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TERRORIST FINANCING AND MONEY LAUNDERING INVESTIGATIONS: WHO INVESTIGATES AND HOW EFFECTIVE ARE THEY?

HEARING

BEFORE THE

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN RESOURCES

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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TERRORIST FINANCING AND MONEY LAUNDERING INVESTIGATIONS: WHO INVESTIGATES AND HOW EFFECTIVE ARE THEY?

TUESDAY, MAY 11, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN RESOURCES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2154, Rayburn House Office Building, Hon. Mark E. Souder (chairman of the subcommittee) presiding.

Present: Representatives Souder and Blackburn.

Staff present: J. Marc Wheat, staff director and chief counsel; David Thomasson, congressional fellow; Nicholas Coleman, professional staff member and counsel; Malia Holst, clerk; Tony Haywood, minority counsel; and Jean Gosa, minority assistant clerk.

Mr. SOUDER. Good morning, ladies and gentlemen. Thank you all for coming. Today's hearing represents the fifth in a series of hearings this year by the subcommittee concerning the effects of narcotics growth and distribution in Afghanistan and the Andean Ridge areas. Today this subcommittee will focus on monetary gains from the same drug trade financing terrorism at home and abroad. Second, we will focus on the aspects of the money laundering, the proceeds of narcotics trafficking perpetuating the operations of individuals and organizations involved in this criminal undertaking.

The laundering of money gained by illegal activities that support terrorist groups, narcotraffickers, arms dealers and the like, threaten to undermine both our national security and our financial stability. Equally affected by these criminal endeavors are our Canadian and Mexican neighbors. Terrorist groups will use whatever means available to obtain funding for their cause. Since the tragedy of September 11, our attention and rhetoric have been focused on financing mechanisms used specifically by terrorist organizations to support their activities. However, we would be naive if we did not recognize that the tools used to launder and disguise funds for terrorist organizations are similar, and quite often identical, to those used by many drug traffickers and criminal organizations to wash their own dirty money.

According to the International Monetary Fund the amount of money laundered globally is somewhere between $600 billion and $1.8 trillion each year. To put this into perspective, the total amount of money currently being moved by illegal means through-

out the world financial system is greater than the gross domestic product figures for most nations. The low end of the estimate compares with the GDP of Canada at $700 billion, while the high end is larger than the $1.6 trillion GDP of the United Kingdom.

For the United States, approximately half of all laundered money passes through financial institutions and commercial operations within our borders or jurisdiction. This makes the United States the keystone in any attempt to bridge financial transactions and law enforcement activities. As markets continue to open up and as new methods of transferring value between individuals, businesses, and nations are created, the options available to the smuggler greatly increases. The countless methods to obtain, transfer and store profits by criminal organizations has tremendously complicated the efforts of agencies charged with enforcing money laundering statutes.

The complex nature of financial crimes currently engages over 20 Federal law enforcement and regulatory agencies. The roles and responsibilities of these Federal agencies as they pertain to money laundering investigations significantly changed when Congress created the Department of Homeland Security through the Homeland Security Act in 2002. The act removed the U.S. Customs Service from the Department of Treasury and sent them to the newly formed Department of Homeland Security. The investigative functions of Legacy Customs, now known as Immigration Customs Enforcement [ICE], have been altered at the direction of its new parent organization. The creation of the Department of Homeland Security also brought about organizational changes within the executive branch with respect to the investigation of terrorism financing.

On May 13, 2003 Homeland Security Secretary Ridge and Attorney General Ashcroft signed a memorandum of agreement giving the FBI the lead role in investigating terrorism and terrorist financing. Immigration Customs Enforcement [ICE], was to pursue terrorist financing solely through participation in FBI-led task forces except as expressly approved by the FBI. Specific provisions of the agreement directed the FBI and ICE to, among other things, develop collaborative procedures for handling applicable ICE investigations or financial crimes leads that have a nexus to terrorism. Change in the enforcement of financial crimes is also evident within the Department of Justice's Drug Enforcement Agency.

The Honorable Karen Tandy, administrator of the DEA, testified earlier this year in the other body that "we are making financial background a priority in hiring new special agents and undertaking other initiatives to increase interagency cooperation and enhance training and drug financial investigations." The DEA is already bringing this focus to bear on such problems as bulk currency movement in the black market peso exchange. The question bears asking, have the changes in the investigation of financial crimes within the Federal law enforcement agencies led to greater efficiencies to apprehend individuals and groups involved in the laundering of dirty money?

Our first panel of witnesses from the FBI, ICE, IRS and DEA each have unique roles in engaging this large criminal enterprise. However, these roles may also conflict, and at times be duplicative in nature. Case in point, last fall the General Accounting Office re-

leased two reports on the effectiveness of legislation facilitating our ability to effectively address money laundering and terrorist financing. In it, the GAO reports that there is a lack of coordination between the agencies in charge of investigating money laundering and financial crimes. The report notes that the following are needed for an effective national money laundering strategy; effective leadership, clear priorities and accountability mechanisms.

Additionally, change in the Department of Treasury and its subordinate agencies, the Internal Revenue Service and the Financial Crimes Enforcement Network, FinCEN, have also altered their financial crime capabilities. They have announced that they will place FinCEN under the control of the new Under Secretary for the Office of Terrorism and Financial Intelligence. Congress mandated the creation of the new office in the 2004 Intelligence Appropriations Law, Public Law 108–177 to streamline the "uneven and disjointed" coordination on terrorist financing between Treasury and the other intelligence agencies. All of this change represents a marked departure from the money laundering culture of the 1980's when the U.S. Customs developed Operation Greenback designed to identify and penetrate the reasons for the unusually high level of cash-flow through the Federal Reserve in the south Florida area.

U.S. Customs worked with the IRS, DEA and the prosecutorial support from the Department of Justice to prosecute money launderers, ultimately leading to the Money Laundering Control Act of 1986, making the act of money laundering a Federal crime. During that timeframe, the Department of Treasury had direct oversight over the investigations of financial crimes through the organizational authority over IRS and Customs. Today that relationship no longer exists. Rather, the Department of Treasury characterizes itself as a developer and implementer of U.S. Government strategies to combat terrorist financing and financial crimes. Change does not necessarily denote a decrease of law enforcement capabilities. However we need to investigate if change warrants a course direction as it pertains to financial investigations and their oversight.

The subcommittee has chosen to call the first panel of witnesses from the agencies within Departments of Treasury, Justice and Homeland Security. All of the representative agencies have very important roles in the investigation and prosecution of those involved in the laundering of moneys gained from criminal operations.

The subcommittee has also called a second panel made up of experts in financial investigations from the Government Accounting Office and a former Assistant Commissioner of ICE, formerly U.S. Customs. The testimony of both panels will provide a basis of evaluation of the U.S. Government's efforts to combat terrorist financing and money laundering. There is no lack of important issues for discussion, and I expect today's hearing to cover a wide range of pressing questions, mostly dependent upon my ability and voice to ask them.

On our first panel we have representatives from four government agencies responsible for the investigation of individuals and organizations suspected of financial crimes, as well as three governmental agencies charged with the oversight and implementation of Federal

financial policies and statutes. From Immigration and Customs Enforcement, we are pleased to have testify Ms. Forman, Deputy Assistant Director of Financial Investigations. From the Drug Enforcement Agency, we are pleased to have testify Mr. Donald Semesky, Chief Officer of Financial Operations. From the Federal Bureau of Investigations, we are pleased to have testify Mr. Michael Morehart, Section Chief of the Terrorist Financing Operation Section.

From the Internal Revenue Service, we are pleased to have testify Mr. Dwight Sparlin, Director, Operations Policy and Support for the Criminal Investigations Branch. From the Financial Crimes Enforcement Network [FinCEN], we are pleased to have testify Mr. Bob Werner, Chief of Staff. From the Department of Treasury, we are pleased to have testify Mr. Daniel Glaser, Director, Executive Office for Terrorist Financing and Financial Crimes.

From the Department of Justice we are pleased to have testify Mr. John Roth, Chief of the Criminal Division's Asset Forfeiture and Money Laundering Section. On our second panel we are pleased to have miss Bonni Tischler, vice president of the Pinkerton Global Transportation and Supply Security Department. Ms. Tischler formerly held positions as assistant commissioner for the Office of Investigations and the Office of Field Operations for the U.S. Customs Service. Bonni also served as one of the lead agents of Operation Greenback in the early 1980's.

Joining Bonni will be Mr. Richard Stana from the General Accounting Office. Mr. Stana is Director of Homeland Security and Justice Office at GAO. He is an expert in the field of financial crimes, having authored recent reports on terrorism financing and money laundering. I ask unanimous consent that all Members have 5 legislative days to submit written statements and questions for the hearing records and that any answers to written questions provided by the witnesses also be included in the record. Without objection it is so ordered.

Also ask unanimous consent that all exhibits, documents and other materials referred to by Members and the witnesses may be included in the hearing record, and that all Members be permitted to revise and extend their remarks. And without objection, it is so ordered. As all of you know, it's our standard practice to ask witnesses to testify under oath.

[The prepared statement of Hon. Mark E. Souder follows:]

Opening Statement
Chairman Mark Souder

"Terrorist Financing and Money Laundering Investigations: Who Investigates and How Effective Are They?"

Subcommittee on Criminal Justice, Drug Policy and Human Resources
Committee on Government Reform

May 11, 2004

Good morning ladies and gentlemen, thank you all for coming. Today's hearing represents the fifth in a series of hearings this year by the Subcommittee concerning the effects of narcotics growth and distribution in Afghanistan and The Andean Ridge areas. Today this Subcommittee will focus on monetary gains from the same drug trade financing terrorism at home and abroad. Secondly, we will focus on the aspects of the money laundering of proceeds of narcotics trafficking perpetuating the operations of individuals and organizations involved in this criminal undertaking.

The laundering of money, gained by illegal activities, that support terrorist groups, narco-traffickers, arms dealers, and the like, threaten to undermine both our national security and our financial stability. Equally affected by these criminal endeavors are our Canadian and Mexican neighbors. Terrorist groups will use whatever means available to obtain funding for their cause. Since the tragedy of 9/11, our attention and rhetoric have been focused on financing mechanisms used specifically by terrorist organizations to support their activities. However, we would be naïve if we did not recognize that the tools used to launder and disguise funds for terrorist organizations are similar, and quite often identical to, those used by many drug traffickers and criminal organizations to wash their own dirty money.

According to the International Monetary Fund, the amount of money laundered globally is somewhere between $600 billion and $1.8 trillion each year. To put this into perspective, the total amount of money currently being moved by illegal means throughout the world financial system is greater than the Gross Domestic Product (GDP) figures for most nations. The low end of the estimate compares with the GDP of Canada at $700 billion, while the high end is larger than the $1.6 trillion, GDP of the United Kingdom.

For the United States, approximately half of all laundered money passes through financial institutions and commercial operations within our borders or jurisdiction. This makes the United States the keystone in any attempt to bridge financial transactions and law enforcement activities. As markets continue to open up, and as new methods of transferring value between individuals, businesses, and nations are created, the options available to the smuggler greatly increases. The countless methods to obtain, transfer, and store profits by criminal organizations has tremendously complicated the efforts of agencies charged with enforcing money-laundering statutes.

The complex nature of financial crimes currently engages over 20 federal law enforcement and regulatory agencies. The roles and responsibilities of these federal agencies, as they pertain to money-laundering investigations, significantly changed when Congress created the Department of Homeland Security through the Homeland Security Act in 2002. The Act removed The US Customs Service from the Department of The Treasury and sent them to the newly formed Department of Homeland Security. The investigative functions of Legacy Customs, now known as Immigration and Customs Enforcement (ICE), have been altered at the direction of its new parent organization.

The creation of the Department of Homeland Security also brought about organizational changes within the Executive Branch with respect to the investigation of terrorism financing. On May 13, 2003, Homeland Security Secretary Ridge and Attorney General Ashcroft signed a Memorandum of Agreement giving the FBI the lead role in investigating terrorist financing. Immigration and Customs Enforcement (ICE) was to pursue terrorist financing solely through participation in FBI-led task forces, except as expressly approved by the FBI. Specific provisions of the agreement directed the FBI and ICE to, among other things, develop collaborative procedures for handling applicable ICE investigations or financial crimes leads that have a nexus to terrorism.

Change in the enforcement financial crimes is also evident within the Department of Justice's Drug Enforcement Agency. The Honorable Karen Tandy, Administrator of the DEA, testified earlier this year in the other body that, "We are making financial background a priority in hiring new Special Agents and undertaking other initiatives to increase interagency cooperation and enhance training in drug financial investigations. The DEA is already bringing this focus to bear on such problems as bulk currency movement and the black market peso exchange."

The question bears asking, have the changes in the investigation of financial crimes within the federal law enforcement agencies led to greater efficiencies to apprehend individuals and groups involved in the laundering of dirty money? Our first panel witnesses from the FBI,

ICE, IRS, and DEA each have unique roles in engaging this large criminal enterprise. However, these roles may also conflict and at times be duplicative in nature.

Case in point: last fall the General Accounting Office released two reports on the effectiveness of legislation facilitating our ability to effectively address money laundering and terrorist financing. In it, the GAO reports that there is lack of coordination between the agencies in charge of investigating money laundering and financial crimes. The report notes that the following are needed for an effective National Money Laundering Strategy – effective leadership, clear priorities and accountability mechanisms.

Additionally, change in the Department of Treasury and its subordinate agencies, The Internal Revenue Service, and The Financial Crimes Enforcement Network (FinCEN) have also altered their financial crime capabilities. They have announced that they will place FinCEN under the control of a new Undersecretary for the Office of Terrorism and Financial Intelligence. Congress mandated the creation of the new office in the 2004 intelligence appropriations law (PL 108-177) to streamline the "uneven and disjointed" coordination on terrorist financing between Treasury and other intelligence agencies.

All of this change represents a marked departure from the money-laundering culture of the 1980's when US Customs developed Operation Greenback, designed to identify and penetrate the reasons for the unusually high level of cash flow through the Federal Reserve in the South Florida area. US Customs worked with the IRS, DEA, and the prosecutorial support from the Department of Justice to prosecute money launderers ultimately leading to the Money Laundering Control Act of 1986 making the act of money-laundering a federal crime. During that time frame the Department of Treasury had direct oversight over the investigations of financial crimes through organizational authority over the IRS and Customs. Today that relationship no longer exists. Rather, the Department of Treasury characterizes itself as a developer and implementer of U.S. government strategies to combat terrorist financing and financial crimes.

Change does not necessarily denote a decrease in law enforcement capabilities; however, we need to investigate if the change warrants a course direction as it pertains to financial investigations and their oversight. The Subcommittee has chosen to call the first panel of witnesses from agencies within the Departments of Treasury, Justice, and Homeland Security. All of the represented agencies have very important roles in the investigation and prosecution of those involved in the laundering of monies gained from criminal operations.

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ICE, formerly U.S. Customs. The testimony of both panels will provide a basis of evaluation of the U.S. Government's efforts to combat terrorist financing and money laundering. There is certainly no lack of important issues for discussion and I expect today's hearing to cover a wide range of pressing questions.

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On our second panel we are pleased to have Ms. Bonni Tischler, Vice President of The Pinkerton Global Transportation and Supply Security Department. Ms. Tischler formerly held the positions of Assistant Commissioner for The Office of Investigations and The Office of Field Operations for The U.S. Customs Service. Bonni also served as one of the lead agents of Operation Greenback in the early 80's. Joining Bonni will be Mr. Richard Stana from The General Accounting Office. Mr. Stana is the Director of Homeland Security and Justice Office at GAO. He is an expert in the field of financial crimes having authored recent reports on terrorism financing and money laundering.

Mr. SOUDER. So would you please rise so I can administer the oath to you.

[Witnesses sworn.]

Mr. SOUDER. Let the record show that each of the witnesses responded in the affirmative. I thank you all for coming. I'm still a little groggy too. We had terrible weather in the Midwest getting in, and so it was after midnight last night when I got in to D.C. But this is an important hearing and so I was glad—I was prepared to drive if I had to because I appreciate the time it takes each of your agencies to put this together, and your long time commitment to working with us, and this is probably the single most effective weapon we have in the United States at fighting narcotics and terrorism.

So we really appreciate all of your leadership in this, and we need to work together to make it even stronger. We'll start with Mr. John Roth on behalf of the Department of Justice. You're recognized for 5 minutes.

STATEMENTS OF JOHN ROTH, CHIEF OF CRIMINAL DIVISION'S ASSET FORFEITURE AND MONEY LAUNDERING SECTION, DEPARTMENT OF JUSTICE; DANIEL GLASER, DIRECTOR, EXECUTIVE OFFICE FOR TERRORIST FINANCING AND FINANCIAL CRIMES, DEPARTMENT OF TREASURY; MARCY FORMAN, DEPUTY ASSISTANT DIRECTOR, FINANCIAL INVESTIGATIONS, U.S. IMMIGRATION AND CUSTOMS ENFORCEMENT, DEPARTMENT OF HOMELAND SECURITY; DONALD SEMESKY, CHIEF, OFFICE OF FINANCIAL OPERATIONS, DRUG ENFORCEMENT ADMINISTRATION, DEPARTMENT OF JUSTICE; MICHAEL MOREHART, SECTION CHIEF, TERRORIST FINANCING OPERATION SECTION, FEDERAL BUREAU OF INVESTIGATION, DEPARTMENT OF JUSTICE; DWIGHT SPARLIN, DIRECTOR, OPERATIONS POLICY AND SUPPORT FOR THE CRIMINAL INVESTIGATIONS BRANCH, INTERNAL REVENUE SERVICE, DEPARTMENT OF TREASURY; AND BOB WERNER, CHIEF OF STAFF, FINCEN, DEPARTMENT OF TREASURY

Mr. ROTH. Thank you. I want to thank you for the invitation to testify today. I come to you as a career justice—Department of Justice prosecutor, having served in the Department for over 17 years as a prosecutor in two different judicial districts before coming up here to main Justice to head the Asset Forfeiture and Money Laundering Section. We have a lot of challenges in money laundering enforcement, not the least of which is the coordination of all the different Federal agencies that are involved. We deal with DEA, with FBI, with ICE, with the Internal Revenue Service as well as people that support them like, Treasury, FinCEN and the 94 U.S. attorneys offices.

It also requires coordination of high level policy agencies such as Justice, Homeland Security, Treasury and State. Let me talk for a minute about Operation Double Trouble, which I think is typical of the kind of enforcement that we are doing these days. It successfully targeted and disrupted key Colombian drug and money laundering brokers, money brokers who operated between the United States and Colombia, United States and Colombian enforcement

personnel in a coordinated enforcement effort arrested over 50 individuals, seized a total of 36 bank accounts from 11 Colombian banks.

This operation was also responsible for the seizure of over $12 million, 353 kilos of cocaine and 21 kilograms of heroin. In some ways this case typifies money laundering enforcement in the 21st century. It took 4 years to make this case. It required the resources of 9 U.S. attorneys offices, 2 sections of main justice, 12 State or local police departments, 3 Federal investigative agencies as well as the cooperation of the Colombian police and Colombian prosecutors. How do we do this kind of coordination and why do we do it? Our coordination is designed to insure that information is shared so that the agents in the field know what other agencies know; that specific cases or operations are conducted in a way to take advantage of the resources and expertise of each individual agency, and to avoid dangerous crossovers between agencies, particularly in undercover investigations.

How do we do it? We have a number of different operational coordination components. First we have the special operations division, a multi agency entity set up to attack command control and communications networks of high level narcotics traffickers. We have the Organized Crime Drug Enforcement Task Forces [OCDEF], also a multi agency group that is designed to attack the high level narcotics and money laundering traffickers across the United States and, in fact, internationally. Each of these OCDEF investigations has to have a financial component to it. In other words, if you attack the drug organization, you also have to attack the financial component.

We sit on undercover review committees, each of the investigative agencies have review committees to look at sensitive or undercover activities. The Department of Justice sits on each of these committees and is able to assist in coordination in that way. We have the high intensity drug trafficking areas, the HIDTAs in the 28 different regions which we assist in the coordination among agencies. We have the HIFCAs, the high intensity money laundering and related financial crime areas that do the same thing, but focus on money laundering. We have suspicious activity review teams in 40 different judicial districts, over 40 judicial districts. And these are the folks that review the suspicious activity reports that banks file.

And it is one of the core ways that we gain intelligence about money laundering through financial institutions. Finally, we have FinCEN, which is as you know, the Treasury entity that is involved in collecting and analyzing Bank Secrecy Act data. Where are we in the future? Where do we need to go? In looking into the future, one of the things that we need to do is continue to attack major money laundering organizations. It's the core of our mission. It's what we do well. There are a number of cases in the last 5 years that I could talk about that illustrated those kinds of successes. Second, we have to look at the gateways to money laundering. We have to attack the people who control the access points to the U.S. financial institutions, the bankers, the accountants, the lawyers, the financial analysts, the peso brokers who allow dirty money to get into the financial system.

Third, we have to take the fight overseas. It is far easier to try to launder U.S. currency overseas in places like Mexico, Panama, off shore in specific Caribbean nations than it is to try to launder it in the United States and we have to take the fight overseas and go to those banks and go to those jurisdictions with some vigorous enforcement efforts. We have our challenges and coordination.

There is no question about it, but I think we do a good job through the mechanisms that I mentioned, both in my oral remarks as well as my written testimony, to help us do that job. Thank you.

Mr. SOUDER. Thank you very much.

[The prepared statement of Mr. Roth follows:]

Testimony of John Roth
Hearings before Committee on Government Reform,
Subcommittee on Criminal Justice, Drug Policy, and Human Resources
May 11, 2004

Background

I want to thank you for the invitation to testify before you today. I come to you as a career Department of Justice prosecutor, having served the Department for over seventeen years, first as a front-line prosecutor in two different U.S. Attorneys' Offices, handling hundreds of investigations relating to narcotics, money laundering, white collar crime, tax, violent crime and immigration offenses, and then as a Section Chief in the Department's Criminal Division, at present as the Chief of the Asset Forfeiture and Money Laundering Section.

Money laundering and its enforcement

Money laundering constitutes a serious threat to our communities, to the integrity of our financial institutions and to our national security. Behind every dollar of dirty money in need of laundering is a trail of victims - victims of violent crimes committed to settle drug wars; victims of terrorism; women and children trafficked into dangerous, degrading labor; and honest businessmen and women driven to bankruptcy by front operations for organized crime.

Most criminals sell drugs, commit securities and bank fraud, murder and extort in order to make money. But once acquired, this money must somehow enter the legitimate financial system to be useful to the criminal. This cash -- a criminal's greatest objective – is also one of his greatest vulnerabilities.

Drug trafficking gives a good example. Twenty two pounds of heroin will yield a trafficker about a million dollars. Having made his money, the drug dealer must now find a way to do something with it. That street cash would weigh about 256 pounds -- ten times the weight of the drugs sold. For major drug trafficking organizations this effect is multiplied. Drug dealers that sell $1 billion worth of cocaine must contend with 256,000 pounds of illicit currency. That bulk represents true opportunity for law enforcement.

Our challenges

We have our work cut out for us. Money launderers have what seems like an infinite number of ways to disguise and move money, and there appears to be no limit to their ingenuity. They ship it across our open borders to a friendly corrupt foreign banker, often protected by bank secrecy laws that prevent us from obtaining financial records from overseas; they wire transfer it around the globe, content in knowing that it is securely hidden among the billions of dollars moved internationally every day. They engage in complex trade transactions, such as the Black Market Peso Exchange (BMPE),

aided by merchants worldwide who evade their own country's foreign currency rules to buy cheap dollars. They use one of the thousands of banks or money transmittal outlets in the United States, cleverly structuring their transactions to avoid suspicion or by simply finding someone who will ask no questions. They use false invoices, stored value cards, credit cards, debit cards, internet payment schemes, ATM transfers, insurance schemes, casinos – the list goes on.

Money laundering enforcement may be unique, because it requires the participation of a broad spectrum of government agencies as well as the private sector. It can range from broad, international policy efforts, such as the U.S. Government's participation in the Financial Action Task Force, down to the street level agents conducting surveillance on a money courier in one of our cities. It requires coordination with other countries, because money laundering is a complex, world-wide problem requiring world-wide solutions. It requires extensive contact with financial regulators and private industry – not only the banking industry, but with, for example, those selling insurance and securities, with those who operate money transmitting and check cashing businesses, and dealers in precious metals and stone. We deal with a broad group of law enforcement agencies –DEA, FBI, ICE, IRS and Secret Service, and those who support them, such as Treasury's FinCEN and the U.S. Attorneys' Offices. It also requires coordination among the policy-makers in the relevant agencies, such as Justice, Homeland Security, Treasury, and State.

Coordination among the agencies is usefully divided into two different categories. First, there is the operational or tactical coordination. This coordination is designed to ensure that information is shared so that the agents in the field know what other agencies know and that specific cases or operations are conducted in a way to take advantage of the resources and expertise of all of the federal agencies and avoid dangerous cross-overs of undercover operations. The second kind of coordination concerns strategic or policy coordination. This involves, on a policy level, ensuring that all of the agencies and departments understand the problem in the same way, that they agree on a single strategy, that they devote their resources in way that is consistent with that common strategy, and finally that their internal policies are as consistent as possible. I will address both the operational coordination as well as the strategic coordination.

Operational coordination components

Although the coordination challenges are great, we meet the challenge in a number of ways. The Department of Justice assists in coordination though a number of means. I will name a few of the more formal mechanisms we use. In addition to these programs, coordination among federal law enforcement agencies occurs on nearly a daily basis, through interagency meetings, telephone calls and informal contacts.

- Special Operations Division: This is a multi-agency entity set up to attack the command, control and communications networks of high level narcotics traffickers and drug money launderers. Agents from DEA, FBI, ICE and IRS, aided by Criminal Division lawyers from Main Justice, work together to develop the big picture on large, high-volume narcotics traffickers and money launderers.

The agents assigned to SOD coordinate and support these national and multi-district cases to assist in interagency cooperation. Financial investigations are emphasized as well. SOD has a separate money laundering group, headed up by an ICE supervisor and staffed by agents from all agencies and an attorney from Main Justice, to make sure that the money laundering laws enacted by Congress are utilized in the disruption and dismantling of narcotics organizations.

Operation Double Trouble is but one of the multi-national cases coordinated by SOD. It successfully targeted and disrupted key Colombian drug and money brokers who operated between the United States and Colombia. United States and Colombian law enforcement personnel in a coordinated enforcement effort have arrested over 50 individuals and seized a total of 36 bank accounts from 11 Colombian banks. This operation is also responsible for the seizure of over $12.8 million, 353 kilograms of cocaine, and 21 kilograms of heroin. This case typifies money laundering investigations in the 21st century: four years in the making, it required the resources of nine U.S. Attorneys' Offices, two sections in the Criminal Division at Main Justice, 12 state or local police departments, three federal investigative agencies, and the cooperation of Colombian law enforcement and prosecutors.

- Organized Crime Drug Enforcement Task Forces (OCDETF): OCDETF is the U.S. Government's primary vehicle for fighting drug crime, and its successes are legion. Its purpose is to marshal the resources of all agencies to investigate and prosecute specific, named criminal drug and money laundering organizations. Each one of these investigations must have a financial component to it – that the agents and the prosecutors understand and attack not only the drug side, but the money side as well. A critical part of this strategy is to ensure that the agents handling these investigations have the proper training to do their jobs.

  A key and potentially revolutionary development in the OCDETF program is the Drug Intelligence Fusion Center. The Fusion Center will for the first time create the ability to gather, store, and analyze all-source drug and related financial investigative information, primarily by combining and analyzing data from a broad array of law enforcement agencies through the use of powerful information management tools. As part of the Fusion Center, a financial attack component will bring together our most experienced financial investigators and analysts to prioritize targets and develop plans to attack them.

  Conducting financial investigations requires skills and abilities that are often not part of an average federal law enforcement agent's daily fare. As a result, OCDETF, thanks to a specific congressional appropriation, has funded the effort to design a state-of-the-art training program. The training uses a hypothetical case study as its centerpiece, and it occurs in a task force-type setting – agents from ICE, the FBI, the IRS, and DEA sit side-by-side with Assistant U.S. Attorneys to solve problems and learn the techniques necessary to engage in the type of sophisticated financial investigation necessary in the 21st century.

- Undercover review committees: Undercover and sensitive activity involving money laundering investigation requires heightened awareness of the risks, both legal and policy-oriented, in major money laundering investigations. Accordingly, Department of Justice prosecutors sit on all four of the major agencies' undercover review committees – DEA, FBI, ICE and IRS. This further helps keep us informed of the major ongoing investigations and provides an opportunity to assist in the coordination of the agencies involved in money laundering investigations.

- The High Intensity Drug Trafficking Areas (HIDTA) and the High Intensity Money Laundering and Related Financial Criminal Areas (HIFCA): HIFCA and HIDTA are two interagency coordination mechanisms designed to ensure a threat-based, interagency attack on drug trafficking and financial crimes. Through the 28 HIDTA regions, agents from FBI, DEA, IRS and ICE and lawyers from the Department of Justice, and analysts from FinCEN and the National Drug Intelligence Center, as well as relevant state and local law enforcement agencies, are able to plan, coordinate and execute investigations and operations against drug traffickers and money launderers within their region.

  The track record of the seven HIFCAs is somewhat uneven. As noted in the recent Government Accounting Office (GAO) assessment of the National Money Laundering Strategy, these unfunded HIFCAs generally did not operate as Congress intended. Many of the problems resulted from the potential participants' reluctance to divert resources from existing programs to fund and staff this effort, and a lack of clarity as to how the HIFCAs would add value to already existing structures and mechanisms.

  We are currently discussing with Treasury and Homeland Security the continued viability of the HIFCA concept, with an eye to assessing its value to the money laundering enforcement effort, particularly in light of the more established joint law enforcement operations engaged in money laundering investigations. As *The President's Management Agenda* states: "New programs are frequently created with little review or assessment of the already existing programs to address the same perceived problem. Over time, numerous programs with overlapping missions and competing agendas grow up alongside one another – wasting money and baffling citizens." If the HIFCA concept is retained, we must take great care to determine how it best advances the overall effort, and better define the HIFCAs' relation to other, similar programs.

- Suspicious Activity Report review teams: Suspicious Activity Reports (SAR) are filed by banks and other financial institutions when they have an indication that a customer may be involved in money laundering or other criminal activity. It is a critical component of our anti-money laundering enforcement efforts. The program provides a vital source of intelligence as well as leads regarding criminal activity. Moreover, the SAR requirements are deterrents to would-be money

launderers who might otherwise use the U.S. banking system. They know that to successfully launder money through a bank, they have to "beat the bank" -- somehow disguise their transactions sufficiently so as not to create suspicion. Often, the prospect of trying to do so simply forces the criminal to move to other, less efficient methods to launder his money. Law enforcement uses multiagency SAR review teams to assess the SARs and coordinate investigations resulting from them. There are SAR review teams in over 40 judicial districts. Some are headed by the U.S. Attorney's Office; some of them are headed by the Internal Revenue Service. In either event, they allow for good, field-level investigative coordination and consultation.

- Financial Crimes Enforcement Network (FinCEN): FinCEN is a valuable component of our efforts to use Bank Secrecy Act information effectively. FinCEN digests and analyzes SAR reports and conducts financial data inquiries for all agencies. Law enforcement especially values FinCEN's ability to use their artificial intelligence capability to "mine" their data and to develop trends or areas that deserve a closer look. Agents from all the major law enforcement agencies sit at FinCEN and review these reports and law enforcement intelligence products. Where there are crossovers the agents detailed to FinCEN are able to assist in de-confliction and coordination. The Department of Justice assists FinCEN and the investigative agencies in this effort, particularly as it concerns the U.S. Attorneys' Offices.

- Joint Terrorism Task Forces: Coordination in the fight against terrorism financing occurs on a nearly weekly basis with the operational components, and at the field level through the multi-agency Joint Terrorism Task Forces (JTTFs). The Department agrees with the recently-released GAO study of the effectiveness of the MOA, which concluded that the MOA and its implementation did not hamper DHS' ongoing ability to investigate financial crimes under its traditional jurisdiction, and that DOJ relies heavily on DHS' expertise in these areas.

Law enforcement's tactical coordination is good, although we need to improve in a number of areas. First, most agencies hesitate to share with one another their most sensitive information regarding undercover operations, and some will not pool their investigative files, making coordination in those areas difficult. We are continuing to discuss ways in which such information could be shared. Second, each agency's guidelines for conducting undercover or sensitive operations are different, reflecting differing agency cultures and assessments of the relative risks of specific techniques. This creates problems for working joint operations. Again, in this area we continue to work together to see if we can find some common ground.

Strategic coordination

Beyond tactical or operational coordination lies the greater challenge – strategic coordination in order to have a single, effective anti-money laundering program. We have challenges ahead in strategic coordination. We first need to have a better understanding of the overall threat so we can meet the problem. Second, we need to develop an overarching, high-level consensus on the priority to be placed on the problem. Lastly, we need to ensure that our resources are aligned with the priorities. In each of these areas we have made some progress, and we are continuing to work on solving these issues in a way that is best for everyone.

National Money Laundering Strategy

The recent Government Accounting Office (GAO) report on the National Money Laundering Strategy concluded that the Strategy has not been as useful as envisioned for guiding the coordination of law enforcement efforts. The Criminal Division has been involved in the coordination of the strategy with our counterparts from the Department of the Treasury, and we worked very hard on trying to get it right. Although I do not dispute the GAO's conclusions, the Strategy did provide some benefit: it gave us a framework for institutionalizing the necessary coordination and a structure for interagency discussions and coordination. We believe that a strategy is a worthwhile and necessary endeavor to coordinate the work of the US government on money laundering issues and we remain committed to its goals. The GAO Report is helpful and should be used to examine how we formulate and use future national strategies.

International coordination

Various nation-states have critical deficiencies in their anti-money laundering regimes; they have not enacted laws that prohibit money laundering; they do not aggressively enforce existing anti-money laundering legislation; or they fail to cooperate internationally to investigate and prosecute money launderers at large. Any weak link affects the entire international financial system.

We pursue an aggressive agenda on the international level to promote the enactment, implementation and enforcement of comprehensive and global anti-money laundering and asset forfeiture laws as well as regulatory measures. The Department of Justice is an integral member of the U.S. Government team in this effort and we work with our sister agencies to ensure a consistent American voice overseas. We are especially pleased to lend the law enforcement perspective, in coordination with Treasury, to the Financial Action Task Force (FATF). The FATF's revised 40 Recommendations and the Special Eight Terrorist Financing Recommendations have become the global standard for an effective anti-money laundering regime and have provided a blueprint for countries to follow in enacting anti-money laundering measures. The Department of Justice is particularly involved in FATF's mutual evaluation process, which has been adopted by other FATF-like regional bodies. This has proven to be effective for motivating nations to improve their anti-money laundering laws and enforcement.

White Collar Crime

Money laundering is not limited to drug crime, of course. Corporate fraudsters will go to great lengths to hide their money and cover their tracks. In an effort to combat and coordinate the attack on this problem, the President's Corporate Fraud Task Force oversees and directs the investigation and prosecution of significant financial crimes involving fraud by corporations and other business organizations. The Task Force coordinates the Department's law enforcement and regulatory efforts in the corporate fraud area with the Securities and Exchange Commission, the Department of the Treasury, the Department of Labor, the Commodities Futures Trading Commission, the Federal Communications Commission, the Federal Energy Regulatory Commission and the United States Postal Inspection Service, each of which is also a Task Force member. The Task Force also develops policy, regulatory and legislative recommendations for the Attorney General and the President to better combat corporate fraud.

Terrorist Financing

In addition to the JTTFs and other operational coordination mechanisms, mentioned previously, the fight against terrorist financing is coordinated at the highest levels within the National Security Council, through the Policy Coordinating Committee (PCC). The PCC includes representation from all relevant agencies and has been in existence, in various forms, since the September 11 attacks.

Looking to the Future

All of the agencies and components involved in anti-money laundering enforcement and policy continue to discuss our strategy. It is a healthy dialogue, informed both by our common goals but also by our different perspectives. As we look to the future, I believe that we will come to a general consensus on the problems and strategies to attack money laundering. From the Department of Justice's perspective, our strategy has three basic parts:

Attack major money laundering organizations

We need to continue to conduct investigations and prosecutions of major money laundering operations. It has been the core of the previous National Money Laundering Strategies and the Department of Justice has never wavered from that mission. Major investigations, particularly on third-party money launderers, raise the costs of laundering money, make it riskier, and give us insight into the new and creative methods by which criminals launder their proceeds. Enforcement actions like Operation Double Trouble, as well as numerous others we have conducted over the last five years, while difficult and time consuming, reap enormous benefits in dismantling large scale criminal organizations, taking their money, and deterring others who would follow in their footsteps.

Look at the gateways to money laundering

As the laundering of money becomes more complicated and difficult, criminals must rely on those with specialized knowledge and expertise to make it happen. Accountants, banks and bankers, company and trust formation agents, attorneys, and others create the artifices through which money can be hidden and they control the access points into the U.S. financial system. These gatekeepers need to understand the consequences of aiding and abetting their criminal customers. We have begun to have some success in this area, particularly with banks and other financial institutions.

Broadway National Bank of New York recently took its place in history as the first financial institution convicted of criminal violations of the Bank Secrecy Act for the failure to file Suspicious Activity Reports. A small bank, known among criminals as the bank that asked no questions, Broadway National Bank was favored by a number of money launderers in New York. Broadway was not an unwitting dupe in an elaborate money laundering scheme. With eyes wide-open, Broadway simply failed to comply with the Bank Secrecy Act. Between 1996 and 1998, Broadway failed to report $123,000,000 in suspicious cash deposits, which were then transferred to over 100 accounts, including international wire transfers to accounts in Colombia and Panama. More than one-third of the cash deposits came from one customer -- a major money launderer for Colombian drug traffickers.

Similarly, the Department of Justice filed a criminal information in federal court in Puerto Rico charging the largest bank there, Banco Popular de Puerto Rico, with failing to file Suspicious Activity Reports. The bank and the government entered into a deferred prosecution agreement under which Banco Popular waived indictment, agreed to the filing of the Information charging it with a crime, and acknowledged responsibility for failing to file accurate and timely Suspicious Activity Reports when confronted with the knowledge that its accounts were being used for activity consistent with money laundering. Banco Popular consented to a $21,000,000 forfeiture and a $20,000,000 concurrent fine.

As with Broadway Bank, Banco Popular's failure was one of basic non-compliance with the Bank Secrecy Act. Faced with massive deposits of currency from customers whose explanations bordered on laughable, Banco Popular failed to follow-up. During one period, one customer alone deposited a monthly average of $1,400,000 from a business located near the bank which bank employees noticed had few, if any, customers. Banco Popular failed to undertake even the most minimal inquiries. When it filed CTRs, they were often inaccurate. The few SARs that it did file were late and contained false or inaccurate information. The impact of this action is that, by all reports, the bank now complies with the Bank Secrecy Act and is no longer seen as a gateway for criminals to launder their cash.

In addition to banks, other gateways, such as money transmitters, broker-dealers, check cashers, and money order providers, are vulnerable to exploitation by organized money launderers. New regulations and strengthened criminal laws, some established through

the USA PATRIOT Act, provide law enforcement and regulatory agencies with new tools to stop money laundering. We are currently working to coordinate and share evidence on a number of investigations of money remitters across the United States. This umbrella investigation has ensured coordination of efforts and avoided duplicated efforts. We have had some initial success in this area, including successful prosecutions of illegal money transmitting businesses operating in violation of Title 18, U.S. Code, Section 1960; the prosecution of money laundering involving the insurance industry; and the prosecution and conviction of an investment firm CEO who defrauded 1,800 investors of $146 million.

Take the fight overseas

It is far easier and cheaper to attempt to launder funds in foreign jurisdictions, where in many instances the level of scrutiny concerning the source of cash is considerably lower than in the United States. Criminals in the United States simply pack up the currency in bulk and ship it overseas.

United States law enforcement appropriately focuses on disrupting bulk cash smuggling throughout the entire cycle of money laundering -- the collection, transportation, and exportation – but the criminal scheme also depends on those friendly foreign banks and businesses to take U.S. currency with no questions asked. The international standard setting and evaluation process in the Financial Action Task Force (FATF) is important, and we are committed with our partners at Treasury and State in that critical effort, as well as the extensive efforts we undertake to provide technical assistance and training to those countries that need it.

The fact remains, however, that vigorous enforcement action is also necessary. We have taken important steps in this direction, for example, in the case of United States v. Speed Joyeros, et al. The Black Market Peso Exchange (BMPE) is the largest drug proceeds money laundering system in the West. Estimates of the value of drug proceeds laundered through this system run into the billions of dollars. A key player in the BMPE, by which drug proceeds on U.S. streets are converted into trade and other goods smuggled or shipped into Colombia, is the Colon Free Zone (CFZ) in Panama. Hundreds of million of drug dollars move to vendors of gold jewelry, electronics and other goods in the CFZ, where the goods are then shipped into Colombia.

Two Panamanian jewelry stores located in the Colon, Panama Free Trade Zone, along with the principals of the businesses, took millions of dollars of drug trafficking proceeds, utilizing the Black Market Peso Exchange, over a several year period. Defendants regularly received payments in drug proceeds from individuals and undercover operations in the United States with whom they had no legitimate business dealings through cash pickups, third party wire transfers, and the acceptance of third party checks and cashier's checks. These businesses and individuals also routinely accepted bulk cash payments smuggled into Panama by individuals in private planes from Colombia.

The defendant companies and one of the principals ultimately pled guilty on money laundering charges and the assets of the businesses were seized and forfeited. The successful prosecution was a result of the hard work by the U.S. agents and prosecutors, as well as the Panamanian authorities, and the creative use of the broad reach of the United States money laundering and forfeiture laws. This action, the first of its kind, dramatically demonstrated for other Free Trade Zone merchants the risk of accepting such third party payments and large volumes of cash. Continued pressure on the merchants in the Free Trade Zone will help strike a serious blow against the Black Market Peso Exchange.

We will continue to take the fight overseas, not only against the BMPE dealers, but against corrupt members of the financial services industry, including banks and money exchange houses.

In sum, we are making significant strides against sophisticated and difficult adversaries. We believe that our strategy is sound and our techniques effective. Recognizing that there have been problems along the way, and problems remain, we have nevertheless accomplished much and will continue to make important strides in tackling this significant and complex problem.

I will be happy to answer any questions you may have.

Mr. SOUDER. Mr. Glaser.

Mr. GLASER. Chairman Souder, thank you for inviting me to testify today, and thank you for you an interest in the combined efforts to combat money laundering and terrorist financing. This is a subject that has been of great interest to Congress, and I'm happy to be here today to continue this important dialog. I'm also pleased to be on this panel with my interagency colleagues. Defeating terrorist financing money laundering and drug traffic requires all of us to work in concert while employing all of our respective authorities. Our efforts against these threats have been most successful when we have worked in a coordinated approach and attack.

Since September 11, the U.S. Government has launched an aggressive offensive to disrupt, dismantle terrorist groups and their operations. We are making it harder, costlier and riskier for al Qaeda to raise money and move money around the world. The need to track and cutoff sources of tainted funds has now become integrated into the efforts to attack money laundering, financial crimes and drug trafficking as well.

To succeed, we need both a long-term and a short-term approach. Over the long term, we are enhancing the transparency and accountability of financial systems around the world to protect these systems from criminal abuse. In the short term, we are exploiting these transparencies to identify and capture terrorists and criminal funds and financial information. Let me provide three examples of where agencies sitting right here at this table work together to neutralize immediate threats.

First, on February 19, 2004, the Treasury Department, in coordination with United States and Colombian law enforcement, used the Drug Kingpin Act to designate 40 key leaders of two narcoterrorist organizations in Colombia, the FARC and the AUC, as well as AUC front companies. In March of this year, the U.S. attorneys office in New York City announced an indictment of two of Colombia's most important drug kingpins based on Treasury-related prohibitions. The indictment was part of the joint effort among the DEA, Department of Justice, and the Treasury Department's Office of Foreign Assets Control. This is the first time that IEEPA violations have been used as a predicate offense in the drug area.

I would like to draw particular attention to one action taken last December which demonstrates how Treasury-unique authorities can be put to use effectively in support of law enforcement. The Treasury Department used section 311 of the USA Patriot Act to designate Burma as a primary money laundering concern, because of Burma's inadequate money laundering laws, and its failure to cooperate with U.S. enforcement. Treasury also designated two Burmese banks because of their drug trafficking ties. Last month, FinCEN issued final rules to block these banks from access to the U.S. financial system. These actions were taken in very close coordination with the DEA and the U.S. Secret Service, and they have already borne fruit.

Burma has now enacted anti money laundering laws. Burma has announced investigations of the two banks in question. And just this week, a team of Treasury and law enforcement officials are in

Burma to discuss money laundering issues and law enforcement cooperation. This example also shows that we can also have a practical impact on the ground by focusing on broad systemic and structural issues. There are other examples of our efforts to deal with identified vulnerabilities in the United States and in the international financial system.

First we have worked internationally through the financial action task force to strengthen customer identification, reporting, recordkeeping and information sharing standards. These efforts have produced meaningful change in countries like the Cayman Islands, Egypt, Guatemala, Indonesia, Israel, Lebanon and the Philippines, just to name a few. We have strengthened international standards and capabilities to attack terrorist financing, including freezing terrorist-related assets, regulating and monitoring alternate remittance systems, such as Hawala, insuring accurate and meaningful information on cross-border wire transfers, and protecting nonprofit organizations from abuse by terrorists.

And under the USA Patriot Act, Treasury's FinCEN has published three proposed and final rules to broaden and deepen our own anti money laundering regime to now include for example oversight of money service businesses and broker dealers and securities. Treasury will continue to use its powers to influence judiciously, but aggressively to change behavior by blocking tainted assets, naming, shaming and shutting out rogue regimes and institutions and ensuring the integrity of the United States and international financial system.

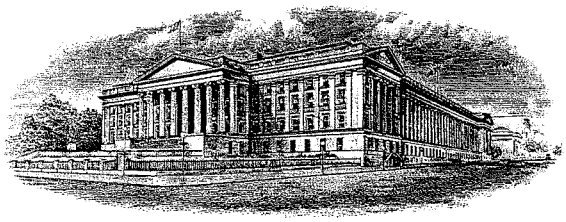
In addition to these current capabilities, I have just mentioned, the Treasury Department, in collaboration with Congress, is taking steps to enhance our organization and abilities. On March 8 2004, Treasury formally announced the creation of the Office of Terrorism and Financial Intelligence within the Department of the Treasury. This office would bring together Treasury's intelligence, regulatory, law enforcement sanctions and policy components. This new structure led by an Under Secretary and two assistant secretaries will allow United States to better develop and target our intelligence analysis and financial data to detect how terrorists are exploiting the financial system and to design methods to stop them.

It will also allow United States to better coordinate an aggressive regulatory enforcement program, international engagements while managing Treasury resources wisely. We appreciate the subcommittee's focus on these issues and we look forward to continuing to work with Congress to ensure the effective implementation of our national anti money laundering and counterterrorist financing strategies.

Thank you, chairman.

Mr. SOUDER. Thank you.

[The prepared statement of Mr. Glaser follows:]



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

Statement of
Daniel L. Glaser
Director, Executive Office For Terrorist Financing and Financial Crime
Department of the Treasury
Before the
House Government Reform
Subcommittee on Criminal Justice, Drug Policy and Human Resources

May 11, 2004

Chairman Souder, Ranking Member Cummings, and distinguished Members of the Subcommittee, thank you for inviting me to testify today, and thank you for your interest in the coordination of our Government's efforts to combat money laundering and terrorist financing. My testimony today builds upon testimony delivered by Deputy Secretary Bodman before the Senate Banking Committee and Deputy Assistant Secretary Zarate before the Senate Caucus on International Narcotics Control. I welcome the opportunity to appear here today and continue this important dialogue with Congress.

As you will hear from this panel — and as we and the Department of Justice re-affirmed in our publication of the *National Money Laundering Strategy of 2003* (*2003 Strategy*) last fall — the campaign against terrorist financing and money laundering forms an essential component of our national security strategy. Since September 11th, we have leveraged the relationships, resources, authorities, and expertise that we have acquired over the past several years in combating money laundering to attack terrorist financing. Our efforts in both arenas are complementary and are effecting the changes required to protect the integrity of our financial systems by identifying, disrupting and dismantling sources, flows, and uses of tainted capital within those systems.

I. Treasury's Role in Combating Financial Crime

The Treasury Department has traditionally been responsible for safeguarding the integrity of the U.S. and international financial systems. The Treasury Department has therefore developed expertise in the wide range of disciplines necessary to meet that responsibility. Today, Treasury has expertise in disciplines that stretch across the entire anti-money laundering/counter-terrorist financing (AML/CFT) spectrum. In essence, Treasury can be viewed as a microcosm of the broad U.S. government efforts in this area:

- *Sanctions and Administrative Powers*: Treasury wields a broad range of powerful economic sanctions and administrative powers to attack various forms of financial crime. We have continued to use these authorities in the campaign against terrorist financing, drug trafficking, money laundering and other criminal financial activity.
  - In combating terrorism financing, the U.S. government's primary and most public tool is the ability of the Departments of the Treasury and State to designate terrorist financiers and terrorists under Executive Order (E.O.) 13224, together with Treasury's ability to implement orders that freeze the assets of terrorists under E.O. 13224.
  - In combating drug trafficking, Treasury continues to apply its authorities under the Foreign Narcotics Kingpin Designation Act and the International Emergency Economic Powers Act (IEEPA) to administer and enforce the provisions of law relating to the identification and sanctioning of major foreign narcotics traffickers.
  - In combating money laundering, Treasury has applied its new authority under Section 311 of the USA PATRIOT Act ("Patriot Act") to designate and take action against jurisdictions and financial institutions of primary money laundering concern.

- *Law Enforcement and Law Enforcement Support*: Treasury combats various forms of financial crime through the direct law enforcement actions of IRS-CI and the law enforcement support provided by FinCEN and Treasury's regulatory authorities. Whether working with DEA on the money laundering component of significant drug investigations, with the FBI on terrorist financing cases, or investigating offshore tax shelters and other tax-related matters, IRS-CI brings an unparalleled financial investigative expertise to the table. The financial forensic expertise of our IRS criminal investigators around the country and the world is critical to the U.S. law enforcement community's attack on sources and schemes of terrorist financing. We complement such direct law enforcement action with law enforcement support. Through FinCEN, Treasury serves as a repository and analytical hub for Bank Secrecy Act information, which aids investigators across the interagency community in finding financial links to criminal enterprises and terrorist networks.

- *Financial Regulation and Supervision*: The Treasury Department – through FinCEN's administration of the Bank Secrecy Act as amended by Title III of the Patriot Act – is responsible for establishing the U.S. AML/CFT regime by issuing the regulations intended to safeguard U.S. financial institutions from abuse by terrorists, narcotics traffickers, and other organized criminals. Treasury further maintains close contact with the federal financial supervisors – including the Treasury Department's Office of the Comptroller of the Currency and Office of Thrift Supervision – to ensure that these regulations are being implemented throughout the financial sectors.

- *International Initiatives*: The Treasury Department is part of and has access to an extensive international network of Finance Ministries and Finance Ministry-related bodies such as the Financial Action Task Force (FATF) and various FATF-Style Regional Bodies, the International Monetary Fund (IMF), the World Bank, and the G-7. Treasury leads the U.S. representation to each of these bodies, and through them seeks to ensure that all jurisdictions throughout the world are working to meet international AML/CFT standards, and that the international community stays focused on emerging AML/CFT concerns.

- *Private Sector Outreach*: As a result of our traditional role in safeguarding the financial system, Treasury has developed a unique partnership with the private sector that provides us

with the benefits of the insights and suggestions of the financial institutions that are in many ways the front-line in our war against money laundering and terrorist financing. Through such mechanisms as the Bank Secrecy Act Advisory Group, Treasury ensures that the private sector plays an appropriate role in the development of AML/CFT regulatory policy and receives appropriate feedback from the information it provides.

In addition to these current capabilities, the Treasury Department – in collaboration with Congress – is taking steps to enhance our organization and abilities. On March 8th, 2004, Treasury formally announced the creation of the Office of Terrorism and Financial Intelligence (TFI) in the Department of the Treasury. TFI will be a high profile office led by an Under Secretary -- one of only three in the Department -- and two Assistant Secretaries, one for terrorist financing and financial crimes, and one for intelligence. It will bring together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and will redouble Treasury's efforts in at least four specific ways.

- First, it will allow us to better develop and target our intelligence analysis and financial data to detect how terrorists are exploiting the financial system and to design methods to stop them. TFI will be responsible for producing tailored products to support the Treasury Department's contributions to the war against terrorist financing.
- Second, it will allow us to better coordinate an aggressive enforcement program, including the use of important new tools that the Patriot Act gave to Treasury.
- Third, it will help us continue to develop a strong international coalition to combat terrorist financing. A unified structure will promote a robust international engagement and allow us to intensify outreach to our counterparts in other countries.
- Fourth, it will ensure accountability and help achieve results for this essential mission.

TFI will enhance the Treasury Department's ability to meet our own mission and to work cooperatively with our partners in the law enforcement and intelligence communities. The Department of the Treasury is committed to complementing, but not duplicating, the important work being done by the Department of Justice and Department of Homeland Security, and by the various intelligence agencies, and will be fully integrated into already established task forces and processes.

II. Attacking the Financial Infrastructure of Terrorist and Criminal Organizations

By serving as a focal point for all of the expertise discussed above, the Treasury Department – in close collaboration with our interagency partners – is well positioned to develop and implement a comprehensive approach toward targeting the financial infrastructure that supports terrorism, narcotics trafficking, and organized crime. Whether the driving force is religious extremism, political power, financial greed, or any combination thereof, the infrastructure supporting crime necessarily includes a financial component. Money is required to fuel these enterprises and as such, it represents a significant vulnerability that Treasury and its federal, state and local allies must and do exploit.

This is why we are committed to "targeting the money" from a systemic approach. We believe that resources devoted to fighting money laundering and financial crimes through a systemic approach reap benefits far beyond merely addressing the underlying financial crimes they

directly target. When applied on a systemic basis, targeting the money can identify and attack all kinds of activity, including the financing of terrorism, narcotics trafficking, securities fraud, alien smuggling, organized crime, and public corruption. Financial investigations lead to those who are committing the underlying financial crimes, as well as to those financial professionals who facilitate the criminal activity.

I present below examples of how Treasury has brought this approach to bear on the specific financial infrastructure of two major threats – terrorism and narcotics trafficking. I then discuss actions and initiatives that we have taken that are relevant to both.

A. Terrorist Financing

The terrorism we are fighting generally operates through complex networks. In this context, a terrorist act, no matter how basic and inexpensive, cannot be accomplished without a sophisticated financial and operational infrastructure. Terrorist organizations such as al Qaida and Hamas require a financial and operational infrastructure. They must pay for the security of "safe havens," financial support for the families of "martyrs," recruitment, indoctrination, logistical support, and personnel training. This doesn't even get into the costs of ostensibly humanitarian efforts – charitable organizations, medical clinics and schools – that are either created as fronts for terrorism or to win support and recruits. Finally, there is the cost of weapons. In short, the horrific results of terrorism require the raising, movement and use of considerable funds. The terrorist leaves identifiable and traceable footprints in the global financial systems, and these footprints must be pursued "downstream" to identify future perpetrators and facilitators, and "upstream" to identify funding sources and to dismantle supporting entities and individuals.

The following are some examples of actions that Treasury has taken as part of the overall U.S. war on terrorist financing:

- The U.S. Government has led an international coalition to disrupt, dismantle, and destroy the sources and pipelines from and through which terrorists receive money. Under Executive Order 13224, we have designated a total of 361 individuals and entities, as well as frozen or seized approximately $200 million of terrorist-related funds worldwide. The impact of these actions goes beyond the amount of money frozen. Public designation and asset blocking choke off terrorist cash flows by cutting off access to the U.S. and other financial systems and also provide access to further intelligence. Designations under E.O. 13224 in the past year include the following:
    - Ten al Qaida loyalists related to the Armed Islamic Group (GIA) on March 18
    - Shaykh Abd Al-Zindani (al Qaida-related) on February 24, 2004
    - Four branches of the Al Haramain Islamic Foundation (al Qaida-related) on January 22, 2004);
    - Abu Ghaith (al Qaida-related) on January 16, 2004;
    - Dawood Ibrahim (al Qaida-related) on October 17, 2003;

- Al Akhtar Trust International (al Qaida-related) on October 14, 2003;
- Abu Musa'ab Al-Zarqawi (al Qaida-related) on September 24, 2003;
- Yassin Sywal, Mukhlis Yunos, Imam Samudra, Huda bin Abdul Haq, Parlindungan Siregar, Julkipli Salamuddin, Aris Munandar, Fathur Rohman Al-Ghozi, Agus Dwikarna, and Abdul Hakim Murad (members of Jemaah Islamiyah) on September 5, 2003;
- Sheik Ahmed Yassin (Gaza), Imad Khalil Al-Alami (Syria), Usama Hamdan (Lebanon), Khalid Mishaal (Syria), Musa Abu Marzouk (Syna), and Abdel Aziz Rantisi (Gaza) (Hamas political leaders) on August 22, 2003;
- Comité de Bienfaisance et de Secours aux Palestiniens (France), Association de Secours Palestinien (Switzerland), Interpal (UK), Palestinian Association in Austria, and the Sanibil Association for Relief and Development (Lebanon) (all Hamas-related charities) on August 22, 2003;
- The National Council of Resistance of Iran (including its U.S. representative office and all other offices worldwide) and the People's Mujahedin Organization of Iran (including its U.S. press office and all other offices worldwide) on August 15, 2003;
- Shamil Basayev (al Qaida-related) on August 8, 2003; and
- The Al-Aqsa International Foundation (Hamas-related) on May 29, 2003.

➢ Together with the State and Justice Departments and other agencies, we are following-up on these designations by using our diplomatic resources and regional and multilateral engagements to ensure international cooperation, collaboration and capability in designating these and other terrorist-related parties through the United Nations and around the world.

➢ Important financial networks – such as those of al Barakaat and parts of the Al Haramain Islamic Foundation – have been identified and shut down at home and abroad. The UAE and Somalia-based al Barakaat network had been used to funnel potentially millions of dollars annually to al Qaida and its affiliates.

➢ We have worked with counterparts in important allies such as Saudi Arabia to ensure that key terrorist financiers and facilitators have had their assets frozen and/or have been arrested or otherwise addressed through the international community's concerted law enforcement efforts. Included in this category are Saudi millionaires Yasin al-Qadi and Wa'el Hamza Julaidan, Swift Sword, and Bin Laden's Yemeni spiritual advisor, Shaykh Abd- Al-Zindani,

➢ The U.S. has also taken significant actions against non-al Qaida linked terrorist organizations such as HAMAS and the Basque terrorist group, ETA. On December 4, 2001, President Bush issued an order to freeze the assets of a U.S.-based foundation – The Holy Land Foundation for Relief and Development – along with two other HAMAS financiers, Beit al Mal and the Al Aqsa Islamic Bank. Six leaders of Hamas and six charities in Europe and the

Middle East that support Hamas were subsequently designated in May and August 2003. In partnership with our EU allies, the U.S. designated 31 ETA operatives and one organization that supports ETA.

- FinCEN has made 342 proactive case referrals to law enforcement potentially involving terrorism based upon analysis of information in the Bank Secrecy Act database. The Terror Hotline established by FinCEN has resulted in 853 tips passed on to law enforcement since 9/11. FinCEN is also implementing an Electronic Reports program that will further enhance law enforcement's ability to utilize this information. Additionally, with the expansion of the Suspicious Activity Report (SAR) regime, as of April 28, 2004, financial institutions nationwide have filed 4,294 SARs reporting possible terrorist financing directly to FinCEN, including1,866 SARS in which terrorist financing represented a primary suspicion. This has further enhanced our efforts to identify and vigorously investigate terrorist financing webs and dismantle them.

- We have developed the use of technology to identify possible sources of terrorist financing, particularly through the pilot counterterrorism project undertaken by IRS-CI in Garden City, New York. The Garden City Counterterrorism Lead Development Center is dedicated to providing research and nationwide project support to IRS-CI and the Joint Terrorism Task Force (JTTF) counterterrorism financing investigations. Relying on modern technology, the Center is comprised of a staff of IRS Special Agents, Intelligence Analysts, and civil components from the Service's Tax Exempt/Government Entities Operating Division, who will research leads and field office inquiries concerning terrorism investigations. Center personnel specializing in terrorism issues will develop case knowledge, identify trends, and provide comprehensive data reports to IRS field agents assigned to JTTFs or to those conducting CI counterterrorism financing investigations. The Center may also serve to de-conflict related investigations among multiple field offices, and will have distinctive analytical capabilities to include link analysis, data matching, and pro-active data modeling. Using data from tax-exempt organizations and other tax-related information that is protected by strict disclosure laws, the Center will analyze information not available to or captured by other law enforcement agencies. Thus, a complete analysis of all financial data will be performed by the Center and disseminated for further investigation. This research, technology, and intuitive modeling, coupled with CI's financial expertise, are maximizing IRS-CI's impact against sophisticated terrorist organizations.

- The U.S. has identified 24 countries as priorities for receiving counter-terrorist financing technical assistance and training, and we are working bilaterally to deliver such assistance to these priority countries. The U.S. is also working together with its allies in the Counter-Terrorism Action Group (CTAG) and the Financial Action Task Force (FATF) to coordinate bilateral and international technical assistance efforts to additional priority countries in the campaign against terrorist financing.

- The U.S. has enlisted the active support of international bodies, such as the G-7, G-10, G-20, the Asia-Pacific Economic Cooperation Forum (APEC), and others — to make efforts against terrorist financing a priority for their members. The G7, G20, APEC, Western Hemisphere Finance Ministers (WHFM), ASEAN Regional Forum (ARF), and OSCE have all issued action plans calling on their members to take a series of concrete measures to enhance the effectiveness of their counter-terrorist financing regimes.

- Our systemic efforts and targeted designations, together with USG law enforcement, diplomatic, intelligence and military actions, have deterred potential terrorist supporters and sympathizers by increasing the cost and the risk of doing business with terrorists.

B. Drug Trafficking

Our focus and commitment to targeting the financing of illicit activities include an aggressive use of authorities against narcotics traffickers. A particularly potent financial weapon in our war against drug money laundering systems is Treasury's ability to apply and enforce narcotics trafficking sanctions.

Treasury, in conjunction with the Departments of Justice, State and Homeland Security, enforces the IEEPA narcotics sanctions against Colombian drug cartels under Executive Order 12978. The objectives of the Specially Designated Narcotics Traffickers (SDNT) program are to identify, expose, isolate and incapacitate the businesses and agents of certain specified Colombian drug cartels and to deny them access to the U.S. financial system and to the benefits of trade and transactions involving U.S. businesses and individuals. Targets are identified in consultation with the Drug Enforcement Administration and the Narcotics and Dangerous Drug Section of the Department of Justice. Since the inception of the SDNT program in October 1995, 956 parties have been identified as SDNTs, consisting of 14 Colombian drug cartel leaders, 381 businesses and 561 other individuals.

Recent designations under E.O. 12978 include a designation on October 17, 2003 of a financial network of 134 front companies and individuals in Colombia, Costa Rica, Ecuador, Panama, Peru, Spain, Venezuela, the Bahamas, the British Virgin Islands, and the United States that were acting on behalf of the Cali cartel leaders, Gilberto and Miguel Rodriguez Orejuela.

Treasury also implements the President's sanctions under the Foreign Narcotics Kingpin Designation Act ("Kingpin Act"). The Kingpin Act, enacted in December 1999, operates on a global scale and authorizes the President to deny significant foreign narcotics traffickers, and their related businesses and operatives, access to the U.S. financial system and all trade and transactions involving U.S. companies and individuals. During 2003, the President named seven new kingpins, including two designated foreign terrorist organizations -- Revolutionary Armed Forces of Colombia and United Self-Defense Forces of Colombia -- and a Burmese narco-trafficking ethnic guerilla army, bringing the total number designated to 38.

Since the inception of the Kingpin Act and after multi-agency consultations, Treasury has named 14 foreign businesses and 37 foreign individuals in Mexico, Colombia, and the Caribbean as derivative ("Tier II") designations. These derivative designations are flexible and permit Treasury to attack the financial infrastructure of these kingpins as it changes. A total of 104 organizations, individuals and businesses in 12 countries are now designated under the Kingpin Act. On February 19, 2004, Treasury designated 40 key individuals and companies associated

with the Colombian narco-terrorist organizations, the FARC and the AUC. These two organizations were previously named by the President on May 29, 2003 as drug kingpins.

Another weapon that the U.S. uses against narco-traffickers and money launderers is seizure and confiscation. In fiscal year 2003, Treasury's Executive Office for Asset Forfeiture (TEOAF) received over $ 234 million in forfeiture revenue from the combined efforts of the former Bureau of Alcohol, Tobacco Firearms and Explosives, the U.S. Secret Service (USSS), the Internal Revenue Service (IRS), and the former U.S. Customs Service (USCS). This represents a significant increase over fiscal year 2002, in which TEOAF received over $152 million of forfeiture revenue. This improvement is particularly impressive when considering the transition undertaken by three of these law enforcement bureaus in the government reorganization last year.

C. Terrorist Financing and Drug Trafficking

Although terrorist financing and drug money laundering differ in some respects, they utilize many of the same financial systems and methods. To that end, we seek solutions and tools that provide us the greatest systemic change and flexibility. As part of our long term strategy, we have focused our efforts on enhancing the transparency and accountability of formal and informal financial systems, particularly those that have been abused by terrorist and criminal organizations. In the shorter term, we are exploiting existing transparencies and developing a variety of weapons to identify, disrupt and dismantle these organizations.

Enhancing the Transparency and Accountability of Financial Systems

Attacking the financial infrastructure of terrorist and other criminal activity requires transparent and accountable financial systems that allow us to identify and take effective action against sources, movement and use of terrorist funds and criminal proceeds moving through such systems. As part of our long-term strategy, therefore, we have focused on developing or enhancing the transparency and accountability of financial systems, particularly those that have been abused by terrorists and money launderers in the past. We have achieved considerable success thus far, both internationally and domestically, and in both formal and informal financial systems. For example:

- Internationally, we have worked with our counterparts in the FATF to revise the 40 Recommendations, thereby enhancing international standards of transparency and accountability for effectively combating money laundering and other financial crimes. In June 2003, the FATF issued the revised 40 Recommendations to address, among other things, shell banks, politically-exposed persons, correspondent banking, wire transfers, bearer shares, trusts, and an expansion of the sectors in which AML/CFT measures should be adopted. These newly revised Recommendations were endorsed by the G-7 Finance Ministers in a public statement issued the same day that the revised Recommendations were adopted by FATF.

- In the larger context of the need for a strong anti-money laundering regime as a necessity for combating terrorist financing, we have seen many countries take important steps to improve their legal regimes and strengthen the oversight of their financial sectors. Countries like

Egypt, Guatemala, Indonesia, Israel, Lebanon, and the Philippines have taken important strides to develop and implement effective and comprehensive anti-money laundering regimes, improving their institutions and their enforcement of anti-money laundering laws.

- We have engaged the IMF and World Bank to gain their recognition of the FATF 40 + 8 Recommendations as one of the 12 Key International Standards and Codes. In March of this year, owing largely to the leadership of the G-7, the IMF/World Bank made their AML/CFT assessment program permanent and comprehensive, thereby ensuring that countries throughout the world are assessed against FATF standards.

- We have capitalized on the FATF's expertise on money laundering to attack terrorist financing, largely through the Eight Special Recommendations on Terrorist Financing developed and adopted by the FATF in October 2001. Since that time, we have worked within the FATF's Working Group on Terrorist Financing, which Treasury co-chairs, to issue interpretive guidance on the Eight Special Recommendations, particularly with respect to: freezing terrorist-related assets; regulating and monitoring alternative remittance systems such as hawala; ensuring accurate and meaningful originator information on cross-border wire transfers, and protecting non-profit organizations from terrorist abuse.

- We have built relationships with the private sector to enlist their support as the gatekeepers to the financial system. We have broadened and deepened the regulatory structure and reporting requirements in the domestic financial system. We have created a level playing field and attacked money laundering and terrorist financing through non-banking financial systems under the Patriot Act, subjecting new sectors of the economy (*e.g.*, money service businesses and broker-dealers) to anti-money laundering controls such as record-keeping and reporting requirements that were previously imposed on banks alone.

Identifying, Disrupting and Dismantling Terrorist and Criminal Organizations

We are capitalizing on our long-term efforts to improve the transparency and accountability of formal and informal financial systems by developing and applying various weapons to identify, disrupt and dismantle terrorist and criminal organizations that operate within these systems. Our efforts to date have produced considerable results:

- We are using Section 311 of the Patriot Act to address primary money laundering concerns on a jurisdictional and institutional basis. Working in cooperation with the law enforcement and intelligence communities, we have designated three foreign jurisdictions and two financial institutions under Section 311. In addition to designating the jurisdiction of Burma, consistent with the FATF's demand for countries to impose additional counter-measures on Burma, Treasury also designated the Myanmar Mayflower Bank and Asia Wealth Bank, two Burmese banks that are heavily implicated in facilitating money laundering for the notorious drug trafficking organizations in Southeast Asia. We have also designated the jurisdictions of Nauru and Ukraine. Nauru remains a designated jurisdiction. Most importantly, the mere possibility of a Section 311 designation has caused nations to make changes to their legal and regulatory regimes that enhance the global anti-money laundering and anti-terrorist financing infrastructure. We are continuing to seek out appropriate opportunities to utilize these new powers aggressively, but judiciously, to protect the U.S financial system, punish jurisdictions

and institutions complicit in money laundering, and encourage compliance with international standards of transparency and accountability.

- We have enhanced law enforcement efforts that attack those who support terrorism through other means of organized crime:

  - On December 4, 2002, federal prosecutors in Houston indicted several individuals, including two high ranking members of Autodefensas Unidas de Colombia (AUC/United Self Defense Forces of Colombia), the Colombian right-wing designated terrorist organization, with drug conspiracy and conspiracy to provide material support or resources to AUC. To date, two of the defendants have pled guilty to the material support charge under 18 USC § 2339B and the drug conspiracy charges. The AUC principals are in Costa Rican custody awaiting extradition.

  - On March 7, 2002, a grand jury in the District of Columbia returned an indictment charging the leader of the 16th front of the Fuerzas Armadas Revolucionarias de Colombia (FARC), and six others, with participating in a drug trafficking conspiracy. Two superseding indictments have added Jorge Briceno-Suarez, the second in command of the FARC, and two Peruvian drug traffickers, the Aybar brothers. The Aybar brothers also were indicted in the Southern District of Florida for providing material support to a terrorist organization by supplying 10,000 AK-47s to the FARC in exchange for cocaine and money.

  - Most recently, on February 19, 2004, the Treasury Department took action against leaders and key figures of the FARC and AUC. Treasury added the names of FARC leaders, including Pedro Antonio Marin and Jorge Briceno Suarez, key AUC figures, including Carlos Castano Gil and Salvatore Mancuso Gomez, and AUC front companies to the list of "Tier II" persons designated under the Foreign Narcotics Kingpin Designation Act (Kingpin Act). The 40 Colombian names added to the Kingpin Act list include 19 FARC individuals, 18 individuals associated with the AUC and three front companies connected to the AUC. These 40 persons are subject to the economic sanctions imposed against foreign drug cartels under the Kingpin Act.

- We complement such direct law enforcement action with law enforcement support. Through FinCEN, Treasury serves as a repository and analytical hub for Bank Secrecy Act information, which aids investigators across the interagency community in finding financial links to criminal enterprises and terrorist networks. Since February 2003. we have also used Section 314(a) of the Patriot Act to enable law enforcement, through FinCEN "Blastfaxes" to more than 31,800 financial institutions as of April 27, 2004, to locate quickly the accounts and transactions of those suspected of money laundering or the financing of terrorism. Since Section 314(a)'s creation, the system has been used to send the names of 1,712 persons suspected of terrorism financing or money laundering to financial institutions, and has resulted in 12,280 matches that were passed on to law enforcement. We understand the sensitivity of the use of this system, and will continue to ensure through vigorous review that this system is used only in cases where terrorist financing is suspected, or in the most egregious money laundering cases.

III. Enhancing Interagency Coordination

What these actions show is the strength of Treasury's resources and expertise and the value and critical need of interagency cooperation in order to tighten the trap around terrorist financiers, drug traffickers and other criminal enterprises. A core principle of the *2003 Strategy* is enhancing our ongoing efforts to combat money laundering by ensuring that law enforcement agencies and task forces, including High Intensity Financial Crime Area (HIFCA) Task Forces, Organized Crime and Drug Enforcement Task Forces (OCDETF), the Suspicious Activity Report (SAR) Review Teams, and the High Intensity Drug Trafficking Area (HIDTA) Task Forces use and share all available financial databases and analytical tools and focus their personnel and other resources on high-impact targets and financial systems.

To help achieve this goal and in accordance with the *2003 Strategy*, the interagency law enforcement community is taking aggressive steps to develop an interagency anti-drug-money laundering financial intelligence center. This center will serve as a drug-money laundering intelligence and operations center. As stated in the just-released 2004 National Drug Control Strategy, some $6.3 million has been approved to support and expand the OCDETF Drug Fusion Center. We at Treasury are working with the Departments of Justice and Homeland Security to ensure that there is a robust financial component at the OCDETF Drug Fusion Center to develop the highest value financial targets, identify and disseminate information about developing trends and patterns, and help coordinate financial attacks on the systems, geographic locations, and individuals by and through which drug proceeds are moved and laundered.

HIFCAs have been created specifically to identify and address money laundering in designated geographical areas (currently in New York/New Jersey; San Juan, Puerto Rico; Los Angeles; San Francisco; Chicago; and Miami; and also a Bulk Cash HIFCA along the Southwest Border). HIFCA Task Forces bring together federal money laundering and other financial crime investigation expertise, utilizing all FinCEN, Drug Enforcement Agency (DEA) Special Operations Division, and DHS/ICE Money Laundering Coordination Center financial databases. For example, the New York/New Jersey HIFCA Task Force reports that, during FY 2001/2002, it opened 747 investigations leading to 344 arrests, 155 indictments, 160 convictions, and 805 seizures totaling more than $75 million.

IV. Next Steps

Despite considerable progress achieved, several important challenges remain in the campaign against terrorist financing and money laundering. We have identified a number of priorities to advance our long-term and short-term goals as described above and in the *2003 Strategy*.

We are continuing to develop international standards, as necessary, to enhance the transparency and accountability of financial systems and mechanisms prone to terrorist and criminal abuse. We are currently engaging the FATF and the Asia Pacific Group (APG), a FATF-style regional body, to complete a study of mandatory, cross-border, cash reporting requirements as an effective tool in identifying and interdicting cash couriers carrying illicit funds. We anticipate that the results of this study will facilitate countries' adoption of reporting requirements and the sharing of information obtained through such reports.

In addition to setting standards, we are facilitating compliance with existing international standards through terrorist financing technical assistance to priority countries, both bilaterally and through a coordinated international effort. Internationally, we anticipate completing technical needs assessments of priority countries through the FATF within the next few months. Thereafter, we will work with the State Department in coordinating the delivery of appropriate assistance to these countries through the CTAG. Bilaterally, we will continue to work with the State Department and the interagency community to ensure that those countries targeted for bilateral assistance receive it as planned.

We are also launching a number of initiatives to reduce the threat of terrorist financing through non-profit organizations (NPOs). For example, on April 28, 2004, Treasury hosted an Initial Outreach Event with representatives from the U.S. charitable sector to discuss Treasury's *Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities* and related terrorist financing issues. Secretary Snow opened the event by underscoring the importance of developing a strong partnership between the philanthropic community and the government to promote and protect charitable giving. These remarks were followed by an in-depth discussion of the nature of the terrorist financing threat within the charitable sector, indicators of potential terrorist financing activity, steps that charities can take to protect themselves from terrorist abuse, and international initiatives currently underway to minimize the risk of terrorist abuse in the global charitable community. Moving forward, the participants agreed to work with Treasury in forming three sub-groups from across the charitable sector to address the following three challenges of particular concern: (i) improving the Treasury Guidelines to the charitable sector; (ii) developing more useful red flag indicators and typologies for the benefit of the charitable sector; and (iii) minimizing risks of terrorist abuse in delivering relief to high risk jurisdictions.

Another priority is engaging the Middle East as a priority in promoting greater transparency and understanding of regional financial systems and regional money laundering and terrorist financing threats. We are working with the World Bank, other organizations and states, and the countries in the region to facilitate development of a FATF-style regional body for the Middle East and North Africa, and anticipate the launch of this organization by the end of 2004. In addition, we are participating in a number of ongoing training and outreach seminars with government officials in the region on anti-money laundering and counter-terrorist financing issues, including in the United Arab Emirates and Lebanon, and are exploring the continued study of terrorist financing and drug trafficking connections with countries in that region.

Finally, we are enhancing the transparency of financial systems by working directly with the private sector whenever possible. In addition to our direct engagement with the charities sector as described above, we are working with the international banking sector to facilitate bank-to-bank training and assistance in understanding and complying with new anti-money laundering and counter-terrorist financing obligations.

To exploit these existing and developing transparencies, we must also advance our short-term strategy by enhancing our ability to identify, disrupt and dismantle terrorist and criminal organizations. We are pursuing a number of priorities, both domestically and internationally, to advance this goal.

Treasury will continue to develop terrorist financing targeting strategies for priority regions and terrorist organizations, in addition to supporting the targeting strategies against narco-traffickers through the OCDETF Drug Fusion Center,. We will continue applying and executing these strategies through our designation authorities under Executive Order 13224 and Section 311, acting together with the international community whenever possible, but acting unilaterally whenever necessary and appropriate to protect our financial system from identifiable high risk targets. We are particularly focused on identifying opportunities to apply Section 311 against those foreign banks that either facilitate money laundering or ignore their responsibilities as gatekeepers to the international financial system.

Internationally, we are focusing our efforts on achieving greater European cooperation and support for our terrorist financing designations. We are capitalizing on our progress in improving and clarifying international standards for freezing terrorist-related assets under FATF Special Recommendation III by: (i) pursuing bilateral and multilateral efforts to reform the EU Clearinghouse process, and (ii) encouraging national implementation of UN member state obligations under United Nations' Security Council Resolution 1373.

These long-term and short-term initiatives are complementary and address the priority challenges that we face in the campaign against terrorist financing and money laundering. Moreover, these initiatives capitalize on the progress we have achieved to date, and on the relationships that we have forged in the inter-agency and international communities, as well as in the private sector, over the course of our sustained campaign.

I will be happy to answer any questions you may have.

Mr. SOUDER. Ms. Forman.

Ms. FORMAN. Good morning, Chairman Souder, it is a privilege to appear before you to discuss the accomplishments of ICE and our ongoing efforts to combat terrorist financing and money laundering. ICE developed investigative expertise in all forms of financial crime, especially trade and commodity-based crime and operational and analytical insight into non traditional methods of transferring value. ICE continues its proud history as the recognized leader in investigating and uncovering the types of financial crime and money laundering that undermines America's security. ICE works in close coordination with the Federal law enforcement community and private sector partners to protect the economic security of this Nation.

Cornerstone is a comprehensive economic initiative that is based upon collaboration between ICE and the private sector. Cornerstone promotes a systematic approach of identifying vulnerabilities in the financial and trade sectors, vulnerabilities that criminal and terrorist organizations might exploit to raise or launder their funds. In November 2003, the General Accounting Office report noted that terrorist organizations, like criminal organizations, use a variety of alternate funding mechanisms to earn, move and store the illicit funds that finance their operations. Cornerstone coordinatesICE's diverse array of commercial, trade and financial investigations toward the common goal of targeting the methods through which terrorist and criminal organizations earn, move and store their illicit proceeds.

With our broad jurisdictional authorities, ICE is uniquely positioned to target the methods through which terrorists and criminal organizations earn their illicit funds. These methods includes narcotics smuggling, intellectual property rights, counterfeit pharmaceuticals, human smuggling and trafficking, commercial fraud, export violations and cyber crime. ICE brings a wealth of experience and authority in tracking the illegal movement of funds derived from criminal activity into and out of the United States. ICE has applied a methodology to identify financial trade systems that are vulnerable to exploitation by criminal organizations and terrorist financiers. These systems include both currency smuggling, trade-based money laundering, courier hubs, banks, money service business, alternate remittance systems, charities and cyber crimes. ICE, along with our partners at Customs and Border Protection, are well equipped to identify commodities that are imported and exported from the United States and that could be used to store the proceeds of illegal activity. Criminal organizations have used commodities, such as gold and precious metals, to disguise their ill-gotten gains.

For example, Operation Meltdown, an investigation conducted by the ICE El Dorado Task Force and the IRS in New York, resulted in the arrest of 23 individuals, the seizure of more than $1.5 million in currency, $1.3 million in gold, and 118 kilograms of cocaine. ICE has taken a step beyond traditional law enforcement. Cornerstone provides the comprehensive investigative and intelligence resources necessary to track trends in criminal and terrorist financing schemes. Rather than attempting to target and investigate specific terrorist organizations and how they raise their money, Cor-

nerstone targets the criminal methods themselves, identification and shutting down the vulnerabilities in commercial, trade and financial systems exploited by both criminal and terrorist organizations.

Money laundering and terrorist financing are complex crimes that are beyond the scope of any one agency or sector. ICE recognizes the importance of sharing information and partnering with the law enforcement community, the regulatory community and the private sector to combat money laundering and terrorist financing. Through Cornerstone, ICE has embarked on an aggressive outreach program with the private sector. Special agents serve as liaisons with the private sector in facilitating the exchange of vital information. ICE shares this information through a quarterly report, Tripwire. Tripwire provides up-to-date information on criminal methods used to exploit vulnerabilities within trade and financial systems. ICE is home to the Money Laundering Coordination Center.

The MLCC serves as the central clearinghouse for ICE's undercover drug money laundering operations, many of which target the BMPE. The MLCC serves as a repository for identifying information that is derived as a result of these operations. Information that is collected by the MLCC is analyzed to identify a target, recipients of BMP dollars, methodologies, and trends and patterns. The MLCC serves as a deconfliction mechanism for the 27 ICE field offices conducting drug money laundering operations. ICE has developed an important analytical tool called numerically integrated profiling system. NIPS is an advanced software program that analyzes foreign and domestic trade data, passenger travel information, Bank Secrecy Act data, immigration data seeking to identify anomalies in the collective information.

The MLCC and NIPS fully complement ICE's Plan Colombia Initiative for providing the infrastructure to analyze the information that is developed on the BMPE. ICE has worked closely with our Colombian counterparts providing training and computers to exchange data. ICE continues to work with our partners at CDP to enforce currency and monetary instrument reports and bulk currency laws. Thus far in fiscal year 2004, ICE has seized approximately $54 million in currency. Since the enactment of the bulk currency statute, ICE special agents have 133 arrests that have resulted in 103 indictments and 53 convictions.

Last ICE has established the first politically exposed persons currency task force in Miami. The task force's goal is to identify locate and seize assets of corrupt politically exposed persons involved in the theft of embezzled government funds. With the expansion of enforcement capabilities and innovative investigative techniques that ICE has brought together and Cornerstone, the agency is well positioned to combat money laundering and terrorist financing.

I would like to thank the chairman for allowing me to testify before this committee.

[The prepared statement of Ms. Forman follows:]

U.S. Immigration and Customs Enforcement

STATEMENT

OF

MARCY M. FORMAN
DEPUTY ASSISTANT DIRECTOR
FINANCIAL INVESTIGATIONS

IMMIGRATION AND CUSTOMS ENFORCEMENT
DEPARTMENT OF HOMELAND SECURITY

BEFORE

HOUSE GOVERNMENT REFORM COMMITTEE
SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY AND HUMAN RESOURCES

"Terrorist Financing and Money Laundering Investigations:
Who Investigates and How Effective are They?"

May 11, 2004 at 10:00 a.m.
Washington, D.C.

TESTIMONY
OF
MARCY M. FORMAN
DEPUTY ASSISTANT DIRECTOR
FINANCIAL INVESTIGATIONS DIVISION
U.S. IMMIGRATION AND CUSTOMS ENFORCEMENT
DEPARTMENT OF HOMELAND SECURITY

BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN RESOURCES

MAY 11, 2004

I. Introduction

Good morning, Chairman Souder and distinguished Members of this Subcommittee. It is a privilege to appear before you to discuss the accomplishments of U.S. Immigration and Customs Enforcement (ICE) and our ongoing efforts to combat terrorist financing and money laundering.

The Department of Homeland Security (DHS) is one of the lead agencies responsible for protecting the security of the United States. In creating DHS, the President and Congress transferred some of the government's premier financial, criminal investigative, and protective agencies into this new Department. The melding of expertise in areas touching upon both economic and physical security leaves DHS well positioned to protect the Homeland from attack. This existing expertise allows us also to play a vital role in the USG efforts against financial criminals, including terrorist financiers, money launderers, narcotics traffickers, as well as fraudsters, counterfeiters, and identity thieves. DHS also capitalizes on the position of the Office of Information Analysis as an Intelligence Community member to enhance information sharing to all relevant parties and on the

capabilities of the Information Analysis and Infrastructure Protection Directorate to address vulnerabilities in the nation's infrastructure, including our financial and economic infrastructure.

ICE developed investigative expertise in all forms of financial crime, especially trade and commodity-based crimes, and operational and analytical insight into non-traditional methods of transferring value. This history and experience enables ICE to enhance, and benefit from, our role within DHS. ICE continues its proud history as a recognized leader in investigating and uncovering the types of financial crime and money laundering that undermine America's security. ICE works in close coordination with our sister DHS enforcement agency, the U.S. Secret Service, the federal law enforcement community, the Departments of State, the Department of the Treasury, and Justice, and our multitude of state, local, and private sector partners to fulfill its mission and to deny terrorist financiers, money launderers, and other financial criminals the means and opportunity to harm our homeland.

II. Cornerstone – A Systemic Approach to Identifying Vulnerabilities with the U.S. Financial and Trade Sectors

Cornerstone is a comprehensive economic initiative that is based upon collaboration between ICE and the private sector. Cornerstone promotes a systematic approach to identifying vulnerabilities in the financial and trade sectors – vulnerabilities that criminal and terrorist organizations might exploit to raise or launder their funds. In November 2003, a General Accounting Office report noted that terrorist organizations, like criminal organizations, use a variety of alternative funding mechanisms to earn, move, and store the illicit funds that finance their operations. Cornerstone coordinates ICE's diverse array of

commercial, trade and financial investigations toward the common goal of targeting the methods through which terrorist and criminal organizations earn, move and store their illicit proceeds.

With our broad jurisdictional authorities, ICE is uniquely positioned to target the methods through which terrorist and criminal organizations ***earn*** their illicit funds. These methods include narcotics smuggling; terrorist financing; money laundering, such as the Black Market Peso Exchange (BMPE); intellectual property rights; counterfeit pharmaceuticals; human smuggling and trafficking; commercial fraud; export violations; and cyber crime.

ICE brings a wealth of experience and authorities in tracking the illegal ***movement*** of funds derived from criminal activity into and out of the United States. ICE has applied a methodology to identify financial and trade systems that are vulnerable to exploitation by criminal organizations and terrorist financiers. These systems include bulk currency smuggling, trade based money laundering, courier hubs, banks, money service businesses, alternate remittance systems, charities, and cyber crimes.

ICE, along with our partners at Customs and Border Protection, are well-equipped to identify commodities that are imported and exported from the United States and that can be used to ***store*** the proceeds of illegal activity. For example, criminal organizations have used commodities such as gold and precious metals to disguise their ill-gotten gains. Such a scheme was recently uncovered in a joint investigation in New York called "Operation Meltdown," conducted by the ICE El Dorado Task Force and IRS in New York.

Operation Meltdown was a trade-based money laundering investigation involving jewelers in New York who were converting drug proceeds into the equivalent value in gold, which was then molded into various commodities such as tools, nuts, bolts and trailer hitches. This disguised gold was then transported to Colombia and resold for cash. This investigation resulted in the arrest of 23 individuals, 20 of whom were subsequently convicted for money laundering and Bank Secrecy Act violations.

With Cornerstone, ICE has taken a step beyond a traditional law enforcement investigative approach. Cornerstone provides the comprehensive investigative and intelligence resources necessary to track trends in criminal and terrorist financing schemes. Rather than attempting to target and investigate specific terrorist organizations and how they raise their money, Cornerstone targets the criminal methods themselves – identifying and shutting down the vulnerabilities in commercial, trade, and financial systems exploited by both criminal and terrorist organizations.

III. ICE's Collaboration with Law Enforcement and the Private Sector

Money laundering and terrorist financing are complex crimes that are beyond the scope of any one agency or sector to resolve alone. ICE recognizes the importance of sharing information and partnering with the law enforcement community, the regulatory community, and the private sector to combat money laundering and terrorist financing. ICE would like to acknowledge our strong partnerships with Customs and Border Protection (CBP), the U.S. Secret Service (USSS), the Internal Revenue Service (IRS), the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Department of the Treasury, the Department of Justice (DOJ), and the Financial Crimes Enforcement Network (FinCen). ICE would like to recognize our partners in the private sector, such as the financial and securities industries that have contributed greatly to the government's efforts to combat money laundering and terrorist financing.

This success has been demonstrated through the partnership that ICE and the FBI have established in the area of terrorist financing. ICE and the FBI have developed and implemented joint protocols and procedures that have resulted in the timely and efficient sharing of information.

Through Cornerstone, ICE has embarked on an aggressive outreach program with the private sector to exchange information indicative of criminal activity. ICE has trained more than 100 Special Agents dedicated to Cornerstone in each of ICE's 27 field offices. These Special Agents serve as liaisons with the

private sector in facilitating the exchange of vital information to identify trends and typologies within financial and trade systems. ICE shares this information through a quarterly report, ***Tripwire***, to provide up-to-date information to both law enforcement and the private sector on criminal methods used to exploit vulnerabilities within trade and financial systems.

IV. ICE Financial Programs, Initiatives, and Successes

The ICE Financial Division is home to the Money Laundering Coordination Center (MLCC). The MLCC serves as the central clearinghouse for ICE's undercover drug money laundering operations, many of which target the BMPE. The MLCC serves as a repository for identifying information that is derived as a result of these operations. Information that is collected by the MLCC is then analyzed to identify targets, recipients of BMPE dollars, methodologies, and trends and patterns. The MLCC serves as a deconfliction mechanism for the 27 ICE field offices conducting drug money laundering operations.

ICE has also developed an important analytical tool used by the MLCC called the Numerical Integrated Profiling System (NIPS). NIPS is an advanced software program that analyzes foreign and domestic trade data, passenger travel information, Bank Secrecy Act (BSA) data, and immigration data, seeking to identify anomalies in the collective information. The information developed by NIPS is then used to target potential violators of the BMPE.

The MLCC and NIPS fully complement ICE's Plan Colombia initiative by providing the infrastructure to analyze the information that is developed on the BMPE. Under Plan Colombia, ICE Special Agents have been detailed to the Colombian Customs and Tax Authority to assist in the analysis of the BMPE and to develop leads for investigation. ICE has provided computers and training to the relevant Colombian authorities in this effort. In return, the Colombian government has provided trade data to ICE for analysis. ICE is attempting to duplicate the success of Plan Colombia with other Central and South American countries that are impacted by the BMPE.

ICE continues to work with our partner CBP to enforce currency and monetary instruments (CMIR's) reports and bulk currency laws. Thus far, in fiscal 2004, ICE has seized approximately $54 million in currency and negotiable instruments. Since the enactment of the Bulk Currency statute, ICE Special Agents have made133 arrests that have resulted in 103 indictments and 53 convictions.

In addition, ICE has established the first Politically Exposed Persons (PEPS) Task Force located in Miami, Florida. The PEP Task Force was established in conjunction with ICE's international division, the U.S. Attorneys office and the U.S. Department of State. The Task Force's goal is to identify, locate, and seize assets of corrupt politically exposed persons involved in the theft of embezzled government funds. An example that highlights the success of this Task Force is the conviction in Nicaragua of the former Nicaraguan President Arnoldo Aleman. ICE investigators worked with their Nicaraguan counterparts to discover and seize assets located in the United States belonging to Aleman valued in excess of $5 million dollars.

V. Conclusion

With the expansive enforcement capabilities and innovative investigative techniques that ICE has brought together in Cornerstone, our agency is well positioned to combat money laundering and terrorist financing. Our wide array of statutory authorities gives ICE the flexibility to adapt to the ever-changing patterns of terrorist and criminal schemes. By taking a proactive approach to preventing future terrorist attacks and criminal activity, ICE will continue to align our investigative priorities with the critical role of protecting our Homeland.

In conclusion, I would like to thank Chairman Souder and the Members of this Subcommittee for the opportunity to testify before you today. It would be my pleasure to answer any questions you may have.

Mr. SOUDER. I thank each of you as you are going through this testimony, because it is, like, summarize in 5 minutes everything that you and hundreds of people do a very detailed type of thing. So I appreciate your ability to summarize this, and we will try to develop it further in questions.

Mr. Semesky.

Mr. SEMESKY. Chairman Souder, I would like to thank you for the opportunity to testify before your subcommittee today on the importance of cooperation and coordination between those agencies entrusted with the investigation and enforcement of money laundering and terrorist financing laws of the United States. As the Nation's single mission Drug Enforcement Agency, the Drug Enforcement Administrations anti money laundering mission is directed solely at funds derived from the trafficking of illegal narcotics. Under administrator Karen P. Tandy's leadership, significant strides have been made in DEA's financial enforcement program. Structurally, the Office of Financial Operations has been formally established at DEA headquarters. Each DEA domestic field division has formed one or more financial investigative teams, or FIT teams. FIT teams are also being established in DEA country offices in Colombia, Mexico and Thailand.

The cultural mind set is also changing as evidenced by DEA's enthusiastic pursuit of specialized money laundering training, eager participation in multi agency financial initiatives, and most importantly, a renewed focus on the money and all of its domestic and international drug investigations. DEA recognizes that the estimated $65 billion per year illegal drug industry in the United States is a national tragedy that requires the dedicated resources of many Federal, State and local agencies to combat. DEA believes that the best way to combat this scourge is through interagency cooperation, the sharing of intelligence and coordination of enforcement activities.

I would like to share with the subcommittee some of the ways the DEA has put this into action on the drug money laundering front. On the national level, DEA is participating in the multi agency OCDEF Drug Fusion Center. The Fusion Center, which will have a financial intelligence component known as the Narcotics Financing Strategy Center, will integrate drug-related financial intelligence with critical drug intelligence, allowing connections between the money and the underlying criminal activity that heretofore has not been possible. In 1999, DEA created a financial group of the special operations division or SOD to coordinate high level money laundering wiretap investigations.

To encourage participation, ICE was given the lead and placed an assistant special agent in charge at SOD to supervise this section, which includes agents from DEA, ICE, IRS, CI and the FBI. Financial operations is working toward implementation of several national money laundering initiatives that involve joint partnership with one or more of our Federal law enforcement counterparts. Two of these initiatives involve the combining of separate ongoing bulk cash and wire remitter initiatives into joint agency initiatives aimed at the integration and analysis of financial intelligence information.

Financial operations is also established in an interagency working group made up of both Federal law enforcement and regulatory agencies to identify major drug money laundering threats and form a consensus of what criminal and regulatory measures would form the best combination for addressing these threats. Financial operations has also taken over liaison responsibility with Treasury Office of Foreign Assets Control and will be assisting OFAC in compiling and vetting intelligence information on individuals and related entities nominated for inclusion on OFAC's Drug Kingpin and specially designated narcotics traffickers programs.

Under DEA's terrorism information sharing program, all DEA entities must identify and report investigations that have a nexus or potential nexus to extremist or terrorist organizations to an established SOD mechanism to ensure that all terrorist-related information is immediately shared with the appropriate agencies. 17 of DEA's 21 domestic field divisions FIT teams have participation of one or more Federal law enforcement agencies that also have money laundering jurisdiction. The FIT teams have also been tasked to participate in all high intensity financial crime area task forces and suspicious activity report review teams in their areas of responsibility. DEA currently has 80 offices in 56 countries around the world. These offices work closely with their host nation counterparts.

DEA is already working closely with its foreign law enforcement counterparts on many significant drug money laundering investigations, most in support of DEA domestic field division cases and at times, other U.S. agencies investigations as well. Drug trafficking organizations attack the soul and fabric of America in pursuit of one thing, the money. As American defenders against these vile organizations, it is incumbent upon the U.S. Drug Enforcement Administration to attack these groups on all fronts.

There is no more important battle in this effort than the attack against the proceeds that fuel this illicit industry and provides a motive to those who prey upon our society. DEA is committed to working with its law enforcement counterparts to fight against drug money laundering.

Mr. Chairman, thank you for the opportunity to testify here today, and I will be happy to answer any questions you may have.

Mr. SOUDER. Thank you.

[The prepared statement of Mr. Semesky follows:]

Statement of
Donald C. Semesky, Jr.
Chief of Financial Operations
Drug Enforcement Administration

Before the

House Government Reform
Subcommittee on Criminal Justice, Drug Policy and Human Resources

May 11, 2004

"Terrorist Financing and Money Laundering Investigations: Who Investigates and How Effective are They"

Chairman Souder and distinguished members of the Subcommittee, it is a pleasure to appear before you today to discuss the importance of combating money laundering and terrorist financing as it is one of the cornerstones of Administrator Karen P. Tandy's vision for the Drug Enforcement Administration (DEA). My name is Donald Semesky, and I am the Chief of DEA's Financial Operations. On behalf of Administrator Karen P. Tandy, I would like to thank this subcommittee for its unwavering support of the men and women of the DEA and its mission.

Overview

The motivation for virtually everyone involved in illegal drug trafficking, from kingpin to street dealer, is the money. To make a significant impact on the drug trade in America and around the world, there is no strategy more effective than following the money back to the sources of drug supply and taking away the dirty profits of that trade. While the Office of National Drug Control Policy (ONDCP) has estimated that Americans spend approximately $65 billion per year on illegal drugs, current seizures are well short of $1 billion per year. That amount of money is less than 10% of the average fee paid by drug traffickers to launder their illicit incomes.

Administrator Tandy has systematically transformed not only the organization and operation of the DEA regarding financial investigations, but also the fundamental mindset. Since every drug transaction has a profit motive, every investigation has a financial component. Therefore, the Office of Financial Operations (FO) was established at DEA headquarters and financial teams were placed in each field division. FO augments all of the DEA's domestic and foreign financial investigations in the field by providing the necessary assistance to enhance and build the expertise to identify, document, disrupt, dismantle, and prosecute drug and drug-money laundering organizations, and identify, seize and forfeit their illicit revenues. The formation of FO is an integral part of revitalizing DEA's attack on the illicit proceeds of drug trafficking organizations.

Each of the DEA's 21 field divisions has already established at least one Financial Investigative Team (FIT). Many of the FIT Teams are staffed not only with DEA special agents and analysts but also with special agents from the Internal Revenue Service-Criminal Investigation Division (IRS-CID), U. S. Immigration and Customs Enforcement (ICE), the Federal Bureau of Investigation (FBI), the Postal Inspection Service, and state and local law enforcement officers. These FIT Teams are vital to our success and will be responsible for handling the more complex drug-money laundering investigations and projects, serving as field division resident experts and supporting DEA's national money laundering initiatives. We are placing an increased emphasis on the DEA's collection of intelligence relative to the way drug networks make, transport, and store money and assets. DEA Special Agents in Charge and Country Attaches agency-wide are reemphasizing the importance of debriefing human sources of information about the drug trade and the money that fuels it. DEA Country Offices in Colombia and Mexico are increasing their special agent commitments to money laundering investigations. Other DEA Country Offices also are refocusing their investigative efforts to increase concentration on the financial aspects of their investigations. We are also making financial background a priority in hiring new special agents and undertaking additional initiatives to increase interagency cooperation and enhance training in drug financial investigations. The DEA is already bringing this focus to bear on such problems as bulk currency movement and the black market peso exchange.

Training

The DEA also has expanded and reemphasized financial investigations in our hiring and training. With respect to hiring, we are aggressively recruiting new personnel with financial degrees and work experience.

With respect to training, FO currently conducts and coordinates all training for DEA relating to money laundering and financial investigations. Training is also provided to federal, state, local, and international law enforcement counterparts in addition to individuals in the banking and financial sectors. DEA Training at Quantico is in the process of increasing its financial investigative instructor cadre and will be assuming most of the responsibility for DEA's financial investigative training.

The DEA conducts a three-day conference annually on Attorney General Exempted Operations (AGEO). A DEA supervisor, case agent, and an Assistant United States Attorney (AUSA) from each of DEA's 21 field divisions attend. Representatives from other various Department of Justice (DOJ) components are also in attendance. A representative from each AGEO provides an overview on their operation. Presentations are also made from such agencies as the World Bank, Office of the Controller of Currency and Commerce and Treasury Departments on matters relating to currency flow and trade. Representatives are also sought from the private banking arena to discuss standard banking practices.

Specific Priorities and Financial Initiatives

Understandably, DEA cannot address the entire $65 billion generated by the illegal drug industry all at once. We must prioritize our efforts against the financial infrastructure of the drug networks and their drug proceeds that will best allow us to accomplish our mission, which is to eliminate the supply of illegal drugs in the United States. Knowing that the illicit drug proceeds that flow back to international sources of drug supply fuel the machines that send poison to our country, we have targeted our anti-money laundering efforts on investigations and interdiction on that portion of illegal drug proceeds that facilitate future production of drugs, support the financial infrastructure of drug trafficking organizations, and finance terrorism. As we progress in this arena, we also will be focusing on the personal wealth of major drug traffickers, especially where this wealth causes economic and social harm, such as an unfair competitive advantage that a business financed with drug dollars would have over legitimately financed enterprises. More specifically, DEA is currently concentrating on bulk currency, the black market peso exchange, and the Southwest border.

Bulk Currency

The USA PATRIOT Act tightened the controls and reporting requirements on financial and non-financial institutions, dramatically decreasing smuggling through legitimate channels. Use of illegitimate channels, such as smuggling of large sums of cash across our borders, has grown in prevalence and continues to be the primary method used to expatriate drug proceeds from the United States.

To address this increasing threat, the DEA, IRS-CID and ICE are working together to initiate a bulk currency program to coordinate all U.S. highway interdiction money seizures in order to develop the evidence necessary for identifying, disrupting and dismantling large-scale narcotic trafficking organizations. Upon notification of a cash seizure by a state or local municipality, agents will respond to the scene, assist with debriefing of the defendants, and coordinate potential controlled deliveries of currency. Agents will also assist in follow-up investigations, seizure and forfeiture of currency, and provide guidance on federal prosecution. The resources of the DEA's El Paso Intelligence Center (EPIC) will be used to conduct research and analyze evidence and intelligence relating to priority organization targets and other types of investigations.

Black Market Peso Exchange (BMPE)

The Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. The BMPE is a "parallel exchange" system where drug traffickers sell U.S. drug proceeds to brokers for pesos. Brokers then sell the drug proceeds to Colombian importers who purchase goods in the United States and elsewhere. These goods often appear in Colombia as smuggled contraband. By purchasing the U.S. dollars on the BMPE and not through Colombia's regulated exchange system, the importers avoid Colombian taxes and tariffs, gaining significant profit, and a

competitive advantage over those who import legally. Prosecution of individual peso brokers, their agents in the U.S. who are often referred to as "smurfs", and businesses that buy or receive BMPE dollars have been successful individually, but have had little effect on the system and no effect on the Colombian drug trafficking organizations who sell their dollars to the peso brokers. Consequently, DEA is changing its investigative tactics to assure that our BMPE money laundering investigations are focused to inflict the most damage against the Colombian sources of drug supply. DEA is also a participant in a multi-agency initiative to attack the BMPE as a system rather than on an individual case-by-case basis.

Bilateral Southwest Border Collective Targeting Initiative

The Bilateral Southwest Border Collective Targeting Initiative focuses on identifying and targeting Southwest Border money laundering schemes. The DEA Southwest Border Offices are investigating a wide range of narcotics related money laundering and bulk smuggling practices. We presently have active investigations targeting laundered U.S. dollars from Mexico and Colombia into the United States and the smuggling and transportation of bulk cash shipments from the United States into Mexico.

Information Sharing

We also are working to share information on drug financial investigations with other agencies, both to assist in the fight against terrorism and to improve overall coordination and cooperation for financial investigations.

Terrorism

Drug enforcement can play a critical role in protecting our national security by starving the financial base of criminal organizations. Traditional criminal organizations continue to dominate the international drug trade at all levels, but some terrorist organizations are involved in drug-related activities. Drug income is among the sources of revenue for some international terrorist groups. Department of Justice investigations have highlighted the links between groups and individuals under investigation for drug violations and terrorist organizations. In fact, 47 percent of the 36 Foreign Terrorist Organizations identified and updated by the Department of State in October 2003 are on record with DEA as having possible ties to the drug trade.

Although the DEA does not specifically target terrorists or terrorist organizations we do target those associated with major drug trafficking organizations like the FARC and the AUC. For example, in 2002, several high ranking members of the Revolutionary Armed Forces of Colombia (FARC) and the United Self-Defense Forces of Colombia (AUC) were indicted in the United States for drug trafficking. This case represents one of the first times that drug-trafficking charges were brought in the United States against members of foreign terrorist organizations. In fiscal year 2003, DEA disrupted one and dismantled four Priority Target Organizations with terrorism links. As of May 4, 2004, DEA can identify a total of 55 Priority Target Investigations that have links to terrorist organizations. Of these 55 active Priority Target Investigations, 5 are identified as having money laundering as the primary focus and are supported by OCDETF.

Interagency Cooperation

The DEA Terrorism Information Sharing Program institutionalizes within DEA the Attorney General's directive to coordinate information and activities to prevent and disrupt terrorist activities. Under this program, all DEA entities must identify investigations that have a nexus or potential nexus to extremist and terrorist organizations. For financial investigations, FO provides DEA's coordination to the National Money Laundering Committee, the Treasury Department's Financial Crimes Enforcement Network and Interagency Coordinating Group and the FBI's Terrorist Financial Review Group. In addition, DEA's Special Operations Division coordinates and mutually shares investigative and intelligence resources with the FBI, ICE, and IRS-CD in a concentrated and centralized environment.

Conclusion

Drug trafficking organizations attack the soul and fabric of America in pursuit of one thing, money. As America's defenders against these vile organizations, it is incumbent upon us in the Drug Enforcement Administration to attack these groups on all fronts. There is no more important battle in this effort than the attack against the proceeds that fuel this illicit industry and provides the motive to those who prey upon our society. The DEA is embracing this responsibility through its investigative efforts, to lead the fight against drug money laundering.

Mr. Chairman, thank you for the opportunity to testify here today and I will be happy to answer any questions you may have.

Mr. SOUDER. Mr. Morehart.

Mr. MOREHART. Good morning, Chairman Souder and distinguished members of the committee. On behalf of the FBI, I'd like to thank you for this opportunity to testify before you today. I'll discuss the combined efforts of the FBI in combination with its partners in law enforcement toward enhancing both cooperation and the efficiency with which we interact to address the investigation of money laundering and terrorist financing matters. The FBI's counterterrorism program has made comprehensive changes in order to meet its primary mission of detecting, disrupting and defeating, or more simply put, preventing terrorist operations before they occur. We have spent the last 2½ years transforming operations and realigning resources to meet the threats of the post-September 11 environment.

Terrorists, their networks and their support structures require funding in some form to exist and operate. The financial support usually leaves a trail that can be exploited by law enforcement for investigative purses. Being able to identify and track those financial trails after a terrorist act has occurred is important. But the key to achieving the mission of prevention lies in exploiting financial information to identify previously unknown or undetected terrorists and/or terrorist cells. To this end, the FBI has bolstered its ability to effectively combat terrorism through the formation of the terrorist financing operation section, or as it is more commonly known, TFOS.

The mission of TFOS is broad. It ranges from conducting full financial analysis of terror suspects and their financial support structures in both the United States and abroad to developing predictive models and conducting data analysis to facilitate the identification of previously unknown terrorist suspects. In addition, the FBI has undertaken a number of other investigative initiatives to improve information sharing and coordination with our national and international partners. For instance, we have significantly increased the number of joint terrorism task forces, or JTTFs across the country. Prior to September 11 there were 34 JTTFs. There are now 84.

The JTTFs, as you may know, effectively partner FBI personnel with literally hundreds of investigators from various Federal, State and local agencies. The members include representatives from a variety of Federal agencies, including most, if not all, of those represented here today as well as others. Subsequent to the events of September 11, 2001, the U.S. Customs Service was mandated to investigate terrorism financing. This was achieved via the initiation of Operation Green Quest that attained a number of successes, but represented in some measure a duplicative effort and reinforced the need for a centralized coordinating entity.

Consequently, a memorandum of agreement pertaining to the investigation of terrorism financing was entered into between the Department of Justice and the Department of Homeland Security. The MOA addressed the importance of waging a seamless coordinated law enforcement campaign against terrorist financing. The MOA, signed by Attorney General Ashcroft and DHS Secretary Ridge on May 13, 2003, designated FBI as the lead agency in terrorism financing investigations and operations there by enabling

DHS to focus its law enforcement activities on protecting the security and integrity of the U.S. financial systems through Operation Cornerstone, which was previously described by Ms. Forman.

Former U.S. Customs Service Operation Green Quest criminal cases, having no nexus to terrorism, are still being worked by ICE, while those having a nexus to terrorism were transferred or transitioned to the appropriate JTTF, where ICE task force members continue to play significant roles. In accordance with the MLA, ongoing and future ICE financial investigations have developed links to terrorism will be referred to the FBI through TFOS. I will also note that the FBI, pursuant to the MOA along with ICE has developed collaborative procedures to insure that will happen in the future.

In addition to the aforementioned efforts on a national level, the National Security Council formalized a policy coordinating committee on terrorist finance at the end of 2001. The NSC chairs the PCC, which regularly meets to coordinate the U.S. Governments campaign against terrorist financing. The Departments of State, Treasury, Homeland Security and Justice also participate in an interagency terrorist financing working group chaired by the State Department. The working group has identified 42 countries whose cooperation is crucial to the war on terrorism. All of the participating agencies work closely to provide training or technical assistance to each of those countries.

With respect to the 2003 money laundering, national money laundering strategy, the FBI concurs with the strategies, goals and objectives as set forth by the Treasury Department, the blocking of terrorist assets worldwide, establishing and promoting international legal standards for adoption by other countries to safeguard their financial infrastructures from abuse and facilitating an exchange of international information are several key objectives which must be achieved if we are to stem the flow of illegal funds throughout the world.

Also I would like to add the FBI's efforts to combat terrorism have been greatly aided by the provisions of the USA Patriot Act, and pursuant to the 2003 national money laundering strategy, the FBI is insuring its vigorous and appropriate application that has already an extraordinary beneficial in the war on terrorism. Most importantly, the Patriot Act has facilitated the sharing of information within the law enforcement and intelligence community.

In summary, the FBI understands that combating terrorist financing is a mission that cannot be accomplished independently. The need for information sharing and close cooperation cannot be overstated.

I'd like to thank you for the opportunity to testify before you today and to highlight the FBIs investigative efforts and the role of the FBI in combating terrorist financing. It would be my pleasure to answer any questions that you might have.

Mr. SOUDER. Thank you.

[The prepared statement of Mr. Morehart follows:]

Testimony of Michael F.A. Morehart
Section Chief,
Terrorist Financing Operations Section
Counterterrorism Division
Federal Bureau of Investigation

Before the Congressional Committee of Government Reform
Subcommittee on Criminal Justice, Drug Policy, and Human Resources

"Terrorist Financing and Money Laundering Investigations: Who Investigates and How Effective are They"
May 11, 2004

Good morning, Chairman Souder, Ranking Member Cummings and distinguished members of the committee. On behalf of the Federal Bureau of Investigation (FBI), I would like to thank you for this opportunity to testify before you today. I will discuss the combined efforts of the FBI and its partners in law enforcement, which have resulted in a significant improvement in cooperation and the efficiency with which we interact to address the investigation of money laundering and terrorist financing matters. I will provide as much information as I am able, given the open nature of this forum. I should also caution that long-standing FBI policy prohibits us from commenting on the specifics of ongoing investigations and will therefore not be able to provide the Subcommittee with the operational details of any specific investigation referenced in this testimony.

The FBI's Counterterrorism program has made comprehensive changes in order to meet its primary mission of detecting, disrupting and defeating, or more simply put, preventing terrorist operations

before they occur. We have spent the past two and a half years transforming operations and realigning resources to meet the threats of the post-September 11th environment.

Terrorists, their networks and their support structures require funding in some form to exist and operate. Whether the financial support is minimal or substantial, or whether the funds are derived from illegal narcotics or some other criminal activity, it usually leaves a trail that can be exploited by law enforcement for investigative purposes. Being able to identify and track these financial trails after a terrorist act has occurred is important, but the key to achieving the mission of prevention lies in exploiting financial information to identify previously unknown or undetected terrorists and/or terrorist cells. To this end, the FBI has bolstered its ability to effectively combat terrorism through the formation of the Terrorist Financing Operations Section, or TFOS.

The mission of TFOS includes conducting full financial analysis of terrorist suspects and their financial support structures in the United States and abroad; coordinating joint participation, liaison and outreach efforts to appropriately utilize financial information resources of private, government and foreign entities; utilizing FBI and Legal Attache' expertise to fully exploit financial information from foreign law enforcement, including the overseas deployment of TFOS personnel; working jointly with the intelligence community to fully exploit intelligence to further terrorist investigations; working jointly with prosecutors, law enforcement and regulatory communities; and developing predictive models and conducting data analysis to facilitate the identification of previously unknown terrorist suspects.

In addition, the FBI has undertaken a number of initiatives to improve information sharing and coordination with our national and international partners. For instance, we have significantly increased the number of Joint Terrorism Task Forces, or JTTFs, across the country. Prior to September 11th there were 34 JTTFs in existence, now there are 84.

The JTTFs effectively partner FBI personnel with literally hundreds of investigators from various federal, state and local agencies. The success of the JTTFs lies in the vast and varied expertise of its members' ability to investigate terrorism. These members include representatives from a variety of federal agencies such as the Bureau of Immigration and Customs Enforcement, or ICE, the Internal Revenue Service, the Departments of State, Defense and Treasury, the Postal Inspection Service and the Environmental Protection Agency. It is important to note that every agency has an open-ended invitation to participate in the JTTF. The FBI sends all terrorism leads and terrorism related information directly to the JTTFs. All participating agencies are involved in the investigation of terrorism cases and can use the full resources of the entire task force when required. Moreover, all agencies have full access to each others' information systems and files.

Subsequent to the events of September 11, 2001, the United States Customs Service was mandated to investigate terrorism financing. This was achieved via the initiation of "Operation Green Quest." Green Quest attained a number of successes, but represented, in some measure, a duplicative effort and reinforced the need for a centralized coordinating entity. Consequently, a Memorandum of Agreement (MOA) pertaining to the investigation of terrorism financing was entered into between the

Department of Justice (DOJ) and the Department of Homeland Security (DHS). The MOA addressed the importance of DOJ, FBI and DHS waging a seamless, coordinated law enforcement campaign relative to terrorist financing

The MOA, signed by Attorney General Ashcroft and DHS Secretary Ridge on May 13, 2003, designated the FBI as the lead agency in terrorist financing investigations and operations; thereby enabling DHS to focus its law enforcement activities on other criminal schemes that threaten the integrity of United States financial systems. DHS has implemented "Operation Cornerstone", led by ICE, to investigate criminals who launder illicit proceeds, to bring them to justice and to help try to eliminate financial infrastructure vulnerabilities. Former US Customs Service "Operation Green Quest" criminal cases having no nexus to terrorism were converted to "Operation Cornerstone," while those cases having a nexus to terrorism were transitioned to the appropriate JTTF where participating ICE Task Force members continue to play significant roles. In accordance with the MOA, ongoing and future "Operation Cornerstone" investigations that develop links to terrorism will be referred to the FBI through TFOS.

By addressing the need for coordination and recognizing the expertise and strengths of ICE and the FBI, the MOA provides direction and needed coordination in the war on terrorism. The result is the enhanced ability to detect systemic vulnerabilities within the financial framework. Consequently, the financial systems are continually analyzed from a big picture perspective and those exploiting the systemic weaknesses are scrutinized.

Pursuant to the MOA, ICE and the FBI developed collaborative procedures to determine whether appropriate ICE financial crime leads or money laundering investigations may be related to terrorism or terrorist financing. These procedures are included as an attachment to supplement this testimony.

These procedures provide a framework for the review of all appropriate ICE financial leads and investigations within the confines of a Joint Vetting Unit, or JVU. The JVU is comprised of both ICE and FBI personnel. The JVU's primary responsibility is to evaluate ICE investigations to determine whether a nexus to terrorism or terrorism financing exists. Moreover, relevant data associated with the investigation is compared to data contained in FBI databases in order to ensure investigative deconfliction. If the vetted investigation or information is identified as having a significant nexus to terrorism or terrorist financing, the investigation is referred to the ICE Deputy Chief at TFOS, Brock Nicholson. The ICE Deputy Chief, in turn, examines the information provided and discusses the elements of the terrorism nexus with the FBI TFOS Section Chief. A collaborative determination is then made regarding whether the investigation will be conducted under the auspices of the JTTF, taking into account the strength of the terrorism or terrorist financing nexus, the impact on the investigation of non-terrorism matters and the stage and development of the respective investigation.

If a matter is determined to have a sufficient terrorism nexus and is transitioned to the relevant JTTF, both the FBI and ICE are mindful that ICE agents devoted substantial efforts in initiating and developing their case prior to the transition. Recognizing this, ICE and the FBI have agreed that ICE

agents assigned to those JTTF investigations will serve as lead case agents in the investigations and prosecutions developed by ICE. Both agencies understand that the coordinated tasking and utilization of ICE and FBI resources, coupled with joint collaborative decision-making on strategy and operational issues, as well as the sharing of intelligence, will ensure that all investigative avenues are explored, and all intelligence gathering and investigative tools are properly employed.

The application of the MOA allowed the FBI and ICE to exchange senior personnel. In this vein, a senior manager from the Financial Investigations Division of ICE currently serves as the Deputy Chief of the FBI's TFOS. The ICE Deputy Chief has a fully integrated role in the evaluation and determination of whether an ICE investigation has a nexus to terrorism or terrorist financing. The ICE Deputy Chief has full access to FBI databases and other resources as he deems necessary. Likewise, the FBI assigned a senior manager from TFOS to the ICE Financial Division to participate in the vetting process and the generation of leads to TFOS.

To date, the vetting has been utilized in the review of 30 cases. Ten of these were identified as having confirmed connections to terrorism or terrorist financing, and ICE agreed to transition those ten cases to the appropriate JTTF.[1]

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[1] As to the remaining 20 investigations, it was determined they were either (1) of no further investigative interest to ICE, however, ICE agreed to provide personnel and other assistance to the JTTF, as needed; (2) already under the direction of the JTTF, or a working agreement was in place between the FBI, ICE and the respective U.S. Attorney regarding the investigation; or (3) investigations where no defined terrorist nexus had been established, resulting in continued coordination of investigative efforts between FBI and ICE offices.

In addition to the aforementioned efforts, on a national level, the National Security Council (NSC) formalized the Policy Coordinating Committee (PCC) on Terrorist Financing at the end of 2001. The NSC chairs the PCC, which generally meets at least once a month to coordinate the United States Government's campaign against terrorist financing.

The Departments of State, Treasury, Homeland Security and Justice also participate in an interagency Terrorist Financing Working Group, chaired by the State Department, to coordinate government efforts to identify, prioritize, assess and assist those countries whose financial systems are vulnerable to terrorist exploitation. Groups of experts, including DOJ money laundering prosecutors, law enforcement officials from many U.S. Government agencies and regulatory members, have provided extensive on-the-ground assessments of such countries' vulnerabilities in an effort to develop and provide targeted training and technical assistance to those countries identified as most vulnerable. The Working Group has identified 42 countries whose cooperation is critical in the war against terrorism. All of the participating agencies have the opportunity to provide training or technical assistance to each of these countries. The agencies work together closely to make sure that this assistance is not duplicative and provides needed tools in the investigation of terrorism financing.

With respect to the 2003 National Money Laundering Strategy, the FBI concurs with the strategy's goals and objectives as set forth by the Treasury Department. The blocking of terrorist assets worldwide, establishing and promoting international legal standards for adoption by other

countries to safeguard their financial infrastructures from abuse and facilitating the exchange of international information are several key objectives which must be achieved if law enforcement and regulatory agencies are to have any success in stemming the flow of illegal funds throughout the world.

Money laundering and terrorist financing raise significant issues with respect to prevention, detection and prosecution of terrorism. Sophisticated techniques employed to launder money and finance terrorism add to the challenges and complexity of the issue. These techniques may involve myriad types of transactions as well as a plethora of financial institutions and related entities, such as financial advisers, shell corporations and service providers who act as intermediaries for transfers to, through, and from different countries; and the use of different financial instruments and other kinds of value-storing assets. Money laundering is a fundamentally simple concept; it is the process by which proceeds from a criminal activity are disguised to conceal their illicit origins. Likewise, the financing of terrorism is also a simple concept; it is the financial support of terrorist acts or those who encourage, plan, or engage in terrorism. Money laundering and terrorist financing often display similar transactional features, most having to do with concealment. Money launderers send illicit proceeds through legal channels so as to conceal their criminal origins, while those who finance terrorism transfer funds that may be legal or illicit in origin in such a way as to conceal their source and ultimate use, which is the support of terrorism.

By their very nature, money laundering and terrorist financing are geared towards secrecy and

do not lend themselves to statistical analysis. Money launderers do not document the extent of their operations or publicize the amount of their profits, nor do those who finance terrorism. Moreover, because these activities take place on a global basis, estimates are even more difficult to produce.

The FBI's efforts to combat terrorism have been greatly aided by the provisions of the USA PATRIOT Act and, pursuant to the 2003 National Money Laundering Strategy, the FBI is ensuring its vigorous and appropriate application. It has already proven extraordinarily beneficial in the war on terrorism. Most importantly, the PATRIOT Act has facilitated the sharing of information within the law enforcement and intelligence communities. Title III of the Act, also known as the International Money Laundering Anti-Terrorist Financing Act of 2001, has armed us with a number of new tools in our efforts to identify and track the financial structures supporting terrorist groups.

Past terrorist financing methods have included the use of informal systems for transferring value in a manner that is difficult to detect and trace. The effectiveness of such methods should be significantly eroded by the PATRIOT Act, which establishes stricter rules for correspondent bank accounts; requires securities brokers and dealers to file Suspicious Activity Reports, or SARS; and money transmitting businesses, which include any person who engages as a business in the transmission of money, to register with the Financial Crimes Enforcement Network (FinCEN) and file SARS.

There are other provisions of the Act that have considerably aided the efforts of law enforcement to address the terrorist threat including: strengthening the existing ban on providing

material support to terrorists and terrorist organizations; the authority to seize terrorist assets; and the power to seize money subject to forfeiture in a foreign bank account by authorizing the seizure of funds held in a US correspondent account. The FBI understands that combating terrorist financing is a mission that cannot be accomplished independently. The need for information sharing and close cooperation cannot be overstated.

Thank you for the opportunity to testify before you today and to highlight the FBI's investigative efforts and the role of the FBI in combating terrorist financing. It would be my pleasure to answer any questions.

Collaborative Procedures Pertaining to the Memorandum of Agreement (MOA) Between the Department of Justice (DOJ) and the Department of Homeland Security (DHS)

Consistent with the MOA dated May 13, 2003, the FBI and DHS/Bureau of Immigration and Customs Enforcement (BICE) jointly agree on the ~~following~~ collaborative procedures to determine whether appropriate BICE financial crime leads or money-laundering investigations may be related to terrorism or terrorism financing. Nothing in this document shall supersede the written provisions enumerated in the aforementioned MOA. The following procedures pertain only to information and operations of DHS/BICE:

1. DHS/BICE will establish a Joint Vetting Unit (JVU) within the Financial Information Analysis Section (FIAS), which will continue to utilize the existing ICE vetting methodology to identify financial leads or investigations with a nexus to terrorism or terrorism financing consistent with the MOA.

2. The JVU will be staffed by DHS/BICE and FBI personnel who will have full access to relevant DHS/BICE and FBI databases to conduct reviews to determine whether a nexus to terrorism or terrorism financing exists in the appropriate DHS/BICE lead information or investigations. The JVU will establish a joint tracking system on investigative leads referred to the JVU and provide the assigned FBI personnel access to this system.

3. Throughout the collaborative vetting process, the determination of whether a DHS/BICE investigative referral or investigation is related to terrorism or terrorist financing shall be governed by the factors as delineated in the MOA.

4. DHS will designate a BICE official to serve as the Deputy Chief of the FBI's Terrorism Financing Operations Section (TFOS). The Deputy Chief will have a fully integrated role in the evaluation and determination of whether a DHS/BICE referral or investigation has a nexus to terrorism or terrorism financing. The Deputy Chief and other DHS/BICE personnel assigned to TFOS will be provided complete and continuous access to FBI databases.

5. If, after collaborative consultation is made between the TFOS Section Chief and the DHS/BICE Deputy Chief, TFOS determines that a lead or investigation has a nexus to terrorism or terrorism financing, the matter will be investigated solely through the National Joint Terrorism Task Force (NJTTF), Joint Terrorism Task Force (JTTF) and TFOS, except as expressly approved by TFOS as delineated in the MOA.

6. Beginning on or about July 1, 2003, DHS/BICE and the FBI will begin the joint collaborative review within the JVU of pending DHS/BICE terrorist financing investigations. The review process to determine nexus to terrorism and terrorism financing will be governed by the procedures as outlined in this document and as delineated in the MOA.

Michael Garcia
Assistant Secretary
Bureau of Immigration and Customs Enforcement

7-2-03
Date

Robert Mueller
Director
Federal Bureau of Investigation

7/7/03
Date

Mr. SOUDER. Mr. Sparlin.

Mr. SPARLIN. Good morning, Mr. Chairman, Congresswoman Blackburn. Thank you for the opportunity to be here today to highlight the specialized skills of the Internal Revenue Service Criminal Investigation Division and the contributions we make along with our counterpart law enforcement agencies to our national effort to combat money laundering and terrorist financing. I wish to thank the subcommittee for the work you have done and are doing on these important issues. And I would especially like to thank your staff for the assistance in the preparation for these important discussions today.

The fundamental mission of the Criminal Investigation Division is to investigate complex tax and money laundering cases. To accomplish this, we recruit individuals with accounting and business backgrounds. Through a process of rigorous training and years of experience, we shape them into law enforcement professionals adept at investigating the most sophisticated financial crimes, whether they involve tax evaders, corporate fraudsters, narcotics traffickers or terrorist financiers. The unique sophistication of our 2750 criminal investigators is in demand throughout the law enforcement community because we add value to any financial investigation.

Money laundering activities and sophisticated tax evasion schemes are frequently interconnected. For example, an ongoing investigation combines both money laundering activity and an ambitious offshore evasion scheme in Costa Rica. The schemes promoter has assisted 1500 clients in obtaining over $30 million in fraudulent refunds. To date, 39 defendants have been recommended for prosecution and those already convicted have received significant sentences.

In addition to bringing significant technical expertise to tax and money laundering investigations, there is often a nexus between these crimes and terror. For example, one significant investigation of an international charitable foundation revealed ties to international terrorist organizations. In that case, the crimes that formed the basis for the search warrant related to the filing of the foundations tax return and bank secrecy data.

In another investigation the executive director of the benevolence international foundation, a purported charitable was sentenced to over 11 years in Federal prison for fraudulently obtaining charitable donations that were ultimately used to support violent activities overseas. Terrorists employ a variety of means to move money, and we are using a variety of means to detect it. One way is to capitalize on Bank Secrecy Act data. Criminal investigation leads 41 suspicious activity report review teams nationwide. These teams are comprised of Federal, State and local law enforcement officials who evaluate over 12,000 SARs each month.

An example of the usefulness of an SAR review team is illustrated in a case involving a fast food restaurant employee who was convicted of operating an unlicensed money service business. This case was initiated after an SAR review team evaluated numerous suspicious activity reports filed by several banks because the subject was making cash deposits inconsistent with his occupation. It was ultimately proven that the subject made numerous cash and

check deposits to several accounts and wired over $3 million overseas to locations in Europe, South America the Middle East and Asia.

IRS also makes a unique contribution to the war on terror through our counterterrorism project we are piloting in Garden City, New York, which when fully operational, will use advanced analytical technology and data modeling of tax and other information to identify patterns and perpetrators.

The Center analyzes information not available to any other law enforcement agency. Already the Center has identified individuals, entities and the relationships between them previously unknown to law enforcement. As an example, the Center began compiling and analyzing financial data that culminated in the linking of several individuals and businesses, some of whom are or were under investigation and one with ties to al Qaeda.

In conclusion, I would like to thank and pay tribute to not only the men and women of IRS CI, but the law enforcement professionals. It is our honor to work with them on task forces combating money laundering and terrorism. Cooperation is the backbone of law enforcement, and the task force approach has served our Nation well in confronting many critical national law enforcement challenges.

I thank you for this opportunity to appear before you this distinguished committee and would be happy to answer any questions you and the committee members may have.

Mr. SOUDER. Thank you very much.

[The prepared statement of Mr. Sparlin follows:]

WRITTEN STATEMENT OF
DWIGHT J. SPARLIN
DIRECTOR, OFFICE OF OPERATIONS, POLICY AND SUPPORT
CRIMINAL INVESTIGATION
INTERNAL REVENUE SERVICE
BEFORE THE
COMMITTEE ON GOVERNMENT REFORM,
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY
AND HUMAN RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON
TERRORIST FINANCING AND MONEY LAUNDERING INVESTIGATIONS:
WHO INVESTIGATES AND HOW EFFECTIVE ARE THEY?
MAY 11, 2004

Good morning, Mr. Chairman and distinguished members of the subcommittee. Before I begin, Mr. Chairman, I would like to recognize you and the members of your subcommittee for your support of the IRS' mission and the men and women who serve it. Our IRS Commissioner, Mark W. Everson, has made enforcement a top priority at the Internal Revenue Service and your interest in our work is appreciated. I am pleased to be here today to discuss the Internal Revenue Service Criminal Investigation Division's (CI) capabilities to combat money laundering and terrorist financing, a grave threat to the nation at home and abroad.

CI Mission

CI is the IRS law enforcement component charged with enforcing the criminal provisions of the Internal Revenue Code and related financial crimes. When CI was formed in 1919, IRS Special Agents were *only* responsible for investigating criminal violations of the Internal Revenue Code. Over the years, our financial investigative expertise has been recognized and increasingly sought by prosecutors and other investigative agencies and, as a result, our investigative jurisdiction has expanded to include money laundering and Bank Secrecy Act criminal violations.

The fundamental mission of CI is to serve the American public by detecting and investigating criminal violations of the Internal Revenue Code and related financial crimes. Many of the "badges of fraud" in tax investigations are identical to those in money laundering investigations. These include the extensive use of nominees, currency, multiple bank accounts, and the movement of funds offshore. Therefore, the same financial investigative skills required to conduct complex tax cases can be readily adapted to money laundering investigations. This is especially true in intricate financial investigations involving the movement of untaxed funds offshore to tax haven jurisdictions. Tax evaders conceal their activities through the use offshore bank

accounts, foreign corporations, and trusts. CI's statutory authority for money laundering, coupled with the financial expertise of its special agents, has made it possible to disrupt and dismantle criminal organizations employing complex transactions to launder illegal proceeds. Today CI is combating terrorism financing activities using similar techniques.

Investigative Jurisdiction

In addition to our primary jurisdiction, which is set forth in Title 26 of the United States Code (Internal Revenue Code), CI also has investigative jurisdiction involving other financial-related statutes. Beginning in 1970, Congress enacted a number of laws that led to greater participation by CI in the financial investigative environment. The Currency and Foreign Transactions Reporting Act of 1970 (Bank Secrecy Act); The Comprehensive Crime Control Act of 1984; The Anti-Drug Abuse Acts of 1986 and 1988; Crime Control Act of 1990; The Annunzio-Wylie Anti-Money Laundering Act of 1992; The Money Laundering Suppression Act of 1994; The Antiterrorism and Effective Death Penalty Act of 1996; The Health Insurance Portability and Accountability Act of 1996; and the USA PATRIOT Act of 2001 all developed and refined the existing anti-money laundering and anti-terrorism laws under Titles 31 and 18 of the United States Code.

The combination of tax and money laundering statutes enables IRS to identify and investigate tax evasion cases involving legal and illegal income sources. This ability has often resulted in major contributions to important national law enforcement priorities.

For more than 85 years, CI has solved complex tax and other financial crimes from Al Capone to John Gotti, Heidi Fleiss to Leona Helmsley, from corporate fraudsters to fraud promoters. In addition, CI deals with anti-tax militants, anti-government militants, and international terrorists. CI Special Agents have developed, through specialized training and investigative experience, the keen ability to identify, trace, and document sophisticated and complex illicit transactions.

IRS Enforcement

Under Commissioner Everson's leadership, we are strengthening the focus on enforcement at the IRS. What once was termed simply as 'tax evasion' has evolved into complex, convoluted, multi-object financial crimes.

At the IRS, our goal is to provide appropriate service to taxpayers. At the same time, the IRS must strengthen enforcement of the tax laws in a balanced, responsible fashion.

The IRS CI balanced enforcement program includes three specific investigative priorities. These are legal income, illegal income, and narcotics-

related financial crimes. In addition, the IRS emphasizes counter-terrorism and money laundering.

Of our total direct investigative time, 25 percent is focused on money laundering and 15 percent is focused on narcotics-related financial crimes, primarily applied to the Organized Crimes Drug Enforcement Task Forces, (OCDETF), for which the IRS is reimbursed by the Department of Justice. CI spends about 4 percent of its direct investigative time on counterworks initiatives. For Fiscal Year 2004, CI projects that 160 FTE will be devoted to counterworks investigations.

At the IRS, we have four enforcement priorities. We must:

- Discourage and deter non-compliance, with emphasis on corporations, individual taxpayers, and other contributors to the tax gap.
- Assure that attorneys, accountants, and other tax practitioners adhere to professional standards and follow the law.
- Detect and deter domestic and offshore-based tax and financial criminal activity.
- Deter the misuse of tax-exempt and government entities by third parties for tax avoidance and other unintended purposes.

In addition to these four enforcement priorities, as noted in this statement, we are placing a very high priority on counter terrorism.

A recent 51-count indictment, involving an abusive tax scheme, touches upon all of the service-wide enforcement priorities. This scheme reflects some of the worst things going on in our nation's tax system. The indictment alleges efforts by the defendants to defraud the United States, to market and sell bogus trust packages, and to establish bogus charities. Some of the 650 well-to-do participants in this scheme laundered monies in Belize and through bank accounts in another foreign jurisdiction in order to escape IRS scrutiny. This scheme has cost taxpayers at least $68 million.

IRS Forensic Accounting Skills

The IRS Special Agent's combination of accounting and law enforcement skills are essential to investigating sophisticated tax, money laundering, and financial crimes. By collecting and analyzing financial records and tracing offshore transactions designed to hide assets, we document the source and ownership of funds and whether they are controlled by a tax evader, a drug kingpin, corrupt corporate

executive, or a terrorist. This rigorous investigative process provides the experience that makes the IRS Special Agent a formidable opponent to the financial criminal.

Our Special Agents are specially trained and skilled, possessing particularly strong accounting, financial and computer skills. CI is the only federal law enforcement agency that has a minimum accounting and business educational requirement for all prospective Special Agents. Once hired, they undergo a rigorous 26-week training course that includes general criminal investigation techniques, as well as intensive training in forensic accounting and financial investigations.

Once CI agents have developed their skills working on tax-related investigations, they become involved in more complex financial investigations by working on illegal income cases such corporate fraud, healthcare fraud, and public corruption. Armed with the strong tax and money laundering background, agents can then easily adapt these skills to investigate narcotics-related and terrorist financing crimes.

This special training, job experience, and skill sets used by our special agents to investigate complex, convoluted tax schemes are the same skills we use to assist our partners in federal law enforcement in money laundering investigations and terrorist financing.

CI Mission and Money Laundering Investigations

Detecting and investigating money laundering activity is an important part of tax compliance for IRS. In addition, the non-filing of Forms 8300 and criminal violations of the BSA, including the structuring of deposits to avoid currency transaction reporting requirements, often have a direct link to both tax evasion and money laundering. In some cases, because the schemes are sophisticated and we cannot get evidence from some foreign countries, it is almost impossible to conduct traditional tax investigations. In these circumstances, money-laundering violations represent the only possible enforcement tools to detect and prosecute tax evaders.

Money laundering is not only used by domestic and international criminal enterprises to conceal the illegal, untaxed proceeds of narcotics trafficking, arms trafficking, extortion, public corruption, terrorist financing and other criminal activities; it is also an essential element of many tax evasion schemes. With the globalization of the world economy and financial systems, many tax evaders exploit domestic and international funds transfer methods to hide untaxed income. They often use the same methods to hide money from illegal sources and/or unreported income. Both activities generally use nominees, currency, wire transfers, multiple bank accounts, and international "tax havens" to avoid detection.

Money laundering is the financial side of virtually all crime for profit. To enjoy the fruits of their crime, criminals must find a way to insert the illicit proceeds of that activity into the stream of legitimate commerce in order to provide the resources necessary for criminal organizations to conduct their ongoing affairs.

National Money Laundering Strategy

A significant uniting factor in interagency cooperation is the National Money Laundering Strategy. The *2003 Strategy* focuses on three major goals: (1) to cut off access to the international financial system by money launderers and terrorist financiers more effectively; (2) to enhance the Federal government's ability to target major money laundering organizations and systems; and (3) strengthen and refine the anti-money laundering regulatory regime for all financial institutions to improve the effectiveness of compliance and enforcement efforts.

Bank Secrecy Act Efforts

Responsibility for ensuring compliance with the BSA of all non-banking and financial institutions not otherwise subject to examination by another federal functional regulator(i.e., Money Service Businesses (MSBs), casinos and credit unions) was delegated to the IRS by the Department of Treasury in December 1992. Under the delegation, IRS is responsible for three elements of compliance – the identification of MSBs, educational outreach to all three types of organizations, and the examination of these entities suspected of noncompliance. The IRS performs these compliance functions along with its criminal enforcement role.

The processing and warehousing of all BSA documents into the Currency Banking and Retrieval System (CBRS), including FBARs[1], CTRs[2], 8300s[3] and SAR[4]s, are also the responsibility of the IRS. As of April 2004, CBRS has approximately 167,069,015 CBRS related documents on file. These documents are comprised of CTR's, SAR's, Form 8300's, CMIR's, FBAR's and various other BSA documents. All documents entered into the CBRS (approximately 14 million annually) are made available to other law

[1] Foreign Bank & Financial Account Report (FBAR)
[2] Currency Transaction Report – (CTR) FinCEN Form 104 and FinCEN Form 103 (filed by casinos)
[3] Report of Cash Payments Over $10,000 Received in a Trade or Business (IRS and FinCEN form 8300)
[4] Suspicious Transaction Reports – filed by financial institutions when there is suspicious activity, as determined by the financial institution.

enforcement and regulatory agencies in addition to IRS. However, the IRS is the largest user of the CBRS. The total projected IRS costs for BSA for FY04 is $132 million for both compliance and enforcement.

The civil functions of the IRS ensure that non-bank financial institutions are in compliance with the record keeping and reporting requirements of the BSA through an outreach effort to assist financial institutions in meeting their BSA obligations and compliance examinations. In addition, the civil functions ensure that trades and businesses are in compliance with the Forms 8300 system through the identification of businesses that regularly engage in reportable sales, an outreach effort to assist businesses in understanding and meeting their reporting requirements and compliance reviews. They also have examination authority for civil compliance with BSA for many non-bank financial institutions including money services businesses, currency dealers and exchangers, check cashers, issuers, sellers or redeemers of travelers checks, money orders and casino/club cards.

After September 11th, CI developed plans to use the unique information collected by the IRS to include BSA and exempt organization data to develop and support terrorist financing investigations. In addition, we instructed our field offices to work directly with the Joint Terrorism Task Forces, the Department of Justice's Anti-Terrorism Task Forces, and the FBI's Strategic Information Operations Center in response to the government's efforts to mobilize the resources of federal law enforcement agencies to combat terrorism.

There are 41 Suspicious Activity Report Review Team (SAR-RT) across the country spread among the IRS-CI's 35 field offices. These teams work jointly with Federal/state law enforcement representatives. Nationwide approximately 300-345 employees are assigned, either full or part-time, to the SAR-RTs. Their duties include proactive evaluation and analysis of the SARs for case development and field office support. Each month, the field office SAR-RTs review approximately 12,000-15,000 SARs.

In addition to the expanded use of BSA data, CI has fully utilized the tools now available under Title III of the USA PATRIOT Act. For example, Section 314(a) of the USA PATRIOT Act authorizes federal law enforcement agencies to utilize the existing communication resources of FinCEN to establish a link between their respective agencies and over 26,000 financial institutions for the purpose of sharing information concerning accounts and transactions that may involve terrorist activity or money laundering. During the time period from April 2003 through March 2004, CI submitted fifteen requests pertaining to sixty-three individuals and seventeen businesses. Financial institutions had 1,182 positive responses, resulting in the identification of 635 positive account matches.

Section 319(a) of the USA PATRIOT Act provides that when a criminal deposits funds in a foreign bank account and that bank maintains a correspondent account in the United States, the government may seize and forfeit the same amount of money in the correspondent account. Utilizing section 319 (a), CI has participated in two investigations that together resulted in the seizure of approximately $3.5 million in funds from accounts held at correspondent banks in the United States.

Money laundering investigative statistics

From October 1, 2002, through March 31, 2004, CI has initiated 4,795 money-laundering investigations, recommended prosecution on 3,120 individuals and 2,726 individuals were indicted. During this same time period, 2,042 individuals have been sentenced on money laundering violations.

Of the remaining money laundering investigations currently being worked by CI special agents:

- 35% involve tax violations;
- 81% involve participation with other agencies;
- 65% involve non-narcotics money laundering

Working cooperatively with others

We are working in partnership with Treasury's Executive Office for Terrorist Financing and Financial Crimes, the Office of Foreign Assets Control (OFAC), and the Financial Crimes Enforcement Network (FinCEN) to leverage all of the tools and skills of the Department of Treasury most effectively.

CI's long-standing relationship with FinCEN continues to be a source of referrals that have resulted in significant financial investigations. During this fiscal year, CI's Garden City Counterterrorism Lead Development Center has received 101 potential terrorism investigative leads from FinCEN. Both CI and the SB/SE have permanent staff assigned at FinCEN to facilitate a continuous flow of information.

Our work with OFAC has increased dramatically since the Department of Treasury's "trace and chase" activities began with the search for Iraqi assets. We are working closely with the Department of Treasury and OFAC in their efforts to recover Iraqi assets so that they can be used for the reconstruction of Iraq. CI is also working with the Terrorist Financing Working Group comprised of numerous intelligence, law enforcement, and regulatory agencies to review the proposed anti-money laundering and anti-terrorist financing laws being drafted for the new government in Iraq.

Some other CI efforts and partnerships focused on money laundering include:

- The Office of National Drug Control Policy (ONCDP) was established by the Anti-Drug Abuse Act of 1988. It directs the Nation's anti-drug policies. CI has a full-time Liaison assigned to ONDCP whose responsibilities include promoting the development and implementation of money laundering enforcement policies and programs relating to narcotics trafficking activity

- The Organized Crime Drug Enforcement Task Force Program (OCDETF) is a federal drug enforcement program that focuses attention and resources on the disruption and dismantling of major drug trafficking organizations. OCDETF provides a framework for federal, state, and local law enforcement agencies to work together to target well-established and complex organizations that direct, finance, or engage in illegal narcotics trafficking and related crimes. (Related crimes include money laundering and tax violations, public corruption, illegal immigration, weapons violations, and violent crimes.) CI focuses the majority of its Narcotics Program resources on OCDETF and has assigned 9 agents as OCDETF Regional Coordinators. Each of our 35 Field Offices has active on-going multi-agency OCDETF investigations.

- High Intensity Drug Trafficking Area (HIDTA). The HIDTA Program designates geographic areas to which Federal resources are allocated to link local, state, and Federal drug enforcement efforts and to optimize the investigative return on limited fiscal and personnel resources. Criminal Investigation enhances the state and local efforts with the 28 HIDTA areas to attack the illegal drug threats in their area through a number of financial investigation initiatives, resources and training on the less sophisticated money laundering schemes used by criminals.

- Special Operations Division (SOD) in DEA plays a critical role in combating narcotics trafficking by providing information associated with identified money laundering organizations and by providing case coordination and deconfliction to ensure that FBI, DEA, ICE, and IRS multi-jurisdictional cases and prosecutions are conducted in concert to maximize the disruptive impact on illegal drug activity. CI has a Liaison assigned to SOD whose efforts are centered on the money laundering activity of major drug trafficking organizations.
- Treasury Working Group on Terrorist Financing and Charities – Both CI and IRS Tax Exempt/Government Entities Operating Division are part of this group.

- SAR Review Teams (41) are designed to analyze and evaluate all suspicious activity reports filed through CBRS and are comprised of IRS, FBI, ICE and state and local law enforcement agencies.

- Interpol – The CI Liaison to the US national Central Bureau of INTERPOL assists CI field offices and other Federal, state and local law enforcement officers in obtaining leads, information and evidence from foreign countries.

- Defense Intelligence Agency Center (DIAC) (known as the CT Fusion Center)- As a part of the Iraqi Assets Working Group, CI works jointly with other agencies in the "trace and chase" of Saddam Hussein's assets.

- Anti-Terrorism Advisory Council established by the Attorney General.

- Joint Terrorism Task Forces (JTTF) - On a national level CI is embedded with FBI on both the 84 JTTFs and Attorney General's Anti-Terrorism Advisory Council, concentrating on the financial infrastructure and fundraising activities of domestic and international terrorist groups.

- The High Intensity Money Laundering and Related Financial Crime Area (HIFCA) Task Forces. HIFCAs analyze Bank Secrecy Act and other financial data relating to potential criminal activity, including terrorist financing. Twenty-six percent of our 150 open terrorism-financing investigations are the result of, or involve, Bank Secrecy Act data. A report is being compiled jointly by the Departments of Treasury and Justice, with concurrence by the Department of Homeland Security and their law enforcement and other components, reviewing the history and implementation of High Intensity Financial Crimes Area (HIFCA) designations in the National Money Laundering *Strategy* and evaluating the current posture of each HIFCA.

- Representation in FBI's Terrorist Financing Operations Section (TFOS). CI liaison with FBI on terrorist financing, including the coordination of efforts on the Saudi Arabian Joint Terrorist Task Force.

Sharing our knowledge with others

The IRS is forging dynamic relationships across the financial sector, and with other government agencies, to combat abusive tax schemes, terrorist financing and money laundering.

In addition to our financial investigative work, CI is also working with many foreign governments to train their investigators in the area of money laundering, financial investigative techniques, and terrorist financing. We are an active member of the Department of State led Terrorist Finance Working Group and we work in conjunction with the Department of State and other governmental and law enforcement agencies to provide a broad array of financial investigative training to foreign governments related to money laundering and financial crimes. In addition, at the Federal Law Enforcement Training Center, CI agents routinely benefit from specialized anti-terrorist

financing training designed and provided by the Department of Justice's Counterterrorism Section prosecutors.

Some specific training conducted jointly with the Department of State and other law enforcement agencies such as the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), FBI, Drug Enforcement Agency (DEA), and Immigration and Customs Enforcement (ICE) includes:

- Financial Investigative Techniques course at the International Law Enforcement Academies in Bangkok, Budapest, and Gaborone;
- Joint Terrorism Finance Training conducted by FBI and CI in the United Arab Emirates, Pakistan, Malaysia, Colombia, Turkey, Qatar, Jordan, and Indonesia; and
- Department of State, International Narcotic and law Enforcement Affairs training is scheduled to be conducted in Egypt, Paraguay, and Brazil later this year.

Internally, CI has delivered international, anti-terrorism finance training to our Special Agents assigned to Joint Terrorism Task Forces around the country. The goal of this training is to bring the agents assigned to the task forces together to discuss and share experiences.

CI Mission and terrorist financing investigations

Prior to the terrorist events of September 11, 2001, CI's role in counterterrorism primarily involved the investigation of domestic terrorists. Many domestic extremist groups have espoused anti-government and anti-taxation philosophies. CI is often involved in investigations of individuals affiliated with these groups because of their violations of federal tax, money laundering, and currency statutes.

The 1983 shoot-out between US Marshals and Gordon Kahl, a fugitive wanted on tax charges and a member of the Posse Comitatus (Power of the County), resulted in the death of two US Marshals. The Marshals were attempting to serve Kahl with warrants for violating the terms of his probation from a 1977 conviction for failing to file income tax returns. In the 1990's, IRS offices were the targets of 61 bomb threats and three actual bombings. During the Oklahoma City Bombing investigation, our agents were assigned to develop leads to identify those responsible. Our agents obtained receipts documenting the purchase of the fertilizer and dynamite used to manufacture the bomb and the truck rental receipt. Using this evidence, our agents were able to construct a time line of the conspirators' whereabouts. Gordon Kahl, Timothy McVeigh, the Montana Freeman, members of the anti-tax movement and other such groups derive their core beliefs from an anti-tax, anti-government movement and CI

has been actively involved in the investigation of these persons and organizations for many years.

Prior to September 11th, CI participated on a selected basis in the Federal Bureau of Investigation's (FBI) Joint Terrorism Task Forces (JTTFs) in accordance with the Attorney General's five-year Counterterrorism and Technology Crime plan. However, the events of September 11th significantly increased CI's counterterrorism commitment. Financial investigations are a critical part of the total war on terrorism and CI's expertise continues to be in high demand.

International terrorists and their supporters often raise funds through the abuse of organizations that claim to be engaged in humanitarian relief or religious activities. Terrorist fundraising activities are also carried out through a variety of conventional criminal activities such as dealing in stolen property, insurance fraud, smuggling, and narcotics trafficking. All these activities employ convoluted financial transactions, "front businesses," nominees, and the use of both traditional and alternative remittance systems (e.g., Hawala) to achieve their aims.

Counter terrorism statistics

Since October 1, 2000, IRS CI has conducted 372 terrorism investigations in partnership with other law enforcement agencies. Over 100 investigations have resulted in indictments. Of the 270 open investigations, 120 have already been referred to the Department of Justice for prosecution. Of the remaining 150 terrorism investigations currently being worked by IRS CI Special Agents:

- 56% involve tax violations;
- 97% involve participation with other agencies;
- 26% either were results of, or involve, Bank Secrecy Act data; and
- 18% involve purported charitable or religious organizations

Seventy-one percent (71%) of all open counterterrorism investigations involve money-laundering violations.

What CI is doing in counter terrorism today

Since September 11, 2001, IRS has stepped up its anti-money laundering activities in several ways. IRS Criminal Investigation has established a Counterterrorism section that focuses investigative efforts on money laundering activities associated with terrorist financing, and many special agents have been assigned to the Federal Bureau of Investigation's Joint

Terrorism Task Forces expressly for this purpose. For Fiscal Year 2004, CI projects that 160 FTE will be devoted to terrorism investigations.

The disruption of terrorist financing mechanisms is critically important. The detailed financial investigations aimed at terrorist funding are capable of identifying the flow of money and the entities and individuals who conspire to harm the United States. The link between where the money comes from, who gets it, when it is received, and where it is stored or deposited, are vital pieces of evidence. By focusing on financial details, terrorism cells can be identified and neutralized.

CI supports the financial aspects of terrorism investigations. For terrorism investigations to be effective, strong cooperative relationships must exist between the federal law enforcement agencies to leverage the skills and contributions of each.

The Department of Treasury is aware of the need to ensure appropriate coordination among its regulatory and enforcement components to ensure the most effective anti-money laundering and anti-terrorist financing infrastructure possible. Included in these overarching responsibilities is the need to ensure effective BSA compliance and enforcement.

Computer forensics aid investigators

We also make a unique contribution to counterterrorism efforts through the use of our computer investigative expertise. IRS has a unique software tool used by international, domestic, federal, state, and local intelligence agencies. This software tool has the capability of analyzing multi terabytes of data in multiple languages, including Farsi. We have used this tool successfully in numerous investigations – from computers seized in abusive tax schemes to those found in caves in Afghanistan.

What we are doing within IRS about terrorist financing

Experience gained during the last two years has identified areas where CI can have a substantial impact addressing terrorism related financial issues without duplicating the efforts of other law enforcement agencies. Criminal Investigation is piloting a counterterrorism project in Garden City, New York, which, when fully operational, will use advanced analytical technology and leverage valuable income tax data to support ongoing investigations and pro-actively identify potential patterns and perpetrators.

The Garden City Lead Development Center (LDC) was established in July 2000 to assist field offices in ongoing income tax and money laundering investigations. Due to the unique application of the skills and technology deployed to develop investigations at Garden City, it has been converted to

focus exclusively on counterterrorism. When fully implemented, CI's efforts at the Counterterrorism LDC will be dedicated to providing nationwide research and project support to CI and JTTF terrorist financing investigations. Relying on modern technology, the Center is staffed by CI Special Agents and Investigative Analysts, in conjunction with experts from the IRS' Tax Exempt/Government Entities (TE/GE) Operating Division. Together, these professionals research leads and field office inquiries. Using data from tax-exempt organizations and other tax-related information that is protected by strict disclosure laws, the Center analyzes information not available to, or captured by, any other law enforcement agency. Thus, a complete analysis of all financial data is performed by the Center and disseminated for further investigation.

This initiative supports the continuation of CI's response to domestic and international terrorism, and ensures efficient and effective use of resources through advanced analytical technology by subject matter experts. Analytical queries and proactive data modeling assist in identifying previously unknown individuals who help fund terrorist organizations and activities, with particular focus on the use of purported charitable organizations, hawalas, wire remitters, and other terrorist funding mechanisms.

Following are examples of two terrorist investigations in which CI was involved:

A federal search warrant was executed FBI, DHS/ICE, and IRS-CI on February 18, 2004, against the property purchased on behalf of an Islamic foundation in Oregon. The warrants were executed pursuant to a criminal investigation into possible violations of the Internal Revenue Code, the Money Laundering Control Act, and the Bank Security Act. The US Treasury and the Kingdom of Saudi Arabia had jointly designated the Bosnian and Somalia branches of this organization as supporters of terrorism. An associate established a purported tax-exempt charitable organization in the U.S., and knowingly filed a materially false information tax return in violation of Internal Revenue Code Section 7206.

On August 18, 2003, in Chicago, IL, Enaam M. Arnaout , the executive director of Benevolence International Foundation, Inc. (BIF), a purported charitable organization based in south suburban Chicago, was sentenced to 136 months in prison after pleading guilty in February 2003 to racketeering conspiracy, admitting that he fraudulently obtained charitable donations in order to provide financial assistance to persons engaged in violent activities overseas. Arnaout was also ordered to pay restitution in the amount of $315,000 to the Office of the United Nation High Commissioner for Refugees. Arnaout admitted that, for approximately a decade, the BIF was defrauding donors by leading them to

believe that all donations were strictly being used for peaceful, humanitarian purposes while a material amount of the funds were diverted to fighters overseas. Arnaout specifically admitted providing items to fighters in Chechnya and Bosnia. The successful conclusion of this investigation was brought about by the close working relationship with the FBI and IRS.

CI role in the international arena involving money laundering and terrorist financing

Aside from CI's association with domestic task forces, CI also participates in the international arena. Through efforts developed by the Department of Treasury, CI participates in the newly created Joint Terrorist Financing Task Force in Riyadh, Saudi Arabia along with local Saudi investigators. Through this task force, agents from FBI and Criminal Investigation have gained unprecedented access to Saudi accounts, witnesses, and other information. The Task Force agents both provide and receive investigative lead information on various terrorist-financing matters. Investigations involving the use of tax-exempt organizations to finance terrorist activities are a high investigative priority for Criminal Investigation. This initiative supports the continuation of CI's ability to identify and investigate those who use U.S. organizations and financial institutions to fund terrorist activities.

CI has seven law enforcement attachés assigned to American Embassies or US Consulates in Mexico City, Bogotá, London, Frankfurt, Bridgetown, Ottawa and Hong Kong. Their primary mission is to coordinate and support all field office requests for international assistance.

CI is a permanent member of the US Delegation to the Financial Action Task Force (FATF) and its Caribbean equivalent (CFATF). CI is involved in the drafting of the recently revised 40 recommendations that set the standards for best practices to be adopted by countries to combat money laundering.

CI has participated in the assessments of numerous Middle Eastern, South American, and European countries anti-money laundering laws, policies, and procedures. As a result, during Fiscal Year 2004, CI will participate in follow up anti-terrorism and anti-money laundering training with the FBI in countries such as Saudi Arabia, Thailand, Egypt, Pakistan, United Arab Emirates, Oman, Qatar, Bahrain, and others.

Our liaison to the US national Central Bureau of INTERPOL has provided urgently needed identifying information to the OFAC in terrorist related actions.

Among the myriad of tax evasion schemes facing law enforcement today, those perpetrated through offshore transactions are some of the most successful and difficult to detect and prosecute. The IRS has investigated

numerous schemes where individuals and businesses have committed tax evasion involving both domestic and foreign source income. Investigation has revealed that some purported international charitable organizations support terrorism utilizing similar arrangements to obscure their true activities.

In addition, the IRS Small Business Self Employed Operating Division (SB/SE) has established anti-money laundering groups to focus more effort on identifying external stakeholders and educating the non-banking and other financial services industry about their registration, reporting, and record keeping requirements of the money laundering statutes.

Conclusion

Money laundering investigations are integral to our tax administration work. Today we carry on our 85-year tradition of solving financial crimes in concert with our other partners in the Department of Treasury and the rest of law enforcement, and we do that by following the money.

As I stated earlier in this testimony, the war on terrorism is a top priority of the Internal Revenue Service. We are prepared to increase our counter terrorism commitment from our base resources if necessary. We will coordinate our efforts closely with Treasury's new Office of Terrorist Financing and Financial Intelligence. The FY 2005 President's Budget includes a 17 percent increase in CI's resources. While this increase is targeted to enhancing our tax mission, it gives us additional flexibility to respond to any increased demands to support our nation's anti-terror efforts.

CI's achievements are the result of a collective effort and are a tribute to what can be achieved when government works together. I am proud of the role that the Internal Revenue Service and CI, in particular, have played in achieving those successes. It is one of the great rewards of public service.

Mr. Chairman, I thank you for this opportunity to appear before this subcommittee and I will be happy to answer any questions you and the other committee members may have.

Mr. SOUDER. Mr. Werner.

Mr. WERNER. Good morning, Mr. Chairman, Congresswoman Blackburn. It is a privilege to appear before you to discuss FinCEN's role in the terrorist financing and money laundering investigations. Since its establishment in 1990, FinCEN has been a service-oriented information-sharing agency dedicated to collecting, analyzing and disseminating financial data to help identify and trace the financial intersection of potential criminal and terrorist activity. Although FinCEN examines its data in support of a wide range of criminal investigations, its top operational priority is unquestionably counterterror support to the law enforcement intelligence communities. We make our information products and services available to all agencies that have a role in investigating or analyzing terrorist related activity and information.

We also strive to adapt quickly to changing needs. One of the first actions FinCEN undertook following September 11 was the establishment of a financial institution hot line to provide financial institutions with an expedited means of vetting suspicious financial activity possibly linked to terrorism. Although the financial institution will continue to file a suspicious activity report through the formal BSA filing process, the hotline now makes it possible to quickly assess the value of the information and get it into the hands of law enforcement well in advance of the normal time constraints associated with the formal process.

Since its inception in September 2001, the hotline has fielded over 1,300 calls, and over 850 of those have resulted in immediate referrals of the information to law enforcement. Strategically FinCEN is working expeditiously to enhance the quality of its analysis. We have adjusted our analytic methodology from a reactive approach to a more proactive think tank environment that will focus on the ways in which terrorist groups move money. To that end, a pilot is underway to look at some of the top known foreign terrorist organizations through a financial lens. Three analysts are presently conducting extensive research to study the business models of these organizations.

The objective of each analyst is to become familiar with the mechanisms each group uses to—in order so that we can identify inherent vulnerabilities in the organizations business structure. We are also initiating a bilateral study with our Italian counterpart to track illicit currency flows between our two countries. This will be the first collaborative effort with a foreign financial intelligence unit on a strategic project. It is anticipated that this project will be the foundation for additional collaborative efforts amongst the members of this dynamic international network which is known as the Egmont Group.

Most significantly, FinCEN's information products and services are available to all agencies, whether Federal, State or local that have a role in investigating illicit finance. Networking is an integral part of this service. It extends the value of our data in multiple ways. Our technologies, for example tells United States when different agencies are searching the same data, enabling United States to put those agencies together and there by avoid investigative overlap, and more importantly, permit the agency to leverage resources and information.

But perhaps the most prominent example of FinCEN's role as a centralized network recently has been its implementation of section 314 of the USA Patriot Act. In recognition of its unique position as a central focal point for financial information, FinCEN was mandated under that section to facilitate and enhance the flow of information potentially related to terrorist financing and major money laundering.

In general, section 314(a) allows law enforcement to query U.S. financial institutions about suspects, businesses and accounts in major money laundering and terrorism investigations. FinCEN facilitates this interaction by sending law enforcement information requests to thousands of financial institutions across the country. These financial institutions, in turn, search their records and transactions and report positive matches back to FinCEN. FinCEN then consolidates the data and provides this pointer information to the law enforcement requester for followup through appropriate legal process. Another key dimension of the FinCEN network is its global reach. Transnational crime cannot be successfully confronted without building alliances within the global community. Finance today knows no borders. Law enforcement officials are now able to come to FinCEN to request assistance from our international counterparts, the financial intelligence units of 84 countries throughout the world.

In fact, we are implementing a program where FinCEN will automatically request information from relevant financial intelligence unit counterparts as part of any terrorism related analysis project. FinCEN, its network and its missions are dedicated to fostering a dynamic information sharing environment among its law enforcement, regulatory and financial partners. FinCEN will continue to buildupon its expertise and add the benefit of its successes and lessons learned to our Nation's antiterrorism and money laundering efforts.

Thank you again for this opportunity to testify today on FinCEN's role in terrorist financing and money laundering investigations. I'd be happy to answer any questions the subcommittee may have.

[The prepared statement of Mr. Werner follows:]

Statement of Robert W. Werner
Chief of Staff
Financial Crimes Enforcement Network
United States Department of the Treasury
before the
House Committee on Government Reform
Subcommittee on Criminal Justice, Drug Policy, and Human Resources
May 11, 2004

Good morning Chairman Souder, Ranking Member Cummings, and distinguished members of the Subcommittee. It is a privilege to appear before you to discuss FinCEN's role in terrorist financing and money laundering investigations. I am Robert Werner, Chief of Staff of the Financial Crimes Enforcement Network (FinCEN). Prior to assuming the position of Chief of Staff at FinCEN, I was the Counselor to the General Counsel of Treasury. I have also worked for the United States Department of Justice, as both a federal prosecutor in the District of Connecticut and as an advisor in DOJ's Office of Legal Counsel, concentrating in the areas of administrative and criminal law and criminal procedure.

Background

Since its establishment in 1990, FinCEN has been a service-oriented, information sharing agency dedicated to collecting, analyzing and disseminating financial data to help identify and trace the financial intersection of potential criminal and terrorist activity. Providing this information to our law enforcement, regulatory and financial services partners in appropriate and technologically advanced ways through the FinCEN network is at the heart of FinCEN's mandate to safeguard the U.S. financial system from abuses imposed by criminals and terrorists. Through our role as the administrator of the Bank Secrecy Act (BSA), the regulatory foundation of the nation's anti-money laundering infrastructure, FinCEN adds value to the BSA data to support law enforcement through investigatory leads, trends and pattern information, and to provide financial institutions with feedback on the reports they file. My testimony today will focus on how we carry out our mission and the challenges we are facing going forward.

FinCEN works to accomplish its mission in four principle ways: (1) administration of the Bank Secrecy Act; (2) information collection, maintenance, analysis and dissemination; (3) support to law enforcement; and, (4) networking.

I. <u>Administering the Bank Secrecy Act</u>

The BSA provides the framework within which financial institutions report information relevant to the prevention and detection of criminal activity, including terrorist financing. We work with the various sectors of this broadly defined community,

as well as the functional regulators and the Internal Revenue Service, to ensure that our understanding of sector-specific vulnerabilities is consistent with the objectives of the BSA regulations, and that the affected institutions are in compliance with their reporting obligations. Our financial industry partners include over 20,000 depository institutions, such as banks and credit unions; and over 225,000 non-bank financial institutions such as casinos, broker dealers, money transmitters, check cashers, money order and travelers check businesses, currency exchangers and the U.S. Postal Service. In 2001, the USA PATRIOT Act accelerated the deadlines for the expansion of various BSA requirements to include mutual fund operators, futures commission merchants, the insurance industry, dealers in precious stones and metals, and others.

The success of our regulatory regime is contingent upon open channels of communication. This includes identifying and analyzing the latest trends in money laundering or the financing of terrorism, evaluating the operation of the regulations within each industry, ensuring that necessary information is collected, and providing filing feedback and guidance on compliance.

Hand-in-hand with maintaining a two-way dialogue is the responsibility of FinCEN to educate the financial community about our regulations and expectations concerning their BSA obligations. One area of particular focus is the money services businesses or MSBs. FinCEN has devoted substantial resources to promote MSB compliance with the BSA. In fact, FinCEN has an entire website devoted to MSB compliance obligations (www.msb.gov) and has provided brochures and pamphlets on compliance to MSBs across the nation. However, MSBs continue to require more attention and resources, and FinCEN is undertaking an initiative to educate segments of the industry considered most vulnerable to terrorist abuse.

Each aspect of our regulatory program is designed to ultimately help make the information we provide to law enforcement more valuable in building an investigatory picture.

II. Information Collection, Maintenance, Analysis and Dissemination

While the comprehensive administration of the BSA establishes the guiding framework for the type of information institutions must report, FinCEN must ensure that this information is collected, processed, analyzed and disseminated in a timely manner to its law enforcement partners. We achieve some of this data management with the help of the Internal Revenue Service's Detroit Computing Center. FinCEN's analysts add substantive value to the data by exploiting it tactically and strategically, which I will discuss later in my testimony.

Because information sharing is so critical to our collective efforts to detect and thwart criminal activity, it is necessary to ensure that our data are readily accessible to law enforcement using technology, which is sufficiently advanced to achieve this objective.

Currently, our data are accessed by most of our law enforcement customers through an outmoded data retrieval system linked to the national BSA database at the IRS Detroit Computing Center. Using its tax form processing mission and capabilities, IRS has done a tremendous job over the years as a collection point for the different BSA forms and modes of filing them. But this system does not provide users with the robust data mining capabilities or analytical tools we employ at FinCEN. A signature service of FinCEN, throughout its history, is to continually improve existing and/or develop new programs to enable law enforcement agents in the field to rapidly access the data on-line and to conduct more sophisticated searches of that data. In the absence of these more advanced capabilities, many of our customers are asking for wholesale copies of, or direct access to the data in a way that will not permit us to perform our responsibilities relating to the administration and management of the BSA. Accordingly, we are presently working on a new way for law enforcement to access our databases, called BSA Direct. When fully implemented, BSA Direct will provide law enforcement officials with user-friendly access to our data and robust, state-of-the-art, data mining capabilities that they can use from their own computers. Also, BSA Direct will give FinCEN the time and resources needed to provide more in-depth, analytical support to law enforcement.

Again, in the interest of collecting BSA data rapidly and accurately, we are working to enhance our technological interaction with the financial services industry. Under tight deadlines mandated by the USA PATRIOT Act, FinCEN developed and brought on-line the Patriot Act Communications System, a system that permits the electronic filing of reports required under the Bank Secrecy Act. When financial institutions file their forms on-line through this system, we all benefit. We can provide information to law enforcement more efficiently and accurately. We are working with the financial services industry to encourage more participation in the electronic filing of BSA forms. Our goal is to convert the top 1,500 filers of BSA forms to E-filing over the next 5 – 10 years. Achieving this goal will mean that 90% of all BSA forms will be filed electronically.

III. Law Enforcement Support

Although FinCEN examines its data in support of a wide range of criminal investigations, its top operational priority is unquestionably counter-terrorism support to the law enforcement and intelligence communities. We make our information, products and services available to all agencies that have a role in investigating or analyzing terrorist-related activity and information, including the Terrorist Threat Integration Center (TTIC), the FBI-Terrorist Finance Operation Section, DHS' Operation Cornerstone, the Organized Crime Drug Enforcement Task Force, including its Fusion Center, and other relevant law enforcement entities.

One of the first actions FinCEN undertook following September 11th was the establishment of a Financial Institution Hotline to provide financial institutions with an expedited means of vetting suspicious financial activity possibly linked to terrorism. The financial institution may decide to file a Suspicious Activity Report through the formal

BSA filing process, but the Hotline makes it possible to quickly assess the value of the information and get it into the hands of law enforcement well in advance of normal time constraints associated with the formal process. Since its inception in September 2001, the Hotline has fielded 1,347 calls, 857 of which have resulted in immediate referrals of the information to law enforcement.

At the tactical level, we are implementing a program in which every report that indicates a connection to terrorism is immediately reviewed and validated and then analyzed with other available information to assist law enforcement in "connecting the dots." These review packages are then immediately referred to TTIC and other terrorism task forces as indicated above.

This program has already produced results. On April 21, 2004, a bank in North Carolina contacted FinCEN's Financial Institutions Hotline regarding a person who had been a customer since 1999. This person had maintained an average balance of $1,200 to $1,500 until very recently, when a total of $84,000 was deposited in less than a week. Through the analysis of FinCEN's multiple databases, it was discovered that law enforcement authorities wanted the person as a "deportable felon." This information was immediately turned over to the appropriate law enforcement agency to act upon, as it deemed best.

Strategically, FinCEN is working to expeditiously enhance the quality of its analysis. As a general matter, Director William Fox has made the training of FinCEN personnel the highest human resource management priority. The top priority of this new program will be analytic skill development relating to terrorist financing. This initiative is intended to build a foundation for continuous improvement of our analytic assets through cross training and diversification, production of joint terrorist financing threat assessments and other reports, and understanding of intelligence processes, the international context of terrorist financing, and the financial industry perspective. In addition, we intend to support training focused on financial forensics, language skills, and geographically targeted studies that focus on culture, infrastructure and other unique aspects of a particular region.

We have adjusted our analytic methodology from a reactive approach to a proactive, think tank environment that will focus on the ways in which terrorist groups move money. To that end, a pilot is underway to look at some of the top-known foreign terrorist organizations through a financial lens. Three analysts are conducting extensive research to study the business models of these organizations. The objective of each analyst is to become familiar with the mechanisms each group uses to eventually be able to identify inherent vulnerabilities in the organization's business structure.

Through FinCEN's membership in the Egmont Group of Financial Intelligence Units, which now number 84 worldwide, a bilateral study with our Italian counterpart is going to be conducted to track illicit currency flows between our two countries. This will be the first collaborative effort with a foreign financial intelligence unit on a strategic

project. It is anticipated that this project will be the foundation for additional collaborative efforts amongst the members of this dynamic international network.

Another effort that we at FinCEN are focusing on is the new payment systems such as digital currency businesses, electronic benefit transfer cards and the use of e-gold and e-currency.

One emerging trend, which we believe merits closer scrutiny, is commodities-based money laundering. Director Fox recently made a trip to Dubai to participate in the growing dialogue on the potential use of diamonds and other commodities for illicit purposes, including money laundering and terrorist financing. It is important to note that although it does not have criminal investigative authority, FinCEN has the ability to examine a given topic based upon information gleaned through its vast repository of data as well as its close interaction with its extensive network of law enforcement and industry contacts around the globe. We intend to make greater use of these global resources to further develop such information. The challenge we are facing is to ensure that more and better-trained resources are devoted to this important effort. FinCEN also supports the broader range of investigations carried out by the High Intensity Financial Crime Areas (HIFCAs)[1] by detailing analysts schooled in financial analysis and BSA regulations to the New York, Chicago, Los Angeles, San Francisco, San Juan, Puerto Rico HIFCAs as well as the Southwest Border HIFCA in Austin.

Perhaps the best way to understand some of the general support we provide to law enforcement is to describe a few examples of actual case histories showing how law enforcement has used BSA reports from financial institutions in a variety of criminal investigations:

- Eli Tisona, considered one of Israel's top mobsters, was recently sentenced to 19.6 years incarceration on charges that included money laundering and making false bank statements. In this case, the Miami-Dade Police Department through the Florida Department of Law Enforcement asked FinCEN for assistance. Financial queries of our databases listed Bank Secrecy Act reports that included currency transaction reports on the suspect totaling approximately $42.5 million. The detective assigned to the case said that without the information reports provided by FinCEN, they could not have made their case.

- Money launderers of drug proceeds who owned a travel agency are currently being prosecuted by the U.S. Attorney's office on these and structuring charges. In the investigation, the Massachusetts State Police conducted a review of FinCEN's databases and their findings included literally thousands of various

[1] On October 30, 1998, the Money Laundering and Financial Crimes Strategy Act of 1998 (MLFCSA) became law. The MLFCSA authorizes the Secretary of Treasury, in consultation with the Attorney General, to designate "any geographical area, industry, sector, or institution in the United States in which money laundering and related financial crimes are extensive or present a substantial risk" as a "high-risk money laundering and related financial crimes area," or a HIFCA.

BSA reports, including suspicious activity reports (SARs), currency transaction reports (CTRs), reports of foreign bank accounts (FBARs) and reports of the transportation of currency and monetary instruments (CMIRs).

- The Pennsylvania Office of the Attorney General's Asset Forfeiture and Money Laundering Section requested that FinCEN conduct proactive, targeting research on suspicious activity reports. The information they obtained from the reports helped them initiate a money laundering investigation on two individuals. Unbeknownst to the Asset Forfeiture Office, the Philadelphia Office of the Immigration and Naturalization Service, was interested in the same individuals. FinCEN's alert program put both offices in touch with each other and, ultimately, together they seized assets valued at about $8.7 million.

FinCEN's own reviews of suspicious activity reports and currency transaction reports from the financial services industry have revealed numerous indicators of illegal activity which FinCEN provides to law enforcement, regulatory agencies, and the financial industry in the form of investigative leads, advisories, threat assessments and the semi-annual *Suspicious Activity Review*. Some examples are:

- Use of personal accounts to facilitate the negotiation of third-party checks followed by outgoing wire transfers;

- Account activity inconsistent with the type of account held by a customer and/or volume of activity anticipated by the filing institution;

- Large volume of deposits of cash, checks, and other types of monetary instruments immediately followed by wire transactions abroad;

- Structured cash transactions through the use of multiple transactors at multiple branches of the financial institution where the suspect account is maintained; and,

- Use of possible shell companies and multiple accounts to facilitate the structuring of cash, deposit of money orders, and the negotiation of third-party checks, followed by wire transfers from the accounts to high risk countries.

IV. Networking

FinCEN's information, products and services are available to all agencies (whether federal, state, or local) that have a role in investigating illicit finance. Networking is an integral part of this service. It extends the value of our data in multiple ways. Our technology, for example, tells us when different agencies are searching the same data, enabling us to put those agencies together thereby avoiding investigative overlap and permitting the agencies to leverage resources and information.

But perhaps the most prominent example of FinCEN's role as a centralized network has been Section 314 of the USA PATRIOT Act. In recognition of its unique

position as a central focal point for financial information, FinCEN was mandated under that Section to facilitate and enhance the flow of information potentially related to terrorist financing and major money laundering. In general, Section 314(a) allows law enforcement to query U.S. financial institutions about suspects, businesses and accounts in major money laundering and terrorism investigations. FinCEN facilitates this interaction by sending law enforcement information requests to thousands of financial institutions (i.e., banks, credit unions, broker dealers in securities, and futures commission merchants) across the country. These financial institutions, in turn, search their records and transactions, and report positive matches back to FinCEN. FinCEN then consolidates the data and provides this "pointer" information to the law enforcement requestor for follow-up through appropriate legal process.

So far, using this new provision, law enforcement has discovered over 1,000 items of new financial information resulting in over 500 subpoenas, and other legal process to obtain the documentation for these matches. There have already been some arrests and indictments. That's a pretty impressive success story. We are working to enhance this system further, particularly in our counter-terrorism efforts. Specifically, our analysts will be running all 314(a) terrorism-related requests against Bank Secrecy Act data concurrent with these requests being sent to financial institutions. Based on this initial data review, the law enforcement requester will be able to request a more in-depth analysis if desired. The attached illustration of a 314(a) request demonstrates the effectiveness of this system, which enables a law enforcement requestor to instantly canvass the universe of more than 20,000 depository institutions throughout the country to obtain subject match verification.

International Program

A key dimension of the FinCEN network is its global reach. Transnational crime cannot be successfully confronted without building alliances within the global community. Finance today knows no borders. A big part of Title III of the USA PATRIOT Act is dedicated to protecting the international gateways to the United States financial system. But beyond that, FinCEN is committed to improving our international coordination with other countries to support law enforcement in tracking the global financial activities of criminals and terrorists. Law enforcement officials are now able to come to FinCEN to request assistance from our international counterparts, the financial intelligence units of 84 countries throughout the world. Together, we compose a global network called the Egmont Group and we work to improve international information sharing and interaction. In fact, we are implementing a program where FinCEN will automatically request information from relevant financial intelligence unit counterparts as part of any terrorism-related, analysis project.

In addition to our Egmont activities and tied closely to FinCEN's overall training and technical assistance activities in the international arena is implementation of the U.S. anti-money laundering foreign assistance program, which focuses sharply on terrorist financing. Shortly after September 11, 2001, the Departments of State, Justice, and Treasury convened an interagency group, the Terrorist Financing Working Group

(TFWG), to identify those countries most vulnerable to terrorist financing and to devise a strategy to provide them with the necessary training and technical assistance to create comprehensive, effective anti-money laundering/anti-terrorist financing regimes. FinCEN's International Coordination Group devotes 70% of its time and resources to focusing on those 41 countries.

Challenges in Information Sharing

FinCEN faces many challenges in enhancing information sharing with our law enforcement customers. We feel confident in the steps we are taking in our counter-terrorism strategy, our analytical initiatives, and our enhancements to technology and our international program. However, there is one area of information sharing where we are tentative, and that is in the feedback we can provide to our partners in the financial services industry. FinCEN's regulations require financial institutions to evaluate their vulnerabilities to money laundering and terrorist financing. Maybe most importantly, the regulator under a risk-based system must find an appropriate way to provide the regulated industry with information necessary to permit the industry to assess the risk. This is not easy. For example, if terrorism is our greatest threat, how does FinCEN appropriately and effectively communicate information that may be relevant, but is classified? Those in law enforcement are correctly reticent about sharing information outside their investigative circles. How do we get relevant information from those investigations to our industries so they can assess their risks? As difficult as this may be, FinCEN must find a way to provide the industries we regulate with information relevant to their assessment of the risk. We are beginning discussions on this gap in information sharing with our industry, law enforcement, and regulatory partners.

I would also note that along with information sharing comes the responsibility of ensuring the protection of that information. FinCEN follows a comprehensive set of legal and technological restrictions to ensure its data are properly used internally as well as externally. Such controls are designed to compartmentalize and channel information only to authorized users to ensure compliance with U.S. privacy laws. Unauthorized disclosures have been extremely rare and are immediately referred to law enforcement for investigation and dealt with as severely as the law permits.

Conclusion

FinCEN, its network and its mission are dedicated to fostering a dynamic information-sharing environment among its law enforcement, regulatory and financial partners. The agency will continue to build upon its expertise and add the benefit of its successes and lessons learned to the nation's anti-terrorism and money laundering efforts. Thank you again for this opportunity to testify today on FinCEN's role in terrorist financing and money laundering investigations. I would be happy to answer any questions the Subcommittee may have.

Mr. SOUDER. Before I start on my questions, I want to just ask you, Mr. Werner, about something that you said. You are able to tell when different agencies are accessing the same information. Is that automatic notification?

Mr. WERNER. It's done in two ways. We have the gateway system, whereby State, Federal and local law enforcement access BSA data. That has an automatic alert system when data has been touched by more than one agency. In addition, when we get direct requests for assistance from agencies, we network that through our data base and feed it back into the gateway system so that we can collect any double touchings of that.

Mr. SOUDER. Thank you. I want to start with the Andean region. It is the largest area producing narcotics into the United States. And I believe it was Mr. Semesky said that the black market peso exchange was the largest laundering mechanism for Colombia. Does everybody agree with that, about the black market peso exchange? There's no disagreement. Could you describe that more completely, the extent of that, and how are you tackling that if that's the largest place where the money is moving.

Mr. SEMESKY. Mr. Chairman, the black market peso exchange is a mechanism that actually began in the 1960's when Colombia imposed foreign exchange restrictions on its citizens. Due to the inability of Colombian businesses to get foreign exchange for international trade, a black market grew up and involved Colombia. In the late 1970's when the U.S. Government started cracking down using Bank Secrecy Act violations on Colombian drug organizations, those drug organizations became the supply end of the dollars that fed that system. And it just mushroomed from there.

Quite simply, how it works is that you have a drug trafficking organization that operates, that produces drugs in Colombia, sells them in the United States. As they collect their drug proceeds, they have a need to either smuggle them out of the United States or get rid of them, launder them in some fashion. What the black market peso exchange does is it brings a peso broker into the loop. That peso broker will buy the dollars from the narcotics trafficking organization, usually at a very substantial discount. This negotiation takes place in Colombia. Messages through various means are given to workers, both for the drug organization and the money, the peso brokers organization here in the States. They exchange the funds.

At that point the drug traffic organization is paid in Colombia in pesos, less the discount. The peso broker now owns the dollars that are resident here in the United States. And his or her particular problem is getting that money in the banking system, which generates a lot of the work that the agencies here at the table conduct. That money is then put in a lot of times to the trade system, commodities are purchased and smuggled into, or undervalued and taken into Colombia, where they are sold through the San Androsidos, or the black markets in Colombia.

That is kind of the cycle how it runs. What the U.S. agencies are doing, they mainly attack this system through the identification of the peso brokers and the delivery of the funds here in the United States, and then tracking the funds through the system into the commodities and then both the United States and the free trade

zones around the world to Colombia. And then go after the accounts that the moneys go through and in the system. One of the things that we are pushing at DEA and our office is more to focus primarily back on the drug organizations that are delivering the funds in the United States, rather than on where the funds are going. ICE is the expert in trade and they conduct more of the trade investigations than DEA does. DEA investigations we want to focus on the drug organizations that are generating the money and take that back to Colombia and to the drug traffickers that are supplying those organizations here in the States. So its kind of a twofold approach. There are plenty of targets, both on the supply side of the dollars, the facilitating peso broker, and the demands side, which are the businesses that are buying the dollars for all of the agencies to concentrate on.

Mr. SOUDER. Does anybody else want to comment on this as well? I want to make sure I understand. In the black market peso, in this market are they dealing solely with Colombia? Or do they have legitimate peso exchanges too, or are these just basically rogue operations from the word go? Are they intermingled with Mexican peso or other currencies as well.

Mr. SEMESKY. Primarily, Mr. Chairman, it deals with Colombia. This is a system that is, in effect, in Colombia. There are other black markets throughout the world that do buy illegal dollars. Colombia relaxed its foreign exchange restrictions in 1991 and it is now perfectly legal to buy and sell pesos for foreign exchange in Colombia, in most situations. However, there are still regulated situations that do require registration with the central bank, and one of those is international trade. Because of that, there is still a demand for dollars for international trade. And so the drug industry is still supplying literally hundreds of millions of dollars, if not billions,—well, the estimate is up to $5 billion a year for the black market peso exchange. But to answer your question, it primarily deals with Colombia, although we do see a good bit of the money go through Mexico first. But it is still being handled by Colombian peso brokers.

Mr. SOUDER. Panama to.

Mr. SEMESKY. A lot of the money ends up in Panama to buy commodities from the cologne free trade zone which are then taken to Colombia either is smuggled out right or undervalued with the Colombian Customs service, which is called the Dion.

Mr. SOUDER. Do any of you have any specific suggestions of anything where we would need more cooperation and legal changes in Colombia, Peru, any of the Andean countries that would help go after this?

Mr. SEMESKY. Mr. Chairman, as the Colombians have relaxed the laws on foreign exchange, it has decreased it, I believe, somewhat. However, the agencies here at the table are addressing the black market peso exchange with the regulatory agencies to go after it as a system, and we are working toward that and working with our counterparts in Colombia. They are well aware of our efforts and they want, they have expressed a desire to work with United States on that. We have also, through FinCEN, talked to the governments of Panama, Aruba, Venezuela as well, because a lot of the drug dollars that flow through their system go into those

free trade zones as well. And we know that if we address one free trade zone and not the others, that the money will just shift.

Mr. SOUDER. Anybody else?

Mr. ROTH. I would just like to highlight that, that the cooperation that we get from these other countries is crucial in trying to knock down these black market peso exchanges and some of the investigations that we have had literally could not have been done without, for example, the cooperation of the Colombian government who's been very responsive.

Ms. FORMAN. Mr. Chairman, if I may, some of the tools that we're utilizing to attack the BMPE, the black market peso include a number of undercover operations that target the drug dollars in the streets of the United States and that information is collected, at least by ICE, in the money laundering coordination sector, but we are able to take the identifying information, identify patterns and trends and recipients of the black market dollars. We're also working under Plan Colombia very closely with the Colombian government. We're exchanging trade data. The NIPS program that I spoke about identifies anomalies on trade leaving the United States and trade going into Colombia to identify these anomalies because, for example, if a million dollars worth of batteries are leaving the United States and Colombia says that they're only receiving 100,000, that's an indicator that maybe the batteries may be smuggled in.

So we have that relationship. We have also assigned agents to Colombia to work with the Colombian authorities and help identify leads and targets, joint targets to work together. Very successful case that we worked together with DEA and the ICE El Dorado Task Force was a case called Wire Cutter, where we worked with the Colombian authorities and we were able to take down eight major brokers in Colombia as well as violators here in the United States. Thank you.

Mr. SOUDER. Any comments on Mexico or where we are there? It's been a checkered history.

Mr. SEMESKY. Mr. Chairman, the DEA country office in Mexico is, on the money laundering side, is being expanded to a full financial investigative team. We work, we do work closely with the OFFI, which is their equivalent of the FBI, on money laundering investigations. That being said, Mexico is probably the largest repository of drug dollars leaving the United States. And most of that leaves the United States in bulk cash. Many of the investigations the DEA conducts and the other agencies here conduct address the bulk cash that is leaving the United States across the southwest border into Mexico. We are currently as a interagency trying to address that problem and look at different means of addressing it either on the criminal enforcement or the regulatory side.

Mr. SOUDER. I know on the north border we do some back-checking of people going back into Canada. We have had a couple of experimental places. Are we doing that at any of the south border where we are catching any bulk cash.

Ms. FORMAN. ICE has conducted a number of operations with our Mexican counterparts in conjunctions with ICE foreign attache officers, and are in the process of establishing another outbound operation, but we actually assign agents as well as Customs border pro-

tection officers in Mexico, and we exchanged information as the operation is ongoing. And we also provide x-ray vans and the expertise to share that information. So this is an ongoing process.

Mr. SOUDER. So do we do any checking on the U.S. side of the Texas-Arizona-California borders?

Ms. FORMAN. I'm sorry?

Mr. SOUDER. In other words, what you described is mostly working with the Mexicans on their side of the border. Do we do any back checking at our side of the border looking for money before they leave U.S. soil?

Ms. FORMAN. Yes. It's a two-way exchange of information. It's not just a one-way. They also feed information back to us during these operations.

Mr. SOUDER. OK. Ms. Blackburn.

Mrs. BLACKBURN. Thank you, Mr. Chairman. I want to say thank you to each of you for taking your time to come over here this morning and talk with us and give us an update on where you are with this. I think when you have a district like mine, where Fort Campbell is located in Montgomery County, Tennessee, where you have many families that have military men and women who are deployed, we have Guardsmen and Reservists who are deployed and are aggressively working in Afghanistan and Iraq and fighting in this war on terror. And I appreciate the information that you all bring to us this morning.

Mr. Chairman has talked with you about Colombia and Mexico. We know that and we've been watching what DOD has done over in Afghanistan with the stockpiles or removing the stockpiles of opium and heroin. What I'd like to know, we know that the cell of these finances a lot of terrorist activity. And do we currently have any significant reports of success trafficking—tracking the financing mechanisms or apprehending individuals that are engaged in terrorist financing in this region? And whomever from the panel would like to answer that?

Mr. SPARLIN. I'll speak for the Internal Revenue Service. As we have responsibility for many of the Bank Secrecy Act violations, we review the significant amount of data that is supplied by FinCEN with the—through the banking community. We are working in partnership with the banking community to identify suspicious activity. They file those reports with us.

In addition to that, we are looking at a number of charitable organizations who have been identified as having relationships with terrorist organizations. And I mentioned in my opening statement a couple of those we have shown to be raising money in this country through their charitable organizations through donors to that program, and then shipping the money overseas.

We've had a couple of significant successes in that, as I—the Benevolent Foundation that I spoke about earlier, the individual there raised millions of dollars, sent it overseas and now is facing over 11 years in prison.

So we are looking at both the organization charitable organizations that may be involved in that sort of thing, the banking community, the financial community is working with us in partnership to identify those who are potentially conducting suspicious activities.

Mrs. BLACKBURN. And that is specific to Afghanistan and to that region, am I correct?

Mr. SPARLIN. Well, it's to the Middle East. I mean, they—it's kind of a know-your-customer type of a situation.

Mrs. BLACKBURN. Exactly. OK. Thank you.

I also want to ask you just a little bit about looking at some of the other avenues of financing, the alternative means, if you will, diamonds, gold, contraband, counterfeit goods, and intellectual property theft. It's particularly important to us in Tennessee because of what happens with entertainment product and with music. And my songwriters in Tennessee talk about this regularly.

And the FBI leads some investigations and maintains case data, according to the GAO, and does not systematically collect and analyze data on terrorist use of alternative funding mechanisms. And if I'm wrong in that, I want you to correct me. Does the FBI anticipate collecting this type data in the future and could it provide useful information about the utilization of these types of alternative funding schemes?

Mr. MOREHART. Yes, ma'am, to answer that question, let me give you a little detail on that. It is, as you might expect, difficult to accumulate that kind of information because there are so many different types of alternate financing methods. It's limited only by your imagination, if I might describe it that way.

What the FBI is undertaking now is a number of different initiatives, if you will, or projects to try to accommodate that information if I can describe it as a data base so that we can accumulate it and send it out not only to FBI agents out in the field and the managers there, but also the other agencies we interact with through the JTTF so they are aware of those type of financing mechanisms.

One of the things we are doing is we are—we have what we call an annual field office report. For the first time last year that annual field office report included questions regarding terrorism financing methods, mechanisms, if you will, that we are accumulating and analyzing as we speak.

In addition, we intend to go back out to the field with a detailed survey that will be answered by those supervisors, if you will, that oversee the joint terrorism task forces that handle the terrorism financing matters. And we're going to ask for specific detailed information on the various types of financing mechanisms that they have observed so that we can also accumulate that information and disseminate it for educational purposes, if you will.

Also we are in the process—this is a growing process—of suggesting manual changes. One of the things that FBI agents have to do and their counterparts on the JTTFs is to report back to our headquarters as to preliminary investigations and full investigations of terrorist matters. One of the aspects that we are requesting is that they specifically must include any information they have on terrorist financing that relates to any specific investigation. We're in the process now of collecting that information and within, I would say, the very near future, we will have a product that describes the types of financing mechanisms that we're seeing.

Mrs. BLACKBURN. Thank you, sir. Let me ask—Mr. Chairman, may I continue for just a moment? Thank you, sir.

Do you all—is there a way for you to construct for us, and there may not be, just a chart that would show what you estimate to be the amount of money that leaves this country with drug sales, what is there with the alternative means, that terrorists or organizations are pulling out this country? I think sometimes people have a tough time visualizing good people with good money sometimes end up spending it on counterfeit goods or contraband or different things. I don't know if you have an estimate of the amount of money that gets tied back to terrorist activity.

Mr. MOREHART. You know, that would be extremely difficult to even guess on that amount. The bottom line, when you're talking about terrorist financing in terms or equating it to money laundering, the bottom line with those funds is concealing the funds and their ultimate use as opposed to pure laundering of the funds to make illicit funds look as if they're, you know, good money, if you will, or clean money. So that, in and of itself, poses a problem.

The concealment issue, it is extremely difficult, as you describe Congresswoman, a lot of people, for example, may contribute funds to an NGO thinking that it's a legitimate donation when, in fact, that money is taken down through several transactions and used to fund insurgency, for example, in Iraq. It's very difficult to determine when it becomes from legitimate money, if you will, to illicit funds. So it's almost impossible to give you a dollar amount.

Mrs. BLACKBURN. Well, and I know that's one of the things that makes your job very difficult and we appreciate the efforts you all continue to place on it.

I do have one other question, methamphetamines, and the situation that we have in Canada with smuggling of the precursor chemicals that are coming in. And we know that grew through the 1990's. And without revealing any sensitive or classified information, can you tell us what your agencies are doing to target the financial side of the precursor chemical smuggling?

Mr. SEMESKY. Congresswoman Blackburn, the Drug Enforcement Administration has targeted and, quite successfully, the precursor chemicals coming from Canada into the United States and has seen a dramatic drop in the amount brought into the United States as well as a very steep increase in the price for the pseudoephedrine. I don't have specific figures to give you on that.

As far as the financing side of that, they have, in those investigations, addressed the financing or the money that is earned from the sale of pseudoephedrine and ephedrine. As Mr. Morehart pointed out, as we tracked those funds and they've gotten into the banking system, once they get to the Middle East they literally disappear because they go over many times in the form of money orders or checks and they hit the first bank and are turned into cash again and the trail is gone.

Mrs. BLACKBURN. Thank you. We appreciate your efforts and thank you for your time for being here today.

Mr. SOUDER. I want to followup briefly and first on that subject of the precursor chemicals. At our Detroit hearing, we heard the good news that the different agencies feel that we've had both in Homeland Security, DEA, and others, progress. Particularly there where we had at least signs from a few big busts that a large percentage of the precursor chemicals are coming across at Detroit,

and we had a couple of big busts, of course the ecstasy bust. But I want to confirm these and then ask a question.

We also understood, when I asked a followup question, that there has not been a dramatic reduction on the ground in the United States in meth, either in precursor chemicals or in the use of methamphetamine. That we've not seen a decline or we don't—assume there's a decline in Rotterdam and Antwerp as the shipping points, so therefore if it's not coming from Canada, where is it?

Mr. SEMESKY. Mr. Chairman, that is not something my division addresses, but my understanding is that there are new routes and one of them is Mexico. And that is something that is being addressed.

Mr. SOUDER. Because one of the questions is it's presumably, since the precursor chemicals are predominantly made for these kind of drugs in the area of the Netherlands and in Belgium, and we know where the bulk of it is coming from, it seems like one of the best ways to trace this would be the money. Somebody is shipping it.

Mr. SEMESKY. Again, that is something that our diversion and foreign operations divisions are addressing. There are several operations that are gathering financial intelligence on the wire transfers that are going to—they have to—and my division is working with them on that and tracing back the precursors as they're seized to the manufacturer and then looking at the manufacturers who they are receiving payments from. And it's, obviously, a long process and it involves getting information from foreign banks, but that is something that is being addressed.

Mr. SOUDER. So you've kind of hinted, and I want any other comments from anybody who are tracking the finances of this. If this stuff moves from Europe and hits Mexico, which we're only at the preliminary stage, in other words, we don't have lots of big cases here with which to sort this through, but if there's been a reduction in Canada and it's moving in Mexico, are there things that we need to do? Are we able to track that when it hits Mexico? Presumably they're shipping to the northern parts of Mexico rather than to the southern parts of Mexico.

Let me ask Mr. Werner, in FinCEN you said you have a conceptual group that is starting to look at patterns of how terrorists think. Will that be for narcotics too or just weapons of mass destruction terrorism?

Mr. WERNER. Mr. Chairman, it's targeted to the designated terrorist groups, the known terrorist groups. But to the extent that some of those groups derive revenue from narcotics trafficking, it will include their business model.

Mr. SOUDER. They both have been involved. In the Middle Eastern groups it's easy for us to say in Congress, say "Middle Eastern" and imply that it's terrorists. Middle Eastern groups are often just profiteering groups and they may not even be necessarily from terrorist countries or they may be rogue or cooperating with the government. It's a wide range. But given the fact that in meth precursors, much of this is coming from the Middle East, is FinCEN looking at the potential and how it hits Mexico?

Mr. WERNER. We haven't been targeting the specific example you're giving, but I think as we get to understand these terrorist

organizations' business models better, again to the extent those business models include drug trafficking we'll be looking very carefully at that.

Mr. SOUDER. Let me ask you, and I would like kind of a general comment because I had this as a later question because I want to come back to Canada again. How much do you think—we've been operating under the assumption that lots of the narcotics, child trafficking and the traditional underground economy will only get to be a larger percentage of terrorist funding because we will go after the above-board, above-ground type of operations, that how much of the terrorist funding do you think will be in those categories versus things like the Holy Land Foundation or groups that may, in fact, be doing lots of good work or some good work and hide inside that, versus hybrids like the black market pesos, where you would have a currency exchange and they would try to work through semi-legitimate businesses to then convert it into gold so it looks like another product?

Mr. WERNER. Based on what we know now about terrorist financing models, I think I would lean toward Mr. Morehart's statement which is that primarily based on what we know now the revenue derived by terrorist organizations is a lot of good money turned into bad. That's not to say that within certain regions and certain terrorist groups they're not relying more primarily on illicit activity. But, again, I think the studies we're doing now on these strategic business models will help us understand that a lot better.

Mr. SOUDER. Are you looking at your models presumably as they develop and if they want to take the battle to our soil, they're going to disperse and not be as easy to identify. And use mules and other organizations—mules with quotes around it, human smugglers, for example, and we clearly don't have control of our south border. And if terrorist organizations move things through, quite frankly, on the south border it's easier to spot a middle easterner coming in the south border than it is the north border.

We have huge vulnerabilities on our south border, not to mention Asian groups like you say. The Taliban was clearly funded by narcotics, the FARC is funded by narcotics, other groups less so depending on whether they get in the precursor business or not. And the precursor business, obviously Indonesia and the Philippines are two areas that everybody is watching very closely.

Are you trying to do predictive models as well to see how well we're doing? What I would like to think as a Member of Congress, in a public forum, not a classified forum, that you have people who are emulating the terrorists trying to think how you would penetrate our own models.

Mr. WERNER. Mr. Chairman, that's exactly what we're going to be trying to do. These models are intended to be predictive in nature. And we really are going to be doing war-gaming in the sense of trying to get inside the mentality of the organization that we look at and understand not only how it's functioning now, but how it might evolve in reaction to law enforcement.

Mr. MOREHART. Mr. Chairman, if I might add to that, the terrorist financing operation section is also involved in that type of activity. We have one of our units, the financial investigative analysis unit has an element in it that deals with proactive investigation,

if you will, or doing exactly as you suggest, the gaming, trying to identify proactively sources of funding for terrorist activity.

To go back to your earlier question in terms of trying to quantify how much money would come from one particular activity, either legitimate or illicit activity, that's difficult to estimate. Also, your question as to whether doing away with the legitimate activity, for example, contributions to NGO's, whether that would increase or enhance illicit activity, that's also hard to say.

The bottom line is, I think, it's probably well known that it doesn't take a whole lot of money to finance these folks. As I mentioned before, it's essentially limited to their imagination whether they're smuggling cigarettes to avoid taxes and then making money in that fashion or any other way they can derive income, whether it's a contribution to a charitable organization and it's funnelled to some entity for their activities, it's very difficult to answer that. But the bottom line is the proactive entity we have within TFOS is doing exactly what have you described and having some success at that.

Mr. SOUDER. We had a hearing.

Mr. GLASER. If I could also add to that because I think it's a very important point you raise. As we, here in the United States, take efforts to close off our financial sector to terrorists and to narcotics traffickers and other organized criminals through the—largely through the law enforcement action through the regulations that are issued on money laundering and terrorist financing by FinCEN, and as we work with our partners abroad in the Middle East, in Europe, in Asia and in Mexico where they have just recently enacted and we hope are putting into effect some new anti money laundering regulations, it's becoming more and more difficult for organized criminals, for narcotic traffickers, and for terrorist financiers to use the formal financial sector. As a result, we do expect them to be moving more and more toward alternate means of financing their activities, be it through cash couriers, be if through systems like Hawala, through the black market peso exchange, which, frankly, has many similarities to the way Hawala systems work. And that's why we are turning our focus to these activities.

To go and to give a specific example, and this gets to another question that you just asked, with respect to the links between these types of networks between drug traffickers and between terrorist financiers, a good example would be a man named Dawood Ibrahim, who is an Indian organized criminal, a narcotics trafficker, who was designated by the Treasury Department as a financier in October of last year, this individual makes available the same systems he uses to finance his activities he makes available to terrorist organizations. So we can see those systems already linking up with each other.

So, again, it is something that we are all collectively focusing on, making sure that these alternate systems of supporting any type of illicit activity, be it terrorism, organized crime, narcotics trafficking, are being looking at.

If I could just, since Ms. Blackburn is back, I didn't have a chance to just let you know one recent success that we have had in the Afghanistan region with respect to terrorist financing is earlier this year the Treasury Department designated on the Al

Haramain Foundation in Pakistan and froze and blocked the assets of that organization. That was a Saudi-based charity in Pakistan that was connected with al Qaeda and connected particularly with moving people in and out of Afghanistan, al Qaeda operatives in and out of Afghanistan. Earlier this year, we closed down that particular financial mechanism of supplying terrorists, terrorist money into Afghanistan.

Mr. SOUDER. I want to touch on Canada again for a minute on BC bud and this hydroponic marijuana that's not marijuana as we traditionally know it, but has a much higher THC content and has an action much like other drugs and is sweeping much more like meth in many areas of our country and their country. We have seen the first corruption cases in British Columbia, or at least allegations, that it is my understanding from a hearing we conducted, that marijuana is now in Canada, and it's as big as any other product they're selling us, including wheat and timber. And that is a sign that Canada may be headed down the way of Mexico and Colombia if they don't get control of this in the sense of you start dealing as your biggest trade product, all of a sudden you have tremendous potential for corruption.

In fact, that data may have come from their attorneys general in their provinces who have been very critical of some of the Federal Government's stances in enforcement in Canada.

What I would like to know is, do you have any suggestions as we have good government-to-government relations and as we work with the new government there are some things that need help. I know it's not an RCMP question or even attorney general question, it's a question of what laws do they need on the books and what do their courts need to do.

Ms. FORMAN. Chairman, if I may, we actually have an international rep in Canada as we speak, meeting with Canadian officials and authorities to discuss politically exposed problems in Canada to include narcotics trafficking, embezzlement and bribery and the proceeds which enter the United States. The program we have in Miami is—we hope to duplicate throughout the country and to work with our counterparts. ICE has approximately 40 overseas offices and we're hoping to duplicate the success of the program in Miami with the South American countries, with Canada, and Mexico and other countries as well.

Mr. SOUDER. Anyone else have any comments? Mr. Werner, my staff recently looked at their FinCEN system and their tracking of money and it seemed their computer search engine and related programming may be superior to ours. Have you looked at their system?

Mr. WERNER. We've had a lot of discussions with them. In fact, we assisted them with designing their system. They had the benefit of learning from what we did well and what we wished we did better. They're a much smaller system which has given them some advantages. But what they can do is pretty amazing at this point. I think it's approximately 99 percent of their data is electronically transmitted. And they get all wire transfers. So they're collecting a terrific amount of data and their system seems to be very robust.

Again, the difference is that it's a very modern system that—they were having lots of problems a number of years ago. They have got-

ten their financial intelligence unit really up to the proper criteria, and with it came new technology applied to a much smaller financial system which allows them to do more than really would be possible here. But, yes, we are actually going to make a visit to look at it. We've heard about it. We met with them and the director is going to go up to Canada to take a look at it.

Mr. SOUDER. One last thing related to Canada that I asked a question earlier on the Mexico border, because what I heard was heavy amounts of cash going south. My experience with our hearings on the north border is that cash going north has not been the primary problem. In fact, we're the biggest drug exporter into Canada, and often the BC bud and the marijuana is coming and being swapped for cocaine and heroin and other things that are going back across the border.

Mr. Semesky, is that your impression too, or do you think there's a lot of cash moving as well?

Mr. SEMESKY. Mr. Chairman, I believe there is a lot of cash moving as well. I've met recently with the director of the organized crime unit with RCMP, and will be meeting next week with the director of the proceeds of crime unit with RCMP who have expressed an interest in working with DEA. But in the information exchange with them, there is a tremendous amount of cash, and some of our officers have seen it, that are going—is going back to Canada as well as the drugs. And I must confess I don't have a lot of information about that.

But the cash is going back to Canada. We've seen it in several cases, one in particular, Operation Candy Box, which was taken down recently which involves millions of dollars going back to Canada. And a lot of times it exits the United States—in that particular case much of the money went to Vietnam first and then back to Canada.

Mr. SOUDER. That was the ecstasy case.

Mr. SEMESKY. Yes, sir.

Mr. SOUDER. As part of the U.S. Canada parliamentary group meeting on an annual basis, I'm always, no matter what else everybody else is talking about, I always raise narcotics to them, and some of the border issues to try to keep the pressure on how we deal with our border. And we're about to have these meetings again. My understanding is both that Niagara Falls, Buffalo, and I can't remember, I think it may have been Montana where we were back-checking. By back-checking, I mean people who were headed into Canada. In other words, we check both directions. Not having the Canadian side of the border checking, but before they leave American soil, we were actually finding almost as much going out as going in.

Now, a lot of that was customs violations people trying to avoid tariffs. A lot of it was guns. They were converting Canadian drugs into American guns for sale because of their gun restrictions.

But I wondered and that's why I was asking related questions, now I'm going to continue to pursue that. But trying to sort out how much is the money problem in the north border versus the south border. Ecstasy is a little bit different product because it's coming more from Europe and Canada is a pass-through. The Vietnamese trade is more complicated coming through British Colom-

bia because that may be a pass-through organization too, and shipping.

When it's grown in Canada, the question if it's not a pass-through, is it a swap in the networks or not? Probably there isn't as big a market either. In other words, they're selling more drugs in the United States than they can consume on their end. Any other comments on that?

Ms. FORMAN. Currently, ICE is working an undercover operation with the Canadians on addressing the proceeds of BC Bud. That operation is still ongoing. And we have seized and identified currency here in the United States destined to go back to Canada.

In addition, based on an assessment we've done on the currency and monetary instrument reports, there is minimal reporting of currency going north. And as we speak, we're in the process of working with the Canadians to help establish their money laundering regulations in their reporting requirements. We had three ICE agents detailed to Canada to help them with the reporting program.

Mr. SOUDER. You're saying they don't have a law that allows them to do it, they have a law that prohibits them from doing it, or they're just not doing it?

Ms. FORMAN. They're doing it. We're working in conjunction. But we're hoping for consistency in the reporting requirements going across and coming into the United States. I'm not really sure what the amounts and their threshold are going into Canada for reporting purposes. I know they have laws that prohibit the exact changing, exchange of information on a timely basis. So that's one of the issues we're working to try to overcome.

Mr. SOUDER. With us?

Ms. FORMAN. With us.

Mr. SOUDER. One of the whole things that is determinate as to whether or not this whole financial reporting system works is whether the banks are cooperating and Riggs Bank is currently under investigation facing sanctions because they may not have filed basic reports on unusual transactions particularly related to Saudi diplomats. How confident are you about the banking system as a whole? This whole thing falls apart if the banks aren't, in fact, reporting, and if the only ones they are not reporting on are critical to the ones you are doing, it becomes even more problematic.

Mr. WERNER. Mr. Chairman, we feel very confident that the SAR reporting system is working well at this point. That's not to say there isn't an opportunity for improvement. And, in fact, the Deputy Secretary has recently said that would like to initiate a study to look at the system and see how we might enhance improvements to it. But I can tell you now that we're receiving over 20,000 SAR activity reports a year and they contain extremely valuable data. We will continue to work with the industry to educate them as to the value—as to what data is valuable to law enforcement and give them as much feedback as possible.

And, in addition, as the reporting system ages, particularly post-September 11, and we're bringing on additional institutions now who we haven't filed SARS before, we have to engage in an outreach which we're working with the IRS extensively on to do. And it's going to take work and it's going to take time. But in the mean-

time, very valuable data is continuing to come into FinCEN and we're working with law enforcement to continually generate feedback to the industry so that they can keep improving what they're doing.

In addition, working with the functional regulators, we're able to improve and look at the compliance of financial institutions. The IRS is our partner in doing the actual compliance on the MSBs. And it's a massive undertaking, but our view now is that it's a system that is working.

Mr. GLASER. If I could add to that from the Treasury Department's perspective. We certainly agree with Bob that we do believe that the financial sector is largely complying with their obligations under the Bank Secrecy Act. Any time you see an incident where a bank seems not to have been, it does raise concerns and you do start to wonder, you know, what are the implications of that.

As Bob mentioned, Deputy Secretary Bodman did commit to do a study, to launch a study to look at the overall level of compliance with respect to these requirements. Tomorrow, the Bank Secrecy Act advisory group will be meeting. That is a group of the Treasury Department, FinCEN, law enforcement and the private sector, the financial institutions. We do plan on using that group to conduct the study to work with the private sector and law enforcement and the regulators to make sure that there is an overall review done to ensure that the level of compliance is where we want it to be.

Mr. SPARLIN. I would like to add that we are partnering very well with the banking community. Just last week in northern California, we had a joint co-sponsored with us and the banking community anti money laundering seminar, where we had over 100 bankers there to talk about how we could better serve the community. And the successes we've had with the information that they've provided, when they hear about how we use their information, how we use the SARs and CTRs to go out and find people and prosecute them, it encourages them to continue doing what they're doing. There is obviously room for improvement but we are working throughout the country with groups just like that to improve.

Mr. SEMESKY. Mr. Chairman, if I could add one other thing. I think you can look at the dramatic increase in bulk cash smuggling as somewhat of the banks compliance with the Bank Secrecy Act reporting requirements. I think that's gone up as the bank's compliance has gone up. I've worked with banks since the early 1980's on this issue, and they are doing a very good job at compliance.

One of the problems they face right now is that whereas in the 1980's, initial placement was made in the form of cash, these days a lot of the initial placement into the U.S. system is kind of a secondary phase, where it's either in the form of money orders or wire transfers coming in from somewhere else. So the banks are trying to adjust and where they look across their product lines. Instead of just cash, they now have to address all of their product lines which is money orders, cashiers checks, wire transfers, cash letters coming in from overseas. And that is very difficult and it's a training process for them. It's a very expensive process for them to put the safeguards in place to do that. But it's something that I think all of the agencies here are working with them on. And that as they get better, we're going to detect more sophisticated means of

laundering, rather than just the cash placement. The cash is going outside the borders and a lot of times it comes back in.

Mr. MOREHART. If I may add to Mr. Semesky's comment. In terms of bank compliance, I think Hawalas are further evidence of that. The banks, obviously, if they weren't complying, those who are interested in moving money to the terrorist entities wouldn't be using Hawalas which are informal money movement entities, if you will. And obviously, being informal they're not going to comply with the SARS issues and that's obviously a concern. But I think it's indicative of the fact that those individuals who want to move money are concerned that the banks will comply with that.

Mr. ROTH. Just to add to what's been said, I think Mr. Morehart had it exactly right, that there is this entire industry out there, the money service business industry, that was just newly regulated for Bank Secrecy Act compliance under the USA Patriot Act. To my view, that is the greatest challenge we face, because it does not have a financial regulator like banks has, and it is new for them. And to get compliance, I think, is extremely difficult.

With regard to banks, we've had some success in prosecuting those outliers, which, I think, has a significant deterrent effect. We've had two prosecutions of banks for failing to comply with the Bank Secrecy Act requirements which, I think, sends a terrific message to the community that the failure to do so could have significant consequences.

Mr. SOUDER. I sit on the Homeland Security Committee, too. And the challenge is when we're dealing with narcotics, which actually is causing 20,000 deaths a year in the United States, but because it's so repetitive, you can kind of watch a pattern. One mess-up in homeland security and all of a sudden people are dead and everybody is gone. It's not that weapons of mass destruction, which may not occur are more important. It's not that necessarily next year we're going to have any deaths from terrorists, and we know we're going to have 20,000 here. But because it's more of a steady thing just, getting through on the one side, your job of sorting through and the cooperation is substantially different and to the degree they mesh.

I wanted to ask one other question, and I'm struggling to make sure I have the right letters, and I don't have it in front of me, but when we were talking about the HIDTAs, the drug trafficking centers, and the finance centers, and I believe it was Mr. Roth and Mr. Glaser both were probably most likely to be involved in this, in the overlap between these two. In your testimony, was it Mr. Roth who testified to this?

Mr. ROTH. Probably.

Mr. SOUDER. That you said that some weren't funded, it was unclear where this program was going to head. Could you describe a little bit more to me are there any cities that currently—of the seven, how many of those currently have a HIDTA off the top of your head? Do you know the seven?

Mr. ROTH. Yes. I think each one of them has a HIDTA. Each city that has a HIFCA also has a HIDTA. It's a little different with the southwest border which is a systems HIFCA, that doesn't exactly match up. But the big ones certainly do.

Mr. SOUDER. We're supposed to have a systems HIDTA too but that's another matter.

Mr. ROTH. OK. But yeah, the HIFCAs match up with the HIDTAs generally. The difficulty obviously with the HIFCAs was that they were not funded. What they essentially were forced to do is find a rich uncle, if you were, which many cases was the HIDTA. New York is a terrific example of that where they have a very well developed, very aggressive anti money laundering program that was the HIFCA but it was married up with the HIDTA.

Mr. SOUDER. That's the question I was going to ask because when I was up in New York I thought it was inside.

Mr. ROTH. Correct. It is. It is.

Mr. SOUDER. So why wouldn't that be a subunit of a HIDTA where you have a potential meshing of narcotics and terrorism? That might be different in some areas of the country. Any comments?

Mr. GLASER. I think that's a good point. The whole notion of the HIFCA program when it was developed was to pick particular areas where there was a high risk of financial crime or concern about a high degree of financial crime and focus law enforcement and generally Federal regulatory law enforcement and policy attention on that area.

To the extent that there was overlap with an OCDETF task force or with HIDTA or anything else, it was expected that would be coordinated. I think that we see that it has been. I do think that you raise an important point, however, with respect to the future of the HIFCA program and that is the fact that there is no money attached to the HIFCA program. So that is going to, by definition, affect the way that HIFCAs are structured.

I'm not suggesting that there should be a change in that, I'm just suggesting that the way that the HIFCA program is set upright now on a statutory basis informs the way the HIFCAs actually operate with respect to the HIDTAs and the OCDETF teams.

Mr. SOUDER. Because I wouldn't think this is tremendously hard to figure out where the highest priorities are. I mean, we know the history of Miami being the banking region for the Caribbean in the south, New York clearly has the most terrorism potential drug nexus, but there we're pretty well meshed. Presumably somebody on the West Coast between Los Angeles, San Francisco, and Seattle is going to emerge as the dominant center. Right now they would each argue about that, maybe, on the Asian pacific rim corridor. Conceivably you could have a jump up to Atlanta. I mean, I don't even know what they are but just from looking at the different areas you can kind of zero in on logical overlaps.

Now, one final question on this, but the southwest border is really messed up. And I don't think any of us believe that we're going to be able to control terrorism in this country long-term unless we stop a million people getting across a year illegally in spite of what we're doing. And if we all grant that's where most of the narcotics are going—and I heard today that's where most of the cash back is going—unless we can get control of the southwest border, we don't have functional control of our borders.

And what I heard you to say on the financial incentive is it's been difficult to look at it as a border. I mean, partly in the

HIDTAs, we're having this problem. Theoretically there's a southwest border HIDTA, then you have the bigger cities behind it as the second tier. The problem here comes as you have this feeling that the narcotics guys don't say, hmm, I wonder where the line is between New Mexico and Arizona. We better not go that way because we're the Arizona guys. It doesn't work that way. They're going to push wherever we have an opening. In the financial tracking, do you see some of that difficulty? Is that why it was difficult to put together the network on the southwest border or is it less of a problem on the financial side than it is on the drug trafficking side?

Mr. ROTH. I think it's enormously difficult. Part of the problem, as you acknowledge, is the fact that the method itself is difficult to detect and difficult to track. So I would say it's less of an organizational issue than it is just trying to crack the problem. That's where I think the big problem lies. We still don't have as good a handle on how to meet that threat as we probably should.

Mr. SOUDER. Any other comments on the southwest border? I mean, when you look at the narcotics in Indiana, we have multiple patterns. A lot of big busts coming up through Laredo had big groups that came through Douglas, Arizona, and we've since learned our major meth source from the outside. About 30 percent of the local cookers, and that's what you see in the news taking down the labs that are messed up, but 70 percent, even in Indiana which is fifth in the Nation in meth, are these super-labs coming out of California and Mexico. They're going all the way up, our major busts go all the way up to Washington State to Yakima all the way across the top.

We have this one family and when they saw them down in Georgia and in Indiana and Yakima they said oh, there's a family working inside, a migrant group that's doing the drug trafficking, that the money would be an indication too. Because if they're moving the drugs that direction, you would think there would be an equivalent of a cash pulse moving back through the system and the two sides would be working together to establish that.

Are you telling me that is happening or not happening? Because the border is where it's going to leave the United States and it's gone. I mean, we're working with other countries, but our greatest control is going to be getting it before it hits that border.

Mr. SPARLIN. One of the things that we are looking at right now is the wire transfer project that we've got going on with the money service business where that money is being transferred via Western Union, whatever money service from Indiana to California to the mega drug centers in California. We have just started this project kind of on a localized basis. Now we're partnering with DEA to do it on a national basis so we can see both sides. Initially we're looking at one side. California, I happened to be the special agent in charge in San Francisco. When we started the project, we got all the outgoing wires—we weren't getting the incoming wires—to see the money going out. Now we're working this project to get both sides. And I think that project is going to be very successful in identifying that flow, internal flow of money within the country.

Mr. SOUDER. Do people use the postal service, UPS, and Fed Ex for cash as well?

Mr. SPARLIN. Yes.

Mr. SOUDER. Have you got a project on that as well?

Mr. SPARLIN. We're partnering with all of them, yes.

Mr. SOUDER. Anybody want to add anything else?

Ms. FORMAN. Mr. Chairman, we have an operation going in Arizona called Ice Storm. Ice Storm is looking at the methods, the gangs, the narcotics money, the aliens, the alien organizations that are going into and out of Mexico and into Arizona doing tremendous damage. As a component of Ice Storm there's a operation called Green Mile where we're looking at the system, the money service wire systems, the Western Unions.

We conducted a census on the money service businesses to determine a threshold for narcotics smuggling and for alien smuggling. And we're working with the State of Arizona and utilizing something called damming warrants where we're working with Western Union to determine the senders of the funds and seeing if we can penetrate these organizations that are coming into a Arizona and slowly moving into California and some of the other west coast cities.

Mr. MOREHART. Mr. Chairman, if I could add to what Mr. Sparlin said, I think from the cases that we've seen, you can almost track the money going through the wire remitter industry with the spread of methamphetamine across the country and the problems that we've seen. So you are absolutely correct. There is a method that we are trying to address to look at the financing side of this. And I think all the agencies here, you know, are seeing that, we're trying to bring this all together so we can make those connections instead of having small cases make big cases. You can only do that when you bring your intelligence together.

Mr. SOUDER. It's got to be a system similar to a trucking system or any other transportation system, and you're going to have large companies, and you're going to have mid-size companies, you're going to have independent little truckers. I'm not saying little truckers aren't good, I'm just saying you're not going to spend as much time on a little trucker, you're going to figure out which ones are the big ones. It's real interesting to watch when you start to see certain patterns come back through as to which size.

Sometimes you'll catch them for different reasons but then that hopefully then gets transferred over to the financial end where you try to figure out whether a bank was disguising it, or were they using Western Union. You all have to be talking on every case, particularly in the terrorism area because zero tolerance is impossible. It is a great goal, but it's just very discouraging when you start to get into it because this balance between the individual's rights to privacy in the United States as we refight the Patriot Act. And it was very important to hear the importance of the Patriot Act in looking at the terrorism question, but this is going to get tougher before it gets easier because they're going to get smarter over time as well. We just have to stay a step ahead rather than a step behind.

Would anybody else want to make any comments? I appreciate all your time this morning. We may have some additional written questions. Appreciate you coming. Appreciate your testimony. If

you'll communicate to each your agencies we also appreciate the work of the men and women in each of your agencies.

Second panel is Ms. Bonni Tischler, vice president, Pinkerton Global Transporation Supply Chain Security Department and Mr. Richard Stana, Director of Homeland Security and Justice of the General Accounting Office [GAO].

If each of you could stand I'll administer the oath.

[Witnesses sworn.]

Mr. SOUDER. Let the record show that both witnesses responded in the affirmative. Appreciate you being with us this morning and testifying in front of our committee, nothing like going on and on and then doing a quick halt and catching you by surprise there. But looking forward to your testimony.

Ms. Tischler, we'll have you go first.

STATEMENTS OF BONNI TISCHLER, VICE PRESIDENT, PINKERTON GLOBAL TRANSPORTATION SUPPLY CHAIN SECURITY DEPARTMENT; AND RICHARD STANA, DIRECTOR OF HOMELAND SECURITY AND JUSTICE OF THE GENERAL ACCOUNTING OFFICE [GAO]

Ms. TISCHLER. Morning, Mr. Chairman. I'll leave out my career highlights since you were kind enough to mention them. As a career special agent specializing in money laundering investigations, I was privileged to have been at the forefront of anti money laundering efforts in an era of virtually no applicable legislation with the exception of the Bank Secrecy Act.

At that time there was no substantive law that could be used against organizations laundering money until the Money Laundering Act was passed in 1986.

Money laundering is probably the third oldest crime with prostitution and smuggling tying at the No. 1 position. The concept of money laundering is not complex, although the methods means and opportunities as my FBI ex-peer pointed out, are only exceeded by one's imagination. Money laundering involves simply disguising or concealing the source and origin of illicit funds. Detection is, therefore, paramount to effectively disrupting a criminal organization.

Additionally, an organization's financial underpinning is usually its soft under belly and therefore much more vulnerable to attack. These funds including operational capital which is used to fund the mechanics of a criminal scheme and the potentially obscene profit which is, of course, why most financially driven crime is committed in the first place.

Efficient and devastating acts of terrorism require steady source of high level efficiently concealed funding mechanisms. While terrorist organizations may be funded by contributions and gifts, criminal schemes may also contribute to a steady influx of operational capital. The crime base could be the drug trade which is certainly among the most lucrative structures, or it could include so-called white collar crime, such as fraud or counterfeit intellectual property schemes, which are perceived as not as heinous, and therefore not deserving of Draconian penalties.

In 1980, the Treasury Department under the auspices of Customs and the IRS, initiated a prototype project known as Operation Greenback. Greenback was designed to identify and penetrate the

reasons for the unusually high level of cash-flow through the Federal Reserve in the south Florida area. The flow was found to be the direct result of the burgeoning drug trade in that region. At the onset, we thought we were only looking at narcotics smuggling organizations, but as we progressed, it became apparent that what we were dealing with was a series of service organizations that were laundering money for one or more drug smuggling groups. As Operation Greenback evolved, we found it necessary to add the Drug Enforcement Administration to the project since at that time the sole jurisdiction for Title 21, narcotics trafficking, rested with that agency. And since the crime was drug smuggling and trafficking, the DEA became a partner.

The task force concepts was successful and spawned other Greenback-styled investigations over the next several years. We found that putting together customs IRS and DEA expertise along with prosecutorial support from the U.S. attorneys offices was successful in disrupting and prosecuting criminal organizations involved with money laundering activities.

We were so successful that a number of congressional committees became interested in creating legislation specifically designed to target money laundering as a felony. In 1986, the vulnerability involved with not having anti money laundering legislation was resolved when laws—the law was initiated and passed by both Houses. The Money Laundering Act of 1986 included a number of predicate offenses. And as more offenses were added over the years a number of Federal agencies acquired the jurisdiction to investigate money laundering offenses. Unfortunately, this did not always mean that the agencies having substantive jurisdiction developed their ability to investigate money laundering activities.

One of the most interesting tools developed to impact criminal organizations both from a substantive and subsequent money laundering perspective was the asset forfeiture addictions to existing and newly planned legislation. Taking away the assets of an organization immediately impacts their present and future operational capabilities as well as their profit and loss statements. For instance, one can always replace smuggled drugs as a commodity, but it's hard to make up the seizure of cash or hard assets. Some of the most successful financial cases such as Operation Sea Chase in 1988, also known as the BCCI or Bank of Credit and Commerce case, and Operation Casablanca in 1998, were also examples of U.S. Customs-initiated investigations that added elements of other local, State, and Federal agencies to bring about successful outcomes.

While combining jurisdictions of Federal agencies is a force multiplier, duplication of similar projects is not, nor is it cost effective. An example of this is the proliferation of operational or intelligence-driven money laundering centers designed to do a similar job in identifying and analyzing intelligence and indicators of money laundering activities. Usually there is little or no passage of information to concerned agencies, and therefore no feedback. Part of the problem is that in strictly based intelligence and analysis centers, there is no real operational insight and often a window of insight cut into an organization is not fully exploited because the operational day-to-day knowledge of an investigator is missing.

To summarize, my personal belief based on a number of years experience in both the investigation and oversight of money laundering related cases is that a task force develops and brings to the table a synergistic and dynamic way of eliminating elicit organizations who are involved in drug smuggling or terrorist related activities. However, the potential for a powerful response to money laundering activities and the substantive involved criminal activities can only be maximized in a completely transparent environment free from redundancy and agency duplication. Thank you for the opportunity to testify today before you and your attention this very important matter.

[The prepared statement of Ms. Tischler follows:]

TERRORIST FINANCING AND MONEY LAUNDERING INVESTIGATIONS

by Bonni G. Tischler...VP/ Pinkerton C&I

Government Reform Committee
Subcommittee on Criminal Justice, Drug Policy and Human Resources
May 11, 2004

Good morning, Mr. Chairman. My name is Bonni Tischler. I am currently the Vice President for Transportation and Supply Chain Security at Pinkerton Consulting and Investigations. I retired as the Assistant Commissioner for Operations at U.S. Customs in June 2002 after 31 years of progressively more complex positions. Previous to that, I was the Assistant Commissioner for Investigations and a career Special Agent specializing in money laundering investigations. In 1980, I was privileged to have been at the forefront of anti-money laundering efforts in an era of virtually no applicable legislation with the exception of the Bank Secrecy Act. However, until the Money Laundering Act of 1986 was passed, there was no substantive specifically targeted law that could be used as an effective tool against organizations laundering money.

Money laundering is probably the third oldest crime with prostitution and smuggling tying at the number one position. The concept of money laundering is not complex, although, the methods, means and opportunities are only exceeded by one's imagination. Money laundering only involves disguising or concealing the source and origin of illicit funds. These funds include operational capital, which is used to fund the mechanics of a criminal scheme, and the potentially obscene profit which is, of course, why most financially driven crime is committed in the first place. Detection is, therefore, paramount to effectively disrupting a criminal enterprise.

Efficient and devastating acts of terrorism require a steady source of high level, efficiently concealed funding mechanisms. While terrorist organizations may be funded by contributions and gifts, criminal acts may also contribute to a steady influx of operational capital. The crime base could be the drug trade, which is certainly among the most lucrative structures, or it could include so called white collar crime such as fraud or counterfeit intellectual property schemes, which are perceived as not heinous and therefore, not deserving of draconian penalties.

In 1980, the Treasury Department, under the auspices of Customs and the IRS, initiated a prototype project known as Operation Greenback. Greenback was designed to identify and penetrate the reasons for the unusually high level of cash flow through the Federal Reserve in the South Florida area. The flow was found to be the direct result of the burgeoning drug trade in that region. At the onset, we thought we were only looking at narcotics smuggling organizations but as we progressed, it became apparent that what we were dealing with was a series of service organizations that were laundering money for one or more drug smuggling groups.

As Operation Greenback evolved, we found it necessary to add the Drug Enforcement Administration to the project, since at that time, the sole jurisdiction for Title 21, (narcotics trafficking), rested with that agency and since the crime was drug smuggling and trafficking, the DEA became a partner. The task force concept was successful and spawned other Greenback-styled investigations over the next several years. We found that putting together Customs, IRS and DEA expertise, along with prosecutorial support from the U.S. Attorney's offices, was successful in disrupting and prosecuting criminal organizations involved with money-laundering activities.

We were so successful that a number of congressional committees became interested in creating legislation specifically designed to target money laundering as a felony. In 1986, the vulnerability involved with not having an anti-money laundering law was resolved when legislation was initiated and passed by both houses. The law included a number of predicate offenses and as more offenses were added over the years, a number of federal agencies acquired the jurisdiction to investigate money-laundering offenses. Unfortunately, this did not always mean that the agencies acquiring substantive jurisdiction developed an actual ability to investigate money-laundering activities.

One of the most interesting tools developed to impact criminal organizations both from a substantive and subsequent money laundering perspective was the asset forfeiture additions to existing and newly planned legislation. Removing the assets of an organization immediately impacts their present and future operational capabilities as well

as their profit and loss statements. For instance, one can always replace smuggled drugs as a commodity, but it's hard to make up the seizure of cash or hard assets.

Some of the most successful financial cases such as Operation C-Chase (1988), also known as the BCCI (Bank of Credit and Commerce) case and Operation Casablanca (1998) were also examples of U.S. Customs initiated investigations that added elements of local, state and other federal agencies to bring about successful outcomes.

While combining jurisdictions of federal agencies is a force multiplier, duplication of similar projects is not, nor is it cost effective. An example of this is the proliferation of operational or intelligence driven money-laundering centers designed to do a similar job in identifying and analyzing intelligence and indicators of money-laundering activities. Usually, there is little or no passage of information to concerned agencies and therefore no feedback. Part of the problem is that in strictly based intelligence analysis centers, there is no real operational insight and often, a window of insight cut into an organization is not fully exploited because the operational day to day knowledge of an investigator is missing.

To summarize, my personal belief, based on a number of years experience in both the investigation and oversight of money-laundering related cases, is that a task force develops and brings to the table a synergistic and dynamic opportunity to eliminate illicit organizations, whether involved in drug smuggling or terrorist related activities. However, the potential for a powerful response to money laundering activities and substantive involved criminal activities can only be maximized in a completely transparent environment free from redundancy and agency duplication.
Thank you for your attention to this very important matter before us today.

Mr. SOUDER. Thank you.

Mr. Stana.

Mr. STANA. Chairman Souder, I am pleased to be here today to discuss efforts by Federal law enforcement agencies to cooperatively investigate money laundering and terrorist financing. As you know, money laundering provides the fuel for drug dealers, arms traffickers, terrorists and other criminals to operate and expand their activities. Terrorist financing is generally characterized by different motives than money laundering and the funds often originate from legitimate sources.

However, investigations of money laundering and investigations of terrorist financing observe involve similar approaches or techniques because the methods used for hiding the movement of funds also involve similarities. My prepared statement is based on two reports we recently provided to Congress on Federal efforts to improve interagency coordination fortunately these are our September 2003 report on the development and implementation of the annual national money laundering strategy, and our February 2004 report on the implementation status of a memorandum of agreement on terrorist financing investigations.

Our September 2003 report found that the national money laundering strategy generally has not served as a useful mechanism for guiding the coordination of money laundering and terrorist financing investigations. For example, the HIFCAs were expected to have a central role in coordinating money laundering investigations. However, we found that they generally had not been structured and operating as intended and had not met expectations for leveraging investigative resources or creating investigative synergies. As a second example, while Treasury and Justice have made progress on some strategy initiatives designed to enhance interaction coordination, we found that most had not achieved what was expected, including plans to centrally coordinate investigations.

And although the 2002 strategy elevated the importance of combat being terrorist financing, it does not address agency and task force roles and interagency coordination procedures. This contributed to duplication of efforts and disagreements over which agency should lead investigations.

To help resolve coordination and jurisdictional issues in May 2003, the Attorney General and the Secretary of Homeland Security signed a memorandum of agreement regarding roles and responsibilities of the FBI and ICE in investigating terrorist financing.

Turning to our February 2004 report, we found that the FBI and ICE had implemented or taken concrete steps to implement most of the key provisions in the memorandum of agreement. For example, the agencies had developed collaborative procedures to determine whether ICE investigations or leads may be related to terrorism or terrorist financing and, if so, whether these investigations or leads should be turned over to the FBI for further action. However, the FBI and ICE had not yet issued a joint report on the status of implementation of the agreement which was to be produced last fall.

Moreover, we found that the FBI and ICE have faced and will continue to face a number of operational and organizational challenges such as building effective interaction relationships and insuring that the financial crimes expertise and other investigative competencies of both agencies are appropriately and effectively used.

In closing, let me say that our work in reviewing various national strategies has identified several critical components that are needed for any strategy to be successfully developed and implemented. However, to date these components have not been well reflected in the national money laundering strategy. While Federal law enforcement officer agencies recognize that they must continue to develop and use interagency coordination mechanisms to leverage existing resources to investigate money laundering and terrorist financing, the annual strategy continues to fall short of expectations.

Our September 2003 report recommended that if the requirement for a national strategy is reauthorized, the Secretaries of the Treasury and Homeland Security and the Attorney General take three actions to help assure investigative success. These are: First, to strengthen the leadership structure for strategy development and implementation; second, establish priorities based on threat, risk and vulnerability assessments; and third, establish performance measures and accountability mechanisms.

As for the agreement on terrorist financing investigations, the FBI and ICE have made progress in waging a coordinated campaign against sources of terrorist financing. Continued progress will depend largely on the ability of the agencies to build effective interagency relationships and meet various other operational and organizational challenges.

This concludes my oral statement and I'd be happy to address any questions you may have.

[The prepared statement of Mr. Stana follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Criminal Justice, Drug Policy, and Human Resources, Committee on Government Reform, House of Representatives

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INVESTIGATING MONEY LAUNDERING AND TERRORIST FINANCING

Federal Law Enforcement Agencies Face Continuing Coordination Challenges

Statement of Richard M. Stana, Director
Homeland Security and Justice Issues

GAO-04-710T

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Highlights

Highlights of GAO-04-710T, a testimony before the Subcommittee on Criminal Justice, Drug Policy, and Human Resources, Committee on Government Reform, House of Representative

Why GAO Did This Study

Money laundering provides the fuel for terrorists, drug dealers, arms traffickers, and other criminals to operate and expand their activities. GAO focused on two issues. The first is whether the nation's annual National Money Laundering Strategy has served as a useful mechanism for guiding federal law enforcement efforts to combat money laundering and terrorist financing. Unless reauthorized by the Congress, the annual requirement ended with the 2003 strategy. The second issue is the implementation status of a May 2003 Memorandum of Agreement, signed by the Attorney General and the Secretary of Homeland Security, that was designed to enhance the coordination of terrorist financing investigations conducted by the Federal Bureau of Investigation (FBI) and the U.S. Immigration and Customs Enforcement (ICE).

What GAO Recommends

GAO's September 2003 report recommended that, if the requirement for a national strategy is reauthorized, the Secretaries of the Treasury and Homeland Security and the Attorney General strengthen the leadership structure for strategy development and implementation, require processes to ensure key priorities are identified, and establish accountability mechanisms. The departments generally concurred with GAO's report.

www.gao.gov/cgi-bin/getrpt?GAO-04-710T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard M. Stana at (202) 512-8777 or stana@gao.gov.

May 11, 2004

INVESTING MONEY LAUNDERING AND TERRORIST FINANCING

Federal Law Enforcement Agencies Face Continuing Coordination Challenges

What GAO Found

GAO's September 2003 report noted that the annual strategy generally has not served as a useful mechanism for guiding the coordination of federal law enforcement agencies' efforts to combat money laundering and terrorist financing. For example, although expected to have a central role in coordinating law enforcement efforts, interagency task forces created specifically to address money laundering and related financial crimes generally had not yet been structured and operating as intended and had not reached their expectations for leveraging investigative resources or creating investigative synergies. Also, while the Departments of the Treasury and Justice had made progress on some strategy initiatives designed to enhance interagency coordination of money laundering investigations, most initiatives had not met expectations. Moreover, even though adjusted in 2002 to reflect a new federal priority—combating terrorist financing—the strategy did not address agency and task force roles and interagency coordination procedures for investigating terrorist financing, which contributed to duplication of efforts and disagreements over which agency should lead investigations.

GAO's February 2004 report noted that the FBI and ICE had implemented or taken concrete steps to implement most of the key provisions in the May 2003 Memorandum of Agreement on terrorist financing investigations. For instance, the agencies had developed collaborative procedures to determine whether applicable ICE investigations or financial crimes leads may be related to terrorism or terrorist financing—and, if so, determine whether these investigations or leads should thereafter be pursued under the auspices of the FBI. However, as of May 2, 2004, the FBI and ICE had not yet issued a joint report on the implementation status of the Agreement, which was required 4 months from its effective date. Also, GAO noted that the FBI and ICE have confronted and will continue to confront a number of operational and organizational challenges, such as ensuring that the financial crimes expertise and other investigative competencies of both agencies are appropriately and effectively utilized.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss federal law enforcement agencies' efforts to cooperatively investigate money laundering and terrorist financing. Money laundering—the process of disguising or concealing illicit funds to make them appear legitimate—is a serious crime, with an estimated $500 billion to $1 trillion laundered worldwide annually, according to the United Nations Office of Drug Control and Prevention. Money laundering provides the fuel for terrorists, drug dealers, arms traffickers, and other criminals to operate and expand their activities, which can have devastating social and economic consequences. Terrorist financing is generally characterized by different motives than money laundering, and the funds often originate from legitimate sources. However, investigations of money laundering and investigations of terrorist financing often involve similar approaches or techniques because the methods used for hiding the movement of funds also involve similarities.

As requested, my testimony will focus on recent strategic plans and organizational changes designed to improve the interagency coordination of money laundering and terrorist financing investigations. Specifically, I will discuss two important issues:

- The first issue is whether the nation's annual National Money Laundering Strategy (NMLS), required by 1998 federal legislation, has served as a useful mechanism for guiding the coordination of federal law enforcement agencies' efforts to combat money laundering and terrorist financing. Unless reauthorized by the Congress, the requirement for an annual NMLS ended with the 2003 strategy, which was issued on November 18, 2003.[1]

- The second issue is the implementation status of a May 2003 Memorandum of Agreement on terrorist financing investigations. The Agreement, signed by the Attorney General and the Secretary of Homeland Security, contained various provisions designed to enhance interagency coordination of terrorist financing investigations conducted by two of the nation's law enforcement agencies—the Federal Bureau of Investigation (FBI) and the U.S. Immigration and

[1]In November 2003, Senator Charles Grassley introduced a bill (S. 1837, the "Combating Money Laundering and Terrorist Financing Act of 2003") that, among other purposes, would extend the requirement for an annual NMLS to 2006.

Customs Enforcement (ICE), a component of the Department of Homeland Security.

My statement today is based on two reports we have provided to the Congress on these issues—that is, our September 2003 report on implementation of the annual NMLS[2] and our February 2004 report on implementation of the Memorandum of Agreement.[3]

Summary

Our September 2003 report noted that the annual NMLS generally has not served as a useful mechanism for guiding the coordination of federal law enforcement agencies' efforts to combat money laundering and terrorist financing. For example, although expected to have a central role in coordinating law enforcement efforts, interagency task forces created specifically to address money laundering and related financial crimes generally had not yet been structured and operating as intended and had not reached their expectations for leveraging investigative resources or creating investigative synergies. Also, while the Departments of the Treasury and Justice had made progress on some strategy initiatives designed to enhance interagency coordination of money laundering investigations, most initiatives had not achieved the expectations called for in the annual strategies. Moreover, even though adjusted in 2002 to reflect a new federal priority—combating terrorist financing—the NMLS did not address agency and task force roles and interagency coordination procedures for investigating terrorist financing. Law enforcement officials told us that the lack of clearly defined roles and coordination procedures contributed to duplication of efforts and disagreements over which agency should lead investigations.

Our February 2004 report noted that the FBI and ICE had implemented or taken concrete steps to implement most of the key provisions in the May 2003 Memorandum of Agreement on terrorist financing investigations. For instance, the agencies had developed collaborative procedures to determine whether applicable ICE investigations or financial crimes leads may be related to terrorism or terrorist financing—and, if so, determine

[2]U.S. General Accounting Office, *Combating Money Laundering: Opportunities Exist to Improve the National Strategy*, GAO-03-813 (Washington, D.C.: Sept. 26, 2003).

[3]U.S. General Accounting Office, *Investigations of Terrorist Financing, Money Laundering, and Other Financial Crimes*, GAO-04-464R (Washington, D.C.: Feb. 20, 2004).

whether these investigations or leads should be pursued under the auspices of the FBI. However, as of May 2, 2004, the FBI and ICE had not yet issued a joint report on the implementation status of the Agreement, which was required 4 months from its effective date. Also, we noted that the FBI and ICE have confronted and will continue to confront a number of operational and organizational challenges, such as establishing and maintaining effective interagency relationships and ensuring that the financial crimes expertise and other investigative competencies of both agencies are appropriately and effectively utilized.

To enhance strategic planning, our September 2003 report recommended that, if the requirement for a national strategy is reauthorized, the Secretaries of the Treasury and Homeland Security and the Attorney General (1) strengthen the leadership structure for strategy development and implementation, (2) require processes to ensure key priorities are identified, and (3) establish accountability mechanisms. In commenting on a draft of the September 2003 report, Treasury said that our recommendations are important, should the Congress reauthorize the legislation requiring future strategies; Justice said that our observations and conclusions will be helpful in assessing the role that the strategy process has played in the federal government's efforts to combat money laundering; and Homeland Security said that it agreed with our recommendations.

Background

The Money Laundering and Financial Crimes Strategy Act of 1998 (Strategy Act) required the President—acting through the Secretary of the Treasury and in consultation with the Attorney General and other relevant federal, state, and local law enforcement and regulatory officials—to develop and submit an annual NMLS to the Congress by February 1 of each year from 1999 through 2003.[4] The goal of the Strategy Act was to increase coordination and cooperation among the various law enforcement and regulatory agencies and to effectively distribute resources to combat money laundering and related financial crimes. The 1998 Strategy Act required that each NMLS define comprehensive, research-based goals, objectives, and priorities for reducing money laundering and related financial crimes in the United States. The annual

[4]Pub. L. No. 105-310, 112 Stat. 2941 codified as 31 U.S.C. §§ 5340-42, 5351-55 (1998).

NMLS generally has included multiple priorities to combat money laundering to guide federal agencies' activities.[5]

Another provision of the Strategy Act authorized the Secretary of the Treasury to designate High Intensity Money Laundering and Related Financial Crime Areas (HIFCA), in which federal, state, and local law enforcement would work cooperatively to develop a focused and comprehensive approach to targeting money-laundering activity.[6] As envisioned by the Strategy Act, HIFCAs were to represent a major NMLS initiative and were expected to have a flagship role in the U.S. government's efforts to disrupt and dismantle large-scale money laundering operations. They were intended to improve the coordination and quality of federal money laundering investigations by concentrating the investigative expertise of federal, state, and local agencies in unified task forces, thereby leveraging resources and creating investigative synergies.

The former U.S. Customs Service, which is now part of ICE, and the FBI both have a long history of investigating money laundering and other financial crimes. In response to the terrorist attacks of September 11, Treasury and Justice both established multiagency task forces dedicated to combating terrorist financing. Treasury established Operation Green Quest, led by Customs, to augment existing counterterrorist efforts by targeting current terrorist funding sources and identifying possible future sources. In addition to targeting individuals and organizations, Operation Green Quest was designed to attack the financial systems that may be used by terrorists to raise and move funds, such as fraudulent charities and the shipment of bulk currency. In January 2003, Customs expanded Operation Green Quest by doubling the personnel commitment to a total of approximately 300 agents and analysts nationwide to work solely on terrorist financing matters. In March 2003, Operation Green Quest was transferred to ICE, within the Department of Homeland Security.

On September 13, 2001, the FBI formed a multiagency task force—which is now known as the Terrorist Financing Operations Section (TFOS)—to combat terrorist financing. The mission of TFOS has evolved into a broad

[5]Also, in the aftermath of the September 11 attacks, the NMLS was adjusted in 2002 to reflect a new federal priority—combating terrorist financing.

[6]Such an "area" could be a geographic area, financial system, industry sector, or financial institution.

role to identify, investigate, prosecute, disrupt, and dismantle all terrorist-related financial and fundraising activities. The FBI also took action to expand the antiterrorist financing focus of its Joint Terrorism Task Forces (JTTF)—teams of local and state law enforcement officials, FBI agents, and other federal agents and personnel whose mission is to investigate and prevent acts of terrorism.[7] In 2002, the FBI created a national JTTF in Washington, D.C., to collect terrorism information and intelligence and funnel it to the field JTTFs, various terrorism units within the FBI, and partner agencies.

The attacks of September 11 emphasized the need for federal agencies to wage a coordinated campaign against sources of terrorist financing. Following September 11, representatives of the FBI and Operation Green Quest met on several occasions to attempt to delineate antiterrorist financing roles and responsibilities. However, such efforts were largely unsuccessful until May 2003, when the Attorney General and the Secretary of Homeland Security signed a Memorandum of Agreement that contained a number of provisions designed to resolve jurisdictional issues and enhance interagency coordination of terrorist financing investigations. According to the Agreement, the FBI is to lead terrorist financing investigations and operations, using the intergovernmental and intra-agency national JTTF at FBI headquarters and the JTTFs in the field. The Agreement also specified that, through TFOS, the FBI is to provide overall operational command to the national JTTF and the field JTTFs. Further, to increase information sharing and coordination of terrorist financing investigations, the Agreement required the FBI and ICE to (1) detail appropriate personnel to each other's agency and (2) develop specific collaborative procedures to determine whether applicable ICE investigations or financial crimes leads may be related to terrorism or terrorist financing. Also, the Agreement required the FBI and ICE to produce a joint written report on the status of the implementation of the Agreement 4 months from its effective date.

[7]According to the FBI, the first JTTF came into being in 1980, and the total number of task forces has nearly doubled since September 11, 2001. Today, there is a JTTF in each of the FBI's 56 main field offices, and additional task forces are located in smaller FBI offices.

Opportunities Exist to Improve the National Money Laundering Strategy

In September 2003, we reported that, as a mechanism for guiding the coordination of federal law enforcement agencies' efforts to combat money laundering and related financial crimes, the NMLS has had mixed results but generally has not been as useful as envisioned by the Strategy Act. For example, we reported that HIFCA task forces were expected to have a central role in coordinating law enforcement agencies' efforts to combat money laundering but generally had not yet been structured and operating as intended and had not reached their expectations for leveraging investigative resources or creating investigative synergies. The NMLS called for each HIFCA to include participation from all relevant federal, state, and local agencies. However, in some cases, federal law enforcement agencies had not provided the levels of commitment and staffing to the task forces called for by the strategy. We found, for instance, that most of the HIFCAs did not have FBI or Drug Enforcement Administration (DEA) agents assigned full time to the task forces. FBI officials cited resource constraints as the primary reason why the bureau did not fully participate. A DEA official told us that, because of differences in agencies' guidelines for conducting undercover money laundering investigations, DEA would not dedicate staff to HIFCA task force investigative units but would support intelligence-related activities. Also, we noted that four of the five operating HIFCAs had little or no participation from state and local law enforcement agencies. Various task force officials mentioned lack of funding to compensate or reimburse participating state and local law enforcement agencies as a barrier to their participation in HIFCA operations. While recognizing that law enforcement agencies have resource constraints and competing priorities, we noted that HIFCA task forces were expected to make more effective use of existing resources or of such additional resources as may be available. As called for in the 2002 NMLS, Treasury and Justice are in the process of reviewing the HIFCA task forces to enhance their potential and remove obstacles to their effective operation. The results of this review could provide useful input for an evaluation report on the HIFCA program, which the Strategy Act requires Treasury to submit to the Congress in 2004.

We further reported that, while Treasury and Justice had made progress on some NMLS initiatives designed to enhance interagency coordination of money laundering investigations, most had not achieved the expectations called for in the annual strategies, including plans to (1) use a centralized system to coordinate investigations and (2) develop uniform guidelines for undercover investigations. Headquarters officials cited differences in the various agencies' anti-money laundering priorities as a primary reason why initiatives had not achieved their expectations.

In our September 2003 report, we noted that our work in reviewing national strategies for various crosscutting issues has identified several critical components needed for their development and implementation, including effective leadership, clear priorities, and accountability mechanisms. For a variety of reasons, these critical components generally have not been fully reflected in the development and implementation of the annual NMLS. For example, the joint Treasury-Justice leadership structure that was established to oversee NMLS-related activities generally has not resulted in (1) reaching agreement on the appropriate scope of the strategy; (2) ensuring that target dates for completing strategy initiatives were met; and (3) issuing the annual NMLS by February 1 of each year, as required by the Strategy Act.

Also, although Treasury generally took the lead role in strategy-related activities, it had no incentives or authority to get other departments and agencies to provide necessary resources or compel their participation. And, the annual strategies have not identified and prioritized issues that required the most immediate attention. Each strategy contained more priorities than could be realistically achieved, the priorities have not been ranked in order of importance, and no priority has been explicitly linked to a threat and risk assessment. Further, although the 2001 and 2002 strategies contained initiatives to measure program performance, none had been used to ensure accountability for results. Officials attributed this to the difficulty in establishing such measures for combating money laundering. In addition, we noted that Treasury had not provided annual reports to the Congress on the effectiveness of policies to combat money laundering and related financial crimes, as required by the Strategy Act.

As mentioned previously, unless reauthorized by the Congress, the requirement for an annual NMLS ended with the issuance of the 2003 strategy. To assist in congressional deliberations on whether there is a continuing need for an annual NMLS, we reviewed the development and implementation of the 1999 through 2002 strategies. Our September 2003 report recommended that—if the Congress reauthorizes the requirement for an annual NMLS—the Secretary of the Treasury, working with the Attorney General and the Secretary of Homeland Security, should take appropriate steps to

- strengthen the leadership structure responsible for strategy development and implementation by establishing a mechanism that would have the ability to marshal resources to ensure that the strategy's vision is achieved, resolve disputes between agencies, and ensure accountability for strategy implementation;

- link the strategy to periodic assessments of threats and risks, which would provide a basis for ensuring that clear priorities are established and focused on the areas of greatest need; and

- establish accountability mechanisms, such as (1) requiring the principal agencies to develop outcome oriented performance measures that must be linked to the NMLS's goals and objectives and that also must be reflected in the agencies' annual performance plans and (2) providing the Congress with periodic reports on the strategy's results.

In commenting on a draft of the September 2003 report, Treasury said that our recommendations are important, should the Congress reauthorize the legislation requiring future strategies; Justice said that our observations and conclusions will be helpful in assessing the role that the strategy process has played in the federal government's efforts to combat money laundering; and Homeland Security said that it agreed with our recommendations.

Our review of the development and implementation of the annual strategies did not cover the 2003 NMLS, which was issued in November 2003, about 2 months after our September 2003 report. While we have not assessed the 2003 NMLS in detail, we note that it emphasized that "the broad fight against money laundering is integral to the war against terrorism" and that money laundering and terrorist financing "share many of the same methods to hide and move proceeds." In this regard, one of the major goals of the 2003 strategy is to "cut off access to the international financial system by money launderers and terrorist financiers more effectively." Under this goal, the strategy stated that the United States will continue to focus on specific financing mechanisms—including charities, bulk cash smuggling, trade-based schemes, and alternative remittance systems—that are particularly vulnerable or attractive to money launderers and terrorist financiers.

Most Key Memorandum of Agreement Provisions Have Been Implemented, but Terrorist Financing Investigations Still Present Operational and Organizational Challenges

As mentioned previously, the NMLS was adjusted in 2002 to reflect new federal priorities in the aftermath of the September 11 attacks, including a goal to combat terrorist financing. However, due to difficulties in reaching agreement over which agency should lead investigations, the 2002 NMLS did not address agency and task force roles and interagency coordination procedures for investigating terrorist financing. Law enforcement officials told us that the lack of clearly defined roles and coordination procedures contributed to duplication of efforts and disagreements over which agency should lead investigations. To help resolve these long-standing jurisdictional issues, in May 2003, the Attorney General and the Secretary of Homeland Security signed a Memorandum of Agreement regarding roles and responsibilities in investigating terrorist financing.

In our February 2004 report, we noted that most of the key Memorandum of Agreement provisions had been implemented or were in the process of being implemented. For example, in accordance with the Agreement, the FBI and ICE have cross detailed key management personnel at the headquarters level, with an ICE manager serving as Deputy Section Chief of TFOS and an FBI manager detailed to ICE's financial crimes division. Also, the FBI and ICE have developed collaborative procedures to determine whether appropriate ICE money laundering investigations or financial crime leads may be related to terrorism or terrorist financing.

Further, as an integral aspect of the collaborative procedures, ICE created a joint vetting unit, in which ICE and FBI personnel—who have full access to ICE and FBI databases—are to conduct reviews to determine whether a potential nexus to terrorism or terrorist financing exists in applicable ICE investigations or financial crimes leads. If so, the matter is to be referred to TFOS, where the FBI Section Chief is to provide the ICE Deputy Section Chief with information demonstrating the terrorism nexus, as well as the stage and development of the corresponding FBI investigation. Then, the Section Chief and the ICE Deputy Section Chief are to discuss the elements of the terrorism nexus, ICE's equity or commitment of resources to date in the investigation, violations being pursued by ICE before the Memorandum of Agreement, and the direction of the investigation. After this collaborative consultation, the FBI and ICE are to decide (1) whether the ICE investigation will be conducted under the auspices of a JTTF and (2) agency roles in pursuing related investigations. Specific investigative strategies generally are to be developed at the field level by FBI, ICE, and U.S. Attorneys Office personnel. The Terrorist Financing Unit of the Counterterrorism Section in Justice's Criminal Division is involved in coordinating and prosecuting matters and cases involving terrorist financing, which are investigated by both the FBI and ICE.

Another Agreement provision—requiring ICE to detail a significant number of appropriate personnel to the national JTTF and JTTFs in the field—is being handled on a location-specific, case-by-case basis. In response to our inquiries, FBI and ICE officials said that this provision was not intended to refer to a specific number of personnel and certainly was not intended to imply that all former Operation Green Quest agents were to be detailed to JTTFs. According to ICE officials, as of February 2004, a total of 277 ICE personnel (from various legacy agencies) were assigned full time to JTTFs—a total that consisted of 161 former Immigration and Naturalization Service agents, 59 Federal Air Marshals, 32 former Customs Service agents, and 25 Federal Protective Service agents. ICE officials said that this total does not include ICE agents who will be assigned to JTTFs in consonance with vetted cases being transitioned to JTTFs, nor does it include ICE investigators who participate part time on JTTFs.

Another provision in the May 2003 Memorandum of Agreement required that the FBI and ICE jointly report to the Attorney General, the Secretary of Homeland Security, and the Assistant to the President for Homeland Security on the implementation status of the Agreement 4 months from its effective date. As of May 2, 2004, the FBI and ICE had not yet produced the required joint report on the implementation status.

The Memorandum of Agreement, by granting the FBI the lead role in investigating terrorist financing, altered ICE's role in investigating terrorism-related financial crimes. However, while the Agreement specified that the FBI has primary investigative jurisdiction over confirmed terrorism-related financial crimes, the Agreement does not preclude ICE from investigating suspicious financial activities that have a potential (unconfirmed) nexus to terrorism—which was the primary role of the former Operation Green Quest. Moreover, the Agreement generally has not affected ICE's mission or role in investigating other financial crimes. Specifically, the Agreement did not affect ICE's statutory authorities to conduct investigations of money laundering and other traditional financial crimes. ICE investigations can still cover the wide range of financial systems—including banking systems, money services businesses, bulk cash smuggling, trade-based money laundering systems, illicit insurance schemes, and illicit charity schemes—that could be exploited by money launderers and other criminals. According to ICE headquarters officials, ICE is investigating the same types of financial systems as before the Memorandum of Agreement.

Further, our February 2004 report noted that—while the Memorandum of Agreement represents a partnering commitment by the FBI and ICE—

continued progress in implementing the Agreement will depend largely on the ability of these law enforcement agencies to meet various operational and organizational challenges. For instance, the FBI and ICE face challenges in ensuring that the implementation of the Agreement does not create a disincentive for ICE agents to initiate or support terrorist financing investigations. That is, ICE agents may perceive the Agreement as minimizing their role in terrorist financing investigations. Additional challenges involve ensuring that the financial crimes expertise and other investigative competencies of the FBI and ICE are effectively utilized and that the full range of the agencies' collective authorities—intelligence gathering and analysis as well as law enforcement actions, such as executing search warrants and seizing cash and other assets—are effectively coordinated. Inherently, efforts to meet these challenges will be an ongoing process. Our interviews with FBI and ICE officials at headquarters and three field locations indicated that long-standing jurisdictional and operational disputes regarding terrorist financing investigations may have strained interagency relationships to some degree and could pose an obstacle in fully integrating investigative efforts.

Concluding Observations

From a strategic perspective, the annual NMLS has had mixed results in guiding the efforts of law enforcement in the fight against money laundering and, more recently, terrorist financing. Although expected to have a flagship role in the U.S. government's efforts to disrupt and dismantle large-scale money laundering operations, HIFCA task forces generally are not yet structured and operating as intended. Treasury and Justice are in the process of reviewing the HIFCA task forces, which ultimately could result in program improvements. Also, most of the NMLS initiatives designed to enhance interagency coordination of money laundering investigations have not yet achieved their expectations. While the annual NMLS has fallen short of expectations, federal law enforcement agencies recognize that they must continue to develop and use interagency coordination mechanisms to leverage existing resources to investigate money laundering and terrorist financing.

Through our work in reviewing national strategies, we identified critical components needed for successful strategy development and implementation, but, to date, these components have not been well reflected in the annual NMLS. The requirement for an annual NMLS ended with the issuance of the 2003 strategy. If the Congress reauthorizes the requirement for an annual NMLS, we continue to believe that incorporating these critical components into the strategy—a strengthened leadership structure, the identification of key priorities, and the

establishment of accountability mechanisms—could help resolve or mitigate the deficiencies we identified.

Also, regarding investigative efforts against sources of terrorist financing, the May 2003 Memorandum of Agreement signed by the Attorney General and the Secretary of Homeland Security represents a partnering commitment by two of the nation's law enforcement agencies, the FBI and ICE. In the 12 months since the Agreement was signed, progress has been made in waging a coordinated campaign against sources of terrorist financing. Continued progress will depend largely on the agencies' ability to establish and maintain effective interagency relationships and meet various other operational and organizational challenges.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions that you or Members of the Subcommittee may have.

Appendix I: GAO Contacts and Staff Acknowledgments

GAO Contacts

For further information about this testimony, please contact Richard M. Stana at (202) 512-8777. Other key contributors to this statement were Danny R. Burton and R. Eric Erdman.

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Mr. SOUDER. Thank you for your testimony.

Ms. Tischler, did you hear the whole first panel?

Ms. TISCHLER. Yes, sir.

Mr. SOUDER. From your work in the field and then listening today, could you first make any kind of suggestions you might have on how to make it more efficient and what you think were some fundamental flaws that you may have heard?

Ms. TISCHLER. Actually, as I was listening to the testimony, I was thinking, I retired 2 years ago. And I don't think much has changed since then. But I really don't think a whole lot has changed since the mid-1980's in terms of how they were talking about strategy issues.

The Black Market Peso Exchange, before we knew it was a Black Market Peso Exchange, we knew there were lateral transfers in the late 1970's and early 1980's. And as I pointed out, we didn't have a method really to get at them, which thank you to Congress, we then were supplied in the mid-1980's.

But a lot of the issues that the folks who were testifying were talking about are the same issues we were talking about in the mid-1980's and early 1990's and mid-1990's. So, are there flaws? I don't know that there are flaws. What there seems to be is sort of a lack of historical retrospective. A lot of the agencies who are involved in anti-money-laundering activities and the analysts from the mid-1980's and 1990's have retired, and it sounds as if they're almost reinventing the wheel to some extent.

I think that the Department of Homeland Security, when it was established and the concept was to take agencies that had border interests and put them within the DHS and they split customs up in the process, I think that was a flaw. If I were in the position to do so and you granted me a wish, I'd certainly wish that never happened. There was a lot of synergistic activity between the operational and investigative sides of the Customs house—and I had the privilege to head up both, so I know of which I speak—that I think are probably lacking now, and I think that probably as GAO calls it a material weakness.

The financial crime issue, I think when they took Customs out of Treasury, and I'm not saying that was good or bad, and sort of separated it from IRS at the top level. That caused a disconnect, too, because, quite frankly, IRS and Customs sort of functioned as a rock in a hard place with a lot of financial investigations that were underway. And even though I know that they are coordinating through the task forces, it didn't sound like it was that same type of relationship to me.

So, I don't know. I don't know that the current system is inefficient. I think there are an awful lot of agencies performing activities that have to do with anti-money-laundering. And probably, some of them don't have the expertise in the financial investigative arena to really complete that forward pass, so to speak.

So my emphasis really is on a task force atmosphere where you're bringing elements of all the agencies in one place at one time, where there is a transparent environment, and they can all function together and hopefully learn enough to pass on the information to the next generation of investigators.

Mr. SOUDER. Well, Mr. Stana, I want to ask you the same question, but let me predicate it slightly differently. One of the things, as we try to pound and reshape the Department of Homeland Security, which it's not clear it's ever going to be smooth because it has, by definition, multiple functions. I've been very focused on making sure narcotics doesn't get lost in the Department of Homeland Security, where we're hunting for a potential needle in a hay stack and we've got a whole bunch of things happening all the time, namely illegal drugs that are killing people and you devote your whole time looking for the one terrorist crossing at any border and forget that you have a narcotics mission.

And the Coast Guard, they have a fisheries mission. They have a search-and-rescue mission. And I, like every other Member of Congress, think that it's absolutely most important to get anybody with weapons of mass destruction, unless, of course, my area has a bunch of deaths next week due to narcotics or unless there is a company put out of business that employed 2,000 people because the trademark was stolen and Customs wasn't paying attention to the trademark getting stolen. Or that the Border Patrol, if you're in areas where you don't have controlled immigration or you have been run over, all of a sudden immigration is the huge issue.

To some degree, these groups have multiple missions. And even in listening in the financial end here today, the question is that, how can we get cooperation? The idea of putting everybody together, which is what we try to do in Homeland Security, is difficult. If we try to get everybody to talk to each other, my feeling is they have 6 hours a day where they meet and then 2 hours where they work on a project because they have so many different working groups they have to work with.

That's an exaggeration, obviously, for the record. That was sarcasm. Sometimes people take that literally. But it does seem like they have a lot of meetings they're going to be having.

But the IRS function is only partly to do with financial crimes of the type we are talking, with terrorism or narcotics. The Customs group has a different focus. The narcotics groups have a different focus. If we put them all in one place, they wouldn't necessarily have the same mission. So where do you see we could do some tightening, understanding and respecting that there are multiple missions they have, without making them go to 6 hours of meetings a day where they're interactive?

I like, by the way, the idea that when two groups hit the same piece of data, they are going to be notified that two people are in there. That's a step.

Mr. STANA. Yes. Before I get into the meat of the answer, let me just say that we are also concerned about the formation of the Department of Homeland Security. In fact, we put it on our high-risk list, not that there is a Department, but just putting it together and making all the component pieces work as one.

It took a long time for the Defense Department to come together and work in the same direction. So on one level, it's to be expected that there are going to be some bumps in the road in making Homeland Security. On the other hand, it has a very important mission. And we just can't afford too many bumps in the road and too long a time to pull it all together.

Now, with respect to what could we do to find, sort of get our traction on certain issues, I think coming or focusing on certain strategies is a step in the right direction. For example, I thought that the money laundering strategy held a lot of promise, particularly in its early years where the deputy assistant secretaries or the deputy secretaries were involved with setting the direction and assigning task roles and responsibilities. At that time, you had high level buy in. And it was just a matter of drilling down the commitment to the lower levels on an issue. And this is important when you have an agency that has many issues, many missions.

What we found with the strategy and its implementation is people like those that were sitting on the first panel can agree and generally, you know, think in terms of the problem the same way and are agreeable to coordinating, cooperating and sharing jurisdictions. It's when you get to the working level where the problems seem to arise. All too often, and it's not in every jurisdiction, but all too often, you have agents and agencies who just despise each other. And if you can overcome that, I think you'll go a long way to helping out here.

Now, where should this go in the future? There are lots of agencies that need to be involved here. And my fear is that each agency, instead of calling on another, like for DEA, instead of calling ICE or instead of calling the IRS when they need a financial crime investigative capability, the knee-jerk reaction is to develop its own capability. And that's a tremendous waste of resources. When most in Government agree that those two agencies are the primary financial crime analysts, why build your own?

And so I think one of the challenges is that you recognize that we are working in a team environment. We have a strategy that we all buy into. And it's a matter of implementing it in a way that is both efficient and effective.

Mr. SOUDER. What did you think about the comments on FinCEN today, their testimony. How do you think that's going to evolve and?

Mr. STANA. Well, again, there's lots of promise. It depends on how it's implemented.

I think, as Ms. Tischler pointed out, this isn't the first time we have heard things like what we've heard from the first panel today. I think these are steps in the right direction. I certainly wouldn't, you know, cast aspersions on anything anybody said. But I think we have to wait to see what happens.

Mr. SOUDER. How do you see its role defined differently from what the FBI is supposed to be doing and trying to figure out on terrorism?

Mr. STANA. Well, the FBI, you know, through the Memorandum of Agreement and I think through its jurisdiction, is the leading agency here on terrorist financing investigations. I don't think there's any question.

The question is, how does FinCEN help in the overall effort and what coordination mechanisms exist to facilitate that? The Memorandum of Agreement that my statement details has been successful in getting ICE and the FBI to at least cooperate and coordinate investigations. I think a mechanism like that for FinCEN would be helpful.

Mr. SOUDER. My understanding, what I heard from the FBI representative as opposed to the ICE representative, was that FBI takes the case if it's terrorism related.

Mr. STANA. That's right. What is supposed to—let me back up. The Memorandum of Agreement called for a joint vetting unit to be created, composed of both ICE and FBI agents.

When the unit was first created, the FBI identified 30 cases that it said ICE was working on that had a definite nexus to terrorism. As of, I believe, last month, 10 of those cases were turned over to the FBI, and the other 20 cases, they are still talking about how far along the case is and how strong is the nexus to terrorism. In addition, ICE has turned over 7,000 leads to the FBI for its use in its investigations and 11 other cases, if it chose to take them, and the FBI did not.

So the mechanism is there. The question is, does the mechanism have staying power? And as the months and years go on, will the enthusiasm for this sort of a coordinated approach sustain itself?

Mr. SOUDER. Now, Ms. Tischler said, and you repeated that, she said, specifically, that the Black Market Peso issue is hardly new. That, to some degree, the other things that we talked about today are not new. I have now been in Congress 10 years and been involved in the narcotics issues all those 10 years. And if they weren't the predominant, they certainly were the emerging threats 10 years ago, just watching it, such as UPS and FedEx and the Postal Service being able to do that, wire transfers through Western Union.

Is part of the problem here not that these are emerging threats, but we just simply don't know how to deal with them? Or our laws such that there would be such a civil liberties threat with it that we can't get a law that's tightened down on these questions? Because if that's where most of the money is and they're moving this, those areas that are hard to track, let alone the Internet——

Mr. STANA. I think you pointed out in your comments on the first panel's statements that there is a constant leap frog. You know, we get ahead, you get ahead. You get ahead, we get ahead. And we have just got to make sure that we stay one step ahead. And I guess that would be the Congress' job to make sure that the legal framework is there to enable that.

But beyond that, I think we just have to be sure that the agencies are clear about what their mission is and how they can help one another to most effectively fight these instances. Add one thing, we had a discussion while we were doing our work with one of the U.S. attorneys in the country and asked him well how did we get to this point with terrorist financing where it seems that everybody's in terrorist financing and you just have to deconflict and make rational sense out of the whole thing. And he said, "Well, what happened is, and this happens with new areas often, is that people will take whatever jurisdiction they have and run to address the problem."

With September 11, you had agencies that seemingly had overlapping jurisdiction, and they all ran in the same direction, trying to, you know, do their best with a pure heart, to defeat the problem. However, over time, you get to the point where you have to deconflict, you have to coordinate. You want to make sure, when

you're doing something, you're not messing up somebody's investigation or worse, you know, causing harm to an agent who is undercover.

And so it comes to a point where you just have to stop and reassign roles and responsibilities and clarify lines of control and provide the leadership to make sure that things don't get messed up.

Mr. SOUDER. I always refer to it as, like when my little kids are playing soccer, the difference between an adult team and a little kids team is, as everybody runs for the ball, you can always tell where the ball is when little kids are playing because everybody is there. You're supposed to stay in your positions, and then when the ball comes there. That's how you get the goals, because you're positioned right.

This is part of the problem, and it's also true inside Congress. I mean, our committees are the same way. Everybody runs to the jurisdiction. Funding flows the same way. Anybody who's even around Federal Government for 5 years figures out what's the hot subject this year to get funding. If it is missing children, and then all of a sudden everything's missing children. If it's child abuse, it's that. If it's terrorism, it's that. If it's drugs, it's that. If it's literacy, then every agency and their brother is coming up with something explaining how their problem relates to literacy.

And it's one of our challenges, driven by the fact that the public attention expects us as elected officials to respond. And the bureaucracy responds some to that in the monetary flow that comes out of Congress. And I don't know, I mean, we have a responsibility to try to keep that separated.

Do you have specific suggestions of what we should be looking at? The financial issue is clearly the way in American history that we've nailed almost every criminal. And if you can't get them on the money, if you can't follow the money, we're not going to be able to stop most of these crimes. It's underneath it, because we're going to be pressing on the narcotics issues and the terrorism issue, but the money's the best place to move with that.

Ms. Tischler, in the comments of specifically, do you have any comments—and I meant to ask you both this question—on the HIDTAs and the financial centers?

Ms. TISCHLER. Yes.

I was around when they created the HIFCAs. We were the institution—most of the agencies opposed to creating those HIFCAs. The reason was because the OCDETF and the HIDTA structures that were already in place, the HIDTAs themselves, had financial components to them, where the agencies were coming together to, in fact, investigate not only money laundering issues but other, you know, narcotics crimes that had other financial components to them as well, for instance the IRS tax stuff.

So we didn't see the need to have the HIFCAs, and they were coming in not funded anyway. And they were pretty much in the same place as the HIDTAs were. And so we weren't—I can say this now, if you'd asked me that X years ago, I would have gone with the party line. But it was a political thing. And we were forced to go along with it.

And yet, the structure was already in place, doing exactly the types of things Mr. Stana was talking about and that I was talking about in terms of coordination issues.

Now, you know, I was on the ground for some of these things he was talking about. And no matter what I think about or don't think about GAO, I think that they get along better at the local level than they do in Washington. So it's the complete opposite of what he says. And I think the agents do a heck of a lot more talking in Miami than they do in the committee meetings up here.

Mr. SOUDER. Can you check your microphone to make sure it's on?

Ms. TISCHLER. Oh, you're right. I forgot. I was bleeding over into him.

Did you hear me because I don't want to have to go back and trash GAO?

No, I mean, I just saw it up close and personal.

Mr. SOUDER. Well, let me ask you a question about that. I see that there has been a pretty intense conflict between the legacy Customs and legacy Border Patrol at the southwest border, at the local level. Would you agree with that.

Ms. TISCHLER. Is that question—you know, when they—it's back to sort of that DHS question. I mean, I really was a believer in making sure there was a marriage and that was a marriage of opportunity when they put everything together.

But Border Patrol's pretty much separate. And they have their own uniforms and their own way of doing things. So over at Customs and Border Protection, I don't think they're seen as sort of an integral dance partner. That's just my opinion.

The whole issue with ICE and CBP, I mean, they are not at each others' throats from an institutional Customs perspective, except for coordination.

You know, your question on outbound cash, nobody really answered that question. Yes, we did a number of operations dedicated to, in fact, interdicting outbound cash. Now, I can't speak to that now, because I don't know what's going on. But when I was at Customs, we decided we'd run an operation, we would sit down with operations or we'd sit down with investigations, depending on where I was at the time, and they'd design an operation to get at outbound cash. So I think that's missing more than this issue with Border Patrol.

I think that it's a cultural thing, and this is really going to take some time. But they knew that going in, as Mr. Stana has pointed out. And that's one of the bumps.

Another big bump is having, for instance, Coast Guard report to Ridge instead of Asa Hutchinson, where the rest of the law enforcement agencies seem to be reporting. So it's just a personal opinion. But the Border Patrol thing, I think that, from an enforcement perspective, it's going better now than when the marriage first happened.

Will it take some more time? I think you're going to see that it's going to take more time.

Mr. SOUDER. The reason I made that comment is, it seems to me that, to some degree, as the people are in Washington, you have some commonality. And those two agencies seem to have the most

tension in training, pay grades, even racial differences, that nobody would talk about it in that direction, but you can kind of tell who wants to report to whom. That is real explosive to say, but boy, its there. And I don't know, basically, how to do it.

I also think there are some substantive problems, like you say, because some of it is cultural. When you say cultural, cultural also means they have different missions, of how they viewed the border. I mean, I talked to a Customs person who, at one part of the north border, was working undercover. And one of his things was not to get caught by the Border Patrol. He was working inside the drug groups and knew how to break through because he viewed the Border Patrol mentality was to police the border and intimidate. And he knew how to run it right through when they were doing it.

On the other hand, the Border Patrol says, "Look, we don't have enough people to catch everybody; we do intimidation by moving through." There's a philosophical difference on even how you patrol that border, which is now to the forefront when they're merged.

And one of the questions I have, I want to followup on something you just said on the cash. Did checking cash back work? I mean, are you saying that was a good effort or a bad effort?

Ms. TISCHLER. You know, when we had some type of intelligence to back up what was happening because we knew, for instance, the trucks were coming down from Houston and crossing at Laredo with outbound cash, it worked the best, obviously.

If we're out there 24 hours, it's just like, 7 by 24, trying to catch something inbound with Customs. There are too many vehicles coming through. But we did produce, because we sort of do these things in a small window.

I mean, obviously, after a day or so, the bad guys knew we were out there. So we learned to just do these sort of quick hits and back off. And that's when they produced cash coming through.

But a lot of it, back to what I said, I mean it had to do with dealing with the State and locals and finding out that they suspected this stuff was on its way. Customs did interdict outbound cash, what we called cold hits, just because they were there. But you couldn't have an operation that lasted more than 3 days, actually, more than 2. You were in trouble already because the word got back after you caught the first thing coming through.

So I thought—and I don't know what they're doing now. I'm assuming they're doing something like that. But the coordination between the investigative component, OI and OFO, were very close then. Now I assume that they pick up the phone and call and have a meeting and decide that they're going to stand up an operation.

Now, you know you're talking about the Border Patrol, but there's the Border Patrol and there's the INS inspectors and there's Customs inspection and then there were the agents and then the Air and Marine Division with Customs. And Air and Marine went with the agents over to ICE, which is clearly an interdictive function, and you know, they're patrolling the border, too. And Border Patrol has their airplanes up.

So I think one of your staffers can probably help you out, Dave Thomasson is with—I have to remember—ICE, Air and Marine Division, and he can probably speak to that. But it's all a coordination issue. And that's why, when they split the agency up, I really

didn't see how they were going to actually effectively continue the border mission plus everything else they were doing.

Mr. SOUDER. Mr. Stana, I wanted to ask you this question yet, Ms. Tischler just gave a very depressing statement. In other words, is the southwest border so out of control that if you stop at one point and do it for more than 2 days, they just move and go across to another point. How in the world do we stop terrorist money from using the south border?

Mr. STANA. It's interesting that the line of questioning has turned to this, because most of my portfolio has to do with border control issues, so this is something I'm sort of familiar with.

A lot of this stems from the Border Patrol strategy that was formulated in the mid-1990's, where they attempted to gain control of the border at two points, El Paso and San Diego, and move out from there with more agents, more technology, more sensors, more aircraft and so on.

We've come to the point where these actions, as they are implemented in phases, move the flow of traffic to areas that they think the DHS thinks it has the tactical advantage or that's too desolate that aliens wouldn't even try to cross. But we found that neither was true. The tactical advantage, not true because they just didn't have the number of agents and equipment to cover the Arizona border, eastern California. And it certainly didn't deter—whether it was the jobs magnet that keeps drawing people in or whether it's criminal enterprises that want to position people in the United States, very difficult to control the southern border.

Having said that, I think the northern border also prevents significant vulnerabilities. Where there are about 10,000 border patrol agents along the 1,900, 2,000-mile stretch of the southern border, there are almost, not quite, but almost 1,000 agents across the 4,500 mile expanse and if you're familiar, from Indiana, I know you go up to Gary or that little area up there.

Mr. SOUDER. You have to go from Glacier National Park to the lake of the woods.

Mr. STANA. Yes, I mean, if you would go up the St. Lawrence seaway and you could see boat traffic going, how do you stop that? Or you know, go into the logging areas of Montana and the old logging trails that cross the border when Immigration or Customs just wasn't a concern.

Mr. SOUDER. Is this supposed to be encouraging to me that the north border is as bad as the south border?

Mr. STANA. Well, I guess what I'm trying to say is, whereas most folks would focus on the southwest border as being a problem, and it is, don't turn your attention away from the northern border, because if you recall, the LAX bomber came through ports in Washington State.

Ms. TISCHLER. We caught him.

Mr. STANA. Yes. And there were others that came across the northern border, not the southwest border. So I guess, we don't take comfort in that.

I'd like to return to one point you made earlier, about the HIDTAs and HIFCAs and how many tasks forces is too many task forces. And I think we've got to the point where maybe it's time to reexamine all the roles and responsibilities of all these task forces.

Why do you need a JTTF and a HIDTA and an OCDETF and a HIFCA and, you know, these task forces when maybe a fewer would do?

One of the reasons why the HIFCAs didn't take off, and I don't doubt the view that Ms. Tischler had about another task force that seemed to be redundant, was that there weren't any dollars attached to it. And so who wants to participate if it doesn't mean anything to me to get more agents? And this, particularly, with the State and locals.

So I think it's time to re-examine what all these task forces are doing and how many we need, and how most effectively and efficiently to operate them.

Ms. TISCHLER. Can I just add something, since I just happened to be there when they did most of these things?

The OCDETF was set up to do investigations. When HIDTA came along, it was there to do investigations that OCDETF was not doing because OCDETF was focusing on really a kingpin strategy, which included money laundering investigations. BCCI was, in fact, an OCDETF case. So the big cases, as we were talking about, they were being taken care of.

When they stood up HIDTA, it was to get at a lot of the smuggling and trafficking groups that weren't being covered by OCDETF. And they were right to do that because there were an enormous amount of cases out there that we wouldn't get into OCDETF nor could the OCDETF attorneys really handle them.

OK, so then we had two task forces, and they really didn't overlap. I was in Miami then, and there was a lot of coordination with the U.S. attorneys office. It was just that HIDTA did go in the way of financial investigations. So that's why we really didn't care if they stood up the HIFCA or not because they were already doing it.

And the money that was there actually was coming through the HIDTAs and through OCDETF, to some extent, and whether they took off or not was really irrelevant. The case work was being done. So don't worry about that part. That wasn't depressing. That was the good news.

The bad news was I think of it as a project that may not have taken off. And you know, I'm a big believer at going back and looking at task forces because they outlive their existence. Greenback was stood up in 1980. The thing went like to 1988, and they went through various generations of agents, which wasn't bad, but it sort of lost the initial focus and oomph it had. And you know, sometimes it's good to undo a Task Force and, perhaps, crank up one in another direction. And the most successful ones have been like that. They haven't been these things that have been perpetuated forever. So I sort of have that kind of view.

Mr. SOUDER. Well, I thank you. We need to clear out of the room because they have another hearing.

If you have additional comments you want to give, we may have some additional written questions. With that, the subcommittee stands adjourned.

[Whereupon, at 12:35 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Elijah E. Cummings and additional information submitted for the hearing record follow:]

Opening Statement of
Representative Elijah E. Cummings, D-Maryland
Ranking Minority Member
Subcommittee on Criminal Justice, Drug Policy and Human Resources
108th Congress
May 11, 2004

Mr. Chairman,

The illegal proceeds derived from drug trafficking, arms smuggling, and other lucrative criminal operations provide a critical source of financing for criminal and terrorist organizations.

The processing of criminal proceeds to disguise their illegal origin allows criminals to enjoy their profits and enables criminal enterprises to carry on their operations without detection by law enforcement. Federal statutes that prohibit and punish money laundering and related financial crimes are designed to thwart the efforts of criminals to profit from crime and they have become an important tool for agencies seeking to disrupt large-scale illegal activities such as drug trafficking, smuggling, and international terrorist operations.

According to the International Monetary Fund, global money laundering may involve as much as $1.8 billion, exceeding the gross domestic product of most countries. The increasing complexity and widespread use of money laundering techniques have caused federal financial crimes statutes to evolve steadily since the enactment of the Bank Secrecy Act in 1970. In 1986, Congress made money laundering a federal crime though passage of the Money Laundering Control Act. Subsequent statutes have expanded both the responsibilities of financial institutions and the number of federal regulatory and enforcement agencies involved in investigating financial crimes.

9/11 directly led to the inclusion of terrorist financing in the National Money Laundering Strategy and amendments to the Bank Secrecy Act through the U.S. Patriot Act. With Terrorist organizations increasingly utilizing the complex money laundering techniques of other sophisticated criminal enterprises, it is clear that the effective enforcement of federal anti-money laundering statutes is key to eliminating terrorist financing and preventing future terrorist attacks against the United States and our allies.

At the present time, 20 federal agencies are involved in the enforcement of anti-money laundering and related statutes. The Treasury Department's Financial Crime Enforcement Network, or "FinCEN," plays a key role in helping to coordinate federal anti-money laundering efforts. In addition to administering the Bank Secrecy Act, FinCEN coordinates the development of the annual National Money Laundering Strategy and provides vital support to law enforcement agencies, by processing financial data law enforcement use.

Although the great majority of anti-money laundering agencies remain located within the Department of Treasury and Justice, the migration of the Customs Service and Secret Service to the Department of Homeland Security is indicative of the extent to which investigative and enforcement efforts in this area spread among and across agencies.

The expansion of authority and activity, particularly since 9/11, raises important oversight questions for the agencies involved. The administration witnesses the Subcommittee will hear from today represent 7 of the 20 agencies involved in carrying out anti-money laundering missions. Their testimony and the outside perspectives of GAO and former Customs Assistant Commissioner Bonni T. Gischler will help us to understand how and by whom anti-money laundering laws are enforced, how statutory changes have affected enforcement, and whether joint agencies efforts can or should be consolidated or streamlined to avoid duplication and provide greater efficiency or accountability.

Money is the lifeblood of terrorist, drug trafficking, and other criminal organizations. The work that our financial crimes agencies do to combat terrorist financing is every bit as important as the efforts of our troops and law enforcement deployed in more direct interdiction roles and I appreciate the participation of all our witnesses in today's hearing.

Thank you, Mr. Chairman, for convening this important hearing. I look forward to all of the testimony.

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY, AND HUMAN RESOURCES

Terrorist Financing and Money Laundering Investigations: Who Investigates and How Effective Are They?

May 11, 2004

FOLLOW-UP QUESTIONS FOR THE RECORD FOR MS. BONNI TISCHLER, VICE PRESIDENT, PINKERTON GLOBAL TRANSPORTATION AND SUPPLY CHAIN SECURITY DEPARTMENT

1. As an agent, SAC, and Assistant Commissioner you have extensive knowledge of the agencies represented in the hearing. In your opinion do we need all of these agencies to investigate and provide oversight of financial crimes?

As long as predicate violations/laws are the purview of various agencies, 18USC1956 will be used by those agencies. If 1956 is used to enhance prosecution or to remove assets from entities participating in criminal acts, than there is value added. If money laundering is being investigated as the sole criminal act, than I believe that agencies ought to stick with their core competencies and jurisdictional imperatives, which may not include expert investigation or oversight of "financial crimes."

In other words, if money laundering is being investigated as part of an investigation covered by an agency's jurisdiction and will add weight to prosecution or to strip assets from the perpetrators then the agency is within its rights. If, however, the agency is using the jurisdictional offense as an open door to investigate money laundering offenses or to create "financial units", then I believe the efforts to be duplicative of other more expert efforts.

2. Do you agree with the DEA Administrator that her agency should have a financial investigative team for each of DEA's 21 field divisions?

I believe that financial subject matter expertise would be helpful in the investigation of narcotics criminal organizations and schemes, but a team devoted to financial investigations in each field division might not be the answer. DEA's core competency is supposed to be narcotics investigations, and that is why they exist. If they want to investigate money laundering as a separate violation with narcotics being secondary, perhaps a task force concept would be more efficient with true expertise borrowed from somewhere else. We have seen DEA go down this road before. The next Administrator (as has happened in the past), might well decide to have the agents "go back to basics" and eliminate anything except investigations aimed at supporting state and local efforts. On the other hand, if asset removal is the desired outcome, then the idea of a team devoted to handling asset removal would be an efficient way of following up seizures.

3. Has Treasury's role been diminished with the signing of the Memorandum of Agreement between Immigration and Customs Enforcement and the FBI?

Treasury's role was diminished when the Customs Service was removed from Treasury and reorganized at the DHS. Treasury was left with OFAC (which doesn't investigate); IRS-CID (which does investigate tax and money laundering as criminal acts); and FinCen (which doesn't investigate but was designed originally to analyze, develop and target possible money laundering activities for those agencies with investigative interest). The agency responsible for most of Treasury's money laundering successes was Customs' Office of Investigations and task force activity including OI.

4. You stated that The Black Market Peso Exchange (BMPE) problem has not significantly changed since the early 80's. Should Immigration Customs Enforcement lead the coordination efforts to investigate individuals and organizations engaged in this activity or should multiple agencies unilaterally conduct their individual investigations?

If disparate agencies continue to investigate BMPE on a unilateral basis, than there should be a clearing house for activities so that undercover overt investigative activities are not endangered or wasted by "stumbling" across another law enforcement entity. However, this is true of all money laundering investigations. When I was a SAC, my agents would occasionally develop an investigation, only to find that the FBI or another agency was either pursuing the same organization, or was involved in an undercover case which we mistook as a bonafide criminal scheme. Now, I really think task force activity is a solution that eliminates non-intended overlap problems, but there still needs to be a workable enforced clearinghouse environment. I thought that Customs' OI had established the MLCC (?) for that purpose.

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U.S. Department of Justice
Office of Legislative Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

September 8, 2004

The Honorable Mark Souder
Chairman
Subcommittee on Criminal Justice, Drug Policy
and Human Resources
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed please find responses to questions posed to Mr. John Roth, Chief of the Criminal Division's Asset Forfeiture and Money Laundering Section, following Mr. Roth's appearance before the Subcommittee on May 11, 2004. The subject of the Subcommittee's hearing was "Terrorist Financing and Money Laundering Investigations."

We hope that this information is helpful to you. If we may be of additional assistance, we trust that you will not hesitate to call upon us.

Sincerely,

William E. Moschella
Assistant Attorney General

Enclosure

cc: The Honorable Elijah Cummings
Ranking Minority Member

RESPONSES TO QUESTIONS FOR THE RECORD

MR. JOHN ROTH
CHIEF, ASSET FORFEITURE AND MONEY LAUNDERING SECTION
CRIMINAL DIVISION
U.S. DEPARTMENT OF JUSTICE

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY
AND HUMAN RESOURCES
COMMITTEE ON GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES

"TERRORIST FINANCING AND MONEY LAUNDERING INVESTIGATIONS"

MAY 11, 2004

1. **This hearing revealed that the Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the western hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. Do the Department of Justice agencies lead the coordination efforts to investigate individuals and organizations engaged in this activity?**

   As I stated in my testimony, the Department of Justice uses several mechanisms to coordinate enforcement activities of individuals and organizations engaged in BMPE activity. Among the most important of these coordination mechanisms are the Special Operations Division (SOD), the Organized Crime Drug Enforcement Task Force (OCDETF) and the High Intensity Drug Trafficking Areas (HIDTA) programs. Operation White Dollar, the latest attack against the BMPE, is an example of the OCDETF-coordinated effort. This case, which was made public on May 3, 2004, was led by the U.S. Attorney's Office in the Southern District of New York, and involved multiple agencies, including DEA and the IRS, as well as Colombian, Canadian and United Kingdom law enforcement authorities, all working together in a coordinated fashion. Operation Double Trouble, which I mentioned in my testimony, is another example of multiple federal agencies working together in a coordinated fashion, in that instance through the auspices of the Special Operations Division, to focus on significant money launderers using the BMPE. Through mechanisms such as these, the Department of Justice works to coordinate enforcement actions against the BMPE.

2. **Please identify any special circumstances that enable your agency to share information and coordinate multiple investigations that ultimately led to recent RICO charges filed against the leadership of Colombia's most powerful cocaine cartel.**

The defendants in the case. United States v. Diego Leon Montoya-Sanchez, were the leaders of a Colombian cocaine cartel known as the "Norte Valle Cartel," which operated principally in the Norte Valle del Cauca region of Colombia. According to the indictment, the defendants worked together with various Colombian drug transportation specialists to transport multi-ton loads of cocaine from Peru, Colombia and other locations within South America to the Valle del Cauca region. The defendants allegedly then used trucks or airplanes to transport the cocaine to the Pacific Coast port city of Buenaventura. The cartel members allegedly also associated themselves with Mexican transportation groups that shipped the cocaine loads to Mexico via speed boats, fishing vessels, and other maritime conveyances, for ultimate delivery to the United States. This case was investigated and coordinated by the prosecutors in the Narcotic and Dangerous Drug Section of the Criminal Division, along with prosecutors from three different U.S. Attorneys'Offices who were cross designated. These prosecutors worked with agents from the Drug Enforcement Administration, the Federal Bureau of Investigation, the Internal Revenue Service, U.S. Immigration and Customs Enforcement, as well as the Colombian government to successfully investigate and indict the case.

3. **The Subcommittee has been vigorously tracking the success or lack of success the US government has had in stopping terrorist financing derived from poppy cultivation and drug trafficking proceeds in Afghanistan. Can you cite any substantive activity concerning terrorism financing through drug proceeds investigated by your agency?**

   The United States has investigated several instances in which terrorist operatives sought to obtain weaponry in exchange for narcotics. In October 2002, a federal grand jury in San Diego indicted three persons (two of whom have since pleaded guilty) in a plot to acquire military items for al Qaida, in exchange for the payment of hashish. In Houston, between December 2002 and September 2003, prosecutors charged five people in a plot to use cocaine to acquire $25 million worth of weaponry for the benefit of the United Self Defense Forces of Colombia (AUC). Four of these defendants pleaded guilty to terrorist financing charges. In a separate matter, in March, 2003, prosecutors in Miami charged three persons with a scheme to arm the FARC in exchange for narcotics.

4. **Are you aware of or currently investigating any Burmese drug activities funding international terrorist groups or activities within or outside the country of Burma?**

   Since the Criminal Division's focus is on persons subject to U.S. criminal jurisdiction, the investigations involving drugs and terrorist financing of which we are aware are necessarily a smaller subset of all investigations being conducted by American law enforcement and the U.S. intelligence community. It is, in any

event, longstanding Department of Justice policy not to comment on the existence or non-existence of pending investigations.

5. **How has your agency addressed the problem associated with the laundering of money derived from the smuggling of high-potency marijuana from Canada?**

The Department of Justice is working closely with Canadian authorities on a variety of money laundering issues and cases, some of which involve the proceeds of "BC Bud," the high-potency marijuana grown in Canada. For example, on March 31, 2004, DOJ, DEA, FBI, and the IRS announced the arrests of more than 130 defendants across the United States as part of an investigation called "Operation Candy Box." As part of this operation, Canadian authorities executed approximately 50 arrest warrants on subjects identified in related investigations in the Canadian cities of Ottawa, Toronto, and Montreal. This case, which was an OCDETF case coordinated by the Special Operations Division, targeted an international organization that trafficked in MDMA (Ecstasy) and Canadian-grown marijuana. The charges centered around the roles of the defendants in drug distribution cells, as well as money launderers and couriers in both the United States and Canada.

This issue highlights the importance of effective currency controls, both in the United States and Canada. Canada remains vulnerable to money laundering and terrorist financing because of its advanced financial services sector and heavy cross-border flow of currency and monetary instruments. The United States and Canada comprise the world's largest trade partnership and share a border that sees over $1 billion in trade a day. However, both countries have made great strides in attempting to address this problem. Canada has a relatively new money laundering law, the Proceeds of Crime Act, and has recently instituted its own reporting controls on the importation and exportation of cash and cash equivalents in excess of $10,000. Additionally, they have established their own Financial Intelligence Unit, called FINTRAC, and the United States negotiated a Memorandum of Understanding regarding information sharing with them. In the United States, our bulk currency exportation statute was invigorated and strengthened in the USA PATRIOT Act, and we have seen an increase in bulk currency prosecutions as a result. We are confident that these changes will significantly assist us in attacking the U.S. Canadian cross border money laundering problem.

6. **Have you seen any correlation between the financing side of smuggling of methamphetamines precursor chemicals from Mexico/Canada and support elements of Middle Eastern terrorist groups?**

Until it became a federally-controlled substance, pheny-2-propanone (P2P) was the main precursor chemical relied on by producers of methamphetamine. In the

early 1990s, illegal methamphetamine makers began turning to ephedrine and pseudoephedrine as precursors. (Pseudoephedrine is the active ingredient found in common cold symptom medications such as Contact, Actifed, Sudafed, and GoodSense.) In the Comprehensive Methamphetamine Control Act of 1996, 21 U.S.C. § 841(d)(2), Congress set limits on the sale, importation, and exportation of pseudoephedrine/ephedrine-based products. As a result of this action, U.S. law enforcement began to see increased shipments of pseudoephederine-containing products from India to Canada, and an increase in pseudophedrine smuggling cases from Canada to the U.S. Although we have no empirical evidence connecting these incidents to U.S.-based terrorist financing of Middle Eastern terrorist groups, we have conducted pseudoephedrine investigations in which evidence suggested a link to terrorist financing.

7. **In the testimony given at the hearing, it appeared that all participants thought the High Intensity Money Laundering and Related Financial Crimes Areas (HIFCAs) were ineffective and not properly financed. Would your agency support closing the HIFCAs and allow the financial arm of the High Intensity Drug Trafficking Areas (HIDTAs) to work money laundering investigations?**

   We are working closely with our counterparts at the Treasury and Homeland Security Departments to determine the best strategy to move forward on the HIFCAs. There is little question that an unfunded HIFCA concept, while useful in bringing agencies together to work on a common problem, suffered from a lack of resources specifically directed at the problem of money laundering. Teaming up with the HIDTAs, as the most successful HIFCAs have done, was a useful concept and may be an integral part of an interagency solution we will propose in the near future.

8. **Do Department of Justice agencies currently supply personnel to or coordinate DOJ's money laundering investigations with immigration and Customs Enforcement's Money Laundering Coordination Center (MLCC)?**

   While we do not supply personnel to the MLCC, we do engage in significant coordination with our counterparts at ICE and Homeland Security. For example, the Special Operations Division unit that is directed against money laundering threats is led by an ICE agent, and a lawyer from the Asset Forfeiture and Money Laundering Section is assigned full time to assist in coordinating those significant money laundering investigations. Additionally, one of our lawyers sits on ICE's undercover review committee in order to provide advice and assist in facilitating coordination with the undercover operations of the other law enforcement agencies. Additionally, the Asset Forfeiture and Money Laundering Section advises and coordinates with ICE headquarters personnel on a variety of substantive matters.

9. In order to conduct financial investigations, it is imperative that investigators penetrate the money laundering network established by money launderers. Does your agency track investigative agencies' percentage of money seized vs. money laundered and is there a standard procedure in place among federal agencies to pay informants a set percentage of the amount of money laundered?

We agree that undercover operations are one of the most effective methods of penetrating a money laundering group. Great care must be taken, however, to control the amount of money an undercover operation handles, to ensure that it is consistent with the operation's overall goals and objectives, as well as consistent with other agencies' guidelines. The Criminal Division of the Department of Justice participates in the undercover review committees and reviews these undercover operations for that reason. Although each agency has different internal rules as to the compensation of informants, we believe that the lack of uniformity does not detract from the overall effort.

United States General Accounting Office
Washington, DC 20548
June 16, 2004
The Honorable Mark E. Souder
Chairman, Subcommittee on Criminal
Justice, Drug Policy, and Human Resources
Committee on Government Reform
House of Representatives
Dear Mr. Chairman:
In response to your May 26, 2004, request, the enclosure to this letter contains responses to questions for the record related to your Subcommittee's May 11, 2004, hearing entitled " Terrorist Financing and Money Laundering Investigations: Who Investigates and How Effective Are They?"
If you or your staff have any questions about these responses or would like to discuss related matters further, please contact me at (202) 512-8777 or stanar@gao.gov or Eric Erdman at (214) 777-5647 or erdmanr@gao.gov.
Sincerely yours,
(Signed)
Richard M. Stana
Director, Homeland Security and Justice Issues
Enclosure
Enclosure
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Terrorist Financing and Money Laundering Investigations:
Who Investigates and How Effective Are They?
GAO Responses to Follow-up Questions for the Record
June 16, 2004
1. Your agency recommended that the federal government require processes to ensure key
priorities are identified and lastly recommended the establishment of accountability mechanisms. Are we seeing multiple federal agencies fighting for a piece of this very lucrative law enforcement pie, and do you see the possibility of an agency providing a lead coordination role in money laundering crimes?
GAO response: U.S. criminal anti-money laundering law encompasses the illicit income generated from numerous different crimes—e.g., drug trafficking, arms trafficking, murder for hire, racketeering, alien smuggling, prostitution, and embezzlement. Thus, multiple federal law enforcement agencies can be responsible for investigating money laundering crimes, and the agencies' investigative authorities and jurisdictions may at times overlap. As such, it is important that federal law enforcement agencies share information and fully coordinate their investigations. Our past work has noted law enforcement's mixed history of both productive partnerships and turf-protection battles. Federal asset forfeiture funds that return a share of seized and forfeited funds back to the respective seizing law enforcement agencies likely contribute to interagency competition in money laundering enforcement.
At the operational level, given that numerous types of predicate crimes can be involved, it may not be appropriate for any one agency to coordinate all types of money laundering

investigations. Rather, the lead coordination role could vary for specific issues, depending on which agency or agencies have the requisite jurisdiction and related financial crimes expertise. If law enforcement agencies otherwise cannot resolve interagency disputes over investigative roles and responsibilities—as was the case for terrorist financing investigations—it may be appropriate for affected agencies to enter into a formal Memorandum of Agreement or use some other mechanism, which designates an agency to provide a lead coordination role for specific issues. Also, for significant issues or problem areas, law enforcement agencies could utilize high-level interagency task forces, which would be responsible for coordinating activities and directing investigative efforts.

At the strategic level, our past work in reviewing national strategies for various crosscutting
issues has noted the importance of establishing a focal point or executive-level structure to provide overall leadership that would rise above the interests of any one department or agency. However, in our September 2003 report, we noted that the joint Treasury-Justice leadership structure responsible for guiding the coordination of the federal government's anti-money laundering efforts generally has not been effective—particularly in recent years when the structure did not include representatives from the

departments' top leadership.[1] We noted that the leadership structure could be improved by reestablishing a high-level leadership mechanism or by designating a single official to carry out this responsibility.

2. Do you think the Memorandum of Agreement between ICE and the FBI concerning terrorist financing could provide a template for further agreements potentially streamlining the enforcement of financial crimes, and if implemented, would we lose critical law enforcement expertise in the process?

GAO response: As discussed above, designating an agency to provide a lead coordination role for specific issues—which was the primary purpose of the Memorandum of Agreement on terrorist financing investigations—is one option for potentially streamlining the enforcement of financial crimes. At the time we issued our February 2004 report, it was too early to assess the overall effect that the Memorandum of Agreement would have on terrorist financing investigations or whether the agreement could provide an effective template for future agreements.[2]

By all accounts, the events that led to the Memorandum of Agreement on terrorist financing investigations were unusual. It was a situation in which representatives of the FBI and ICE met over an extended period of time to attempt to delineate antiterrorist financing roles and responsibilities. When discussions reached an impasse, the Attorney General and the Secretary of Homeland Security signed the agreement. To the extent other situations exist in which law enforcement agencies otherwise cannot resolve jurisdictional disputes or establish effective interagency coordination mechanisms, similar agreements may need to be considered.

Also, at the time we issued our February 2004 report, it was too early to determine if the Memorandum of Agreement on terrorist financing investigations would result in lost critical law enforcement expertise. We noted that the most effective investigations of terrorist financing will bring to bear all relevant resources on the problem. We also

noted that the FBI and ICE face challenges in ensuring that the implementation of the agreement does not create a disincentive for ICE agents to initiate or support terrorist financing investigations. That is, ICE agents may perceive the agreement as minimizing their role in terrorist financing investigations. Further, we noted that an additional challenge involves ensuring that the financial crimes expertise and other investigative competencies of both agencies are appropriately and effectively utilized. Similar challenges likely would exist in any future agreements designed to streamline the enforcement of financial crimes.

[1]U.S. General Accounting Office, Combating Money Laundering: Opportunities Exist to Improve the National Strategy, GAO-03-813 (Washington, D.C.: Sept. 26, 2003).

[2]U.S. General Accounting Office, Investigations of Terrorist Financing, Money Laundering, and other Financial Crimes, GAO-04-464R (Washington, D.C.: Feb. 20, 2004).

Enclosure 3

3. The hearing revealed that the Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. Should the Drug Enforcement Administration lead the coordination efforts to investigate individuals and organizations engaged in this activity?

GAO response: We have not specifically reviewed agency roles or interagency coordination mechanisms related to BMPE investigations. As such, we do not know if actions are needed to clarify agency roles or otherwise streamline enforcement efforts. Given that the BMPE is funded primarily from illicit drug proceeds, it is reasonable to expect that DEA would have a lead role in coordinating many BMPE investigations. However, other agencies also may have the requisite jurisdiction and financial crimes expertise to take a lead role in certain investigations. For example, because the BMPE is a trade-based money laundering system, ICE—with its broad jurisdictional authorities and expertise in trade-based crimes—may be better positioned to lead efforts to coordinate certain types of BMPE investigations. Also, as discussed previously, for appropriate issues or problem areas, law enforcement could utilize a high-level interagency task force, which would be responsible for coordinating activities and directing investigative efforts.

4. In testimony given at the hearing, it appeared that all participants thought that High Intensity Money Laundering and Related Financial Crime Areas (HIFCA) were ineffective and not properly financed. Would your agency support closing the HIFCAs and allow the financial arm of the High Intensity Drug Trafficking Areas (HIDTA) to work money laundering investigations?

GAO response: We have not done the work needed to take a position on whether HIFCA task forces should be closed. While our past work revealed that the task forces

generally were not operating as intended, we have not reviewed the mission, roles, or activities of the financial arms of HIDTA task forces. Therefore, we do not know the extent to which the financial arms of the HIDTA task forces are operating effectively or are addressing the same problems that the HIFCA task forces were designed to address. By definition, however, HIDTA task forces are to be focused primarily (if not exclusively) on drug trafficking and its money trail, whereas HIFCA task forces may address money laundering associated with numerous types of predicate crimes.

Also, it is important to note that the HIFCA designation was intended to identify an "area"—a geographic area, an industry sector, a financial system, or a financial institution—in which federal, state, and local law enforcement would work cooperatively to develop a focused and comprehensive approach to targeting money laundering activity. The HIFCA designation did not necessarily require that a new task force be created. Rather, an existing task force already on the ground could be mobilized. In fact, in our September 2003 report, we noted that the investigative activities of three of the seven then-existing HIFCAs were based on task force structures already in place before the HIFCA designation. For example, the New York/New Jersey HIFCA essentially represented a renaming of the well-established El Dorado Money Laundering Task Force, which started in 1992 in conjunction with the New York/New Jersey HIDTA.

An interagency HIFCA review team currently is assessing the operation of the HIFCA task forces in order to enhance their potential and ensure that they complement other appropriate interagency initiatives and task forces. The results of this review could provide useful input for an evaluation report on the effectiveness of and the continued need for HIFCA designations. Under a provision of the 1998 legislation that authorized HIFCA designations, Treasury is required to submit an evaluation report to the Congress in 2004. If the HIFCA review and related evaluation report identify overlapping task force missions and competing agendas, opportunities could exist to consolidate task force operations and streamline anti-money laundering activities. If the HIFCA concept is retained, the role of the HIFCA task forces should be clearly defined, particularly in relation to other task forces and programs designed to combat money laundering.

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY, AND HUMAN RESOURCES

Terrorist Financing and Money Laundering-Investigations: Who Investigates and How Effective Are They?

May 11, 2004

1. This hearing revealed that The Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. Has FinCEN developed any leads that would aid in the investigation of individuals and organizations engaged in this activity?

FinCEN brought the Black Market Peso Exchange (BMPE) methodology to the forefront in November 1997 when it issued an Advisory (Issue 9) to alert banks and other depository institutions to this complex money laundering system being used extensively by Colombian drug cartels to launder the proceeds of narcotics sales. In June 1999, FinCEN again issued an Advisory (Issue 12) to assist the banks and other depository institutions to respond appropriately to potential misuse of their services by money launderers using BMPE. The Advisory also announced the Treasury Department's creation of a multi-agency task force to study BMPE. FinCEN experts also testified at the first hearing held by the Financial Services Committee, the Subcommittee on Oversight and Investigations in 1999 on the subject.[1]

Since then, FinCEN has continued to monitor the evolution of BMPE trends and patterns. For example, FinCEN has seen links with the gold trade cycles wherein narcotics traffickers launder cash proceeds by converting the cash into gold and then smuggling the gold into Central and South America, and has noted variations of BMPE activities involving the use of monetary instruments as the exchange commodity.

FinCEN also provides Bank Secrecy Act data analysis support to law enforcement for relevant investigations. For example, FinCEN provided 27 Bank Secrecy Act filings and analysis in support of "Double Trouble," a DEA led investigation involving the laundering of an estimated $30 million in drug proceeds through BMPE by a Colombian organization run by Ivan Henao. Public reports indicate that the "Double Trouble" investigation resulted in seizures of over $12.8 million,

[1] Copies of these Advisories can be found on FinCEN's website at www.fincen.gov.

353 kilograms of cocaine, 21 kilograms of heroin, and the arrest of more than 55 drug traffickers and money brokers.

FinCEN also interacts with its counterpart Financial Intelligence Units (FIUs) globally. Through such effort, FinCEN has provided reports of potential BMPE activity to FIUs in Latin America. FinCEN also analyzes the Bank Secrecy Act information proactively, and through such research, has provided law enforcement agencies with multiple reports identifying possible BMPE money laundering.[2]

Finally, FinCEN is an active participant in the interagency BMPE Initiative Working Group (WG). The WG is looking at BMPE as a money laundering "system" and plans to attack it from that perspective. This initiative is a U.S./Colombia multi-agency collaborative effort to disrupt and dismantle the organizational components (drug cartels, exporters, money brokers, etc.) that are integral to the operation of the system between Colombia and the United States.

2. Please identify any special circumstances that enabled your agency to share information with multiple agencies conducting simultaneous investigations that ultimately led to recent RICO charges filed against the leadership of Colombia's most powerful cocaine cartel.

FinCEN has supported law enforcement efforts against the Norte Valle Cartel on an ongoing basis since 1996. Information pertinent to the cartel's money laundering activities was provided to DEA, FBI, ICE, and OFAC.

Through FinCEN's networking process, we are able to provide alerts to all involved law enforcement agencies when their requests to us, or when our research reveals, overlap investigative interests. In 2003, FinCEN generated over 3,000 such alerts.

3. The Subcommittee has been vigorously tracking the success or lack of success the U.S. government has had in stopping terrorist financing derived from poppy cultivation and drug trafficking proceeds in Afghanistan. Can you cite any substantive activity concerning terrorism financing through drug proceeds investigated by your agency?

ONDCP recently initiated an Afghanistan Illicit Finance Working Group to address the laundering of narcotics proceeds back into Afghanistan from the sale of heroin originating in Afghanistan. This working group is now chaired by Treasury's Office of Terrorism and Financial Intelligence and consists of

[2] The fact that a particular case may involve the use of BMPE as a money laundering technique is not always known to law enforcement agencies when they request analytical support from FinCEN, and, even if known, may not be cited by them in their request to FinCEN. It is also true that the use of the BMPE technique may not be apparent solely through analysis of information available under the BSA. For these reasons, it is difficult for us to identify BMPE related cases from among the thousands of law enforcement cases we support each year.

representatives from DEA, IRS-CID, OFAC, FinCEN, and representatives of the intelligence community.

FinCEN has also conducted a review of Suspicious Activity Report (SARs) data filed by depository institutions, money services businesses, and securities and futures dealers and found the following statistics. Seventy-six Suspicious Activity Reports filed, during the period January 2000 through June 2004, reported drug trafficking or terrorism/terrorism financing activities in conjunction with Afghanistan. Sixty-five of those involved terrorism and/or terrorist financing, and two involved drug trafficking. None of the reports referenced both terrorism/terrorism financing and drug trafficking.

4. Are you aware of or currently investigating any Burmese drug activities funding international terrorist groups or activities within or outside of the country of Burma?

FinCEN has not received any requests from law enforcement concerning Burmese drug activities funding international terrorist groups or activities within or outside of the country of Burma, and has no other indicators of such activity.

However, FinCEN conducted a review of Suspicious Activity Report (SARs) data filed by depository institutions, money services businesses and securities and futures dealers, which identified three Suspicious Activity Reports filed, during the period January 2000 through June 2004, reporting drug trafficking or terrorism/terrorism financing activities in conjunction with Burma/Myanmar. All three Suspicious Activity Reports involved terrorism and/or terrorist financing. No reports referenced both terrorism/terrorism financing and drug trafficking.

5. How has your agency addressed the problems associated with the laundering of money derived from the smuggling of high-potency marijuana from Canada?

FinCEN has provided extensive support[3] for Operation Candy Box, a multi-agency (DEA, FBI, IRS-CI, & ICE) investigation targeting a Canadian-based MDMA (ecstasy) and marijuana trafficking and money laundering organization. In support of this case, FinCEN sent requests for information to its counterparts at several foreign Financial Intelligence Units. The extensive information provided in response to our requests has given U.S. law enforcement officials expedited access to vital, relevant information on financial transactions of shell companies in foreign countries.

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[3] FinCEN completed a total of 14 intelligence reports on the targets of Operation Candy Box: 11 intelligence reports were based on requests for information from Federal and foreign requestors; two proactive cases were initiated by FinCEN based on unusual suspicious activity reporting; and FinCEN sent out a 314a USA PATRIOT Act request on behalf of ICE. When DEA submitted its request concerning Candy Box to FinCEN, we were able to advise DEA of the prior inquiries from five foreign governments and two other federal law enforcement agencies, whose investigative interest were previously unknown to the DEA.

6. Have you seen any correlation between the financial side of smuggling of methamphetamine precursor chemicals from Mexico/Canada and support elements of Middle Eastern terrorist groups?

FinCEN provided analytical support[4] to Operation Mountain Express (a joint agency investigation conducted by DEA with IRS-CI, RCMP, and DHS), which may be relevant to your inquiry. The investigative agencies were provided link charts based on relevant Bank Secrecy Act data, which included over 100 Suspicious Activity Reports and more than 2,000 Currency Transaction Reports and other filings.

7. In testimony given at the hearing, it appeared that all participants thought the High Intensity Money Laundering and Related Financial Crimes Areas (HIFCA)s were ineffective and not properly financed. Would your agency support closing the HIFCAs and allow the financial arm of the High Intensity Drug Trafficking Areas (HIDTA)s to work money laundering investigations?

The work that the HIFCAs are doing is important. Currently, FinCEN supports the seven HIFCAs and have analysts detailed full time to the New York, Chicago, Los Angeles, San Francisco, San Juan, and the Southwest Border (in Austin, Texas) HIFCAs. The New York HIFCA is an exemplary stand-alone, well-funded and supported organization and could serve as an excellent model for other HIFCAs, which have the potential to achieve similar success if funding and a commensurate commitment is made available.

FinCEN is currently working with the Treasury Department to determine how the HIFCAs be organized and implemented.

8. Does your agency currently support money-laundering investigations falling under Immigration and Customs Enforcement's Money Laundering Coordination Center (MLCC)?

FinCEN supports all money laundering investigation requests from ICE. In fiscal year 2003, and 2004 to date, FinCEN has supported over 700 ICE investigations. It is FinCEN understands that the MLCC serves as a support unit internally within ICE for coordinating its money laundering investigations. To date, FinCEN has not received any requests directly from the MLCC.

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[4] FinCEN electronically ingested existing case information from DEA/NDIC's RAID system into FinCEN's ASIS system for link chart analysis and extensive Bank Secrecy Act data searches.

CRIMINAL INVESTIGATION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUL 30 2004

The Honorable Mark E. Souder
Chairman, Subcommittee on Criminal Justice,
Drug Policy and Human Resources
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Attention: Malia Holst

Dear Mr. Chairman:

Thank you for the opportunity to testify at the May 11, 2004 hearing titled, "Terrorist Financing and Money Laundering Investigations: Who investigates and How Effective areThey?" and to provide additional information on this important topic.

I am pleased to forward the enclosed responses to the questions you raised in your May 26, 2004 letter.

I hope this information is helpful. Please contact me at (202) 622-4100 if I can be of further assistance.

Sincerely,

Dwight J. Sparlin
Director, Operations Policy and Support

Enclosure

1. **This hearing revealed that the Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. Does the Internal Revenue Service have current cases investigating individuals and organizations engaged in this activity?**

The IRS Criminal Investigations Division (CI) has a long history of working these types of investigations. In the late 1970s, CI and Legacy Customs jointly led a Treasury Department initiative called Operation Greenback, during a time when drug dealers openly carried money into South Florida banks in duffle bags. CI special agents assigned to Operation Greenback first discovered the BMPE during debriefings with money launderers while pursuing CI investigations in the early 1980s. We also have been very active with the President's Working Group on the BMPE Initiative, including chairing the committee at one point.

We have 20 active overt CI investigations underway involving BMPE throughout various parts of the country and Puerto Rico. CI is also conducting several undercover operations that target the BMPE. Recent examples of investigations in the public domain include Operation White Dollar and Operation Double Trouble. Operation White Dollar, was a two-year joint Organized Crime Drug Enforcement Task Force (OCDETF) investigation worked with the DEA and the NYPD that targeted the BMPE system from the peso brokers dealing directly with narcotics traffickers to the Colombian companies and individuals who facilitate the system by purchasing dollars in the system. According to the indictment, 34 individuals and companies were involved in a BMPE conspiracy centered in Bogota, Colombia. In addition to the charges against the 34 individuals, a prominent Colombian industrialist who repeatedly purchased millions of dollars in the BMPE system over a period of years, agreed to forfeit to the United States $20 million representing the dollars he purchased from the indicted peso brokers. This investigation also involved issuing seizure warrants authorizing seizure of more than $1 million from more than 20 separate bank accounts.

We worked Operation Double Trouble with the Drug Enforcement Agency (DEA). This operation led to the arrest of 28 individuals and seizure of 36 bank accounts from 11 Colombian banks. The OCDETF investigation documented that this organization laundered at least $30 million in drug proceeds using the BMPE.

If the suspected magnitude of the BMPE is accurate, it provides clear evidence that the Bank Secrecy Act (BSA) worked as the Congress intended, which consequently pressured criminal organizations to move outside of their traditional money laundering methods. CI special agents testified before the Congress in support of the passage of the BSA. Subsequently, for more than thirty years CI has carried out the criminal investigative jurisdiction of the BSA except for the one violation for Customs' travel declarations. CI also provided leadership during

those early years of the BSA when the banking industry resolutely resisted complying with its provisions until convinced by significant investigations, large penalties, and unwelcome publicity. The ingenuity and tenacity of our special agents as they developed new approaches to fighting money laundering regimes was in the best tradition of IRS CI.

2. **Please identify any special circumstances that enabled your agency to share information and coordinate multiple investigations that ultimately led to recent RICO charges filed against the leadership of Colombia's most powerful cocaine cartel.**

An IRS CI-led investigation worked with the New York Police Department (NYPD) as "Operation Bankrupt" led to the indictment of three members of the Norte Valle Colombian Cartel. The other part of this indictment was "Operation Plata Sucia," which we investigated as an OCDETF investigation with the DEA.

The special circumstances that led to recent RICO charges dealt with Colombia based operatives with unique access to high level Colombian money laundering operations. The operatives provided significant information to the DEA, which greatly helped focus their part of the investigation. CI's Attaché Office in Colombia was instrumental in these investigative successes. Our Attaché's Office originally developed these operatives due to their relationships inside of Colombia. Our Attaché's Office also allowed us to effectively coordinate many logistical aspects of these undercover operations that would not have otherwise been possible. Our active involvement with Plan Colombia, the U.S. State Department's Colombia law enforcement initiative, led to a close working relationship between our Attaché's office and many segments of Colombian Law Enforcement community. For example, CI provided technical assistance, and conducted Anti-money Laundering and Financial Investigative Techniques Training for Colombian law enforcement. This training also benefited other agencies that routinely use these Colombian vetted units. We also worked particularly close with the DEA sponsored vetted unit in the investigation of the Norte Valley Colombian Cartel.

3. **The Subcommittee has been vigorously tracking the success or lack of success the U.S. Government has had in stopping terrorist financing derived from poppy cultivation and drug trafficking proceeds in Afghanistan. Can you cite any substantive activity concerning terrorism financing through drug proceeds investigated by your agency?**

The DEA is better positioned to answer this question; however we have seen an increase in investigations of heroin or opium trafficking organizations. I cannot say that this increase is due to the large spike in Afghanistan poppy production in the last several years. In 2003, initiations of heroin investigations jumped about

62 % to 65 from 40 investigations the previous year. So far this year, 67 such initiations have occurred. We have one ongoing heroin investigation that involves suspected terrorism, but we do not know the source of the heroin. Our investigations of terrorist financing from drug proceeds have to date primarily focused on the Colombian cartels, but I know that DEA is keenly interested in this matter and law enforcement in general is very concerned.

4. **Are you aware of or currently investigating any Burmese drug activities funding international terrorist groups or activities within or outside of the country of Burma?**

Again, the DEA is the best agency to address this matter; but I can tell you that we believe Burma is one of the world's leading producers of illicit opium. Northeast Burma is identified as a significant source of heroin and methamphetamine. We have open investigations of money laundering by heroin traffickers, but the connection to Burmese drug activities trafficking organizations is not well known.

5. **How has your agency addressed the problems associated with the laundering of money derived from the smuggling of high-potency marijuana from Canada?**

We have several ongoing investigations on these allegations. The OCDETFs in the western United States are particularly active in pursuing this issue. Recent examples that are now public include "Operation Candy Box," which resulted in the arrests of more than 130 defendants across the United States and Canada. This investigation targeted a significant MDMA (Ecstasy) and Canadian marijuana trafficking organization. According to the court documents, the organization allegedly used a sophisticated money laundering network of money remitters and travel agencies in the U.S. and Canada to launder drug proceeds.

6. **Have you seen any correlation between the financial side of smuggling of methamphetamine precursor chemicals from Mexico/Canada and support elements of Middle Eastern terrorist groups?**

We have conducted several significant investigations of traffickers who are of Middle Eastern descent. While we have traced some of these narcotics proceeds to the Middle East, we have not definitively connected them to terrorism. A recent example of such a precursor case would be our significant involvement with DEA, RCMP, and DHS in "Operation Mountain Express." This investigation led to more than 100 indictments of individuals who were involved in trafficking

significant amounts of pseudoephedrine and methamphetamine. We currently have similar ongoing investigations underway.

7. **In testimony given at the hearing, it appeared that all the participants thought the High Intensity Money Laundering and Related Financial Crimes Areas (HIFCAs) were ineffective and not properly financed. Would your agency support closing the HIFCAs and allow the financial arm of the High Intensity Drug Trafficking Areas (HIDTAs) to work money laundering investigations.**

Without specific funding,[1] agency participation in the HIFCA program is voluntary and competes with various agency priorities[2]. The proposal to "allow the financial arm of the HIDTAs to work money laundering investigations" is not an appropriate response. CI's case selection criteria for HIDTA investigations are no different from our criteria for OCDETF investigations. In fact, in most instances the OCDETF must approve HIDTA developed investigations before CI will commit resources.

The Congress established HIFCAs to identify individuals and organizations involved in financial crimes and money laundering through strategic analysis of BSA filings, regulatory oversight of and partnered alliance with the United States financial services industry, and coordinated law enforcement investigation and prosecution. In the HIFCA Organizational Plan, drafted in October 2001, HIFCAs were to "target and lead the investigation of complex, transnational money laundering schemes perpetrated by professional money launderers and the systems they utilize and exploit." The money laundering investigations associated with HIFCA's generally do not involve narcotics proceeds.

If the HIFCA concept is abandoned, CI will continue our work in evaluating BSA data through our 41 SAR Review Teams.

We believe the HIFCA concept can still work, but investigations should not narrowly focus on narcotics as that would essentially duplicate the work of existing drug task forces such as OCDETF and HIDTA.

8. Does your agency currently supply personnel to or coordinate IRS money laundering investigations with Immigration and Customs Enforcement's Money Laundering Coordination Center (MLCC)?

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[1] Limited funding for the purchase of capital items and non-recurring expenses was provided to cover start up costs.

[2] The OCDETF and HIDTA programs were funded programs and many of the same anti-money laundering responsibilities were dedicated to those programs.

CI has a reputation for working cooperatively with other agencies. We currently have one special agent (job series 1811) assigned as a liaison to ICE Headquarters, but not specifically to the MLCC.

We are an active participant in the 7 designated HIFCAs and we lead or co-lead the 41 SAR-RTs throughout the country. These multi-agency endeavors promote cooperation/coordination in non-narcotics money laundering investigations.

The 2003 National Money Laundering Strategy (page 20) discusses the importance of enhancing interagency coordination and specifically mentions six interagency "mechanisms" that we participate in (OCDETF, HIDTA, HIFCA, JTTF, NJTTF, FTAT-G). The strategy discusses the importance of law enforcement sharing financial databases and analytical tools (page 21). The document specifically talks about the need for an inter-agency anti-drug money laundering financial intelligence center. The Congress directed the creation of such a center and funded it in by the FY04 Justice Department consolidated appropriations bill. CI with the other OCDETF member agencies worked tirelessly to bring this center to fruition.

On March 9, 2004, we signed a historic Memorandum of Understanding (MOU) with the OCDETF Program that formalized our previous coordination practices with DEA's Special Operations Division (SOD). CI, along with the other federal OCDETF agencies, now uses SOD as the sole deconfliction and coordination center for drugs and related financial information. As previously mentioned, the Congress clearly approved this coordinated approach in funding the OCDETF Fusion Center (OFC), which uses SOD as its coordination mechanism for the member OCDETF agencies. We are very excited about the prospects for the OFC and are committing at least three CI management officials to the effort.

By participating in all of the inter-agency task forces mentioned above and the OCDETF Fusion Center, we believe we are adequately coordinating money laundering investigations.

9. The Bush Administration Disapproved a $12 million request for an additional 80 agents to work terrorist financing cases alongside the 160 current special agents working terrorist financing investigations. How will this affect your ability to carry out your duties in terrorist financing?

Thank you for your interest. As I discussed in my testimony, we are strongly committed to shutting down terrorist funding and to the war on terrorism. CI is participating in every major terrorist financing investigation and we are very active in the Treasury Department's efforts to freeze terrorist funds. Our investigators are an integral part of the war on terrorism and bring invaluable assistance

primarily from their many years of experience working complex financial investigations.

If the President's fiscal year 2005 budget is approved, we will hire 408 additional special agents and over 200 support personnel. Our efforts in counterterrorism will be very much enhanced by these additional personnel. This is the largest hiring effort in IRS CI history. To put things in perspective, for the three year period beginning, October 1, 2001, our net level of agents increased only by 66 special agents. While we are still rebounding from hiring restraints during the retirement of large numbers of experienced special agents, the requested resources will more than adequately meet our needs for this budget cycle.

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY, AND HUMAN RESOURCES

Terrorist Financing and Money Laundering Investigations: Who Investigates and How Effective Are They?

May 11, 2004

Questions for the Record

Marcy Forman,
Deputy Assistant Director, Financial Investigations
U.S. Immigration and Customs Enforcement

1. This hearing revealed that The Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. Does Immigration and Customs Enforcement lead the coordination efforts to investigate individuals and organizations engaged in this activity?

   Response: ICE continues to be at the forefront of the government's anti-BMPE operations and investigations. The Money Laundering Coordination Center (MLCC) serves as the ICE repository for BMPE investigative information. In 1999 and 2000 the National Money Laundering Strategy tasked legacy Customs, MLCC and the BMPE Working Group to continue efforts to disrupt BMPE. The BMPE Working Group designated MLCC as the depository for all BMPE Intelligence developed by undercover operations. During that time, legacy Customs co-chaired the BMPE Working Group with the Department of Justice. In 2001, the BMPE Working Group was dissolved. Since September 2001, the interagency community has focused more attention on financial investigations linked to the financing of terrorism. Although the BMPE may finance terrorist groups in Colombia, it primarily operates as a mechanism for narcotics trafficking organizations to move their illicit proceeds from the U.S. to Colombia. ICE continues to devote substantial resources to combating the BMPE and alerting industry groups to the operation of the BMPE system.

2. What federal agencies benefit from Immigration and Customs Enforcement's efforts to share and disseminate information obtained on money laundering crimes that utilize the BMPE method of smuggling money?

   Response: ICE shares BMPE-related data with all relevant federal law enforcement agencies and other interested federal agencies including the FBI, DEA, CBP, IRS, State Department, Department of Justice, Department of the Treasury, FinCen, and

OFAC. ICE's experience and authority to investigate money laundering as it relates to the BMPE is rooted in its historical and current mission to protect this country's border. Through the enforcement of cross-border movement of trade and currency, evidence of trade based money laundering can be uncovered. Furthermore, ICE aggressively promotes a domestic and international campaign to provide trade-based money laundering training, which has enhanced efforts to detect and dismantle the BMPE, both domestically and abroad. ICE administers the portion of the State Department's Plan Colombia dealing with trade-based money laundering and BMPE investigations, and ICE is actively engaged with Colombian authorities in these endeavors.

3. Please identify any special circumstances that enabled your agency to share information and coordinate multiple investigations that ultimately led to recent RICO charges filed against the leadership of Colombia's most powerful cocaine cartel.

   Response: ICE will work with the Committee to identify the specific case and outline information sharing and coordination that occurred during the course of that specific investigation.

4. The Subcommittee has been vigorously tracking the success or lack of success the U.S. government has had in stopping terrorist financing derived from poppy cultivation and drug trafficking proceeds in Afghanistan. Can you cite any substantive activity concerning terrorism financing through drug proceeds investigated by your agency?

   Response: To date, ICE has not conducted any investigations related to poppy cultivation and resultant drug trafficking proceeds in Afghanistan; therefore, ICE cannot address the question of the use of such proceeds to finance terrorism.

5. How has your agency addressed the problems associated with the laundering of money derived from the smuggling of high-potency marijuana from Canada?

   Response: ICE has conducted numerous successful money laundering investigations targeting marijuana smuggling and money laundering organizations that utilize the northern border. ICE continues to focus its efforts on identifying and dismantling narcotics smuggling and money laundering organizations that utilize the Canadian border to smuggle contraband and bulk cash. ICE works closely with Customs and Border Protection (CBP) in conducting intelligence-driven bulk cash operations at the United States/Canada border. These operations have led to the initiation of significant money laundering investigations of organizations smuggling marijuana from Canada into the United States. ICE utilizes all of its investigative authorities including the use of undercover operations and confidential informants to identify and dismantle these money-laundering groups.

6. Have you seen any correlation between the financial side of smuggling of methamphetamine precursor chemicals from Mexico / Canada and support elements of Middle Eastern terrorist groups?

   Response: ICE has received such allegations and investigates them jointly with other agencies, such as the DEA and FBI. To date, ICE has not been able to substantiate these allegations in any particular case.

   ****NOTE: No question #7 was provided. ****

8. In testimony given at the hearing, it appeared that all participants thought the High Intensity Money Laundering and Related Financial Crimes Areas (HIFCA)s were ineffective and not properly financed. Would your agency support closing the HIFCAs and allow the financial arm of the High Intensity Drug Trafficking Areas (HIDTAs) to work money laundering investigations?

   Response: ICE would be willing to explore a range of options that would adequately finance the HIFCAs and make them more effective. ICE continues to believe that the HIFCA concept is a good one and can enable the U.S. Government to identify, disrupt and dismantle organizations and systems used to launder proceeds of criminal activities. Like the successful High Intensity Drug Trafficking Areas (HIDTA's), High Intensity Money Laundering and Related Financial Crimes Areas (HIFCA's) were created to concentrate law enforcement efforts at the federal, state and local levels to identify, target, and prosecute money laundering activity within the defined boundaries of the HIFCA. Providing funding and oversight to HIFCAs through HIDTA would be one possible method to increase their effectiveness.

   In order to be effective HIFCAs would need to be established as a financial investigative arm of HIDTA with a distinct HIFCA leadership and chain of command.

9. What agencies currently supply personnel to or coordinate their money laundering investigations with your agency's Money Laundering Coordination Center (MLCC)?

   Response: The MLCC does not receive personnel support from any other federal agency. The MLCC, on a case-by-case basis, will process investigative requests from the DEA, FBI and IRS to coordinate these agencies investigative efforts. Checks are conducted for de-confliction purposes to ensure officer safety and ensure investigative integrity. Extensive analysis is done to identify overlaps between agencies and undercover operations that are not detectable at the field level. These checks may include a review of undercover or suspect currency transactions related to an investigation; pre-enforcement checks on targeted accounts; and post seizure analysis of seized accounts. Positive results or crossovers occur when more than one operation or agency is sending or receiving funds from the same originator, account number, beneficiary or any other identifier that is contained within a financial transaction (wire transfer).

MLCC research has identified crossovers in the majority of the requests submitted. As a result of these identified crossovers, the MLCC provided all affected agencies with points of contact to coordinate with their respective counterparts.

The MLCC also provides support to the attorneys assigned to the Asset Forfeiture and Money Laundering section at the Department of Justice in their efforts to forfeit illicit proceeds in support of federal investigations.

10. In order to conduct financial investigations, it is imperative that the investigators penetrate the money laundering network established by money launderers. What is your agency's percentage of money seized vs. money laundered and is there a standardized procedure in place among federal agencies to pay informants a set percentage of the amount of money laundered?

    Response: A review and analysis of statistics generated by all ICE undercover financial investigations during the period of FY-02, FY-03 and the first three quarters of FY-04 revealed that the ratio of currency seized by these operations to currency "picked up" equals 1.2 : 1. In addition, during the timeframe referenced above, ICE undercover financial investigations produced 801 arrests.

    ICE cannot comment on the procedures other agencies use to pay informants in money laundering investigations. ICE is unaware of any standardized procedure among federal agencies to pay informants. ICE has internal procedures that govern the recruitment, selection and retention of ICE informants. ICE's compensation to an informant in a money laundering case depends on the informant's role, which could range from no payment when an informant is cooperating as a condition of his/her criminal case, to payment when an informant is primarily motivated by monetary compensation. In the later case, various factors are considered in determining what an informant may be paid. These factors could include (among others) the extent of his/her efforts and involvement in the investigation, the risk and danger caused by exposure as an informant, and the black market value placed on the undercover services at that specific time for that money laundering transaction.

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY, AND HUMAN RESOURCES

Terrorist Financing and Money Laundering Investigations: Who Investigates and How Effective Are They?

FOLLOW-UP QUESTIONS FOR THE RECORD FOR MR. DONALD C. SEMESKY, CHIEF OF FINANCIAL OPERATIONS DRUG ENFORCEMENT ADMINISTRATION

1. This hearing revealed that The Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. Does the Drug Enforcement Administration lead the coordination efforts to investigate individuals and organizations engaged in this activity?

   There is no designated lead agency for coordinating BMPE investigations. However, the primary U.S. interest in the BMPE is its utilization by Colombian drug trafficking organizations to launder drug proceeds generated by sales in the U.S. As the nation's lead drug enforcement agency, DEA has a significant stake in the BMPE's role in laundering drug proceeds. DEA believes that it possesses the best mechanism to coordinate the investigation of individuals and organizations who launder drug proceeds through the BMPE, *i.e.*, the Special Operations Division (SOD). DEA, ICE, IRS-CI, and the FBI all conduct BMPE investigations, and all participate at SOD. DEA and ICE are the only two agencies with de-confliction and coordination mechanisms designed to address BMPE investigations through SOD and ICE's Money Laundering Coordination Center (MLCC). DEA does run information on targeted accounts that have received BMPE dollars through the MLCC. Since DEA's money laundering enforcement program is driven by DEA's mission and thus the primary focus of its BMPE investigations is the identification, investigation and dismantlement of the drug trafficking organizations that supply the dollars in this illicit system.

2. What federal agencies benefit from the Drug Enforcement Administration's efforts to share and disseminate information obtained on money laundering crimes that utilize the BMPE method of smuggling money?

   Information obtained during the course of a DEA BMPE investigation is of benefit to other domestic and international law enforcement and regulatory agencies. Law enforcement agencies gain useful information on crimes within their jurisdictions, such as terrorist financing violations that would be of interest to the FBI, unreported income and Bank Secrecy Act violations that would be of interest to

IRS-CI, trade reporting Bank Secrecy Act violations that would be of interest to ICE, and postal money order or fraudulent use of the mails that would be of interest to the U.S. Postal Inspection Service. Regulatory agencies such as the Federal Reserve, FDIC, IRS and Office of the Comptroller of the Currency would benefit from information concerning Bank Secrecy Act violations by or vulnerabilities within the financial institutions they monitor. DEA's international partners benefit in the same manner as its domestic partners from this information as it relates to criminal and regulatory enforcement issues in their countries. Through the utilization of the Financial Investigation National Database Information Tracking System (FINDIT), SOD is able to support BMPE investigation. The FINDIT system is used to identify individuals, companies and financial institutions that are engaged in the BMPE scheme. It is also used as a deconfliction tool. Evidence is compiled from the system, which can be forwarded to the U.S Attorneys' Offices for prosecution.

3. Please identify any special circumstances that enable your agency to share information and coordinate multiple investigations that ultimately led to recent RICO charges filed against the leadership of Colombia's most powerful cocaine cartel?

DEA's multi-agency Special Operations Division is designed to enhance ongoing operations, share real-time information with participating agencies, and coordinate multiple domestic and international investigations. Additionally, with its presence of 80 offices in 56 foreign jurisdictions, DEA is able to enhance its investigations through cooperative efforts with its foreign law enforcement counterparts.

Contained within the Special Operations Division is the Bilateral Case Group (BCG). Formed almost two years ago, the BCG consists of DEA Special Agents who are selected from different domestic and international DEA offices and who work out of the Special Operations Division. The BCG is a domestic field enforcement group with the mission of investigating high level foreign based drug traffickers impacting the United States. The BCG conducts joint investigations with DEA foreign offices and, relying upon 21 U.S.C. §959, federal prosecutors seek indictments against the highest level foreign-based drug traffickers. These traffickers operate from foreign countries and have sought to insulate themselves from U.S. prosecution. 21 U.S.C. §959 makes it unlawful "for any person to manufacture or distribute a controlled substance intending or knowing that such substance or chemical will be unlawfully imported into the United States or its territorial waters." For example, the BCG, along with numerous DEA foreign and domestic offices, investigated the trafficking activities of the leadership of the Norte Valle Cartel. The Norte Valle Cartel is Colombia's most powerful cocaine cartel. This investigation, which was coordinated by DEA's Special Operations Division, led to the recent RICO charges that were filed in the District Court for the District of Columbia against the leadership of the Norte Valle Cartel.

Additionally, the BCG is working to build compelling cases for prosecution of significant targets in Latin America, the Caribbean, Central America, Mexico, Europe, Africa and Canada. The Special Operations Division shares real-time information with participating agencies and coordinates related investigations in this effort.

Unlike a traditional enforcement group, the BCG has no geographic restrictions. This enables the BCG to recruit confidential sources who might not have been used to their fullest extent because their access to targets was outside their geographic area of residence. Additionally, while the BCG initially concentrated on historical drug trafficking investigations, it now is also gathering and cultivating detailed information to support money laundering and terrorism investigations.

4. The Subcommittee has been vigorously attacking the success or lack of success the U.S. government has had in stopping terrorist financing derived from poppy cultivation and drug trafficking proceeds in Afghanistan. Can you cite any substantive activity concerning terrorism financing through drug proceeds investigated by your agency?

   During Operation Northern Star, the DEA and the Federal Bureau of Investigation (FBI) investigated a person who was laundering drug proceeds, via the Hawala informal value transfer system, from the United States to individuals in the Middle East. The investigation showed that this subject was transferring funds to an investment bank. These funds were, in turn, transferred to other accounts held by the subject's family members who resided in the Middle East.

5. Are you aware of or currently investigating any Burmese drug activities funding international terrorist groups or activities within or outside of the country of Burma?

   Rangoon CO reports no investigations concerning Burmese drug organizations that have ties to international terrorist groups within or outside of the country of Burma.

6. How has your agency addressed the problems associate with the laundering of money derived from the smuggling of high-potency marijuana from Canada?

   The DEA has had several major investigations of drug trafficking organizations deriving drug proceeds from the sale of high potency marijuana, often referred to as "BC (British Columbia) bud". Operation Candy Box, a joint investigative effort by the OCDETF, involved the investigation of poly-drug organizations distributing both MDMA and BC bud. This investigation resulted in approximately 212 arrests and the seizure of $8,995,811 in U.S. currency, 1,546 pounds of MDMA powder, 409,300 MDMA tablets, 1,976 pounds of marijuana, 6.5 pounds of methamphetamine, jewelry valued at $174,000, 38 vehicles and 62 weapons. A significant achievement in this joint U.S./Canadian operation was the identification of sophisticated money laundering methods utilized by the organization.

Specifically, this group relied on the use of various money remitter/travel agency firms to facilitate the movement of funds throughout the U.S. and Canada.

7. Have you seen any correlation between the financial side of smuggling of methamphetamine precursor chemicals from Mexico / Canada and support elements of Middle Eastern terrorist groups?

   Evidence obtained during the course of Operation Mountain Express and Operation Northern Star, two investigations of the sale of the precursor pseudoephedrine by Middle Eastern targets, revealed how narcotics organizations commonly use the "Hawala" system to transfer drug proceeds. Simply stated, "Hawala" brokers in the U.S. and abroad receive cash funds, charge a commission, and then match funds from abroad to another "Hawala" broker to balance the transaction. As stated in Question #4, these investigations showed that drug proceeds were being transferred to an investment bank. Then, were in turn, transferred to other accounts held by the defendant's family members who resided in the Middle East.

8. In testimony given at the hearing, it appears that all participants thought the High Intensity Money Laundering and Related Financial Crimes Areas (HIFCA)s were ineffective and not properly financed. Would your agency support closing the HIFCAs and allow the financial arm of the High Intensity Drug Trafficking Areas (HIDTA)s to work money laundering investigations?

   A basic concept of the HIFCAs is the use and exploitation of Bank Secrecy Act filings, especially Suspicious Activity Reports (SAR)s in a multi-agency setting. This process enables law enforcement and regulatory agencies to identify individuals and organizations involved in the laundering of illicit proceeds. Whether the HIFCAs stay or go, it is imperative that this investigative tool continue to be employed to its best advantage. DEA is committed to support these multi-agency groups. HIDTA investigations are based on initiatives that are approved by the HIDTA Executive Committee. Most HIDTAs include one or more financial initiatives, but these initiatives are not guaranteed any permanent status within any of the HIDTAs. Additionally, HIFCAs are designed to look at money laundering as a whole, regardless of the particular illegal origin of funds. HIDTAs, by their nature, address only narcotics related crimes. However, where HIFCA and HIDTA initiatives have been merged, such as in the case of Operation El Dorado in New York, significant successes have resulted.

9. Does your agency currently supply personnel to or coordinate DEA money laundering investigations with Immigration and Customs Enforcement's Money Laundering Coordination Center (MLCC)?

   DEA does run its target accounts in BMPE investigations through the MLCC for de-confliction purposes. However, while the MLCC is a valuable law enforcement

tool, it is a database not a coordination center. DEA coordinates its money laundering investigations through the financial group at SOD, which is headed by an ICE Assistant Special Agent in Charge and has staff coordinators from four law enforcement agencies and an attorney from DOJ's Criminal Division/Asset Forfeiture and Money Laundering Section present to de-conflict, share information and coordinate multiple investigations. At present, SOD does not have access to the MLCC. SOD utilizes the Financial Investigation Database Information Tracking System (FINDIT) to support and coordinate money laundering investigations worldwide.

10. In order to conduct financial investigations, it is imperative that the investigators penetrate the money laundering network established by money launderers. What is your agency's percentage of money seized v. money laundered and is there a standardized procedure in place among federal agencies to pay informants a set percentage of the amount of money laundered?

Any DEA undercover operation that is contemplated will launder drug proceeds must make a showing to DEA Headquarters that the benefit derived from the laundering activity will exceed the detriment of processing such funds for the targeted criminal groups. Amounts laundered and the numbers of laundering transactions are limited. DEA has very strict standards in place concerning the amount of funds that are allowed to be laundered during any operation. All undercover money laundering transactions are approved in advance, and monitored by the Office of Financial Operations. All DEA undercover money laundering operations are reviewed and approved by a Sensitive Activity Review Committee (SARC). The SARC includes participation by Department of Justice attorneys from the Asset Forfeiture and Money Laundering Section and the Narcotics and Dangerous Drugs Section. Once operations are approved, they are reviewed every six months.

DEA Field Divisions are required to report monthly to the Office of Financial Operations on all undercover money laundering transactions conducted through undercover "shelf" accounts or Attorney General Exempted (Undercover Money Laundering) Operations (AGEO). Based on this reporting, in undercover transactions on AGEOs, DEA laundered $.69 for every dollar seized. In undercover transactions utilizing undercover "shelf" accounts, DEA laundered $.71 for every dollar seized.

DEA does not pay informants based on the amount of funds laundered. It is believed that such a practice could create an incentive on the part of the informant to conjure up scenarios that would cause the government to launder more money than is needed to obtain sufficient evidence for charging and prosecution.
DEA pays its informants based on the value of the information they provide to the investigation. Title 28 USC 524 (C) (1) (c) provides for payment of up to $250,000 or one-fourth of the amount realized by the government from an asset forfeiture,

whichever is less, for information or assistance in the case. There are a multitude of special circumstances that can enter into the determination of the amount of payment made to the informant and thus these determinations must be made on a case-by-case basis.

Honorable Mark E. Souder
Chairman
Subcommittee on Criminal Justice
Drug Policy and Human Resources
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Souder,

In your letter dated October 15, 2004, you have requested further clarification on question 10 of our reply to "questions for the record", which had addressed Donald C. Semesky's briefing before your subcommittee on May 11, 2004. Specifically, you have requested "... to know the percentages for shelf and AGEO operations for the period FY 2002 through the third quarter of FY 2004".

In response to your request please find following statistics, which we have compiled to assist in your inquiry.

FY	Funds Laundered	Funds Seized	Percentage Seized v. Laundered
2002	$59,964,502.17	$60,766,501.31	50.3% v. 49.7%
2003	$18,337,065.41	$68,453,532.19	78.9% v. 21.1%
2004	$21,285,714.34	$39,405,210.84	64.9% v. 35.1%
Total	$99,587,281.92	$168,625,244.34	62.9% v. 38.1%

Please note that these figures include statistics from shelf account operations as well as Attorney General Exempted Operations (AGEO). Also, the dramatic jump in funds seized in FY 2003 is primarily due to a single seizure of $54 million in Operation White Dollar. Absent that one seizure; FY 2004 represents our best year as far as the ratio of funds seized to funds laundered.

Please feel free to contact me regarding further clarification on this issue or if other questions should arise.

U.S. Department of Justice
Office of Legislative Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

September 8, 2004

The Honorable Mark Souder
Chairman
Subcommittee on Criminal Justice, Drug Policy
and Human Resources
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed please find responses to questions posed to Mr. Michael F.A. Morehart, Chief of the Terrorist Financing Operations Section, Counterterrorism Division, Federal Bureau of Investigation, following Mr. Morehart's appearance before the Subcommittee on May 11, 2004. The subject of the Subcommittee's hearing was "Terrorist Financing and Money Laundering Investigations."

We hope that this information is helpful to you. If we may be of additional assistance, we trust that you will not hesitate to call upon us.

Sincerely,

William E. Moschella
Assistant Attorney General

Enclosure

cc: The Honorable Elijah Cummings
Ranking Minority Member

**Responses of the Federal Bureau of Investigation
Based Upon May 11, 2004 Hearing Before the
House Committee on Government Reform
Subcommittee on Criminal Justice, Drug Policy, and Human Resources
Regarding Terrorist Financing and Money Laundering Investigations**

1. This hearing revealed that The Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. Does The Federal Bureau of Investigation have current cases investigating individuals and organizations engaged in this activity?

Response:

Long-standing Department of Justice (DOJ) policy precludes the FBI from commenting on the existence or status of pending cases. The FBI is involved (along with the Drug Enforcement Administration (DEA), the Internal Revenue Service (IRS), and the Financial Crimes Enforcement Network) in efforts initiated by the Department of Homeland Security's Bureau of Immigration and Customs Enforcement (BICE) to create a joint task force targeting this type of organization.

2. Please identify any special circumstances that enabled your agency to share information and coordinate multiple investigations that ultimately led to recent RICO charges filed against the leadership of Colombia's most powerful cocaine cartel.

Response:

The indictment under the Racketeer Influenced and Corrupt Organizations (RICO) Act against the Norte Valle Cartel was made possible by the multi-agency coordination effected by the Special Operations Division (SOD), which permitted a productive joint investigation by the FBI, DEA, IRS, BICE, DOJ Criminal Division's Narcotic and Dangerous Drug Section, and United States Attorneys' Offices. The SOD's mission is to establish seamless law enforcement strategies and operations aimed at dismantling national and international drug trafficking organizations. To achieve this mission, the SOD's operational focus is aimed at the initiation and pursuit of high impact, multi-jurisdiction, multi-nation, and multi-agency investigations that target the leadership of drug trafficking organizations based in foreign countries. This is achieved by linking isolated investigations and providing investigative direction, analytical support, and case coordination to ensure that these complex investigations and prosecutions have the greatest possible disruptive impact on targeted organizations. The FBI continues to use the SOD to investigate the most significant traffickers associated with this Cartel and the

other transnational drug trafficking criminal enterprises which pose the greatest threat to United States security.

3. The Subcommittee has been vigorously tracking the success or lack of success the U.S. government has had in stopping terrorist financing derived from poppy cultivation and drug trafficking proceeds in Afghanistan. Can you cite any substantive activity concerning terrorism financing through drug proceeds investigated by your agency?

Response:

Historically, Afghanistan has been a major source of heroin throughout the world. Recently, al Qaeda and Sunni extremists have been associated through a number of investigations with drug trafficking. During 2003, a joint FBI-DEA investigation resulted in the arrests of 16 Afghan and Pakistani subjects for involvement in a drug ring with links to al Qaeda and the Taliban. The investigation determined that heroin, grown and processed in Afghanistan and Pakistan, was being shipped to the United States. Profits from sales of this heroin were laundered through Afghan and Pakistani-owned businesses and then sent back to associates of terrorist organizations. Criminal and financial links to the Taliban regime and their involvement with al Qaeda were established. The subjects were also involved in a number of other criminal activities, including document/mail fraud, operating an illegal money transmitting business, and other white collar crimes.

4. Are you aware of or currently investigating any Burmese drug activities funding international terrorist groups or activities within or outside of the country of Burma?

Response:

Long-standing DOJ policy precludes the FBI from commenting on the existence or status of pending cases.

5. Have you seen any correlation between the financial side of smuggling of methamphetamine precursor chemicals from Mexico/Canada and support elements of Middle Eastern terrorist groups?

Response:

We note that the Subcommittee has posed this same question to Mr. John Roth, Chief of the Money Laundering and Asset Forfeiture Section of the Justice Department's Criminal Division, who also appeared at the Subcommittee's hearing. We defer to Mr. Roth's response.

6. In testimony given at the hearing, it appeared that all participants thought the High Intensity Money Laundering and Related Financial Crimes Areas (HIFCAs) were ineffective and not properly financed. Would your agency support closing the HIFCAs and allow the financial arm of the High Intensity Drug Trafficking Areas (HIDTAs) to work money laundering investigations?

Response:

We note that the Subcommittee has posed this same question to Mr. John Roth, Chief of the Money Laundering Asset Forfeiture Section of the Justice Department's Criminal Division, who also appeared at the Subcommittee's hearing. We defer to Mr. Roth's response.

7. Does your agency currently supply personnel to or coordinate FBI's money laundering investigations with Immigration and Customs Enforcement's Money Laundering Coordination Center (MLCC)?

Response:

While the FBI maintains contact with the Money Laundering Coordination Center (MLCC) at the Headquarters level, it does not participate in the MLCC on a day-to-day basis. In 1999, the FBI, DEA, and IRS established the coordination of combined drug and drug-related financial investigations through the SOD Financial Group. The SOD, and its component SOD Financial Group, were pre-existing entities for which staffing was provided by the FBI, DEA, IRS, and BICE (formerly U.S. Customs Service) to conduct these investigations and for deconfliction purposes.

Committee on Government Reform

Subcommittee on Criminal Justice, Drug Policy, and Human Resources

Terrorist Financing and Money Laundering Investigations: Who investigates and How effective Are They?

Follow-up questions for the record for Mr. Daniel Glaser, Director, Executive Office for Terrorist Financing and Financial Crimes

Note on Questions 1 through 6:

Questions 1 through 6 below focus on investigations and other operational law enforcement issues. There are three offices within Treasury that are relevant to such issues:

- **The IRS Criminal Investigation Division (IRS-CI) is Treasury's sole law enforcement investigative arm.**
- **The Office of Foreign Assets Control (OFAC) administers the Kingpin Act and other sanctions programs related to narcotics trafficking. T**
- **The Financial Crimes Enforcement Network (FinCEN) provides law enforcement through its role as a financial intelligence unit.**

FinCEN will provide the committee answers to these questions separately, as FinCEN has received these questions separately. Therefore, though questions 1 though 6 are addressed to the Treasury Department more generally, the answers provided focus on the activities of IRS-CI and OFAC.

1.

Question:

This hearing revealed that the Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia. Does the Department of Treasury have current cases investigating individuals and organizations engaged in this activity?

Answer:

IRS-CI has a long history of working on investigations involving the BMPE. In the late 1970s, a Treasury Department initiative called Operation Greenback was jointly led by IRS-CI and the Customs Service (now the Bureau of Immigration and Customs Enforcement (ICE) within the Department of Homeland Security). IRS-CI special agents assigned to Operation Greenback first discovered the existence of the BMPE during debriefings with money launders while in pursuit of IRS-CI investigations in the early 1980s.

Currently, IRS-CI has 20 active overt investigations involving BMPE spread out in various parts of the country, including Puerto Rico. IRS-CI is also conducting several active undercover operations that target the BMPE. Recent examples of investigations that are now in the public domain include Operation White Dollar and Operation Double Trouble. Operation White Dollar, was a two-year joint Organized Crime Drug Enforcement Task Force (OCDETF) investigation worked with the DEA and the NYPD which targeted the BMPE system from the peso brokers dealing directly with narcotics traffickers down to the Colombian companies and individuals who facilitate the system by purchasing dollars in the system. According to the indictment, 34 individuals and companies were involved in a BMPE conspiracy centered in Bogota, Colombia. In addition to the charges against the 34 individuals, a prominent Colombian industrialist who repeatedly purchased millions of dollars in the BMPE system over a period of years, agreed to forfeit to the United States $20 million constituting the dollars that he purchased from the indicted peso brokers. This investigation also involved the issuance of seizure warrants authorizing seizure of more than $1 million from more than 20 separate bank accounts.

Operation Double Trouble was worked jointly by IRS-CI and DEA and resulted in the arrests of 28 individuals and seized a total of 36 bank accounts from 11 Colombian banks. The OCDETF investigation documented that this organization laundered at least $30 million in drug proceeds using the BMPE.

OFAC has investigated BMPE targets to determine whether a case can be made for designating individuals and entities involved in the BMPE system under the Specially Designated Narcotics Traffickers (SDNT) sanctions program implemented under the authority of Executive Order 12978. In most cases the basis for designation is not involvement in the BMPE. However, individuals and entities involved in the BMPE that meet the criteria of the Executive Order have been investigated and designated pursuant to the SDNT program. OFAC has also initiated investigations of narcotic money launderers and peso brokers. Current investigations are ongoing, and OFAC has developed a close working relationship with ICE related to money laundering investigations as well as

cooperation with SDNT targets in general.

2.

Question:

Please identify any special circumstances that enabled your agency to share information and coordinate multiple investigations that ultimately led to recent RICO charges filed against the leadership of Colombia's most powerful cocaine cartel.

Answer:

Treasury is involved at many levels with the inter-agency in dealing with organized drug conspiracies – including those involving Colombian cocaine cartels. For example, three members of the Norte Valle Colombian Cartel were targeted and indicted in "Operation Bankrupt", an investigation led by IRS-CI and worked jointly with DEA and NYPD. The other part of this indictment involved another operation entitled "Operation Plata Sucia", investigated by IRS-CI as an OCDETF investigation coordinated by DEA.

IRS-CI worked with Colombia-based operatives with unique access to high-level Colombian money laundering operations. Significant information from these operatives was provided to DEA, which greatly assisted in the focus of their part of the investigation. The IRS-CI office in Bogotá, Colombia was instrumental in these investigative successes. The IRS-CI Attaché originally developed these operatives as a result of his relationships developed inside of Colombia. The Attaché, with assistance from Spanish-speaking agents detailed to Colombia, facilitated the effective coordination of many logistical aspects of these undercover operations that would have otherwise not been possible.

IRS-CI's active involvement with Plan Colombia, a U.S. State Department initiative, has resulted in the development of close working relationships between IRS-CI's Bogotá office and many segments of the Colombian Financial and Law Enforcement communities. For example, Plan Colombia funding allowed IRS-CI to detail Spanish-speaking agents to Bogotá to provide technical assistance and financial investigative expertise to support this joint investigation. Also, Plan Colombia funding allowed IRS-CI to conduct a number of training seminars in Colombia relating to anti-money laundering, financial investigative techniques, seized computer evidence recovery and undercover techniques. This training also benefited other agencies that routinely utilize these Colombian vetted units. IRS-CI also worked particularly close with the DEA sponsored vetted unit in the investigation of the Norte Valley Colombian Cartel.

OFAC has designated seven North Valle cartel leaders and their financial networks pursuant to the SDNT program pursuant to Executive Order 12978 since 2000. The OFAC Attaché in Bogotá, Colombia and OFAC narcotics sanctions officers have worked extensively and shared significant information over the past four years with ICE, DEA, and FBI field offices on four of the North Valle cartel leaders named in the RICO indictment, previously designated by OFAC actions in 2000 and 2002. OFAC briefed the inter-agency law enforcement group prior to the recent RICO charges against the North Valle cartel.

In October 2002, OFAC coordinated the designation of North Valle cartel leader Diego Leon Montoya Sanchez (named in the recent RICO charges) with the FBI. A joint two-year investigation by OFAC narcotics sanctions officers and the FBI Miami field office led to the simultaneous OFAC blocking action against Montoya Sanchez and his network of front companies and individuals in Colombia in conjunction with an FBI criminal asset forfeiture action in South Florida. Diego Leon Montoya Sanchez is closely associated with the AUC, a Colombian narco-terrorist organization.

The RICO case against the North Valle cartel is not the only major joint Colombian cartels case involving OFAC and other federal law enforcement agencies. OFAC's long history of actions against the Cali cartel has intensified. Since 2002, OFAC has worked jointly with the U.S. Attorney's Office for Middle District of Florida and Operation Panama Express, a multi-agency OCDETF based out of Tampa, Florida. A 2-year OFAC investigation in conjunction with the OCDETF led to the an OFAC action against two new Cali Cartel leaders, Joaquin Mario Valencia Trujillo and Guillermo Valencia Trujillo, and their financial network of 56 front companies and individuals in Colombia. Joaquin Mario Valencia Trujillo was indicted in the Middle District of Florida in February 2003 and was extradited to the U.S. from Colombia in March 2004.

In 2003, OFAC investigations also focused on Cali cartel leaders, Miguel and Gilberto Rodriguez Orejuela. In February 2003, OFAC designated 137 companies and individuals comprising a complex financial network in Colombia and Spain controlled by Miguel and Gilberto Rodriguez Orejuela. This action exposed and isolated a parallel network of Cali cartel front companies established to evade U.S. sanctions law. In March 2003, OFAC targeted a Colombian money exchange business and a prominent Colombian stock brokerage firm which facilitated the Cali cartel network's financial transactions. OFAC officers worked tirelessly with the OFAC Bogota office over the next six months to investigate the Cali cartel's reaction to these SDNT actions and stay one step ahead of the cartel's accountants. In October 2003, OFAC designated 134 new front companies and individuals including a network of pharmaceutical companies extending from Colombia to Costa Rica, Ecuador, Panama, Peru, and Venezuela with ties to financial companies in the Bahamas, the British Virgin Islands and Spain. These OFAC actions were the result of a 3-year investigation by OFAC officers and the OFAC Attaché–Bogotá.

On March 3, 2004, the U.S. Attorney for the Southern District of New York issued a joint statement with the DEA New York field office and the OFAC Director announcing the indictment of two of Colombia's most important drug kingpins, Gilberto Rodriguez Orejuela and Miguel Angel Rodriguez Orejuela, leaders of the notorious Cali Cartel, under Operation Dynasty. Both Cali cartel leaders were designated under E.O. 12978 as Colombian cartel leaders in October 1995. Operation Dynasty is a joint investigation involving the U.S. Attorney's Office for the Southern District of New York, DEA, OFAC, and Colombian authorities. The indictment charges the Rodriguez Orejuela brothers with money laundering conspiracy based largely upon the predicate offense of violating the International Emergency Economic Powers Act ("IEEPA") as a result of the drug kingpins' efforts to defeat OFAC's designations of many of their companies. The indictment also charges them with conspiracy to violate IEEPA. This IEEPA indictment was the result of the aforementioned OFAC actions against the Rodriguez Orejuela organization of the Cali cartel in 2003.

3.

Question:

The Subcommittee has been vigorously tracking the success or lack of success the U.S. Government has had in stopping terrorist financing derived from poppy cultivation and drug trafficking proceeds in Afghanistan. Can you cite any substantive activity concerning terrorism financing through drug proceeds investigated by your agency?

Answer:

The link between terrorist financing and narcotics trafficking in Afghanistan is an issue of concern. Treasury is currently working with the interagency community and our international partners to develop a strategy to address this issue specifically.

Moreover, on June 1, 2004 President Bush named Haji Bashir Noorzai – an Afghan individual who is known as Afghanistan's biggest drug dealer during the Taliban regime – as a significant narcotics trafficker under the Kingpin Act. Noorzai continues to help the Taliban and smuggle drugs, offering an example of the continuing symbiotic relationship between the Taliban and drug trafficking networks. OFAC is not focused specifically on Noorzai's terrorist financing activities, but will investigate Noorzai to develop Tier II derivative designations in order to disrupt his drug trafficking activities in general. President Bush's naming of Noorzai and OFAC's subsequent investigations underscores

the President's determination to combat terrorist financing, including terrorist financing through narcotics trafficking activities.

4.

Question:

Are you aware of or currently investigating any Burmese drug activities funding international terrorist groups or activities within or outside of the country of Burma?

Answer:

At this time, the connection between Burmese drug trafficking and terrorist financing is not well known, but we continue to evaluate and assess the risks associated with these illicit activities. For example, on June 1, 2000, OFAC designated, Wei Hsueh-kang, a leader of the United Wa State Army in Burma, as a Significant Foreign Narcotics Trafficker under the Kingpin Act. On May 29, 2003 President Bush identified the United Wa State Army as a Significant Foreign Narcotics Trafficker under the Kingpin Act. As in the case of Noorzai in Afghanistan, OFAC is not focused specifically on Wei Hsueh-kang or the United Wa State Army's funding of international terrorist groups specifically. OFAC is, however, investigating these Kingpins and their organizations to develop Tier II derivative designations in order to disrupt their drug trafficking activities in general.

Additionally, Treasury has utilized Section 311 of the Patriot Act to designate Burma and two of its banks as "primary money-laundering concerns." This designation was based on identified deficiencies in Burma's anti-money laundering regime and on identified links between the Burmese banks and narcotics trafficking organizations. The special measures issues by Treasury pursuant to the designations require U.S. financial institutions to terminate correspondent relationships used to give Burmese financial institutions access to the U.S. financial system.

5.
Question:

How has your agency addressed the problems associated with the laundering of money derived from the smuggling of high-potency marijuana from Canada?

Answer:

IRS-CI has several relevant ongoing investigations that address this issue. The OCDETFs in the western United States are particularly active in pursuing this issue. Recent examples that are now public include "Operation Candy Box" which resulted in the arrests of more than 130 defendants across the United States and Canada that targeted a significant MDMA (Ecstasy) and Canadian marijuana trafficking organization. According to the court documents, the organization allegedly utilized a sophisticated money laundering network of money remitters and travel agencies in both the U.S. and Canada to launder drug proceeds.

6.

Question:

Have you seen any correlation between the financial side of smuggling of methamphetamine precursor chemicals from Mexico/Canada and support elements of Middle Eastern terrorist groups?

Answer:

IRS-CI has had several relevant investigations linked to the Middle East. While IRS-CI has traced some of the narcotics proceeds involved in these investigations to the Middle East, it has not been able to make a definitive connection to terrorism. A recent example of such a precursor case would be IRS-CI's participation – along with DEA, RCMP, and DHS – in "Operation Mountain Express" where there were more than 100 individuals indicted who were involved in trafficking significant amounts of pseudoephedrine and methamphetamine.

7.

Question:

In testimony given at the hearing, it appeared that all the participants thought the High Intensity Money Laundering and Related Financial Crimes Areas (HIFCAs) were ineffective and not properly financed. Would your agency support closing the HIFCAs and allow the financial arm of the High Intensity Drug Trafficking Areas (HIDTAs) to work money laundering investigations?

Answer:

The Treasury Department does not regard HIDTA money laundering investigations as co-extensive with the goals of the HIFCA program. It is important to note that HIDTAs were established to develop and work only on narcotics-related investigations. HIFCAs are not intended to focus exclusively on narcotics-related money laundering investigations, but rather are designed to emphasize the importance of targeting financial crimes as the primary focus of investigations rather than as an adjunct to other criminal violations. HIFCAs were established by Congress to identify individuals and organizations involved in financial crimes and money laundering through strategic analysis of Bank Secrecy Act (BSA) filings, regulatory oversight of and partnered alliance with the United States financial services industry, and coordinated law enforcement investigation and prosecution. Thus, money laundering analysis and follow-up associated with HIFCAs may or may not involve narcotics proceeds.

In August 2004, the Treasury Department and the Department of Justice will jointly issue a report to Congress with recommendations on the efficacy and future of the HIFCA program.

8.

Question:

On March 8, 2004 Treasury formally announced the creation of the Office of Terrorism and Financial Intelligence (TFI) led by a new undersecretary position at Treasury. Has this new office prompted a change in how you conduct business combating Terrorist Financing and Financial Crime?

Answer:

The establishment of TFI will bring together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhance Treasury's efforts. TFI will increase Treasury's efforts in several ways. The combined use of intelligence and financial data is the best way to detect how terrorists are exploiting the financial system and to design methods to stop them. By coordinating Treasury's intelligence functions and capabilities, TFI will benefit from enhanced analytical capabilities, as well as additional expertise and technology. Second, the Patriot Act gave the Department important new tools to detect and prevent the abuse of our financial system by terrorists and other criminals. TFI will coordinate Treasury's aggressive effort to enforce these regulations. Third, we have forged a strong international coalition to combat terrorist financing. The ongoing, cooperative efforts between the US and our international

partners are at unprecedented levels. The unified structure will promote a robust international engagement and allow us to intensify outreach to our counterparts in other countries. Finally, having a single office is the best way to ensure accountability and achieve results for this essential mission.

As well, the new Office of Intelligence and Analysis (OIA) will address one of the longstanding issues identified in the Department of the Treasury, which is a lack of an integrated intelligence function that supports the Department and is linked directly into the Intelligence Community.

The Department of the Treasury needs actionable intelligence that can be used to exercise its legal authorities, such as IEEPA, the Patriot Act, Bank Secrecy Act, and Trading with the Enemy Act. Analytical products from the intelligence community are largely intended to inform policymakers rather than taking action. They also tend to be highly classified, whereas Treasury often needs to use the lowest classification possible to be used openly to press foreign governments or in evidentiary packages.

OIA will also provide intelligence support to other senior Treasury officials on a wide range of other international economic and political issues of concern to the Department. Subsuming the functions of the current Office of Intelligence Support, OIA will continue to review incoming raw and finished intelligence from other agencies, then select relevant items for senior officials. The intelligence advisors will also drive collection by drafting requirements for the intelligence agencies to ensure that Treasury's information needs are met. Moreover, they will continue to serve in a liaison capacity with the intelligence community and represent the Department in various intelligence-related activities.

The Treasury Department is following a staged approach in the creation of TFI. This will ensure that the office will be able to work towards its short term goals while strengthening its capabilities and accomplishing its mission over the long term.

Question:

Do you see Treasury as the accountable agency for terrorism financing?

Answer:

The Treasury Department has the lead in safeguarding the integrity of the U.S. and international financial systems – including from abuse by terrorists and those who support them. Treasury has expertise in disciplines that stretch across the entire anti-money laundering/counter-terrorist financing (AML/CTF) spectrum. These necessarily give Treasury the necessary broad perspective to create strategies and set policies to combat

terrorist financing. In essence, Treasury can be viewed as a microcosm of the broad U.S. government efforts in this area. In its role safeguarding the financial systems both home and abroad, The Treasury Department utilizes numerous capabilities:

Sanctions and Administrative Powers: Treasury wields a broad range of powerful economic sanctions and administrative powers to attack various forms of financial crime, including E.O. 13224 and Section 311 of the Patriot Act.

Law Enforcement and Law Enforcement Support: Treasury combats various forms of financial crime through the direct law enforcement actions of IRS-CI and the law enforcement support provided by FinCEN and Treasury's regulatory authorities.

Financial Regulation and Supervision: FinCEN administers the AML/CTF regulations. Treasury further maintains close contact with the federal financial supervisors – including the Treasury Department's Office of the Comptroller of the Currency and Office of Thrift Supervision – to ensure that these regulations are being implemented throughout the financial sectors.

International Initiatives: The Treasury Department is part of and has access to an extensive international network of Finance Ministries and Finance Ministry-related bodies such as the Financial Action Task Force (FATF) and various FATF-Style Regional Bodies, the International Monetary Fund (IMF), the World Bank, and the G-7.

Private Sector Outreach: As a result of our traditional role in safeguarding the financial system, Treasury has developed a unique partnership with the private sector.

In addition to these current capabilities, the Treasury Department is taking steps to enhance our organization and abilities. The establishment of TFI will bring together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhance Treasury's efforts.

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