

United States General Accounting Office

Report to the United States Senate
by the Committee on Finance of
the United States General Accounting Office
Government, Committee on
Appropriations, U.S. Senate

MONEY
LAUNDERING

RECENT TRENDS IN
MONEY LAUNDERING
NETWORKS



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U.S. Department of Justice
National Institute of Justice

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General Government Division

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March 18, 1991

The Honorable Dennis DeConcini
Chairman, Subcommittee on Treasury,
Postal Service and General Government
Committee on Appropriations
United States Senate

NCJRS

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ACQUISITION

The Honorable Pete V. Domenici
Ranking Minority Member
Subcommittee on Treasury, Postal
Service and General Government
Committee on Appropriations
United States Senate

As you requested, we have examined the Financial Crimes Enforcement Network (FinCEN). This report contains information on why FinCEN was established and describes its functions, organization, and staffing. Because FinCEN was only established in April 1990 and is still not fully operational, we did not assess its impact on law enforcement. However, the report does provide several examples of the type of work FinCEN is doing that we believe are indicative of its potential contributions.

Results in Brief

After studying problems it and other agencies were having with investigating and prosecuting money laundering schemes, the Department of the Treasury was concerned that law enforcement efforts were fragmented and uncoordinated and that intelligence analysis was inadequate. To remedy this situation, Treasury established FinCEN to support federal, state, local, and foreign law enforcement offices.

FinCEN does not initiate or carry out any investigations on its own. Rather, it provides other agencies with tactical and strategic intelligence analyses that identify emerging trends and geographical patterns of money laundering as well as suspected offenders. Additionally, when requested, it provides specially trained investigators experienced in analyzing financial records and data to document money laundering violations and to trace the proceeds of criminal activity. FinCEN also operates a communications center for answering requests from law enforcement agencies for specific data and information.

FinCen has the potential to significantly improve law enforcement efforts against money laundering. In the past, money laundering has often been considered an adjunct to other types of criminal activity, but

FinCEN should focus attention on crimes of this type. It is also in a unique position to coordinate the efforts of other law enforcement agencies investigating money laundering cases and therefore to prevent duplication of effort. FinCEN should also improve the effectiveness of money laundering investigations by centralizing intelligence gathering and analysis. FinCEN's success, however, will ultimately have to be measured by the extent to which other agencies rely upon it for timely and accurate information and what use is made of this information. Although FinCEN is currently in the process of measuring how useful its services are, it has not been in existence long enough to permit an accurate assessment.

Background

Money laundering is the disguising or concealing of illicit income in order to make it appear legitimate. Curtailing money laundering operations and identifying and locating income derived from criminal activity have become major factors in attacking any type of crime in which profit is the primary motive.

The Currency and Foreign Transaction Reporting Act was enacted in 1970 and requires banks and other financial institutions to maintain records of foreign and domestic financial transactions and to report to the Secretary of the Treasury currency transactions in excess of \$10,000. In 1986, Congress passed the Money Laundering Control Act, which makes money laundering a federal crime with fines of up to \$500,000 and prison terms of up to 20 years. That act also provides for the forfeiture to the United States of any property involved in a money laundering transaction.

While it is generally recognized that narcotics traffickers create the greatest demand for money laundering schemes, numerous other types of activities typical of organized crime also create an appreciable demand for such schemes. In addition, violations of tax laws are an inevitable byproduct of laundering schemes that conceal the existence of or an illegal source of income. Estimates of the amount of money annually laundered range from \$100 billion to \$300 billion.

Objectives, Scope, and Methodology

We were asked by the Subcommittee to assess the planning done by the Department of the Treasury in establishing FinCEN. As agreed with the Subcommittee, we concentrated on the strategic planning involved in establishing FinCEN by examining how Treasury determined the mission and objectives of FinCEN and how FinCEN's functions related to those of other law enforcement agencies.

We interviewed management officials at FinCEN and Treasury and reviewed Treasury and FinCEN studies, correspondence, and planning documents. We also reviewed a Treasury-funded study of FinCEN done by Harvard University's John F. Kennedy School of Government.

Because FinCEN has not been operational for very long, we did not attempt to measure its effectiveness. However, we did review records and data maintained by FinCEN to measure workload. We did not verify the accuracy of this information.

We did our review from May through December 1990 in accordance with generally accepted government auditing standards.

FinCEN Serves a Recognized Need

The basic concept for an agency like FinCEN has existed for almost a decade. It originated with U.S. Customs Service concerns about difficulties experienced in investigating and prosecuting money laundering cases. Since then, a number of studies have reported that the government's efforts against money laundering needed better coordination and intelligence analyses. These studies pointed out that coordination was hampered by the fact that no single agency focused its efforts exclusively on money laundering. Numerous law enforcement agencies had developed expertise in specific types of criminal activity and had produced information, especially financial information, that could have been valuable to other agencies.

A December 1981 concept paper prepared by Customs proposed the establishment of a Financial Law Enforcement Center to "... assemble, coordinate, and direct on an interagency basis, prosecutorial task forces with the objective of neutralizing narcotic and white collar crime through the application of all source intelligence and financial investigative techniques." As envisioned by Customs, the Center would have been staffed by personnel from other federal law enforcement agencies and would have provided strategic and tactical financial intelligence analysis as well as support for ongoing investigations.

Although no action was taken to implement the Customs proposal, the idea did not disappear. The Comprehensive Crime Control Act of 1984 created the National Drug Enforcement Policy Board to facilitate coordination among the federal agencies involved in drug law enforcement. Recognizing the importance of money laundering to drug trafficking, the Board established a Financial Enforcement Committee in 1987 that was chaired by the Assistant Secretary of the Treasury for Enforcement and

supported by investigators and analysts from various Treasury and Department of Justice agencies and bureaus. The Committee noted many of the same concerns that Customs had identified earlier. And, similar to Customs' proposed Financial Law Enforcement Center, the Committee was to focus on gathering and sharing financial intelligence and improving the coordination of financial investigations among enforcement agencies.

In June 1987, the Committee initiated a study by staff from various law enforcement and intelligence agencies to identify the problems with investigating money laundering, predict trends, and to propose methods to enhance enforcement efforts. Three major problems were identified:

- There was no centralized management or clearinghouse of financial law enforcement information or analysis.
- Training and education of federal, state, local, and foreign law enforcement officials was inadequate.
- Industry knowledge and public knowledge were poorly integrated, resulting in underutilization of financial expertise from outside the law enforcement community.

In September 1987, Customs also formed a multiagency, multidiscipline group to study the situation and reported to the Committee many of the same problems already identified. Once again, the focus of the group's effort was on the need for coordinating investigative efforts and centralizing financial intelligence analysis.

Following these two studies, the Financial Enforcement Committee began to study and refine the recommendations through a series of subcommittees and working groups composed of staff from the participating agencies.

On July 31, 1989, the Secretary of the Treasury directed that the Treasury enforcement and bank regulatory agencies consolidate and further advance existing Treasury initiatives in the area of money laundering investigations. These efforts were further emphasized in September of that year when the President's National Drug Control Strategy called for an increased focus on money laundering crimes and improved coordination of enforcement efforts.

In response to the drug strategy, the Secretary of the Treasury directed the Customs Service and the Internal Revenue Service to develop ways to

- improve coordination of financial crimes enforcement within Treasury and among other agencies;
- improve the quality and completeness of data analysis;
- speed responsiveness to requests for data from field agents, including agents from other participating agencies; and
- improve the quality and quantity of potential leads for field agents by expanding the computer-based intelligence systems.

The solution proposed was FinCEN. Its overall purpose and functions were generally the same as those first proposed by Customs for the Financial Law Enforcement Center in 1981 and refined and clarified by the studies outlined above.

The details of FinCEN's organizational structure as well as its staffing and facility requirements were developed during the fall of 1989 and spring of 1990. These details have been modified slightly and are likely to change again as FinCEN acquires additional operational experience.

FinCEN's Mission

FinCEN was formally established by an April 25, 1990, Treasury order as a separate office under the Assistant Secretary (Enforcement) to "... provide a governmentwide, multi-source intelligence and analytical network in support of the detection, investigation, and prosecution of domestic and international money laundering and other financial crimes by Federal, State, local, and foreign law enforcement agencies."

In line with the concept first proposed by Customs in 1981, FinCEN is not to initiate or carry out any investigations on its own. Its primary purpose is to serve and assist other agencies by

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

Organization, Staffing, and Facilities

FinCEN is the sole tenant of a leased building in Arlington, Virginia. It has an authorized staffing level of 196 employees that are organized into four Offices: Strategic Analysis, Tactical Support, Systems Integration, and Management. FinCEN's staff is composed mostly of intelligence analysts, computer specialists, and criminal investigators. (See app. I.)

All of the criminal investigators at FinCEN are on temporary detail from other law enforcement and regulatory agencies for periods ranging from 1 to 3 years. This arrangement is intended to serve several purposes. First, the agents bring with them an expertise in the different investigative techniques required for different types of crimes. This expertise should expand FinCEN's knowledge of the various types of criminal activity and should also allow FinCEN to become better acquainted with the needs of the agencies it supports. Also, agencies with staff detailed to FinCEN should benefit when the agents return and educate others about how FinCEN can assist investigations.

As of December 1990, FinCEN had not yet reached its full staffing level. Of its 196 authorized staff positions, 149 had been filled and selections had been made for 16. Candidates for the remaining 31 positions were still being sought. Of the 48 criminal investigators to be detailed, 37 were already at FinCEN and another 3 had been selected. Arrangements for the remaining eight investigators were being finalized. Appendix I contains additional details on staff that have been detailed to FinCEN.

FinCEN estimates its annual operating costs to be approximately \$16 million and expects them to remain relatively constant, unless FinCEN's scope and functions expand beyond original expectations. Additional details on these costs are also contained in appendix I.

Information Processing and Dissemination at FinCEN

FinCEN relies heavily upon data maintained by other agencies to achieve its goals and objectives. Rather than duplicate this information, FinCEN uses telecommunications technology to query other agencies' databases as necessary. Although FinCEN will rely on data from other agencies, it plans to construct some databases itself, which will be unique to FinCEN.

To minimize costs and avoid being dependent upon a large, centralized computer facility, FinCEN uses a distributed processing approach to meet its data processing needs. Under this approach, microcomputers with limited capacity are linked together in networks. Data and software for the computers are stored in some microcomputers and are routed to the requesting workstation when necessary. Other microcomputers are used

to link networks and also allow access to external computer systems. FinCEN plans for all of its staff to eventually have computer workstations. Total computer equipment costs are expected to be \$2.2 million.

FinCEN generally acquires access to external databases on a case-by-case basis. In order to expedite and facilitate this access, FinCEN is negotiating with a number of federal law enforcement and regulatory agencies to allow immediate, online access to databases. As of the end of 1990, FinCEN had signed agreements with two agencies—INTERPOL and the Postal Service Inspection Service—for access to selected databases. Tentative agreements had been reached with Customs; the Drug Enforcement Administration; the Securities and Exchange Commission; the Bureau of Alcohol, Tobacco and Firearms; the Secret Service; the Federal Reserve; and the Internal Revenue Service. Negotiations in more preliminary stages are currently underway with over 20 other agencies and bureaus, such as the Immigration and Naturalization Service, the Office of the Comptroller of the Currency, and the Department of Defense. In the interim, FinCEN is continuing its efforts to identify other databases to which it might require access.

FinCEN's Efforts to Date

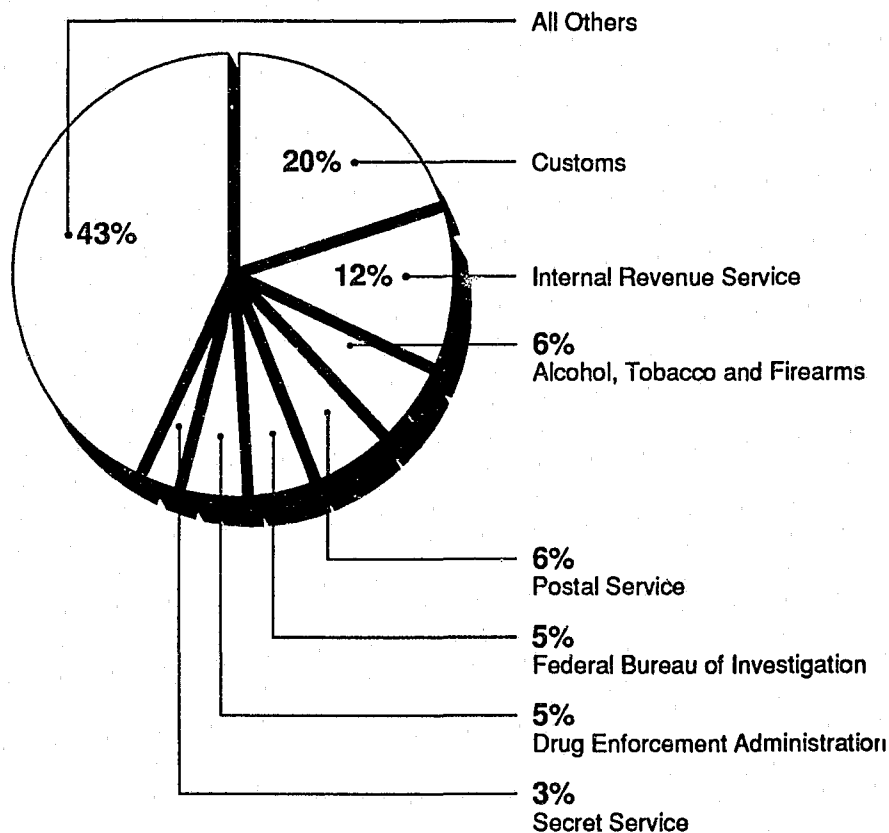
Although FinCEN is not yet fully operational, it has been providing intelligence analyses and responding to requests from other agencies for information and assistance. FinCEN's communications center, where incoming requests for data and assistance are received, is not yet operating on a 24 hour a day basis as is planned. Nonetheless, from June 1990 through December 1990, the center was contacted almost 1,500 times by over 25 federal agencies and various state and local agencies. As figure 1 illustrates, most of the contacts were with seven federal agencies and offices.

While most of the contacts concerned money laundering or narcotics investigations (35 percent and 18 percent, respectively), other contacts concerned such crimes as smuggling, tax fraud, and fraud involving financial institutions.

A FinCEN "case" is the assignment of staff to the collection and analysis of intelligence that culminates in a report for dissemination to the law enforcement or regulatory community. These reports may be in response to a request for analytical or operational support or may document self-initiated research projects. For example, FinCEN might be requested to review a listing of currency transactions involving \$10,000 or more and list those made by a certain individual or business. FinCEN could also

identify suspects itself by analyzing currency transactions along with various other databases and then forward the case to the appropriate law enforcement agency.

Figure 1: Distribution of 1,479 Contacts Made With FinCEN's Communications Center, June 1990 Through December 1990



Generally, if a project involves more than just a quick review of databases, FinCEN procedures call for assigning it a case number. From April 1990 through December 1990, FinCEN opened a total of 222 cases and closed 162 cases. In addition to narcotics and money laundering, the types of investigations FinCEN supported included arson, counterfeiting, credit card fraud, and immigration documentation fraud.

During calendar year 1990, FinCEN prepared 19 strategic intelligence reports covering such topics as an analysis of the cash flow in several different federal reserve districts and an update on money laundering

techniques. Several investigative leads regarding potential money laundering schemes were furnished to other agencies on the basis of FinCEN's intelligence analysis.

When requested, FinCEN will form project teams to be sent to the field to assist in money laundering investigations or to develop the financial aspects of other types of crimes. Such requests must be judged appropriate by FinCEN management. Since June of 1990, FinCEN has formed about two project teams a month usually consisting of one or two analysts. Some of the projects have lasted 2 to 3 weeks; others have lasted several months and were still in progress at the end of our review.

Some specific contributions made to other agencies include the following:

- FinCEN developed information on an international money laundering operation involving hundreds of millions of dollars that was the subject of four separate investigations being carried out by federal law enforcement agencies and a foreign agency. FinCEN alerted the agencies of the other investigations and assisted in developing a coordinated approach to the investigation. FinCEN is continuing to support the investigation.
- A FinCEN analysis of the money flow at a federal depository institution identified in a large city in the Southwest six similar businesses with discrepancies in the reporting of large currency transactions. Additional searches of law enforcement databases revealed that one of the business owners had been identified as a possible narcotics trafficker who could have been using private aircraft to transport contraband.
- A similar analysis of 83 companies revealed reporting discrepancies indicative of possible money laundering schemes.
- As a result of requests by the Drug Enforcement Administration for FinCEN to provide assistance in various investigations, FinCEN analysts identified a number of suspicious casino accounts and bank accounts in several separate cases. DEA has indicated that subpoenas will be issued to obtain the records of these newly identified accounts and that, where appropriate, action will be taken to seize the accounts.
- A Federal Reserve Bank telephoned FinCEN to report a suspicious deposit at a depository institution. Further research by FinCEN revealed that a customer had made a number of suspicious deposits and transactions at the institution over a period of months. This information was subsequently forwarded to IRS, which advised FinCEN that an investigation into the matter would be forthcoming.

Although there are numerous other examples of FinCEN's contributions, we believe it is still too early to attempt to measure how well FinCEN is functioning. Because of its support and assistance role, FinCEN's success will have to be measured not only by the extent to which other agencies make use of its services but also by the impact of these services on other agencies. As Harvard's Kennedy School of Government pointed out in its July 1990 report to Treasury,

"FinCEN will need to produce credible measures of its impact, as opposed to simple measures of its activity. The latter is easy to measure by reference to numbers of inquiries received and processed, numbers and types of reports issued, and so on. But to measure its impact FinCEN will need to monitor and record items such as the number of arrests, seizures or forfeitures attributable at least in part to their intelligence activities-or, more significantly, the resources diverted or reprogrammed, or changes in agency strategies or tactics which result from FinCEN's information dissemination."

Although FinCEN has begun a program of soliciting feedback on the usefulness of its services, it will be some time before an accurate assessment is possible. Many of the cases FinCEN has assisted with are still open, leaving the end results of its contributions unavailable. In addition, FinCEN is still a relatively new law enforcement tool. As the law enforcement community becomes more aware of FinCEN and the support it can provide, requests for its services should increase, and FinCEN should develop additional expertise at meeting these requests.

This situation was also recognized by the Harvard study:

"Ultimately FinCEN's operations could produce profound changes in law enforcement and regulatory strategies. For the first year or two, however, they are likely to be judged on their ability, case by case, to tell enforcement agencies something useful they did not already know."

We discussed the contents of this report with the Director of FinCEN and his staff who agreed with the information and data presented.

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 interested parties and make copies available to others upon request.

The major contributors to this report are listed in appendix II. If you have any questions concerning the report, please contact me on (202) 275-8389.

Lowell Dodge

Lowell Dodge
Director, Administration
of Justice Issues

Selected FinCEN Staffing and Cost Data

Table I.1: Criminal Investigators Detailed to FinCEN as of December 31, 1990

Agency	On board	Selected
U.S. Customs Service	19	2
Internal Revenue Service	10	
Federal Bureau of Investigation	1	
U.S. Secret Service	2	
Nuclear Regulatory Commission	1	
Drug Enforcement Agency	1	
U.S. Marshals Service		1
Federal Law Enforcement Training Center	1	
Postal Inspection Service	1	
Bureau of Alcohol, Tobacco and Firearms	1	
Totals	37	3

Table I.2: Authorized Staff Positions

Type of position	Number of positions
Intelligence analyst	84
Computer/systems specialist	21
Communications specialist	5
Auditor	6
Executive management	13
Operational support	17
Criminal investigator	48
Other	2
Total staff positions	196

Table I.3: FinCEN's Appropriation Request, Fiscal Year 1991

Dollars in thousands	
Budget category	Amount
Personnel compensation	\$6,054
Personnel benefits	2,704
Travel	924
Transportation	35
Rent, communications, and utilities	1,515
Services	3,561
Supplies and materials	331
Equipment	1,064
Total	\$16,188

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