



General Government Division

B-256381

February 15, 1994

The Honorable Henry B. Gonzalez  
Chairman, Committee on Banking,  
Finance and Urban Affairs  
House of Representatives

Dear Mr. Chairman:

This letter is in response to your October 28, 1993, inquiry concerning a Department of the Treasury initiative to facilitate access by the states to Bank Secrecy Act (BSA) data.

At the Committee's July 8, 1993, hearing in San Antonio, Texas, Treasury officials announced the initiation of "Project Gateway," a test program that would allow Texas law enforcement authorities direct access to BSA data maintained on a computer at the Internal Revenue Service's (IRS) Detroit Computing Center. You asked us to determine if Project Gateway had been implemented as it had been described at the hearing and if Texas officials had found the data useful. You also asked why Texas officials were considering purchasing BSA data on magnetic tape to process at a state computer facility if they had access to the entire database in Detroit.

As you know, Treasury regulations implementing the BSA require banks and other financial institutions to report currency transactions over \$10,000. Federal law enforcement agencies have found these reports extremely useful in combatting money laundering. As we previously reported,<sup>1</sup> state law enforcement agencies normally access BSA data by contacting a Treasury organization known as the Financial Crimes Enforcement Network (FinCEN) which is located in Virginia. Authorized state personnel provide FinCEN with a written request that specifies the name of an individual or business under investigation. FinCEN analysts query the database using terminals linked to IRS' Detroit facility to

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<sup>1</sup>Money Laundering: State Efforts To Fight It Are Increasing But More Federal Help Is Needed (GAO/GGD-93-1, Oct. 15, 1992).

determine if any reports are on file. If any information is developed by FinCEN, a written report is prepared and mailed back to the state.

Project Gateway began operation on September 1, 1993, and, as was discussed at the hearing in San Antonio, allowed authorized state personnel in Texas direct access to the IRS database through a terminal located in Austin. The same limitations on what reports can be accessed are still in effect--Texas analysts must use a specific name to search the database and can access only those reports filed on the individual or business named. Consequently, analysts are precluded from performing any intelligence analyses of the reports based on, for example, types of institutions filing the reports, reports filed within certain geographical areas, or reports filed by type of business. Federal agencies have found these types of analyses useful for identifying emerging trends and geographic patterns in money laundering.

Texas law enforcement officials we talked with found the data available through Project Gateway very useful--especially since response time is almost instantaneous. The fact that the data cannot be used to provide the type of intelligence analyses described above was not raised at the San Antonio hearing.

Our October 1992 report also noted that six states--Arizona, California, Florida, Illinois, Maryland, and New York--have entered into agreements with Treasury that permit these states to maintain their own computerized databases of currency transaction reports. Under the terms of the agreements, Treasury is to periodically supply each state with report data on magnetic tapes copied from the IRS database and Treasury is to be reimbursed by the states for the cost of supplying the tapes. Because these states can construct and maintain their own databases, there are no limitations on what reports can be accessed and what type of intelligence analysis can be produced. However, under the terms of the agreements, each of the six states receives only those reports that are filed by institutions located within that particular state. Consequently, any analysis of the data would be limited to that particular state.

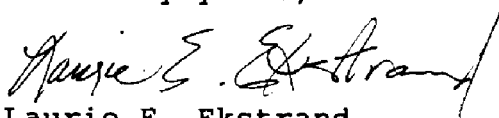
Prior to the San Antonio hearings, Texas officials had made inquiries to Treasury seeking to obtain BSA data on tape. These inquiries continued after Project Gateway was announced and implemented because, as discussed above, there are advantages and disadvantages to both methods of accessing the data.

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In November 1993 FinCEN proposed a new initiative for sharing BSA data with the states. This proposal--known as "Gateway '94"--would permit those states presently authorized to receive BSA data on magnetic tape direct access to the IRS database in Detroit but without any limitation as to what records could be accessed. Consequently, analysts in these states would be able to make full use of all of the reports in preparing intelligence analysis. The proposal is currently being evaluated by Treasury Department officials.

If you have any additional questions, please contact me on (202) 512-8777.

Sincerely yours,



Laurie E. Ekstrand  
Associate Director, Administration  
of Justice Issues

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