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MONEY LAUNDERING:

The Use of Bank Secrecy Act
Reports by Law Enforcement
Could Be Increased

Statement of
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**MONEY LAUNDERING: THE USE OF BANK SECRECY ACT REPORTS
BY LAW ENFORCEMENT COULD BE INCREASED**

**SUMMARY OF STATEMENT OF HENRY R. WRAY
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Enacted in 1970, the Bank Secrecy Act has become a major weapon in the government's efforts to combat money laundering. The act's implementing regulations require reports of currency transactions exceeding \$10,000. These reports are used to track the flow of large cash deposits and the movement of money and monetary instruments across the nation's borders. Federal law enforcement agencies have found the reports extremely useful in investigating and prosecuting money laundering activity.

GAO was asked by the House Committee on Banking, Finance and Urban Affairs to provide an assessment of the federal government's anti-money laundering efforts and the use of the Bank Secrecy Act reports in these efforts. GAO is basing its assessment on previous reports as well as ongoing assignments.

Treasury law enforcement and regulatory agencies have reported that the Bank Secrecy Act has played a significant role in the government's efforts to control money laundering. Improved compliance by banks and other regulated financial institutions with the act's reporting provisions has made it increasingly difficult to move illicit profits into the nation's financial system undetected. Consequently, money launderers have been forced to find other means of converting currency such as smuggling the cash out of the country or using businesses and nonbank institutions.

Over 95 percent of the reports filed under the act are Currency Transaction Reports (CTR), which are required for each deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to financial institutions and certain businesses that involve a transaction in currency of more than \$10,000. In the past several years, the number of CTRs filed annually has continually increased. Almost 50 million CTRs have been filed thus far and the total could exceed 92 million in four years.

GAO's work indicates that CTRs are not used to their full extent by law enforcement agencies. The large volume of reports has made meaningful analysis difficult. Moreover, access to the data--particularly at the state level--is limited and cumbersome. Federal resources to enforce CTR provisions at non-bank institutions may be insufficient to ensure compliance and increased involvement by state authorities in enforcing reporting requirements could be a means of supplementing federal efforts. GAO is examining these issues in more detail in ongoing assignments.



Mr. Chairman and Members of the Committee:

We are pleased to have this opportunity today to discuss our work relating to the government's efforts to combat money laundering. Money laundering supports a wide range of illegal activities-- basically any crime where profit is the primary motive. Consequently, combating money laundering is a vital component of this country's war on crime.

Our testimony today will present our assessment of where the federal effort against money laundering now stands; we will focus on the use of the financial transaction reports required by the Bank Secrecy Act (BSA). This assessment is based on reports we have issued over the past several years, which are listed at the end of this statement, and also on the tentative results and observations of several ongoing assignments.

In October 1992 we reported that federal law enforcement agencies have found BSA reports extremely useful in identifying, investigating, and prosecuting money laundering operations or any other criminal activity generating large amounts of cash. The data are also used to identify and trace the disposition of proceeds from illegal activity for possible seizure and forfeiture.

Federal enforcement of the reporting provisions of BSA has made it increasingly difficult to move illicit profits into the country's banking system without being detected. Authorities report that money launderers have been forced to shift to other more difficult methods. To meet this new challenge successfully, the Department of the Treasury must ensure that optimal use is made of the financial intelligence data provided by BSA. We are currently assessing several ways this might be accomplished.

We have previously reported that federal law enforcement and regulatory resources alone cannot address the full extent of the money laundering problem faced by the nation. We continue to believe that federal efforts need to be supplemented by action at the state level and are evaluating various means of achieving this in an expedited fashion.

FEDERAL EFFORTS TO FIGHT MONEY LAUNDERING

Money laundering is the disguising or concealing of illicit income to make it appear legitimate. Although precise figures are not available, federal law enforcement officials estimate that between \$100 billion and \$300 billion in U.S. currency is laundered each year. The methods used can vary from extremely complex schemes involving sham corporations to something as simple as purchasing expensive commodities with cash.

The process of money laundering has been broken down into a number of steps. It is generally agreed that the point at which criminals are most vulnerable to detection is "placement."

Placement is the concealing of illicit proceeds by (1) converting the cash to another medium that is more convenient or less suspicious for purposes of exchange, such as property, cashiers' checks, or money orders or (2) depositing the funds into a financial institution account for subsequent disbursement. Because of the problems associated with converting large amounts of cash that are often in small denominations, placement is perhaps the most difficult part of money laundering and is currently the primary focus of U.S. law enforcement, legislative, and regulatory efforts to attack money laundering.

Federal efforts to detect placement and track the flow of large deposits of money and monetary instruments were significantly enhanced with the enactment of BSA in 1970. 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 the Department of the Treasury. Treasury regulations implementing the act require four reports:

- Currency Transaction Report, Internal Revenue Service (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 has been the Currency Transaction Report, or 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. Of the 52 million BSA reports filed to date, over 95 percent are CTRs.

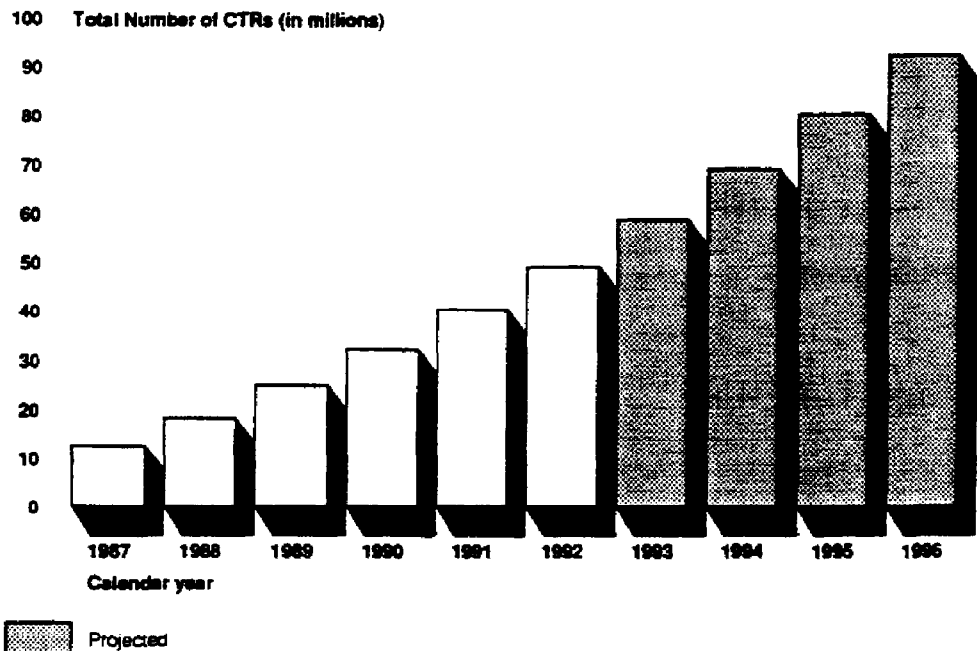
The financial institutions required to file CTRs--such as banks, thrifts, and credit unions--are subject to examination for compliance with BSA reporting requirements by their regulatory agency. Businesses required to file--such as check cashing operations, currency exchanges, and money transmitters--are subject to compliance examinations by IRS.

Treasury and law enforcement officials generally believe that, in the past, traditional banks and other financial institutions were the primary means used by money launderers. These officials also believe that increased efforts by federal regulatory and law enforcement agencies, as well as enhanced cooperation by the banks themselves, have significantly improved bank compliance

with the reporting requirements, making it much more difficult to use banks for money laundering purposes.

The Department of the Treasury has reported that improved compliance with BSA reporting requirements is reflected by an increase in the number of reports filed. In 1992, 8.97 million CTRs were filed with IRS, almost 5 times the number filed in 1985. Since 1987, the annual filings have increased at an average rate of 12.7 percent. As of April 1993, there were 49.8 million CTRs in the IRS computer database. If this historical pattern continues, this number could exceed 92 million in 4 years. Figure 1 shows the growth of the CTRs on file in the past several years and the projected size of the database in 1996.

Figure 1: Historic and Projected Growth of the CTR Database



Note: The CTR filings for 1993 to 1996 were estimated by applying a simple statistical regression to the 1987 to 1992 filings. These estimates are subject to forecast error.

Source: GAO analysis of IRS data.

Filing CTRs represents a significant investment in costs and resources to both the financial institutions and the federal government. On the basis of a poll of its members, the American Bankers Association estimated in 1992 that it costs a bank between \$3 and \$15 to file a CTR, depending upon the extent to which an automated filing system is used. IRS estimated that in fiscal year 1992 it cost \$2 per CTR to process the reports and store them on the computer.

Law enforcement officials believe that the increased reporting of large cash deposits by banks and other regulated financial institutions has led criminals to seek other means of placing illicit funds into the country's financial system. These officials believe that many money launderers attempt to avoid the BSA reporting requirements by smuggling the currency out of the country. Funds necessary for continuing the criminal activity are then transferred back into the country under the guise of a normal business transaction. Law enforcement officials have told us that perhaps as much as \$50 billion a year is being smuggled out of the country.

State and federal law enforcement officials as well as Treasury and IRS officials believe that increased and improved reporting by banks has also led to an increase in money laundered through businesses such as money transmitters, currency exchanges, and check cashing concerns. The Senate's Permanent Subcommittee on Investigation, for example, held hearings in February 1992 during which numerous witnesses reported the increasing role of these institutions in laundering money.

IRS has recognized the importance of ensuring the compliance of these concerns with BSA reporting requirements and devotes considerable resources to performing examinations. Also, in commenting on our October 1992 report, the IRS Commissioner stated that the Service's examination staff could benefit from state assistance in reviewing compliance with the act. In 1991, IRS did 2,541 examinations and increased its efforts in 1992 to 3,571. However, IRS district office records indicated that, as of the end of 1992, there were at least 31,000 of these concerns doing business nationwide.

LAW ENFORCEMENT USE OF BSA FINANCIAL INTELLIGENCE DATA

Duplicate databases of all of the BSA reports are stored on computers at two Treasury computer facilities: The Detroit Computer 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 February 1993, slightly more than 10,000 staff, almost all of them IRS employees, were authorized access to BSA data at the IRS Detroit Computer Center. While most of the IRS staff accessing the data use the information for tax administration purposes, almost a third of the authorized users, or 3,287, are assigned to law enforcement or regulatory duties.

The BSA reports at the Customs facility are used only for law enforcement purposes. As of February 1993, more than 10,000 staff were authorized access to BSA data at this facility, all of

them assigned to Treasury agencies. Table 1 lists the number of authorized users by agency.

Table 1: TECS Users Authorized Access to BSA Reports as of February 1993

Agency	Number of authorized users
Customs	4,271
FinCEN	120
BATF	3,479
IRS	2,623
Secret Service	24
Office of Financial Enforcement	1
Total users	10,518

Source: U.S. Customs Service

BSA reports, especially CTRs, are used by law enforcement in several ways. Some federal agencies analyze them on a strategic level. For example, Treasury's Financial Crimes Enforcement Network (FinCEN)¹ prepares reports assessing the threat from money laundering operations to particular geographic areas or for a particular state based on, among other things, the number and type of CTRs filed in the region. Some agencies analyze the reports on a "proactive" basis. IRS criminal investigators, for example, routinely perform analyses of CTRs to identify investigative leads based on certain criteria. Law enforcement officials agree, however, that by far the biggest use of the data is in a "reactive" manner, where a name or other form of identification of a suspect is known and a search of the data is made to determine if the suspect has filed a report or been the subject of a report. Table 2 shows the number of times BSA reports were accessed for law enforcement and regulatory purposes during 1992.

¹FinCEN is a relatively small Treasury organization established in 1990 to support federal, state, local, and foreign law enforcement agencies by analyzing and coordinating financial intelligence.

Table 2: Access to BSA Reports at Treasury Computer Facilities for Law Enforcement and Regulatory Purposes, Calendar Year 1992

User agency	Detroit Computer Center		TECS	
	Sessions	Queries	Sessions	Queries
IRS	43,090	800,627	142,619	283,730
Regulatory agencies ^a	1,057	7,695	-0-	-0-
FinCEN	2,433	23,163	46,604	173,465
BATF	-0-	-0-	14,170	40,968
Customs Service	-0-	-0-	393,376	1,152,296
Secret Service	-0-	-0-	1,439	4,748
Treasury - other	-0-	-0-	91	274
Totals	46,580	831,485	598,299	1,655,481

^aIncludes Treasury's Office of Financial Enforcement, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Securities and Exchange Commission.

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

Source: GAO analysis of IRS and Customs data.

While access to the BSA data through the Treasury facilities is generally limited to federal authorities, FinCEN serves as an access mechanism for both federal and state authorities. In 1992, FinCEN received 3,208 quick turn-around requests for BSA data. Table 3 shows the source of these requests.

Table 3: Requests for BSA Data Through FinCEN Received During Calendar Year 1992

Source	Number of Requests
Treasury Dept. agencies	831
Justice Dept. agencies	801
State agencies	677
Postal Inspection Service	340
INTERPOL	113
Defense Dept. agencies	103
Financial regulatory agencies	90
Other	253
Total	3,208

Source: GAO analysis of FinCEN data.

Under guidelines promulgated by the Assistant Secretary of the Treasury (Enforcement), IRS and Customs may also disclose BSA data to state or local law enforcement agencies on a case-by-case basis under the same provisions that FinCEN does. In October 1992, we reported the extent to which state law enforcement agencies were requesting and utilizing BSA reports obtained from these sources. IRS informed us that from April 1990 through December 1991, state and local law enforcement authorities in 24 states made 116 requests for BSA data. Customs officials estimated that they normally receive between 200 to 300 requests from state and local authorities a year.

Our October report also identified six states--Arizona, California, Florida, Illinois, Maryland, and New York--that have agreements with Treasury that permit them to receive CTRs and other BSA reports relating to the state already on magnetic media tape, thus enabling them to process the data at their own computer facilities. Four other states--Georgia, Nebraska, North Carolina, and Utah--obtain CTRs by requiring that filers send copies of the report filed with Treasury to the state.

FACTORS AFFECTING THE USEFULNESS OF BSA DATA

In general, our previous and ongoing work indicates that three major factors limit the usefulness of BSA financial intelligence data:

- The volume of data collected, processed, and stored has become extremely large making the reports difficult to analyze;
- access to the data by many law enforcement agencies is too cumbersome and restricted, and
- some of the data is missing, inaccurate, or incomplete.

As previously mentioned, there are currently 52 million BSA reports on Treasury's computers. This number could nearly double by the end of 1996. Even with computers, the extensive size of the BSA database makes intelligence analyses of the reports-- particularly proactive analyses--difficult, expensive, and time consuming. For example, FinCEN has been attempting to develop a computer system for identifying potential suspects based on trends and other characteristics of reports. However, given the size of the database and FinCEN's computer capabilities, the system is unable to use all of the historical data and is limited to the more recent data.

Because over 95 percent of the BSA reports filed are CTRs, any effort to reduce the size of the database should focus on reducing the volume of CTRs filed. IRS officials estimated that between 30 and 40 percent of the CTRs filed are reports of routine deposits by large, well established and well recognized retail businesses, each with a number of chain stores. IRS and Treasury recognize that these kinds of CTRs (1) are less likely to identify potential money laundering and currency violations, (2) increase the government's cost to process the reports, and (3) place an increased reporting burden on the nation's banking industry. Accordingly, Treasury has issued regulations that authorize banks to exempt certain businesses from the reporting requirements under certain conditions. We have been told, however, by Treasury and banking industry spokespersons, that most banks are reluctant to use this exemption authority. We are currently assessing the effectiveness of Treasury's exemption procedures to ascertain if the volume of CTRs in the database can be significantly reduced without jeopardizing the usefulness of the data for law enforcement and tax purposes.

A second factor limiting the use of BSA data, in our opinion, is the relative difficulty that non-Treasury, particularly nonfederal, law enforcement agencies have in accessing the data. Officials in several state agencies have told us that they could realize significant advantages to their overall law enforcement efforts if they had access to the BSA data on the same real time,

interactive basis as Treasury agencies. Currently, most states can obtain the data only on a case-by-case basis through a written request that specifies the suspect or suspects and the nature of the investigation.

Although a small number of states receive CTRs on magnetic media and, thus, have attempted to create their own computer database of financial intelligence, the reports are limited to those filed in the state. Consequently, cross-border analyses cannot be performed. Moreover, this duplication of databases is not the most cost-effective means of sharing the information since states must use their own computer facilities to process the data.

In response to our October report, Treasury and FinCEN have proposed a pilot test that would allow a limited number of states access to BSA data on an interactive basis. A state chosen to participate in the test would be required to have a law mirroring the requirements of BSA, and access to the data would be routed through FinCEN. We are currently assessing the proposal in an ongoing assignment.

One extremely important piece of financial intelligence data is not available to state law enforcement agencies. Section 6050I of the Internal Revenue Code requires any person engaged in a trade or business not covered by BSA to report any receipt of a cash payment over \$10,000. The report is made on IRS Form 8300. In September 1991, we reported that the volume of Forms 8300 being filed was increasing dramatically because of a number of factors, including an increase in the number of IRS compliance reviews. In 1992, there were 142,400 Forms 8300 filed with IRS, double the 71,400 filings reported for 1991. However, IRS and other federal agencies believe that--similar to CTR filings by nonfinancial institutions--Form 8300 reporting compliance for trades and businesses is still not what it should be. As we reported in September 1991 IRS bases this belief on three factors:

- 1987 data from a limited survey of corporations with under \$10 million in assets that included an examination of compliance with Form 8300 reporting provisions,
- the disproportionate volume of CTRs filed compared to the volume of Form 8300 filings, and
- the results of special Form 8300 compliance projects for different IRS districts across the country.

In 1991, IRS conducted 8,959 reviews of trades and businesses for compliance with the Form 8300 reporting requirements. In 1992 the number of reviews decreased to 3,931.

Federal law enforcement officials regard the Form 8300 data as extremely useful and a critically important complement to BSA reports because the Forms 8300 can be used to trace cash movements into the retail sector of the economy and to link abnormal uses of cash with possible illicit sources of that cash. Our October 1992 report recommended that the Internal Revenue Code be amended to authorize the Treasury Secretary to disclose the reports to state law enforcement agencies. In January of this year, H.R. 22 was introduced in the House of Representatives; it would permit state access to the data and also authorize access by non-Treasury federal agencies since this authority expired in November 1992.

The third factor limiting the usefulness of BSA data is its completeness and accuracy. As previously mentioned, federal authorities agree that compliance with the CTR reporting requirement by nonbank institutions is a problem. Consequently, financial intelligence data on a fast growing means of money laundering is either unavailable or of questionable accuracy.

Although not a BSA report, the Form 8300 is particularly susceptible to erroneous or incomplete data. In June of 1992, we testified that, out of a sample of 1,000 Forms 8300 we examined, over a third either had no tax identification number or a number that may be incorrect. Correct identification of the individual submitting the payment is essential if the Form 8300 data are to have any value for intelligence purposes. We are currently evaluating the feasibility of having IRS verify payee identification before the form is completed.

STATE EFFORTS COULD SUPPLEMENT FEDERAL EFFORTS

On the basis of our previous work, we have two overall observations on the government's response to money laundering. First, combating money laundering is going to require a long-term, sustained effort by federal authorities. Second, federal money laundering laws and the financial intelligence data provided by them are extremely valuable investigative and prosecutive tools in the nation's war on crime.

Our work also indicates that federal resources may be insufficient to address the problem of money laundering on the scale that is required. This is especially evident in efforts to ensure reporting compliance with BSA by certain businesses and compliance with section 6050I of the Internal Revenue Code by trades and other businesses. In addition, as we reported in October 1992, only a very few states are actively combating money laundering using laws and data in an approach similar to that of federal agencies.

We believe that greatly expanded and facilitated state access to the wealth of financial intelligence data available at the

federal level would offer a means of addressing these problems. Such expanded access would increase the usefulness of the data simply by increasing the number of users and would also help ensure that money laundering is attacked on both a federal and state level. Access could also encourage more states to enact enabling legislation to perform compliance reviews that would supplement the federal effort. Finally, but perhaps most important, it could ensure that each state enjoys the same advantages and benefits from combating money laundering that the federal government enjoys.

This concludes my statement, Mr. Chairman. We would be pleased to respond to any questions.

RELATED GAO PRODUCTS

Money Laundering: State Efforts to Fight It Are Increasing but More Federal Help Is Needed (GAO/GGD-93-1, Oct. 15, 1992).

Money Laundering: Civil Penalty Referrals for Violations of the Bank Secrecy Act Have Declined (GAO/T-GGD-92-57, June 30, 1992).

Tax Administration: Money Laundering Forms Could Be Used to Detect Nonfilers (GAO/T-GGD-92-56, June 23, 1992).

Money Laundering: Treasury Civil Case Processing of Bank Secrecy Act Violations (GAO/GGD-92-46, Feb. 6, 1992).

Money Laundering: The Use of Cash Transaction Reports by Federal Law Enforcement Agencies (GAO/GGD-91-125, Sept. 25, 1991).

Money Laundering: The U.S. Government Is Responding to the Problem (GAO/NSIAD-91-130, May 16, 1991).

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

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