

GAO

Report to the Ranking Minority Member,
Permanent Subcommittee on
Investigations, Committee on
Governmental Affairs, U.S. Senate

January 1996

MONEY LAUNDERING

Rapid Growth of Casinos Makes Them Vulnerable





United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-259791

January 4, 1996

The Honorable Sam Nunn
Ranking Minority Member
Permanent Subcommittee
on Investigations
Committee on Governmental Affairs
United States Senate

Dear Senator Nunn:

The Subcommittee has been reviewing new trends in money laundering activities as well as the government's ability to confront them. This work has indicated that improved compliance with the Bank Secrecy Act of 1970 (BSA) by financial institutions has forced many money launderers to find other means of disguising their illicit proceeds. In your request letter, you expressed concern about the use of the nation's growing gaming industry to launder illicit profits. In response to your request, we are reporting on

- the extent of legalized gaming in the United States, especially that taking place in casinos;
- currency transaction reporting requirements for casinos;
- whether the same reporting requirements apply to tribal casinos;¹ and
- the level of enforcement efforts to ensure that casinos are complying with currency transaction reporting requirements.

There have been both new legislation and recent changes to existing federal regulations that will affect currency transaction reporting for casinos. We have included information on these changes in this report. The report also makes a recommendation to the Secretary of the Treasury regarding efforts to deter money laundering in casinos.

Results in Brief

Legalized gaming is expanding rapidly across the United States. Currently, 48 states permit some form of legalized gaming—lotteries; charitable bingo; card room gaming; pari-mutuel wagering; and games of chance, such as roulette, craps, slot machines, and blackjack, that take place at casinos. Casino gaming is among the fastest growing forms of gaming, and new casinos are continuing to open across the country. Two areas of notable growth are riverboat casino gaming and Indian gaming, which includes casino and bingo operations. Since 1991, close to 60 riverboat

¹Tribal casinos are gaming casinos owned and/or operated by Indians who belong to federally-recognized tribes in the United States.

casinos have started operations, and in the last decade, Indian gaming operations have grown from very few to about 237 separate operations—119 of which were tribal casinos—as of March 1995.

The amount of cash wagered annually in casinos, as estimated by International Gaming and Wagering Business, a gaming industry trade publication, has grown from about \$117 billion in 1984 to about \$407 billion in 1994. Casino gaming accounts for more than 80 percent of the amounts wagered in gaming activities around the country. The proliferation of casinos, together with the rapid growth of the amounts wagered, may make these operations highly vulnerable to money laundering.

BSA and its implementing regulations have been a major weapon against money laundering. Among other things, they require that most financial institutions, including certain casinos, report to the Internal Revenue Service (IRS) specific currency transactions over \$10,000. The information is to be used by law enforcement and regulatory agencies to identify individuals engaging in large cash transactions who may be attempting to conceal their participation in crimes that generate large amounts of cash. In 1994, several changes to the BSA reporting and recordkeeping requirements for BSA casinos took effect. Among other things, since December 1, 1994, these casinos have been required to obtain and verify additional identifying information about customers who open an account or establish a line of credit, as well as to develop BSA compliance programs that meet certain requirements.

Nevada casinos have an exemption from certain BSA reporting requirements under an agreement with the Department of the Treasury. Nevada has its own currency transaction reporting and recordkeeping requirements that are generally similar to those under BSA. For example, like BSA casinos, Nevada casinos report identifying information for purchasers of chips in cash amounts over \$10,000. However, Nevada casinos also have some distinct differences. For example, unlike casinos under BSA, Nevada casinos do not report customer identification information on payouts over \$10,000 in verified winnings. In addition, Nevada prohibits certain cash transactions that could lend themselves to money laundering, such as cash-for-cash exchanges involving small denomination bills for larger denomination bills in amounts over \$2,500. Nevada officials believe this additional prohibition deters money laundering.

Under the Indian Gaming Regulatory Act (IGRA) of 1988, tribal casinos were not subject to BSA, but were to report currency transactions pursuant to a more limited Internal Revenue Code (IRC) provision regarding cash received in a trade or business. However, the Money Laundering Suppression Act of 1994 expanded the definition of a “financial institution” subject to BSA reporting and recordkeeping requirements to include certain tribal casinos. In addition, Treasury and Nevada officials are discussing changes to Nevada’s regulations so that they will more closely mirror BSA requirements. These changes and implementation of the 1994 act should bring more consistency and uniformity to transaction reporting for casinos and improve the information available to law enforcement.

Federal enforcement efforts to ensure that casinos comply with currency transaction reporting requirements have varied from education visits to compliance reviews at casinos. IRS’ Examination Division, which is responsible for ensuring that casinos comply with BSA reporting and recordkeeping requirements, had performed compliance reviews at most casinos in Atlantic City, New Jersey, and had begun compliance reviews at some riverboat casinos at the time of our review. IRS had made efforts to educate some tribal casino officials on IRC reporting requirements, but had not completed any compliance reviews at tribal casinos. Nevada’s regulations require a yearly interim compliance review by state officials, as well as a full audit every 2 to 3 years, at every casino.

In addition to ensuring compliance by casinos, IRS must use its limited enforcement resources to meet its broad responsibility for compliance reviews of other nonbank financial institutions—estimated to number over 100,000. Simultaneously, it must use its enforcement resources to assure compliance with the tax laws by individuals, businesses, and other categories of taxpayers. Examination Division resources have declined since 1989, and given the increasing numbers of casinos, it seems likely that the Division will be able to conduct only a limited number of compliance reviews at casinos.

Recent changes to BSA regulations may relieve some of the pressure on IRS’ enforcement resources. These regulations, effective December 1, 1994, could enhance compliance by requiring casinos to take a more active role in ensuring their own compliance with BSA. For example, Treasury officials are working to develop a partnership with the gaming industry to encourage casinos to know their customers and identify suspicious transactions to law enforcement officials. Given IRS’ resource constraints, we believe that Treasury should explore the possibility of identifying

similar, less resource intensive options to help casinos deter money laundering.

Background

Money laundering is the use or conversion of money gained from illegal activity, such as drug smuggling, as or to money that appears legitimate and whose source cannot be traced to the illegal activity. Law enforcement officials have estimated that between \$100 billion and \$300 billion in U.S. currency is laundered each year.

BSA² and its implementing regulations³ require financial institutions to maintain records and to file with IRS currency transactions reports for certain transactions exceeding \$10,000. These reports create a “paper trail” of records that is useful in regulatory, tax, and criminal investigations, such as money laundering cases. In 1985, BSA regulations were amended to include certain casinos, with gross annual gaming revenues (GAGR) over \$1 million, under the definition of a financial institution.

Prior to BSA’s application to casinos, money laundering activities could occur in casinos in a variety of ways without a mechanism in place to deter and detect it. For example, an individual could purchase gaming chips with large amounts of cash, do little or no gaming, and then redeem the chips for a casino check without any record of the transactions. Under BSA regulations, casinos are required to maintain records and file reports for currency transactions by, through, or to them that exceed \$10,000. However, according to Treasury and IRS officials, there is no such requirement for transactions under \$10,000. In congressional hearings, Treasury officials have recognized and testified that casinos are primarily cash-based businesses that perform many of the same services as banks for their customers, such as cashing checks and placing money on deposit, and these officials expressed concern about the potential use of casinos as an avenue for moving funds generated by illegal activity.

IRS’ Examination Division is responsible for monitoring and enforcing compliance with BSA reporting and recordkeeping requirements for all financial institutions under its jurisdiction, commonly referred to as

²P.L. 91-508, 84 Stat. 1114 (1970).

³BSA’s implementing regulations containing the reporting and recordkeeping requirements for financial institutions (including casinos) are promulgated by the Department of the Treasury at 31 C.F.R. part 103.

“non-bank financial institutions.”⁴ This monitoring includes conducting periodic compliance reviews at over 100,000 nonbank financial institutions, including casinos. Treasury’s Office of Regulatory Policy and Enforcement, formerly the Office of Financial Enforcement, is responsible for promulgating and providing interpretive guidance on BSA regulations, reviewing violations found by IRS, and recommending assessment of civil penalties, if warranted, against noncomplying institutions.

BSA provides the Secretary of the Treasury with authority to prescribe an appropriate exemption from its requirements. Treasury’s exemption regulation allows an exemption to casinos in any state whose regulatory system substantially meets BSA’s reporting and recordkeeping requirements. In 1985, Treasury granted such an exemption from certain BSA requirements to casinos in Nevada. The Memorandum of Agreement between Treasury and Nevada permitted the state to assume regulatory responsibility for currency transaction reporting by its casinos, as well as required the state to enact certain laws and establish certain procedures to implement its regulatory system. As a result of the agreement, Nevada revised the Nevada Gaming Control Act and adopted Nevada Gaming Commission Regulation 6A (hereafter referred to as Regulation 6A), which contains the requirements for currency transaction reporting by Nevada casinos. The agreement also stipulated that, for the exemption to stay in effect, changes to such state regulations require Treasury’s approval and, similarly, that changes in BSA or its regulations must be reflected in the state’s regulations if required by Treasury.

IGRA⁵ was enacted to provide a statutory basis for the operation of gaming by Indian tribes, as well as to provide a means for the regulation of such activity. IGRA classifies the different forms of Indian gaming—ranging from bingo to more common casino games such as roulette, craps, slot machines, and blackjack—into three classes of Indian gaming. (App. I describes the three classes.)

Generally, under IGRA, Indian tribes may establish Class III gaming, such as roulette, craps, slot machines, and blackjack, on Indian lands as long as the proposed gaming is not prohibited in the state. IGRA requires that tribes sign written agreements, or compacts, with the states if the proposed gaming meets the definition of Class III gaming operations (hereafter

⁴In addition to casinos, other “non-bank financial institutions” include check cashing businesses; telegraph companies; currency exchangers; wire transfer agents; and issuers, sellers, and redeemers of travelers’ checks or money orders.

⁵P.L. 100-497, 102 Stat. 2467 (1988).

referred to as tribal casinos). The compacts describe the scope of Indian gaming permitted and define state and tribal authority related to gaming operations. Under IGRA, tribal casinos are subject to the currency reporting requirements of IRC section 6050I. The IRS Examination Division is responsible for ensuring that tribal casinos comply with these requirements.

BSA and tribal casinos are to file currency transaction reports with the IRS' Detroit Computing Center (DCC) for inclusion in a national database, the Currency and Banking Retrieval System (CBRS). Nevada casinos file currency transaction reports with the Nevada Gaming Control Board (NGCB), which subsequently sends the reports on to DCC. IRS and other law enforcement agencies are to use the BSA portion of the database for civil and criminal enforcement and tax purposes. Currency transaction reports filed by BSA and Nevada casinos, as well as the reports filed by tribal casinos under section 6050I, are included in the database. Certain information from the reports filed by BSA and Nevada casinos is accessible to all 50 states for law enforcement purposes and to all federal law enforcement agencies through the Financial Crimes Enforcement Network (FinCEN).⁶ Transaction information filed by tribal casinos is generally not accessible to law enforcement because it is reported on transaction forms that record income tax information and thus are currently subject to disclosure restrictions.

Objectives, Scope, and Methodology

Our initial objectives were to determine (1) the extent of legalized gaming in the United States, (2) the currency transaction reporting requirements for casinos, (3) the currency transaction reporting requirements for tribal casinos, and (4) the level of enforcement efforts to ensure that casinos are complying with currency transaction reporting requirements. Because changes in reporting requirements were being planned during the time of our review, we added an objective to provide information on the changes in federal regulations and legislation.

- To determine the extent of legalized gaming in the United States, we reviewed testimony, reports, and articles concerning the gaming industry, including its extent and growth.
- To determine the currency transaction reporting requirements for casinos, including tribal casinos, we reviewed BSA, the BSA implementing regulations under 31 C.F.R. part 103, IGRA, Nevada's Regulation 6A, and

⁶FinCEN is a Treasury organization that was established in April 1990 to support law enforcement agencies by analyzing and coordinating financial intelligence.

section 6050I of IRC. We also interviewed officials from NGCB and IRS' Criminal Investigation and Examination Divisions in Washington, D.C.

- To determine what efforts have been made to ensure that casinos are complying with currency transaction reporting requirements, we interviewed officials at Treasury's FinCEN, Office of Regulatory Policy and Enforcement, and IRS' Criminal Investigation and Examination Divisions. In addition, we interviewed officials from NGCB and IRS officials in Nevada, New Jersey, Louisiana, Mississippi, and Connecticut. We also interviewed casino officials in those states. We reviewed and analyzed IRS management reports and currency transaction reporting data from the CBRS at IRS' DCC.
- To determine recent changes in federal regulations and legislation, we reviewed the Money Laundering Suppression Act of 1994 and recent amendments to BSA regulations; in addition, we confirmed that Treasury and Nevada officials continue to have ongoing discussions regarding the differences between BSA and Nevada's regulations.

To familiarize ourselves with how casinos comply with reporting requirements and how the requirements are enforced, we selected areas to visit with large concentrations of casinos. We selected Las Vegas, Nevada, and Atlantic City, New Jersey, and—for variety of types of casinos—riverboat casinos in Louisiana and Mississippi, as well as a tribal casino. For the latter, we chose Foxwoods Resort Casino in Ledyard, Connecticut, the largest tribal casino in the country. In appendix II, we list all of the casinos that we visited for this review.

As agreed with the Subcommittee, our focus was on casinos with GAGRS over \$1 million. We did not verify the accuracy and completeness of the data we obtained from IRS.

We did our work in Washington, D.C., and the locations visited between March 1994 and August 1995 in accordance with generally accepted government auditing standards. We obtained oral comments on a draft of this report from Treasury and IRS. Their comments are discussed in the agency comments section of this report. We received written comments from FinCEN. They are reproduced, along with our responses, in appendix VI.

Rapid Growth of Casinos Could Make Them Vulnerable to Money Laundering

Casino gaming is expanding at a rapid pace, and new casinos continue to open across the country. Although Nevada and New Jersey casinos still generate the most revenue from casino gaming, riverboat casinos and tribal casinos have increased their share of total casino gross annual gaming revenue (GAGR).⁷ The expansion of casinos has also increased the amount of money changing hands, or wagered. According to International Gaming and Wagering Business (various issues 1988 through 1995), wagering at all types of casinos totaled about \$407 billion in 1994, up from about \$117 billion in 1984. In constant dollars,⁸ this represents an increase of 152 percent over this period. As the amount of money wagered annually has increased, casinos may have become more vulnerable to individuals who attempt to launder their illegal profits in the fast-paced environment of casino gaming.

Nevada and New Jersey Generate the Largest Casino Revenues

Although 13 states and Puerto Rico permit games of chance, such as roulette, craps, slot machines, and blackjack, that take place at nontribal casinos, Nevada and New Jersey generate the largest casino revenues. In 1994, Nevada and New Jersey reported combined casino GAGRS of about \$10.2 billion; this represented approximately 56 percent of the total nationally reported casino GAGRS—\$18.4 billion—for that year. Nevada has had legalized gaming since 1931 and, as of June 1994, had over 400 casinos, of which about 220 generated GAGRS of over \$1 million each. Although casinos operate in other Nevada cities, including Reno, Lake Tahoe, and Laughlin, approximately 120 of these 220 casinos are located in Las Vegas. Reported GAGRS for all Nevada casinos (excluding tribal casinos) were approximately \$6.8 billion in 1994. Appendix III indicates the prevalence of legalized gaming throughout the country and in Puerto Rico.

Since 1976, gaming has been legal in New Jersey. Twelve large casinos, the only casinos in New Jersey, operate along the boardwalk and in the marina area of Atlantic City. All 12 generated GAGR in excess of \$1 million; their total reported GAGRS for 1994 were about \$3.4 billion. Appendix IV illustrates total GAGRS by gaming activities and for casinos in 1994.

The Number of Riverboat Casinos Has Increased

The growth of riverboat casino gaming has been dramatic. Prior to 1991, there were no riverboat casinos operating in the United States. Since then,

⁷GAGR is defined as the total amount wagered less payouts returned to players.

⁸By removing the influence of inflation on purchasing power, constant dollars are used to compare dollar values at one date relative to dollar values at another date.

close to 60 riverboat casinos⁹ have opened, but several have relocated due to a high level of competition in some areas. Initially, riverboat casinos were located primarily along the Mississippi River in Iowa and Illinois, but they have also expanded to other locations, such as Tunica, Mississippi (near Memphis, Tennessee), and New Orleans. Figure 1 shows a riverboat casino.

Figure 1: Riverboat Casino



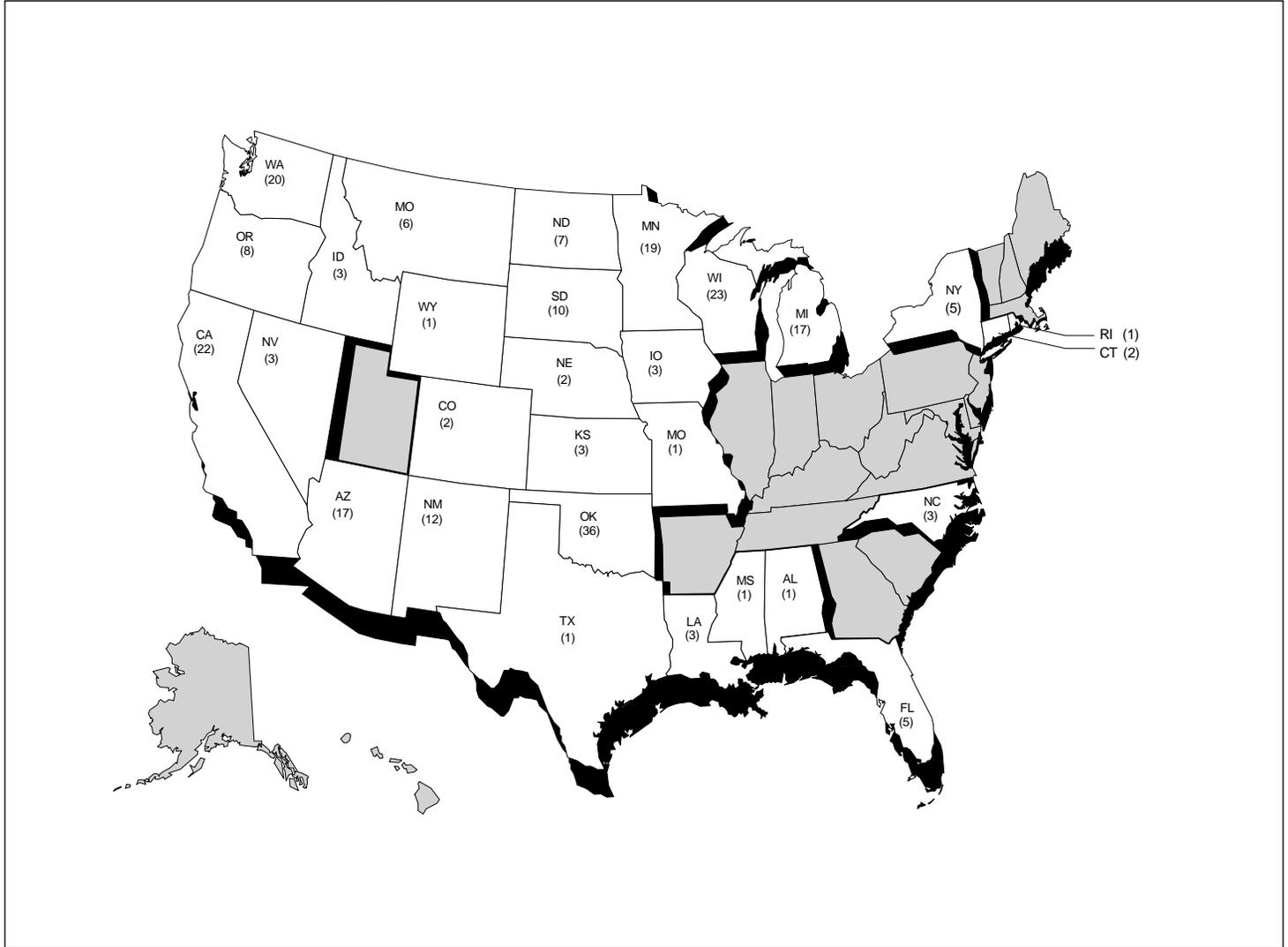
As of September 1994, 57 riverboats operated in five states: Illinois, Iowa, Mississippi, Missouri, and Louisiana. Indiana has passed legislation allowing riverboat casinos, but none were operating at the time of our review. Several other state legislatures have considered legislative initiatives to legalize riverboat gaming as a means of bringing new revenue into their states. Between 1992 and 1994, reported riverboat casino GAGRS increased from \$0.4 billion to about \$3.3 billion, thereby capturing about 18 percent of the total casino revenue.

⁹The category "riverboat casino" also includes barges and dockside casinos.

Indian Gaming Has Grown Rapidly

The growth of Indian gaming, which includes casino and bingo operations, has also been rapid. Ten years ago, Indian gaming was practically nonexistent. However, as of March 1995, we estimated that there were 237 Indian gaming operations, including 119 tribal casinos, in 29 states. Between 1992 and 1994, reported tribal casino GAGRS grew from about \$1.2 billion to about \$3.0 billion, thereby capturing about 16 percent of the total casino revenue. As figure 2 illustrates, Indian gaming operations, including tribal casinos, are currently located throughout the United States.

Figure 2: States With Indian Gaming Operations



Note: The 29 identified states contain a total of 237 Indian gaming operations, of which 119 are tribal casinos. The numbers in parentheses are state totals.

Source: GAO analysis of National Indian Gaming Commission and Bureau of Indian Affairs data (March 1995).

Indian gaming may generate large amounts of revenue for some of the tribes that own these operations. For example, according to a report by the California attorney general's office, in 1993 three tribal casinos near

San Diego generated a total of over \$200 million in revenues. Foxwoods Resort Casino in Ledyard, Connecticut—owned by the Mashantucket Pequot Tribe—reported revenue in excess of \$40 million per month in 1994. Indian gaming operations may also generate additional income for the states in which they are located. For example, in 1994, the Pequot tribe paid the State of Connecticut about \$136 million under a compact governing the operation of the casino in the state. Figure 3 shows the largest tribal casino in the United States.

Figure 3: Largest Tribal Casino in the United States



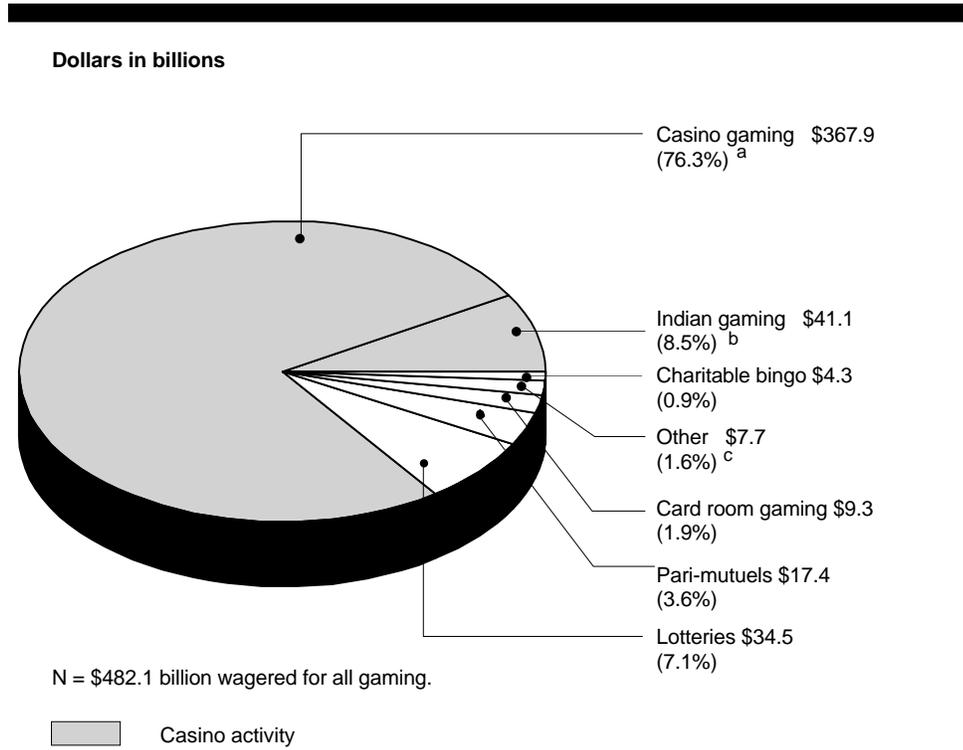
Copyright Foxwoods Resort Casino, 1995, photographer Gary J. Thibeault, CPP, Westerly, RI 02891. All requests for republication should be referred to the above-named individual.

Large Amounts Wagered Increase the Potential for Money Laundering

The amounts of money wagered in all forms of legalized gaming have increased substantially along with the expansion of legalized gaming. According to International Gaming and Wagering Business (various issues

1988 through 1995), between 1984 and 1994, the total annual amount wagered in all forms of legalized gaming jumped from approximately \$147 billion to approximately \$482 billion. In constant dollars, this represents an increase of 137 percent over this period of time. Casino gaming and Indian gaming operations together account for the largest amounts of money wagered in legalized gaming activities. About \$368 billion, or 76 percent of the \$482 billion wagered in 1994, was wagered in nontribal casinos; Indian gaming operations, including tribal casinos, accounted for about \$41 billion, or 9 percent of the total. Figure 4 illustrates the total dollar amounts wagered, by gaming activity, in 1994. The shaded areas show casino activity.

Figure 4: Dollar Amounts Wagered, by Gaming Activity, 1994



Note: Numbers may not add due to rounding.

^aIndian gaming includes tribal casino and bingo operations.

^bOther includes legal bookmaking and charitable games.

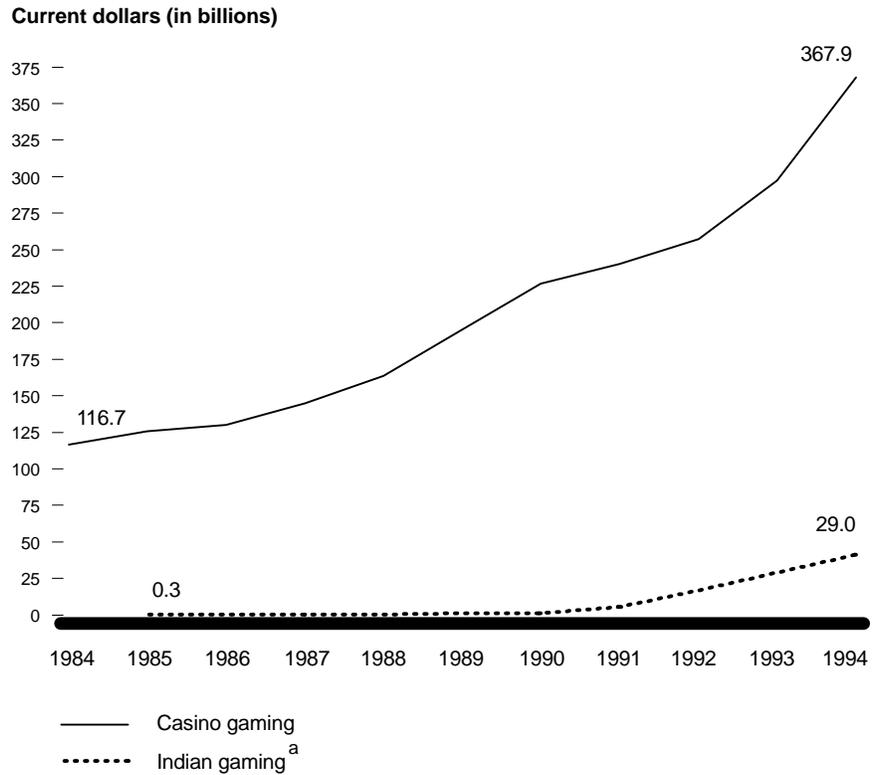
^cCasino gaming includes riverboats.

Source: International Gaming and Wagering Business (August 1995).

According to International Gaming and Wagering Business (various issues 1988 through 1995), wagering in nontribal casinos increased from about \$117 billion in 1984 to about \$368 billion in 1994.¹⁰ Indian gaming increased from virtually none to about \$41 billion during the same period. Figure 5 illustrates the increase in the total dollar amounts wagered in casino gaming and Indian gaming between 1984 and 1994.

¹⁰In constant dollars, this represents an increase of 128 percent over this period.

Figure 5: Increases in Dollar Amounts Wagered in Casino Gaming and Indian Gaming, 1984 to 1994



Note 1: Dollar figures represent actual dollars (no adjustment for inflation).

Note 2: Numbers may not add due to rounding.

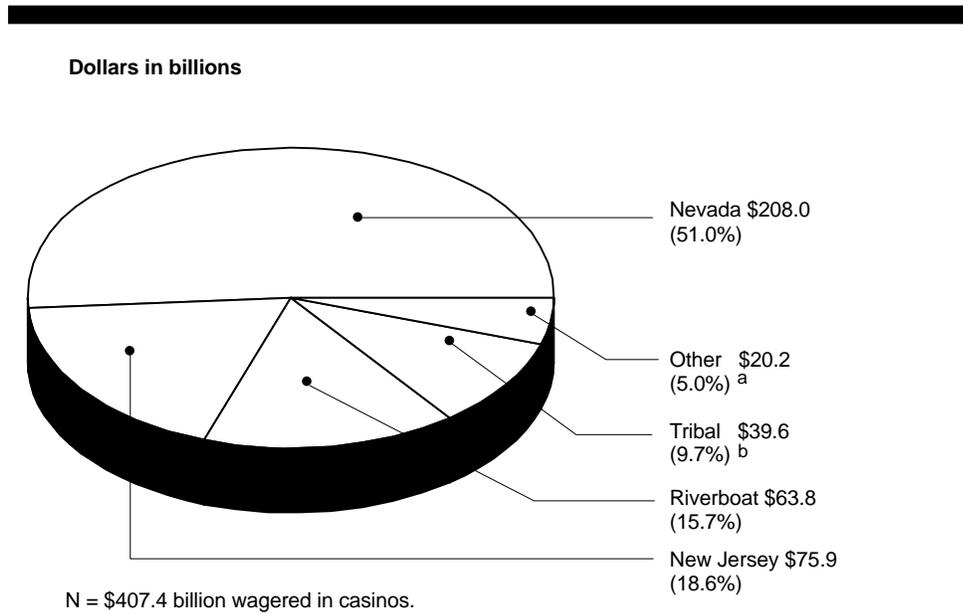
^aIndian gaming includes tribal casino and bingo operations.

Source: International Gaming and Wagering Business (various issues 1988 through 1995).

According to IRS' Criminal Investigation Division, casinos are particularly vulnerable to the initial stage of money laundering, called the "placement" stage, in which money from illegal activities is introduced into the financial system through banks or cash-intensive businesses. Casinos are also vulnerable to money launderers because of the fast-paced nature of the games and because casinos can provide their customers with many

financial services nearly identical to those generally provided by banks. Figure 6 illustrates the dollar amounts wagered in casinos in 1994.

Figure 6: Dollar Amounts Wagered in Casinos, 1994



Note: Numbers may not add due to rounding.

^aOther includes casinos in other states and various gaming devices located in noncasino environments.

^bTribal casinos do not include bingo operations.

Source: International Gaming and Wagering Business (August 1995).

Casinos Subject to Different Currency Transaction Reporting Requirements

Currency transaction regulations and reporting requirements provide the primary deterrent to, and means of detection of, money laundering in casinos. However, not all casinos are subject to the same regulations and reporting requirements. Because the regulations and reporting requirements for tribal casinos and Nevada casinos differ from BSA requirements, information reported to IRS differs. These differences may cause problems for law enforcement officers looking for a consistent paper trail of records with which to trace all gaming activity of customers

engaged in large cash transactions, as well as to help identify potential money laundering activities.

Comparison of Currency Transaction Reporting Requirements for Casinos

Generally, BSA currency transaction reporting requirements have applied to all casinos with GAGRS over \$1 million, except those in Nevada and tribal casinos.¹¹ Nevada casinos operate under State Regulation 6A, and tribal casinos under IGRA have been subject to section 6050I of the Internal Revenue Code (IRC) for cash-intensive businesses. Table 1 provides a comparison of the three sets of requirements and the corresponding reports that must be filed with IRS.

¹¹With regard to tribal casinos, the Money Laundering Suppression Act of 1994 expanded the definition of a financial institution subject to BSA reporting requirements to include them. On August 3, 1995, Treasury published proposed amendments to the BSA implementing regulations that would subject certain tribal casinos to BSA reporting and recordkeeping requirements.

Table 1: Comparison of Laws and Currency Transaction Reporting Requirements for Casinos

Type of casino	Law	Related provision	Report(s) required	Compliance responsibility
BSA casinos	BSA	31 C.F.R. part 103	Currency Transaction Report by Casinos (CTRC): IRS Form 8362	IRS Examination Division
Nevada casinos	Nevada Gaming Control Act	Nevada State Regulation 6A	Nevada Currency Transaction Report (CTR) and Currency Transaction Incidence Report (CTIR)	Nevada Gaming Control Board Audit Division
Tribal casinos ^a	IGRA ^b	Section 6050I of IRC	Report of Cash Payments Over \$10,000 Received in a Trade or Business: IRS Form 8300	IRS Examination Division

^aThe Money Laundering Suppression Act of 1994 expanded the definition of financial institutions subject to BSA reporting requirements to include certain tribal casinos. On August 3, 1995, Treasury published proposed amendments to the BSA implementing regulations that would subject certain tribal casinos to BSA reporting and recordkeeping requirements.

^bIGRA requires certain tribal casinos to report cash transactions under section 6050I of IRC. Until the proposed BSA amendments become effective, tribal casinos will remain subject to the reporting requirements under section 6050I of IRC.

Source: GAO analysis of federal and state currency transaction reporting requirements.

Information reported to IRS on the nature of the cash transaction and the identity of the customer varies according to the type of casino involved. For example, Nevada casinos are not required to report any information on customers who win over \$10,000 if a casino employee verifies that the winnings are the result of gaming at the casino. On the other hand, under BSA regulations, casinos are required to report all cash transactions over \$10,000, including gaming winnings. Tribal casinos currently are required to report only those cash transactions involving cash receipts by the casino exceeding \$10,000. Table 2 summarizes certain reporting requirements under BSA, Nevada's Regulation 6A, and IRC. Table 2 also includes certain cash transactions that are prohibited by Nevada's Regulation 6A because they could facilitate money laundering.

Table 2: Comparison of Certain Currency Transaction Reporting Requirements and Prohibitions for Casinos

Requirements and prohibitions	BSA casinos	Nevada casinos	Tribal casinos ^a
Reporting requirements			
All cash in over \$10,000	X	X	X
All cash out over \$10,000	X		
All cash out over \$10,000 except verified winnings ^b		X	
Aggregation of multiple transactions during a gaming day ^c (in same gaming area of the casino) ^d	X	X	
Aggregation of multiple transactions during a gaming day (in different gaming areas of the casino)	X		
Detailed currency transaction reporting and recordkeeping system	X	X	
Prohibited transactions			
Exchanging cash for cash over \$2,500		X	
Exchanging cash for a casino check over \$2,500		X	
Exchanging cash for a wire transfer over \$2,500		X	

^aOn August 3, 1995, Treasury published proposed amendments to the BSA implementing regulations that would subject certain tribal casinos to BSA reporting and recordkeeping requirements. Until these proposed BSA amendments become effective, tribal casinos will remain subject to the reporting requirements under section 6050I of IRC.

^bVerified winnings are gaming winnings that are verified by a casino employee as having been won at the casino.

^cNevada's Regulation 6A refers to a gaming day as a 24-hour period.

^dAggregation refers to recording multiple transactions conducted by the same individual within a gaming day and totaling over \$10,000 as a single transaction. With respect to tribal casinos, IRC regulations for section 6050I provide that initial payments not exceeding \$10,000 must be aggregated with subsequent payments made within 1 year of the initial payment until the aggregate amount exceeds \$10,000.

Source: GAO analysis of BSA, Nevada's Regulation 6A, and IRC.

BSA Casinos Must Report All Currency Transactions Over \$10,000

BSA reporting requirements apply to all currency transactions over \$10,000 that take place in casinos, except those taking place in Nevada and tribal casinos. These requirements include reporting all cash coming into the

casino, such as chip purchases and money placed on deposit for safekeeping, and all cash going out of the casino, such as chip redemptions and cash payouts for slot machine winnings.

IRS officials in the New Orleans district told us that the BSA reporting and recordkeeping system is a deterrent to money laundering because concealment of transactions would require the involvement of more than one casino employee. Employees in different areas of the casino, including those in the cage areas and on the gaming floor, track customer gaming activity and maintain logs and records needed to prepare currency transaction reports. According to New Orleans IRS officials, the BSA system makes it more difficult for a customer to circumvent currency transaction reporting requirements without the cooperation of several casino employees. Treasury and IRS headquarters officials told us that BSA is also a deterrent because customers know that currency transactions will be reported to IRS.

BSA reporting regulations require that certain casinos with GAGRS over \$1 million report all currency transactions over \$10,000 to IRS. BSA reporting regulations also require that multiple currency transactions be reported to IRS as a single transaction if the casino has knowledge that the transactions (1) were conducted by, or on behalf of, the same individual and (2) total over \$10,000 in a gaming day. Such currency transactions are to be reported on Currency Transaction Report by Casinos (CTRC) Form 8362. CTRCs include specific information about the type of transaction as well as identifying information on individuals conducting the transactions, such as their Social Security numbers. (App. V includes an example of a CTRC.)

Changes to BSA Regulations

In December 1994, certain changes to BSA reporting and recordkeeping requirements for casinos became effective. Among other things, the regulations now require that every casino subject to BSA establish a BSA compliance program that includes

- developing internal controls to ensure BSA compliance,
- conducting independent testing (auditing) for BSA compliance,
- training casino personnel in BSA compliance,
- designating personnel responsible for day-to-day compliance with BSA currency transaction reporting requirements, and
- using existing automated data processing systems to aid in ensuring compliance.

Casinos must also obtain and verify additional identifying information about customers who wish to deposit funds, open an account, or establish a line of credit. This will provide casinos with information on regular customers in line with Treasury's intention to require financial institutions to establish "know-your-customer" programs¹² to encourage casinos to become familiar with the practices of their regular customers and to report out-of-the-ordinary, or suspicious, transactions to IRS. It will also encourage casinos to take a more active role in ensuring their own compliance with BSA requirements.

Nevada Reporting Requirements

Nevada casinos are required to report cash coming into the casino and cash going out, except verified winnings, on a state Currency Transaction Report (CTR). Winnings are reported on Currency Transaction Incidence Reports (CTIR), which do not include customer identification for

- cash payouts greater than \$10,000 on wagers or
- redemption of chips that exceed \$10,000, if the chips are from verified winnings.

For both of these transactions, a casino employee must verify that customer winnings are the result of gaming at the casino. Casino officials believe this employee verification is important because CTIRS distinguish casino payouts in the form of winnings—a legitimate gaming activity—from all other currency transactions conducted in the casino that could be avenues for money laundering.

Both CTRs and CTIRs from Nevada casinos are forwarded by the Nevada Gaming Control Board (NGCB) to IRS' Detroit Computing Center (DCC). According to an official at DCC, information from Nevada's CTRs is entered into the Currency and Banking Retrieval System (CBRS), but information from CTIRs is not included in the database; CTIRs are filed separately. IRS and Financial Crimes Enforcement Network (FinCEN) officials reported that the CTIR information is "useless" to IRS because the forms, which do not include customer names or any customer identification, provide an incomplete picture of a currency transaction. (App. V contains examples of Nevada's CTR and CTIR forms.)

¹²The purpose of these programs is to have banks and other nonbank financial institutions become more familiar with their customers so that they can identify and report activity that is out of the ordinary and might be linked to money laundering or other illegal activity.

Nevada regulations generally do not require reporting aggregation related to gaming in different areas of the casino.¹³ Instead, Nevada casinos are required to aggregate transactions that take place in the same gaming area of the casino—for example, multiple cash purchases at blackjack tables—but are not required to aggregate transactions occurring in different gaming areas of the casino—for example, chip purchases on blackjack and roulette tables by the same player. IRS and FinCEN officials believe that, to the extent the casino has systems in place with which to track a customer's multiple transactions, or is otherwise aware of a customer's currency activity, it should report transactions over \$10,000. This would provide a complete record of all reportable gaming activity by casino patrons.

Possible Changes to Nevada's Regulations

Since 1993, Treasury officials have had ongoing discussions with Nevada casino officials and regulators about possible changes to Nevada's Regulation 6A aimed at making it more closely parallel BSA recordkeeping and reporting requirements. Although Treasury officials have had a continuing dialogue with Nevada officials, no details were available to us as of September 1995.

Nevada Prohibits Certain Transactions That Could Facilitate Money Laundering

Nevada regulations prohibit certain cash transactions that may lend themselves to money laundering. BSA provisions have no such prohibitions. Specifically, Nevada prohibits casinos from

- exchanging cash for cash in an amount greater than \$2,500;
- issuing a negotiable instrument, such as a casino check, in exchange for cash in an amount greater than \$2,500; and
- effecting any transfer of funds, such as a wire transfer, in exchange for cash in an amount greater than \$2,500.

Consequently, Nevada regulations prohibit casino patrons from simply exchanging their cash for cash of a different (e.g., larger) denomination, or for another monetary instrument. For example, small denomination bills from illicit drug sales cannot be converted to large bills in transactions exceeding \$2,500. Officials at the NGCB and casino officials we interviewed told us that they strongly believe that the prohibited transactions specifically prevent and act as a deterrent to money laundering, even

¹³Aggregation of transactions occurring in different gaming areas of the casino is not required under Nevada regulations unless the casino has knowledge that the same individual conducted multiple transactions of the same type totaling over \$10,000 within a 24-hour period.

though they have no evidence to measure the effectiveness of the prohibitions.

According to testimony by an IRS official in 1993, money laundering has occurred in casinos in a variety of ways, including the exchanging of large amounts of cash for casino checks and small denomination bills for larger bills. These types of transactions involving amounts over \$2,500 are prohibited in Nevada under Regulation 6A.

IRS officials in the districts we visited had different opinions about prohibited transactions. IRS officials from the Criminal Investigation and Examination Divisions in the New Orleans District said that prohibiting certain transactions, as Nevada does, would be a deterrent to money launderers. The IRS gaming industry specialist in Nevada told us that prohibiting certain transactions, as Regulation 6A does, is a strong deterrent to money laundering. Further, an IRS oversight review of Nevada casinos by the Las Vegas District in February 1992 noted that prohibiting certain transactions is one of the strengths of the Nevada system. Conversely, officials from the IRS Criminal Investigation and Examination Divisions in Newark said that prohibiting certain transactions does not provide any information on customers attempting these transactions, nor does it provide a paper trail of records for law enforcement to follow. Further, they said that prohibiting certain transactions from occurring in BSA casinos would require undercover efforts on the part of IRS to ensure that casinos complied with the regulations.

Tribal Casino Reporting Requirements

Under IGRA, tribal casinos have been subject to limited reporting requirements under section 6050I of IRC that apply only to cash receipts and include no recordkeeping requirements. Tribal casinos report such cash receipts over \$10,000 on a Report of Cash Payments Over \$10,000 Received in a Trade or Business, IRS Form 8300. In addition, IRC regulations for section 6050I provide that initial payments not exceeding \$10,000 must be aggregated with subsequent payments made within 1 year of the initial payment until the aggregate amount exceeds \$10,000.

Form 8300 information is included in the CBRS database. However, because it contains income tax information, this form is generally unavailable to law enforcement agencies conducting money laundering or other criminal investigations. (App. V contains an example of IRS Form 8300.) In comparison, BSA mandates comprehensive currency transaction reporting

for all transactions over \$10,000 and requires a detailed recordkeeping system.

Certain Tribal Casinos Are to Be Subject to BSA Currency Transaction Reporting Requirements

The Money Laundering Suppression Act of 1994¹⁴ expanded the definition of a “financial institution” subject to BSA reporting requirements to include certain tribal casinos. More specifically, under section 409 of the act, entitled “Uniform Federal Regulation of Casinos,” the term “financial institution” was expanded to include both those casinos currently subject to BSA reporting requirements and Indian gaming operations, such as tribal casinos, with GAGRS over \$1 million. IRS Examination Division officials told us that this change was meant to provide more consistent reporting by tribal casinos, as well as a more complete record of customer transactions.

According to FinCEN officials, Treasury’s Office of Regulatory Policy and Enforcement is responsible for drafting, implementing, and providing interpretative guidance on BSA regulations. This involves publishing the regulations in the Federal Register and considering comments before the new regulations become effective. On August 3, 1995, Treasury published proposed amendments to BSA implementing regulations that would subject certain tribal casinos to BSA reporting and recordkeeping requirements. This change is intended, in part, to clarify the currency reporting obligations of tribal casinos and to bring certain tribal casinos under Treasury’s anti-money-laundering controls. Until these proposed amendments become effective, tribal casinos will remain subject to the more limited reporting requirements under section 6050I of IRC. The proposed regulation permits written comments on or before November 1, 1995, with the effective date being 90 days after publication of the final rule.

Compliance Reviews Have Varied for Different Types of Casinos

IRS’ Examination Division is responsible for ensuring that casinos comply with BSA reporting and recordkeeping requirements. IRS is also responsible for ensuring that tribal casinos comply with the section 6050I reporting requirements. The NGCB Audit Division is responsible for ensuring that Nevada casinos comply with Regulation 6A.

Regulatory efforts to determine compliance with currency transaction reporting requirements have varied for different types of casino. IRS has performed some compliance reviews at BSA casinos, as has NGCB at Nevada casinos. Some transaction reporting violations were found by both IRS and

¹⁴P.L. 103-325, 108 Stat. 2243 (1994).

NGCB, and fines have been assessed at Atlantic City and Nevada casinos. IRS has also made efforts to inform and educate the management of newer casinos, particularly riverboat and tribal casinos, about transaction reporting requirements. However, IRS compliance reviews at riverboat casinos had only recently begun at the locations we visited, and consequently results were not available at the time of our review. Moreover, as of August 1995, IRS had not completed any compliance reviews of tribal casinos.

Compliance Reviews at Casinos Subject to BSA Requirements

Casino compliance reviews are complex. According to the IRS' 1994 BSA Compliance Check Handbook, compliance reviews of BSA casinos consist of interviews with casino management and employees, reviews of the casino's reporting and recordkeeping systems—which may be computerized—and analyses and matches of casino transaction records with casino filings in the CBRS database in Detroit. IRS' Examination Division personnel who conduct compliance reviews require specialized training and knowledge of casino operations and recordkeeping systems.

Due to the rapid growth of the casino industry, IRS has been training Examination Division personnel, including revenue agents, tax auditors and compliance officers, to perform casino compliance reviews at casinos subject to BSA requirements. IRS policy is to use computer auditing techniques whenever possible. IRS has also conducted several training seminars, including a seminar in November 1994 on conducting compliance reviews at riverboat casinos.

In addition to casino compliance reviews, Examination personnel are responsible, as previously mentioned, for BSA compliance reviews of more than 100,000 nonbank financial institutions, as well as for both individual and business tax compliance audits. They are also responsible for section 6050I compliance reviews on all trades and businesses.

The IRS Examination Division, like much of the federal government, is faced with declining resources. Over the past 6 years, Examination resources have declined from the 1989 level of 31,315, to 28,788 in 1995—a decrease of over 2,500 during that period. We recognize that, as resources decline, there are fewer and fewer Examination personnel to conduct IRS compliance reviews, including BSA casino reviews.

IRS Examination Division officials told us that each of its current 63 districts has a coordinator responsible for (1) identifying nonbank

financial institutions, (2) selecting/targeting for review institutions with a high potential for noncompliance, and (3) scheduling compliance reviews. According to the IRS BSA Compliance Check Handbook, when selecting institutions for a compliance review, the coordinator is to consider achieving a balanced coverage of the different types of nonbank financial institutions, including casinos. In addition, the focus should be on institutions with a high volume of cash transactions or with abnormal cash activity.

The IRS Examination Division prepares a comprehensive currency and banking quarterly report that includes the total number (or inventory) of casinos subject to BSA requirements and the number of compliance reviews completed. In 1990, a Senate Appropriations Committee report required that IRS submit this information to the Committee so that it could track IRS compliance efforts at nonbank financial institutions, including casinos. In December 1991, IRS reported an inventory of 146 BSA casinos with GAGRS in excess of \$1 million each. In December 1994, the number of BSA casinos reported had increased to 337.¹⁵ Meanwhile, between October 1991 and December 1994, IRS had completed 24 BSA compliance reviews at casinos.¹⁶

IRS Compliance Efforts at BSA Casinos

Between 1986 and 1990, IRS completed compliance reviews at 10 of the 12 Atlantic City casinos, identifying in the process numerous currency transaction reporting and recordkeeping violations. As a result, in 1993 Treasury assessed civil penalties of about \$2.5 million against the 10 casinos. Among other violations, IRS found that every casino examined had failed to file some required reports on currency transactions and, in addition, had not expended sufficient resources and conducted enough training to comply fully with the BSA requirements.

According to IRS, compliance reviews in Atlantic City were accomplished through interviews, on-site inspections of casino records, and computer matching of casino records with CTRCS filed at DCC. In addition, according to IRS, casino records that did not match were traced to original casino documents to determine whether transactions over \$10,000 were reported to DCC and whether they were correctly reported.

¹⁵This number does not include Nevada casinos or tribal casinos.

¹⁶During this time period, according to IRS Examination Division officials, IRS erroneously reported 50 compliance reviews of casinos to the Senate Appropriations Committee. (Due to data entry errors, IRS misclassified 26 compliance reviews of telegraph companies under casinos.)

Officials from IRS' Examination Division told us that the Newark District recently began compliance reviews at the two Atlantic City casinos that were not reviewed earlier. Newark District officials reported that they plan to follow a 3-year cycle for compliance reviews at the 12 Atlantic City casinos—that is, complete approximately 4 per year.

IRS examiners had just begun to perform compliance reviews at riverboat casinos at the time of our review. At the time of our visit, six compliance reviews were in progress in Mississippi. In December 1994, the Jackson District reported that it planned to conduct compliance reviews at casinos in the order that the casinos opened. Casinos under review in December 1994 opened for business in 1992; the 1995 plan calls for review of those casinos opened in 1993. As of December 1994, there were 34 casinos operating in Mississippi.

IRS officials in the New Orleans District said that they had not conducted any compliance reviews at Louisiana riverboat casinos. IRS was working with the Louisiana State Police to ensure that casino personnel were informed about BSA reporting requirements. Agents from the New Orleans District said that they had also performed some educational visits to ensure that casino personnel understood BSA reporting requirements. IRS Examination Division and Criminal Investigation Division officials in New Orleans stated that they work together to ensure that casinos comply with BSA requirements, and that any potential money laundering would be investigated.

In addition to compliance efforts at the locations we visited—in Atlantic City, Louisiana, and Mississippi—IRS has also taken steps both to educate casino officials in other states about BSA reporting requirements and to ensure that the officials understand their responsibilities under BSA. Officials from IRS' Money Laundering Team said that the IRS strategy for compliance for all nonbank financial institutions is “three Es”—educate, enhance, and enforce. IRS has also held training conferences for computer audit specialists, agents, examiners, and compliance officers to teach them the complexities of conducting compliance reviews at casinos. Further, IRS has detailed agents to work with state casino gaming commissions in Illinois, Indiana, and Missouri to assist in conducting casino background investigations and to help ensure that casinos are complying with BSA.

IRS Had Not Completed Any Compliance Reviews at Tribal Casinos

As of March 1995, the IRS Examination Division had not completed any reviews of tribal casinos, although under IGRA they have been subject to the currency transaction reporting requirements of IRC section 6050I since

1988. Officials from the Money Laundering Team in the Examination Division said that, before undertaking reviews of tribal casinos, they believed it was necessary to establish procedures and appropriate protocol for conducting reviews on Indian lands.

In January 1993, IRS announced a delay in planned reviews of tribal casinos. This temporary delay ended in January 1994. The IRS national office directive specified that the reason for the delay was that IRS “did not have a consistent and systematic compliance strategy” for conducting reviews on Indian lands. According to an IRS official, a strategy could not be developed until a resolution was reached concerning an “inconsistency” in the act.¹⁷ FinCEN noted that this situation creates a reporting ambiguity that may have confused some Indian gaming operators about their obligations to report such large currency transactions. While no clear strategy for conducting compliance reviews on Indian lands has been developed, on August 3, 1995, Treasury published a proposed regulation to bring certain tribal casinos under Treasury’s anti-money-laundering controls. According to FinCEN, this change is intended, in part, to clarify the currency reporting obligations of tribal casinos.

Officials from IRS’ Money Laundering Team at the national office said they had been developing an Indian Assistance Handbook that should “help to create consistency in IRS district office procedures for conducting compliance reviews” and foster cooperative relationships with the tribes involved in gaming activities. According to the team manager, several agencies, including the Bureau of Indian Affairs and representatives from the National Indian Gaming Commission, had worked with IRS to develop the handbook. The handbook is to include protocol for contacting tribal officials, as well as clarify issues involving access to casino records for tax and compliance reviews. However, as of August 1995, the team manager did not know when the handbook would be published.

Nevada’s Compliance Efforts

The NGCB Audit Division conducts three different types of compliance reviews:

¹⁷Section 20(d)(1) of IGRA (25 U.S.C. § 2719(d)(1)) provides that certain provisions of IRC, including section 6050I, shall apply to winnings from Indian gaming operations. Section 6050I, in general, requires a report of cash received by trades or businesses for amounts over \$10,000. IRS and FinCEN note that section 6050I and section 2719(d)(1) are inconsistent with one another because section 6050I applies to incoming cash (“cash-in”) transactions, whereas section 2719(d)(1) relates to winnings that are “cash-out” transactions.

- interim audits, to be conducted annually, are to include the testing of all currency transaction reporting procedures and a limited document review;
- full audits, to be performed every 2-3 years, are to include extensive document review to test all procedures for compliance with reporting requirements; and
- covert checks,¹⁸ to be conducted periodically, are similar to undercover operations and are to be used to test casino compliance with Nevada's currency transaction requirements.

According to a 1992 IRS oversight review, one of the strengths of the Nevada system is that NGCB is to conduct either an interim audit or a full audit at all casinos under Regulation 6A at least once a year.

The covert checks are conducted on an unscheduled basis without advance warning to the casinos. Typically, a NGCB agent enters a casino and attempts to test compliance with currency transaction reporting requirements, or tries to conduct a prohibited transaction. For example:

- an agent might try to purchase chips in an amount over \$10,000 as a test to determine whether casino employees properly record the currency transaction on a CTR; or
- an agent might try to exchange \$5,000 in cash for another \$5,000 cash from the casino, or \$5,000 in cash for a casino check. (Both are prohibited transactions in amounts over \$2,500.)

As of November 1994, NGCB had found currency transaction reporting and recordkeeping violations at 24 casinos and had fined 22 casinos about \$1.8 million.

Conclusions

Legalized gaming is expanding rapidly across the United States. Casino gaming is among the fastest growing forms of legalized gaming, and new casinos continue to open around the country. Two areas of notable growth are riverboat casino gaming and Indian gaming. Along with this growth has come a large increase in the amount of cash wagered at all casinos, which totaled about \$407 billion in 1994. With this much cash changing hands, casinos may be particularly vulnerable to money laundering in the form of money from illegal activities being placed into legal gaming transactions.

Recent BSA regulations requiring casinos to establish anti-money-laundering compliance programs, together with the

¹⁸These are referred to by NGCB as "participatory transactions."

implementation of certain provisions in the Money Laundering Suppression Act of 1994 with respect to certain tribal casinos, should help to deter or detect potential money laundering. These actions, coupled with possible changes to Nevada's regulations, should bring greater consistency and uniformity to transaction reporting for casinos and improve the information available to law enforcement. Measures that deter money laundering before it happens, such as Nevada's prohibited transactions, may also help to combat money laundering in casinos. Although there is no data to measure effectiveness, Nevada gaming officials strongly believe in the preventative aspects of prohibiting transactions that may lend themselves to money laundering.

The current federal strategy for deterring and detecting money laundering in casinos involves Treasury, which promulgates BSA reporting and recordkeeping regulations, and IRS, which performs compliance reviews. IRS has detailed agents to several state gaming commissions and taken steps to assure that casinos are complying with BSA currency transaction reporting requirements. IRS' Examination Division has done some monitoring of Nevada's compliance program and has established a cycle for reviewing casino compliance in Atlantic City. Until recently, almost all of the casinos in the country were in these two locations. In addition, FinCEN is working to develop a partnership with the gaming industry and it is their intention to encourage casinos to know their customers and identify suspicious transactions.

With its very limited resources, IRS' Examination Division is responsible for compliance reviews at BSA casinos and over 100,000 other nonbank financial institutions, in addition to the massive job of ensuring compliance with our federal tax laws through the audit of individual and business tax returns. It seems likely, given the competing demands on resources, that IRS compliance review coverage for casinos will be limited. The new BSA regulations that require casinos to take a more active role in ensuring their own compliance with BSA, as well as other money laundering prevention strategies such as Nevada's prohibited transactions, could be positive steps toward compliance given the limited IRS resources for compliance reviews.

Recommendation

We recommend that the Secretary of the Treasury consider the costs and benefits of an amendment to BSA to allow for the prohibition, as Nevada does, of certain cash transactions in casinos that may lend themselves to money laundering.

Agency Comments and Our Evaluation

On September 22, 1995, we obtained oral comments separately from Treasury and IRS officials on a draft of this report. At Treasury, we met with FinCEN representatives, including the Associate Director of the Office of Regulatory Policy and Enforcement. We also met with IRS officials, including the National Director for Compliance Specialization. In addition, FinCEN sent us written comments, which are reproduced in appendix VI. Both FinCEN and IRS provided clarifications and technical corrections that we have incorporated where appropriate.

In its written comments, FinCEN said that, in general, the report is an informative and accurate account of the growth of casino gaming in America and of the potential threat this expansion poses for increased money laundering. However, FinCEN disagreed for several reasons with our recommendation that Treasury consider the costs and benefits of an amendment to BSA to allow for the prohibition, as Nevada does, of certain cash transactions in casinos that may lend themselves to money laundering. FinCEN's reasons for disagreeing included concern that our work had not demonstrated that the prohibition of certain cash transactions would in fact deter money laundering and that additional prohibitions would increase the reporting burden on casinos. Both FinCEN and IRS noted that, even if certain cash transactions were prohibited in all BSA casinos, patrons who wished to launder money at a casino could circumvent the prohibitions by finding other ways to launder money there.

Our objectives for this review were to provide descriptive information on the extent of casino gaming, related reporting requirements, and enforcement efforts. As we did our work, we became aware of the issue of IRS' declining resources versus the growth in casino gaming and the related potential for money laundering. While our work was not designed to develop specific solutions, we saw the need for Treasury to explore the feasibility of less resource intensive ways to deter money laundering. That concept embodies the intent of our recommendation. It seemed reasonable to us that due consideration should be given to trying to identify some less resource intensive options, including the possibility, by prohibiting certain transactions, of making the laundering process more difficult and enhancing casinos' ability to self-regulate the issue, while simultaneously relieving some of the pressure on IRS resources. Given the federal downsizing environment, accompanied by the growth in casino gaming, we continue to believe that the identification of additional, less resource intensive ways to deter money laundering would be an appropriate step for Treasury.

As agreed with the Subcommittee, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties and make copies available to others upon request.

Appendix VII lists the major contributors to this report. If you need additional information on the contents of this report, please contact me on (202) 512-8787.

Sincerely yours,

A handwritten signature in black ink that reads "Laurie E. Ekstrand". The signature is written in a cursive style with a large, stylized initial 'L'.

Laurie E. Ekstrand
Associate Director, Administration
of Justice Issues

Contents

Letter	1
Appendix I Classes of Indian Gaming	36
Appendix II Casinos We Visited for This Review	37
Appendix III Types of Legalized Gambling	38
Appendix IV Total Gaming Revenues by Gaming Activity and for Casinos	40
Appendix V Currency Transaction Reports for Casinos	42
Appendix VI Comments From the Financial Crimes Enforcement Network	47
Appendix VII Major Contributors to This Report	51

Tables	Table 1: Comparison of Laws and Currency Transaction Reporting Requirements for Casinos	18
	Table 2: Comparison of Certain Currency Transaction Reporting Requirements and Prohibitions for Casinos	19
Figures	Figure 1: Riverboat Casino	9
	Figure 2: States With Indian Gaming Operations	11
	Figure 3: Largest Tribal Casino in the United States	12
	Figure 4: Dollar Amounts Wagered, by Gaming Activity, 1994	14
	Figure 5: Increases in Dollar Amounts Wagered in Casino Gaming and Indian Gaming, 1984 to 1994	15
	Figure 6: Dollar Amounts Wagered in Casinos, 1994	16
	Figure IV.1: Total Gaming Revenues, by Gaming Activity, 1994	40
	Figure IV.2: Total Gaming Revenues for Casinos, 1994	41
	Figure V.1: Currency Transaction Report by Casinos, IRS Form 8362	42
	Figure V.2: Currency Transaction Report, Nevada Form	43
	Figure V.3: Currency Transaction Incidence Report, Nevada Form	44
	Figure V.4: Report of Cash Payments Over \$10,000 Received in a Trade or Business, IRS Form 8300	45

Abbreviations

BSA	Bank Secrecy Act of 1970
CBRS	Currency and Banking Retrieval System
CTRC	Currency Transaction Report by Casinos
CTR	Currency Transaction Report (Nevada Form)
CTIR	Currency Transaction Incidence Report (Nevada Form)
DCC	Detroit Computing Center
FinCEN	Financial Crimes Enforcement Network
GAGR	Gross annual gaming revenue
IGRA	Indian Gaming Regulatory Act of 1988
IRC	Internal Revenue Code
IRS	Internal Revenue Service
NGCB	Nevada Gaming Control Board

Classes of Indian Gaming

Class	Description
I	1. Social games played solely for prizes of minimal value. 2. Traditional forms of Indian gaming played in connection with tribal ceremonies or celebrations.
II	1. Bingo or lotto (regardless of whether electronic, computer, or other technological aids are used) played for prizes. 2. Pull-tabs, punch boards, tip jars, instant bingo (if played in same location as bingo) and other games similar to bingo. 3. Nonhouse-banking card games that state law authorizes or does not prohibit and that are played legally anywhere in the state.
III	1. All forms of gaming that are not Class I or II gaming and any house banking games. ^a 2. Card games such as baccarat, blackjack (21), Pai Gow, etc. 3. Casino games such as roulette, craps, keno, etc. 4. Slot machines and electronic or electro-mechanical facsimiles of any game of chance, such as video poker, video blackjack, etc. 5. Sports betting and pari-mutuel wagering, including horse racing, dog racing, Jai Alai, etc. 6. Lotteries.

^aA house banking game is any game of chance that is played with the house as a participant in the game, where the house takes on all players, collects from all losers, and pays all winners—and the house can win.

Source: IGRA and National Indian Gaming Commission Regulations.

Casinos We Visited for This Review

April 1994 to October 1994

Name	Type	Location
Caesars	Casino	Atlantic City, NJ
Mirage	Casino	Las Vegas, NV
Caesars Palace	Casino	Las Vegas, NV
Star Casino	Riverboat	New Orleans, LA
Grand Casino	Riverboat/barge	Gulfport, MS
Foxwoods Resort Casino	Tribal casino	Ledyard, CT

Types of Legalized Gambling

State	Types of legalized gambling						
	Charitable bingo	Card room gaming	Casino gaming ^a	Indian gaming ^b	Lotteries	Pari-mutuels	Other ^c
Alabama	•			•		•	
Alaska	•						•
Arizona	•			•	•	•	•
Arkansas						•	
California	•	•		•	•	•	•
Colorado	•	•	•	•	•	•	•
Connecticut	•			•		•	
Delaware	•				•	•	•
District of Columbia	•				•		•
Florida	•			•	•	•	•
Georgia	•				•		•
Hawaii							
Idaho	•			•	•	•	•
Illinois	•	•	•		•	•	•
Indiana	•				•	•	•
Iowa	•	•	•	•	•	•	•
Kansas	•			•	•	•	•
Kentucky	•				•	•	
Louisiana	•		•	•	•	•	•
Maine	•				•	•	•
Maryland	•	•	•		•	•	•
Massachusetts	•				•	•	•
Michigan	•	•		•	•	•	•
Minnesota	•	•		•	•	•	•
Mississippi	•		•	•			•
Missouri	•		•	•	•	•	•
Montana	•	•	•	•	•	•	•
Nebraska	•			•	•	•	•
Nevada	•	•	•	•		•	•
New Hampshire	•				•	•	•
New Jersey	•		•		•	•	•
New Mexico	•			•		•	•
New York	•			•	•	•	•
North Carolina	•			•			
North Dakota	•	•		•		•	•
Ohio	•				•		•
Oklahoma	•			•		•	
Oregon	•	•		•	•	•	•
Pennsylvania	•				•	•	
Puerto Rico			•				
Rhode Island	•			•	•	•	•
South Carolina	•		•				
South Dakota	•	•	•	•	•	•	•
Tennessee						•	
Texas	•			•	•	•	•
Utah							
Vermont	•				•	•	•
Virginia	•					•	•
Washington	•	•	•	•	•	•	•
West Virginia	•				•	•	•
Wisconsin	•			•	•	•	•
Wyoming	•			•		•	•
Total	47	13	14	29	37	43	41

Appendix III
Types of Legalized Gambling

^aDoes not include gaming on Indian reservations, but does include some riverboat gambling and casinos as well as various gaming devices located in noncasino environments.

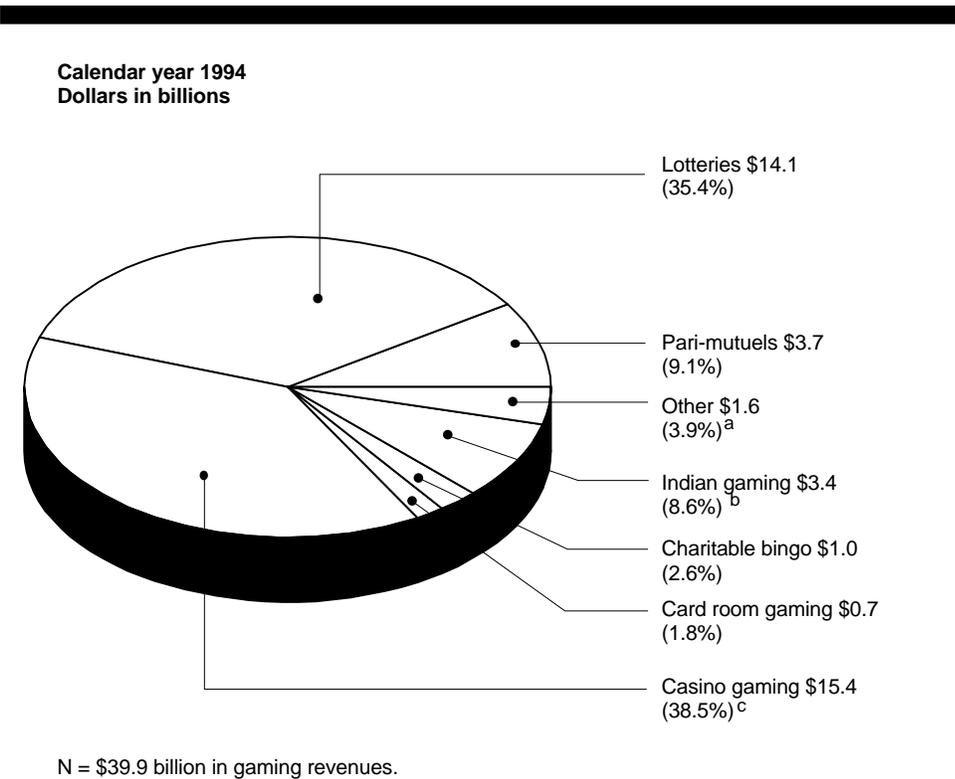
^bIndian gaming includes tribal casino and bingo operations (data as of March 1995).

^cOther includes legal bookmaking (sports and horse) and charitable games.

Source: GAO analysis of industry and government data.

Total Gaming Revenues by Gaming Activity and for Casinos

Figure IV.1: Total Gaming Revenues, by Gaming Activity, 1994



Note: Numbers may not add due to rounding.

^aOther includes legal bookmaking and charitable games.

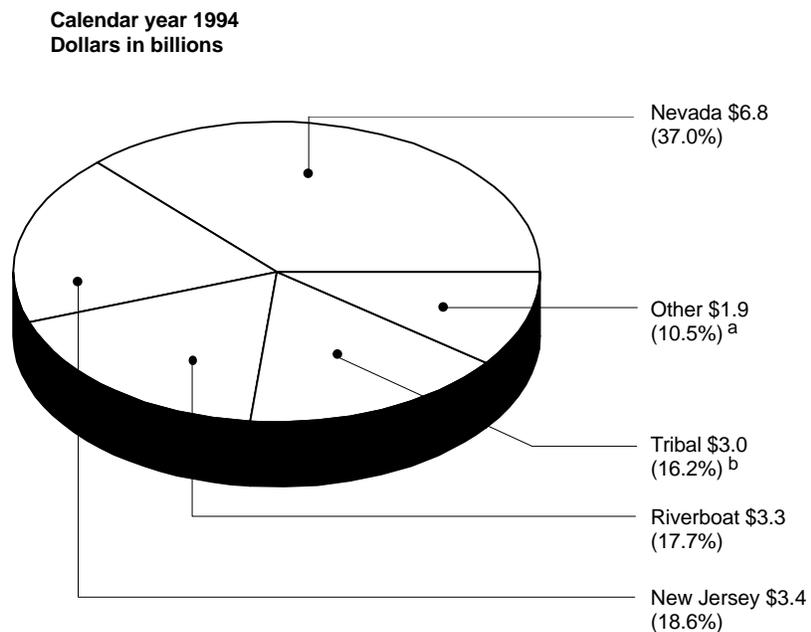
^bIndian gaming includes tribal casino and bingo operations.

^cCasino gaming includes riverboats.

Source: International Gaming and Wagering Business (August 1995).

**Appendix IV
Total Gaming Revenues by Gaming Activity
and for Casinos**

**Figure IV.2: Total Gaming Revenues
for Casinos, 1994**



N = \$18.3 billion in gaming revenues for casinos.

Note: Numbers may not add due to rounding.

^aOther includes casinos in other states and various gaming devices located in noncasino environments.

^bTribal casinos do not include bingo operations.

Source: International Gaming and Wagering Business (August 1995).

Currency Transaction Reports for Casinos

Figure V.1: Currency Transaction Report by Casinos (CTRC), IRS Form 8362

Form 8362 (Rev. May 1992) Department of the Treasury Internal Revenue Service	Currency Transaction Report by Casinos File a separate Form 8362 for each transaction. Please type or print. (Complete all applicable parts—see instructions)	OMB No. 1545-0906	
Part I Individual or Organization for Whom This Transaction Was Completed			
Individual's last name	First name	Middle initial	Social security number
Organization's name	Employer identification number (EIN)	Passport number	Country
Address (number, street, and apt. or suite no.)	Occupation, profession, or business	Alien registration number	Country
City	State	ZIP code	Country (if not U.S.)
		Driver's license (number and state)	
Part II Identity of Individual Conducting the Transaction (Complete only if an agent conducts a transaction for the person in Part I)			
Last name	First name	Middle initial	Social security number
Address (number, street, and apt. or suite no.)	Passport number	Country	Alien registration number
City	State	ZIP code	Country (if not U.S.)
		Driver's license (number and state)	
Part III Patron's Account or Receipt Number ▶			
Part IV Description of Transaction			
If more space is needed, attach a separate schedule and check this box <input type="checkbox"/>			
1 Type of transaction. Check the applicable boxes to describe transaction. a <input type="checkbox"/> Currency exchange (currency for currency) b CASH IN: (1) <input type="checkbox"/> Deposit (front and safekeeping) (3) <input type="checkbox"/> Check purchased (see item 6 below) (5) <input type="checkbox"/> Collection on account (2) <input type="checkbox"/> Chips purchased (4) <input type="checkbox"/> Wire transfer of funds (6) <input type="checkbox"/> Other cash in (specify) c CASH OUT: (1) <input type="checkbox"/> Withdrawal of deposit (front and safekeeping) (3) <input type="checkbox"/> Chips redeemed (5) <input type="checkbox"/> Other cash out (specify) (2) <input type="checkbox"/> Check cashed (see item 6 below) (4) <input type="checkbox"/> Credit advance			
2 Total amount of currency transaction (in U.S. dollars) \$00		3 Amount in item 2 in \$100 bills or higher \$00	
4 Date of transaction (month, day, and year)			
5 If other than U.S. currency is involved, please furnish the following information:			
Currency name	Country	Total amount of each foreign currency (in U.S. dollars)	
		\$00	
6 If a check was involved in this transaction, please furnish the following information (see instructions):			
Date of check	Amount of check (in U.S. dollars)	Payee of check	
	\$00		
Maker of check		Drawee bank and city	
Part V Casino Reporting the Financial Transaction			
Name		Employer identification number (EIN)	
Address (number, street, and apt. or suite no.) where transaction occurred			
City	State	ZIP code	
Sign Here (Casino employee who handled the transaction)	 (Date)
 (Casino official reviewing and approving the Form 8362)	 (Date)
For Paperwork Reduction Act Notice, see back of form.		Cat. No. 62291Z	Form 8362 (Rev. 5-92)

**Appendix V
Currency Transaction Reports for Casinos**

Figure V.2: Currency Transaction Report (CTR), Nevada Form

CURRENCY TRANSACTION REPORT

File a separate report for each transaction. Please type or print.
(Complete all applicable parts -- see instructions)

PART I INDIVIDUAL OR ORGANIZATION FOR WHOM THIS TRANSACTION WAS COMPLETED

Patron's last name (or org. name)	First name	Middle initial	Social Security Number
Number and street	Passport #	Alien Registration #	Issuing country
City	State	Driver's permit (number and state)	
Zip code	Country (if not U.S.)	Method used to identify patron and verify residence	

PART II IDENTITY OF INDIVIDUAL CONDUCTING THE TRANSACTION (complete only if an agent conducts a transaction for the person listed in Part I)

Last name	First name	Middle initial	Social Security Number
Number and street	Passport #	Alien Registration #	Issuing country
City	State	Driver's permit (number and state)	
Zip code	Country (if not U.S.)	Method used to identify patron and verify residence	

PART III DESCRIPTION OF TRANSACTION. If separate schedule is attached, check this box

1. Nature of transaction (check the applicable box):

a. Redemption by a patron of more than \$10,000 worth of chips for cash, when the casino is not reasonably assured that the patron obtained the chips in the course of a gaming transaction.

b. Placing of a wager by a patron of more than \$10,000 in cash at any gaming activity at which chips are not customarily used for wagering (i.e., race book, sports pool, keno, bingo).

c. Sale of more than \$10,000 worth of chips to a patron in exchange for cash.

d. Deposit of more than \$10,000 in cash by a patron in any transaction for gaming or safe-keeping purposes if the casino has knowledge of the amount of cash deposited.

e. Repayment of more than \$10,000 in cash by a patron for credit previously extended.

f. Redemption of more than \$1,000 worth of another casino's chips, by a patron, for cash in any transaction.

g. Other cash receipts or disbursements of more than \$10,000 not previously listed:

(1) Withdrawal of deposit (4) Wire transfer on behalf of patron in exchange for cash

(2) Credit advance (5) Other cash out (specify) _____

(3) Check cashed (6) Other cash in (specify) _____

2. Trans. date 3. Trans. time 4. Trans. amount 5. Additional transaction information

PART IV CASINO REPORTING THE FINANCIAL TRANSACTION

Name	Identifying number (EIN)
Number and street	
City	State Zip Code

Sign Here	(Casino employee who handled trans.)	(Title)	(Date)
	(Casino employee reviewing this form)	(Title)	(Date)

(06/04/85)

**Appendix V
Currency Transaction Reports for Casinos**

Figure V.3: Currency Transaction Incidence Report (CTIR), Nevada Form

CURRENCY TRANSACTION INCIDENCE REPORT

File up to 5 separate transactions on this report. Please type or print.
(Complete all applicable parts -- see instructions)

Incidence # 1:

Trans. date	Trans. time	Trans. amount	Trans. type	Name of employee handling transaction
Name of person attesting to gaming			Evidence of gaming	

Incidence # 2:

Trans. date	Trans. time	Trans. amount	Trans. type	Name of employee handling transaction
Name of person attesting to gaming			Evidence of gaming	

Incidence # 3:

Trans. date	Trans. time	Trans. amount	Trans. type	Name of employee handling transaction
Name of person attesting to gaming			Evidence of gaming	

Incidence # 4:

Trans. date	Trans. time	Trans. amount	Trans. type	Name of employee handling transaction
Name of person attesting to gaming			Evidence of gaming	

Incidence # 5:

Trans. date	Trans. time	Trans. amount	Trans. type	Name of employee handling transaction
Name of person attesting to gaming			Evidence of gaming	

CASINO REPORTING THE FINANCIAL TRANSACTIONS

Name	Identifying number (EIN)		
Number and street			
City	State	Zip Code	
Sign Here	(Casino employee reviewing this form)	(Title)	(Date)

(06/04/85)

**Appendix V
Currency Transaction Reports for Casinos**

Figure V.4: Report of Cash Payments Over \$10,000 Received in a Trade or Business, IRS Form 8300

Form 8300 (Rev. August 1994) Department of the Treasury Internal Revenue Service	Report of Cash Payments Over \$10,000 Received in a Trade or Business ▶ See instructions for definition of cash. Please type or print.	OMB No. 1545-0892
1 Check appropriate boxes if: a <input type="checkbox"/> amends prior report; b <input type="checkbox"/> suspicious transaction.		
Part I Identity of Individual From Whom the Cash Was Received		
2 If more than one individual is involved, see instructions and check here <input type="checkbox"/>		
3 Last name	4 First name	5 M.I.
7 Address (number, street, and apt. or suite no.)		6 Social security number
		8 Date of birth (see instructions)
9 City	10 State	11 ZIP code
		12 Country (if not U.S.)
13 Occupation, profession, or business		
14 Method used to verify identity: a Describe identification ▶		
b Issued by c Number		
Part II Person (See Definitions) on Whose Behalf This Transaction Was Conducted		
15 If this transaction was conducted on behalf of more than one person, see instructions and check here <input type="checkbox"/>		
16 Individual's last name or Organization's name	17 First name	18 M.I.
20 Doing business as (DBA) name (see instructions)		19 Social security number
		Employer identification number
21 Alien identification: a Describe identification ▶		
b Issued by c Number		
22 Address (number, street, and apt. or suite no.)		23 Occupation, profession, or business
24 City	25 State	26 ZIP code
		27 Country (if not U.S.)
Part III Description of Transaction and Method of Payment		
28 Date cash received	29 Total cash received	30 If cash was received in more than one payment, check here <input type="checkbox"/>
	\$.00	
31 Total price if different from item 29 \$.00		
32 Amount of cash received (in U.S. dollar equivalent) (see instructions):		
a U.S. currency	\$.00	(Amount in \$100 bills or higher \$.00)
b Foreign currency	.00	(Country ▶)
c Cashier's check(s)	.00	} Issuer's name(s) and serial number(s) of the monetary instrument(s) ▶
d Money order(s)	.00	
e Bank draft(s)	.00	
f Traveler's check(s)	.00	
33 Type of transaction		34 Specific description of property or service shown in 33. (Give serial or registration number, address, etc.)
a <input type="checkbox"/> personal property purchased	f <input type="checkbox"/> debt obligations paid	
b <input type="checkbox"/> real property purchased	g <input type="checkbox"/> exchange of cash	
c <input type="checkbox"/> personal services provided	h <input type="checkbox"/> escrow or trust funds	
d <input type="checkbox"/> business services provided	i <input type="checkbox"/> other (specify) ▶	
e <input type="checkbox"/> intangible property purchased		
Part IV Business That Received Cash		
35 Name of business that received cash		36 Employer identification number
		Social security number
37 Address (number, street, and apt. or suite no.)		
38 City	39 State	40 ZIP code
		41 Nature of your business
42 Under penalties of perjury, I declare that to the best of my knowledge the information I have furnished above is true, correct, and complete.		
Sign Here _____ () _____ (Authorized signature of business that received cash) (Title) (Date signed) (Telephone number of business)		
Cat. No. 82133S		Form 8300 (Rev. 8-94)

**Appendix V
Currency Transaction Reports for Casinos**

Form 8300 (Rev. 8-94)

Page **2**

Multiple Parties

(Complete applicable parts below if box 2 or 15 on page 1 is checked)

Part I Continued—Complete if box 2 on page 1 is checked

3 Last name			4 First name		5 M.I.	6 Social security number : : : : : : : : : : :			
7 Address (number, street, and apt. or suite no.)						8 Date of birth (see instructions) : : : : : : : : : :			
9 City	10 State	11 ZIP code	12 Country (if not U.S.)		13 Occupation, profession, or business				
14 Method used to verify identity: b Issued by			a Describe identification ▶						c Number

3 Last name			4 First name		5 M.I.	6 Social security number : : : : : : : : : : :			
7 Address (number, street, and apt. or suite no.)						8 Date of birth (see instructions) : : : : : : : : : :			
9 City	10 State	11 ZIP code	12 Country (if not U.S.)		13 Occupation, profession, or business				
14 Method used to verify identity: b Issued by			a Describe identification ▶						c Number

Part II Continued—Complete if box 15 on page 1 is checked

16 Individual's last name or Organization's name			17 First name		18 M.I.	19 Social security number : : : : : : : : : : :			
20 Doing business as (DBA) name (see instructions)						Employer identification number : : : : : : : : : : :			
21 Alien identification: b Issued by			a Describe identification ▶						c Number
22 Address (number, street, and apt. or suite no.)						23 Occupation, profession, or business			
24 City	25 State	26 ZIP code	27 Country (if not U.S.)						

16 Individual's last name or Organization's name			17 First name		18 M.I.	19 Social security number : : : : : : : : : : :			
20 Doing business as (DBA) name (see instructions)						Employer identification number : : : : : : : : : : :			
21 Alien identification: b Issued by			a Describe identification ▶						c Number
22 Address (number, street, and apt. or suite no.)						23 Occupation, profession, or business			
24 City	25 State	26 ZIP code	27 Country (if not U.S.)						

Comments From the Financial Crimes Enforcement Network

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



FINANCIAL CRIMES
ENFORCEMENT NETWORK

2070 Chain Bridge Road, Suite 200, Vienna, VA 22182, Telephone (703) 905-3520



OCT 24 1995

Ms. Laurie Ekstrand
Associate Director
United States General Accounting Office
Administration of Justice Audit Site
Suite 200
820 1st Street, S.E.
Washington, D.C. 20002

Dear Ms. Ekstrand:

The draft GAO report entitled Money Laundering: Rapid Growth of Casinos Makes Them Vulnerable has been referred to me for comment. In general, the report is an informative and accurate account of the growth of casino gambling in America and the potential threat this expansion poses for increased money laundering.

See comment 1.

Our concern with the report is its sole recommendation that "...Treasury consider the costs and benefits of amending BSA [the Bank Secrecy Act] to allow for the prohibition, as Nevada does, of certain cash transactions in casinos that may lend themselves to money laundering." We believe that the recommendation is vague and ambiguous as to what specific transactions should be considered. Moreover, the recommendation calls for Treasury to assess the cost and effectiveness of prohibiting "certain" transactions, presumably so that Congress could enact legislation to authorize Treasury to prohibit transactions. The report, however, does not provide any basis for determining that prohibited transactions do in fact deter money laundering to any appreciable extent. We believe this recommendation requires additional substantiation, especially if the recommendation would ultimately require the passage of legislation and an increase in the regulatory burden placed upon the gaming industry.

See comment 2.

Nevada is not the only state to prohibit certain transactions either by law or by gaming regulation. For example, New Jersey and other states prohibit the purchase of chips at a casino anywhere except the cashier's window and prohibit the cashing of personal checks above a minimal dollar level. Colorado and South Dakota have imposed a five dollar betting limit at casinos which makes it exceedingly difficult for laundering currency. It is not clear from the GAO report how many of these other prohibited transactions should be identified and evaluated.

See comment 3.

It would be difficult, if not impossible, to set standards at the federal level which would determine which cash transactions to allow, which to prohibit and what dollar thresholds should be established. Rather than attempting to make such decisions, it is Treasury's position that the most effective means of combating money laundering is determining which cash transactions

**Appendix VI
Comments From the Financial Crimes
Enforcement Network**

See comment 4.

should be recorded or reported and, more importantly, to work with the industry to ensure that suspicious activity, regardless of the form of the funds involved, is effectively detected and reported to the government.

Given the diversity of casino gaming operations among the states, and their experience with a broad range of regulatory concerns - including but not limited to money laundering - Treasury believes it should be up to each state to determine the appropriateness of prohibiting certain transactions.

Sincerely,



Stanley E. Morris
Director

- 2 -

The following are GAO's comments on the Financial Crimes Enforcement Network's letter dated October 24, 1995.

GAO Comments

1. FinCEN stated that our recommendation is vague and ambiguous as to what specific transactions should be considered. Further, they said that the report does not provide any basis for determining that prohibiting certain transactions does in fact deter money laundering to any appreciable extent. Our descriptive work relating to the growth of casinos, currency transaction reporting requirements, and related enforcement efforts was not intended to delineate the costs and benefits of specific prohibitions against money laundering. However, in analyzing our descriptive information, especially in relation to the level of enforcement of anti-money-laundering provisions of BSA and the likelihood that IRS enforcement resources will remain limited, the need for less resource intensive means to deter money laundering seemed evident. We believe that a study to identify means to deter money laundering in casinos, such as by prohibiting certain transactions, would be an appropriate step for Treasury to take as part of an effort to control money laundering while expending fewer federal resources.

2. Treasury notes that, in addition to the prohibition of certain cash transactions in Nevada that we cited, other states also have prohibited transactions, and that we do not cite which of these Treasury should evaluate. Our work did not include an enumeration of all transactions that are prohibited by all states, nor are we suggesting that Treasury undertake such an effort. However, if Treasury is aware of other prohibited transactions that seem likely to inhibit money laundering, they too should be considered.

3. FinCEN said that it is Treasury's position that the most effective means of combating money laundering is to determine which cash transactions should be recorded or reported, and then to work with the industry to ensure that suspicious activity is detected and reported. We agree that these are very useful strategies. However, this should not rule out adding an additional weapon to the arsenal against money laundering. To the extent that transactions that lend themselves to money laundering could be prohibited, the regulation process could be even more effective. Given the limited examination resources of IRS, follow-up on all recorded transactions seems unlikely. Accordingly, we believe that an action that could augment current enforcement efforts is worthy of consideration.

4. FinCEN stated that Treasury also believes that, given the diversity of gaming operations among states, it should be up to each state to determine the appropriateness of prohibiting certain transactions. We did not suggest that states could not or should not have their own regulations or prohibitions. However, if Nevada or any other state has a regulation or prohibition that could potentially aid the wider fight against money laundering, we believe that it should be considered for wider application.

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