

**Testimony of Michael F.A. Morehart, Section Chief,
Terrorist Financing Operations Section
Counterterrorism Division**

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

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

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

The FBI's Counterterrorism program has made comprehensive changes in order to meet its primary mission of detecting, disrupting and defeating, or more simply put, preventing terrorist operations before they occur. We have spent the past two and a half years transforming operations and realigning resources to meet the threats of the post-September 11th environment.

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

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

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

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

can use the full resources of the entire task force when required. Moreover, all agencies have full access to each others' information systems and files.

Subsequent to the events of September 11, 2001, the United States Customs Service was mandated to investigate terrorism financing. This was achieved via the initiation of "Operation Green Quest." Green Quest attained a number of successes, but represented, in some measure, a duplicative effort and reinforced the need for a centralized coordinating entity. Consequently, a Memorandum of Agreement (MOA) pertaining to the investigation of terrorism financing was entered into between the Department of Justice (DOJ) and the Department of Homeland Security (DHS). The MOA addressed the importance of DOJ, FBI and DHS waging a seamless, coordinated law enforcement campaign relative to terrorist financing

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

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

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

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

If a matter is determined to have a sufficient terrorism nexus and is transitioned to the relevant JTTF, both the FBI and ICE are mindful that ICE agents devoted substantial efforts in initiating and developing their case prior to the transition. Recognizing this, ICE and the FBI have agreed that ICE agents assigned to those JTTF investigations will serve as lead case agents in the investigations and prosecutions developed by ICE. Both agencies understand that the coordinated tasking and utilization of ICE and FBI resources, coupled with joint collaborative decision-making on strategy and operational issues, as well as the sharing of intelligence, will ensure that all investigative avenues are explored, and all intelligence gathering and investigative tools are properly employed.

The application of the MOA allowed the FBI and ICE to exchange senior personnel. In this vein, a senior manager from the Financial Investigations Division of ICE currently serves as the Deputy Chief of the FBI's TFOS. The ICE Deputy Chief has a fully integrated role in the evaluation and

determination of whether an ICE investigation has a nexus to terrorism or terrorist financing. The ICE Deputy Chief has full access to FBI databases and other resources as he deems necessary. Likewise, the FBI assigned a senior manager from TFOS to the ICE Financial Division to participate in the vetting process and the generation of leads to TFOS.

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

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

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

With respect to the 2003 National Money Laundering Strategy, the FBI concurs with the strategy's goals and objectives as set forth by the Treasury Department. The blocking of terrorist assets worldwide, establishing and promoting international legal standards for adoption by other countries to safeguard their financial infrastructures from abuse and facilitating the exchange of international information are several key objectives which must be achieved if law enforcement and regulatory agencies are to have any success in stemming the flow of illegal funds throughout the world.

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

By their very nature, money laundering and terrorist financing are geared towards secrecy and do not lend themselves to statistical analysis. Money launderers do not document the extent of their operations or publicize the amount of their profits, nor do those who finance terrorism. Moreover, because these activities take place on a global basis, estimates are even more difficult to produce.

The FBI's efforts to combat terrorism have been greatly aided by the provisions of the USA PATRIOT Act and, pursuant to the 2003 National Money Laundering Strategy, the FBI is ensuring its vigorous and appropriate application. It has already proven extraordinarily beneficial in the war on terrorism. Most importantly, the PATRIOT Act has facilitated the sharing of information within the law enforcement and intelligence communities. Title III of the Act, also known as the International Money

Laundrying Anti-Terrorist Financing Act of 2001, has armed us with a number of new tools in our efforts to identify and track the financial structures supporting terrorist groups.

Past terrorist financing methods have included the use of informal systems for transferring value in a manner that is difficult to detect and trace. The effectiveness of such methods should be significantly eroded by the PATRIOT Act, which establishes stricter rules for correspondent bank accounts; requires securities brokers and dealers to file Suspicious Activity Reports, or SARS; and money transmitting businesses, which include any person who engages as a business in the transmission of money, to register with the Financial Crimes Enforcement Network (FinCEN) and file SARS. There are other provisions of the Act that have considerably aided the efforts of law enforcement to address the terrorist threat including: strengthening the existing ban on providing material support to terrorists and terrorist organizations; the authority to seize terrorist assets; and the power to seize money subject to forfeiture in a foreign bank account by authorizing the seizure of funds held in a US correspondent account. The FBI understands that combating terrorist financing is a mission that cannot be accomplished independently. The need for information sharing and close cooperation cannot be overstated.

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