November 1993

MONEY LAUNDERING

Progress Report on Treasury's Financial Crimes Enforcement Network

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-243028

November 8, 1993

The President of the Senate and the
Speaker of the House of Representatives

The Financial Crimes Enforcement Network (FinCEN) is a Department of
the Treasury organization that was established to provide support to other
law enforcement agencies. Section 1565 of the Annunzio-Wylie Anti-Money
Laundering Act of 1992 (P. L. 102-550, 106 Stat. 4044) requires us to report
to Congress on certain aspects of FinCEN's operations. This report
presents data and information describing FinCEN's operations and
discusses FinCEN's progress in providing support.

Results in Brief

FinCEN is not a traditional law enforcement agency. It was established to
serve and assist other law enforcement agencies in identifying,
investigating, and prosecuting money laundering activity. With a staff of
approximately 200, FinCEN supports federal, state, local, and foreign
authorities by analyzing and disseminating a variety of data—most of it
financial in nature—that are collected and processed by others.

Since its inception less than 4 years ago, the number of requests to
FinCEN for intelligence data to support ongoing investigations has steadily
increased. Similarly, the number of individual agencies requesting this
support has continued to increase each year. In fiscal year 1991, its first
full year of operation, 89 agencies made 2,335 requests for FinCEN's
support. In the first 11 months of fiscal year 1993, 154 agencies made 4,100
requests to FinCEN.

FinCEN also provides strategic intelligence analyses to identify emerging
trends, patterns, and issues related to money laundering. These reports are
used by law enforcement and regulatory agencies for diverse purposes
such as instructional seminars, threat assessment for specific geographic
areas, and descriptions of specific techniques for laundering money.
Although some of the work is self-initiated, requests by other agencies to
FinCEN for specific types of strategic analyses are steadily increasing. In
fiscal year 1991, FinCEN issued 104 strategic analyses; 67, or 64 percent,
were self-initiated. In the first 10 months of fiscal year 1993, FinCEN had
prepared 143 such products; 109, or 76 percent, were requested by other
agencies.

The increasing volume of requests for FinCEN support and strategic analysis is an indication of FinCEN's usefulness in assisting law enforcement agencies.

Background

After almost a decade of studying problems it and other agencies were having with investigating and prosecuting money laundering schemes, Treasury was concerned that law enforcement efforts were fragmented and uncoordinated and that intelligence analysis was inadequate. To remedy the situation, FinCEN was formally established by an April 25, 1990, Treasury order as a separate office under the Assistant Secretary (Enforcement) to

" provide a governmentwide, multi-source intelligence and analytical network in support of the detection, investigation, and prosecution of domestic and international money laundering and other financial crimes by Federal, state, local, and foreign law enforcement agencies."

In March 1991, at the request of the Subcommittee on Treasury, Postal Service, and General Government, Senate Committee on Appropriations, we examined the recently formed FinCEN and reported on its functions, organization, and staffing.[1] Our report provided several examples of FinCEN's contributions to law enforcement but noted that it was too early to attempt to measure how well FinCEN was functioning. Instead, we focused our review on the strategic planning involved in establishing FinCEN by examining how Treasury had determined the mission and objectives of FinCEN and how FinCEN's functions related to those of other law enforcement agencies. We pointed out, however, that FinCEN's success would ultimately have to be measured by the extent to which other agencies came to rely upon it for timely and accurate information.

Objectives, Scope, and Methodology

In October 1992, Congress passed the Annunzio-Wylie Anti-Money Laundering Act, which includes a provision requiring us to report to Congress on FinCEN's operations. The House Committee on Banking, Finance, and Urban Affairs, which was responsible for including the requirement for the GAO study in the act, requested that we focus our review on detailing the functions and responsibilities of FinCEN and on assessing its progress in providing support to the law enforcement community.

---

[1]Money Laundering: Treasury's Financial Crimes Enforcement Network (GAO/GGD-91-53, Mar. 18, 1991).

To accomplish these objectives, we interviewed management officials at FinCEN and reviewed budget and planning documents and functional and position descriptions. We also reviewed records and data maintained by FinCEN to measure workload. We talked with management officials and obtained data from the Internal Revenue Service (IRS) Computing Center in Detroit and from the Treasury Enforcement Communications System in Newington, VA. We also interviewed officials at IRS, the Federal Bureau of Investigation, the Drug Enforcement Administration, and the Customs Service to determine the role of FinCEN in these agencies' money laundering investigations.

We did our review from January through September 1993 in accordance with generally accepted government auditing standards.

FinCEN'S Organization, Staffing, and Objectives

FinCEN is organized according to major activity: tactical support, strategic analysis, systems integration, and resource management. It has authorized positions for 207 staff, including 84 intelligence analysts and 48 criminal investigators. Almost a quarter of FinCEN's staff, 45, are detailed from other federal agencies. FinCEN's appropriation for fiscal year 1993 was slightly over $18 million. The FinCEN organizational chart is contained in appendix I. Appendix II contains selected FinCEN cost data and additional information on staffing.

FinCEN does not initiate or carry out any investigations on its own. Its primary purpose is to assist other agencies by

- identifying suspected offenders and reporting on trends and patterns in money laundering by analyzing various databases maintained by other agencies,
- developing and disseminating research and policy studies on money laundering enforcement,
- supporting governmentwide law enforcement by providing tactical support for ongoing investigations, and
- supporting other law enforcement agencies by using database queries to answer requests for information received at a communications center.

Information Retrieval, Processing, and Dissemination at FinCEN

To achieve its goals and objectives, FinCEN analyzes data collected, processed, and maintained by other agencies. In general, FinCEN uses telecommunications technology to query other agencies' databases and commercial databases as necessary.

FinCEN formalizes agreements with other agencies to share information by negotiating and signing a memorandum of understanding (MOU). As of September 1, 1993, FinCEN had signed MOUs with every state but Montana and was negotiating MOUs with Puerto Rico and the District of Columbia. These agreements allow FinCEN and the states to assist one another in the investigation and analysis of financial and other data, subject to resource constraints and applicable state and federal laws. The agreements also name centralized points of contact within FinCEN and the states and specify conditions for inquiries and limitations on the use and disclosure of information.

FinCEN also maintains agreements with federal agencies regarding the sharing of information. As of September 1, 1993, FinCEN had signed MOUs with 13 federal agencies, and 3 more were about to be signed. In addition to these, 14 MOUs with other federal agencies were in various stages of negotiation. FinCEN also uses a number of commercially available databases to provide information on subjects such as corporate officers and addresses.

The primary source of most of the financial intelligence information accessed and disseminated by FinCEN are reports required by the Bank Secrecy Act (BSA), Public Law 91-508, 84 Stat. 1114. The act requires individuals as well as banks and other institutions, such as check cashing businesses, currency exchanges, and money transmitters, to report large foreign and domestic financial transactions to Treasury. Treasury regulations implementing the act require four reports:

- Currency Transaction Report, IRS Form 4789;
- Currency Transaction Report by Casino, IRS Form 8362;
- Report of International Transportation of Currency or Monetary Instruments, Customs Form 4790; and
- Report of Foreign Bank and Financial Accounts, Treasury Form TDF 90-22.1.

By far, the report filed the most often has been the Currency Transaction Report (CTR). Financial institutions and certain types of businesses must file a CTR with IRS for each deposit, withdrawal, exchange, or other

payment or transfer, by, through, or to such financial institutions or businesses that involves more than $10,000 in currency. Over 95 percent of the more than 52 million BSA reports filed as of September 1993 were CTRs.

Duplicate databases of all of the BSA reports are stored on computers at two Treasury computer facilities: The Detroit Computing Center operated by IRS and the Treasury Enforcement Communications System (TECS) in Newington, VA, which is operated by the U.S. Customs Service. Access to the BSA reports at both facilities is available to authorized users through a network of computer terminals. As of August 1993 there were 123 authorized users of the IRS database at FinCEN and 132 authorized users of the TECS database. Table 1 shows the number of times the BSA reports were accessed by FinCEN analysts in the 18-month period ending June 30, 1993.

Table 1: Access to BSA Reports at Treasury Computer Facilities by FinCEN for the 18-Month Period Ending June 30, 1993

Facility	Sessions	Queries
Detroit Computing Center	4,596	41,950
TECS	62,333	231,520

Note: Sessions represent the number of users signing onto the system. Queries are the number of personal identifiers (e.g., names, zip codes, etc.) searched for.

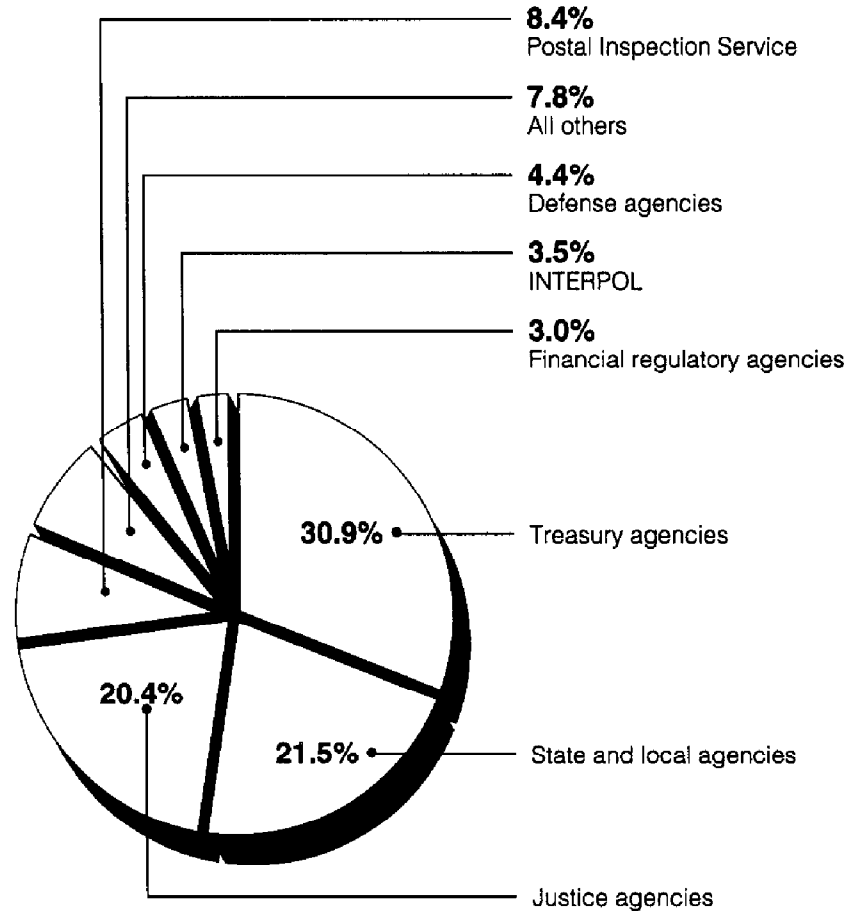Source: GAO analysis of IRS and Customs data.

Tactical Support Provided by FinCEN

Direct access to the BSA databases is generally limited to Treasury agencies. FinCEN serves as an access mechanism for those non-Treasury federal and state law enforcement agencies that have signed MOUs with FinCEN. FinCEN's Operations Support Division serves as an initial contact point for participating agencies, including other Treasury agencies, seeking quick tactical assistance for field operations. To provide this support, FinCEN operates a communications center that is staffed by analysts 17 hours a day, Monday through Friday, except for federal holidays. Approximately 40 percent of FinCEN's staff are directly assigned to tactical support activities.

For most of the requests received at the communications center, the requester is primarily interested in determining what, if any, BSA data exist for individuals or entities that are the subject of ongoing investigations. Normally, the turnaround time for these requests is relatively fast—anywhere from 1 day to several weeks. FinCEN officials

told us that each request normally lists more than one suspect and that in addition to determining if BSA data exists, FinCEN will also research other law enforcement and commercial databases to which it has access. In the 18-month period ending June 30, 1993, FinCEN received over 5,500 requests for this type of data. Figure 1 shows the source of these requests.

Figure 1: Distribution of 5,535 Requests to FinCEN for BSA Data, January 1992-June 1993

8.4%	Postal Inspection Service
7.8%	All others
4.4%	Defense agencies
3.5%	INTERPOL
3.0%	Financial regulatory agencies

30.9% • Treasury agencies

20.4%

21.5% • State and local agencies
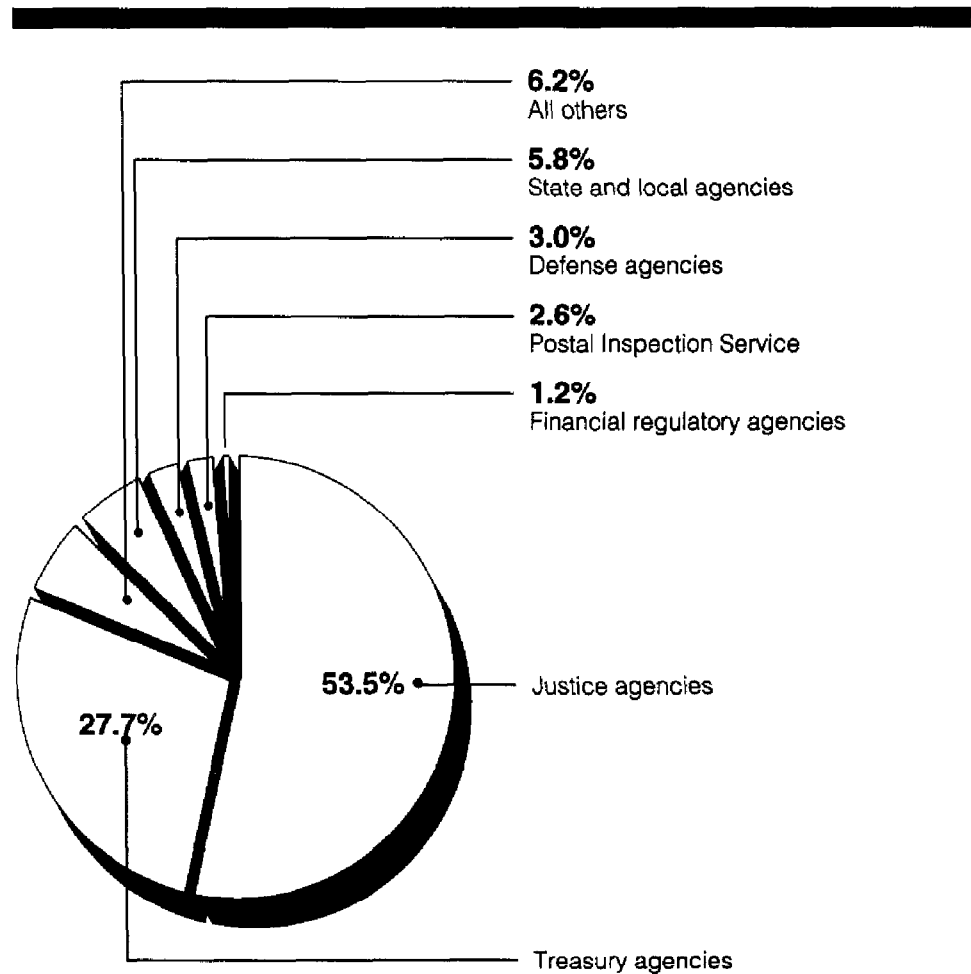
Justice agencies

FinCEN's communications center also receives requests for intelligence that require more complex and detailed analysis. It can take up to several months to prepare a response to these requests. FinCEN received 947 of

these requests in the 18-month period ending June 30, 1993. Figure 2 shows the source of these requests.

Figure 2: Distribution of 947 Requests to FinCEN for Financial Intelligence Analysis, January 1992-June 1993

6.2%
All others

5.8%
State and local agencies

3.0%
Defense agencies

2.6%
Postal Inspection Service

1.2%
Financial regulatory agencies

53.5% — Justice agencies

27.7%

Treasury agencies

The volume of requests to FinCEN for tactical support has been steadily increasing since the agency was established in April 1990. Requests in fiscal year 1991—the first full year of operation—totaled 2,335. In fiscal year 1992, the volume had increased by 42 percent to 3,310. As of August 31, 1993, the requests numbered 4,100. Figure 3 shows the distribution of the requests by type of agency.

Figure 3: Requests to FinCEN for Tactical Support

Requests received

FY 1990   FY 1991   FY 1992   August 31, 1993

1500
1350
1200
1050
900
750
600
450
300
150
0

Justice agencies
Treasury agencies
State/local agencies
All other
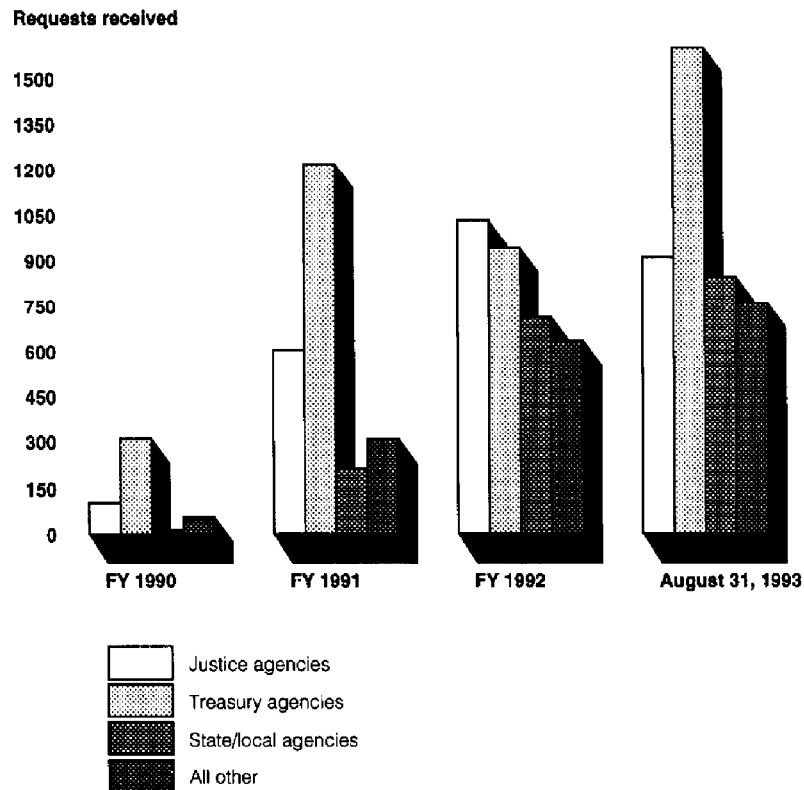
Note: Data are for those agencies with 50 or more requests in fiscal year 1993.

In addition to the volume of requests, the number of agencies supported has also been increasing. During fiscal year 1991, FinCEN answered requests from 89 state and federal agencies. In fiscal year 1992, requests from 132 agencies were answered. In the 11-month period ending August 31, 1993, 154 agencies received tactical support from FinCEN.

In October 1992 FinCEN began tracking the extent to which its analysts were able to identify additional information concerning the subjects of requests for intelligence data. The types of information FinCEN analysts can uncover by researching the BSA and other databases include

- information on assets such as bank account numbers, real property, and personal property such as vehicles, bearer bonds, and securities;

- information identifying known associates, additional suspects, witnesses, and accomplices; and
- additional identifying items such as phone numbers, addresses, social security numbers, birth dates, etc.

Table 2 shows the additional information developed by FinCEN in response to requests to the communications center for the period of October 1, 1992, to August 31, 1993.

Table 2: Intelligence Data Provided by FinCEN, October 1992 Through August 1993

Type of analysis	Requests completed	Subjects submitted	Additional information developed by FinCEN		
			Assets	Subjects	Identifiers
Quick response	4,129	15,995	10,858	1,191	21,940
Detailed	604	6,862	9,103	2,708	42,920

Source: GAO analysis of FinCEN data.

When requested, FinCEN will form project teams to be sent to the field to assist in money laundering investigations or to develop the financial aspects of other types of crimes. As of August 31, 1993, 57 FinCEN staff had been temporarily assigned to 38 investigations for 1 week or longer.

Strategic Intelligence Analysis Provided by FinCEN

Approximately 20 percent of FinCEN's staff are directly assigned to the Office of Strategic Analysis. Strategic analysis differs from tactical support in that suspected individuals or entities are not the focus of the research. Strategic intelligence analysis at FinCEN focuses on preparing reports that identify emerging trends, patterns, and issues related to money laundering. The Director of FinCEN sees the agency's strategic role as being a catalyst for governmentwide policies and initiatives to attack money laundering.

As of July 31, 1993, FinCEN had issued 410 products[2] addressing strategic money laundering issues. Some of the work was initiated by FinCEN, but requests for research and analysis from foreign and state governments and other federal agencies have been steadily increasing. Table 3 shows the number of products completed since FinCEN was established in April 1990 and the source of the requests.

---

[2]A product is written material in the form of an analytic report, a response to a query requiring research and analysis, or information developed for educational or training purposes.

Table 3: Strategic Analysis Products Issued by FinCEN and Source of Request

		Source of request	
Period	Products Issued	Self-initiated	Other agencies
Fiscal Year 1990	8	2	6
Fiscal Year 1991	104	37	67
Fiscal Year 1992	155	54	101
October 1, 1992 to July 31, 1993	143	34	109

Source: Office of Strategic Analysis, FinCEN.

FinCEN's strategic analysis and research cover a number of topics. These topics range from general reference and instructional material to more specific issues such as an analysis of the cash flow in federal reserve districts, an assessment of the money laundering threat in specific states and geographic areas, and updates of certain money laundering techniques.

The products are used for a number of purposes, including resource allocation and policy decisions by federal and state law enforcement and regulatory agencies. They have also been used as instructional guides at training seminars and to support expert witness and officer testimony at criminal proceedings. A number of states have requested FinCEN's support in determining the need for money laundering legislation or regulatory action. Two states, Washington and Texas, have passed money laundering laws and have cited the research prepared by FinCEN as playing a major role in the laws being enacted. Six other states are currently using FinCEN strategic research in considering laws and regulations.

FinCEN is also supporting Treasury in its role in the Financial Action Task Force, a group of 26 countries that have joined together to combat money laundering on an international scale. In addition to participating in conferences and seminars for the Task Force, reports have been prepared addressing the need for multinational initiatives to curb money laundering activity through currency exchange houses, shell companies, and wire transfers.

The Office of Strategic Analysis prepares two quarterly publications that contain articles and statistical summaries dealing with money laundering and currency reporting violations. FinCEN Updates is intended for law enforcement staff, while FinCEN Trends is sent to regulatory and banking

institutions. The distribution of the publications, as of September 1993, was 2,036 copies of FinCEN Updates and 13,926 of FinCEN Trends.

Data Systems Unique to FinCEN

FinCEN has recently developed a computer system designed to identify suspicious transactions based on the computer reviewing and correlating the BSA reports discussed earlier. The FinCEN Artificial Intelligence Targeting System has been operational since March 1993. However, as of September 1993, FinCEN was still modifying and enhancing the system.

The system uses a number of rules or conditions to screen, evaluate, and group the reports filed after January 1, 1993. Each week, identifying information from the BSA reports (except for the Foreign Bank Account Reports) are loaded into the computer and linked with other filings related to the same subjects—individuals, businesses, or accounts. The system is designed to periodically produce listings of subjects that meet certain predetermined thresholds of activity or transaction amounts that are considered outside the norm. Lists of potential targets can also be produced by querying the system to identify subjects that meet certain characteristics.

The lists produced by the system are researched by analysts to weed out those subjects that are legitimate and develop additional information on those that remain. The resulting list is then sent to the appropriate law enforcement agency or agencies for consideration. As of August 5, 1993, FinCEN had sent out a total of 13 lists to 1 or more of 5 federal law enforcement agencies that contained a total of 216 potential targets. Five of the lists were compiled at the request of law enforcement agencies.

FinCEN has also developed a data system designed to coordinate and consolidate the filing of Criminal Referral Forms (CRF). Federal regulations require financial institutions to notify appropriate law enforcement agencies of known or suspected criminal activities that took advantage of or were perpetrated against financial institutions. Activities to be reported include insider abuse, money laundering, and Bank Secrecy Act violations but exclude burglaries or robberies reported to local authorities and lost, counterfeit, or stolen securities reported pursuant to federal regulations. Approximately 40,000 CRFs are filed by financial institutions annually.

Criminal activity is reported by a financial institution on the form specified by the regulatory agency that has primary authority over the institution.

Before the development of the FinCEN system, these forms differed as to instructions for completing them and also as to where completed forms were to be sent. The system, known as the Financial Institution and Regulatory Agencies Criminal Referral Enforcement System, uses a standardized form that replaces the previous six versions and that is also machine readable. The preparer sends the original CRF to FinCEN, where the information is placed in a database maintained on a FinCEN computer. As before, copies of the CRF are to be routed to the appropriate law enforcement agency for evaluation. Data on the FinCEN system are to be updated periodically to show actions taken or pending, but records can be updated only by the agency with primary regulatory authority over the institution submitting the CRF. Any of the participating regulatory agencies, however, can access any of the CRF information in the database. FinCEN has access to the data also and will use the information in providing tactical support to other agencies.

As of September 1993, the redesigned and standardized CRF had been printed and preparations were being made to distribute the forms to financial institutions nationwide. FinCEN officials expected to begin receiving CRFs and entering them into the system sometime during October 1993. FinCEN was also planning to load up to 5 years of CRF information from the regulatory agencies onto the FinCEN system.

Another data system designed and implemented by FinCEN is the Source Database, which is designed to facilitate coordination and cooperation among agencies that might be investigating the same suspects. The database serves as a central repository for information on suspects requested from FinCEN as well as any additional information developed by FinCEN. With this information, FinCEN is able to identify individuals or entities that have been the subject of previous inquiries and notify requesters of potential overlapping investigations. FinCEN officials estimate that approximately 10 subjects are identified each month as having been inquired about previously.

Conclusions

Since our 1991 report on FinCEN, the number of agencies that have come to rely on FinCEN as well as the number of times FinCEN support is requested has been steadily increasing. In our opinion, this is an indication that the tactical support and strategic research provided by FinCEN have been well received in the law enforcement community.

FinCEN has also taken steps to improve its ability to coordinate money laundering investigations and to identify suspected offenders. We believe that the data systems developed and implemented by FinCEN to enhance these efforts have the potential to make a significant contribution in this regard. Two of these systems, however, have not been operational for a sufficient period of time to measure their effectiveness.

Agency Comments

On September 20, 1993, we discussed the contents of this report with the Director of FinCEN and his staff. The Director agreed with the message of the report and suggested some technical corrections, which we made to the data presented in appendix II.

We are sending copies of this report to selected congressional committees, the Secretary of the Treasury, the Director of FinCEN, and other interested parties.

This report was prepared under the direction of Henry R. Wray, Director, Administration of Justice Issues, who may be reached on (202) 512-5156 if there are any questions. Other major contributors are listed in appendix III.

Charles A. Bowsher
Comptroller General
    of the United States

FinCEN Organizational Chart

```
          Legal
         Counsel ──┐
                   │
                   │          ┌──────────────┐
         DoD Liaison ─────────│   Director   │──────── Executive
                   │          │ ───────────  │         Assistant
                   │          │   Deputy     │
          Security ──┘        │  Director    │──────── Congressional/
                              └──────┬───────┘         Public Affairs
                                     │
   ┌──────────┬───────────┬──────────┼──────────┬──────────────┐
Office of    Office of     Office of      Office of     Office of
Strategic    Operations    Financial      Systems       Resource
Analysis     Support and   Crimes         Integration   Management
             Narcotics

International  Operations   White Collar   Artificial
Research       Support      Crimes         Intelligence
Division       Division     Division       Division

Data           Narcotics    Case           Information
Analysis       Division     Development    Management
Division                    Division       Division

                                           Technical
                                           Services
                                           Division
```

Selected FinCEN Staffing and Cost Data

Table II.1: Personnel Detailed to FinCEN as of August 31, 1993

Source agency	Criminal investigators	Other
U.S. Customs Service	19	0
Internal Revenue Service	9	0
Federal Bureau of Investigation	1	2 (Analysts)
U.S. Secret Service	2	0
Drug Enforcement Administration	1	2 (Analysts)
U.S. Marshals Service	1	0
Postal Inspection Service	2	0
Bureau of Alcohol, Tobacco and Firearms	1	0
Defense Criminal Investigative Service	1	0
Federal Reserve Board	0	1 (Auditor)
U.S. District Court	0	1 (Probation Officer)
Resolution Trust Corporation	0	1 (Technician)
Department of Defense	0	1 (Liaison)
Total	**37**	**8**

Source: FinCEN.

Table II.2: Authorized Staff Positions

Type of position	Number of positions
Intelligence analyst	84
Computer specialist	23
Communications specialist	2
Auditor	1
Executive management	13
Operational support	36
Criminal investigator	48
Total	**207**

Source: FinCEN.

Table II.3: FinCEN's Appropriation, Fiscal Year 1993

Dollars in thousands

Budget category	Amount
Personnel compensation	$6,826
Personnel benefits	2,111
Travel	784
Transportation	42
Rent, communications, and utilities	1,545
Printing and reproduction	119
Services [a]	5,616
Supplies and material	572
Equipment	727
Total	**$18,342**

[a]Includes miscellaneous expenses such as maintenance, repairs, alterations, training, relocation expenses, and guard services.

Source: FinCEN.

Major Contributors to This Report

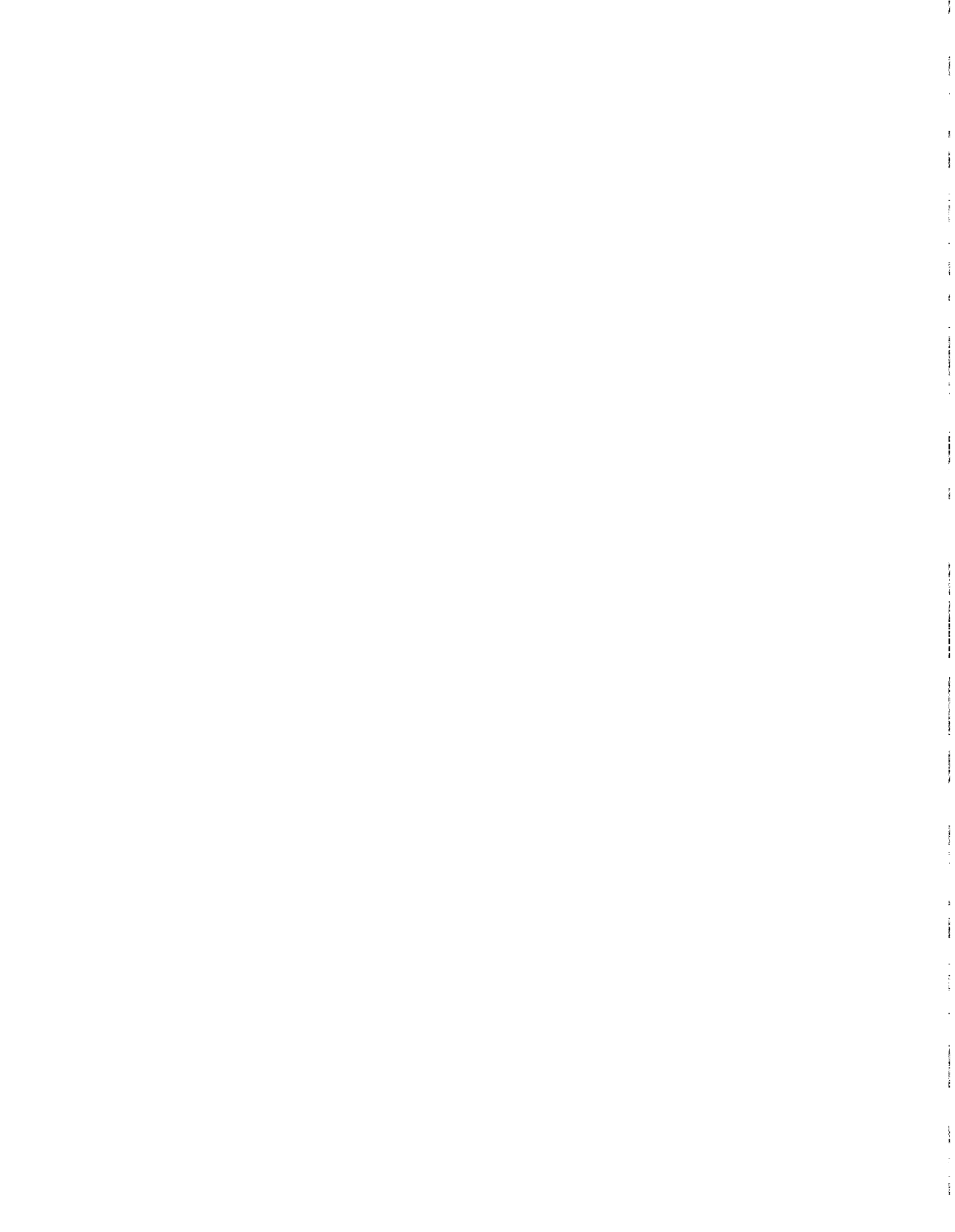## General Government Division, Washington, D.C.

Edward H. Stephenson Jr., Assistant Director, Administration of
  Justice Issues
Michael L. Eid, Senior Evaluator
Mary Lane Renninger, Senior Evaluator
Donna M. Leiss, Reports Analyst
Doris M. Page, Advisor

Ordering Information

The first copy of each GAO report and testimony is free.
Additional copies are $2 each. Orders should be sent to the
following address, accompanied by a check or money order
made out to the Superintendent of Documents, when
necessary. Orders for 100 or more copies to be mailed to a
single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300