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Report to the Ranking Minority Member
Permanent Subcommittee on
Investigations, Committee on
Governmental Affairs, U.S. Senate

May 1995

MONEY LAUNDERING

Needed Improvements For Reporting Suspicious Transactions Are Planned

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GAO

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The Honorable Sam Nunn
Ranking Minority Member
Permanent Subcommittee
on Investigations
Committee on Governmental Affairs
United States Senate

Dear Senator Nunn:

This report was prepared in response to your request to determine how suspicious transactions that might involve money laundering are reported. The report discusses the various forms used by financial institutions to report suspicious transactions and how the reports are used by law enforcement agencies at the state and federal levels.

As arranged with the Subcommittee, unless you announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to other congressional committees, various bureaus and offices within the Department of the Treasury, and other interested parties. Copies will be made available to others upon request.

The major contributors to this report are listed in appendix IV. Please contact me on (202) 512-8777 if you or your staff have any questions concerning this report.

Sincerely yours,

Laurie E. Ekstrand
Associate Director, Administration
of Justice Issues

Executive Summary

Purpose

Money laundering is the disguising or concealing of illicit income in order to make it appear legitimate. Financial institutions such as banks, savings and loan associations, and credit unions are in a unique position to help identify money launderers by reporting suspicious transactions to federal and state law enforcement authorities. The Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, asked GAO to determine (1) how suspicious transactions are reported, (2) how the reports are used by law enforcement agencies, and (3) whether the process can be improved.

Background

Federal law enforcement officials estimate that between $100 billion and $300 billion is laundered in this country each year. While illegal drug trafficking accounts for much of the funds being laundered, other criminal activities, including tax evasion, also account for an extensive amount.

In the past two decades, federal law enforcement efforts to combat money laundering have focused on requiring financial institutions to report currency transactions that exceed $10,000. Beginning in 1988, these reports have been supplemented by reports of suspicious transactions. Many of the transactions reported as suspicious involve individuals who appear to be attempting to avoid the $10,000 reporting requirement. However, any activity that deviates from the norm for a particular account can be considered suspicious.

The Right to Financial Privacy Act, enacted in 1978, raised questions as to whether financial institutions were authorized to report suspicious transactions. To address these concerns, legislation has been enacted to provide protection against civil liability for institutions reporting suspicious transactions.

Results in Brief

Banks and other financial institutions report tens of thousands of suspicious transactions each year. The reports have led to the initiation of major investigations into various types of criminal activity. However, because there is no overall control or coordination of the reports, there is no way of ensuring that the information is being used to its full potential.

Financial institutions report suspicious transactions on a variety of different forms that provide different types of information and that are filed with different law enforcement and regulatory agencies. The form that is filed most frequently is filed with the Internal Revenue Service (IRS)

and kept on a centralized database. However, the form does not contain any information describing the suspicious activity that would allow law enforcement agencies to evaluate the usefulness of the information on the basis of the form alone. Moreover, some institutions have been filing these forms erroneously. IRS and other federal and state law enforcement agencies use the database on a reactive basis; that is, to provide additional information on an investigation that has already been initiated.

Other forms used to report suspicious transactions do describe the activity so that the information can be evaluated. However, these forms are filed with six different federal financial regulatory agencies. Because the forms are not maintained on a centralized database, they are not used on a reactive basis. Financial institutions filing this form are required to send a copy of it to the nearest district office of IRS' Criminal Investigation Division. However, IRS has not developed any guidance or directives as to how the information is to be managed as an intelligence resource. Use of the reports to initiate investigations varies among the 35 district offices.

GAO identified 15 states that receive copies of suspicious transaction reports filed on one or both of these two forms. Nine of these states told GAO that they use the information to initiate criminal investigations.

The Department of the Treasury, the financial regulatory agencies, and IRS have recently agreed to substantial changes regarding how suspicious transactions are to be reported and how the information is to be used. These proposals, which were made with input from the financial community, have the potential for significantly improving the contribution that suspicious transaction reports make to law enforcement at both the federal and state levels.

GAO's Analysis

Many Reports of Suspicious Transactions Have Limited Utility for Law Enforcement

In 1990 the Department of the Treasury modified the Currency Transaction Report (CTR) form, which financial institutions use to report currency transactions exceeding $10,000 to IRS. A block was added to the form that could be checked to indicate that the transaction was considered suspicious. In addition, the instructions for preparing the CTR were amended so that the form could be used to report suspicious transactions of any dollar amount.

Of the 10.2 million CTRs filed in 1993, 63,536 were marked suspicious. Most of these suspicious CTRs—47,083—identified transactions that were for $10,000 or less. The average amount of these transactions was $7,117. (See p. 19.) Although CTRs are the form financial institutions use most frequently to report suspicious transactions, it is the least useful for providing intelligence information on possible criminal activity. Because there is no means for indicating on the form the reason why the institution considered the transaction suspicious, it is difficult for law enforcement personnel to evaluate the information and assess its potential.

Most financial institutions do not use CTRs to report suspicious transactions. Of the 26,029 institutions that filed CTRs in 1993, less than 18 percent marked one or more of the CTRs as suspicious. Over 25 percent of the suspicious CTRs were filed by 20 institutions, including 3 institutions that erroneously filed the suspicious CTRs for transactions that they did not consider to be suspicious. (See pp. 20 and 21.)

Other Forms Are Also Used to Report Suspicious Transactions

Since 1988 the financial regulatory agencies have required banks, savings and loan associations, and credit unions to report suspected money laundering on a Criminal Referral Form (CRF). Although each regulatory agency requires the use of its own form, each form contains essentially the same information, including a description of the transaction. Of the 80,340 CRFs that were filed in 1993, 13,220 reported suspected money laundering. The remaining CRFs reported other criminal activity, such as credit card fraud, employee theft, and check kiting. (See p. 23.)

There is no central depository of CRFs. They are to be filed with the cognizant regulatory agency and, for those that report suspected money laundering, a copy is to be sent to the nearest district office of IRS' Criminal Investigation Division (CID).

CID offices in IRS' western region have been receiving suspicious transaction reports on various forms since the late 1980s, when special agents began soliciting reports on their own initiative. At first the reports were made exclusively on a locally designed form. Currently, even though financial institutions throughout the country use CTRs and/or CRFs to make suspicious transaction reports, some institutions in the western part of the country continue to use the locally designed forms in addition to the CTR and/or CRF forms. (See p. 24.)

Arizona has had its own form for banks in that state to use for reporting suspicious transactions since 1985. State officials told GAO that in 1993 financial institutions in Arizona filed approximately 1,200 of these forms with the state Attorney General's Office. (See p. 24.)

Reports of Suspicious Transactions Are Helpful to Law Enforcement but Their Use Is Inconsistent

CID special agents GAO spoke with provided numerous examples of major investigations, many conducted by other agencies, that were initiated on the basis of suspicious transactions reported to IRS. These cases involved different types of criminal activity, such as drug trafficking, food stamp fraud, and theft of government property. Many of the cases involved millions of dollars in illicit proceeds. (See pp. 26 and 27.)

IRS does not have agencywide policies or procedures for managing suspicious transaction reports. Consequently, the extent to which special agents in the 35 CID district offices solicit, process, and evaluate the reports is up to the discretion of the district CID chief and varies significantly among districts. The percentage of investigations initiated on the basis of suspicious transaction reports also varies significantly among districts. From October 1990 to June 1994 CID initiated 21,507 investigations nationwide. About 4 percent of the cases were initiated as a result of a suspicious transaction report. Among the district offices, however, the percentage varied from 0 to over 18 percent. GAO believes that the varying rates are an indication that use of the reports may not be emphasized to the same extent among the districts. (See p. 30.)

Almost all of the states have been authorized direct access to the Treasury database of CTRs which includes those CTRs that have been marked as suspicious. However, states must use a specific name to search the database and can access only the suspicious CTRs filed on the individual or business named. Consequently, states do not have the capability of using the database to target subjects for further investigation. (See p. 31.)

GAO identified 15 states that receive copies of suspicious CTRs and/or CRFs that have been filed by financial institutions within their state. Nine of these states told GAO they use the information to target subjects for further investigation. (See pp. 31 through 34.)

Recent Initiatives for Improving Suspicious Transaction Reporting

The Department of the Treasury and the financial regulatory agencies, with input from the financial community, have recently proposed several major changes regarding suspicious transaction reporting. These include

using a single form for the reports that would provide a description of the transaction, establishing a centralized database for the reports, and facilitating access to the information by the states. In addition, IRS plans to develop and issue policies and procedures to ensure that the reports are used and managed on a consistent basis. GAO believes the actions planned by Treasury and IRS, if properly implemented in a timely manner, will significantly improve how suspicious transactions are reported and used. (See pp. 34 through 36.)

Recommendations

GAO is not making any recommendations in this report.

Agency and Industry Comments

GAO provided a draft of this report to the American Bankers Association, Treasury's Financial Crimes Enforcement Network, and IRS. Their written comments are discussed in chapter 3 and are contained in appendixes I, II, and III. Each of these organizations generally agreed with the information in the report.

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Abbreviations

CID	Criminal Investigation Division
CRF	Criminal Referral Form
CTR	Currency Transaction Report
FinCEN	Financial Crimes Enforcement Network
IRS	Internal Revenue Service

Introduction

Money laundering is the disguising or concealing of illicit income in order to make it appear legitimate. Over the past two decades, federal law enforcement efforts to detect money laundering have evolved into a strategy that is heavily dependent upon the reporting of large currency transactions and tactical and strategic intelligence analysis of the collected data.

In 1988 the Department of the Treasury began to encourage banks and other financial institutions to supplement reports of large currency transactions with reports of suspicious transactions of any amount. Since then, the suspicious transaction reports have taken on a number of different formats that are filed with various law enforcement and regulatory agencies at both the state and federal levels. This report describes how these reports are made and how they are being used.

Criminals Face Problems in Dealing in Large Amounts of Cash

Federal law enforcement officials estimate that between $100 billion and $300 billion in U.S. currency is laundered each year. While narcotics traffickers are the largest single block of users of money laundering schemes, numerous other types of activities typical of organized crime—for example, illegal gambling or prostitution—create an appreciable demand. In addition, violations of tax laws often accompany laundering schemes that conceal the existence of an illegal source of income. Money laundering is also a factor in many cases of tax fraud involving income from a legitimate source.

Although the process of money laundering has been broken down into a number of steps, it is generally agreed by law enforcement and regulatory officials that the point at which criminals are most vulnerable to detection is "placement." Placement is the concealing of illicit proceeds by

- converting the cash to another medium that is more convenient or less suspicious for purposes of exchange, such as property, cashier's checks, or money orders; or
- depositing the funds into a financial institution account for subsequent disbursement.

Because of the problems associated with converting and concealing large amounts of cash, 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.

U.S. Efforts to Combat Money Laundering Center on Reports of Large Cash Transactions

Federal efforts to detect large cash deposits were significantly enhanced with the passage of the Bank Secrecy Act in 1970. The act requires individuals as well as banks and other financial institutions to report large foreign and domestic financial transactions to the Department of the Treasury. The act has been amended to provide substantial criminal and civil penalties for institutions who fail to file the required reports and for individuals who deliberately evade certain reporting requirements. Although the implementing regulations of the act require four types of reports, the report filed most frequently is the Currency Transaction Report (CTR).

Financial institutions[1] are required to file a CTR for each deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to such institutions that involves a transaction in currency of more than $10,000. CTRs are filed on an Internal Revenue Service (IRS) form 4789, which is to be sent to the IRS Detroit Computing Center in Michigan.

The volume of CTRs being filed has increased substantially in the past several years. In May 1993 we testified before the House Banking Committee that since 1987 the annual filings of CTRs had increased at an average rate of 12.7 percent.[2] 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. The substantial increase in the volume of currency transaction reports being filed has increased the importance of identifying those transactions thought to be suspicious.

Suspicious Transactions Are Loosely Defined

Although U.S. financial institutions have been reporting suspected money laundering for a number of years, specific criteria for determining whether a transaction is suspicious have never been developed. Consequently, institutions generally have a wide degree of latitude in deciding what constitutes suspicious activity.

Financial institutions have developed a number of means designed to help ensure that they are not being used to launder illicit proceeds. Chief

[1]As defined by Treasury regulation, these include banks, federally regulated security brokers, currency exchange houses, funds transmitters, check cashing businesses, and persons subject to supervision by state or federal bank supervisory authority. In this report, unless otherwise noted, the term "financial institutions" will refer to banks, credit unions, and savings and loan associations.

[2]Money Laundering: The Use of Bank Secrecy Act Reports by Law Enforcement Could Be Increased (GA0/T-GGD-93-31, May 26, 1993). Legislation enacted in September 1994 contains several provisions for reducing the volume of CTRs filed.

among these is a policy commonly referred to as "know your customer." Among other things, the policy calls for financial institutions to verify the identity of individuals and businesses that are account holders and to be familiar enough with their banking practices so that transactions that are outside the norm can be readily identified. Officials from the Department of the Treasury and the American Bankers Association told us that most, if not all, financial institutions have implemented a know your customer policy and treat any transaction not typically associated with an account as suspicious. Moreover, guidance from regulatory agencies generally encourages institutions to use the policy in this manner.

Although suspicious activity generally depends upon the customer, certain types of transactions are suspicious in and of themselves. A common type of suspicious transaction is structuring. Structuring occurs when a person conducts currency transactions in amounts of $10,000 or less for the purpose of evading the reporting requirements of the Bank Secrecy Act.

In September 1992 the Association of Reserve City Bankers (now known as the Bankers Roundtable) published the results of a survey of suspicious transaction reporting by the nation's major banking institutions.[3] The report included more than 200 profiles of suspicious transactions that had been reported by 60 of the nation's largest banking institutions. The majority of the transactions that were reported as suspicious (85 percent) involved structuring. The report found that the most common method of structuring involved cash deposits but also included check cashing, cash withdrawals, and the purchase of monetary instruments.

Other transactions that were reported as suspicious included

- customers changing the dollar amount of the transaction or cancelling the transaction when informed of the reporting requirement,
- unusually large purchases of money orders and cashier's checks,
- unusually large cash deposits, and
- wire transfers of funds to a foreign country.

[3]Survey of Suspicious Transactions, Final Report of the Subcommittee and Task Force on Money Laundering, Payments System Committee, Association of Reserve City Bankers.

Legislation Has Facilitated Suspicious Transaction Reporting by Financial Institutions

The Department of the Treasury has identified 8 countries in addition to the United States that, as of July 1993, require the reporting of currency transactions that exceed a specified amount.[4] However, many other countries require the recording of transactions over some specified threshold. These records can then be made available to law enforcement under the terms of that country's bank secrecy laws.

Many countries also either require or encourage financial institutions to report those transactions considered to be suspicious. In the United States, financial institutions have been encouraged for some time to report suspicious account activity that might be indicative of criminal activity. However, certain provisions in the Right to Financial Privacy Act (P.L. 95-630) of 1978 generated questions in the banking community about the type of customer information that could be disclosed in reporting a suspicious transaction, as well as concerns of potential liability for such disclosure. Subsequent legislation addressed these issues by, among other things, providing certain protections against civil liability for institutions reporting suspicious transactions.

The Money Laundering Control Act of 1986 (P.L. 99-570) amended the Right to Financial Privacy Act to explicitly define the specific types of account information that financial institutions could disclose without customer permission, subpoena, summons, or search warrant. The intent was to strike a balance between the privacy rights of customers while allowing financial institutions to give government investigators enough information about the nature of possible violations in order for such investigators to determine whether there was a basis to proceed with a summons, subpoena, or search warrant for additional information. The 1986 amendments also established a limited "good faith" defense whereby financial institutions and their employees, when making a disclosure of certain specified information, would be shielded from civil liability to the customer for such disclosure or for any failure to notify the customer of such disclosure.

Despite this provision, many banks were concerned that they might still be liable under the Right to Financial Privacy Act for disclosures made on a voluntary basis. Nothing in the statutory language required a financial institution to initiate a disclosure to a government agency of a suspected transaction, and some questioned whether the government would intervene on their behalf should a civil action be initiated against them.

[4]These are Australia, Brazil, Costa Rica, Ecuador, Norway, Paraguay, Uruguay, and Venezuela.

This situation was remedied, to some extent, by the promulgation of regulations by the Comptroller of the Currency and other federal agencies charged with the responsibility to monitor U.S. financial institutions. Comptroller of the Currency Regulation 12 C.F.R. Section 21.11 and corresponding regulations issued by the other bank regulatory agencies now require financial institutions to report suspected money laundering.

Nonetheless, there was still concern over the possibility of civil suits because of reporting suspicious transactions. In 1992, under the Annunzio-Wylie Anti-Money Laundering Act (P.L. 102-550), financial institutions and their employees reporting suspicious transactions were given broadened immunity from civil liability under any state or federal law or regulation, such as the Right to Financial Privacy Act. The act also prohibits financial institutions from notifying persons involved in a suspicious transaction that the transaction has been reported.

Objectives, Scope, and Methodology

We were requested by the then Chairman of the Permanent Subcommittee on Investigations, Senate Governmental Affairs Committee, to review the manner in which suspicious activities that relate to possible money laundering are reported by determining

- how banks and other financial institutions report suspicious transactions,
- to whom the transactions are reported,
- the volume of reports made,
- how the reports are used, and
- whether the process can be improved.

To respond to the request, we reviewed pertinent laws and regulations and published material such as academic and periodical literature. We also reviewed reports prepared by federal and state agencies, private research associations, and other experts. We interviewed officials at the Internal Revenue Service, the Department of the Treasury, the Federal Reserve Board, and the American Bankers Association. We also used the results of our previous reports dealing with money laundering that are cited in the text.

In order to determine the volume and characteristics of suspicious transaction reports filed on Currency Transaction Reports, we used data from the computer database at the IRS Detroit Computing Center and relied upon IRS for the necessary computer programming. At our request, IRS identified the 20 institutions that filed the largest volume of Currency

Transaction Reports that had been marked suspicious in calendar year 1993. In order to determine what factors might influence some institutions to mark a high percentage of CTRs as suspicious, we contacted the seven institutions of these 20 that had marked more than 8 percent of the CTRs filed as suspicious. This percentage was arbitrarily selected and has no statistical basis.

To ascertain what states require suspicious transaction reporting and how the reports are used, we telefaxed a single-page questionnaire to bank regulatory officials in each state. All of the states responded. For those states that indicated there was a requirement, we conducted telephone interviews with regulatory and law enforcement personnel. We interviewed officials and observed operations at the state facility in Sacramento, California, that processes data for that state's Office of the Attorney General. We chose this one state operation to visit because of its proximity to San Francisco, California, where we were reviewing IRS district operations.

In order to determine the extent to which suspicious transaction reports are used to initiate investigations by IRS' Criminal Investigation Division (CID), we used data provided us from a management information system at IRS headquarters. We visited or contacted by telephone a total of 10 CID district offices. The San Francisco office was selected because of its recognized role as an innovator in using suspicious transaction reports. The other district offices were judgmentally selected so as to include offices that had initiated a relatively high percentage of cases based on suspicious transaction reports as well as those that had initiated a low percentage.

We provided a draft of this report to the American Bankers Association, Treasury's Financial Crimes Enforcement Network, and IRS. Their comments are discussed on pages 37 and 38 and reproduced in full in appendixes I, II, and III.

We did our review from April through December 1994 in accordance with generally accepted government auditing standards.

Reports of Suspicious Transactions Are Made on Different Forms and With Different Agencies

Over the past several years, different forms have been developed for financial institutions to use in reporting transactions that might involve money laundering. Each of these forms has evolved from a recognized need, but the forms differ as to the amount and detail of the information provided and where the form is filed. Because of the concurrent development and implementation of the forms, the reports overlap one another. Consequently, the same suspicious activity may be reported two or more times, on two or more different forms, and to several different agencies.

This chapter describes how suspicious transactions are reported and to whom they are reported. Chapter 3 discusses how the various reports are used by different law enforcement agencies.

Currency Transaction Reports Can Be Used to Identify Suspicious Transactions

As previously discussed, financial institutions are required to report certain transactions that exceed $10,000 on a Currency Transaction Report (CTR). Beginning in 1990, CTRs have also been used by some institutions to identify suspicious transactions. Although this means of identifying suspicious transactions produces the largest volume of reports, most financial institutions do not use the CTR form to report suspicious transactions. Using the CTR for this purpose does not provide any information about the nature of the suspicious activity. Moreover, the validity of some of the suspicious transaction reports filed on a CTR is questionable because some have been filed erroneously.

Suspicious CTRs Are Voluntary and Provide Little Information

After it had received inquiries from financial institutions about whether suspicious transactions should be reported and what information should be reported, the Department of the Treasury issued Administrative Ruling 88-1 on June 22, 1988. The ruling encourages but does not require financial institutions to report those transactions that might be "...relevant to a possible violation of the Bank Secrecy Act or its regulations or indicative of money laundering or tax evasion" to the local Criminal Investigation Division (CID) office of the Internal Revenue Service.

Immediately after Administrative Ruling 88-1 was released, Treasury officials began to notice that financial institutions were reporting suspicious transactions by filing CTRs with the word "suspicious" written across the form. To facilitate this type of reporting, Treasury issued a revised CTR form in January 1990 with a block that could be checked to indicate that the transaction was suspicious. In addition, the instructions

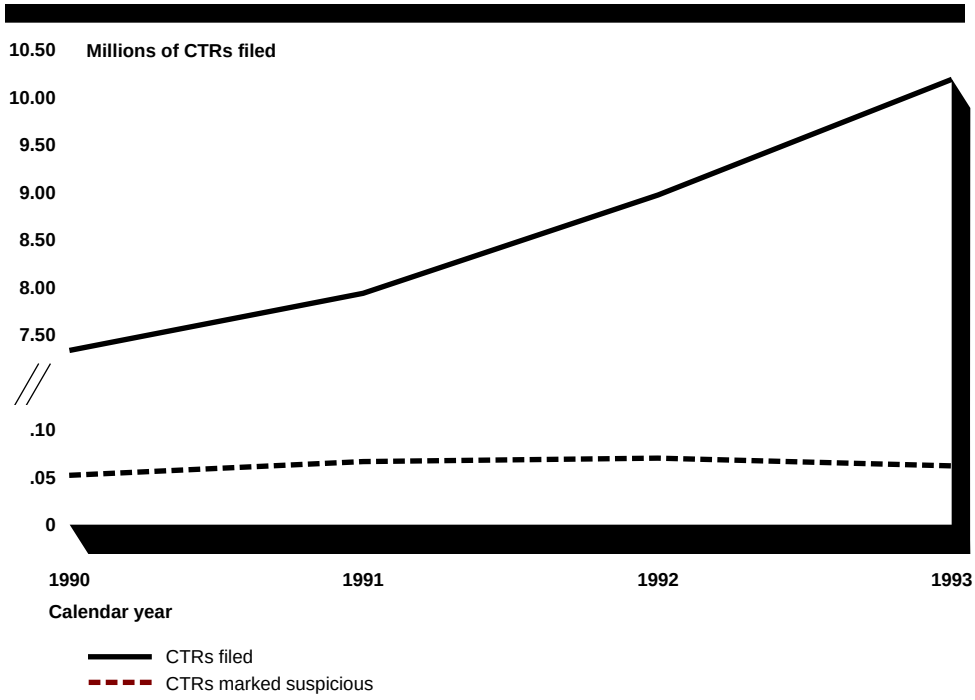
for the form were amended to read "This form may be filed for any suspicious transaction, even if it does not exceed $10,000." Although the revised form makes it possible to identify transactions that have been designated as suspicious, the form does not provide for a description of the transaction. Consequently, there is no way to determine why the transaction was considered suspicious.

All CTRs are to be filed with the IRS Detroit Computing Center, where they are processed and entered onto a computer database along with other reports required by the Bank Secrecy Act. Once a week, staff at the Center are to distribute copies of those CTRs that are marked suspicious to the CID district office that has jurisdiction over the state where the CTR was filed.

In 1993 more than 10 million CTRs were filed, 63,536 of them marked suspicious.[1] As figure 2.1 demonstrates, the number of suspicious CTRs filed since 1990 has remained relatively constant despite a substantial increase in the volume of CTRs filed.

[1]Approximately 126,000 CTRs were filed for amounts of $10,000 or less but were not marked suspicious. IRS has not determined the reason why these reports were filed.

Figure 2.1: CTRs Filed, 1990 Through 1993



Most Financial Institutions Do Not File Suspicious CTRs

Of the 35,131 institutions filing CTRs in 1993, about 75 percent identified themselves as banks, credit unions, or savings and loan associations. Of these 26,029 financial institutions, only 4,473—about 17 percent—marked 1 or more of the CTRs they filed as suspicious. Overall, less than 1 percent of the CTRs filed by all financial institutions were marked suspicious. Table 2.1 provides additional information on institutions that filed CTRs and suspicious CTRs in 1993. Table 2.2 provides additional data on the suspicious CTRs filed in 1993.

Table 2.1: CTRs and Suspicious CTRs Filed During Calendar Year 1993

Type of institution	Number of institutions filing CTRs	Number of CTRs filed	Number of institutions filing suspicious CTRs	Percent filing suspicious CTRs	Number of suspicious CTRs filed	Percent of CTRs marked suspicious
Bank	20,132	9,894,707	3,410	16.9	49,498	0.5
Savings and loan association	2,295	143,026	503	21.9	4,624	3.2
Credit union	3,602	32,326	560	15.5	2,488	7.7
Subtotals	**26,029**	**10,070,059**	**4,473**	**17.2**	**56,610**	**0.6**
Securities broker or dealer	311	2,405	13	4.2	296	12.3
Other	2,738	130,649	307	11.2	5,755	4.4
Unknown	6,053	44,011	345	5.7	875	2.0
Totals	**35,131**	**10,247,124**	**5,138**	**14.6**	**63,536**	**0.6**

Source: IRS Detroit Computing Center.

Table 2.2: Suspicious CTRs Filed During Calendar Year 1993 by Type of Filer and Amount

Type of institution	Suspicious CTRs filed for $10,000 or less	Number of filers	Average amount	Suspicious CTRs filed for more than $10,000	Number of filers	Average amount
Bank	37,001	2,632	$7,340	12,497	1,849	$27,030
Savings and loan association	3,858	407	6,881	766	247	22,734
Credit union	1,938	431	5,931	550	262	23,085
Subtotals	**42,797**	**3,470**	**$7,235**	**13,813**	**2,358**	**$26,635**
Securities broker or dealer	27	7	$5,736	269	11	$35,318
Other	3,553	214	6,003	2,202	155	15,268
Unknown	706	267	5,622	169	110	20,206
Totals	**47,083**	**3,958**	**$7,117**	**16,453**	**2,634**	**$25,189**

Source: IRS Detroit Computing Center.

We discussed suspicious transaction reporting with officials of the two largest (ranked by total assets) banks in the country. Both banks have a policy of not filing suspicious CTRs. The reasons given for this policy were a concern over inadequate internal review and evaluation of the reports, possible civil liability for violating a customer's right to privacy, and the lack of space on the form to describe why the transaction was considered to be suspicious.

A Disproportionate Number of Suspicious CTRs Are Filed by a Few Institutions

Although a total of 5,138 institutions filed suspicious CTRs in 1993, over a quarter of the 63,536 suspicious CTRs filed were filed by 20 institutions. At the request of the Department of the Treasury, we are not revealing the identity of these institutions. However, table 2.3 provides additional information concerning these institutions.

Table 2.3: Selected Statistical Information on the 20 Institutions Filing the Largest Volume of Suspicious CTRs in 1993

Filer	Number of suspicious CTRs filed	Percent of all suspicious CTRs filed	Cumulative percentage	Total CTRs filed by institution	Percent marked suspicious
1	3,079	5.04	5.04	5,486	56.12
2	1,891	3.10	8.14	69,035	2.74
3	1,620	2.65	10.79	72,287	2.24
4	1,501	2.46	13.25	11,967	12.54
5	1,047	1.71	14.96	125,036	0.84
6	779	1.28	16.24	19,606	3.97
7	758	1.24	17.48	1,651	45.91
8	717	1.17	18.65	87,516	0.82
9	674	1.10	19.76	11,184	6.03
10	535	0.88	20.63	58,512	0.91
11	515	0.84	21.48	1,093	47.12
12	449	0.74	22.21	7,376	6.09
13	424	0.69	22.90	987	42.96
14	382	0.63	23.53	5,726	6.67
15	379	0.62	24.15	780	48.59
16	375	0.61	24.76	7,680	4.88
17	373	0.61	25.38	68,227	0.55
18	366	0.60	25.97	11,226	3.26
19	347	0.57	26.54	4,270	8.13
20	330	0.54	27.08	4,788	6.89
Totals	**16,541**	**27.08**			

Source: GAO analysis of IRS data.

Reasons for Filing Suspicious CTRs Vary, and Some Are Filed Erroneously

In order to determine the factors that influence some institutions to mark a high percentage of CTRs as suspicious, we contacted the seven institutions that had marked more than 8 percent of CTRs filed as suspicious. This percentage was arbitrarily selected and has no statistical basis. We found a variety of reasons for why institutions filed suspicious

CTRs, and we also identified several instances where suspicious CTRs were filed erroneously.

The institution filing the largest number of suspicious CTRs—over 5 percent of those filed nationwide—is not a financial institution but a large corporation that provides money transmitting services at thousands of locations nationwide. Under procedures developed by the company, all transactions over a specified dollar threshold set by the company are to be monitored at a central location where the decision is made about whether or not to file a suspicious CTR. Company officials we spoke with told us that because of the nature of their business, they are inclined to regard many cash transactions as suspicious even though the amount might be relatively small compared to typical transactions at a financial institution.

The eleventh largest filer of suspicious CTRs is also not a financial institution but a liquor store that operates a check cashing service. Staff from the store told us that they had been filing the suspicious CTRs erroneously because of incorrect instructions they had received. An IRS agent had informed them that a CTR was to be filed whenever a customer's total transactions exceeded $10,000. (Although Treasury regulations do call for aggregating transactions, the time period specified is 1 business day.) The store maintains records on individual customers so that any time the transaction total exceeded $10,000, which may have taken several months or longer, a CTR would be filed on each subsequent transaction no matter what the amount was. According to store personnel, they had also been told by IRS to classify these CTRs as suspicious since none of the other transaction descriptions on the form were appropriate to describe the transaction.

According to officials we spoke with at the institution filing the fifteenth largest volume of suspicious CTRs—a small bank—most, if not all, of its suspicious CTRs were filed at the request of IRS. We were told that IRS had informed the bank that an account holder was under investigation and that deposit activity for the account was generally under the $10,000 reporting threshold for a CTR. The bank officials also told us that IRS requested the bank to file a suspicious CTR for every transaction no matter how much the amount was so that IRS would be able to monitor the account activity. Consequently, the suspicious CTRs were not being filed because the bank considered the transactions to be suspicious but in order to allow IRS to monitor activity that would not otherwise be reported.

The seventh largest filer of suspicious CTRs is a small bank located in one of the nation's largest cities. We were told that after the bank initially determines that an account has had a single suspicious transaction, its policy is to file suspicious CTRs on all subsequent transactions for that account. Bank officials told us that many of the suspicious CTRs filed by the bank are likely to be erroneous since not all subsequent transactions might be considered suspicious.

We were also told that the bank had been heavily fined in the past for Bank Secrecy Act violations. As proof of its willingness to comply with the spirit as well as the letter of the law, the bank has implemented a policy that encourages employees to file suspicious CTRs whenever there is any questionable activity. This "when in doubt, file" philosophy was echoed by the remaining three banks of the seven that we spoke with.

Criminal Referral Forms Are Also Used to Report Suspected Money Laundering

Federal regulations require financial institutions to file Criminal Referral Forms or Reports of Apparent Crime (CRF) to report known or suspected crimes, such as credit card fraud, employee theft, and check kiting. In 1988 the activity to be reported was broadened to include suspected structuring of transactions to evade the CTR reporting requirements, other violations of the Bank Secrecy Act, and money laundering. (See ch. 1, p. 14)

Each of the financial regulatory agencies requires its own form be used for the report. The different forms, however, provide essentially the same information about the identity of the reporting institution and the individual or business that is the subject of the report. Each form also differs substantially from the CTR in that each has space for a description of the transaction or activity that is being reported as suspicious.

The directions for filing the reports require the financial institution to send the original to the cognizant regulatory agency and copies to the nearest office of the United States Attorney, the closest office of the Federal Bureau of Investigation, and the Department of the Treasury. The instructions also specify that when suspected money laundering and/or Bank Secrecy Act violations are being reported, a copy of the report is to be sent to the local office of the IRS Criminal Investigation Division. Table 2.4 shows the CRFs filed with the regulatory agencies, including those CRFs reporting suspected money laundering and/or Bank Secrecy Act violations.

Table 2.4: Criminal Referral Forms Filed During Calendar Year 1993

Regulatory agency	Total CRFs received	CRFs reporting suspected money laundering	Percent of CRFs reporting money laundering
Federal Reserve	5,799	1,585	27.3
Office of Thrift Supervision	10,401	3,230	31.1
Federal Deposit Insurance Corporation	15,657	2,170	13.9
Resolution Trust Corporation	375	24	6.4
National Credit Union Administration	761	11	1.4
Office of the Comptroller of the Currency	47,347	6,200[a]	13.1
Totals	**80,340**	**13,220**	**16.5**

[a]Estimated by agency personnel.

Source: GAO poll of regulatory agencies.

Some IRS Districts Receive Other Types of Suspicious Transaction Reports

As discussed in chapter 1, the Money Laundering Control Act of 1986 amended the Right to Financial Privacy Act with provisions that authorized financial institutions to disclose certain specified account information. Recognizing the potential value of information and reports of suspicious transactions that could now be obtained from financial institutions, special agents with the IRS Criminal Investigation Division (CID) in the San Francisco, California, district office began a local initiative in 1987 to capitalize on the legislation.

Under the initiative, financial institutions—primarily banks—in IRS' western region were asked to report suspicious transactions directly to the local CID office. At first, the reports were taken over the telephone. As cooperation by the banks increased and the volume of telephone calls became difficult to manage, the financial institutions began filing the reports on a one-page form that was to be mailed to the CID district office. The form is shorter than the multipage Criminal Referral Form used by financial regulatory agencies but, similar to the CRF, has space for a narrative description of the suspicious nature of the transaction.

Currently, even though financial institutions throughout the country use CTRs and/or CRFs to make suspicious transaction reports, some institutions in the western part of the country continue to file an additional report directly with the local CID district office. The reports are to be evaluated

and researched at the district, sent to an IRS computer service center in California, transcribed onto computer tape, and mailed to the IRS Detroit Computing Center in Detroit, where they are to be put on a database. As of July 1994 a total of 68,111 reports had been filed with CID district offices in IRS' western region—mostly with the San Francisco office.

In calendar year 1993 a total of 91 financial institutions filed 20,940 reports with the CID district offices, again mostly with the San Francisco office. Some of the reports that were filed were copies of CRFs that were filed with the CID office in accordance with the filing instructions. Others, however, were the one-page form that some banks continue to use. IRS officials do not believe that any were copies of suspicious CTRs.

Arizona Has a Separate Form for Reporting Suspicious Transactions

Before federal agencies developed forms for reporting suspicious transactions, Arizona was using its own form. In 1985 the Arizona Attorney General's Office developed a voluntary, informal reporting system relating to possible money laundering activity through financial institutions. Suspected money laundering and suspicious transactions were to be reported to the state Attorney General on a one-page form that requested identifying information concerning the customer and the nature of the transaction. By 1990 the state was receiving approximately 150 reports of suspicious transactions a month.

In 1991 a state law was passed requiring any state or federally chartered institution to file with the state copies of various reports made to the Department of the Treasury. The state law also provides that the timely filing of a report with the appropriate federal agency shall be deemed compliance with the state requirements if such reports are already being supplied to the state. Arizona had been receiving copies of suspicious CTRs filed by state financial institutions since August 1989.[2] Consequently, financial institutions were excused from filing copies of suspicious CTRs but were required to file copies of CRFs. The state Attorney General's Office accepted a copy of a CRF filed in lieu of the state form.

Officials with the Arizona Attorney General's Office told us that in 1993 the state received an average of 300 reports of suspicious transactions a month, not including those copies of suspicious CTRs received on computer tape from IRS. About two-thirds of the reports were copies of

[2]Arizona is one of several states that have agreements with Treasury to receive copies of all CTRs filed within the state on computer tapes from the IRS Detroit Computing Center. See Money Laundering: State Efforts To Fight It Are Increasing But More Federal Help Is Needed (GAO/GGD-93-1, Oct. 15, 1992).

CRFs filed with financial regulatory agencies. The remaining reports were made on the state form, which, we were told, some financial institutions used for situations they felt did not warrant a CRF.

Reports of Suspicious Transactions Are Not Consistently Used or Managed

Information concerning suspicious transactions can be an effective means of identifying a wide variety of criminal activity. Even so, use of the information by law enforcement at federal and state levels is limited and inconsistent.

No federal agency has been designated as responsible for developing and administering a program that would manage these resources with a focused, nationwide perspective. Although the Internal Revenue Service is the primary recipient of the reports, the use of the reports is a local initiative and varies among offices. Several states have recognized the value of the reports but their ability to use the information also differs because access to the data varies among the states.

IRS Has Had Success in Using Reports of Suspicious Transactions

As discussed in chapter 2, district offices of IRS' Criminal Investigation Division receive reports of suspicious transactions in several different ways. CID agents we spoke with at both the headquarters and district levels described suspicious transactions reports from financial institutions as extremely valuable intelligence leads. IRS does not keep records or data to measure the value of the reports. However, agents we spoke with at the field level related numerous examples of major investigations that had been initiated on the basis of suspicious transaction reports made by financial institutions. These examples include the following:

- In March 1994 a Texas funeral director was indicted along with three other individuals in U.S. District Court on charges that they accepted $4.9 million in drug proceeds during a 5-week period in 1989. The investigation originated when a banker became suspicious of large cash deposits being made into the account of the funeral home and telephoned the CID district office in Dallas.
- In June 1994 a technical engineer with the Bureau of Engraving and Printing in Washington, D.C., was arrested and charged with the theft of $1.7 million worth of newly printed hundred-dollar bills. Tellers at a bank in Annapolis, Maryland, became suspicious and telephoned the CID district office in Baltimore after the individual made several deposits just under the $10,000 reporting threshold.
- In November 1993 the San Francisco CID district office received a Criminal Referral Form regarding possible structuring of deposits in order to avoid having a CTR filed. On the basis of a subsequent investigation by CID and the U.S. Postal Service, a Post Office employee has been charged with embezzling over $600,000 from the Postal Service over the past several years.

- Telephone calls from two different banks to the Richmond, Virginia, CID district office reporting that an individual was purchasing cashier's checks with cash in amounts just under $10,000 resulted in a major narcotics ring being exposed. Eventually, 14 individuals were convicted and over $1.5 million worth of cash, vehicles, and real estate was seized.
- The Houston, Texas, CID district office received a report from a bank that an individual had deposited more than $12 million in cash during a 4-month period claiming that the money was to be used to open a chain of 13 stores to sell beauty and clothing products. A subsequent investigation by IRS and the Drug Enforcement Administration resulted in the indictment of four individuals for trafficking in cocaine.
- In New York City, a 2-year investigation by several federal law enforcement agencies resulted in the indictment in September 1994 of 30 grocery store owners accused of food stamp fraud. The case was initiated on the basis of a suspicious CTR.
- A telephone call from a bank to CID agents in Oklahoma City began a joint investigation that, 2 years later, led to the seizure of over 26 pounds of heroin at that city's airport. The estimated value of the drugs was $20 million. The suspicious transaction originally reported involved two individuals using cash to purchase cashier's checks for less than $10,000.

IRS' Management and Use of Suspicious Transaction Reports Vary Among District Offices

Reports of suspicious transactions are a source of intelligence data for CID special agents throughout IRS. As discussed above, districts have used the reports to initiate a number of major investigations. However, the reports are not managed from an agencywide perspective. The extent to which agents in IRS' 35 CID district offices solicit, process, evaluate, and use the reports is up to the discretion of the district CID chief and varies from one district to another. As a result, IRS cannot be certain the reports are being used to their full potential throughout the agency.

There are no IRS procedures or policies as to how suspicious transaction reports are to be managed at the district level. The CID Investigative Handbook offers only the following guidance: "The [district CID chief] should consider designating specific special agents to be responsible for responding to financial institutions that provide information on suspicious currency transactions and for evaluating the information received to determine if a criminal investigation is warranted."

During our review, CID management at the national office surveyed the 35 district CID offices to determine local policies regarding the receipt and evaluation of suspicious transaction reports. The results of the survey

indicated that the districts differ significantly as to the level of effort spent evaluating the reports and the amount of emphasis given the initiative by district management.

CID officials told us that some districts place much more emphasis on agents establishing a close, working relationship with financial institutions than do other districts. In these districts, for example, one agent is designated to spend much of his or her time personally contacting financial institutions and trade associations to explain the importance of the suspicious transaction reports. We were told that, typically, the institutions in these districts will often call the agent personally even before a report is prepared.

According to CID officials, many of the districts maintain a localized computer database of every report that is received. This database is then checked for prior reports when newly received reports are evaluated. Not all of the districts maintain such a database, however, so that IRS does not know how many reports have been received nationwide. Without this information, IRS cannot assess the management of the reports from an agencywide perspective.

The CID districts also differ on how individual reports are evaluated. We were told that some districts assign the reports to agents who decide if further investigation is warranted on the basis of the information in the report. Other districts have a policy of researching every report against databases both internal and external to IRS before deciding if an investigation should be opened.

The districts vary widely on the role the reports play in the initiation of investigations. From October 1990 to June 1994 CID district offices initiated over 21,000 cases. On an agencywide basis, about 4 percent of the cases were initiated as a result of reports of suspicious transactions. Among individual districts, however, the rate varied from 0 to over 18 percent. CID officials said that they did not know why the rates varied. In our opinion, the variance in the rates is an indication that the reports could be receiving different amounts of emphasis among the districts. Table 3.1 shows the rates for all of the CID district offices.

Table 3.1: IRS CID Investigations Initiated by Suspicious Transaction Reports, October 1990 Through June 1994.

CID district office	Total investigations initiated	Initiated by suspicious transaction report	Percent
Puerto Rico[a]	74	14	18.92
Dallas, TX	867	99	11.42
Sacramento, CA[b]	344	39	11.34
San Francisco, CA	258	27	10.47
Oklahoma City, OK	420	42	10.00
Manhattan, NY	1,016	90	8.86
Las Vegas, NV	269	20	7.43
Laguna Niguel, CA	513	37	7.21
Anchorage, AK[b]	135	8	5.93
Brooklyn, NY	785	43	5.48
Wilmington, DE[b]	55	3	5.45
San Jose, CA[b]	306	16	5.23
Cleveland, OH	613	31	5.06
Philadelphia, PA	604	30	4.97
Los Angeles, CA	652	32	4.91
Seattle, WA	332	16	4.82
Ft. Lauderdale, FL	727	35	4.81
Richmond, VA	582	28	4.81
Newark, NJ	693	29	4.18
Baltimore, MD	458	19	4.15
Phoenix, AZ	389	14	3.60
Denver, CO	620	22	3.55
Honolulu, HI[b]	114	4	3.51
Pittsburgh, PA	363	12	3.31
Greensboro, NC	754	23	3.05
Indianapolis, IN	455	12	2.64
Buffalo, NY	410	10	2.44
Boise, ID[b]	86	2	2.33
Hartford, CT	387	9	2.33
St. Louis, MO	499	11	2.20
St. Paul, MN	365	8	2.19
Boston, MA	481	10	2.08
Parkersburg, WV[b]	155	3	1.94
Louisville, KY[b]	207	4	1.93
Des Moines, IA[b]	108	2	1.85
Atlanta, GA	877	16	1.82

(continued)

CID district office	Total investigations initiated	Initiated by suspicious transaction report	Percent
Austin, TX	831	14	1.68
Jacksonville, FL	663	10	1.51
New Orleans, LA	418	6	1.44
Detroit, MI	767	11	1.43
Wichita, KS[b]	148	2	1.35
Houston, TX	480	6	1.25
Portland, OR[b]	187	2	1.07
Chicago, IL	698	7	1.00
Nashville, TN	610	5	0.82
Cincinnati, OH[b]	343	2	0.58
Omaha, NE[b]	95	0	0.00
Aberdeen, SD[b]	28	0	0.00
Milwaukee, WI	266	0	0.00
Totals	**21,507**	**885**	**4.11**

[a]In addition to conducting investigations in the Commonwealth, the Puerto Rico office is also responsible for conducting investigations overseas.

[b]These CID district offices were closed prior to October 1993 and their operations consolidated into the remaining 35 CID district offices.

Source: GAO analysis of IRS records.

CID officials told us that the majority of CID district offices share suspicious transaction reports with the Examination function in IRS. Under these procedures, if CID does not initiate a criminal investigation on a report, the information will be passed on to tax examiners to use in identifying tax fraud. IRS does not keep records on how useful suspicious transaction reports have been in this regard.

Use of Reports of Suspicious Transactions by the States Varies Substantially

Several states have recognized the value of suspicious transaction reports. The type of report these states receive, however, differs among the states so that the information available for state law enforcement agencies to work with varies considerably. Moreover, no state has access to the reports on the same basis as do federal authorities.

Most States Have Limited Use of Suspicious CTRs on File With IRS

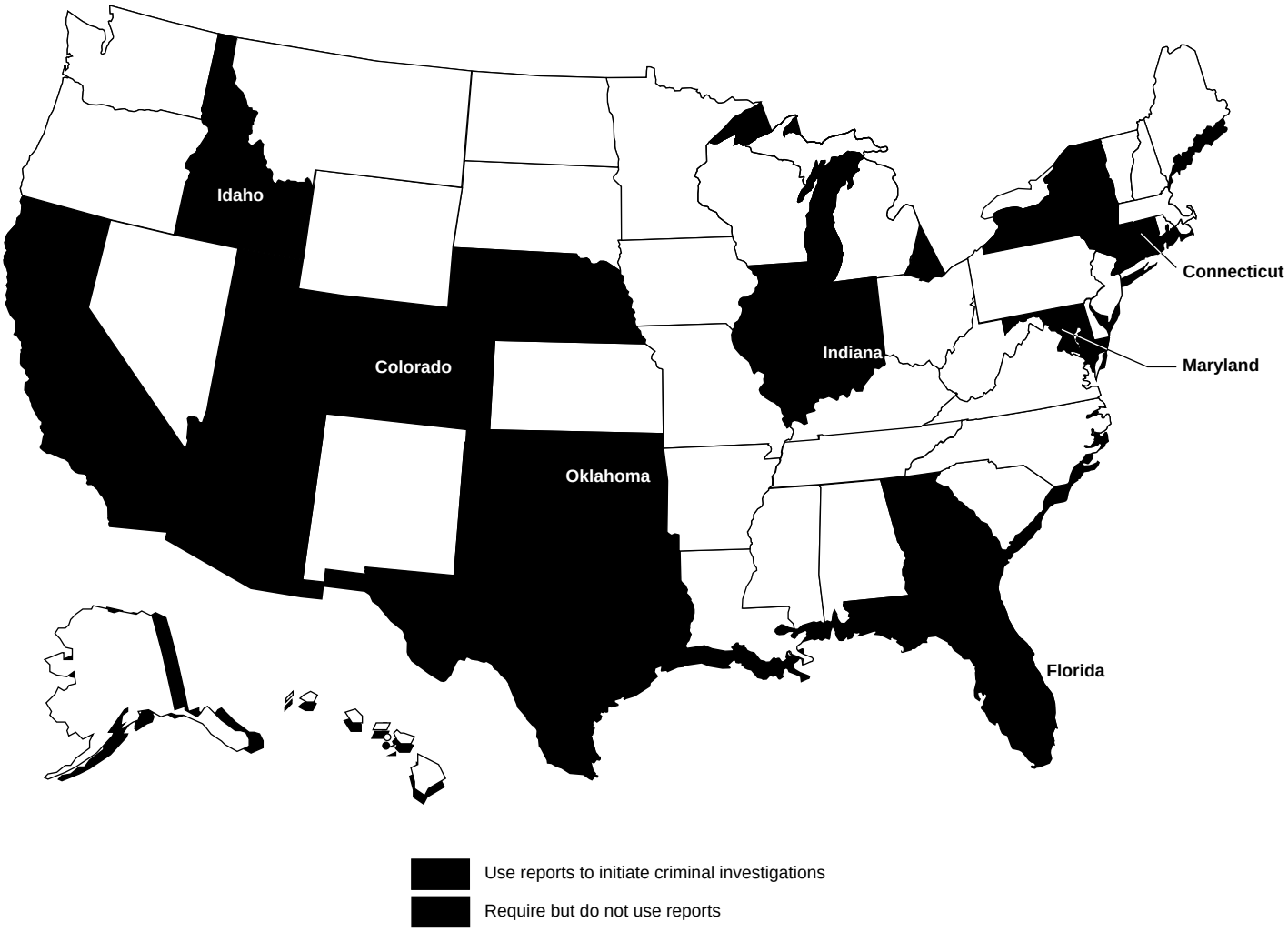
In July 1993 Treasury Department officials announced the initiation of "Project Gateway," a program that would allow authorized personnel in every state direct access to the database containing all of the Currency Transaction Reports, including those marked suspicious, at IRS' Detroit Computing Center. Under the program, authorized personnel in each state would be able to access the data through computer terminals linked to the Center. As of November 1994, 47 states as well as the District of Columbia had entered into agreements with the Department of the Treasury to participate in Project Gateway, and a total of 40 states had already begun operations. Treasury officials told us that agreements with the remaining 3 states were in the final stages of negotiation.

Although access to the data is now direct, states are limited as to what CTRs—including those marked suspicious—can be accessed. Under Project Gateway, state analysts must use a specific name to search the database and can access only those reports filed on the individual or business named. Consequently, states can use the data only on a reactive basis—that is, when they already have the name of a suspect. They cannot use the data on a proactive basis, as CID is able to, for targeting individuals for investigation on the basis of suspicious transaction reports having been filed.

Some States Have Expanded Use of Suspicious CTRs and Other Types of Suspicious Transaction Reports

In response to our survey, 15 states said that they require financial institutions to report suspicious transactions that might involve money laundering. Nine of these states said they use the information to initiate criminal investigations.

Figure 3.1: States With Suspicious Transaction Reporting Requirements



Five of the 15 states that require suspicious transaction reporting—Colorado, Connecticut, Idaho, Indiana, and Oklahoma—said they require financial institutions to file a copy of any Criminal Referral Form filed with the federal regulatory agencies. Officials in these states told us that the primary reason for receiving copies of the CRFs is to monitor reports of criminal activity occurring within the institutions. They

said that they do not use the reports of suspicious customer transactions as a basis for initiating criminal investigations.

As mentioned in chapter 2, several states have agreements with Treasury that allow them to receive copies of all CTRs filed within the state on computer tapes from the IRS Detroit Computing Center. Six states—Arizona, California, Florida, Illinois, New York, and Texas—are currently receiving CTRs, including those marked suspicious, on computer tape.[1] The use of suspicious CTRs by these states varies.

In Arizona, as previously discussed, the Attorney General's Office also receives reports of suspicious transactions on CRFs as well as on the state's own form. State officials told us that all of the reports are entered into the state's own database and used on both a reactive and proactive basis.

Florida is somewhat similar to Arizona in that it requires state-chartered banks to forward copies of CRFs filed to the state banking department. Florida officials said that suspicious CTRs received from IRS are put on a state database and used on a reactive basis. The CRFs, however, are researched and sent to local law enforcement agencies for further investigation at their discretion.

New York officials said that they also receive copies of CRFs from state-chartered financial institutions. These are evaluated along with suspicious CTRs and those reports of suspicious transactions that merit further attention are routed to the appropriate law enforcement agency.

California does not require financial institutions to send copies of CRFs to the state. However, the state is receiving photocopies of the special reports provided by California financial institutions to IRS' CID in the western region (see p. p. 23). California enters these reports onto a database along with the suspicious CTRs it receives from the Detroit Computing Center. All of the suspicious transaction reports are used on a both a reactive and proactive basis by the state.

Illinois and Texas officials told us that neither state receives copies of CRFs. However, both receive CTRs on magnetic tape from IRS. According to state officials, each state removes those marked suspicious and researches and evaluates them. The resulting leads are sent to law enforcement units in the field for further investigation at their discretion.

[1]Although Maryland used to receive CTRs on computer tapes from IRS, it no longer does so.

Other states receive copies of suspicious CTRs from sources other than IRS. Although Georgia, Nebraska, and Utah do not receive CTRs on computer tapes from IRS, each uses suspicious CTRs to some extent to target individuals for further investigation. Each of these states has a law requiring banks to provide the state with copies of CTRs filed with IRS. In addition to receiving copies of all CTRs filed, Georgia requires financial institutions to telefax copies of those CTRs marked suspicious to the state banking department. Although Nebraska does not have the capability to process CTRs filed on magnetic media, the state police receive copies from financial institutions of those filed on paper and review them for those marked suspicious. Similarly, an analyst with the Utah state police scans all CTRs received to identify those marked suspicious. Law enforcement officials from each of these three states told us that the reports are reviewed and evaluated and, where warranted, sent to field units for further investigation.

Recent Initiatives Would Significantly Change How Suspicious Transaction Reports Are Made and Used

Concurrent with our review, the Department of the Treasury and the financial institution regulatory agencies were in the process of reviewing various aspects of the federal government's efforts to combat money laundering. Similarly, as discussed above, IRS' Criminal Investigation Division had initiated a survey of how suspicious transaction reports are used and managed at the district office level. By December 1994, as we were preparing this report, these efforts had resulted in a number of proposals and agreements that could have a substantial impact on suspicious transaction reporting by financial institutions.

For the past several years, a group known as the Interagency Bank Fraud Working Group[2] has been attempting to consolidate the six separate CRF forms being used onto a single, standardized form that would be filed with a single recipient. As previously discussed, financial institutions use the forms to report several types of criminal activity, including suspected money laundering and/or attempts to evade currency reporting requirements. Under current procedures, the institution filing the CRF is also responsible for sending copies of the form to a number of regulatory and law enforcement agencies. The purpose for consolidating the forms and designating a single recipient was to ease the reporting burden on the financial institutions and to place responsibility for ensuring correct dissemination of the reports with the government rather than with the reporting institution.

[2]Members of the Group include representatives from the six financial regulatory agencies as well as the Departments of Justice and the Treasury, the Federal Bureau of Investigation, and the Secret Service.

In August 1991 the six regulatory agencies signed a Memorandum of Understanding with Treasury's Financial Crimes Enforcement Network (FinCEN)[3] that authorized FinCEN to design, develop, implement, and maintain a computerized database containing the standardized CRFs. Under the agreement, financial institutions would file CRFs directly with FinCEN.

In the interim, the Department of the Treasury, in conjunction with a requirement in 1992 legislation, formed the Bank Secrecy Act Advisory Group composed of 30 individuals from various state and federal agencies as well as the private sector. The Advisory Group, which first met in April 1994, was charged with assessing all of the reporting and recordkeeping requirements of the act as well as other facets of the government's efforts to combat money laundering. One of the issues discussed during the three meetings held in 1994 was how to facilitate the reporting of suspicious transactions by financial institutions.

In December 1994, as we were preparing this report, we were informed by representatives from FinCEN, the Bank Fraud Working Group, and the Bank Secrecy Act Advisory Group that the following agreements had been reached:

- The "suspicious transaction" block would be removed from the Currency Transaction Report and the form would no longer be used to report suspicious transactions. This action had been taken as part of a general effort to simplify the form by reducing the amount of information to be reported on the form.
- A standardized version of the Criminal Referral Form was being prepared that could be filed either on paper or electronically. The filing instructions for the form would specify that only one form would be filed, with FinCEN, rather than copies sent to various federal agencies.
- IRS' Detroit Computing Center would provide processing services for the new CRF and also develop and maintain a centralized database of the reports. FinCEN would serve as database administrator and assure that the appropriate federal law enforcement agencies have access to the CRF database. CRFs reporting suspected Bank Secrecy Act violations and/or money laundering would be made available to the appropriate district offices of IRS' Criminal Investigation Division.
- FinCEN was exploring the feasibility of making available to the states those CRFs reporting money laundering and/or Bank Secrecy Act violations. The

[3]FinCEN is a relatively small Treasury agency that was established in April 1990 to support law enforcement agencies by analyzing and coordinating financial intelligence.

reports would be made available to the states on the same basis as state access to the reports required by the Bank Secrecy Act.
- The database containing the consolidated CRF would be fully operational by September 1995.

Also in December 1994 we were informed by officials of IRS' Criminal Investigation Division that procedures were being prepared to address how suspicious transaction reports were to be managed at the district level. IRS officials said that these procedures would be incorporated into the CID Investigative Handbook and would help ensure consistent treatment and use of the reports. Among the areas to be emphasized were the importance of

- developing and maintaining a working relationship with financial institutions,
- promptly evaluating the reports received, and
- performing a minimum level of additional research on the reports.

Conclusions

Financial institutions are in a unique position to assist law enforcement at the federal and state levels by reporting suspicious transactions that might indicate money laundering. Reports of suspicious transactions have led to the initiation of a number of major investigations dealing with a wide range of criminal activity. However, the lack of overall direction and control over the reporting of suspicious transactions has led to a situation where reports are filed with different agencies on different forms that vary as to the amount of useful information they contain.

Although IRS has successfully used the reports to initiate a number of investigations, the management of—and emphasis given—the information varies among district offices. IRS has no agencywide policies or procedures regarding how best to solicit, process, and utilize the information. Because IRS cannot be certain the information is used and managed consistently, it has no assurance that the information is being used to its full potential throughout the Service.

Several states have recognized the value of suspicious transaction reports as a criminal intelligence resource. However, use of the information by these states is limited compared to federal authorities because the type of information available to the states differs.

Recent agreements and proposals made by the Department of the Treasury, IRS, and others are an indication that the problems associated with how suspicious transactions are reported are being addressed. We believe that the actions planned, if properly implemented in a timely manner, will do much to provide for the consistent and centralized management of the reports that has been lacking.

Agency and Industry Comments

A draft of this report was provided to the American Bankers Association, FinCEN, and IRS for comment. The Association provided written comments on the report (see app. I) in which it said that it believes financial institutions have an excellent record of cooperating with law enforcement on the reporting of possible violations of law. It added that this cooperation should improve even more with the anticipated changes in suspicious transaction reporting discussed in this report because bankers will be better equipped to focus on reporting potential criminal violations rather than routine transactions.

FinCEN provided written comments (see app. II) stating that it found the report to be comprehensive and accurate.

IRS also provided written comments on the report (see app. III) and said that it generally agreed with the report's findings. The comments noted that, although CID should be allowed maximum flexibility in the use of its resources, national guidelines are being developed to ensure consistency in the evaluation and processing of suspicious transaction reports. IRS also noted that changes are being made to a CID management information system that will enable CID to better ensure the proper use of suspicious transaction reports and track its accomplishments in the area.

IRS did take exception with a statement in the executive summary of the report that describes the use of the IRS database of CTRs and suspicious CTRs as being reactive. IRS did not believe that the statement recognizes the proactive value of the data in identifying new targets or initiating new investigations. In clarifying these comments with IRS officials, we were informed that, although the word "database" was used, IRS was actually referring to the individual suspicious CTRs and not the computer database on which they are maintained.

It was not our intention to portray suspicious CTRs as not having any proactive value. The statement in question refers specifically to the database and not to the individual reports on the database. As noted in

chapter 2 (see p. 17), IRS procedures call for staff at the Detroit Computing Center to distribute copies of CTRs that have been marked suspicious to the appropriate CID district offices on a weekly basis. However, as we point out in chapter 3 (see p. 27), the extent to which these suspicious CTRs—as well as suspicious transactions reported on Criminal Referral Forms—are used proactively is up to the discretion of the district CID chief.

Comments From the American Bankers Association

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March 28, 1995

Mr. Norman J. Rabkin
Director
Administration of Justice Issues
United States General Accounting Office
Washington, DC 20548

Dear Director Rabkin:

Thank you for forwarding the draft report Money Laundering: Needed Improvements in Reporting Suspicious Transactions are Planned to the American Bankers Association for comment. I would like to commend GAO for an extremely thorough and well-reasoned analysis of the current state of suspicious transaction reporting in the United States. We in the banking industry believe that financial institutions have an excellent record of cooperating with law enforcement on the reporting of possible violations of law which will only improve with the changes anticipated to occur in 1995-96. As we all work toward certainty and elimination of duplication and unnecessary regulatory burdens, bankers will be better equipped to focus on reporting potential criminal violations rather than routine transactions. This report will provide everyone with an excellent resource.

Sincerely,

John J. Byrne

Comments From the Financial Crimes Enforcement Network

FINANCIAL CRIMES
ENFORCEMENT NETWORK
2070 Chain Bridge Road, Suite 200, Vienna, VA 22182, Telephone (703) 905-3520

APR 19 1995

Mr. Norman J. Rabkin
Director Administration
of Justice Issues
United States
General Accounting Office
Washington, DC 20548

Dear Mr. Rabkin:

Thank you for the opportunity to review the GAO draft report entitled Money Laundering: Needed Improvements In Reporting Suspicious Transactions Are Planned. I was very pleased to see that we share the same vision on this issue. I welcome your findings as a valuable contribution that will assist us in realizing our planned improvements.

I found the report to be extremely comprehensive and accurate. The few minor, technical comments that I had have been discussed with Mike Eid.

Sincerely,

STANLEY E. MORRIS
Director

Comments From the Internal Revenue Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEPUTY COMMISSIONER

April 26, 1995

Ms. Jennie S. Stathis
Director, Tax Policy and
Administration Issues
General Government Division
United States General Accounting Office
Washington, DC 20548

Dear Ms. Stathis:

Thank you for the opportunity to review your recent draft report entitled Money Laundering: Needed Improvements in Reporting Suspicious Transactions Are Planned.

We generally agree with the report findings. With respect to Chapter 3, "Reports of Suspicious Transactions Are Not Consistently Used or Managed," Criminal Investigation (CI) has historically allowed each district to devote investigative resources, within generally prescribed national allocations, to the critical areas of noncompliance with tax and Bank Secrecy Act laws affecting the district. This policy has been successful in giving each district the flexibility to deal with its individual compliance problems. While we feel districts should be allowed maximum flexibility in the use of resources, we agree that national guidelines should be implemented to ensure consistency in the evaluation and processing of reported suspicious currency transactions.

To accomplish this, CI is currently developing new national guidelines that will mandate consistent evaluation and processing of all reports of suspicious currency transactions. In addition, CI is establishing a national General Investigation (GI) in its Criminal Investigation Management Information System (CIMIS) that will enable CI management to track resource expenditures and program accomplishments on a national basis. These guidelines and a national tracking system will address each of the relevant GAO findings and will enable CI to better track its accomplishments in the area as well as ensure the Service's proper utilization of these currency reports.

CI will also include in its national review of each district operation an assessment of the district's adherence to these new guidelines as well as the district's accomplishments in this area.

Ms. Jennie S. Stathis

The only GAO conclusion with which we disagree is on page 3 of the Executive Summary wherein they state "IRS and other federal and state law enforcement agencies use the database on a reactive basis; this is, to provide additional information on an investigation that has already been initiated." This statement fails to recognize the proactive value of using the Currency and Banking Retrieval System data base in identifying new targets or initiating new investigations. As noted on page 27 of the GAO report, over 4 percent of CI cases originate from Suspicious Currency Transaction Reports (SCTRs). The GAO does not take into full account proactive initiatives being undertaken by the districts and the Service's Multi-Functional Compliance Team at the Detroit Computing Center to use the data base as a targeting tool for individual as well as industry-wide areas of noncompliance. These proactive targeting programs are used in both our criminal and civil enforcement activities.

Now on p. 30.

See GAO comment.

We hope you find these comments useful.

Sincerely,

Michael P. Dolan

The following is GAO's comment on the Internal Revenue Service's letter dated April 26, 1995.

GAO Comment

As explained in the report (see p. 28), the percentages of cases initiated are based on all reports of suspicious transactions no matter what form was used to make the report. Because IRS is not able to determine if the reports were made on a Currency Transaction Report or on a Criminal Referral Form, there is no way to quantify the proactive value of suspicious Currency Transaction Reports.

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