

**MONEY LAUNDERING: CURRENT STATUS OF  
OUR EFFORTS TO COORDINATE AND COMBAT  
MONEY LAUNDERING AND TERRORIST FINANCING**

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**HEARING**

BEFORE THE

**SENATE CAUCUS ON INTERNATIONAL  
NARCOTICS CONTROL**

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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MARCH 4, 2004  
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SENATE CAUCUS ON INTERNATIONAL NARCOTICS CONTROL  
ONE HUNDRED EIGHTH CONGRESS

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CURRENT STATUS OF OUR EFFORTS TO  
COORDINATE AND COMBAT MONEY  
LAUNDERING AND TERRORIST FINANCING**

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**THURSDAY, MARCH 4, 2004**

UNITED STATES SENATE,  
SENATE CAUCUS ON INTERNATIONAL NARCOTICS CONTROL,  
*Washington, DC.*

The Caucus met, pursuant to notice, at 2:00 p.m., in Room 215,  
Dirksen Senate Office Building, Hon. Norm Coleman, presiding.  
Present: Senator Coleman.

**OPENING STATEMENT OF HON. NORM COLEMAN,  
U.S. SENATOR FROM MINNESOTA**

Senator COLEMAN. This hearing of the Senate Caucus on International Narcotics Control is called to order.

Welcome.

We are holding this hearing to address the Nation's continuing efforts to combat money laundering and terrorist financing. Much has been said about the relationship between drug traffickers and terrorists. In Colombia, three groups of narco-guerrillas use funds earned through drug trafficking to intimidate civilian populations. In Afghanistan opium production is on the rise and there are indications that the proceeds of the drug trades are financing al Qaeda as we speak.

Of course, drug trafficking is not the only source of revenue for terrorist organizations. Many Islamic charities raise money in ostensibly legal ways and divert it to fund terror. More creative fundraising approaches include cigarette smuggling and trade in counterfeit goods.

Both terrorists and drug lords have in common the need to launder their money to disguise its source and destination. That is why the United States needs an aggressive strategy to fight money laundering and why this hearing to examine the status of our efforts is so important.

In the past six months the General Accounting Office released three reports that identify shortcomings in our efforts to combat money laundering and terrorist financing. The first report addressed problems with the National Money Laundering Strategy, including overlapping and duplicate investigative efforts by the Departments of Justice, Treasury and Federal regulatory officials, the strategy's lack of clearly defined leadership, a failure to use risk or

threat assessments to set priorities and the lack of evaluative mechanisms needed to judge performance.

The second report addresses the lack of available information on the potential use of informal value transfer systems, such as hawalas, to transfer terrorist or criminal funds out of the country, the misuse of charitable organizations to raise and transfer funds, and the potential use of commodities, such as diamonds, to transfer and store terrorist or criminal funds.

The third report addresses a memorandum of agreement between the Departments of Justice and Homeland Security, signed in May 2003, that gives lead responsibility to the Federal Bureau of Investigation for terrorist financing investigations. While the report recognizes progress in implementing the provisions of the agreement, it also cautions that challenges remain in maintaining interagency relationships and in operational and organizational changes.

The Money Laundering and Financial Crimes Strategy Act of 1998 required the Departments of Justice and Treasury to develop a national money laundering strategy. The provision of the National Strategy Act that required the development of a National Money Laundering Strategy expired in December 2003.

The Chairman, Senator Grassley, has introduced legislation that would extend the requirement for the National Money Laundering Strategy for another three years. In part, today's hearing will address the need for continuing the implementation of a national strategy.

By going after money laundering we are able to put away criminals, both domestic and global. In my own State of Minnesota, methamphetamine is a worrisome and growing problem. I applaud the work being done on the meth crisis by Minnesota State Senator Julie Rosen and others. Our headlines in Minnesota in the past year have included stories of major meth dealers convicted not just of drug offenses, but of money laundering. The two crimes are intimately connected and affect communities across the country.

I am also concerned about the growing reach of international drug trafficking organizations not only in our national parks and forests, but also in our neighborhoods. As Chairman of the Senate Foreign Relations Subcommittee on Western Hemisphere, Peace Corps, and Narcotics Affairs, I hope to hold a joint hearing with the Senate Caucus on International Narcotics Control on this troubling trend.

The Bank Secrecy Act, the USA PATRIOT Act, the Money Laundering and Financial Crimes Strategy Act are all designed to identify, trace and provide for the confiscation or blocking of terrorist money and assets. Strategies were developed in 1999, 2000, 2001, 2002. The 2003 strategy was just released. According to the GAO, the strategies developed between 1999 and 2002 had mixed results in achieving their goals. The strategy was useful in the first two years, but dissension between Justice and Treasury during the last two years compromised the strategy's purpose of promoting coordination and marshaling resources.

The Money Laundering and Financial Crimes Strategy Act also created High Intensity Money Laundering and Related Financial Area task forces, HIFCAs, to concentrate Federal, State and local law enforcement efforts in high intensity money laundering zones.

However, by May 2003, two of the seven HIFCA task forces had not begun operations.

Even without a National Money Laundering Strategy, the Government has made progress on our war on terrorism. Al Qaeda no longer enjoys the protection of a sovereign nation. Saddam Hussein no longer dispenses terror in Iraq. We have frozen or blocked about \$200 million in terrorist funds worldwide. We have publicly designated 351 individuals or organizations as terrorist related. We have shut down charities and smuggling operations that were funneling money to terrorists. We are implementing regulations to require more thorough financial reporting about organizations and individuals who are conducting financial transactions that might be used as conduits for terrorists or drug money.

In spite of our successes, we must continue to address any problems that could compromise our efforts. The GAO report highlights problems with Federal agencies' efforts to address terrorist financing and money laundering, including investigative overlap and duplication. The memorandum of agreement signed by the Attorney General and the Secretary of the Department of Homeland Security in May 2003 appears to be having the intended effect of reducing investigative overlap and duplication, and of increasing coordination among and between Federal agencies.

However, the memorandum of agreement is but one aspect of a National Money Laundering Strategy. For example, efforts to strengthen international cooperation require the involvement of Departments of State, Treasury and a host of international organizations such as the Financial Advisory Task Force and the Egmont Group.

The Federal Bureau of Investigation should not be expected to take the lead on fostering international cooperation on matters that are not directly related to the FBI's investigative mission. A plan, such as the National Money Laundering Strategy, may be necessary to effectively identify priorities and direct limited resources.

I do not need to convince our distinguished witnesses on the merits of a sound and viable strategy. Intuitively, a plan is a necessity if we are to effectively identify priorities and coordinate and direct our limited resources. If not an annual National Money Laundering Strategy, as envisioned in the 1998 act, then what do you propose?

I look forward to your answers because this is not a war that we can afford to lose. Whether they be terrorists or drug dealers, they undermine our nation and our values and we must and will stop them.

[The prepared statement of Senator Coleman follows:]

OPENING STATEMENT OF HON. NORM COLEMAN, U.S. SENATOR FROM MINNESOTA

Good afternoon and welcome to today's hearing.

We are holding this hearing to address the nation's continuing efforts to combat money laundering and terrorist financing. Much has been said about the relationship between drug traffickers and terrorists. In Colombia, three groups of narco-guerrillas use funds earned through drug trafficking to intimidate civilian populations. In Afghanistan, opium production is on the rise, and there are indications that proceeds of the drug trade are financing Al Qaeda as we speak.

Of course, drug trafficking is not the only source of revenue for terrorist organizations—many Islamic charities have raised money in ostensibly legal ways and diverted it to fund terror. More creative fundraising approaches include cigarette smuggling and trade in counterfeit goods.

Both terrorists and drug lords have in common the need to launder their money, to disguise its source and destination. That's why the U.S. needs an aggressive strategy to fight money laundering, and why this hearing, to examine the status of our efforts, is so important.

In the past six months, the General Accounting Office released three reports that identify shortcomings in our efforts to combat money laundering and terrorist financing. The first report addressed problems with the National Money Laundering Strategy including, overlapping and duplicative investigative efforts by the Departments of Justice, Treasury and Federal regulatory officials; the strategy's lack of clearly defined leadership; a failure to use risk or threat assessments to set priorities; and the lack of evaluative mechanisms needed to judge performance.

The second report addresses the lack of available information on the potential use of informal value transfer systems, such as hawalas to transfer terrorist or criminal funds out of the country; the misuse of charitable organizations to raise and transfer funds; and the potential use of commodities, such as diamonds, to transfer and store terrorist or criminal funds.

The third report addresses a Memorandum of Agreement between the Departments of Justice and Homeland Security signed in May 2003 that gives lead responsibility to the Federal Bureau of Investigation for terrorist financing investigations. While the report recognizes progress in implementing the provisions of the Agreement, it also cautions that challenges remain in maintaining interagency relationships, and in operational and organizational changes.

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By going after money laundering, we are able to put away criminals, both domestic and global. In my own state of Minnesota, methamphetamine is a worrisome and growing problem. I applaud the work being done on the meth crisis by Minnesota State Senator Julie Rosen, and others. Our headlines in Minnesota in the past year have included stories of major meth dealers convicted not just of drug offenses, but also of money laundering. The two crimes are intimately connected and affect communities across the country.

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The Money Laundering and Financial Crimes Strategy Act also created High Intensity Money Laundering and Related Financial Crime Area task forces (HICFAs) to concentrate Federal, State and local law enforcement efforts in high intensity money laundering zones. However, by May 2003, two of seven HICFA task forces had not begun operations.

Even without a National Money Laundering Strategy, the government has made progress in our war on terrorism. Al Qaeda no longer enjoys the protection of a sovereign nation. Saddam Hussein no longer dispenses terror in Iraq. We have frozen or blocked about \$200 million in terrorist funds world-wide. We have publicly designated 351 individuals or organizations as terrorist-related. We have shut down charities and smuggling operations that were funneling money to terrorists. We are implementing regulations to require more thorough financial reporting by organizations and individuals who are conducting financial transactions that might be used as conduits for terrorists' or drug lords' money.

In spite of our successes, we must continue to address any problems that could compromise our efforts. The GAO reports highlight problems with Federal agencies' efforts to address terrorist financing and money laundering, including investigative overlap and duplication.



The Memorandum of Agreement signed by the Attorney General and the Secretary of the Department of Homeland Security in May 2003 appears to be having the intended effect of reducing investigative overlap and duplication and of increasing coordination among and between Federal agencies. However, the Memorandum of Agreement is but one aspect of a national money laundering strategy. For example, efforts to strengthen international cooperation require the involvement of the Departments of State, Treasury and a host of international organizations such as the Financial Advisory Task Force and the Egmont Group.

The Federal Bureau of Investigation should not be expected to take the lead on fostering international cooperation on matters that are not directly related to the FBI's investigative mission. A plan, such as the National Money Laundering Strategy, may be necessary to effectively identify priorities and direct limited resources.

I do not need to convince our distinguished witnesses on the merits of a sound and viable strategy. Intuitively, a plan is a necessity if we are to effectively identify priorities and coordinate and direct our limited resources. If not an annual National Money Laundering Strategy as envisioned in the 1998 Act, then what do you propose? I look forward to your answers because this is not a war that we can afford to lose. Whether they be terrorists or drug dealers, they undermine our nation and our values and we must stop them.

Senator COLEMAN. I will introduce for the record the statement of Chairman Grassley and the statement of the Ranking Member of the Caucus, Senator Biden. Without objection, they will become part of the official record.

[The prepared statement of Senator Grassley follows:]

OPENING STATEMENT HON. CHARLES E. GRASSLEY, U.S. SENATOR FROM IOWA

Good afternoon ladies and gentlemen. Thank you for joining us today as we try to get a clearer picture of what is being done to coordinate our efforts in the fight against money laundering and terrorist financing.

Money laundering and terrorist financing threaten to undermine both our national security and our financial stability. I have said many times before and will say it again here today: Money laundering is the functional equivalent of a war industry for terrorist groups and we must put a stop to this industry. We are here today to review the usefulness of having a written strategy that would provide some guidance for our approach to this problem.

Terrorist groups do not function in a bubble. They will use whatever means available to obtain funding for their cause. Over the past two-and-one-half years, 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 clean their own dirty money.

In 1998, in an effort to facilitate cooperation between the 17-plus government agencies with some responsibility for halting money laundering, I offered legislation to create a national money laundering strategy. With so many different agencies having some responsibility over one particular aspect of money laundering, there needed to be some mechanism available to encourage everyone to work together toward a common objective. This need has not gone away. Only when we have a systematic approach to money laundering will we be able to avoid the duplication and inconsistencies that can easily plague an initiative where no one is in charge.

Last fall, the Government Accounting Office released two reports that examined the effectiveness of this legislation in facilitating our ability to effectively address money laundering and terrorist financing. As with most reports, there was both good and bad news. Encouragingly, the GAO noted that the existence of a strategy requirement had resulted in increased communication between the agencies dealing with the problem. But one of the basic concerns expressed in both of these reports is the significant room for improvement, particularly in the execution of a strategic approach to all forms of money laundering.

The first GAO report reiterates what I have been saying for some time: 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 strategy—effective leadership, clear priorities, and accountability mechanisms—all of which need to be strengthened if the Strategy is going to be an effective document.

It notes that many of the recommendations that were put forth in past strategies were ignored or not completed. For example, each money laundering strategy called for the Departments of Treasury, Justice, Homeland Security to implement a centralized system to coordinate investigations, and develop uniform guidelines for undercover investigations. Neither of these steps has been taken. Now, work-arounds to these problems have been developed. But criminal and terrorist organizations are always going to be more flexible than law enforcement, and if we are going to get a handle on money laundering then some of these steps must be taken.

The second report from the GAO specifically focused on mechanisms available to terrorist organizations to generate, move and store their assets. This strikes me as a very useful matrix to analyze all of the opportunities that are available to terrorists—or any other criminal organizations looking to hide or move funds.

Thinking that terrorists just use charities, or only move funds via hawalas, is too narrow a perspective to encompass all of the options available to a criminal financier. We cannot afford to under-estimate the ability of our enemies to hide and move funds. To address these threats we need to communicate better, coordinate better, and share more—or we will continue to be outmaneuvered.

Law enforcement has numerous tools, such as the Bank Secrecy Act and Title III of the USA PATRIOT Act, available to investigate criminal financial activity. Typically, the approach is to identify a bad guy or criminal organization, build a case, apprehend and prosecute, then move to the next crook. This works, and is effective at getting bad guys off our streets. But it doesn't stop other crooks from doing the same thing.

And that is where, I would hope, a comprehensive money laundering strategy would step in. If we are going to have the flexibility to address new threats, then the thinking at the strategic and resource level needs to go beyond the prosecution of a particular case. The ideal strategy would focus on the weak points in our economic system, and direct resources to address these vulnerabilities. It will also have to make hard choices, choosing one agency to target a particular threat, even though others may also want to investigate. Everyone cannot be in charge of everything. There are not enough dollars to fund everything everyone wants to do adequately.

I encourage today's witnesses to think of a strategy in these terms. I look forward to their comments, not only on how the strategy has effected them in the past, but on what steps they believe are needed in the future. I hope that today's testimony from both panels of witnesses will shed additional light on what steps will be necessary to reach our goals.

Unfortunately, I am not going to be able to be here in person to listen to the testimony, but please be assured I am very interested in what everyone has to say. I want to thank Senator Coleman for agreeing to pinch-hit for me here today, and in advance, thank all of the witnesses for agreeing to be here. I look forward to reviewing the record of this hearing.

[The prepared statement of Senator Biden follows:]

STATEMENT OF HON. JOSEPH R. BIDEN, JR.,  
U.S. SENATOR FROM DELAWARE

Mr. Chairman, thank you for convening this important hearing to examine our efforts to combat money laundering and terrorist financing. I am sorry my schedule does not permit me to attend today's session, but this is a critical issue and I look forward to reviewing the hearing record.

The Administration has touted successes in clamping down on the finances of terrorist organizations. Last year, the Administration noted that since September 11, \$104.8 million of terrorist financing had been blocked, \$34.2 million of which was blocked in the U.S. and \$70.5 million overseas. The International Monetary Fund reports that somewhere between \$600 billion and \$1.8 trillion is laundered every year. Clearly our challenges are great.

I am particularly concerned by the nexus between international drug traffickers and terrorism. According to the Drug Enforcement Administration, the potential exists for drug money to fund terrorist groups. DEA Administrator Tandy recently testified that "[i]n October 2001, a joint DEA/FBI investigation targeting two heroin traffickers in Peshawar, Pakistan led to the seizure of 1.4 kilograms of heroin in Maryland and identification of two suspected money launderers, one with suspected ties to al Qaida. Similarly, Operation Marble Palace in 2001 determined that several members of a targeted heroin trafficking organization had possible ties to the Taliban and that a connected bank account had been used to launder proceeds to alleged Taliban supporters in Pakistan." This nexus between terrorism and nar-

cotics trafficking is unfortunately not confined to Afghanistan: reports indicate similar activities are underway in Colombia, Russia, and parts of Southeast Asia.

It is not clear to me that our government has a sufficient handle on the money laundering problem. I have reviewed GAO's recent work on this subject, and I hope that today's witnesses answer several important questions: Should the FBI be collecting and analyzing data on terrorists' use of alternative funding mechanisms? What is the status of the joint Justice/Treasury report on how money is moved via trade in precious stones and commodities, a report called for in the 2002 National Money Laundering Strategy? How useful has the National Money Laundering Strategy been in coordinating our efforts to combat money laundering amongst the 17 federal agencies charged with portions of our money laundering and terrorist financing efforts? How is the May 2003 Memorandum of Understanding entered into between Attorney General Ashcroft and Secretary Ridge affecting terrorist financing investigations? Do the witnesses need any additional tools to wage this fight, or is the current law and level of resources sufficient?

Senator COLEMAN. And with that, I would now welcome our first panel to today's hearings.

Loren Yager, Director with the International Affairs and Trade team at the General Accounting Office; Richard Stana, Director with the Homeland Security and Justice team at the General Accounting Office; and Raymond Baker, the Senior Fellow at the Center for International Policy at the Brookings Institute. Welcome, gentlemen.

Representatives from the GAO are here to discuss three GAO reports released during the last six months. The first report discusses the problems related to implementing the National Money Laundering Strategy. The second report discusses the potential use of alternative financing mechanisms by terrorist organizations. The third report discusses a memorandum of agreement signed by the Attorney General and the Secretary of Homeland Security to address jurisdictional issues related to terrorist financing investigations.

Mr. Baker is here to discuss the tactical and strategic considerations related to money laundering and terrorist financing.

I want to thank each of you for coming this afternoon. We will be using a timing system. Please be aware that approximately one minute before the red light comes on you will see lights change from green to yellow, giving you an opportunity to conclude your remarks.

If you desire, your entire prepared testimony will be entered as part of the official record.

I would like the General Accounting Office representatives to give their testimony first, followed by Mr. Baker. I understand that Mr. Yager will be presenting GAO's testimony. Please proceed.

**STATEMENT OF LOREN YAGER, DIRECTOR OF INTERNATIONAL AFFAIRS AND TRADE, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC**

Mr. YAGER. Thank you, Mr. Chairman.

Mr. Chairman, we are pleased to be here today to discuss some of the challenges the U.S. Government faces in addressing the problems of terrorist financing and money laundering.

Mr. Chairman, as you know, the costs of successful terrorist attacks are enormous, as was made clear by the events of 9/11. In addition, the challenges associated with collecting useful information on terrorist activities are also enormous.

As a result of these two factors it is especially important that information on potential terrorist activity is effectively collected and analyzed and that Government agencies work strategically and cooperatively to address this threat.

As you requested, the GAO written testimony addresses three issues related to Government efforts to address terrorist activities and I will cover a few highlights in my oral statement.

First, what challenges does the U.S. Government face in deterring terrorist use of key alternative financing mechanisms to earn, move and store assets?

Second, what steps have the FBI and Homeland Security's Immigration and Customs Enforcement, or ICE, taken to implement their 2003 agreement to resolve jurisdictional issues and enhance interagency coordination of terrorist financing investigations?

And finally, I will address whether the National Money Laundering Strategy served as a useful mechanism for guiding the coordination of Federal efforts to combat money laundering and terrorist financing.

The GAO testimony is based on two studies we conducted on behalf of this Caucus, and an additional report we provided to the Congress as a result of a Congressional mandate. These three studies are footnoted in our written statement.

In terms of the first topic of alternative financing methods, the U.S. Government faces various challenges in determining and monitoring the nature and extent of terrorist use of these methods. These methods, outside the mainstream financial system, may include the use of commodities such as cigarettes, counterfeit goods, illicit drugs, as well as bulk cash, charities and informal banking systems to earn, move and store assets.

In our report, GAO recommended that Justice and the FBI perform more systematic collection, analysis and sharing of information to deter the use of these methods by terrorists. In response to our recommendation, Justice acknowledged that they did not use the information collected on a case by case basis to perform more systematic analysis such as on an industry-wide basis. The IRS and ICE agreed with the recommendation for improved analysis.

I am pleased to report that the IRS has acted on our recommendation that they develop and implement procedures for sharing information on charities with the States.

In terms of the second topic, the FBI and ICE have taken steps to implement most of the key provisions of the May 2003 agreement to resolve jurisdictional issues and enhance interagency coordination of terrorist financing investigations. According to the report we released last month, the agencies have developed collaborative procedures to determine whether applicable ICE investigations may be related to terrorism or terrorist financing and if so, determine whether the FBI should thereafter take the lead in pursuing them.

GAO's report noted that continued progress will depend largely on the ability of the agencies to establish and maintain effective interagency relationships.

Finally, from the broader strategic perspective, we found that the annual NMLS generally has not served as a useful mechanism for guiding coordination of Federal efforts to combat money laundering

and terrorist financing. While Treasury and Justice have made some progress, most initiatives have not achieved the expectations called for in the annual strategies. Our report recommended three elements for the strategy, effective leadership, clear priorities and accountability mechanisms.

The annual NMLS requirement ended with the issuance of the 2003 strategy. If the Congress reauthorizes the requirement for an annual strategy, we believe that incorporating these critical components into the strategy would help resolve or mitigate the deficiencies we identified.

In response to our report, Treasury said that our recommendations were important if Congress reauthorizes the legislation requiring future strategies. Homeland Security said that it agreed with our recommendations.

Mr. Chairman, as you said in your opening statement, there are many overlaps between money laundering and terrorist activities so it is especially valuable to have the hearing here in this panel.

Mr. Chairman, this concludes the prepared statement. Mr. Stana and I would be happy to answer any questions that you have about these reports.

[The prepared statement of Mr. Yager follows:]

United States General Accounting Office

GAO

Testimony  
Before the Caucus on International  
Narcotics Control, U.S. Senate

For Release on Delivery  
Expected at 2:00 p.m. EST  
Thursday, March 4, 2004

## COMBATING TERRORISM

### Federal Agencies Face Continuing Challenges in Addressing Terrorist Financing and Money Laundering

Statement of Loren Yager, Director  
International Affairs and Trade  
and Richard M. Stana, Director  
Homeland Security and Justice Issues



Thursday, March 4, 2004



Highlights of GAO-04-501T, a testimony before the Caucus on International Narcotics Control, U.S. Senate

## COMBATING TERRORISM

### Federal Agencies Face Continuing Challenges in Addressing Terrorist Financing and Money Laundering

#### Why GAO Did This Study

The September 11, 2001, terrorist attacks highlighted the importance of data collection, information sharing, and coordination within the U.S. government. Such efforts are important whether focused on terrorism or as an integral part of a broader strategy for combating money laundering. In this testimony, GAO addresses (1) the challenges the U.S. government faces in deterring terrorists' use of alternative financing mechanisms, (2) the steps that the Federal Bureau of Investigation (FBI) and Immigration and Customs Enforcement (ICE) have taken to implement a May 2003 Memorandum of Agreement concerning terrorist financing investigations, and (3) whether the annual National Money Laundering Strategy (NMLS) has served as a useful mechanism for guiding the coordination of federal efforts to combat money laundering and terrorist financing.

GAO's testimony is based on two reports written in September 2003 (GAO-03-813) and November 2003 (GAO-04-163) for the Caucus and congressional requesters within the Senate Governmental Affairs Committee, as well as a February 2004 report (GAO-04-464R) on related issues for the Senate Appropriations Subcommittee on Homeland Security.

[www.gao.gov/cgi-bin/gettrpt?GAO-04-501T](http://www.gao.gov/cgi-bin/gettrpt?GAO-04-501T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4128 or [yagerl@gao.gov](mailto:yagerl@gao.gov) or Richard Stana at (202) 512-6777.

#### What GAO Found

The U.S. government faces various challenges in determining and monitoring the nature and extent of terrorists' use of alternative financing mechanisms, according to GAO's November 2003 report. Alternative financing mechanisms are outside the mainstream financial system and include the use of commodities (cigarettes, counterfeit goods, illicit drugs, etc.), bulk cash, charities, and informal banking systems to earn, move, and store assets. GAO recommended more systematic collection, analysis, and sharing of information to make alternative financing mechanisms less attractive to terrorist groups. In response to our recommendation that the FBI, in consultation with other agencies, systematically collect and analyze information on terrorists' use of these mechanisms, Justice did not specifically agree or disagree with our recommendation, but other agencies agreed with the need for improved analysis. The Treasury agreed with our recommendation to issue an overdue report on precious stones and commodities, but it remains unclear how the resulting product may be used as the basis for an informed strategy as expected under the 2002 NMLS. The Internal Revenue Service (IRS) agreed with our recommendation to develop and implement procedures for sharing information on charities with states, and issued IRS procedures and state guidance on December 31, 2003.

To resolve jurisdictional issues and enhance interagency coordination of terrorist financing investigations, the FBI and ICE have taken steps to implement most of the key provisions of the May 2003 Memorandum of Agreement. According to GAO's February 2004 report, the agencies have 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 the FBI should thereafter take the lead in pursuing them. GAO's report noted that continued progress will depend largely on the ability of the agencies to establish and maintain effective interagency relationships.

From a broader or strategic perspective, the annual NMLS generally has not served as a useful mechanism for guiding coordination of federal efforts to combat money laundering and terrorist financing, according to GAO's September 2003 report. While Treasury and Justice had made progress on some strategy initiatives designed to enhance interagency coordination of investigations, most initiatives had not achieved the expectations called for in the annual strategies. The report recommended (1) strengthening the leadership structure for strategy development and implementation, (2) identifying key priorities, and (3) establishing 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.

United States General Accounting Office

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Mr. Chairman and Members of the Caucus:

We are pleased to be here today to discuss some of the challenges the U.S. government faces in addressing the problems of terrorist financing and money laundering. The terrorist attacks of September 11, 2001, highlighted the importance of data collection, information sharing, and coordination within the U.S. government. Such efforts are important whether focused on terrorism or as an integral component of a broader strategy for combating money laundering. This is particularly true given that terrorist financiers and money launderers may sometimes use similar methods to hide and move their proceeds.

As requested, today, we will address three issues. First, what challenges does the U.S. government face in deterring terrorists' use of key alternative financing mechanisms—methods outside the mainstream financial system—such as the use of commodities, bulk cash, charities, and informal banking systems to earn, move, and store assets? Second, to what extent have the two applicable law enforcement agencies—the Federal Bureau of Investigation (FBI) and Homeland Security's U.S. Immigration and Customs Enforcement (ICE)—taken steps to implement a 2003 Memorandum of Agreement (Agreement) to resolve jurisdictional issues and enhance interagency coordination of terrorist financing investigations; and, how has the Agreement affected the mission or role of ICE in investigating money laundering and other traditional financial crimes? Finally, how has the annual National Money Laundering Strategy (NMLS) served as a useful mechanism for guiding the coordination of federal efforts to combat money laundering and terrorist financing?



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Our testimony is based on two reports we have provided to this Caucus<sup>1</sup> and a recently issued report<sup>2</sup> we have provided to the Congress on related issues. We should also mention that we are in the process of conducting additional work specifically on the issue of coordination of U.S. agencies abroad in combating terrorist financing. We look forward to presenting those findings to the Caucus.

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## Summary

Our November 2003 report noted various challenges that the U.S. government faces when addressing terrorists' use of key alternative financing mechanisms. While we were unable to determine the extent of terrorists' use of alternative financing mechanisms such as diamonds, gold, and informal financial systems, we did find that terrorists earn, move, and store their assets based on common factors that make these mechanisms attractive to terrorist and criminal groups alike. For example, the commodities terrorists use tend to be of high value, easy to conceal, and hold their value over time. In addition, we described the challenges that U.S. agencies faced in monitoring terrorists' use of alternative financing mechanisms, such as accessibility of terrorists' close knit, nontransparent financing networks; terrorists' adaptability to avoid detection; and competing U.S. government priorities and demands. As a result of our findings, we made recommendations to various U.S. agencies to more systematically collect, analyze, and share information to make these alternative methods less attractive to terrorist groups. In response to our recommendation that the FBI systematically collect and analyze information on terrorists' use of these mechanisms, Justice did not specifically agree or disagree with our recommendation. The Treasury agreed with our recommendation to issue an overdue report on precious

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<sup>1</sup>U.S. General Accounting Office, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms*, GAO-04-163 (Washington, D.C.: Nov. 14, 2003). This study was also requested by the Ranking Minority Member, Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia; Committee on Governmental Affairs. U.S. General Accounting Office, *Combating Money Laundering: Opportunities Exist to Improve the National Strategy*, GAO-03-813 (Washington, D.C.: Sept. 26, 2003). This study was also requested by the Ranking Minority Member, Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs.

<sup>2</sup>U.S. General Accounting Office, *Investigations of Terrorist Financing, Money Laundering, and Other Financial Crimes*, GAO-04-464R (Washington, D.C.: Feb. 20, 2004). Our study was mandated by Title I of the Senate Appropriations Committee report on the Department of Homeland Security Appropriations Bill for 2004; Senate Report 108-86 (July 2003).

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stones and commodities but it remains unclear how the resulting product may be used as the basis for an informed strategy as expected under the 2002 NMLS. The Internal Revenue Service (IRS) agreed with our recommendation to develop and implement procedures for sharing information on charities with states and issued IRS procedures and state guidance on December 31, 2003.

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 whether these investigations or leads should thereafter be pursued under the auspices of the FBI. However, the FBI and ICE had not yet issued a joint report on the status of implementation of the Agreement, which was required 4 months from its effective date. The Agreement did not affect ICE's statutory authorities to conduct investigations of money laundering and other traditional financial crimes. But, regarding terrorist financing investigations, 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.

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. While Treasury and Justice had made progress on some strategy initiatives designed to enhance interagency coordination of investigations, most initiatives had not achieved the expectations called for in the annual strategies. We 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

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efforts to combat money laundering; and Homeland Security said that it agreed with our recommendations.

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## Background

Cutting off terrorists' funding is an important means of disrupting their operations. As initial U.S. and foreign government deterrence efforts focused on terrorists' use of the formal banking or mainstream financial systems, terrorists may have been forced to increase their use of various alternative financing mechanisms. Alternative financing mechanisms enable terrorists to earn, move, and store their assets and may include the use of commodities, bulk cash,<sup>3</sup> charities, and informal banking systems, sometimes referred to as hawala.<sup>4</sup> In its fight against terrorism, the United States has focused on individuals and entities supporting or belonging to terrorist organizations including al Qaeda, Hizballah, HAMAS (Harakat al-Muqawama al-Islamiya—Islamic resistance Movement), and others. These terrorist organizations are known to have used alternative financing mechanisms to further their terrorist activities. Government officials and researchers believe that terrorists do not always need large amounts of assets to support an operation, pointing out that the estimated cost of the September 11 attack was between \$300,000 and \$500,000. However, government officials also caution that funding for such an operation uses a small portion of the assets that terrorist organizations require for their support infrastructure such as indoctrination, recruitment, training, logistical support, the dissemination of propaganda, and other material support.

In response to the terrorist attacks of September 11, the Departments of the Treasury and Justice both established multiagency task forces dedicated to combating terrorist financing. Treasury established Operation Green Quest, led by the Customs Service—now ICE in the Department of Homeland Security—to augment existing counterterrorist efforts by targeting current terrorist funding sources and identifying possible future sources. On September 13, 2001, the FBI formed a multiagency task

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<sup>3</sup>The use of bulk cash refers to smuggling currency, travelers checks, or similar instruments across borders by means of a courier rather than through a formal financial system.

<sup>4</sup>According to the 2002 NMLS, informal value transfer systems (referred to here as "informal banking systems") are known by a variety of names reflecting ethnic and national origins predating the emergence of modern banking and other financial institutions. These systems provide mechanisms for the remittance of currency or other forms of monetary value—most commonly gold—without physical transportation or use of contemporary monetary instruments.

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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 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 (JTTFs)—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.<sup>5</sup> 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.

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. The resulting lack of clearly defined roles and coordination procedures contributed to duplication of efforts and disagreements over which agency should lead investigations.<sup>6</sup> In May 2003, to resolve jurisdictional issues and enhance interagency coordination, the Attorney General and the Secretary of Homeland Security signed a Memorandum of Agreement concerning terrorist financing investigations. The Agreement and its related procedures specified that the FBI was to have the lead role in investigating terrorist financing and that ICE was to pursue terrorist financing solely through participation in FBI-led task forces, except as expressly approved by the FBI.

Regarding strategic efforts, 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.<sup>7</sup> Unless reauthorized by the Congress, this requirement ended with the 2003 strategy, which was issued on November 18, 2003. The goal of the Strategy Act was to increase coordination and cooperation among the various

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<sup>5</sup>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.

<sup>6</sup>See GAO-03-813.

<sup>7</sup>Pub. L. No. 105-310, 112 Stat. 2941 codified as 31 U.S.C. §§ 5340-42, 5351-55 (1998).

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regulatory and enforcement agencies and to effectively distribute resources to combat money laundering and related financial crimes. The Strategy Act required the NMLS to define comprehensive, research-based goals, objectives, and priorities for reducing these crimes in the United States. The NMLS has generally included multiple priorities to guide federal agencies' activities in combating money laundering and related financial crimes. In 2002, the NMLS was adjusted to reflect new federal priorities in the aftermath of September 11 including a goal to combat terrorist financing.

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**U.S. Government  
Faces Significant  
Challenges in  
Deterring Terrorists'  
Use of Key Alternative  
Financing  
Mechanisms**

The U.S. government faces myriad challenges in determining and monitoring the nature and extent of terrorists' use of alternative financing mechanisms. Terrorists use a variety of alternative financing mechanisms to earn, move, and store their assets based on common factors that make these mechanisms attractive to terrorist and criminal groups alike. For all three purposes—earning, moving, and storing—terrorists aim to operate in relative obscurity, using mechanisms involving close knit networks and industries lacking transparency. More specifically, first, terrorists earn funds through highly profitable crimes involving commodities such as contraband cigarettes, counterfeit goods, and illicit drugs. For example, according to U.S. law enforcement officials, Hizballah earned an estimated profit of \$1.5 million in the United States between 1996 and 2000 by purchasing cigarettes in a low tax state for a lower price and selling them in a high tax state at a higher price. Terrorists also earned funds using systems such as charitable organizations that collect large sums in donations from both witting and unwitting donors. Second, to move assets, terrorists seek out mechanisms that enable them to conceal or launder their assets through nontransparent trade or financial transactions such as the use of charities, informal banking systems, bulk cash, and commodities that may serve as forms of currency, such as precious stones and metals. Third, to store assets, terrorists may use similar commodities because they are likely to maintain value over a longer period of time and are easy to buy and sell outside the formal banking system.

The true extent of terrorists' use of alternative financing mechanisms is unknown, owing to the criminal nature of the activity and the lack of systematic data collection and analysis. The limited and sometimes conflicting information available on alternative financing mechanisms adversely affects the ability of U.S. government agencies to assess risk and prioritize efforts. U.S. law enforcement agencies, and specifically the FBI, which leads terrorist financing investigations and maintains case data, do not systematically collect and analyze data on terrorists' use of alternative

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financing mechanisms.<sup>9</sup> The lack of such a method of data collection hinders the FBI from conducting systematic analysis of trends and patterns focusing on alternative financing mechanisms. Without such an assessment, the FBI would not have analyses that could aid in assessing risk and prioritizing efforts.

Moreover, despite an acknowledged need from some U.S. government officials and researchers for further analysis of the extent of terrorists' use of alternative financing mechanisms, U.S. government reporting on these issues has not always been timely or comprehensive, which could affect planning and coordination efforts. For example, the Departments of the Treasury and Justice did not produce a report on the links between terrorist financing and precious stone and commodity trading, as was required by March 2003 under the 2002 NMLS. Moreover, we found widely conflicting views in numerous interviews and available reports and documentation concerning terrorists' use of precious stones and metals.

In monitoring terrorists' use of alternative financing mechanisms, the U.S. government faces a number of significant challenges including accessibility to terrorist networks, adaptability of terrorists, and competing demands or priorities within the U.S. government. First, according to law enforcement agencies and researchers, it is difficult to access or infiltrate ethnically or criminally based networks that operate in a nontransparent manner, such as informal banking systems or the precious stones and other commodities industries. Second, the ability of terrorists to adapt their methods hinders efforts to target high-risk industries and implement effective mechanisms for monitoring high-risk industry trade and financial flows. According to the FBI, once terrorists know that an industry they use to earn or move assets is being watched, they may switch to an alternative commodity or industry. Finally, competing priorities create challenges to federal and state officials' efforts to use and enforce applicable U.S. laws and regulations in monitoring terrorists' use of alternative financing mechanisms. For example, we reported to you in November 2003 the following:

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<sup>9</sup>Once a U.S. law enforcement agency (for example, the Drug Enforcement Administration, ICE, etc.) identifies a terrorist nexus in an investigation it is to notify the FBI. Information is to be shared through the FBI-led JTTFs in the field or the National JTTF in FBI headquarters. Agencies have representatives at each other's locations to facilitate information sharing.

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- Although the Internal Revenue Service (IRS) agreed with us in 2002 to begin developing a system, as allowed by law, to share with states data that would improve oversight<sup>9</sup> and could be used to deter terrorist financing in charities, the IRS had not made this initiative a priority. The IRS had not developed and implemented the system, citing competing priorities.
  - The Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) officials stated the extent of the workload created under the 2001 Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act)<sup>10</sup> initially increased the amount of work required and may have slowed efforts to take full advantage of the act concerning the establishment of anti-money laundering programs. FinCEN anti-money laundering program rules for dealers in precious metals, stones, or jewels were proposed on February 21, 2003, and had not been finalized when we recently contacted FinCEN on February 24, 2004.
  - FBI officials told us that the 2002 NMLS contained more priorities than could be realistically accomplished, and Treasury officials said that resource constraints and competing priorities were the primary reasons why strategy initiatives, including those related to alternative financing mechanisms, were not met or were completed later than expected.

As a result of our earlier findings:

- We recommended that the Director of the FBI, in consultation with relevant U.S. government agencies, systematically collect and analyze information involving terrorists' use of alternative financing mechanisms. Justice agreed with our finding that the FBI does not systematically collect and analyze such information, but Justice did not

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<sup>9</sup>The appropriate state officials can obtain details about the final denials of applications, final revocations of tax-exempt status, and notices of a tax deficiency under section 507, or chapter 41 or 42, under the Internal Revenue Code. However, IRS does not have a process to regularly share such data. See U.S. General Accounting Office, *Tax-Exempt Organizations: Improvements Possible in Public, IRS, and State Oversight of Charities*, GAO-02-526 (Washington, D.C.: Apr. 30, 2002).

<sup>10</sup>The U.S. PATRIOT Act, enacted shortly after the terrorist attacks of September 11 expanded the ability of law enforcement and intelligence agencies to access and share financial information regarding terrorist investigations.

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specifically agree or disagree with our recommendation. However, both ICE and IRS senior officials have informed us that they agree that law enforcement agencies should have a better approach to assessing the use of alternative financing mechanisms.

- We recommended that the Secretary of the Treasury and the Attorney General produce the report on the links between terrorism and the use of precious stones and commodities that was required by March 2003 under the 2002 NMLS based on up-to-date law enforcement investigations. The Treasury responded that the report would be included as an appendix in the 2003 NMLS. Precious stones and commodities were given a small amount of attention in an appendix on trade-based money laundering within the 2003 NMLS that was released in November 2003. It remains unclear as to how this will serve as a basis for an informed strategy.
- We recommended that the Commissioner of the IRS, in consultation with state charity officials, establish interim IRS procedures and state charity official guidelines, as well as set milestones and assign resources for developing and implementing both, to regularly share data on charities as allowed by federal law. The IRS agreed with our recommendation, and we are pleased to report that the IRS expedited efforts and issued IRS procedures and state guidance on December 31, 2003, as stated in its agency comments in response to our report.

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### Federal Agencies Have Taken Steps to Coordinate Investigations of Terrorist Financing, but Operational and Organizational Challenges Still Exist

In May 2003, to resolve jurisdictional issues and enhance interagency coordination, the Attorney General and the Secretary of Homeland Security signed a Memorandum of Agreement concerning terrorist financing investigations. The Agreement and its related procedures specified that the FBI was to have the lead role in investigating terrorist financing and that ICE was to pursue terrorist financing solely through participation in FBI-led task forces, except as expressly approved by the FBI. Also, the Agreement contained several provisions designed to increase information sharing and coordination of terrorist financing investigations. For example, 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. Another provision 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 status of the implementation of the Agreement 4 months from its effective date.



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In February 2004, we reported to the Senate Appropriations' Subcommittee on Homeland Security that the FBI and ICE had implemented or taken concrete steps to implement most of the key Memorandum of Agreement provisions.<sup>11</sup> For example, 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, we noted that the FBI and ICE had not yet issued a joint report on the status of the implementation, which was required 4 months from the effective date of the Agreement.

By granting the FBI the lead role in investigating terrorist financing, the Memorandum of Agreement has altered ICE's role in investigating terrorism-related financial crimes. However, while the Agreement specifies 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

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<sup>11</sup>See GAO-04-464R.

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.

On a broader scale, as discussed below, we also have reported that opportunities exist to improve the national strategy for combating money laundering and other financial crimes, including terrorist financing.<sup>12</sup>

### Opportunities Exist to Improve the National Strategy for Combating Money Laundering and Other Financial Crimes, Including Terrorist Financing

The 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. Also, in 2002, the NMLS was adjusted to reflect new federal priorities in the aftermath of September 11 including a goal to combat terrorist financing. Unless reauthorized by the Congress, the requirement for an annual NMLS ended with the issuance of the 2003 strategy.<sup>13</sup>

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. In September 2003, we reported to this Caucus that, as a mechanism for guiding the coordination of federal law enforcement agencies' efforts to combat money laundering and related financial crimes, the annual NMLS has had mixed results but generally has not been as useful as envisioned by the Strategy Act. For example, we noted that although Treasury and Justice had made progress on some NMLS initiatives designed to enhance interagency coordination of investigations, most had not achieved the expectations called for in the

<sup>12</sup>See GAO-03-813.

<sup>13</sup>The 2003 NMLS was issued on November 18, 2003.

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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.

Most financial regulators we interviewed said that the NMLS had some influence on their anti-money laundering efforts because it provided a forum for enhanced coordination, particularly with law enforcement agencies. Law enforcement agency officials said the level of coordination between their agencies and the financial regulators was good. However, the financial regulators also said that other factors had more influence on them than the strategy. For example, the financial regulators cited their ongoing oversight responsibilities in ensuring compliance with the Bank Secrecy Act<sup>14</sup> as a primary influence on them. Another influence has been anti-money laundering working groups, some of which were initiated by the financial regulators or law enforcement agencies prior to enactment of the 1998 Strategy Act. The officials said that the U.S. government's reaction to September 11, which included a change in government perspective and new regulatory requirements placed on financial institutions by the USA PATRIOT Act, has driven their recent anti-money laundering and antiterrorist financing efforts. Although the financial regulators said that the NMLS had less influence on their anti-money laundering activities than other factors, they have completed the tasks for which the NMLS designated them as lead agencies over the years, as well as most of the tasks for which they were to provide support to the Treasury.

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

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<sup>14</sup>Currency and Foreign Transactions Reporting Act (commonly referred to as the Bank Secrecy Act), Pub. L. No. 91-508, 84 Stat. 1114 (1970) (codified as amended in 12 U.S.C. §§ 1929(b), 1951-1959; 31 U.S.C. §§ 5311-5330).

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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 the Treasury generally took the lead role in strategy-related activities, the department had no incentives or authority to get other departments and agencies to provide necessary resources and 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 the 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.

In summary, 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 Congress reauthorize the

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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 reviewed the 2003 NMLS, 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. ....

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## Concluding Observations

To be successful, efforts to disrupt terrorists' ability to fund their operations must focus not only on the formal banking and mainstream financial sectors but also on alternative financing mechanisms. The 2003 NMLS, which was issued last November includes a focus on alternative financing mechanisms; however, it is too soon to determine how well these efforts are working. We were pleased that IRS implemented our recommendation by expediting the establishment of procedures and guidelines for sharing data on charities with states. We continue to believe that implementation of our other two recommendations would further assist efforts to effectively address vulnerabilities posed by terrorists' use of alternative financing mechanisms.

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 premier law enforcement agencies, the FBI and ICE. In the 9 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 ability of the agencies to establish and maintain effective interagency relationships and meet various other operational and organizational challenges.

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Finally, from a broader or strategic perspective, the annual NMLS has had mixed results in guiding the efforts of law enforcement and financial regulators in the fight against money laundering and, more recently, 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 annual NMLS requirement 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—a strengthened leadership structure, the identification of key priorities, and the establishment of accountability mechanisms—into the strategy could help resolve or mitigate the deficiencies we identified.

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Mr. Chairman, this concludes our prepared statement. We would be happy to respond to any questions that you or Members of the Caucus may have.

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Acknowledgments**

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Senator COLEMAN. Thank you, Mr. Yager.  
Mr. Baker.

**STATEMENT OF RAYMOND W. BAKER, SENIOR FELLOW,  
CENTER FOR INTERNATIONAL POLICY, WASHINGTON, DC**

Mr. BAKER. Thank you, Mr. Chairman.

I am Raymond Baker, a Senior Fellow at the Center for International Policy and earlier a guest scholar at the Brookings Institution studying the global problem of illegal financial flows.

I would like to make two points under tactical consideration and two points under strategic consideration. First, if I understand correctly the procedure for investigating the terrorist financing leads, the process normally goes through some six steps: identification of a possible terrorist financing lead and then reference to the Joint Vetting Unit, then to the Terrorist Financing Operations Section chiefs, then to the Terrorist Financing Operation Section staff, then to the National Joint Terrorism Task Forces, and then to the Joint Terrorism Task Forces in the field.

Two questions arise. How long does this process take from identification to field assignment? And are investigations ongoing or on hold during this review and assignment process?

Second, the role of the FBI in domestic intelligence gathering is not clearly spelled out in the March 2003 memorandum, or at least not publicly so. I ask, are there intelligence monitoring or oversight concerns that need to be addressed? My own impression is no, but the importance of intelligence oversight perhaps cannot be overstressed.

Let me turn now to two strategic considerations. First, dirty money is money that is illegally earned, illegally transferred or illegally utilized. There are three forms of dirty money: criminal, corrupt and commercial. Within these, the United States identifies some 200 classes of domestic specified unlawful activities which establish the basis for a money laundering charge. However, only 11 specified unlawful activities are applicable if the crime is committed outside the United States. These 11 have to do, primarily, with drugs, crimes of violence including terrorism, bank fraud, corruption and certain treaty violations. Mail fraud and wire fraud can be added to the list if transactions pass through the United States.

Not included among specified unlawful activities are proceeds coming from abroad arising from racketeering, securities fraud, credit fraud, forgery, embezzlement of private funds, non-violent burglary, trafficking in counterfeit, contraband or stolen goods, alien smuggling, slave trading, sexual exploitation, prostitution, virtually all forms of tax evasion and more.

This is at the core of America's money laundering problem, this difference between what we criminalize if it occurs within our borders and what we criminalize if it occurs beyond our borders. The idea at the heart of our efforts is flawed. The idea that we can successfully curtail a few classes of dirty money that we do not want, while at the same time cultivating and facilitating a much broader range of dirty money that we are willing to accept, this idea is ultimately unworkable.

Eventually, the United States must consider the kinds—I am sorry, Mr. Chairman.

Senator COLEMAN. Your voice projected so well without the microphone.

Mr. BAKER. Eventually, the United States must consider the kind of anti-money laundering coverage that prevails in Canada and has been adopted by the European Union to be enacted by its member countries.

The Canadian anti-money laundering law, for example, eliminates any distinction between what occurs in-country and out of country and refers instead to “an act or omission anywhere that, if it had occurred in Canada, would have constituted a designated offense.” For anti-money laundering to be effective it must cover the whole of the dirty money problem.

The second strategic point, all three forms of dirty money, criminal, corrupt and commercial, use the same mechanisms to move through the international financial system: False documentation, dummy corporations, tax havens, off-shore secrecy jurisdictions, shell banks, trade mispricing, numbered accounts, concentration accounts, high-value portable commodities, informal transfer systems and more.

The USA PATRIOT Act contains many provisions helpful in the fight against dirty money. It does not, however, materially change the structure that is available to and utilized by drug dealers, other criminals, tax evaders, and terrorists. Essentially, with the exception of shell banks, the other mechanisms that have been used for years are still used.

Can the case be made that dirty money or any part of it is good for America? If the case cannot be made, then I assume all Americans are in agreement. We do not want it.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Baker follows:]

PREPARED STATEMENT OF RAYMOND W. BAKER, SENIOR FELLOW,  
CENTER FOR INTERNATIONAL POLICY, WASHINGTON, DC

Mr. Chairman, Senators: Thank you for the opportunity to appear before the U.S. Senate Caucus on International Narcotics Control. I am Raymond Baker, a Senior Fellow at the Center for International Policy and earlier a Guest Scholar at the Brookings Institution, studying the issues of money laundering and illegal financial flows.

The following material is divided into two parts—Tactical Considerations and Strategic Considerations. Under Tactical Considerations, reference is made to three GAO reports focusing on the current fight against money laundering and terrorist financing, as follows:

February 2004; GAO-04-464R, Financial Crimes Investigations  
November 2003; GAO-04-163, Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Financing Mechanisms  
September 2003; GAO-03-813, Combating Money Laundering: Opportunities Exist to Improve the National Strategy

Under Strategic Considerations, a more analytical and longer-term view of these issues is offered.

TACTICAL CONSIDERATIONS

The following sections select particular aspects of the current fight against money laundering and terrorist financing for comments and questions.



*Reference Procedure for Terrorist Leads*

A Joint Vetting Unit (JVU) has been set up within the Department of Homeland Security (DHS) by Immigration and Customs Enforcement (ICE) for the following purpose:

“ . . . to identify financial leads or investigations with a nexus to terrorism or terrorism financing . . . ”<sup>1</sup>

After a lead has been identified by DHS/ICE, then:

“ . . . all appropriate DHS leads relating to money laundering and financial crimes will be checked with the FBI. . . to enable the Section Chief of TFOS and the Deputy Section Chief of TFOS. . . to determine which leads should be provided to TFOS. . . ”<sup>2</sup>

It appears that the procedure which operates from leads to field investigations is as follows:

Identification of possible terrorist financing lead.

Reference to Joint Vetting Unit (JVU).

Reference to Terrorist Financing Operations Section (TFOS) Chiefs.

Reference to TFOS operations.

Reference to National Joint Terrorism Task Forces (NJTTF).

Reference to Joint Terrorism Task Forces (JTTF) in the field.

Leads which arise within the FBI itself may skip the first two steps.

Three questions arise:

- Is this the correct procedure?
- From a sampling of the cases that have thus far gone through this or a similar procedure, what is the time taken from identification of a terrorist financing lead to reference to a JTTF field team?
- Are investigations ongoing through this or a similar reference process or are they effectively retarded or placed on hold, pending case disposition?

In essence, is this process, or whatever process is operative, a matter of hours, days, weeks or months?

*Federal Bureau of Investigation*

In the May 2003 “Memorandum of Agreement” between the Department of Justice and the Department of Homeland Security regarding collaborative procedures concerning terrorist financing investigations, the Federal Bureau of Investigation (FBI) is designated to:

“ . . . lead terrorist financing investigations and operations.”<sup>3</sup>

In the March 2003 “Memorandum of Understanding Between the Intelligence Community, Federal Law Enforcement Agencies, and the Department of Homeland Security Concerning Information Sharing,” provision is made to:

“ . . . ensure that all appropriate information and intelligence relating to terrorist financing is shared. . . ”<sup>4</sup>

The FBI’s responsibility is designated to begin at the point of “investigation” rather than in the development of “intelligence.”

Jules Kroll, Chairman of Kroll Associates, the private investigation firm in New York, recently made the following observations:

I do think it is inappropriate and relatively ineffective for law enforcement agencies to be in the intelligence gathering business. I believe that most big city police departments do a good job investigating and making cases. I would say the same thing about the FBI. That is different than intelligence gathering work. The intelligence process takes a different mindset, a different set of behavior, a different set of analytical tools. I think we have to look at this really, really hard. On a national basis, I don’t think that intelligence gathering domestically should be conducted by the FBI.<sup>5</sup>

Are there any sensitivities that need to be addressed on these issues? Are there intelligence monitoring or oversight concerns that need to be addressed?

*Two-and-a-Half Year Performance Review*

From nearly nothing in place in September 2001, the United States, with the cooperation of allies and a largely sympathetic world community, has managed to push much of the financial resources of al Qaeda and selected other terrorist organi-

<sup>1</sup>General Accounting Office, *Financial Crimes Investigations (GAO-04-46R)*, February 20, 2004, 17.

<sup>2</sup>Ibid., 15.

<sup>3</sup>Ibid., 14.

<sup>4</sup>Ibid., 15.

<sup>5</sup>Jules Kroll, remarks given at the Dirty Money and National Security conference, Brookings Institution, September 10, 2003, <http://ciponline.org/financialflows/krollremarks.htm>.

zations out of the legitimate financial system. David Aufhauser, until recently General Counsel at the U.S. Treasury Department, put it as follows:

“In broad strokes, al Qaeda is two-thirds less rich than they were when we started. Their budget is one-third of what it was when we started.”<sup>6</sup>

By any measure, this is a major accomplishment, with much of the credit belonging to the agents and personnel of Operation Green Quest. The enormous concentration of attention on this aspect of the global dirty money problem—terrorist financing—accounts for the good measure of success.

With similar efforts, the United States could also deplete the resources and disrupt the networks of drug dealers and other criminal syndicates who between them probably move more than \$5,000 of dirty money for every \$1 of terrorist money that moves. Should it ever be found that resources which are applied to investigating and dismantling terrorist financing become available for other deployment, then attacking these criminal organizations with equal resolve would well serve U.S. interests. Terrorists groups and criminal groups have been closely allied in recent years and indeed have incorporated each other’s tactics into their own operations. Every group that is put out of business—drug, other criminal syndicates and terrorists—reduces the universe of those who would harm the United States.

#### *Alternative Financing Mechanisms*

GAO’s November 2003 report on Terrorist Financing states the following:

U.S. Government officials both within and among agencies remain divided over whether there is sufficient evidence to establish a current link between al Qaeda and the diamond trade.<sup>7</sup>

Douglas Farah, former *Washington Post* journalist and author of a forthcoming book, *Blood from Stones: The Secret Financing Network of Terror*, is the most knowledgeable American on the subject of diamonds and al Qaeda. He recently commented as follows:

“The reason I came across this story was that I was on the ground in West Africa, something that the intelligence agencies were not at that time. They couldn’t possibly know what was going on in the bush of West Africa. They had nobody on the ground there. Without people on the ground, you’re not going to find out what’s going on, and nobody cared at that point, because it didn’t seem relevant.

“Their essential reaction has been that we didn’t know this happened, so it didn’t happen. It’s been very difficult to get people to think outside of the box on this or try and reframe their thinking into how terrorism would actually operate. We still love to look at bank records. We still love to look at wire transfers. We still love to do all these things that we understand and that we know and that make sense to us.”<sup>8</sup>

Farah’s thesis is either entirely convincing or sufficiently convincing to serve as the basis for a working hypothesis spurring further consideration. Al Qaeda’s turn to diamonds, gold, drugs, the hawala system and more requires that the United States be as creative and quick witted as its adversaries. Are we thinking like terrorists, doing a good enough job anticipating their logical reactions to our actions?

### STRATEGIC CONSIDERATIONS

#### *Scope of Anti-Money Laundering*

Dirty money is money that is illegally earned, illegally transferred or illegally utilized. If it breaks laws in its origin, movement or use, then it merits the label.

There are three forms of dirty money—criminal, corrupt and commercial.

The criminal component, which includes terrorists’ money, is identified by a very broad range of “specified unlawful activities,” meaning that if a person knowingly handles the proceeds of such activities, then a money-laundering offense has been committed.

The corrupt component stems from bribery and theft by foreign government officials.

The commercial component is money that intentionally breaks laws and evades taxes.

The United States identifies some 200 classes of domestic crimes, these specified unlawful activities which establish the basis for a money-laundering charge. How-

<sup>6</sup>David Aufhauser, remarks given at the Dirty Money and National Security conference, Brookings Institution, September 10, 2003, <http://ciponline.org/financialflows/aufhauserremarks.htm>.

<sup>7</sup>General Accounting Office, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Financing Mechanisms* (GAO-04-163), November 14, 2003, 21.

<sup>8</sup>Douglas Farah, remarks given at the Dirty Money and National Security conference, Brookings Institution, September 10, 2003, <http://ciponline.org/financialflows/farahremarks.htm>.

ever, only 11 specified unlawful activities are applicable if the crime is committed outside the United States. These 11 have to do primarily with:

- Drugs
- Crimes of violence, including terrorism
- Bank fraud
- Corruption
- And certain treaty violations

Two other types of crimes can be added to the list—mail fraud and wire fraud—if a mailed communication goes through the United States or if a wire transfer is handled within the U.S. clearinghouse system.

Not included among specified unlawful activities are the proceeds coming from abroad arising from:

- Racketeering;
- Securities fraud;
- Credit fraud;
- Forgery;
- Embezzlement of private funds;
- Non-violent burglary;
- Trafficking in counterfeit, contraband or stolen goods;
- Alien smuggling;
- Slave trading;
- Sexual exploitation;
- Prostitution;
- Virtually all forms of tax evasion; and more.

This is at the heart of America's money-laundering issue, this difference between what we criminalize if it occurs within our borders and what we criminalize if it occurs beyond our borders. This is where the core of the problem rests.

An example can serve to clarify the point. Suppose an American banker or financial executive or businessperson goes to a foreign country to call on potential customers. Take Singapore for purposes of illustration. The American calls on a wealthy gentleman in Singapore who says to him the following:

I'm a businessman. I make my money by smuggling aliens, both female and male, out of western China and southern Russia and putting them into the sex trade and into sweat shops in Thailand, Korea, Japan and elsewhere. I have a great deal of money on deposit here in Singapore, but I would prefer to have it in the United States under the management of an organization such as yours. Can you take my money?

The question is, is there a violation of U.S. anti-money laundering laws in taking this kind of money? The answer is no. Handling such proceeds does not violate U.S. anti-money laundering legislation.

This example is especially edifying when it is taken a step further. Suppose the Singapore-based businessman uses these aliens he's bringing out of China and Russia to smuggle drugs into Southeast Asia. And suppose these drugs are supplied by al Qaeda. There is no clear-cut requirement for the American to ask more detailed questions that might lead to knowledge of this businessman's ancillary activities.

In other words, this individual is an admitted alien smuggler and an unadmitted drug smuggler and terrorist facilitator, and he's about to do business with the United States.

Note that this individual does not have to clean his money. All he has to do is make it look like his money does not fall into one of the very few prohibited categories under U.S. law.

With U.S. anti-money laundering definitions as porous as they are, it's little wonder that U.S. Treasury Department officials estimated on background that 99.9 percent of the foreign criminal and terrorist money that is presented for deposit in the United States gets into safe and secure accounts. In other words, our anti-money laundering efforts at the point of deposit are unsuccessful 99.9 percent of the time.

The idea that is at the heart of our anti-money laundering efforts is flawed. The idea that we can successfully curtail a few classes of dirty money that we don't want, while at the same time cultivating and facilitating a much broader range of dirty money that we are willing to accept, is ultimately unworkable.

Many bankers and executives say that they would not accept such funds as I have described, regardless of whether or not the funds are proscribed under U.S. law. Then it would be appropriate for these bankers and executives to join with the administration in supporting a broadening of the list of offshore specified unlawful activities presently not included in U.S. law.

Eventually, the United States must consider the kind of anti-money laundering coverage that prevails in Canada and has been adopted by the European Union to be enacted by its member countries. The Canadian anti-money laundering law, for example, eliminates any distinction between what occurs in-country or out-of-country and refers instead to: “an act or omission anywhere that, if it had occurred in Canada, would have constituted a designated offence.”<sup>9</sup>

For anti-money laundering to be effective, it must cover the whole of the dirty-money issue.

#### *Facilitating Structures*

All three forms of dirty money—criminal, corrupt and commercial—use the same mechanisms to move through the international financial system:

- False documentation;
- Dummy corporations;
- Tax havens;
- Offshore secrecy jurisdictions;
- Shell banks;
- Trade mispricing;
- Numbered accounts;
- Concentration accounts;
- High-value portable commodities;
- Informal transfer systems; and more.

The U.S. Patriot Act contains many provisions helpful in the fight against dirty money. It adds handling the proceeds of foreign corruption to the list of specified unlawful activities. It bars transfers from shell banks into the United States or through other banks into the United States. And it strengthens methods by which the United States can seek out and seize terrorist money.

The Patriot Act does not, however, materially change the structure that is available to and utilized by drug dealers, other criminals, terrorists and tax evaders. Essentially, the mechanisms that have been used for years, with the exception of transfers originating in shell banks, are still used.

As stated earlier, the United States has done a creditable job of pushing the resources of certain identified terrorist organizations largely out of the legitimate financial system. We have not, however, made it any more difficult to recreate the type of entities and mechanisms that have contributed to the handling of terrorists’ proceeds in the past. Still available to be used by terrorists, and every other type of criminal and tax evader, are the dummy corporations, nominee directors, veiled shareholders, tax havens, financial secrecy jurisdictions, trade mispricing arrangements, foundations, flee clauses, and much more.

These same types of arrangements are, of course, also used by tax evaders in the United States to send proceeds offshore.

After September 11, 2001, the United States traced accounts utilized by al Qaeda and shut many of these accounts down. This was an after-the-fact process. Yet, little prevents al Qaeda or another terrorist organization from forming a new set of dummy corporations and banks and repeating the processes used to finance past attacks. The available structural options remain intact.

Eventually, the United States must consider carefully the implicit cost-benefit equation. Do the supposed benefits arising from offshore mechanisms utilized to hide money, evade taxes and facilitate inflows to the United States offset the costs of use of these same systems by drug dealers, criminal syndicates, corrupt officials, foreign tax evaders and, worst of all, terrorists?

Can the case be made that dirty money or any part of it is good for America? If the case cannot be made, then I assume all Americans are in agreement. We don’t want it.

David Aufhauser, referred to earlier, recently said the following: “I actually believe it’s impossible—impossible—to overstate the importance of the war on terrorist financing when you speak about the war on terror.”<sup>10</sup>

If this view is shared by all, then everything—everything—that contributes to terrorists financing should be on the table.

Senator COLEMAN. Thank you, Mr. Baker.

<sup>9</sup>*Proceeds of Crime, Statutes of Canada* 2001, c. 32, s. 462.31 (b).

<sup>10</sup>David Aufhauser, remarks given at the Dirty Money and National Security conference, Brookings Institution, September 10, 2003, <http://ciponline.org/fmancialflows/aufhauserremarks.htm>.

Mr. Baker, let me raise some questions with you first, in reverse order.

Can you help me understand a little bit of the historical perspective? What is the basis for this distinction in what we criminalize in terms of money laundering domestically versus abroad? What are the existing differences? What does that stem from?

Mr. BAKER. The anti-money laundering legislation laws, prior to the PATRIOT Act, covered seven specified unlawful activities offshore: drugs, money arising from crimes of violence, and so forth. The PATRIOT Act added corruption to that list and certain treaty violations. Those are the only ones clearly specified in the law as being contrary to U.S. anti-money laundering legislation.

Senator COLEMAN. You make a very strong case that dirty money is dirty money is dirty money.

Mr. BAKER. Correct, Mr. Chairman. I, in all of my work, draw a definitional distinction between money that is laundered and money that is dirty. In the way that I use the terminology, laundered money is only money that breaks laws of the United States, breaks the anti-money laundering laws of the United States. Dirty money is a much broader category, covering all forms of dirty money.

Senator COLEMAN. Certainly this institution, the Senate, has been deeply concerned. Sexual exploitation, slave trading, some of those issues have come up before this body. And again, I must say that I am very responsive to the concerns you raise about the narrow scope of the existing system.

You raise a question about the FBI. You note in your testimony are there any sensitivities that need to be addressed in these issues. Let me back it up.

In your testimony you refer to a recent statement by Jules Kroll, in your written testimony, "it is relatively ineffective for law enforcement agencies to be in the intelligence gathering business."

Let me just ask you about that. Is that your view, as well? And if so, would you please provide us with your views as to who should be involved in gathering financial intelligence?

Mr. BAKER. Domestically, I am not sure that there is any choice, Mr. Chairman, except for the FBI to be involved in initiating terrorism investigations. I do not see an option. I raised the question. I said that, in my own impression, no, there is not a problem. But as you would know better than I, Mr. Chairman, the need for intelligence oversight never ceases.

Senator COLEMAN. You then, though, raise the question, saying the FBI is not clearly spelled out, and you say are there oversight concerns to be addressed? Who would address those concerns?

Mr. BAKER. The Congress.

Senator COLEMAN. Regarding the vetting system, whereby all cases that may involve terrorist financing must be checked first by the FBI. Do you believe that this system is impeding the quality and speed of terrorist or terrorism financing investigations? Is it working at maximum efficiency?

Mr. BAKER. My understanding, Mr. Chairman, is that frequently a terrorist investigative lead is referred to the field even before it has gone through these types of processes. That is what I have understood. I think it would be worthwhile to verify that there is no

material delay as a reference is working through its various channels.

Senator COLEMAN. Do you have any specific recommendations for improving the system?

Mr. BAKER. Except to repeat that instant reference to the field while the other processes take place is probably advisable.

Senator COLEMAN. One final question, Mr. Baker, given your assumption that dirty money is dirty money, does it not make more sense to focus on money laundering systems that are currently exploited rather than attempting to maintain an ever-growing list of predicate crimes? Can we get beyond just the listing? Is there a more inclusive, more global way to focus on this?

Mr. BAKER. Mr. Chairman, I do not see how we can successfully attack the problem of dirty money and therefore the problems of drug and terrorist money until all parts of this problem are on the table to be dealt with.

The thing that concerns the financial community is the tax evading money. I have had many bankers tell me that, oh, they would not take money from abroad that they knew to be derived from sexual exploitation, slave trading, alien smuggling and that sort of thing.

All right, good. Then those bankers and financial executives should work with the administration and with the Congress to broaden the list of specified unlawful activities that we do not want to receive, money coming from abroad. Only with a broader list do I think we can adequately define what we are talking about here.

The thing that the financial community fears is that this will get into the question of the inflow of tax evading money from other countries. I would roughly estimate that at perhaps \$200 billion to \$300 billion a year.

I have had Swiss bankers tell me that until Western countries are prepared to deal with the tax evading money in the same way that they want to deal with the drug and terrorist money, this effort cannot be successful.

Senator COLEMAN. Thank you, Mr. Baker.

Mr. Yager, I noted in your report that the National Security Council did not comment. You have comments from a number of other bodies. During the engagement did you ask for and obtain interviews with any representatives of the National Security Council? If not, do you believe that their failure to meet with you may have deprived you of any critical information you needed to effectively evaluate the National Money Laundering Strategy?

Mr. YAGER. Mr. Chairman, we did offer to meet with the National Security Council. We requested discussions with them. We do know that they are responsible for setting the framework for policy in this area and coordinating the policy in this area, as they are in a number of other areas.

Mr. Chairman, we really do not know the extent to which our inability to meet with them might have limited the information we were able to gather through the course of our assignment.

Senator COLEMAN. I guess I find it a little perplexing to understand, how do you examine a strategy when you are not getting information from folks who set the framework for strategy?

Mr. YAGER. We certainly would have preferred to have that meeting and I think we were able to speak with a number of the different agencies responsible for key parts of that strategy. So we believe we were able to cover sufficient numbers of agencies and understand the roles that they play without having met with the National Security Council.

Although again, we certainly would have preferred to have that overview and meet with them specifically to talk about the overall framework.

Senator COLEMAN. Mr. Stana, do you want to comment on that?

Mr. STANA. Yes. If you are referring specifically to our work on the National Money Laundering Strategy, it is true that the NSC has a role, mostly advisory, mostly dealing with policy considerations with international organizations and international entities. We attempted to speak with them.

But the fact that we did speak with many Treasury components and many Justice components was most important and we do not think that our limitations over at the NSC hampered our assessment.

Senator COLEMAN. The reporting touched upon in your testimony on alternative financing mechanisms provided a matrix of how terrorist groups earn, move and store funds. It would be helpful to me, if you could elaborate on how money from drug traffickers to fund terrorist operations can be moved through alternative financing mechanisms. How does that work?

Mr. YAGER. There are a number of different commodities that might be used, for example. Take for example, if you look at something like diamonds. Diamonds are obviously very high value, easy to conceal, and easy to take across borders. So, assets that might have been earned through any method, whether it is through the sale of diamonds, conflict diamonds for example, or others could then be converted into a commodity like diamonds which could be carried around the world. It is relatively difficult to intercept and to find these things when people are moving across borders because of their small size and high value. And then they can be converted back into cash or into other assets in their destination country.

So that is just one example. There are a lot of ways that this could happen and certainly many of those have been discussed and reported on both in the press and in other ways.

Senator COLEMAN. You note in your report and also in your testimony, and I will quote here from the report, "from a broader or strategic perspective the annual NMLS generally has not served as a useful mechanism for guiding coordination of Federal efforts to combat money laundering and terrorist financing."

Do you have any specific recommendations for legislative actions that would correct that, that would respond to that statement?

Mr. STANA. Yes, as a general proposition—and of course, it is the Congress' prerogative whether it wants to renew the strategy or not—having a strategy like NMLS certainly serves a useful purpose. It is better to have a strategy than not have a strategy. And particularly in its early years, it was very useful in bringing the different agencies to the table to talk and coordinate with one another, to focus on the main issues, and frankly to perform or help

perform some element of Congressional oversight through reporting and having a central focus.

Having said that, no strategy that we have seen is perfect and this one is no exception. The three main problems we saw with this one was; there really was not a leadership role or body that could direct the channeling of resources; they did not do a risk threat and vulnerability assessment with which to prioritize its initiatives; and they did not establish accountability mechanisms so that non-performance would have consequences.

So, if I were going to redo this plan, this strategy, I would make sure it would have those elements.

Senator COLEMAN. Who would you recommend to take the leadership role or which leadership body to direct resources?

Mr. STANA. A couple of models come to mind. When the money laundering strategy was first formulated, they had a steering committee made up mainly of Treasury and Justice, Deputy Secretary of Treasury, Deputy AG, and representatives of other associated agencies to meet and discuss priorities, assign tasks and establish accountability. Having a steering committee like that, to resurrect that, would be a useful thing. It did go away over time. Resurrecting that would be a good thing.

Another model that comes to mind is the National Drug Czar model. I do not know if that would be the most appropriate here, and I think it is fair to say there are some issues with that model, as well.

Senator COLEMAN. I note that the implementation of the memorandum of agreement between Justice and Homeland Security appears to have addressed some of the concerns about investigative overlap and duplication. Is it positive?

Mr. STANA. That is right. I think the early signs are promising. It did establish a vetting process to help assure that investigations are at least deconflicted or that the overlap is minimized.

We would watch for three things though, as time goes on. This is an evolving process. First, there are long-standing jurisdictional issues between the FBI and ICE that have to be addressed, and mainly at the local level. It was apparent to us at the highest levels that there is buy-in to the MOA and it is being directed, drilled down, into the working level. But when you go to several locations you would find that it is not universal at that level. There exist jealousies and interpersonal conflicts at the local level.

I also want to be sure that ICE does not feel that they are being elbowed out of the terrorist financing business. They have a tremendous amount of expertise to bring to bear on this problem and simply because the MOA gave primary jurisdiction to FBI does not mean that ICE is without a role. I would think you want to enhance that role and make sure it is not disincentivized.

And finally, to blend the cultures of the two agencies I think is very important. They do have different operational ways of doing business. ICE tends to want to make cases quickly and move on. The FBI wants to make its cases, but they want to take a longer term look at the case and all of its subjects to make sure they are not prosecuting a lower level individual at the expense of perhaps waiting and getting a higher level official.

So I think those things bear watching.



Senator COLEMAN. Mr. Baker.

Mr. BAKER. Mr. Chairman, concerning the National Money Laundering Strategy, I would suggest that consideration be given to making it a bi-annual strategy rather than an annual strategy. It is my impression that the people who are preparing the report are also, in most cases, the people who are implementing the report. They are spending a great deal of time preparing the strategy. It gets done late. By that time, it is time to start working on the next strategy.

A two year strategy might, in fact, enhance its usefulness rather than detract from it.

Senator COLEMAN. Can memorandums of agreement serve as a substitute for a strategy? Or are they really separate entities here?

Mr. STANA. They are separate entities. The memorandum of understanding is very narrowly scoped, and it is scoped only to investigations. I think it serves as a useful model for coordination and cooperation, but it is so narrow that it has limited relevance to the overall strategy.

Senator COLEMAN. I take it then the issues you raised about leadership role would still be inherent even with memorandums of understanding? That somebody would have to be in a role to sort out some of these voids, problematic areas, things of that nature?

Mr. STANA. One of the pluses with the MOA is that it very clearly defined who is in charge, and it clearly defined what was expected and who was accountable.

Senator COLEMAN. I have a question that Senator Grassley wanted me to ask. Based on your evaluation of the current structure of how money laundering investigations are begun, and resources are allocated as part of a strategy, do you believe the investigative work is driven by individual cases, or are investigations looking at shutting down a particular systemic vulnerability?

Mr. Yager.

Mr. YAGER. Mr. Chairman, we looked at that. That was one of the specific findings in our report. And I think it is one of the reasons we had a recommendation to the Justice Department that they look more systematically instead of looking on a case- by-case basis.

Obviously, there is a role. It is very important to try to develop those cases. But at the same time, in order to be able to see this bigger picture and look at it from an industry standpoint, to see the larger picture of this jigsaw puzzle that we are trying to put together, there needs to be different attempts and more sharing of information so that some of those patterns or changes in activity can be observed.

We note in our report, and others have also made the point, that terrorists are very flexible and they take advantage of whatever system is available and where there is no attention.

So I think that on the other side, the law enforcement entities have to be flexible. They have to be looking for patterns, for movement of activity from one mechanism to another. I think the best way to do this is to take advantage of the case information that is developed, but also look at it in other ways, whether it is on an industry basis, geographic basis or other ways. We think that is an

important point. That is one of the reasons we had that recommendation in our report.

Senator COLEMAN. Mr. Stana.

Mr. STANA. Senator Coleman, one thing I would add to that is, as a successor to Operation Green Quest, which I think individuals in this room understand to be legacy Customs' effort to fight terrorist financing, Operation Cornerstone does have a component that is specifically designed to take a more strategic look at terrorist financing operations. So I just wanted to bring that to your attention.

Senator COLEMAN. Gentlemen, thank you. This has been a very informative panel, certainly for me personally. You have taken a very complex area of the law and, with tremendous need and certainly provided some clarity and some helpful suggestions. So I am very appreciative.

I would now like to welcome our second panel to today's hearing. The Honorable Juan Carlos Zarate, Deputy Assistant Secretary for Terrorist Financing and Financial Crime, Department of the Treasury. Mr. Zarate is responsible for formulating and coordinating the Treasury Department's counterterrorist financing and anti-money laundering efforts.

The Honorable Karen Tandy is the Administrator of the Drug Enforcement Administration. Administrator Tandy has lead responsibility for implementing our national drug enforcement policies and investigations, including the identification, seizure and forfeiture of assets that are created and used by drug traffickers.

Michael T. Dougherty. Mr. Dougherty is the Director of Operations for the Bureau of Immigration and Customs Enforcement. Mr. Dougherty is responsible for the overall management and coordination of the Bureau's operations and serves as the Assistant Secretary's principal representative to the Department of Homeland Security and the law enforcement intelligence communities.

Gary Bald is the Assistant Director of the Counterterrorism Division of the Federal Bureau of Investigation, which is responsible for conducting financial analysis and investigations of terrorist suspects and terrorist financing structures in the United States and abroad.

As representatives of our Nation's efforts to combat terrorism, illegal drugs and money laundering, I want to thank each of you for coming this afternoon. Our successes to date are due in large measure to your efforts and we are very appreciative and very grateful for that.

I look forward to your testimony as we are joined in our mutual desire to ensure that those successes are not short-lived.

As you heard for the first panel, there will be a timing system. Watch the lights. When the lights change from green to yellow you will have a minute to conclude your remarks.

I will enter your written testimony as part of the official record. That will be done without objection.

I would like Deputy Assistant Secretary Zarate to give his testimony first, followed by Administrator Tandy, and then Mr. Dougherty and Mr. Bald. After we have heard all your testimony, we will turn to questions. Secretary Zarate, you may proceed.

**STATEMENT OF HON. JUAN C. ZARATE, DEPUTY ASSISTANT  
SECRETARY FOR TERRORIST FINANCING, DEPARTMENT OF  
THE TREASURY, WASHINGTON, DC**

Mr. ZARATE. Thank you, Chairman Coleman.

Thank you for inviting me here today to testify, and thank you as well for your interest in the combined efforts to combat money laundering and terrorist financing.

I also want to take this opportunity to reiterate our gratitude to Congress for expanding our capabilities under the USA PATRIOT Act.

I am pleased to be on this panel with my colleagues from the FBI, DEÁ, and ICE. Defeating terrorist financing, money laundering, and drug trafficking requires the use of all relevant U.S. Government authorities. Our efforts against these threats have been most successful when we have a coordinated approach and attack.

Mr. Chairman, since September 11th, the U.S. Government has launched an aggressive offensive to disrupt and dismantle terrorist groups and their operations. We are making it harder, costlier, and riskier for al Qaeda to raise and move money around the world. It has become clear that tracking, attacking and deterring the sources of money are essential components of the overarching war against al Qaeda and like-minded terrorist groups.

That same lesson, sir, is one that has now become ingrained in the efforts to attack money laundering, financial crimes and drug trafficking.

For the Treasury Department, these endeavors require the use of all of our relevant authorities, expertise and influence to prevent the flow of dirty money through the international financial system.

The 2003 National Money Laundering Strategy sets forth a systemic approach to our mission. Our success can be measured against the overarching goals of the strategy. To succeed, we need both a long and 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 terrorist and criminal funds and financial information.

Mr. Chairman, let me provide you with just a few examples of where the U.S. Government has succeeded in identifying and neutralizing threats. This past month agents from the Criminal Investigation Division of the IRS, the FBI and ICE executed a search warrant for potential tax and money laundering related violations of the Al Haramain branch in Oregon. At the same time, Treasury's Office of Foreign Assets Control blocked the assets in aid of investigation.

In February, the Treasury Department, in coordination with U.S. and Colombian law enforcement officials, designated 40 key leaders of the FARC and AUC, as well as AUC front companies.

In December, the Treasury Department used Section 311 of the USA PATRIOT Act against two Burmese banks, because of their drug trafficking ties, to block them from access to the U.S. financial system. This work was done in coordination with the DEA, U.S. Secret Service and other U.S. Government agencies.

Just yesterday, Mr. Chairman, the U.S. Attorney in the Southern District of New York announced the indictment of two of Colombia's most important drug kingpins based on Treasury-related prohibitions. The indictment was part of a joint effort among the DEA, Department of Justice and Treasury's OFAC.

Mr. Chairman, we are also dealing with identified weaknesses in the international financial system and improving financial information sharing around the world. We have worked internationally through the Financial Action Task Force and other groups to strengthen comprehensive customer identification, recordkeeping and information sharing standards. These efforts have provided for and produced meaningful change in countries like the Cayman Islands, Egypt, Guatemala, Indonesia, Israel, Lebanon and the Philippines. We have strengthened international standards and capabilities to attack terrorist financing, including freezing terrorist-related assets, regulating and monitoring alternative remittance systems such as hawala, ensuring accurate and meaningful information on cross-border wire transfers, and protecting non-profit organizations from terrorist abuse.

Along with ICE and other agencies, we are now addressing the problem of the use of couriers by terrorist and criminal organizations on a comprehensive and international basis. Under the USA PATRIOT Act, Treasury's Financial Crimes Enforcement Network has published 50 proposed and final rules to broaden and deepen our own anti-money laundering regime to now include oversight of money service businesses and broker dealers.

Under Section 314(a) of the USA PATRIOT Act, FinCEN has gained critical leads from over 30,000 financial institutions on identified money launderers and suspected terrorist supporters. This has resulted in over 10,000 matches that were passed on to law enforcement.

Mr. Chairman, these long-term and short-term initiatives are complimentary and address our priority challenges. Moreover, these initiatives capitalize on the progress we have achieved to date and apply the powers and expertise of the entire U.S. Government.

The Treasury will continue to use its powers and influence judiciously, but aggressively to change behavior by blocking tainted assets, naming, shaming and shutting out rogue institutions and regimes, and ensuring the integrity of the financial system.

Mr. Chairman, we appreciate the Caucus' focus on these issues and we look forward to continuing to work with the Congress to ensure the effective implementation of our national anti-money laundering and counterterrorist financing strategies.

Thank you.

[The prepared statement of Mr. Zarate follows:]

PREPARED STATEMENT OF HON. JUAN C. ZARATE, DEPUTY ASSISTANT SECRETARY,  
EXECUTIVE OFFICE FOR TERRORIST FINANCING AND FINANCIAL CRIMES, U.S. DEPARTMENT OF THE TREASURY

Chairman Grassley, Co-Chairman Biden, and distinguished Members of the Caucus, 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.

Let me begin by expressing my gratitude to the Congress for the additional resources, authorities, and support given to the Executive Branch to assist us in our

efforts to attack terrorist financing networks and money launderers. Of particular importance to these efforts, the USA PATRIOT Act expands the law enforcement and intelligence community's ability to access and share critical financial information regarding terrorist investigations, and Title III enhances our joint abilities to obtain and exploit financial information collectively to attack the financing of criminal activities. We at the Treasury will continue to apply aggressively, but judiciously, the enhanced powers that you have provided us to ensure that relevant financial information is used to initiate and support actions against terrorist and criminal organizations. We will also continue to develop and strengthen the relationships we have established with our private financial sector partners in these efforts.

As you will hear from this panel—and as we and the Department of Justice reaffirmed 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 11, 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. CREATION OF THE EXECUTIVE OFFICE FOR TERRORIST FINANCING & FINANCIAL CRIMES

Almost one year ago, the Secretary of the Treasury established the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC). This Office is responsible for developing policies relating to the Department's anti-money laundering, terrorist financing and financial crimes mission. It also oversees the offices and Bureau responsible for implementing and administering these policies, i.e., the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), and the Treasury Executive Office for Asset Forfeiture (TEOAF).

We have achieved important results, but not without the coordinated efforts of all Treasury and other agency components engaged in anti-terrorist financing, money laundering and financial crimes efforts, including the law enforcement, intelligence and military communities, foreign government counterparts, and the private sector. Together, we are effecting long-term change and strengthening domestic and international financial systems against terrorist and criminal abuse by developing and enhancing effective and comprehensive standards of financial transparency and accountability. In the shorter term, we are capitalizing on existing transparencies in financial systems and aggressively applying new authorities to identify, disrupt and dismantle terrorist and criminal organizations.

#### II. ATTACKING THE FINANCIAL INFRASTRUCTURE OF TERRORIST AND CRIMINAL ORGANIZATIONS

No matter 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 of terror, narco-trafficking and organized crime, and as such, it represents a significant vulnerability that Treasury and its Federal, State and local allies must and do exploit.

Targeting money flows is among the best means of tracking, exposing and capturing terrorists and their facilitators, narco-trafficking cartels and their supporting infrastructure, and organized crime networks worldwide. Money flows leave a signature, an audit trail, and provide a road map of terrorist and other criminal activity. As we and our international partners work together to follow and stop terrorist or illicit funds, we strengthen the integrity of our financial systems and erode the infrastructure that supports terrorists and criminals.

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 frauds, alien smuggling, organized crime, and public corruption. Financial investigations lead upstream to those who are generating the underlying financial crimes, as well as downstream to provide a roadmap to those financial professionals who facilitate the criminal activity.

### 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 forward to identify future perpetrators and facilitators, and backwards to identify funding sources and to dismantle supporting entities and individuals.

The President has made it clear that we must use every available tool in waging a comprehensive campaign against terrorism, and we at Treasury are working with other relevant USG agencies in taking meaningful and effective action on a variety of fronts. We are developing effective international standards of financial transparency and accountability; sanctioning non-compliant behavior by non-cooperative states; coordinating effective technical assistance to weak but willing states; freezing terrorist-related and other criminal assets; investigating and prosecuting crimes; directing intelligence operations either at a financier, a financial node, or a facilitator; and using diplomatic suasion to convince other governments to take significant steps.

Depriving the terrorists of funding remains both an ongoing priority and an effective tool in the war on terrorism. Ever since the President took initial action in freezing terrorist finances through the issuance of Executive Order 13224, the U.S. Government (USG) 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, the USG has designated a total of 351 individuals and entities, resulting in the freezing or seizure of 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. Recent designations under E.O. 13224 include the following:

- The Al-Aqsa International Foundation (Hamas-related) on May 29, 2003
- Shamil Basayev (al-Qaida-related) on August 8, 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
- Commite de Beianfaisance 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
- Sheik Ahmed Yassin (Gaza), Imad Khalil Al-Alami (Syria), Usama Hamdan (Lebanon), Khalid Mishaal (Syria), Musa Abu Marzouk (Syria), and Abdel Aziz Rantisi (Gaza) (Hamas political leaders) on August 22, 2003
- Yassin Sywal, Mukhlis Yunos, Imam Samudra, Huda bin Abdul Haq, Parliindungan Siregar, Julkipli Salamuddin, Aris Munandar, Fathur Rohman Al-Ghozi, Agus Dwikarna, and Abdul Hakim Murad (members of Jemaah Islamiyah) on September 5, 2003
- Abu Musa’ab Al-Zargawi (al-Qaida-related) on September 24, 2003
- Al Akhtar Trust International (al-Qaida-related) on October 14, 2003
- Dawood Ibrahim (al-Qaida-related) on October 17, 2003
- Abu Ghath (al-Qaida-related) on January 16, 2004
- Four branches of the Al Haramain Islamic Foundation (al-Qaida-related) on January 22, 2004)
- Shaykh Abd Al-Zindani (al-Qaida-related) on February 24, 2004
- We have made it harder for al Qaida to raise and move money around the world by cutting off channels of funding and freezing assets. In the last year, over fifty individuals and entities were designated by the USG pursuant to the obligations of UN-member states to freeze the assets of individuals and entities related to Usama bin Laden, al-Qaida, and/or the Taliban.
- Important financial networks—such as those of al Barakaat and parts of the Al Haramain Islamic Foundation—have been identified and shut down. The UAE and

Somalia-based al Barakaat network was once used to funnel potentially millions of dollars annually to al Qaida and its affiliates.

- Key terrorist financiers and facilitators, such as Saudi-millionaires Yasin al-Qadi and Wa'el Hamza Julaidan, Swift Sword, and Bin Laden's Yemeni spiritual advisor, Shaykh Abd-Al-Zindani, have had their assets frozen and/or have been arrested or otherwise addressed through the international community's concerted law enforcement efforts.

- 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.

- Working together with the international community, we have taken steps to ensure global compliance with international standards against terrorist financing and money laundering. Treasury and other elements of the USG have launched a three-prong strategy that includes: (i) objectively assessing countries against international standards; (ii) providing capacity-building assistance for key countries in need, and (iii) isolating and punishing those countries and institutions that facilitate terrorist financing.

- The USG has identified 26 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 USG is also working together with its allies in the Counterterrorism 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.

- We have forged an international coalition against terrorist financing, gaining the support and action of countries around the world to search for and interdict terrorist funds. Most terrorist-related assets are located outside the jurisdictional reach of the U.S. We, therefore, have worked closely with our international partners and focused other countries' attention on these issues. We have convinced them to improve their legal and regulatory systems so they can more effectively identify and block terrorist funds, retrieve and share incriminating financial information, and investigate and prosecute criminal and terrorist organizations.

- Through FinCEN, we have directed the attention of the Egmont Group towards terrorist financing and expanded its global reach. The Egmont Group is now comprised of 84 Financial Intelligence Units (FIUs) from various countries around the world which are responsible for receiving, analyzing and disseminating financial information reported pursuant to their respective anti-money laundering and anti-terrorist financing regimes. FinCEN is the FIU for the United States. Through the Egmont Group, these FIUs have agreed to: (i) work to eliminate impediments to information exchange; (ii) make terrorist financing a predicate for suspicious activity required to be reported by all financial sectors to their respective FIUs; (iii) undertake joint studies of particular money laundering vulnerabilities, especially when they may have some bearing on counterterrorism, such as hawala; and (iv) create sanitized cases for training purposes.

- We have enlisted the active support of international bodies, such as the G-7, G-10, G-20, APEC, and others—to make efforts against terrorist financing a priority for their members. The G7, G20, Asia-Pacific Economic Cooperation Forum (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.

- Several countries, including members of the Gulf Cooperative Council, have taken steps to begin regulation and oversight of charities and donations abroad. Islamic States have also moved forward on regulating and harmonizing accounting, transparency, and oversight principles for Islamic banking. In addition, several countries, such as the United Arab Emirates and Pakistan, have begun the process of regulating alternative remittance systems like hawalas, a system of money exchange previously unregulated throughout the world.

### *B. Drug Trafficking*

Our focus and commitment to targeting the financing of illicit activities includes an aggressive use of authorities against narcotics traffickers. A particularly potent financial weapon in our war against drug money laundering systems is that wielded by 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 the 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 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, on October 17, 2003.

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 USG designated foreign terrorist organizations—Revolutionary Armed Forces of Colombia and United Self-Defense Forces of Columbia—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 their infrastructure 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 USG uses aggressively against narco-traffickers and money launderers is that of seizure and confiscation. In fiscal year 2003, Treasury's Executive Office for Asset Forfeiture (TEOAF) received over 234 million dollars in annual 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 dollars of forfeiture revenue. Such an 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.

### *D. 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 required to effectively combat money laundering and other financial crimes. In June 2003, the FATF issued the revised 40 Recommendations to add shell banks, politically-exposed persons, correspondent banking, wire transfers, bearer shares, the regulation of trusts, the regulation of trust and company service providers, and the regulation of lawyers and accountants. 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 Recommendations as one of the 12 Key International Standards and Codes. Pursuant to these efforts, the IMF and World Bank have completed a worldwide pilot program to assess countries against these standards. We look forward to the IMF and the World Bank agreeing this month to make this assessment program permanent and comprehensive.

- 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.

- To facilitate the global development and implementation of effective counter-terrorist financing regimes, the USG is driving a coordinated and comprehensive process to deliver technical assistance to combat terrorist financing around the world. In coordination with our international allies in the CTAG, the international community has identified nine priority countries to receive immediate assistance. The FATF's Working Group on Terrorist Financing is completing terrorist financing needs assessments in these priority countries and will forward these assessments to the CTAG for coordinated assistance by donor states.

- 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 USA PATRIOT Act, subjecting new sectors of the economy (such as money service businesses and broker-dealers) to anti-money laundering controls like recordkeeping and reporting requirements previously imposed on banks alone.

#### *E. 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 aggressively using the force of 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 the Ukraine and Nauru. 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 FARO 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 Castaio 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 have used Section 314(a) of the PATRIOT Act to enable law enforcement, through FinCEN "Blastfaxes" to more than 30,000 financial institutions, to locate quickly the accounts and transactions of those suspected of money laundering or the financing of terrorism. Since Section 314a's creation, the system has been used to send the names of 11,547 persons suspected of terrorism financing or money laundering to financial institutions. This has resulted in 10,560 matches that were passed on to law enforcement.

- Since September 11th, FinCEN has supported 3,248 terrorism investigations and has made 342 proactive case referrals to law enforcement potentially involving terrorism based upon an analysis of information in the Bank Secrecy Act database. The Terror Hotline established by FinCEN has resulted in 833 tips passed on to law enforcement. FinCEN also is implementing an Electronic Reports program that will be able to issue these reports in an electronic format, thus enhancing law enforcement's ability to utilize the information. With the expansion of the Suspicious Activity Report (SAR) regime since September 11th, financial institutions nationwide have filed 2,818 SARs reporting possible terrorist financing, including 607 SARs in which terrorist financing represented a primary suspicion.

- 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 deconflict 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.

### 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 the 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, to 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; Miami; and 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 the considerable progress that we have achieved, largely through enhanced inter-agency and international communication, cooperation and collaboration, several ongoing and 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 where necessary to advance our long term strategy of enhancing 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 these standard-setting priorities, 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 such assistance as planned.

We are also launching a number of initiatives to reduce the threat of terrorist financing through non-profit organizations (NPOs). For example, the Treasury Department is planning an initial outreach event with the NPO sector to discuss issues raised by Treasury's *Anti-Terrorist Financing Guidelines* for charities. Through the FATF Terrorist Financing Working Group, we are encouraging jurisdictions to re-

view the adequacy of existing authorities and oversight mechanisms in protecting the NPO sector from terrorist abuse. We have formed a Treasury Working Group on Charities and Terrorist Financing to ensure effective communication, cooperation and collaboration among Treasury's various components assisting in this effort. We are presently engaging the inter-agency community to enlist the support of other agencies where necessary and to provide support where appropriate to attack and reduce the threat of terrorist financing through charities operating in the U.S.

We are also 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 supporting organizations and states, and the countries in the region to facilitate the development of a FATF-style regional body (FSRB) for the Middle East and North Africa. We have already participated in a number of progressive meetings with these parties 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 in Lebanon. We are also exploring the continued study of terrorist financing and drug trafficking connections with countries in the region, following up on a joint presentation on these issues by the USG and the Kingdom of Saudi Arabia in a terrorist financing seminar hosted by the FATF last week.

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 enhanced 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 to advance these interests, domestically and internationally.

In addition to supporting the targeting strategies against narco-traffickers through the OCDETF Drug Fusion Center, Treasury will continue to develop terrorist financing targeting strategies for priority regions and terrorist organizations. 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. Such banks will learn to comply with international standards or they will be cut off from the U.S. 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.

The *2003 Strategy*, published last fall, provides a framework for the USG's ongoing commitment to attack money laundering and terrorist financing on all fronts. As this Caucus is aware, the 2003 Strategy was the last of the five Congressionally-mandated strategies. We have and will continue our efforts with this Caucus and the Congress to evaluate the need for future Congressionally-mandated strategies and the contours of such a mandate.

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

Senator COLEMAN. Thank you, Secretary Zarate.  
Administrator Tandy.

**STATEMENT OF HON. KAREN P. TANDY, ADMINISTRATOR,  
DRUG ENFORCEMENT ADMINISTRATION, WASHINGTON, DC**

Ms. TANDY. Thank you, Mr. Chairman.

I am especially grateful for the Caucus' invitation to DEA to testify about our criminal efforts to combat money laundering and terrorist financing.

I wanted to appear personally on this issue because it is so important to me and so central to our battle against illegal drugs. The motivation for every criminal involved in illegal drug trafficking, from the kingpin to the enforcer to the mule to the street dealer, of course, is money. To make a significant impact on the drug trade there is no strategy more effective than following the money to the source and eliminating the profits that fuel the operations of these drug networks, eliminating their financial infrastructure and eliminating the illicit systems through which this kind of drug money is laundered.

Every year \$65 billion changes hands in America for illegal drugs. Yet seizures of drug proceeds by all law enforcement, Federal, State and local combined, are considerably less than \$1 billion per year, less than 1 percent of the illicit drug market and less than the 10 percent fee that is paid by traffickers to launder their illicit profits.

Clearly, law enforcement has not done enough to attack the drug money and that has now changed at DEA. This is a responsibility made even more important in the post-September 11th world. It is imperative that we end drugs as a funding source for terrorists. The American drug consumer is the single largest funder of terrorism in the Western Hemisphere. In fact, almost half of the foreign terrorist organizations identified by the State Department are on record with the Drug Enforcement Administration as having possible ties to the drug trade.

DEA can play a critical role in protecting our national security by strangling the financial lifeline of criminal organizations. In the last fiscal year, DEA disrupted one and dismantled four priority target organizations with terrorism links. Money laundering investigations are an important tool in fighting both drugs and terrorism. By crushing drug traffickers and eliminating their illicit stockpiles of cash, we are also closing the bank teller window to terrorists.

Since coming to DEA, I have put financial investigations at the forefront of our operating plan. I am making changes in our structure, our operations and most important in the mindset of our agents and the rank-and-file in the field.

We need to be an agency steadfastly focused on investigating the money trail. We all remember that it was an accountant that brought Al Capone to justice. At DEA, we are putting a renewed focus on accounting techniques to divest the drug trade of its profits.

At DEA, our new standard operating premise is this, since every drug transaction has a profit motive every drug investigation will have a financial component. Shortly after I came to DEA, I began to rebuild our expertise and reemphasize the financial side of the drug business using our drug intelligence, technology and, of course, the resourceful agents and analysts.

Briefly, we have already created an Office of Financial Operations at the headquarters level to spearhead all of DEA's domestic and foreign financial investigations. We have established at least one financial investigative team in each of our 21 field divisions to handle the more complex drug money laundering investigations and initiatives.

We are not relying solely on these teams to carry the workload, however. I have mandated that each DEA agent chase the money as diligently as they are chasing the drugs. I have retooled our inspections process to ensure that that is exactly what gets done.

We have made a financial background a priority in hiring all of our new special agents. We are also increasing interagency cooperation and information sharing and enhancing training for DEA personnel and our Federal, State and local partners.

While money is a drug trafficker's number one objective, it is also his number one vulnerability. We are focusing our attack where money movement is most visible and therefore at the greatest risk. We are specifically concentrating in three areas addressing the movement of bulk currency. The smuggling of large sums of cash across our borders is the primary method used to expatriate drug proceeds.

A second area of concentration is the black market peso exchange. It is the largest known money laundering system in the Western Hemisphere that is responsible for moving an estimated \$4 billion worth of drug proceeds every year from the United States to Colombia.

And third, we have made it a priority to focus on the southwest border, to identify and target money laundering networks responsible for moving bulk cash.

I look forward to the next opportunity down the road to discuss with the Caucus the results of DEA's new emphasis on money laundering in its drug investigations.

Thank you.

[The prepared statement of Ms. Tandy follows:]

PREPARED STATEMENT OF HON. KAREN P. TANDY, ADMINISTRATOR, U.S. DRUG ENFORCEMENT ADMINISTRATION, WASHINGTON, DC

Chairman Grassley, Senator Biden, and distinguished Members of the Caucus, I particularly appreciate your invitation to testify today on the importance of combating money laundering and terrorist financing as it is one of the cornerstones of my vision for the Drug Enforcement Administration.

#### 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 proceeds of that trade. But our efforts to date clearly have not successfully done the job. 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. Drug traffickers pay more than that each year in fees to launder their ill-gotten gains.

Without question, law enforcement can and must better address drug proceeds and profits. One of my top priorities since becoming Administrator has been to systematically transform not only the organization and operation of the DEA regarding financial investigations, but also our fundamental mindset. Since every drug transaction has a profit motive, every investigation has a financial component. Therefore, I have established a new Office of Financial Operations at DEA headquarters as

well as financial teams in each field division. We are also 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.

#### RESTORING DEA'S EMPHASIS ON FINANCIAL INVESTIGATIONS

Let me begin by explaining my vision to restore the DEA's emphasis on financial investigations. I firmly believe that it is not possible to truly dismantle a drug organization when any meaningful part of its assets and infrastructure are left in place. Accordingly, I have made the financial attack on drug money laundering and money laundering organizations one of my top priorities for the DEA.

Although the DEA has had the drug intelligence, technology and agents to address drug revenue, we needed a vision of how to best expand the agency's mission toward the financial side of the drug business. We began to rebuild expertise on money laundering means and methods shortly after my Senate confirmation, focusing on how to identify, document and prosecute drug-money laundering organizations in the U.S. and abroad.

We quickly determined that we would need specialized training, identification and gathering of financial intelligence, and redirection of enforcement priorities. We needed special projects targeting money-laundering systems and techniques, enhanced working relationships with the financial services industry, and collaboration with our Federal, State, local and international law enforcement counterparts.

To spearhead this effort, I reorganized and enhanced the structure of the headquarters section responsible for financial investigations by elevating and reestablishing it as the Office of Financial Operations (FO), a separate office under the Chief of Operations. FO will augment 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 was necessary to revitalize DEA's attack on the illicit proceeds of drug trafficking organizations.

To implement my vision, I asked the Special Agents in Charge of each of the DEA's 21 field divisions to establish at least one Financial Investigative Team (FIT) in each division, and they have done so. Many of our FIT Teams are staffed not only with DEA special agents and analysts, but also with special agents from the Internal Revenue Service-Criminal Investigations (IRS-CI), 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. However, DEA will not rely entirely on its FIT Teams to carry the financial investigative workload. I have mandated that every DEA investigation have a financial investigative component, and we are currently implementing new inspections accountability standards to insure that this directive is carried out. We are placing an increased emphasis on our collection of intelligence relative to the way drug networks make, transport, and store money and assets. I have told our agents that they are not truly gathering drug intelligence unless they are asking about the money. Our 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. We are also implementing "post mortem" reviews in our investigations to ensure that the money side is attacked completely and thoroughly. This renewed emphasis has been integrated into our inspection and internal compliance policies to ensure consistent and uniform application of this strategy.

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.

#### *Training*

We also have 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.

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 AGED provides an overview on their operation. Presentations are also made from such agencies as the World Bank, Office of the Controller of the Currency and the Commerce and Treasury Departments on matters relating to currency flow and trade. Representatives are also sought from the private banking arena to discuss normal banking practices.

#### SPECIFIC PRIORITIES AND FINANCIAL INITIATIVES

Understandably, DEA cannot address the entire \$65 billion generated by the illegal drug industry 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 will also 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 smuggling of large sums of cash across our borders continues to be the primary method used to expatriate drug proceeds from the United States. This has been increasingly prevalent after the USA PATRIOT Act tightened the controls and reporting requirements on financial and non-financial institutions.

To address this increasing threat, the DEA, IRS-CI 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 are also 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 Revolutionary Armed Forces of Colombia (FARC) and the United Self-Defense Forces of Colombia (AUC). For example, in 2002, several high ranking members of the FARC and the AUC were indicted in the United States for drug trafficking. This 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 Consolidated Priority Organization Target and dismantled four Priority Target Organizations with terrorism links.

*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, and agencies. For financial investigations, FO also coordinates with 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 (SOD) presently coordinates and mutually shares investigative and intelligence resources with the FBI, the ICE, and the IRS-CI in a concentrated and centralized environment.

To further expand the exchange of information the Departments of Justice, Homeland Security, and Treasury are planning to join together and establish a multi-agency Drug Intelligence Fusion Center. The mission of the Drug Intelligence Fusion Center will be to gather, store, and analyze all-source drug and related financial investigative information to support coordinated, multi jurisdictional investigations focused on the disruption and dismantlement of the most significant drug trafficking and money laundering enterprises. To achieve this mission the Drug Intelligence Fusion Center will create a powerful information and analytical capability not available today by completing a cross-agency integration and analysis of law enforcement and intelligence data that has historically been segregated by organizational and technical boundaries.

## 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. 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.

Senator COLEMAN. Thank you, very much Administrator Tandy. Mr. Dougherty.

**STATEMENT OF MICHAEL T. DOUGHERTY, DIRECTOR OF U.S. OPERATIONS, IMMIGRATION AND CUSTOMS ENFORCEMENT, DEPARTMENT OF HOMELAND SECURITY, WASHINGTON, DC**

Mr. DOUGHERTY. Good afternoon, Mr. Chairman.

I am honored to appear before you today to discuss ICE's financial enforcement and economic security efforts and accomplishments.

Immigration and Custom Enforcement was established in March 2003 as part of the Department of Homeland Security and today ICE is the Federal Government's newest and largest Federal investigative agency. Today ICE has the broadest investigative mandate in Federal law enforcement.

Through its legacy components, ICE brings to bear significant financial, commercial and trade enforcement expertise and innovative investigative techniques. ICE components have a proven history. Over 30 years of investigating financial crimes has resulted in the seizure of nearly a billion dollars in illicit proceeds.

In just the first year of its operations, ICE financial investigations have resulted in more than 1,300 arrests, 720 indictments, 560 convictions and the seizure of approximately \$150 million.

Through a new systematic approach to financial and economic crime, as well as terrorist financing, ICE no longer only investigates crimes after they occur. It is now focused on the financial, commercial and trade systems which are vulnerable to exploitation by criminal and terrorist organizations.

The primary goal of ICE is to detect and close down systemic vulnerabilities before a terrorist or criminal organization can earn, move or store illicit funds. ICE's systemic approach goes far beyond earlier methodologies and has greatly enhanced our ability to close gaps in our financial and economic systems.

Also ICE's approach is coordinated and complimented by the financial program of the Secret Service. Together our two agencies are at the core of protecting the critical infrastructure and commercial infrastructure of this Nation's economy.

It is well known that actual terrorist financing cases are relatively rare and very difficult to prove. The overwhelming majority of financial and economic crime occurs outside the scope of specific terrorist cases. And yet we know that illicit funds continue to flow into the hands of terrorists. So while it is imperative that we aggressively investigate with our partners in the FBI terrorist financing, it is imperative that we take a systemic rather than a case by case approach to financial and economic crime as a way to dismantle the funding mechanisms for criminal and terrorist organizations.

The primary goal of ICE is to ensure the integrity of the financial and commercial systems which are the cornerstone of United States' economic security. To that end, in July 2003 ICE developed Operation Cornerstone. Today Cornerstone has evolved to coordi-

nate ICE's various economic investigations—whether it is money laundering, the illegal export of controlled technology and arms, commercial fraud, smuggling operations or intellectual property and trade violations—into an integrated program that combats systemic vulnerabilities that threaten the U.S. economy and ultimately the safety of our homeland.

There are three key aspects to the Cornerstone approach. First, mapping and coordinating the investigation and analysis of various financial, commercial and trade crimes that, as a whole, threaten the U.S. economy. Second, intensive outreach, networking and information sharing with the private sector in order to work together to detect and close down systemic vulnerabilities in the affected industries. And third, gathering, assessing and distributing intelligence indicating red flags in the economy to the private sector, Congress, domestic and foreign law enforcement and the intelligence community.

This approach has proven very successful for ICE in attacking the financial lifeblood in terrorist criminal organizations and is consistent with the General Accounting Office study as requested by Chairman Grassley. That report concluded that terrorists may use alternative financing mechanisms such as counterfeit merchandise operations, intellectual property rights violations, and other commercial fraud, trade-based money laundering, earning and moving dollars via precious stones and metals, Internet schemes, online gambling.

Historically ICE has been at the forefront of investigating these types of crimes and through Cornerstone and our National Money Laundering Coordination Center will identify and mitigate the systemic vulnerabilities before they can be exploited and new crimes occur.

I would like to take just a moment to highlight a few examples of what ICE is doing today to combat money laundering and terrorist financing. First, we are working with our partners in the FBI to investigate numerous instances of terrorist financing. Through the National Money Laundering Coordination Center, ICE maintains a repository of trade-based money laundering data which is utilized to identify and target money laundering schemes and potential terrorist financing. ICE now leads the Miami's Foreign Political Corruption Task Force to address foreign public corruption and related money laundering. This task force works in connection with the State Department, other domestic ICE field offices, foreign attaches and representatives of the foreign governments where public funds have been embezzled.

Of course, the El Dorado Task Force is one of the most successful financial investigations in the history of Federal law enforcement. In the last year the El Dorado Task Force has made 65 arrests, 59 indictments and has obtained 44 convictions.

Finally, ICE has demonstrated the benefits of the USA PATRIOT Act, specifically the statutory changes related to bribing public officials and bulk cash smuggling.

In conclusion, Mr. Chairman, ICE is uniquely situated to combat money laundering and terrorist financing. It is also taking the leading role to ensure the economic security of this Nation.

I would like to thank you and Chairman Grassley for the opportunity to testify today and I am happy to answer your questions. [The prepared statement of Mr. Dougherty follows:]

PREPARED STATEMENT OF MICHAEL T. DOUGHERTY, DIRECTOR OF U.S. OPERATIONS, IMMIGRATION AND CUSTOMS ENFORCEMENT, DEPARTMENT OF HOMELAND SECURITY, WASHINGTON, DC

Good morning, Chairman Grassley and Members of the Caucus. I am honored to appear before you to discuss the financial enforcement and economic security efforts and accomplishments of the Department of Homeland Security's (DHS) Immigration and Customs Enforcement (ICE). Established in March 2003, ICE is the Federal Government's newest—and second largest—investigative agency. Through its legacy components, ICE brings to bear significant financial, commercial and trade enforcement expertise, broad statutory authorities, and innovative investigative techniques. ICE combines once-fragmented resources and develops a focused and integrated strategy to combat systemic vulnerabilities that threaten U.S. economic security.

By initiating a systemic approach to financial and economic crime—and terrorist financing—in a post-9/11 environment, Federal law enforcement must move beyond investigating crimes on a case-by-case basis and focus on the financial, commercial and trade systems *themselves*, which are vulnerable to exploitation by criminal and terrorist organizations. While ICE will continue to investigate crimes that have already been committed, our ultimate goal is to detect and close down system-wide vulnerabilities before a terrorist organization can earn, move, or store illicit funds via those systems. In this way, ICE's systemic approach goes far beyond earlier methodologies and greatly enhances our ability to close the gaps in our financial and economic systems—gaps that terrorists and other criminal organizations exploit.

In the realm of terrorist financing, it has proven difficult to link the profits from the sale of narcotics, counterfeit merchandise or contraband cigarettes directly to a terrorist organization, or that an unlicensed money broker was sending millions of dollars directly to a terrorist organization. In certain instances, the investigation and prosecution of these underlying criminal activities as separate, stand-alone violations is the most effective method to disrupt these organizations and cut off terrorists' access to funds. By taking this line of attack, and working closely with the private sector to help detect typologies that are clearly being exploited or are potential targets, our goal is to shut down these avenues of both terrorist and criminal financing.

This systemic approach not only defines ICE's strategic line of attack against terrorist financing, it also outlines ICE's approach to coordination with other Federal agencies. ICE maintains a close working relationship with agencies within the Department. For example, the financial investigative work of the U.S. Secret Service perfectly complements the work of ICE, and vice-versa. Together, our two agencies are at the core of protecting the critical financial and commercial infrastructure of this Nation's economy. ICE similarly coordinates with U.S. Customs and Border Protection on international trade issues. The full spectrum available to the Department of Homeland Security to protect all aspects of the U.S. economy is truly remarkable.

It is important, however, that DHS coordinates equally effectively outside of the Department. We must develop a strong financial information-sharing process with the Department of Treasury. We must coordinate closely with the Drug Enforcement Administration on counternarcotics, sharing our narcotics intelligence with them and helping them to track down leads through our National Money Laundering Coordination Center. And together, all of us must coordinate with the FBI when we come across clear and specific evidence of terrorist conspiracy or financing.

The goal of ICE is *not*, generally, to prove individual terrorist connections. Actual terrorist financing cases are relatively rare and very difficult to prove. In those rare cases where we are positively able to identify specific links to terrorist organizations, we have protocols in place through our Memorandum of Agreement with the Federal Bureau of Investigation to coordinate the investigation between our Departments.

However, the overwhelming majority of financial and economic crime occurs outside the scope of such specific cases, and yet we know that illicit funds continue to flow into the hands of terrorists. So while it is imperative that we aggressively prosecute specific terrorist cases, it is equally imperative that we take a systemic—rather than case-by-case—approach to financial and economic crime as a way to dismantle the funding mechanisms for criminal and terrorist organizations.

The Department of Homeland Security is that. Working with Under Secretary Hutchinson and Secretary Ridge, ICE developed a program called Cornerstone. The mission of Cornerstone is to coordinate ICE's various economic investigations—whether it's money laundering, the illegal export of controlled technology and arms, commercial fraud, smuggling operations, or intellectual property rights and trade violations—into an integrated program to combat systemic vulnerabilities that threaten U.S. economic security and ultimately the safety of our Homeland.

There are three key aspects to the Cornerstone approach:

1. Mapping and coordinating the investigation and analysis of various financial, commercial, and trade crimes that, as a whole, threaten U.S. economic security;
2. Intensive outreach, networking, and information-sharing with the private sector in order to work together to detect and close down systemic vulnerabilities in the affected industries;
3. Gathering, assessing, and distributing intelligence indicating red flags in the economy to the private sector, Congress, domestic and foreign law enforcement and intelligence communities.

This approach has proven very successful for DHS in attacking the financial lifeblood of terrorist and criminal organizations. Examples of the complex and high-impact investigations pursued by ICE include initiatives such as the Bank of Commerce and Credit International (BCCI) in Tampa, Operation Greenback in South Florida, Operation Casablanca in Los Angeles, and Operation Green Mile in Phoenix. In addition, ICE now leads New York's El Dorado Task Force, a High Intensity Drug Trafficking Area Program initiative, and Miami's Foreign Political Corruption Task Force. These operations and task forces, some of which have existed for decades, have resulted in the seizure of more than \$900 million.

Since ICE's inception on March 1, 2003, ICE financial investigations have resulted in more than 1300 arrests, 720 indictments, 560 convictions, and seizures of approximately \$150 million. But more important than case statistics is Cornerstone's guiding principle of adaptability. Until recently, the Cornerstone program focused primarily on money laundering and financial investigations. And yet, as a recent General Accounting Office (GAO) study reported, terrorists have available to them alternative financing mechanisms, such as counterfeit merchandise operations, intellectual property rights violations, and other commercial fraud; earning and moving dollars via precious stones and metals; trade-based money laundering; Internet schemes; and online gambling.

Because of the broad spectrum of economic investigative authorities and resources available to ICE, we can—and have—gone after each of these realms of potential criminal and terrorist financing.

Just last month, ICE affected the largest takedown ever of cigarette smuggling operations into the United States. ICE had an equally significant case taking down a money-laundering operation using gold to move and store revenues in Massachusetts. Am I suggesting that either of these cases has a direct link to terrorism? No, I am not. I am suggesting that each of these cases represents a system open to exploitation—whether by criminal or terrorist organizations. And while we must work with the FBI and our other colleagues in law enforcement to develop leads to prove such terrorist links, we must also continue to dismantle the systems that we know undermine the security of the American economy—whether they be a terrorist organization or strictly a criminal one.

The unique concentration of financial and economic enforcement assets at ICE allows for the Department of Homeland Security to continuously evolve to address the ever-changing threats to the integrity of the U.S. economy. Recently, this was demonstrated by a new initiative from ICE's Miami and foreign attache offices, in conjunction with the U.S. Attorney's Office. ICE identified that foreign government officials, identified as Politically Exposed Persons (PEPs), were purchasing assets in the U.S. with criminally derived proceeds from the Caribbean, Central, and South American countries. In response to this threat, ICE developed the Foreign Political Corruption Task Force to address foreign public corruption and related money laundering. This task force works in coordination with the State Department, other domestic ICE field offices, foreign attaches, and representatives of the foreign governments where public funds have been embezzled.

Similarly, ICE has achieved great success in identifying other systems that have been used by narcotics traffickers, arms traffickers, and terrorist networks to finance their activities. These systems include trade-based money laundering, such as the Black Market Peso Exchange (BMPE), as well as hawalas, bulk cash smuggling, the misuse of money service businesses, and the exploitation of charities and non-government organizations.

Indeed, each violation within the spectrum of DHS/ICE's investigative purview—Financial Investigations, Export and Arms Control, International Trade, Commer-

cial Fraud, Intellectual Property Rights, Cyber Crimes, Smuggling (contraband, narcotics, weapons, bulk cash, etc.), and even Immigration Violations (such as human smuggling and benefits fraud)—has a financial component that impacts the economic security of the United States. The new phase of Cornerstone will map and coordinate *all* of the economic aspects of these investigations to develop an integrated systems-based approach to safeguarding our national economic security.

#### PRIVATE SECTOR PARTNERSHIPS

As I said earlier, the key to Cornerstone's success is not simply law enforcement. If we are going to detect weaknesses in our economic systems, then it is critical that we develop a strong working partnership with the private sector. We must not only look to the industries for information about potential vulnerabilities, we must initiate a pro-active information-sharing program to help the industries protect them from exposure.

Through these partnerships, ICE shares real-time information on specific system vulnerabilities. Via Cornerstone, ICE holds training and information sharing seminars with the private sector and publishes red flag alerts to vulnerable industries in products such as Tripwire, a new quarterly report that we publish and post on the Internet that identifies and details examples of economic vulnerabilities. You have a copy of Tripwire on your desk. Since its inception, Cornerstone has conducted 38 presentations to approximately 1,700 participants from the private sector and both U.S. and foreign government agencies.

#### INVESTIGATIVE SUCCESSES

I noted earlier a number of ICE investigative successes and would like to provide a brief outline of a few of our significant ongoing investigations:

- In Northern Virginia, ICE, FBI and the Internal Revenue Service are conducting a joint investigation of charities and non-governmental organizations suspected of money laundering, tax fraud, and terrorist material support violations. As a result, Suleiman Biheiri has been convicted of immigration violations and Abdulrahman Alamoudi has been indicted for violations of immigration law, money laundering (including structuring), and the International Emergency Economic Powers Act (IEEPA).
- In the New York/Newark Metropolitan area, the ICE-led El Dorado Task Force conducted joint investigations targeting money service businesses operating without a license. In the last year, these investigations resulted in 65 arrests, 59 indictments, and 44 convictions.
- In Miami, the ICE-led Foreign Political Corruption Task Force is conducting investigations of former high-ranking officials in the Nicaraguan government. Two officials have already been convicted in Nicaragua for embezzlement. ICE agents have identified millions of dollars in cash and property that represent the proceeds of illegal activity by these officials and have seized approximately \$5.5 million in assets in the United States.

Through these investigations, ICE has demonstrated the benefits derived from the USA PATRIOT Act, specifically the statutory changes related to bribing public officials, unlicensed money service businesses, bulk cash smuggling, and the expanded authority to identify accounts belonging to suspects. These successes would not have been possible without Congress's decisive and immediate enactment of the USA PATRIOT Act, enabling law enforcement to more effectively investigate money laundering and terrorist financing.

#### CONCLUSION

ICE continues to evolve to match its investigative priorities with the critical concerns of this Nation. The integration of the statutory authorities and investigative tools from the former Customs Service and the former Immigration and Naturalization Service has enabled ICE to more effectively target vulnerabilities that facilitate illegal activities.

In conclusion, I would like to thank Chairman Grassley and the Members of the Caucus for the opportunity to testify before you today and highlight the investigative efforts and successes of such a premier law enforcement agency. It would now be my pleasure to answer any questions you may have.

Senator COLEMAN. Thank you, very much, Mr. Dougherty.  
Mr. Bald.

**STATEMENT OF GARY M. BALD, ASSISTANT DIRECTOR FOR  
COUNTERTERRORISM DIVISION, FEDERAL BUREAU OF IN-  
VESTIGATION, WASHINGTON, DC**

Mr. BALD. Good afternoon, Mr. Chairman. Thank you for the opportunity to address you on terrorist financing and to highlight some of the successes that we have collectively realized in this important area.

The fight against terrorist financing is a major front in our war on terror. Terrorists, their networks and support structures, require funding in some form to exist or to operate. Our ability to efficiently identify and track terrorism-related financial activity directly impacts on the degree to which we are successful in our counterterrorism efforts. This is necessary not only in the post-attack investigations that we conduct, as in the aftermath of 9/11, but more importantly in our extensive efforts to predict and prevent terrorist acts.

The counterterrorism division's emphasis on proactively identifying terrorist financing activities began in the first few days after 9/11. This effort, which has become the focus of our Terrorist Financing Operations Section, combines the FBI's expertise in criminal financial investigations with advanced technologies and the critical legislative tools provided through the PATRIOT Act.

TFOS, which is our Terrorist Financial Operations Section, has applied these tools by developing cooperation and coordination among intelligence and law enforcement agencies, both domestically and in foreign countries.

It is important to mention our progress in several broad areas. Outreach to and cooperation from the private sector has been outstanding and continues to develop. Our ability to efficiently assess and obtain timely information has significantly enhanced the FBI's efforts to identify, investigate and resolve immediate terrorist threat situations.

International awareness and cooperation on terrorist financing initiatives has reached unparalleled levels. On May the 13th, 2003, as you have heard, Attorney General Ashcroft and Homeland Security Secretary Ridge signed a memorandum of agreement which has aided in the coordination of our terrorism financing investigations.

To this end, the Department of Homeland Security, through ICE, has implemented Operation Cornerstone, led by Mike Dougherty's team, to identify vulnerabilities in financial systems through which criminals launder their illicit proceeds, bring them to justice and work to eliminate financial infrastructure vulnerabilities.

We have exchanged personnel with DHS to facilitate coordination. ICE representative Brock Nicholson has been detailed to the FBI and serves as the Deputy Chief of our TFOS. We have reciprocated by assigning Tony Guerrero, an FBI agent, to ICE offices in Washington, D.C. This exchange, and others to soon follow, have greatly benefitted our information sharing and coordination needs.

I would like to give you several examples of investigations, non-specific since this is not a closed situation. In addition to the investigative examples that are contained in my prepared remarks, TFOS investigators are currently deployed as part of the coalition forces in Iraq to identify, disrupt and dismantle the financial infra-

structure of terrorist groups that have or are planning to attack coalition forces. TFOS has conducted financial tracking of terrorist cells internationally and has provided specific and identifiable information to foreign intelligence services which have been acted upon to prevent six potentially deadly terrorist acts.

There are also many classified terrorist financing successes that have directly contributed to the prevention or disruption of terrorist activities that are not appropriate to discuss in this setting.

With respect to the GAO audit which was assessing alternate financing mechanisms by terrorists, I would like to express my appreciation for the comprehensive effort that went into that review. The GAO's audit team spent considerable time with the FBI and other agencies learning about our joint efforts to produce a report which came out most recently several weeks ago that accurately depicts the progress being made in this important area. This report also sets forth the suggestion that the director of the FBI systematically collect and analyze data concerning terrorist use of alternative financing mechanisms. The FBI either already has implemented, or plans to implement by April 30th, 2004, measures to address this recommendation.

On a continuing basis, we assess terrorist financing mechanisms and target these processes through investigative and analytical initiatives, both case-specific and general in nature. However, a more formalized process, as commented on by GAO, would absolutely be a benefit. The measures that I have set forth in my prepared remarks to collect and analyze data concerning terrorist's use of alternative financing mechanisms will enhance our ability to recognize, respond to and ultimately disrupt or dismantle terrorist organizations.

The number one priority of the FBI is to identify terrorism planning activities in sufficient time to disrupt their operations. To do this, all investigative and analytical tools of the U.S. Government must be strategically applied in a cohesive manner. Competing U.S. counterterrorism investigative activity is counterproductive and benefits only the terrorists. This belief lies at the heart of our reliance and commitment to the partnerships that we have forged on the Joint Terrorism Task Forces.

Again, I want to express my appreciation to you, Mr. Chairman, as well as the Members of the Caucus, for addressing this issue and for including me. And I would be happy to respond to any questions that you may have.

[The prepared statement of Mr. Bald follows:]

PREPARED STATEMENT OF GARY M. BALD, ASSISTANT DIRECTOR, COUNTERTERRORISM DIVISION, FEDERAL BUREAU OF INVESTIGATION, WASHINGTON, DC

Good morning Mr. Chairman and Members of the United States Senate Caucus on International Narcotics Control. On behalf of the Federal Bureau of Investigation (FBI), I would like to express my gratitude to you for affording us the opportunity to participate in this forum and to provide comments on the FBI's achievements, together with our partners in the war on terror, in the effort to identify, dismantle and disrupt sources of terrorist financing and money laundering. I also appreciate the opportunity to highlight our efforts with regard to interagency cooperation in the battle against terrorist financing.

The fight against terrorist financing is a major front in our war on terror. We recognize that terrorists, their networks and support structures require funding in some form to exist and operate. Whether the funding and financial support is minimal or substantial, it often leaves a financial trail that can be traced, tracked, and



exploited for proactive and reactive purposes. Being able to identify and track financial transactions and links after a terrorist act has occurred or a terrorist activity has been identified is important, but the key lies in exploiting financial information to identify previously unknown terrorist cells, recognizing potential terrorist activity or planning, predicting and preventing potential terrorist acts. To this end, the FBI has bolstered its ability to effectively combat terrorism through the formation of the Terrorist Financing Operations Section (TFOS).

TFOS was created in April, 2002 to combine the FBI's traditional expertise in conducting complex criminal financial investigations with advanced technologies and the critical legislative tools provided through the USA PATRIOT Act. TFOS has built upon these established mechanisms by developing cooperation and coordination among law enforcement and intelligence agencies, both domestic and foreign, to form the preeminent terrorist financing investigative operation. In the past several months, TFOS has demonstrated its capabilities by conducting near real-time financial tracking of a terrorist cell and providing specific and identifiable information to a foreign intelligence agency, which resulted in the prevention of six potential deadly terrorist attacks.

The TFOS mission includes: conducting full financial analysis of terrorist suspects and their financial support structures in the U.S. and abroad; coordinating joint participation, liaison, and outreach efforts to exploit financial resources of private, government, and foreign entities; utilizing FBI and Legal Attache expertise and relationships to fully develop financial information from foreign law enforcement and private agencies, including the deployment of TFOS personnel abroad to locations such as Iraq; working jointly with the intelligence community to fully exploit intelligence information to further terrorist investigations; working jointly with prosecutors and with the law enforcement and regulatory communities; developing predictive models and conducting data analysis to facilitate the identification of previously unknown or "sleeper" terrorist suspects; and providing the financial component to classified counterterrorism investigations in support of the FBI's counterterrorism responsibilities.

#### ACHIEVEMENTS TOWARDS THE IDENTIFICATION, DISMANTLEMENT AND DISRUPTION OF SOURCES OF TERRORIST FINANCING

Before addressing some specific, investigative accomplishments in the fight against terrorist financing since 9/11/01, it is important to mention our progress in broad areas. For instance, international awareness and cooperation on the problem of terrorist financing has reached unparalleled levels. Outreach with, and cooperation from, the private sector has been outstanding and continues to develop—particularly the level of two-way interaction between law enforcement and the private sector. The resulting ability of FBI to access and obtain information in a timely fashion has significantly enhanced the FBI's ability to identify, investigate, and resolve immediate threat situations involving potential terrorist activity. Moreover, the ability to conduct near real-time monitoring of specifically identified financial activity has been invaluable not only to investigations ongoing in the U.S., but to foreign law enforcement and intelligence agencies in related investigations.

As an example of our successful liaison and outreach efforts, extensive training and support of international investigations by TFOS has resulted in Agent visits, exchanges and training programs involving countries in Europe, Southeast Asia, the Middle East, Africa and South America. In support of specific high profile joint terrorist financial investigative matters, a number of countries and agencies, including the United Kingdom, Switzerland, Canada and Europol, have detailed investigators to TFOS on a temporary duty basis. TFOS has engaged in extensive coordination with authorities of numerous foreign governments in terrorist financing matters, leading to joint investigative efforts throughout the world. These joint investigations have successfully targeted the financing of several overseas Al-Qa'ida cells. Furthermore, through the assistance of relationships established with the central banks of several strategic countries, successful disruptions of Al-Qa'ida financing have been accomplished in countries such as the UAE, Pakistan, Afghanistan, the Philippines and Indonesia.

As part of this effort, TFOS has developed a specific terrorist financing and money laundering crimes curriculum for international training that includes topics such as: acquiring and handling evidence in document intensive financial investigations, major case management techniques, forensic examination tools, and methods of terrorist financing. At the request of the U.S. Department of State, TFOS and the Internal Revenue Service have provided this curriculum to ten countries in just the past year, and are scheduled to provide it to approximately 38 countries overall,

identified by the National Security Council as needing law enforcement training on conducting terrorist financing investigations.

Needless to say, access to foreign banking records is often critical to effectively following terrorist money. Through these training and outreach initiatives, TFOS has been able to obtain direct access to records provided by foreign central banks in numerous countries. In return, TFOS has also been able to assist these and other countries with the reciprocal sharing of terrorism related financial information.

TFOS has cultivated and maintains a contact database of private industry and government sources and persons who can provide financial data, including near real-time monitoring of financial transactions. Many of these contacts can be reached or accessed on a 24 hour/7 days a week basis, allowing TFOS to respond rapidly to critical incidents.

Through these contacts, with appropriate legal process, and pursuant to FBI investigative guidelines, TFOS has access to data and information from a variety of entities including: Banking Institutions, the Credit/Debit Card Sector, Money Services Businesses, the Securities/Brokerages Sector, Insurance Companies, Travel Agencies, Internet Service Providers, the Telecommunications Industry, Law Enforcement, State/Federal Regulatory Agencies, Public and Open Source Data Providers, the Intelligence Community, and International Law Enforcement and Intelligence Contacts. Access to this type of information is governed by the Right to Financial Privacy Act, Fair Credit Reporting Act, and other applicable statutes. The timeliness and accessibility of the data from these sources is contingent on a variety of factors, including whether the acquisition of the information requires legal process, the search capabilities of the data provider, and the size and depth of the data request. Nevertheless, as I've noted, the ability to access and obtain this type of information in a time sensitive and urgent manner has significantly enhanced the FBI's ability to identify, investigate and resolve immediate threat situations involving potential terrorist activity.

#### INTERAGENCY COOPERATION

Organizational changes have taken place within the Executive Branch with respect to the investigation of terrorism financing, including the execution of a Memorandum of Agreement (MOA) between the Department of Justice (DOJ) and the Department of Homeland Security (DHS) concerning terrorist financing investigations. The MOA addressed the importance of waging a seamless, coordinated law enforcement campaign against terrorist sources of financing. Signed by Attorney General Ashcroft and Homeland Security Secretary Ridge on May 13, 2003, it designates the FBI as the lead terrorist financing investigations and operations agency, and enables DHS to focus its law enforcement activities on protecting the integrity of U.S. financial systems. To this end, DHS implemented "Operation Cornerstone", led by Immigration and Customs Enforcement (ICE), to identify vulnerabilities in financial systems through which criminals launder their illicit proceeds, bring them to justice and work to eliminate financial infrastructure vulnerabilities. Former U.S. 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 FBI Joint Terrorism Task Force (JTTF) where participating ICE Task Force members continue to play significant roles. Ongoing and future "Operation Cornerstone" investigations that develop links to terrorism will be referred to the FBI through TFOS. ICE and TFOS are coordinating investigative initiatives that will enable ICE to identify financial systemic vulnerabilities, and which will enable TFOS to identify ties to terrorism and terrorist financing. In addition, there is a liaison from ICE assigned to TFOS, and investigators from ICE are assigned to the JTTFs. The FBI has reciprocated by assigning an FBI Agent Unit Chief to the ICE offices in Washington, D.C.

In the various 84 JTTFs throughout the United States, ICE and FBI Agents are working side by side on numerous joint investigations. The exact number of ICE and FBI Agents varies from city to city and depends largely upon the workload at each JTTF. The JTTF does not only include ICE and FBI Agents, but representatives from State and Local law enforcement agencies, and other Federal agencies such as the Internal Revenue Service, Department of Defense, Department of the Treasury, Central Intelligence Agency, Postal Inspection and the Environmental Protection Agency. Every Agency has an open-ended invitation to participate in the JTTF, and FBI Special Agents In Charge are particularly encouraged to promote interagency cooperation through the JTTFs.

Information sharing is critical to all of our efforts. The intelligence community, including the FBI, produces and obtains tremendous amounts of classified intelligence information. While much of the information can be of significant value in

terrorist finance investigations, the value will not be realized or maximized absent the ability to filter the information, analyze it, and disseminate it in an appropriate manner to those who can make the best use of the information. Toward this end, TFOS participates in joint endeavors with the Treasury Department, the Department of Justice, and the Department of Homeland Security involving potential terrorist related financial transactions. TFOS also has personnel detailed to the CIA's Counter Terrorism Center, and personnel from there work directly with TFOS on financial intelligence matters.

In addition, 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 meeting generally focuses on ensuring that all relevant components of the Federal Government are acting in a coordinated and effective manner to combat terrorist financing.

The Departments of State, the 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, interagency law enforcement 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.

#### EXAMPLES OF INVESTIGATIONS

In addition to these developments, the FBI, working in coordination with other entities of the U.S. Government, has participated in the following successes pertaining to terrorist financing:

- The FBI conducted a detailed financial investigation/analysis of the 19 hijackers and their support network, following the September 11th attacks. This investigation initially identified the Al Qa'ida funding sources of the 19 hijackers in the UAE and Germany. The financial investigation also provided the first links between Ramzi Binalshibh and the 9/11/01 terrorist attacks. A continuing investigation, in coordination with the PENTTBOMB Team, has traced the origin of the funding of September 11th back to financial accounts in Pakistan, where high-ranking and well-known Al Qa'ida operatives played a major role in moving the money forward, eventually into the hands of the hijackers located in the U.S. As part of the 9/11/01 financial investigation, thousands of individuals and organizations were investigated in the U.S. and abroad to determine whether they played any part in supporting the hijackers or the operation. Although the vast majority of these individuals and organizations were cleared of culpability, this process of elimination resulted in numerous other quality terrorism investigations being initiated, as well as criminal charges against hundreds of individuals for fraud and other criminal activity.

- In 2001, an FBI Joint Terrorism Task Force in Charlotte, North Carolina, utilized racketeering statutes to obtain criminal convictions and, thus, disrupt and dismantle a Hizballah procurement and fundraising cell. Twenty-four individuals were arrested for crimes including immigration fraud, visa fraud, cigarette smuggling, interstate transportation of stolen property, fraud, bank fraud, bribery, money laundering, racketeering, and providing material support to a designated terrorist organization, with the final conviction delivered in 2003. Sentences imposed range up to more than 150 years.

- In 2002, the FBI coordinated with the Treasury Department's Office of Foreign Asset Control (OFAC) to justify the blocking of Holy Land Foundation for Relief and Development (HLF) assets and the closing of its U.S. offices, shutting down Hamas' largest fund-raising entity in the U.S. The HLF had been linked to the funding of Hamas terrorist activities, and in 2000, raised \$13 million.

- In October 2002, the FBI and other U.S. Government agencies assisted German authorities in identifying and taking legal action against Hamas in Germany. Through the efforts of the FBI, including TFOS, exchanges with Germany led to the closure of the Al Aqsa Foundation in Germany, a suspected Hamas fundraising organization.

- In December 2002, a Federal grand jury in Dallas returned an indictment against a senior leader of Hamas, Mousa Abu Marzouk, for conspiring to violate U.S. laws that prohibit dealing in terrorist funds. Also charged and arrested by the FBI were Ghassan Elashi, the chairman of the Holy Land Foundation for Relief and Development, a charitable organization designated as a terrorist organization by the U.S. Treasury Department's Office of Foreign Asset Control because of its fund-

raising activities on behalf of Hamas. Elashi and four of his brothers, all of whom are employees of the Richardson, Texas-based InfoCom Corporation, were charged with selling computers and computer parts to Libya and Syria, both designated state sponsors of terrorism. The indictment alleged that the Elashi brothers disguised capital investment from Marzouk, a specially designated terrorist for his admitted leadership role with Hamas, for their telecommunications company, InfoCom. The indictment and subsequent arrests have disrupted a U.S. based business, which was conducting its activities with a known Hamas leader and state sponsors of terrorism.

- In January 2003, the FBI, working in conjunction with German law enforcement, arrested Mohammed Al Hasan Al-Moayad, a Yemeni national, on charges of conspiring to provide material support to Al Qa'ida and Hamas. Al-Moayad was a significant financial contributor to Al Qa'ida and Hamas, and boasted he had provided over \$20 million dollars to Usama Bin Laden. Al-Moayad participated in several fund raising events at the Al Farouq Mosque in Brooklyn, NY. Al-Moayad was arrested during an undercover operation where he believed that he was to receive a large financial contribution, which he advised an FBI source would be used to support mujahideen fighters of Al Qa'ida and Hamas. Along with Al-Moayad, several of his associates in New York were arrested for violating banking reporting requirements by structuring over \$300,000 in several bank accounts in the United States.

- Offices of the Benevolence International Foundation (BIF), a U.S. based charity, were shut down and its assets and records blocked following an OFAC and FBI investigation which determined the charity was being used to funnel money to Al Qa'ida. In February 2003, Enaam Arnaout, the head of BIF, pleaded guilty to racketeering conspiracy, admitting he fraudulently obtained charitable donations in order to provide financial assistance to persons engaged in violent activities overseas.

- A criminal case against Sami Al Arian, the alleged U.S. leader of the Palestinian Islamic Jihad (PIJ), and the World Islamic Studies Enterprise forced the closure of several front companies suspected of funneling money to support PIJ operations against Israel. In August 2002, the investigation led to the deportation of Mazen Al-Najjar, the brother-in-law of Sami Al Arian and a known PIJ member. In February of 2003, following a 50-count indictment for RICO and Material Support of Terrorism violations, the FBI arrested Al-Arian and three other U.S.-based members of the PIJ, including Sameeh Hammoudeh, Hatim Naji Fariz, and Ghassan Ballout. The FBI also executed seven search warrants associated with this action.

- In February of 2004, the FBI executed search warrants on the Ashland, Oregon office of Al Haramain Islamic Foundation, Inc. (AHIF). AHIF is one of Saudi Arabia's largest non-governmental organizations (NGO) with offices located throughout the world. AHIF's stated mission is to provide charitable services and Islamic education around the world. Based upon AHIF's claim to be a public benefit corporation organized exclusively for religious, humanitarian, educational and charitable purposes, the IRS granted AHIF tax-exempt status. The warrants were executed to further the investigation of criminal violations of Currency and Monetary Instrument reporting requirements by AHIF principals and subscribing to a false informational tax form. The investigation specifically focuses on a series of transactions involving traveler's checks cashed out of country and the mischaracterization of funds received by AHIF.

- TFOS is assisting coalition forces in Iraq in efforts to identify, disrupt, and dismantle the financial infrastructure of terrorist groups that are, or are planning to, attack coalition forces.

- TFOS has provided operational support to FBI Field Divisions and JTTFs across the United States to enhance their intelligence/criminal investigations of individuals and groups associated with, or providing material support to, terrorist organizations and activities. This assistance is provided in the form of conducting intelligence/criminal financial investigations, financial analytical support, major case management, financial link analysis, and the deployment of teams of experts to develop investigative plans to analyze large volumes of documents and data. TFOS has provided this type of operational support in Al Qa'ida cases in Buffalo and Portland, as well as in the Richard Reid, John Walker Lindh, Al Haramain, PIJ, and Mohamed Al-Moayad cases, among many others. This type of operational support has also been provided to Divisions investigating non-governmental organizations (NGOs), such as the Holy Land Foundation for Relief and Development, Benevolence International Foundation and the Global Relief Foundation.

- Since 9/11, the U.S. Government has blocked \$36.3 million in terrorist assets located domestically, while the international community has blocked over \$136 million, for a total of over \$172 million. The FBI has provided assistance to both its

U.S. Government partners and the international community by showing the definitive links to known terrorist organizations.

- The Treasury and State Departments have issued blocking orders on the assets of more than 340 terrorists, terrorist organizations, and terrorist supporters, many of them identified by the FBI, effectively denying them access to the U.S. financial system.

- Federal law enforcement officials, working with the FBI in the JTTFs, have arrested over 61 individuals, indicted 47 and convicted 14 in connection with terrorist financing investigations.

- U.S. Government agencies, including the FBI's TFOS, have deployed trainers and advisers on missions to countries around the world to assist with the drafting of legislation to combat terrorist financing, strengthen bank supervision in identifying suspicious transactions, and address other financial crimes and corruption. Since 9/11/01, over 80 countries have introduced new terrorist-related legislation and approximately 84 countries have established Financial Investigation Units.

As previously noted, TFOS has conducted near real-time financial tracking of a terrorist cell and provided specific and identifiable information to a foreign intelligence agency, which resulted in the prevention of six, potential deadly terrorist attacks.

It should be noted that the above examples do not include the many classified intelligence successes that have directly contributed to the prevention or disruption of terrorist activities.

#### THE USE OF INFORMATION TECHNOLOGY TO BETTER IDENTIFY AND ISOLATE SUSPICIOUS TRANSACTIONS RELATED TO TERRORIST FINANCING

The FBI has a responsibility to be not only reactive, but proactive, and to think strategically about potential threats and future case development. Accordingly, TFOS, together with the Counter-Terrorism Section, Criminal Division of the Department of Justice, has begun a number of proactive initiatives to identify potential terrorists and terrorist related financing activities.

The overriding goal of these projects is to proactively identify potential terrorists and terrorist related individuals, entities, mechanisms or schemes through the digital exploitation of data. To accomplish this, TFOS seeks to: 1), identify potential electronic data sources within domestic and foreign government and private industry providers; 2), create pathways and protocols to legally acquire and analyze the data; and 3), provide both reactive and proactive operational, predictive and educational support to investigators and prosecutors.

Utilizing the latest computer technology available, the Counterterrorism Division serves as a proactive, financial intelligence investigative management and support team. TFOS generates leads for other FBI components and proposes and conducts proactive financial intelligence initiatives and projects. TFOS works closely with other operational units and document exploitation initiatives to ensure financial intelligence is being fully exploited and disseminated.

TFOS has conducted an extensive review of data mining software and link analysis tools currently utilized by other governmental and private industries for consideration of use by the FBI. TFOS also participates in the FBI's SCOPE Intelligence Data Warehouse (IDW) User Management Group and has been involved in the development and planning for future enhancements to the IDW. TFOS's Proactive Exploitation Group (PEG) has created an interactive, computer playbook generator that can assist investigators in determining data sources to be queried, based upon the quantity and quality of their investigative data.

TFOS has initiated several projects to integrate data from its internal financial database, open/public source data and FBI and other government data sources onto a central query platform. Through this process, and in concert with contract vendors working for the SCOPE IDW Project, TFOS has developed a process whereby it can batch query multiple databases. This has the potential to save the FBI hundreds, if not thousands, of hours of data input and query time on each occasion it is utilized. Furthermore, it facilitates rapid acquisition and sharing of information with other agencies. Through the sophisticated tools being utilized, and the matching protocols developed, TFOS can ensure each query is properly conducted and done to a best practices query standard.

Recently, TFOS utilized the batch process it developed to exploit over three thousand identifiers. The batch process accomplished in hours what would have taken TFOS personnel and FBI Field Offices over 4,300 man-hours to conduct. Furthermore, because TFOS conducted the queries in batch form, and has global access to all of the search results, previously unidentified links, patterns and associates

among the data can now be extracted. Absent the batch process, this would have been extremely difficult, if not impossible, to accomplish.

TFOS has initiated a variety of proactive data mining projects to identify potential terrorists and terrorist financing. The projects were conceived in 2002 and now, with the advent of certain software tools and data access, are either being implemented or will begin shortly.

An example of this is the Terrorist Risk Assessment Model (TRAM), which seeks, to identify potential terrorist and terrorism financing activity through the use of targeted, predictive pattern recognition algorithms. The project entails the compilation of past and current known data regarding individual and group terrorist activity, methodologies, demographics, financial patterns, etc., to form a predictive pattern recognition program.

It is important to understand that these projects and similar initiatives by TFOS seek only to more fully exploit information already obtained by the FBI in the course of its investigations or through the appropriate legal process, and where there is an articulated law enforcement need. TFOS does not seek access to personal or financial information outside these constraints.

#### NATIONAL MONEY LAUNDERING STRATEGY

With respect to the 2003 National Money Laundering Strategy, the FBI concurs with the strategy's goals and objectives. The blocking of terrorist assets worldwide, establishing and promoting of international standards for adoption by other countries to safeguard their financial infrastructures from abuse and facilitating 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. Within the FBI, the investigation of illicit money flows crosses all investigative program lines.

The number one priority of the FBI is prevention of terrorism. To prevent terrorist acts, all investigative and analytical tools of the U.S. Government must be strategically applied, in a cohesive manner, through the JTTFs.

Our efforts to combat terrorism have been greatly aided by the provisions of the 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 produced greater collection and 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 weapons 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 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 our efforts 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 U.S. correspondent account.

The FBI has utilized the legislative tools provided in the USA PATRIOT Act to further its terrorist financing investigations. It is important for the Committee and the American people to know that we are using the PATRIOT Act authorities in a responsible manner. We are effectively balancing our obligation to protect Americans from terrorism with our obligation to protect their civil liberties.

Terrorism represents a global problem. The FBI is committed to its U.S. and international partnerships and to effectively sharing information to protect our nation from terrorism. To meet this goal, the FBI has formed the International Terrorism Financing Working Group (ITFWG), which includes law enforcement and intelligence agency representatives from the United Kingdom, Canada, Australia and New Zealand, and addresses the international aspect of terrorist financing investigations.

#### ALTERNATE FINANCING MECHANISMS

In its latest report assessing the use of alternate financing mechanisms by terrorists, GAO recommended that, "The Director of the FBI should systematically collect

and analyze data concerning terrorists' use of alternative financing mechanisms". The FBI has already implemented some measures to address the GAO's recommendation, and plans to implement additional measures by April 30, 2004 which address concerns identified in the GAO report.

The FBI has established specifically defined intelligence requirements used to guide the Bureau's collection efforts within its Office of Intelligence. As a result, we developed specific intelligence requirements, which are tied to various known indicators of terrorist financing activity.

TFOS has developed statistical queries in the FBI's CT Annual Field Office Report (AFOR) pertaining to terrorist financing. Included in this reporting are responses to the tracking, locating, and monitoring of subjects of terrorism investigations through the identification of emerging trends pertaining to terrorist financing techniques, including alternative financing mechanisms discovered through other criminal investigations.

TFOS has established the Program Management and Coordination Unit (PMCU), which will be responsible for, among other things, tracking various funding mechanisms used by many different subjects in ongoing investigations—to include alternative financing mechanisms. The PMCU will be well positioned to identify emerging trends across the spectrum of terrorist financing.

Measures to collect and analyze data concerning terrorists' use of alternative financing mechanisms will greatly enhance our ability to recognize, respond to, and ultimately disrupt or dismantle terrorist organizations reliant upon them. Through the international partnerships that we have established, additional sources from which to obtain similar information regarding alternative financing mechanisms are of great mutual benefit. The FBI intends to maintain and encourage liaison and relationships with our law enforcement colleagues both in the United States and all over the world to ensure that new methods of terrorism financing, as well as current ones, are accurately tracked and monitored.

Again, I offer my gratitude and appreciation to you, Chairman Grassley, as well as the distinguished Members of this Caucus, for dedicating your time and effort to this issue, and I would be happy to respond to any questions you may have.

Senator COLEMAN. Thank you very much, Mr. Bald.

It is very clear from all your testimony, and I think you said it very specifically, Mr. Bald, that the fight against terrorist financing is now a major front in the war on terror. And I again want to thank all of you and the many, many folks that you represent for the work that you are doing.

The challenge for us here is we continually have to reflect on whether we are doing it as effectively as possible? Do we have the right kind of leadership and direction? And that is part of the purpose of this hearing.

There was one comment, Administrator Tandy, you made that I think is worth repeating. And I want to get your exact words about the American drug user is the single largest funder—can you repeat that sentence? I want to make sure I have it right on the record. I may repeat that somewhere along the way.

Ms. TANDY. The American drug consumer is the single largest funder of terrorism in the Western Hemisphere.

Senator COLEMAN. I think that statement bears repeating again and again and again in many different quarters.

We are in a war. We have to win it. We do not want to waste our time with unhelpful pursuits. The question here has been, one of the basic questions and the basis of this hearing is—do we need a National money laundering drug strategy?

As I listened to the testimony, I did not get a sense that anyone strongly endorsed the strategy or requested its continuation. I did not see anyone strongly endorsing the High Intensity Money Laundering and Related Financial Crime Area task force (HIFCA) approach to money laundering. Clearly, the PATRIOT Act has been

an invaluable tool to help win the war on terrorism and terrorist financing.

I think, Deputy Secretary Zarate, the most I heard in regard to the strategy were some comments in your prepared testimony I looked at that talked about achieving goals in accordance with the strategy, certain interagency law enforcement community was taking aggressive steps, et cetera, et cetera. But beyond that, I guess my question is—can we be assured that we are waging a seamless war, and setting goals, objectives, priorities without a strategy? Do we need a strategy? I would like a little more feedback from each of you on that very specific issue.

Mr. ZARATE. Mr. Chairman, thank you.

The Treasury thinks the strategy is helpful. It is also always helpful when you have a document that forces the U.S. Government as a whole to iterate what its primary challenges and goals are with respect to an overarching threat like money laundering. And over the past two years, we have included the issue of terrorist financing largely because, as my colleagues have indicated, terrorists' use of the financial system often parallels or mimics the use of the financial system by criminals and money launderers. So a systemic approach requires an ability on the part of the Government to address systemic weaknesses.

That being said, Mr. Chairman, I think there are certainly some improvements or clarity that could be done with respect to the reauthorization if that is what the Congress seeks to do. Certainly perhaps having it every two years, as opposed to every year, would be very helpful. As your previous panelist indicated, often the people who are drafting and devising the strategy are the very persons who are implementing it. So that is certainly part of it.

I think the idea of resurrecting the steering committee is important, as well. And there are also some other issues, I think, that could be addressed with respect to measures of success and accountability.

Senator COLEMAN. I would ask you, Mr. Zarate, and others, I will keep the record open on this, but if there are other measures, I would like you to submit that to the committee in writing. That would be most helpful, Administrator Tandy.

Ms. TANDY. I agree with my colleague, Mr. Zarate, that a strategy every two years would be vastly more helpful. There was a sense that you would finish one strategy and turn right around and start the next.

The improvements, the value of having a strategy is extremely valuable if it is based on intelligence regarding current trends and threats and the strategy is built upon that kind of intelligence. So I think those are areas that would be an improvement to the past strategy, if it was built on essentially a threat assessment.

Senator COLEMAN. Mr. Dougherty.

Mr. DOUGHERTY. Mr. Chairman, ICE and the Department strongly support the concept of a National Money Laundering Strategy. We think, and we concur with the GAO opinion in this, that it needs, however, strict oversight and accountability rules. I think it would be very useful to lay out the relative roles and responsibilities of all of the components engaged in the war on illicit financing and money laundering.



Also importantly now, there is a new player. There is the Department of Homeland Security, and the roles and responsibility of the Secretary and ICE and other components with respect to money laundering, and I think that is an important component that would need to be included in any future strategy.

With respect to the content of the strategy, I think it is absolutely vital that it takes a systematic approach, focusing on the systems that are being exploited by terrorist and criminal organizations rather than waiting for crimes to occur.

This is the approach we have taken in Cornerstone. We have found it to be very effective. Rather than waiting for specific crimes, investigating those crimes, and following the trail from there, we seek to get in front of the problem using red flags, typologies of money laundering, working very closely with the financial community to target specific systems, the traditional financial system, the alternative remittance system, bulk cash smuggling, et cetera, and identify, penetrate and dismantle the organizations that are exploiting specific vulnerabilities. And then working with Congress, regulators and the private sector to close down those vulnerabilities. We think that would be an important part of the strategy.

Senator COLEMAN. Thank you.

Mr. Bald.

Mr. BALD. Thank you, Mr. Chairman.

I would echo the comments of the other members of the panel. We would agree completely that the unified strategy is a very beneficial step.

We are participating, at my last count, in six financial focused groups. And although we meet and we discuss regularly, I am not sure that we have as cohesive of an overall game plan as we could have. So I would certainly be willing to participate in the preparation of any such general strategy.

Senator COLEMAN. Thank you very much.

We talked about who would be responsible for pulling this together, the kind of leadership component. I believe that was one of the GAO recommendations, establishment of a clearly defined leadership structure.

Who should be responsible for writing and executing a National Money Laundering Strategy, perhaps one that is every two years, as recommended here, if it were to continue? Whose responsibility should that be? And again, I welcome your response.

Mr. Zarate.

Mr. ZARATE. Mr. Chairman, to date the responsibility has sat with the Secretary of Treasury as well as with the Attorney General. And we think that construct is fine.

One point I would like to indicate, which is an important point here, is that when looking at the problem of money laundering and financial crimes and terrorist financing, it is important to look beyond the case specific examples and the law enforcement approach. It is certainly a critical element, but it is also one part of many.

We see the sanctions regime as being an important part of an anti-money laundering strategy. We see civil penalties with respect to the regulatory responsibilities of not only Treasury, but other functional regulators; the expansion of the regulatory scene within

the U.S. and outside of the U.S.; the establishment of international standards worldwide with respect to dealing with identified risk like hawalas, the abuse of charities, et cetera; capacity building, helping other countries to help themselves to deal with these issues.

So when looking at a strategy, it is at least the Treasury's perspective that the U.S. Government has to, and has in the past, look at the whole panoply of issues and tools available. And certainly the Secretary of the Treasury is in a position to do that, but we have always done it in cooperation with our interagency partners.

Senator COLEMAN. Any other responses?

Administrator Tandy.

Ms. TANDY. I concur. It has been a shared responsibility between the Secretary of the Treasury and the Attorney General. And I think it should remain that way with some of the other improvements that have been suggested here, all of which among my colleagues I happen to agree with.

Senator COLEMAN. Mr. Dougherty.

Mr. DOUGHERTY. Mr. Chairman, I believe it is a shared responsibility, and it should include the Secretary of the Department of Homeland Security as well as the Secretary of Treasury and the Attorney General in recognition of the vast investigative intelligence resources brought to bear on money laundering within the Department.

Senator COLEMAN. Mr. Bald.

Mr. BALD. Mr. Chairman, I think that it is best left, at the current time, with the Department of Treasury and Department of Justice. I think that one of the first issues that could be addressed in the unified strategy is whether the leadership should be broadened and extended to the Secretary of the Department of Homeland Security.

Senator COLEMAN. Thank you, that is very helpful.

Senator Grassley wanted me to ask about the 2003 National Drug Control Strategy that was released this past Monday, and stated: "The Departments of Justice, Homeland Security and Treasury are working jointly to plan the creation of a financial attack center. The center will bring together our most experienced investigators and analysts to prioritize targets and develop plans to attack the 'financial infrastructure of drug trafficking organizations.'"

Do you have any additional information you can share regarding this new financial attack center? Please describe the financial attack center in greater detail including what steps are needed to get this center up and running. How will this center be different from other existing coordination mechanisms? What additional costs are associated with the center? And when is it expected to be in operation?

Ms. TANDY. I can start with that. The financial attack center is something that grew out of the Policy Coordinating Committee that is chaired by ONDCP and actually developed in concept at the same time that the OCDETF fusion center, drug fusion center, was coming into being.

Essentially, if I could just take a second to step back as to that fusion center, that is the Organized Crime Drug Enforcement Task

Force's program which is comprised of all of the interagency communities represented at this table and broader. This fusion center has been funded out of the 2004 Omnibus and will be standing up within the next month.

For the first time, this fusion center will be a location where all counternarcotics intelligence and case information is warehoused together. We have never had this before and there will be sophisticated software and technology that will enable cross-analysis of all of the counternarcotics information of these agencies. It is actually even broader than the OCDETF agencies.

Within that fusion center the discussions, at least so far, have been that this financial attack center, will contain essentially the same agencies that are represented here today, and in the financial attack center it will be a separate group contained within the confines of the fusion center.

Obviously, one of the main specified unlawful activities is drugs, and that fusion center will have all of that SUA information to go with the financial attack center. There will be a triumvirate, if you will, of DHS, Treasury and Justice within the financial attack center that will analyze what is coming out of the money side of the fusion center and determine strategically whether the leads from that should go, for example, to OFAC for appropriate regulatory or OFAC action, whether it is an enforcement lead that should go out to the field regarding money laundering enforcement action investigations.

Those leads, whether they are pure drug leads part of the fusion center or the related financial attack center, at this point the discussion is that they would all go through the Special Operations Division, through the Money Laundering Section at the Special Operations Division that actually DHS ICE is the ASAC in charge of. That is an interagency group in Special Operations Division which is a division of DEA. The entire Special Operations Division contains all of the agencies here today and more broadly than here today. Those leads would then be disseminated to the field and coordinated within the field, especially to the extent that they overlap among various districts.

Senator COLEMAN. I would follow up the question, and I am not sure whether it goes to Administrator Tandy or Mr. Dougherty. How would the DEA's financial attack centers differ from ICE's Money Laundering Coordination Center, of which the DEA is a member?

Mr. DOUGHERTY. We are working closely with our partners in DEA and OCDETF to come up with a workable model for the interchange between the financial investigations and intelligence housed in the Money Laundering Coordination Center and the proposed financial attack center.

Just by way of background, the MLCC, the Money Laundering Coordination Center, was established in 1996 as the repository of information obtained through financial investigations, all of our financial investigations including undercover operations, associated intelligence, and investigative activities around the world. Its purpose is to identify crossovers and connections between money laundering investigations that we have here and abroad.

It also coordinates and facilitates the exchange of money laundering information between agencies, member agencies within the MLCC and other agencies. And most importantly, it is designed to identify trends and typologies specifically in the black market peso exchange scheme and share that information back with our financial investigators, the financial community, and the rest of Government. So we look forward to building a mechanism that most appropriately and efficiently shares the information and operations that occur in the MLCC with the proposed center.

Senator COLEMAN. Are others, perhaps within the FBI or Treasury, currently responsible for coordinating information resources about money laundering and terrorist financing? I am trying to get a sense of the scope of what we are doing. One of the questions is; are we pulling it together? Are we duplicating? Are we operating as efficiently as possible? Are there other different coordination centers, task forces? I would love, if there are, to get a list of the various coordinating task forces that address money laundering within the various agencies.

Does anybody want to just respond generally to that? I would like, for the record, and I would request the agencies. We will get a specific request for that information.

Mr. DOUGHERTY. Mr. Chairman, I would point out there is one specific mechanism set up with the Joint Vetting Unit, which was set up pursuant to the MOA between ICE and the FBI. It is a subset of our financial investigative program. It is fully coordinated with the MLCC, specifically to address where there is a known demonstrable nexus between a terrorist investigation and a financial investigation being conducted by ICE. So that is yet another coordination mechanism that exists.

Mr. BALD. Mr. Chairman, we have a classified project that I would prefer not to discuss here that does a similar coordination process on the terrorism side of the shop, in addition to what you have heard previously stated.

Senator COLEMAN. Thank you.

Ms. TANDY. Mr. Chairman, if I could add also, the OCDETF fusion center does bring into that warehouse of intelligence a feed—excuse me, at the National Drug Intelligence Center, a feed out of FinCEN. The purpose of the fusion center is truly to fuse all of these various centers so that, at least as to the drug side, you do not have that kind of duplication out there.

Senator COLEMAN. Mr. Zarate.

Mr. ZARATE. Mr. Chairman, very quickly.

Within Treasury, all of the enforcement related entities are coordinated through my office, the Office of Foreign Assets Control, which administers the U.S. sanctions programs including the drug trafficking programs.

The Financial Crimes Enforcement Network, which administers the Bank Secrecy Act and serves as a repository as well as an analytical body for that information, and is a wonderful tool for the rest of the law enforcement community in the U.S. as well as abroad.

As well as our Criminal Investigation Division at IRS, which has, I would dare say, some of the best financial investigators in the country, which serve with my compatriots here in a variety of task

forces like the Joint Terrorist Task Force, the OCDETF task force, as well as HIDTAs and HIFCAs.

Senator COLEMAN. I want to, if I can, just switch in the time we have and focus on the local level. I worked for 17 years in the Minnesota Attorney General's Office. I was the chief prosecutor for the state. I remember when we began to use some of these tools focusing on the money as an invaluable tool in drug trafficking and other areas of crime.

What kind of mechanisms do we have in place, procedures to educate and train law enforcement officials about the methods being used by criminal and terrorist organizations? Is this getting down to folks at the local level? Or is all of this being done at the Federal level?

Mr. BALD. Mr. Chairman, from the Joint Terrorism Task Force perspective, as you know we have a very robust representation from State and local departments, as well as our other Federal partners, including the intelligence community. To bridge the gap within the FBI between our traditional white-collar crime programs and the terrorism side of the shop, we have a designated white-collar crime individual responsible for the global perspective that combines the Joint Terrorism Task Force's financial investigations and their strategies with the white-collar crime strategies to make sure that if there are resources that can be leveraged on the white-collar side of the shop that they are brought to bear to assist the Joint Terrorism Task Forces. There is also a significant emphasis that we have within the JTTF to follow the money, and shut down the funding for terrorist activities.

Senator COLEMAN. I would be interested in any other responses.

Mr. Dougherty.

Mr. DOUGHERTY. I would just like to point out, ICE also participates very significantly in the Joint Terrorist Task Force environment. We will have nearly 400 agents assigned there by the end of fiscal year 2004. But we also have a variety of other task forces where we conduct financial and counternarcotic investigations, and that is the primary mechanism where our information and our training to local law enforcement occurs. Probably the best example is the El Dorado Task Force which has a very significant population of State and local law enforcement.

Senator COLEMAN. Administrator Tandy.

Ms. TANDY. Thank you.

We have, as I mentioned in my testimony, these financial investigative task forces that are being formed or have now been formed in the divisions. Many of those include State and local law enforcement.

We train State and local law enforcement regularly, to the tune of hundreds if not thousands of them. And they will also receive training specifically on the money flows and trends and investigative focus as part of those task forces.

Senator COLEMAN. Mr. Zarate.

Mr. ZARATE. Mr. Chairman, through our Financial Crimes Enforcement Network we have direct links to State and local authorities. In fact, we have trained quite a few State and locals to access the Bank Secrecy Act information which FinCEN has available.

In addition, there have been some tools traditionally used to help State and local authorities deal with money laundering issues. The C-FIC grant program has been a fairly effective tool in providing at least minimal seed capital to local authorities to deal with identified risks.

Finally, Mr. Chairman, I would just like to mention that our outreach to the private sector is a critical component to what we do, in particular at the local level where we are dealing with compliance officials, dealing with regulators in the regulatory community. And that is an important part of this as well. So we see a coherent approach.

Senator COLEMAN. I would note that Chairman Grassley, who really took the lead, and it was his leadership that pulled this hearing together, was required to be on the floor of the Senate. Otherwise he would have been here, so he asked me to sit in.

I have a series of other questions. I am going to keep the record open for 10 days and will follow up with questions to the witnesses.

Administrator Tandy, while I have you, I have two issues that are not specifically related to this, but you are here and I want to raise them.

One, I am the Chairman on the Permanent Subcommittee on Investigations which has been investigating the importation of controlled substance over the Internet, and I have great concern over both domestic and foreign web sites. I think there are 1,009 Internet sites that offer prescription drugs "from Canada." And I put that in quotes because we do not know whether they are coming from Canada or Pakistan or anywhere else. It is obvious to me that a bioterror risk may exist. Is there anything that precludes terrorists from utilizing the Internet and the ease of importing controlled substances into the U.S. to finance their activities? Do we have any filters or any ways that we can deal with that?

Ms. TANDY. With regard to terrorists using the Internet, I frankly would feel more comfortable deferring to the FBI. But with regard to your concerns about the use of the Internet for people to obtain illegal drugs or prescription drugs illegally, it is the number two abuse issue among our children. It is obtaining Vicodin over the Internet in many instances.

The Internet issues are profound and invade our homes, especially with our children. This month DEA, or actually probably next month, DEA will be starting a new addition through some of the funding that we have just received that will employ a sophisticated Web crawler to aid us in identifying rogue pharmacies on the Internet that are responsible for delivering drugs with basically nonexistent doctors, no prescription, just a flow of dispensing illegal drugs or legitimate drugs illegally through the Internet.

Senator COLEMAN. I am not sure whether this hearing will have a full opportunity to discuss that, but it is an issue of great concern. The fact is that so many Americans today use the Internet. It is easy. I do eBay. There is a lot of good stuff. But on the other hand, you can think those with nefarious purposes, understanding the behavior patterns of millions of Americans and the ease of accessing material without screening by Customs, DEA, or FBI. I would hope that all of us are taking a close look at that and trying to figure out if we are as safe as we can be.

Mr. Zarate.

Mr. ZARATE. Mr. Chairman, I just wanted to point out that in the 2003 National Money Laundering Strategy there is a comprehensive report on the vulnerabilities of the use of the Internet for terrorist financing purposes. It is the first such report and was the product of very good interagency work and collaboration and is leading to continued work and research on the vulnerabilities that exist.

Senator COLEMAN. Thank you. I was not aware of that, but I will make sure that I personally go back and take a look at that.

I just wanted to comment again, Administrator Tandy, while you are here, and it ties back to my past experience in working with some folks at the local level with a rise of methamphetamine in our rural communities. I just want to raise that issue. I presume you are well aware of it.

Are there ways that we can help you, in this body, address that, in terms of resources and other things? So often we think of drug usage and methamphetamine as urban problems, but we are seeing a lot within rural areas that do not necessarily have the resources and capacity to deal with it. So I raise the issue here and provide an offer of working with you to better address it.

Ms. TANDY. I appreciate that immensely. This is a huge national problem in our country. I would like you to know that DEA has not only focused on these thousands of small toxic labs, specifically training State and locals to safely dismantle those labs and assisting them, but we are trying to make an impact where we can have the greatest impact, and that is on the flow of precursor chemicals. And as a result of that, we have actually seen a decline in what we refer to as the super-meth labs, the ones that supply 90 percent of the meth in this country, which is a huge shift for us to see a decline in those labs.

Notably for the purposes of this hearing, what we have also seen are those precursor chemical trafficking groups using our financial systems, the hawala, and some of that money is going to the Middle East. And we have seen it go to people who are connected to some of the foreign terrorist organizations on the State Department list. So methamphetamine is not only a tragic environmental and personal tragedy in the rural areas, but it also fits in to what this Caucus is focused on today.

Senator COLEMAN. Thank you.

Again, I have more questions that Members of the Caucus wanted to submit.

I said this hearing would be an hour-and-a-half, and in 19 seconds, it will be an hour-and-a-half.

With that, I will thank the witnesses, all the witnesses on both outstanding panels, extraordinary helpful in a very important area, and I do appreciate the outstanding work that is being done.

Thank you. With that, this Caucus is adjourned.

[Whereupon, at 3:30 p.m., the Caucus was adjourned.]





## A P P E N D I X

QUESTIONS FOR HON. JUAN C. ZARATE, DEPUTY ASSISTANT SECRETARY,  
DEPARTMENT OF THE TREASURY

*Question 1.* I strongly support reauthorization of the National Money Laundering Strategy legislation with language that will have stronger provisions for leadership and funding for HIFCAs. Many of these provisions are recommendations contained in the GAO report.

*Question 1a.* In addition to requiring only a biannual strategy, what specific changes would the Treasury Department like to see included in legislation to reauthorize the Strategy to ensure that we get a useful document?

Answer. We at the Treasury Department believe that working with the inter-agency community to produce the National Money Laundering Strategies has proven valuable to the anti-money laundering and anti-financial crimes communities. As you noted in your question, we do not believe, however, that producing such a Strategy annually is necessary or productive. Of necessity, the generation of past National Strategies has required the relevant players in the Executive Branch that are essential to identify, attack and disrupt, prosecute and forfeit the assets and facilitating property of money launderers, financiers of terrorism and other financial criminals, to come together to discuss ongoing efforts, identify successes and strengths, discuss failures and weaknesses, and chart future actions. Most importantly, the Strategy requires agencies that have differing viewpoints and assignments to concentrate their attention and expertise on the financial crimes aspects of their ongoing efforts. This concentration of attention on the financing of crime is an essential component of our war on drugs, our war against terrorism, and our efforts against all those who abuse legitimate financial mechanisms and systems for criminal purposes. As I stated in my March 4, 2004, testimony before the Senate Drug Caucus:

“No matter 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 of terror, narco-trafficking and organized crime, and as such, it represents a significant vulnerability that Treasury and its Federal, State and local allies must and do exploit.”

Targeting money flows is among the best means of tracking, exposing and capturing terrorists and their facilitators, narco-trafficking cartels and their supporting infrastructure, and organized crime networks worldwide. Money flows leave a signature, an audit trail, and provide a road map of terrorist and other criminal activity. As we and our international partners work together to follow and stop terrorist or illicit funds, we strengthen the integrity of our financial systems and erode the infrastructure that supports terrorists and criminals.

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 frauds, alien smuggling, organized crime, and public corruption.”

We believe that any future National Money Laundering Strategy that Congress devises must have, as a central component of that Strategy, this “systemic” approach to identifying, attacking, disrupting and removing the ability of financial criminals to abuse legitimate financial mechanisms, such as money remission, sales of money orders, legitimate banking services, and other such systems for the purpose of moving or facilitating the movement of criminal proceeds or of proceeds destined to be used for criminal purposes. Working from this systemic approach, we will be able to identify those who are abusing these legitimate systems, and target them for sanctions, whether civil, criminal, regulatory or a combination of the three, as well as asset seizure and forfeiture.

Any future Strategy, moreover, must concentrate on identification of money laundering and financial crimes trends and developments. It simply is not good enough to meet the demands of the past, but we must anticipate the future and work proactively to address systemic weaknesses as they develop. Of necessity, any future Strategy must address our efforts to identify and pursue technological developments that either enhance the ability of criminals to engage in or further financial crimes, or enhance our ability to detect and attack such crimes. We will work closely with the Congress on legislation that will provide a consolidated, but sufficiently-flexible approach to ensure interagency coordination of efforts in any future Strategies.

*Question 1b.* What should be the role of the Department of Homeland Security (DHS) in developing and implementing future Strategies?

Answer. The anti-money laundering and anti-terrorist financing law enforcement components of DHS are crucial players for any future Strategies. As former components of the Department of the Treasury, DHS law enforcement agencies bring the same “financial systems” based approach and methodology to identifying and attacking financial crimes. Whether in the area of drug money laundering, strategic investigations, or other cross-border financial crimes, DHS’s investigative expertise is important, and has resulted in cutting edge anti-money laundering cases such as “Operation Casablanca,” as well as the development of technology, such as the Numerically Integrated Intelligence System to identify possible international trade-based money laundering. Importantly, as guardians of our nation’s borders, DHS has developed important outreach capabilities with respect to those industries that also have been abused by criminals to move and launder funds. This expertise is especially valuable in our joint attack on the movement of billions of dollars of drug proceeds via the Colombian Black Market Peso Exchange system. We look forward to continuing our close and valuable association with DHS in this important area, and harnessing these important investigative techniques, trade-based technologies and outside relationships they have brought to this overarching effort.

*Question 1c.* What type of leadership structure would you implement for the HIFCA program, how would you structure the HIFCAs for greater effectiveness, and how much funding would you need to ensure their continued viability?

Answer. The Department of the Treasury has circulated an interagency HIFCA Report to the Departments of Justice and Homeland Security for interagency clearance, and submission to the Congress. That process is ongoing. That Report will include an historical overview and current assessment of the HIFCA program, as well as offer recommendations concerning the future of the HIFCA Program and possible management structure. We hope to have the Report approved soon.

*Question 2.* During the hearing, we heard testimony from the GAO about the government’s current capabilities and challenges in addressing alternative financing mechanisms. I am very concerned that the use of these money laundering methods is not currently being addressed systematically.

*Question 2a.* Please tell me what the Treasury Department is doing to address all methods of money laundering in a systematic and strategic manner.

Answer. As discussed above, the basic thrust of the Department’s efforts are to identify and address financial crimes and money laundering from a systemic basis. As this Office recently testified on April 21, 2004, before the House Subcommittee on National Security, Emerging Threats, and International Relations:

“The Treasury Department, regardless of the disparate financial crimes being addressed—narcotics and other money laundering, the financing of weapons of mass destruction, organized crime, terrorist financing, state corruption, the financing of the insurgency in Iraq, or the intentional corruption and abuse of a trade-based financial system such as the OFF Program—applies unified financial investigative methodologies and techniques. In the financial crimes identification and enforcement arenas, we at the Treasury Department employ an integrated approach to uncovering such systems and schemes.

Whether working with the DEA on the financing of drug money trafficking, the FBI on terrorist financing, the Department of Homeland Security on International Emergency Economic Powers Act (IEEPA)-related and sanctions busting schemes, or in the case of Iraq, with the military in the case of insurgency financing, we (the Executive Office for Terrorist Financing and Financial Crimes) the IRS-CI, the Office of Foreign Assets Control, and the Financial Crimes Enforcement Network) bring the same financial crimes disciplines and expertise, as well as our unique international financial contacts, to the table.

This unified approach to financial crimes and sanctions enforcement is being taken a step further. Last month, the Administration announced the creation of the Office of Terrorism and Financial Intelligence at Treasury. This new Office further will enhance the Treasury Department’s ability to identify and address the financial

underpinnings of financial crimes at home and abroad by streamlining the analysis and use of both financial and intelligence data available to the Department.

As we continually find, and as our financial enforcement efforts in Iraq again have confirmed, attacking the use of a financial system, for example, hawalas or cash couriers, by one criminal group for one purpose, can lead to the identification of other financial criminals utilizing the same systems and financial professionals. A hawaladar may move narcotics proceeds one day, terrorist-related proceeds the next, and funds destined for Iraqi insurgents the day after. Removing the hawaladar, or mandating a transparent hawala system, disrupts each of these criminal groups simultaneously.”

In short, our emphasis is to leverage Treasury’s unique law enforcement powers and authorities such as GTO’s and Section 311, as well as our regulatory powers and economic sanctions (IEEPA) powers, our law enforcement investigative resources and our well-developed outreach efforts to the U.S. and the international financial communities, and to the Finance Ministries to converge efforts to identify and attack the systematic abuse of financial systems by criminals. We work to apply our efforts from a strategic perspective. In the law enforcement arena, we establish or join Task Forces where scarce resources are leveraged against a common target, whether drug trafficker, terrorist or organized criminal. Internationally, we work through international Task Forces such as the FATF and its regional bodies to achieve uniformity and consistency in the application of anti-money laundering and anti-terrorist financing laws and regulations worldwide.

In Iraq, for example, we have joined with the Department of Defense components to assist on the financial side of the anti-insurgency efforts. As alluded to above, it makes no difference to our efforts what are the nature of the criminal acts generating criminal proceeds, or even the legitimate proceeds to be moved for illicit purposes. Those proceeds must be moved through discrete financial systems, and our job, in tandem with those charged with the predicate offenses, is to ensure that those systems are transparent, sufficiently regulated and that anti-money laundering and anti-terrorist financing requirements and due diligence are being met.

Alternative remittance systems are a case in point. These systems do leave financial footprints that we can identify and trace. The receipt of cash in the United States, and the need for the underground remitter to move these funds leads to CTRs, CMIRs and SARs being filed reflecting cash deposits and repetitive transfers offshore or to consolidation accounts. These financial pointers can be compared against FinCEN registrations to identify possible illegal remitters. We work through Task Forces and with our law enforcement agencies to identify and target these systems, thus depriving criminals of all stripes from their use.

One such Task Force effort are nationwide IRS-CID led SAR Review Teams. These SARs are filed by financial institutions, money service businesses, brokerage houses, and casinos. SARs are reviewed on a continual basis by IRS-CID SAR Review Teams and at HIFCA sites. Financial institutions, in particular, regularly report suspect transactions, and in the process routinely verify state and Federal Money Service Business registrations on their customers. IRS-CID is currently involved in approximately 22 hawala investigations.

IRS-CID also is involved with approximately 15 regional wire transmitter projects. The success of these projects has prompted CID and the DEA to begin development of a nationwide wire transmitter project. The nationwide accumulation of wire transmittals will allow CID nationally to target specific regions/countries for terrorist financing activity.

FinCEN, likewise, is studying the use of discrete financial systems by launderers, terrorists and other financial criminals by studying and making available products relative to both “traditional” and “non-traditional” methods of money laundering and terrorist financing. To this end, FinCEN is currently concentrating strategically in four areas: a focused examination of the business metrics and corresponding financing requirements and methodologies used by Foreign Terrorist Organizations; an examination of how high valued commodities such as gold and diamonds can be used to facilitate money laundering and terrorist financing; an examination of the vulnerabilities created by the private ownership and operation of ATMs, and an examination of stored value products and services as they relate to money laundering and terrorist financing. These products are made available to all of law enforcement for use regardless of the nature of the predicate crime being investigated.

*Question 2b.* What specific procedures are in place to educate banks and other financial institutions about the various financing methods being used by criminal and terrorist organizations?

Answer. Notification to the financial community occurs on a daily basis, from the most informal contact by phone to the most formal through public/private Groups such as the Bank Secrecy Act Advisory Group (BSAAG). The BSAAG met this

month here in Washington. In the terrorist financing arena, this office has chaired a Charities initiative to work directly with charities to alert them to just these issues, and to enhance transparency to ensure that donations for the needy do not end up in the hands of terrorists.

FinCEN also pioneered, with the private sector, a unique publication, the SAR Activity Review and its statistical addendum “By the Numbers.” FinCEN likewise publishes stand alone bulletins such as the one FinCEN recently issued regarding Hawala; additional guidance pieces regarding how to improve the content of SARs filed, and various outreach opportunities. In addition, FinCEN does extensive outreach with the financial services industry in order to provide guidance and feedback on compliance with Bank Secrecy Act regulations in an attempt to improve compliance and enhance the value of the information received through the Bank Secrecy Act. FinCEN routinely participates in American Banker Association meetings, as well as other banking industry conferences.

Likewise, IRS-CID is active in providing information to banks and money service businesses through the efforts of its nationwide network of SAR Coordinators. All CID field offices have a SAR Coordinator, whose responsibilities include outreach to financial institutions utilizing several methods of presentation. On an individual bank basis, SAR Coordinators make presentations to compliance officers and relevant bank personnel such as tellers and customer service representatives. On a group basis, some larger field offices hold yearly SAR/Bank Secrecy Act Conferences designed for their local institutions. Both methods in the past two years have elements of terrorism financing, and consequently, it has taken a lead role in the information provided and its subsequent discussion. CID SAR Coordinators also make group and individual presentations to alternative industries such as money service businesses (MSBs) and casinos. The presentations to these industries follow the type of outreach described above for banks. In particular, SAR Coordinators educate MSBs about registration with FinCEN and the link of select few hawalas with terrorist financing.

Treasury’s Office of Foreign Assets Control has an extensive public outreach program, participating in more than a hundred sanctions training and working group sessions a year. Many of those specifically target the financial services industry and its regulators. Recent examples include:

06-09-04—Federal Financial Institutions Examination Council, Anti-Money Laundering School, L. William Seidman Training Center, Arlington, Virginia (for Federal and state bank examiners)

06-03-04—“An OFAC Update,” IFSA Regulatory and Risk Committees Annual Seminar, International Financial Services Association Foundation, New York, New York (for bank operations & compliance officers)

05-19-04—“Automating Compliance in the 21st Century—A Dialogue with OFAC,” Payment Systems North America 2004, International Financial Services Association Foundation, Warwick Hotel, New York, New York (for funds transfer professionals)

05-12-04—Federal Financial Institutions Examination Council, Anti-Money Laundering School, L. William Seidman Training Center, Arlington, Virginia (for Federal and state bank examiners)

04-20-04—“OFAC Challenges,” Working Committee on Anti-Money Laundering and OFAC Issues, Securities Industry Association (SIA), New York, New York (securities industry working group)

04-14-04—Federal Financial Institutions Examination Council, Anti-Money Laundering School, L. William Seidman Training Center, Arlington, Virginia (for Federal and state bank examiners)

03-31-04—Federal Financial Institutions Examination Council, Anti-Money Laundering School, L. William Seidman Training Center, Arlington, Virginia (for Federal and state bank examiners)

03-24-04—“An OFAC Update,” sponsored by the International Bank Operations Association (IBOA), the Florida International Bankers Association (FIBA), the South Florida Compliance Association, and the South Florida Banking Institute (SFBI), Sheraton Biscayne Bay, Miami, Florida (for bank operations & compliance officers)

02-27-04—“An OFAC Update,” Regulatory and Compliance Committee, International Financial Services Association (IFSA), New York, New York (bank operations & compliance officers)

02-14-04—Committee on Business Services & Licensing, National Association of Secretaries of State (NASS) 2004 Winter Conference, Washington, DC (state officials involved in registering & licensing businesses)

02-03-04—International Banking Conference, Conference of State Bank Supervisors, Wyndham Miami Hotel, Miami, Florida (regulators of and operations officers from foreign banks doing business in the U.S.)

01-29-04—"First Puerto Rican Symposium on Anti-Money Laundering," Puerto Rican Bankers Association, Wyndham Condado Plaza Hotel, San Juan, Puerto Rico (for bank operations and compliance officers)

01-12-04—"International Banking and Money Laundering Training Program," Federal Law Enforcement Training Center, Brunswick, Georgia (for law enforcement professionals)

OFAC also provides extensive training and outreach via its website with more than 1,000 documents currently posted there, including explanatory brochures for the Financial Community, for the Securities Industry, for the Insurance Industry, and for the Credit Reporting Industry. Website usage statistics indicate in excess of 1.3 million hits on OFAC's site per month and its Listserv subscribers now number over 15,000. Its "Interdiction" guidelines and listing of "Frequently Asked Questions" have received praise from sources as diverse as the FDIC (which distributed print copies of the information to all of the banks that it regulates) to Money Laundering Alert magazine (which said that the FAQs were in a "surprisingly user-friendly format.")

Finally, we have found that the organizations that have the most frequent and lasting relationship with many financial institutions are the Federal financial examination agencies. Whether they are the Federal banking agencies, the SEC or the CFTC, and their self-regulatory organizations, these agencies each provide a wealth of educational assistance and resources to the financial institutions that they each examine, including the areas of money laundering and terrorist financing. Moreover, these agencies possess a deep understanding of the operational processes at these financial institutions that may engender specific needs for education and information. The Treasury's Financial Crimes Enforcement Network works very closely with each of these examination agencies to ensure that their examination staff is in a sound position to provide meaningful education regarding money laundering and terrorist financing methods.

*Question 2c.* What procedures are in place to share this information with the other departments and agencies that may encounter alternative financing mechanisms in their investigations? If specific procedures have not been written, are they being developed? In the meantime, how is the Treasury Department ensuring that this knowledge is shared among the agencies?

Answer. Again, information is shared in a variety of ways, depending on the circumstances. The most obvious example of information availability and exchange is through FinCEN. In the terrorist finance area, not only does FinCEN perform the 314a BLASTFAX function, but it also passes along Terror Finance Hotline tips as soon as they are received.

FinCEN also participates in a variety of multi-agency working groups focused on specific topics, such as alternative finance mechanisms, the Colombian Black Market Peso Exchange and both collects and shares knowledge effectively through those fora. In addition, FinCEN performs networking through its Gateway system and through its own database to ensure that multiple agencies that are accessing the same or similar data are made aware of this for purposes of coordinating their activities and avoiding duplication of effort or interference with ongoing investigations. FinCEN also is home to liaison representatives from each of the principal Federal law enforcement agencies. Through these "on location" liaisons immediate information may be shared in both directions. Finally, FinCEN refers proactive cases and Bank Secrecy Act reports of interest to the appropriate law enforcement agencies.

From an IRS perspective, IRS-CID SAR Coordinators are required to remain in regular contact with the IRS Anti-Money Laundering (AML) Compliance Groups within their districts. Often, SAR Coordinators make presentations to the AML Groups in an effort to educate them about how to detect hawalas and look for signs of other financial criminal activity. The AML group agents often discuss the results of suspect compliance reviews with CID.

SAR Coordinators take the lead in running SAR Review Teams in their field offices. The Review Teams, as well as HIFCA sites, hold regular meetings with larger agencies such as the FBI, DEA and DHS/ICE in attendance. These meetings create a forum not only for SAR dissemination, but also for discussion about alternative financing mechanisms. Several CID field offices have separate but coordinated MSB projects in place, particularly since the USA PATRIOT Act sentencing enhancement of U.S.C. Title 18 Section 1960—Operation of An Unlicensed Money Service Business.

Again, IRS' JTTF liaisons are responsible for making their respective JTTFs aware of alternative financing methods. This is achieved by the liaisons keeping in close contact with the FBI Field Office TFOS representative (the FBI special agent responsible for keeping FBI HQ aware of all cases with financial elements). Often,

CID works alternative financing investigations in partnership with FBI and ICE. IRS-CID likewise has an agent assigned to the TFOS at FBI HQ. information flows in both directions.

*Question 3.* I am very concerned about terrorist organizations' use of charities for laundering money and financing their terrorist activities around the world. According to the GAO report on the use of alternative financing mechanisms, the IRS is required to establish procedures to share data on the use of charitable organizations by terrorist organizations. Have the procedures been written yet? Can I obtain a copy of them?

Answer. IRS expedited the completion of the recommendation to establish procedures and guidelines to regularly share data on charities as allowed by Federal law by one year to December 31, 2003. The procedures have been published in IRM 7.28.2. I am attaching a copy.

*Question 4.* The President recently announced the creation of the Office of Terrorism and Financial Intelligence within the Treasury Department.

- Please explain in greater detail the role and scope of this new office.
- How do the new efforts of this office differ from those at the Departments of Justice and Homeland Security that also have analytical and investigative functions to combat money laundering and terrorist financing?
- How will these functions be coordinated with the Departments of Justice and Homeland Security to ensure that the Treasury Department's efforts are not redundant?
- How does this new office fit into the Treasury Department's organizational chart and how does it change the focus of Treasury's efforts to combat financial crimes?

Answer. Subsequent to my appearing before the Drug Caucus, on April 29, Treasury Deputy Secretary Samuel Bodman testified before the Senate Committee on Banking, Housing and Urban Affairs. I am attaching a copy of that testimony, as well as an exchange of letters with the Congress that preceded the establishment of the new Office. Below follows an extract of Deputy Secretary Bodman's testimony discussing the new Office.

"On March 8th, 2004, Treasury formally announced the creation of this office, entitled the Office of Terrorism and Financial Intelligence (TFI) in the Department of the Treasury. On March 10th, the President announced that he would nominate Stuart Levey, currently the Principal Associate Deputy Assistant Attorney General, for the Under Secretary position, and Juan Zarate, currently the Deputy Assistant Secretary in charge of terrorist financing at Treasury, for one of the two Assistant Secretary positions. Both of those nominations have since been transmitted to the Senate. We are working diligently to identify the most qualified individual to serve as the Assistant Secretary for Intelligence. In the meantime, we have appointed a very capable Deputy Assistant Secretary to get this office up and running.

The creation of TFI 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 the 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 have two major components. An Assistant Secretary will lead the Office of Terrorist Financing. The Office of Terrorist Financing will build on the functions that have been underway at Treasury over the past year. In essence, this will be the policy and outreach apparatus for the Treasury Department on the issues of terrorist financing, money laundering, financial crime, and sanctions issues. The office will help to lead and integrate the important functions of OFAC and FinCEN.

This office will continue to assist in developing, organizing, and implementing U.S. Government strategies to combat these issues of concern, both internationally and domestically. This will mean increased coordination with other elements of the U.S. Government, including law enforcement and regulatory agencies. This office will continue to represent the United States at international bodies dedicated to fighting terrorist financing and financial crime such as the Financial Action Task Force and will increase our multilateral and bilateral efforts in this field. We will use this office to create global solutions to these evolving international problems. In this regard, we will also have a more vigorous role in the implementation of measures that can affect the behavior of rogue actors abroad.

Domestically, this office will be charged with continuing to develop and implement the money laundering strategies as well as other policies and programs to fight financial crimes. It will continue to develop and help implement our policies and regulations in support of the Bank Secrecy Act and the PATRIOT Act. We will further increase our interaction with Federal law enforcement and continue to work closely with the Criminal Investigators at the IRS—including integration of their Lead Development Centers, such as the one in Garden City, New York—to deal with emerging domestic and international financial crimes of concern. Finally, this office will serve as a primary outreach body—to the private sector and other stakeholders—to ensure that we are maximizing the effectiveness of our efforts.

A second Assistant Secretary will lead the Office of Intelligence and Analysis. In determining the structure of OIA, we have first focused on meeting our urgent short-term needs. We have assembled a team of analysts to closely monitor and review current intelligence threat reporting. These analysts, who are sitting together in secure space in the Main Treasury building, are ensuring that Treasury can track, analyze any financial angles, and then take any appropriate action to counter these threats. Treasury will make sure to coordinate with all relevant agencies, including the Terrorist Threat Integration Center (TTIC).

In the near term, the Department plans to further develop our analytical capability in untapped areas, such as strategic targeting of terrorist financial networks and their key nodes. We also plan to analyze trends and patterns and non-traditional targets such as hawalas and couriers. In order to accomplish these goals, we plan to hire several new analysts as well as to draw on additional resources from OFAC and FinCEN. The precise number of analysts has yet to be determined—as we are still ensuring that we have the proper leadership in place and that we do not disrupt our important ongoing efforts. Certain specifics, such as the physical location of the analysts, will be determined by a number of factors, including expertise, skills mix, and lessons learned as we go.

This Assistant Secretary will focus on enhancing the Department's relations with the intelligence community—making sure that we are not duplicating the efforts of other agencies, but instead, are filling any gaps in intelligence targets. Ultimately, we envision that all of Treasury's intelligence analysis will be coordinated through the Office of Intelligence and Analysis. This will include intelligence support for Treasury's senior leadership on the full range of political and economic issues.

As can be seen from the description above, 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. We are confident that TFI will compliment and not duplicate 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."

To answer your more specific intelligence-related questions, and as Deputy Secretary Bodman made clear, the new Office of Intelligence and Analysis component of TFI will address Treasury's lack of an integrated intelligence function that supports the Department, and is linked directly into the Intelligence Community. The office will have two primary functions:

1. Build a robust analytical capability on terrorist finance

OIA will build a robust analytical capability on terrorist finance. The Department of the Treasury needs *actionable intelligence* that can be used to fulfill its missions. 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.

2. Provide intelligence support to other senior Treasury officials

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. OIA will disseminate its work product to all relevant Treasury components, and to others as appropriate.

Finally, we believe the Office will not only improve coordination among the various intelligence analytical units within the Department, but also across the intelligence community. The office will focus on enhancing the Department's relations with the intelligence community. By elevating the intelligence function within

Treasury to an Assistant Secretary level, it will allow Treasury's enforcement functions to be better integrated into the national intelligence community. We also will do all possible to ensure that we are not duplicating the efforts of other agencies, but will work to plug financial intelligence gaps. The Office will serve as the centralized point of contact for intelligence issues, and already is beginning to play this role in the interagency process. For example, we are establishing a relationship with DHS' counterpart, the Office of Information Analysis, to ensure close coordination, and mutual support.

*Question 5.* During the hearing, Senator Coleman requested that each agency provides a list of the various money laundering and terrorist financing coordinating task forces in which it participates. Please provide that list for the record.

Answer. IRS-CID task force participation:

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

- Anti-Terrorism Advisory Council (ATTF)—DOJ
- Strategic Information Operations Center (SIOC)—FBI
- Representation in FBI's Terrorist Financing Operations Section (TFOS).
- Suspicious Activity Report-Review Team (SAR-RT)—designed to analyze and evaluate all suspicious activity reports filed through CBRS.

- Treasury Working Group on Terrorist Financing and Charities
- Organized Crime Drug Enforcement Task Forces (OCDETFs)
- Interpol—The CI Liaison to the U.S. 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 Fusion Center)—Coordinates law enforcement and other financial information relating to Iraq.

- High Intensity Drug Trafficking Area (HIDTA).
- The High Intensity Money Laundering and Related Financial Crime Area (HIFCA) Task Forces—HIFCAs analyze Bank Secrecy Act and other financial data and analyze potential criminal activity, including terrorist financing. IRS CID notes that twenty-six percent of its 150 open terrorism-financing JTTF investigations are the result of, or involve, Bank Secrecy Act data.

In addition, Treasury participates on the Terrorist Financing PCC, as well as its subgroups that identify, target and work to build international consensus for U.S. efforts.

*Question 6.* The purpose of the Financial Crimes Enforcement Network (FinCEN) is to provide valuable investigative tools and analytical data to Federal, State and local law enforcement agencies to pursue money laundering leads, as well as the ability for those agencies to link with other participating agencies to increase coordination and reduce the redundancy of investigative efforts.

*Question 6a.* The President's budget provided for a significant increase in funding for FinCEN during FY 2004. Please explain how this funding will be used specifically to strengthen the coordination and sharing of information between law enforcement and the financial communities.

Answer. As described in the President's FY 2005 Budget, FinCEN has requested \$1.533 million and four FTEs for program increases to: expand access to Bank Secrecy Act information through the Gateway System by increasing the current 1,000 law enforcement users to over 3,000 users by FY 2008; enhance regulatory support to newly covered industries (i.e., mutual funds, operators of credit card systems, life insurance companies, unregistered investment companies, and the precious metals, stones, and jewelry industries) required under the USA PATRIOT Act; and to procure financial and administrative services. FinCEN is also requesting a \$2.5 million transfer of funds from the Internal Revenue Service for the deployment and maintenance of the Bank Secrecy Act (BSA) Direct System. Through BSA Direct, FinCEN will improve law enforcements' access to the critical BSA data by integrating the data into a consolidated, modern web-based data warehouse. BSA Direct will include sophisticated web query and reporting tools and a web portal. Law enforcement and regulatory agencies will gain easier, faster data access and enhanced ability to query and analyze the BSA data, improvements that are expected to lead to increased use of the BSA data. BSA Direct will also aid FinCEN's ability to network agencies with overlapping interests, and augment our ability to audit and assess the usage of the BSA data. The remaining funds of \$5.738 million are required for program costs due to mandates of the USA PATRIOT Act and mandatory cost increases.

*Question 6b.* What analytical data and/or reports has FinCEN produced specifically regarding alternative financing mechanisms to assist law enforcement in un-



derstanding and pursuing these methods? Please provide me with copies of these reports.

Answer. FinCEN has produced several reports on alternative financing mechanisms over the past few years. These reports (copies attached) include the following: Report to the Congress on Informal Value Transfer Systems as required under Section 359 of the USA PATRIOT Act, dated November 2002; FinCEN Advisory on Informal Transfer Systems, Issue 33, dated March 1, 2003; and the Suspicious Activity Review, Trends, Tips and Issues, Issue 6, dated November 2003.

*Question 6c.* What mechanisms exist for the Department of the Treasury or FinCEN to receive feedback from law enforcement agencies on the usefulness of the information FinCEN has provided to them? If so, please provide documentation on that feedback and whether the results have been used to modify data and services to strengthen the process.

Answer. Immediately following its creation, FinCEN recognized the importance of receiving feedback from its law enforcement and regulatory users of the various products it produced and circulated. FinCEN includes Feedback Forms with the material it sends out in its proactive and reactive casework, both domestic and international, concerning the utility of the information and analysis provided by FinCEN. Once the Feedback Form is returned, it is examined and recorded in FinCEN's internal systems. If any negative information is provided, the respondent is contacted to determine why the information was not helpful.

It is also important to note that requesters of assistance from FinCEN normally interface with a FinCEN analyst or liaison during some phase of the processing and preparation of the research request. Suggestions or comments received during that process are routinely brought to the attention of the appropriate personnel at FinCEN. Furthermore, in February 2004, in an effort to enhance support of reactive cases, FinCEN's Gateway program began to actively solicit feedback on the information provided by FinCEN through Gateway, including such areas as whether the information was useful during the investigation of the case, post-arrest, post-indictment, and/or in preparation for and during trial or sentencing. In addition, as mentioned earlier, many Federal law enforcement agencies have representatives assigned as liaisons to FinCEN, and they are able to give regular feedback and recommendations. All this feedback is continually reviewed as part of an ongoing assessment of how best to support FinCEN's clients.

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QUESTIONS FOR HON. KAREN P. TANDY, ADMINISTRATOR,  
U.S. DRUG ENFORCEMENT ADMINISTRATION

*Question 1.* During the hearing, we heard testimony from the GAO about the government's current capabilities and challenges in addressing alternative financing mechanisms. I am very concerned that the use of these money laundering methods is not currently being addressed systematically.

Please tell me what the DEA is doing to address all methods of money laundering in a systematic and strategic manner. Does the DEA have specific procedures in place to educate and train law enforcement officials about the various methods being used by criminal and terrorist organizations?

Answer. A number of initiatives have been launched in support of the Administrator's vision to transform not only the organization and operation of the Drug Enforcement Administration (DEA) regarding financial investigations, but also the fundamental mindset. The Office of Financial Operations at DEA Headquarters was established to build and oversee all of DEA's financial investigative programs. The implementation of Financial Investigative Teams (FIT) in each DEA domestic field division, Colombia, Mexico and Thailand was done in support of the recent mandate that each DEA investigation have a financial component.

Sharing information on drug financial investigations with other agencies is essential, both to assist in the fight against terrorism and to improve overall coordination and cooperation for financial investigations. The DEA participates in multi-agency initiatives with Internal Revenue Service-Criminal Investigations (IRS-CI) and U.S. Immigration and Customs Enforcement (ICE) to coordinate bulk cash programs and initiatives attacking the Black Market Peso Exchange (BMPE) through combined regulatory and enforcement actions. For example, the DEA recently seized over \$10 million under Operation CHOQUE pursuant to this program. We have also initiated an International Liaison Officer Exchange Program with the National Crime Squad in the United Kingdom. Our national wire remitter database with IRS-CI collates and analyzes wire transmissions from several of the largest wire remitting companies to detect facilitating drug payments. The DEA's Special Operations Division

(SOD) established a financial database to track and deconflict bank accounts receiving drug proceeds. SOD shares this information with multiple Federal agencies.

With the DEA's renewed emphasis on financial investigations, the Office of Training has updated and expanded its financial investigations training program to ensure that the DEA offers the most up-to-date information. In addition to the initial basic asset forfeiture, financial investigation, and money laundering training for newly hired investigators, the DEA has developed one basic and two comprehensive financial programs to increase DEA personnel and Task Force Officers investigative and prosecutorial effectiveness. The Office of Financial Operations also provides specialized training for upper and middle management and senior special agents assigned to field Financial Investigative Teams (FIT) with an emphasis on Attorney General Exempted Operations. DEA's Office of Training provides oversight and guidance to each Field Division's Training Coordinator, Asset Removal Group Supervisor, and Financial Investigative Group Supervisor in coordinating and conducting financial training in the field to DEA personnel, State and local officers, and contract officers. DEA's SOD provides personnel with training on the exploitation of telecommunications to further financial investigative development. A one-week asset forfeiture program and specialized money laundering training programs for international law enforcement personnel and prosecutors from various foreign countries are also offered. DEA also helped to develop and is sending a large number of its agents to attend the new Financial Investigations Training Course developed by the Organized Crime Drug Enforcement Task Force (OCDETF) and the Department of Justice's Asset Forfeiture and Money Laundering Section. This course is being offered every month in 2004 and 2005 in locations around the country.

*Question 1a.* How many active investigations is the DEA currently conducting that involve alternative financing mechanisms such as those addressed in the GAO report?

Answer. The DEA is presently conducting the following: eight active drug money laundering Attorney General Exempted Operations involving the Black Market Peso Exchange; seven investigations involving the Hawala Informal Value Transfer System; and an operation addressing the transmission of drug proceeds through the money remitting industry.

*Question 2.* I am very concerned that the various departments and agencies with jurisdiction over certain aspects of money laundering, which includes terrorist financing, tell me that they are coordinating their efforts, but I continue to see redundant programs and activities that tells me otherwise.

According to the 1999 and 2000 National Money Laundering Strategies, the FBI, DEA, and IRS were to become active participants in the in the Money Laundering Coordination Center (MLCC). In what capacity have you participated in the MLCC? How has participation enhanced DEA's money laundering investigations and activities?

Answer. DEA queries made to the Money Laundering Coordination Center (MLCC) are on a case-by-case basis and have often resulted in obtaining additional money laundering evidence as recently illustrated by the prosecution of the Panamanian Free Trade Zone gold dealer, Speed Joyeros. This case was investigated by DEA's Panama Office, with the assistance of the Government of Panama, and prosecuted in the Eastern District of New York by the Justice Department's Asset Forfeiture and Money Laundering Section and Narcotic and Dangerous Drug Section. The DEA believes that the SOD financial database, coupled with its telephone database and case coordinating capabilities, provides a more comprehensive support mechanism that is better suited for DEA money laundering investigations. The presence and control of the SOD financial investigative group by an ICE Assistant Special Agent in Charge allows for an immediate exchange of information between DEA and ICE.

*Question 2a.* What intelligence has the DEA provided to the MLCC regarding the Black Market Peso Exchange and trade-based money laundering systems?

Answer. Deconfliction coordination and telephone and financial account information on all the DEA BMPE and trade-based undercover operations have been made available through SOD.

*Question 2b.* The 2002 National Money Laundering Strategy provided that ICE have investigative jurisdiction over bulk cash smuggling. How is the DEA coordinating its bulk cash smuggling efforts with ICE?

Answer. Jurisdiction for criminal enforcement is governed by statute, regulation, and interagency agreement. Currently, jurisdiction for money laundering investigations where the "designed purpose" of the targeted transaction is to avoid the filing of a Currency and Monetary Instrument Report (CMIR) lies with ICE and any agency with historical jurisdiction over the illegal activity that generated the funds.

DEA has proposed a national bulk cash “pipeline” initiative, and has invited ICE and IRS-CI to participate. The goal of this initiative is to create a central intelligence repository for all bulk cash seizures. Representatives of DEA, ICE, and IRS-CI have met and are discussing procedures that will ensure effective communication, sharing, and coordination between the agencies. DEA has also proposed and spearheaded a multi-agency working group to identify the flow of drug proceeds to and from Mexico in order to assess vulnerabilities of the money laundering systems for investigation and exploitation. In addition, DEA coordinates some bulk cash investigations with ICE through OCDETF.

*Question 2c.* According to Administrator Tandy’s testimony, DEA will be concentrating its money laundering investigations on bulk cash smuggling and the BMPE. Why has this jurisdiction been taken away from ICE and the MLCC?

Answer. Jurisdiction has not been taken away from ICE and the MLCC. As stated above, jurisdiction for money laundering investigations where the “designed purpose” of the targeted transaction is to avoid the filing of a CMIR lies with ICE and any agency with historical jurisdiction over the illegal activity that generated the funds. In order for DEA to address the financial side of the illegal drug industry more effectively, it must address bulk cash smuggling and the BMPE, which are two of the major money laundering techniques employed by drug organizations.

*Question 3.* During the hearing, Senator Coleman requested that each agency provides a list of the various money laundering and terrorist financing coordinating task forces in which the DEA participates. Please provide that list for the record.

Answer. At the headquarters level, DEA participates in all interagency working groups related to money laundering. DEA participates in the New York, Miami, Los Angeles, San Francisco, and Texas High Intensity Financial Crime Area (HIFCA) Task Forces. DEA also participates in the South Florida IMPACT Money Laundering Task Force and numerous Suspicious Activity Report Review Teams throughout the country. While DEA does not actively participate in task forces coordinating investigations of terrorist financing, a special unit at SOD is responsible for sharing all SOD gathered information relating to terrorism with appropriate agencies in addition to the assignment of a special agent on a full-time basis to the FBI Joint Terrorism Task Force Command Center.

*Question 4.* During hearing testimony, Administrator Tandy announced a new DEA initiative to address drug distribution via the internet.

Please describe the initiative in greater detail, including how the initiative will address the money laundering aspect of this process.

Answer. DEA has developed and implemented an information management system to systematically identify rogue pharmacies using the Internet to divert controlled substances. This technological breakthrough allows DEA to detect pharmaceutical diversion and coordinate similar enforcement efforts with other Federal agencies without interrupting the supply of controlled substances to meet legitimate needs. With respect to money laundering, any transactions where individuals attempt to conceal the true nature, source ownership, or control of the illegal proceeds can constitute a money laundering violation. The financial trail from those transactions could be used to document such violations.

*Question 4a.* How will this initiative be coordinated with other departments and agencies that may have jurisdiction over specific aspects of money laundering investigations?

Answer. DEA’s Special Operations Division (SOD) presently coordinates and mutually shares investigative and intelligence resources with the FBI, ICE, and IRS-CI, as well as with the Criminal Division of the Department of Justice and the United States Attorneys’ Offices, in a concentrated and centralized environment.

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QUESTIONS FOR MICHAEL T. DOUGHERTY, DIRECTOR OF OPERATIONS, BUREAU OF IMMIGRATION AND CUSTOMS ENFORCEMENT

*Question 1.* The MOU between the Departments of Justice and Homeland Security provided that the FBI will have responsibility for reviewing all money laundering leads to determine if there is a tie to terrorist financing. In other words, any money laundering leads and investigations initiated by the Department of Homeland Security can only proceed after the FBI determines that there is no terrorist financing nexus.

Answer. Your question does not accurately characterize the MOA between DHS and DOJ. ICE continues to investigate all money laundering activities within its jurisdiction, including those with a potential nexus to terrorist financing. The overwhelming majority of these cases are not related to terrorism and are not subject to the MOA.

Pursuant to the MOA, ICE vets leads and investigations that could have a demonstrative nexus to terrorism or terrorist financing through the FBI. That vetting process is described in the next response.

*Question 1a.* Have the final departmental procedures for reviewing leads and investigations been fully implemented and can I get a copy of them?

Answer. Pursuant to the May 13, 2003 MOA between DHS and DOJ, ICE and the FBI designed and adopted appropriate protocols for reviewing leads and investigations with a possible nexus to terrorism on June 30, 2003. These protocols delineate the collaborative process to determine if an investigation falls into the terrorist-financing category.

ICE established a Joint Vetting Unit (JVU) to identify financial leads or investigations with a potential nexus to terrorism or terrorist financing. The JVU is staffed by ICE and FBI personnel who have full access to ICE and FBI databases in order to conduct reviews to determine whether a demonstrative terrorism or terrorist financing nexus exists in a given financial lead.

Throughout this collaborative vetting process, the determination of whether an ICE investigative referral or investigation is related to terrorist or terrorist-financing is governed by the factors delineated in the MOA. The FBI has assigned a senior manager who is collocated within ICE's JVU. ICE has a senior level manager assigned to the FBI's Terrorist Financing Operations Center (TFOS) as the Deputy Section Chief. As Deputy Section Chief of TFOS, ICE is fully integrated in the role of evaluating whether an ICE referral or investigation has a nexus to terrorism or terrorist financing.

"If a matter is determined to have a sufficient terrorism nexus and is transitioned to the relevant JTTF, both the FBI-TFOS 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 be given significant roles to include leading avenues of the investigation and serving as lead case agents, or affiants, on investigations and prosecutions developed by ICE prior to the transition or in the course of the JTTF assignment."

*Question 1b.* How has this MOU affected the Department's ability to follow money laundering leads and conduct subsequent investigations?

Answer. The MOA has had no discernible impact on ICE's ability to pursue all money laundering leads within its jurisdiction.

*Question 1c.* How many leads and/or investigations has DHS sent to the FBI thus far, and how many have been determined to have links to terrorist financing?

Answer. Prior to the creation of ICE, Operation Green Quest, the Customs-led terrorist finance task force, referred more than 7,000 subject records to the FBI for vetting. Following implementation of the MOA, ICE submitted the same subject records to the FBI. In February 2004, the FBI completed its review of these names. None of the leads were found to have a discernable nexus to terrorist financing with the exception of investigations the FBI was already aware ICE was conducting. Specifically, these investigations related to an approximate 32 investigations the FBI knew ICE was conducting prior to implementation of the MOA, which the FBI believed had a nexus to terrorism. This joint determination was made in October 2003, four months prior to the FBI's completion of vetting the original 7,000 subjects referred by ICE.

*Question 1d.* What problems have you encountered with the current FBI turn-around time for reviewing these leads? Have any delays adversely affected the viability of any leads or investigations?

Answer. The cooperative vetting process is working and functioning smoothly. In January 2004, the FBI assigned a senior level manager to be co-located with ICE at the JVU. Since that time, the FBI turn-around time for reviewing most leads is 24-hours or less. Between June 2003 and January 2004 the vetting time ranged between one to six months.

*Question 2.* I am very concerned about ensuring that our governmental agencies have procedures in place to address money laundering in a comprehensive and coordinated manner. Many of my concerns were reiterated in the GAO report on alternative financing mechanisms which stated that we do not have a system in place for addressing the use of these methods. Within ICE, Operation Cornerstone could be used to address alternative financing mechanisms.

*Question 2a.* How many current investigations is Cornerstone conducting that involve alternative financing mechanisms? Why types of mechanisms do they involve?

Answer. ICE is a leading expert in investigating alternative financing mechanisms and, together with its predecessor, the U.S. Customs Service, has long-recognized that these non-traditional mechanisms present a vulnerability that money launderers can exploit.

A founding pillar of Cornerstone is to investigate those systems, such as alternative financing mechanisms, that are used by money launderers to undermine the economic security of the U.S.

Through Cornerstone, ICE has investigated money laundering that takes place through the following alternative financing schemes: unlicensed money remitters, hawala, Black Market Peso Exchange, precious metals and stones, the purchase and export of vehicles and other luxury assets, stored value, customs fraud involving trademark and intellectual property rights, fraudulent loans related to real estate, and imported goods. This is by no means a comprehensive list.

In FY 2003, ICE conducted approximately 6,800 financial investigations. The ICE case management system does not differentiate between money laundering cases involving alternative financing mechanisms and those exploiting the traditional financial system. ICE would have to conduct a manual review of each of these investigations to determine how many used alternative financing mechanisms.

*Question 2b.* How many arrests and convictions have been made that involve alternative financing systems?

Answer. As noted in the above answer, ICE's case management system does not readily distinguish cases involving alternative financing systems. However, it is possible to identify and quantify investigations relating to violations of 18 U.S.C. 1960, the Operation of an Unlicensed Money Remitter. In FY 2003, ICE investigations resulted in 46 arrests and 19 convictions for violation of this provision.

The USA PATRIOT Act amended this law, making it a violation to operate a remitter that does not have an appropriate state license and/or is not registered with the Financial Crimes Enforcement Network. Many ICE investigations of hawalas are subsequently prosecuted under this law, although some have been prosecuted for other violations, such as money laundering and violations of the International Emergency Economic Powers Act.

*Question 2c.* How does this fit in with the provisions of the MOU between DHS and Justice regarding terrorist financing investigations?

Answer. ICE continues to investigate all money laundering activities within its jurisdiction. As explained above, the overwhelming majority of these cases—including cases where the launderer uses alternative financial systems—are not related to terrorism and are not subject to the MOA.

Cornerstone is the unit within the ICE Financial Investigations Division charged with identifying vulnerabilities in financial and trade systems that criminal organizations exploit to earn, move and store illicit proceeds. Cornerstone seeks to address these vulnerabilities in a variety of ways, including conducting appropriate investigations and by providing information to the private sector through outreach that will enable businesses to detect criminal activity.

*Question 2d.* Please describe how Cornerstone affects the current focus of ICE's money laundering investigations, and its participation in the Money Laundering Coordinating Center.

Answer. Cornerstone and the MLCC are both within the same Financial Division, however they are in separate units. Therefore if a financial lead were identified through the Cornerstone initiative, the information would then be vetted through the MLCC.

The Cornerstone initiative, initiated by ICE in July 2003, is an approach which compliments ICE's money laundering investigations by identifying the systemic vulnerabilities utilized by criminal organizations to further their illicit activities. The initiative was designed to identify systemic vulnerabilities in U.S. business sectors involved in cross border commerce that could be exploited by criminal organizations. This includes financial, commercial, trade, manufacturing, and transportation sectors operating throughout the United States and around the world. Each of these sectors encompasses a variety of components that significantly impact cross-border movements of merchandise, people and currency.

As systemic vulnerabilities are identified, the Cornerstone initiative seeks to mitigate the threat posed by these vulnerabilities, and when possible, eliminate the vulnerability entirely. To accomplish this, the Cornerstone program seeks to aggressively foster partnerships with the private sector and other state, local and Federal agencies. The Cornerstone program provides the private sector with information on trends, patterns and "Red Flag" indicators observed from criminal investigations through an aggressive liaison program, training sessions, and a quarterly publication called The Cornerstone Report. Through this aggressive outreach program, ICE provides vital information to the front line managers and operators of the very systems criminal organizations seek to exploit. Through the exchange of information and education process, the private sector will have a better understanding of the vulnerabilities that exist within their industry and can take measures to eliminate or mitigate these vulnerabilities.

In addition to our private sector outreach program, ICE agents are also actively working with the FBI, FinCEN, Department of Treasury, and other State, local, and Federal law enforcement and regulatory agencies. These agencies also play a major role in securing our homeland and have a vital interest in many of the same sectors as ICE.

*Question 3.* During the hearing, Senator Coleman requested that each agency provides a list of the various money laundering and terrorist financing coordinating task forces in which it participates. Please provide that list for the record.

Answer. ICE serves in numerous formal and informal task forces in each of its principal field offices. These task forces range from informal, where they are convened upon specific circumstances, to formal task forces such as the ICE-led El Dorado Task Force in New York, the New York OCEETF Strike Force and the numerous HIDTA and HIFCA task forces throughout the country. At the headquarters level, ICE participates in two formal financial initiatives: the ICE/FBI Joint Vetting Unit and the DEA Special Operations Division.

The ICE/FBI Joint Vetting Unit (JVU) is comprised of ICE Financial Investigations personnel and FBI Terrorist Financial Operations Section (TFOS) personnel. The ICE/FBI JVU ensures a collaborative effort in the sharing of information and in the conduct of criminal investigations related to terrorist financing.

The DEA Special Operations Division (SOD) has an ICE-led financial section staffed by ICE and other agency personnel. The SOD serves as a coordination center for telephone and other electronic information identified during narcotic investigations.

*Question 4.* Because the Department of Homeland Security was not in existence in 1998, you were not designated to assist in the development of the National Money Laundering Strategy. I strongly support reauthorization of the Strategy, one that will have stronger provisions for leadership and funding for HIFCAs, to ensure that it implemented on time and put into use by our pertinent agencies.

*Question 4a.* What role should DHS have in the development of a future Strategy?

Answer. DHS should have a co-equal role with the Departments of Justice and Treasury in the development, drafting, and implementation of the National Money Laundering Strategy (NMLS). The legacy U.S. Customs Office of Investigations, which was part of the Treasury Department, always played an extremely significant role in developing and executing the NMLS. Through its merger with the legacy investigative division of INS, this role has become even more significant.

Historically, ICE has been at the forefront of conducting complex and high-impact financial investigations for over 30 years. To cite a few examples: the Bank of Commerce and Credit International (BCCI) in Tampa; Operation Greenback in South Florida; Operation Casablanca in Los Angeles; and Operation Green Mile in Phoenix. ICE leads New York's El Dorado Task Force and Miami's Foreign Political Corruption Task Force. These operations and task forces alone have resulted in the seizure of almost one billion dollars in criminal proceeds. DHS's involvement in the development, drafting, and implementation of the NMLS is essential to the United States Government's efforts to identify, disrupt and dismantle organizations and systems used to launder proceeds of criminal activities. DHS has vast investigative authority and plays a major role in protecting the economic security of the nation.

*Question 4b.* Please tell me what specific changes ICE would like to see for any legislation that would reauthorize the Strategy to ensure that we get a useful document.

Answer. ICE does not believe that it would be appropriate to comment on any proposed legislation that would impact many executive branch departments.

*Question 4c.* If you were in charge of the HIFCA program, what type of leadership structure would you implement, how would you structure the HIFCAs, and how much funding would you need to ensure their effectiveness?

Answer. 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.

*Question 5.* I am very concerned that the various departments and agencies with jurisdiction over certain aspects of money laundering, which includes terrorist fi-

nancing, tell me that they are coordinating their efforts, but I continue to see redundant programs and activities that tells me otherwise.

*Question 5a.* According to the 1999 and 2000 National Money Laundering Strategies, the FBI, DEA, and IRS were to become active participants in the Money Laundering Coordination Center (MLCC). To what extent have these agencies participated? How has participation enhanced the ICE's money laundering investigations and activities?

Answer. The MLCC does not receive personnel support from any 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 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. ICE continues to encourage and welcome participation in the MLCC from the FBI, IRS and DEA, as well as other agencies that may have an interest in its services, as full participation by these agencies would enhance the MLCC's ability to coordinate and de-conflict financial investigations for all participating agencies.

*Question 5b.* According to Administrator Tandy's testimony, the DEA will be concentrating its money laundering investigations on bulk cash smuggling and the Black Market Peso Exchange. How does this affect the focus and jurisdiction of the MLCC?

Answer. The BMPE and bulk cash smuggling (BCS) are major program areas for ICE, and ICE expends a significant amount of agent hours and resources to targeting and investigating these systems. ICE believes it has exclusive primary investigative authority over the BCS Statute, 31 U.S.C. 5322.

The BCS is part of the Bank Secrecy Act (BSA) and an element of the offense is smuggling. To establish a violation of the BCS statute, it must be shown that a person knowingly concealed cash or other monetary instruments in excess of \$10,000 with the intent to evade 31 U.S.C. 5316, Currency and Monetary Instruments Reporting (CMIR) and transported or transferred the monetary instruments across the border, or attempted to do the same. Legacy Customs had exclusive jurisdiction for investigating CMIR violations and ICE's exclusive investigative jurisdiction over the Bulk Cash Smuggling statute derives from its CMIR jurisdiction, see 31 CFR 103.56. Pursuant to the Savings Provisions of the Homeland Security Act these authorities transferred to DHS.

Additionally, ICE's jurisdiction is noted in the 2002 National Money Laundering Strategy (NMLS)—signed by the Attorney General and the Secretary of Treasury—on Page 23, footnote 29, and states the following:

*"As of May 3, 2002, Operation Oasis has seized over \$13 million in bulk cash. The Customs Service (DHS/ICE) has primary jurisdiction for enforcing those regulations requiring the reporting of the international transportation of currency and monetary instruments in excess of \$10,000 (31 U.S.C. § 5316 et al.). The USA PATRIOT Act has enhanced the Customs Service ability to investigate these activities by making inbound and outbound smuggling of bulk cash a criminal offense for which Customs has exclusive investigative jurisdiction (31 U.S.C. § 5332(a)). By criminalizing this activity, Congress has recognized that bulk cash smuggling is an inherently more serious offense than simply failing to file a Customs report."*

This assertion, however, does not preclude other Federal agencies, including the DEA, from pursuing prosecutions related to BCS. ICE recognizes that money laundering is an important component of drug investigations and that other agencies will pursue prosecutions in this arena. If other agencies propose to use BCS as a tool in pursuing their investigations they should be closely coordinated with respective ICE Investigative field offices. ICE also recognizes that there is an important need for coordination of these investigations among Federal agencies. ICE is very open to working with other agencies on BCS and BMPE initiatives and is currently in the process of developing coordinated investigations related to these violations.

Finally, DEA's intention to concentrate its money laundering investigations in bulk cash and the BMPE will not change the focus of the MLCC. The MLCC will continue to promote and support BMPE investigations. Additionally, ICE is currently expanding the tools utilized to further enhance BMPE investigations through the use of NIPS and the MLCC, and is prepared to coordinate with other agencies and offer assistance during joint investigations.

*Question 6.* During hearing testimony, Administrator Tandy announced a new DEA initiative to address drug distribution via the Internet.

*Question 6a.* What initiatives does ICE currently have in place regarding electronic crimes?

Answer. The DHS-ICE Cyber Crimes Center (C3) was established in 1998 to investigate Internet-related crimes and to provide computer forensics services in support of the ICE mission. Since its inception C3 has conducted significant investigations, which include proactive undercover operations, across the entire scope of ICE investigative program areas. These program areas include: Child Pornography and Child Exploitation, Intellectual Property Rights and Fraud, Drug Trafficking and Smuggling, Counter-Terrorism and National Security, Money Laundering, Identification and Immigration Document Fraud, and Pharmaceutical Drug importation.

To specifically address the problem of drug distribution facilitated by the Internet, C3, in co-operation with the IPR Center in Washington, D.C. and the ICE Fraud division, has initiated Operation APOTHECARY. This proactive undercover initiative targets the illegal sale of prescription drugs (controlled substances) online. The ICE Cyber Crimes Center is concentrating on foreign and domestic Internet pharmacies, with a focus on those pharmacies involved with the smuggling and distribution of counterfeit prescription drugs and controlled substances. The operation communicates with, make purchases from, and attempts to identify the operators of these Internet pharmacies. The objective is to provide ICE field offices with the necessary information and evidence that will result in arrests, seizures, and convictions. In executing this operation, C3 is coordinating with foreign law enforcement via the designated ICE Attache office, and with security components from the pharmaceutical industry.

*Question 6b.* Please describe how the DEA's initiative differs from the current ICE investigations being conducted by the electronic crimes task forces.

Answer. Based on information provided by DEA to ICE C-3, the DEA Online Investigative Project (OIP) differs from ICE's Operation APOTHECARY in that OIP appears to be a long term investigative, assessment, and analytical tool, while the ICE's Operation APOTHECARY is a direct investigative/enforcement operation of an undetermined but shorter duration. Operation APOTHECARY also proactively identifies and collects evidence leading to the apprehension and arrest of violators engaged in illegal on-line Internet drug sales and the seizure of property and proceeds. The impact of these arrests and seizures will be the removal of illegal pharmacy web sites from the Internet, and provides a deterrent to others already involved in this activity, or are contemplating involvement.

*Question 6c.* Have you been approached by the DEA to ensure that their Internet initiative does not conflict with the current programs and investigations being conducted by ICE?

Answer. Based on the description of the DEA program, there appears to be no conflict between the DEA and ICE initiatives, in fact, information developed by both should prove mutually beneficial. ICE C3 currently maintains liaison with the DEA through a variety of channels and avenues described below, and deconflicts investigative information to prevent any possible crossovers or duplication of effort.

ICE C3 and the DEA are joint participants, along with CBP, the FDA, and the DOJ Computer Crimes Intellectual Property Section, in the Interagency Pharmaceutical Task Force. This task force was established to address the issue of importations of pharmaceuticals and controlled drugs. The task force has also developed an enforcement operation, known as "Operation Safety Cap", which was designed to look at passenger imports of pharmaceuticals from Mexico. The task force consists of five working groups that collaborate in the areas of improving information sharing, data systems, public outreach, working cooperatively with industry, and mail express consignment facilities. All of which assist the task force in identifying targets for enforcement action.

Another enforcement group that ICE C3 and the DEA, as well as the FDA, are members of is the Permanent Forum on International Pharmaceutical Crime. It is an international enforcement forum aimed at protecting public health and safety through the exchange of information and ideas to foster mutual co-operation in combating pharmaceutical crime. This forum is a combination of scientists, investigators, inspectors, and various regulatory officials. The countries represented are mostly European countries and the United States.



ICE C3, the DEA, and the FDA are also active participants in the Department of Justice Interagency Working Group. The purpose of this working group is to promote interagency communication on Internet pharmacy law and policy, as well as to establish consistency with the interpretation of criminal and civil statutes with the U.S. Attorneys' offices, Main Justice, and other Federal entities. In addition, the working group shares intelligence, resources, case successes, and strategies regarding potential pitfalls in investigations and trial preparation.

QUESTIONS FOR GARY M. BALD, ACTING ASSISTANT DIRECTOR, COUNTERTERRORISM DIVISION, FEDERAL BUREAU OF INVESTIGATION

*Question 1.* During the hearing, both the FBI and the Treasury Department stated that they would like to continue to have any National Money Laundering Strategy coordinated between the two departments. However, DHS has ongoing money laundering investigations and a vested interest in the development of a strategy.

*Question 1a.* What should be DHS's role in the development of any new money laundering strategy?

Answer. The former United States Customs Service is a component of the Department of Homeland Security (DHS) and DHS is, appropriately, highly involved in the investigation and prosecution of money laundering matters. We would welcome DHS involvement in the development of a money laundering response strategy.

*Question 1b.* In addition to requiring only a biannual strategy, what specific changes would you like to see included in legislation to reauthorize the Strategy to ensure that we get a useful document?

Answer. We are not requesting any legislative changes at this time.

*Question 1c.* If you were in charge of the HIFCA program, what type of leadership structure would you implement, how would you structure the HIFCAs, and how much funding would you need to ensure their effectiveness?

Answer. Currently, the Department of Justice is working with other agencies (e.g., the Department of the Treasury) to address this issue. We anticipate that the report will be completed in the relatively near future.

*Question 1d.* According to the 1999 and 2000 National Money Laundering Strategies, the FBI, DEA, and IRS were to become active participants in the Money Laundering Coordination Center (MLCC). In what capacity have you participated in the MLCC? How has participation enhanced the FBI's money laundering investigations and activities?

Answer. While the FBI maintains contact with the Money Laundering Coordination Center (MLCC), it does not participate on a day-to-day basis because of questions regarding the security of sensitive FBI information if passed to and housed at the MLCC. FBIHQ is working with the MLCC to address these concerns.

*Question 2.* The MOU between the Departments of Justice and Homeland Security provided that the FBI will have responsibility for reviewing all money laundering investigative leads to determine if there is a tie to terrorist financing. In other words, any money laundering leads and investigations through the Department of Homeland Security can only proceed after the FBI determines that there is no terrorist financing relationship.

*Question 2a.* Have the final departmental procedures for reviewing these leads and investigations been fully implemented and can I get a copy of them?

*Question 2b.* Based on these procedures, how are terrorist financing links determined and what is the current turn-around time for reviewing these leads?

*Question 2c.* How many leads and/or investigations have been sent from ICE to the FBI thus far and how many of these leads have been determined to have links to terrorist financing?

*Question 2d.* In addition, what is current status of the leads with links to terrorist financing? What happens to the leads that are determined to have no links to terrorism?

Answer. "Collaborative Procedures Pertaining to the Memorandum of Agreement (MOA) Between the Department of Justice (DOJ) and Department of Homeland Security (DHS)" were developed shortly after the implementation of the MOA. These "Collaborative Procedures" remain in effect. The FBI defers to DOJ with respect to the provision of this DOJ document.

All Immigration and Customs Enforcement (ICE) investigations that contain terrorist or terrorist-financing links are forwarded to the FBI's Terrorist Financing Operations Section (TFOS), which will determine whether the investigation should be coordinated, jointly investigated, or transferred to the respective field office Joint Terrorism Task Force (JTTF). Among other reviews, TFOS will query FBI databases to determine whether an investigation is related to an ongoing JTTF terrorism in-

vestigation and, if so, TFOS will so advise Operation Cornerstone personnel at ICE Headquarters. In all instances where a terrorism nexus is identified, TFOS, ICE, and the JTTF work jointly, share all information, and cooperatively make investigative decisions. All factors, as delineated in the MOA, are taken into consideration before TFOS determines a course of investigative action. Turn-around time ranges from hours to days depending on the complexity of the investigation and/or associated nexus to an on-going JTTF terrorism case.

As of 02/20/2004, ICE had provided 30 cases to the FBI for review (some of these cases were already being worked by the JTTFs). Out of the 30, the FBI and ICE identified 10 cases that had definite connections to terrorism or terrorist financing, and these were duly transitioned to appropriate JTTFs. The remaining 20 cases either had no clear terrorism nexus or were transferred to the JTTF for further investigation. Additionally, in September 2003 ICE provided to the FBI electronic records of over 7,000 subjects. These records have been compared to FBI databases and the results are currently being analyzed by the FBI's detailee to Operation Cornerstone. Initial analysis indicates that approximately 86 subject records have a potential nexus to ongoing terrorism or terrorist financing investigative matters. The data continues to be manipulated by TFOS' Proactive Data Exploitation Group to identify other possible connections to ongoing terrorist investigations. As new cases and investigations are generated by ICE and Operation Cornerstone, the FBI detailee to ICE reviews the information and forwards any relevant information to the appropriate FBI Headquarters division or field office.

In instances where an ICE investigation has a tie to terrorism, appropriate field offices and corresponding JTTFs are notified by FBI and ICE headquarters to facilitate investigative coordination. Investigations that contain no link to terrorism are so documented.

*Question 3.* During the hearing, Senator Coleman requested that each agency provides a list of the various money laundering and terrorist financing coordinating task forces in which it participates. Please provide that list for the record.

*Answer.* Currently, all 56 FBI field offices have JTTFs, and each JTTF is assigned an FBI agent to serve as its Terrorism Financing Coordinator (TFC). Also in every FBI field office, agents are assigned to a financial crimes task force that works closely with the respective JTTF on all money laundering matters that might affect a counterterrorism (CT) case. These task forces are part of the FBI's Criminal Investigative Division, and they work with their local and Federal counterparts on financial crimes investigations. Several of the JTTF and financial crimes task forces are staffed with Internal Revenue Service personnel to assist in the coordination of financial investigations. Additionally, ICE investigative personnel have been assigned to both groups in an overall effort to combat money laundering and terrorism financing schemes. The TFC for each office is also tasked to work with the various financial crimes task forces in their communities in order to establish coordination between traditional white collar crime investigations and investigations involving terrorism financing.

In addition, the FBI participates in the National Security Council's Policy Coordinating Committee on Terrorism Financing, which is chaired by the Department of the Treasury. The FBI also participates in the Terrorism Financing Working Group (TFWG), which is chaired by the Department of State. The TFWG provides training and assistance to designated countries on terrorist financing issues.

*Question 4.* I am very concerned about ensuring that our governmental agencies have procedures in place to address money laundering in a comprehensive and coordinated manner. However, the GAO report on alternative financing mechanisms noted that the FBI currently does not have a system in place for collecting and analyzing data on the use of these mechanisms.

*Question 4a.* Since the release of the GAO report, has the FBI established a system to collect and analyze data on alternative financing mechanisms?

*Question 4b.* If not, does the FBI have a plan to address alternative financing mechanisms in the future?

*Question 4c.* If so, please describe the plan and the time line for implementation.

*Answer.* The FBI's TFOS is responsible for providing a centralized and coordinated financial investigative component which includes both predictive capability and a terrorist identification mechanism. TFOS' primary goals are the identification, disruption, and dismantlement of terrorist networks and their funding mechanisms. To this end, TFOS coordinates information sharing with myriad law enforcement entities in the United States and in countries around the world. TFOS is responsible for ensuring that appropriate law enforcement entities and intelligence agencies are apprised of current trends in terrorism financing. TFOS also works to provide the training, support, and cutting-edge technology to assist these entities in combating terrorism.

The FBI has initiated or completed various measures to address GAO's recommendation that the FBI systematically collect and analyze data concerning the use of alternative financing mechanisms. These measures include the following:

a. The establishment of specifically defined intelligence requirements to guide the Bureau's intelligence collection efforts.

The FBI has recently implemented an independent "intelligence requirements and collection" management function within its Office of Intelligence. As a result, and based on recognized intelligence gaps regarding terrorist financing activities, the FBI has developed specific intelligence requirements, which are tied to various known indicators of terrorist financing activity. These indicators are being distributed throughout the FBI as part of its bureau-wide intelligence requirements and collection management process so that all FBI Field Divisions and Headquarters operational and intelligence components will be aware of these well-defined requirements.

b. The inclusion of questions in the FBI's CT Annual Field Office Report (AFOR) pertaining to terrorist financing.

The CT AFOR is an essential component of national program management within the FBI Counterterrorism Division (CTD), and asks each FBI field office to report to FBI Headquarters information pertaining to its major counterterrorism investigations, intelligence base, and investigative operations and techniques. Required in the AFOR are responses pertaining to: the tracking, locating, and monitoring of terrorism investigation subjects through the use of financial information; the use of financial information to obtain evidence or otherwise further investigations against these subjects; the identification of Non-Governmental Organizations (NGOs) with links to terrorism; the identification of criminal activity associated with terrorist funding; the identification of terrorist funding mechanisms (i.e., hawalas, cash couriers, and business fronts); the identification of emerging trends pertaining to terrorist financing techniques; and the development of strategies to inform and educate the financial community on terrorist financing matters.

c. The establishment of the Program Management and Coordination Unit (PMCU) within TFOS.

The PMCU, created in January 2004, is responsible for oversight of the terrorist financing program and implementation of protocols and procedures to track and assess results achieved by investigative and analytical resources within the FBI. The PMCU, once fully staffed, will be well-positioned to identify emerging trends across the spectrum of terrorist financing. Among the factors tracked by the PMCU will be the various funding mechanisms used by different subjects of FBI counterterrorism investigations—to include alternative financing mechanisms. TFOS and PMCU are currently in the process of designing a method of collecting information related to terrorist financing and organizing it to permit easy identification of terrorist financing methods, perpetrators of these crimes, and the organizations they are supporting. The PMCU also works closely with the Financial Crimes Section of the FBI's Criminal Investigative Division in order to ensure that all money laundering and financial crimes investigations are reviewed for a possible nexus to terrorist financing.

The PMCU will also serve as the coordinating entity for the International Terrorism Financing Working Group (ITFWG), which includes law enforcement and intelligence agency representatives from the United Kingdom, Canada, Australia, and New Zealand, and addresses international aspects of terrorist financing investigations. These invaluable partnerships will provide additional sources of information regarding alternative financing mechanisms and emerging terrorist financing trends.

The measures undertaken by the FBI to more systematically collect and analyze data concerning the use of alternative financing mechanisms will greatly enhance the FBI's ability to recognize, respond to, and ultimately disrupt or dismantle the terrorist organizations that rely on them.

*Question 5.* The FBI has dedicated significant investigative resources to address the issue of terrorist financing. The President's budget provides approximately \$4.5 billion in funding in FY 2004 for the FBI alone. Additionally, the President's budget provides \$5.1 million in FY 2005 to increase the number of Agents dedicated to investigations.

*Question 5a.* How has the FBI restructured its squads and headquarters support in the reassignment of resources that specifically target the money laundering activities of terrorist organizations?

*Question 5b.* What additional resources does the FBI need to better address the issues that deal with the illegal money laundering and terrorist activities?

Answer. TFOS implemented a program in 2003 to ensure that each of the 56 FBI Field Offices has a TFC to address all terrorist financing issues (some of the FBI's

larger resident agencies also have TFCs. The TFCs regularly report to TFOS' PMCU, which serves as the point of contact for TFCs regarding operational and training matters. In addition, each field office has established a Field Intelligence Group (FIG). Among the FIG's responsibilities is the coordination of financial intelligence at the field level, including intelligence related to terrorist financing. The PMCU and the FIGs communicate regularly regarding field financial intelligence related to terrorism.

TFOS includes five operational units which assist the two CTD International Terrorism Operations Sections to investigate and exploit terrorist financing intelligence. These five TFOS units work in coordination with the FBI's field offices in an effort to further the terrorism cases that may benefit from this level of coordination because of their complexity, geographical scope, or other factors. On-site intelligence collection and analysis is performed domestically and overseas by TFOS agents, financial analysts, and intelligence specialists. TFOS teams are routinely deployed to ensure adequate exploitation of financial information and to assist on priority terrorism cases.

The FBI works with DOJ to develop funding requests in light of the many competing requirements for limited resources, and will continue to strive to ensure that the FBI's top priority—protection of the United States from terrorist attack—receives adequate resources.

*Question 6.* In passing Title III of the USA PATRIOT Act in the wake of the September 11 attacks, Congress and the Bush Administration have comprehensively revamped U.S. anti-money laundering laws to increase their effectiveness as a tool to trace and eliminate funding for foreign terrorists and terrorist organizations and to pressure cooperation by other nations and their financial institutions in this effort.

*Question 6a.* How has the USA PATRIOT Act impacted the detection, investigation, prosecutions and disruption of terrorist financing?

*Question 6b.* What is the difference in the number of prosecutions for money laundering that were related to terrorist groups prior to the enactment of the USA PATRIOT Act compared to the number of convictions that occurred after its enactment?

Answer. The USA PATRIOT Act has broken down barriers to the sharing of information within the U.S. Government. This statute facilitates cooperation between United States Government agencies and other entities to ensure that terrorists are identified, thoroughly investigated, and prosecuted to the fullest extent. Additionally, the USA PATRIOT Act provides tools that assist the FBI and others to identify, freeze, and effect forfeiture of terrorist assets.

Based on anecdotal evidence, the FBI believes the number of convictions for material support of terrorism has increased since passage of the USA PATRIOT Act. The FBI is in the process of compiling statistics that reflect the number of arrests, indictments, and convictions in these areas of which the FBI is aware.