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MONEY LAUNDERING

The Volume of Currency  
Transaction Reports Filed  
Can and Should Be Reduced

Statement of Henry R. Wray, Director, Administration of Justice  
Issues, General Government Division



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MONEY LAUNDERING: THE VOLUME OF CURRENCY TRANSACTION  
REPORTS FILED CAN AND SHOULD BE REDUCED

SUMMARY OF STATEMENT OF HENRY R. WRAY  
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The Bank Secrecy Act is a major weapon in the government's efforts to combat money laundering. The act's implementing regulations require banks and other financial institutions to file a Currency Transaction Report (CTR) for each transaction that involves \$10,000 or more in currency. The number of CTRs filed annually has steadily increased in recent years. As of April 1993 almost 50 million CTRs had been filed. The total could exceed 92 million in another 3 years.

The Senate Committee on Banking, Housing and Urban Affairs asked GAO to assess the government's use of CTRs in relation to a bill, S. 1664, which includes provisions designed to reduce the filing of CTRs on routine business transactions that lack law enforcement value.

The Internal Revenue Service estimates that between 30 and 40 percent of the CTRs filed are reports of routine deposits by large, well-established retail businesses. These CTRs impose costs on the government and the nation's banking industry, but they are unlikely to identify potential money laundering or other currency violations.

GAO's analysis of CTR filings confirms that the volume of CTRs could be substantially reduced without jeopardizing law enforcement needs. In fact, GAO's work indicates that the large volume of CTRs in the database makes analysis difficult, expensive, and time-consuming. Therefore, eliminating routine CTRs should not only reduce government and industry costs, but also enhance the usefulness of the database by enabling it to better focus on those CTRs that are relevant for law enforcement purposes.

Treasury Department regulations now authorize banks to exempt routine transactions from reporting under certain conditions. However, according to Treasury officials and banking industry representatives, most banks are reluctant to use this exemption authority because of difficulty in understanding the exemption procedures and concern that they may incur liability for granting improper exemptions.

S. 1664 contains several provisions designed to address these problems and encourage greater use of exemptions to eliminate CTRs for routine transactions that have no law enforcement value. GAO supports these provisions.

Mr. Chairman and Members of the Committee:

We are pleased to appear before you to discuss some of our work concerning Currency Transaction Reports (CTRs) required by the Bank Secrecy Act, in relation to S. 1664. Among other things, S. 1664 contains provisions designed to reduce the filing of CTRs on routine business transactions that have no value for law enforcement purposes. Our testimony today is based on the previous GAO reports and testimony listed at the end of this statement.

Money laundering supports a wide range of illegal activities-- basically any crime where profit is the primary motive. Consequently, combating money laundering is a vital component of this country's war on crime. In October 1992, we reported that federal law enforcement agencies have found Bank Secrecy Act reports, and especially CTRs, extremely useful in identifying, investigating, and prosecuting money laundering operations or any other criminal activity generating large amounts of cash. The data are also used to identify and trace the disposition of proceeds from illegal activity for possible seizure and forfeiture.

It is important that optimal use be made of the financial intelligence data provided by CTRs. As we testified last May, the volume of CTRs filed annually has been steadily increasing. The number of reports then on the computer database--almost 50 million--could nearly double in 3 years. The large volume of reports has made analysis difficult, expensive, and time-consuming. Moreover, many of the reports being filed are of normal business transactions that could have been exempted from being reported. CTRs that report normal business transactions are of no value to law enforcement and regulatory agencies in detecting money laundering activity.

#### FEDERAL EFFORTS TO FIGHT MONEY LAUNDERING

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

The process of money laundering has been broken down into a number of steps. It is generally agreed that the point at which criminals are most vulnerable to detection is "placement." Placement is the concealing of illicit proceeds by (1) converting the cash to another medium that is more convenient or less suspicious for purposes of exchange--such as property, cashier's checks, or money orders--or (2) depositing the funds into a financial institution account for subsequent disbursement. Because of the problems associated with converting large amounts

of cash that are often in small denominations, placement is perhaps the most difficult part of money laundering and is currently the primary focus of U.S. law enforcement, legislative, and regulatory efforts to attack money laundering.

Federal efforts to detect the placement and track the flow of large deposits of money and monetary instruments were significantly enhanced with the enactment of the Bank Secrecy Act (BSA) in 1970. The act requires individuals as well as banks and other institutions, such as check cashing businesses, currency exchanges, and money transmitters, to report large foreign and domestic financial transactions to the Department of the Treasury. Treasury regulations implementing the act require four reports:

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

By far, the most frequently filed report has been the Currency Transaction Report. As of last May, over 95 percent of the 52 million BSA reports filed were CTRs. Financial institutions and certain types of businesses must file a CTR with IRS for each deposit, withdrawal, exchange, or other payment or transfer by, through, or to such financial institutions or businesses that involves more than \$10,000 in currency.

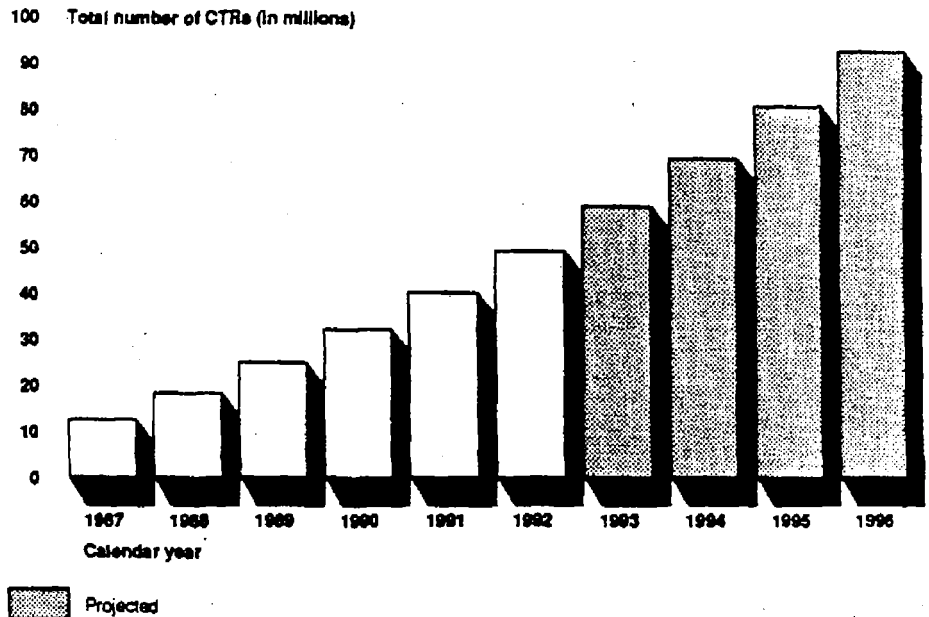
The financial institutions required to file CTRs--such as banks, thrifts, and credit unions--are subject to examination for compliance with BSA reporting requirements by their regulatory agency. Businesses required to file--such as check cashing operations, currency exchanges, and money transmitters--are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

Treasury and law enforcement officials generally believe that, in the past, banks and other traditional financial institutions were the primary means used by money launderers. These officials also believe that increased efforts by federal regulatory and law enforcement agencies, as well as enhanced cooperation by the banks themselves, have significantly improved compliance with the reporting requirements, making it much more difficult to use these institutions for money laundering purposes.

The Department of the Treasury has reported that improved compliance with BSA reporting requirements is reflected by an

increase in the number of reports filed. In 1992, 8.97 million CTRs were filed with IRS, almost 5 times the number filed in 1985. Since 1987, annual filings have increased at an average rate of 12.7 percent. As of April 1993, there were 49.8 million CTRs in the IRS computer database. If this historical pattern continues, the total could exceed 92 million in 3 years. Figure 1 shows the growth in the number of CTRs on file in the past several years and the projected size of the database in 1996.

Figure 1: Historic and Projected Growth of the CTR Database



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

Source: GAO analysis of IRS data.

Filing CTRs represents a significant investment in costs and resources to financial institutions and the federal government. On the basis of a poll of its members, the American Bankers Association estimated in 1991 that it costs a bank between \$3 and \$15 to file a CTR, depending upon the extent to which an automated filing system is used. IRS estimated that in fiscal year 1992 it cost \$2 per CTR to process the reports and store them on the computer.

LAW ENFORCEMENT USE OF BSA FINANCIAL INTELLIGENCE DATA

Duplicate databases of all of the BSA reports are stored on computers at two Treasury computer facilities: the Detroit

Computing Center operated by IRS and the Treasury Enforcement Communications System (TECS) in Newington, VA, which is operated by the U.S. Customs Service. Access to the BSA reports at both facilities is available to authorized users through a network of computer terminals. As of February 1993, slightly more than 10,000 staff, almost all of them IRS employees, were authorized access to BSA data at the IRS Detroit Computing Center. While most of the IRS staff accessing the data use the information for tax administration purposes, almost a third of the authorized users, or 3,287, are assigned to IRS' Criminal Investigation Division and use the data for law enforcement purposes.

The BSA reports at the Customs facility are used only for law enforcement purposes. As of February 1993, more than 10,000 staff were authorized access to BSA data at this facility, all of them assigned to Treasury agencies. Table 1 lists the number of authorized users by agency.

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

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

Source: U.S. Customs Service.

BSA reports, especially CTRs, are used by law enforcement in several ways. Some federal agencies analyze them on a strategic level. For example, Treasury's Financial Crimes Enforcement Network (FinCEN)<sup>1</sup> prepares reports assessing the threat from money laundering operations to particular geographic areas or for

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

a particular state based on the number and type of CTRs filed in the region. Some agencies analyze the reports on a "proactive" basis. IRS criminal investigators, for example, routinely perform analyses of CTRs to identify investigative leads based on certain criteria. Law enforcement officials agree, however, that by far the biggest use of the data is in a "reactive" manner, where a name or other form of identification of a suspect is known and a search of the data is made to determine if the suspect has filed a report or been the subject of a report. Table 2 shows the number of times BSA reports were accessed for law enforcement purposes during 1992.

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

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

<sup>a</sup>Includes Treasury's Office of Financial Enforcement, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Securities and Exchange Commission.

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

Source: GAO analysis of IRS and Customs data.

While access to the BSA data through the Treasury facilities is generally limited to federal authorities, FinCEN serves as an access mechanism for both federal and state authorities. In 1992, FinCEN received 3,208 quick turnaround requests for BSA and other data. Table 3 shows the source of these requests. FinCEN also receives requests for more in-depth analysis of this data.

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

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

Source: GAO analysis of FinCEN data.

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

Our October 1992 report also identified six states--Arizona, California, Florida, Illinois, Maryland, and New York--that have agreements with Treasury that permit them to receive CTRs and other BSA reports relating to the state already on magnetic tape, thus enabling them to process the data at their own computer facilities. Four other states--Georgia, Nebraska, North Carolina, and Utah--obtain CTRs by requiring that filers send



copies of the reports filed with Treasury to the state.

#### FACTORS AFFECTING THE USEFULNESS OF BSA DATA

Our previous work indicates that the usefulness of the CTR database is limited because

- access to the data, particularly by state law enforcement agencies, is too cumbersome; and
- the volume of data collected, processed, and stored has become extremely large, making the database cumbersome to handle.

Treasury and FinCEN are currently evaluating and testing several initiatives that would facilitate access to CTR data by state law enforcement agencies. We believe the initial results are very encouraging. There remains, however, the problem of the ever-increasing volume of CTRs being filed.

As previously mentioned, there were almost 50 million CTRs on Treasury's computers as of April 1993. This number could nearly double by the end of 1996. Even with computers, the extensive size of the BSA database makes intelligence analyses of the reports--particularly proactive analyses--difficult, expensive, and time-consuming. For example, FinCEN has developed a computer program for identifying potential suspects based on trends and other characteristics of reports. However, given the size of the database and FinCEN's computer capabilities, the system is unable to use all of the historical data and is limited to the more recent data.

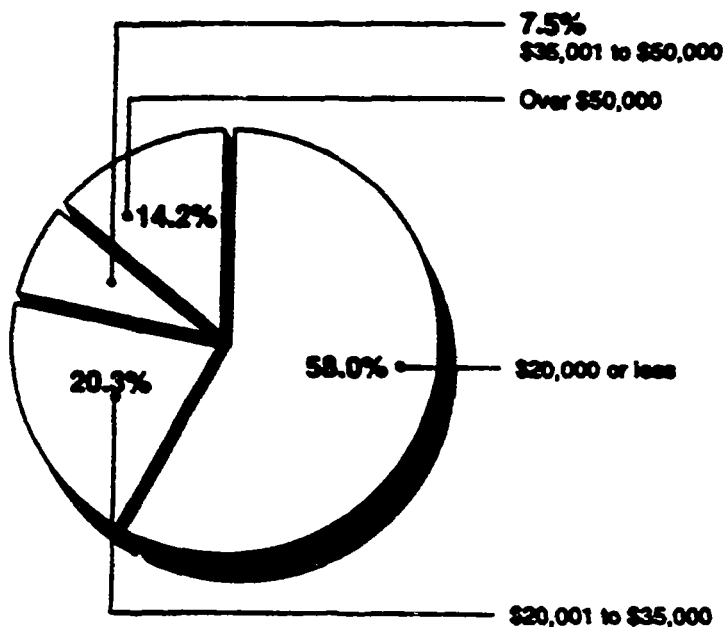
IRS officials have estimated that between 30 and 40 percent of the CTRs filed are reports of routine deposits by large, well-established, well-recognized, retail businesses each with a number of chain stores. IRS and Treasury recognize that these kinds of CTRs (1) are less likely to identify potential money laundering or currency violations, (2) increase the government's cost to process the reports, and (3) place an unnecessary reporting burden on the nation's banking industry.

Treasury has issued regulations that authorize banks to exempt certain businesses from the reporting requirements under certain conditions. We have been told, however, by Treasury and banking industry spokespersons that most banks are reluctant to use this exemption authority because of difficulty in understanding the exemption procedures and concern that they may be liable for penalties if they improperly grant exemptions. We have also been told that many banks use automated systems that make reporting all transactions easier and more cost-effective than dealing with exemptions.

In November 1993, we reported on the characteristics of CTRs filed in 1992. The data that we developed support IRS' estimate that 30 to 40 percent of the CTRs filed each year represent normal business transactions and meet the exemption criteria. Consequently, the potential exists to significantly reduce the number of CTRs filed annually.

Of the 8.98 million CTRs filed during 1992, 98 percent were filed by banks. Many of the CTRs could be eliminated by increasing the reporting threshold. As shown in figure 2, over half of the CTRs were for transactions of \$20,000 or less.

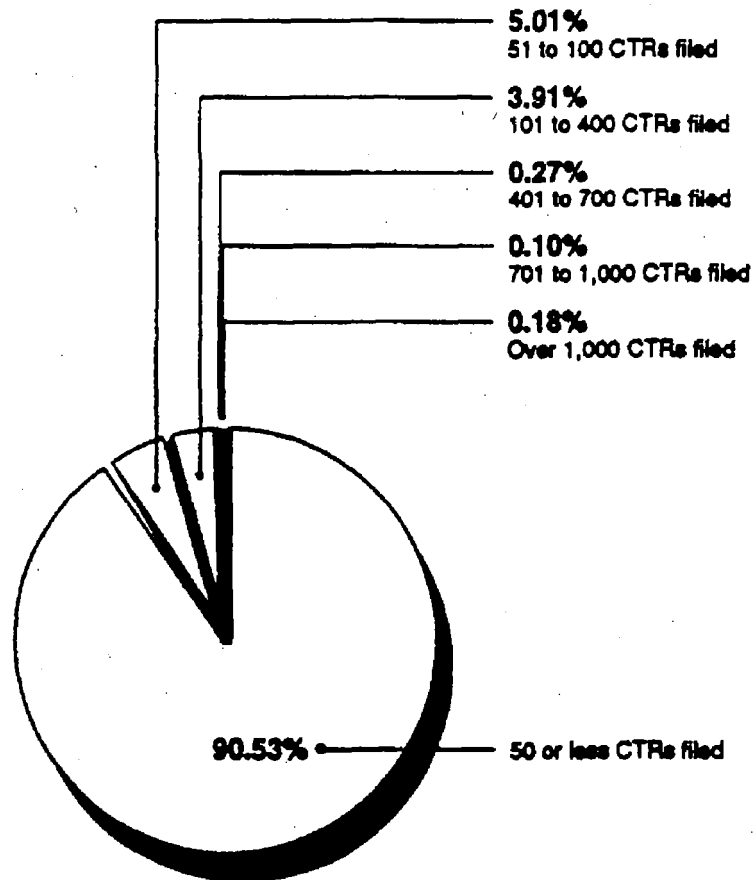
**Figure 2: Distribution of 8.98 Million CTRs Filed in Calendar Year 1992, by Transaction Amount**



Source: IRS Detroit Computing Center.

Businesses accounted for 8.29 million (92.3 percent) of all CTRs filed and for \$411.8 billion (98.6 percent) of the total dollar amount of transactions reported. A total of 364,310 businesses were the subjects of the reports. As shown by figure 3, most of these businesses had 50 or fewer CTRs filed.

**Figure 3: Distribution of 364,310  
Businesses With CTRs Filed in CY 1992,  
by Number of CTRs Filed**



Source: IRS Detroit Computing Center.

When a CTR identifies more than one business or individual, a separate record is established in the database for each entity shown on the report. The 8.29 million CTRs filed on businesses resulted in 9.2 million records. The 100 businesses listed on the most CTRs during 1992 accounted for 1.2 million (13 percent) of the 9.2 million business records. These 100 businesses, primarily chain stores and restaurants, also accounted for \$89.7 billion (22 percent) of the \$411.8 billion total transaction amount reported for businesses. Most of the transactions reported for these 100 businesses (94.9 percent) were deposits.

#### PROVISIONS OF S. 1664

S. 1664 contains several provisions that, while recognizing the value of CTRs, emphasize the need to reduce the number filed by ensuring that those transactions that could be exempted are exempted. The bill requires the Secretary of the Treasury to exempt certain categories of transactions from reporting and

authorizes the Secretary to exempt certain other transactions from reporting based on information submitted by depository institutions. The bill shields institutions from liability for failing to report an exempted transaction unless the institution knowingly filed false or incomplete information or had reason to believe that the exemption criteria were not met. The bill also establishes a goal for reducing the number of CTRs, using the mandatory and discretionary exemptions, by at least 30 percent of the number filed during the year preceding its enactment.

We support these provisions. It is clear that banks are not utilizing the exemption process to the extent they could in order to reduce the volume of CTRs filed. The bill addresses some of the factors that appear to underlie failure to grant more exemptions now. We believe any actions taken to increase the use of legitimate exemptions will help to both eliminate unnecessary costs and ensure that the CTR data collected will have maximum value to law enforcement authorities.

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

RELATED GAO PRODUCTS

Money Laundering: U.S. Efforts To Fight It Are Threatened by Currency Smuggling (GAO/GGD-94-73, March 9, 1994).

Money Laundering: Characteristics of Currency Transaction Reports Filed in Calendar Year 1992 (GAO/GGD-94-45FS, November 10, 1993).

Money Laundering: Progress Report on Treasury's Financial Crimes Enforcement Network (GAO/GGD-94-30, November 8, 1993).

Money Laundering: The Use of Bank Secrecy Act Reports by Law Enforcement Could Be Increased (GAO/T-GGD-93-31, May 26, 1993).

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

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

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

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

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

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

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

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