

**Opening Statement
Chairman Mark Souder**

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

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

May 11, 2004

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

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

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

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

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

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

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

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

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

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

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

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

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

The Subcommittee has also called a second panel made up of an expert in financial investigations from the Government Accounting Office and a former Assistant Commissioner of

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

On our first panel we have representatives from four governmental agencies responsible for the investigation of individuals and organizations suspected of financial crimes, as well as three governmental agencies charged with the oversight, and implementation of federal financial policies and statutes. From Immigration and Customs Enforcement we are pleased to have testify, Ms. Marcy Forman, Deputy Assistant Director of Financial Investigations. From the Drug Enforcement Agency we are pleased the have testify Mr. Donald Semesky, Chief of The Office of Financial Operations. From the Federal Bureau of Investigations we are pleased to have testify, Mr. Michael Morehart, Section Chief of The Terrorist Financing Operations Section. From The Internal Revenue Service we are please to have testify, Mr. Dwight Sparlin, Director, Operations, Policy, and Support for The Criminal Investigations Branch. From the Financial Crimes Enforcement Network (FinCEN) we are pleased to have testify, Mr. Bob Werner, Chief of Staff. From the Department of Treasury we are pleased to have testify, Mr. Daniel Glaser, Director, Executive Office for Terrorist Financing and Financial Crimes. From the Department of Justice we are pleased to have testify, Mr. John Roth, Chief of The Criminal Division's Asset Forfeiture and Money Laundering Section.

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