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The Financial Crimes Enforcement Network AI System (FAIS)

Identifying Potential Money Laundering from Reports of Large Cash Transactions[1]

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■ The Financial Crimes Enforcement Network (FINCEN) AI system (FAIS) links and evaluates reports of large cash transactions to identify potential money laundering. The objective of FAIS is to discover previously unknown, potentially high-value leads for possible investigation. FAIS integrates intelligent human and software agents in a cooperative discovery task on a very large data space. It is a complex system incorporating several aspects of AI technology, including rule-based reasoning and a blackboard. FAIS consists of an underlying database (that functions as a blackboard), a graphic user interface, and several preprocessing and analysis modules. FAIS has been in operation at FINCEN since March 1993; a dedicated group of analysts process approximately 200,000 transactions a week, during which time over 400 investigative support reports corresponding to over $1 billion in potential laundered funds were developed. FAIS's unique analytic power arises primarily from a change in view of the underlying data from a transaction-oriented perspective to a subject-oriented (that is, person or organization) perspective.

The Financial Crimes Enforcement Network (FINCEN) is a relatively new agency (founded in 1990) of the U.S. Treasury Department whose mission is to establish, oversee, and implement policies to prevent and detect money laundering in support of federal, state, and local law enforcement. A key data source available to FINCEN is reports of large cash transactions made to the Treasury according to terms of the Bank Secrecy Act.[2]

FINCEN has developed a system, called the FINCEN AI System (FAIS), which links and evaluates all reported transactions for indications of suspicious activity characteristic of money laundering, with the objective of identifying previously unknown, potentially high-value leads for follow-up investigation and, if warranted, prosecution (Wall Street Journal 1993).

FAIS integrates intelligent software and human agents in a cooperative discovery task on a very large data space. It is a complex system incorporating several aspects of AI technology, including rule-based reasoning and a blackboard. FAIS consists of an underlying database, a graphic user interface, and several preprocessing and analysis modules. The database functions as a blackboard and is implemented in SYBASE. The graphic user interface is implemented in Neuron Data's OPEN INTERFACE. The suspiciousness evaluation module is a rule-based reasoner implemented in Neuron Data's NEXPERT OBJECT (now called


Form 4789 (Rev. January 1990)
Department of the Treasury
Internal Revenue Service

Currency Transaction Report

► File a separate report for each transaction. ► Please type or print.
► For Paperwork Reduction Act Notice, see page 3.
(Complete all applicable parts — See instructions)

OMB No. 1545-0183
Expires: 12-31-91

1 Check appropriate boxes if: a ☐ amends prior report. b ☐ exemption limit exceeded. c ☐ suspicious transaction.

Part I Identity of individual who conducted this transaction with the financial institution

2 If more than one individual is involved, see instructions and check here ► ☐
3 Reason items 4–16 below are not fully completed (check all applicable boxes): a ☐ Armored car service (name) ► .....
b ☐ Mail deposit/shipment c ☐ Night deposit or ATM transaction d ☐ Multiple transactions (see instructions)
4 Last name | 5 First name | 6 Middle initial | 7 Social security number
8 Address (number and street) | 9 Occupation, profession, or business
10 City | 11 State | 12 ZIP code | 13 Country (if not U.S.) | 14 Date of birth (see instructions)
15 Method used to verify identity: a Describe identification ► ..... b Issued by ► ..... c Number ►

Part II Person (see General Instructions) on whose behalf this transaction was conducted

16 If this transaction was conducted on behalf of more than one person, see instructions and check here ► ☐
17 This person is an: ☐ individual or ☐ organization 18 If trust, escrow, brokerage or other 3rd party account, see instructions and check here ► ☐
19 Individual's last name or Organization's name | 20 First name | 21 Middle initial | 22 Social security number
23 Alien identification: a Describe identification ► ..... b Issued by ► ..... c Number ► | Employer identification number
24 Address (number and street) | 25 Occupation, profession, or business
26 City | 27 State | 28 ZIP code | 29 Country (if not U.S.) | 30 Date of birth (see instructions)

Part III Types of accounts and numbers affected by transaction (If more than one of the same type, use additional spaces provided below)

31 a ☐ Savings ► ..... e ☐ Securities ► ..... i ☐ CD/Money market ► .....
b ☐ Checking ► ..... f ☐ Loan ► ..... j ☐ Other (specify) ► .....

Part IV Type of transaction. Check applicable boxes to describe transaction

32 k ☐ Currency exchange (currency for currency)
33 CASH IN: l ☐ CD/Money market purchased; m ☐ For wire transfer; n ☐ Receipt from abroad; o ☐ Other (specify) ►
a ☐ Deposit; b ☐ Security purchased; c ☐ Check purchased
34 CASH OUT: p ☐ CD/Money market redeemed; q ☐ From wire transfer; r ☐ Shipment abroad; s ☐ Other (specify) ►
d ☐ Check cashed; e ☐ Security redeemed; f ☐ Withdrawal
35 Total amount of currency transaction (in U.S. dollar equivalent) (always round up) | 36 Amount in item 33 in U.S. $100 bills or higher | 37 Date of transaction (see instructions)
Cash in $ ..... .00 Cash out $ ..... .00 Cash in $ ..... .00 Cash out $ ..... .00 ☐ Unknown
38 If other than U.S. currency is involved, please furnish the following information: a Exchange made ☐ for or ☐ from U.S. currency
b Country ..... c Amount of currency (in U.S. dollar equivalent) $ .....
b Country ..... c Amount of currency (in U.S. dollar equivalent) $ .....
39 If a negotiable instrument or wire transfer was involved in this transaction, please furnish the following information and check this box (see instructions) ► ☐
a Number of negotiable instruments involved ..... c Total amount of all negotiable instruments and all wire transfers (in U.S. dollar equivalent) ► $ .00
b Number of wire transfers involved

Part V Financial institution where transaction took place

40 a Bank (enter code number from instructions here) ► .....
b ☐ Savings and loan association c ☐ Credit union d ☐ Security broker/dealer e ☐ Other (specify) ►
41 Name of financial institution | 42 Address where the transaction occurred (see instructions) | 43 Employer identification number
44 City | 45 State | 46 ZIP code | 47 MICR number | Social security number
48 If this is a multiple transaction, please indicate: a Number of transactions ► ..... c ZIP codes ► .....
b Number of branches ►

Sign Here ► 49 Signature (preparer) | 50 Title | 51 Date
52 Type or print preparer's name | 53 Approving official (signature) | 54 Date | 55 Telephone number

Figure 1. The Currency Transaction Report (CTR).

SMART ELEMENTS). Alta Analytics' NETMAP provides a link-analysis module. Other FAIS programs, which asynchronously load and preprocess the data, are written in SQL and C. FAIS runs on a network of Sun servers and workstations under the UNIX operating system.

FAIS has been in operation at FINCEN since March 1993, supporting a dedicated group of analysts and processing approximately 200,000 transactions a week. FAIS operates in two modes: (1) data driven and (2) user directed. Over 400 investigative support reports have resulted from using the system, reflecting transactions on the order of $1 billion in potential laundered funds. FAIS development is continuing to remain current with changes in money-laundering techniques and statutes, increase its effectiveness, add features, and support FINCEN's policy and regulatory responsibilities as well as provide detection and investigative support.

FAIS's unique analytic power arises primarily from a transformation of view of the underlying data from a transaction-oriented perspective to a subject-oriented (that is, person or organization) perspective. FAIS enables a process that was infeasible without automation, both because of the data volume and the need to link related transactions prior to evaluation. FAIS permits analysts to focus on significant items of interest in the database, enabling more detailed and complex analyses on these items. FAIS allows law enforcement to derive increased value from the reported data, ensure that all reported transactions are evaluated at least once, and reduce the likelihood of missing any significant reported illicit financial activity.

Task Description

The most common motivation for criminal behavior is profit. The larger the criminal organization is, the greater the profit. By disrupting the ability to profit, law enforcement can focus on a vulnerable aspect of large criminal organizations. *Money laundering* is a complex process of placing the profit, usually cash, from illicit activity into the legitimate financial system, with the intent of obscuring the source, ownership, or use of the funds. Money laundering, previously viewed as an ancillary offense, is today a primary offense in its own right. Money laundering makes it possible for drug dealers, terrorists, arms dealers, and others to operate and expand their criminal enterprises. Left unchecked, it can erode the integrity of financial institutions. Money laundering typically involves a multitude of transactions, perhaps by distinct individuals, into multiple accounts with different owners at different banks and other financial institutions. Detection of large-scale money-laundering schemes requires the ability to reconstruct these patterns of transactions by linking potentially related transactions and then to distinguish the legitimate sets of transactions from the illegitimate ones. This technique of finding relationships between elements of information, called *link analysis*, is the primary analytic technique used in law enforcement intelligence (Andrews and Peterson 1990).

To combat money laundering, the Bank Secrecy Act requires the reporting of cash transactions in excess of $10,000. This record keeping preserves a financial trail for investigators to follow and allows the government to scrutinize systematically large cash transactions. These transactions are reported by

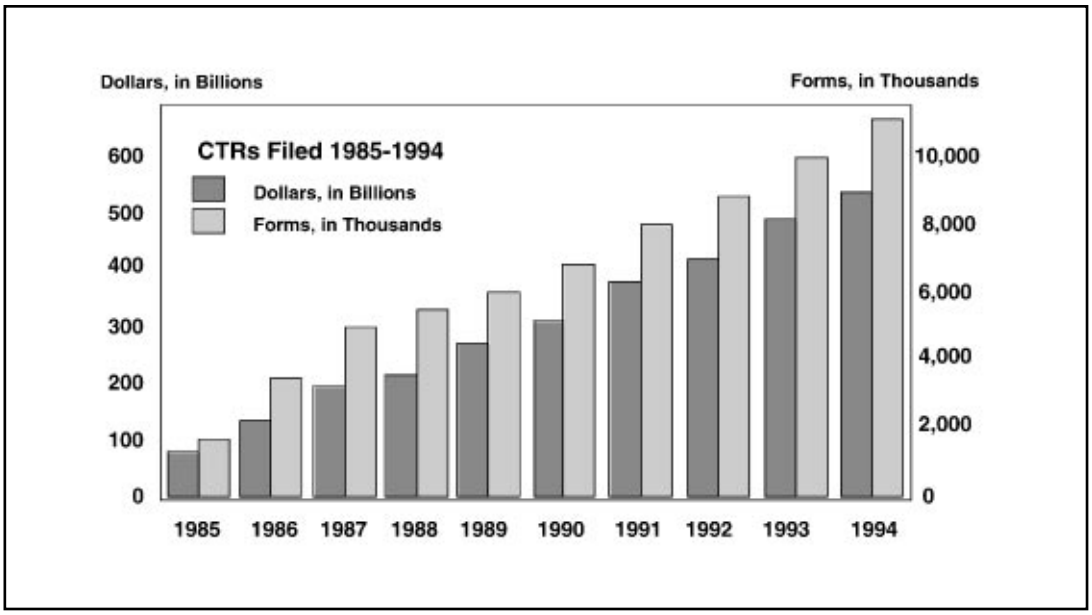


Figure 2. Currency Transaction Report Filings.

financial institutions, casinos, and individuals entering or leaving the country. Transactions at financial institutions, which include traditional institutions such as banks and nontraditional institutions such as Casas de Cambio, are reported on Internal Revenue Service (IRS) Form 4789, the *currency transaction report (CTR),* which is partially reproduced in figure 1.[3] Individuals entering or leaving the country are required to file a *report of international transportation of currency or monetary instruments (CMIR)* with the U.S. Customs Service. CMIRs are also required when cash or monetary instruments (for example, traveler's checks) are shipped into or out of the country. Casinos file the *currency transaction report by casinos (CTRC)*, which is a variant of the basic CTR.

Approximately 10 million transactions are reported each year; over 90 percent are CTRs. In 1993, these transactions amounted to approximately $500 billion. These amounts have been increasing continually, as illustrated in figure 2. Forms are entered into the Treasury's financial database, which is maintained in two mainframe-hosted database systems: (1) the Treasury enforcement communications system (TECS) operated by the U.S. Customs Service and (2) the currency banking regulatory system operated by the IRS. These systems are used by law enforcement for responses to general or specific queries. These systems are extremely useful for supporting existing investigations and conducting strategic studies of money laundering and cash transactions. They cannot, however, search, sort, or link the forms according to complex sets of criteria.

The data reported on the forms are subject to errors, uncertainties, and inconsistencies that affect both identification and transaction information. Simple data-entry errors can be the result of difficulties in reading handwritten forms or keypunching errors. More complex difficulties arise from other aspects of the forms. Free text fields, such as that containing a business type or occupation, are not standardized, resulting in a variety of descriptions. The variety of linguistic and ethnic types, especially on CMIR forms and for personal names, also makes the data difficult to interpret. Not all fields are filled out on all forms. The filer can accept any of several forms of identification (for example, social security number, driver's license number). The information provided on each form type is not completely equivalent. All these factors make it extremely difficult to reconstruct the patterns of transactions.

Because of the volume of forms received, the number and variety of fields on the forms, and the quality of the entries on the forms, it is infeasible for human analysts to review all forms even on an individual unlinked basis. Linking the forms together to review sets of related transactions for indications of money laundering is impossible without the use of advanced computing technology. Because the number of sets of potentially related transactions scales at least expo-

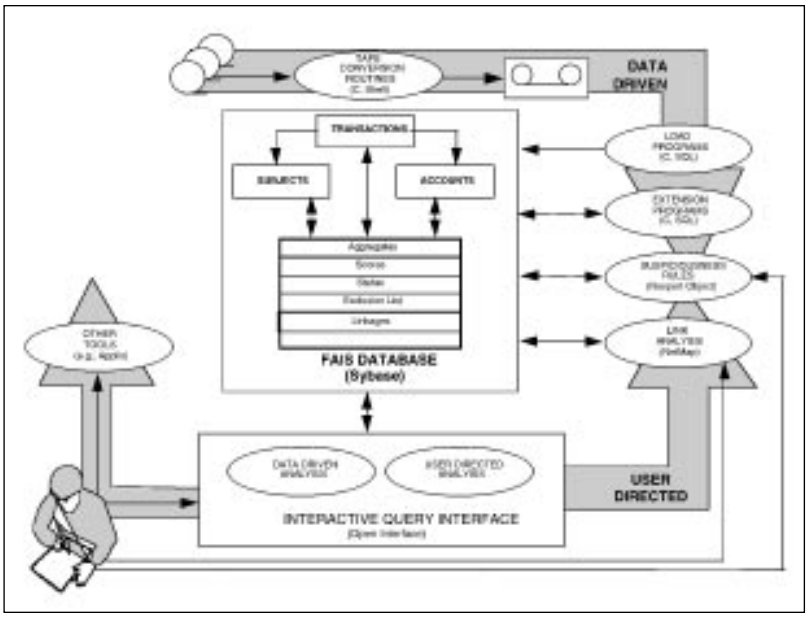


Figure 3. FAIS Architecture.

nentially with the number of forms,[4] the ability to prune the search space intelligently by creating the most meaningful sets of linkages is required to evaluate realistically all forms for purposes of detecting money laundering.[5] Additionally, the detection of money laundering is a complex task requiring years of experience and judgment by well-trained analysts, as a result, in large part, to the lack of either a formal domain model or normative data regarding the cash economy. These factors all contributed to the belief that AI was a necessary component of FAIS. Finally, and perhaps most importantly, a successful predecessor system to FAIS was developed by the U.S. Customs Service in the mid-1980s. This system, called the Customs AI system (CAIS), utilized rule-based reasoning to evaluate suspiciousness. It served as a proof of concept that this AI technique could be applied effectively to the task of detecting money laundering from Bank Secrecy Act transactions.

The primary task of FAIS is the automated review of all Bank Secrecy Act filings to generate potential leads. The expertise required for the FAIS task is the ability to detect potential indications of money laundering in the Bank Secrecy Act database as distinct from the (at least as important) ability to detect money laundering based on other clues. Bank Secrecy Act suspiciousness analysis can be thought of as the incremental process of accumulating information about the subjects in the database to allow analysts and investigators to focus on the most suspicious activity. FAIS assists analysts to focus on the most suspicious subjects, accounts, and transactions identified from Bank Secrecy Act filings.

The process of evaluating Bank Secrecy Act filings for indications of suspiciousness begins with FAIS linking and evaluating Bank Secrecy Act transactions and continues with analyzing the information generated by FAIS and providing the information to a law enforcement agency with jurisdiction in the matter. It could ultimately lead to the indictment and conviction of the violator as well as the seizure by the government of illicitly acquired assets. This process occurs in the larger context of FINCEN's investigative support work. Once the leads are generated from FAIS, other FINCEN systems, which are used primarily to collate and analyze financial and law enforcement intelligence information to develop existing cases based on known leads provided by client agencies in support of existing investigations, are also used to further the investigative support process.

Application Description

This section describes FAIS: how it works, what it is, and how it uses AI techniques and concepts. Figure 3 depicts the FAIS architecture and its two modes of operation: (1) data driven and (2) user directed. The key functional modules of FAIS are the underlying database, the data-load programs, the database extension updating programs, the suspiciousness evaluation programs, the link-analysis tool, and the interactive query interface. Other programs and packages that are available in the Sun environment (for example, the APPLIX office automation package, consisting of a word processor, a spreadsheet, e-mail, and a database) are sometimes also thought of as part of FAIS because they have full cut-and-paste interoperability with the FAIS components.

Concept of Operations

FAIS operates in two modes: (1) data driven and (2) user directed. *Data-driven operation* is the regular process of loading, linking, and evaluating new information as it is received. *User-directed analysis* is ad hoc, initiated in response to a specific project or task. Users regularly review and analyze the end product of the data-driven operation, that is, a list of subjects sorted by scores. Most of the operational load on the system is the data-driven processing of all transactions. Because data-driven functions operate on all information received by the system, the complexity of the

processing is limited by available computing resources. In contrast, user-directed processing operates on selected information that is already determined to be of interest; so, more complex analyses are possible in this mode.

A system operator is responsible for performing the data-driven operations. Data tapes are received from the U.S. Customs Service Data Center in Newington, Virginia. Tapes are copied and combined onto 8-millimeter cassettes for loading and retention. Data are then loaded into FAIS. The load programs perform *consolidation*, the process of creating clusters (that is, subjects or accounts) by linking transactions according to common personal, business, or account identification information. Database extension programs are run to create or update summary information associated with the clusters. The analysis rules are run to update the suspiciousness rating of clusters. These data-driven processes all create additional information in the database. These programs are run asynchronously, depending on when tapes are received, how much data are on them, and what system availability and operator availability are.

Users enter the system through a main menu where they select either user-directed or data-driven analysis. In user-directed mode, users set specific criteria for sets of transactions, and the system retrieves all transactions, meeting the specified criteria. In data-driven mode, users retrieve sets of transactions based on the data-driven suspiciousness scores. They can continue by finding all other transactions for these subjects or accounts or following a trail of linkages by looking for other subjects and accounts that are linked to a specified subject or account. This process can continue iteratively as an analyst follows a trail of linked subjects, accounts, and transactions. At any stage, a user can load sets of transactions into the NETMAP link-analysis tool for further study. A user can also create new subjects by combining system-identified subjects, which is useful if the system did not consolidate two subjects that the user believes to be identical or if two subjects do business as a single entity (such as a husband and wife), and can reevaluate suspiciousness for these user-generated subjects. A user can directly access the suspiciousness evaluation to determine which rules fired for a particular subject or account, getting what is essentially an explanation of the suspiciousness score for the subject or account. Finally, users can also utilize the NEXPERT graphic mode and alter values or rules to analyze hypothetical situations of interest.

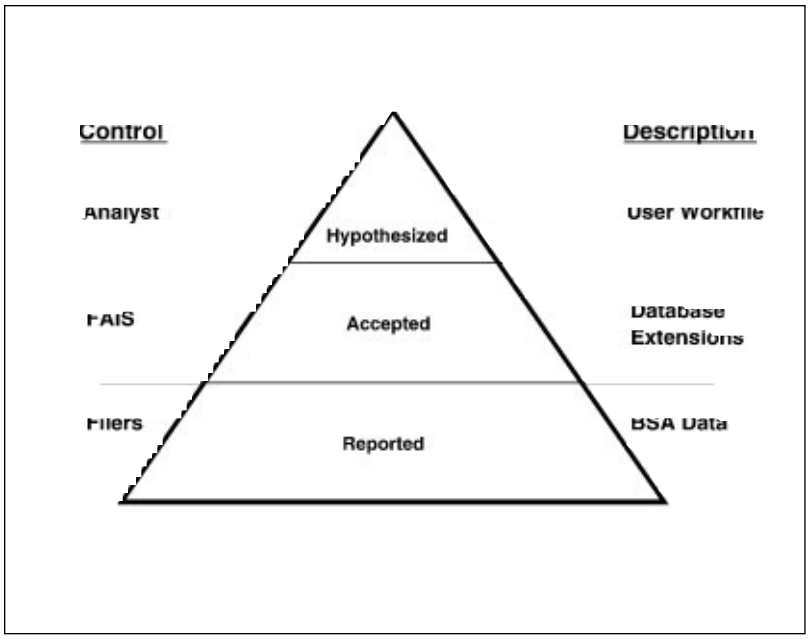


Figure 4. Levels of Belief.

Architecture

This section describes the structure and operations of each component of FAIS.

FAIS Database SYBASE is the standard FINCEN database management system. No evaluation was performed to consider alternatives to SYBASE for FAIS. It was decided that any potential advantages of another database management system for FAIS would be outweighed by the disadvantages of having multiple database management systems in a single organization, including the difficulties of sharing data between FAIS and other FINCEN intelligence information systems in a multiple database management system environment.

The FAIS data model is based on three fundamental concepts: (1) transactions, (2) subjects, and (3) accounts. It includes all fields from all Bank Secrecy Act form types, unifying those fields common to multiple form types. There are approximately 120 fields, about half of which are filled in on any given form. It is designed to support a blackboard system architecture, where different modules asynchronously read to, and write from, the shared data repository. The FAIS data model also supports three levels of belief: (1) reported, (2) accepted, and (3) hypothesized. These levels correspond to three different levels of access and control of the data, as depicted in figure 4.

Transactions enter the database directly as they are reported, with no interpretation of the data by FAIS. The data are restructured,

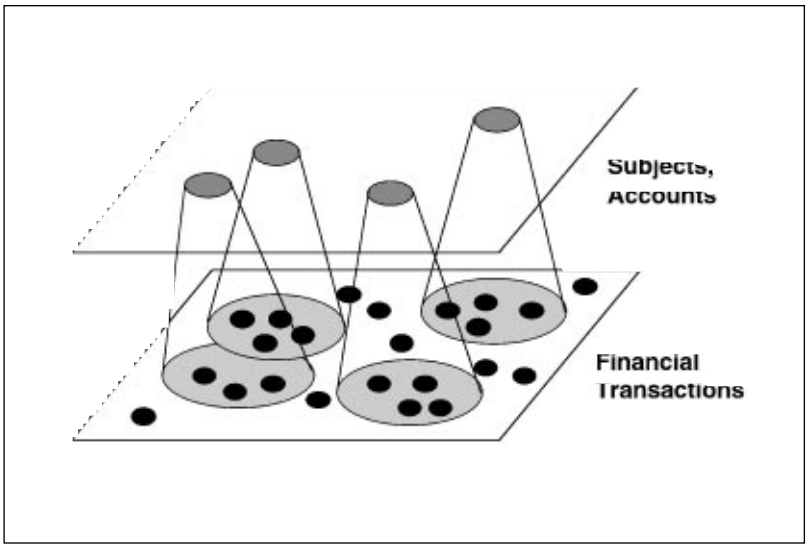


Figure 5. Transformation of Perspective.

however, from a model based solely on transactions into the FAIS model based on transactions, subjects, and accounts. Subjects and accounts are abstractions that result from a process of consolidation whereby similar identification information is used to group transactions into clusters (Goldberg and Senator 1995). The transformation from transactions to clusters is based on identification information reported on the transaction. Because several subjects can appear on a transaction, a transaction can be part of several clusters. The transformation from transactions to subjects or accounts is depicted conceptually in figure 5. The data-driven processing can be viewed as a compilation of this transformation of view from transactions to subjects and accounts, making this view on all the data available on user request. Having both these views available simultaneously is the major increase in analytic insight provided by FAIS to the users.

The subject and account clusters and any aggregate or summary data computed from these sets of transactions represent the next level of belief (that is, accepted) and are computed according to conservative, proven algorithms on which the entire system depends. This summary information about clusters or transactions is referred to as the *database extensions*. They include derived attributes necessary for the evaluation of suspiciousness; the results of the data-driven suspiciousness evaluations; various flags containing information such as subject status; and additional information discovered by analysts in user-directed mode, including additional linkages between clusters. The final level of belief (that is, hypothesized) is reserved for higher-level abstractions (for example, cases, patterns) and alternative subject and account consolidations.

The entire database is implemented in the relational model, although slightly denormalized to provide more efficient retrieval of certain types of data. The FAIS database consists of 40 SYBASE tables and currently occupies approximately 20 gigabytes (GB).

Data-Load Programs The data-load programs are a hybrid program of C (9K lines) and SYBASE SQL stored procedure code (4K lines) that is optimized for performance. The most interesting activity in this module is the consolidation of subjects and accounts. These consolidations are based on a set of heuristics developed by knowledge engineering. This knowledge is currently coded into the program in two SQL stored procedures that use database searches to locate reasonable matches to the input identification data. They are implemented as hard-coded procedures not only because optimized performance is necessary but also because the cost of executing alternative consolidations on the entire database is prohibitive.

Database Extension Updating Programs The database extension programs compute summary information about clusters. The major activity in this module is the creation of aggregate and summary data fields derived from the set of transactions underlying each subject or account. These derived data fields are used by the suspiciousness evaluation rules and represent one of the major areas for future improvement in the system. This summary information consists of numeric aggregates, such as number or monetary value of filings during a time period, and other nonnumeric information, such as locations or occupations associated with subjects. This module consists of two small C programs (1K lines) using a general database-access library written in C (8K lines), with SQL stored procedures for only the most rudimentary operations (200 lines). Any additional features that we decide to compute in the future require only minor modifications.

Suspiciousness Evaluation The FAIS suspiciousness evaluation module contains the major expert rule-based components of the system. Neuron Data's NEXPERT OBJECT shell was chosen for this task. NEXPERT provided the graphic user interface for both the development and the execution of rule bases. This graphic user interface provided a built-in rudimentary explanation facility, allowing users to see easily which rules fired and how

each rule contributed to the result. It also allowed properly trained analysts to tinker with, or even add to, the rule bases to answer what-if questions, which in turn assist in the knowledge engineering process. Some other useful features of NEXPERT for this application were a quick backward-chaining inference engine, the ability to import data directly from database systems (including SYBASE), portability between all standard desktop computers and minicomputers, and a comprehensive application program interface that allowed a NEXPERT rule base to become a component of a larger system rather than requiring a forced fit into the NEXPERT model.

The initial implementation of the suspiciousness evaluation in FAIS draws almost entirely on the rule bases developed in CAIS. CAIS consisted of 6 distinct rule sets with 439 rules implemented in the knowledge engineering system (KES) for the APOLLO (now Hewlett Packard) computer system. These six rule sets computed suspiciousness for (1) individual CTR transactions, (2) individual CMIR transactions, (3) the CTR activity of a bank account, (4) the CTR activity of an individual or a business, (5) the CMIR activity of an individual or a business, and (6) the combined CTR and CMIR activity of an individual or a business. The semantic equivalent of the CAIS rules was reimplemented for FAIS. This process was fairly straightforward because both development tools use similar models of expert system technology. Some simplifications of the rule sets were made, resulting in FAIS having just 336 rules and providing better execution and easier maintainability. Recognizing that a large number of the expert rules essentially implemented a simple table lookup, we were able to replace many of these rules with a C function. Some of the rule sets actually increased in number because of a more explicit representation of the evidence combinations. The suspiciousness evaluation module consists of 8000 lines of NEXPERT code, 1300 lines of SQL code, and 2000 lines of C.

Each rule set looks for various indications of financial activity characteristic of money laundering. Heuristic knowledge is also used to interpret the free-text occupation- and business-type fields from the forms. These heuristics were developed based on the actual values observed in this field. Other rules search for patterns of activity associated with specific money-laundering techniques such as *smurfing*, which is making transactions for amounts just under the $10,000 reporting threshold in an attempt to avoid a CTR filing.

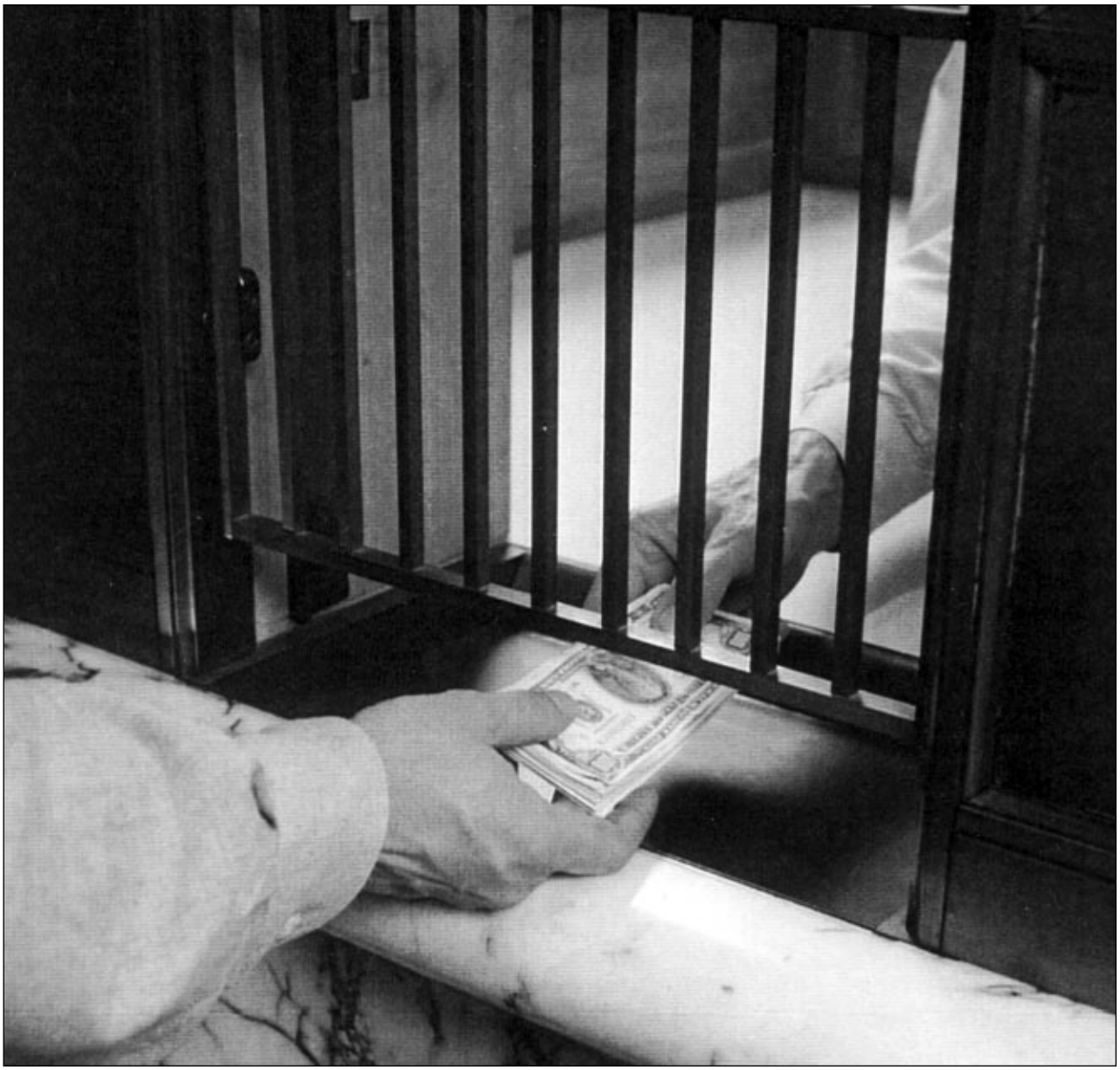
Analyst Using FinCen's Computer Systems to Find Potential Money Launders.

Each rule contributes positive or negative evidence that the transaction, subject, or account is suspicious or legitimate, respectively. The evidence from each rule is combined in a simple Bayesian fashion to come up with a single suspiciousness rating for the transaction, subject, or account. High suspiciousness scores are then reported to the analysts for further investigation.

Interactive Query Interface FINCEN's computing environment consists primarily of IBM-compatible personal computers running DOS and Microsoft WINDOWS. Because of the possibility that FAIS would need to be available to additional users, it was extremely desirable to have a user interface that could run on either a UNIX workstation or a PC. Neuron Data's OPEN INTERFACE was selected as the development tool for the graphic user interface to minimize the effort of porting the interface. The interactive query interface consists of about 25,000 lines of C code in addition to the OPEN INTERFACE resource files and libraries.

The interactive query interface was designed in response to the needs of users who wanted to view disjoint but related sets of data simultaneously while potential leads in the database were searched. Screen forms


Laundering Money



A Large Cash Transaction.

are used to formulate queries into a database. Data retrieved from the database are displayed as a list in an output window. The output list serves as a starting point for further investigation. The output window provides a pull-down menu in which the user can request further information or perform further actions on a selected subset of the output list. A user can request a more detailed view of an item in the list; this information, often in list form, is displayed in a separate window. Additional windows are created by retrieving increasingly detailed information (or retrieving additional related information) on the initial set of data. The multiple-window environment facilitates the conceptualization of linkages between seemingly disjoint subject matter. The NETMAP- and NEXPERT OBJECT–based link-analysis and suspiciousness evaluation modules, which can be invoked through menu selections in the output screen, provide additional information that can aid the user in this conceptualization task. The ability to view data simultaneously in a compartmentalized manner enables the user's investigative process and is facilitated by the object orientation of OPEN INTERFACE.

Users enter the system by selecting the data-driven or the user-directed mode from a main menu. Data-driven mode brings up the

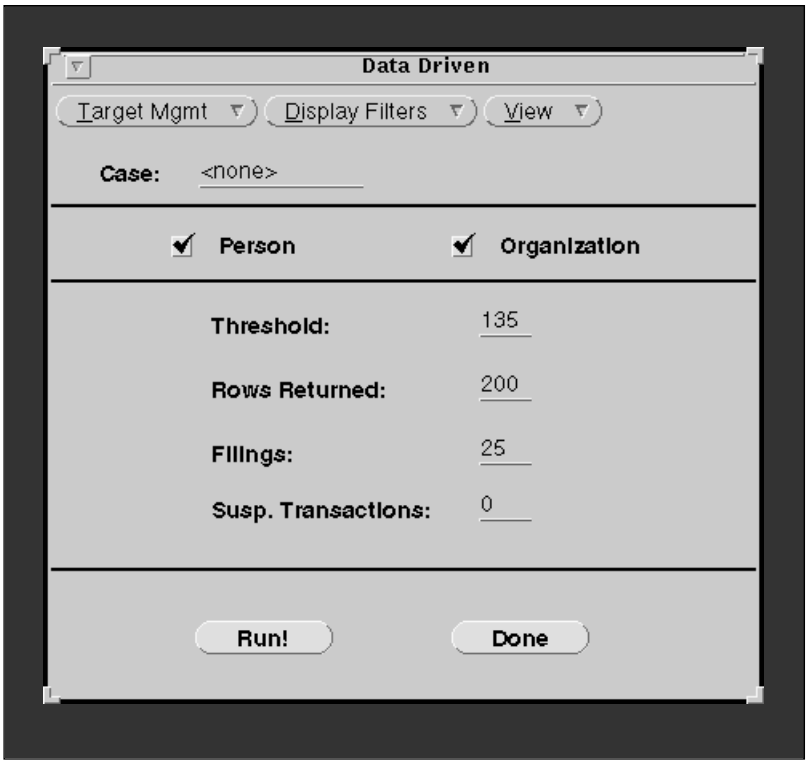


Figure 6. Data-Driven Mode.

window shown in figure 6. The user selects a score threshold above which to examine subjects. Person or organization subject types can be specified. Other thresholds, such as the number of filings or the number of transactions by a subject, can also be used to eliminate subjects from the list. Filters in the display, which use the flags in the database, allow users to ignore previously examined or known legitimate subjects. Alternatively, the user-directed mode, as depicted in figure 7, allows a user to construct a query based on information items from the transactions, including form type. The actual SQL query can be viewed as it is constructed incrementally. The query returns a set of transactions, organized by subject or account, which the user selects from the View menu.

In either mode, the user examines the results of the query in several windows, moving among them as dictated by his or her interest and analysis results as depicted in figure 8. (In figure 8, all identifying information was replaced with generic identifiers to protect the privacy of the actual subjects.) In this example, the data-driven query returns a list of subjects, from which the user chooses subject 8431, a business, which received a high suspiciousness score (that is, 150) and has 72 CTRs totaling over $2.7 million in the year ending 1 January 1995. From the Associations menu, the user then views all subjects associated with BUSINESS-8431 in another window, which includes the original business, BUSINESS-8431, and 18 additional businesses and persons that appear on any transactions along with BUSINESS-8431. Next, the user selects four of the subjects from this list—PERSON-640, PERSON-2951, and two others—and requests a list of all their transactions. A user can continue this link-tracing process indefinitely, by either subjects or accounts, until a trail is completed or exhausted. The user is responsible for keeping track of where he or she is in the set of linked windows, but tracking is made easier with a hierarchical display of all active windows.

Link Analysis The Alta Analytics NETMAP link-analysis package (Davidson 1993) was selected and integrated with the custom FAIS system components; it is a powerful visualization tool that exploits the human analyst's superior ability to recognize patterns, and it effectively accommodates much larger sets of nodes and connections in its "wagon-wheel" display than is possible with the more traditional law enforcement "link-and-edge" charts. FINCEN analysts use both types of representation. The *wagon-wheel display* is useful during the analysis process when one is exploring sets of links; the *link-and-edge display* is useful for presentations of fully developed analyses. Figures 9 and 10 provide examples of these two types of display. These figures are reproductions of portions of actual intelligence reports produced by FAIS, with all identifying data removed. They illustrate the users' ability to continue the linkage discovery and significance evaluation processes in greater detail as they focus on smaller data sets.

A user invokes NETMAP with a selection of subjects or accounts. All transactions and associated information from these transactions are loaded into NETMAP from the FAIS database. The interface to NETMAP required 400 lines of C code. The user explores this information, selecting those items relevant to a particular case and possibly merging some subjects that the data-driven consolidation left separate.

Hardware and System Software Environment FAIS hardware and system software currently consist of Sun servers and workstations running the SOLARIS 2.3 operating system. The Bank Secrecy Act data are stored in SYBASE on a 6-processor SPARCCENTER 2000 with 768 megabytes (MB) of memory and 88 GB of disk storage, with 70 GB available for data. Because the SYBASE SQL server runs on this machine and is the bottleneck

for large searches, as many other application modules as possible have been distributed to other workstations. One workstation is a development SQL server, a second is a file server for application code, and others are NEXPERT OBJECT–SMART ELEMENTS 2.0 and NETMAP 3.63 servers. The user workstations are SPARCSTATIONS (2s and 5s) configured with 32 to 48 MB of memory and 400 MB to 1 GB of disk space. Release 1 of FAIS operated on a Sun 4/490 server with 288 MB of memory, 20 1.3-GB disks, and 5 controllers.

Uses of AI Technology

As discussed earlier, FAIS is an example of the use of AI as an essential enabling technology for components in a complex information system. FAIS's use of rules and of a blackboard differs from the original use of these ideas in AI. The FAIS Project also yielded insights into the difficulties of applying case-based reasoning and other machine-learning techniques to this type of task. FAIS's rule base is interesting because it is literally second generation. Finally, FAIS is interesting because of its application domain and its link-analysis task. FAIS differs from previously reported financial-monitoring systems such as INSPECTOR (Byrnes et. al. 1990) and large data-analysis systems such as SPOTLIGHT (Anand and Kahn 1992) because of the need to link transactions based on uncertain and imprecise identification information.

Differences from Expert Systems

Explicit knowledge is used in three components of FAIS in its current design. The suspiciousness evaluation rules are the primary repository of knowledge in FAIS. The consolidation algorithm in the data load programs and the occupation decoding in the suspiciousness evaluation components are also knowledge based. This knowledge is applied according to a predefined control path; it is not selectively invoked based on particulars of a specific problem instance. This global invocation of knowledge is necessary because these parts of FAIS's task must evaluate all incoming data to prepare it for the rule-based suspiciousness evaluation. Finally, the search model embodied in the user-directed concept of operations is the result of the acquisition of procedural knowledge. Instead of embedding this procedural knowledge for use solely by the system in problem solving, this knowledge is used by the expert user to reason heuristically through his/her own searches. The users are intelligent agents in the context of a mixed human and computer problem-solving system. The human and software agents cooperate through the database. As we gain insights into how the users perform their tasks, some of these functions will be automated.

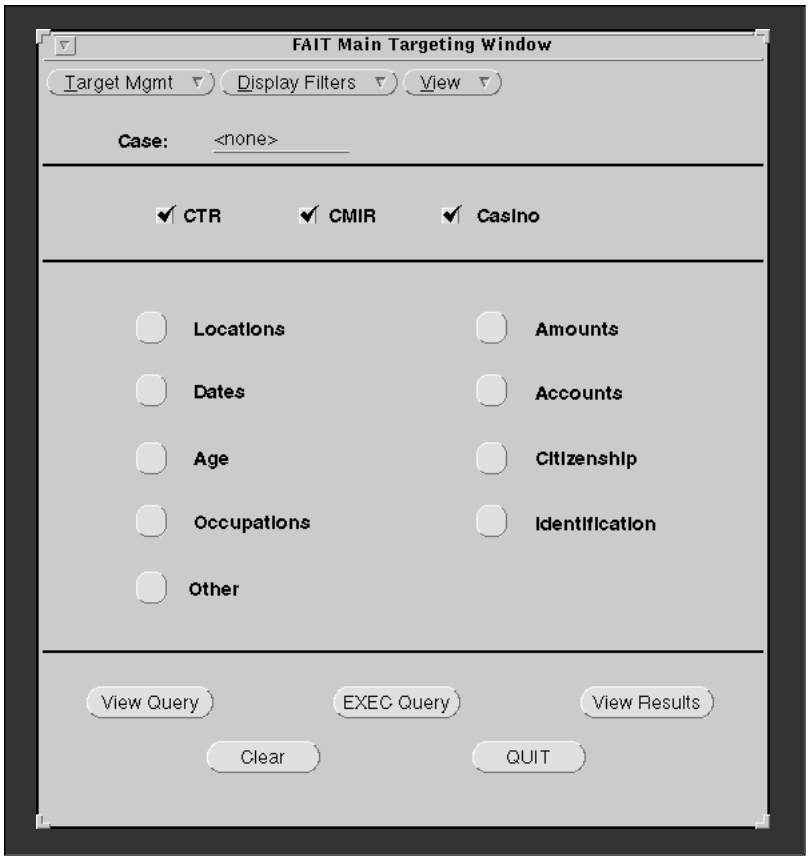


Figure 7. User-Directed Mode.

The tasks that FAIS performs are significantly different from tasks traditionally thought amenable to the expert system approach (Hayes-Roth, Waterman, and Lenat 1983) in several ways. Most important, FAIS attempts to perform a task that was not performed at all prior to the existence of this system. There was no computing infrastructure to link transactions automatically. Even if this infrastructure had been available, the automated evaluation of suspiciousness—which is the expert system–like part of FAIS—could not have been performed manually simply because of the large data volume involved. The primary goal of FAIS's development, therefore, was to enable the performance of this task and provide the associated operational benefits rather than to increase productivity, save money, speed up decisions, improve decision quality, or retain or distribute scarce expertise.

Another difference is that there are no clearly provable experts for this process,

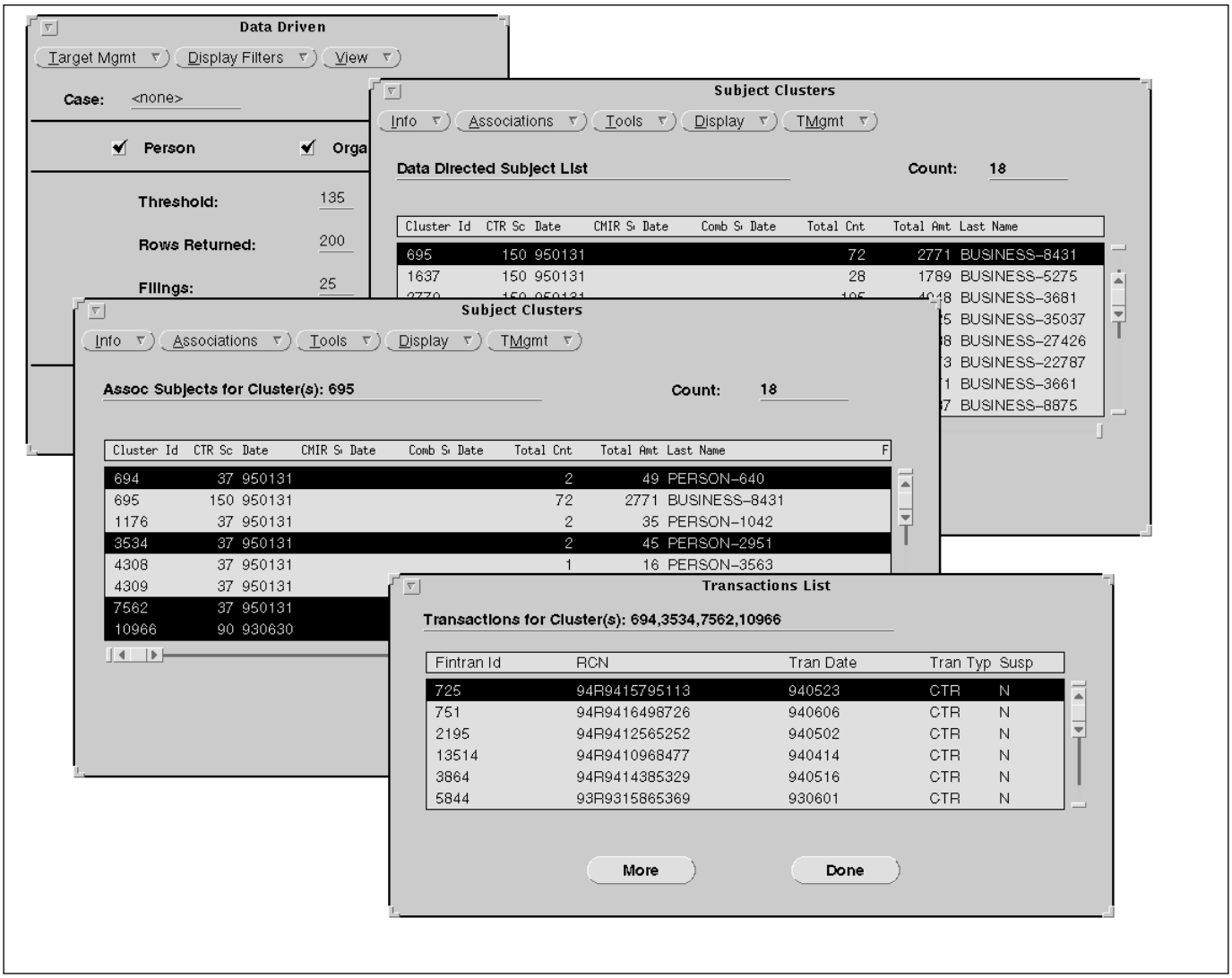


Figure 8. Examining Results with the Interactive Query Interface.

although there are analysts experienced in working with Bank Secrecy Act data who have a detailed understanding of suspiciousness indicators. These analysts have differing perspectives on what factors make a set of transactions suspicious. These differing perspectives do not need to be resolved and made consistent in favor of some (possibly nonexistent) ground truth; rather, they need to be combined appropriately and evaluated systematically. A large part of the knowledge engineering in this domain consisted not of making explicit the problem-solving behavior and knowledge of expert analysts but rather of conducting experiments on the data themselves to test the intuition of these analysts about the actual data.

FAIS attempts to provide assistance to analysts; the combination of computer and human can perform a task that neither could perform alone. FAIS does not process individual transactions against a database. Instead, it (re)evaluates the suspiciousness of each subject and account in the database as it receives new evidence (that is, additional relevant transactions). Finally, FAIS does not perform extensive reasoning with a large set of concepts to perform one specific task; rather, it combines evidence from multiple perspectives at various points in a multistep process.

Database as a Blackboard

It is important to note how the use of the blackboard in FAIS differs from the use of traditional blackboard systems, such as those described in Engelmore and Morgan (1988). First, all input data are loaded into the database, and all accepted-level consolidations

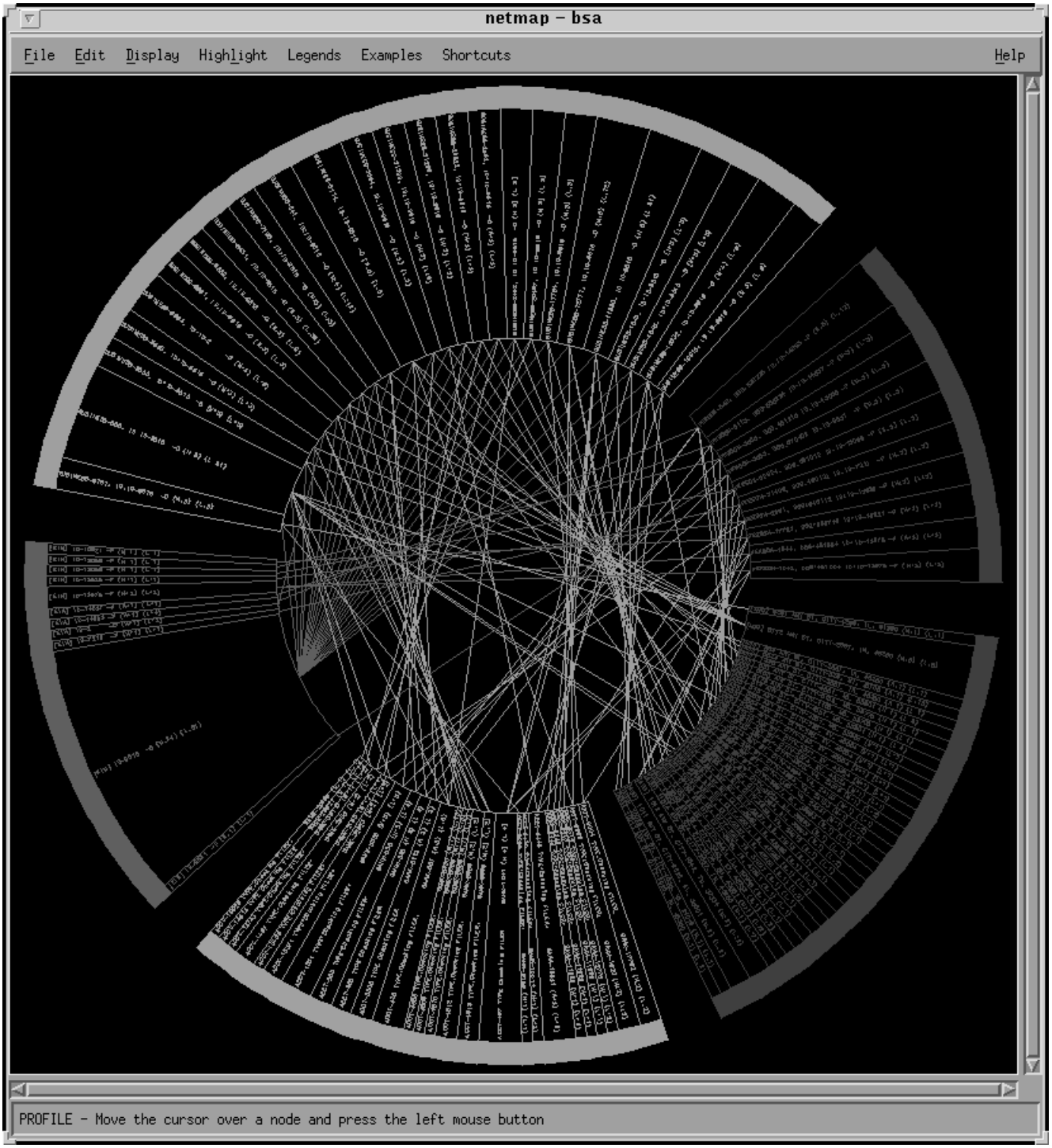


Figure 9. Wagon-Wheel Link.

are performed. The resulting subject and account clusters, and their derived data, result from the application of knowledge across the entire blackboard without waiting for any other part of the system to request it. This global application of knowledge is necessary because of performance considerations when a human user is in the loop. More important, the prepopulation of the database with clusters allows the users to shift their focus freely from transactions to subjects or accounts and back again, as their investigations warrant.

Unlike traditional uses of a blackboard to control a specific problem solution, the FAIS

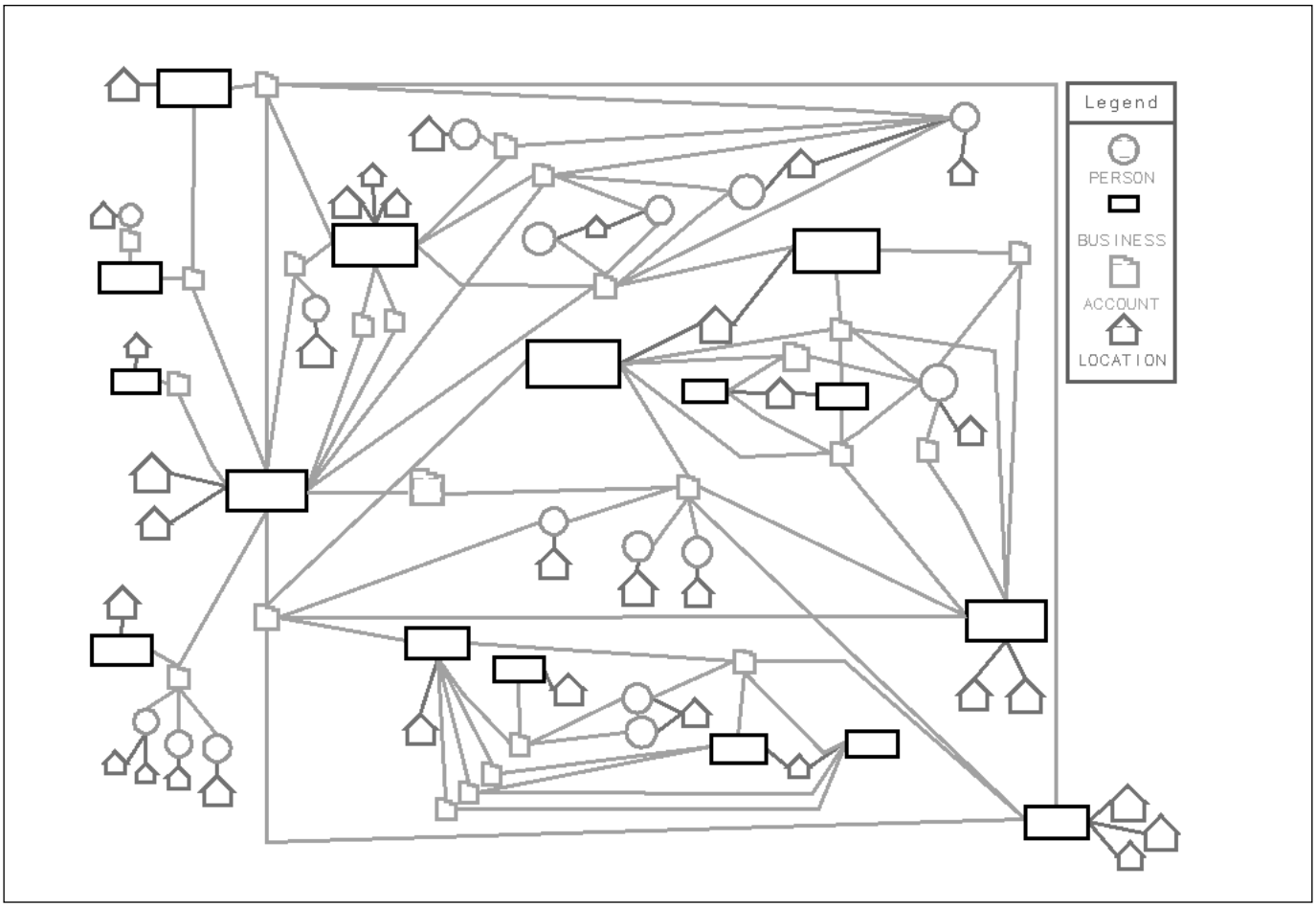


Figure 10. Link-and-Edge Display.

blackboard controls multiple problem-solution instances interleaved over a long time period, during which additional relevant data can arrive randomly. The data volume and temporal aspects dominate the choice of implementation. Whereas traditional blackboard systems build, use, and then discard the data relevant to a particular problem instance, FAIS must provide continuity over time, serving as an institutional memory for multiple investigations, and allow for the possibility of connecting separate investigations. Because FAIS integrates intelligent software and human agents in a cooperative discovery task on a very large data space, temporal and performance issues—which are addressed by database technology—dominate the system design.

Currently, the rule-based suspicion evaluation module also runs across the entire blackboard to provide rapid queries of scores to the users. Thus, the data-driven–analysis search is breadth first rather than depth first. As we introduce more refined and narrowly applicable rule sets, special-purpose consolidation modules, and other forms of reasoning (for example, case based) that might have limited applicability, the blackboard will take on a more traditional flavor with a variety of representations, describing portions of the database to varying degrees.

Case-Based Reasoning and Machine Learning

Case-based reasoning and other machine-learning techniques were explored during the development of this system.[6] These efforts were complementary to the main system development effort and were pursued with the intent of being added to the overall system if they were successful. Although they are not currently included in the operational system, we do anticipate using them in future versions after the issues identified during these efforts are resolved. These efforts are discussed here because they provide insights into the utility of these AI techniques for a specific application.

Several problems arose in our attempt to use a commercial case-based reasoning shell. Case-based reasoning required that we define an appropriate set of characteristics to represent cases. Although knowledge engineering identified a candidate set, these characteristics are not explicitly represented in the FAIS database. The computational power to derive these features in data-driven mode from all transactions is not yet available to us. Even deriving these features for some transactions for evaluation purposes was difficult because the features are not clearly specified in terms of the data; some require additional domain knowledge. Case-based reasoning shells are based on a flat-feature vector; they are unable to describe the more complex data structures that are required to represent money-laundering schemes. The basic ideas of case-based reasoning (that is, nearest-neighbor matching and inductive retrieval) appeared useful for parts of the task but could not be stripped out of a commercial case-based reasoning shell, and the overhead involved in incorporating the commercial case-based reasoning shell was significant. At the time this effort was performed, FAIS was not yet operational; so, a reasonably sized set of clearly labeled positive examples of suspicious activity in the Bank Secrecy Act database was not available. Finally, case-based reasoning shells do not scale to the size required for this task.

A more direct approach to applying the machine-learning ideas of nearest-neighbor retrieval and inductive building of decision trees was also explored. The lack of labeled examples was the major obstacle to using these techniques. Unsupervised learning algorithms were considered, but the difficulties in deriving appropriate features on which they would operate made these techniques infeasible. These difficulties were exacerbated by the poor data quality and the need for additional background knowledge. It was discovered that these techniques are potentially useful as knowledge engineering aids to conduct experiments with the data. In one test, we used induction to create a decision tree with a limited data set based on 40 features identified during knowledge engineering. Analysts then examined the decision trees to determine how useful the various heuristic features were as indicators of suspiciousness.

Application Use and Payoff

FAIS has been in use since March 1993. As of January 1995, 20 million transactions had been entered and linked, resulting in 3.0 million consolidated subjects and 2.5 million accounts. These 20 million include all transactions that were received from January 1993 through December 1994 as well as selected transactions that occurred during 1992. On average, approximately 200,000 transactions are added each week. A dedicated group of intelligence analysts is engaged full time in reviewing, validating, and pursuing potential leads generated by the system. They also provide leads to other FINCEN analysts for follow-up investigations. These analysts have as their primary responsibility the analysis of Bank Secrecy Act data for suspiciousness. An additional responsibility is to serve as the primary sources of knowledge for system development. Currently, there are three full-time analysts, but there have been as many as five. These users have been augmented at times by other FINCEN analysts who used the opportunity to learn about the FAIS system and work on specific projects involving Bank Secrecy Act data.

The analysts use both the data-driven and the user-directed modes of FAIS. The data-driven mode is used to select those subjects or accounts that display a relatively high suspiciousness score. The analysts then further evaluate the subjects or accounts through research and analysis of the financial data and other source data for development into a valid lead. FAIS reviews, processes, and evaluates each Bank Secrecy Act filing for the analysts to such a degree that the intense effort and the time expended in the pre-FAIS environment are no longer needed. The lead is then fully researched and analyzed for dissemination to the appropriate law enforcement agency. These agencies provide FINCEN with feedback regarding the use of the information generated by the system. In one early evaluation, about half the subjects identified by the system were already known to the field agency conducting the investigation, and the unknown subjects exhibited similar behavior. This evaluation of the system was favorable, showing both credibility and utility; if it had identified only unknown subjects, it would have lacked credibility, but if it had identified only existing subjects, it would have lacked utility.

In the user-directed mode, the analysts set specific criteria in support of a request by a law enforcement agency, a request from other groups within FINCEN, or a self-initiated project. A project can contain numerous hits that fit the specified criteria, but the hits might not necessarily be related to one another. Each subject on the hit list contains

Year	Reports	Subjects
1993	27	276
1994	75	403
1995 (partial)	>300	>1000

Table 1. Leads Resulting from FAIS.

a suspiciousness score that directs the analysts immediately to the subjects with the higher degree of suspect financial activity. Although user-directed analyses did take place in the pre-FAIS environment, the time for a typical proactive query was reduced from about one day to less than one hour. As in the data-driven mode, the subjects are further evaluated through research and analysis.

As the analysts have gained experience with the system, it has become more productive. Table 1 summarizes reports by year (through April 1995) in terms of the number of reports produced and the number of subjects identified. These reports correspond to over $1 billion in potential laundered funds.

Feedback and liaison with customers play an important role. The information that we are gathering is useful for knowledge base evaluation. Opened investigations resulting from leads previously unknown to law enforcement suggest the value of looking for other subjects that display the same type of behavior. Since March 1993, FINCEN has received 109 feedback forms from outside agencies in addition to feedback from in-house investigations. Over 90 percent of the feedback indicates either new cases opened or relevance to ongoing investigations. A recent feedback form notified us of the first closed case resulting from a lead generated by the system and follow-up investigation, prosecution, and conviction. The appropriate follow-up to those cases for which we have not received feedback will be conducted to obtain a more accurate picture of the value of the leads disseminated.

Another benefit of FAIS is that it has allowed analysts to see the Bank Secrecy Act data as they have not been seen before. Queries against the FAIS database have yielded insights useful for Bank Secrecy Act policy decisions, form redesigns, and identification of required compliance actions. The analysts have been able to determine which data elements are highly useful in investigative support functions versus the data that are not. In turn, identification of businesses that are linked to the legitimate transactions is extremely useful to the Department of Treasury in support of the Bank Secrecy Act Compliance Program. It is considered highly probable that these businesses should be on a financial institution's exemption list.

Application Development and Deployment

The development team consisted of seven technical staff members, most of whom had additional responsibilities. Development costs consisted of their salaries and the acquisition of the hardware and software tools. Because FINCEN was a new agency, we had to acquire resources and hire staff at the same time we were developing the system. The entire team was not in place until the late spring of 1992. Computers for the programming staff, off-the-shelf software components, training in SYBASE, NEXPERT OBJECT, and OPEN INTERFACE, and a server large enough to hold a meaningful data set were also not in place until about June 1992.

In the mid-1980s, the Customs Service developed a system to address the task currently performed by FAIS. This system, CAIS, was inherited by FINCEN when it was formed in 1990. CAIS was designed for the volume of transactions typical in the mid-1980s. It ran on Apollo workstations under the AEGIS operating system and incorporated commercial off-the-shelf software that was no longer supported or available on current hardware and operating systems in 1990. It was decided that the only way to update CAIS to handle the vastly increased transaction volume was to rebuild it in a new hardware and software environment. Table 2 lists key FAIS development milestones.

Initial planning for FAIS began in early 1991. This planning included the collection and analysis of requirements, the development of the conceptual system architecture and the data model, and the evaluation and selection of hardware and off-the-shelf software tools for system development. Procedures and programs for providing the data from the U.S. Customs Data Center to FINCEN were developed during 1991, and an extraction from the financial database in TECS of the entire historical Bank Secrecy Act database was performed so it would be available for system development and operations. The CAIS system was reevaluated, and improvements were suggested. A major design review took place in March 1992, at which point the requirements for release 1.0

Jan. 1991	Initial design and planning, Bank Secrecy Act data transfer and data model design in progress
May 1991	Data model finalized
June 1991	Data sweeps of Bank Secrecy Act data in progress
Oct. 1991	Data-load program completed
Dec. 1991	Initial workstations configured
March 1992	Design review, overall system architecture approved
June 1992	Sun 490 server configured, user interface development started
Sept. 1992	NETMAP and user interface integrated, data updates being loaded
March 1993	Release 1.0 operational
Jan. 1994	Release 1.1 operational
Dec. 1994	Release 2.0 operational

Table 2. FAIS Development Milestones.

and the overall system architecture and the data model design were approved.

Development of FAIS began in earnest in June 1992. An early release of the user interface with a limited data set was delivered in September 1992. This delivery also included the suspiciousness evaluation module and the NETMAP link-analysis module. Release 1.0 was deployed to users in March 1993. Release 1.1 was deployed in January 1994. Continued system development resulted in release 2.0—which contained a better user interface; additional aggregates identified during system use and evaluation; and increased performance and storage resulting from a port to larger, faster computers and version updates to the system software packages.

Because of the close ties between developers and users, deployment of the system occurred incrementally. During development, users were able to look at work in progress and make suggestions for improvements. As soon as a component was ready and tested, it was integrated and made available to the users. Because developers are readily available to fix problems, we are able to provide new capabilities and fixes almost immediately, allowing us to try out promising ideas before they are completely verified. User hardware is essentially identical to developer hardware; we share the same network and system administrators. System operation—that is, the data-driven tape copying, data loading, extension building, and suspiciousness evaluating—is also performed by the development staff. These close ties also allowed us to forgo a number of cosmetic fixes and features until later releases. The availability of developers to work with a system "in progress" meant that release 1.0 could be developed and deployed faster. The current version 2.0 of FAIS has been in use since December 1994.

Maintenance

Initial management direction was to provide an operational capability as soon as practical. To meet this goal, it was decided to reimplement the suspiciousness evaluation rule bases that had been part of CAIS and concentrate development resources on the overall system. Most of the development effort was focused on building the tools for handling the large FAIS database. In the early phases, knowledge engineering concentrated on the acquisition of procedural knowledge necessary for the user-directed mode, the linking of related transactions, and the interpretation of data uncertainties.

As the system evolved, the early emphasis on deployment of operational capability shifted to performance improvement. Knowledge engineering focused on identifying additional indicators of suspiciousness and evaluating the effectiveness of differing methods of combining these indicators. To this end, a number of special-purpose data-screening queries were run and their results evaluated as if they had come through the data-driven side of the system. The intent is to develop each successful screen into a small rule-based knowledge source that can contribute to the overall system by posting suspiciousness indicators onto the database-blackboard. We designed the underlying database to allow easy extensibility of the derived attributes (for example, aggregates) on which these rules operate. We found it is important to develop such knowledge sources in the context of the entire database. Early efforts to look at manageable subsets of the data invariably led to skewed results and were not applicable to the overall task of nationwide screening.

The system is still under development, and maintenance is performed by the developers.

Because the underlying domain will continue to change—in response to law enforcement successes and changes in the financial system itself—the knowledge bases will never be finished; they will have to evolve continually to keep pace with changes in money-laundering techniques and in the Bank Secrecy Act forms. Some maintenance is shifting to the analysts as they acquire training in tools such as NEXPERT and SQL. The knowledge bases contain some of FINCEN's most sensitive knowledge regarding money laundering and our intelligence sources and methods. Also, money laundering and Bank Secrecy Act data are a complex domain that requires significant time to learn. Maintaining the knowledge bases with dedicated in-house staff provides the required security and continuity necessary for these tasks.

Because specialized expertise regarding money laundering is distributed among all FINCEN analysts, we are developing procedures for incorporating this wide range of knowledge into the system. The design of the suspiciousness evaluation modules, with individual rule sets addressing specific money-laundering indicators, will facilitate the incorporation of additional indicators. These mechanisms could be as simple as using the user-directed mode to search for subjects meeting criteria that indicate a newly identified money-laundering technique. If a particular technique appears to be widespread, additional rule sets could be developed and incorporated into the suspiciousness evaluation module to routinely evaluate all filings for these techniques.

A key aspect of FAIS maintenance involves tracking and evaluating the disposition of potential leads generated by the system. Because of the time required for investigations and prosecutions, we are not yet able to collect comprehensive data. It is intended that feedback from FINCEN's customer agencies be used to guide the continued evolution of the knowledge bases.

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Notes

1. The authors of this article are employees of the Financial Crimes Enforcement Network of the U.S. Department of the Treasury, but this article in no way represents an official policy statement of the U.S. Treasury Department or the U.S. government. The views expressed here are solely those of the authors. This article implies no general endorsement of any of the particular products mentioned in the text.

2. The Bank Secrecy Act is outlined in 12 U.S.C. sections 1730d, 1829b, 1951–1959, and 31 U.S.C. sections 5311–5326.

3. Cash transactions at nonfinancial businesses are reported under 26 U.S.C. section 6050I to the Internal Revenue Service (IRS) on Form 8300, the Report of Cash Payments over $10,000 Received in a Trade or Business. As of November 1992, law enforcement agencies other than the IRS no longer have access to this information. FAIS is designed to accommodate these reports if they once again become more widely available to law enforcement.

4. Depending on the assumptions regarding what types of linkage are allowed, the complexity can scale proportionally to the number of partitions or subsets.

5. As in most AI applications with large search spaces, massive computing power is another potential solution.

6. This work was performed by Cognitive Systems, Inc., and Ascent Technology, Inc., respectively.

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