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STATEMENT OF
WILLIAM J. ANDERSON, DIRECTOR
GENERAL GOVERNMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON GENERAL OVERSIGHT AND RENEGOTIATION
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ON IMPLEMENTATION OF THE
BANK SECRECY ACT'S REPORTING REQUIREMENTS



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to report to the subcommittee the results of our review of the implementation of the Bank Secrecy Act's reporting requirements. Last October, when our review was still ongoing, we presented our interim observations and conclusions before this subcommittee, which requested the review. We are here today to provide our final conclusions and recommendations. Therefore, at this time, I would like to formally submit for the record our final report to the Congress, entitled "Bank Secrecy Act Reporting Requirements Have Not Yet Met Expectations, Suggesting Need For Amendment" (GGD-81-80, July 23, 1981).

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As indicated by the report title, it is our assessment that the act's reporting requirements have not been as useful to Federal law enforcement efforts as the Congress intended when it enacted Public Law 91-508, the Currency and Foreign Transactions Reporting Act, more commonly known as the Bank Secrecy Act. The act's implementing regulations require three reports--(1) the currency transaction report, for cash transactions exceeding \$10,000, (2) the report of international transportation of currency or monetary instruments, for the export or import of more than \$5,000, and (3) the report of foreign bank, securities, and other financial accounts. These reports have not been widely used by Federal law enforcement and regulatory investigators. Furthermore, it is uncertain how well financial institutions and individuals are complying with the act's reporting requirements.

In our final report, as in our October 1980 testimony, we discuss in detail the problems which contributed to the current situation. That is, after over 10 years, the extent of compliance with the act, the potential utility of the act's reports, and the costs involved in implementing the act are still unknown.

Since the act's implementation problems have been thoroughly recorded, we will not dwell on them at this time. More important, the Treasury Department and other responsible agencies have initiated several actions in the last 2 years that should correct many of the problems related to implementation of the Bank Secrecy Act reporting requirements. The following are some of the recent initiatives.

- Treasury revised the act's regulations to eliminate problems with the filing, exemption, and retention of currency transaction reports by financial institutions.
- Customs' Reports Analysis Branch improved its computer program, and plans to add staff to correct problems with compiling and distributing current, meaningful report information.
- IRS implemented a program to improve the completeness and accuracy of currency transaction reports which should resolve some of the problems detracting from the quality of currency transaction data.
- The financial institution regulatory agencies changed their examination procedures to strengthen report compliance monitoring.
- Treasury, in coordination with the Department of Justice and several other agencies, initiated special investigative projects in an effort to better use the Bank Secrecy Act reports.

These efforts are a major step toward effectively implementing the Bank Secrecy Act reporting requirements. They should help strengthen compliance with the requirements, provide more complete and timely report data to law enforcement and regulatory investigations, and encourage greater use of the act's reports.

Although these recent efforts are commendable, we believe additional actions are needed for the act's reporting requirements to achieve their intended purpose. Accordingly, on pages

57 and 58 of our final report we have made several specific recommendations to help assure that the reporting requirements are properly implemented and the resulting data used. These relate to

- allocating the staff necessary to carry out the act,
- revising Bank Secrecy Act data dissemination guidelines to make the data more readily available,
- strengthening compliance enforcement and monitoring efforts, and
- developing the information necessary to make a comprehensive assessment of the costs and benefits of the act's reporting requirements.

Although our administrative recommendations are made to the Secretary of the Treasury, Treasury alone cannot effectively implement the act's reporting requirements so that they achieve expectations. For example, the Federal financial regulatory agencies need to be more responsive to Treasury directives. Additionally, law enforcement agencies must use the report data in investigations and prosecutions for the reporting requirements to demonstrate their value. In this regard, the Assistant Attorney General for Administration, in commenting on a draft of our final report, stated the following.

"Now that the federal investigative and prosecutive agencies have begun to turn the corner toward successful pursuit of national criminal enterprises, it is crucial that we ensure that the tools available under the [Bank Secrecy] Act can be utilized as fully as possible."

Even with a smoothly administered act, it is uncertain that the reporting requirements can or will ever achieve the degree of usefulness that the Congress intended. Given the recent efforts to improve implementation, we believe that the next 2 to 3 years are crucial to demonstrating the contributions that the reporting requirements can make. As law enforcement agencies focus more on detecting the financial resources of organized criminals, and as more attention is given to the effects of Federal regulatory activities on the national economy, Treasury will have to better demonstrate that the usefulness of the Bank Secrecy Act reports justifies the costs. If this cannot be demonstrated, the act's reporting requirements, in part or in total, should be repealed.

Accordingly, we have recommended in our report that the Congress amend the Bank Secrecy Act to require reauthorization of the reporting requirements by the end of 1984. We have attached to my statement (1) an explanation of the rationale for our recommendation, and (2) suggested statutory language for the amendment. On the basis of current progress, we believe that, before 1984, Treasury should be able to provide the Congress with sufficient data on the costs associated with the various reporting requirements and on the value of the reports. This data, together with Treasury's recommendations for legislative and program changes, should help the Congress in deliberating and deciding whether to continue, modify, or eliminate the Bank Secrecy Act's reporting requirements.

This concludes my prepared statement. We would be pleased to respond to any questions.

GAO PROPOSED AMENDMENT OF PUBLIC LAW 91-508
TO REQUIRE REAUTHORIZATION OF
THE REPORTING REQUIREMENTS

The Congress granted the Secretary of the Treasury great discretionary authority under the Currency and Foreign Transactions Reporting Act, commonly referred to as the Bank Secrecy Act. It envisioned that the data required to be kept and reported would be very useful to law enforcement agencies in investigating the financial resources connected with illegal activities. At the same time, however, the Congress made it clear that (1) the reporting requirements imposed by Treasury should not unduly burden legitimate commercial transactions, and (2) the cost of implementing and administering the requirements should not outweigh benefits to law enforcement.

After 10 years, the questions of whether the Bank Secrecy Act has achieved its expectations and whether its associated costs are justified are still unanswered. In our April 6, 1979 report on currency and foreign account reports (GGD-79-24), we recognized the need for evaluation of the Bank Secrecy Act reports' usefulness. We recommended that Treasury conduct such an evaluation and request that the Congress reconsider the need for reporting requirements if they are found not to be useful. Since that time, however, no meaningful assessment of the reports' usefulness or cost has been performed. For this reason, we recommend on page 57 of our July 23, 1981 report (GGD-81-80) that the Secretary of the Treasury initiate, and submit to the Congress within 2 years, a comprehensive assessment of the act's reporting requirements.

Such an assessment should demonstrate whether the act is cost-beneficial and should highlight changes needed to make the act's requirements more effective. Also, while our report focuses on the usefulness of Bank Secrecy Act reports for law enforcement purposes, we recognize that there may be collateral uses to the Government for these reports. Treasury's assessment, therefore, should include an evaluation of the usefulness of these reports for such collateral purposes.

Concurrently, we recommend (on the same page) that the Congress amend the Bank Secrecy Act to require a reauthorization of the act's reporting requirements in 1984. On the basis of current progress, we believe that Treasury should be able to provide sufficient data, before then, for the Congress to make a decision on the act's continuation, modification, or elimination.

GAO Suggested Statutory Language

To amend the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act, Public Law 91-508, add a paragraph (d) to section 401, Title IV:

"The reporting requirements prescribed or authorized by Title II shall be effective until December 31, 1984."