



December 2021

TRAFFICKING AND MONEY LAUNDERING

Strategies Used by Criminal Groups and Terrorists and Federal Efforts to Combat Them

Accessible Version



A Century of Non-Partisan Fact-Based Work

GAO Highlight

Highlights of [GAO-22-104807](#), a report to congressional committees.

Why GAO Did This Study

FinCEN identified trafficking activity of transnational criminal organizations and terrorist groups as among the most significant illicit finance threats facing the United States in its 2021 Anti-Money Laundering and Countering the Financing of Terrorism National Priorities. Congress included a provision in the National Defense Authorization Act for Fiscal Year 2021 for GAO to review trafficking and related money laundering and federal efforts to combat them.

Among its objectives, this report describes what is known about the money laundering strategies of transnational criminal organizations and terrorists and information-sharing efforts among federal agencies to combat trafficking.

GAO reviewed documentation from Treasury and other federal agencies, international and nonprofit organizations focused on trafficking or money laundering, scholarly journals, and prior GAO work. GAO examined federal guidance to financial institutions and interviewed federal agency officials; experts in trafficking, money laundering, and use of data technology; and representatives of trade groups for lawyers and accountants. GAO also interviewed five groups of financial institution representatives about identifying trafficking-related suspicious activities.

View [GAO-22-104807](#). For more information, contact Michael E. Clements at (202) 512-8678 or clementsm@gao.gov.

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What GAO Found

Federal agencies and others have reported that money laundering strategies used by transnational criminal organizations and terrorist groups include sophisticated techniques such as phony trade transactions or purchase and resale of real estate or art. Such techniques can involve the services of professional money laundering networks or service providers in legitimate professions, such as complicit lawyers or accountants. For example, lawyers or accountants can create shell companies (entities with no business operations) to help criminals launder illicit proceeds. Transnational criminal organizations and terrorist groups also continue to smuggle cash in bulk or transmit money electronically across borders.

Federal efforts to combat trafficking and money laundering incorporate multiple collaborative and information-sharing mechanisms and include the private sector.

- Law enforcement agencies collaborate through task forces in which they share information and analytical resources to aid in the investigation and prosecution of drug and other trafficking-related crimes.
- Federal agencies share intelligence with foreign counterparts. For example, the Financial Crimes Enforcement Network (FinCEN), a bureau of the Department of the Treasury, shares information with more than 160 international financial intelligence agencies.
- FinCEN collaborates with law enforcement agencies to share information with financial institutions on “red flags” for trafficking, which institutions can use to identify and report suspicious transactions (see box below).
- FinCEN also coordinates a voluntary program that allows financial institutions to share information with one another to better identify and report suspicious activities that may be related to money laundering or other illicit financing.

Examples of Human Trafficking “Red Flag” Indicators Provided to Financial Institutions

- Involvement of a third party who speaks for the customer, insists on being present for transactions, or acts aggressively toward the customer.
- Frequent customer transactions from different U.S. geographical regions.
- Transactions that are inconsistent with a customer’s expected activity.
- Customer accounts that share a telephone number or other identifiers with escort agency websites or commercial sex advertisements.
- Frequent sending or receipt of funds via cryptocurrency to or from internet addresses associated with illicit activity.

Source: GAO analysis of Financial Crimes Enforcement Network information. | [GAO-22-104807](#)

These mechanisms help address some of the challenges involved in combatting trafficking and money laundering, which include the increasingly sophisticated strategies of criminal and terrorist groups and the fragmentation of responsibility for anti-trafficking efforts among many federal agencies.

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AML	anti-money laundering
BSA	Bank Secrecy Act

DHS	Department of Homeland Security
DOD	Department of Defense
DOJ	Department of Justice
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FinCEN	Financial Crimes Enforcement Network
IRS	Internal Revenue Service
OFAC	Office of Foreign Assets Control
SAR	suspicious activity report
TCO	transnational criminal organization

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December 23, 2021

The Honorable Sherrod Brown
Chairman
The Honorable Pat Toomey
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick J. Toomey
Ranking Member
Committee on Financial Services
House of Representatives

Transnational criminal organizations (TCO) and terrorist groups long have posed dangers to our nation's well-being and national security. These dangers include activities related to human trafficking or trafficking in goods such as illicit drugs or wildlife.¹ Human trafficking deprives individuals of their dignity and freedom. Trafficking in illicit drugs can lead to violence and, for drug users, addiction and premature death. Wildlife trafficking undermines conservation efforts and can fuel corruption. In addition, money laundering activities designed to make proceeds from trafficking appear legitimate can endanger the integrity of our financial system.²

In 2021, the Financial Crimes Enforcement Network (FinCEN) cited TCO activities, terrorist financing, drug trafficking, and human trafficking as among the national priorities for anti-money laundering and countering the financing of terrorism.³ FinCEN, a bureau within the Department of the Treasury, administers the Bank Secrecy Act (BSA) and its associated regulations, which generally require financial institutions to report

¹Other trafficked goods can include minerals, oil, illegal cigarettes, and firearms.

²Money laundering generally is the process of converting proceeds from illicit activities into funds and assets in the financial system that appear to be from legitimate sources. See 18 U.S.C. §§ 1956, 1957.

³Financial Crimes Enforcement Network, *Anti-Money Laundering and Countering the Financing of Terrorism National Priorities* (Vienna, Va.: June 30, 2021).

information on large cash transactions and suspicious activity by customers. FinCEN collects and disseminates this information to appropriate federal law enforcement agencies, which incorporate it into investigations intended to identify trafficking or related money laundering.

The Anti-Money Laundering Act of 2020 includes a provision for us to review trafficking routes used by TCOs and terrorist groups, strategies for laundering trafficking proceeds, methods financial institutions use to detect money laundering, and guidance from federal agencies to help financial institutions identify patterns associated with trafficking.⁴ This report describes (1) what is known about factors TCOs and terrorist groups consider in executing trafficking schemes, (2) what is known about money laundering strategies of TCOs and terrorist groups, and (3) information-sharing efforts among federal agencies, financial institutions, and law enforcement to detect potential trafficking.

To address each of our objectives, we reviewed documentation from federal agencies, international and nonprofit organizations focused on trafficking or money laundering, and scholarly journals. We reviewed documentation and described relevant findings and recommendations, including their status, from GAO's body of work on trafficking and money laundering. We also interviewed officials from the following federal agencies: FinCEN and the Internal Revenue Service (IRS) within the Department of the Treasury, Department of Justice (DOJ), Department of Homeland Security (DHS), and Department of Defense (DOD). In addition, we interviewed five experts who specialize in studying trafficking or the use of technology for detecting it. While their views are not generalizable, we chose these experts based on criteria that included relevant U.S government experience, fieldwork on trafficking and traffickers' strategies, and diversity of regional experience.

Additionally, for our third objective we conducted five semi-structured group interviews with financial institution representatives that addressed their efforts to identify trafficking-related suspicious activity and share information with other financial institutions, as well as their perspectives on guidance they received from federal agencies for these efforts. Each group had representatives from four to five institutions (two groups represented banks with more than \$10 billion in total assets, two represented banks with assets of less than \$10 billion, and one

⁴Pub. L. No. 116-283, div. F, tit. LXV, § 6505(b), 134 Stat. 3388, 4629-4630 (2021). The Anti-Money Laundering Act of 2020 was enacted as Division F of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021.

represented broker-dealers not affiliated with banks). While not generalizable, the interviews helped provide context for financial industry perspectives on identifying and sharing information on trafficking-related activities. We reviewed FinCEN advisories to financial institutions issued in 2011–2021 to identify those related to trafficking or associated money laundering and to describe “red flag” activities that FinCEN said financial institutions should monitor. Appendix I describes our methodology in greater detail.

We conducted this performance audit from January 2021 to December 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Stages of Trafficking, Money Laundering, and Terrorist Financing

TCOs and terrorist groups can be involved in human trafficking (sex or labor trafficking) or trafficking in goods such as illicit drugs, wildlife, minerals, and cigarettes. A description of the stages of trafficking often focuses on origin, transit, and destination countries.

Origin. The origin for trafficking activities is the starting point where illicit goods are sourced or where human trafficking victims are first induced through force, fraud, or coercion to engage in commercial sex acts or to provide forced labor or services.⁵ Human trafficking—including sex

⁵For this report, human trafficking refers to “severe forms of human trafficking” as defined in the Trafficking Victims Protection Act of 2000. These severe forms of trafficking in persons are (1) sex trafficking in which a commercial sex act is induced by force, fraud, or coercion, or in which the person induced to perform such an act is under age 18; or (2) the recruitment, harboring, transportation, provision, or obtaining of a person for labor or services, through the use of force, fraud, or coercion, for the purpose of subjection to involuntary servitude, peonage, debt bondage, or slavery. 22 U.S.C. § 7102. Human trafficking is distinct from human smuggling, which need not involve exploitation and is the act of bringing into, or harboring/transporting within the United States, certain foreign

trafficking and labor trafficking—can take place anywhere in the world and occur without crossing national boundaries.⁶ The origin of some trafficked goods, such as wildlife or drugs, may be limited to certain parts of the globe. For example, the origin of illegal trade in rhinoceros horns is concentrated in Kenya or southern Africa, according to one analysis.⁷ The President makes an annual determination about the major illicit drug-producing and major drug transit countries.⁸

Transit. Illicit goods may be moved from an origin point to a destination using different forms of land, sea, or air transport and multiple concealment strategies (such as hiding them in legitimate cargo). TCOs and terrorist groups also use many transit routes, which can change frequently, depending on factors such as changes in demand for the trafficked good, law enforcement actions, or border-control activity. Although transit routes are not permanently fixed, certain corridors have developed. For example, the Balkan route is a known pathway to move heroin from Afghanistan to western Europe, and criminal groups also use it to traffic guns, cigarettes, and victims of sex trafficking, according to the Organisation for Economic Co-operation and Development (see fig. 1).

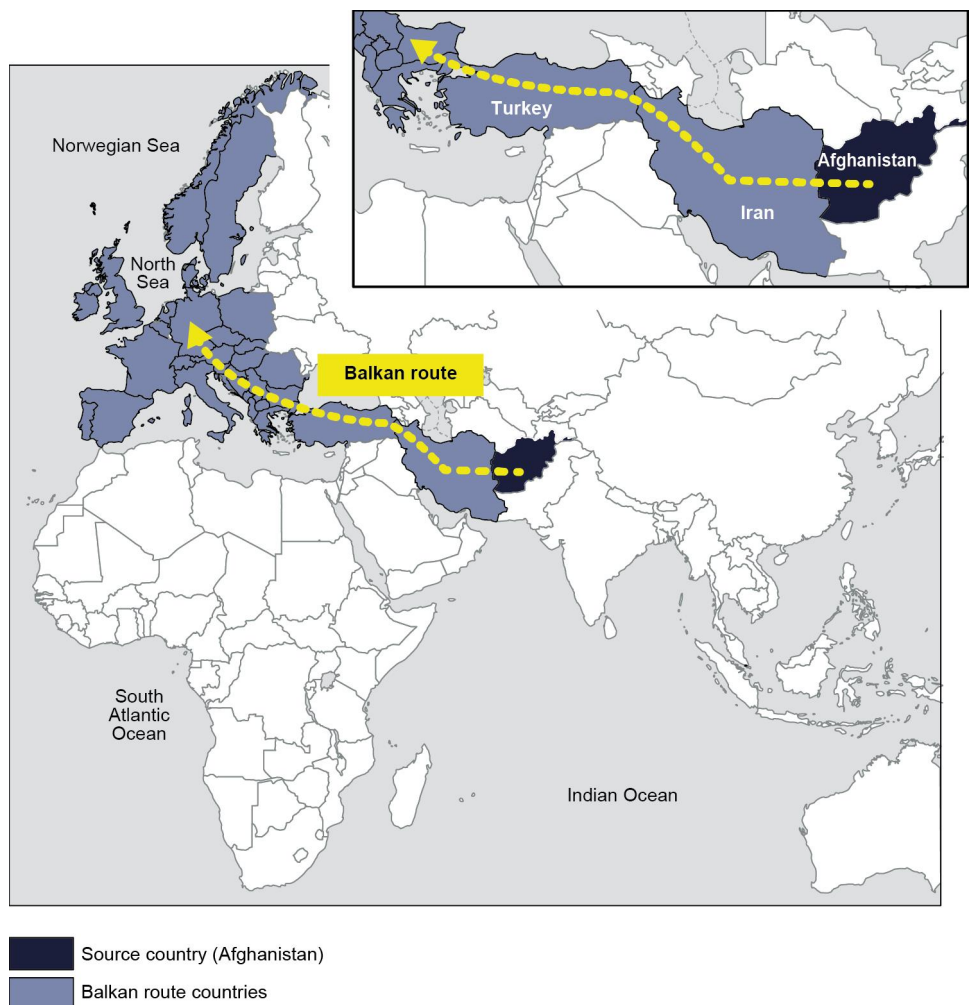
individuals who are not permitted to lawfully enter or remain in the United States. See 8 U.S.C. §§ 1323-24.

⁶Victims of human trafficking in the United States originate from almost every region of the world, according to *The National Action Plan to Combat Human Trafficking*. In 2020, the top three countries of origin of federally identified human trafficking victims were the United States, Mexico, and Honduras. See The White House, *The National Action Plan to Combat Human Trafficking* (Washington, D.C.: December 2021). The United Nations reports that countries can be the origin, transit, or destination points for human trafficking victims or even a combination of all of them. Globally, most detected victims of human trafficking are citizens of the countries where they are detected. However, the United Nations said in 2020 that more than 120 countries reported having detected victims from more than 140 countries of origin. See United Nations Office on Drugs and Crime, “Human Trafficking FAQs,” accessed Dec. 9, 2021, <https://www.unodc.org/unodc/en/human-trafficking/faqs.html>; and *Global Report on Trafficking in Persons 2020* (Vienna, Austria: January 2021): 54.

⁷Christian Nellemann, et al., *World Atlas of Illicit Flows* (RHIPTO-Norwegian Center for Global Analyses, INTERPOL, and the Global Initiative against Transnational Organized Crime: 2018): 64.

⁸See 22 U.S.C. § 2291j-1. In September 2020, the designated countries were Afghanistan, The Bahamas, Belize, Bolivia, Burma, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, India, Jamaica, Laos, Mexico, Nicaragua, Pakistan, Panama, Peru, and Venezuela. See, “Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2021,” 85 Fed. Reg. 60351 (Sept. 25, 2020).

Figure 1: Balkan Trafficking Route



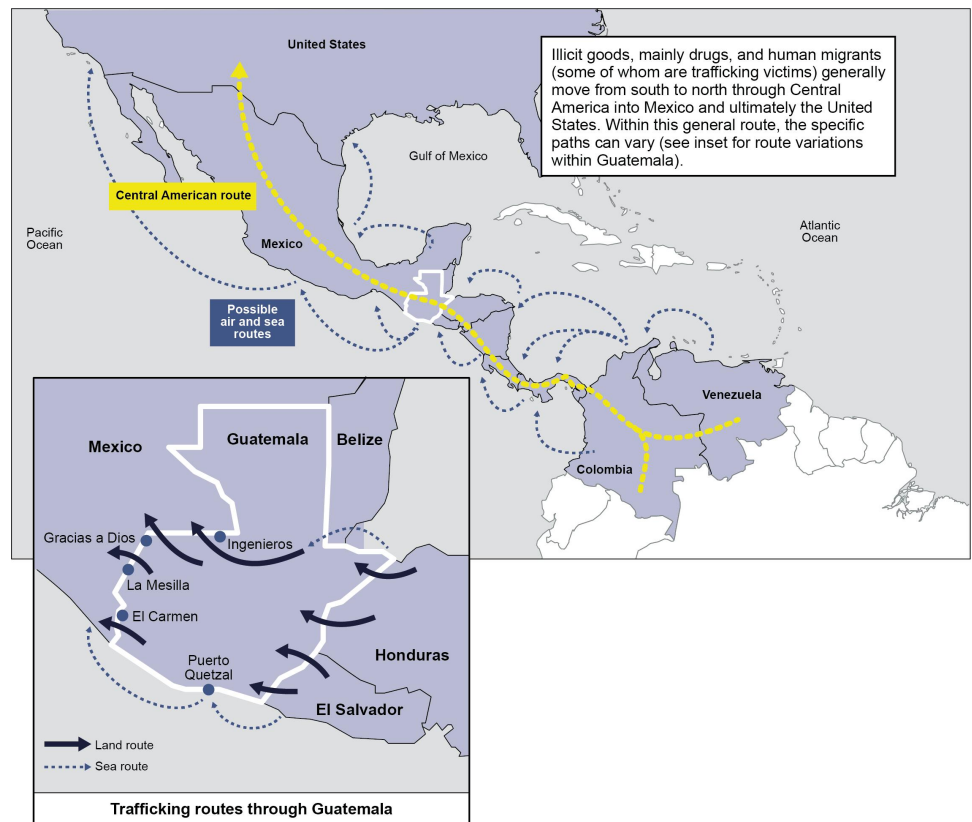
Sources: Organisation for Economic Co-operation and Development, United Nations Office on Drugs and Crime. | GAO-22-104807

In the Americas, drugs generally are transported from northern South America through Central America into Mexico and then into the United States, as described in reports by the United Nations Office on Drugs and Crime and the Center for Strategic and International Studies.⁹ However,

⁹United Nations Office on Drugs and Crime, "Transnational Organized Crime in Central America and the Caribbean: A Threat Assessment" (Vienna, Austria: September 2012); and Douglas Farah and Carl Meacham, "Alternative Governance in the Northern Triangle and Implications for U.S. Foreign Policy: Finding Logic within Chaos" (Washington, D.C.: Center for Strategic and International Studies, September 2015).

based on these reports, the specific route can vary in individual countries (see fig. 2).

Figure 2: Central American Route



Sources: United Nations Office on Drugs and Crime, Center for Strategic and International Studies. | GAO-22-104807

Destination. The destination is the location where trafficked individuals who are transported will be exploited or trafficked goods will be delivered or sold. Some trafficked goods have greater flows to certain destinations. For example, North America was the world's top destination for narcotics trafficking in 2018, according to a World Customs Organization report.¹⁰ Rhinoceros contraband that originates in Africa most frequently is destined for locations in Asia, particularly China and Vietnam.¹¹ Other trafficked goods, such as medical products, are in demand globally.

¹⁰World Customs Organization, *Illicit Trade Report 2018* (Brussels, Belgium: December 2019): 38.

¹¹Nellemann, et al. *World Atlas of Illicit Flows*.

Money laundering refers to the process of transforming illicit proceeds into apparently legitimate funds, and it typically occurs in three stages:

- **placement**, in which illicit proceeds are introduced into the financial system;
- **layering**, in which the criminal attempts to distance the proceeds from the crime through a series of transactions; and
- **integration**, through which illicit funds re-enter the economy disguised as legitimate funds.¹²

Terrorist financing refers to the process of raising or providing funds for terrorist activity. The Financial Action Task Force (FATF), an intergovernmental body, describes three stages for terrorist financing:

- **raising funds**, which can be from legitimate sources, such as personal donations and profits from businesses and charitable organizations, as well as from criminal sources, such as the drug trade, fraud, and extortion;
- **moving funds**, which involves transferring funds to where they are needed, and
- **using funds**, which involves funding specific terrorist operations, developing and maintaining an infrastructure, and promoting the terrorists' ideology.¹³

Anti-Money Laundering Framework

The BSA and related anti-money laundering (AML) authorities are important tools that U.S. law enforcement and regulators use to detect

¹²Department of the Treasury, *2018 National Money Laundering Risk Assessment* (Washington, D.C.: Dec. 20, 2018).

¹³See Financial Action Task Force, *Terrorist Financing Risk Assessment Guidance* (Paris, France: July 2019); and *Terrorist Financing* (Paris, France: Feb. 29, 2008).

and deter money laundering.¹⁴ The BSA and its implementing regulations generally require financial institutions to monitor customer transactions to identify suspicious activity potentially indicating money laundering or other criminal activity. Institutions covered by these rules include banks, securities broker-dealers, futures and commodities brokers, money services businesses (such as money transmitters), casinos and card clubs, and insurance companies. If warranted, these institutions file suspicious activity reports (SAR), which are confidential and subject to stringent disclosure requirements.

FinCEN administers BSA/AML regulations and has authority to enforce compliance with BSA.¹⁵ As the federal government's designated "financial intelligence unit," FinCEN is responsible for collecting, analyzing, and disseminating confidential financial intelligence information to aid in law enforcement investigations, including of trafficking activities by TCOs and terrorist groups.¹⁶ In this role, FinCEN is the repository of SARs and other reports from banks and other financial institutions and manages a

¹⁴The Currency and Foreign Transactions Reporting Act, its amendments, and other statutes relating to the subject matter of the act have come to be referred to as the Bank Secrecy Act. These statutes are codified as amended in scattered sections of Titles 12, 18 and 31 of the U.S. Code. Regulations implementing the Bank Secrecy Act primarily appear in 31 C.F.R. Ch. X. For purposes of the provisions of the Anti-Money Laundering Act of 2020, the Bank Secrecy Act means section 21 of the Federal Deposit Insurance Act (12 U.S.C. § 1829b), chapter 2 of title I of Public Law 91-508 (12 U.S.C. §§ 1951 *et seq.*) and subchapter II of chapter 53 of title 31, United States Code. Pub. L. No. 116-283, div. F, § 6003(1), 134 Stat. 3388, 4548 (2021). The act defines financial institutions as insured banks, licensed money transmitters, insurance companies, travel agencies, broker-dealers, and dealers in precious metals, among other types of businesses. 31 U.S.C. § 5312(a)(2).

¹⁵FinCEN, a Treasury bureau that reports to the Under Secretary for Terrorism and Financial Intelligence, was established in 1990 to support government agencies by collecting, analyzing, and disseminating financial intelligence information to combat money laundering. Under FinCEN regulations, banks must file SARs if a transaction involves or aggregates at least \$5,000 in funds or other assets and the bank knows, suspects, or has reason to suspect the transaction involves funds derived from illegal activities, is designed to evade any BSA requirements, or has no business or apparent lawful purpose and the bank knows of no reasonable explanation for the transaction. 31 C.F.R. § 1020.320(a). SARs regulations applicable to other types of financial institutions are also included in 31 C.F.R. Ch. X.

¹⁶A financial intelligence unit is a national center for the receipt and analysis of SARs and other information relevant to money laundering, predicate offenses, and terrorist financing, and for the dissemination of analysis results.

database of the reported information that agencies with access can search for law enforcement purposes.¹⁷

The United States is one of 39 members of FATF, which establishes internationally recognized standards (recommendations) for combatting money laundering and terrorist financing.¹⁸ The U.S. delegation to FATF includes members from the Department of the Treasury, DOJ, Department of State, National Security Council, and federal financial regulators. Although FATF recommendations are not binding, FATF monitors and evaluates member countries' progress in implementing the recommendations through its mutual evaluation reports.¹⁹ FATF also publishes guidance and best practices to assist members in implementing FATF recommendations, typology reports on trends and methods used to launder criminal proceeds, and reports on at-risk sectors.

Traffickers Consider Multiple Factors in Determining Their Strategies According to Federal Agencies and Others

According to literature, federal law enforcement documents we reviewed, and experts we interviewed, TCOs and terrorist groups consider a number of factors in determining their strategies for trafficking persons or goods. These factors include (1) what control, if any, they have over a geographic territory; (2) the extent to which they can leverage existing

¹⁷Agencies access FinCEN's BSA data through FinCEN Query, a secure web application that allows users to perform online searches of the complete BSA data set.

¹⁸These standards are collectively known as the FATF recommendations. FATF has issued 40 recommendations. The 39 FATF members, as of October 2021, consisted of 37 nations and two regional organizations.

¹⁹Countries are rated on four levels of compliance with FATF recommendations: compliant, largely compliant, partially compliant, and non-complaint. As of March 2020, FATF rated the United States compliant with nine recommendations and largely compliant with 22. The United States also received five partially compliant ratings and four noncompliant ratings. For more information, see Financial Action Task Force, *Anti-money laundering and counter-terrorist financing measures, United States Mutual Evaluation Report* (Paris, France: December 2016); and *Anti-money laundering and counter-terrorist financing measures, United States, 3rd Enhanced Follow-up Report & Technical Compliance Re-Rating* (Paris, France: March 2020).

operations to achieve their aims; and (3) potential penalties relative to potential profit.

Advantages of Territorial Control

TCOs and terrorist groups seek to control territory to establish a base from which to direct illicit activities, according to researchers on organized crime.²⁰ In many parts of the world, organized criminal groups exert control by forging ties within the community based on familial, ethnic, or social-historic connections, or ideological similarities. They also may seek to consolidate territorial control through corruption or other means to prevent law enforcement from disrupting their activities.

TCOs and terrorist groups sometimes make financial investments in territories they control, which can yield profits and play a practical role in facilitating trafficking-related crimes. Proceeds can be derived both from the underlying investment and its contribution to trafficking schemes. For example, TCOs have purchased warehouses to store illegal goods and residential real estate to house victims of human trafficking. TCOs also have invested in transportation companies, food distributors, and import/export companies to help conceal drug trafficking.

Territorial control also allows criminal groups to profit from trafficking by extracting payments from other trafficking groups that want to operate in or travel through their territory. As one example, an expert we interviewed indicated that the MS-13 gang in Honduras profits from criminal activity it does not control by “taxing” timber trafficking and human trafficking that others conduct in territories it controls. In another example, paramilitary groups in Ireland charge fees to drug dealers to allow them to operate in

²⁰For example, see Michael D. Lyman and Garry W. Potter, “Theories of Organized Criminal Behavior,” in *Organized Crime* (New York: 2007); Organisation for Economic Co-operation and Development, *Illicit Trade: Converging Criminal Networks, OECD Reviews of Risk Management Policies* (Paris, France: 2016); Ernesto U. Savona and Michele Riccardi (eds.), *From Illegal Markets to Legitimate Businesses: The Portfolio of Organised Crime in Europe Final Report of Project OCP, Organised Crime Portfolio* (Trento, Italy: 2015); and Louise Shelley, *Human Trafficking: A Global Perspective* (New York, N.Y.: Cambridge University Press, 2010).

areas they control.²¹ In South America, TCOs sometimes require small illicit mining operations to pay fees to operate in areas they control.²²

Additionally, conditions in states or regions that lack the capacity to carry out the basic functions of governance can allow TCO or terrorist trafficking to operate more easily. Vulnerabilities to TCO or terrorist activities can be exacerbated in states with characteristics of fragility when state actors protect traffickers from prosecution or seek to enrich themselves with trafficking proceeds.²³ For example, Mexico-based cartels have co-opted parts of government, particularly at the state and local level, according to DHS. The Department of State has identified government corruption as a serious problem in Guatemala, El Salvador, and Nicaragua and said it inhibits the effectiveness of efforts to combat drug trafficking.²⁴ In Africa, Guinea-Bissau is a well-known stop on the drug trafficking transit route, aided by government figures, according to the United Nations.²⁵ The United States has identified Venezuela under the Maduro regime as benefiting directly from TCO activities related to money laundering, drug trafficking, and illegal mining.²⁶ Finally, the United Nations reported in 2021 that trafficking of poppy-based drugs and methamphetamine is the Taliban's largest source of income in

²¹Rajan Basra, *Drugs and Terrorism: The Overlaps in Europe* (London, United Kingdom: International Centre for the Study of Radicalisation, 2019): 34.

²²The Global Initiative against Transnational Organized Crime, *Organized Crime and Illegally Mined Gold in Latin America* (Geneva, Switzerland: April 2016): 11-12.

²³The Organisation for Economic Co-operation and Development and The Fund for Peace have identified characteristics of state fragility. The Organisation for Economic Co-operation and Development's characteristics include coping capacities to strengthen state accountability and transparency, and the presence of direct violence and institutions to prevent and mitigate violence. Characteristics identified by The Fund for Peace include a loss of physical control of state territory, erosion of legitimate authority to make collective decisions, and an inability to provide reasonable public services.

²⁴Department of State, *International Narcotics Control Strategy Report, Volume I: Drug and Chemical Control* (Washington, D.C.: March 2021).

²⁵In August 2021, the State Department offered a reward of up to \$5 million for information leading to the arrest of Antonio Indjai, the former head of the Guinea-Bissau Armed Forces, who led a drug trafficking organization in the nation while serving as a military leader. Indjai has been charged with narcoterrorism conspiracy, conspiracy to import cocaine, conspiracy to provide material support to a foreign terrorist organization, and conspiracy to acquire and transfer anti-aircraft missiles.

²⁶Department of State, *International Narcotics Control Strategy Report, Volume II: Money Laundering* (Washington, D.C.: Mar. 2, 2021).

Afghanistan, which also is home to large numbers of Al Qaeda members and other extremists.²⁷

In areas where a criminal group does not have sufficient territorial control, it may outsource trafficking activities to specialists with greater territorial ties and knowledge.²⁸ For example, the United Nations Office on Drugs and Crime notes that South American cocaine suppliers often rely on *transportistas* or other specialists in Central American countries to move the drug into Mexico, where Mexican cartels carry it into the United States. These specialists know local routes and vulnerabilities and can provide cover when transporting goods, sometimes using legitimate commercial activities to do so. For instance, in Guatemala some farmers and other landholders help move cocaine, since large groups of men in pickup trucks would not seem out of place on farms or ranches, according to a United Nations analysis.²⁹

Leveraging of Existing Operations

TCOs and terrorists groups may traffic multiple illicit goods using the same routes or strategies, which allows them to better leverage existing infrastructure and increase profit margins. For instance, TCOs may ship illegal wildlife and illegal drugs together. Drug trafficking TCOs can use similar routes for transiting illicit gold supplies and drugs. Some victims of sex trafficking also have been forced to be drug couriers for the organizations victimizing them.

However, there are limits to criminal groups' ability to leverage existing operations. For example, because the raw materials for certain illicit drugs

²⁷United Nations Security Council, "Twelfth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2557 (2020) concerning the Taliban and other associated individuals and entities constituting a threat to the peace, stability, and security of Afghanistan" (New York, N.Y.: May 20, 2021).

²⁸Although the subsequent example focuses on transportation specialists, this phenomenon is broader than the one service. One publication notes that groups producing or extracting illicit commodities rely on "local fixers," who often are local elites or individuals with business connections, to help sell the illicit commodities. See Douglas Farah, "Fixers, Super Fixers, and Shadow Facilitators: How Networks Connect" in *Convergence – Illicit Networks and National Security in the Age of Globalization*, eds. Michael Miklaucic and Jacqueline Brewer (Washington, D.C.: National Defense University Press, 2013): 75-95.

²⁹United Nations Office on Drugs and Crime, "Transnational Organized Crime in Central America and the Caribbean: A Threat Assessment."

are grown mostly in certain areas—such as coca leaf (cocaine) in South America—TCOs or terrorist groups that do not control those areas cannot be involved in the origin stage of trafficking those drugs. Also, criminal groups' knowledge of drugs, weapons, or wildlife trafficking may not be applicable to human trafficking, which involves recruiting and controlling individuals.

Consideration of Penalties versus Profits

TCOs evaluate potential penalties against potential profits in determining the types of trafficking in which to engage, as described in a report by a research institute and the following examples.³⁰ Some trafficking activities are perceived to have lesser penalties, making them relatively more attractive. For example, researchers and international organizations have said some traffickers may be attracted to wildlife trafficking because of a relative lack of enforcement and lower penalties when caught.³¹ Some researchers have noted that cigarette trafficking also is attractive because law enforcement treats it as less of a security risk than human or weapons trafficking, which makes detection less likely and punishment less severe.³²

The rise of illicit trafficking in gold by TCOs in the early 2000s also was due to the perception that it was more profitable than drug smuggling and posed less risk.³³ Latin American TCOs that traffic drugs have expanded into illegal mining of gold and other minerals. In Colombia and Peru, illegal mining profits have at least equaled drug trafficking profits with lower risks of detection or punishment, according to the nonprofit Global

³⁰Channing May, "Transnational Crime and the Developing World" (Washington, D.C.: Global Financial Integrity, March 2017).

³¹For example, see TRAFFIC, "Initial Analysis of the Financial Flows and Payment Mechanisms Behind Wildlife and Forest Crime" (Cambridge, United Kingdom: March 2021); and Tim Wittig, "Poaching, Wildlife Trafficking and Organised Crime," in Cathy Haenlein and M.L.R. Smith (eds.) *Poaching, Wildlife Trafficking and Security in Africa: Myths and Realities*, Whitehall Papers, 86: 77–101.

³²Alberto Aziani and Marco Dugato (eds.), "ITTP NEXUS in Europe and Beyond" (Milan, Italy: Transcrime-Università Cattolica del Sacro Cuore, 2019).

³³The Global Initiative against Transnational Organized Crime, *Organized Crime and Illegally Mined Gold in Latin America*: 7.

Financial Integrity.³⁴ Expansion into illicit mining also spreads risk for periods when governments crack down on drug trafficking.

However, one expert told us that some TCOs may avoid engaging in multiple types of trafficking at the same time because of higher potential penalties if caught. For example, the expert said criminal groups may avoid transporting illicit cigarettes or drugs while also engaging in human trafficking because of the higher penalties or greater likelihood of detection when combining both activities.

Federal Agencies and Others Identified Money Laundering Strategies Used by Criminal Groups and Terrorists

TCOs and Terrorists Use Cash- and Non-Cash-based Strategies to Launder Proceeds

FinCEN, federal law enforcement agencies, FATF, and others have identified multiple strategies that TCOs and terrorist groups use to launder proceeds from trafficking in the United States. The strategies can be broadly categorized as cash-based or non-cash-based. Cash-based strategies involve moving funds into the U.S. financial system or through intermediaries to circumvent traditional financial systems. Non-cash-based strategies involve converting illicit funds to goods that are later resold (trade-based money laundering) or to alternative stores of value (such as gold or virtual currency) that sometimes are later converted to currency. FinCEN and FATF report that, in general, TCOs may decide which strategy to use based on the type of trafficking or other factors.

Cash-based Money Laundering Strategies

Cash-based money laundering strategies are among the most common forms of money laundering and TCOs and terrorists still favor them, according to law enforcement reports and experts we interviewed. FATF reports that the use of cash for criminal purposes and terrorist financing is driven by perceptions of safety because cash offers anonymity. In particular, U.S. currency is valued for its wide acceptance and its stability.

³⁴May, "Transnational Crime and the Developing World."

But the United States requires that large cash transactions be reported to Treasury.³⁵ According to federal agency reports, TCOs and terrorists take steps to avoid this reporting—including by hiding large quantities of currency, breaking up the transactions into smaller increments, or finding complicit individuals to help them evade reporting requirements, as discussed below.

Bulk cash smuggling involves moving physical currency across an international border often to be deposited in a financial institution in another country (see text box for example).³⁶ Criminals smuggle cash in bulk to move the cash across jurisdictions and to prevent law enforcement from connecting the funds to trafficking activities.³⁷ In general, criminals divide the cash into multiple smaller shipments so that any individual shipment that is seized represents a fraction of the total amount being smuggled.

Example of Using Bulk Cash Smuggling: Secret Compartments Containing Cash

In 2019, U.S. law enforcement obtained a guilty plea from Caesar Hernandez-Martinez, a member of the Sinaloa Cartel, on money laundering charges. According to the Department of the Treasury, Hernandez-Martinez managed a money laundering organization that used couriers with vehicles containing secret compartments to hide and smuggle U.S. currency in bulk through Southern California to Tijuana, Mexico. The cash then was consolidated at exchange houses that he owned and operated.

Source: Department of the Treasury. | GAO-22-104807

Funnel accounts are bank accounts used to collect deposits from various locations. Multiple individuals deposit the cash in a bank account available to other members of the criminal network in another part of the

³⁵For example, federal law requires a person to file IRS Form 8300 for cash transactions of \$10,000 or more received in a trade or business, and financial institutions generally must report currency transactions of \$10,000 or more made by, through, or to the institution.

³⁶The United States prohibits carrying or attempting to transport more than \$10,000 in unreported, concealed cash across a U.S. border with the intent to evade currency reporting requirements. See 31 U.S.C. § 5332. In addition, 18 U.S.C. § 1956 prohibits the international transportation of funds that are the proceeds of certain criminal activities under certain circumstances.

³⁷TCOs often prefer to smuggle cash in bulk to launder illicit proceeds, according to Immigration and Customs Enforcement-Homeland Security Investigations. However, Immigration and Customs Enforcement data show the number of bulk cash seizures declined in 2012–2018. Law enforcement notes several possible reasons for this, including criminals shifting to other strategies, lower rates of detection by U.S. law enforcement at the border, or greater use of private aircraft or boats to avoid land-based interdiction units at the U.S. border.

country. The depositors may be individuals outside the organization who are compensated for transferring the funds.

According to FinCEN and law enforcement reports, funnel accounts offer several benefits for TCOs or terrorist groups:

- They consolidate the physical volume of cash by converting small denominations into large denominations.
- They help avoid the scrutiny of banks' AML departments, which might be more likely if one individual made numerous deposits.³⁸
- They can deposit currency with narcotic residue and withdraw currency without residue.
- They eliminate the risk of law enforcement interdiction arising from physically moving cash.

Funnel accounts allow drug traffickers and others to quickly move money from the interior of the United States to U.S. states that border Mexico. After the funds are funneled into an individual account, criminals or terrorist groups could conceal the consolidated cash deposits for bulk transfer across the border. Law enforcement officials reported in 2014 that funnel accounts were a growing trend, but Treasury's *2020 National Strategy for Combating Terrorist and Other Illicit Financing* said funnel account activity declined because of improved information sharing among financial institutions.³⁹

Money transmitters, which are nonbank financial institutions that send money from one location to another, can be used by traffickers to

³⁸Banks are required to report suspicious activity, including efforts at structuring deposits (for example, by making them in amounts below the reporting limit) to avoid required reporting of currency transactions exceeding \$10,000. 31 C.F.R. § 1020.320. In using funnel accounts, TCOs and terrorists seek to avoid BSA requirements by using multiple depositors at multiple banks.

³⁹Department of the Treasury, *2020 National Strategy for Combating Terrorist and Other Illicit Financing* (Washington, D.C.: Feb. 6, 2020).

electronically move currency across a border (see text box for example).⁴⁰ Federal anti-money laundering regulations require money transmitters to collect data such as the names of the sender and amount and date of the transaction for transactions that meet certain criteria. However, TCOs and terrorists can get around these requirements, including by bribing agents or other money transmitter employees.⁴¹ Furthermore, traffickers may seek to use unlicensed money transmitters to evade controls designed to prevent money laundering, as some terrorist groups have done, according to Treasury's *2018 National Strategy for Combating Terrorist and Other Illicit Financing*.⁴²

Example of Using a Money Transmitter: Funds Transfer Using False Sender Names

On October 30, 2019, Ricardo Ochoa-Beltran was sentenced to 30 years in federal prison. Ochoa-Beltran was the leader of a drug trafficking and money laundering organization that operated out of California and Indiana. Ochoa-Beltran laundered the drug proceeds by funneling them through 30 different bank accounts, sending wire transfers to Mexico through InterCambio Express using false sender names, and smuggling cash in bulk across the United States.

Source: Internal Revenue Service. | GAO-22-104807

Informal value transfer systems work outside of conventional banking systems to make funds available to a third party in another geographic location. One such system, known as hawala, is traditionally used in South Asia, the Middle East, and parts of East Africa as an alternative to traditional banks.⁴³ Hawala generally operates as a closed system based

⁴⁰FinCEN regulations define a money transmitter as a person who provides money transmission services. The term money transmission services means the acceptance of currency, funds, or other value that substitutes for currency from one person and the transmission of currency, funds, or other value that substitutes for currency to another person or location by any means. The definition of money transmitter also includes any other person engaged in the transfer of funds. Whether a person is a money transmitter for BSA purposes is a question of facts and circumstances. 31 C.F.R. § 1010.100(ff)(5). Money transmitters must be registered with FinCEN, obtain state licenses when required, and undergo periodic examinations to review compliance with applicable laws and regulations.

⁴¹For a longer discussion, see chapter 6 (Money Services Businesses) in Christopher Westphal, *Data Mining for Intelligence, Fraud & Criminal Detection: Advanced Analytics & Information Sharing Technologies* (Boca Raton, Florida: CRC Press Taylor & Francis Group, 2009).

⁴²Department of the Treasury, *2018 National Strategy for Combating Terrorist and Other Illicit Financing* (Washington, D.C.: Dec. 20, 2018).

⁴³See Financial Action Task Force and Organisation for Economic Co-operation and Development, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing* (Paris, France: October 2013).

on trust and relies on personal connections of family, tribe, or ethnicity to execute transactions using intermediaries. It has legitimate uses, such as to send remittances from migrant workers to their countries of origin.⁴⁴

Informal value transfer systems are used in part because they can be faster or cheaper than banks or money transmitters in the countries where these systems operate.

International organizations and federal agencies report that traffickers or other criminals exploit informal value transfer systems for money laundering for several reasons. The systems typically lack regulatory supervision because they occur outside the banking system. Additionally, transactions are difficult for law enforcement to trace because they are often settled in cash and across national borders, and documentation is limited or non-existent. Because hawala or other informal value transfer systems are rooted in money transfer structures that are not necessarily illegal, using these systems to transfer money is not, by itself, an indication of illegal activity.

Non-Cash-based Money Laundering Strategies

Law enforcement agencies' reports have noted that use of some non-cash-based strategies has increased because money launderers, including TCOs, have become more sophisticated and U.S.-based financial institutions have increased compliance with AML requirements. Non-cash-based money laundering strategies include the following:

Trade-based money laundering is a type of money laundering that can rely on misrepresenting the price, quantity, or type of goods in trade transactions. For example, criminal groups can use trade transactions to hide trafficking proceeds by "mis-invoicing" goods on trade documentation. After the goods are shipped and the payment is processed, the goods are sold for their real value in local currency in the importing country, laundering the difference in value between the invoiced amount and the real value of the goods. Other trade-based money laundering schemes can involve merchants who—wittingly or not—accept

⁴⁴In a simple example, a U.S.-based customer who wanted to send money to India would give a sum of money to the hawala service provider in the United States. That service provider then would ask a counterpart in India to make the funds available to the intended beneficiary in India. Some transactions can be more complex or involve more parties. See *Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*: 23. Although we discuss hawala under cash-based strategies, some transactions may involve goods.

payment in funds derived from illicit activity in exchange for exports of goods.⁴⁵

Purchases of high-value, portable assets, such as gold, gems, artwork, airplanes, and electronics are another strategy that TCOs and terrorists can use. By holding the value of their trafficking proceeds in a moveable commodity that later can be sold elsewhere, traffickers can convert the proceeds to currency in a different country. Sales documentation can provide a veil of legitimacy should a financial institution seek to understand the source of a client's funds.

In particular, TCOs value the use of gold as a money laundering strategy, according to FATF and others. Gold is useful because its value is relatively stable, it can be easily exchanged for cash, and its origin is difficult to trace.⁴⁶ Although some gold traders have improved their process for tracing the origin of gold they purchase, the processes across the industry are insufficient to determine whether gold has come from a legal supplier, according to the Organisation for Economic Co-operation and Development.⁴⁷

Real-estate purchases made anonymously are among the most significant money laundering vulnerabilities for the United States,

⁴⁵For additional detail on trade-based money laundering, see GAO, *Countering Illicit Finance and Trade: Better Information Sharing and Collaboration Needed to Combat Trade-Based Money Laundering*, [GAO-22-447](#) (Washington, D.C.: Nov. 30, 2021); *Trade-Based Money Laundering: U.S. Government Has Worked with Partners to Combat the Threat, but Could Strengthen Its Efforts*, [GAO-20-333](#) (Washington, D.C.: Apr. 2, 2020); and *Countering Illicit Finance and Trade: U.S. Efforts to Combat Trade-Based Money Laundering*, [GAO-20-314R](#) (Washington, D.C.: Dec. 30, 2019).

⁴⁶U.S. dealers in precious metals, stones, or jewels by regulation must conduct some AML activities, although this does not include filing SARs with FinCEN. See 31 C.F.R. § 1027.210. Also see Financial Crimes Enforcement Network, *Frequently Asked Questions Interim Final Rule – Anti-Money Laundering Programs for Dealers in Precious Metals, Stones, or Jewels* (Vienna, Va.: May 3, 2005): 10–11.

⁴⁷See Organisation for Economic Co-operation and Development, *Due Diligence in Colombia's Gold Supply Chain: Where does Colombian gold go?* (Paris, France: Apr. 19, 2018).

according to the Department of the Treasury.⁴⁸ Once TCOs or terrorist groups complete a real-estate transaction, the paper trail associated with real-estate purchases can make funds deposited in U.S. financial institutions appear legitimate when the real estate is later sold.

Virtual currencies (which include cryptocurrencies) can be used as payment for illicit goods and to launder the proceeds of trafficking activities.⁴⁹ In 2020, the Drug Enforcement Administration reported that virtual currency had become more commonly used by international money launderers to transfer proceeds across borders on behalf of TCOs. Specifically, there is evidence of Mexican and Colombian TCOs using virtual currencies to transfer proceeds internationally, according to the National Drug Threat Assessment.⁵⁰ Certain virtual currencies have features designed to anonymize transactions. In addition, virtual currencies can be run through private services known as mixers or tumblers to increase anonymity.

Use of Shell Companies

TCOs or terrorist groups also may use shell companies—which are companies that are designed to hold funds and manage financial transactions but that do not have operations or employees—to launder trafficking proceeds by concealing assets and activities through seemingly legitimate businesses. Company registration takes place at the state level, and U.S. states generally do not require information that establishes the true owners of companies. Although shell companies can be used for legitimate purposes, according to FinCEN, the lack of

⁴⁸As we noted in 2020, criminals and terrorists can avoid banks' AML programs by purchasing real estate without a loan and anonymously (such as through a shell company). FinCEN issued geographic targeting orders requiring that title insurers report to FinCEN on certain all-cash purchases of residential real estate by legal entities in specified areas. See GAO, *Anti-Money Laundering: FinCEN Should Enhance Procedures for Implementing and Evaluating Geographic Targeting Orders*, [GAO-20-546](#) (Washington, D.C.: July 14, 2020).

⁴⁹Virtual currencies are digital representations of value that are usually other than government-issued legal tender. Examples include Bitcoin and Ether.

⁵⁰Drug Enforcement Administration, *2020 National Drug Threat Assessment* DEA-DCT-DIR-008-21 (Washington, D.C.: March 2021).

reporting at the time of company formation also offers criminals and terrorists a way to hide their illegal activities.⁵¹

When money launderers layer shell companies—for example, creating a shell company with ownership split among multiple other shell companies across foreign jurisdictions—it can make the investigative process more complex, according to Treasury’s *2020 National Strategy for Combating Terrorist and Other Illicit Financing*. The Federal Bureau of Investigation (FBI) has stated that the strategic use of shell companies can handicap or delay investigations by making it more difficult to uncover true beneficial owners.⁵²

The Corporate Transparency Act, part of the Anti-Money Laundering Act of 2020, requires that certain businesses report specified information on their beneficial owners to FinCEN and requires FinCEN to maintain the information in a nonpublic database. FinCEN issued proposed rules for beneficial ownership reporting requirements in December 2021.⁵³ Banks and other covered financial institutions are already subject to existing rules requiring that they establish procedures to identify and verify the identity of beneficial owners of companies and other so-called “legal entity customers” when those customers open new accounts.⁵⁴ FinCEN has noted that making beneficial ownership information available would enhance federal efforts to counter money laundering and terrorist financing.

⁵¹According to FinCEN, “While shell companies are used for legitimate corporate structuring purposes including in mergers or acquisitions, they are also used in common financial crime schemes.” See Beneficial Ownership Information Reporting Requirements, 86 Fed. Reg. 69920, 69922 (Dec. 8, 2021).

⁵²Senate Banking, Housing, and Urban Affairs Committee, *Combating Illicit Financing by Anonymous Shell Companies*, 116th Congr. (May 21, 2019); testimony of Steven M. D’Antuono, Acting Deputy Assistant Director, Criminal Investigative Division, Federal Bureau of Investigation.

⁵³Beneficial Ownership Information Reporting Requirements, 86 Fed. Reg. 69920 (Dec. 8, 2021). FinCEN said it would receive public comment on the proposed rules until Feb. 7, 2022.

⁵⁴See Beneficial Ownership Requirements for Legal Entity Customers, 31 C.F.R. § 1010.230.

TCOs and Terrorists Can Hire Illicit or Licit Professional Services

TCOs and terrorists sometimes use third-party money laundering specialists, according to law enforcement and Treasury reports.⁵⁵ These third parties can be professional criminal networks or individuals employed in legitimate professional services—such as lawyers, accountants, or arts and antiques dealers—who use their knowledge and abilities to help launder criminal proceeds.

Professional Money Laundering Networks

Criminal groups increasingly have been using money laundering networks that engage in sophisticated money laundering strategies, according to Treasury's *2020 National Strategy for Combating Terrorist and Other Illicit Financing*. FATF has noted that professional money laundering networks can provide money laundering operations for multiple criminal organizations, and they may provide part or all of the infrastructure for money laundering operations. The networks typically have a fee-based compensation model, with fees based on factors such as the amount of money moved and the time needed to move it.⁵⁶ They use techniques such as shell companies, funnel accounts, and trade-based money laundering, and, according to FATF, the successful strategies they develop can be used to benefit multiple clients.⁵⁷ DHS officials told us that larger networks can move greater amounts of money through more countries and that many TCOs have used these networks for

⁵⁵See Department of Homeland Security, *Homeland Threat Assessment* (Washington, D.C.: Oct. 6, 2020); *2020 National Strategy for Combating Terrorist and Other Illicit Financing*; and Drug Enforcement Administration, *2017 National Drug Threat Assessment*, DEA-DCT-DIR-040-17 (Washington, D.C.: Oct. 23, 2017).

⁵⁶Other factors include the denomination of the banknotes and whether new government regulations have been imposed. See Egmont Group of Financial Intelligence Units, *Public Bulletin: Professional Money Laundering Networks* (June 30, 2019).

⁵⁷Several members of an international money laundering organization were sentenced to prison in 2019 for their role in a network of co-conspirators who coordinated the pickup, deposit, laundering, and transfer of millions of dollars of narcotics proceeds to Mexico-based drug trafficking organizations. According to DOJ, they used sophisticated methods, such as encrypted messaging applications and shell corporations with fictitious websites, to evade law enforcement detection and appear legitimate. See Department of Justice, "Eighth Member of International Money Laundering Organization Sentenced in \$19 Million Dollar Scheme" (San Diego, Calif.: Oct. 25, 2019).

cryptocurrency-based schemes because these transactions require technical skill and specialized software.

Law enforcement officials reported that the use of professional money launderers makes it more difficult to identify and prosecute TCOs or terrorist groups engaged in the underlying trafficking crimes. According to DOJ officials, the use of professional money laundering networks complicates law enforcement's efforts to "follow the money" to detect the underlying trafficking crime and prosecute the money laundering, because prosecutors must demonstrate that the underlying crime is a specified unlawful activity to obtain a money laundering conviction.⁵⁸ In addition, Treasury has noted that professional money launderers have become more sophisticated in adapting their methods in response to law enforcement actions, further complicating efforts to combat them.⁵⁹

One emerging trend is TCOs' increasing use of Chinese money laundering networks, according to Treasury's *2020 National Strategy for Combating Terrorist and Other Illicit Financing*. In particular, Mexican drug trafficking organizations and other TCOs based in Latin America increasingly have employed Chinese money laundering networks.⁶⁰ According to Treasury's *2018 National Money Laundering Risk Assessment*, these groups can use bulk cash smuggling, bank deposits in cash, wire transfers, and other transactions to convert Mexico-based traffickers' proceeds obtained in dollars to pesos. The Chinese money laundering networks rely on Chinese expatriate communities in Mexico and South America when laundering money on behalf of TCOs, according to FBI officials. The use of the Chinese organizations also can aid Mexican trafficking organizations in purchasing precursor chemicals that can be used to manufacture illicit drugs, such as fentanyl, for sale in the United States.⁶¹

⁵⁸Prosecutors must demonstrate that the underlying crime is a specific unlawful activity under 18 U.S.C. § 1956(c)(7).

⁵⁹See Treasury, *2020 National Strategy for Combating Terrorist and Other Illicit Financing*.

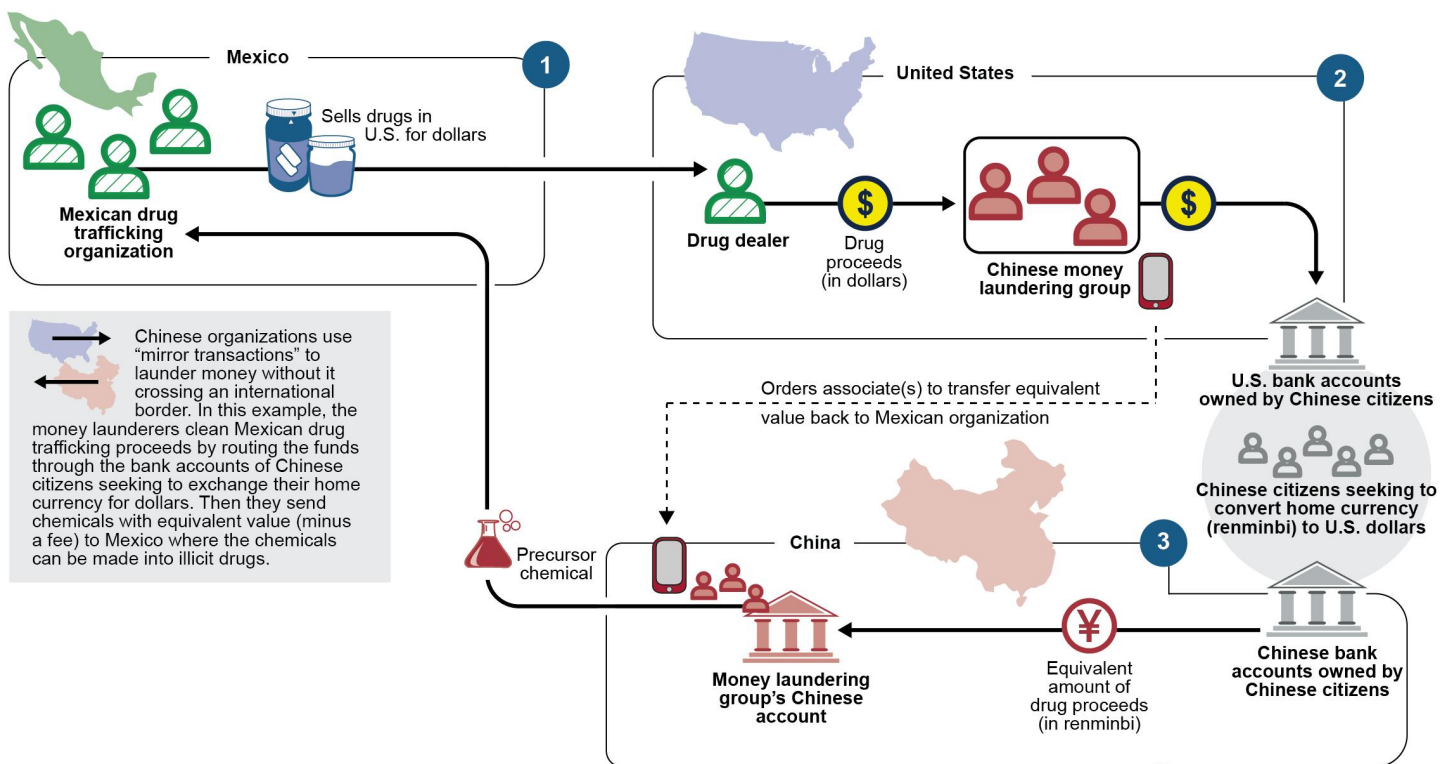
⁶⁰See *2020 National Drug Threat Assessment*; Financial Crimes Enforcement Network, *Anti-Money Laundering and Countering the Finance of Terrorism National Priorities* (Vienna, Va.: June 30, 2021); and *2018 National Money Laundering Risk Assessment*.

⁶¹According to the *2020 National Drug Threat Assessment*, China is one of the primary countries from which TCOs obtain precursor chemicals used for fentanyl and methamphetamine production in Mexico.

Chinese money laundering networks offer several advantages, according to law enforcement officials. They use hard-to-detect strategies, are run by tight-knit groups that are difficult to penetrate, and employ methods that do not require funds to cross an international border. According to law enforcement reports, the networks employ hawala-like methods involving “mirror transactions,” in which traffickers transfer their U.S.-based funds to a Chinese network member in the United States (see fig. 3). A member of the money laundering network orders a comparable transaction in China, ultimately moving money back to the traffickers in the currency of their choice or providing comparable value in goods that then can be sold. These goods can be licit or illicit products, such as precursor chemicals for making fentanyl or other illicit drugs. Once the mirror transaction occurs, the remaining steps take place in China, making it more difficult for U.S. law enforcement to investigate.⁶²

⁶²U.S. law enforcement agencies have reported that China has not cooperated sufficiently on financial investigations and does not provide adequate responses to requests for financial investigative information. According to the Department of State, a significant barrier to enhanced U.S.-China cooperation on these cases is that China has not enforced U.S. court orders or judgements obtained as a result of non-conviction-based forfeiture actions against China-based assets. See *International Narcotics Control Strategy Report, Volume II Money Laundering*: 75.

Figure 3: Hypothetical Example of Chinese Money Laundering Strategies Using Mirror Transactions



Source: GAO analysis of Department of the Treasury and Department of Justice documents. | GAO-22-104807

Another advantage is that the Chinese networks offer their services for a lower fee than other professional money launderers and sometimes provide insurance that would compensate the criminals if the authorities interdicted the funds, according to law enforcement officials we interviewed. For example, Chinese money laundering networks might charge TCOs 1 percent of the amount laundered versus 3 percent that other networks charge, DHS officials said. The Chinese groups can charge TCOs low rates because, as part of their money laundering strategies, they also profit from currency transactions with Chinese citizens not involved in trafficking who wish to transfer cash out of the country in sums that exceed amounts permitted under Chinese law.⁶³ The Chinese money laundering networks charge a fee to citizens for this

⁶³China prohibits Chinese nationals living outside of China from transferring more than \$50,000 annually out of their Chinese bank accounts for use in a foreign country. A Drug Enforcement Administration official we interviewed noted that China imposes this limit primarily to prevent a large-scale exodus of financial assets from the country.

service, which allows them to turn a profit on both ends of the money laundering transaction.

Complicit Professional Service Providers

Treasury has determined that the ability of professional service providers, such as lawyers, to launder funds on behalf of TCOs and terrorists represents one of the most significant money laundering risks to the U.S. financial system. Professional service providers' legitimate roles in the licit economy make them an attractive asset for bad actors seeking to launder or hide trafficking proceeds. Complicit service providers lend their legitimacy and specialized knowledge to financial or business transactions that can help criminals better evade detection. FATF has cited limited BSA/AML obligations for some of these professions as an exploitable gap in the U.S. AML framework.⁶⁴ Treasury officials stated that successful prosecution of cases involving professional service providers also can be challenging because prosecutors need to prove that the providers had the underlying "intent and knowledge" that they were dealing with tainted money or bad actors, or that they should have known, considering the facts and circumstances.⁶⁵

Lawyers. Lawyers can be involved in real estate transactions and company formations, both of which are known mechanisms for money laundering, as discussed previously. Some states may require an attorney for real estate closings, and Treasury has noted that lawyers may be complicit or willfully blind when creating shell companies for criminals to use to launder their illicit proceeds.⁶⁶ In addition, lawyers may use a type of client trust account, called an Interest on Lawyer Trust Account.⁶⁷ These accounts are established at a bank and a complicit

⁶⁴In 2016, FATF rated the United States non-compliant on three recommendations related to non-financial businesses and professions, which include lawyers, accountants, real estate agents, and company service providers. For more information, see *Anti-money laundering and counter-terrorist financing measures, United States Mutual Evaluation Report*. FATF rated the United States as non-compliant because the BSA does not fully cover most of these professions. In October 2021, FinCEN officials told us they were continuing to consider how to best address these comments from the 2016 FATF evaluation.

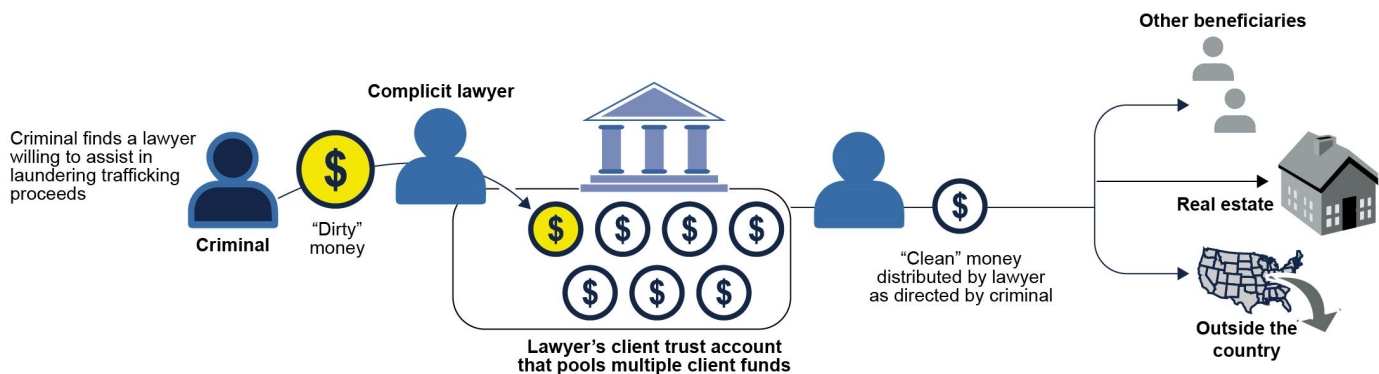
⁶⁵Treasury, *2020 National Strategy for Combating Terrorist and Other Illicit Financing*.

⁶⁶See Treasury, *2018 National Money Laundering Risk Assessment*.

⁶⁷These accounts pool multiple clients' funds when the single client's funds alone are not large enough or will not be held long enough to generate interest to the client.

lawyer can use them as funnel accounts to direct funds to other accomplices or locations (see fig. 4 and text box). Banks and other financial institutions covered by customer due diligence rules are not required to collect information about the owners of funds within the client trust accounts.⁶⁸

Figure 4: Illustrative Example of Use of Client Trust Account to Launder Money



Source: GAO analysis of Department of the Treasury and Department of Homeland Security documents. | GAO-22-104807

Example of Lawyer Use of Client Trust Account to Launder Drug Trafficking Proceeds

In 2014, El Paso lawyer Marco Antonio Delgado was sentenced to 20 years in federal prison after being convicted of conspiracy to launder up to \$600 million in illegal drug proceeds for members of the Milenio Drug Trafficking Organization. The organization's drug trafficking proceeds were transported to El Paso and placed in Delgado's Interest on Lawyer Trust Account, which was used as a funnel account to direct the funds to entities benefiting the Milenio organization.

Source: Department of Homeland Security. | GAO-22-104807

Accountants. Accountants provide accounting, tax, and consulting services for their clients, which may be exploited to launder illicit proceeds. According to the International Federation of Accountants, accountants could launder money directly by holding illicit proceeds in a bank account or by disguising the beneficial ownership of the proceeds. Accountants also could aid others in money laundering efforts through their direct assistance or willful blindness when they create shell companies, open bank accounts, and conduct transactions on behalf of their clients. Accounting knowledge also can be used to provide fictitious

⁶⁸In the preamble to its Final Rule, FinCEN referenced comments raised by the legal industry that revealing clients' information could violate client confidentiality. FinCEN also noted that state bar associations had recordkeeping requirements for lawyers who maintain these accounts that require tracking each deposit and withdrawal, the source and recipient of the funds, and payment purpose. See Customer Due Diligence Requirements for Financial Institutions, 81 Fed. Reg. 29398, 29415-29416 (May 11, 2016).

invoicing operations to give shell companies a legitimate cover or to create false documents to conceal the illicit nature of funds.

Example of an Accountant Involved in Money Laundering, International Drug Trafficking, and Gambling Activities

Luke Fairfield, a certified public accountant from San Diego, was sentenced to 21 months in prison in 2018 for his role in an international drug trafficking, gambling, and money laundering organization known as “ODOG.” Fairfield admitted to laundering money, creating shell companies to hide ODOG’s criminal proceeds, and training money runners on methods and tactics to evade law enforcement and bank suspicion. He also tracked the collection of debts for the organization.

Source: Department of Justice. | GAO-22-104807

Real estate agents. Real estate agents can use their experience and market knowledge to facilitate money laundering, as noted by both Treasury and FATF. For example, real estate agents can help drug traffickers obtain real estate and avoid detection by structuring the financial transactions of properties to conceal the trafficker’s identity and ownership of the property.⁶⁹ While FinCEN issued BSA/AML reporting requirements for some real estate professionals, real estate agents are not subject to these requirements.⁷⁰ In 2020, we reported that FinCEN expected to use its geographic targeting orders to inform and address its concerns about whether other real estate businesses and professionals, such as real estate agents, should be subject to AML programs and reporting requirements.⁷¹

Company service providers. TCOs and terrorists also might use company service providers—businesses that facilitate company

⁶⁹In 2013, Freddy Centeno was sentenced to 2 years in prison for laundering money for a convicted drug trafficker. Centeno admitted to structuring the financial transactions of residential and commercial properties to conceal the identity of the trafficker and ownership of the properties. See Department of Justice, “Real Estate Agent Headed to Prison for Money Laundering” (McAllen, Tex.: Dec. 19, 2013).

⁷⁰On December 8, 2021, FinCEN published an Advance Notice of Proposed Rulemaking seeking comment to assist it in preparing a proposed rule that would seek to impose nationwide recordkeeping and reporting requirements on certain persons participating in transactions involving non-financed purchases of real estate. See Anti-Money Laundering Regulations for Real Estate Transactions, 86 Fed. Reg. 69589 (Dec. 8, 2021).

⁷¹A real estate geographic targeting order requires title insurers to report information on certain all-cash purchases of residential real estate by legal entities in specified areas. FinCEN has renewed the real estate geographic targeting order multiple times, most recently in October 2021. In July 2020, we recommended that FinCEN provide additional direction on how the agency will plan to evaluate its geographic targeting orders (see [GAO-20-546](#)). In February 2021, FinCEN implemented this recommendation through revision of its procedures for geographic targeting orders.

formations on behalf of their clients—to help evade law enforcement detection. For instance, company service providers help incorporate shell companies. As we reported previously, most company formation agents generally do not collect any information on ownership or management of companies they represent, and generally are not required to verify information they collect from clients.⁷²

Arts and antiquities dealers. Since October 2020, FinCEN and Treasury’s Office of Foreign Assets Control (OFAC) each released advisories identifying the money laundering vulnerabilities associated with the art and antiquities trade.⁷³ The high-value art market is attractive to money launderers for reasons including a lack of transparency in transactions and anonymity among buyers and sellers—partly because dealers act as intermediaries who facilitate transactions. The Anti-Money Laundering Act of 2020 added antiquities dealers to the definition of “financial institutions” for BSA purposes and required Treasury to implement associated AML regulations.⁷⁴ The act also requires that Treasury study whether art markets should be subject to similar regulation.

⁷²Company service providers help their clients handle administrative paperwork and ensure state requirements are met, such as by filing amendments and periodic reports, providing registered agent services, and obtaining certificates of good standing. See GAO, *Company Formations: Minimal Ownership Information Is Collected and Available*, [GAO-06-376](#) (Washington, D.C.: Apr. 7, 2006).

⁷³See Financial Crimes Enforcement Network, *FinCEN Informs Financial Institutions of Efforts Related to Trade in Antiquities and Art*, FIN-2021-NTC2 (Vienna, Va.: Mar. 9, 2021); and Office of Foreign Assets Control, *Advisory and Guidance on Potential Sanctions Risks Arising from Dealings in High-Value Artwork* (Washington, D.C.: Oct. 30, 2020).

⁷⁴Antiquities dealers are persons “engaged in the trade of antiquities, including an advisor, consultant, or any other person who engages as a business in the solicitation or the sale of antiquities, subject to regulations prescribed by the Secretary.” See Anti-Money Laundering Act of 2020, Pub. L. No. 116-283, § 6110, 134 Stat. 3388, 4561-4563 (2021). In September 2021, FinCEN released an Advanced Notice of Proposed Rulemaking to solicit comment on AML regulations for dealers in antiquities, citing client confidentiality, use of intermediaries, and unregulated customer due diligence practices as some of the characteristics that money launderers and terrorist financiers may exploit to evade law enforcement. See Anti-Money Laundering Regulations for Dealers in Antiquities, 86 Fed. Reg. 53021 (Sept. 24, 2021). FinCEN must issue proposed rules on the antiquities trade by December 27, 2021.

Federal Agencies and Financial Institutions Use Several Collaboration Mechanisms in Efforts to Combat Trafficking

Combatting trafficking by TCOs and terrorists is inherently challenging because these groups often comprise sophisticated criminal actors who operate largely outside the United States and are adept at exploiting vulnerabilities in the financial and trade systems. Moreover, responsibility for combating trafficking and related money laundering is spread across many federal agencies, potentially leading to fragmentation of information and duplication of effort. And law enforcement agencies often rely on information that financial institutions provide about suspicious financial transactions, but these institutions may not always know what information would be most useful for law enforcement to use, and they may not have access to sufficient information to identify certain kinds of illicit activity as suspicious.

Federal Interagency Collaboration Mechanisms Are Intended to Address Counter-Trafficking Challenges

To address counter-trafficking challenges, federal agencies use interagency task forces and other mechanisms to share information on and coordinate their efforts to identify and combat trafficking activities.

Interagency Collaboration to Address Fragmentation

One way in which federal agencies have worked to overcome the fragmentation of information and potential duplication of investigative activities is through the formation of task forces and other multi-agency efforts to counter trafficking activities or related money laundering (see table 1).⁷⁵ Through these collaborative efforts, agencies share information and analytical resources related to ongoing investigative or other counter-

⁷⁵In addition to the task forces and working groups we mention in this report, other federal interagency efforts address trafficking and related money laundering issues. For a discussion of interagency efforts to combat trade-based money-laundering, see [GAO-22-447](#). For a discussion of interagency efforts to combat the use of virtual currencies in money laundering and trafficking activities, see GAO, *Virtual Currencies: Additional Information Could Improve Federal Agency Efforts to Counter Human and Drug Trafficking*, [GAO-22-105462](#) (Washington, D.C.: Dec. 8, 2021).

trafficking efforts. According to FATF, the task force model is useful for conducting sophisticated, large, and complex cases, and allows law enforcement agencies to leverage other resources.⁷⁶

⁷⁶Financial Action Task Force, *United States Mutual Evaluation Report (2016)*.

Table 1: Selected Federal Interagency Groups That Address Trafficking by Transnational Criminal Organizations and Terrorist Groups

Federal interagency group	Description
Organized Crime Drug Enforcement Task Forces	The multi-agency program coordinates investigations, prosecutions, and other efforts to combat transnational organized crime, money laundering, and major drug trafficking networks.
Joint Interagency Task Force-South	The task force is led by the Department of Defense (with a U.S. Coast Guard rear admiral serving as the director) and participants include components of the Department of Homeland Security and Department of Justice. It helps monitor and detect illicit drug trafficking into the United States.
El Dorado Task Force	The multi-agency task force is led by Immigration and Customs Enforcement-Homeland Security Investigations and targets financial crime and money laundering in the New York and New Jersey metropolitan area. It focuses primarily on the movement of proceeds from drug trafficking.
Joint Task Force Alpha	The task force, which was jointly established by the Department of Justice and Department of Homeland Security, coordinates investigations and prosecutions of transnational human smuggling and trafficking groups operating in Mexico, Guatemala, El Salvador, and Honduras.
President's Interagency Task Force to Monitor and Combat Trafficking in Persons	The task force is a cabinet-level entity that consists of 20 federal agencies and is responsible for coordinating government-wide efforts to combat trafficking in persons. This task force coordinates policy rather than law enforcement efforts specifically.
Presidential Task Force on Wildlife Trafficking	The interagency task force was charged with developing and implementing a strategy to guide U.S. efforts to combat wildlife trafficking (and was chaired by the Departments of Interior, State, and Justice). For example, the task force's strategic efforts focused on strengthening law enforcement, reducing demand, and building international cooperation to combat wildlife trafficking. The legal authorization for the task force ended in October 2021.
Border Enforcement Security Task Force	The task force is led by Immigration and Customs Enforcement-Homeland Security Investigations and works to combat transnational criminal organizations involved in the smuggling of firearms, drugs, and other contraband across the U.S. border.
Suspicious Activity Report Review Teams	The interagency teams are led by Internal Revenue Service-Criminal Investigation and U.S. Attorney's Offices and located throughout the United States. They review reports of suspicious financial transactions filed by financial institutions and coordinate follow-up investigations.

Source: GAO analysis of federal agency information and past GAO reports. | GAO-22-104807

Law enforcement task forces, such as the Organized Crime Drug Enforcement Task Forces and the El Dorado Task Force, investigate TCOs and terrorist groups and seek to dismantle the financial networks that support them. They also aid in the prosecution of these crimes. For example, the Organized Crime Drug Enforcement Task Forces have co-located teams of prosecutors and law enforcement agencies called "strike

forces” in 19 U.S. cities to coordinate investigations against high-priority drug trafficking and other transnational criminal threats.⁷⁷

Example of Task Force Activities: Organized Crime Drug Enforcement Task Forces’ Coordination on Investigations

In August 2019, 11 men from Tanzania, Pakistan, and Iran pled guilty and were sentenced to federal prison for their part in trafficking heroin to the United States. This was an Organized Crime Drug Enforcement Task Forces investigation, with Immigration and Customs Enforcement-Homeland Security Investigations acting as the lead agency. The Drug Enforcement Administration and police agencies of several countries, such as South Africa and Canada, provided assistance.

Source: Department of Justice. | GAO-22-104807

Another task force, the Joint Interagency Task Force-South, is a multi-agency effort under DOD’s U.S. Southern Command, with participation from DHS (including the Coast Guard) and DOJ, to disrupt illicit drug trafficking and narcoterrorist activities.⁷⁸ Interagency coordination between DOD components and federal law enforcement agencies allows them to leverage personnel, legal authorities, expertise, and other law enforcement and intelligence assets.⁷⁹ However, there can be challenges with these arrangements as a result of differing missions, priorities, and

⁷⁷See GAO, *Counternarcotics: Overview of Efforts in the Western Hemisphere*, [GAO-18-10](#) (Washington, D.C.: Oct. 13, 2017).

⁷⁸To perform its military missions around the world, DOD operates geographic combatant commands—which includes the U.S. Southern Command—that conduct activities in assigned areas of responsibility. According to DOD, these responsibilities include planning, executing, and coordinating DOD’s counter-threat finance activities in assigned areas. In May 2021, the DOD Office of Inspector General recommended that selected combatant commands establish more formal policies and procedures, including for interagency coordination. However, the U.S. Southern Command was not among the combatant commands reviewed. Department of Defense, Office of Inspector General, *Evaluation of Combatant Command Counter-Threat Finance*, DODIG-2021-082 (Alexandria, Va.: May 18, 2021).

⁷⁹See GAO, *Defense Management: U.S. Southern Command Demonstrates Interagency Collaboration, but Its Haiti Disaster Response Revealed Challenges Conducting a Large Military Operation*, [GAO-10-801](#) (Washington, D.C.: July 28, 2010). See also [GAO-18-10](#), which explains the benefits of interagency coordination through the Joint Interagency Task Force-South (such as leveraging maritime, drug, and finance law enforcement authorities and customs and immigration authorities). GAO, *Drug Control: Certain DOD and DHS Joint Task Forces Should Enhance Their Performance Measures to Better Assess Counterdrug Activities*, [GAO-19-441](#) (Washington, D.C.: July 9, 2019) also assesses the Joint Interagency Task Force-South and other DOD and DHS task forces. This report recommended the agencies develop performance measures for selected DOD and DHS task forces to better assess the effectiveness of their counterdrug missions and activities. The two recommendations directed to the Joint Interagency Task Force-West were fully implemented. DHS agreed with the one recommendation directed to it but had not yet fully implemented it as of November 2021.

cultures among the task force and its members. For example, agencies' priorities may differ with respect to the timing of counter-trafficking actions—with one agency preferring to intervene more quickly to disrupt a drug trafficking operation and another preferring to wait and gather additional intelligence that may yield more substantial future outcomes.⁸⁰

Fusion centers, which are operated by law enforcement agencies at different levels of government, also are intended to overcome barriers to information sharing. The centers serve as focal points for receiving, analyzing, gathering, and sharing threat-related information and disseminating actionable intelligence.⁸¹ For instance, the Organized Crime Drug Enforcement Task Forces Fusion Center provides intelligence information for investigations and prosecutions focused on disrupting and dismantling drug-trafficking and money laundering organizations. It manages and analyzes drug and related financial intelligence information from the task forces' investigative agencies, FinCEN, and other federal agency partners and helps produce actionable leads for investigations.

FinCEN also uses memorandums of understanding and information-sharing agreements to make BSA data available for law enforcement investigations, consistent with FinCEN's authority to share such information. FinCEN provides access to its database to federal, state, and local law enforcement agencies through data-access memorandums of understanding.⁸² For instance, FinCEN makes BSA data available to teams led by Internal Revenue Service-Criminal Investigation and U.S. Attorney's Offices that review suspicious activity reports and other BSA filings to support law enforcement investigations. In addition, the Bank Secrecy Act Advisory Group (BSA Advisory Group) provides an avenue for FinCEN to work with law enforcement agencies, financial institutions, and other stakeholders to receive advice on how BSA reports filed by

⁸⁰In 2010, we described conflicting priorities between the Drug Enforcement Administration, which may have cases where the agency would prefer not to intercept a suspected drug trafficker (to gain more information about a criminal organization), and the Joint Interagency Task Force-South, may prefer an immediate intervention to intercept the flow of drugs into the United States. See [GAO-10-801](#).

⁸¹Financial Action Task Force, *United States Mutual Evaluation Report* (2016).

⁸²FinCEN had memorandums of understanding with 464 agencies as of December 2018. See GAO, *Anti-Money Laundering: Opportunities Exist to Increase Law Enforcement Use of Bank Secrecy Act Reports, and Banks' Costs to Comply with the Act Varied*, [GAO-20-574](#) (Washington, D.C.: Sept. 22, 2020).

financial institutions are used to assist with law enforcement investigations and how, if at all, the reporting could better support such investigations.⁸³

Law enforcement, FinCEN, and other agencies also make use of interagency liaisons to address information-sharing limitations across agencies.⁸⁴ For example, FinCEN has regularly hosted liaisons from law enforcement agencies to help avoid overlap and duplication of efforts (it hosted 18 law enforcement liaisons from 10 agencies as of April 2019).⁸⁵ DOD officials we interviewed also noted the department hosts liaisons from Treasury and sends its analysts to work in other executive branch agencies. We reported that some law enforcement officials said the liaison position allowed feedback and information exchange.⁸⁶ However, the effectiveness of liaisons can be impaired if individuals lack proper credentials.⁸⁷

⁸³Specifically, the statutory purpose of the BSA Advisory Group is to serve as the means by which the Secretary of the Treasury (1) receives advice on the manner in which BSA reporting requirements should be modified to enhance the ability of law enforcement agencies to use the information provided for law enforcement purposes; and (2) informs private-sector representatives, on a regular basis, of the ways in which the BSA reports have been used to assist with law enforcement investigations. See Annunzio-Wylie Anti-Money Laundering Act, Pub. L. No. 102-550, tit. XV, § 1564, 106 Stat. 3680, 4073-4074 (1992). Members of the group include federal and state supervisory agencies, law enforcement agencies, and selected self-regulatory organizations, financial institutions, and industry associations.

⁸⁴The Anti-Money Laundering Act of 2020 requires FinCEN to maintain and accelerate efforts to strengthen anti-money laundering and counter-terrorism financing efforts through a personnel rotation program with federal law enforcement and other agencies. Pub. L. No. 116-283, § 6104, 134 Stat. 3388, 4555 (2021).

⁸⁵See GAO, *Bank Secrecy Act: Agencies and Financial Institutions Share Information but Metrics and Feedback Not Regularly Provided*, [GAO-19-582](#) (Washington, D.C.: Aug. 27, 2019). This report also provides more detail on the mechanisms federal agencies use to collaborate on BSA/AML activity.

⁸⁶[GAO-19-582](#).

⁸⁷The DOJ Office of Inspector General found that the personnel supplied to the Organized Crime Drug Enforcement Task Forces Fusion Center by member agencies lacked suitable experience or necessary qualifications. See Department of Justice, Office of the Inspector General Evaluation and Inspections Division, *Review of the Organized Crime Drug Enforcement Task Forces Fusion Center*, I-2014-002 (Washington, D.C.: March 2014). The Office of Inspector General recommendations included that the fusion center and member agencies revise staffing agreements to encourage assignment of experienced intelligence analysts and minimize the time those positions were vacant.

Coordination on Trafficking Activity outside the United States

U.S. law enforcement agencies, Treasury, and the intelligence community conduct a number of intelligence-sharing and other collaboration efforts, both domestic and international, to address challenges with investigating illicit activities that occur overseas. The Organized Crime Drug Enforcement Task Forces and Joint Interagency Task Force-South are among the task forces that work with U.S. agencies and international partners to combat trafficking. DOD also can conduct activities to support U.S. or foreign law enforcement agencies based on its authorities, such as providing training and equipment to national security forces of other countries for countering illicit drug trafficking.⁸⁸

Treasury's OFAC also leads an effort to counter drug trafficking activities outside the United States. Under the Foreign Narcotics Kingpin Designation Act, OFAC and seven partner agencies collaborate to identify potential targets for sanctions (foreign individuals and entities that contribute to illicit narcotics trafficking), collect and assess evidence against them, and make sanctions designations.⁸⁹ For example, the U.S. Southern Command highlighted coordination with OFAC in 2020 to sanction individuals who facilitated trafficking by the Clan de Golfo drug trafficking organization in Colombia.⁹⁰ We reported in 2019 that the OFAC coordination process is designed to ensure that designations do not

⁸⁸The National Defense Authorization Act for Fiscal Year 2015 expanded DOD's authority, under certain conditions, to allow DOD to use counter-drug trafficking funds to also support efforts by law enforcement to counter terrorism and TCO activities not significantly related to the illicit drug trade. Pub L. No. 113-291, §§ 1012, 1014, 128 Stat. 3292, 3483-3485 (2014).

⁸⁹The partner agencies are DOJ, State, DHS, DOD, Central Intelligence Agency, FBI, and Drug Enforcement Administration. The Foreign Narcotics Kingpin Designation Act was enacted in 1999. Pub. L. No. 106-120, tit. VIII, 113 Stat. 1606, 1626-1636 (1999) (codified as amended at 21 U.S.C. §§ 1901-1908). It is a legislative expansion of Executive Order No. 12978, "Blocking Assets and Prohibiting Transactions with Significant Narcotics Traffickers," which provides for the use of the authorities in the International Emergency Economic Powers Act to target and apply sanctions to four international narcotics traffickers and their organizations that operated in Colombia (60 Fed. Reg. 54579, Oct. 24, 1995). In authorizing the Foreign Narcotics Kingpin Designation Act, Congress stated that similar authorities should be applied worldwide based on the successful application of Executive Order No. 12978 sanctions authorities to narcotics traffickers in Colombia.

⁹⁰Department of the Treasury, *Treasury Sanctions Network for Assisting Colombia's Clan del Golfo Drug Trafficking Organization* (Washington, D.C.: Dec. 1, 2020).

jeopardize other agencies' ongoing investigations and are coordinated with other planned criminal or civil actions.⁹¹

U.S. agencies also are members of or work with international entities that combat financial and other crimes. For example, the Egmont Group of Financial Intelligence Units includes FinCEN and similar organizations in more than 160 foreign jurisdictions. Members share financial intelligence information to counter money laundering and terrorist financing. We previously reported that FinCEN officials have stated that information sharing through this global network of financial intelligence units is critical to supporting U.S. and foreign law enforcement cases.⁹²

Additionally, federal law enforcement agencies work with foreign partners on criminal investigations, including those that involve trafficking.⁹³ For example, the Five Eyes Law Enforcement Group (a coalition of law enforcement agencies from Australia, Canada, New Zealand, the United Kingdom, and the United States) shares criminal intelligence and collaborates on operations to combat transnational crime. Officials from DOJ told us they leverage the knowledge base or other assets of coalition members in trafficking and related money laundering investigations. The Drug Enforcement Administration has special agents who conduct bilateral investigations with foreign law enforcement counterparts. Homeland Security Investigations, a component of Immigration and Customs Enforcement, works with foreign partners to (1) coordinate criminal investigations, including those related to counternarcotics; (2) disrupt criminal efforts to smuggle people and material, including drugs

⁹¹GAO, *Counternarcotics: Treasury Reports Some Results from Designating Drug Kingpins, but Should Improve Information on Agencies' Expenditures*, [GAO-20-112](#) (Washington, D.C.: Dec. 16, 2019). As we noted in the report, this coordination can sometimes increase the time needed to investigate a target.

⁹²[GAO-20-333](#).

⁹³See [GAO-18-10](#), app. V, for more detail on U.S. cooperation with foreign partners to reduce drug trafficking in the Western Hemisphere. Other GAO reports also describe coordination with international partners on trafficking issues. For example, [GAO-22-447](#) addresses the role and coordination efforts of the Trade Transparency Unit program. Under the program, Immigration and Customs Enforcement-Homeland Security Investigations established agreements with 18 countries to allow agencies in each country to exchange trade and financial information to better identify potential cases of trade-based money laundering by TCOs. In addition, [GAO-20-333](#) describes U.S. agency support for the Transnational Criminal Organizations Working Group, in which officials from the United States, Colombia, and Mexico participate in specialized training and develop joint strategies and best practices for combating TCOs.

into the United States; and (3) build international partnerships through outreach and training.

Federal Agencies Seek to Improve Financial Institution Reporting and Enhance Data Analysis

Federal agencies have a number of initiatives to make information from financial institutions more available or more useful for trafficking-related investigations, and to enhance agencies' ability to analyze such information.⁹⁴

FinCEN advisories. FinCEN seeks to improve the quality of the SAR data it receives from financial institutions by issuing advisories, which include descriptions of trafficking strategies, "red flag" indicators, and other guidance developed in collaboration with law enforcement agencies. The advisories are intended to help institutions better understand what transactions or customer activities to report to support law enforcement investigations (see table 2).

Table 2: Examples of Financial Crimes Enforcement Network (FinCEN) Advisories That Address Trafficking		
Date	Advisory	Description
Advisory related to human trafficking		
Oct. 15, 2020	Supplemental Advisory on Identifying and Reporting Human Trafficking and Related Activity	Provided examples of strategies or criminal typologies, red flag indicators, and case studies of human trafficking. For example, this advisory described the use of front companies that appear legitimate (e.g., massage businesses, restaurants) and visa fraud and wage retention as ways to launder money to support human trafficking.
Advisory related to drug trafficking		
Aug. 21, 2019	Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids	Provided examples of strategies or criminal typologies, red flag indicators, and case studies of trafficking of fentanyl and other synthetic opioids. For example, this advisory described the funding mechanisms used to support this trafficking, such as the use of money transfers to individuals in foreign countries to purchase fentanyl.
Advisory related to the abuse of virtual currencies for illicit activities		

⁹⁴In September 2020, we reported that more than 72 percent of personnel at six federal law enforcement agencies we surveyed used BSA reports to investigate money laundering or other crimes in 2015–2018. Survey respondents who used BSA reports said they most frequently found information useful for identifying new subjects for investigation or expanding ongoing investigations. See [GAO-20-574](#).

May 9, 2019	Advisory on Illicit Activity Involving Convertible Virtual Currency	Provided examples of strategies or criminal typologies, red flag indicators, and case studies involving the abuse of virtual currencies for money laundering. For example, this advisory describes the use of anonymized web and payment platforms for carrying out illicit transactions.
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Source: GAO analysis of FinCEN information. | GAO-22-104807

Examples of “Red Flag” Indicators of Human Trafficking Provided to Financial Institutions

In 2020, FinCEN advised financial institutions of “red flags” for potential human trafficking, a few examples of which are listed below.

Behavioral Indicators during In-Person Financial Transactions:

- Involvement of a third party who speaks on behalf of the customer, insists on being present for every aspect of the transaction, maintains control over all documents and money, or is aggressive to or intimidates the customer.
- A customer who shows signs of poor hygiene, malnourishment, fatigue, physical and/or sexual abuse, physical restraint, confinement, or torture.

Financial Indicators:

- Customers who frequently move through or conduct transactions from different U.S. geographical regions.
- Transactions that are inconsistent with a customer’s expected activity and/or line of business in an apparent effort to cover trafficking victims’ living costs.
- A customer’s account sharing common identifiers, such as a telephone number, associated with escort agency websites and commercial sex advertisements.
- Frequent sending or receipt of funds via cryptocurrency to or from “black market” websites or services known to be associated with illicit activity.

Source: GAO analysis of Financial Crime Enforcement Network (FinCEN) information. | GAO-22-104807

In our group interviews with representatives of financial institutions, representatives said they use information from FinCEN, including advisories, to inform their understanding of how to identify suspicious activities related to trafficking. For example, representatives in one group said they used FinCEN advisories to train local bank staff. However, some representatives in all the groups said the information FinCEN provided was very broad and that more detailed information (such as case studies) would enhance financial institutions’ ability to identify or

report information useful for law enforcement investigations.⁹⁵ For example, some institutions noted they only see a small piece of an illicit finance scheme and could improve their reporting if they better understood the larger picture. Representatives in two groups also noted it would be helpful to have more targeted case studies (for example, for specific industries or for rural areas). Representatives in one group also observed that FinCEN and law enforcement agencies may be reluctant to publicly share more detailed information because it could reveal sensitive information.

Information sharing between federal agencies and financial institutions. FinCEN and law enforcement agencies have programs to share details about how financial institutions could better identify and report data for disrupting money laundering, terrorist financing, and other financial crimes, although the information generally is shared among limited audiences. In 2017, FinCEN established the FinCEN Exchange, which, according to FinCEN, is a public-private program to enhance information sharing with financial institutions so that FinCEN and law enforcement agencies can receive information that will help them disrupt money laundering and other financial crimes. FinCEN officials told us in 2019 that the FinCEN Exchange was providing a forum in which law enforcement can request specific information and provide information on typologies to financial institutions, allowing institutions to improve BSA

⁹⁵In August 2019, we reported that financial institution-specific feedback had not been regularly provided or on a large scale, and that industry representatives said having more information on red flags and specific guidance would be helpful in improving their BSA monitoring programs. We recommended that FinCEN (1) review options to more consistently and publicly provide summary data on the usefulness of BSA reporting and (2) review options for establishing a mechanism for law enforcement agencies to provide regular and institution-specific feedback on BSA reporting. FinCEN agreed with the first recommendation, neither agreed nor disagreed with the second, and had not yet fully implemented either recommendation as of November 2021. See [GAO-19-582](#). In addition, GAO has an ongoing study examining feedback between federal agencies and financial institutions on efforts to combat money laundering and other forms of illicit finance. Pub. L. No. 116-283, div. F, tit. LXV, § 6503, 134 Stat. 3388, 4628-4629 (2021).

monitoring and reporting.⁹⁶ In 2021, the FinCEN Exchange was codified into law.⁹⁷

DHS officials noted that they also provide red flag indicators and other information on trafficking to financial institutions through DHS's Cornerstone Program—an outreach program for financial institutions. For example, DHS issues reports and makes presentations to financial institutions on trafficking. FBI officials also described conducting outreach to financial institutions about emerging trends and the types of information financial institutions could provide to aid law enforcement efforts. Some financial institution representatives told us law enforcement officials had met directly with their institution, noting that the ability to interact with and ask questions of law enforcement agents helped improve their ability to identify and report suspicious activities.⁹⁸

Information sharing among financial institutions. FinCEN also coordinates a voluntary program for financial institutions to share information with each other, the purpose of which is to help financial institutions better identify and report activities they suspect may involve money laundering or terrorist activities. The program, which is authorized by Section 314(b) of the USA PATRIOT Act, allows financial institutions to share normally private information about customers or transactions when

⁹⁶[GAO-19-582](#).

⁹⁷The Anti-Money Laundering Act of 2020 codified the FinCEN Exchange, with the express purpose to facilitate a voluntary public-private information-sharing partnership among law enforcement agencies, national security agencies, financial institutions, and FinCEN to effectively and efficiently combat money laundering, terrorism financing, organized crime, and other financial crimes; protect the financial system from illicit use; and promote national security. Pub. L. No. 116-283, div. F, tit. LXI, § 6103, 134 Stat. 3388, 4553-4555 (2021). The Anti-Money Laundering Act of 2020 also requires FinCEN to analyze the extent and effectiveness of efforts of the FinCEN Exchange. As of September 2021, FinCEN's evaluation was ongoing.

⁹⁸The Anti-Money Laundering Act of 2020 requires that FinCEN periodically disclose to financial institutions when suspicious activity reports were useful to law enforcement agencies and to report on money laundering and terrorist financing patterns and trends at least twice per year. Pub. L. No. 116-283, div. F, tit. LXII, §§ 6203, 6206, 134 Stat. 3388, 4568, 4571-4572 (2021). In September 2020, we recommended that FinCEN develop and implement written policies and procedures to help promote the greater use of BSA reports by law enforcement agencies without direct access to the BSA database. FinCEN agreed with the recommendation and told us in March 2021 it had begun to review policies and procedures relevant to BSA data access and was working on an action plan to enhance outreach efforts. FinCEN had not yet fully implemented this recommendation as of November 2021. See [GAO-20-574](#).

the institutions suspect money laundering or terrorist financing.⁹⁹ According to FinCEN, the program is intended to provide financial institutions with a more comprehensive picture of complex illicit activities involving numerous financial institutions, entities, and jurisdictions, which helps the institutions file more comprehensive SARs. According to a preliminary FinCEN analysis, financial institutions filed more than 17,000 SARs in 2020 that noted use of the Section 314(b) program. Of this number, 150 indicated human trafficking as the suspected activity.¹⁰⁰

Financial institutions whose representatives we interviewed said the 314(b) program was a useful tool in combating illicit finance schemes related to trafficking. For example, one representative said the institution may receive lists of transactions through the 314(b) program that it can use to track beneficiaries of funds. The financial institutions noted that information sharing through the program could be improved if there were clearer expectations and standards around response times for requests from other institutions or around what information can be shared. However, representatives of financial institutions in one of the groups we

⁹⁹The full name of the USA PATRIOT Act is the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001. Pub. L. No. 107-56, § 314, 115 Stat. 272, 307 (2001). The Section 314(b) program allows two or more financial institutions, under the protection of safe harbor from liability, to share information with one another on individuals, entities, organizations, and countries suspected of possible terrorist or money laundering activities. Under Section 314(b), associations of financial institutions are eligible to share information to identify transactions; institutions do not have to conclude that a transaction was suspicious to share information; associations can be formed and operated by non-financial institutions, such as compliance service providers; and an unincorporated association governed by a contract can engage in information sharing. See Financial Crimes Enforcement Network, *Section 314(b) Fact Sheet* (Vienna, Va.: December 2020).

¹⁰⁰The preliminary data FinCEN provided for the 314(b) program did not include other forms of trafficking.

interviewed also noted that imposing additional requirements might discourage institutions from participating in the voluntary program.¹⁰¹

In 2018, the BSA Advisory Group formed a working group to obtain feedback from financial institutions on the 314(b) program in an effort to improve program use. The working group found that financial institutions would benefit from greater clarity about what information can be shared and how they should submit and respond to requests through the program. In response, FinCEN issued guidance in December 2020 that clarified appropriate uses of the 314(b) program and what information could be shared.¹⁰² The Director of FinCEN promoted the guidance and value of the 314(b) program at an industry conference in 2020 as a way to encourage program participation.

In addition, financial industry representatives told us they launched an initiative to develop recommended practices and sample procedures to encourage greater participation in the 314(b) program. This effort was an outgrowth of the BSA Advisory Group working group and was ongoing as of October 2021. Two representatives of the industry-led effort told us that increasing participation, particularly among smaller institutions not yet enrolled in the voluntary 314(b) program, was important because traffickers seek to exploit all segments of the financial system.

Initiatives to enhance data analysis. Other initiatives seek to enhance federal agencies' analysis of data from financial institutions and other sources to identify trafficking-related activities, patterns, and networks. Treasury identified improving data analysis capabilities as a national strategy to better combat terrorism and illicit financing.¹⁰³

¹⁰¹A 2017 report by the Treasury Office of Inspector General on the 314(b) program also noted that some small banks were not aware that other financial institutions participating in the program do not have an obligation to share information or respond to a particular request. The report found that financial institutions were reluctant to participate in the 314(b) program and recommended that FinCEN identify and address financial institutions' concerns to encourage greater participation in the program. The Office of Inspector General deems the recommendation implemented. Department of the Treasury, Office of Inspector General, *Terrorist Financing/Money Laundering: FinCEN's 314 Information Sharing Programs Are Useful But Need FinCEN's Attention*, OIG-17-055 (Washington, D.C.: Sept. 18, 2017).

¹⁰²FinCEN, *Section 314(b) Fact Sheet* (December 2020).

¹⁰³Data analytics helps drive case selection and improve investigative efficiency, according to Treasury. See *2020 National Strategy*: 45.

In 2018, FinCEN entered into a joint research agreement with a government research organization that specializes in advanced data analytics, with the goal of improving FinCEN's data analytics capabilities, including increasing its ability to process large volumes of data. The research effort leverages BSA and other data to develop new tools and analytics methods. In November 2021, we reported that DHS was undertaking efforts to enhance its Data Analysis and Research for Trade Transparency System, a tool for comparing U.S. trade data with partner countries' data to identify potentially suspicious activities.¹⁰⁴

In addition, officials of Internal Revenue Service-Criminal Investigation told us they have an ongoing project to use artificial intelligence to improve data analysis of trafficking and other criminal activities. Artificial intelligence applications for analyzing these data would allow for better identification of specific fact patterns associated with potential crimes than existing human-led analyses, according to IRS officials.

However, government and nongovernment experts we interviewed noted that artificial intelligence applications based on machine learning currently have limitations.¹⁰⁵ Challenges they cited included the availability of data to "teach" artificial intelligence systems to look for patterns of trafficking and money laundering. Some financial institutions we interviewed also noted the potentially high cost of installing complex systems or emerging technologies as a challenge.

Agency Comments

We provided a draft of this report to the Department of the Treasury/FinCEN, DOD, DHS, DOJ, and IRS for their review and comment. FinCEN, DHS, and DOJ provided technical comments, which we incorporated as appropriate.

¹⁰⁴[GAO-22-447](#).

¹⁰⁵We previously described artificial intelligence as having three distinct waves of development. Early artificial intelligence technologies, the first wave, were often expert or rules-based systems, whereby a computer is programmed based on expert knowledge or criteria and produces outputs consistent with its programming. Second-wave systems, which are based on machine learning, begin with data and infer rules or decision procedures that predict specified outcomes. Third-wave systems combine the strengths of first- and second-wave systems, and also are capable of contextual sophistication, abstraction, and explanation. See GAO, *Artificial Intelligence: Emerging Opportunities, Challenges, and Implications*, [GAO-18-644T](#) (Washington, D.C.: June 26, 2018).

We are sending copies of this report to the appropriate congressional committees, Secretary of the Treasury, Secretary of Defense, Secretary of Homeland Security, Attorney General, Commissioner of the IRS, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or clementsm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Michael Clements". The signature is written in a cursive, flowing style.

Michael E. Clements
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to describe: (1) what is known about the factors transnational criminal organizations (TCO) or terrorist groups consider in executing trafficking schemes, (2) what is known about money laundering strategies of TCOs and terrorist groups, and (3) information-sharing efforts among federal agencies, financial institutions, and law enforcement to detect potential trafficking.

For all objectives, we reviewed prior GAO reports and documentation from federal agencies. This documentation included the Department of the Treasury's *2020 National Strategy for Combating Terrorist and Other Illicit Financing* and 2018 National Money Laundering Risk Assessment, as well as the Financial Crimes Enforcement Network's (FinCEN) 2021 Anti-Money Laundering and Countering the Financing of Terrorism National Priorities. We also reviewed relevant federal legislation and proposed and final rules that govern Bank Secrecy Act and anti-money laundering obligations for financial institutions and certain professional service providers (such as lawyers, real estate professionals, and antiquities dealers) in the United States. In addition, we reviewed and described relevant findings and recommendations, including their status, from GAO's body of work on trafficking and money laundering.

For all objectives, we also interviewed representatives of federal agencies about TCOs' and terrorists' trafficking and money laundering activities and about the agencies' interagency collaboration and analytical tools used to combat these activities. We interviewed officials from the following federal agencies and offices: (1) FinCEN; (2) components within the Department of Justice (including the Criminal Division, Federal Bureau of Investigation, Drug Enforcement Administration, Executive Office for U.S. Attorneys, and the Organized Crime Drug Enforcement Task Forces); (3) components within the Department of Homeland Security (including Immigration and Customs Enforcement-Homeland Security Investigations and Customs and Border Protection); (4) Internal Revenue Service-Criminal Investigation; and (5) components within the Department of Defense (U.S. Southern Command and the Office of the Deputy Assistant Secretary of Defense for Counternarcotics and Global Threats).

We also conducted interviews with five experts from academia, consulting firms, and the private sector. To select these experts, we solicited recommendations from stakeholders or other sources and considered criteria that included prior experience working with government, a diversity of regional experience, extent of fieldwork interacting with traffickers, and extent of published research. Each of the five has published books or research articles on TCO or terrorist involvement in trafficking or money laundering and has served as an advisor or contractor for government agencies on these issues. The views of the experts that we presented in the report are not generalizable.

We also obtained information for all objectives through a literature search. We reviewed articles from scholarly journals and reports obtained using a database search for studies in research journals and books from 2011 to June 2021. We compiled an initial list of relevant peer-reviewed scholarly articles by conducting keyword searches using databases that included ProQuest, EBSCOhost, and Scopus.¹ From this list, we examined summary-level information about each piece of literature and selected articles for review that were germane to our report. We identified additional literature by generating a list of published work related to trafficking and illicit finance from international and nonprofit organizations recommended by GAO staff, experts, and prior GAO work focused on trafficking and money laundering. These organizations included the Financial Action Task Force, the Organisation for Economic Co-operation and Development, and Global Financial Integrity. We further expanded our literature review through the use of an iterative process referred to as “snowball sampling,” in which we obtained and reviewed other relevant work that was cited in published works from the recommended organizations.

For the second objective, we reviewed ethical standards for lawyers (American Bar Association’s *Model Rules of Professional Conduct*) and accountants (the American Institute of Certified Public Accountants’ *Code of Professional Conduct*; the Public Company Accounting Oversight Board’s *Ethics and Independence Rules*; and the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants*). We interviewed representatives from the American Bar Association, American Institute of Certified Public Accountants, and Public Company Accounting Oversight Board to obtain

¹We searched these databases using several series of keywords, including (1) “terrorist” and “trafficking” and “route” and (2) “criminal organization” and “trafficking” and “money laundering.”

context related to these professions' ethical standards for reporting potential money laundering or other suspicious activities.

For the second and third objective, we reviewed federal agency documents to identify illustrative examples of enforcement actions related to money laundering strategies and agency collaboration efforts. These documents included Treasury's *2020 National Strategy*, Internal Revenue Service-Criminal Investigation annual reports, FinCEN Law Enforcement Awards announcements, and press releases from Treasury, the Department of Homeland Security, and Department of Justice between January 2018 and April 2021. We selected five examples of enforcement actions, chosen because they illustrated a range of money laundering typologies or law enforcement coordination efforts.

For the third objective, we reviewed FinCEN advisories to financial institutions issued in 2011-2021 to identify those related to trafficking or associated money laundering and to describe the "red flag" activities that FinCEN said financial institutions should monitor. We also reviewed similar materials from the Department of Homeland Security. We also reviewed Office of Inspector General reports from five agencies (Department of Defense, Department of Homeland Security, Department of Justice, Internal Revenue Service, and Treasury) that addressed trafficking-related information sharing and collaboration efforts among law enforcement agencies.

We also conducted semi-structured interviews with five groups of financial institution representatives, where we discussed their efforts to identify suspicious activity and share information with other financial institutions and their perspectives on the federal guidance they receive on trafficking-related activities. Each group had representatives from four to five institutions. Two groups represented banks with total assets of more than \$10 billion, two groups represented banks with assets of less than \$10 billion, and one group represented broker-dealer firms not affiliated with banks. These interviews also included representatives from the American Bankers Association, Independent Community Bankers of America, and the Securities Industry and Financial Markets Association, who arranged the group interviews based on criteria we provided.

Our primary criterion was the asset size of the financial institution and the financial sector to which it belonged, with additional criteria for specific groups. For broker-dealer firms, we requested firms not affiliated with other financial institutions. For community banks, we requested banks that did not operate branches nationwide and, to the extent practicable,

located in areas with high rates of trafficking. While not generalizable, the interviews helped provide context for financial industry perspectives on identifying and sharing information on trafficking-related activities. Three of the five experts we interviewed had experience in developing anti-money laundering technology, and we discussed with them the potential uses for data analytics or artificial intelligence in counter-trafficking efforts.

We conducted this performance audit from January 2021 to December 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Kay Kuhlman (Assistant Director), Meghana Acharya, Rachel DeMarcus, Myra Francisco, Jill Lacey, Dan Luo, Marc Molino, Barbara Roesmann, Rachel Siegel, and Tyler Spunaugle made key contributions to this report.

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