

2007

NATIONAL MONEY

LAUNDERING

STRATEGY



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Chapter 9

CASINOS

More than \$800 billion was wagered at approximately 845 casinos and card clubs in the United States in 2003, accounting for approximately 85 percent of the total amount of money wagered for all legal gaming activities throughout the country.¹³¹ In addition to gaming, casinos offer their largely transient customer base a broad array of financial services, such as deposit and credit accounts, funds transfers, check cashing, and currency exchange services, that are similar to those offered by depository institutions and other types of financial institutions. As high-volume cash businesses, casinos are susceptible to money laundering as well as many other financial crimes and were the first

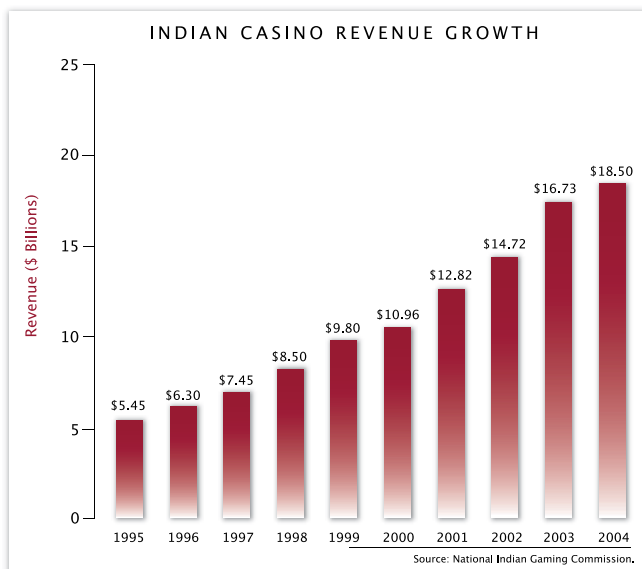
non-bank financial institutions required to develop AML compliance programs.¹³²

The most notable development in this field is the striking growth of Native American casinos, which have enjoyed annual double-digit revenue growth for the last ten years (See Chart 1). These tribal casinos are moving rapidly from relative obscurity within the casino industry to a prominent position with ample potential for money laundering and other types of financial crimes. The regulatory structure of the tribal gaming industry is intricate, with somewhat overlapping layers of responsibility at the tribal, state, and federal levels.

In 2004, casino gambling, including commercial casinos – both land-based and riverboat – tribal casinos, card rooms and racinos¹³³ was legal in 34 states and 3 other jurisdictions (*i.e.*, Puerto Rico, the U.S. Virgin Islands, and Tinian) and some 200 counties.¹³⁴ According to the American Gaming Association, Nevada leads the nation as the state with the highest casino revenue with \$9.625 billion in 2003.

There are 567 federally recognized Indian Tribes (half are in Alaska), and 223 of them operate 411 gaming facilities in 28 states.¹³⁵ Of these, 307 are considered casino operations (the remainder are basically bingo halls). Collectively, tribal casinos took in \$18.5 billion in revenue last year, twice the amount generated by Nevada casinos.¹³⁶ If the tribal gaming industry were a single company, rather than 307 casinos, it would rank near the top 100 corporations in America. Tribal gaming interests have what is currently the largest casino in the United States, Foxwoods Resort and Casino, located in Mashantucket, Connecticut and owned by the

Chart 1



¹³¹ FinCEN SAR Activity Review, Issue 8, April 2005.

¹³² Statement of William J. Fox, director, Financial Crimes Enforcement Network, U.S. Department of the Treasury, before the Senate Committee on Banking, Housing, and Urban Affairs, September 28, 2004.

¹³³ Racinos are racetracks with electronic gaming devices. The term “racino” has not been separately defined nor included specifically in the definition of casino for purposes of the BSA. Instead, FinCEN has relied on the state, territory or tribal characterization of “racino” gaming in determining whether an entity or operation should be treated as a casino for purposes of the BSA. Therefore, if state law defines or characterizes slot machine operations at a racetrack as a “casino, gambling casino, or gaming establishment,” and the gross annual gaming revenues of that operation exceed the \$1 million threshold, then the operation would be deemed to be a “casino” for purposes of the BSA and subject to all applicable requirements.

¹³⁴ The InfoShop, Report: Casino Gambling—U.S. (Nov. 2004). Accessed at: http://www.the-infoshop.com/study/mt25476_casino_gambling.html.

¹³⁵ National Indian Gaming Association, An Analysis of the Economic Impact of Indian Gaming in 2004. Accessed at: <http://www.indiangaming.org>.

¹³⁶ MSNBC, Tribal Casino Revenues Double Nevada’s, Feb. 15, 2005. Accessed at: <http://www.msnbc.msn.com/id/6976517/>.

Mashantucket Pequot Tribe. The west coast (primarily California) represents the fastest growing region for the Indian gaming industry.¹³⁷

According to FinCEN, most tribal casinos are small to mid-size operations typically without deposit or credit accounts for customers and with few gaming tables, relying instead on slot machines for gaming revenues. Commercial casinos, by comparison, offer more table games. Table games require more cash handling on the gaming floor than slot machines. Consequently, commercial casinos offer more sophisticated account services and, correspondingly, pose a greater money laundering threat.¹³⁸

Vulnerabilities

Law enforcement and media reports indicate that criminals typically launder money through casinos by exchanging illicit cash for casino chips and then either:

- Holding the chips for a period of time and later cashing them in for a casino check or having the casino wire the money elsewhere;
- Using the chips as currency to purchase narcotics, with the drug dealer later cashing in the chips; or,
- Using the chips to gamble in hopes of generating certifiable winnings.

Criminals also use casinos to launder counterfeit money as well as large currency notes that would be conspicuous and difficult to use elsewhere, and which may be marked by undercover law enforcement officers. Suspicious activities at casinos often involve customers structuring transactions to avoid recordkeeping or reporting thresholds, using agents to cash-out multiple transactions for an anonymous individual, providing false documents or identifying information, or layering transactions to disguise their source.

The IRS-Criminal Investigation division reports the following case examples of casinos used for money laundering:

- Criminals laundered money through video poker games by feeding illicit proceeds into the machines (one, five, and ten dollar bills) and then either after playing briefly or not at all, they pressed the “cash out” button which generated a receipt that was redeemed for a casino check.
- A major cocaine and heroin dealer played the \$100 slot machines in Las Vegas and Atlantic City, wagering hundreds of thousands of dollars, in order to receive a casino check for his eventual winnings and an IRS Form W-2G to legitimize the income. The drug dealer also purchased Pennsylvania lottery tickets from winners, paying them more than the winning payout in order to receive a state check and an IRS Form W-2. The individual eventually invested the laundered money in rental properties.
- While criminals will often structure their transactions to avoid financial institutions’ filing CTRs, money launderers using casinos have the opposite strategy. In one case, a number of people purchased chips with illicit cash in amounts below the CTR threshold, but then passed the chips to one individual who cashed out, receiving a casino check and triggering the filing of a CTR that gave the appearance of further authenticating the transaction. Over a twelve-month period, one individual was named in casino CTRs reporting \$1.1 million paid out, but was not named in a single CTR for cash taken in.
- In one case, a money launderer purchased casino rewards cards from legitimate patrons. The cards increase in value with each casino visit and with each gambling session. The cards were purchased with illicit cash and were then traded in for gold coins at a casino store. An employee at the store was an accomplice in the laundering scheme.

A constant threat at casinos is insiders taking advantage of their position either to steal or assist others with money laundering. ICE recently charged six people, in-

¹³⁷ *Ibid.*

¹³⁸ Many offer front money (deposit and withdrawal) accounts where money is deposited by a customer into a casino account at the cage that the customer can later withdraw at either the cage (in the form of casino check, currency, money transfer, etc.) or at the gaming tables (in the form of chips to bet or wager with).

cluding a tribal leader, with attempting to steal \$900,000 from a Native American casino. Among the charges are conspiracy, theft, and money laundering.

Regulation and Public Policy

Casinos in the United States are subject to a decentralized regulatory structure and are primarily regulated by the states and by tribal regulatory authorities. Under the BSA and its implementing regulations, a gaming operation is defined as a financial institution subject to the requirements of the BSA if it has annual gaming revenue of more than \$1,000,000 and is licensed as a gaming establishment under state or local law and authorized to do business in the United States, or is an Indian gaming operation conducted under or pursuant to the Indian Gaming Regulatory Act (IGRA).¹³⁹

State-licensed gambling casinos were generally made subject to the recordkeeping and currency reporting requirements of the BSA by regulation in 1985. Casinos authorized to do business under the IGRA¹⁴⁰ were made subject to the BSA in 1996. Card clubs became subject to the BSA in 1998.

Casinos in Nevada, with gross annual gaming revenues of \$10,000,000 or more and “table games statistical win” of \$2 million or more, currently are, under a special agreement with the Department of the Treasury, subject to Nevada Gaming Commission Regulation 6A. The Nevada Gaming Commission’s regulation, like the BSA, stipulates currency reporting and recordkeeping requirements.¹⁴¹

All casinos (including those in Nevada) and card clubs, with gross annual gaming revenue in excess of \$1,000,000, are required to file casino CTRs to report

each currency transaction involving cash-in or cash-out of more than \$10,000 in a “gaming day” with a customer. Under the BSA, multiple currency transactions conducted by or on behalf of the same customer on the same gaming day are considered to be one transaction for CTR purposes.

In September 2002, FinCEN adopted a rule requiring casinos (including those in Nevada) and card clubs to file SARs for suspicious transactions occurring after March 25, 2003. SARs must be filed for any suspicious transaction that involves or aggregates at least \$5,000 in funds or other assets. Nevada casinos with gross annual gaming revenue of \$1,000,000 or more are subject to BSA requirements to (i) establish and maintain a written anti-money laundering program and (ii) report suspicious activity.¹⁴² Further, Nevada casinos that are not subject to Regulation 6A, but that have gross annual gaming revenue in excess of \$1,000,000, are subject to all of the provisions of the BSA applicable to casinos generally.¹⁴³ FinCEN has delegated authority to the IRS to examine Nevada casinos for compliance with the BSA.

Since April of 1999, FinCEN has brought a number of enforcement actions against casinos for BSA violations.¹⁴⁴ In an effort to head off a large-scale failure on the part of a casino to file the required BSA forms, FinCEN has developed with the IRS an “early warning system.” It involves a monthly database query comparing the volume of casino CTRs filed for the current month with the volume of CTRs filed during the same month the previous year. The database query produces a report listing casinos whose CTR filing volume has fallen by 30 percent or more. The hope is that this early warning system will flag a casino that is substantially disregarding its BSA obligations.

¹³⁹ See 31 U.S.C. § 5312(a)(2)(X) and 31 C.F.R. §§ 103.11(n)(5)(i) and (n)(6)(i).

¹⁴⁰ The Indian Gaming Regulatory Act, Section 1 of Pub. L. 100-497 (1988) (codified generally at 25 U.S.C. § 2701 et seq.), established the jurisdictional framework that governs Indian gaming. The Act establishes three classes of games with a different regulatory scheme for each. Class I gaming is defined as traditional Indian gaming and social gaming for minimal prizes. Regulatory authority over class I gaming is vested exclusively in tribal governments. Class II gaming is basically bingo operations, and although primarily regulated by the Tribes, they must comply with National Indian Gaming Commission’s Minimal Internal Control Standards. Class III gaming is comparable to casino gaming and is subject to BSA requirements as well as National Indian Gaming Commission requirements.

¹⁴¹ The Nevada Gaming Control Board recommended the repeal of Regulation 6A to the Nevada Gaming Commission at the Commission’s May 19, 2005 meeting. In the meantime, FinCEN is developing an information sharing Memorandum of Understanding to be entered into with the Board to assure consistency in the application of Bank Secrecy Act requirements. FinCEN also will be working with the Board and the IRS to assure consistency in examining Nevada casinos for Bank Secrecy Act compliance.

¹⁴² See 31 C.F.R. §§ 103.64(a), 103.120(d), and 103.21.

¹⁴³ See 31 C.F.R. § 103.

¹⁴⁴ See FinCEN, Regulatory/Enforcement Actions. Accessed at: http://www.fincen.gov/reg_enforcement.html.

Part of the challenge of establishing an effective BSA oversight regime for tribal casinos is coordinating the various regulatory bodies. Tribal governmental gaming is regulated on three levels:

- Tribes regulate their own gaming operations through tribal gaming commissions, compliance officers, tribal law enforcement officers, and tribal courts.
- States regulate tribal gaming at a level negotiated through tribal/state compacts.
- The federal government regulates tribal gaming through:
 1. The National Indian Gaming Commission, which is the primary federal regulator, providing oversight, reviewing licensing of gaming management and key employees, management contracts, and tribal gaming ordinances;
 2. The Secretary of the Interior, who oversees the Tribal-State compact process, and reviews and approves compacts;
 3. The Department of the Treasury which, through FinCEN, implements the BSA as it applies to tribal casino operations; and,
 4. The Department of Justice, which, through the FBI, has federal criminal jurisdiction over acts directly related to Indian gaming establishments.

The IGRA gives the FBI federal criminal jurisdiction over acts directly related to Indian gaming, including those located on reservations under state criminal jurisdiction. The FBI's Indian Country Unit established the Indian Gaming Working Group (IGWG) in February 2003 to identify and direct resources to Indian gaming matters and to focus on "national impact" cases.¹⁴⁵ However, the FBI acknowledges that it has been able to devote limited investigative resources to Indian gaming violations even as the Indian gaming industry has grown. This growth, coupled with overlapping regulatory jurisdictions and limited enforcement resources, has generated concern over the potential for large-scale criminal activity in the Indian gaming industry.

¹⁴⁵ IGWG members include FinCEN, the FBI, the Department of Interior-Office of Inspector General, the National Indian Gaming Commission, the Internal Revenue Service Tribal Government Section, the U.S. Department of Justice, and the Bureau of Indian Affairs.

Table 11

Suspicious Activity Report by Casinos & Card Clubs (SAR-C) Filings by Type of Gaming Establishment August 1, 1996 through December 31, 2004											
Type of Gaming Establishment	1996	1997	1998	1999	2000	2001	2002	2003	2004		
State Licensed Casino	-	22	288	262	309	1,215	1,621	4,393	4,694		
Tribal Licensed Casino	-	21	117	112	115	114	120	539	936		
Card Club	-	-	3	3	1	1	9	19	27		
Other	-	-	-	3	-	-	-	1	1		
Unspecific/Blank	85	2	152	70	45	48	84	165	121		
Unspecific/Blank	85	2	152	70	45	48	84	165	121		

Source: Financial Crimes Enforcement Network

