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Highlights

Highlights of GAO-22-447, a report to congressional requesters

November 2021

COUNTERING ILLICIT FINANCE AND TRADE

Better Information Sharing and Collaboration Needed to Combat Trade-Based Money Laundering

Why GAO Did This Study

Criminal organizations and other malign actors exploit vulnerabilities in the U.S. financial and trade systems to obscure the source and destination of ill-gotten proceeds and further their illicit activity. TBML is one of the most challenging forms of money laundering to investigate because of the complexities of trade transactions and the large volume of international trade. U.S. agencies report there has been an increase in TBML activity, in part because criminals are using more sophisticated schemes to avoid detection.

GAO was asked to provide information on U.S. efforts to combat TBML. This report examines, among other things, (1) vulnerabilities in the U.S. financial and trade systems that are exploited to facilitate TBML, (2) the data U.S. agencies use to detect and combat TBML, and (3) the extent to which U.S. agencies collaborate to share information to combat TBML. GAO reviewed U.S. agency reports, data, and other documentation. GAO also interviewed U.S. agency officials and representatives of private-sector entities, including from the financial, trade, and technology sectors.

What GAO Recommends

GAO recommends that (1) the Department of the Treasury establish an interagency mechanism to promote greater information sharing and data analysis, and (2) the Department of Homeland Security take steps to allow the sharing of TTU data with relevant agencies. Treasury emphasized the importance of the TTU sharing data with other agencies. DHS did not concur. GAO continues to believe the recommendation is warranted.

View GAO-22-447. For more information, contact Michael Clements at (202) 512-8678 or ClementsM@gao.gov or Rebecca Shea at (202) 512-6722 or SheaR@gao.gov.

What GAO Found

Trade-based money laundering (TBML) is one of the primary mechanisms criminal organizations and others use to launder illicit proceeds, and the basic techniques involve the mis-invoicing of goods and services, such as through over- and under-invoicing. The Bank Secrecy Act requires, among other things, financial institutions to report suspicious financial transactions to the Department of the Treasury. But for most trade transactions, financial institutions lack visibility into the types of documentation that would allow them to identify suspicious activity. Also, many trade-related documents, such as purchase orders, invoices, and customs documents, are vulnerable to fraudulent manipulation. Criminal organizations exploit these vulnerabilities for other trade-related financial crimes, such as customs fraud, trafficking in counterfeit goods, and sanctions evasion.

The Department of Homeland Security (specifically, U.S. Immigration and Customs Enforcement's Homeland Security Investigations) established the Trade Transparency Unit (TTU) to combat TBML through the analysis of financial and trade data, including import and export data exchanged with partner countries. The TTU uses the Data Analysis and Research for Trade Transparency System (DARTTS) to analyze trade and financial data to identify suspicious transactions that may warrant investigation for money laundering or other crimes. TTU officials told GAO that they conduct most of their analysis in response to specific requests from agents in the field to support ongoing investigations.

TBML schemes often involve many types of illicit activity—such as the trade of counterfeit goods and sanctions evasion—that cut across multiple agencies' roles and responsibilities. However, current federal collaborative efforts to combat TBML do not include some key agencies involved in overseeing trade, and information on suspicious financial and trade activity is siloed among different agencies. For example:

- Treasury's national strategy for combating money laundering does not incorporate the views and perspectives of several agencies positioned to identify illicit trade, as well as private-sector entities, such as freight forwarders. There is no formal collaboration mechanism focused on combating TBML, such as a working group or task force, among federal agencies with anti-money laundering and trade enforcement responsibilities. Such a mechanism could facilitate the sharing of information and data on trade-facilitated financial crimes between federal agencies and with private-sector entities.
- According to agency officials familiar with DARTTS, data from this system are not proactively analyzed to, among other things, identify emerging trends or patterns of illicit activity. Further, the data and analysis are not shared with other relevant agencies involved in combating illicit finance and trade that could potentially identify suspicious activity. TTU officials told GAO that the TTU's data-sharing agreements with partner countries limit its ability to share DARTTS data, but the TTU could take steps to explore ways to incorporate interagency data sharing into those agreements. With access to relevant data, U.S. agencies may be able to better identify emerging risks and trends related to TBML and other illicit trade schemes.