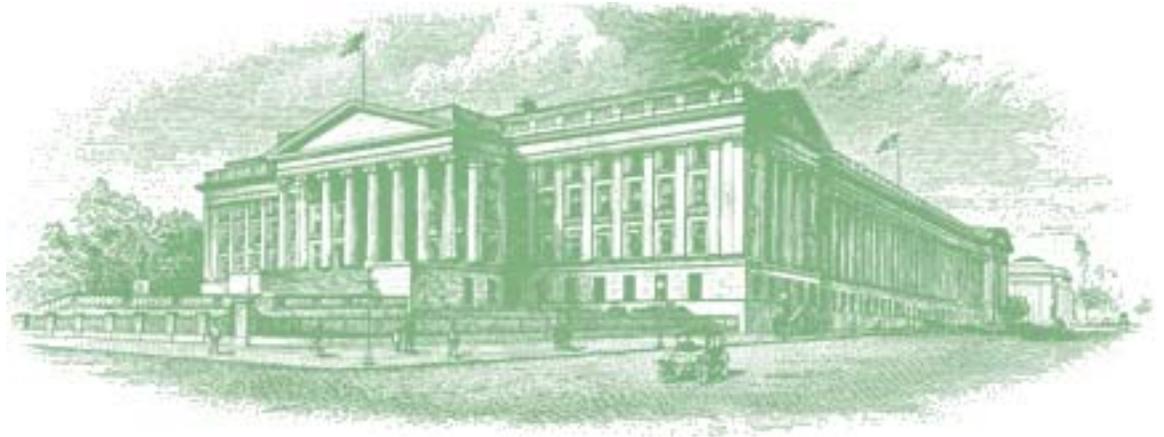




Audit Report



OIG-10-030

SAR Data Quality Requires FinCEN's Continued Attention

January 19, 2010

Office of
Inspector General

Department of the Treasury

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Abbreviations

BSA	Bank Secrecy Act
CTR	Currency Transaction Report
EIN	employer identification number
FinCEN	Financial Crimes Enforcement Network
IRS	Internal Revenue Service
MSB	money services business
OIG	Office of Inspector General
SAR	Suspicious Activity Report
TIN	taxpayer identification number
WebCBRS	Web-based Currency Banking and Retrieval System

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*The Department of the Treasury
Office of Inspector General*

January 19, 2010

James H. Freis, Jr.
Director, Financial Crimes Enforcement Network

The Financial Crimes Enforcement Network (FinCEN) administers and enforces the Bank Secrecy Act (BSA). One of FinCEN's critical BSA functions is the collection and maintenance of data on suspicious transactions. These data are collected through suspicious activity reports (SAR) filed by financial institutions and maintained by the Internal Revenue Service (IRS). FinCEN, law enforcement agencies, and others use these data to identify trends, develop intelligence information on money laundering and terrorist financing, and apprehend criminals. To be most useful, it is vital that these data be as accurate and complete as possible.

Since 1999, we have issued three audit reports on SAR data quality.¹ These audits found a large percentage of SARs contained missing or inaccurate data. In the most recent audit, in 2005, we reported that SAR filers disregarded SAR form instructions, did not always understand the violations listed on the SAR form, or were concerned with personal liability. Also, an IRS contractor made errors while creating electronic databases from paper SARs. This resulted in SARs with missing or inaccurate data not being identified or corrected before or after the SARs were entered into the database. We concluded that overall system control weaknesses, broad reliance on financial supervisory regulators to ensure financial institutions' compliance with SAR filing requirements, and factors unique to either the type of filer or the filing means contributed to the data quality problems. FinCEN concurred with our findings and recommendations and committed to a corrective action plan, but stressed that undue focus on data

¹ *FinCEN: Heightened Management Attention Needed Over Longstanding SAR Data Quality Problems*, OIG-05-033 (Mar. 23, 2005); *FinCEN: Reliability of Suspicious Activity Reports*, OIG-03-035 (Dec. 18, 2002); *The Financial Crimes Enforcement Network Suspicious Activity Reporting System*, OIG-99-032 (Jan. 25, 1999).

quality could undermine the overall effectiveness of SAR reporting programs by creating distorted incentives.

The objective of this audit was to evaluate the status of SAR data quality. We reviewed the actions FinCEN took in response to our 2005 audit report recommendations, evaluated the current processes for receiving and processing SARs, and analyzed one year's worth of SAR data. Appendix 1 describes our audit objective, scope, and methodology in more detail.

We performed our fieldwork for this audit between January 2007 and March 2008. In August 2008, we provided FinCEN with a draft of this report and held an exit conference with FinCEN officials in September 2008. Issuance of this final report was delayed due to other priority work by our office. That work principally relates to an unprecedented number of reviews of failed financial institutions that we are required to perform under the Federal Deposit Insurance Act, as amended. As a result, the SAR data we analyzed during our fieldwork is now over 3 years old. Furthermore, we acknowledge that FinCEN may have taken actions to improve the SAR data quality since our exit conference. That said, however, we believe it is still relevant to report our findings as they provide a benchmark for measuring changes in SAR data quality going forward. Given the essential supporting value of SAR data to law enforcement investigations, we plan to conduct follow-up audits of this area as appropriate. Furthermore, the recommendations in this report address matters that require continued FinCEN management attention.

Results in Brief

SAR data quality had not significantly improved by 2006. We reviewed data fields² critical to law enforcement for 1.1 million SARs filed in fiscal year 2006 by depository institutions, money services businesses (MSB), casinos and card clubs, and securities

² A data field is a specific area of an electronic record allocated for a particular category of data, usually one data element, such as a name, address, or date. Critical data fields are fields in the SAR form that have significant value and importance to law enforcement. Critical data fields were identified by combined efforts of law enforcement agencies, regulators, members of the financial industry, and Treasury offices. The critical data fields we examined were common to all SAR forms and determined by FinCEN to be responsive to the needs of law enforcement, regulators, and SAR filers.

and futures firms. We found that 59 percent of these SARs had instances of missing, incomplete, inappropriate, or inconsistent information. (Hereafter, we refer to these types of issues collectively as *data quality problems*.) SARs filed by MSBs (88 percent) had the highest percentage of data quality problems, followed by securities and futures firms (50 percent), casinos and card clubs (49 percent), and depository institutions (34 percent). The largest filers of SARs are depository institutions (about 53 percent of the total filed during fiscal year 2006); in contrast, the number of SAR filings by casinos/card clubs and securities and futures firms amount to only about 1 percent of the total.

The most frequent data quality problems involved the subject's taxpayer identification number (TIN)³ (44 percent), address field (22 percent), and name (10 percent).⁴ These data are critical for law enforcement investigations and intelligence analyses to connect potentially related data from various sources.

We also found thousands of SAR errors that were neither identified nor corrected during SAR processing. These included incorrect recording dates, shifting of data from one field to another which changed the data's meaning, and missing or unassigned document control numbers.

During our exit conference, FinCEN management agreed with the need to correct data errors, but disagreed that missing data requires more attention. Management also pointed out that the SAR form instructs filers to leave fields blank when information is not available. Accordingly, filers are not required to provide information for each of the critical data fields. Management further stated that while law enforcement prefers to have more information than less, incomplete SARs do not invalidate their usefulness to law enforcement. Instead of devoting resources to missing data, FinCEN's approach is focused on fixing data quality problems that occur during processing. FinCEN management noted that it had a number of information technology modernization

³ IRS uses TINs, which consist of unique nine-digit numeric values, to administer tax laws.

⁴ For this field, we counted as omissions the SARs in which the field was blank. We counted as errors those fields in which the filer listed information that was invalid data (such as a misplaced address or a string of meaningless characters). For SARs filed by depository institutions, subject is referred to as a suspect. We will at times refer to suspect in the body of the report. Subject and suspect refer to the same individuals.

projects it would like to pursue, but funding for these initiatives has not been available. Furthermore, FinCEN views improperly filed SARs as a compliance issue for the regulators or examining agencies to address.

We agree that if filers do not have information for a critical field it follows that the field would be left blank. The manner in which many SARs were completed, though, suggests that the filers should have used more due diligence in preparing the forms. Also, we cautioned that it cannot always be presumed that the reason a field is blank is because the filer did not have the information available. For example, for depository institution SAR submissions, filers are supposed to indicate when the subject data are unavailable and left blank. This field, however, was not consistently used by filers to accurately indicate when subject data was or was not available.⁵ Furthermore, we did not count missing subject data for any type of SAR where the reported suspicious activity amount was less than \$3,000 because, in some cases, filers are not required to record subject information for transactions falling beneath that threshold.

In addition, some of the missing SAR data should have been available to the filer, including the type of suspicious activity, the institution's address, or the location of the suspicious activity. Moreover, we found a disparity among similar institutions in the percentage of SARs with missing or erroneous data. This raises a question of why certain institutions are consistently able to submit a higher percentage of complete and accurate SARs than others.

Recommendations

To further improve SAR data quality, we are recommending that FinCEN: (1) continue and enhance its filer education and outreach programs; (2) identify and refer to the federal regulators those financial institutions with significant and recurring SAR quality problems; (3) coordinate with IRS to evaluate, implement, and improve controls over SAR data; and (4) request IRS to periodically notify FinCEN of SARs containing significant errors or missing critical data fields.

⁵ We also noted other instances where the box was checked, but the filer provided some information on the subject.

Management Response

FinCEN noted that the findings in this report are based on SAR data filed in fiscal year 2006 and, since that time, FinCEN has completed efforts to improve the quality and integrity of SAR data. These efforts include enhancing the BSA electronic filing (E-Filing) system and improving the quality of BSA information through regulatory guidance and outreach.

FinCEN concurred with our recommendations and detailed the actions it has taken or planned in response to each recommendation. FinCEN has

- issued specific guidance to enhance filer education, which it views as an ongoing responsibility;
- established an initiative to identify systemic filing errors and in fiscal year 2009 worked with federal regulators to resolve over 100 such matters;
- worked with IRS to resolve matters associated with the recording, processing, accounting for, and loading of SARs.

By February 2010, FinCEN plans to have a SAR validation process in place that identifies all SAR filings with significant errors for its compliance staff to monitor.

Additionally, FinCEN stated that it plans to launch a BSA information technology modernization program in fiscal year 2010. This initiative aims to modernize BSA information management, analysis, and dissemination and, through increased data integrity and analytical tools, provide hundreds of federal, state, and local law enforcement agencies and financial industry regulators better decision-making abilities and increase the value of BSA information.

FinCEN's actions, taken and planned, meet the intent of our recommendations. FinCEN's full response is provided in appendix 3.

Background

BSA Administration

FinCEN's mission is to enhance national security, deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems.⁶ To fulfill its mission, FinCEN needs to ensure, among other things, the competent collection, maintenance, and dissemination of SARs that financial institutions file when they identify a suspected criminal activity, such as money laundering or terrorist financing.⁷

Approximately 18 million BSA reports of various types are filed each year by about 200,000 financial institutions currently subject to BSA reporting and recordkeeping requirements.⁸ The vast majority of these reports are currency transaction reports (CTR), which are required (unless they meet certain exemption criteria) for cash transactions exceeding \$10,000. SARs are filed when transactions are suspicious in nature because they appear to involve such activity as structuring (using transactions under \$10,000 to avoid being the subject of a CTR), bribery, fraud, use of counterfeit instruments, identity theft, terrorist financing, and the like. SARs generate leads that law enforcement agencies use to initiate or help complete money-laundering and terrorist-financing investigations.

BSA Data Repository and Access

IRS, through its Enterprise Computing Center in Detroit, Michigan, serves as the government's central repository for BSA data.⁹ IRS

⁶ Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001, Pub. L. No. 107-56, Title III, Subtitle B, Section 361(a)(2), 115 Stat. 272, 329-332, codified in relevant part at 31 U.S.C. § 310(b); Amended December 2004 (Pub. L. No. 108-458), February 2006 (Pub. L. No. 109-170), and March 2006 (Pub. L. No. 109-177).

⁷ 31 CFR § app. 103.17-21.

⁸ For purposes of this report, the term financial institution refers to depository institutions, such as banks, credit unions, and thrifts; MSBs (which include money transmitters, issuers, redeemers and sellers of money orders and travelers' checks, check cashers, and currency exchangers); casinos and card clubs; and brokers or dealers in securities and futures.

⁹ Although the SAR database resides at and is maintained by IRS, FinCEN is statutorily responsible for the data (31 U.S.C. app. § 310, Pub. L. No. 107-56, 115 Stat. 329-330).

maintains the information technology infrastructure and operations needed to collect BSA data; convert paper, magnetic, and electronic BSA filings to standardized electronic records; and, where appropriate, correct errors in the forms submitted by filers.

IRS maintains a BSA data storage and retrieval system known as WebCBRS.¹⁰ IRS criminal investigators, as well as federal, state, and local law enforcement organizations, access the BSA data through WebCBRS for investigative and intelligence purposes. Federal regulatory agencies, such as the Federal Reserve, Securities and Exchange Commission, and various federal banking agencies also access BSA data through WebCBRS for compliance and enforcement purposes. Certain law enforcement agencies, such as the Federal Bureau of Investigation and U.S. Secret Service, prefer to periodically obtain downloads of bulk BSA data and perform their own analyses by combining the BSA data with data from other sources.

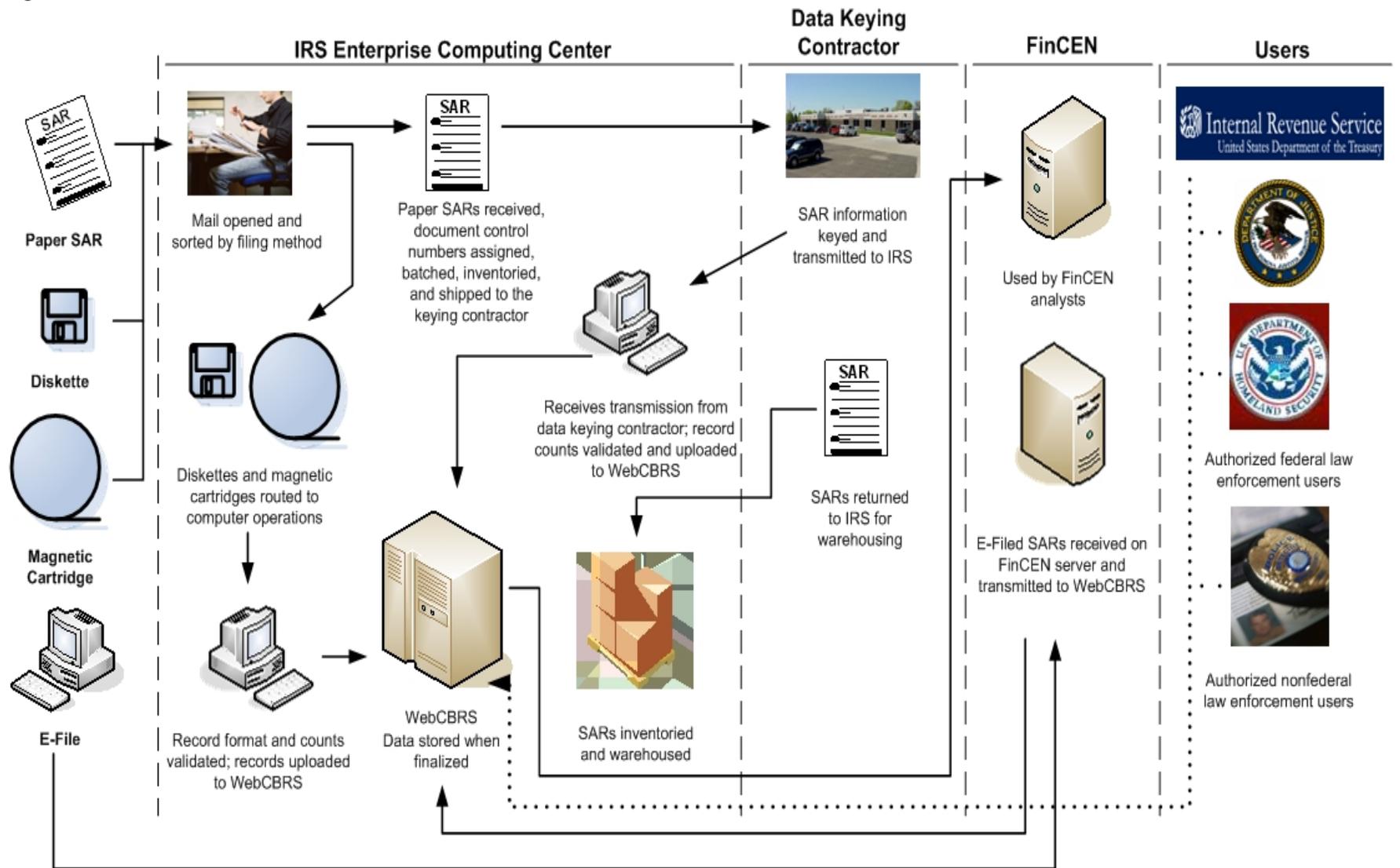
Various Media Are Used to File SARs With IRS

SARs are filed with IRS by paper, magnetic diskettes or cartridges, or E-Filing.¹¹ Each SAR is assigned a sequential document control number for tracking purposes. SARs filed by paper are received by IRS in Detroit, forwarded to an outside contractor in North Dakota where the data are key-entered to magnetic format, and then electronically transmitted back to IRS for uploading into the database. Prior to January 1, 2009, SARs filed by magnetic diskettes and cartridges were received at IRS and uploaded directly into the SAR database. SARs filed through E-Filing are accumulated by FinCEN and transmitted to IRS for upload. Figure 1 on the next page depicts the filing process in place during the audit period.

¹⁰ Web-based Currency and Banking Retrieval System (WebCBRS) is IRS's data warehouse and information retrieval system.

¹¹ As of January 1, 2009, filers are no longer allowed to submit SAR data using magnetic media.

Figure 1: How SARs Are Filed



Previously Reported SAR Data Quality Problems and Corrective Actions Taken

In January 1999, we reported on problems concerning SARs with missing information deemed critical by law enforcement. In December 2002, we reported on similar problems with SAR data quality and identified approximately 3,000 duplicate filings in the SAR database. In March 2005, we reported that FinCEN had made little progress in addressing the weaknesses reported in our 2002 audit, and had not established standards for monitoring SAR data quality. Of the SARs sampled as part of the 2005 audit, we reported that 62 percent contained data quality problems in one or more critical SAR data fields. We also reported that the number of duplicates in the SAR database had grown to an estimated 15,000. We concluded that the continued absence of adequate internal controls to detect and prevent problem SARs from entering into the SAR database remained the primary cause of the data quality problems.

FinCEN's approach to enhancing data quality focused on education and outreach combined with a periodic analyses of the reports filed and, when appropriate, remedial action against filers with systemic data quality issues. FinCEN management officials said they took this approach, in lieu of preventing SARs with blank or incomplete fields from being filed, because even imperfect SARs may have information critical to law enforcement.

FinCEN took a number of actions in response to our audit recommendations. FinCEN

- assigned to three assistant directors responsibility and accountability for ensuring the accuracy and timeliness of the SAR data system;
- instituted measurable standards to address the critical data fields that are responsive to the needs of law enforcement, federal regulators, and SAR filers;
- worked with federal banking agencies to draft interagency BSA and anti-money laundering examination procedures;

-
- established policies and procedures for follow-up on regulatory referrals to federal regulators to determine their supervisory resolution;
 - implemented quarterly reports generated by IRS identifying duplicate SAR submissions and counts of SAR submissions with data omitted from critical fields;
 - continued with its outreach efforts in several ways (including posting on its Web site in March 2008 frequently asked questions about SARs, publishing *SAR Activity Review, Trends, Tips, and Issues*,¹² issuing filing guidance, hosting a nationwide training conference call for MSBs in collaboration with IRS in March 2008 to provide tips on filing accurate CTRs and SARs, and issuing additional guidance highlighting the instructions for MSBs to file SARs, with instructions for completing a critical field when information is unavailable or inapplicable); and
 - established a Data Management Council in July 2007 to provide a forum among internal and external stakeholders, including law enforcement, to discuss, review, and prioritize BSA data issues.

We also recommended that FinCEN reassess how the contractor's 3 percent error rate is measured and that greater consideration be given to the number of SARs with errors rather than just the total number of errors per SAR. We believed this change added perspective to situations in which a few SARs account for a large number of errors as opposed those in which each of a large number of SARs has a few errors. FinCEN decided not to request IRS to change its contractor measurement process.

FinCEN told us that the most cost-effective approach to reducing SAR omissions is to move more filers to electronic filing and to

¹² *SAR Activity Review, Trends, Tips, and Issues* has been published twice a year since October 2000. It reports on SAR-related areas of interest to both government agencies and financial institutions.

revise the SAR forms and instructions. As of January 1, 2009, filers are no longer allowed to submit SAR data using magnetic media.

Furthermore, FinCEN delayed implementation of revised SAR forms for depository institutions, casinos and card clubs, insurance companies, and securities and futures firms.¹³ FinCEN has not announced when revised forms will be implemented and said that it will continue to monitor omissions through IRS's quarterly reports until the new SAR forms are available.

In 2005, we also reported that three MSBs were collectively responsible for 77 percent of the problem SARs filed by MSBs. FinCEN issued a civil monetary penalty to Western Union, in part, for SAR deficiencies. Because the second MSB was owned by the same parent company, FinCEN expected any corrective actions taken by Western Union would correct problems at the affiliated company. For the third MSB, the U.S. Postal Service (USPS), FinCEN said it had used outreach to achieve improvements. FinCEN's Office of Compliance conducted further SAR monitoring and outreach with the three MSBs in 2007, when additional errors were detected, and determined that the errors were caused by systemic programming and preparation errors. The three MSBs have since implemented revised procedures and FinCEN said its reviews of the SAR filings for these MSBs in 2008 found no systemic filing problems.

Appendix 2 provides a detailed listing of the 2005 audit's recommendations and FinCEN's corrective actions.

Findings and Recommendations

Finding 1 Data Quality Problems Were Identified in More Than Half of the SARs Filed During Fiscal Year 2006

We found that 59 percent of the SARs filed in fiscal year 2006 had data quality problems (missing, incomplete, inconsistent, or

¹³ According to FinCEN, the new forms will be implemented after FinCEN and IRS resolve outstanding issues with the systems processing of SAR data.

inappropriate information) in one or more fields critical to law enforcement. The preponderance of problem SARs were filed by MSBs (approximately 428,000) and depository institutions (192,000). The critical fields most often containing missing or erroneous data related to the subject, including name, address, or identifying information. We believe these SAR data quality problems diminish the usefulness of the data for FinCEN, law enforcement, and other users.¹⁴

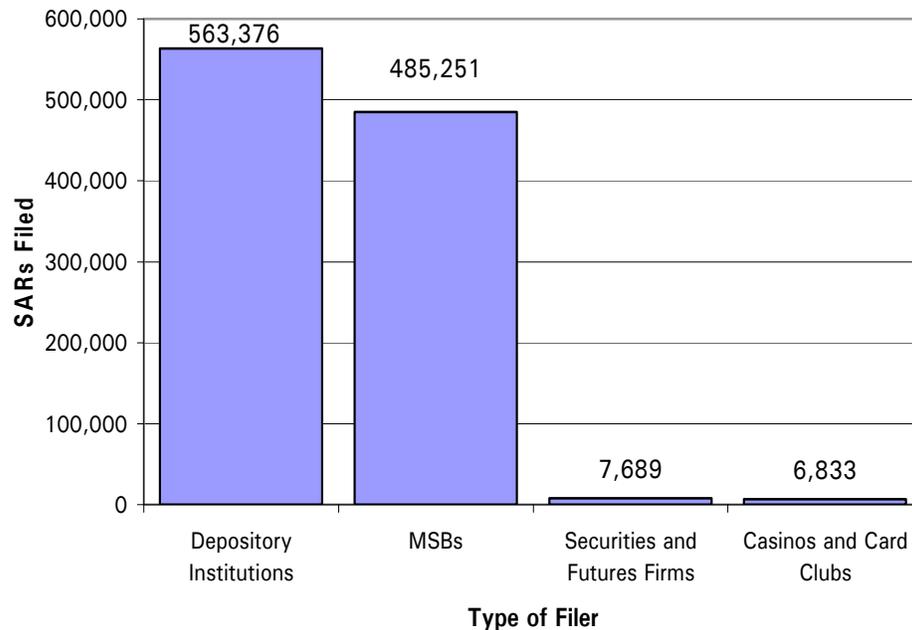
FinCEN management emphasized that data omissions are legitimate when data are not available to the filer, and SAR forms generally instruct the filers to leave fields blank when filers do not have the related information. While data omissions may be legitimate, we found inconsistencies in how depository institution files used a data field indicating this information was not available. We also observed certain blank SAR fields for information that the filing institution should clearly have had available, such as the type of suspicious activity observed, the institution's address, or the address of the suspicious transaction. Furthermore, we observed significant variation in the percentage of SARs with missing data among similar depository institutions, which raises questions about the diligence of certain depository institutions when filing SARs.

Number of SARs Filed by Financial Institutions

Approximately 1.1 million SARs were filed by financial institutions in fiscal year 2006. The vast majority of these SARs, about 99 percent, were filed by depository institutions and MSBs, while casinos and card clubs and securities and futures firms, combined, filed the remaining 1 percent. The number of SARs filed by institution type is shown below in figure 2.

¹⁴ In assessing the quality of the data, we did not count omissions in the six critical subject fields for SARs where the reported suspicious activity amount was less than \$3,000.

Figure 2: Number of Fiscal Year 2006 SARs Filed by Institution Type



Note: This figure does not include 2,603 SARs filed by depository institutions received by IRS in September 2006 that were not loaded into WebCBRS until February 2007 and 2 SARs filed by securities and future firms that were received in September 2006 and not transmitted to FinCEN until October 2007.

Source: OIG analysis of fiscal year 2006 SAR data.

SAR Data Quality Problems

In our review of the fiscal year 2006 SAR filings, we examined 17 data fields FinCEN identified as critical for law enforcement.¹⁵ We found that 59 percent of the SARs filed during fiscal year 2006 either had omissions in one or more of the critical fields, or contained incorrect, inconsistent, or inappropriate information.

SARs filed by MSBs were most likely to have data quality problems. About 88 percent of SARs filed by MSBs had problems, a 20 percentage point increase over what we

¹⁵ The 17 critical data fields we examined were common to all SAR forms and determined by FinCEN to be responsive to the needs of law enforcement, federal regulators, and SAR filers. This is more fully defined in footnote 2 above.

reported in 2005. About 34 percent of SARs filed by depository institutions had problems, a 22 percentage point decrease from what we reported in 2005. In addition, we found that approximately half of the SARs filed by casinos and card clubs and the securities and futures firms had data quality problems.¹⁶

Table 1 shows the number of fiscal year 2006 SARs with data quality problems by institution type.

**Table 1: Fiscal Year 2006 SARs With Data Quality Problems
By Institution Type**

Institution type	Total SARs	Problem SARs	Problem SAR percentage
Depository institutions	563,376	191,622	34%
MSBs	485,251	427,934	88%
Casinos and card clubs	6,833	3,368	49%
Securities and futures firms	7,689	3,822	50%
Total	1,063,149	626,746	59%

Source: OIG analysis of fiscal year 2006 SAR database.

Table 2 shows, by filer group and critical data field, the number and percentage of SARs with data quality problems.

¹⁶ We did not sample SARs filed by casinos/card clubs or securities and futures firms in our 2005 audit. The requirement for casinos/card clubs and securities and futures firms to file SARs became effective in 2002.

Table 2: SARs With Data Quality Problems by Field and Filer Group

Critical Field	Casinos and card clubs	Depository Institutions	MSBs	Securities and futures firms	Total	Percent
Subject's SSN/EIN/ITIN ^a	2,405	127,537	333,573	2,176	465,691	44%
Subject's address	1,158	64,716	162,845	1,944	230,663	22%
Subject's city	922	61,582	154,455	1,572	218,531	21%
Subject's state	945	65,933	156,109	1,462	224,449	21%
Subject's ZIP code	984	66,002	158,264	1,526	226,776	21%
Type of activity	85	8,431	152,659	57	161,232	15%
Subject's name	655	32,483	76,053	1,046	110,237	10%
Institution's location/TIN	242	7,410	81,816	667	90,135	8%
Institution's location/address	432	8,106	37,759	57	46,354	4%
Dollar amount	100	24,691	3,683	854	29,328	3%
Contact phone	61	14,550	14,150	19	28,780	3%
Narrative	836	5,650	25,702	306	32,494	3%
Institution's Location/ZIP code	110	1,572	24,192	42	25,916	2%
Date of activity	63	5,654	7,449	362	13,528	1%
Institution's location/name	62	286	11,779	31	12,158	1%
Institution's location/city	41	420	13,415	33	13,909	1%
Institution's location/state	62	258	13,340	39	13,699	1%

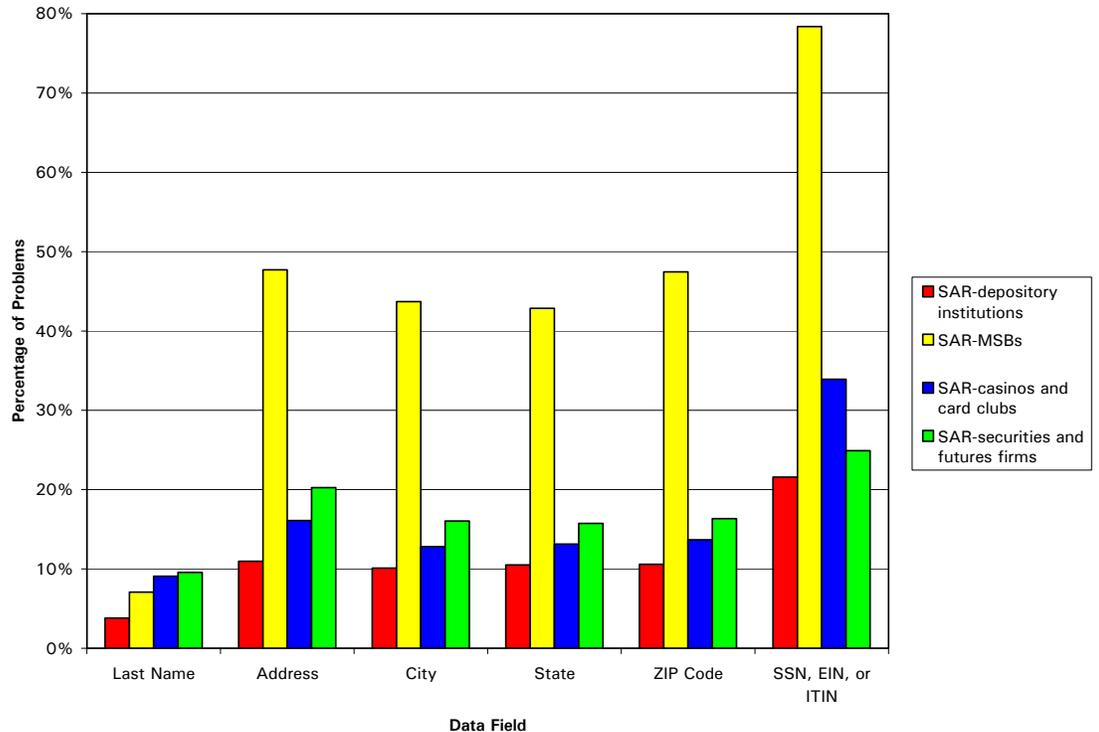
^a SSN/EIN/ITIN refers to Social Security number, employer identification number, and individual's tax identification number.

Note: SARs often had problems in one or more critical fields.

Source: OIG analysis of fiscal year 2006 SAR data.

Figure 3 shows subject field problems by filer group. As the figure illustrates, MSBs had the highest percentage of problems, reaching close to 80 percent for subject’s Social Security number, employer identification number (EIN), or individual’s TIN.

Figure 3: Subject Field Data Quality Problems by Filer Group



Source: OIG analysis of fiscal year 2006 SAR data.

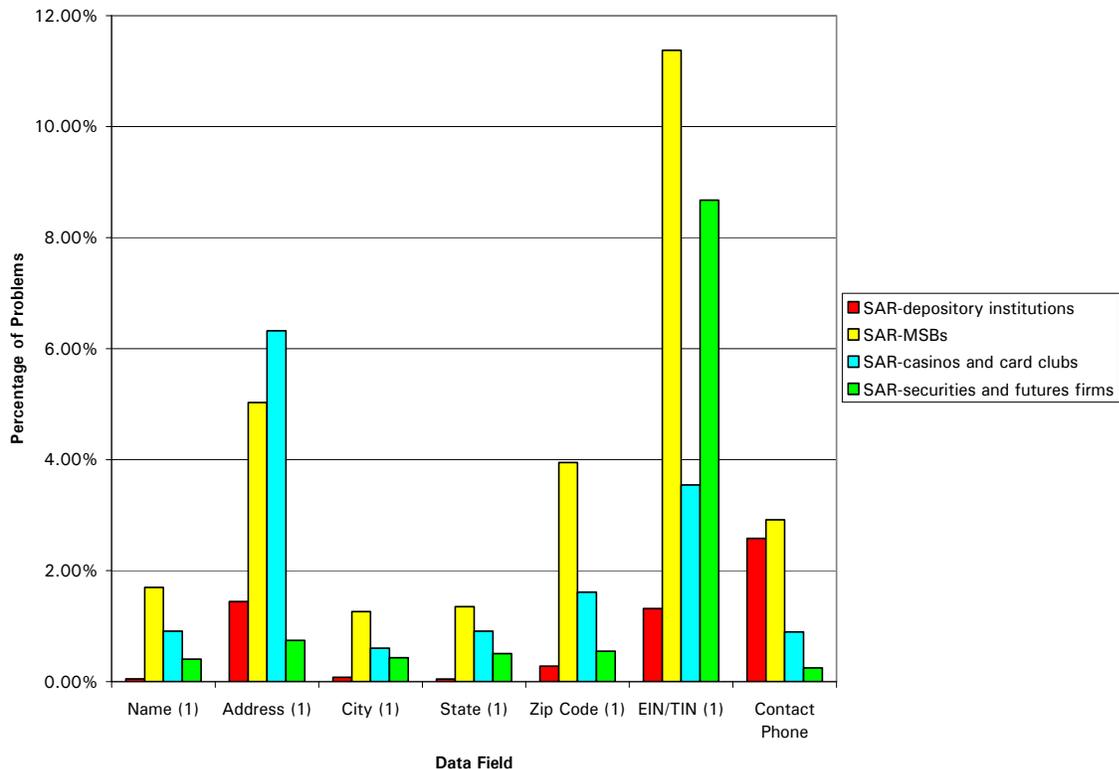
In one SAR field, filers are required to characterize the suspicious activity being reported. In cases where the activity does not correspond to an available code, SAR guidance instructs filers to select “other” and to provide a brief description. We found, however, that the suspicious activity was often characterized incorrectly or not at all. For example, we identified approximately 65,000 SARs (approximately 64,000 MSB SARs and 1,000 depository institution SARs) with “other” selected but either no description or an invalid description of the activity. Invalid descriptions took many forms. For example, we noted suspicious activity described as a string of numbers, the words “not sure,” “who knows,” “nothing suspicious,” or other similar and meaningless information.

A second example included about 68,400 SARs (approximately 68,000 from MSBs and 400 from depository institutions) where an entry was made in the other activity type description field but the “other” activity type code was not selected by the filer. In addition, we found approximately 27,500 SARs (20,500 from MSBs and 7,000 from depository institutions) with no suspicious activity code identified at all.¹⁷

Figure 4 following shows that MSBs had more problems in providing filer identifying information in almost all categories than the other filers. For example, about 11 percent of SARs filed by MSBs had problems with the transaction location’s employer identification number or TIN.

¹⁷ As explained later in this report, the content of the activity type field was affected by data shifting, which may have resulted in SARs with unintended content in this field.

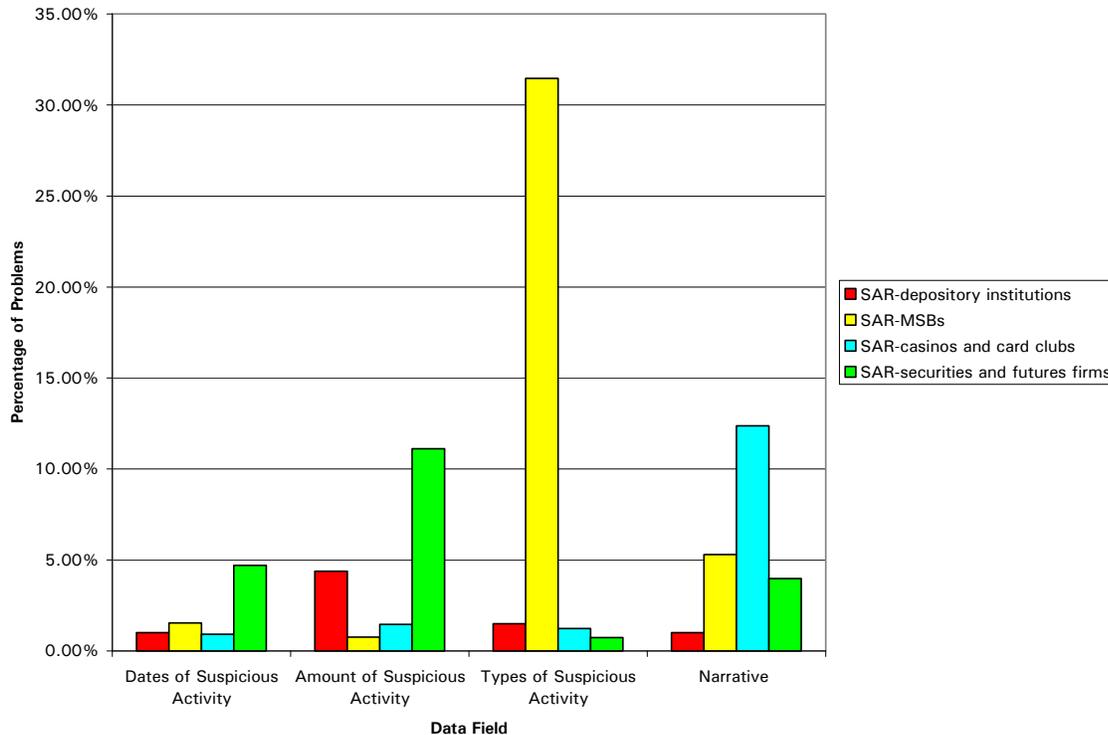
Figure 4: Filer Identifying Information Data Quality Problems by Filer Group



(1) These fields are used to record the location of the suspicious activity on MSB SARs. On all other SARs, these fields are for recording the filer's information.
Source: OIG analysis of fiscal year 2006 SAR data.

Figure 5 following shows that for suspicious activity data fields, the field with the most problems was the type of suspicious activity, involving nearly a third of the SAR forms filed by MSBs. Approximately 12 percent of the SARs filed by casinos and card clubs had deficient narratives, where either (1) the narrative was not provided, was entirely blank or included language that documentation was attached or enclosed, contrary to SAR instructions; or (2) did not meet the standard of an acceptable narrative (defined by FinCEN as being more than 40 characters in length). About 11 percent of SARs filed by securities and futures firms had problems with the dollar amounts field associated with the suspicious activity.

Figure 5: Data Quality Problems for Suspicious Activity Fields by Filer Group



More Than Half of the SARs Submitted by Certain Depository Institutions Had Data Quality Problems

Although depository institutions showed improvement as a whole from our prior audit -- with the percentage of problem SARs dropping from 56 percent to 34 percent -- data quality problems continued to exist for many, including several large banks or thrifts with assets of \$30 billion or greater. These banks or thrifts had a higher than average percentage of fields with missing, incomplete, inconsistent, or inappropriate data. Table 3 shows the 25 depository institutions with at least 50 percent of their SARs with problems, listed by total SARs filed. Data quality problems were evident in 68 percent of the SARs they filed, ranging from a low of 51 percent to a high of 100 percent. We believe the range of SAR data quality problems within this group of 25 (but also among all depository

institutions), raises questions about why certain institutions have a far greater percentage of problems than others.

Table 3: Depository Institutions (Top 25) With More Than Half of Their SARs Having Missing, Incomplete, Inconsistent or Inappropriate Data

Depository institution	SARs filed	SARs with problems	% of SARs with problems
A	1,005	1,005	100
B	660	660	100
C	488	467	96
D	473	440	93
E	591	541	92
F	3,033	2,699	89
IndyMac Bank FSB	1,723	1,487	86
G	1,824	1,381	76
H	712	535	75
I	513	386	75
J	3,499	2,600	74
K	661	488	74
L	1,074	757	70
M	605	415	69
N	736	476	65
O	3,213	2,014	63
P	1,982	1,241	63
Q	5,056	3,042	60
R	1,204	727	60
S	763	450	59
T	1,549	875	56
NetBank FSB	875	480	55
U	2,990	1,592	53
V	715	380	53
X	5,238	2,692	51
Total	41,182	27,830	68

Source: OIG analysis of fiscal year 2006 SAR database. Since our audit period, IndyMac Bank FSB and NetBank FSB failed. The names of the active depository institutions in the above table were provided to FinCEN.

FinCEN Said Our Results Overstate SAR Data Quality Problems Because Filers Are Allowed to Omit Information from SARs

Recognizing that filers may not always have complete information available on a suspicious transaction, FinCEN pointed out that there are valid reasons why filers omit

certain information. FinCEN management also expressed their belief that our conclusions about the extent of data quality problems are overstated. FinCEN management stated that SAR form instructions generally make it clear that any field for which information is not available should be left blank. To meet SAR legal requirements, a filer needs only to submit a SAR within 30 days of a suspicious transaction, or 60 days if the filer needs more time to identify the subject. FinCEN is satisfied with entering these SARs into the database.

According to FinCEN management, even a SAR with missing critical data has value to law enforcement. Also, FinCEN expects that MSBs have more SARs with missing data than depository institutions because depository institutions inherently have more data on individuals they do business with than MSBs. MSBs deal with a more transient population and the customer-MSB relationship is usually more short-term than the customer-depository institution relationship.

We agree that SARs, even with missing critical data, can have value to law enforcement. However, we believe more complete and accurate SAR submissions would have additional value, particularly when there are questions about whether the missing data are available to the filer. For example, depository institution filers are supposed to indicate on the submission record when the subject data are unavailable and left blank. However, this box was not checked for 79 percent of SARs with missing critical subject field data (about 105,000 SARs of about 133,000 SARs filed by depository institutions). Of these SARs, 2,975 SARs had no subject information at all, while others contained limited subject data such as a telephone number or a date of birth. We also noted that even when the box was checked (about 28,000 SARs), indicating that the data were not available, the filer for about 1,600 of these SARs had included either some or all of the subject data.

In addition, some SAR data that were missing should clearly have been available to the financial institution, including the

type of suspicious activity noted, the location of the suspicious activity, or the institution's address.

When we discussed these conditions with FinCEN, we were told that a large volume of "corrected" SARs are submitted following original submissions that augment the original SARs, though these SARs are not always identified as corrected.

FinCEN management further stated that SARs may provide the needed information in the narrative section of the forms. FinCEN was concerned that our findings relative to missing data in SAR fields were not adjusted to take narrative information into consideration. While we appreciate this concern, it was not practicable for us to review the narratives for 1.1 million SARs. It should also be noted that providing data in the narrative in lieu of recording the information in a SAR data field is contrary to the instructions for the SAR forms. If, in fact, this practice (putting information in the narrative instead of specific data field) is widespread it would also distort trend analyses of SAR data by FinCEN and other law enforcement agencies.

That said, we also believe that it would be difficult, time-consuming and costly, for law enforcement doing widespread searches of the database for particular field data, to hunt for these data in narratives, on the chance that filers placed important information in the narratives rather than in the correct data fields.

While filers may omit SAR data they do not have, it is not possible to determine by reviewing SARs with missing data whether the filers had the data available or not. We observed certain data omitted that clearly should have been available to the financial institution, such as the type of suspicious activity noted, the institution's address, or the location of the suspicious activity. We also observed that among similar types and size institutions, the percentage of submitted SARs with data quality problems can vary significantly. This raises a question as to why certain institutions consistently

provide SARs with fewer data quality problems than other similar institutions.

Finding 2 Improved System Controls Are Needed

We found thousands of SARs with errors and other data quality problems that were not identified and corrected during SAR processing. These problems included incorrect recording dates, shifting of data from one field to another which changed the data's meaning, and missing or unassigned document control numbers used to account for the SARs.

These control weaknesses affect the quality and in some cases availability of the SAR data to law enforcement. FinCEN management was aware of some, but not all of these processing control issues identified by our audit. During our audit, we also discussed the control weaknesses with IRS officials who stated that they were working to correct the problems related to processing of BSA data.

Questionable Data Entry Dates

According to an agreement between IRS and FinCEN, IRS is to load SAR data into the SAR database within 10 working days. To assess the timeliness of SAR data loading into the SAR database, for each SAR received in fiscal year 2006, we compared the date that the SAR was received with the IRS load date. While the SARs generally appeared to be loaded timely, we often saw data that raised questions about the validity of the entry dates. Examples of issues identified with entry dates included:

- Over 23,600 paper SARs submitted by MSBs that were recorded as having been received by IRS and entered into the database on the same dates. We do not believe that this could be correct because IRS transports paper SARs to another state for data entry and subsequent processing. Thus, for the entry dates to have been accurate, the SARs would have to have been received, shipped out of state, key-entered to

magnetic format, transmitted back to IRS, and entered into the database on the same day they were received—unlikely, in our view.

- Over 2,400 SARs E-Filed by MSBs recorded as having been received at IRS on June 28, 2006, but recorded as having been entered into the database on August 22, 2006—55 days later. The loading of E-Filed SARs into the database normally occurs on or about the same day they are received at IRS. These SARs were included in a transmission file to FinCEN dated June 29, 2006, indicating they were loaded well before the August 22, 2006, date identified by IRS.

IRS officials involved with SAR data processing agreed that there were problems with certain entry dates.

In addition to entry date errors, we also identified SARs that were significantly delayed in being entered into the database.¹⁸ For example, 1,108 SARs filed by depository institutions were recorded as received at IRS on January 18, 2006; however, those SARs were not available in the SAR database until 303 days later. Another 85 SARs that were recorded as received on September 25, 2006, were not available in the SAR database until 129 days later. FinCEN brought to our attention an additional 2,518 SARs with entry delays of up to 133 days.

Errors Resulting From Data Shifting

Data shifting occurs when all or portions of an entry for a data field included in data files used to upload SARs to WebCBRS appear in the positions reserved for other data fields. This condition can occur when electronic files used to enter SAR data in WebCBRS are not properly formatted. The

¹⁸ Transmission files are generated by IRS and transmitted to FinCEN, where they are uploaded to an internal database. We identified transactions for fiscal year 2006 SAR submissions in transmission files generated through January 10, 2007. All SAR data at IRS are included in the FinCEN database. FinCEN uses these data for analytical studies and trend analyses in support of law enforcement. Four law enforcement agencies also obtain bulk SAR data through these files for use in internal data applications.

values in the files are loaded to WebCBRS based on the expected position of the data. In cases where the data is misaligned in the source file, the data once loaded to WebCBRS will appear in incorrect positions on the SAR record and can distort the meaning of the SAR information.

We found that data for 648 SARs from 14 depository institutions that were filed in a magnetic format were shifted and that the repositioned data changed the meaning and validity of some of the information provided. Affected fields included violation start and end dates, violation amounts, the type of suspicious activity, and other activity description fields. For example, we saw data on one SAR that incorrectly identified the reported suspicious activity as possible identify theft, false statement, and wire transfer fraud. The filer was actually reporting an unregistered MSB.

We reviewed a sample of these SARs to determine how the data was stored on the WebCBRS. Our testing confirmed that the data were stored in the incorrect positions on the WebCBRS database. This indicates that the data were received at IRS from the filer in the incorrect format. IRS did not identify these format errors prior to loading the data to WebCBRS.

FinCEN staff stated that the data shifting problem was caused by a faulty software patch transmitted by a software vendor to client banks. FinCEN said all affected financial institutions were required to file corrected SARs and verified that the last of these SARs had been corrected in March 2007. We did not verify this information during our review. Nonetheless, this problem demonstrates that sufficient controls were not in place to prevent SARs with significant data problems from being entered into the database.

Certain Document Control Numbers Could Not be Located in WebCBRS

We identified 377 document control numbers¹⁹ (associated with 299 magnetic and 78 paper filing formats) that we could not find on WebCBRS or in transmission files provided by IRS to FinCEN. Research by the IRS confirmed that the document control numbers for the magnetic filings were never assigned to SAR submissions because IRS failed to reset the numbering sequence during the load process on two dates.

Testing of a sample of the unaccounted for document control numbers for the paper submissions disclosed that many were included in incorrect batch types and were likely re-assigned new document control numbers prior to processing. In five cases tested, IRS was not able to determine the disposition of the unaccounted for numbers. Each case tested required detailed IRS research since no master log of unassigned document control numbers was maintained.

Conclusions

SARs provide critical information on potential money laundering and terrorist financing. However, SARs completed incorrectly or submitted without known critical data diminish the overall quality of the data and, consequently, their usefulness to FinCEN, law enforcement, and others. While some data quality problems are inevitable, our analysis of the 2006 SAR data indicates that these problems continued to occur at an unacceptable rate, and that missing data and omissions should be of concern to FinCEN and law enforcement. We believe continued and enhanced efforts by FinCEN are essential to ensure filers are exercising diligence in obtaining, recording, and submitting all requisite SAR information. The volume of

¹⁹ IRS assigns a document control number to each SAR received. The numbers are sequential and unique for each type of SAR and filing method. The numbers can be used to ensure that all submissions are accounted for and loaded to the database.

data quality problems clearly suggests that additional steps need to be taken to address this issue.

Recommendations

We recommend that the Director of FinCEN do the following:

1. Continue and enhance filer education and outreach programs as necessary to filer groups, as was done for MSBs, specifically stressing the importance of accurate subject, filer, activity, and narrative information, and the importance of correct data formats.

Management Response

FinCEN stated that enhancing filer education through guidance and outreach is an ongoing responsibility. FinCEN issues filer guidance documents and routinely publishes filer tips in the *SAR Activity Review: Trends, Tips and Issues* publication. FinCEN has also issued other guidance documents and/or publications aimed specifically at improving SAR filing.

2. Identify financial institutions with significant and recurring SAR quality problems and emphasize to the appropriate federal regulators the need to have financial institution examiners identify during onsite examinations causes for the problems and actions the financial institutions need to take to improve SAR quality.

Management Response

FinCEN stated it has a robust initiative to identify systemic filing errors and worked with federal regulators in 2009 to resolve over 100 such matters. Additionally, the BSA/Anti-Money Laundering (BSA/AML) Examination Manual issued by the Federal Financial Institutions Examination Council outlines the required examination procedures specified in the

recommendation and similar language was included in the Department of the Treasury BSA/AML Examination Manual for MSBs.

3. Coordinate with IRS to evaluate, implement, and improve controls over SAR data, including but not limited to
 - procedures to ensure the initial entry date for each SAR is properly retained;
 - controls to ensure that all SAR batches are properly processed accounted for and loaded timely;
 - controls to identify SARs with significant data format issues impacting data quality and prevent these submissions from being loaded; and
 - a control log for all unassigned/unused document control numbers that properly maintains control over all SAR submissions.

Management Response

FinCEN responded to the four areas identified in the recommendation as follows:

- The issue of recording the initial entry dates referenced in the report was attributable to a programming error in a legacy database that was subsequently replaced by a new database. Since the conversion in September 2006, there have been no known issues with capturing the initial entry date.
- In April 2009, IRS updated its programs to ensure that all electronically filed SARs are loaded into the system of record upon receipt. As a result, IRS has eliminated the previous dependency of only loading electronic SARs when paper SARs are available to load. In addition, IRS now monitors a log to validate the success of each load and that the number of records received via E-Filing equals the number loaded into the system of record.

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- Magnetic media filings were retired in December 2008, and any findings associated with these filings are no longer applicable.
 - In January 2009, FinCEN established a monthly procedure to identify all missing DCNs and submit a corresponding report to IRS for investigation and resolution. FinCEN provided the IRS all missing DCN numbers from January 1, 2008, to the present for analysis and action.
4. To assist in future SAR form revisions and filer education and outreach efforts, request IRS to periodically notify FinCEN of SARs containing significant errors or missing critical data fields.

Management Response

FinCEN stated it currently receives quarterly reports from IRS designed to identify financial institutions with systemic data omission problems and monthly reports for individual SAR forms identifying errors for paper-filed SARs. Also, a SAR validation process is scheduled to be implemented in BSA E-Filing in December 2009. After implementation, FinCEN will develop a new E-Filing report that includes all SAR filings with significant errors for FinCEN compliance staff to monitor. The estimated completion date for this recommendation is February 2010.

OIG Comment

FinCEN's actions, taken and planned, meet the intent of our recommendations.

* * * * *

We would like to extend our appreciation to FinCEN personnel for the cooperation and courtesies extended to our staff during this review. If you have any questions, please contact me at (617) 223-8640.

/s/
Donald P. Benson
Audit Director

The objective of this audit was to evaluate the status of SAR data quality. To accomplish our objective, we reviewed the actions FinCEN took in response to our 2005 audit report recommendations, evaluated the current processes for receiving and processing SARs, and analyzed one year's worth of SAR data.

To determine the status of corrective actions FinCEN took in response to our 2005 audit, we requested information on the actions taken and supporting documentation from FinCEN.

We visited the Internal Revenue Service's (IRS) Enterprise Computing Center in Detroit, Michigan, to obtain an understanding of SAR processing. We determined the steps associated with SAR processing through interviews with IRS officials, direct observation, and review of applicable documents.

We obtained data included in IRS-generated transmission files from October 1, 2005, through January 10, 2007, consisting of SARs filed by depository institutions, money services businesses, casinos and card clubs, and securities and futures firms. From these data, we identified approximately 1.1 million SARs filed from October 1, 2005, through September 30, 2006. The total number of SARs filed during fiscal year 2006 is shown by institution type in table 4.

Table 4: Fiscal Year 2006 SAR Filings by Group and Method

Group	Paper	Magnetic/ E-Filed	Total SARs
Depository institutions	193,104	370,272	563,376
Money services businesses	134,002	351,249	485,251
Casinos and card clubs	6,464	369	6,833
Securities and futures firms	5,988	1,701	7,689
Total	339,558	723,591	1,063,149

Note: This table does not include 2,603 SARs filed by depository institutions received by IRS in September 2006 that were not loaded into WebCBRS until February 2007 and 2 SARs filed by securities and future firms that were received in September 2006 and not transmitted to FinCEN until October 2007.

Source: OIG analysis of fiscal year 2006 SAR data.

Within the population of fiscal year 2006 SAR filings, we examined 17 data elements common to all SAR types and identified by FinCEN as critical to law enforcement. The 17 data elements were associated with subject, institution, business transaction location,

narrative description, and other data categories. We examined the content of the 17 critical data fields to identify the number of omissions and to assess the validity, usability, and consistency of the data. In assessing omissions, we excluded subject fields associated with SARs having suspicious activity amounts of less than \$3,000 because, in some cases, filers are not required to record subject information for transactions falling beneath that threshold. We did not search narratives for the 1.1 million SARs to determine if information was contained in narratives that would compensate for omissions in these data fields.

In assessing the usefulness of the 17 critical data fields, we applied guidelines included within the SAR instructions, state and country code tables identified on FinCEN's Web site, and FinCEN's guidelines to filers with respect to addressing common SAR errors. In assessing the quality of SAR narratives, we used FinCEN's standard of 40 characters or less to define a deficient narrative.

We did not consider a blank taxpayer identification number field as an omission if other data in the SAR indicated that the institution or subject was associated with a foreign address. For the review of ZIP codes, we assessed entries with five and nine numeric character formats for U.S. locations against U.S. Postal Service information. For foreign locations, we accepted any values in these fields, including omissions.

We allowed for omissions, or any value, in the state²⁰ and tax identification number fields if the subject, filing institution, or MSB transaction location was reported to be outside the United States, Mexico, or Canada. In addition, a proper country code had to be provided in order for us to allow the omission.²¹

We assessed the reliability of the electronic data that FinCEN provided to us by reconciling the data to similar information we obtained from IRS. We did not test the security of IRS's SAR

²⁰ If a state code was listed, we verified that it did not coincide with a U.S., Mexican, or Canadian state/province published by FinCEN in the *FinCEN Standard State/Country Code*.

²¹ In order to allow an omission, the country code had to be published by FinCEN in the *FinCEN Standard State/Country Code*.

database and, therefore, are unable to conclude on the integrity of the data contained therein.

We performed our fieldwork from January 2007 to March 2008. We conducted this performance audit 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 2
 FinCEN Actions Taken on the Recommendations in the 2005 OIG Audit Report

Recommendations	FinCEN Actions
<p>1. Given the results of our sample, establish a position for a BSA data administrator (i.e., data integrity officer) with specific responsibility for ensuring the accuracy and timeliness of the SAR data system, or assign this responsibility to an existing position. We believe this would enhance both accountability and FinCEN's responsiveness to SAR users, filers, and regulators. We also believe this position would be better situated by reporting directly to FinCEN rather than the IRS.</p>	<p>FinCEN concurred; and assigned responsibility to three existing Assistant Directors. The positions responsible for overseeing operations of these three offices are: Assistant Director, Office of Regulatory Analysis; Assistant Director, Office of Compliance; and Assistant Director, Office of BSA Data Services.</p>
<p>2. Establish measurable standards to address at least two data quality aspects: critical data fields that are responsive to law enforcement needs, and an acceptable level of data quality.</p>	<p>FinCEN instituted measurable standards to address the critical data fields that are responsive to law enforcement, federal regulators and SAR filers' needs. In July 2007, FinCEN issued <i>Standards and Procedures for Suspicious Activity Report Data Quality Studies</i> to provide standards, procedures, and guidance for developing and implementing SAR data quality studies. FinCEN surveyed certain representatives of the Bank Secrecy Act (BSA) Advisory Group on SAR critical fields. The majority of respondents agreed that the fields identified by FinCEN were critical.</p>
<p>3. Establish a process to periodically include input from law enforcement case agents for a contemporary investigative perspective.</p>	<p>FinCEN established a policy to periodically obtain input from law enforcement. The process is an annual survey through the BSA Advisory Group. The survey was put on hold pending the release of the revised SAR Forms, expected in 2007. However, the implementation of the revised SAR forms has been put on hold. No implementation date has been announced.</p>
<p>4. Assess the need to identify the specific data fields associated with the 1 5,000 duplicates and advise law enforcement so that they may better gauge the potential impact of duplicates. Duplicate SARs involving certain crimes may be of more importance to certain law enforcement agencies given their differing authorities over certain crimes such as credit card fraud versus mortgage loan fraud.</p>	<p>FinCEN assessed duplicate SARs and determined that the total was less than 2 percent of total filings. FinCEN determined that the impact was minimal.</p>

Appendix 2
 FinCEN Actions Taken on the Recommendations in the 2005 OIG Audit Report

Recommendations	FinCEN Actions
<p>5. Assess the need and feasibility of identifying, tagging or segregating duplicate SAR filings into a suspense file until a more systematic process can be developed to prevent them from being entered into the system.</p>	<p>FinCEN originally responded that its BSA Direct Retrieval and Sharing system, under development, would be able to identify, tag or segregate duplicate SARs after input to the system. This project was terminated in March 2006. We asked FinCEN for an update of action taken in lieu of this project. FinCEN responded that under IRS's Currency and Banking Retrieval System (CBRS), FinCEN submitted a request to begin receiving duplicate SAR data on a quarterly basis from IRS's Enterprise Computing Center in Detroit. In September 2006, just prior to the conversion to Web CBRS, an updated version of the old CBRS, FinCEN submitted an updated request to allow for the continued receipt of duplicate SAR data under the new system. At the time of our review, IRS had not implemented this request.</p>
<p>6. Advise and solicit the views of law enforcement agencies as to whether the observed timeframes are responsive to their needs. In so doing, FinCEN will be better positioned to assess any needed changes, such as whether filer outreach or supervisory oversight should be focusing on the timely filing of SARs.</p>	<p>FinCEN tried once to solicit input from law enforcement utilizing a survey but received no response. FinCEN does not plan to solicit another response.</p>
<p>7. Assess the need to review timeliness as part of the planned quarterly SAR reviews for indications of potential violations of the regulatory filing timeframes.</p>	<p>In July 2007, FinCEN updated its <i>Standards and Procedures for Suspicious Activity Report Data Quality Studies</i> with new annual study data and benchmarks. The updated document includes timeliness as a planned quarterly review item. FinCEN was working to resolve problems with the quarterly reporting of SARs for depository institutions and MSBs caused by its analytical software program, <i>VisualLinks</i>.</p>
<p>8. Assess the need to refer any of the identified lengthy filing timeframes (those exceeding 30 or 60 days) to the applicable regulatory agencies to determine whether timely SAR filing is an area warranting detailed examination or enforcement action.</p>	<p>The <i>Standard Procedures for Suspicious Activity Report Data Quality Studies</i> includes a section to calculate the average days between the date a SAR is prepared and the IRS input date. FinCEN has not made any referrals to regulatory agencies based on lengthy filing timeframes. FinCEN relies on regulatory examiners to review the timeliness of SAR filing during BSA compliance examinations.</p>

Appendix 2
 FinCEN Actions Taken on the Recommendations in the 2005 OIG Audit Report

Recommendations	FinCEN Actions
<p>9. Assesses the adequacy and consistency of regulators' examination handbooks covering financial institutions' compliance with the BSA SAR filing requirements. This assessment should include the need to clearly spell out examiners responsibilities, and the examination procedures to determine whether institutions are filing accurate, complete, and timely SARs.</p>	<p>In June 2005, the Federal Financial Institutions Examination Council, representing the collective efforts of the five federal banking agencies in collaboration with FinCEN and the Office of Foreign Assets Control, issued a BSA/AML (Bank Secrecy Act/Anti-Money Laundering) examination manual for use by regulatory examiners. This manual has been update twice, in 2006 and 2007.</p>
<p>10. Ensures that the Office of Compliance establishes policies and procedures for timely routine follow-up on regulatory referrals to federal regulators to determine their supervisory resolution.</p>	<p>FinCEN's <i>Office of Compliance Procedures for Referring Compliance Matters to Other Agencies or Issuing Compliance Advisories, Ver. 12-07-2006. The Procedures for Referring Compliance Matters</i> section includes procedures for following up on referrals sent to regulatory agencies. The procedure states that follow up procedures will vary depending on the memorandum of understanding between FinCEN and the regulatory agency, and that outstanding referrals should be discussed with the regulatory agency at regularly scheduled meetings. For significant BSA violations or deficiencies, the regulators are supposed to notify FinCEN "as soon as practicable," but no later than 30 days after the resolution.</p>
<p>11. Assess the need for either enhanced outreach or supervisory enforcement action with the three MSBs accounting for over 77% of the problem MSB SARs in our sample.</p>	<p>FinCEN took regulatory action against one of the three MSBs, issuing a civil money penalty against one based, in part, on SAR deficiencies. Because the second MSB was owned by the same parent company the first, FinCEN expected that any corrective actions taken to improve BSA compliance would be implemented at both. In the case of the third MSB, FinCEN used outreach to try to improve BSA Compliance. While the outreach initially proved successful, a recent review by the Office of Compliance indicates that once again the third MSB was filing problematic SARs, including widespread errors in multiple fields on the forms. In July 2007, a conference call was held with participants from the Office of Compliance, MSB, and IRS. The MSB agreed with all findings, and committed to correct all items in future filings, and to file amended reports correcting past filings by the middle of August 2007.</p>

Appendix 2
 FinCEN Actions Taken on the Recommendations in the 2005 OIG Audit Report

Recommendations	FinCEN Actions
<p>12. Assess the need to expand the number of data fields subject to keystroke verification to include data fields critical to law enforcement.</p>	<p>FinCEN reviewed the details of the keystroke verification performed by IRS's Enterprise Computing Center. IRS's statistician determined that 100 paper-filed SARs needed to be reviewed to obtain 95 percent confidence in sample results. IRS now reviews 100 SARs each month or 1,200 documents annually, rather than reviewing all BSA documents every 6 months. All SAR fields IRS selects are reviewed, which includes the fields considered critical by law enforcement. FinCEN has concluded that the keying contractor has met all required accuracy standards. FinCEN acknowledged there was a period of time when it did not receive the SAR keying reviews but reported that it had submitted a work request in July 2007 to the IRS Enterprise Computing Center to ensure that going forward, FinCEN receives a quality review report from IRS for every month that one is conducted.</p>
<p>13. Reassess how the contractor's 3% performance standard is to be measured so as to give greater consideration to the number of SARs with errors rather than just the total number of errors. This would provide added perspective to situations where a few SARs account for a large number of errors as opposed to a large number of SARs each with a few errors.</p>	<p>FinCEN concurs with IRS's method for determining the contractor's 3 percent performance standard. The reviews continue to be based only on the number of errors and do not give consideration to the number of SARs filed with errors.</p>
<p>14. Assess whether the scope of the contract could be economically and feasibly expanded to identify SARs with missing and or incomplete data fields. This might provide FinCEN with a means of identifying egregious problem filers in a timelier manner than the quarterly reviews noted in the revised corrective action plan. This would also cover the majority of SARs since most SARRS are filed by paper.</p>	<p>IRS's Enterprise Computing Center projected it would cost over \$200,000 annually to hire additional staff to correspond with SAR filers on missing information. Given inconclusive results on an IRS pilot of this program, FinCEN concluded that the most cost effective approach would be to move the filers to electronic filing and to revise the SAR forms.</p>



DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

November 16, 2009

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FREEDMAN

FROM: James H. Freis, Jr.
SUBJECT: *Management Response to the Draft Audit Report – SAR Data Quality Remains a Problem*

Thank you for the opportunity to review the Office of Inspector General (OIG) draft report entitled *SAR Data Quality Remains a Problem*. As the administrator of the Bank Secrecy Act (BSA), it is essential that the Financial Crimes Enforcement Network (FinCEN) ensure efficient management of all BSA information, which includes enhancing the quality, integrity, and value of that information. It is important to note that findings for this audit report are based on suspicious activity report (SAR) data filed October 2005 – September 2006 (fiscal year 2006). Since information was gathered for this report, FinCEN has completed many efforts to improve the quality of SAR data, which are outlined in the attached action plan, that impact both the findings and recommendations made in the OIG report.

I want to take this opportunity to update you on additional FinCEN efforts to further improve SAR data quality beyond the recommendations in the audit report. One of FinCEN's strategies for improving the quality and integrity of SAR information is through expanded use of and enhancement to the BSA electronic filing (E-Filing) system. In terms of use, FinCEN increased the percentage of customers submitting BSA forms via E-Filing from 48 percent in FY 2006 to approximately 80 percent in FY 2009. E-Filing improves the timeliness of information by eliminating processing delays associated with mailing and keying of paper forms.

In terms of enhancement to the BSA E-Filing System, FinCEN has implemented multiple changes that contribute to improved SAR quality. First, in June 2009, FinCEN transitioned E-Filers to a new form submission platform. This transition improves form usability and helps financial institutions reduce the number of submission errors on the front end, while reducing inefficiencies for FinCEN, law enforcement, and regulators caused by data quality issues on the back end.

Second, in September 2009, FinCEN implemented SAR acknowledgements in the BSA E-Filing system. This functionality provides BSA E-Filers a Document Control Number (DCN) as an acknowledgement of receipt for all SAR submissions. Finally, in December 2009, FinCEN will implement SAR Validations, which will improve SAR quality by performing data quality checks and validations, and providing error information back to filers.

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MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FREEMAN

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Another strategy for improving the quality of BSA information is through regulatory guidance and outreach to industry. Based on internal analysis of BSA information and input received from industry and regulators, FinCEN identifies systemic filing deficiencies for various industries and issues the appropriate guidance to correct those deficiencies. For example, in FY 2008, FinCEN issued SAR guidance for both the Money Services Business (MSB) and Insurance industries.

A final critical effort underway at FinCEN is the BSA IT Modernization program, which will be launched in FY 2010. This initiative aims to modernize BSA information management, analysis, and dissemination to equip and leverage across hundreds of Federal, State and local law enforcement agencies and financial industry regulators, better decision-making abilities and increased value of BSA information through increased data integrity and analytical tools.

FinCEN will continue with the efforts outlined above to continue improvements in SAR quality. Please refer to the attachment for more detail on FinCEN's response to each of the audit recommendations. If you have any questions, please feel free to contact Becky Martin, Assistant Director, Office of Financial Management, on 703-905-3860.

Attachment

Attachment: FinCEN – Planned Corrective Actions

1. Continue and enhance filer education and outreach programs as necessary to filer groups, as was done for MSBs, specifically stressing the importance of accurate subject, filer, activity, and narrative information, and the importance of correct data formats.

Response: Concur. Enhancing filer education through guidance and outreach is an ongoing responsibility. Based on form renewals and trends identified through internal analysis, FinCEN issues filer guidance documents and routinely publishes filer tips in the *SAR Activity Review: Trends, Tips, and Issues* publication. FinCEN issued the following specific guidance documents and/or publications aimed at improving SAR filing since the data was compiled for this report:

- *SAR Activity Review – Trends, Tips & Issues*, Issue 16 (10/2009)
- Guidance (Frequently Asked Questions) – Casino Recordkeeping, Reporting and Compliance Program Requirements (9/30/2009)
- *SAR Activity Review – Trends, Tips & Issues*, Issue 15 (05/2009)
- *SAR Activity Review – Trends, Tips & Issues*, Issue 14 (10/2008)
- Advisory (FIN-2009-A001) – Guidance to Financial Institutions on Filing Suspicious Activity Reports regarding Loan Modification/Foreclosure Rescue Scams (04/06/2009)
- Guidance on Recognizing Suspicious Activity – Red Flags for Casinos and Card Clubs (08/01/2008)
- Guidance on Preparation Guidelines for Use of Special Response “XX” in FinCEN Form 109, Suspicious Activity Report by Money Services Business (05/02/2008)
- *SAR Activity Review – Trends, Tips & Issues*, Issue 13 (05/2008)
- Guidance to Financial Institutions on Filing Suspicious Activity Reports regarding the Proceeds of Foreign Corruption (04/17/2008)
- Guidance (Frequently Asked Questions) - Anti-Money Laundering Program and Suspicious Activity Reporting Requirements for Insurance Companies (03/20/2008)
- Reference- Suggestions for Addressing Common Errors Noted in Suspicious Activity Reporting (10/10/2007)
- *SAR Activity Review – Trends, Tips & Issues*, Issue 12 (10/2007)
- Guidance - Suspicious Activity Report Supporting Documentation (06/13/2007)
- *SAR Activity Review – Trends, Tips & Issues*, Issue 11 (05/2007)

Status: Closed.

2. Identify financial institutions with significant and recurring SAR quality problems and emphasize to the appropriate federal regulators the need to have financial institution examiners identify during onsite examinations causes for the problems and actions the financial institutions need to take to improve SAR quality.

Response: Concur. FinCEN has a robust initiative to identify systemic filing errors. In FY 2009, FinCEN worked with federal regulators to resolve over 100 such matters. Additionally, the BSA/Anti-Money Laundering Examination Manual issued by the

Attachment: FinCEN – Planned Corrective Actions

Federal Financial Institutions Examination Council (FFIEC) outlines the examination procedures specified in the above recommendation. Specifically, as part of the process of developing conclusions and finalizing an examination, regulators should determine the underlying cause of policy, procedures, or process deficiencies, and identify actions needed to correct outstanding deficiencies or violations.¹ Similar language was included in the Money Services Business (MSB) examination manual². Although FinCEN views this recommendation as part of its ongoing responsibilities, publication of the MSB Examination Manual was used to close-out this recommendation.

Status: Closed.

3. Coordinate with IRS to evaluate, implement, and improve controls over SAR data, including but not limited to:

- **Procedures to ensure the initial entry date for each SAR is properly recorded (paper and E-Filing);**
- **Controls to ensure that all SAR batches are properly processed, accounted for, and loaded timely (E-Filing);**
- **Controls to identify SARs with significant data format issues impacting data quality and prevent these submissions from being loaded (magnetic media);**
- **A control log for all unassigned/unused DCNs that properly maintains control over all SAR submissions (magnetic media and paper).**

Response: Concur. Refer below for responses to the four bullets above.

- **Procedures to ensure the initial entry date for each SAR is properly recorded (paper and E-Filing);**

The issue of recording the initial entry dates referenced in the OIG audit report was attributable to a programming error in the legacy Integrated Database Management System (IDMS), which was subsequently replaced by a new database platform (DB2). Since the conversion in September 2006, there have been no known issues with capturing the initial entry date. The initial entry dates for SARs collected via paper processing or E-Filing are now being properly recorded.

Status: Closed.

- **Controls to ensure that all SAR batches are properly processed, accounted for, and loaded timely (E-Filing);**

In April 2009 per FinCEN's request, IRS updated their programs to ensure that all electronically filed SARs are loaded into the system of record upon receipt. As a result, IRS has eliminated the previous dependency of only loading electronic

¹ FFIEC BSA/AML Examination Manual, pages 41-42.

² Department of Treasury, BSA/AML Examination Manual for MSBs, page 104.

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SARs when paper SARs are available to load. In addition, the IRS now monitors a specific log to validate the success of each load and that the number of records received via E-filing equals the number loaded into the system of record.

Status: Closed.

- **Controls to identify SARs with significant data format issues impacting data quality and prevent these submissions from being loaded (magnetic media);**

Magnetic media filings were retired in December 2008, and any findings associated with these filings are no longer applicable. Further, the SAR Acknowledgement and SAR Validation enhancements to the BSA E-Filing system, as referenced in the cover letter, will identify SARs with significant data format issues.

Status: Closed.

- **A control log for all unassigned/unused DCNs that properly maintains control over all SAR submissions (magnetic media and paper).**

In January 2009, FinCEN established a monthly procedure to identify all missing DCNs and submit a corresponding report to IRS for investigation and resolution. All corresponding issues are recorded in FinCEN's Data Quality Database and tracked accordingly. Additionally, FinCEN identified all missing DCN numbers from January 1, 2008 to the present and provided this information to the IRS for analysis and action.

Status: Closed.

4. **To assist in future SAR form revisions and filer education and outreach efforts, request IRS to periodically notify FinCEN of SARs containing significant errors or missing critical data fields.**

Response: Concur. FinCEN currently receives quarterly reports from IRS that contain SAR critical field omissions data designed to identify financial institutions with systemic data omissions problems, as well as monthly reports for individual SAR forms identifying errors for paper-filed SARs. A SAR validation process will be implemented in BSA E-Filing in December 2009. After implementation of this new process, FinCEN will develop a new E-Filing report that includes all SAR filings with significant errors for FinCEN compliance staff to monitor.

Status: Open. Estimated completion date is February 2010.

Appendix 4
Major Contributors to This Report

Stephen Syriala, Audit Manager (Retired)
Kenneth Dion, Audit Manager
Mark Ossinger, Audit Manager
Maryann Costello, Auditor-in-Charge
Alex Taubinger, Auditor
Jeanne DeGagne, Auditor
Kenneth Harness, Referencer

Department of the Treasury

Deputy Secretary
Under Secretary, Office of Terrorism and Financial Intelligence
Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

Financial Crimes Enforcement Network

Director

Internal Revenue Service

Associate Commissioner for Modernization
Director, Fraud/Bank Secrecy Act
 Small Business/Self Employed Division
Legislative Analysis Officer (Audit Coordinator)
Treasury Inspector General for Tax Administration

Office of Management and Budget

OIG Budget Examiner