



Testimony

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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





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

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/getrpt?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 or Richard Stana at (202) 512-8777.

COMBATING TERRORISM

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

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.

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?

Our testimony is based on two reports we have provided to this Caucus¹ and a recently issued report² 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.

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

¹U.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.

²U.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).

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

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

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,³ charities, and informal banking systems, sometimes referred to as hawala.⁴ 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

³The 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.

⁴According 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.

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.⁵ 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.⁶ 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 2003.⁷ 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

⁵According 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.

⁶See [GAO-03-813](#).

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

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.

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

financing mechanisms.⁸ 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:

⁸Once 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 oversight⁹ 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)¹⁰ 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

⁹The 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).

¹⁰The 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.

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.

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.

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.¹¹ 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

¹¹See [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.¹²

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.¹³

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

¹²See [GAO-03-813](#).

¹³The 2003 NMLS was issued on November 18, 2003.

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 Act¹⁴ 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

¹⁴Currency 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).

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

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.

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.

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.

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.

GAO Contacts and Staff Acknowledgments

For further information about this testimony, please contact Loren Yager at (202) 512-4128 or Richard M. Stana at (202) 512-8777. Other key contributors to this statement were Christine M. Broderick, Danny R. Burton, Barbara I. Keller, R. Eric Erdman, Kathleen M. Monahan, Tracy M. Guerrero, and Janet I. Lewis.

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