activity. Each of the USB investigators assigned to review these alerts accurately documented their understanding of the business of Easy Investments, and the role that DenSco played in providing loans to complete the purchase of real properties acquired from trustee sales.
- Each of the USB investigators performed a granular review of transactions within the periods selected for their reviews. In each of these investigations, there is no evidence to support the conclusions drawn by the investigators.

The Thompson Investigation

- In the Thompson investigation, he documents \$2.1 million of DenSco advances, but a thorough review of the transaction records reveals that only \$27,459 was related to a property acquisition. There is irrefutable evidence that DenSco funds were diverted to pay for non-business related expenditures, including payments to relatives of Menaged, casinos, personal living expenses, a classic car auction company, and transfers to other bank accounts. There is minimal evidence that the DenSco funds were used for the purpose intended, namely, to fund the purchase of real properties which would secure the monies advanced. There is no evidence to support his conclusion that *"The vast majority of these transactions are associated with businesses that are involved with the purchase of foreclosed homes, short term investments in real estate and the selling of the fixed foreclosed homes."* The evidence is clearly to the contrary.

The Wolters Investigation

- Conclusions of the Chris Wolters investigation are redacted, but the implication from his detailed review indicates that he drew a conclusion similar to Thompson, namely, that the transactions in the -4457 account were normal and customary to Easy Investments LLC's business operations. Unfortunately, his analysis does not support this conclusion.

- In particular, there is disturbing evidence of DenSco funds being used for significant payments to relatives of Menaged, and millions of dollars in payments to an unrelated party (Active Funding Group – AFG). Much of the funds diverted to AFG appear to be related to debt service and principal repayments for loans unrelated to DenSco. There is minimal evidence to support a conclusion that the DenSco advances were used for the purpose intended. The evidence is to the contrary.

The Lundin Investigation

- Similar to the Wolters investigation, Lundin's conclusions are either not documented, or redacted in the AML Entry log. However, Lundin's review did not result in closure of the account, so it is reasonable to conclude that he concurred with the opinions of the two prior investigators. In the context of Lundin's investigation, this conclusion is particularly troubling.
- By the time of Lundin's investigation, the Menaged fraud had incorporated the "round-tripped" cashier's check process. As noted earlier, this action required the issuance and immediate cancellation of millions of dollars of cashier's checks, and this transaction activity was captured in the records (both debits and credits) of the -4457 account. Specifically, during the period reviewed by Lundin, there were 36 "round-tripped" cashier's checks issued and immediately redeposited. Lundin is completely silent on these suspicious transactions.
- Additionally, there was clear and consistent evidence of a Ponzi scheme in the transactions reviewed by Lundin. Specifically, Lundin is silent in noting the suspicious transaction pattern wherein DenSco advanced 37 wires (in an aggregate amount of \$13,477,051) and on an almost simultaneous basis Menaged issued paper checks (60 checks in an aggregate amount of \$9,804,268) payable to DenSco purportedly in satisfaction of prior loan advances. These credits and debits were embarrassingly transparent Ponzi scheme transactions. Lundin was silent on this matter.
- The three AML analysts had direct knowledge of the fraud perpetrated by Menaged but refused to act on this knowledge. As a result, the criminal actions against DenSco continued and the damages escalated.

Since discovery in this matter is ongoing, I reserve the right to change, modify, or reverse my opinions in this report based on subsequent events.

A handwritten signature in blue ink, consisting of stylized, overlapping loops and a long horizontal stroke extending to the right.

Jeffrey P. Gaia

November 1, 2022

Exhibit (1) Inventory of "Round-Tripped" Cashier's Checks

USB Cashier's Checks Round-Tripped									
Account	Issue Date	Statement Date	Payee	Transaction Description	Remitter Notation		Deposit	Withdrawal	Bates #
Easy - USB 4457	11/14/13	11/30/13	Recontrust Company	Customer Withdrawal		Cashier's Checks - Issued & Redeeposited		24,000.00	DIC0012931
Easy - USB 4457	11/15/13	11/30/13	Recontrust Company	Deposit		Cashier's Checks - Issued & Redeeposited	24,000.00		DIC0012917
Easy - USB 4457	12/16/13	12/31/13	David W. Cowles, Trustee	Customer Withdrawal		Cashier's Checks - Issued & Redeeposited		168,578.00	DIC0012908
Easy - USB 4457	12/17/13	12/31/13	David W. Cowles, Trustee	Customer Deposit		Cashier's Checks - Issued & Redeeposited	168,578.00		DIC0012895
Easy - USB 4457	01/03/14	01/31/14	Western Progressive Arizona, Inc.	Deposit (net \$10,000.00)		Cashier's Checks - Issued & Redeeposited	139,200.00		DIC0012915
Easy - USB 4457	01/03/14	01/31/14	Servis One, LLC	Deposit		Cashier's Checks - Issued & Redeeposited	113,901.00		DIC0012873
Easy - USB 4457	01/03/14	01/31/14	Servis One, Inc.	Customer Withdrawal		Cashier's Checks - Issued & Redeeposited		113,901.00	DIC0012882
Easy - USB 4457	01/03/14	01/31/14	Western Progressive Arizona, Inc.	Customer Withdrawal		Cashier's Checks - Issued & Redeeposited		139,200.00	DIC0012882
Easy - USB 4457	01/13/14	01/31/14	Recontrust Company	Deposit	DenSco 5122 E Shea Blvd #2034	Cashier's Checks - Issued & Redeeposited	86,500.00		DIC0012873
Easy - USB 4457	01/13/14	01/31/14	Recontrust Company	Customer Withdrawal	DenSco 5122 E Shea Blvd #2034	Cashier's Checks - Issued & Redeeposited		86,500.00	DIC0012885
Easy - USB 4457	01/16/14	01/31/14	David W. Cowles, Trustee	Deposit	DenSco 2025 N 196th Dr	Cashier's Checks - Issued & Redeeposited	99,309.00		DIC0012873
Easy - USB 4457	01/16/14	01/31/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 2025 N 106th Pl	Cashier's Checks - Issued & Redeeposited		99,309.00	DIC0012888
Easy - USB 4457	01/17/14	01/31/14	FATSS	Deposit	DenSco 510 S Jackson St	Cashier's Checks - Issued & Redeeposited	159,000.00		DIC0012873
Easy - USB 4457	01/17/14	01/31/14	FATSS	Customer Withdrawal	DenSco 510 S Jackson St, Chandler, AZ	Cashier's Checks - Issued & Redeeposited		159,000.00	DIC0012888
Easy - USB 4457	01/23/14	01/31/14	David W. Cowles, Trustee	Deposit	DenSco 14338 W Amelia Ave	Cashier's Checks - Issued & Redeeposited	164,509.00		DIC0012873
Easy - USB 4457	01/23/14	01/31/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 14338 W Amelia Ave	Cashier's Checks - Issued & Redeeposited		164,509.00	DIC0012889
Easy - USB 4457	01/24/14	01/31/14	Recontrust Company	Deposit	DenSco 824 W Azalea Dr	Cashier's Checks - Issued & Redeeposited	344,501.00		DIC0012873
Easy - USB 4457	01/24/14	01/31/14	Recontrust Company	Customer Withdrawal	DenSco 824 W Azalea Dr	Cashier's Checks - Issued & Redeeposited		344,501.00	DIC0012890
Easy - USB 4457	02/10/14	02/28/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 1807 W Temple	Cashier's Checks - Issued & Redeeposited		129,509.00	DIC0012862
Easy - USB 4457	02/11/14	02/28/14	David W. Cowles, Trustee	Deposit	DenSco 1807 W Temple	Cashier's Checks - Issued & Redeeposited	129,509.00		DIC0012851
Easy - USB 4457	02/24/14	02/28/14	Eric C. Anderson, Esq.	Deposit (total \$222,001.00)	DenSco 7234 E Bellevue St	Cashier's Checks - Issued & Redeeposited	172,000.00		DIC0012851
Easy - USB 4457	02/24/14	02/28/14	Western Progressive Arizona, Inc.	Deposit (total \$222,001.00)	DenSco 1455 N Alma School Rd #26	Cashier's Checks - Issued & Redeeposited	50,001.00		DIC0012851
Easy - USB 4457	02/24/14	02/28/14	Western Progressive Arizona, Inc.	Customer Withdrawal	DenSco 1455 N Alma School Rd #26	Cashier's Checks - Issued & Redeeposited		50,001.00	DIC0012868
Easy - USB 4457	02/24/14	02/28/14	Eric C. Anderson, Esq.	Customer Withdrawal	DenSco 7234 E Bellevue St	Cashier's Checks - Issued & Redeeposited		172,000.00	DIC0012868
Easy - USB 4457	02/27/14	02/28/14	David W. Cowles, Trustee	Deposit	DenSco 213 N 61st Way	Cashier's Checks - Issued & Redeeposited	74,401.00		DIC0012851
Easy - USB 4457	02/27/14	02/28/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 213 N 61st Way	Cashier's Checks - Issued & Redeeposited		74,401.00	DIC0012869
Easy - USB 4457	02/28/14	02/28/14	Quality Loan Services Corp.	Deposit	DenSco 2505 E Lehi Rd #19	Cashier's Checks - Issued & Redeeposited	352,100.00		DIC0012851
Easy - USB 4457	02/28/14	02/28/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 2505 E Lehi Rd #19	Cashier's Checks - Issued & Redeeposited		352,100.00	DIC0012870
Easy - USB 4457	03/04/14	03/31/14	David W. Cowles, Trustee	Deposit (total \$541,109.00)	DenSco 1928 E Ellis Dr	Cashier's Checks - Issued & Redeeposited	162,509.00		DIC0012875
Easy - USB 4457	03/04/14	03/31/14	David W. Cowles, Trustee	Deposit (total \$541,109.00)	DenSco 1117 E Halifax St	Cashier's Checks - Issued & Redeeposited	134,200.00		DIC0012875
Easy - USB 4457	03/04/14	03/31/14	Recontrust Company	Deposit (total \$541,109.00)	DenSco 513 S 104th St	Cashier's Checks - Issued & Redeeposited	122,400.00		DIC0012875
Easy - USB 4457	03/04/14	03/31/14	Shapiro Van Ess & Sherman, LLP	Deposit (total \$541,109.00)	DenSco 437 S Seawyns Blvd	Cashier's Checks - Issued & Redeeposited	122,000.00		DIC0012875
Easy - USB 4457	03/04/14	03/31/14	Shapiro Van Ess & Sherman, LLP	Customer Withdrawal	DenSco 437 S Seawyns Blvd	Cashier's Checks - Issued & Redeeposited		122,000.00	DIC0012834
Easy - USB 4457	03/04/14	03/31/14	Recontrust Company	Customer Withdrawal	DenSco 1117 E Halifax St	Cashier's Checks - Issued & Redeeposited		122,400.00	DIC0012834
Easy - USB 4457	03/04/14	03/31/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 1117 E Halifax St	Cashier's Checks - Issued & Redeeposited		134,200.00	DIC0012835
Easy - USB 4457	03/04/14	03/31/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 1928 E Ellis Dr	Cashier's Checks - Issued & Redeeposited		162,509.00	DIC0012835
Easy - USB 4457	03/05/14	03/31/14	Les Zieve, Trustee	Deposit (total \$488,700.00)	DenSco 5919 W Poinsettia Dr	Cashier's Checks - Issued & Redeeposited	236,200.00		DIC0012875
Easy - USB 4457	03/05/14	03/31/14	Quality Loan Services Corp.	Deposit (total \$488,700.00)	DenSco 6002 E Spring Rd	Cashier's Checks - Issued & Redeeposited	252,500.00		DIC0012875
Easy - USB 4457	03/05/14	03/31/14	Les Zieve, Trustee	Customer Withdrawal	DenSco 5919 W Poinsettia Dr	Cashier's Checks - Issued & Redeeposited		236,200.00	DIC0012835
Easy - USB 4457	03/05/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 6002 E Spring Rd	Cashier's Checks - Issued & Redeeposited		252,500.00	DIC0012835
Easy - USB 4457	03/07/14	03/31/14	Jason Cotton, Trustee	Deposit (total \$424,300.00)	DenSco 2658 W Naranja Ave	Cashier's Checks - Issued & Redeeposited	164,200.00		DIC0012875
Easy - USB 4457	03/07/14	03/31/14	Shapiro Van Ess & Sherman, LLP	Deposit (total \$424,300.00)	DenSco 5507 W Molly Ln	Cashier's Checks - Issued & Redeeposited	260,100.00		DIC0012875
Easy - USB 4457	03/07/14	03/31/14	Jason Cotton Trustee	Customer Withdrawal	DenSco 2658 W Naranja Ave	Cashier's Checks - Issued & Redeeposited		164,200.00	DIC0012836
Easy - USB 4457	03/07/14	03/31/14	Shapiro Van Ess & Sherman, LLP	Customer Withdrawal	DenSco 5507 W Molly Ln	Cashier's Checks - Issued & Redeeposited		260,100.00	DIC0012836
Easy - USB 4457	03/10/14	03/31/14	Quality Loan Services Corp.	Deposit	DenSco 3833 E Thorton	Cashier's Checks - Issued & Redeeposited	218,800.00		DIC0012875
Easy - USB 4457	03/10/14	03/31/14	David W. Cowles, Trustee	Deposit	DenSco 1649 E Bainbridge Ave	Cashier's Checks - Issued & Redeeposited	245,200.00		DIC0012875
Easy - USB 4457	03/10/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 3833 E Thorton	Cashier's Checks - Issued & Redeeposited		218,800.00	DIC0012837
Easy - USB 4457	03/10/14	03/31/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 1649 E Bainbridge Ave	Cashier's Checks - Issued & Redeeposited		245,200.00	DIC0012837
Easy - USB 4457	03/11/14	03/31/14	FATSS	Deposit	DenSco 2416 W Blue Sky	Cashier's Checks - Issued & Redeeposited	163,600.00		DIC0012875
Easy - USB 4457	03/11/14	03/31/14	FATSS	Customer Withdrawal	DenSco 2416 W Blue Sky Dr, Phoenix	Cashier's Checks - Issued & Redeeposited		163,600.00	DIC0012837
Easy - USB 4457	03/12/14	03/31/14	Recontrust Company	Deposit	DenSco 12377 W Highland Ave	Cashier's Checks - Issued & Redeeposited	164,800.00		DIC0012875
Easy - USB 4457	03/12/14	03/31/14	Clear Recon Corp.	Deposit	DenSco 7453 E Homopoe Ave	Cashier's Checks - Issued & Redeeposited	224,200.00		DIC0012875
Easy - USB 4457	03/12/14	03/31/14	Recontrust Company	Customer Withdrawal	DenSco 12377 W Highland Ave, Avondale	Cashier's Checks - Issued & Redeeposited		164,800.00	DIC0012839
Easy - USB 4457	03/12/14	03/31/14	Clear Recon Corp.	Customer Withdrawal	DenSco 7453 E Homopoe Ave, Mesa	Cashier's Checks - Issued & Redeeposited		224,200.00	DIC0012839
Easy - USB 4457	03/13/14	03/31/14	David W. Cowles, Trustee	Deposit	DenSco 1009 S Blossom	Cashier's Checks - Issued & Redeeposited	122,100.00		DIC0012875
Easy - USB 4457	03/13/14	03/31/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 1009 S Blossom, Mesa, AZ	Cashier's Checks - Issued & Redeeposited		122,100.00	DIC0012840
Easy - USB 4457	03/14/14	03/31/14	Recontrust Company	Deposit (total \$390,300.00)	DenSco 11735 N 185th Ave	Cashier's Checks - Issued & Redeeposited	132,800.00		DIC0012875
Easy - USB 4457	03/14/14	03/31/14	Recontrust Company	Deposit (total \$390,300.00)	DenSco 921 S Val Vista Dr #14	Cashier's Checks - Issued & Redeeposited	131,900.00		DIC0012875
Easy - USB 4457	03/14/14	03/31/14	Recontrust Company	Deposit (total \$390,300.00)	DenSco 8730 W Pioneer St	Cashier's Checks - Issued & Redeeposited	125,600.00		DIC0012875
Easy - USB 4457	03/14/14	03/31/14	Recontrust Company	Customer Withdrawal	DenSco 8730 W Pioneer St	Cashier's Checks - Issued & Redeeposited		125,600.00	DIC0012840
Easy - USB 4457	03/14/14	03/31/14	Recontrust Company	Customer Withdrawal	DenSco 921 S Val Vista Dr #14	Cashier's Checks - Issued & Redeeposited		131,900.00	DIC0012840
Easy - USB 4457	03/14/14	03/31/14	Recontrust Company	Customer Withdrawal	DenSco 11735 N 185th Ave	Cashier's Checks - Issued & Redeeposited		132,800.00	DIC0012840
Easy - USB 4457	03/17/14	03/31/14	Quality Loan Services Corp.	Deposit	DenSco 3716 W Villa Theresa Dr	Cashier's Checks - Issued & Redeeposited	83,500.00		DIC0012875
Easy - USB 4457	03/17/14	03/31/14	Recontrust Company	Deposit	DenSco 10521 E Pantera Ave	Cashier's Checks - Issued & Redeeposited	218,600.00		DIC0012875
Easy - USB 4457	03/17/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 3716 W Villa Theresa Dr	Cashier's Checks - Issued & Redeeposited		83,500.00	DIC0012841
Easy - USB 4457	03/17/14	03/31/14	Recontrust Company	Customer Withdrawal	DenSco 10521 E Pantera Ave	Cashier's Checks - Issued & Redeeposited		218,600.00	DIC0012841
Easy - USB 4457	03/18/14	03/31/14	Quality Loan Services Corp.	Deposit	DenSco 2122 W Hawken Way	Cashier's Checks - Issued & Redeeposited	354,600.00		DIC0012875
Easy - USB 4457	03/18/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 2122 W Hawken Way	Cashier's Checks - Issued & Redeeposited		354,600.00	DIC0012842
Easy - USB 4457	03/19/14	03/31/14	David W. Cowles, Trustee	Deposit (total \$407,300.00)	DenSco 9024 W Williams	Cashier's Checks - Issued & Redeeposited	226,200.00		DIC0012875
Easy - USB 4457	03/19/14	03/31/14	David W. Cowles, Trustee	Deposit (total \$407,300.00)	DenSco 18017 W Brown	Cashier's Checks - Issued & Redeeposited	181,100.00		DIC0012875
Easy - USB 4457	03/19/14	03/31/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 18017 W Brown	Cashier's Checks - Issued & Redeeposited		181,100.00	DIC0012842
Easy - USB 4457	03/19/14	03/31/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 9024 W Williams	Cashier's Checks - Issued & Redeeposited		226,200.00	DIC0012842
Easy - USB 4457	03/20/14	03/31/14	Quality Loan Services Corp.	Deposit (total \$367,900.00)	DenSco 302 E Taylor St	Cashier's Checks - Issued & Redeeposited	129,200.00		DIC0012875
Easy - USB 4457	03/20/14	03/31/14	Quality Loan Services Corp.	Deposit (total \$367,900.00)	DenSco 6410 W Cortez St	Cashier's Checks - Issued & Redeeposited	127,300.00		DIC0012875
Easy - USB 4457	03/20/14	03/31/14	Quality Loan Services Corp.	Deposit (total \$367,900.00)	DenSco 10319 N 115th Dr	Cashier's Checks - Issued & Redeeposited	111,400.00		DIC0012875
Easy - USB 4457	03/20/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 10319 N 115th Dr	Cashier's Checks - Issued & Redeeposited		111,400.00	DIC0012843
Easy - USB 4457	03/20/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 6410 W Cortez St	Cashier's Checks - Issued & Redeeposited		127,300.00	DIC0012843
Easy - USB 4457	03/20/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 302 E Taylor Street	Cashier's Checks - Issued & Redeeposited		129,200.00	DIC0012843
Easy - USB 4457	03/21/14	03/31/14	First American Title	Deposit (total \$306,100.00)	DenSco 1343 W Cindy St	Cashier's Checks - Issued & Redeeposited	173,600.00		DIC0012875
Easy - USB 4457	03/21/14	03/31/14	Quality Loan Services Corp.	Deposit (total \$306,100.00)	DenSco 1841 E Secretariat Dr	Cashier's Checks - Issued & Redeeposited	132,500.00		DIC0012875
Easy - USB 4457	03/21/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 1841 E Secretariat Dr	Cashier's Checks - Issued & Redeeposited		132,500.00	DIC0012843
Easy - USB 4457	03/21/14	03/31/14	First American Title Insurance	Customer Withdrawal	DenSco 1343 W Cindy St	Cashier's Checks - Issued & Redeeposited		173,600.00	DIC0012843
Easy - USB 4457	03/27/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 16986 N Limestone	Cashier's Checks - Issued & Redeeposited	153,200.00		DIC0012875
Easy - USB 4457	03/27/14	03/31/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 16986 N Limestone	Cashier's Checks - Issued & Redeeposited		153,200.00	DIC0012846
Easy - USB 4457	04/07/14	04/30/14	David W. Cowles, Trustee	Deposit	DenSco 4739 W Bloomfield	Cashier's Checks - Issued & Redeeposited	108,009.00		DIC0012797
Easy - USB 4457	04/07/14	04/30/14	First American Title Ins.	Deposit (total \$316,900.00)	DenSco 5806 S Alder	Cashier's Checks - Issued & Redeeposited	182,500.00		DIC0012797
Easy - USB 4457	04/07/14	04/30/14	Quality Loan Services Corp.	Deposit (total \$316,900.00)	DenSco 735 E Michigan	Cashier's Checks - Issued & Redeeposited	134,400.00		DIC0012797
Easy - USB 4457	04/07/14	04/30/14	David W. Cowles, Trustee	Customer Withdrawal	DenSco 4739 W Bloomfield	Cashier's Checks - Issued & Redeeposited		108,009.00	DIC0012809
Easy - USB 4457	04/07/14	04/30/14	Quality Loan Services Corp.	Customer Withdrawal	DenSco 735 E Michigan Ave	Cashier's Checks - Issued & Redeeposited		134,400.00	DIC0012809
Easy - USB 4457	04/07/14	04/30/14	First American Title Ins.	Customer Withdrawal	DenSco 5806 S Alder	Cashier's Checks - Issued & Redeeposited		182,500.00	DIC0012809
							\$ 7,376,727	\$ 7,376,727	

Exhibit (2) List of Additional Documents Reviewed in this Matter

Date Provided	Description	Bates Numbers
8/15/2022	Hilda Chavez Deposition Transcript and Exhibits	
9/14/2022	Leslie Rocha Deposition Transcripts and Exhibits	
9/26/2022	AML Log and Retention Schedules (unredacted)	USB_DENSCO001316-1318 USB_DENSCO001319-1320 USB_DENSCO001321-1322
10/13/2022	Deposition Transcripts and Exhibits for: Daniella Caraveo Maria Villa Tatjana Sulaver	

Supplemental Expert Report of Jeffrey P. Gaia

In the matter of :

Peter S. Davis, as Receiver of DenSco Investment Corporation,
an Arizona Corporation,
Plaintiff,

v.

US Bank, N.A., a national banking organization; Hilda H. Chavez and John Doe Chavez, a married couple; JP Morgan Chase Bank, N.A., a national banking organization; Samantha Nelson f/k/a Samantha Kumbalek, and Kristofer Nelson, a married couple; and Vikram Dadlani and Jane Doe Dadlani, a married couple,

Defendants.

No.CV2019-011499

Third Amended Complaint

Report dated November 1, 2022

Table of Contents

<i>Page</i>	<i>Section</i>	<i>Title</i>
3	1	<i>Introduction</i>
3		Background Prompting this Supplemental Report
4		Terminology
6	2	<i>History of the -1151 Account</i>
7		Early Investigations -- April to July 2014
7		Alexander Gil Review (Case #5682558)
11		Sharon Khoo Review
11		Follow-Up Investigations
11		Scott Menaged's Personal Account
12		Other Mid-Year Investigations – May through July 2014
12		Padraic Friel Review
16		Eric Mruczek Review
16		Robert Oven Review
18		Brandon Stone Review
19		Andrea Johnson Review
21		Late Year Investigations -- August to December 2014
21		John Molina Review
22		Kevin Burkhart Review
22		Jonathan W. Edds Review
23		Early 2015 Investigations -- December 2014 to April 2015
23		Robyn DeAngelis Review
24		Gloria Pritchett Review
25	3	<i>Summary of AML Investigations</i>
26	4	<i>The Branch Employees</i>
31	5	<i>Opinions</i>
32		<i>Appendix A -- Documents Relied on to Prepare this Supplemental Report</i>
33		<i>Appendix B -- List of All Documents Provided to Jeffrey P. Gaia</i>

Section 1 -- INTRODUCTION

Background Prompting this Supplemental Report

My original report was dated January 10, 2022. At the time I submitted my initial report, Chase Bank (referred herein as either "Chase" or "JPM") had produced only a small part of its internal investigation files of the Menaged accounts. The disclosed document noted one branch referral in April 2014 from employee Samantha Nelson involving, in her opinion, suspicious transactions. In reality, Chase failed to produce documents in its possession that identified a much larger number of internal investigations prompted by unusual transaction activity commencing on the first day the -1151 account was opened and continuing over the course of the subsequent 18 months. These investigations were triggered by both branch-sourced suspicious activity referrals as well as numerous automated referrals generated from Chase's anti-money laundering software platform.

Accordingly, my initial report was limited due to the incomplete disclosure by Chase of the widespread investigations of the Menaged relationship performed by its Anti-Money Laundering department. This original report reviewed only the initial suspicious activity investigation prompted by the Samantha Nelson referral in April 2014. Subsequent disclosure by Chase pointed to a broader pattern of suspicious account transactions which resulted in numerous internal investigations.

As a result of Chase's delayed disclosure, the opinions in my initial report were formed from Chase's limited production supplemented by my analysis of the actual bank statements comprising the Menaged relationship. From those documents, I formed opinions based on obvious "triggers," or "Red Flag" events that were transparent in these account records, and in my opinion were equally transparent to Chase AML investigators.

Subsequent production by Chase dictates submittal of this Supplemental Report, and the new opinions contained herein are based on documents provided by Chase in its Eleventh, Fourteenth, Sixteenth and Seventeenth Supplemental Rule 26.1 Disclosure Statements, as well as continuing deposition discovery. Comments and Opinions in this Supplemental Report pertain to Menaged's bank account with JPM with account number ending in -1151, unless otherwise noted.

On February 9, 2022, in Chase's 11th Supplemental Disclosure Statement, Chase produced 34 pages of internal investigation summaries encompassing four separate investigations,¹ spanning from April 10, 2014, to May 4, 2015 ("Investigation Summaries").

In June and July, 2022, in Chase's 14th and 16th Supplemental Disclosure Statements, Chase produced more documents. Initially, hard copy images of excel spreadsheets created by the bank were provided. Subsequently, excel spreadsheets in Native files format were provided which documented internal investigations performed by Chase bank analysts on the Menaged account.

In September 2022, in Chase's 17th Supplemental Disclosure Statement, Chase produced Halo reports prepared by John Molina, long after his deposition.

¹ Case #5682558/5959578/6291750/6612803

My original report analyzed the transaction data for the Menaged account based on monthly bank statements and set out what this transaction data revealed; that is, Menaged was engaged in a massive Ponzi scheme.

The new Chase disclosures expose the level of Chase's knowledge of the fraud by documenting what factual data was collected and analyzed; what documents were reviewed; external and internal research on Google; commentary from bank Anti-Money Laundering (AML) specialists on what the data revealed; conclusions whether further investigation was warranted; and the decisions that were made. As stated in my original report, the transaction data and documents support only one conclusion: Menaged was engaged in a massive Ponzi scheme.

A multitude of Chase bank alert analysts universally concluded that the Menaged account activities were not consistent with Menaged's business model. Higher supervisory levels consistently ignored what the bank analysts and data were telling them.

Over the time period of the Menaged fraud, from April 2014 through May 2017, the transaction activity in the Menaged accounts resulted in a continuous stream of suspicious activity notifications by branch personnel, as well as automated alerts generated by the Bank's Anti-Money Laundering software. In spite of the growing number of account alerts and open investigative cases, Chase supervisory personnel consistently disregarded these warnings and the facts uncovered by its bank analysts.

This supplemental report uses time frames from the Investigation Summaries and Native files to form my opinions.

Terminology

The documents noted in the 11th, 14th, 16th and 17th supplemental disclosures contain terminology and acronyms peculiar to Chase. So, to clarify the use of this terminology, the following descriptions are provided to aid in the reader's comprehension of this Supplemental Report.²

Position Descriptions:

- *Analyst* – an entry-level position whose responsibilities are to receive and review alerts for suspicious activity and escalate such alerts to *Investigators* if further review is warranted. All Analyst work is subject to mandatory supervisory review.
- *Investigator* – similar in responsibility to an *Analyst* but presumably performs a deeper review of the account(s) in question. Investigators might expand the period of transactions reviewed by the *Analyst* and are required to either recommend that the alert be closed (no further action) or recommend further review by a higher level in the organization.
- *Supervisor reviews*. Chase bank investigators have testified their work is subject to mandatory supervisor review. No separate supervisory review report has been produced in this case.

Investigation Platform:

- The HALO system was described as the corporate database used as the repository for all types of AML investigations. Screenshots from the platform have been produced with its content

² These definitions and descriptions were sourced from deposition testimony of Jonathan Walker Edds dated August 10, 2022.

native files. This platform contains, among other items, an Investigation Summary page which is an inventory of all Alerts and Cases involving a particular customer and/or series of accounts. Additionally, the HALO system aggregated all investigations, and the associated review work and conclusions, into a single repository that allowed subsequent investigators access to all prior investigations. Testimony³ confirmed that the normal and customary process of most investigators was to review all documentation of prior investigations available in the HALO system, although one investigator stated he only reviewed the internal AML log which did not include all alert analyst reports.

- Halo assigned case numbers to Halo cases. Subsequent Halo cases may be linked to a prior open case so that several Halo cases may be reviewed by one investigator.

Investigation Types:

- Manual Branch Alerts – denotes referrals from branch personnel regarding suspicious or unusual activity.
- Mantas Alerts – denotes system-generated alerts based on transaction algorithms.
- CWI Alerts – referenced in the Jonathan Edds deposition, but undefined in that document. However, in this author's experience, this acronym possibly refers to "cash withdrawal investigations" (CWI) which generate suspicious alerts due to the volume and frequency of cash withdrawals.
- Fortent Alerts – referenced in the Investigative Summary referring to third party wires as cash withdrawals. This may overlay CWI alerts.
- Case Alerts – A more fulsome investigation undertaken as a result of an escalated alert (Manual/Mantas/CWI).

³ See deposition testimony of Jonathan Walker Edds dated August 10, 2022.

Section 2 -- HISTORY OF THE -1151 ACCOUNT

In its 11th, 14th, 16th and 17th Supplemental Disclosures, Chase provided HALO Investigation Summaries as well as Native Files on numerous Case Investigations which provide a level of transparency into its investigations of the -1151 account. The number of Alerts and Cases generated from the -1151 was staggering, and by late 2014 automated MANTAS Alerts were being generated on a consistent basis. The frequency of such alerts was documented by several investigators⁴ who noted the existence of not less than six prior MANTAS Cases and eight closed HALO Cases.⁵ Chase has provided visibility into several, but not all, of these investigations. However, all of the Alerts as well as the individual Case Numbers relate to activity in the -1151 account, and the triggers generally occur as a result of similar alert sequences, namely unusual wire activity, the issuance and redeposit of sequential monetary instruments, and unusual cash activity.

The intense level of automated alerts appears to be driven by the account transaction activity compared to the transaction baseline noted in the "Know Your Customer" (KYC) profile⁶ that was prepared at the time of account opening. This profile, also described as the "Customer Due Diligence" (CDD) profile in my original report was prepared by JPM in an interview process with the client at account opening. The interviewer asks the client to estimate usage of certain account features, complete with volume estimates. For example, in the -1151 KYC Profile, Menaged apparently stated that the business would use:

- Cash Transactions not to exceed \$19,000 in aggregate on a monthly basis.
- Check/Monetary Instruments not to exceed \$235,000 in aggregate on a monthly basis.
- Electronic Funds Transfers (wires/ACH) not to exceed \$231,000 in aggregate on a monthly basis.

Obviously, these transaction limits were wildly inaccurate. Consider the first month of transactions in the -1151 account. In the period from account opening on April 8 through April 30, 2014, account transactions included:

- \$17.7 million in Deposits and Additions
- \$507,000 in Checks Paid
- \$7.7 million in Electronic Withdrawals
- \$9.2 million in Other Withdrawals

And the results were predictable, as both Manual Branch Alerts and automated alerts commenced immediately and continued for the life of the account. Although the HALO Investigation Summaries provided by Chase document a considerable number of Manual Branch Alerts, automated MANTAS Alerts, CWI Alerts, Fortent Alerts and Case Alerts, I will review a subset of these alerts since the triggering activity is often common among alerts, and the periods under review often overlap.

The most relevant cases and internal investigation results are discussed below. Since the HALO Investigation Summaries are progressive in structure, I have attempted to review these events in chronological order. As noted earlier in this report, notices of suspicious activity generally commence with either a Manual Branch Alert or an automated Mantas Alert, both of which are handled by a front-

⁴ For example, see the October 20, 2014 entry in JPMC_0006358.

⁵ These investigations were noted again in the Kevin Burkhart investigative summary (JPMC_0013156).

⁶ See KYC Profile disclosed by Chase in its 11th Supplemental Response –JPMC_0006395 through 0006417.

line Analyst. If escalated, the Alert is assigned a Case Number and a more fulsome investigation is presumably performed by a higher level Investigator. All investigations, recommendations, and disposition decisions are supposed to be reviewed and approved by supervisory personnel.

Accordingly, the importance of reviewing these investigations in chronological order is to understand that investigations were performed first by bank analysts, and then by progressively higher supervisory levels of bank investigators in the Chase organization. And in each instance, upper levels disregarded the concerns of front line investigators.

Early Investigations – April to July 30, 2014

Alexander Gil Review (Case #5682558)

The first alerts came from Samantha Nelson, an employee at the Chase bank branch servicing the Menaged relationship. The day after the -1151 account was opened by Menaged, April 10, 2014, Nelson filed a notice of suspicious activity with the Corporate Compliance group. In her filing, she reported *"Customer just opened account and received large wire then has wired out large increments same day as wire came in."*⁷ This activity was reported on April 10, 2014.⁸

Initially, this activity was not promptly reviewed by the Corporate Compliance department. On May 6, 2014, Samantha Nelson filed a second notice of suspicious activity. She stated: *"Customer receives wires into account every day and then sends them back out. Customer also makes cashier's checks and then redeposits them into the account."*

The second referral triggered action. The second referral was linked to the first referral by Alexander Gil on May 8, 2012 and, finally, on May 12 – 33 days after the initial branch referral -- an internal investigation summary states Sharon Khoo worked the case as "BAU" and Alexander Gil was the alert analyst.⁹ Although the internal AML summary attributes comments to Khoo, Khoo denies any involvement in the case and states Alexander Gil did the alert analyst work.

Chase's 14th and 16th Supplemental Disclosure submitted additional documents that provide further details of this investigation. In the 14th Disclosure, Chase submitted written reports from each of the bank analysts that investigated the Menaged Account. This disclosure also includes a series of what I will describe as "Investigation Templates" covering several of the investigations. These templates are multi-tabbed Excel spreadsheets that describe the work performed by the Corporate Compliance department for suspicious activity investigations. JPMC 0013275 is the native file containing the work performed by Alexander Gil, the Alert Analyst assigned to Case #5682558 (Samantha Nelson's referral).

This native file contains multiple tabs into which account transaction data and other information has been uploaded. I will reference the tabs as named in the native files.

PSAR checklist Tab

In the tab "PSAR checklist," the document contains a formal examination outline which covers three areas:

⁷ JPMC_0013275 Tab "Add'l Owner(s) Demographics" dated April 10, 2014.

⁸ Refer to Halo report which summarizes open Investigations. JPMC_0013285, Case #5682558.

⁹ JPMC_0006344.

- Review of Customer Background
- Source and Use of Funds
- Action

These are used to guide the investigator through the analysis process.

Add'l Alerting Business Demo Tab

As an element of the "Know Your Customer" (KYC) protocol of the Bank, the tab entitled "Add'l Alerting Business Demo" describes the nature of the named business (Arizona Home Foreclosures) as "FORECLOSURES REMODELLING, BUYING AND SELLING." This description of the purpose and nature of the business is used by the Bank to better assess the appropriateness of transactions in the account, including if the transactions are related to the business operations and serve a legitimate business purpose.¹⁰

Transactions Tab

In the tab identified as "Transactions," transaction data is listed which describes in detail all account credits and debits for the period of April 8 through April 29, 2014.¹¹ This tab includes all Credit and Debit transactions for the noted timeframe, and includes *Debit/Credit Amount*, *Transaction Type*, and a full narrative describing the item. For example, Table 1 below notes that on April 9, 2014, the account received an incoming wire which originated from DenSco's account at Bank of America in the amount of \$605,900 identified as funding for property purchases. Shortly thereafter, a second wire in the amount of \$424,100 was received from DenSco for property purchases. These transactions are noted in Table 1:

Table 1¹² -- *Excerpt of Debit and Credit Transactions from Chase Investigation File*

Posting Date	Short Date	Account Number	Branch	Debit	Credit	Transaction Type	Narrative
4/8/2014	14-Apr	582551151	903	\$-	\$1,000.00	PreAuthorized Transfer Credit	Online Transfer from CHK ...1381 transaction#: 3853292382
4/9/2014	14-Apr	582551151	903	\$-	\$605,900.00	3rd Party Wire	3203309099FF 02600959 US DENSCO INVESTMENT CORPORATION6132 W VICTORIA PL
4/9/2014	14-Apr	582551151	903	\$-	\$424,100.00	3rd Party Wire	2714009099FF 02600959 US DENSCO INVESTMENT CORPORATION6132 W VICTORIA PL
4/9/2014	14-Apr	582551151	903	\$100,000.00	\$-	PreAuthorized Transfer Debit	Online Transfer to CHK ...1381 transaction#: 3854470121
4/9/2014	14-Apr	582551151	903	\$33,250.00	\$-	Check Debit	CHECK
4/9/2014	14-Apr	582551151	903	\$128,238.10	\$-	Wire 3rdParty Bene United States	4477900099ES 02600959 US DENSCO INVESTMENTS CORP6132 W VICTORIA PL
4/9/2014	14-Apr	582551151	903	\$121,004.85	\$-	Wire 3rdParty Bene United States	4265900099ES 02600959 US DENSCO INVESTMENTS CORP6132 W VICTORIA PL
4/9/2014	14-Apr	582551151	903	\$100,000.00	\$-	Wire 3rdParty Bene United States	4261700099ES 0959 US DENSCO INVESTMENTS CORP6132 W VICTORIA PL

The transaction data and history clearly reveal that these funds were not used for property purchases. Rather, \$100,000 was transferred to another Menaged-controlled account (the -1381 account). As noted in my original report, this balance was then wired back to the DenSco bank account at Bank of America, fraudulently identified as "Partial Payoff" of a prior loan advance¹³ which identified a property

¹⁰ Chase provided its KYC Profile in JPMC_0006395 through JPMC_0006418, which was discussed earlier in this Supplemental Report. See also Footnote 6.

¹¹ The investigation actually encompassed a period from April 8 through May 7, 2014. There is no explanation in the document which notes a reason why the spreadsheet contained transaction data for this shorter period.

¹² Sourced from native file JPMC_0013275. See also Footnote 7.

¹³ See Chart (1) of Expert Report of Jeffrey P. Gaia dated (1/10/2022) in this matter.

address unrelated to the addresses noted on the incoming DenSco wire. Contemporaneously, there were three additional wire transactions in the amounts of \$128,238.10, \$121,004.85, and \$100,000.00 wired back to DenSco's Bank of America account, fraudulently identified as purported repayments of prior loan advances.¹⁴ As in the first repayment noted above, these "repayments" identified property addresses unrelated to the addresses noted on the incoming DenSco wire.¹⁵ Each of these transactions were noted in the analyst's template. Accordingly, it stretches the boundaries of imaginative thinking to believe that the analyst could characterize that the DenSco funds were used as intended.

This pattern of DenSco wires-in for the purchase of specific property addresses, and Menaged wires-out (back to DenSco) as purported repayment of loans with different addresses was repeated on a daily basis for the period considered in the Gil review. For example, consider the transactions noted in the Transaction tab (Table 2) for April 10, 2014.¹⁶

Table 2

Posting Date	Account Number	Branch	Co Debit	Credit	Transaction Type	Narrative	Notations from Expert
4/10/2014	582551151	903	\$-	\$457,700.00	+ 3rd Party Wire	2592209100FF (02600959) US DENSCO INVESTMENT CORPORATION6132 W VICTORIA PL	Wire In from DenSco for property purchases.
4/10/2014	582551151	903	*	\$417,709.00	+ Teller Cash Deposit or Adjustment	SEQ NUM. 3580291528, DEP AMT. 417709.00, ,	Redeposit of Two Cashier's Checks Not Used for Intended Purpose.
4/10/2014	582551151	903	*	\$417,709.00	- Teller Cash Withdrawal or Adjustment	WITHDRAWAL	Issuance of two fraudulent Cashier's Checks.
4/10/2014	582551151	903	*	\$187,709.60	- Wire 3rdParty Bene United States	4261500100ES (02600959) US DENSCO INVESTMENTS CORP6132 W VICTORIA PL	Wire Out to DenSco. Ponzi scheme payment.
4/10/2014	582551151	903	*	\$46,217.61	- Wire 3rdParty Bene United States	3515100100ES 12210532 US MAGNUS TITLE AGENCY6390 E TANQUE VERDE	Wire Out to Magnus Title for property purchase.

And again on April 11, 2014:¹⁷

Table 3

Posting Date	Account Number	Branch	Co Debit	Credit	Transaction Type	Narrative	Notations from Expert
4/11/2014	582551151	903	*	\$853,100.00	+ 3rd Party Wire	2194709101FF (02600959) US DENSCO INVESTMENT CORPORATION6132 W VICTORIA PL	Wire In from DenSco for property purchases.
4/11/2014	582551151	903	*	\$319,400.00	+ Teller Cash Deposit or Adjustment	SEQ NUM. 2080107919, DEP AMT. 319400.00, ,	Redeposit of Two Cashier's Checks Not Used for Intended Purpose.
4/11/2014	582551151	903	*	\$513,110.00	- Teller Cash Withdrawal or Adjustment	WITHDRAWAL	Issuance of Fraudulent Cashier's checks for the purchase of four properties.
4/11/2014	582551151	903	*	\$279,162.90	- Wire 3rdParty Bene United States	3685800101ES (02600959) US DENSCO INVESTMENTS CORP6132 W VICTORIA PL	Wire Out to DenSco. Ponzi scheme payment.
4/11/2014	582551151	903	*	\$274,156.20	- Wire 3rdParty Bene United States	4154900101ES (02600959) US DENSCO INVESTMENT CORP.	Wire Out to DenSco. Ponzi scheme payment.
4/11/2014	582551151	903	*	\$50,000.00	- Teller Cash Withdrawal or Adjustment	WITHDRAWAL	Cashier's Check Payable to Palms Casino
4/11/2014	582551151	903	*	\$46,975.30	- Wire 3rdParty Bene United States	4646000101ES CHASXX US JOSEPH MENAGED3370 NE 190TH ST APT 905	Payment to Joseph Menaged.
4/11/2014	582551151	903	*	\$17,038.70	- Wire 3rdParty Bene United States	3085200101ES 12210532 US MAGNUS TITLE AGENCY6390 E TANQUE VERDE	Wire Out to Magnus Title.
4/11/2014	582551151	903	*	\$1,443.84	+ Teller Check Deposit or Adjustment	SEQ NUM. 3090626918, DEP AMT. 1443.84, ,	Miscellaneous deposit.

In fact, each business day of the period reviewed by Gil contained the same transaction pattern, namely, the suspicious activity noted by Samantha Nelson and reported on April 10, 2014. And Gil, in his investigative report on Investigation Case #5682558, identified and confirmed this consistent pattern.

We do not have to guess what Alexander Gil thought or concluded. JPMC_0013277 through JPMC_0013279 is a summary of Alexander Gil's investigation as contained in the native file. He correctly noted that the primary source of funds were inbound wire transfers from DenSco. Interestingly, he is conspicuously silent in addressing the lack of deposits sourced from business operations of Menaged, namely proceeds from the sale of properties, although he is fully aware of the nature of the business which he had documented in the tab entitled "Add'L Alerting Business Demo."

He states that secondary sources of funds consisted of 84 cashier's checks that had been cancelled and redeposited. In fact, he notes in a line item entitled "PSAR Details" that "customer also makes cashier's checks and then redeposits them into account,"¹⁸ and the native files contain copies of cashier's checks

¹⁴ Again, refer to Chart (1) of Expert Report of Jeffrey P. Gaia dated (1/10/2022) in this matter.

¹⁵ Each incoming DenSco wire contained specific property addresses to be funded. Refer to Supporting Documentation tab in JPMC_0013275 for examples. See also Footnote 7.

¹⁶ Sourced from native file JPMC_0013275 Tab Titled: Transactions. See also Footnote 7.

¹⁷ Sourced from native file JPMC_0013275 Tab Titled: Transactions. See also Footnote 7.

¹⁸ JPMC_0013277

marked as *“not used for their intended purpose.”* Mr. Gil refers to the redeposit of cancelled cashier’s checks as a “secondary source of funds” but goes no further to explain this practice. But he also notes the unusual wire activity from the account of monies flowing back to DenSco.

Gil’s report concludes: *“Large cashier’s checks deposits and cashier’s checks purchases are inconsistent with this business profile. The activity and rapid movement of funds is unusual for the typical business customer and therefore warrants further review.”*

My original expert report suggested that the AML investigator should have noted these activities as “Red Flag” transactions to be investigated due to their suspicious nature. This is exactly what happened. Moreover, with the new production of this native file, we now know exactly what facts the analyst knew based on what he investigated, compiled, and reviewed. It is apparent that Alexander Gil, the Chase analyst, identified the following information from the data he possessed:

- The analyst was aware that the incoming DenSco funds were earmarked to be used for the purchase of specific properties. The incoming wire instructions included the actual property addresses to be purchased.
- The analyst was aware that on April 9, 2014, one day after the -1151 account was opened, almost \$500,000 of the DenSco funds wired in that day were immediately funneled back to DenSco and identified as repayment of prior loan advances. The analyst knew that, based on the information available at the time of the investigation, these funds were not used as intended to purchase property. These transactions were the basis of Samantha Nelson’s referral.
- The analyst had full access to cashier’s check records and images. In the *“Supporting Documentation”* tab of the native file, cashier’s checks are imaged, front and back. For example, a cashier’s check¹⁹ payable to Azben Limited, LLC, which included the notation “DenSco 2941 E. Laurel Ln.,” dated April 17, 2014, was cancelled, and redeposited into the -1151 account. On the back is handwritten *“not used for.”* Another cashier’s check²⁰ to Quality Home Loans, dated April 22, 2014, for “DenSco 8136 W. Salter Dr is also, on back, stamped *“not used for intended purpose.”* The alert analyst knew that the cashier’s checks were not used for the intended purpose of purchasing properties.
- Instead, the issued checks were redeposited and the funds were used for other purposes, including to repay prior loan advances, a clear Ponzi scheme activity, or to fund personal lifestyle expenses, including significant amounts to cover gambling losses, repayment of loans unrelated to the DenSco advances, payments to family members, and/or personal expenses.²¹
- The Ponzi-like nature of the “wires-in/wires-out” from and back to DenSco was transparent within the Chase transaction records which were reviewed by the analyst. In fact, these transactions were the basis of the original and subsequent investigative referrals. It is indisputable that the analyst possessed the information to recognize the illicit nature of these

¹⁹ Chase cashier’s check #9018119927 (R-001349)

²⁰ Chase cashier’s check #9018119956 (R-001353)

²¹ Refer to Expert Report of Jeffrey P. Gaia dated 1-10-2022 in this matter, which fully documents the misuse of funds.

transactions, and this knowledge was confirmed by Gil's recommendation of *"Further investigation needed."*²²

Although Alexander Gil's summary report²³ on Case #5682558 is undated, the Internal Summary states under comments that on 5/12/2014, *"Alert/Referral disposition changed to further investigation needed."*²⁴

Sharon Khoo Review

The relationship between Alexander Gil and Sharon Khoo is not described in the Chase documents. Alexander Gil does not post comments to the Investigative Summary; Sharon Khoo does. Whether they worked together, or Sharon Khoo supervised Alexander Gil, is unclear. Sharon Khoo testified she did not work on the case and her name is listed in error. In any event, her comments and conclusions are the same as Alexander Gil.

Khoo's comments follow Alexander Gil's summary: *"Further investigation needed. PSAR alert was received due to large value wire activity for a newly opened account . . . Large inbound and outbound wires seem unusual for this newly opened business profile. The activity and rapid movement of funds is unusual for this typical business customer and therefore warrants further review."*²⁵

Follow-Up Investigations

There was no immediate follow-up on Alexander Gil's report or Sharon Khoo's comment.

Scott Menaged's Personal Account

Contemporaneously with Samantha Nelson's first referral, a separate investigation was opened on April 10, 2014 regarding Menaged's personal account. Internal Chase alert records indicate this case was assigned to Nava Nelson. No report from Ms. Nelson has been produced by Chase. Another associated alert shows the case was assigned to Natalie Montgomery but no report from Ms. Montgomery has been produced by Chase. Yet another alert assigns the case to Brandon Stone, but there is no written record of Brandon Stone's having performed an investigation of Menaged's personal account. Either Stone did not perform an investigation, or Chase has not disclosed his work.

Internal case records state that the alert on Mr. Menaged's personal account was opened on April 10, 2014. The associated case records also show it was closed on May 12, 2014. This timeframe is contemporaneous with the reviews of the -1151 business account performed by Alexander Gil and Sharon Khoo, but none of their comments mention Mr. Menaged's personal account.

Mr. Menaged's personal account is mentioned in comments by Andrea Johnson in her comments on July 29, 2014, discussed below; and further work on the personal account was performed by John Molina in October 2014. In his deposition, Mr. Molina stated his work was part of a Halo case. Chase finally produced the records of Mr. Molina's work in September 2022 in the 17th Supplemental Disclosure Statement.

²² JPMC_0013279 See also Footnote 18.

²³ JPMC_0013277 through JPMC_0013279 See also Footnote 18.

²⁴ *Id.* at JPMC0006344

²⁵ *Id.* at JPMC0006347

Ms. Johnson noted that Mr. Menaged's personal account was funded by casino proceeds and another account, which is the business account -1151.

Other Mid-Year Investigations – May through July 2014

Padraic Friel Review (Case Number Not Indicated)

Padraic Friel was another analyst who was assigned to review the -1151 account.

JPMC_0013280 is an undated native file associated with Friel's investigation. In his report, he notes three prior alerts that were linked to case #5682568 and subsequent associated cases. The file includes transaction activity within the -1151 account from June 11 through July 16, 2014, a time period that pre-dates the Brandon Stone supervisory review (which was logged in on July 30, 2014). In the *Overview* tab, Padraic Friel is assigned two alerts described as "patterns of fund transfers between customers and external entities" and "patterns of sequentially numbered checks." These alerts were identified in account transactions listed in the tab entitled "*Alerting Activity*."

Under the *Alerting Activity* tab, he collected account credit transaction data of wire transfers from DenSco to the -1151 account, and cashier's checks from Chase, all of which had been issued by Chase but redeposited as "Not used for the intended purpose." These cashier's checks had been issued in a date range from June 26 through July 11, 2014.

In the *Transaction Summary* tab, he collected account debit data on checks, currency, cashier's checks, and electronic fund transfers in a date range from June 12 through July 11, 2014. Overall debit and credit activities during these timeframes were listed in the *Pivot* tab, which showed overall activity in the account approximating \$80,000,000, and total *Alerting Activity* at approximately \$13,000,000. Then, he performed a detailed transactional review on a sample of both debit and credit transactions from the *Alerting Activity* tab.

The actual transactions he reviewed are listed in the *Supporting Documents* tab. Specifically, Friel uploaded eight incoming wire transactions covering eight dates from June 24 through July 9, 2014, all of which originated from the DenSco account at Bank of America, along with fourteen deposits from cancelled cashier's checks, all of which had been issued from the -1151 account and re-deposited. Images of both wire instructions and cancelled/redeposited cashier's checks were uploaded to this native file.²⁶ This native file has a considerable number of redactions, but the paper trail contained in this document is disturbing.

His investigation revealed several startling patterns. First, the *Supporting Documents* tab includes images of fourteen cashier's checks issued on June 30, July 7, and July 9, 2014 from the -1151 account, all of which had been issued payable to trustees of foreclosure sales. These fourteen checks were purportedly to be used by Arizona Home Foreclosures to pay for properties purchased by Menaged. In addition, the *Supporting Documents* tab also includes detailed descriptions of the incoming wires from DenSco's account with Bank of America. These wire documents list the actual property addresses that the wires were intended to fund. So, what exists in the *Supporting Documents* tab is an audit trail which allowed for a validation of the *intended* use of funds to the *actual* use of these same funds. In his

²⁶ JPMC_0013280, "Supporting Documents" tab.

detailed analysis, Friel audited the wire transactions on three separate dates, namely June 30, July 7, and July 9, 2014. The results of his analysis for each date are portrayed below in Table 4:

Table 4

Native File for Friel Investigation JPMC_0013280 Supporting Documents Tab							
Date	Debit	Credit	Description	CC #	Remitter	Payee	Details of Payment (1)
20140630		\$ 891,800.00	Wire In		DenSco	Arizona Home Foreclosures	Wire in to fund property purchases.
20140630	\$ 190,210.00		Cashier's Check	9018120724	Az Home Foreclosures	FATSS	17216 N63rd Ave CC cancelled and redeposited into -1151
20140630	\$ 258,913.00		Cashier's Check	9018120725	Az Home Foreclosures	Quality Loan Services	4407 W Pearce Rd CC cancelled and redeposited into -1151
20140630	\$ 123,810.00		Cashier's Check	9018120726	Az Home Foreclosures	FATSS	4926 Desert Dr CC cancelled and redeposited into -1151
20140630	\$ 278,913.00		Cashier's Check	9018120727	Az Home Foreclosures	Quality Loan Services	10812 E Rafael Cir CC cancelled and redeposited into -1151
	\$ 851,846.00	\$ 891,800.00					

Note (1) Property addresses are listed on both the Wire In "Details of Payment" as well as the Cashier's Checks payable to Trustees.

Date	Debit	Credit	Description	CC #	Remitter	Payee	Details of Payment (1)
20140707		\$ 820,600.00	Wire In		DenSco	Arizona Home Foreclosures	Wire in to fund property purchases.
20140707	\$ 108,809.00		Cashier's Check	9018120805	Az Home Foreclosures	David W Cowles Trustee	1871 W Derringer Status unknown.
20140707	\$ 187,809.00		Cashier's Check	9018120806	Az Home Foreclosures	David W Cowles Trustee	11438 S Oneida CC cancelled and redeposited into -1151
20140707	\$ 171,413.00		Cashier's Check	9018120807	Az Home Foreclosures	Quality Loan Services	20660 N 40th #1105 CC cancelled and redeposited into -1151
20140707	\$ 108,410.00		Cashier's Check	9018120808	Az Home Foreclosures	Fidelity National Title	8410 S 1st Street CC cancelled and redeposited into -1151
	\$ 576,441.00	\$ 820,600.00					

Note (1) Property addresses are listed on both the Wire In "Details of Payment" as well as the Cashier's Checks payable to Trustees.

Date	Debit	Credit	Description	CC #	Remitter	Payee	Details of Payment (1)
20140709		\$ 926,900.00	Wire In		DenSco	Arizona Home Foreclosures	Wire in to fund property purchases.
20140709	\$ 94,810.00		Cashier's Check	9018120848	Az Home Foreclosures	Les Zieve Trustee	45 N Guadal Dr CC cancelled and redeposited into -1151
20140709	\$ 216,810.00		Cashier's Check	9018120849	Az Home Foreclosures	Les Zieve Trustee	12804 W Vista Paseo CC cancelled and redeposited into -1151
20140709	\$ 136,309.00		Cashier's Check	9018120850	Az Home Foreclosures	David W Cowles Trustee	8841 W Peck Dr CC cancelled and redeposited into -1151
20140709	\$ 99,410.00		Cashier's Check	9018120851	Az Home Foreclosures	Trustee Corps	6238 W Encinas Ln CC cancelled and redeposited into -1151
20140709	\$ 90,810.00		Cashier's Check	9018120852	Az Home Foreclosures	Eric L. Cook Trustee	6302 W Del Mar Ln CC cancelled and redeposited into -1151
20140709	\$ 140,209.00		Cashier's Check	9018120853	Az Home Foreclosures	David W Cowles Trustee	7003 N 11th Pl CC cancelled and redeposited into -1151
	\$ 778,358.00	\$ 926,900.00					1970 N Hartford St Status unknown.

Note (1) Property addresses are listed on both the Wire In "Details of Payment" as well as the Cashier's Checks payable to Trustees.

As his transaction upload data noted, the incoming wires specifically identified property addresses, which were cross-referenced to the addresses listed on the cashier's checks issued by Chase from the -1151 account. For example, there was a DenSco wire received into the -1151 account on June 30, 2014 in the amount of \$891,800. The wire advice noted four property addresses which were to be purchased by Arizona Home Foreclosures using the wire proceeds. In fact, Chase issued four cashier's checks for the listed property addresses in an aggregate amount of \$851,846. Each of these cashier's checks listed "DenSco Payment" and the specific property address directly under the Payee name on each check. For example, cashier's check number 9018120724 issued on June 30, 2014 payable to FATSS (First American Title Services) contained the notation "DENSCO PAYMENT 17216 N 63RD AVE" on the line directly under the Payee. This address reference coincides with the property address noted on the incoming wire advice from DenSco's Bank of America account. Accordingly, there is irrefutable evidence in Friel's investigation that the incoming wire on June 30, 2014 was intended to fund four properties, including the 63rd Avenue property.

Furthermore, there is irrefutable evidence that Friel specifically reviewed these cashier's checks during his investigation.²⁷ The Alerting Activity tab specifically instructed Friel to "Please Verify" each of the

²⁷ In the "Alerting Activity" tab of Friel's investigation summary (JPMC_0013280, see also Footnote 27), column "D" of this spreadsheet instructed the investigator to "Please Verify" each of the fourteen individual cashier's checks identified therein that had been cancelled and re-deposited into the -1151 account on June 30, July 7, and July 9, 2014. It is reasonable to conclude that this verification stipulation resulted in Friel's upload of the actual images of these fourteen checks found in the "Supporting Documents" tab.

fourteen cashier's checks that were cancelled and redeposited. A sample of this screen for the four cashier's checks issued on June 30, 2014 is noted below in Table 5:

Table 5

Freil Instructions in Alerting Activity Tab						
JPIMC_0013280						
Transaction	Date	Account ID	Type	Amount	Cashier's Check #	
0000000601-0000000000000582551151	6/30/2014	CASH-EQ-CASHIER-CHECK	Please Verify	\$278,913.00	25460-201-	9018120727
0000000601-0000000000000582551151	6/30/2014	CASH-EQ-CASHIER-CHECK	Please Verify	\$123,810.00	25460-201-	9018120726
0000000601-0000000000000582551151	6/30/2014	CASH-EQ-CASHIER-CHECK	Please Verify	\$258,913.00	25460-201-	9018120725
0000000601-0000000000000582551151	6/30/2014	CASH-EQ-CASHIER-CHECK	Please Verify	\$190,210.00	25460-201-	9018120724

This pattern was repeated for the transactions sampled for July 7 and July 9, 2014 as well. And the process of issuing, cancelling, and redepositing the cashier's checks is proof that the DenSco funds, in an aggregate amount of \$2,639,300, were not used to purchase the identified properties. Rather, approximately 84% (\$2,206,562) of these funds were re-deposited into the -1151 account and redirected to other activities. This data, covering the three days reviewed by Friel, is summarized below in Table 6:

Table 6

Date	DenSco Wires	Amounts Re-Directed
20140630	\$ 891,800.00	\$ 851,846.00
20140707	\$ 820,600.00	\$ 576,358.00
20140709	\$ 926,900.00	\$ 778,358.00
	\$ 2,639,300.00	\$ 2,206,562.00

Friel's report is heavily redacted, so it is difficult to determine his assessment of these anomalies. But what is undisputed is the misuse of funds as documented in the Transaction Summary tab. Specifically, this tab identifies that the amount re-directed on June 30, 2014 (\$851,846) was re-deployed that same day as noted in Table 7:

Table 7

Funds Re-directed from June 30, 2014 DenSco Wire-In							
Account Number	Date	Type	Debit/Credit	Amount	Transaction Reference	Beneficiary Account	Beneficiary
0000000601-0000000000000582551151-010	6/30/2014	EFT-ACH	D	\$15,000.00	16880-20140630-FR140630AX38SM	0000000802-00000000000000304294780-010	AMERICAN EXPRES
0000000601-0000000000000582551151-010	6/30/2014	EFT-OTHE	D	\$99,879.30	16740-20140630-5025900181ES	0000000021-00000000000000158758950-010	MENAGED JOSEPH
0000000601-0000000000000582551151-010	6/30/2014	EFT-OTHE	D	\$114,794.60	16740-20140630-5026400181ES	4657167509	DENSCO INVESTMENTS CORP6132 W VICTORIA PL
0000000601-0000000000000582551151-010	6/30/2014	EFT-ACH	D	\$10,000.00	16880-20140630-FR140628AX3440	0000000802-00000000000000304294780-010	AMERICAN EXPRES
0000000601-0000000000000582551151-010	6/30/2014	EFT-OTHE	D	\$163,949.60	16740-20140630-5026000181ES	4657167509	DENSCO INVESTMENTS CORP6132 W VICTORIA PL
0000000601-0000000000000582551151-010	6/30/2014	EFT-OTHE	D	\$198,480.30	16740-20140630-5026100181ES	4657167509	DENSCO INVESTMENTS CORP6132 W VICTORIA PL
0000000601-0000000000000582551151-010	6/30/2014	EFT-OTHE	D	\$173,602.25	16740-20140630-5026200181ES	4657167509	DENSCO INVESTMENTS CORP6132 W VICTORIA PL
				\$775,706.05			

Disturbingly, the preponderance of funds from the DenSco wire received into the -1151 account on June 30, 2014 was immediately round-tripped back to DenSco purportedly as repayments of prior loan advances with addresses different from those listed on the incoming DenSco wire advice. This activity is indicative of a classic Ponzi scheme; that is, Receive Funds-Wash Funds-Return Funds. Much of the remaining balance was used for personal expenses. None of the funds were used as intended, namely,

to acquire new properties. The other two days reviewed by Friel, namely July 7 and 9, 2014, exhibited a pattern of fraud identical to the June 30th transactions.

Friel's investigation also documented funds diverted to Menaged's serious gambling addiction. In his analysis, Friel's Transaction summary captured \$139,050 in cash transactions payable to Arizona casinos over a 29-day period from June 11th through July 9th, 2014. Obviously, none of the DenSco funds were ever intended for this activity. Table 8 contains a screen shot of this activity sourced directly from Friel's investigation:

Table 8

Unusual Transactions -- Gambling						
Investigator: Padraic Friel						
Source: JPMC0013280 Tab Titled: Back Office						
Account	Date			Amount	Payable To	
0000000601-0000000000000582551151-010	6/11/2014	BO-OTHER	D	\$15,450.00	21359-201 GCA* CASINO ARIZONA TALSCOTTSDALE AZ 06/09	
0000000601-0000000000000582551151-010	6/11/2014	BO-OTHER	D	\$525.00	21359-201 V I P MORTGAGE 480-966-0919 AZ 06/09	
0000000601-0000000000000582551151-010	6/13/2014	BO-OTHER	D	\$1,479.00	21359-201 GOMEN FURNITURE MFG, 310-635-4894 CA 06/12	
0000000601-0000000000000582551151-010	6/17/2014	BO-OTHER	D	\$20,600.00	21359-201 GCA* CASINO ARIZONA MCK SCOTTSDALE AZ 06/15	
0000000601-0000000000000582551151-010	6/18/2014	BO-OTHER	D	\$20,600.00	21359-201 GCA* CASINO ARIZONA MCK SCOTTSDALE AZ 06/16	
0000000601-0000000000000582551151-010	6/19/2014	BO-OTHER	D	\$10,000.00	21359-201 Online Transfer to CHK ...1381 transaction#: 3987058954	
0000000601-0000000000000582551151-010	6/23/2014	BO-OTHER	D	\$0.85	21359-201 SNACK SODA VENDING Phoenix AZ 06/22	
0000000601-0000000000000582551151-010	6/25/2014	BO-OTHER	D	\$150,582.40	21359-201 Online Transfer to CHK ...8371 transaction#: 3997505942	
0000000601-0000000000000582551151-010	6/25/2014	BO-OTHER	D	\$70,000.00	21359-201 Online Transfer to CHK ...8371 transaction#: 3997306301	
0000000601-0000000000000582551151-010	6/25/2014	BO-OTHER	C	\$70,000.00	21359-201 Online Transfer from CHK ...8371 transaction#: 3996787131	
0000000601-0000000000000582551151-010	6/27/2014	BO-OTHER	D	\$300,000.00	21359-201 Online Transfer to CHK ...8371 transaction#: 4001857842	
0000000601-0000000000000582551151-010	6/30/2014	BO-OTHER	D	\$845.00	21359-201 GOMEN FURNITURE MFG, 310-635-4894 CA 06/27	
0000000601-0000000000000582551151-010	7/1/2014	BO-OTHER	D	\$61,000.00	21359-201 Online Transfer to CHK ...8371 transaction#: 4010313774	
0000000601-0000000000000582551151-010	7/3/2014	BO-OTHER	D	\$20,600.00	21359-201 GCA* CASINO ARIZONA TALSCOTTSDALE AZ 07/01	
0000000601-0000000000000582551151-010	7/7/2014	BO-OTHER	D	\$594.89	21359-201 CVSPHARMACY #9252 Q03 SCOTTSDALE AZ 07/03	
0000000601-0000000000000582551151-010	7/7/2014	BO-OTHER	D	\$20,600.00	21359-201 GCA* CASINO ARIZONA TALSCOTTSDALE AZ 07/06	
0000000601-0000000000000582551151-010	7/8/2014	BO-OTHER	D	\$375,213.00	21359-201 Online Transfer to CHK ...8371 transaction#: 4022991079	
0000000601-0000000000000582551151-010	7/9/2014	BO-OTHER	D	\$20,600.00	21359-201 GCA* CASINO ARIZONA TALSCOTTSDALE AZ 07/07	
0000000601-0000000000000582551151-010	7/9/2014	BO-OTHER	D	\$20,600.00	21359-201 GCA* CASINO ARIZONA TALSCOTTSDALE AZ 07/07	
0000000601-0000000000000582551151-010	7/10/2014	BO-OTHER	D	\$384,267.45	21359-201 Online Transfer to CHK ...8371 transaction#: 4026798482	
0000000601-0000000000000582551151-010	7/10/2014	BO-OTHER	D	\$40,000.00	21359-201 Online Transfer to CHK ...8371 transaction#: 4027062581	
0000000601-0000000000000582551151-010	7/11/2014	BO-OTHER	D	\$134,612.80	21359-201 Online Transfer to CHK ...8371 transaction#: 4029073017	

It is apparent that Padraic Friel, the Chase analyst, knew, or had possession of, the following information:

- The analyst was aware that the incoming DenSco funds were intended to fund property purchases.
- The analyst was aware of the specific property addresses noted on both the wire instructions as well as the cashier's checks.
- The analyst was aware that 100% of the cashier's checks selected for his sample testing were cancelled and redeposited into the -1151 account, and that DenSco's funds were not used as intended. He possessed this knowledge because the investigation procedure required verification of the cashier's checks.
- The analyst was aware that the funds noted in his samples were re-directed back to DenSco purportedly to repay prior loans, and also to pay for personal living expenses, payments to relatives, gambling losses, and third-party debt repayments. This visibility was well-documented in the Transaction Summary and Back Office tabs of the Investigation Template.
- Friel was aware that there was no evidence to indicate that any of the DenSco funds included in his sampling review were used to purchase properties.

Friel's recommendation was consistent with that of Gil and Khoo:

*"...the rapid and circular movement of funds, the high-risk nature of the industry, and the extensive prior AML history, all warrant additional review. Recommend case be associated to the open review of HALO #5959578."*²⁸

Eric Mruczek Review (Case Number Not Indicated)

Erick Mruczek also was an alert analyst on the case and authored a report on the -1151 account (JPMC 13068-69). The scope of his review was June 18 to July 25, 2014, again pre-dating Brandon Stone's review on July 30, 2014.

The timing of this investigation appears to have overlapped with the Friel investigation, although the investigations reviewed different transactions.

A native file is also associated with this investigation. An Investigation Template²⁹ was prepared by investigator Eric Mruczek when 18 cashier's checks were issued in a total amount of \$3,150,773. Essentially, this Alert was generated when groups of 4 or 5 cashier's checks were issued sequentially.

The Investigation Template is superficial in that the Supporting Documents tab captured five counter withdrawals posted on July 1, 8, 10, 14 and 18, but the investigator appears to have uploaded into the worksheet only four cashier's checks issued on July 15 and 17. It does appear that the Transaction Summary tab was uploaded with all account transactions from June 18 through July 22, 2014.

The Investigator's Transaction Summary captured anomalous account activity similar to that of Gil and Friel, namely dozens of cancelled cashier's checks, expenditures unrelated to the nature of the business, personal expenses including credit card payments and multiple, significant amounts of cash withdrawals at casinos.

As in all of the other investigations, the one item missing from the account transaction history was any meaningful level of deposits generated from the sale of properties.

However, the conclusion of Eric Mruczek is consistent with Gil, Khoo and Friel, namely:

*"Customer use of funds lack transparency as ultimate receipt (sic) of funds is unclear. Further review is recommended for this alert and associated alerts."*³⁰ Mruczek recommended this case be linked to case # 5959578.

Robert Oven Review (Case Number Not Indicated)

Robert Oven is the fourth or fifth analyst (counting Khoo and Gil separately) to have reviewed the Menaged account. He authored a report (JPMC 0013272-73). At the time of his report, case # 5959578 was open.

²⁸ JPMC_0013057

²⁹ JPMC_0013283

³⁰ JPMC_0013069

Chase provided a native file associated with Robert Oven's investigation. As was the case in many other investigations involving this account, the triggering alert involved a "Pattern of Sequentially Numbered Checks. Monetary Instruments."

The investigator, Robert Oven, prepared an Investigation Template³¹ involving the -1151 account, covering a review period from June 4 through July 9, 2014. The native file contains an account upload in the Transaction History tab for all account transactions from May 5 through July 28, 2014, but it appears that from this transaction universe Oven selected a subset covering June 4 through July 9 as noted in the Transaction Summary tab. The Supporting Documents tab contains images and/or screen shots of three inbound wires, numerous cashier's checks, and outbound wire transactions. Only a few of these selected transactions were sequentially numbered. The Alerting Activities tab listed 22 cashier's checks to be verified, but none of these items were uploaded into the Supporting Documents tab. However, his sample did include other sequentially numbered cashier's checks.

The period selected for review also contained four cash transactions that had been reported in Cash Transaction Reports (CTR's), which was consistent with the reporting requirements of the Bank Secrecy Act. These four CTR's were a subset of eight CTR's identified in the CTR Report tab in this native file. So, during the period selected for review, eight CTR's were reported, and of these eight, Oven selected four in his sample.

However, in a glaring case of oversight, Oven failed to note in his investigation nine separate debit card transactions in a total amount of \$164,800 of cash withdrawn at Casino Arizona. These transactions are summarized in Table 10:

Table 10

Account #	Transaction Date	Statement Date	Debit Transaction Location	Transaction Type	Amount	CTR Reportable?
AHF - Chase 1151	06/09/14	06/30/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 06/07 Gca Casino Arizona Tal Scottsdale AZ Card 4906	\$ 10,300	no
AHF - Chase 1151	06/10/14	06/30/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 06/08 Gca Casino Arizona Tal Scottsdale AZ Card 4906	\$ 15,450	no
AHF - Chase 1151	06/11/14	06/30/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 06/09 Gca Casino Arizona Tal Scottsdale AZ Card 4906	\$ 15,450	no
AHF - Chase 1151	06/17/14	06/30/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 06/15 Gca Casino Arizona Mck Scottsdale AZ Card 4906	\$ 20,600	no
AHF - Chase 1151	06/18/14	06/30/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 06/16 Gca Casino Arizona Mck Scottsdale AZ Card 4906	\$ 20,600	no
AHF - Chase 1151	07/03/14	07/31/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 07/01 Gca Casino Arizona Tal Scottsdale AZ Card 4906	\$ 20,600	no
AHF - Chase 1151	07/07/14	07/31/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 07/06 Gca Casino Arizona Tal Scottsdale AZ Card 4906	\$ 20,600	no
AHF - Chase 1151	07/09/14	07/31/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 07/07 Gca Casino Arizona Tal Scottsdale AZ Card 4906	\$ 20,600	no
AHF - Chase 1151	07/09/14	07/31/14	Casino Arizona at 101 & Indian Bend Jackpot Account	Card Purchase 07/07 Gca Casino Arizona Tal Scottsdale AZ Card 4906	\$ 20,600	no
					\$ 164,800	

These items were prominently listed in the Transaction Summary tab of the native file. A screen shot of these transactions is displayed as Table 11 below:

Table 11

0000000601-00000000000000582551151-010	6/9/2014	BO-OTHER	D	\$10,300.00	21359-201	GCA* CASINO ARIZONA TAL SCOTTSDALE AZ 06/07
0000000601-00000000000000582551151-010	6/10/2014	BO-OTHER	D	\$15,450.00	21359-201	GCA* CASINO ARIZONA TAL SCOTTSDALE AZ 06/08
0000000601-00000000000000582551151-010	6/11/2014	BO-OTHER	D	\$15,450.00	21359-201	GCA* CASINO ARIZONA TAL SCOTTSDALE AZ 06/09
0000000601-00000000000000582551151-010	6/17/2014	BO-OTHER	D	\$20,600.00	21359-201	GCA* CASINO ARIZONA MCK SCOTTSDALE AZ 06/15
0000000601-00000000000000582551151-010	6/18/2014	BO-OTHER	D	\$20,600.00	21359-201	GCA* CASINO ARIZONA MCK SCOTTSDALE AZ 06/16
0000000601-00000000000000582551151-010	7/3/2014	BO-OTHER	D	\$20,600.00	21359-201	GCA* CASINO ARIZONA TAL SCOTTSDALE AZ 07/01
0000000601-00000000000000582551151-010	7/7/2014	BO-OTHER	D	\$20,600.00	21359-201	GCA* CASINO ARIZONA TAL SCOTTSDALE AZ 07/06
0000000601-00000000000000582551151-010	7/9/2014	BO-OTHER	D	\$20,600.00	21359-201	GCA* CASINO ARIZONA TAL SCOTTSDALE AZ 07/07
0000000601-00000000000000582551151-010	7/9/2014	BO-OTHER	D	\$20,600.00	21359-201	GCA* CASINO ARIZONA TAL SCOTTSDALE AZ 07/07

³¹ JPMC_0013287

The transactions reviewed by Oven clearly identify:

- The pattern of DenSco wires, cancelled cashier's checks, and outgoing wires back to DenSco on a same-day basis was consistent with the fraud scheme identified in each individual investigation that preceded the Oven review.
- The incoming DenSco funding was intended to be used to purchase real properties. In fact, the majority of these proceeds were diverted to obligations unrelated to the operations of the business.
- Gambling losses were unrelated to the operations of the business, and DenSco funds should not have been diverted to support this activity.
- The casino-based cash transactions were visible to the investigator, who should have recognized these items as unrelated to normal business operations.

Although Oven does not explicitly mention the items above, he does recognize the suspicious nature of the account transactions, similar to Gil, Khoo, and Friel: *"The source and use of funds are both unusual. The purchase of the cashier's checks may be for record keeping purposes, however the sheer volume and amounts of the transfers, as well as an open pending investigation in HALO Case #5682558. Further review is recommended."*

In late July, on consecutive days, July 29, and July 30, two separate bank investigators, Brandon Stone, and Andrea Johnson, review the case as bank investigators. At this point in time, five bank analysts (Alexander Gil, Sharon Khoo, Padraic Freil, Eric Mruczek, and Robert Oven) had reviewed the Menaged bank account, documented what they had seen, and recommended further investigation.

Brandon Stone Review

Based on the Investigation Summary, on July 30, 2014, the findings of Case #568558 (the original referral made by Samantha Nelson) were reviewed at a supervisory level by Brandon Stone. As noted, the case came to Brandon Stone after five analysts concluded the use of funds was unusual, the use of funds was not consistent with the business, and the sheer volume of transfers was inconsistent with the business.

Brandon Stone documents his review period as 4/8/2014 through 7/28/2014. As this review period overlaps the Gil/Khoo review, the same suspicious patterns involving DenSco wires-in for specific property purchases, cashier's checks issued and immediately cancelled and redeposited, and wires-out to DenSco on the same day as received purportedly in repayment of prior loan advances, were all readily transparent to Stone. In addition, the review documented cash transactions in casinos (in a cumulative amount of \$550,812) in 16 separate transactions. These transactions were readily identifiable in bank records included in Stone's investigation.

Despite unmistakable evidence to the contrary, Stone concludes *"...the activity appears normal and expected for this type of business...transactions are...transparent and appear to be for typical business activity (for this type of business)" and concludes his comments wherein he recommended the account to remain open due to "tenure with the bank, owner has been a customer since 9/7/2011".*

The conclusions are remarkable. Although the investigator is presumably performing a more fulsome review, the nature of Stone's additional investigative actions are not described in his case notes. Stone makes no mention of the concerns of the reports of Gil, Khoo, Friel, Mruczek and Oven. Stone's

statements are conclusionary and lack any documentary support. Nor does Stone comment on the transparently obvious misuse of DenSco funds.

The conclusions ignore, and fail to explain, the flow of funds from DenSco wire transfers used to cashier's checks for purchase of specific properties; the cashier's checks not being used for their intended purposes; re-depositing the cashier's checks in Menaged accounts; and the flow of funds from these re-deposits to repay DenSco on unrelated property addresses, and other payments unrelated to property purchases. Furthermore, his conclusions do not mention the complete lack of an external revenue source from the sale of the purported properties that Menaged presumably purchased with DenSco proceeds.

The conclusions are completely contrary to the factual account transaction records. The transactional records investigated by Stone are unambiguous. They clearly identify that Menaged conducted a small real estate business within a massive Ponzi scheme.

Andrea Johnson Review (Case #5959578)

On July 14, 2014, a new Case #5959578 involving "patterns of sequentially numbered checks, monetary instruments" was opened and assigned to Andrea Johnson. The day before Mr. Stone's conclusions, on her open cases, on July 29, 2014, Andrea Johnson logs her investigation summary. She also is a bank investigator.

Ms. Johnson's log entry on July 14 mimics the flow of funds described in Mr. Oven's report.

All of her comments are logged on July 29.

In her review, she noted the existence of four prior Alerts (all noted as status "closed"), as well as four open Alerts, involving structuring/avoidance of reporting thresholds, and patterns of sequentially numbered checks, as well as prior Cash Transaction Report (CTR) submissions. Furthermore, she noted her review period as May 4 through July 29, 2014.

Her review noted 16 cash withdrawals totaling \$318,000.³² Furthermore, she noted the main sources of funds as "various cashier's check deposits, checks from insurance companies, wire transfers from DenSco Investment Corporation, and Magnus Title Agency of Arizona."

Primary uses of funds were "Wire transfers DenSco Investment Corporation and Magnus Title Agency of Arizona, purchase of sequential cashier (sic) checks, miscellaneous transfers, credit card payments and debit card transactions."

She concluded that "...account appears legitimate..."³³

As with Brandon Stone, her conclusions are contrary to the factual records compiled by Chase. For the period of her review, the transactions tell a very different story. Table 9 portrays the actual Sources and Uses within the -1151 account during the review period:

³² JPMC_0006355

³³ Her concluding comments are heavily redacted. See JPMC_0006357.

Table 9

Period from May 4 through July 29, 2014			
Sources of Funds	Total Deposits	# of Transactions	% of Dollars
Cashier's Checks	\$ 48,538,178	258	44.4%
Magnus Title	\$ 276,052	20	0.3%
Densco Wires	\$ 60,494,142	98	55.3%
	\$ 109,308,372	376	100.0%
Uses of Funds	Total Withdrawals	# of Transactions	% of Dollars
DenSco Wires	\$ 46,461,191	222	48%
Magnus Title	\$ 984,715	30	1%
Cashier's Checks	\$ 49,225,006	262	51%
	\$ 96,670,912	514	100%

As is readily apparent, contrary to her description that Magnus Title was both a significant Source and Use of funds, Magnus was, in fact, insignificant to transaction activity. It should have been apparent to the investigator that revenues from property sales were insignificant. Rather, the overwhelming activity was related to the Ponzi scheme of receiving wires from DenSco, washing the funds through the issuance and cancellation of fraudulent cashier's checks, and then immediately round-tripping the majority of these funds back to DenSco (*i.e.*, Receive Funds–Wash Funds–Return Funds). Furthermore, and contrary to her assertion, there were no deposits from insurance companies.

Interestingly, the investigator failed to mention that clearly-transparent debit card withdrawals at gambling casinos were \$312,412 during that period. Likewise, deposits from casinos, in the amount of \$256,800, were recorded. Despite the prevalence of these suspicious transactions that were clearly inconsistent with the operations of the business, the investigator was silent.

Incredibly, Johnson concludes that *"Based on the review of the account activity during this investigation...(narrative redacted)... sources funding the account appear legitimate and other account activity appears consistent..."*

On the Investigation Summary entry dated July 29, 2014, Andrea Johnson appears to review Menaged's personal account, which encompasses the period from May 4, 2014 to July 29, 2014. She noted that the main Sources of account deposits are transfers from an account (account number redacted) and casino proceeds. Menaged's personal bank account records for May through July were marked in her deposition. The bank statements show transfers from his business account to his personal account followed by wires from his personal account to DenSco. These transactions are described as repayments of prior loans. Again, such "round tripped" transactions are clearly indicative of an illegal Ponzi scheme.

In spite of this unmistakable evidence of illegal activity, Johnson concludes that the information reviewed in the personal account *"appears consistent with a consumer account."* She does not explain

how or why this consumer account, which is being used to wire monies to DenSco in satisfaction of loans on properties, is consistent with a consumer account.

Despite these unexplainable transactions in both the business and personal accounts, as well as the concerns noted in prior cases, all of which were referenced in the Investigative Summary available to Andrea Johnson, she gave the account a clean bill of health, and the fraud continued.

Late Year Investigations -- August to December, 2014

Alerts continued to pour in on the -1151 account. Three more bank analysts, and two more bank investigators reviewed the account.

John Molina Review

The bank records reviewed by Mr. Molina in October 2014 document transfers of business funds from -1151 into Mr. Menaged's personal account (-8371), and these funds were immediately wired back to DenSco marked as repayment of prior loan obligations. For example, on October 1, Menaged received a DenSco wire into the -1151 account in the amount of \$1,323,800, transferred \$505,671.90 from the -1151 account to his personal account (-8371), and then immediately wired this identical amount back to DenSco's Bank of America account, a clear indication of a Ponzi scheme. This pattern of "round tripping" of DenSco funds from DenSco wires into the -1151 account, immediate transfer from -1151 to -8371, and then wires immediately out of -8371 back to DenSco's Bank of America account occurred 13 times in October 2014, the period reviewed by Molina.

This pattern of transfers and recycling among DenSco's Bank of America account to the -1151 account, to the -8371 account and then back to DenSco's Bank of America account, all in the same day, was a pattern identical to the July 2014 activity reviewed by Andrea Johnson.

Commencing in November 2014, a variation on this theme became prevalent between the -1151 and -8371 accounts. Specifically, Menaged commenced a series of almost daily, simultaneous, transfers from the -1151 account to his personal account, and then transferred back an identical amount to the -1151 account. These "round trip" transfers were in amounts ranging from \$170,000 to \$300,000 and occurred ten times in November 2014. In fact, for both October and November 2014, these two types of "round trip" transactions were the predominate transactions in both accounts.

These are all common, and transparent, money laundering activities which were designed to "wash" this money; that is, disguise the source of his funding by shifting the cash through different accounts.³⁴

Although Mr. Molina reviewed this "layering" activity, he failed to question this transparently suspicious activity. Instead, he wrote a letter to the Branch Manager Dadlani and the Chase Private Banker Susan Lazar that this was an opportunity for Chase to deepen its relationship with Mr. Menaged.

³⁴ This activity is specifically noted in Chase's Annual AML Training Program, a 127-page training manual delivered annually to all employees. In this training document, "Money Laundering" is described as a three step process (Placement/Layering/Integration) designed to "wash" funds from illegal activities so that these funds appear to be generated from legal activity. The process of moving funds between/among related accounts in an effort to obfuscate the source of cash is identified in Chase training manuals as "Layering." See JPMC_0013318.

Although Menaged continued transferring monies from his business account into his personal account through November 2014, and then transferring it back into his business account, Molina terminated review on December 2, 2022, stating that the activity had stopped. It had not.

Kevin Burkhart Review

JPMC 0013292 is a native file containing an Investigation Template authored by Investigator Kevin Burkhart. Similar to the other investigative activities, this Alert was generated based on patterns of sequentially numbered checks and patterns of funds transfers between customers and external entities. Burkhart's review covered a period from 9/3/2014 through 10/15/2014, a period not previously analyzed in prior investigations. The Supporting Documents tab contains a HALO screen listing three prior Case Numbers and five Alerts, all noted as "closed."

As with all prior Alerts and Cases, this investigation contains a sampling of transactions from the Transaction Summary tab. The sample includes five cashier's checks, all of which were noted as "not used for intended purpose" as well as three DenSco wires to the -1151 account and three withdrawal slips. As with all prior transactions included in other investigations, the incoming DenSco wires noted the property addresses to be purchased. As noted in other investigations, the cashier's checks, although not related to the selected incoming wires from DenSco, had property addresses listed under the Payee line.

As with the transaction populations selected for review in prior investigations, there were numerous instances of cash withdrawals at casinos, payments for personal expenses, and a dearth of deposits³⁵ resulting from the sale of properties previously purchased. Concurrently, DenSco wires in were \$1,048,734 and wires back to DenSco were \$809,489. Obviously, the source of repayments to DenSco did not come from property sales. The Sources and Uses analysis of Burkhart's investigation conspicuously avoided discussing this anomaly.

This Investigation does not appear to be particularly robust, but Burkhart concludes that *"Due to the rapid movement of funds and the high amounts of the wire transfers further investigation is warranted."*³⁶

Jonathan W. Edds Review

A HALO Investigation Summary³⁷ identifies Case #6291750 opened on 10/20/2014 due to "Patterns of Sequentially Numbered Checks, Monetary Instruments." Although Chase did not produce a HALO Investigation Template for this case, there was a narrative³⁸ produced with comments relating to this investigation. This narrative identifies six prior Mantas Alerts and a transaction review period covering 9/3/2014 through 10/17/2014.

In these comments (some of which appear to be written by prior investigators but were reviewed and relied upon by Edds), he noted that the flow of funds is normal and customary for the business, which he concurs as *"...in the business of foreclosures remodeling, buying, and selling homes in Arizona."*

³⁵ Third-party deposits resulting from sale of properties were less than \$100,000 during the period under review.

³⁶ JPMC_0013297

³⁷ JPMC_0013298

³⁸ JPMC_0006358 through JPMC_0006362, see also Footnote 4.

The account transaction data tells a very different story. During the period under review, there were 57 DenSco wires in, totaling \$39,097,350. Of this amount, 144 cashier's checks in the amount of \$36,939,007 were issued and redeposited into the account. Arizona Home Foreclosures (AHF) wired back to DenSco 107 wires totaling \$20,880,161. The balance of funds received³⁹ from DenSco were transferred to a parallel Menaged Account (the -8371 account at Chase), and the funds from these transfers were immediately wired back, dollar for dollar, to DenSco. The wire instructions noted property addresses unrelated to the addresses on the incoming wires from DenSco to the -1151 account earlier in the day. Therefore, there is no basis supporting a claim that the funds were simply returned to DenSco when AHF was unsuccessful in its trustee sale bids. The paper trail denotes a classic Ponzi scheme, namely the actions of receiving wires from DenSco, washing the funds through the issuance and cancellation of fraudulent cashier's checks, transferring to a related account, and then immediately round-tripping the majority of these funds back to DenSco (*i.e.*, Receive Funds–Wash Funds–Return Funds).

Actual account credits for the sale of properties by AHF to third parties totaled \$94,612 in 14 transactions. Actual account debits representing AHF purchases of properties totaled \$237,542 in 10 transactions.

As contained in the transaction data of past investigations, the overwhelming activity was related to the Ponzi scheme of receiving wires from DenSco, washing the funds, and then immediately round-tripping the majority of these funds back to DenSco (*i.e.*, Receive Funds–Wash Funds–Return Funds). Stated succinctly, there is no evidence to support Edd's conclusion that the flow of funds was normal and customary for the business. And this activity was transparent to the Investigator.

Early 2015 Investigations -- December 2014 to April 2015

Robyn DeAngelis Review

JPMC 0013302 is a native file which provides evidence of an investigation (Case #6612803) performed by Robyn DeAngelis. The investigation was triggered by a series of alert notices dated from 1/26/2015 through 2/9/2015.⁴⁰

For the period comprising her review, the Supporting Documents tab sampled five checks payable to DenSco, one wire payable to the Wynn Las Vegas,⁴¹ and three incoming wires from DenSco. This is the first investigation that noted a casino payment. There are minimal comments on this HALO Investigation Template but DeAngelis concludes: *"The patterns that the Subject is displaying lack transparency and require further investigation."*

A separate document, the chronological summary,⁴² has multiple comments for 2/10/2015. The source is not stated but matches conclusions made by DeAngelis. *"The patterns that the subject is displaying*

³⁹ Transfers from -1151 to -8371 in the amount of \$16,702,746 (29 transfers) were included in the transaction records reviewed by Edds.

⁴⁰ The Overview tab of JPMC_0013302 notes five automated Alerts during the period, as well as twelve prior CWI Alerts, nine prior Alerts, and four prior Cases.

⁴¹ Wire in the amount of \$100,000 payable to Wynn Las Vegas, LLC.

⁴² JPMC_0006363 through JPMC_0006368

lack transparency and require further investigation.” And template questions ask: “Does the review result in heightened risk, require additional action, or warrant immediate escalation. Yes.” “After analysis, is the flow of funds sufficiently understood and documented. No.”

Gloria Pritchett Review

The last bank investigator to look at the Menaged account as a result of the DeAngelis investigation was Gloria Pritchett. An Investigation Summary⁴³ denotes that a transaction analysis covering the period from 11/24/2014 through 4/22/2015 was performed.

On 4/23/2015, Gloria Pritchett is listed as the source of comments. While there is no detail concerning her review, she concludes that the account transaction activity, which includes both patterns of funds transfers and patterns of sequential instruments and redeposits of previously issued cashier’s checks, as: *“This is normal activity in the real estate industry. When purchasing properties at auction the buyer must provide proof that they have the funds available. This is commonly done with the purchase of cashier’s checks. Each check has the property’s address listed that is to be purchased.”*

Although Pritchett emphasizes the significance of address notations on cashier’s checks, she provides no explanation for the use of funds earmarked to purchase these specifically-identified properties when these same funds are immediately wired back to DenSco marked as repayments of prior loan advances noting different property addresses.

There are no other comments or conclusions in her entries.

⁴³ JPMC_006366 through JPMC_006368

Section 3 -- SUMMARY OF AML INVESTIGATIONS

The documents provided by Chase appear to be incomplete, as noted by the number of related Case Numbers listed in Investigative Summaries, and the lack of HALO Investigation Templates for several of the listed Case Numbers. However, there are sufficient documents to piece together a picture of the compliance actions undertaken by Chase regarding the -1151 account. Table 12 below summarizes the Alerts and Cases portrayed on Investigative Summaries produced by Chase. While Chase did not produce Investigation Templates for each of these line items, the relevant investigations and conclusions are summarized therein.

Table 12

Summary of Investigations - 1151 account									
Case ID #	Account Name	Case Category	Case Subtype	Alert Status	Case Opened	Case Closed	Investigator	Investigator Recommendation	Associated Case #
5682558	Az Home Foreclosures, LLC	Case	Manual Alert	Open	20140410	20140512	Nava, Nelson E	Unknown	
5682558	Az Home Foreclosures, LLC	Alert	Manual Alert	Open	20140410		Gil, Alexander	Further investigation warranted.	
5682558	Az Home Foreclosures, LLC	Alert	Manual Alert	Open	20140410		Khoo, Sharon	Further investigation warranted.	
5682558	Managed, Yomtov	Case	Manual Alert	Closed	20140410	20140728	Stone, Brandon	Activity appears normal and expected.	
5763950	Az Home Foreclosures, LLC	Alert	Manual Alert	Closed	20140507	20140508			5682558
5822748	Az Home Foreclosures, LLC	Alert	Cash Out > 100K	Closed	20140527	20140527			
	Az Home Foreclosures, LLC		Patterns/Transfers	Open	20140606		Oven, Robert	Further investigation warranted.	
	Az Home Foreclosures, LLC	Alert	Manual Alert	Open	20140611		Friel, Padriac	Further investigation warranted.	5959578
5900640	Az Home Foreclosures, LLC	Alert	Account Security Blanket	Closed	20140621	20140621			5682558
5959578	Az Home Foreclosures, LLC	Case	Patterns/Transfers	Closed	20140714	20140730	Johnson, Andrea T	Account appears legitimate.	
	Az Home Foreclosures, LLC		Patterns/Transfers	Open	20140715		Mruczek, Eric	Further investigation warranted.	
5971147	Az Home Foreclosures, LLC	Case	Patterns/Transfers	Closed	20140717	20140730	Johnson, Andrea T	Unknown	
5971147	Az Home Foreclosures, LLC	Case	Patterns	Open	20140717		Edds, Jonathan W	Unknown	
6023646	Az Home Foreclosures, LLC	Alert	Patterns/Transfers	Closed	20140725	20140725			5959578
6033425	Az Home Foreclosures, LLC	Alert	Account Security Blanket	Closed	20140729	20140729			5682558
	Az Home Foreclosures, LLC		Patterns/Transfers	Open	20140901		Burkhart, Kevin	Further investigation warranted.	
6291750	Az Home Foreclosures, LLC	Case	Patterns/Transfers	Closed	20141020	20141020	Edds, Jonathan W	Flow of funds is normal and customary.	
6308734	Az Home Foreclosures, LLC	Alert	Account Security Blanket	Closed	20141024	20141024			6291750
6351713	Az Home Foreclosures, LLC	Alert	Patterns/Transfers	Closed	20141107	20141107			6291750
6381694	Az Home Foreclosures, LLC	Alert	Patterns/Transfers	Closed	20141118	20141118			6291750
6394871	Az Home Foreclosures, LLC	Alert	Account Security Blanket	Closed	20141121	20141121			6291750
6612803	Az Home Foreclosures, LLC	Case	Patterns/Transfers		20150210		DeAngelis, Robyn	Requires further investigation.	6655427
									6699269
									6631585
									6760035
									6815533
									6931650
6612803	Az Home Foreclosures, LLC	Case	Patterns/Transfers		20150423		Pritchett, Gloria	Cashier's check redeposits are normal activity in the real estate industry.	

Line items highlighted in YELLOW appear to be "NEXT LEVEL" supervisory reviews of Alert Analyst investigations.

It is apparent that the Managed relationship, operating primarily from the -1151 account, was subject to compliance investigations from the first week of its existence, and continuously thereafter. It is apparent that front-line Alert Analysts consistently recommended that the account be subject to further investigation. It is equally apparent that upper tier supervisory personnel routinely dismissed the suspicious nature of transactions and patterns in this account, in spite of overwhelming evidence of illegal money laundering activities in the form of a massive Ponzi scheme.

Throughout these investigations, there is no evidence to support any conclusion that transactions were consistent with normal and customary business operations, or that the transfers of millions of dollars among Managed's various accounts served any reasonable business purpose. Rather, all of these transactions were classic signs of money laundering activities designed to "wash" the funds in an effort to obfuscate the source of this cash.

Section 4 –The Branch Employees

Since my original report, three major branch employees were deposed: Vikram Dadlani, the branch manager; Susan Lazar, the Chase private banker; and Susan Nelson, the assistant branch manager.

The Complicity of Dadlani, Nelson and Lazar

The story at the branch level is as amazing as the story at the AML Department level. From April 10, 2014 until the end of June 2015, the overwhelming activity in the -4457 account was related to the Ponzi scheme of receiving wires from DenSco, washing the funds through the issuance and cancellation of fraudulent cashier's checks, and then immediately round-tripping a sizable portion of these funds back to DenSco (*i.e.*, Receive Funds–Wash Funds–Return Funds). Chase issued in excess of 1300 cashier's checks that were immediately re-deposited and not used for their intended purposes. The intended purpose of the checks was to buy property, and for more than 1300 times, no property was purchased at all. The money was diverted to other uses. On most business days, funds were wired in from DenSco for the purchase of specific property, and each day funds were either wired back to DenSco or posted by check for repayment of loans for specific properties that were never purchased.

In its annual corporate AML training curriculum, JPM provided its employees with examples for when an unusual activity report should be filed. These examples included transactions that have no ostensible business or economic purpose, cashier's check transactions that are returned shortly after issuance and redeposited, and wire transfers that come in and out on the same day to the same parties. Based on these training "red flags," it is probable that branch referrals to the AML Department relating to activity in the -1151 account should have been issued on a daily basis commencing in April 2014 through July 2015. In fact, the noted activity did trigger multiple automated AML alerts as described above.

The Testimony of Dadlani, Nelson and Lazar

The testimony of Dadlani, Nelson and Lazar is inconsistent with normal bank branch practices. For example, the branches are the first line of defense for ferreting out fraud and money laundering. All branch employees receive training on detection of fraud and money laundering yearly. Branch employees also work as a team to enhance branch profits and customer satisfaction. The annual reviews of employees and the descriptions of the job duties of the branch manager, assistant branch manager and private bankers emphasize this team approach. Based on my training and experience, Chase's policies and practices on training branch employees, and close branch team work are typical in the banking business.

The testimony of the three primary Chase employees responsible for managing the Menaged relationship is contrary to the policies and practices Chase promotes. Their testimonies create the false impression that each branch employee works in a silo, and that they hardly communicate with each other on important accounts; that they are not responsible for the first line of defense to detect fraud.

Moreover, their testimony is replete with what I will describe as "convenient memory lapses." Although it is plausible that recollections of individual transactions from eight years ago may have faded, there is strikingly dubious testimony regarding account opening procedures, AML training, and incentive compensation programs. On the areas in which these Chase employees claim to lack knowledge, they are areas in which their lack of knowledge is contrary to multiple Chase practices, policies and procedures that are integral to how a branch operates.

Dadlani's Testimony Contrary to AML and KYI Training

For example, Dadlani, whose career spanned two years as a teller, four years as a personal banker, nine years as a branch manager, and three years as a market director, could not explain a "fraud scheme."⁴⁴ Likewise, he could not recall any training on fraud schemes,⁴⁵ no training on Ponzi schemes,⁴⁶ and he had no recollection of any specific training on fraud detection.⁴⁷

He gave this testimony in spite of direct evidence that his annual performance reviews assessed his compliance with AML and KYC standards. When asked to explain these standards, his answers, over multiple queries on this issue, included:

- I don't recall.⁴⁸
- I don't recall specifically what I did...⁴⁹
- I don't recall any specific training.⁵⁰

The branch manager is the person at the branch in charge with compliance with federal banking regulations. To claim ignorance of this role is completely contrary to what a branch manager is trained to do.

Lazar's Testimony Contrary to AML and KYC Training

Likewise, Susan Lazar's testimony exhibited a corresponding ignorance of bank practices. When asked about her training with respect to Anti Money Laundering compliance, she could recall no such training.⁵¹ Later, she admitted that in her position she was responsible to identify possible money laundering activities,⁵² but then immediately contradicted herself by claiming that it was not her responsibility to be alert for fraudulent client activities.⁵³ She was equally evasive when asked about her compliance training, stating multiple times that she was never trained in "Know Your Customer" policies and procedures.⁵⁴

In spite of evidence in her annual performance reviews noting that she had completed 100% of assigned training components related to AML, OFAC and KYC training,⁵⁵ she claimed on 23 separate occasions either not to have been trained in these areas, or she could not remember the training.

⁴⁴ Deposition of Vikram Dadlani dated May 12, 2022, Pg. 69, line 12.

⁴⁵ Deposition of Vikram Dadlani dated May 12, 2022, Pg. 69, line 18.

⁴⁶ Deposition of Vikram Dadlani dated May 12, 2022, Pg. 69, lines 21-23.

⁴⁷ Deposition of Vikram Dadlani dated May 12, 2022, Pg. 70, lines 6-8.

⁴⁸ Deposition of Vikram Dadlani dated May 12, 2022, Pg. 78, line 13.

⁴⁹ Deposition of Vikram Dadlani dated May 12, 2022, Pg. 79, line 14.

⁵⁰ Deposition of Vikram Dadlani dated May 12, 2022, Pg. 79, line 23-24.

⁵¹ Deposition of Susan Lazar dated October 19, 2022, Pg. 23, lines 24-25 and Pg. 24, line 1.

⁵² Deposition of Susan Lazar dated October 19, 2022, Pg. 24, lines 2-4.

⁵³ Deposition of Susan Lazar dated October 19, 2022, Pg. 24, lines 6-9.

⁵⁴ Deposition of Susan Lazar dated October 19, 2022, Pg. 25, line 25 and Pg. 26, lines 1-2..

⁵⁵ Deposition of Susan Lazar dated October 19, 2022, Pg. 58, lines 3-6.

Samantha Nelson's Testimony Contrary to AML and KYC Training

Nelson's testimony was as ignorant of bank practices as Dadlani and Lazar. Nelson testified that she had been employed at banking institutions since 2007⁵⁶ starting as a teller and moving progressively to personal banker, assistant manager, and was currently employed at Chase as a "Branch Review Analyst." In her current position, her responsibilities are to assess compliance with corporate policies in the branches.⁵⁷

So, Nelson's professional experience included 15 years in branch operations, and she noted that she had a "...pretty good idea of the teller role at Chase Bank."⁵⁸ And yet, when questioned about her role at the 90th Street branch in 2014-2015, her answers were not credible:

- I don't remember what my job function was then.⁵⁹
- Know Your Customer means to know your customer by name and face.⁶⁰
- She did not recall ever receiving training in KYC.⁶¹
- Understanding the nature of the customer's business was not a responsibility of KYC compliance.⁶²

So, the responses to her time at the 90th Street branch were either "I don't recall", or they were completely inconsistent with corporate policies and training manuals.

But the inconsistent nature of her responses continued further in the deposition. When asked questions about her annual performance reviews, she continued to plead ignorance. Her annual performance reviews specifically assessed Nelson's performance against specific position responsibilities. When asked questions regarding these responsibilities, she answered "I don't remember" more than 40 times.

The annual performance review also assessed her compliance with completion of required training programs. Her answers included:

- She admitted to receiving AML training but did not recall it.
- She could not recall training to report potential fraud.⁶³
- She did not recall training on Ponzi schemes.⁶⁴
- She did not recall training on identifying fraudulent activities in the branch.⁶⁵
- She did not recall seeing the corporate policy for reporting potentially unusual activities.⁶⁶
- She did not recall receiving training on specific examples of fraud.⁶⁷

⁵⁶ Her employment included two years at US Bank, one year at Wells Fargo, and twelve years at Chase.

⁵⁷ Deposition of Samantha Nelson dated October 25, 2022, Pg. 71, lines 25 and Pg. 72, lines 1-2.

⁵⁸ Deposition of Samantha Nelson dated October 25, 2022, Pg. 93, lines 18-19.

⁵⁹ Deposition of Samantha Nelson dated October 25, 2022, Pg. 98, line 10. However, Nelson contradicted this testimony when, later in her deposition (Pg. 123, lines 9-11) she admitted to receiving this training.

⁶⁰ When asked if KYC meant anything else, her response was "No. Not to me it does not." Pg. 101, line 20.

⁶¹ Deposition of Samantha Nelson dated October 25, 2022, Pg. 101, lines 24-25 and Pg. 102, line 1.

⁶² Deposition of Samantha Nelson dated October 25, 2022, Pg. 102, lines 13-15.

⁶³ Deposition of Samantha Nelson dated October 25, 2022, Pg. 124, lines 6-12.

⁶⁴ Deposition of Samantha Nelson dated October 25, 2022, Pg. 124, lines 13-14.

⁶⁵ Deposition of Samantha Nelson dated October 25, 2022, Pg. 124, lines 15-17.

⁶⁶ Deposition of Samantha Nelson dated October 25, 2022, Pg. 125, lines 1-6.

⁶⁷ Deposition of Samantha Nelson dated October 25, 2022, Pg. 125, lines 11-14.

- She could not recall seeing a policy to report transactions inconsistent with the nature of the business.⁶⁸
- She could not recall seeing a policy to report transactions with no logical economic purpose.⁶⁹
- She could not recall training relating to the issuance of cashier's checks.⁷⁰
- She was not aware of the policy requirement to report unusual purchase or redemption of cashier's checks.⁷¹

These answers are stunning. All of the items which she denies any knowledge or recollection of are contained in the Chase AML Corporate Training Program, which is administered annually to every employee, and was noted in Nelson's performance review as having been completed. Furthermore, her purported lack of knowledge of these basic training topics is inconsistent with her current role as a Branch Review Analyst.

Based on my professional experience and training,⁷² Nelson's responses are not transparent, and certainly not expected given her 15-year career in the branch banking environment.

Even more startling is that the internal Chase AML records state that Nelson reported suspicious activity on April 10, 2014, right after the account opened, and on May 6, 2014. On both these reports, April 10 and May 6, the AML records state she reported wires coming into the account and going out the same day. Nelson denied that she monitored wire transfers and essentially denied knowing about the wire transfers, but no one else is listed as reporting this information which was at the heart of the Ponzi scheme.

The Profit Incentive Program

JPM had a branch profit incentive program targeting account balance and profit growth that created a financial incentive to Dadlani, Nelson and Lazar. If the bank branch grew, they received incentive payments. In particular, the JPM Private Banker, Susan Lazar, was focused on growing business with Menaged. This was her job, and she was successful. During the period of the fraud, Menaged transferred to JPM his personal accounts, his Furniture King account, a new car dealership business account, obtained two car loans, discussed a HELOC on his house, purchased certificates of deposit from the bank and expressed his desire to move his personal investment portfolio to JPM.

Although the descriptions of job activities and the annual review tout the importance of working as a team, with respect to Mr. Menaged, Dadlani, Nelson and Lazar testify they worked in silos.

Originally, Mr. Menaged came into the bank daily to request checks, photograph them, and re-deposit them. In June and July, 2014, he begins driving through the drive thru lanes to conduct business. Starting July 7, he e-mails Susan Nelson nearly every business day from July 2014 until late June 2015, telling her which properties he needed checks on the next business day. The evidence suggests the withdrawal statements, checks and deposit statements were prepared together to minimize Mr.

⁶⁸ Deposition of Samantha Nelson dated October 25, 2022, Pg. 127, lines 10-14.

⁶⁹ Deposition of Samantha Nelson dated October 25, 2022, Pg. 127, lines 19-22.

⁷⁰ Deposition of Samantha Nelson dated October 25, 2022, Pg. 128, lines 10-12.

⁷¹ Deposition of Samantha Nelson dated October 25, 2022, Pg. 130, lines 11-15.

⁷² My professional experience includes membership in the Bank One (acquired by Chase in 2005) Retail Corporate Compliance Committee, which set policy, procedure and training standards for all Retail Bank employees, with a particular emphasis on AML compliance training.

Menaged's wait time. Preparing cashier's checks with the expectation they will not be used for their intended purpose is hardly an ordinary business transaction.

Although Mr. Dadlani testified he did not know about the way the cashier's check transactions took place, he is copied on the majority of the Menaged e-mails asking for checks. In one instance, the e-mails establish that he had the checks prepared for the next day. Another e-mail has him stopping the practice of issuing checks from the bank based on customer requests, which required Menaged then to actually sign the cash withdrawal slips. He could not have done this without knowing the suspicious nature of the transactions.

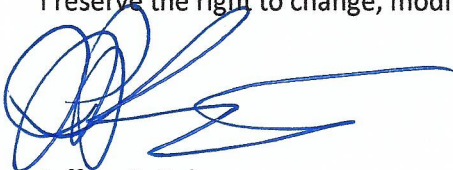
Based on my professional training and experience, I have never seen so audacious a fraud committed at the branch level with such complicity by the branch employees. Fool me once, shame on you; fool me twice, shame on me; fool me 1300 times, that is something else entirely.

Section 5 - Opinions

Despite the apparent incomplete nature of documents produced, there is sufficient evidence to form the following Opinions:

- The -1151 account generated suspicious activity alerts on its opening day. The very first transaction was highly unusual.
- The investigators had full visibility to the source of deposit transactions. The investigators identified the sources as wire transactions from DenSco, and the cancellation of previously-issued cashier's checks made payable to third parties but marked as "Not Used for the Intended Purpose" and redeposited into the -1151 account. They raised no specific concerns over the continuous volume of cancelled cashier's checks that were redeposited into the Arizona Home Foreclosures account.
- Furthermore, the investigators' analyses of deposit activity were completely silent on the lack of deposits generated from normal business operations. In spite of their visibility that the source of deposit activity had no basis in business operations (selling properties), the investigators were silent on this issue.
- Every investigation reviewed transaction periods that consistently included Ponzi scheme round-trip transactions, evidence of significant gambling expenses and a variety of transactions that were transparently inconsistent with the nature of the business. Each investigation included clearly identifiable examples of these fraudulent transactions, all of which were ignored by supervisory personnel.
- There is no basis to support a claim that funds from incoming DenSco wires were simply returned to DenSco when AHF was unsuccessful in its trustee sale bids. Notations on incoming DenSco wires, cancelled cashier's checks, and return wires to DenSco noted different property addresses. The round-tripping of these DenSco funds were transparently fraudulent transactions.
- Throughout the course of at least eleven investigations, the recommendations of front-line analysts to elevate the investigations were consistently overridden by supervisory personnel. The unsupported conclusions of supervisory personnel consistently disregarded the concerns of their analysts, and knowingly allowed the fraud to continue for an extended period.
- Even putting aside the AML department, the knowledge that the employees of the branch had about Menaged's activities should have resulted in closure of the Menaged accounts. Putting the knowledge of the AML Department and the branch employees together, Chase actively participated in Menaged's fraud.

I reserve the right to change, modify or reverse these Opinions based on subsequent discovery.



Jeffrey P. Gaia

November 1, 2022

Appendix A

Documents Relied on to Prepare this Supplemental Report

- JP Morgan Chase Bank 11th Supplemental Rule 26.1 Disclosure Statement, dated February 9, 2022
- JP Morgan Chase Bank 14th Supplemental Rule 26.1 Disclosure Statement, dated June 10, 2022
- JP Morgan Chase Bank 16th Supplemental Rule 26.1 Disclosure Statement, dated July 14, 2022
- JP Morgan Chase Bank 17th Supplemental Rule 26.1 Disclosure Statement, dated September 9, 2022
- JP Morgan Chase Bank Monthly Statements for Account #000000582551151 as provided under transmittal letter identified as Bates #DIC0016613/DIC0016614

Appendix B

List of All Documents Provided to Jeffrey P. Gaia

DATE	DESCRIPTION	BATES RANGE
4/7/2021	Third Amended Complaint	None
4/8/2021	Clark Hill Rodriguez Expert Report	None
4/8/2021	David Weekly Report with accounting	None
4/9/2021	Chase Bank, US Bank and Bank of America Documents Contained in Boxes 73, 75-77, 137, 145 and 149-150	DIC0011918-16612 DIC0016613-25330 DIC0056822-56992 DIC0070841-70949 DIC0053951-56082 DIC0073981-81283
4/16/2021	Spreadsheet	CH_BOA_SDT_000005 (R-000040)
4/16/2021	Docs related to shutdown of Chittick/DenSco accounts	CH_BOA_SDT_000001-31 (R-000036-41)
4/16/2021	Unusual Activity Reports	JPMC001188 (R-000048)
4/30/2021	Spreadsheet and Sharefile link from Sara Beretta with supporting documentation at the link	
5/17/2021	Combined Summary Spreadsheet for US Bank Properties with supporting documents for each property	Various
5/18/2021	Deferred Prosecution Agreement	R-003598
5/20/2021	FinCEN U.S. Bank Assessment FinCEN Penalizes Compliance Officer	R-003642-3664
6/15/2021	US Bank's 2nd SDS	USB_DENSCO000055-669 USB_DENSCO000670-995 USB_DENSCO000996-1083
6/16/2021	Receiver's 6th SDS	R-003665-012354

6/28/2021	Chase's production (1st SDS)	JMPC_0000001-1240
7/19/2021	Chase bank statements and attachments from Box 76	DIC0021560-DIC0021776
7/20/2021	US Bank Production	USB_DENSCO001084-001152 USB clawed back one document and replaced it and we asked expert to replace in his set as well on 2-11-22 USB_DENSCO001150-1152 REDACTED REPLACEMENT
7/21/2021	Chase's Production (2nd SDS)	JPMC_0001241-1349
7/30/2021	Menaged Declaration Ken Frakes Interview of Scott Menaged	Declaration at R-000049
8/2/2021	August 30, 2014 - September 30, 2014 Chase Bank Statement acct 8371	DIC0021549-DIC0021559
unknown	US Bank Deposition Exhibit Binders (hard copies given by Colin Campbell)	multiple
10/21/2021	US Bank's Second Supplemental Responses to Plaintiff's Second RFP	USB_DENSCO001173-1301
2/11/2022	Plaintiff's Supplemental Response to Chase Defendants First Set of Non-Uniform Interrogatories	Pleading only no documents attached.
5/16/2022	John Molina Deposition Transcript and Exhibits	
6/10/2022	Vikram Dadlani Deposition Transcript and Exhibits	
6/29/2022	Leslie Rocha Deposition Transcript and Exhibits	
7/18/2022	JPMC's 16th SDS with documents (pdfs and excel files)	JPMC_0013274-0013432

8/15/2022	Hilda Chavez Deposition Transcript and Exhibits	
8/22/2022	Jonathan Edds Deposition Transcript	
8/30/2022	Gloria Pritchett Deposition Transcript	
9/7/2022	Brandon Stone Deposition Transcript	
9/14/2022	Resent Leslie Rocha and Hilda Chavez deposition transcripts and exhibits	
9/26/2022	AML Log and Retention Schedules	USB_DENSCO001316-1318 USB_DENSCO001319-1320 USB_DENSCO001321-1322
10/13/2022	Deposition Transcripts and Exhibits for Sharon Khoo, Maria Villa, Daniella Caraveo, Brandon Stone	
10/28/2022	JPMC 17 th SDS	JPMC_0013433-13443 JPMC-Receiver_000001-68
10/28/2022	Samantha Nelson rough draft of deposition transcript	
10/29/2022	Word Index from Samantha Nelson deposition transcript	