



Report to the Ranking Member,  
Committee on Foreign Affairs, House of  
Representatives

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August 2017

# ANTI-MONEY LAUNDERING

## U.S. Efforts to Combat Narcotics-Related Money Laundering in the Western Hemisphere

# GAO Highlights

Highlights of [GAO-17-684](#), a report to the Ranking Member, Committee on Foreign Affairs, House of Representatives

## Why GAO Did This Study

Proceeds from narcotics-related illicit activities are one of the most common sources of money laundering in the United States. Though difficult to accurately determine, in 2015, Treasury estimated that drug trafficking generated about \$64 billion annually from U.S. sales. Moreover, the Western Hemisphere accounts for about a third of the jurisdictions designated by State as of primary concern for money laundering.

GAO was asked to provide information on U.S. efforts to impede illicit proceeds from drug trafficking from entering the financial systems of the United States and other Western Hemisphere countries. This report describes (1) U.S. agency oversight and monitoring of compliance with the BSA, including collaboration with counterparts in other Western Hemisphere countries, and (2) State's and Treasury's efforts to build capacity in other Western Hemisphere countries to combat narcotics-related money laundering.

GAO reviewed laws and regulations; interviewed experts and U.S. officials; reviewed documents and examined State's and Treasury's budget data for fiscal years 2011 through 2015, the most recent at the time of the review, for anti-money laundering activities. GAO selected Colombia, Mexico, and Panama—three principal recipients of AML support—for site visits, in part, because each country was designated a major drug transit or illicit drug-producing country from fiscal years 2014 through 2016.

View [GAO-17-684](#). For more information, contact Jessica Farb at (202) 512-6991 or [farbj@gao.gov](mailto:farbj@gao.gov) or Lawrence Evans at (202) 512-8678 or [evansl@gao.gov](mailto:evansl@gao.gov).

August 2017

## ANTI-MONEY LAUNDERING

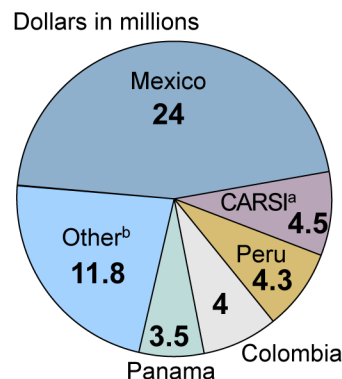
# U.S. Efforts to Combat Narcotics-Related Money Laundering in the Western Hemisphere

## What GAO Found

U.S. financial regulators oversee and monitor compliance with anti-money laundering (AML) requirements of the Bank Secrecy Act (BSA) to prevent, detect, and deter the laundering of proceeds from narcotics trafficking and other illicit activities using a risk-based examination approach. The Department of the Treasury's (Treasury) Financial Crimes Enforcement Network (FinCEN) administers the BSA and related AML regulations, which provides the legal framework for combating money laundering. The BSA includes requirements for financial institutions to retain various records of customer transactions, verify customers' identity, maintain effective AML programs, and report suspicious transactions. FinCEN relies on a variety of U.S. financial regulators and agencies to help FinCEN oversee and monitor financial institutions' compliance with the BSA. U.S. financial regulators and FinCEN also collaborate directly with counterparts in other Western Hemisphere countries and through international working groups to identify and reduce risks to the financial sector by sharing information and analysis on financial crimes.

The Departments of State (State) and Treasury support AML capacity-building and technical assistance efforts in other Western Hemisphere countries in collaboration with the Departments of Justice and Homeland Security and other federal agencies. For example, Treasury provides training to support the development of legal and regulatory frameworks in partner countries consistent with international standards to prevent money laundering. Similarly, State funds such training and provides equipment to financial intelligence units in these countries to help them detect illicit financial transactions. In fiscal years 2011 through 2015, State and Treasury allocated about \$63 million to support AML-related capacity-building and technical assistance in the region, of which \$52 million was from State (see figure).

**Department of State's Bureau of International Narcotics and Law Enforcement Affairs Allocations by Country for Western Hemisphere Anti-Money Laundering Programs, Fiscal Years 2011 through 2015**



Source: GAO analysis of Department of State Bureau of International Narcotics and Law Enforcement Affairs budget data. | [GAO-17-684](#)

<sup>a</sup>Central American Regional Security Initiative (CARSI) funding included regional programming for Costa Rica, Guatemala, Honduras, and El Salvador.

<sup>b</sup>Other includes funding for Barbados and the Eastern Caribbean, the Caribbean Basin Security Initiative, Jamaica, Honduras, Dominican Republic, Paraguay, El Salvador, Guatemala, Ecuador, Haiti, Suriname, Trinidad and Tobago, Guyana, and Brazil.

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## Abbreviations

AML	anti-money laundering
ASBA	Association of Supervisors of Banks of the Americas
BSA	Bank Secrecy Act
CARSI	Central America Regional Security Initiative
CFATF	Caribbean Financial Action Task Force
CFT	counter-financing of terrorism
CFTC	Commodity Futures Trading Commission
CTR	currency transaction report
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
FARC	Revolutionary Armed Forces of Colombia
FATF	Financial Action Task Force
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network

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FINRA	Financial Industry Regulatory Authority
FIU	financial intelligence unit
FSRB	FATF-style regional bodies
GAFILAT	Financial Action Task Force of Latin America
GTO	Geographic Targeting Orders
HSI	Homeland Security Investigations
ICE	Immigration and Customs Enforcement
ICITAP	International Criminal Investigative Training Assistance Program
INL	Bureau of International Narcotics and Law Enforcement Affairs
IRS	Internal Revenue Service
JSI	Judicial Studies Institute
MOU	memorandum of understanding
NAIC	National Association of Insurance Commissioners
NCUA	National Credit Union Administration
NFA	National Futures Association
OAS CICAD	Organization of American States Inter-American Drug Abuse Control Commission
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OPDAT	Office of Overseas Prosecutorial Development, Assistance, and Training
OTA	Office of Technical Assistance
SAR	suspicious activity report
SEC	Securities and Exchange Commission
SRO	self-regulatory organization
State	Department of State
TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Office of Terrorism and Financial Intelligence
Treasury	Department of the Treasury
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNDOC	United Nations Office of Drugs and Crime

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August 22, 2017

The Honorable Eliot L. Engel  
Ranking Member  
Committee on Foreign Affairs  
House of Representatives

Dear Mr. Engel:

Illicit capital flows from narcotics trafficking are one of the most common sources of money laundering in the United States, according to the Department of the Treasury (Treasury).<sup>1</sup> Transnational criminal organizations involved in drug trafficking seek to take advantage of any gaps in U.S. regulatory and law enforcement processes to place their illicit proceeds into the financial system and mask them as lawful. Narcotics trafficking is primarily a cash business, and the widespread use of the U.S. dollar for international commerce and the vast volume of transactions through U.S. banks and other financial institutions make the U.S. financial system vulnerable to narcotics-related money laundering. Though difficult to accurately determine, in 2015, Treasury estimated that drug trafficking generates about \$64 billion annually from U.S. sales. Moreover, the financial systems of other Western Hemisphere countries, where much of the illicit drugs consumed in the United States are produced and trafficked, are also vulnerable to money laundering. These countries account for more than one-third of jurisdictions designated by the Department of State (State) as of primary concern for money laundering worldwide. Additionally, it is common for narcotics trafficking organizations to be engaged in laundering proceeds from other illicit activities, such as illegal mining or human trafficking, according to U.S. and foreign officials.

You asked us to provide information on U.S. efforts to prevent, detect, and deter illicit proceeds from entering the United States and other Western Hemisphere countries' financial systems. This report describes (1) U.S. financial regulators' oversight and monitoring of compliance with the Bank Secrecy Act (BSA) and related anti-money laundering (AML)

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<sup>1</sup>Money laundering is generally the process of converting proceeds derived from illicit activities such as narcotics trafficking into funds and assets in the financial system that appear to have come from legitimate sources. See 18 U.S.C. § 1956 for statutory language criminalizing the laundering of monetary instruments.

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requirements and efforts to collaborate with counterparts in other Western Hemisphere countries, and (2) the activities that State and Treasury support to build capacity in other Western Hemisphere countries to combat money laundering and how State and Treasury collaborate on those efforts.

To address these objectives, we reviewed laws and regulations and interviewed experts and officials from State, Treasury, financial regulators and other U.S. agencies, as well as counterparts in Western Hemisphere countries. We analyzed State's and Treasury's budget data for fiscal years 2011 through 2015 to identify how much funding the agencies allocated for AML capacity-building efforts in Western Hemisphere countries. To assess the reliability of the allocations data, we conducted interviews with knowledgeable State and Treasury officials about the accuracy and completeness of the data and reviewed financial reports. We determined that the data were sufficiently reliable for the purposes of reporting State's and Treasury's allocations for AML activities by year and by country from fiscal years 2011 through 2015. To identify examples of the ways in which U.S. agencies collaborated on AML activities, we developed a short questionnaire on collaboration practices and obtained responses from six U.S. federal agencies or departments. In addition, we conducted fieldwork in Colombia, Mexico, and Panama, where we interviewed U.S. embassy officials responsible for managing and implementing AML capacity-building activities and with host-government officials such as financial regulators; recipients of State and Treasury AML capacity-building and technical assistance; and representatives from the private sector, including U.S. and international financial institutions. We selected Colombia, Mexico, and Panama for site visits because State identified them as jurisdictions of primary concern for money laundering in their 2011 to 2016 International Narcotics Control Strategy Reports (vol. II). Additionally, each country was designated a Major Drug Transit and/or Major Illicit Drug Producing Country from fiscal years 2014 through 2016 by presidential determination. The site visits were selected to serve as informative examples, and the findings are not generalizable across the Western Hemisphere. Because the Caribbean and offshore islands near the U.S. coastline are transit points for the drug trade and are used by criminal organizations to launder illicit proceeds, we also contacted and interviewed U.S. and government officials responsible for AML efforts in the Bahamas. For additional information concerning our scope and methodology, see appendix I.

We conducted this performance audit from May 2016 to August 2017 in accordance with generally accepted government auditing standards.



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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.

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## Background

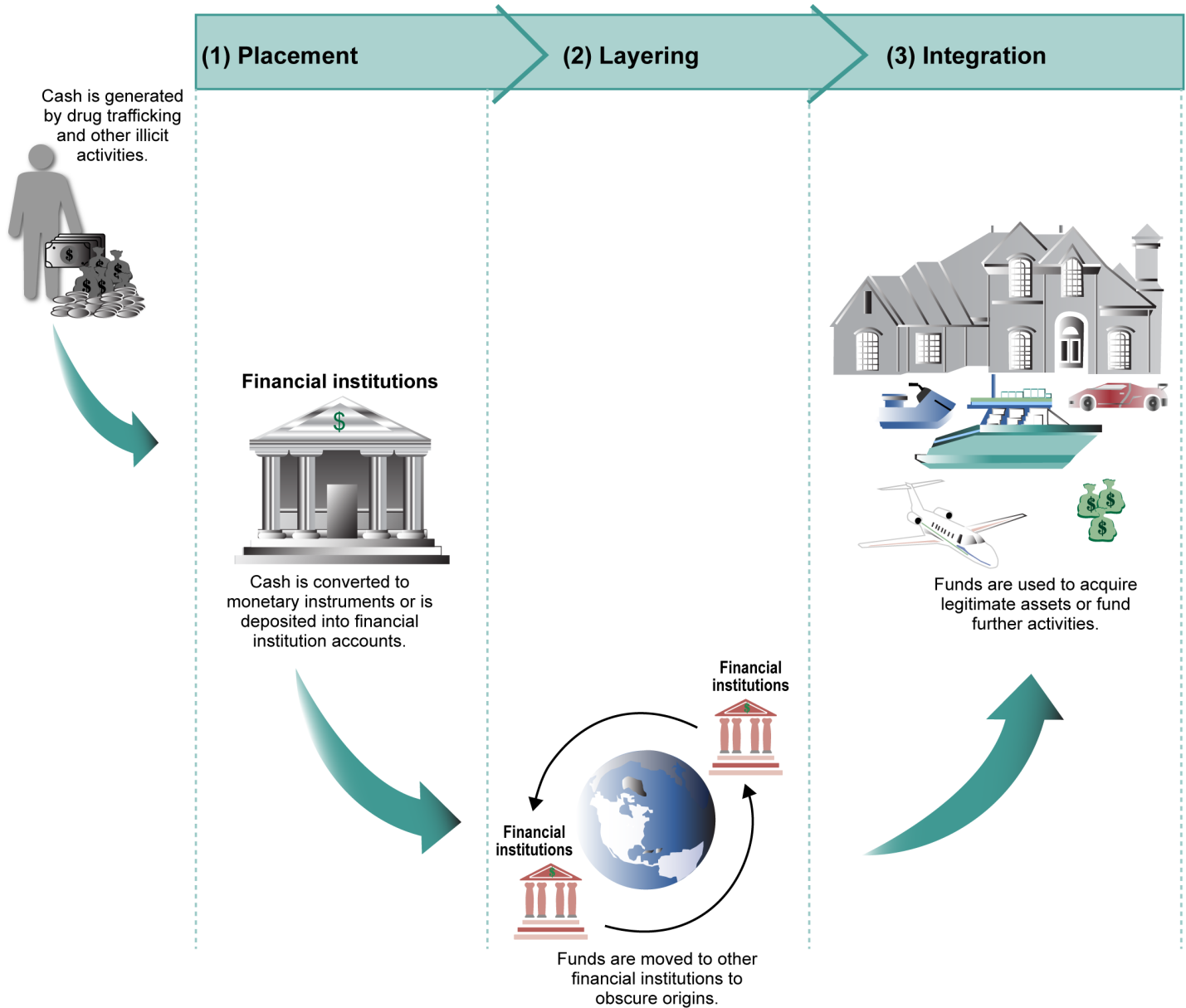
Money laundering generally takes place in three stages: placement, layering, and integration (see fig. 1). In the placement stage, cash is converted into monetary instruments, such as cashiers' checks, money orders, or prepaid debit cards, or deposited into accounts with financial institutions.<sup>2</sup> In the layering stage, these funds are transferred or moved into other accounts or other financial institutions to disguise their illicit origin. In the integration stage, the funds are used to purchase assets in the legitimate economy. Some of the funds may also be used to support additional illicit activities. Any financial sector and certain commercial businesses can be targets for money laundering operations during one or more of these stages. Many of these entities are required to report transactions with certain suspicious characteristics to Treasury's Financial Crimes Enforcement Network (FinCEN).<sup>3</sup>

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<sup>2</sup>"Financial institution" is defined in 31 U.S.C. § 5312 to include certain banks, credit unions, securities brokers or dealers, insurance companies, money transmitter businesses, and casinos, among others. According to FATF recommendations, casinos are considered designated nonfinancial businesses and professions. For purposes of this report, our discussion of the BSA does not address those financial institutions considered designated nonfinancial businesses and professions.

<sup>3</sup>For example, in the United States, banks must file Suspicious Activity Reports (SAR) with Treasury's Financial Crimes Enforcement Network (FinCEN) for transactions that involve or aggregate at least \$5,000 and that the bank knows, suspects, or has reason to suspect that the transaction involves funds derived from illegal activities, among other things. See 31 U.S.C. § 5318(g); 31 C.F.R. § 1020.320.

**Figure 1: Three General Stages of Money Laundering**



Source: Financial Crimes Enforcement Network, *FinCEN Related Series: An Assessment of Narcotics Related Money Laundering*, July 1992. | GAO-17-684

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Within the United States, the BSA and related AML regulations provide the legal and regulatory framework for preventing, detecting, and deterring money laundering.<sup>4</sup> The BSA and its implementing regulations generally require banks and other financial institutions, such as securities broker-dealers and certain types of insurance companies, among others, to collect and retain various records of customer transactions, verify customers' identities in certain situations, maintain AML programs, and report suspicious and large cash transactions.<sup>5</sup> In addition, the United States has put in place a variety of AML measures intended to mitigate risks, including the following:

- promulgation of regulations requiring reporting by financial institutions to promote transparency with regard to the origin of funds;
- providing oversight to financial institutions in the United States by federal financial regulators to assess the effectiveness of BSA/AML compliance programs and take consequent appropriate legal action, if necessary; and
- forming partnerships with other countries through multilateral and bilateral treaties and arrangements to promote global AML policies and standards and facilitate the exchange of information on suspected money laundering activities.

FinCEN was established in 1990 to support government agencies by collecting, analyzing, and disseminating financial intelligence information to combat money laundering. FinCEN is responsible for administering the BSA, coordinating with federal and state regulatory agencies on AML, and countering the financing of terrorism (CFT). FinCEN also serves as the Financial Intelligence Unit (FIU) of the United States.<sup>6</sup> FinCEN is a component of Treasury's Office of Terrorism and Financial Intelligence

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<sup>4</sup>Pub. L. No. 91-508, tits. I and II, 84 Stat. 1114 (1970) (codified as amended at 12 U.S.C. §§ 1829b, 1951-1959; 18 U.S.C. §§ 1956-1957 and 1960; and 31 U.S.C. §§ 5311-5314 and 5316-5332). The Bank Secrecy Act is the commonly used term for the Currency and Foreign Transactions Reporting Act, its amendments, and the other statutes relating to the subject matter of that act. 31 C.F.R. § 1010.100(e).

<sup>5</sup>See 31 U.S.C. § 5318.

<sup>6</sup>An FIU 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 the results of the analysis.

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(TFI), which includes other components actively involved in AML efforts.<sup>7</sup> Also within Treasury, the Office of International Affairs, the Office of Technical Assistance (OTA), and the Internal Revenue Service (IRS) have significant roles in AML efforts.

FinCEN relies on financial regulators and other entities to conduct examinations of U.S. financial institutions across a variety of financial sectors to determine compliance with the BSA and its implementing regulations.<sup>8</sup> As part of their examination programs, the federal financial regulators assess the effectiveness of BSA/AML compliance programs through a review of institutions' records, policies, and procedures for compliance with the BSA, including the requirement to identify and report suspicious activity. The federal financial regulators that are responsible for overseeing financial institutions' AML efforts include the federal banking agencies—the Board of Governors of the Federal Reserve System (Federal Reserve), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA)—as well as the Securities and Exchange Commission (SEC), which regulates the securities markets, and the Commodity Futures Trading Commission (CFTC), which regulates commodity futures and options markets. The self-regulatory organizations (SRO) that SEC and CFTC oversee—such as the Financial Industry Regulatory Authority (FINRA) and the National Futures Association (NFA), among others—also have BSA/AML compliance

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<sup>7</sup>In addition to FinCEN, TFI's components include: (1) the Office of Foreign Assets Control, which administers and enforces sanctions based on national security and foreign policy priorities; (2) the Office of Intelligence and Analysis, 1 of the 16 U.S. Intelligence Community members; (3) the Office of Terrorist Financing and Financial Crimes (TFFC), which is responsible for formulating and coordinating anti-money laundering and countering the financing of terrorism (AML/CFT) policies and is also charged with developing and promoting AML/CFT international standards; and (4) the Treasury Executive Office for Asset Forfeiture, which administers the Treasury Forfeiture Fund.

<sup>8</sup>Under FinCEN regulation, a "federal financial regulator" is defined as the Board of Governors of the Federal Reserve System (Federal Reserve), the Office of the Comptroller of the Currency (OCC), the Board of Directors of the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Securities and Exchange Commission (SEC), or the Commodity Futures Trading Commission (CFTC). 31 C.F.R. § 1010.100(r). In this report, we refer to the Federal Reserve, OCC, FDIC, and NCUA as "federal financial regulators"; we refer to SEC and CFTC as "securities and futures regulators." These regulators, combined with FinCEN, IRS, and state regulators, we refer to collectively as "financial regulators."

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responsibilities for the activities of their members.<sup>9</sup> The Federal Reserve, FDIC, NCUA, SEC, and CFTC are independent agencies that are not part of the executive branch, while OCC is a bureau within Treasury. The IRS has the authority to examine financial institutions that are not currently examined by financial regulators, such as money services businesses, for BSA compliance. For the insurance industry, in addition to any applicable federal oversight, state insurance commissioners are responsible for supervision as part of their broader prudential examinations of the insurance sector.

Internationally, U.S. agencies work with multiple multilateral organizations to combat money laundering and promote financial stability. These organizations include the Financial Action Task Force (FATF), the Egmont Group of Financial Intelligence Units (Egmont Group), the Basel Committee on Banking Supervision, the United Nations (UN), the International Monetary Fund (IMF), and the World Bank.<sup>10</sup> FATF is an intergovernmental body that sets internationally recognized standards for developing AML and CFT regimes and assessing countries' abilities to meet these standards.<sup>11</sup> There are also nine FATF-style regional bodies (FSRB) that work to promote FATF standards in specific geographic locations and to assess countries' level of implementation of those standards. Two FSRBs in the Western Hemisphere—the Caribbean Financial Action Task Force (CFATF) and the Financial Action Task Force of Latin America (GAFILAT)—include representation from most Western Hemisphere countries, providing a mechanism to coordinate technical assistance and training. FATF and its FSRBs also work to identify specific typologies of money laundering, such as trade-based money laundering, and to promote international cooperation in disrupting and dismantling those money laundering schemes. The UN has adopted treaties and conventions that once signed, ratified, and implemented by

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<sup>9</sup>SROs are nongovernmental entities responsible for regulating their members through the adoption and enforcement of rules and regulations governing the business conduct of their members.

<sup>10</sup>The Egmont Group is an organization of FIUs from 156 jurisdictions (as of August 2017). The Egmont Group fosters information exchange between its members and provides training and technical assistance to FIUs.

<sup>11</sup>The United States is a founding member of FATF, and the Office of Terrorist Financing and Financial Crimes (TFFC) leads the U.S. delegation to FATF and the FSRBs. The assessments that FATF conducts, which it refers to as "mutual evaluations," are designed to assess how well countries have implemented the standards.

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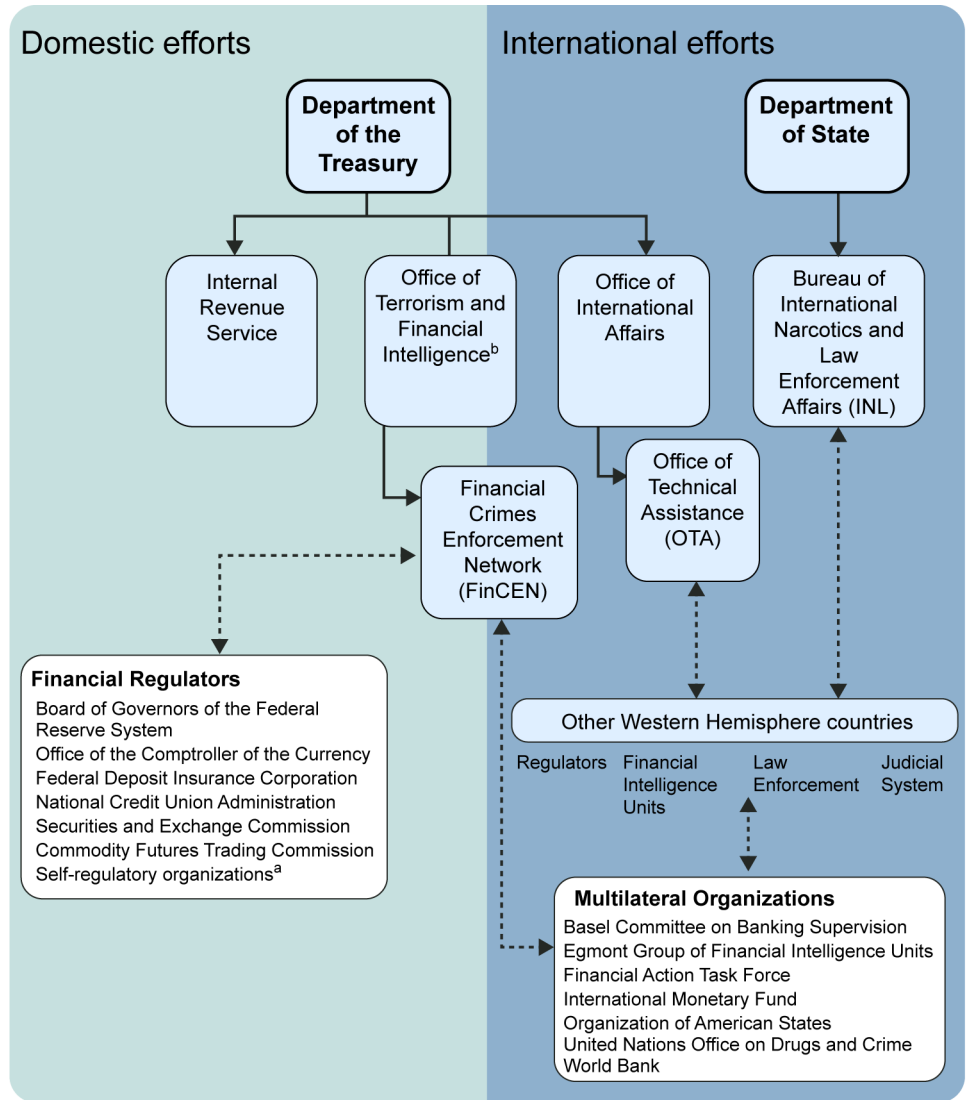
member governments have the effect of law and enhance the ability of these governments to combat money laundering and terrorist financing.

U.S. agencies, with support from State, provide training and technical assistance directly to countries vulnerable to money laundering (see fig. 2). State is responsible for coordinating all assistance provided by the U.S. government to support international efforts to combat illicit narcotics production or trafficking.<sup>12</sup> Within State, the Bureau of International Narcotics and Law Enforcement Affairs (INL) provides the majority of this funding.

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<sup>12</sup> 22 U.S.C. § 2291

**Figure 2: Key U.S. Agencies Involved in Domestic and International Anti-Money Laundering Regulatory and Capacity-Building Efforts**



**Legend:** —▶ Direct authority      ◀--- Collaboration

Source: GAO analysis of agency documents. | GAO-17-684

<sup>a</sup>Self-regulatory organizations are nongovernmental entities responsible for regulating their members through the adoption and enforcement of rules and regulations governing the business conduct of their members.

<sup>b</sup>In addition to FinCEN, three other offices within Treasury’s Office of Terrorism and Financial Intelligence have a role in anti-money laundering efforts: (1) the Office of Foreign Assets Control, which imposes sanctions for money laundering; (2) the Office of Intelligence and Analysis, which is engaged in intelligence gathering; and (3) TFFC, which is responsible for policy development and international outreach.

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Annually, INL also publishes a two-volume report on efforts to combat all aspects of the international drug trade that includes an analysis of countries identified as “major money laundering countries.”<sup>13</sup> See figure 3 for a map of countries and jurisdictions in the Western Hemisphere identified by INL as being vulnerable to money laundering.

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<sup>13</sup>See, for example, Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report*, vol. II (Washington, D.C.: March 2016). This report is required under 22 U.S.C. § 2291h. The term “major money laundering country” means a country whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking. 22 U.S.C. § 2291(e)(7).



**Figure 3: International Narcotics Control Strategy Report Money Laundering Priority Countries and Jurisdictions in the Western Hemisphere, 2016**



Source: GAO analysis of Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report*, vol. II (March 2016). | GAO-17-684

Note: The Department of State identifies “jurisdictions of primary concern” as major money laundering countries. According to State, whether a country or jurisdiction should be included in this category is based on the significance of the amount of proceeds laundered in the entire financial sector, not only

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on banking transactions or on the anti-money laundering measures taken. State notes that the actual money laundering problem in jurisdictions classified as “jurisdictions of concern” is not as acute as in those considered to be of “primary concern.” Finally, according to State, while jurisdictions in the “other jurisdictions monitored” category do not pose an immediate concern, it is nevertheless important to monitor their money laundering situations because, under certain circumstances, virtually any jurisdiction can develop into a significant money laundering center.

Treasury’s OTA is the other key provider of assistance to strengthen AML measures in other countries in line with international standards.<sup>14</sup> INL and OTA work with other U.S. agencies, primarily components within the Departments of the Treasury, Justice (Justice), and Homeland Security (DHS), as well as with financial regulators, to provide capacity-building and technical assistance to foreign partners. In addition, FinCEN engages in the development of operational policy, guidance, and discussions of best practices with other FIUs, designs and delivers courses for Egmont Group members, and participates in operational engagements with select FIUs on priority topics.

The magnitude and globally integrated nature of the U.S. financial system creates opportunities for criminal organizations to take advantage of money laundering vulnerabilities. For example, while FATF’s most recent evaluation of the U.S. AML regime found it to be effective overall, the evaluation also highlighted specific weaknesses in the framework, particularly related to identifying the beneficial owners of legal entities created in the United States or legal entities that open accounts with U.S. financial institutions, which is a vulnerability that illicit organizations could exploit.<sup>15</sup> Narcotics trafficking organizations can use a variety of means to exploit these weaknesses, as well as weaknesses in the financial

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<sup>14</sup>Section 129 of the Foreign Assistance Act of 1961, as amended, authorizes the establishment of a Department of the Treasury program to provide technical assistance to governments and central banks of developing or transitional countries. 22 U.S.C. § 2152.

<sup>15</sup>Financial Action Task Force, *Anti-money laundering and counter-terrorist financing measures - United States, Fourth Round Mutual Evaluation Report* (Paris, France: December 2016). In 2016, FinCEN issued a final rule to strengthen customer due diligence requirements for certain financial institutions and to impose a new requirement on these financial institutions to identify and verify the beneficial owners of legal entity customers at the time a new account is opened. Under FinCEN regulation, beneficial owners are defined as each individual who owns, directly or indirectly, 25 percent or more of the equity interests of the entity, and one individual with significant responsibility to control, manage, or direct the entity. Financial institutions covered by these new rules have until May 11, 2018, to comply. Customer Due Diligence Requirements for Financial Institutions, 81 Fed. Reg. 29398 (May 11, 2016) (codified at 31 C.F.R. pts. 1010, 1020, 1023, 1024, and 1026). However, according to Treasury officials, a requirement for the identification of beneficial ownership information at the time a company is created through incorporation in the applicable state would require legislation.

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systems of countries in the Western Hemisphere, to conceal the illicit nature of their proceeds. For example, narcotics trafficking organizations can structure transactions below applicable reporting thresholds of U.S. financial institutions—transactions involving more than \$10,000 in currency; use shell corporations to disguise or conceal the ownership of accounts at financial institutions; and take advantage of deficiencies in compliance requirements for financial institutions within the financial system, such as individual weaknesses in the U.S. regulatory framework identified by FATF. Drug traffickers can also use more complex techniques to conceal the origins of illicit proceeds, such as trade-based money laundering, which exploits international trade and financial institutions in multiple countries and frequently involves complicit or unwitting parties in commercial transactions.<sup>16</sup>

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## U.S. Financial Regulators Provide Oversight and Work with Counterparts to Identify and Reduce Financial Sector Risks

Financial regulators play a critical role in safeguarding financial markets from illicit activity, including money laundering. They provide oversight of financial institutions by examining for compliance with the BSA and requiring corrective action, including enforcement actions for noncompliance with BSA requirements, and by sharing information with FinCEN. Their role extends to supporting counterparts throughout the Western Hemisphere.

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## U.S. Financial Regulators Oversee Financial Institutions' Compliance with BSA Requirements Primarily through Examinations

To combat the threat of money laundering, financial institutions—including certain banks, securities broker-dealers, futures and commodities brokers, money services businesses, and insurance companies—are required to have written policies and procedures that include key AML requirements based on the BSA. Most financial institutions are required to develop, administer, and maintain an effective program for compliance with the BSA and all of its implementing regulations. At a minimum, this compliance program must provide for the following:

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<sup>16</sup>Trade-based money laundering may make use of various schemes such as trading in contraband, falsifying the value of merchandise, or misrepresenting trade-related financial transactions with the purpose of disguising the origin of illicit proceeds and integrating the funds into the financial system.

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- Establish a system of internal controls to ensure ongoing compliance, including staff adherence to the financial institution’s BSA/AML policies.
  - Conduct AML compliance training for appropriate personnel, such as those involved in opening accounts at financial institutions.
  - Provide for independent testing of BSA compliance—i.e. test transactions for adherence to recordkeeping and reporting requirements, review filing of SARs<sup>17</sup> and currency transaction reports (CTR)<sup>18</sup> and assess the process for identifying suspicious activity.
  - Designate a person or persons responsible for managing BSA compliance with sufficient authority and resources to administer an effective BSA/AML program.
  - Establish, for certain financial institutions, a risk-based customer due diligence procedure.<sup>19</sup>

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<sup>17</sup>The BSA and its implementing regulations impose an obligation on financial institutions to report transactions that involve or aggregate to at least \$2,000 or \$5,000, depending on the institution, are conducted by, at, or through the financial institution; and that the financial institution “knows, suspects, or has reason to suspect” are suspicious. A transaction is “suspicious” if the transaction (a) involves funds derived from illegal activities, or is conducted to disguise funds derived from illegal activities; (b) is designed to evade the requirements of the BSA or regulations under the act; or (c) has no business or apparent lawful purpose or is not the sort in which the customer normally would be expected to engage, and the financial institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction. See 31 C.F.R. § 1020.320(a)(2)(i)-(iii) (banks); § 1022.320(a)(2)(i)-(iii) (money services businesses); and § 1025.320(a)(2)(i)-(iii) (insurance companies).

<sup>18</sup>Most financial institutions are required to file a report with FinCEN of each deposit, withdrawal, exchange of currency or other payment or transfer, by, through, or to such financial institution that involves a transaction in currency of more than \$10,000. See 31 C.F.R. § 1010.311.

<sup>19</sup>In 2016, FinCEN issued its final rule requiring banks, brokers or dealers in securities, mutual funds, futures commission merchants, and introducing brokers in commodities to establish risk-based procedures for conducting customer due diligence, including identifying and verifying beneficial ownership information for accounts. The financial institutions covered by this rule, which do not include money services businesses and insurance companies, have until May 11, 2018 to comply. See Customer Due Diligence Requirements for Financial Institutions, 81 Fed. Reg. 29,398 (May 11, 2016) (codified at 31 C.F.R. pts. 1010, 1020, 1023, 1024, and 1026).

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Financial regulators conduct examinations of financial institutions they oversee to help ensure compliance with BSA requirements.<sup>20</sup> With respect to the federal financial regulators, BSA examinations can be conducted as part of regularly scheduled safety and soundness examinations or to ensure compliance with applicable laws and rules, generally occurring at least once every 12 to 18 months for most financial institutions, or targeted based on risk. The Federal Financial Institutions Examination Council, a formal interagency body composed of federal financial regulators and state regulator representative bodies that prescribes standards for banks and other financial institutions, has developed a manual for BSA/AML examinations of banks. For nonbank financial institutions, SEC and CFTC have separate, nonpublic procedures for examinations of the institutions they oversee.<sup>21</sup> In 2008, FinCEN issued a manual for use by IRS and state regulators that provides guidance for examiners to perform risk-based examinations of money services businesses. The National Association of Insurance Commissioners (NAIC) has developed guidance for use by state insurance commissioners to examine insurance companies required to have BSA policies.<sup>22</sup>

Examinations are risk-based, meaning that examiners have the flexibility to apply the appropriate level of scrutiny to business lines that pose a higher level of risk to the institution. Examiners may consider a broad range of risk factors including the type of business, the geographic location, or the products offered by the institution. Financial institutions are expected to complete a BSA/AML risk assessment to identify specific products, services, and customers, which financial regulators can use to evaluate the compliance programs of financial institutions and scope their examinations. Financial regulators we spoke with told us they also rely on

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<sup>20</sup>FinCEN has delegated responsibility for examining financial institutions for compliance with the BSA to the financial regulators. See 31 C.F.R. § 1010.810(b)(1)-(3), (5)-(6), and (9).

<sup>21</sup>The SEC and CFTC also share responsibility for examinations with their respective SROs. For example, FINRA and SEC both oversee securities broker-dealers, including conducting examinations, though FINRA conducts the majority of examinations of firms. By contrast, CFTC does not routinely conduct direct examinations of the firms it supervises; instead, CFTC oversees the examinations conducted by its SROs such as NFA, which conducts most of the audits.

<sup>22</sup>NAIC is the standard-setting and regulatory support agency created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories.

information from FATF mutual evaluations and the Basel AML Index, among other sources, to identify specific areas of risk in internationally active U.S. financial institutions to focus their examinations, and that risks can vary by industry and financial sector.<sup>23</sup> For example, FATF publishes lists of jurisdictions that it determines, based on its assessments of their AML regimes, to be high-risk and noncooperative (see appendix II for a list of Western Hemisphere countries identified by FATF as high-risk and noncooperative). Table 1 shows the various financial regulators that are responsible for ensuring compliance with BSA requirements across a variety of financial sectors and the different money laundering risks each sector faces.

**Table 1: Financial Regulators and Money Laundering Techniques in Various Financial Sectors**

Financial sector	Financial regulator(s)	Common money laundering techniques used	Subject to BSA/AML examination (frequency)
Insured depository institutions (state and federally chartered banks and credit unions)	<ul style="list-style-type: none"> <li>Board of Governors of the Federal Reserve System</li> <li>Office of the Comptroller of the Currency</li> <li>Federal Deposit Insurance Corporation</li> <li>National Credit Union Administration</li> <li>State regulators</li> </ul>	<ul style="list-style-type: none"> <li>Structuring of deposits to avoid reporting thresholds.<sup>a</sup></li> <li>Misuse of correspondent accounts.<sup>b</sup></li> <li>Misuse of legal entities.</li> </ul>	Yes (every 12-18 months)
Securities broker-dealers and mutual funds	<ul style="list-style-type: none"> <li>Securities and Exchange Commission</li> <li>Self-regulatory organizations (securities broker-dealers only)</li> </ul>	<ul style="list-style-type: none"> <li>Providing customers direct access to the securities markets from higher risk jurisdictions.</li> <li>Masking the identity of subaccount owners.</li> <li>Misuse of legal entities to transfer ownership across international borders.</li> </ul>	Yes (risk-based or every 1-4 years)
Futures and commodities brokers	<ul style="list-style-type: none"> <li>Commodity Futures Trading Commission</li> <li>Self-regulatory organizations</li> </ul>	<ul style="list-style-type: none"> <li>Masking the identity of subaccount owners.</li> <li>Misusing legal entities to transfer ownership across international borders.</li> </ul>	Yes (risk-based)

<sup>23</sup>The Basel AML Index, compiled annually since 2012 by the Basel Institute on Governance, uses publicly available sources to measure the risks of money laundering and terrorist financing in countries. The 2016 edition included risk ratings for 149 countries (see appendix III). The Basel Institute on Governance is an independent, not-for-profit organization based in Basel, Switzerland that specializes in corruption prevention and public governance, corporate governance and compliance, anti-money laundering, criminal law enforcement, and the recovery of stolen assets.

Financial sector	Financial regulator(s)	Common money laundering techniques used	Subject to BSA/AML examination (frequency)
Money services businesses and money transmitters	<ul style="list-style-type: none"> <li>• FinCEN</li> <li>• Internal Revenue Service</li> <li>• State regulators</li> </ul>	<ul style="list-style-type: none"> <li>• Structuring of transactions to avoid reporting thresholds.</li> <li>• Using unregistered or unlicensed entities for transactions.</li> </ul>	Yes (risk-based)
Insurance companies	<ul style="list-style-type: none"> <li>• FinCEN</li> <li>• State insurance commissioners</li> </ul>	<ul style="list-style-type: none"> <li>• Use of unusual payment methods such as cash or cash equivalents.</li> <li>• Early termination of products without regard to losses to the customer.</li> </ul>	Yes (at least once every 5 years)

Legend: AML = anti-money laundering; BSA = Bank Secrecy Act; FinCEN = Financial Crimes Enforcement Network

Source: GAO analysis of Department of the Treasury, Financial Action Task Force and agency documents and interviews. | GAO-17-684

<sup>a</sup>Most U.S. financial institutions are required to file a report with FinCEN for currency transactions exceeding \$10,000.

<sup>b</sup>A correspondent account is an account established for a foreign financial institution to receive deposits from, or to make payments or other disbursements on behalf of, the foreign financial institution or to handle other financial transactions related to such foreign financial institution. See 31 C.F.R. § 1010.605(c)(1).

Financial regulators told us that their examiners focus on whether financial institutions are complying with BSA requirements and have the proper framework in place to detect and report suspicious activity. However, during the course of their examinations, if they identify potential money laundering or other criminal violations, such as drug trafficking, fraud, or tax evasion, they said that they would raise these concerns with management and refer such criminal allegations to law enforcement counterparts as appropriate. According to officials we spoke with, most problems identified by examiners are resolved soon after they are brought to the attention of an institution's management. In serious cases, noncompliance with BSA requirements may result in informal actions, such as the issuance of a letter outlining compliance issues identified through examinations, or increased examination frequency, and formal actions that require corrective steps to address problems identified during the examination process, such as a consent order or civil money penalty.

FinCEN is authorized to enforce the BSA and impose civil money penalties on any financial institution covered by BSA requirements, and the financial regulators also can take independent enforcement actions against financial institutions.<sup>24</sup> For example, we reported that from

<sup>24</sup>The IRS also has authority to assess and collect certain civil penalties. See 31 C.F.R. § 1010.810(g).

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January 2009 to December 2015, financial regulators assessed a total of about \$1.4 billion in penalties for BSA and sanctions violations.<sup>25</sup> More recently, in February 2017, FinCEN and OCC jointly assessed civil money penalties against a bank that had business dealings in Mexico and Colombia for failure to comply with BSA requirements, including failure to conduct due diligence on its high-risk customers along the U.S.-Mexico border and failure to adequately monitor billions of dollars of transactions for suspicious activity.<sup>26</sup>

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## U.S. Financial Regulators and FinCEN Share Information with Financial Institutions to Promote Compliance with BSA

In addition to conducting examinations, financial regulators we spoke with also reported that they participate in other activities intended to share with financial institutions information regarding compliance with BSA requirements. Financial regulators we spoke with participate in industry conferences and AML-focused working groups and provide training to industry compliance personnel to share more information about BSA requirements and risks to financial institutions from money laundering. For example, NCUA officials told us they provide written supervisory guidance to the industry on BSA/AML risks when specific risk exposures are identified. Officials from the financial regulators told us they participate in multiple conferences related to BSA/AML issues, including the Association of Certified Anti-Money Laundering Specialists' annual conference and the American Bankers Association/American Bar Association Financial Crimes Enforcement Conference. Additionally, FinCEN chairs the Bank Secrecy Act Advisory Group, in which the financial regulators participate with private sector representatives to share information on money laundering risks and regulatory obligations.<sup>27</sup> SEC

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<sup>25</sup>This amount includes \$651 million assessed concurrently with FinCEN. See GAO, *Financial Institutions: Fines, Penalties, and Forfeitures for Violations of Financial Crimes and Sanctions Requirements*, [GAO-16-297](#) (Washington, D.C.: Mar. 22, 2016).

<sup>26</sup>FinCEN and OCC fined Merchants Bank of California \$7 million and \$1 million, respectively. The FinCEN penalty was based upon, among other things, failure to file a SAR for a suspicious pattern of subjects cashing multiple structured checks made out to the same individuals in Mexico without providing information on the source of the funds. The bank also failed to file a SAR on customers conducting large wire transfers totaling over \$395 million to unknown entities in Colombia. OCC's penalty was based, in part, upon the bank's failure to comply with the terms of OCC's 2010 and 2014 consent orders with the bank regarding deficiencies in the bank's BSA compliance program.

<sup>27</sup>The Annunzio-Wylie Anti-Money Laundering Act required the Secretary of the Treasury to establish a Bank Secrecy Act Advisory Group consisting of representatives from federal regulatory and law enforcement agencies, financial institutions, and trade groups with members subject to the requirements of the BSA. Pub. L. No. 102-550, tit. XV, § 1564, 106 Stat. 3672, 4073 (1992)(codified at 31 U.S.C. § 5311 note).



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has published risk alerts on BSA/AML issues, maintains a library of publicly available documents on the its website, and engages in outreach through conferences and other forums.

FinCEN also provides information that financial regulators can use to enhance their examination process and that financial institutions can use to improve their BSA compliance and stay informed of risks. FinCEN, as the financial intelligence unit, serves as the repository of SARs and CTRs, among other required reports, from financial institutions. FinCEN conducts analyses of the data and provides access to its database of SARs, CTRs, and other BSA reports to financial regulators to enable them to use the information to better inform their examination process. Financial regulators told us they use the information on the FinCEN database to examine financial institutions to see if, among other things, the appropriate information has been reported to FinCEN. In addition, FinCEN regularly issues bulletins and advisories to financial institutions, which can include clarification of or additional reporting requirements for financial institutions. For example, in January 2016, FinCEN issued real estate Geographic Targeting Orders (GTO) for the borough of Manhattan in New York City and Miami-Dade County, Florida, that temporarily required certain U.S. title insurance companies in Manhattan and Miami-Dade County to identify the persons behind shell companies used to pay “all cash” (purchases without bank financing) for high-end residential real estate.<sup>28</sup> In a separate action, in April 2015 FinCEN, in coordination with the Department of Homeland Security Immigration and Customs Enforcement (ICE)/Homeland Security Investigations (HSI), issued a GTO to several hundred businesses in Miami to shed light on cash transactions that may be related to trade-based money laundering schemes used by drug cartels. FinCEN also advises U.S. financial institutions about FATF jurisdictions of concern and how to deal with accounts from certain countries following each FATF meeting, as well as other criminal financial activities. For example, FinCEN issued an advisory in April 2017 that provided financial institutions with guidance for managing accounts in countries identified in recent FATF public

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<sup>28</sup>In July 2016, this GTO was expanded to include (1) all boroughs of New York City; (2) Miami-Dade County and the two counties immediately north (Broward and Palm Beach); (3) Los Angeles County, California; (4) three counties in the San Francisco area (San Francisco, San Mateo, and Santa Clara counties); (5) San Diego County, California; and (6) the county that includes San Antonio, Texas (Bexar County). In February 2017, FinCEN renewed this GTO for an additional 180 days.

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documents as having AML/CFT deficiencies and issued two advisories on cyber-related risks and crimes in September and October 2016.

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### U.S. Financial Regulators and FinCEN Use a Variety of Mechanisms to Work with Western Hemisphere Counterparts to Reduce Risks to the Financial System

U.S. and foreign regulators work together through various means to promote international standards and deter money laundering in the Western Hemisphere. Specifically, U.S. financial regulators and FinCEN share AML information or financial intelligence with and provide training to their Western Hemisphere counterparts through international organizations such as the GAFILAT and the Egmont Group; through informal bilateral arrangements, such as memoranda of understanding (MOU); and on an ad hoc basis. These activities include sharing information as well as providing training on money laundering typologies, practices related to money laundering detection and deterrence, and identifying suspicious activity.

Through FATF, the AML/CFT standards-setting body, and its regional bodies, the U.S. government and other FATF member countries engage in several working groups as a means to share information. These groups cover topics such as policy development, which includes revisions to the FATF standards; guidance and best practice reporting; international cooperation, which identifies high-risk and noncooperative jurisdictions; and money laundering and terrorist financing risks. U.S. representatives to FATF, which include TFFC, FinCEN, law enforcement, and the financial regulators, said these working groups have been valuable in allowing them to share information with other countries. Regulators we spoke with in other Western Hemisphere countries also recognized the importance of FATF and the regional bodies as a valuable means of sharing information. For example, in the Bahamas, one regulator we spoke with said that the Caribbean Financial Action Task Force (CFATF) allows the Bahamas direct access to international discussions on issues on bank supervision and AML.

FinCEN and other FIUs also share information bilaterally and through the Egmont Group, an international organization that emphasizes sharing information among FIUs. As of June 2017, 38 FIUs from countries and jurisdictions in the Western Hemisphere were members. The goal of the Egmont Group is to provide a forum for FIUs to improve support to their respective governments in the fight against money laundering, terrorist financing, and other financial crimes. Egmont Group members share tactical, operational, and strategic information as it relates to money laundering and predicate crimes, such as narcotics trafficking, to assist respective law enforcement agencies. According to Treasury

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representatives to the Egmont Group, the Egmont Group has also delivered courses to FIUs in Latin America and the Caribbean in coordination with FSRBs and other international organizations, including the Organization of American States. Through the Egmont Group, FinCEN staff said that they work with FIUs in the Western Hemisphere to exchange information on financial crimes, develop operational guidance and best practices for FIUs, and coordinate on capacity development for FIUs. FinCEN told us that Egmont Group membership is critical to information sharing, as it provides assurances that the member has the appropriate policies and procedures in place to respond to and protect sensitive information. The FIU in Mexico told us that FinCEN is the main U.S. agency that it collaborates with on anti-money laundering activities. Where appropriate, Mexico's FIU conducts joint analysis of account information (e.g., deposits and other transactions) with FinCEN and shares information and research when there is a U.S. connection to the cases that it is investigating.

FinCEN shares information with foreign FIUs pursuant to MOUs. According to FinCEN, in some cases, it shares information with foreign FIUs without MOUs, provided that those FIUs are members of the Egmont Group. FinCEN also shares information pursuant to MOUs with foreign regulators for AML/CFT purposes. FinCEN has signed MOUs with foreign financial regulators and FIUs, including Egmont Group members, as well as FIUs that are not part of the Egmont Group.<sup>29</sup> FinCEN's MOUs with foreign financial regulators enable information sharing of AML/CFT supervisory information. For example, in 2013, FinCEN entered into an MOU with Mexico's National Banking and Securities Commission in support of both countries' AML mission. Officials from FinCEN said that such information sharing with foreign regulators has been beneficial because it has allowed for additional collaboration on AML issues of concern from a supervisory perspective. Similarly, officials from FIUs in Colombia and Panama said that they work closely with FinCEN to share information that helps identify suspicious patterns of activities and to conduct analyses to detect financial crimes, some of which are related to narcotics trafficking. Officials from FinCEN said that they have worked closely with the FIUs in Mexico and several Latin American countries to identify high-risk banking clients and to share this information with Treasury. In addition to sharing information through FIUs, FinCEN also

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<sup>29</sup>According to Treasury, where required by the foreign jurisdiction, FinCEN has entered into MOUs with foreign FIUs.

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prepares research reports at the request of foreign regulators. For example, FinCEN has prepared summaries of activities of concern for foreign regulators, including information on bank transactions conducted in foreign jurisdictions by persons identified as suspicious. This information is provided to the foreign regulator for them to pursue.

U.S. financial regulators also have good working relationships with their counterparts in many Latin American and Caribbean countries. For example, U.S. and Mexican government agencies share information through a bilateral committee devoted to AML efforts because money flows and criminal activity across the shared border often involve narcotics trafficking and are a significant concern for both countries. The committee, which is co-chaired by TFFC, has been working together for the past several years and includes representatives from the Federal Reserve, OCC, Justice, and Mexican officials and ministers, as well as private-sector groups.<sup>30</sup>

Some U.S. financial regulators we spoke with also explained that in the normal course of business they receive formal requests from foreign bank supervisors for supervisory information on U.S. banking institutions, including AML-related information and may host visits with foreign regulators and securities exchange authorities that may lead to sharing of information on AML issues. For example, the Federal Reserve cooperates with foreign banking supervisors through its participation in joint meetings of regulators, both as the home-country supervisor of U.S. banking organizations with overseas operations and as the host-country supervisor of the U.S. operations of foreign banking organizations. This cooperation involves bilateral and multilateral contacts and formal and informal information-sharing arrangements. In periodic meetings with foreign bank supervisors, they may ask about specific U.S. banking institutions and whether there are particular concerns about these institutions' soundness, including with respect to AML issues. Requests are typically made in connection with the foreign supervisor's supervision of the U.S. institution's operations in their jurisdiction or the U.S. institution's proposal to establish a cross-border office in the foreign jurisdiction.

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<sup>30</sup>In addition to the U.S.-Mexico Bilateral Working Group, the Federal Reserve, OCC, and FinCEN participate in a U.S.-United Kingdom Bilateral Working Group co-chaired by TFFC, as well as public-private dialogues with countries in the Western Hemisphere.

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Information sharing also takes place through in-person visits and exchange of staff. For example, a representative from a financial regulator in the Bahamas we spoke with said that a high-level official from his agency visited the United States and met with U.S. regulators to discuss AML issues related to concerns over correspondent accounts with foreign banks, a challenge in the Bahamas. Specifically, there is concern that U.S. banks are terminating or not entering into correspondent account relationships with banks in certain regions of the world over concerns about money laundering and other risks.<sup>31</sup> This regulator from the Bahamas told us that U.S. counterparts were able to help him understand AML standards in the United States and how foreign institutions can meet those standards to help allay the concerns of U.S. financial institutions. In addition, some U.S. regulators said that they occasionally host staff from foreign regulatory agencies to serve in detail positions. These staff may come for a few weeks or a couple of months and gain on-the-job skills, including those related to AML detection practices that they can take back to their country. Similarly, staff from some U.S. financial regulatory agencies may be seconded to foreign financial regulatory agencies. For example, FDIC has seconded staff to the Financial Services Volunteer Corps to support AML projects overseas.<sup>32</sup>

Almost all of the U.S. financial regulators we spoke with reported that they had provided some AML training to Western Hemisphere countries in the last 5 years. Some of the training has been provided in conjunction with other U.S. government agencies or multilateral agencies, and some has been provided independently. Training has focused on various aspects of building and maintaining an AML regime, including conducting examinations and reporting suspicious activity in accordance with FATF standards. For example, the Federal Reserve provided training to the National Banking and Securities Commission of Mexico on bank supervision, which included AML issues. The course provided examiners with guidance on proper customer identification and due diligence procedures, counterterrorist financing, and suspicious activity reporting, as well as high-risk areas, such as wire transfers, private banking, and prepaid cards. Similarly, SEC and FINRA have provided several AML-

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<sup>31</sup>We have ongoing work looking at this issue—commonly referred to as “de-risking”—in certain regions.

<sup>32</sup>The Financial Services Volunteer Corps is a nonprofit, private-public partnership that helps build sound financial systems in transitional and emerging market countries.

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technical assistance programs to the Panamanian authorities. The SEC assistance included help with legislative reforms necessary to enable the Panamanian authorities to better engage in international cooperation in financial fraud investigations. SEC and FINRA's programs supported the Panamanian Superintendent of Securities' effort to satisfy the requirement for joining an international information-sharing organization for securities commissions.<sup>33</sup> Several of the banking regulators reported that they have worked closely with the Association of Supervisors of Banks of the Americas (ASBA) to provide AML training in Latin American and Caribbean countries. This training, sometimes conducted in Spanish, has focused on conducting AML examinations, identifying and reporting suspicious activity, and working with the FIU in their respective country. FDIC officials told us they and other financial regulators have received a request from OTA to help with technical assistance in several Latin American countries as part of OTA's capacity-building initiative.

Financial regulators indicated that training has been provided, when funding is available, upon request of other U.S. agencies, such as OTA or foreign counterparts. Foreign financial regulators we spoke with, who received training from U.S. regulators, said that the training was useful and helped them to better identify important AML issues. Table 2 provides examples of recent AML training that U.S. financial regulators have provided to foreign counterparts, including those conducted collaboratively with other foreign regulators.

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<sup>33</sup>The International Organization of Securities Commissions Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, which the Panamanian regulator was able to join in May 2017, was formed after the events of September 11, 2001, and sets an international benchmark for cross-border cooperation among securities regulatory authorities that includes sharing of beneficial ownership information and bank and brokerage records on a confidential basis. The ability to obtain such records helps securities authorities identify cross-border accounts through which money launderers may have moved illicit proceeds. Currently, 114 jurisdictions are signatories to the International Organization of Securities Commissions Multilateral Memorandum of Understanding.

**Table 2: Anti-Money Laundering (AML) Training Provided by U.S. Financial Regulators to Foreign Counterparts in the Western Hemisphere, 2011—2015**

<b>Training provider(s)</b>	<b>Countries or regions of attendees</b>	<b>Description of training</b>	<b>Year(s) provided</b>
Board of Governors of the Federal Reserve System	Aruba, Bahamas, Bermuda, Brazil, Canada, Haiti, Paraguay	AML examination seminar.	2011—2015
Board of Governors of the Federal Reserve System/ National Banking and Securities Commission of Mexico	Mexico	AML training.	2014
Board of Governors of the Federal Reserve System/ Association of Supervisors of Banks of the Americas (ASBA)	Latin America and the Caribbean	AML examination seminar.	2011, 2013
Board of Governors of the Federal Reserve System/ Caribbean Group of Bank Supervisors	Latin America and the Caribbean	AML examination seminar.	2015
Federal Deposit Insurance Corporation/ASBA	Belize, Costa Rica, Dominican Republic, El Salvador, Honduras, Mexico, Nicaragua, Paraguay	AML examination seminar focusing on supervisory examinations, enforcement actions, suspicious activity reports, and AML information sharing.	2013
Financial Crimes Enforcement Network/ Organization of American States Inter-American Drug Abuse Control Commission (OAS CICAD) / Financial Action Task Force of Latin America (GAFILAT)/ Egmont Group	Caribbean and Central America	Egmont Group Strategic Analysis Course (in English and Spanish).	2014
Financial Crimes Enforcement Network/ OAS CICAD/ GAFILAT/ Egmont Group	Central and South America	Egmont Group Strategic Analysis Course (in Spanish).	2015
Financial Crimes Enforcement Network/ State's Bureau of International Narcotics and Law Enforcement Affairs	Caribbean, Central and South America	Financial intelligence unit (FIU) Information Security Maturity Model and Egmont Operational Guidance.	2015
Office of the Comptroller of the Currency	Brazil, Canada, Colombia, Panama	School for foreign banking supervisors, including courses on AML.	Ongoing; held annually
Office of the Comptroller of the Currency/ASBA	Brazil, Bolivia, Canada, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico, Nicaragua, Panama, Uruguay	AML examination seminar.	2012, 2014

Training provider(s)	Countries or regions of attendees	Description of training	Year(s) provided
Securities and Exchange Commission and/ or Self-regulatory organizations	Brazil, Mexico, Panama and Peru	Technical assistance including AML training sessions.	2013—2015
Securities and Exchange Commission	Bahamas (financial regulators, attorney general, and FIU)	Technical assistance, including a session on money laundering and securities and capital markets.	2015

Legend: Egmont Group=Egmont Group of Financial Intelligence Units

Source: GAO analysis of financial regulators' documents. | GAO-17-684

## State and Treasury Support Capacity-Building Efforts and Collaborate to Combat Money Laundering in Western Hemisphere Countries

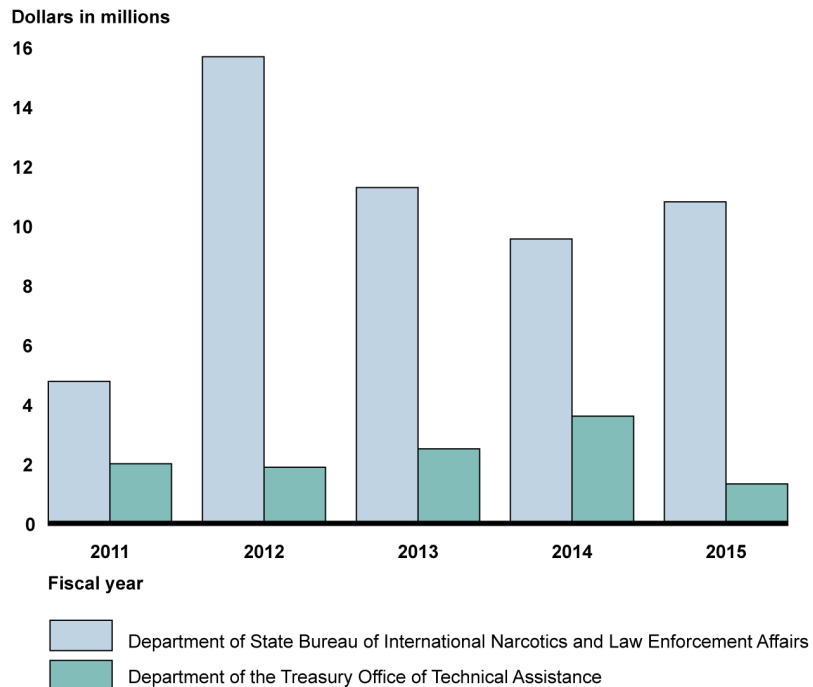
INL and OTA work with other U.S. agencies, primarily components within DHS, Justice, and Treasury, as well as with financial regulators, to provide capacity-building, training, and technical assistance on money laundering countermeasures and financial investigations to their counterparts in the Western Hemisphere and around the globe. These activities are designed to give financial investigators, regulators, supervisors, prosecutors, and the judiciary the necessary tools to prevent, detect, and deter money laundering, financial crimes, and related criminal activity. INL and OTA reported that they collaborate on these activities with other U.S. agencies involved in AML capacity-building and technical assistance.

## State and Treasury Allocated about \$63 Million in Funding from Fiscal Years 2011 through 2015 for Anti-Money Laundering Activities in Western Hemisphere Countries

U.S. government-supported AML capacity-building and technical assistance projects, including bilateral and multilateral efforts, have primarily been funded by State and Treasury. From fiscal years 2011 through 2015, INL allocated about \$52 million for AML capacity-building and technical assistance in Western Hemisphere countries, while OTA allocated approximately \$11.3 million. After more than doubling from fiscal year 2011 to fiscal year 2012, driven by an increase in INL funding that year, the combined INL and OTA allocations for AML activities in the Western Hemisphere declined somewhat in fiscal year 2013, averaging about \$13 million through fiscal year 2015 (see fig. 4).



**Figure 4: Department of State's and Department of the Treasury's Funding Allocated for Western Hemisphere Anti-Money Laundering Activities by Fiscal Year**



Source: GAO analysis of Department of State Bureau of International Narcotics and Law Enforcement Affairs and Department of the Treasury Office of Technical Assistance budget data. | GAO-17-684

From fiscal years 2011 through 2015, INL funding was provided for AML capacity-building and technical assistance in 24 Latin American and Caribbean countries, as well as for certain Western Hemisphere regional programs, such as the Caribbean Basin Security Initiative.<sup>34</sup> INL's AML funding supported the activities of several other U.S. agencies, including DHS, Justice, and Treasury. State officials described a variety of AML programming supported by INL funding, including job-related training, specialized workshops, and procurement of technical equipment. Various types of AML activities are discussed in detail in the section below. According to State, INL funded the majority of U.S. government-supported AML activities in the Western Hemisphere, though AML-related

<sup>34</sup>In 2009, the U.S. government created the Caribbean Basin Security Initiative to assist Caribbean countries to reduce illicit trafficking, advance public safety and security, and promote social justice.

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spending represented about 2 percent of the total INL Western Hemisphere budget over this 5-year period.

INL supported AML activities throughout Latin America and the Caribbean but funds were often concentrated among a handful of countries. From fiscal years 2011 through 2015, over three-quarters of INL funding for AML activities in the Western Hemisphere was allocated to Mexico, Peru, Colombia, and Panama as well as for the Central American Regional Security Initiative (see fig. 5).<sup>35</sup> Mexico received nearly half of INL funds for AML activities in the Western Hemisphere in this period, consistent with the high priority the United States has assigned the Mérida Initiative's goal of disrupting transnational criminal cartels active in that country.<sup>36</sup> For a breakdown of INL funding by country for fiscal years 2011 through 2015, see appendix IV.

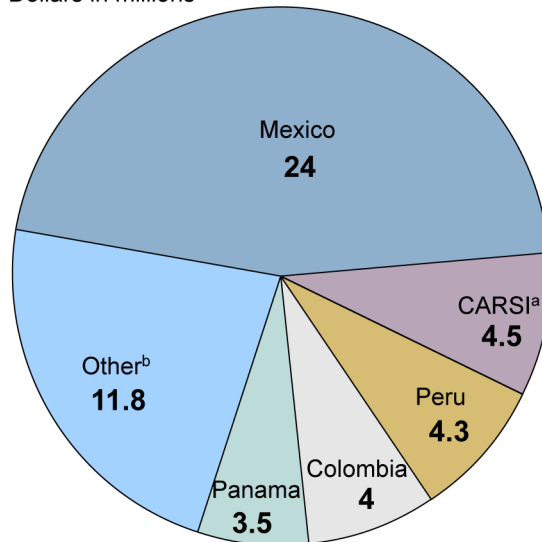
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<sup>35</sup>In 2010, the U.S. government established the Central American Regional Security Initiative (CARSI) to assist Central American countries in their efforts to disrupt criminal organizations, combat contraband, support capable governments, and increase state presence and regional cooperation.

<sup>36</sup>According to State, the Mérida Initiative is a bilateral security cooperation agreement between Mexico and the United States that began in fiscal year 2008 and provides training and equipment support to Mexico's law enforcement and judicial institutions to counteract the illegal trade in narcotics and to strengthen border security.

**Figure 5: Department of State’s Bureau of International Narcotics and Law Enforcement Affairs Allocations by Country for Western Hemisphere Anti-Money Laundering Programs, Fiscal Years 2011 through 2015**

Dollars in millions



Source: GAO analysis of Department of State Bureau of International Narcotics and Law Enforcement Affairs budget data. | GAO-17-684

<sup>a</sup>Central American Regional Security Initiative (CARSI) funding included regional programming for Costa Rica, Guatemala, Honduras, and El Salvador.

<sup>b</sup>Other includes funding for Barbados and the Eastern Caribbean, the Caribbean Basin Security Initiative, Jamaica,

Honduras, Dominican Republic, Paraguay, El Salvador, Guatemala, Ecuador, Haiti, Suriname, Trinidad and Tobago, Guyana, and Brazil.

From fiscal years 2011 through 2015, OTA allocated funding for AML projects in six Western Hemisphere countries.<sup>37</sup> According to Treasury officials, OTA’s AML programming is intended to be comprehensive, thus, OTA has focused on providing more in-depth assistance to fewer countries for longer periods, with most projects lasting 3 to 5 years. OTA provides technical assistance through two basic delivery models: a resident advisor-based project and an intermittent advisor-based project. According to OTA, a resident advisor-based project is anchored by an expert advisor living in the counterpart country, typically for a period of

<sup>37</sup>For the purpose of this analysis, we reviewed only those allocations that OTA included in its Economic Crimes portfolio which, according to OTA, includes programming that assists the development and implementation of AML financing regimes that are compliant with FATF standards.

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several years, and working side-by-side with officials in the FIU and other relevant government institutions. For an intermittent advisor-based project, a group of several advisors typically spends 1 to 2 weeks in a country four to six times a year over the life of the project working with host-country counterparts. Between the on-site visits, the counterparts are expected to carry out planned activities that are directed toward the objectives stated in a mutually agreed upon work plan. In fiscal year 2015, OTA allocated about \$340,000 for the intermittent advisor program in Honduras and about \$983,000 for the resident advisor program in Peru (see appendix V for a breakdown of OTA funding for fiscal years 2011 through 2015).

In addition to the funding discussed above, other State and Treasury resources indirectly or incidentally support AML-related capacity-building or technical assistance in Latin America and the Caribbean, according to INL and OTA officials. For example, State's Office of Threat Finance Countermeasures, in conjunction with other bureaus and agencies, supports efforts to provide technical assistance to foreign governments working against terrorist financing. State's funding directed to combat terrorist financing is not included in the analysis presented above, but, according to State officials, some of those funds may support activities in the Western Hemisphere that overlap with AML objectives.<sup>38</sup> According to Treasury officials, OTA also provides more funding, not included in this analysis, to broader financial stability and development efforts to ensure that financial systems in developing countries, including some in Latin America and the Caribbean, are resistant to criminal activity. Furthermore, both State and Treasury, along with Justice, contribute membership dues to FATF and were similarly not included in the analysis above because they support broader AML objectives beyond the Western Hemisphere.

State and Treasury officials told us that they consider several key factors when allocating resources for AML capacity-building and technical

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<sup>38</sup>For example, in Panama, HSI officials told us that HSI led capacity-building to help Panamanian authorities identify potential vulnerabilities in their financial regulatory processes through the Cross Border Financial Investigations Training, which is implemented by HSI and funded by State's Bureau of Counterterrorism. The training program provides foreign partners with the capability to implement international AML standards in their investigations, with an emphasis on vulnerabilities associated with new technologies and bulk cash smuggling, among other areas. In addition to Panama, in fiscal year 2015, this training was also conducted in Argentina, Brazil, Paraguay, and other countries throughout the world.

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assistance in Western Hemisphere countries. State officials said INL identifies programs where it can support AML programming based on many factors, including input from country posts, budgetary considerations, partner country political will, and strategic priorities. State officials said strategic priorities are outlined by the National Security Strategy, the U.S. Strategy to Combat Transnational Organized Crime, and the U.S. National Drug Control Strategy, among others. For example, the 2015 U.S. National Security Strategy notes that the government will continue to work within FATF to enlist all nations in the fight to protect the integrity of the global financial system.<sup>39</sup> OTA officials said they similarly target programs toward governments that demonstrate political will and are committed to reform. OTA capacity-building and technical assistance is also based on requests for support from counterpart governments. Information on potential projects comes from many sources, including U.S. embassies, other Treasury offices, foreign governments, and international organizations such as IMF, as well as from OTA advisors already in-country implementing other projects.

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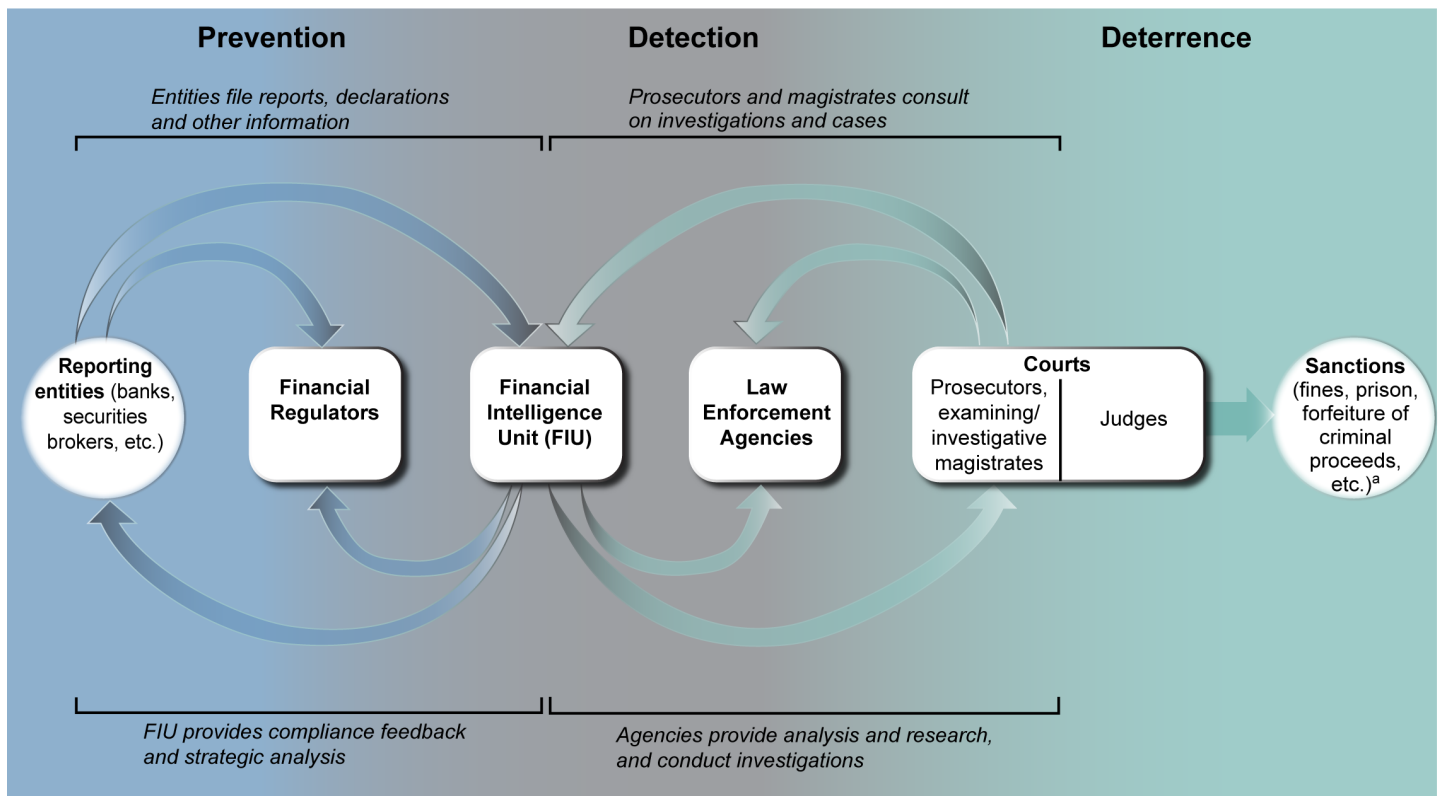
### State and Treasury Support Various Types of Capacity-Building Activities to Prevent, Detect, and Deter Money Laundering in Accordance with International Standards

As noted previously, INL and OTA are the key providers of AML-related assistance. These two agencies collaborate with other U.S. agency partners to address the transnational challenges posed by money laundering and implement a variety of capacity-building activities for foreign partners. These efforts can include training, technical assistance, and, in the case of INL, equipment provision, and are intended to help foreign countries develop effective AML frameworks, including financial regulation, financial intelligence, law enforcement, and prosecutorial and judicial processes. According to international standards set by FATF, within an AML framework, countries should ensure that government entities have effective mechanisms in place that enable them to cooperate and, where appropriate, coordinate domestically with each other (see fig. 6).

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<sup>39</sup>The 2015 U.S. National Security Strategy sets out the principles and priorities to guide the use of U.S. power and influence in the world, including efforts to promote financial transparency and prevent the global financial system from being abused by transnational criminal and terrorist organizations as they engage in, or launder the proceeds of illegal activity.

**Figure 6: General Anti-Money Laundering Framework**



Source: GAO analysis based on Treasury's Office of Technical Assistance, the Financial Action Task Force, and fieldwork in Colombia, Mexico and Panama. | GAO-17-684

<sup>a</sup>Financial regulators and financial intelligence units also aim to deter money laundering activity with enforcement actions, including levying fines.

### Building Legislative and Regulatory Capacity

INL and OTA, in collaboration with other U.S. agencies, notably Justice, support the development of international legal and regulatory frameworks aimed at preventing money laundering activity by encouraging Western Hemisphere countries to adopt legislation and regulations consistent with FATF standards. (See appendix VI for a reference table of key AML actions that Western Hemisphere countries have taken, including legislative activity and other identifying characteristics that can have a relationship to a jurisdiction's money laundering vulnerability, according to State.) FATF standards include recommendations on policy and coordination, specifically that countries should have national AML policies, informed by the risks identified, which should be regularly reviewed. From fiscal years 2012 through 2015, Justice's Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT) received funding from INL to provide training in support of the

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development of AML legislation in Mexico. We met with Justice officials in Mexico who explained that their agency's programs are tailored to fit within the partner country's legal and regulatory framework, including the risks that the country faces with regard to money laundering, as well as FATF standards. Justice officials noted that training Mexican prosecutors and supporting Mexican efforts to promote AML legislative reform are critical for long-term change in the country, given some of the challenges that Mexican officials identified in the country's legal and regulatory framework. For example, Mexican officials told us that Mexico is currently undergoing a FATF evaluation for the first time in a number of years. As part of preparing for that process, Mexican officials told us they are working to further amend AML standards and guidance to continue incorporating a risk-based approach.

INL and OTA also supported capacity-building programs to help ensure that Western Hemisphere countries adopted regulations consistent with FATF standards regarding requirements for financial and nonfinancial supervisors. FATF standards specify that supervisors should have adequate authority to supervise, monitor, and ensure financial institutions' compliance with requirements to combat money laundering, including the authority to conduct examinations. In Panama, officials from the Superintendent of Banks—a regulatory agency responsible for oversight of financial institutions—told us that in the past 2 years (2015 and 2016), the agency received training and technical support from OTA, Justice, and several U.S. regulators. Officials said that the training—on topics including compliance and examination procedures, sanctions, and suspicious activity reporting—helped to increase their overall capacity and compliance with FATF standards. These standards also state that designated nonfinancial businesses and professions, including casinos and real estate agents, should be subject to regulatory and supervisory measures. Officials from Intendencia, Panama's regulatory agency responsible for the oversight of designated nonfinancial businesses and

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**PREVENTION: Panama's AML Framework Includes Designated Nonfinancial Businesses**

State reported that Panama enacted AML legislation in 2015 to address the vulnerabilities of nonfinancial businesses and professions, which provides an example of a partner country's efforts to strengthen money laundering prevention. According to State, Panama's strategic geographic location, dollarized economy, and status as a regional financial, trade, and logistics center make it an attractive target for money launderers. In 2014 Panama was added to the FATF list of high-risk and noncooperative jurisdictions—a public designation of jurisdictions that have strategic AML deficiencies for which they have developed an action plan with FATF. According to U.S. officials, FATF gave Panama a successful blueprint to be lifted off the list, and the country worked with the IMF and others to modify the AML framework. Panama was removed from the FATF high-risk and noncooperative list in February 2016.

State officials explained that the activities of nonfinancial businesses and professions and free trade zones represented a key factor contributing to Panama's money laundering vulnerability. In Panama, vulnerable nonfinancial businesses include casinos and currency exchanges, according to Panamanian officials. Panama also has 16 free trade zones, including the second-largest in the world, which according to U.S. officials has been exploited by narcotics traffickers due to the lack of regulatory monitoring. Officials from Panama's Intendencia—the regulatory agency now responsible for oversight of free trade zones—shared with us oversight plans to monitor the free trade zones and nonfinancial businesses. They described how a variety of capacity-building assistance they received from U.S. agencies supported these efforts.

Source: GAO | GAO-17-684

professions as well as free trade zones, described the training they had received from U.S. agencies, including a regional training from OTA that included officials from Guatemala, El Salvador, and Costa Rica and focused on information-sharing. Intendencia officials said OTA also provided the agency with training on money service businesses and oversight of free trade zones.<sup>40</sup>

INL and OTA also supported this type of capacity-building for other Western Hemisphere countries during our period of review (fiscal years 2011 through 2015). For example, beginning in fiscal year 2013, OTA worked with the Government of Grenada to enhance the country's supervisory capacity of financial institutions and designated nonfinancial businesses and professions consistent with risk-based principles.

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<sup>40</sup>According to FATF, free trade zones are created within jurisdictions to promote trade, support new business formation, and encourage foreign direct investment. They provide a preferential environment for goods and services primarily associated with exports, whereby a minimum level of regulation is imposed on those companies approved to operate within the zone, according to FATF. Additional benefits include exemptions from duty and taxes; simplified administrative procedures; and duty-free imports of raw materials, machinery, parts, and equipment. Free trade zones are located in ports around the world. According to FATF, free trade zones are subject to unique laws, regulations, and oversight to take into consideration their role in job creation and economic development policies. These features provide opportunities for legitimate business but also present weaknesses that expose free trade zones to misuse by criminal elements.



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## Building Financial Intelligence Unit Capacity

In addition to FinCEN's collaboration with Western Hemisphere partner countries discussed previously, both INL and OTA provide assistance to FIUs throughout Latin America and the Caribbean. FIUs are the lynchpin in a characteristic AML framework, according to FATF. FATF standards call for FIUs to serve as a country's national center for the receipt and analysis of (1) suspicious transaction reports, or SARs, and (2) other information relevant to money laundering, associated predicate offenses, and terrorist financing; and for the dissemination of the results of that analysis. According to OTA officials, the FIU plays a key role in the AML regime as the recipient and disseminator of financial intelligence and, as such, it is critical that these entities are able to function effectively. INL's and OTA's support has focused on developing and strengthening partner countries' FIU capacity to collect, analyze, and disseminate vast quantities of financial data that are often necessary to help detect and deter money laundering activity.

### **DETECTION: Colombia's FIU Evaluates Money Laundering Associated with Illegal Mining**

Colombian officials highlighted how the FIU is working with the Colombian Ministry of Mining to detect the threat of money laundering associated with illegal mining proceeds. According to State, despite Colombia's fairly strict AML framework, money laundering, whether from illicit drug trafficking, or more recently, illegal mining, continues to penetrate its financial institutions and affect the overall economy. Colombian officials described how narcotics traffickers, including the Revolutionary Armed Forces of Colombia (FARC), have turned to illegal mining to reap huge profits. Officials explained that illegal mining presents much lower risks and social stigma than drug trafficking, although it has very negative repercussions including significant damage to the environment. Colombian officials told us that the illegal gold trade has become one of the FARC's major sources of income.

According to Colombian officials, the FIU analyzes data on mining production and export figures, largely based on the Mining Ministry's annual report and information on imports available from commercial partners. A comparison of these data allows the FIU to detect discrepancies between official export and mining production records and the figures reported by foreign importers and commercial sales.

Source: GAO | GAO-17-684

According to our analysis of State's 2016 International Narcotics Control Strategy Report, Volume II, every Western Hemisphere country or jurisdiction reviewed in the report has an FIU. INL's support for several of these FIUs included equipment provision and training. For example, INL provided funding in fiscal year 2013 for Colombia's FIU to purchase computer servers that supported the acquisition of a new programming framework that allows for the processing and storage of very large data sets. Colombian officials told us that equipment and training from INL, along with other U.S. agencies, has helped the FIU increase its software capacity and migrate to newer and more advanced data systems, which increases the amount of data they can analyze and the speed of data processing. The FIU has over two dozen different databases and several billion data entries from which they can connect information provided by regulators and other sources and build intelligence profiles, according to Colombian officials. With this information, Colombian officials told us the country's FIU is able to perform network analyses to evaluate how various individuals and companies engaged in suspicious activities are connected to one another. This type of analysis can aid in money laundering cases, including those associated with corruption, which is an ongoing challenge, according to Colombian officials. For example, Colombian officials described how the upgraded programming acquired with INL funds has allowed them to investigate the financial linkages involved in the

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Odebrecht corruption scandal, including analyzing the levels of potential collusion among individuals suspected of engaging in bribery.<sup>41</sup>

In Mexico, INL provided AML capacity-building for the country's FIU every year from fiscal years 2012 through 2015. In fact, State officials noted that much of the funding for AML capacity-building in Mexico was directed to Mexico's FIU, including a large increase in fiscal year 2012 for a significant overhaul of the FIU's computing systems. Specifically, the funding was used to upgrade technical infrastructure, including computer servers, and provide training for Mexican officials on the systems. Mexican officials from the FIU also described training they had received from U.S. agencies on evaluating money laundering models and typologies, conducting forensic financial analysis, and identifying threats associated with virtual currency.<sup>42</sup>

Both INL and OTA supported capacity-building activities for FIUs in several other Western Hemisphere countries during our period of review (fiscal years 2011 through 2015). For example, OTA worked with Guatemala's FIU to strengthen the financial intelligence and analytic capabilities of the FIU which, according to OTA, helped the FIU participate in the successful investigation, prosecution, and conviction of money laundering cases. INL provided OTA funding to support the Jamaican FIU through technical assistance aimed at strengthening analytical skills as well as improving feedback and outreach to regulators to increase the quality of suspicious transaction reporting. Additionally, INL provided OTA funding to work with Dominica's FIU to issue guidance to improve the timeliness and quality of suspicious transaction reporting and to develop standard operating procedures for data receipt, processing, and dissemination, among other activities.

Building Law Enforcement,  
Prosecutorial, and Judicial  
Process Capacity

In an effort to strengthen the capacity of partner countries in Latin America and the Caribbean to undertake financial investigations and prosecutions, INL has supported capacity-building activities in collaboration with U.S. law enforcement agencies, including the Drug Enforcement Administration (DEA) and others. U.S. law enforcement

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<sup>41</sup>In December 2016, executives with Odebrecht SA, a large construction company based in Brazil with operations throughout Latin America, admitted to paying out extensive bribes to Colombian authorities for contracts involving major infrastructure projects.

<sup>42</sup>FATF issued policy guidance, *Guidance for a Risk-Based Approach to Virtual Currencies*, in June 2015.

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agencies working in other Western Hemisphere countries told us they are primarily focused on active and ongoing criminal investigations with a U.S. nexus, but these agencies also support AML capacity-building and technical assistance through a variety of activities. For example, DEA's Office of Global Enforcement, Financial Investigations Section, provides guidance to DEA's domestic and foreign offices, as well as foreign partners' law enforcement agencies in Latin America and the Caribbean to promote effective techniques in financial investigations. Thus, INL supported DEA in building the capacity of the Panama National Police's Financial Investigations Unit, which is tasked with identifying, disrupting, and dismantling criminal drug trafficking and money laundering organizations operating in Panama. Similarly, during fiscal year 2015, DEA provided training on trade-based money laundering, undercover financial operations, the development of money laundering profiles, and risk assessment strategies to Peruvian law enforcement.

INL has also provided support to DEA-vetted units to help combat money laundering.<sup>43</sup> According to DEA officials in Colombia, DEA primarily focuses on capacity-building, including on-the-job training, for vetted financial crimes units it has established within Colombia's National Police and the Office of the Attorney General. Officials from Colombia's National Police told us that the training they had received from U.S. agencies, including training that took place in the United States, had allowed them to improve investigative capacity. State officials said that both DEA and INL have also funded regional information-sharing activities in which the Colombia National Police conducted training on investigative techniques for counterparts in Guatemala and Honduras.

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<sup>43</sup>According to Justice, Congress authorized and approved funding for DEA to create, train, and support sensitive investigative unit training programs (referred to as vetted units) in key countries critical to the counternarcotics objectives of the United States in the fiscal year 1997 Department of Justice Appropriations Act. According to Justice, the conceptual basis of this program is to identify and train DEA foreign counterparts to work in sensitive bilateral investigations. The personnel selected from their respective countries to participate in the program undergo strict security screening.

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**DETERRENCE: Mexico's Capacity to Investigate and Prosecute Financial Crimes in the Accusatorial System**

According to both U.S. and Mexican officials, Mexico has a low conviction rate for money laundering crimes, which may undermine the country's money laundering deterrence efforts. These officials underscored the limited capacity on the part of Mexican prosecutors to investigate and prosecute money laundering cases under the accusatorial justice system to which Mexico recently transitioned. According to judicial reform experts, in 2008, the Mexican Congress passed a constitutional mandate that required all levels of government to transition from an inquisitorial to an accusatorial justice system by 2016.<sup>44</sup> The reforms affect nearly all aspects of the judicial sector, including police, prosecutors, public defenders, the courts, and the penitentiary system. The mandate also included tougher measures for combating organized crime. Mexican officials told us that prosecutors are learning how to present evidence and question witnesses as part of their cases in the new system, including money laundering cases that may often entail complex financial information. Mexican officials said the training that had been provided by U.S. agencies has helped prosecutors conduct these more complex investigations.

Source: GAO | GAO-17-684

INL has also supported capacity-building activities in collaboration with Justice's OPDAT focused on developing prosecutorial and judicial processes for partner countries. For example, in Mexico, OPDAT received funding from INL which, according to Justice officials, was used to train prosecutors, police, and others in the justice system to investigate, analyze, and build financial crimes cases and to prosecute them. Mexican officials told us that prosecutors are still learning how to most effectively prosecute money laundering cases in the country's new accusatorial justice system, in which they play a more active role in court proceedings than they did under the inquisitorial system.<sup>45</sup> Thus, prosecutors still need training and support during the transition, according to Mexican officials. In support of Mexico's 2016 transition to an accusatorial justice system, OPDAT delivered case mentoring and capacity-building programs for judges, prosecutors, and investigators focusing on courtroom management, case law, trial advocacy, and litigation skills, among other topics. Justice officials said that they meet regularly with counterparts from Mexico's Attorney General's office. Quarterly operational case meetings include representatives from the Mexican Attorney General's office and U.S. agencies such as DEA, ICE, the Federal Bureau of Investigations, and IRS. In those meetings, U.S. and Mexican officials review ongoing financial crimes cases that have a U.S. and Mexico connection. While these discussions focus on active investigations, Justice officials told us that training is a standing agenda item; OPDAT reviews ongoing training programs and the Mexican Attorney General's office requests additional training as needed.

INL and Justice have participated in prosecutorial and judicial AML capacity-building efforts to help partner countries develop and enhance asset forfeiture programs which, according to the agencies, are implemented according to FATF standards. In the United States, both Justice and Treasury operate separate asset forfeiture programs that are designed to prevent and reduce crime through the seizure and forfeiture of assets, including cash, vehicles, airplanes, jewelry, and collectibles, which represent the proceeds of, or were used to facilitate, federal

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<sup>44</sup>David A. Shirk, "Criminal Justice Reform in Mexico: an Overview," Mexican Law Review [online], vol. 1 no. 6 (January 1, 2011).

<sup>45</sup>Generally, according to Justice, in an inquisitorial system a judge is actively involved in investigating the facts of a case. In the typical accusatorial model, parties are entitled to be present and to retain attorneys who appear before a judge, who moderates the proceedings, to present evidence and arguments in a case, according to Justice.

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crimes.<sup>46</sup> Similarly, FATF standards recommend that countries develop asset seizure programs that can prevent criminal property from being laundered or reinvested either to facilitate other forms of crime or to conceal illicit proceeds. In 2014, INL chaired a working group on asset forfeiture that brought together U.S. agency partners, Panamanian officials, and the British Crown Prosecutor to build consensus on reform efforts. The project, funded by INL and the British government, supported the continuing work of the British Crown Prosecutor to assist the government of Panama in developing an efficient and effective asset management and recovery plan and adopting and implementing a modernized regulatory scheme that has provisions for the return of assets to jurisdictions outside of Panama.

Similarly, Justice's International Criminal Investigative Training Assistance Program (ICITAP) worked with Colombian officials to support the adoption of Colombia's reformed asset forfeiture law.<sup>47</sup> Justice officials explained that asset forfeiture is a critical aspect of deterring money laundering because seizing these assets from narcotics traffickers often renders them unable to continue their operations or at least diminishes their capacity to operate. In Colombia, drug traffickers typically launder their proceeds by investing in real estate or legitimate businesses, which generate lawful income, according to Justice officials. ICITAP collaborated with prosecutors and Colombia's court system to draft the reformed asset forfeiture legislation and subsequently supported efforts to promote its passage through the Colombian Congress in 2014. According to Justice officials, a key aspect of the law was to streamline the process and time that it takes to effectively seize the assets of individuals and organizations involved in narcotics trafficking. Justice officials further explained that after the system was reformed in 2014 to accelerate the release of proceeds from the sale of seized assets to appropriate government entities, significant assets were seized from narcotics traffickers. However, Justice officials said the assets are not being properly maintained. According to Justice officials, appropriate management of seized assets, a tenet of an effective asset seizure

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<sup>46</sup>We previously found that between 2009 and 2015, financial institutions were assessed about \$5.2 billion in fines, penalties, and forfeitures for violations of BSA/AML regulations and \$6.8 billion for violations of U.S. sanctions program requirements. See GAO, *Financial Institutions: Fines, Penalties, and Forfeitures for Violations of Financial Crimes and Sanctions Requirements*, [GAO-16-297](#) (Washington, D.C.: Mar. 22, 2016).

<sup>47</sup>According to State, ICITAP receives funding from INL.

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program, requires that the assets be sold and the proceeds used to benefit law enforcement, prosecutors, and courts. Justice officials said this could be an area where future capacity-building support could be directed.

From fiscal years 2011 through 2015, INL, in collaboration with U.S. law enforcement agencies, supported AML capacity-building and technical assistance for foreign partners in the law enforcement, prosecutorial, and judicial sectors in several other Western Hemisphere countries, as the following examples illustrate:

- INL funded training, provided by ICE, and the acquisition of equipment for the Jamaican Constabulary Force's Major Organized Crime and Anti-Corruption Unit to enhance intelligence gathering and analysis capacity for financial crime investigations.
- INL funded training provided at the Judicial Studies Institute in Puerto Rico where OPDAT trained judges from the Dominican Republic, Haiti, Mexico, Guatemala, Honduras, El Salvador, Costa Rica, Panama, Peru, Colombia, and Uruguay. Through Spanish instruction, practical exercises, and opportunities to observe courtroom proceedings, judges were able to learn about evidentiary foundations, their role, and courtroom management in an accusatorial justice system. According to Justice, this capacity-building, which includes training on plea bargaining, criminal procedure, judicial security, and opinion writing, is critical to the region, as judges' roles in an accusatorial system are drastically different from those in an inquisitorial system, where judges decide cases based on paper files behind closed doors. According to Justice, in an accusatorial system, judges are responsible for writing opinions, weighing evidence, and guaranteeing the rights of both the victims and the accused, all in an open courtroom setting.
- INL funded assistance in El Salvador, provided by OPDAT, for drafting legislation, implementing regulations, and providing equipment for the asset forfeiture units of the El Salvador National Civilian Police, the Attorney General's office, the Supreme Court, and the National Asset Management Commission.

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## State and Treasury Reported Collaboration on Anti-Money Laundering Capacity-Building Activities

During our review, agencies described some of the collaborative practices and coordination mechanisms that INL and OTA use, including collaboration with other U.S. agencies involved in AML capacity-building and technical assistance. Agencies told us they use a variety of collaborative practices, such as sharing common goals and objectives for AML capacity-building efforts, coordinating planning through agreements and reports, and assigning specific coordination-related job responsibilities to certain staff, as the following examples illustrate:

- In questionnaires we sent to all of the primary agencies involved in AML capacity-building (State, Treasury, Justice, and DHS), agencies indicated that they generally share common goals and objectives for their AML capacity-building efforts—to enhance partner nation capacity to identify and prosecute money laundering and financial crimes. Some agencies, specifically INL, OTA, OPDAT, and DEA, also identified coordinating mechanisms that helped to define their AML strategy, including the Caribbean Basin Security Initiative, CARSI, and State’s Integrated Country Strategies.
- State officials told us that when working with other U.S. agencies as implementing partners, INL coordinates AML capacity-building and technical assistance primarily through interagency agreements. These agreements generally lay out program goals, indicators, deliverables, and a timeframe for program implementation, according to State officials. For example, INL’s 2014 interagency agreement with OTA for AML programs to support CARSI includes a summary of the project, program activities and a work plan, requirements for financial and progress reports, measures of success, and a project timeline. State officials told us they rely on OTA or other implementing partners to conduct the AML capacity-building or technical assistance activity under the interagency agreement but that State officials conduct monitoring and evaluation to ensure that the agreed-upon activities are conducted and objectives are achieved.
- INL employs AML program managers in several Western Hemisphere countries whose job responsibilities include interagency coordination, which is a key part in the execution of any program management function, according to INL. Guidance from supervisors encourages project managers to reach out to key AML stakeholders, including U.S. agency partners, international organizations, and government institutions. This helps to ensure that programs are implemented effectively and avoids duplication of efforts, according to INL. State officials told us that, depending on the size of the AML program and the INL section in the country, program managers may focus full time

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on AML, as is the case in Mexico, or AML may be one component of the job, as is the case in Colombia and Panama.

- OTA officials told us that they solicit input from other U.S. agency partners during needs-assessment trips to evaluate potential new projects and when monitoring existing projects. For example, during needs-assessment trips, OTA officials said that they meet with foreign partner officials to identify the country's priority issue areas and that they also solicit the perspectives of other U.S. agencies represented at the U.S. embassy. When conducting a program review to monitor an ongoing project, OTA officials told us that they incorporate the expertise and input of all relevant U.S. agencies. These officials often include the Legal Attaché from Justice or a Resident Legal Advisor, if applicable; other law enforcement representatives; and the INL Director, among others. Additionally, OTA officials said that they regularly share information about ongoing projects and work plans with relevant U.S. agencies, including an engagement calendar that outlines their planned capacity-building activities.

U.S. agency officials also told us that they collaborate on the implementation of AML capacity-building activities through country teams at U.S. embassy posts. In site visits we conducted to Colombia, Mexico, and Panama, agencies generally agreed that there was effective collaboration at the embassy posts. Collaboration practices include working groups at U.S. embassy posts and informal information sharing, as shown in the following examples:

- In Mexico, U.S. agency officials told us about an AML-related working group that meets to discuss AML issues, including training and capacity-building needs. State officials in Mexico also described how they seek input from all U.S. agency partners when reviewing funding proposals and project status reports, including those for AML capacity-building, during bilateral meetings with Mexican officials related to the Mérida Initiative.
- In Colombia, U.S. agency officials described how they coordinate through several working groups, including an AML working group. State officials told us that through this working group and regular information sharing, U.S. law enforcement agencies that are conducting active operations in Colombia, or Justice officials who are working with Colombian counterparts on regulatory development, can provide input on the types of capacity constraints they are observing and discussing with Colombian officials.
- In Panama, Justice officials told us that the Deputy Chief of Mission has focused on interagency coordination with regard to money



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laundering. Prior to that leadership, U.S. agencies were working somewhat independently of one another. The embassy now has several working groups that directly and indirectly deal with AML coordination: a monthly AML working group, a monthly counterterrorist financing working group, and a monthly law enforcement working group that shares insights on money laundering issues drawn from active or ongoing investigations.

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## Agency Comments

We provided a draft of this report to the Federal Reserve, FDIC, NCUA, OCC, SEC, FINRA, NAIC, Treasury, State, DHS, and Justice for review and comment. We received technical comments from State, Treasury, DHS, the Federal Reserve, FDIC, FINRA, OCC, and SEC and incorporated these comments as appropriate.

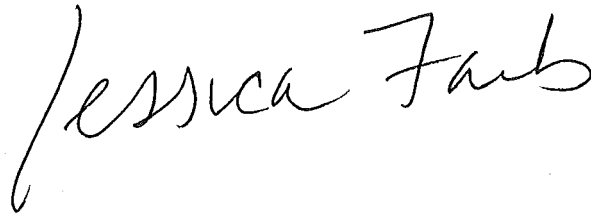
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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Federal Reserve, FDIC, NCUA, OCC, SEC, FINRA, NAIC, Treasury, State, DHS, and Justice, and appropriate congressional committees. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

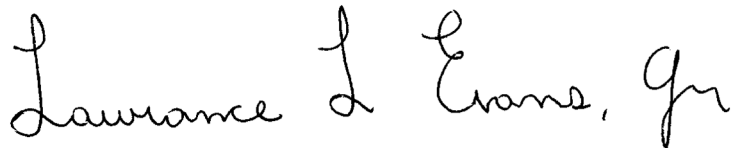
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If you or your staff have any questions about this report, please contact Jessica Farb at (202) 512-6991, or [farbj@gao.gov](mailto:farbj@gao.gov), or Lawrance Evans at (202) 512-8678, or [evansl@gao.gov](mailto:evansl@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VII.

Sincerely yours,

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

Jessica Farb  
Director, International Affairs and Trade

A handwritten signature in black ink that reads "Lawrance L Evans, Jr.". The signature is written in a cursive, flowing style.

Lawrance Evans  
Director, Financial Markets and Community Investment

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# Appendix I: Objectives, Scope, and Methodology

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This report describes narcotics-related anti-money laundering (AML) efforts in the Western Hemisphere. Specifically, this report describes (1) U.S. financial regulators oversight and monitoring of compliance with the Bank Secrecy Act (BSA)<sup>1</sup> and related AML requirements and efforts to collaborate with counterparts in other Western Hemisphere countries, and (2) the activities that the Departments of State (State) and Treasury (Treasury) support to build capacity in other Western Hemisphere countries to combat money laundering and how State and Treasury collaborate on those efforts.

To address these objectives, we reviewed prior GAO reports and State's and Treasury's Office of Inspector General reports and relevant laws and regulations. We also reviewed data and documentation and interviewed officials from key agencies responsible for enforcing the BSA and providing technical assistance for anti-money laundering activities. The agencies and offices included in this review were (1) the Department of State, Bureau of International Narcotics and Law Enforcement Affairs (INL); (2) offices within Treasury's Office of Terrorism and Financial Intelligence, including officials from the Financial Crimes Enforcement Network (FinCEN); (3) Treasury's Office of Technical Assistance (OTA); (4) the federal banking regulators—Board of Governors of the Federal Reserve System (Federal Reserve), Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC); (5) the Securities and Exchange Commission (SEC); (6) the National Association of Insurance Commissioners (NAIC); (7) the Financial Industry Regulatory Authority (FINRA); (8) the Department of Homeland Security (DHS); (9) the Financial Action Task Force (FATF); and (10) the Department of Justice (Justice).

We also conducted fieldwork in Colombia, Mexico, and Panama, where we met with U.S. embassy officials responsible for managing and implementing capacity-building activities and with host-government officials, including financial regulators, financial intelligence unit (FIU) representatives, and federal prosecutors. Additionally, we met with representatives from the private sector in these countries, including anti-

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<sup>1</sup> Pub. L. No. 91-508, tits. I and II, 84 Stat. 1114 (1970) (codified as amended at 12 U.S.C. §§ 1829b, 1951-1959; 18 U.S.C. §§ 1956-1957 and 1960; and 31 U.S.C. §§ 5311-5314 and 5316-5332). The Bank Secrecy Act is the commonly used term for the Currency and Foreign Transactions Reporting Act, its amendments, and the other statutes relating to the subject matter of that act. 31 C.F.R. § 1010.100(e).

money laundering compliance staff from U.S. financial institutions. We selected Colombia, Mexico, and Panama for site visits because State identified each as a major money laundering country in the Western Hemisphere in their 2011 to 2016 International Narcotics Control Strategy Reports (vol. II). Each of these 3 countries was designated a Major Drug Transit or Major Illicit Drug Producing Country from fiscal years 2014 through 2016. This designation derives from presidential determination consistent with the statutory definition of a major drug transit or major illicit drug-producing country set forth in section 481(e)(2) and (5) of the Foreign Assistance Act of 1961, as amended. Because our second objective described INL and OTA coordination efforts for AML capacity-building activities, we decided to conduct site visits to countries where INL (the primary funder of AML capacity-building) targeted AML funding from fiscal years 2011 through 2015. Colombia, Mexico, and Panama accounted for about 60 percent of funds allocated for AML capacity-building efforts in fiscal year 2015, the last year for which funding data were available. We also conducted a series of teleconferences with U.S. and host-government officials in the Bahamas. State also identified the Bahamas as a major money laundering country in the Western Hemisphere in their 2011 to 2016 International Narcotics Control Strategy Reports (vol. II). The Bahamas was also designated a Major Drug Transit or Major Illicit Drug Producing Country from fiscal years 2014 to 2016. The information derived from the site visits and teleconferences were selected to serve as informative examples, and the findings are not generalizable across the Western Hemisphere.

To describe how U.S. financial regulators examine and monitor financial institutions for compliance with BSA and AML policies and how they work with other financial regulators in Western Hemisphere countries to detect and deter the inflows of illicit funds, we reviewed BSA/AML examination procedures for banks as outlined in the Federal Financial Institutions Examination Council manual. We also reviewed other industry guidance on BSA/AML from SEC, FINRA, and NAIC. To understand how narcotics-related money laundering is treated as part of the BSA/AML examination process, we interviewed officials from the financial regulatory agencies. We also reviewed advisories and bulletins issued by FinCEN that detail how financial institutions and regulators should respond to various BSA/AML concerns. To understand how financial institutions detect and report suspicious activities, we interviewed officials at three large financial institutions that conduct business in the United States and other Western Hemisphere countries.

To describe how U.S. regulators work with their foreign counterparts in the Western Hemisphere to combat narcotics-related money laundering, we interviewed officials from the Federal Reserve, FDIC, FinCEN, FINRA, NAIC, NCUA, OCC, and SEC. In addition, we interviewed financial regulators and officials from the financial intelligence units (FIU) in Colombia, Mexico, and Panama about their relationship working with FinCEN.

To describe how U.S. agencies are helping to build capacity in other Western Hemisphere countries to combat narcotics-related money laundering and how State and Treasury coordinate these activities, we reviewed budget data provided by INL and OTA for fiscal years 2011 through 2015. Specifically, we reviewed the funds allocated for AML capacity building and technical assistance. To assess the reliability of the allocations data, we conducted interviews with knowledgeable State and Treasury officials about the accuracy and completeness of the data and reviewed financial reports. We determined the data were sufficiently reliable for the purposes of reporting State's and Treasury's allocations for AML activities by year and by country from fiscal years 2011 through 2015.

We reviewed planning documents, reports, and interagency agreements to understand the types of AML capacity-building activities that State's INL and Treasury's OTA fund and implement and as well as what factors and priorities the agencies consider when allocating resources. We also interviewed officials from State's INL and offices within Treasury and officials from the Departments of Justice and Homeland Security.<sup>2</sup>

To identify examples of the ways in which U.S. agencies collaborated on AML activities, we developed a short questionnaire on collaboration practices and obtained responses from six U.S. federal agencies or departments primarily involved in AML capacity-building and technical assistance in the Western Hemisphere. State's INL, Treasury's OTA, FinCEN, and offices within the Departments of Justice and Homeland Security provided examples of collaboration practices regarding AML-related technical assistance and capacity-building. The purpose of developing the coordination questionnaire was to identify examples of

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<sup>2</sup>Although we spoke with officials from U.S. law enforcement agencies in the countries we visited to understand the types of capacity-building assistance they provide, the investigation and prosecution of money laundering crimes in the United States is outside the scope of this review.

ways in which these agencies coordinated, not to evaluate generalizable outcomes. We also conducted interviews with U.S. officials in U.S. embassies located in the Bahamas, Colombia, Mexico, and Panama to describe how coordination efforts are implemented in-country for AML technical assistance and capacity-building. Additionally, we interviewed a variety of foreign officials in these four countries who received AML capacity-building and technical assistance from U.S. agencies to solicit their perspective on the assistance.

We are presenting the information in appendixes II, III, and VI to provide background and context only and, for that reason, we did not assess its reliability.

We conducted this performance audit from May 2016 to August 2017 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: High-Risk and Noncooperative Jurisdictions in the Western Hemisphere as Identified by the Financial Action Task Force

The Financial Action Task Force (FATF), an intergovernmental body that develops and promotes international standards for combating money laundering and the financing of terrorism, issues two public documents three times a year that identify high-risk and noncooperative jurisdictions based on its review of those jurisdictions' anti-money laundering and countering financing of terrorism (AML/CFT) regime. One is the "FATF Public Statement" that identifies jurisdictions that have such serious strategic deficiencies that FATF calls on its members and nonmembers to apply countermeasures to combat the threat of money laundering and terrorist financing, as well as jurisdictions to which FATF members and nonmembers should apply enhanced due diligence measures based on the risks posed by those jurisdictions.<sup>1</sup> The second document, called "Improving Global AML/CFT Compliance: Ongoing Process," identifies jurisdictions with AML/CFT weaknesses that have also committed to an action plan to address those weaknesses.<sup>2</sup> From February 2011 through February 2017, FATF identified 53 jurisdictions that have been included in at least one of its public documents, 12 of which are in the Western Hemisphere. Table 3 below shows the jurisdictions in the Western Hemisphere that have been identified in FATF's public documents during that period.

**Table 3: High-Risk and Noncooperative Jurisdictions in the Western Hemisphere as Identified by the Financial Action Task Force (FATF), 2011–2017**

Jurisdiction	Date of FATF publications on jurisdictions with anti-money laundering/countering financing of terrorism deficiencies																		
	25-Feb-11	24-Jun-11	28-Oct-11	16-Feb-12	22-Jun-12	19-Oct-12	22-Feb-13	21-Jun-13	18-Oct-13	14-Feb-14	27-Jun-14	24-Oct-14	27-Feb-15	26-Jun-15	23-Oct-15	19-Feb-16	24-Jun-16	21-Oct-16	24-Feb-17
Antigua and Barbuda	•	•	•	•	•	•	•	•	•	-	-	-	-	-	-	-	-	-	-
Argentina	-	•	•	•	•	•	•	•	•	•	•	-	-	-	-	-	-	-	-
Bolivia	•	◉	◉	◉	◉	◉	•	-	-	-	-	-	-	-	-	-	-	-	-
Cuba	-	◉	◉	◉	◉	◉	•	•	•	•	•	-	-	-	-	-	-	-	-
Ecuador	•	•	•	•	◉	◉	◉	◉	◉	◉	◉	◉	◉	•	-	-	-	-	-
Guyana	-	-	-	-	-	-	-	-	-	-	-	•	•	•	•	•	•	-	-
Honduras	•	•	•	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nicaragua	-	•	•	•	•	•	•	•	•	•	•	•	-	-	-	-	-	-	-

<sup>1</sup>FATF also refers to this document as a "call for action."

<sup>2</sup>FATF refers to this second document as "other monitored jurisdictions."

**Appendix II: High-Risk and Noncooperative Jurisdictions in the Western Hemisphere as Identified by the Financial Action Task Force**

Jurisdiction	Date of FATF publications on jurisdictions with anti-money laundering/countering financing of terrorism deficiencies																		
	25-Feb-11	24-Jun-11	28-Oct-11	16-Feb-12	22-Jun-12	19-Oct-12	22-Feb-13	21-Jun-13	18-Oct-13	14-Feb-14	27-Jun-14	24-Oct-14	27-Feb-15	26-Jun-15	23-Oct-15	19-Feb-16	24-Jun-16	21-Oct-16	24-Feb-17
Panama	-	-	-	-	-	-	-	-	-	-	•	•	•	•	•	-	-	-	-
Paraguay	•	•	•	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trinidad and Tobago	•	•	•	•	•	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Venezuela	•	•	•	•	•	•	-	-	-	-	-	-	-	-	-	-	-	-	-

Legend: • = monitored jurisdiction; ◉ = call for action; - = not identified in FATF publication

Source: GAO analysis of FATF documents. | GAO-17-684



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# Appendix III: Basel Anti-Money Laundering Ratings for Select Countries in the Western Hemisphere, 2016

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The 2016 Basel Anti-Money Laundering (AML) Index, compiled by the Basel Institute on Governance, assigns each country a score based on a scale from 0 (low risk) to 10 (high risk).<sup>1</sup> The Basel AML Index does not assess the amount of illicit financial money or transactions but is designed to assess the risk of money laundering—that is, to indicate the vulnerability of a country to money laundering and terrorism financing based on publicly available indicators.

The Basel AML Index is a composite index, meaning that the overall score is a weighted average of 14 indicators dealing with AML regulations, corruption, financial standards, political disclosure, and the rule of law that are aggregated into one overall risk score. The data for the indicators are derived from various publicly available sources such as the Financial Action Task Force, Transparency International, the World Bank, and the World Economic Forum. Table 4 below shows the Basel AML index ratings for select countries in the Western Hemisphere in 2016.

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**Table 4: Basel Anti-Money Laundering Index Ratings for Select Western Hemisphere Countries, 2016**

<b>Country</b>	<b>Rating</b>
Paraguay	7.44
Haiti	7.32
Bolivia	7.29
Panama	7.09
Argentina	6.74
Dominican Republic	6.74
Venezuela	6.53
Guyana	6.48
Brazil	6.23
Honduras	6.04
Guatemala	5.97
Costa Rica	5.93
Trinidad and Tobago	5.92
Nicaragua	5.84

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<sup>1</sup>The Basel Institute on Governance is an independent, not-for-profit organization that specializes in corruption prevention and public governance, corporate governance and compliance, AML, criminal law enforcement, and the recovery of stolen assets.

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**Appendix III: Basel Anti-Money Laundering  
Ratings for Select Countries in the Western  
Hemisphere, 2016**

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<b>Country</b>	<b>Rating</b>
Mexico	5.60
St. Vincent and the Grenadines	5.59
Ecuador	5.48
Grenada	5.18
St. Lucia	5.17
United States	5.17
Uruguay	5.15
Canada	5.00
Chile	4.80
El Salvador	4.69
Colombia	4.55
Dominica	4.40
Peru	4.31
Jamaica	4.16

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Source: Basel Institute on Governance. | GAO-17-684

Note: The 2016 Basel Anti-Money Laundering (AML) Index, compiled by the Basel Institute on Governance, assigns each country a score based on a scale from 0 (low risk) to 10 (high risk).

# Appendix IV: Department of State's International Narcotics and Law Enforcement Affairs Allocations for Anti-Money Laundering

The Department of State's International Narcotics and Law Enforcement Affairs Bureau allocated funding for anti-money laundering (AML) capacity-building and technical assistance to a variety of countries in Latin America and the Caribbean from fiscal years 2011 through 2015. Table 5 below shows the Department of State's International Narcotics and Law Enforcement Affairs allocations by country or region for Western Hemisphere AML programs in this time period.

**Table 5: Department of State's International Narcotics and Law Enforcement Affairs Allocations by Country or Region for Western Hemisphere Anti-Money Laundering Programs, Fiscal Years 2011 through 2015 (dollars in thousands)**

Country or region	2011	2012	2013	2014	2015	Total
Mexico	-	13,000	3,000	5,000	3,000	<b>24,000</b>
Central American Regional Security Initiative <sup>a</sup>	1,500	-	3,000	-	-	<b>4,500</b>
Peru	250	1,050	1,050	1,050	900	<b>4,300</b>
Colombia	-	-	1,500	500	2,000	<b>4,000</b>
Panama	-	-	-	1,500	2,000	<b>3,500</b>
Barbados and the Eastern Caribbean <sup>b</sup>	500	500	500	500	500	<b>2,500</b>
Caribbean Basin Security Initiative <sup>c</sup>	1,150	-	800	300	150	<b>2,400</b>
Jamaica	250	250	250	150	900	<b>1,800</b>
Honduras	-	-	904	500	-	<b>1,404</b>
Dominican Republic	450	50	-	-	350	<b>850</b>
Paraguay	318	-	225	-	-	<b>543</b>
El Salvador	-	-	-	-	500	<b>500</b>
Guatemala	-	-	-	-	500	<b>500</b>
Ecuador	150	150	-	-	-	<b>300</b>
Haiti	-	300	-	-	-	<b>300</b>
Suriname	100	150	-	-	-	<b>250</b>
Trinidad and Tobago	-	65	50	50	-	<b>165</b>
Guyana	100	60	-	-	-	<b>160</b>
Brazil	-	100	-	-	-	<b>100</b>
<b>Total</b>	<b>4,768</b>	<b>15,675</b>	<b>11,279</b>	<b>9,550</b>	<b>10,800</b>	<b>52,072</b>

Source: GAO analysis of Department of State's (State) International Narcotics and Law Enforcement Affairs budget data. | GAO-17-684

Note: Although State may not have allocated funding for a country in a certain fiscal year, agency officials told us they may still be funding anti-money laundering (AML) activities there from prior fiscal year allocations.

<sup>a</sup>Central American Regional Security Initiative funding included regional programming for Costa Rica, Guatemala, Honduras, and El Salvador.

<sup>b</sup>Barbados and Eastern Caribbean funding includes programming for Antigua and Barbuda, Barbados, Dominica, Grenada, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines.

<sup>c</sup>Caribbean Basin Security Initiative funding included regional programming for Guyana, Jamaica, and Suriname.

# Appendix V: Department of the Treasury's Office of Technical Assistance Allocations for Anti-Money Laundering Programs in the

The Department of the Treasury's Office of Technical Assistance allocated funding for anti-money laundering (AML) technical assistance to several countries in Latin America from fiscal years 2011 through 2015. Table 6 below shows the Department of the Treasury's Office of Technical Assistance allocations by country or region for Western Hemisphere AML programs in this time period.

**Table 6: Department of the Treasury's Office of Technical Assistance Allocations by Country for Western Hemisphere Anti-Money Laundering Programs, Fiscal Years 2011 through 2015 (dollars in thousands)**

Country	2011	2012	2013	2014	2015	Total
Honduras	644	811	891	534	340	<b>3,220</b>
Guatemala	498	468	714	1,236	-	<b>2,916</b>
Costa Rica	455	605	833	-	-	<b>1,893</b>
Peru	-	-	62	635	983	<b>1,681</b>
El Salvador	-	-	-	1,194	-	<b>1,194</b>
Uruguay	401	-	-	-	-	<b>401</b>
<b>Total</b>	<b>1,998</b>	<b>1,884</b>	<b>2,500</b>	<b>3,599</b>	<b>1,323</b>	<b>11,305</b>

Source: GAO analysis of Department of the Treasury's Office of Technical Assistance budget data. | GAO-17-684

Note: Although the Department of the Treasury may not have allocated funding for a country in a certain fiscal year, agency officials told us they may still be funding anti-money laundering (AML) activities there from prior fiscal year allocations.

# Appendix VI: Comparative Table of Actions Western Hemisphere Countries Have Taken to Address Money Laundering as Identified by the Department of State

The Department of State (State) identifies a broad range of actions that jurisdictions have, or have not, taken to combat money laundering. As reported by State, the actions are indicated by a “Y” for yes, which indicates that legislation has been enacted to address the captioned items or an “N” for no. According to State, this reference table provides a comparison of elements that include legislative activity and other identifying characteristics that can have a relationship to a jurisdiction’s money laundering vulnerability, but the data do not imply full compliance with international standards. See a description of each criterion following table 7.

**Table 7: Comparative Table of Legislative and Other Actions Taken by Western Hemisphere Countries to Address Money Laundering as Identified by the Department of State**

Legislative and other actions										
Countries / jurisdictions	Criminalized drug money laundering	Criminalized beyond drugs	Know-Your-Customer provisions	Report large transactions	Report suspicious transactions	Cross-border transportation of currency	Financial intelligence unit	International law enforcement cooperation	System for identifying and forfeiting assets	Arrangements for asset sharing
Anguilla	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Antigua and Barbuda	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Argentina	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Aruba	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Bahamas	Y	Y	Y	N	Y	N	Y	Y	Y	Y
Barbados	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Belize	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Bermuda	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Bolivia	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Brazil	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
British Virgin Islands	Y	Y	Y	N	Y	Y	Y	Y	Y	Y

**Appendix VI: Comparative Table of Actions Western Hemisphere Countries Have Taken to Address Money Laundering as Identified by the Department of State**

Legislative and other actions

Countries / jurisdictions	Criminalized drug money laundering	Criminalized beyond drugs	Know-Your-Customer provisions	Report large transactions	Report suspicious transactions	Cross-border transportation of currency	Financial intelligence unit	International law enforcement cooperation	System for identifying and forfeiting assets	Arrangements for asset sharing
Canada	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cayman Islands	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Chile	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Colombia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Costa Rica	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Cuba	Y	Y	Y	Y	Y	Y	Y+	N	Y	N
Curacao	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dominica	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Dominican Republic	Y	Y	Y	Y	Y	Y	Y+	Y	Y	Y
Ecuador	Y	Y	Y	Y	Y	Y	Y+	Y	Y	Y
El Salvador	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Grenada	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Guatemala	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Guyana	Y	Y	Y	Y	Y	Y	Y+	Y	Y	N
Haiti	Y	Y	Y	Y	Y	N	Y+	Y	Y	Y
Honduras	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Jamaica	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mexico	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Montserrat	Y	Y	Y	N	Y	N	Y+	Y	Y	Y
Nicaragua	Y	Y	Y	N	Y	Y	Y+	Y	Y	N
Panama	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Paraguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

**Appendix VI: Comparative Table of Actions Western Hemisphere Countries Have Taken to Address Money Laundering as Identified by the Department of State**

Legislative and other actions

<b>Countries / jurisdictions</b>	<b>Criminalized drug money laundering</b>	<b>Criminalized beyond drugs</b>	<b>Know-Your-Customer provisions</b>	<b>Report large transactions</b>	<b>Report suspicious transactions</b>	<b>Cross-border transportation of currency</b>	<b>Financial intelligence unit</b>	<b>International law enforcement cooperation</b>	<b>System for identifying and forfeiting assets</b>	<b>Arrangements for asset sharing</b>
Peru	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
St. Kitts and Nevis	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
St. Lucia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
St. Maarten	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
St. Vincent / the Grenadines	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Suriname	Y	Y	Y	N	Y	Y	Y+	Y	Y	Y
Trinidad and Tobago	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Turks and Caicos	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Uruguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Venezuela	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Legend: Y = yes; N = no; Y+ = jurisdictions whose financial intelligence units (FIU) are not members of the Egmont Group of FIUs

Source: The Department of State's International Narcotics Control Strategy Report for 2016. Data are current as of December 31, 2015. | GAO-17-684

Note: The Department of State identifies additional legislative and other actions in their International Narcotics Control Strategy Report for 2016 not included in this table.

The Department of State's  
Glossary of Terms for  
Actions Countries and  
Jurisdictions Have Taken  
to Address Money  
Laundering

1. Criminalized drug money laundering: The jurisdiction has enacted laws criminalizing the offense of money laundering related to the drug trade.
2. Criminalized beyond drugs: The jurisdiction has enacted laws criminalizing the offense of money laundering related to crimes other than those related to the drug trade.
3. Know-Your-Customer provisions: By law or regulation, the government requires banks and/or other covered entities to adopt and implement Know-Your-Customer/Customer Due Diligence programs for their customers or clientele.
4. Report large transactions: By law or regulation, banks and/or other covered entities are required to report large transactions in currency or other monetary instruments to designated authorities.
5. Report suspicious transactions: By law or regulation, banks and/or other covered entities are required to report suspicious or unusual transactions to designated authorities. On table 7, the letter "Y" signifies mandatory reporting; Y+ signifies jurisdictions whose financial intelligence units (FIU) are not members of the Egmont Group of FIUs; "N" signifies no reporting regime.
6. Financial intelligence unit: The jurisdiction has established an operative central, national agency responsible for receiving (and, as permitted, requesting), analyzing, and disseminating to the competent authorities disclosures of financial information in order to counter money laundering.
7. Cross-border transportation of currency: By law or regulation, the jurisdiction has established a declaration or disclosure system for persons transiting the jurisdiction's borders, either inbound or outbound, and carrying currency or monetary instruments above a specified threshold.
8. International law enforcement cooperation: No known legal impediments to international cooperation exist in current law. Jurisdiction cooperates with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data, upon request.
9. System for identifying and forfeiting assets: The jurisdiction has established a legally authorized system for the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.



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**Appendix VI: Comparative Table of Actions  
Western Hemisphere Countries Have Taken to  
Address Money Laundering as Identified by  
the Department of State**

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10. Arrangements for asset sharing: By law, regulation, or bilateral agreement, the jurisdiction permits sharing of seized assets with foreign jurisdictions that assisted in the conduct of the underlying investigation. No known legal impediments to sharing assets with other jurisdictions exist in current law.

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# Appendix VII: GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Staff Acknowledgments

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## Public Affairs

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