
October 2005

TERRORIST FINANCING

Better Strategic Planning Needed to Coordinate U.S. Efforts to Deliver Counter-Terrorism Financing Training and Technical Assistance Abroad



Highlights of GAO-06-19, a report to congressional requesters

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Why GAO Did This Study

Terrorist groups need significant amounts of money to organize, recruit, train, and equip adherents. U.S. disruption of terrorist financing can raise the costs and risks and impede their success. This report (1) provides an overview of U.S. government efforts to combat terrorist financing abroad and (2) examines U.S. government efforts to coordinate training and technical assistance. We also examined specific accountability issues the Department of the Treasury faces in its efforts to block terrorists' assets held under U.S. jurisdiction.

What GAO Recommends

GAO recommends that the Secretaries of State and the Treasury implement an integrated strategic plan and a Memorandum of Agreement for the delivery of training and technical assistance. Congress should also consider requiring the Secretaries of State and the Treasury to report the status of that implementation. State disagreed with our recommendations for an integrated strategy and Memorandum of Agreement. Treasury did not directly address these recommendations. While Treasury did not disagree with implementing an integrated strategic plan, it limited the plan's coverage to priority countries. We make additional recommendations to Treasury concerning Treasury's terrorist asset blocking efforts with which Treasury did not agree.

www.gao.gov/cgi-bin/getrpt?GAO-06-19.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or yager@gao.gov.

What GAO Found

U.S. efforts to combat terrorist financing abroad include a number of interdependent activities—terrorist designations, intelligence and law enforcement, standard setting, and training and technical assistance. First, the U.S. government designates terrorists and blocks their assets and financial transactions and supports similar efforts of other countries. Second, intelligence and law enforcement efforts include operations, investigations, and exchanging information and evidence with foreign counterparts. Third, U.S. agencies work through the United Nations and the Financial Action Task Force on Money Laundering to help set international standards to counter terrorist financing. Fourth, the U.S. government provides training and technical assistance directly to vulnerable countries and works with its allies to leverage resources.

The U.S. government lacks an integrated strategy to coordinate the delivery of counter-terrorism financing training and technical assistance to countries vulnerable to terrorist financing. Specifically, the effort does not have key stakeholder acceptance of roles and procedures, a strategic alignment of resources with needs, or a process to measure performance. First, the Department of Treasury does not accept the Department of State leadership or the State-led Terrorist Financing Working Group's (TFWG) procedures for the delivery of training and technical assistance abroad. While supportive of the Department of State's role as coordinator of TFWG efforts, the Department of Justice officials confirmed that roles and procedures were a matter of disagreement. Second, the U.S. government does not have a clear presentation and objective assessment of its resources and has not strategically aligned them with its needs for counter-terrorist financing training and technical assistance. Third, the U.S. government, including TFWG, lacks a system for measuring performance and incorporating results into its planning efforts.

The Treasury faces two accountability issues related to its terrorist asset blocking efforts. First, Treasury's Office of Foreign Assets Control (OFAC) reports on the nature and extent of terrorists' U.S. assets do not provide Congress the ability to assess OFAC's achievements. Second, Treasury lacks meaningful performance measures to assess its terrorist designation and asset blocking efforts. OFAC is in the process of developing more meaningful performance measures aided by its early efforts to develop an OFAC-specific strategic plan. Officials stated that OFAC's new performance measures will be completed by December 1, 2005, and its strategic plan will be completed by January 1, 2006; however, they did not provide us with documentation of milestones or completion dates.

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Abbreviations

ADB	Asian Development Bank
CTC	Counter-Terrorism Committee
FATF	Financial Action Task Force
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
FSRB	FATF-Style Regional Body
GPRA	Government Performance and Results Act
ILEA	International Law Enforcement Academy
IMF	International Monetary Fund
NSC	National Security Council
OFAC	Office of Foreign Assets Control
OPDAT	Office of Overseas Prosecutorial Development, Assistance and Training
OTA	Office of Technical Assistance
TFFC	Terrorist Financing and Financial Crimes
TFWG	Terrorist Financing Working Group
UN	United Nations

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United States Government Accountability Office
Washington, D.C. 20548

October 24, 2005

The Honorable Charles E. Grassley
Chairman
Caucus on International Narcotics Control
United States Senate

The Honorable Susan M. Collins
Chairman
Committee on Homeland Security
and Governmental Affairs
United States Senate

The Honorable Richard J. Durbin
United States Senate

After the September 11, 2001, attacks, the United States and its allies quickly recognized the urgent need to detect, dismantle, and deter terrorist financing networks around the world. Disrupting terrorist financing can raise the terrorists' costs and risks of gathering and moving assets and is necessary to impede their ability to carry out significant operations. Terrorist financiers operate more easily in countries with systems that enable them to hide their efforts without difficulty. As the United Nations reports, more than ever before, security threats are interrelated and a threat to one country is a threat to all.¹ No country by its efforts alone can make itself invulnerable to today's threats. It is in every country's interest, accordingly, to cooperate with other countries to address their most pressing threats, because doing so will maximize the chances of reciprocal cooperation to address its own threat priorities.

You asked us to address specific U.S. efforts to combat terrorist financing abroad as a follow-up to our previous work² on the nature and extent of terrorists' use of alternative financing mechanisms.³ In this report, we (1)

¹A More Secured World: Our Shared Responsibility, United Nations, December 2004.

²See GAO, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms*, GAO-04-163 (Washington, D.C.: Nov. 14, 2003).

³Alternative 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.

provide an overview of U.S. government efforts to combat terrorist financing abroad and (2) examine U.S. government efforts to coordinate the delivery of training and technical assistance to vulnerable countries. In addition, you requested that we examine specific accountability issues the Department of the Treasury (Treasury) faces in its efforts to block terrorists' assets held under U.S. jurisdiction.

In conducting our review, we examined documentation and interviewed officials from U.S. agencies, including the Departments of State, the Treasury, Justice, Homeland Security, and Defense, as well as from the intelligence community. We also assessed information from the United Nations (UN), Financial Action Task Force (FATF) on Money Laundering, World Bank and International Monetary Fund (IMF). We conducted field work in Pakistan, Indonesia, and Paraguay.⁴ At these locations, we assessed information from government, law enforcement, nongovernmental organizations, regional organizations, and donor government officials, as well as U.S. embassy officials. Although we requested a meeting, we did not obtain access to the National Security Council (NSC), which is responsible for the overall coordination of the interagency framework for combating terrorism including the financing of terrorist operations. However, the U.S. agencies provided the necessary information that we needed to conduct our work and support our findings, conclusions, and recommendations. We performed our work from April 2004 to July 2005 in accordance with generally accepted government auditing standards. For further details about our scope and methodology, see appendix I.

Results in Brief

U.S. government efforts to combat terrorist financing abroad include a number of interdependent activities—terrorist designations, intelligence and law enforcement, standards setting, and training and technical assistance. First, the U.S. government designates terrorists and blocks their assets and financial transactions and supports similar efforts of other countries. Second, U.S. intelligence and law enforcement conduct operations, investigations, and exchange information and evidence with each other and their respective counterparts abroad. Third, U.S. agencies work primarily through two international entities, the UN and the intergovernmental FATF on Money Laundering, to help set international

⁴State identified these countries as major money laundering countries among the 55 jurisdictions of primary concern in its March 2005 International Narcotics Control Strategy Report.

standards to counter terrorist financing efforts. Fourth, the U.S. government provides training and technical assistance directly to vulnerable countries and works with its allies to leverage resources for those efforts.

The U.S. government lacks an integrated strategy to coordinate the delivery of counter-terrorism financing training and technical assistance to countries it deems vulnerable to terrorist financing. Specifically, the effort does not have key stakeholder acceptance of roles and procedures, a strategic alignment of resources with needs, or a process to measure performance. First, Treasury, a key stakeholder, does not accept the Department of State's (State) position that it leads all U.S. counter-terrorism financing training and technical assistance efforts to vulnerable countries. State's position is based on NSC guidance. Moreover, disagreements continue between some Treasury and State officials concerning State-led Terrorist Financing Working Group (TFWG) coordination for the delivery of training and technical assistance to priority countries—about two dozen of the most vulnerable countries. While supportive of a State role as coordinator of TFWG efforts, the Department of Justice (Justice) confirms that State's position as lead of training and technical assistance to countries beyond those listed as priority lacks recognition in practice. Further, Treasury does not agree with the TFWG procedures for coordinating the delivery of training and technical assistance abroad. Justice officials noted that having procedures that differ for TFWG priority countries and other vulnerable countries has created problems. Second, the U.S. government has not strategically aligned its resources with its needs to deliver counter-terrorism training and technical assistance to vulnerable countries. The U.S. government does not have a clear presentation of what funding is available for counter-terrorism financing training and technical assistance and TFWG has not assessed the suitability of available U.S. and international resources. Third, the U.S. government, including TFWG, does not have a system in place to measure the performance results of its delivery of training and technical assistance to vulnerable countries and to incorporate this information into its planning efforts.

Treasury faces two accountability issues related to its terrorist asset blocking efforts. First, federal law requires Treasury to provide annual reports to Congress that describe the nature and extent of the terrorists' assets held in the United States; however, these reports do not provide the reader the ability to assess achievements made. These reports are prepared by Treasury's Office of Foreign Assets Control (OFAC). Second, Treasury

lacks meaningful performance measures to assess its terrorist designation and asset blocking efforts. While Treasury has developed some limited performance measures, OFAC officials acknowledged that the measures could be improved and contribute to Treasury's overall goal of disrupting and dismantling terrorist financing networks. OFAC officials said they have initiated efforts to develop more meaningful performance indicators aided by efforts to develop an OFAC-specific strategic plan. In Treasury's technical comments on our draft report, officials stated that they expect OFAC's new performance measures to be completed by December 1, 2005, and its new strategic plan to be completed by January 1, 2006; however, they did not provide us with documentation of milestones or a completion date.

In this report we recommend that the Secretary of State and the Secretary of the Treasury, in consultation with NSC and relevant government agencies, develop and implement an integrated strategic plan for the U.S. government to coordinate the delivery of training and technical assistance that includes stakeholder involvement, an alignment of resources with needs, and a process to measure performance and use results. We further recommend that the secretaries of State and of the Treasury enter into a Memorandum of Agreement to ensure a seamless campaign in providing counter-terrorism financing training and technical assistance programs to vulnerable countries. We also recommend that the Secretary of the Treasury provide more complete information on the nature and extent of asset blocking in the United States in its annual *Terrorist Assets Report* to Congress and complete its efforts to develop an OFAC-specific strategic plan and meaningful performance measures by January 1, 2006, and December 1, 2005, respectively, to guide and assess its asset blocking efforts. In addition, Congress should consider requiring that the Secretary of State and the Secretary of the Treasury submit an annual report to Congress on the status of the development and implementation of the integrated strategic plan and Memorandum of Agreement for the delivery of training and technical assistance.

State disagreed with our recommendations for the development and implementation of an integrated strategy and Memorandum of Agreement concerning the coordination of the delivery of training and technical assistance, stating that they already have documents that serve as an integrated strategy and an interagency agreement. Treasury did not directly address our recommendation for an integrated strategic plan or a Memorandum of Agreement. Treasury proposed a new title, "Integrated U.S. Strategic Plan Needed to Improve the Coordination of

Counterterrorism Finance Training and Technical Assistance to Certain Priority Countries,” which suggests agreement with the recommendation, but limits coverage of the integrated strategic plan to cover certain priority countries. Further, Justice stated that the fact that it was not included as an equal partner with State and Treasury in the recommendation and the Memorandum of Agreement was a critical omission. We do not agree that the documentation State provided constituted an integrated strategy because the effort, in practice, does not have key stakeholder buy-in on roles and practices, a strategic alignment of resources with needs, or a system to measure performance and use results and thus, an integrated strategy is still needed. Moreover, we continue to believe that the recommendation and Memorandum of Agreement should be directed to the Secretaries of Treasury and State because these agencies both primarily fund and support these efforts. Additionally, in response to our recommendation that the Secretary of the Treasury provide more complete information on the nature and extent of asset blocking in the United States in its annual *Terrorist Assets Report* to Congress, Treasury responded in its technical comments that we should “instead recommend that Congress consider discontinuing the requirement that Treasury produce the annual report altogether.” We continue to believe that the reports, with incorporated changes, would be useful to policy makers and program managers in examining their overall achievements of U.S. efforts to block terrorists’ assets.

Background

Funds that support terrorist activity may come from illicit activities, such as counterfeit goods, contraband cigarettes, and illicit drugs, but are also generated through means such as fundraising by legal non-profit entities. According to State, it is the terrorists’ use of social and religious organizations and, to a lesser extent, state sponsorship, which differentiates their funding sources from those of traditional transnational organized criminal groups. While actual terrorist operations require only comparatively modest funding, international terrorist groups need significant amounts of money to organize, recruit, train, and equip new adherents and to otherwise support their activities.

Simply, the financing of terrorism is the financial support, in any form, of terrorism or of those who encourage, plan, or engage in it.⁵ Some international experts on money laundering continue to find that there is little difference in the methods used by terrorist groups or criminal organizations in attempting conceal their proceeds by moving them through national and international financial systems. These experts simply define the term “money laundering” as the processing of criminal proceeds to disguise their illegal origin in order to legitimize their ill-gotten gains. Disguising the source of terrorist financing, regardless of whether the source is of legitimate or illicit origin, is important to terrorist financiers. If the source can be concealed, it remains available for future terrorist financing activities.

The President established a Policy Coordination Committee under the auspices of NSC to ensure the proper coordination of counter-terrorism financing activities and information sharing among all agencies including the departments of Defense, Justice, Homeland Security, State, and the Treasury, as well as the intelligence and enforcement community. Treasury’s OFAC is the lead U.S. agency for administering economic sanctions, including blocking the assets of terrorists designated either by the United States unilaterally, bilaterally, or as a result of UN Security Council Resolution designations.⁶

The international community has acted on many fronts to conduct anti-money laundering and counter-terrorism financing efforts. For example, the UN has adopted treaties and conventions that once signed, ratified, and implemented by member governments have the effect of law and enhance their ability to combat money laundering and terrorist financing. FATF, an intergovernmental body, has set internationally recognized standards for developing anti-money laundering and counter-terrorism financing regimes and conducting assessments of countries abilities to meet these standards.

⁵World Bank and International Monetary Fund, *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*, (2003). As noted in the Guide, the formal definition of terrorist financing is provided in the United Nations International Convention for the Suppression of the Financing of Terrorism (1999). The difficult issue is that a universally accepted definition for “terrorism” has not been established due to significant political and national implications that differ from country to country. The United Nations continues to work to gain worldwide consensus on the definition of terrorism.

⁶OFAC’s mandate is to require all U.S. persons, including financial institutions, to block targeted assets located in the United States or under the control of a U.S. person outside of the United States.

In addition, the Egmont Group serves as an international network fostering improved communication, information sharing, and training coordination for 101 Financial Intelligence Units (FIU) worldwide.⁷ See appendix II for more information on key international entities and efforts.

Countries vulnerable to terrorist financing activities generally lack key aspects of an effective counter-terrorism financing regime. According to State officials, a capable counter-terrorism financing regime consists of five basic elements: an effective legal framework, financial regulatory system, FIU, law enforcement capabilities, and judicial and prosecutorial processes. To strengthen anti-money laundering and counter-terrorism efforts worldwide, international entities such as the UN, FATF, World Bank and the IMF, as well as the U.S. government, agree that each country should implement practices and adopt laws that are consistent with international standards.⁸

U.S. Efforts to Combat Terrorist Financing Abroad Include a Number of Interdependent Activities

U.S. government agencies participate in a number of interdependent efforts to address the transnational challenges posed by terrorist financing, including terrorist designations, intelligence and law enforcement, international standard setting, and training and technical assistance.

U.S. Government Agencies Use Designations to Disrupt Terrorist Networks

U.S. agencies participate in global efforts to publicly designate individuals and groups as terrorists and block access to their assets. According to Treasury officials, international cooperation to designate terrorists and block their assets is important because most terrorist assets are not within U.S. jurisdiction and may cross borders. According to U.S. government officials, public designations discourage further financial support and

⁷A Financial Intelligence Unit is a central, national agency responsible for receiving, analyzing, and disseminating financial information concerning suspected proceeds of crime or required by national regulation in order to counter money laundering.

⁸International standards are represented by the United Nations International Convention for the Suppression of the Financing of Terrorism and by the FATF's forty recommendations on money laundering and nine special recommendations on terrorist financing.

encourage other governments to more effectively monitor the activities of the designated individual or organization. Importantly, designations may lead to the blocking of terrorist assets, thereby impeding terrorists' ability to raise and move funds and possibly forcing terrorist to use more costly, less efficient, more transparent, and less reliable means of financing.

U.S. agencies led by State have worked with the UN to develop and support UN Security Council resolutions to freeze the assets of designated terrorists. For example, in October 1999, the Security Council adopted UN Security Council Resolution 1267, which called on all member states to freeze the assets of the Taliban, and in December 2000, the Security Council adopted Resolution 1333, imposing targeted sanctions against Osama bin Laden and al Qaeda. Then, in response to the attacks of September 11, 2001, the UN Security Council adopted Resolution 1373, which required all UN member states to freeze funds and other financial assets or economic resources of persons who commit or attempt to commit, participate in, or facilitate terrorist acts. Later in January 2002 the UN Security Council adopted Resolution 1390, which consolidated the sanctions contained in Resolutions 1267 and 1333 against the Taliban, Osama bin Laden, and al Qaeda. In July 2005, the Security Council adopted Resolution 1617, which extends sanctions against al Qaeda and the Taliban and strengthens previous related resolutions. The UN has listed over 300 individuals and over 100 entities for worldwide asset blocks. Additionally, State's Bureau of International Organization Affairs ensures designations related to al Qaeda, the Taliban, or Osama bin Laden are made worldwide obligations through the UN Security Council Resolution 1267 Committee and helped to craft and aided the adoption of UN Security Council Resolution 1373 and assisted in the creation of the UN Counterterrorism Committee to oversee its implementation. The United States has also participated in bilateral efforts to designate terrorists. For example, as of July 2005, the United States and Saudi Arabia jointly designated over a dozen Saudi-related entities and multiple individuals as terrorists or terrorist supporters, according to State.

U.S. agencies including the Departments of Homeland Security (Homeland Security), Justice, State, and Treasury, and other law enforcement and intelligence agencies have implemented an interagency process to coordinate designating terrorists and blocking their assets. For example, State's Economic Bureau coordinates policy implementation at the working level, largely through the network of Terrorism Finance Coordinating Officers located at embassies worldwide. Through this interagency coordination, the agencies work together to develop adequate

evidence to target individuals, groups, or other entities suspected of terrorism or terrorist financing. As the lead agency for the blocking of assets of international terrorist organizations and terrorism-supporting countries, Treasury's OFAC compiles the evidence needed to support terrorist designations conducted under the Secretary of the Treasury's authority. State's Office of the Coordinator for Counterterrorism follows the same process for terrorist designations conducted under the Secretary of State's authority.⁹ State's Bureau of International Organization Affairs may present this evidence to the UN for consideration by its members. According to a senior State official, the agencies work together on a regular basis to examine and evaluate new names and targets for possible designation and asset blocking and to consider other actions such as diplomatic initiatives with other governments and exchanging information on law enforcement and intelligence efforts.¹⁰

U.S. Government Agencies Conduct Intelligence and Law Enforcement Activities Across Borders

The U.S. strategy to combat terrorist financing abroad includes law enforcement techniques and intelligence operations aimed at identifying criminals and terrorist financiers and their networks across borders in order to disrupt and dismantle their organizations. Such efforts include intelligence gathering, investigations, diplomatic actions, sharing information and evidence, apprehending suspects, criminal prosecutions,

⁹State and Treasury designations authorities are set forth in the Antiterrorism and Effective Death Penalty Act of 1996, Section 411 of the USA PATRIOT ACT of 2001, and relevant Executive orders [Executive Order (E.O.) 13224, as amended by E.O. 13268, *Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism*, and E.O. 12947, *Prohibiting Transactions with Terrorists Who Threaten to Disrupt the Middle East Peace Process*.] U.S. persons are prohibited from having dealings and must block the assets within U.S. jurisdiction of terrorists and terrorist groups that are designated by the departments of State and the Treasury, and those who are owned or controlled by, acting for or on behalf of, or materially, financially, or technologically assisting designated terrorists, terrorist groups, or their supporters.

¹⁰According to a State official, designation and asset blocking do not come at the expense of taking appropriate law enforcement action but frequently complement each other. There are cases where in which operational law enforcement action can be initiated quickly to track, prosecute, and shut down terrorists. In other cases, for instance when long-term investigations are under way, the better option may be to designate for asset blocking until law enforcement actions can be undertaken.

asset forfeiture,¹¹ and other actions designed to identify and disrupt the flow of terrorist financing. According to State, in order to achieve results, the intelligence community, law enforcement, and the diplomatic corps must develop and exploit investigative leads, employ advanced law enforcement techniques, and increase cooperation between domestic and foreign financial investigators and prosecutors.

U.S. intelligence and law enforcement agencies work together and with foreign counterparts abroad, sometimes employing interagency or intergovernmental investigative taskforces.¹² U.S. agencies work domestically and through their embassy attachés or officials or send agents on temporary duty to work with their foreign counterparts on matters of terrorist financing, including investigations. The Federal Bureau of Investigation is the lead domestic law enforcement agency on counter-terrorism financing and makes extensive contributions to law enforcement efforts abroad, including through their legal attachés. Homeland Security's Bureau of Immigration and Customs Enforcement attachés and agents conduct work in trade-based money laundering and transporting of cash across borders. The Internal Revenue Service's Criminal Investigation Division has an expertise in nonprofit organizations. The Drug Enforcement Administration focuses on the narcotics trafficking nexus. Moreover, Treasury's Financial Crimes Enforcement Network (FinCEN) is the U.S. government's FIU and, as such, serves as the U.S. government's central point for the collection, analysis, and dissemination of financial intelligence to authorized domestic and international law enforcement and other authorities. Financial intelligence is sent through secured lines among the FIUs belonging to the Egmont Group and shared with law enforcement as part of these investigations.

U.S. Government Agencies Are Active Participants in International Standards Setting Efforts

The U.S. government has taken an active role in the development and implementation of international standards to combat terrorist financing. The UN conventions and resolutions and FATF recommendations on money laundering and terrorist financing have set the international standards for countries to develop the legal frameworks, financial

¹¹According to Justice, asset forfeiture remains the most powerful tool for disrupting and dismantling criminal enterprises of any nature, including terrorist financing.

¹²Agencies include relevant bureaus, divisions, and offices of the Departments of Defense, Homeland Security, Justice, State, and Treasury, and the intelligence community.

regulation, financial intelligence unit, law enforcement, and judicial/prosecutorial elements of an effective counter-terrorist financing regime. Importantly, international cooperation is a cornerstone of these international standards.

The United States has signed each of the relevant UN conventions and implemented its obligations pursuant to UN Security Council Resolutions related to anti-money laundering and counter-terrorism financing. According to State and Justice officials, they have provided training on implementing the conventions, and State officials have drafted UN Security Council Resolutions concerning terrorist financing. For example, according to State, officials from Treasury and State met with the UN Security Council Resolution 1267 Committee in January 2005 to detail U.S. implementation of the resolution's asset freeze, travel ban, and arms embargo provisions and proposed several ideas aimed at reinforcing current sanctions including enhancing the sanctions list, promoting international standards, and improving bilateral and multilateral cooperation.

The U.S. government also plays a major role within FATF to draft and support international standards to combat terrorist financing. Treasury's Office of Terrorism and Financial Intelligence chairs the U.S. delegation to the FATF and has chaired or co-chaired several FATF working groups, such as the FATF Working Group on International Financial Institution Issues and the FATF Working Group on Terrorist Financing. Treasury also develops U.S. positions, represents the United States at FATF meetings, and implements actions domestically to meet the U.S. commitment to the FATF. Other components within Treasury, such as FinCEN, and other U.S. government agencies, including Homeland Security, Justice, and State, and the federal financial regulators, are also represented in the U.S. delegation to FATF. For example, according to department officials, the Department of Justice provided the initial draft for the original eight FATF special recommendations on terrorist financing. Additionally, Homeland Security gave significant input into *Special Recommendation IX on Cash Couriers* due to the department's expertise on detection of criminals' cross-border movements of cash. Moreover, the U.S. government supports efforts to ensure that countries take steps to meet FATF standards. As a member of FATF, the United States participates in mutual evaluations in which each member's compliance with the FATF recommendations is examined and

assessed by experts from other member countries.¹³ Treasury also leads U.S. delegations to FATF-style regional bodies to assist their efforts to support implementation of FATF recommendations and conduct mutual evaluations.

U.S. Government Agencies Provide Training and Technical Assistance to Vulnerable Countries

The U.S. strategy to combat terrorist financing abroad includes efforts to provide training and technical assistance to countries that it deems vulnerable to terrorist financing and focuses on the five basic elements of an effective anti-money laundering/counter-terrorism financing regime (legal framework, financial regulation, FIU, law enforcement, and judicial and prosecutorial processes). According to State, its Office of the Coordinator for Counterterrorism is charged with directing, managing, and coordinating all U.S. government agencies' efforts to develop and provide counter-terrorism financing programs. The NSC established the State-led interagency TFWG to coordinate the delivery of training and technical assistance to the countries most vulnerable to terrorist financing.¹⁴ These countries are known as priority countries of which there are currently about two dozen.¹⁵ According to State's Office of the Coordinator for Counterterrorism, foreign allies inundated the U.S. government with requests for assistance; therefore, TFWG developed a process to prioritize the use of limited financial and human resources. Although other vulnerable countries may be assisted through other U.S. government programs as well as through TFWG, according to State, based on NSC guidance, overall coordination is to take place through the TFWG process. (See appendix III for TFWG membership and process.) TFWG schedules assessment trips, reviews assessment reports, evaluates training proposals, and assigns resources for training. According to State officials, the U.S.

¹³FATF mutual evaluations are conducted using a detailed methodology to assess compliance with the FATF recommendations on money laundering and terrorist financing. This methodology has been endorsed by the IMF, World Bank, and other FATF-style regional bodies. Ultimately, if a member country does not take steps to achieve compliance, membership in the organization can be suspended.

¹⁴The TFWG is co-chaired by State's Office of the Coordinator for Counterterrorism and the Bureau for International Narcotics and Law Enforcement Affairs.

¹⁵The number of priority countries recently expanded from 19. According to State, TFWG conducts a process to identify priority countries for assistance based on consideration of intelligence community analysis of the vulnerabilities, importance to U.S. security, and capacity to absorb U.S. assistance in key states of anti-money laundering/terrorist financing concern. According to NSC guidance, all work in frontline countries is also to be coordinated within TFWG.

government has conducted 19 needs assessment missions and provided training and technical assistance in at least one of the five areas of an anti-money laundering/counter-terrorist financing regime to over 20 countries.

U.S. offices and bureaus, primarily within the departments of the Treasury, Justice, Homeland Security, and State, and the federal financial regulators provide training and technical assistance to countries requesting assistance through various programs using a variety of methods primarily funded by State and Treasury. Methods include training courses, presentations at international conferences, the use of overseas regional U.S. law enforcement academies or U.S.-based schools, and the placement of intermittent or long-term resident advisors for a range of subject areas related to building effective counter-terrorism and anti-money laundering regimes. For example, Justice provides technical assistance on drafting legislation that criminalizes terrorist financing and anti-money laundering. Treasury's Office of Technical Assistance (OTA) provides assistance to strengthen the financial regulatory regimes of countries. In addition, Treasury's FinCEN provides training and technical assistance including assistance in the development of FIUs, information technology assessments, and specialized analytical software and analyst training for foreign FIUs. (See appendix IV for key U.S. counter-terrorism financing and anti-money laundering training and assistance for vulnerable countries.)

According to State, the U.S. government has also worked with international donors and organizations to leverage resources to build counter-terrorism financing regimes in vulnerable countries. According to State officials, they have worked with the United Kingdom, Australia, Japan, the European Union, the Organization of American States, the Asian Development Bank (ADB), IMF, and the World Bank on regional and country-specific projects. According to State, they have also funded the UN Global Program Against Money Laundering to place a mentor in one country for a year to assist with further development of its FIU. Similarly, Treasury officials said the department funded a resident advisor to the ADB as part of the Cooperation Fund for the Regional Trade and Financial Security Initiative. Treasury officials also state they have coordinated bilateral and international technical assistance with the FATF and the international financial institutions, such as the World Bank and IMF, which encompassed the drafting of legal frameworks, building necessary regulatory and institutional systems, and developing human expertise. According to State officials, efforts to share identified priorities and coordinate assistance by the major donor countries took a step forward at the June 2003 G-8 Summit with the establishment of the Counter-Terrorism Action Group, of which

the United States is a member. The Counter-Terrorism Action Group has partnered with the FATF, providing that organization with a list of countries to which its members are interested in providing counter-terrorism financing assistance, so that the FATF could assess their technical assistance needs. FATF delivered those assessments to the Counter-Terrorism Action Group in 2004 and, according to State officials, the donors are now beginning to follow through with assistance programs.

U.S. Government Lacks Integrated Strategy to Coordinate the Delivery of Training and Technical Assistance

The U.S. government lacks an integrated strategy to coordinate the delivery of counter-terrorism financing training and technical assistance to countries vulnerable to terrorist financing. The effort does not have key stakeholder buy-in on roles and practices, a strategic alignment of resources with needs, or a process to measure and improve performance. As a result, the effort lacks effective leadership and consistent practices, an optimal match of resources to needs, and feedback on performance into the decision-making process.

U.S. Effort Lacks Buy-in from Key Stakeholder on Roles and Procedures

U.S. interagency efforts to coordinate the delivery of counter-terrorism financing training and technical assistance lack key stakeholder involvement and acceptance of roles and procedures. As a result, the overall effort lacks effective leadership, which leads to less than optimal delivery of training and technical assistance to vulnerable countries, according to agency officials. We have previously found that building a collaborative management structure across participating organizations is an essential foundation for ensuring effective collaboration; and strong leadership is critical to the success of intergovernmental initiatives.¹⁶ Moreover, involvement by leaders from all levels is important for maintaining commitment.

Treasury, a key stakeholder, does not accept State's position that State leads all U.S. counter-terrorism financing training and technical assistance efforts and disagreements continue between some Treasury and State officials concerning current TFWG coordination efforts. According to State officials, State leads the U.S. effort to provide counter-terrorism financing

¹⁶See GAO, *Electronic Government: Potential Exists for Enhancing Collaboration on Four Initiatives*, GAO-04-6, pages 17-21 (Washington, D.C.: Oct. 10, 2003) for a discussion of key practices for interagency collaboration.

training and technical assistance to all countries the U.S. government deems vulnerable to terrorist financing. State bases its position on classified NSC documents focused primarily on TFWG, State documents, and authorizing legislation. Treasury, an agency that also funds as well as provides training and technical assistance, asserts that State overstates its role; according to Treasury, State's role is limited to coordinating other U.S. agencies' provision of counter-terrorist financing training and technical assistance in commonly agreed upon TFWG priority countries, and that there are numerous other efforts outside of States' purview.¹⁷ Justice, an agency that provides training and technical assistance and receives funding from State,¹⁸ states that it respects the role that State plays as the TFWG chairman and coordinator and states that all counter-terrorism financing training and technical assistance efforts should be brought under the TFWG decision-making process. While supportive, Justice's statement demonstrates that the span of State's role lacks clarity and recognition in practice. Two senior Treasury OTA officials said they strongly disagree with the degree of control State asserts over decisions at the State-led TFWG regarding the delivery of training and technical assistance. According to a Treasury Terrorist Financing and Financial Crimes (TFFC) Senior Policy Advisor who attends TFWG, in practice the TFWG process is broken and State creates obstacles rather than coordinates efforts. According to officials from State's Office of the Coordinator for Counterterrorism, who chair TFWG, the only problems are the lack of Treasury's TFFC and OTA officials' acceptance of State's leadership over counter-terrorism financing efforts and separate OTA funding.

Legislation authorizing the Departments of State and Treasury to conduct counter-terrorism financing training and technical assistance activities does not explicitly designate a lead agency. State derives its authority for these activities from the International Security and Development

¹⁷According to Treasury, Treasury has developed numerous counter-terrorist financing programs to advance the core strategic aims identified in the 2003 National Money Laundering Strategy.

¹⁸According to Justice, a high level inter-departmental decision has assigned Justice the lead among the inter-agency community in drafting foreign criminal laws, reviewing the legal sufficiency of such laws, and providing prosecutorial training and development for the TFWG countries.

Cooperation Act of 1985,¹⁹ which mandates that the Secretary of State “coordinate” all international counter-terrorism assistance. Treasury’s primary authority for its assistance programs derives from a 1998 amendment to the Foreign Assistance Act of 1961,²⁰ which authorized the Secretary of the Treasury, after consultation with the Secretary of State and the Administrator of the U.S. Agency for International Development, to establish a program to provide economic and financial technical assistance to foreign governments and foreign central banks. This provision further mandates that State provide foreign policy guidance to the Secretary of the Treasury to ensure that the program is effectively integrated into the foreign policy of the United States.

State and Treasury officials also disagree on procedures and practices for the delivery of counter-terrorism financing training and technical assistance. State cited NSC guidance and an unclassified State document focusing on TFWG as providing procedures and practices for delivering training and technical assistance to all countries. Treasury officials told us that the procedures and practices were only pertinent to the TFWG priority countries and that there is no formal mandate or process to provide technical assistance to countries outside the priority list. Moreover, Justice officials told us that having procedures and practices for TFWG priority countries that differ from those for other vulnerable countries creates problems. This issue is further complicated by the lack of consistent and clear delineation between the countries covered by TFWG and other vulnerable countries also receiving counter-terrorism financing and anti-money laundering assistance funded through State and Treasury.²¹ Treasury officials told us that TFWG procedures and practices are overly structured and impractical and have not been updated to incorporate stakeholder concerns and that the overall process does not function as it should. State and Treasury officials cited numerous examples of disagreements on procedures and practices. For example:

¹⁹Pub. L. 99-83. Sec. 502, codified at 22 USC 2349aa-7. See also Section 1(e) of the State Department Basic Authorities Act, as amended, codified at 22 U.S.C. 2651a(e).

²⁰Pub. L. 105-277 (Div. A, Title II, sec. 589). This provision has been codified at 22 U.S.C. 2151aa.

²¹According to State officials, the number of TFWG priority countries has grown and may change again in the future. During the course of our review the number of priority countries increased from 19 to about two dozen. According to Treasury, U.S. agencies were providing assistance under one set of procedures before these countries became TFWG priority countries and were subject to TFWG procedures.

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- State and Treasury officials disagree on the use of OTA funding and contractors. According to Treasury officials, OTA funding should primarily be used to support intermittent and long-term resident advisors, who are U.S. contractors, to provide technical assistance.²² According to State officials, OTA should supplement State's program, which primarily funds current employees of other U.S. agencies.
 - State, Justice, and Treasury officials disagree on whether it is appropriate for U.S. contractors to provide assistance in legislative drafting efforts on anti-money laundering and counter-terrorism financing laws. State officials cited NSC guidance that current Justice employees should be primarily responsible for working with foreign countries to assist in drafting such laws and voiced strong resistance to use of contractors. Justice officials strongly stated that contractors should not assist in drafting laws and gave several examples of past problems when USAID and OTA contractor assistance led to problems with the development of foreign laws. In two examples, Justice officials stated that USAID and OTA contractor work did not result in laws meeting FATF standards. In another example, Justice officials reported that a USAID contractor assisted in drafting an anti-money laundering law that had substantial deficiencies and as a result Justice officials had to take over the drafting process. According to OTA officials, their contractors provide assistance in drafting laws in non-priority countries and OTA makes drafts available to Justice and other U.S. agencies for review and comment and ultimately the host country itself is responsible for final passage of a law that meets international standards.²³

²²According to Treasury officials, OTA funds other Treasury offices conducting assessments or delivering training, such as TFFC and FinCEN in conjunction with its programs. Also according to Treasury, OTA has funded the expenses of other agencies to deliver technical assistance when it was in support of an existing work plan and to meet performance objectives.

²³According to OTA officials, Justice and other U.S. agencies do not always have the time and resources to comment on draft laws. Justice officials agree, but maintained that this problem will only be resolved when other agencies acknowledge Justice's jurisdiction and expertise. According to Treasury, in many cases, countries pass laws that don't meet international standards, even after having received substantial commentary from the U.S. government.

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- Treasury and State officials disagree on the use of confidentiality agreements²⁴ between contractors and the foreign officials they advise. State officials said OTA's use of confidentiality agreements impedes U.S. interagency coordination. State officials said the issue created a coordination problem in one country because a poorly written draft law could not be shared with other U.S. agencies for review and resulted in the development of an ineffective anti-money laundering law. Moreover, State officials said the continued practice could present future challenges. However, according to Treasury officials, this was an isolated case involving a problem with the contract and they said they have taken procedural steps to ensure the error is not repeated.
 - State and Treasury officials disagree on the procedures for conducting assessments of country's needs for training and technical assistance. Moreover, Treasury stated that their major concern is with State's coordination process for the delivery and timing of assistance. According to TFWG procedures for priority countries, if an assessment trip is determined to be necessary, State is to lead and determine the composition of the teams and set the travel dates.²⁵ This is complicated when a vulnerable country becomes a priority country. For example, in November 2004 Treasury conducted an OTA financial assessment in a nonpriority frontline country and subsequently reached agreement with that country's central bank minister to put a resident advisor in place to set up a FIU.²⁶ However, in May 2005, State officials denied clearance for Treasury official's visit to the country, which has created a delay of 2.5 months (as of the end of July 2005). Treasury officials provided documentation to show that State was aware of their intention to visit the country in November 2004 to determine counter-terrorism and financial intelligence technical assistance needs, the official leading the

²⁴When signing a contract for placement of a resident advisor, OTA also signs an agreement with foreign officials that it advises to not share sensitive information with third parties.

²⁵A TFWG assessment conducted by a Financial Systems Assessment Team includes meetings with host government financial regulatory agencies, the judiciary, law enforcement agencies, the private financial services sector, and non-government organizations.

²⁶According to State TFWG officials, per NSC guidance, all work in frontline countries is to be coordinated within TFWG and some frontline countries are also priority countries. However, frontline countries are not subject to the same procedures as priority countries which are the main focus of TFWG, according to Department of State and Department of the Treasury officials. According to State TFWG officials, frontline countries contain terrorist cells.

segment of work was part of a larger on-going OTA effort in country, and that Treasury kept TFWG informed of the results of OTA's work and continuing efforts. State officials expressed concern that the country had recently become a priority country. According to State TFWG officials, Treasury work needed to be delayed until a TFWG assessment could be completed. However, the U.S. embassy requested that Treasury proceed with its placement of a resident advisor and that the TFWG assessment be delayed.

U.S. Effort Does Not Strategically Align Resources with Need

The U.S. government does not strategically align its resources with its mission to deliver counter-terrorism financing training and technical assistance. For strategic planning to be a dynamic and inclusive process, alignment of resources is a critical element.²⁷ However, the U.S. government has no clear presentation of its available resources. Further, neither the U.S. government nor TFWG has made a systematic and objective assessment of the full range of available U.S. and potential international resources. As a result, decision-makers do not know the full range of resources available to match to the needs they have identified in priority countries and to determine the best match of remaining resources to needs for other vulnerable countries.

U.S. Government Does Not Have Clear Presentation of Budget Resources Available

Because funding is embedded with anti-money laundering and other programs, the U.S. government does not have a clear presentation of the budget resources that the departments of State and the Treasury allocate for training and technical assistance to counter terrorist financing. State and Treasury receive separate appropriations that can be used for training and technical assistance either by the agencies themselves, by funding other agencies, or by funding contractors. State primarily transmits its training and technical assistance funds to other agencies while Treasury primarily employs short and long term advisors through personal service contracts.²⁸ Although various officials told us that funding for counter-terrorism financing training and technical assistance is insufficient, the lack of a clear presentation of available budget resources makes it difficult

²⁷See GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

²⁸OTA also funds the travel of all Treasury participants in the assessment process and has funded other U.S. government employees in support of an existing work plan and to meet performance objectives.

for decision-makers to determine the actual amount allocated to these efforts.²⁹

State officials told us that they have two primary funding sources for State counter-terrorism financing training and technical assistance programs:

- Non-Proliferation, Anti-Terrorism, Demining, and Related Programs funding, which State's Office of the Coordinator for Counterterrorism uses to provide counter-terrorism financing training and technical assistance to TFWG countries. Based on our analysis of State records, budget authority for this account included \$17.5 million for counter-terrorism financing training and technical assistance for fiscal years 2002 to 2005.³⁰
- International Narcotics Control and Law Enforcement funding, which State's Bureau of International Narcotics Control and Law Enforcement uses to provide counter-terrorism financing and anti-money laundering training and technical assistance to a wide range of countries, including seven priority countries between fiscal years 2002 and 2005, as well to provide general support to multilateral and regional programs. Based on our analysis of State records, budget authority for this account included about \$9.3 million for anti-money laundering, counter-terrorism financing, and related multilateral and regional activities for fiscal years 2002-2005.³¹

State officials also told us that other State bureaus and offices provide counter-terrorism financing and anti-money laundering training and

²⁹TFWG expenditures are classified.

³⁰An official from State's Bureau of International Narcotics and Law Enforcement Affairs Office told us that according to Office of the Counterterrorism Coordinator officials, the fiscal year 2005 budget was reduced by \$300,000 giving a total of \$17.2 for fiscal years 2002-2005.

³¹An official from State's Bureau of International Narcotics and Law Enforcement Affairs Office told us that in fiscal year 2004 about \$2.3 million, which had been carried forward from prior years, was transferred to a development program, reducing the total to \$7 million.

technical assistance (e.g., single-course offerings or small-dollar programs) as part of regional, country-specific, or broad-based programs.³²

Treasury officials told us that OTA's counter-terrorism financing technical assistance is funded through its Financial Enforcement program. Based on our analysis of Treasury records, Treasury OTA received budget authority totaling about \$30.3 million for all financial enforcement programs for fiscal years 2002 to 2005. Counter-terrorism financing technical assistance and training funding is embedded within this program and cannot be segregated from anti-money laundering and other anti-financial crime technical assistance. One OTA official told us that as much as one third of the funds may be spent on programs countering financial crimes other than terrorist financing in any given year.

U.S. Government Does Not Have a Systematic and Objective Assessment of Suitability of Available U.S. Resources to Meet Needs

The U.S. government, including the TFWG, has not made a systematic and objective assessment of the suitability of available resources. According to State and Treasury officials, no systematic analysis has been done to evaluate the effectiveness of contractors and current employees in delivering various types of counter-terrorism training and technical assistance. Decisions at TFWG appear to be made based on anecdotal information rather than transparent and systematic assessments of resources. According to the State Performance and Accountability Report for fiscal year 2004, a shortage of anti-money laundering experts continues to create bottlenecks in meeting assistance needs of requesting nations, including priority countries. State co-chairs of TFWG repeated this concern to us. According to State officials, U.S. technical experts are particularly stretched because of their frequent need to split their time between assessment, training, and investigative missions. Moreover, officials from State's Office of the Coordinator for Counterterrorism cited the lack of available staff as a reason for their slow start in disbursing funding at TFWG's inception.³³

Treasury agrees with State that there may be a shortage of anti-money laundering experts in the U.S. government agencies who are available to provide technical assistance in foreign countries, however, according to

³²State's Bureau of International Narcotics and Law Enforcement Affairs Office provided a document showing about \$4.1 million in Support for European Democracy funds obligated for anti money laundering training between Fiscal Years 2002-2004.

³³Department of State expenditures for priority countries are classified.

Treasury there is not a shortage of U.S. experts who are recent retirees from the same U.S. government agencies. According to OTA officials, OTA can provide contractors, who are primarily recently retired U.S. government employees with years of experience from the same agencies that provide training to priority countries through State funding.³⁴ However, State officials stated strong opinions that current U.S. government employees are better qualified to provide counter-terrorism financing training and assistance than contractors. State added that it is TFWG's policy that current U.S. government experts should be used whenever possible, and that, when they are not available, the use of contractors in those instances should be coordinated with the expert agency or office. State officials cited several examples of priority and non-priority countries in which they felt that the work of OTA's resident advisors did not result in improvements. However, State officials praised the work of one OTA resident advisor in a priority country as a best practice, and other agency and foreign officials supported this view. Further, one State official commended the quality of OTA's law enforcement technical assistance. Nonetheless, State officials repeatedly stated that they need OTA funding and not OTA-contracted staff to meet current and future needs.³⁵

A senior OTA official said that OTA has sought actively to provide programs in more priority countries, but State, as chair of the TFWG, has not supported their efforts. Specifically, as a portion of funds that OTA has obligated for financial enforcement related assistance between fiscal years 2002 and 2005, OTA has obligated approximately 11 percent to priority countries.³⁶ State officials said that they welcomed more OTA participation in priority countries as part of the mix of applicable resources; however, they questioned whether OTA consistently provides high-quality assistance. Without a systematic assessment of the suitability of resources, the

³⁴According to OTA officials, their contractors must have relevant and recent active anti-money laundering experience, speak a foreign language, and have overseas experience. Senior Department of the Treasury officials support this claim and according to the NSC guidance, contractor personnel are to be used to supplement U.S. resources, with some caveats including that deference be given to those U.S. government institutions with substantive equities in the outcome of the missions.

³⁵State generally funds other, non-State agencies – including OTA – to provide training to foreign governments, whereas OTA generally funds contractors, the majority of whom are former U.S. government employees, to do so.

³⁶This analysis pertains to the nineteen countries originally prioritized by the Terrorist Financing Working Group—it does not include the seven additional countries added in March 2005.

decision-makers do not have good information to consider when determining the best mix of government employees and contractors to meet needs.

TFWG Has Not Made a Systematic and Objective Assessment of Potential International Resources to Meet Needs

TFWG has a stated goal to encourage allies and international entities to contribute resources to help build the counter-terrorism financing capabilities of vulnerable countries and coordinate training and technical assistance activities, but it has not developed a specific strategy to do so. No one office or organization has systematically consolidated and synthesized available information on the counter-terrorism financing training and technical assistance activities of other countries and international entities and integrated this information into its decision-making process. State and Treasury officials stated that instead they have an ad hoc approach to working with allies and international entities on resource sharing for training and technical assistance. Resource sharing is not considered a priority at TFWG meetings because U.S. officials state that interagency issues take higher priority and little time is left to discuss international activities. At one TFWG meeting, U.S. agency officials discovered that different countries and organizations were putting resources into a priority country without any central coordination. TFWG found that Australia was already providing assistance to the FIU in this priority country and cancelled the assistance it was planning to provide in this area. Without a systematic way to consolidate, synthesize, and integrate information about international activities into the U.S. interagency decision-making process, the U.S. government cannot easily capitalize on opportunities for resource sharing with allies and international entities.

U.S. Government Lacks System to Measure Performance and Incorporate Results

The U.S. government, including TFWG, does not have a system in place to measure the performance results of its efforts to deliver training and technical assistance and to incorporate this information into integrated planning efforts. Without such a system the U.S. government cannot ensure that its efforts are on track. In August 2004, we found no system in place to measure the performance of U.S. training and technical assistance to combat terrorist financing. According to an official from Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT), an interagency committee led by OPDAT was set up to develop a system to measure results. In November 2004, OPDAT had an intern set up a database to track training and technical assistance provided through TFWG and related assistance results for priority countries. Because the database was

not accessible to all TFWG members, OPDAT planned to serve as the focal point for entering the data collected by TFWG members.³⁷

OPDAT asked agencies to provide statistics on programs, funding, and other information, including responding to questions concerning results by function which corresponded to the five elements of an effective counter-terrorism financing regime. OPDAT also planned to track key recommendations for training and technical assistance and progress made in priority countries as provided in FATF and TFWG assessments. However, little progress has been made in further development of the performance measures as the responsible OPDAT official told us they were waiting to hire the next intern to input the data. As of July 2005, a year later, at our exit meetings with OPDAT and the State TFWG chairs, OPDAT was still waiting for an intern to be hired to complete the project. Further, OPDAT and State officials confirmed that the system had not yet been approved or implemented by TFWG and, therefore, TFWG did not have a system in place to measure the performance results of its training and technical assistance efforts and incorporate this information into its planning.

Treasury Faces Two Accountability Issues Related to Its Terrorist Asset Blocking Efforts

Treasury faces two accountability issues related to its terrorist asset blocking efforts. First, Treasury's OFAC reports on the nature and extent of terrorists' U.S. assets do not provide Congress the ability to assess OFAC's achievements. Second, Treasury lacks meaningful performance measures to assess its terrorist designation and asset blocking efforts. While Treasury has developed some limited performance measures, OFAC officials acknowledged that the measures could be improved and are in the process of developing more meaningful performance measures aided by the development of an OFAC-specific strategic plan.

³⁷It became unclear at our meeting with OPDAT and State as to whether the database should be classified. Justice had not classified the database, because officials were under the impression that it was only the ranking of priority countries that was classified, while State maintained that it was the listing of priority countries that was classified.

Treasury Reports Do Not Provide a Clear Explanation of the Nature and Extent of Asset Blocking

Treasury's annual reports to Congress on terrorists' assets do not provide a clear description of the nature and extent of terrorists' assets held in the United States. Federal law requires the Secretary of the Treasury, in consultation with the Attorney General and appropriate investigative agencies, to provide an annual report to Congress "describing the nature and extent of assets held in the United States by terrorist countries and organizations engaged in international terrorism."³⁸ Each year Treasury's OFAC provides Congress with a *Terrorist Assets Report* that offers a year-end snapshot of dollar amounts held in U.S. jurisdiction for two types of entities: international terrorists and terrorist organizations and terrorism-supporting governments and regimes. In 2004 OFAC reported that the United States blocked almost \$10 million in assets belonging to seven international terrorist organizations and related designees.³⁹ The 2004 report also noted that the United States held more than \$1.6 billion in assets belonging to six designated state sponsors of terrorism.⁴⁰

While each annual report provides year-end statistics for each of the different entities, they do not provide a clear description of the nature and extent of assets held in the United States.⁴¹ The reports do not make a comparison of blocked assets over the years or offer explanations for many

³⁸Section 304 of Public Law 102-138 as amended by Public Law 103-236 (22 U.S.C. § 2656g) requires Treasury to submit the *Terrorist Assets Reports* to the Committee on Foreign Relations and the Committee on Finance of the Senate and to the Committee on International Relations and the Committee on Ways and Means of the House.

³⁹The 2004 *Terrorist Assets Report* listed the international terrorist organizations as al Qaeda, HAMAS, Mujahedin-E Khalq Organization, New People's Army, Palestinian Islamic Jihad, Kahane Chai, and the Taliban. This figure does not include amounts under review or investigation.

⁴⁰The 2004 *Terrorist Assets Report* listed the state sponsors of terrorism as Cuba, Iran, Libya, North Korea, Sudan, and Syria. Of the \$1.6 billion, \$1.5 billion in assets are blocked because of economic sanctions imposed by the United States.

⁴¹The *Terrorist Assets Reports* include information on "assets in the United States," which include blocked assets held in the United States and in U.S. jurisdiction and nonblocked assets of terrorist countries and international terrorist designees. Nonblocked assets include those assets belonging to entities under sanctions programs that do not contain blocking provisions (Iran and Syria are the only two such entities identified in the 2004 report).

of the significant shifts between years.⁴² For example, the 2004 report stated that the United States held \$3.9 million in al Qaeda assets, but it did not state that this represented a 400 percent increase in the value of al Qaeda assets held by the United States in 2003 or offer an explanation for this increase. In addition, the reports for years 2000 to 2004 offer no explanation for the decline in the value of U.S.-held Iranian government assets, which decreased from \$347.5 million in 2000 to \$82 million in 2004. While the 2000 report showed that the U.S. blocked \$283,000 of Hezbollah assets, future reports did not name Hezbollah again or explain the status of these blocked assets. Senior OFAC officials acknowledge that the *Terrorist Asset Reports* do not provide a clear description of the nature and extent of assets blocked and is not useful to assessing progress on asset blocking.

Treasury's Performance Measures Do Not Adequately Assess Terrorist Designation and Asset Blocking Efforts

Treasury lacks effective performance measures to assess its terrorist designation and asset blocking efforts and demonstrate how these efforts contribute to Treasury's goals of disrupting and dismantling terrorist financial infrastructures and executing the nation's financial sanctions policies. Among the performance measures in Treasury's 2004 Performance and Accountability Report that are related to designations and asset blocking are:

- An increase in the number of terrorist finance designations for which other countries join the United States,
- An increase in the number of drug trafficking and terrorist-related financial sanctions targets identified and made public,⁴³ and
- An estimated number of sanctioned entities no longer receiving funds from the United States.⁴⁴

⁴²According to OFAC, amounts blocked for terrorist entities may shift year to year for policy-acceptable purposes. For example, funds may be unblocked when the U.S. government terminates a sanctions program or when OFAC issues exceptions to sanctions programs in accordance with applicable law.

⁴³Treasury's 2004 Annual Performance and Accountability Report states that Treasury proposes to discontinue the use of this indicator in 2005.

⁴⁴Sanctioned entities include hostile foreign governments, corrupt regimes, foreign drug cartels, and other sanctioned targets determined by the President, the Secretary of State, or the Congress.

Treasury officials recognize that these measures do not adequately assess progress made in designating terrorists and blocking their assets. In addition, they note that these measures do not help assess how efforts to designate terrorists and block their assets contribute to Treasury's overall goals of disrupting and dismantling terrorists' financial infrastructure and executing the nation's financial sanctions policies. First, these measures are not specific to terrorist financing. Two of the three measures do not separate data on terrorists from data on other entities such as drug traffickers, hostile foreign governments, corrupt regimes, and foreign drug cartels, though OFAC officials acknowledged that they could have reported the data separately. Second, Treasury officials said that progress on asset blocking cannot simply be measured by totaling an amount of blocked assets at the end of the year, as the amounts may vary over the year as assets are blocked and unblocked. Third, Treasury has not developed measures to track other activities and benefits related to terrorist designations and asset blocking. For example, according to Treasury officials, Treasury's underlying research to identify terrorist entities and their support systems is used to aid U.S. financial regulators, law enforcement, and other officials. However, Treasury does not have measures to track the use of this research when used for other agency activities, such as law enforcement investigations.

Treasury officials also stated that terrorist designations have a deterrent value by discouraging further financial support. Measuring effectiveness in terms of deterrence can be very difficult, in part because the direct impact on unlawful activity is unknown, and in part because precise metrics are hard to develop for illegal and clandestine activities. According to Treasury officials, measuring effectiveness can also be difficult because many of these efforts run across U.S. government agencies and foreign governments and are highly sensitive. Treasury's annual report and strategic plan, however, do not address the deterrent value of designations or discuss the difficulties in measuring its effectiveness. According to the Government Performance and Results Act (GPRA) of 1993, when it is not feasible to develop a measure for a particular program activity, the executive agency shall state why it is infeasible or impractical to express a performance goal for the program activity.⁴⁵

⁴⁵Pub.L. No. 103-62 (August 3, 1993). According to GPRA, the agency shall consult with the Director of the Office of Management and Budget to determine that it is not feasible to express the performance goal in a measurable form.

OFAC officials told us that they are in the process of developing better measures for assessing its efforts related to designations and asset blocking (both quantitative and qualitative) and achievements made. In addition, OFAC officials are in the process of developing a strategic plan to guide OFAC's efforts. This strategic planning effort will help OFAC develop measures to assess how their activities, including terrorist designations and asset blocking, contribute to Treasury's goals of disrupting and dismantling the financial infrastructure of terrorists and executing the nation's financial sanctions policies.⁴⁶ According to GPRA, executive agency strategic plans should include a comprehensive mission statement, a set of general goals and objectives and an explanation of how they are to be achieved, and a description of how performance goals and measures are related to the general goals and objectives of the program. OFAC officials said they have initiated efforts to develop an OFAC-specific strategic plan and performance measures. In their technical comments in response to our draft report, officials stated that the new performance measures will relate to OFAC's research, outreach, and sanctions administration. Additionally, officials stated that they expect OFAC's new performance measures to be completed by December 1, 2005, and its new strategic plan to be completed by January 1, 2006. However, OFAC officials did not provide us with documentation to demonstrate that they have established milestones or a completion date to accomplish these projects.

Conclusions

Without a strategy that integrates the funding and delivery of training and technical assistance by State and Treasury's OTA, the U.S. government will not maximize the use of its resources in the fight against terrorist financing. Meanwhile, due to disagreements over leadership and procedures, some energy and talent of staff are wasted trying to resolve interagency disputes. By making decisions based on anecdotal and informal information rather than transparent and systematic assessments, managers cannot effectively address problems before they grow and become crises. Moreover, given the scarce expertise available to address counter-terrorism financing, by not focusing efforts on how all available U.S. and international resources can be integrated into a U.S. strategy the U.S. government may miss opportunities to leverage resources. Finally, without dedicating resources to complete a performance measurement system, the State-led TFWG

⁴⁶Currently, OFAC's efforts are guided by Treasury's overall strategic plan.

effort does not have the information needed for optimal coordination and planning.

The lack of accountability for Treasury's designations and asset blocking program creates uncertainty about the department's progress and achievements. U.S. officials with oversight responsibilities need meaningful and relevant information to ascertain the progress, achievements, and weaknesses of U.S. efforts to designate terrorists and dismantle their financial networks as well as hold managers accountable. Meaningful information may also help these officials understand the importance of asset blocking in the overall U.S. effort to combat terrorist financing as well as make resource allocation decisions across programs. The development of a strategic plan for OFAC could help facilitate the development of meaningful performance measures.

Recommendations for Executive Action

To ensure that U.S. government interagency efforts to provide counter-terrorism financing training and technical assistance are integrated and efficient, particularly with respect to priority countries, we recommend that the Secretary of State and the Secretary of the Treasury, in consultation with NSC and relevant government agencies, develop and implement an integrated strategic plan for the U.S. government that does the following:

- designates leadership and provides for stakeholder involvement;
- includes a systematic and transparent assessment of U.S. government resources;
- delineates a method for aligning the resources of relevant U.S. agencies to support the mission; and
- provides processes and resources for measuring and monitoring results, identifying gaps, and revising strategies accordingly.

To ensure a seamless campaign in providing counter-terrorism financing training and technical assistance programs to vulnerable countries, we recommend that the Secretaries of State and the Treasury enter into a Memorandum of Agreement concerning counter-terrorism financing and anti-money laundering training and technical assistance. The agreement should specify:

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- the roles of each department, bureau, and office with respect to conducting needs assessments and delivering training and technical assistance;
 - methods to resolve disputes concerning OTA's use of confidentiality agreements in its contracts when providing counter-terrorism financing and anti-money laundering assistance; and
 - coordination of funding and resources for counter-terrorism financing and anti-money laundering training and technical assistance.

To ensure that policy makers and program managers are able to examine the overall achievements of U.S. efforts to block terrorists' assets, we also recommend that the Secretary of the Treasury provide in its annual *Terrorist Assets Report* to Congress more complete information on the nature and extent of asset blocking in the United States. Specifically, the report should include such information as the differences in amounts blocked between the years, when and why assets were unfrozen, the achievements and obstacles faced by the U.S. government, and a classified annex if necessary. In addition, as part of the Treasury's ongoing strategic planning efforts, we recommend that the Secretary of the Treasury complete efforts to develop an OFAC-specific strategic plan and meaningful performance measures by January 1, 2006, and December 1, 2005 respectively, to guide and assess its asset blocking efforts.

Matter for Congressional Consideration

In view of congressional interest in U.S. government efforts to deliver training and technical assistance abroad to combat terrorist financing and the difficulty in obtaining a systematic assessment of U.S. resources dedicated to this endeavor, Congress should consider requiring the Secretary of State and the Secretary of the Treasury to submit an annual report to Congress on the status of the development and implementation of the integrated strategic plan and Memorandum of Agreement.

Agency Comments and Our Evaluation

We provided draft copies of this report to the Departments of Defense, Homeland Security, Justice, State, and Treasury for review. We received comments from the Departments of Justice, State, and the Treasury (see apps. V, VI, and VII). We did not receive agency comments from the Departments of Defense or Homeland Security.

State did not agree with our recommendation that the Secretaries of State and Treasury, in consultation with the NSC and relevant government agencies, develop and implement an integrated strategic plan to coordinate the delivery of training and technical assistance abroad. State asserted that it has an integrated strategic plan and believes that a series of NSC documents and State's Office of the Coordinator for Counterterrorism's Bureau Performance Plan serve this purpose. We reviewed the NSC documentation which included minutes, an agreement, and conclusions, all of which serve as the NSC guidance for the TFWG. We also reviewed State's Office of the Coordinator for Counterterrorism's Bureau Performance Plan which we found included the Bureau's objectives and performance measures for counterterrorist financing programs. We do not agree that this NSC guidance and Bureau performance plan constitute an integrated strategy that addresses the issues raised in this report because the effort, in practice, does not have key stakeholder buy-in on roles and practices, a strategic alignment of resources with needs, or a system to measure performance and use results and thus, an integrated strategy is still needed. It is also noteworthy that Treasury did not state in their comments that an integrated strategic plan existed or was in place, and they did not highlight these specific documents as serving this purpose.

Treasury did not directly address our recommendation for an integrated strategic plan and proposed a new title, "Integrated U.S. Strategic Plan Needed to Improve the Coordination of Counterterrorism Finance Training and Technical Assistance to Certain Priority Countries," which suggests agreement with the recommendation, but limits coverage of the integrated strategic plan to cover certain priority countries. Treasury also stated its agreement with the need for performance measures. It is useful to note that Treasury repeatedly placed the focus of efforts for improvement on priority countries and, as noted in its technical comments, does not recognize State's leadership over the delivery of training and technical assistance other than to priority countries. For example, in Treasury's technical comments Treasury stated that "State's role is coordinating each U.S. government agency's personnel and expertise to allow them to deliver the needed training in commonly agreed upon priority countries." This comment further supports the need to better integrate efforts. Justice stated that with its role and expertise in providing training and technical assistance the fact that it was not included as an equal partner with State and Treasury in the recommendation was a critical omission. We note that Justice is one of a number of agencies referred to as relevant government agencies in the recommendation. Justice receives funding from State and,

according to Justice, State has been supportive of Justice's training and technical assistance efforts.

State did not agree with our recommendation that the Secretaries of State and Treasury enter into a Memorandum of Agreement concerning counter-terrorism financing and anti-money laundering training and technical assistance. State stated that they have an interagency agreement. Based on our review, the classified document serving as an interagency agreement lacks clarity, familiarity, and buy-in from all levels of leadership within TFWG, particularly Treasury. State added that if there were to be a Memorandum of Agreement, they believe it should include all agencies engaged in providing training and technical assistance, not just State and Treasury. Treasury did not address this recommendation. However, Treasury stated that it wished to improve the effectiveness of U.S. technical assistance to combat terrorist financing particularly with respect to certain priority countries and stated that they would welcome suggestions as to how Treasury, together with relevant U.S. government agencies, can better achieve that goal. Justice again stated that the report's critical flaw is omitting Justice from equal standing with State and Treasury. Justice noted that it is a key player and therefore should be involved in all interagency deliberations and decisions. We continue to believe that the Memorandum of Agreement should include the Secretaries of State and Treasury. State and Treasury both primarily fund and support U.S. government anti-money laundering and counter-terrorist financing training and technical assistance programs, and in Treasury's case also provides considerable training and technical assistance abroad through current U.S. government employees and contractors. It is important that their programs and funding are integrated to optimize results. Other agencies are important stakeholders as they are recipients of this funding and support and should benefit from improved coordination between these two agencies.

In response to our recommendation that the Secretary of the Treasury provide more complete information on the nature and extent of asset blocking in the United States in its annual *Terrorist Assets Report* to Congress, Treasury responded in its technical comments that we should "instead recommend that Congress consider discontinuing the requirement that Treasury produce the annual report altogether." Treasury officials also stated that the *Terrorist Assets Reports*, "based upon the input of numerous government agencies, provides a snapshot of the known assets held in the United States by terrorist-supporting countries and terrorist groups at a given point in time. These numbers may fluctuate during each year and between years for a number of policy-permissible reasons. The

amount of assets blocked under a terrorism sanctions program is not a primary measure of a terrorism sanctions program's effectiveness, and countries that have been declared terrorist supporting, and whose assets are not blocked by a sanctions program, are already weary of holding assets in the United States." Moreover, in its technical comments Treasury states that *Terrorist Assets Reports* were "not mandated or designed as an accountability measure for OFAC's effectiveness in assisting U.S. persons in identifying and blocking assets of persons designated under relevant Executive orders relating to terrorism." We acknowledge that the language in the mandate for the *Terrorist Assets Reports* did not explicitly designate the reports as an accountability measure; however, nothing in the statutory language or in the congressional intent underlying the mandate precludes Treasury from compiling and reporting information in the manner in which we have suggested in this report. Furthermore, we believe that inclusion of comparative information and additional explanation regarding significant shifts between years will enhance program reporting and congressional oversight. Justice did not comment on this recommendation. State commented that this recommendation was incomplete in that it makes no mention of State's role in blocking assets and promoting international cooperation to achieve it; however, we did not include State in this recommendation because it is the Secretary of the Treasury who is responsible for producing the annual *Terrorist Assets Reports*.

Treasury's technical comments state that "OFAC officials have advised that OFAC's new performance measures are expected to be completed by December 1, 2005, and its new strategic plan is expected to be completed by January 1, 2006." We modified our recommendation to incorporate this new information. State suggested in its technical comments that we revise this recommendation to read, "In addition, we recommend that the Secretary of the Treasury, in consultation with the Departments of State and Justice and the other departments and agencies represented on the Terrorist Finance Policy Coordination Committee, establish milestones for developing a strategic plan and meaningful performance measures to guide and assess its asset blocking process." We did not include the Secretary of State or the Attorney General in this recommendation because the scope of this objective focused solely on the accountability issues Treasury faces in its efforts to block terrorists' assets. However, we recognize that State has an important role in targeting individuals, groups, or other entities suspected of terrorism or terrorist financing and added language to the section of the report on terrorist designations to clarify the roles of the multiple agencies involved in this effort.

Treasury's comments also suggested that we replace, in its entirety, our report's third objective on the accountability of Treasury's terrorist asset blocking efforts with revised text that Treasury officials had prepared. We reviewed the revised text and noted that many of Treasury's points were already covered in our report. In some cases we added technical information to our report to help clarify the challenges that Treasury faces in assessing the impact of terrorist designation activities.

None of these agencies provided comments on our matter for congressional consideration.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Attorney General, the Secretary of Defense, the Secretary of the Homeland Security, the Secretary of State, the Secretary of the Treasury, and interested congressional committees. We also will make copies available to others upon request. In addition the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4347 or yagerl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VIII.



Loren Yager
Director, International Affairs and Trade

Objectives, Scope, and Methodology

Chairman of the Senate Caucus on International Narcotics Control, Charles E. Grassley; Senator Richard J. Durbin; and Chairman of the Senate Committee on Homeland Security and Governmental Affairs, Senator Susan M. Collins, asked us to (1) provide an overview of U.S. government efforts to combat terrorist financing abroad and (2) examine U.S. government efforts to coordinate the delivery of training and technical assistance to vulnerable countries. In addition, they requested that we examine specific accountability issues the Department of the Treasury (Treasury) faces in its efforts to block terrorists' assets held under U.S. jurisdiction.

To provide an overview of U.S. government efforts to combat terrorist financing abroad we reviewed documents and interviewed officials of U.S. agencies and departments and their bureaus and offices. We reviewed legislation, strategic plans, performance plans, and other agency documents, as well as relevant papers, studies, CRS and our own work to identify specific agency responsibilities and objectives. We assessed this information to identify key efforts and obtain further details and clarification and then validated and deconflicted information across agencies and departments in the United States and overseas in Indonesia, Pakistan, and Paraguay. We based country selection on Department of State (State) reporting of a nexus of terrorist financing, State reporting of assistance to the country, and the use of alternative financing mechanisms in the country. In each country, we discussed key challenges with responsible foreign and U.S. embassy officials, as well as with international entity officials.

We grouped the different types of responsibilities into four categories (designations, intelligence and law enforcement, standards setting, or training) and validated these categories during meetings with U.S. government officials. Our scope and methodology were limited by lack of complete access to sensitive and classified information. We reviewed documents or interviewed officials from the following U.S. departments and agencies:

- the Central Intelligence Agency;
- the Department of Defense (Defense Intelligence Agency);
- the Department of Homeland Security (Immigration and Customs Enforcement and Customs and Border Protection);

- the Department of Justice (Bureau of Alcohol, Tobacco, Firearms, and Explosives; Criminal Division's Asset Forfeiture and Money Laundering Section, Counter Terrorism Section, and Office of Overseas Prosecutorial Development, Assistance and Training; Drug Enforcement Administration; Federal Bureau of Investigation);
- the Department of State (Bureau of Economic and Business Affairs; Bureau for International Narcotics and Law Enforcement Affairs; Office of the Coordinator for Counterterrorism; Bureau of International Organizations; U.S. Mission to the United Nations; U.S. Agency for International Development; U.S. Missions to Indonesia, Pakistan, and Paraguay);
- the Department of the Treasury (Office of Technical Assistance, Office of Foreign Assets Control, Financial Crimes Enforcement Network, the Office of Terrorist Financing and Financial Crime, IRS's Criminal Investigation Division).

We also verified U.S. government efforts through documentation or interviews with officials from international entities including the Financial Action Task Force on Money Laundering, the International Monetary Fund (IMF), the World Bank, the United Nations (UN), and the Organization of American States.

To examine U.S. government efforts to coordinate the delivery of training and technical assistance to vulnerable countries, we examined relevant laws; reports to Congress; National Security Council (NSC) guidance; strategic plans; policies and procedures; budget and expenditure information; agency and international entity training data, documents, and reports; contractor resumes; communications between embassies and agencies; interagency communications; web site information; and GAO criteria for strategic planning, collaboration, and performance results.¹ In conjunction we interviewed U.S. agency officials involved in the Terrorist Financing Working Group (TFWG), U.S. officials involved in the delivery of training and technical assistance abroad, and others with a stake in counter-terrorism financing training and technical assistance, including

¹See GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996); and GAO, *Electronic Government: Potential Exists for Enhancing Collaboration on Four Initiatives*, GAO-04-6, p. 21 (Washington, D.C.: Oct. 10, 2003) for a discussion of key practices for interagency collaboration.

officials of international entities, foreign government officials, and experts. We also observed a TFWG meeting. We requested an interview with the NSC, but the NSC declined our request. We assessed U.S. efforts to coordinate its efforts to deliver training and technical assistance to vulnerable countries using applicable elements of a sound strategic plan and identified those areas in which the U.S. effort is lacking.

We assessed documentation and interviewed officials from:

- the Department of Homeland Security (Immigration and Customs Enforcement);
- the Department of Justice (Criminal Division's Asset Forfeiture and Money Laundering Section, Counter Terrorism Section, and Office of Overseas Prosecutorial Development, Assistance and Training; Federal Bureau of Investigation);
- the Department of State (Bureau for International Narcotics and Law Enforcement Affairs, Office of the Coordinator for Counter-terrorism, Bureau of International Organizations, U.S. Mission to the United Nations, U.S. Agency for International Development; three U.S. embassies abroad)
- the Department of the Treasury (Office of Technical Assistance, Office of Foreign Assets Control, Financial Crimes Enforcement Network, the Executive Office for Terrorist Financing and Financial Crime, IRS's Criminal Investigation Division);
- the Financial Action Task Force on Money Laundering (FATF);
- International financial institutions including the International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB); and Inter-American Development Bank;
- the United Nations (UN), including the Counter Terrorism Committee and relevant UN Security Council resolutions sanctions committees and monitoring mechanisms; and
- the Organization of American States.

To examine specific issues the U.S. government faces in holding Treasury accountable for its efforts to block terrorists' assets held in the United

States, we interviewed officials from the Department of the Treasury's Office of Foreign Assets Control (OFAC) in Washington, D.C. We reviewed applicable laws, regulations, and executive orders to determine reporting requirements. In addition, we examined OFAC's annual Terrorist Assets Reports for calendar years 1999 to 2004. Our examination focused on comparing the nature and extent of blocked assets by year for OFAC's three programs targeting international terrorists and terrorist organizations and five programs targeting terrorism-supporting governments and regimes to understand how OFAC communicated changes in an organization or country's blocked assets over time. We also compared and contrasted the performance measures for designation and asset blocking included in Treasury's Strategic Plan for fiscal years 2003-2008 with those indicated in its Annual Performance and Accountability Report fiscal years 2003 and 2004. We reviewed testimony and speeches by OFAC and other Treasury officials, as well as information from OFAC's website, to learn more about key issues and progress made on designating terrorists and blocking their assets. We reviewed relevant information from the Congressional Research Service and our own work. To assess the extent that Treasury's performance measures for designating terrorists and blocking assets focused on factors critical to assessing performance, we reviewed a range of our previous reports examining factors that were necessary components for meaningful measures.²

We performed our work from March 2004 through July 2005 in accordance with generally accepted government auditing standards.

²The GAO reports we reviewed include: GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, [GAO-04-38](#) (Washington, D.C.: March 10, 2004) and GAO, *Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decision makers*, [GAO/GGD/AIMD-99-69](#) (Washington, D.C.: February 26, 1999).

Key International Counter-Terrorism Financing and Anti-Money Laundering Efforts

Entity and importance	Efforts
International standard-setters	
United Nations (UN): Of the key international entities, the UN has the broadest range of membership and the ability to adopt treaties or international conventions that have the effect of law in a country once signed and ratified, depending on a country's constitution.	United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) (The Vienna Convention): Defines concept of money laundering. Most widely accepted definition. Calls upon countries to criminalize the activity. Limited to drug trafficking as predicate offense ^a and does not address the preventative aspects.
	International Convention Against Transnational Organized Crime (2000) (The Palermo Convention): Came into force in September 2003. Obligates ratifying countries to criminalize money laundering via domestic law and include all serious crimes as predicate offenses of money laundering, whether committed in or outside of the country, and permit the required criminal knowledge or intent to be inferred from objective facts; establish regulatory regimes to deter and detect all forms of money laundering, including customer identification, recordkeeping, and reporting of suspicious transactions; authorize the cooperation and exchange of information among administrative, regulatory, law enforcement, and other authorities, both domestically and internationally; consider the establishment of a financial intelligence unit to collect, analyze, and disseminate information; and promote international cooperation.
	International Convention for the Suppression of the Financing of Terrorism (1999): Came into force in 2002. Requires ratifying countries to criminalize terrorism, terrorist organizations, and terrorist acts. Unlawful for any person to provide or collect funds with the intent that the funds be used for, or knowledge that the funds be used to conduct certain terrorist activity. Encourages states to implement measures that are consistent with FATF Recommendations.
	Security Council Resolutions 1267 and 1390: Adopted October 15, 1999 and January 16, 2002, respectively. Obligates member states to freeze assets of individuals and entities associated with Osama bin Laden or members of al Qaeda or the Taliban that are included on the consolidated list maintained and regularly updated by the UN 1267 Sanctions Committee.
	Security Council Resolution 1373: Adopted September 28, 2001, in direct response to events of September 11, 2001. Obligates countries to criminalize actions to finance terrorism and deny all forms of support, freeze funds or assets of persons, organizations, or entities involved in terrorist acts; prohibit active or passive assistance to terrorists; and cooperate with other countries in criminal investigations and sharing information about planned terrorist acts.
	Security Council Resolution 1617: Adopted July 29, 2005. Extended sanctions against al Qaeda, Osama bin Laden, and the Taliban, and strengthened previous related resolutions.
	Convention Against Corruption (2003) Not yet in force--First legally binding multilateral treaty to address on a global basis the problems relating to corruption. As of July 11, 2005, 29 countries had become parties to the Convention (30 are required for the Convention to enter into force). Requires parties to institute a comprehensive domestic regulatory and supervisory regime for banks and financial institutions to deter and detect money laundering. Regime must emphasize requirements for customer identification, record keeping, and suspicious transaction reporting.

Appendix II
Key International Counter-Terrorism
Financing and Anti-Money Laundering
Efforts

(Continued From Previous Page)

Entity and importance	Efforts
	<p>Global Program Against Money Laundering: research and assistance project offering technical expertise, training, and advice to member countries on anti-money laundering and counter-terrorism financing upon request to raise awareness; help create legal frameworks with the support of model legislation; develop institutional capacity, in particular with the creation of financial intelligence units; provide training for legal, judicial, law enforcement, regulators and private financial sectors including computer-based training; promote regional approach to addressing problems; maintain strategic relationships; and maintain database and perform analysis of relevant information.</p> <p>The Counter Terrorism Committee (CTC): Established via Security Council Resolution 1373 to monitor the performance of the member countries in building a global capacity against terrorism. Countries submit a report to the CTC on steps taken to implement resolution's measures and report regularly on progress. CTC asked each country to perform a self-assessment of existing legislation and mechanism to combat terrorism in relation to Resolution 1373. CTC identifies weaknesses and facilitates assistance, but does not provide direct assistance.</p>
Financial Action Task Force on Money Laundering (FATF): Formed in 1989 by the G-7 countries, ^b FATF is an intergovernmental body comprised of 31 member jurisdictions and two regional organizations whose purpose is to develop and promote policies, both at the national and international levels, to combat money laundering and the financing of terrorism. Its mission expanded to include counter-terrorism financing in October 2001. FATF has developed multiple partnerships with international and regional organizations in order to constitute a global network of organizations against money laundering and terrorist financing.	<p>The 40 Recommendations on Money Laundering: Constitute a comprehensive framework for anti-money-laundering designed for universal application. Permit country flexibility in implementing the principles according to the country's own particular circumstances and constitutional requirements. Although not binding as law, have been widely endorsed by international community and relevant organizations as the international standard for anti-money laundering.</p> <p>The Special Recommendations on Terrorist Financing: FATF adopted eight special recommendations and recently added a ninth. FATF members use a self-assessment questionnaire of their country's actions to come into compliance. The nine deal with both formal banking and non-banking systems:</p> <ul style="list-style-type: none">Ratification and implementation of UN instrumentsCriminalize the financing of terrorism and associated money launderingFreeze and confiscate terrorist assetsReporting suspicious transactions related to terrorismInternational co-operationImpose anti-money laundering requirements on alternative remittance systemsStrengthen customer identification measures in international and domestic wire transfersEnsure that non-profit organizations are not misusedDetecting and preventing cross-border transportation of cash by terrorists and other criminals.

Appendix II
Key International Counter-Terrorism
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Efforts

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Entity and importance	Efforts
	<p>The Non-Cooperative Countries and Territories (NCCT) List: One of FATF's objectives is to promote the adoption of international anti-money laundering/counter-terrorism financing standards by all countries. Thus, its mission extends beyond its own membership, although FATF can only sanction its member countries and territories. Thus, in order to encourage all countries to adopt measures to prevent, detect, and prosecute money launderers (i.e., to implement the 40 Recommendations) FATF adopted a process to identify non-cooperative countries and territories that serve as obstacles to international cooperation in this area and place them on a public list. An NCCT country is encouraged to make rapid progress in remedying its deficiencies or counter-measures may be imposed which may include specific actions by FATF member countries. Most countries make a concerted effort to be taken off the NCCT list because it causes significant problems to their international business and reputation.</p>
	<p>Monitoring Member's Progress: Facilitated by a two-stage process: self assessments and mutual evaluations. In the self-assessment stage, each member annually responds to a standard questionnaire regarding its implementation of the recommendations. In the mutual evaluation stage, each member is examined and assessed by experts from other member countries. Ultimately, if a member country does not take steps to achieve compliance, membership in the organization can be suspended. There is, however, a sense of peer pressure and a process of graduated steps before these sanctions are enforced.</p>
	<p>Methodology for Anti-money laundering/Counter-terrorist Financing Assessments: FATF developed and adopted a comprehensive mutual assessment methodology for the 40 and special recommendations based on consultations with IMF, World Bank, and other standard setters, which provides international agreement and cooperation among standard setters and others for a methodology for assessing anti-money-laundering/counter terrorist-financing regimes based on the 40 and special recommendations.</p>
	<p>Typologies Exercise: FATF issues annual reports on developments in money laundering through its typologies report, which keeps countries current with new techniques or trends.</p>
International capacity-builders	
International Monetary Fund (IMF) and World Bank: World Bank helps countries strengthen development efforts by providing loans and technical assistance for institutional capacity building. The IMF mission involves financial surveillance and the promotion of international monetary stability.	<p>Research and Analysis and Awareness-Raising: Conducted work on international practices in implementing anti-money laundering and counter-terrorist financing regimes; issued <i>Analysis of the Hawala System</i> discussing implications for regulatory and supervisory response; and developed comprehensive reference guide on anti-money-laundering/counter terrorist-financing presenting all relevant information in one source. Conducted Regional Policy Global Dialogue series with country, World Bank and IMF, development banks, and FATF-style regional bodies covering challenges, lessons learned, and assistance needed; and developed Country Assistance Strategy that covers anti-money laundering and counter-terrorism in greater detail in countries that have been deficient in meeting international standards.</p>
	<p>Assessments: Worked in close collaboration with FATF and FATF-style regional bodies to produce single comprehensive Methodology for anti-money laundering/counter-terrorist financing assessments; and engaged in a successful pilot program of assessments of country compliance with FATF recommendations. In 2004, adopted the FATF 40 and special 9 recommendations as one of the 12 standards and codes for which Reports on the Observance of Standards and Codes can be prepared and made anti-money laundering/counter-terrorist financing assessments a regular part of IMF/World Bank work. World Bank and IMF staff participated in 58 of the 92 assessments conducted since 2002.</p>

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Key International Counter-Terrorism
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Efforts

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Entity and importance	Efforts
	Training and Technical Assistance: Organized training conferences and workshops, delivered technical assistance to individual countries, and coordinated technical assistance. Substantially increased technical assistance to member countries on strengthening legal, regulatory, and financial supervisory frameworks for anti-money-laundering/counter terrorist-financing. In 2002-2003 there were 85 country-specific technical projects benefiting 63 countries and 32 projects reaching more than 130 countries. Between January 2004 and June 2005 the World Bank and IMF delivered an additional 210 projects. In 2004, IMF and the World Bank decided to expand the anti-money laundering/counter-terrorist financing technical assistance work to cover the full scope of the expanded FATF recommendations following the successful pilot program of assessments.
Egmont Group of Financial Intelligence Units: A forum for Financial Intelligence Units (FIU) to improve support for their respective national anti-money laundering and counter-terrorism financing programs. In June 2005 there were 101 member countries. The group fosters development of FIUs and the exchange of critical financial data among the FIUs.	The group is involved in improving interaction among FIUs in the areas of communications, information sharing, and training coordination. <i>The Egmont Group's Principles for Information Exchange Between Financial Intelligence Units for Money Laundering Cases</i> include conditions for the exchange of information, limitation on permitted uses of information, and confidentiality. Members of the Egmont Group have access to a secure private website to exchange information. As of 2004, 87 of the members were connected to the secure web. The group has produced a compilation of one hundred sanitized cases about the fight against money laundering from its member FIUs. Within the group there are five working groups—Legal, Outreach, Training/Communications, Operations, and Information Technology. The Egmont group is focusing on expanding its membership in the Africa and Asia regions.
Counterterrorism Action Group (CTAG): CTAG includes the G-8 (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States) as well as other states, mainly donors, to expand counterterrorism capacity building assistance.	CTAG goals are to analyze and prioritize needs and expand training and assistance in critical areas including counter-terrorism financing and other counterterrorism areas. CTAG also plans to work with the UN Counter-Terrorism Committee to promote implementation of Security Council Resolution 1373. In 2004, CTAG coordinated with FATF to obtain assessments of countries CTAG identified as priorities.
Regional entities	
FATF-Style Regional Bodies (FSRBs): Modeled after FATF, these groups have anti-money-laundering/counter terrorist-financing efforts as their objectives.	FSRBs encourage implementation and enforcement of FATF's 40 recommendations and special recommendations. They administer mutual evaluations of their members, which are intended to identify weaknesses so that the member may take remedial action. They provide members information about trends, techniques, and other developments for money laundering in their typology reports. The size, sophistication, and the degree to which the FSRBs can carry out their missions vary greatly. The FSRBs are Asia/Pacific Group on Money Laundering, Caribbean Financial Action Task Force, Council of Europe MONEYVAL, Eastern and Southern African Anti-Money Laundering Group, Eurasian Group on Combating Money Laundering and Financing of Terrorism, Financial Action Task Force Against Money Laundering in South America, Middle East and North Africa Financial Action Task Force, Inter-governmental Action Group Against Money Laundering (West Africa).
Organization of American States—CICAD: Regional body for security and diplomacy in the Western Hemisphere with 34 member states.	In 2004, the commission amended model regulations for the hemisphere to include techniques to combat terrorist financing, development of a variety of associated training initiatives, and a number of anti-money laundering/counter-terrorism meetings. Its Mutual Evaluation Mechanism included updating and revising some 80 questionnaire indicators through which the countries mutually evaluate regional efforts and projects. Worked with International Development Bank and France to provide training for prosecutors and judges. Based on agreement with Inter-American Development Bank for nearly \$2 million, conducting two-year project to strengthen FIUs in eight countries. Evaluating strategic plans and advising on technical design for FIUs in region.

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Key International Counter-Terrorism
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Entity and importance	Efforts
Asian Development Bank (ADB): Established in 1966, the ADB is a multilateral development finance institution dedicated to reducing poverty in Asia and the Pacific. The bank is owned by 63 members, mostly from the region and engages in mostly public sector lending in its developing member countries.	According to the ADB, it was one of the first multilateral development banks to address the money laundering problem, directly and indirectly, through regional and country assistance programs. The ADB Policy Paper, adopted on April 1, 2003, has three key elements: (1) assisting developing member countries in establishing and implementing effective legal and institutional systems for anti-money laundering and counter-terrorism financing, (2) increasing collaboration with other international organizations and aid agencies, and (3) strengthening internal controls to safeguard ADB's funds. The bank provides loans and technical assistance for a broad range of development activities including strengthening and developing anti-money laundering regimes.
Industry sector standard-setters	
Basel Committee on Banking Supervision: Established by the central bank Governors of the Group of Ten countries in 1974, formulates broad supervisory standards and guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements - statutory or otherwise - which are best suited to their own national systems.	Three of the Basel Committee's supervisory standards and guidelines concern money laundering issues: (1) <i>Statement on Prevention of Criminal Use of the Banking System for the purpose of Money Laundering</i> (1988), which outlines basic policies and procedures that bank managers should ensure are in place; (2) <i>Core Principles for Effective Banking Supervision</i> (1997), which provides a comprehensive blueprint for an effective bank supervisory system and covers a wide range of topics including money laundering; and (3) <i>Customer Due Diligence</i> (2001), which also strongly supports adoption and implementation of the FATF recommendations.
International Association of Insurance Supervisors: Established in 1994, an organization of supervisors from more than 100 different countries and jurisdictions that promotes cooperation among regulators, sets international standards, provides training, and coordinates with other financial sectors.	<i>Anti-Money Laundering Guidance Notes for Insurance Supervisors and Insurance Entities</i> (2002) is a comprehensive discussion on money laundering in the context of the insurance industry. Guidance is intended to be implemented by individual countries taking into account the particular insurance companies involved, the products offered within the country, and the country's own financial system. Consistent with FATF 40 Recommendations and <i>Basel Core Principles for Effective Banking Supervision</i> . Paper was updated as <i>Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism</i> (2004) with cases of money laundering and terrorist financing. A document based upon these cases is posted on Web site and updated, and new cases that might result from the FATF typology project are to be added.
International Organization of Securities Commissions (IOSCO): Members regulate and administer securities and laws in their respective 105 national securities commissions. Core objectives are to protect investors; ensure that markets are fair, efficient, and transparent; and reduce systematic risk.	Passed "Resolution on Money Laundering" in 1992. <i>Principles on Client Identification and Beneficial Ownership for the Securities Industry</i> (2004) is a comprehensive framework relating to customer due diligence requirements and complementing the FATF 40 recommendations. IOSCO and FATF have discussed further steps to strengthen cooperation among FIUs and securities regulators in order to combat money laundering and terrorist financing.

Source: GAO, using information from FATF, United Nations, U.S. Department of State, U.S. Department of Treasury, and World Bank/IMF, Egmont Group, Asian Development Bank, Basel Committee on Banking Supervision, and CTAG.

^aA predicate offense is the underlying crime that produces the proceeds that are the subject of money laundering.

^bG-7 is short for "Group of 7" whose members are Canada, France, Germany, Japan, Italy, the United Kingdom, and the United States.

Terrorist Financing Working Group Membership and Program Development Process

According to the State, TFWG is made up of various agencies throughout the U.S. government and convened in October 2001 to develop and provide counter-terrorism finance training to countries deemed most vulnerable to terrorist financing. TFWG is co-chaired by State's Office of the Coordinator for Counterterrorism and the Bureau for International Narcotics and Law Enforcement Affairs and meets on a bi-weekly basis to receive intelligence briefings, schedule assessment trips, review assessment reports, and discuss the development and implementation of technical assistance and training programs.

TFWG Membership

Agencies and offices participating in the TFWG include:

Department of State

Office of the Coordinator for Counterterrorism
Bureau for International Narcotics and Law Enforcement Affairs, Crime Programs
Regional bureaus
Bureau for Economic and Business Affairs
Bureau of Diplomatic Security Office of Antiterrorism Assistance
United States Agency for International Development

Department of the Treasury

Terrorist Financing and Financial Crimes
Office of Technical Assistance
Financial Crimes Enforcement Network
Office of the Comptroller of the Currency
Internal Revenue Service—Criminal Investigation

Department of Justice

Office of Overseas Prosecutorial, Development, Assistance and Training, Asset Forfeiture, and Money Laundering Section
Counter Terrorism Section
Federal Bureau of Investigation
Drug Enforcement Administration

Department of Homeland Security

Bureau of Customs and Border Protection
Bureau of Immigration and Customs Enforcement

Other Participants

National Security Council
Central Intelligence Agency
Federal Deposit Insurance Corporation
Federal Reserve Board

TFWG Program Development Process

According to State the process is as follows:

1. With input from the intelligence and law enforcement communities, State, Treasury, and the Department of Justice (Justice), identify and prioritize countries needing the most assistance to deal with terrorist financing.
2. Evaluate priority countries' counter-terrorism finance and anti-money laundering regimes with Financial Systems Assessment Team (FSAT) onsite visits or Washington tabletop exercises. State-led FSAT teams of 6-8 members include technical experts from State, Treasury, Justice, and other regulatory and law enforcement agencies. The FSAT onsite visits take about one week and include in-depth meetings with host government financial regulatory agencies, the judiciary, law enforcement agencies, the private financial services sector, and non-governmental organizations.
3. Prepare a formal assessment report on vulnerabilities to terrorist financing and make recommendations for training and technical assistance to address these weaknesses. The formal report is shared with the host government to gauge its receptivity and to coordinate U.S. offers of assistance.
4. Develop counter-terrorism financing training implementation plan based on FSAT recommendations. Counter-terrorism financing assistance programs include financial investigative training to "follow the money," financial regulatory training to detect and analyze suspicious transactions, judicial and prosecutorial training to build financial crime cases, financial intelligence unit development, and trade-based money laundering for over/under invoicing schemes for money laundering or terrorist financing.
5. Provide sequenced training and technical assistance to priority countries in-country, regionally, or in the United States.

Appendix III
Terrorist Financing Working Group
Membership and Program Development
Process

6. Encourage burden sharing with our allies, international financial institutions (e.g., IMF, World Bank, regional development banks), and through international organizations such as the UN, United Nations, the UN Counterterrorism Committee, FATF on Money Laundering, or the Group of Eight (G-8) to capitalize on and maximize international efforts to strengthen counter-terrorism finance regimes around the world.

Key U.S. Counter-Terrorism Financing and Anti-Money Laundering Training and Technical Assistance for Vulnerable Countries

Department/ agency	Bureau/division/office	Description of effort
State, Justice, Homeland Security, and the Treasury	Multiple	International Law Enforcement Academies (ILEAs). Regional academies led by U.S. agencies partnering with foreign governments to provide law enforcement training including anti-money laundering and counter-terrorism financing. ILEAs in Gaborone, Botswana; Bangkok, Thailand; Budapest, Hungary; and Roswell, New Mexico, train over 2,300 participants annually on topics such as criminal investigations, international banking and money laundering, drug-trafficking, human smuggling, and cyber-crime.
Board of Governors of the Federal Reserve System		Provides financial regulatory training and technical assistance to central banks, foreign banking supervisors, and law enforcement officials in Washington, D.C. and abroad, and participates in U.S. interagency assessments of foreign government vulnerabilities.
Federal Deposit Insurance Corporation		Provides financial regulatory training through seminars and regional conference presentations in Washington, D.C. and abroad, and participates in U.S. interagency assessments of foreign government vulnerabilities.
Homeland Security	Bureau of Customs and Border Protection and Bureau of Immigration and Customs Enforcement	Provides law and border enforcement training and technical assistance to foreign governments, in conjunction with other U.S. law enforcement agencies and the ILEAs. Participates in assessments of foreign countries in the law and border enforcement arena.
Justice	Asset Forfeiture and Money Laundering Section	Assists in the drafting of money laundering, terrorist financing, and asset forfeiture legislation compliant with international standards for international and regional bodies and foreign governments. Provides legal training and technical assistance to foreign prosecutors and judges, in conjunction with Justice's Office of Overseas Prosecutorial Development, Training and Assistance. Sponsors conferences and seminars on transnational financial crimes such as forfeiting the proceeds of corruption, human trafficking, counterfeiting, and terrorism. Participates in U.S. interagency assessments of countries' capacity to block, seize, and forfeit terrorist and other criminal assets.
	Counter Terrorism Section	Provides investigative and prosecutorial training and technical assistance to foreign investigators, prosecutors, and judges in conjunction with the Office of Overseas Prosecutorial Development, Training, and Assistance and other Department of Justice components.
	Drug Enforcement Administration	Provides law enforcement training on international asset forfeiture and anti-money laundering to foreign governments, in conjunction with other Department of Justice components and through ILEAs.
	Federal Bureau of Investigation	Provides basic and advanced law enforcement training to foreign governments on a bilateral and regional basis and through ILEAs and the Federal Bureau of Investigation's Academy in Quantico, Virginia. Developed a two-week terrorist financing course that was delivered and accepted as the U.S. government's model. Participates in U.S. interagency assessments of countries' law enforcement and counter-terrorism capabilities.
	International Criminal Investigative Training Assistance Program	Provides law enforcement training and technical assistance to foreign counterparts abroad in conjunction with other Department of Justice components.

Appendix IV
Key U.S. Counter-Terrorism Financing and
Anti-Money Laundering Training and
Technical Assistance for Vulnerable
Countries

(Continued From Previous Page)

Department/ agency	Bureau/division/office	Description of effort
	Office of Overseas Prosecutorial Development, Training and Assistance	Provides legal and prosecutorial training and technical assistance for criminal justice sector counterparts abroad and through ILEAs in drafting anti-money laundering and counter-terrorism financing statutes. Provides Resident Legal Advisors to focus on developing counter-terrorism legislation that criminalizes terrorist financing and achieves other objectives. Conducts regional conferences on terrorist financing, including a focus on charitable organizations. Participates in U.S. interagency assessments to determine countries' criminal justice system capabilities.
State	Office of the Coordinator for Counterterrorism and Bureau for International Narcotics and Law Enforcement Affairs	Coordinate and fund U.S. training and technical assistance provided by other U.S. agencies to develop or enhance the capacity of a selected group of more than two dozen countries whose financial sectors have been used to finance terrorism. Also manage or provide funding for other anti-money laundering or counter-terrorism financing programs for Department of State, other U.S. agencies, IIEAs, international entities, and regional bodies. Leads U.S. interagency assessments of foreign government vulnerabilities.
	Diplomatic Security Anti-Terrorism Assistance Programs	Provides law enforcement training for foreign counterparts and through ILEAs to develop the skills necessary to investigate financial crimes.
	U.S. Agency for International Development	Provides legal technical assistance to foreign governments by drafting legislation that criminalizes terrorist financing. Provides resident advisors to provide technical assistance to judicial officials in their home country.
Treasury	Financial Crimes Enforcement Network	Provides financial intelligence training and technical assistance to a broad range of government officials, financial regulators, law enforcement officers, and others abroad with a focus on the creation and improvement of financial intelligence units. FinCEN's IT personnel provide FIU technical assistance in two primary areas: analysis and development of network infrastructures and access to a secure web network for information sharing. Conducts personnel exchanges and conferences. Partners with other governments and international entities to coordinate training. Participates in assessments of foreign governments' financial intelligence capabilities.
	Internal Revenue Service Criminal Investigation Division	Provides law enforcement training and technical assistance to foreign governments and through ILEAs to develop the skills necessary to investigate financial crimes.
	Office of the Comptroller of the Currency	Provides financial regulatory training in Washington, D.C., and abroad for foreign banking supervisors.
	Office of Technical Assistance	Provides a range of training and technical assistance including intermittent and long-term resident advisors to senior-level representatives in various ministries and central banks on a range of areas including financial reforms related to money laundering and terrorist financing. Conducts and participates in assessments of foreign government anti-money laundering regimes for the purpose of developing technical assistance plans.
	Office of Terrorist Financing and Financial Crime	Participates in U.S. interagency assessments of countries' counter-terrorism financing and anti-money laundering capabilities. Provides technical advice and practical guidance on how the international anti-money laundering and counter-terrorist financing standards should be adopted and implemented.

Source: GAO, using information from State, Treasury, Homeland Security, and Justice, and the federal financial regulators.

Comments from the Department of Justice

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. Department of Justice

Criminal Division

Washington, D.C. 20530

September 29, 2005

Christine Broderick
Assistant Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Broderick,

On August 26, 2005, the Government Accountability Office (GAO) provided the Department of Justice (DOJ) an electronic copy of its draft report entitled, "Terrorist Financing: Greater Strategic Planning and Coordination Needed to Improve U.S. Government Efforts to Combat Terrorist Financing Abroad."¹ Several Department components reviewed the draft report. The Criminal Division and FBI forwarded minor comments and technical corrections to your staff electronically and appreciate that these will be incorporated as appropriate. We nevertheless have several larger substantive concerns with the report as drafted.

Our foremost concern is that the report fails to recognize the significant role that DOJ plays in providing international technical assistance and training in the money laundering and terrorist financing areas. Beyond that, we are dismayed that the draft report's focus on the interaction of the Department of State (State) and the Department of Treasury (Treasury) has obscured the enormous contributions of the Terrorist Financing Working Group. The TFWG, in existence for almost four years, has succeeded in assessing and identifying terrorist financing deficiencies in priority countries, has avoided duplication of USG agencies' efforts in providing assistance to remedy these deficiencies, and has achieved considerable progress in even some of the most intransigent states. We solicit your attention to these important concerns.

DOJ's role in providing international assistance to combat terrorism and terrorist financing is well-recognized. Indeed, a high level inter-departmental decision has assigned Justice primacy within the USG interagency community in drafting foreign criminal laws (including money laundering and terrorist financing), reviewing the legal sufficiency of such

¹We note that the report specifically addresses the planning and coordination of USG international assistance efforts, which is a narrower issue than the report's title implies. DOJ recommends that both the title and the introductory pages of the report be modified to accurately reflect the more limited scope of the study.

See comment 1.

See comment 2.

See comment 3.

Appendix V
Comments from the Department of Justice

laws, and providing prosecutorial training and development for the TFWG countries. This, of course is logical because as the Department with lead responsibility for the prosecution and investigation of terrorism and terrorist financing offenses, *see* 18 U.S.C. § 2332b(f), DOJ is in the best position to know what assistance we require from our international counterparts and what capacities it is critical that they possess to assist in the global war on terrorism. The foreign recipients of technical assistance as well as U.S. interests are best served when the agency with the particular competence for the training and technical assistance is the one to deliver (or to oversee the delivery of) the particular technical assistance.

As a result of its recognized prominence and expertise, DOJ has received a significant portion of the total funding managed by the TFWG and has completed the greatest number of programs. Unfortunately, DOJ's substantial – and acknowledged – role in providing assistance to combat terrorism and terrorist financing is missed in the report's recommendation that "the Secretary of State and the Secretary of the Treasury, in consultation with the National Security Council and relevant government agencies, develop and implement an integrated strategic plan for the delivery of training and technical assistance." Failing to recognize DOJ's key role and participation (through the Criminal Division, Asset Forfeiture Money Laundering and Counterterrorism Sections, and the Office of Overseas Prosecutorial Development, Assistance and Training, as well as through the FBI and DEA) in the development of any such strategy is a critical omission. By focusing on the disagreement over leadership and procedures and the roles of the Departments of State and Treasury essentially to the exclusion of the rest of the interagency community, GAO's report fails to meet its own objectives of examining USG efforts as a whole to coordinate anti-terrorism financing assistance.

The report's critical flaw in omitting DOJ is repeated in its recommendation that "the Secretaries of State and Treasury enter into a Memorandum of Agreement . . . in providing counter-terrorism financing training and technical assistance programs to vulnerable countries." Although congressional appropriations flow in the first instance to State and Treasury, DOJ has been and is likely to continue to be the primary supplier of expertise and technical assistance in the areas, among others, of legislative drafting, law enforcement investigative assistance, and development of prosecutors and the judiciary in the terrorist financing. DOJ is a key player and therefore should be involved in all interagency deliberations and decisions, particularly those to develop strategies and set priorities for technical assistance.

The TFWG has provided a workable interagency framework for developing and coordinating technical assistance. In DOJ's view, effective interagency coordination must respect, reflect, and implement each participating agency's specific skills and expertise. At the core what is needed is an overall coordinator whose authority is recognized and respected by all component participants. Contrary to the impression conveyed in the draft report, DOJ fully respects the honest broker role that State plays as the TFWG Coordinator.

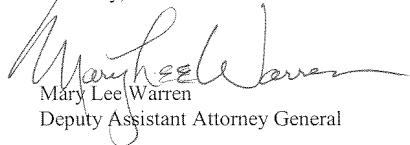
We do agree that the three departments – State, Justice, and Treasury – must work together to bring all efforts in this arena under the TFWG decision-making process. In the

Appendix V
Comments from the Department of Justice

TFWG forum, each agency's areas of expertise are recognized. By working within that coordination structure, the United States can ensure the delivery of the best available training and technical assistance to the most vulnerable countries of the world.

We appreciate this opportunity to offer what we believe are constructive and necessary comments to the draft report.

Sincerely,



Mary Lee Warren
Deputy Assistant Attorney General

The following are GAO's comments on the Department of Justice's letter dated September 29, 2005.

GAO Comments

1. Justice expressed concern that the draft report does not recognize the significant role it plays in providing international training and technical assistance in the money laundering and terrorist financing areas. The report acknowledges the roles of multiple agencies, including Justice, in delivering training and technical assistance to vulnerable countries. Under the first objective we broadly describe the U.S. efforts to provide training and technical assistance to vulnerable countries and note that U.S. offices and bureaus, primarily within the departments of the Treasury, Justice, Homeland Security, and State, and the federal financial regulators, provide training and technical assistance to countries requesting assistance through various programs using a variety of methods funded primarily by the State and Treasury. Moreover, appendix IV includes Table 2, which summarizes key U.S. counter-terrorism financing and anti-money laundering training and technical assistance programs for vulnerable countries and lists contributions provided by Justice, as well as other relevant agencies.
2. Justice expressed dismay that the report focuses on the interaction of State and Treasury rather than the accomplishments of the TFWG. While a number of comments suggested including information indicative of the successes of agency efforts to address terrorist financing abroad, much of this information is outside of the scope of this report. However, we have made a number of changes in response to these comments. First, we have added information on the accomplishments of U.S. agencies to the report. Second, we have adjusted our first objective to clarify that we are providing an overview of U.S. agencies' efforts to address terrorist financing abroad. Third, as we note in other comments, we have adjusted the title of the report to better reflect the focus of our work.
3. Justice notes that the report addresses a narrower issue than the title implies. We agree. We have revised the title of the report to focus on our key recommendation.
4. According to Justice, our report contains a critical flaw because it does not recognize Justice as a key player nor does it place Justice on equal standing with State and Treasury in the report's recommendation and Memorandum of Agreement concerning training and technical

assistance. Justice noted that it should be involved in all interagency deliberations and decisions. The report acknowledges the roles of multiple important agencies, including Justice, in delivering training and technical assistance to vulnerable countries. The report recommends that the Secretaries of State and the Treasury, develop and implement an integrated strategic plan in consultation with the NSC and relevant government agencies, of which Justice is one (see comment 1). We continue to believe that the Memorandum of Agreement should be limited to the Secretaries of State and Treasury. State and Treasury both primarily fund and support U.S. government anti-money laundering and counter-terrorist financing training and technical assistance programs, and in Treasury's case also provides considerable training and technical assistance abroad through current U.S. government employees and contractors. It is important that their programs and funding be integrated to optimize results. Other agencies are important stakeholders, as they are recipients of this funding and support and should benefit from improved coordination between these two agencies. Justice primarily receives funding from State and, according to Justice, State has been supportive of Justice's training and technical assistance efforts.

5. Justice states that contrary to the impression conveyed in the draft, it fully respects the "honest broker role" that State plays as the TFWG coordinator. We have added information from Justice to more accurately portray Justice's support of State as TFWG coordinator in the Highlights page, Results in Brief, and body of the report.

Additional Comments from the Department of Justice

Justice provided information in its technical comments that we believe are important to the key findings and recommendations in this report. While we have addressed Justice's technical comments as appropriate, we have reprinted and addressed specific technical comments below.

1. Justice technical comment (on our Highlights page):

"The draft Report reflects that "*Justice officials confirmed that roles and procedures [of the TFWG] were a matter of dispute.*" The context suggests that DOJ [Department of Justice] does not accept the leadership of the State Department. That is not an accurate statement. DOJ strongly agrees that there needs to be a designated coordinator in this TFWG process and supports that role being given to the State Department, which has been an honest broker in the process and DOJ has abided by its procedures. DOJ agrees with the observation that the Treasury Department does not accept the State Department's leadership or the procedures. . . ."

“Justice officials confirmed that roles and procedures were a matter of dispute.” It would be more accurate to replace dispute with disagreement.”

GAO response: Justice made these two comments concerning the statement in the draft report that “Justice officials confirmed that roles and procedures were a matter of dispute.” We added language to show that Justice is supportive of State’s role as coordinator of TFWG efforts and substituted the word “*disagreement*” for “*dispute*” when stating that “*Justice officials confirmed that roles and procedures were a matter of disagreement.*”

2. Justice technical comment (on our second objective):

“The draft report references that AFMLS [Asset Forfeiture and Money Laundering Section] stated that “*the Department of State’s leadership role is limited to its chairmanship of TFWG...*” To be clear, this statement was not made to suggest that the TFWG be limited to priority countries, but rather that differing standards on procedures (particularly with DOJ leadership role in legislative drafting) for priority countries and vulnerable countries creates problems.”

GAO response: In response to this point, we removed the report’s reference to AFMLS and noted that Justice officials told us that having procedures and practices for TFWG priority countries that differ from those for other vulnerable countries creates problems.

Comments from the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

OCT - 3 2005

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, “TERRORIST FINANCING: Greater Strategic Planning and Coordination Needed to Improve U.S. Government Efforts to Combat Terrorist Financing Abroad,” GAO Job Code 320249.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Robert Stapleton, Policy Advisor, Office of the Coordinator of Counter-Terrorism, at (202) 647-6487.

Sincerely,

A handwritten signature in black ink, appearing to read "Sid Kaplan".

Sid Kaplan (Acting)

cc: GAO – Kathleen Monahan
S/CT – John Dinger
State/OIG – Mark Duda

Department Of State Comments On GAO Draft Report
TERRORIST FINANCING - Greater Strategic Planning And
Coordination Needed To Improve U.S. Efforts To Combat
Terrorist Financing Abroad
(GAO-06-19, GAO Code 320249)

Thank you for the opportunity to respond to the draft report *Greater Strategic Planning and Coordination Needed to Improve U.S. Government Efforts to Combat Terrorist Financing Abroad*. We appreciate that the report acknowledges the many initiatives the Executive Branch has taken to combat terrorist financing, and the success of these initiatives. We note, however, that there other initiatives whose details are classified that the GAO does not include in this report.

While we understand the nature of the report is to recommend improvements to the interagency process, we are nonetheless disappointed at the lack of examples of the the Administration's success combating terrorism financing. We believe that readers will find more useful a balanced report that not only mentions the areas that GAO believes need improvement, but also better captures numerous successes of which we are quite proud, especially those of the Terrorist Finance Working Group (TFWG).

Without mentioning accomplishments, we don't believe the report accurately portrays to its readers the overall effectiveness and success of the Administration's CT finance programs. The TFWG targets its training and technical assistance in the five areas that comprise an effective anti-money laundering/counterterrorist finance (AML/CTF) regime that meets international standards: legal framework, financial regulation, financial intelligence unit, financial investigations, and judges and prosecutors. There are currently 26 countries on the priority list to receive training and technical assistance. Of those 26 countries, we are pleased that we have conducted 19 needs assessment missions and provided training and technical assistance in at least one area of an AML/CTF regime to over 20 countries. We have provided technical assistance and training in at least 4 of the 5 areas that comprise an effective AML/CTF regime to nine countries. We think it is useful for readers to understand that due in part to technical assistance training the TFWG provided, the Financial Action Task Force (FATF) removed two countries from its Non-Cooperative Countries and Territories List. All of these successes have prompted requests for training and technical assistance from not only priority and frontline countries, but also countries that are not on those lists. We believe the

See comment 1.

draft report could much more accurately portray the strength of our strategy to combat terrorism finance and all that we have done to implement it.

The U.S. Government developed a number of aggressive policy initiatives and actions in order to curb terrorist financing following the terrorist attacks against the United States on September 11, 2001. It was a focal point of our effort to prevent future terrorist attacks at home and abroad. Our actions include blocking the property (including assets) of terrorists and their supporters and providing training and technical assistance to countries most vulnerable to terrorist financing in an effort to “extend our borders.” Central to these plans is international cooperation and the State Department’s leadership in this arena.

We are proud of our coordinated effort to combat terrorist financing and gratified that the GAO draft report recognizes our success in several key areas. However, we are disappointed that the title, conclusions and recommendations of the report regarding the delivery of technical assistance do not accurately capture or portray all we have achieved. We offer comments below keyed to the report’s recommendations and later general and technical comments which we believe provide useful clarification and context.

Recommendation 1: The Secretary of State and the Secretary of the Treasury, in consultation with the National Security Council and relevant government agencies, develop and implement an integrated strategic plan.

We do not concur. Such a strategic plan already exists. In September 2002, the National Security Council Deputies’ Committee adopted an integrated strategy to coordinate the delivery of technical assistance to combat terrorist financing abroad and designated the State Department as the lead coordinator. This decision reaffirmed a December 2001 Deputies Committee decision that the State Department’s Office of the Coordinator for Counterterrorism (S/CT) should lead the effort to prioritize and coordinate the USG’s counterterrorism training and assistance programs, including those pertaining to terrorist financing. The Counterterrorism Security Group (CSG) reaffirmed this decision in June 2002, as did the Treasury-chaired Terrorist Financing Policy Coordination Committee in July 2002, and an ad-hoc senior working group in August 2002. The strategy that emerged from this series of high-level meetings and their conclusions directly supports the “enabling weak states” objective of the National Strategy for

Combating Terrorism. It is reflected in the S/CT's Bureau Performance Plan, which also includes objectives and performance measures for counterterrorist financing programs.

The integrated counterterrorism (CT) finance strategy tasks State with leading the coordination of delivery of all capacity building programs in the area of terrorism financing. In addition, it puts rightful and special emphasis on targeting priority and frontline states vulnerable to terrorist financing. It also provides guidance on implementation, and establishes TFWG chaired by the Department of State's Office of the Coordinator for Counterterrorism (S/CT) and Bureau of International Narcotics and Law Enforcement Affairs (INL). The TFWG includes representatives of all key stakeholders from the Departments of Homeland Security, Justice, and Treasury, as well as financial regulatory agencies, and the intelligence and law enforcement communities.

In order to operationalize the strategy, State led the development in the TFWG of a process to identify priority countries for assistance, based on consideration of intelligence community analysis of the vulnerabilities, importance to U.S. security, and capacity to absorb U.S. assistance in key states of anti-money laundering/terrorist financing concern. The TFWG process ensures that its actions are coordinated with broader U.S. counterterrorism efforts in terms of priorities and the most effective use of human and financial resources. We believe that State has provided strong and necessary leadership to implement the strategy. However, we emphasize that the process has been inclusive, and all key agencies helped to develop and agreed to abide by the integrated strategy. Key stakeholders also actively participate in implementing the strategy, any disagreements that arise are resolved and we expect the TFWG to continue and enhance its record of success following this GAO report.

In addition to determining U.S. priorities under the strategy, the TFWG carefully plans, discusses and coordinates important decisions related to scheduling and implementing all counterterrorism finance foreign assistance programs brought to it. If the country team, interagency and host government agree on the implementation plan, the TFWG determines the necessary funding for State to obligate to the agencies with the appropriate counterterrorism finance and anti-money laundering expertise. State carefully monitors and can account for all of the funding Congress has appropriated for training programs coordinated through the

See comment 2.

See comment 3.

TFWG. State provided an accounting for such obligations and expenditures to the Congress in a classified report in May 2004.

See comment 4.

The TFWG has been very diligent in developing methods to measure its success, and continues to discuss better methods and ways to measure its progress. As an important part of that process, TFWG members discuss issues regarding strategies developed for certain countries and revise them according to reporting from posts and experts who have conducted recent onsite missions.

Recommendation 2: The Secretaries of State and the Treasury enter into a Memorandum of Agreement concerning counterterrorism financing and anti-money laundering training and technical assistance.

See comment 5.

We do not concur. There already is an interagency agreement on these issues. Under the procedures approved by the Deputies Committee and other guidance developed under the NSC, the interagency developed, agreed to, and is implementing a strategy for leading and coordinating the provision of training and technical assistance to combat terrorist financing. The strategy outlines the roles of the agencies that participate in the TFWG, and each participant recognizes these roles. Experts from the various agencies comprise the assessment missions led by the State Department, and each representative has the lead in drafting the appropriate section as it relates to his/her area of technical expertise.

See comment 6.

There are established methods to resolve disputes that may arise during the interagency process. The co-chairs of the TFWG, or any of its members, may raise an issue during a meeting. If the interested parties cannot reach a consensus through the TFWG process, the parties can raise the issue at the Training and Assistance Subgroup (TASG) of the Counterterrorism Security Group (CSG) or their representatives can discuss them at a CSG meeting. However, it is rare that the TFWG process cannot resolve issues.

The primary responsibility of the TFWG is to coordinate all training and technical assistance to ensure that the United States Government effectively harnesses all its resources and capabilities and that the money the Congress allocates for CTF training and technical assistance is spent efficiently and effectively. A series of high-level groups and a series of detailed documents thoroughly memorializes these issues. Unfortunately many are not referenced or described in the report.

See comment 7.

We do not believe any additional formal documents are necessary. If there were to be such a document, we believe it should include all agencies engaged in providing training and technical assistance, not just State and Treasury.

Recommendation 3: The Secretary of the Treasury provide in its annual Terrorist Assets Report to Congress more complete information on the nature and extent of asset blocking in the United States.

This recommendation is incomplete in that it makes no mention of the State Department's important role in blocking assets and promoting international cooperation to achieve it. In particular, we are disappointed that the GAO report omits the State Department's role in designations to combat terrorist financing. The Secretary of State energetically exercises her designation authorities under the Antiterrorism and Effective Death Penalty Act of 1996, Section 411 of the USA PATRIOT ACT of 2001 (8 U.S.C. § 1182), Executive Order 12947, and Executive Order 13224. The report makes no mention of those important tools against terrorist financing.

State also plays an active role in building international support for measures to combat terrorist financing including designations promulgated by the Secretary of Treasury and Secretary of State. The State Department's Economic Bureau (EB), coordinates policy implementation at the working level, largely through the network of Terrorism Finance Coordinating Officers (TFCOs) located at every embassy worldwide. The Bureau of International Organization Affairs (IO) ensures designations related to al-Qaida, the Taliban, or Usama bin Laden are made worldwide obligations through the UN 1267 Committee.

The Administration believes that it is crucial that the United States wage a strong, effective and coordinated fight against terrorist financing. That effort must and is bringing to bear the capabilities and resources of all relevant agencies. We're proud of our success in this key area. We hope these comments add useful information, context and clarity to the GAO report.

General Comments

In addition to our concerns with the recommendations we note above, State is concerned with a number of issues within the report's narrative. For example, we believe that a different title would more accurately capture the report's research

See comment 9.

and findings. We believe that the report's narrative acknowledges that many, in fact most, of the USG's efforts to combat terrorist financing abroad are extremely effective. Therefore, State suggests that the GAO create a new title that better and positively describes the broad U.S. efforts to combat terrorism overseas, or alternatively, that makes clear that any critical comments are limited to the provision of training and technical assistance to combat terrorist financing abroad.

See comment 10.

No interagency process is without flaws, but we believe there is much evidence that the TFWG is one of the most successful examples of interagency cooperation. Disagreements between members are usually resolved amicably through the procedures established in the Deputies Committee's Summary of Conclusions. We believe there is strong buy-in to the strategy, grounded on all agencies' dedication to complete the mission, ensure the success of our training and technical assistance, and achieve our nation's goals. There are outside forces that can interfere with the delivery of training and technical assistance and prevent certain projects from occurring, such as a lack of political will by the recipient nation or unexpected occurrences that would endanger the safety of the participants of the mission. The TFWG members address these issues during biweekly meetings to plan accordingly and pool their resources to overcome whatever issues may arise.

See comment 11.

We understand the GAO's need for unclassified documentation to provide the basis for the statements made by interagency participants and have provided as much unclassified information as possible. We believe that some gaps in the report are due to the inability of the interagency to document the full scope of TFWG's success with unclassified material. We regret if conclusions based on unclassified documents only do not accurately portray the interagency process and leave room for incorrect inferences by the consumers of this product. We hope that this information provides a more positive and accurate portrait of the TFWG.

See comment 2.

Finally, State would like to underscore again that we are perplexed by the draft report's conclusion that the Administration lacks an integrated strategy to combat terrorism financing. The NSC Deputies, in a Summary of Conclusions that built upon a series of high-level interagency meetings and resulting documents, provides clear guidance on how the USG should provide technical assistance and training to combat terrorist financing. The members of TFWG have cooperatively operationalized the Deputies' guidance. And, S/CT's Bureau Performance plan further documents that strategy.

The following are GAO's comments on the Department of State's letter dated October 3, 2005.

GAO Comments

1. State noted in its comments that it does not believe the report accurately portrays the overall effectiveness and success of the Administration's counter-terrorism finance programs. While a number of comments suggested including information indicative of the successes of agency efforts to address terrorist financing abroad, much of this information is outside of the scope of this report. However, we have made a number of changes in response to these comments. First, we have added information on the accomplishments of U.S. agencies to the report. For example, we added information on the number of needs assessment missions conducted and the number of countries receiving training and technical assistance. Second, we have adjusted our first objective to clarify that we are providing an overview of U.S. agencies' efforts to address terrorist financing abroad. Third, as we note in other comments, we have adjusted the title of the report to better reflect the focus of our work.
2. State commented that it has an integrated strategic plan which is evidenced through classified NSC Deputies Committee documentation and the Department of States' Office of the Coordinator for Counterterrorism's Bureau Performance Plan. We reviewed the NSC Deputies Committee documentation, which includes minutes, an agreement, and conclusions-- all of which serve as the NSC guidance for the TFWG. We also reviewed the performance plan, which includes the Office of the Coordinator for Counterterrorism's objectives and performance measures for counter-terrorist financing programs and provides some performance indicators, such as the number of assessments and training plans completed. Although some aspects of a strategic plan for delivering training and technical assistance are included in these documents, we do not agree that this guidance and performance plan includes the elements necessary to constitute an integrated strategy for the coordination of the delivery of training and technical assistance abroad. In addition to not having a fully integrated strategy on paper, the NSC guidance lacks clarity, particularly regarding coverage of non-priority countries. The guidance also lacks familiarity and clear buy-in among the pertinent levels of agencies. As a result, the documents did not guide the actions of the agencies in actual practice.

3. State commented that “if the country team, interagency and host government agree on an implementation plan, TFWG determines the necessary funding for State to obligate to each agency with the appropriate expertise.” State added that it carefully monitors and can account for all of the funding Congress has appropriated for training programs coordinated through the TFWG, as provided in a classified report. Our report did not specifically address TFWG-reported obligations and expenditures, as this information focusing on priority countries was classified. Our report focused on the lack of transparency in the overall amount of funds available for all counter-terrorism training and technical assistance programs within State and the Treasury. Because funding is embedded with anti-money laundering and other programs, the U.S. government does not have a clear presentation of the budget resources that State and Treasury allocate for training and technical assistance to counter-terrorist financing as differentiated from other programs. Although various officials told us that funding for counter-terrorism financing training and technical assistance is insufficient, the lack of a clear presentation of available budget resources makes it difficult for decision-makers to determine the actual amount that may be allocated to these efforts.
4. We do not agree with State’s comment that TFWG has been very diligent in developing methods to measure its success. As of July 2005, the U.S. government, including TFWG, did not have a system in place to measure the results of its efforts to deliver training and technical assistance and to incorporate this information into integrated planning efforts. Our report acknowledges that an interagency committee was set up to develop a system to measure results and other efforts were undertaken to track training and technical assistance; however, according to agency officials, these efforts have not yet resulted in performance measures.
5. Based on our review of NSC and other documents provided by State, the U.S. government lacks an integrated strategy to coordinate the delivery of training and technical assistance. The classified document serving as an interagency agreement lacks clarity as well as familiarity and buy-in from all agencies and levels of leadership within TFWG, particularly Treasury. The NSC guidance was agreed to at the deputy level, and we found that many of the working level staff were not familiar with the guidance or the interpretation of the guidance and Treasury staff clearly did not have the same interpretation as State staff.

6. State noted that there are established methods to resolve disputes that arise through the interagency process and it is rare that the TFWG process cannot resolve issues. While there are guidelines for resolving disputes, in practice there are long-standing disagreements that have not been resolved. Based on discussions with agency officials and review of documentation, our report provides examples of long-standing disagreements that have not been resolved such as the use of contractors and procedures for conducting assessments of country's needs for training and technical assistance.
7. State commented that it is the primary responsibility of the TFWG to coordinate all training and technical assistance and notes the existence of formal supporting documents. State commented that while it does not believe additional formal documents are necessary, if a Memorandum of Agreement concerning counter-terrorism financing and anti-money laundering training and technical assistance were to be developed, State commented that it should include all agencies involved in providing training and technical assistance. Our review as well as Treasury's technical comments clearly shows that Treasury does not accept State's position that TFWG's primary responsibility is to coordinate all counter-terrorist financing training and technical assistance abroad. Treasury limits this role to priority countries. Based on our review of NSC and other documents provided by State, the U.S. government lacks an integrated strategy to coordinate the delivery of training and technical assistance. The classified document, which according to State serves as an interagency agreement, lacks clarity, familiarity, and buy-in from all levels of leadership within TFWG, particularly Treasury. State and Treasury both fund and support U.S. government anti-money laundering and counter-terrorist financing training and technical assistance programs, and Treasury also provides considerable training and technical assistance abroad through contractors and U.S. government employees. It is important that their programs and funding are integrated to optimize results. Other agencies are important stakeholders as they are recipients of this funding and support and would benefit from improved coordination between these two agencies.
8. State comments that our recommendation to the Secretary of the Treasury regarding Treasury's annual *Terrorist Assets Report* to Congress was incomplete because it makes no mention of State's role in blocking assets. Specifically we recommend that Treasury provide more complete information on the nature and extent of asset blocking

in the United States in its annual *Terrorist Assets Report* to Congress. We did not incorporate the Secretary of State into this recommendation because the scope of our request for our third objective focused solely on the accountability issues Treasury faces in its efforts to block terrorists' assets. State also expressed disappointment that our report did not include details on State's role in terrorist designations. While our report provides an overview of how U.S. government agencies use designations to disrupt terrorist networks, we recognize that State has an important role and added language to provide more detail on State's role in targeting individuals, groups, or other entities suspected of terrorism or terrorist financing.

9. In response to agency comments, we have revised the title of the report to focus on our key recommendation.
10. The scope of our second objective was to examine U.S. efforts to coordinate the delivery of training and technical assistance to vulnerable countries. The effort does not have key stakeholder buy-in on roles and practices, a strategic alignment of resources with needs, or a system to measure performance and incorporate this information into its planning efforts. According to agency officials, the lack of effective leadership leads to less than optimal delivery of training and technical assistance to vulnerable countries. Without a system to measure performance, the U.S. government and TFWG cannot ensure that its efforts are on track.
11. Although this report is based on unclassified information, GAO reviewed all unclassified and classified information provided by State in support of TFWG efforts. We believe that findings, conclusions, and recommendations accurately portray the interagency process. Moreover, we reviewed and incorporated additional information provided by State subsequent to issuing our draft to the agencies for comment to ensure that all available information was assessed.

Comments from the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

October 5, 2005

Mr. Loren Yager
Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

**RE: Request for Comments on the draft GAO Report on Terrorist Financing:
Greater Strategic Planning and Coordination Needed to Improve U.S. Government
Efforts to Combat Terrorist Financing Abroad (GAO-06-19)**

Dear Mr. Yager:

Thank you for the invitation to respond to your office's draft report entitled "*Terrorist Financing: Greater Strategic Planning and Coordination Needed to Improve U.S. Government Efforts to Combat Terrorist Financing Abroad (GAO-06-19)*." On behalf of the Treasury Department, we would like to provide these general comments, and transmit in the enclosed Annex more detailed commentary and information related to your draft report.

The draft report's focus on the U.S. Government's (USG) coordination of certain technical assistance and training to combat the financing of terrorism (CFT) is of great interest to Treasury because of the close relationship of such assistance and training with two core aspects of Treasury's mission: (i) safeguarding the international financial system from terrorist abuse, and (ii) providing comprehensive technical assistance and training to facilitate the growth and development of healthy financial systems abroad. The relationship between certain CFT technical assistance and training coordination and these core aspects of Treasury's mission is discussed in greater detail below. Treasury also shares a common goal with the GAO in wishing to improve the effectiveness of U.S. technical assistance to combat terrorist financing, particularly with respect to certain priority countries. We welcome suggestions as to how Treasury, together with other relevant USG agencies, can better achieve that goal.

With this in mind, our first comment on your draft report concerns its scope. The draft report establishes its goal as: (i) describing the entire scope of USG efforts to combat terrorist financing abroad; (ii) examining in greater detail USG efforts to coordinate the delivery of technical assistance and training to designated "priority" and certain "vulnerable" countries; and (iii) examining the usefulness of the annual report on terrorist assets (referred to as the "Terrorist Assets Report" or "TAR") and performance measures to assess OFAC's terrorist financing designation efforts. This is an extraordinarily broad range of issues for the GAO to address in a single draft report.

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See comment 1.

With respect to the first objective, the draft report necessarily falls considerably short in attempting to describe, in less than five pages, the comprehensive efforts of the USG to combat terrorist financing abroad. On a related but more fundamental level, the draft report fails to place its second objective of examining aspects of certain technical assistance and training provided to certain priority and vulnerable countries against the larger backdrop of: (i) U.S. efforts to combat terrorist financing abroad, and (ii) Treasury's broader technical assistance mission in such priority and vulnerable countries. By failing to establish this context, the draft report implies that "U.S. Government efforts to combat terrorist financing abroad" (the phrase used in the title of the draft report) can be assessed by examining U.S. coordination of CFT technical assistance and training in certain priority and vulnerable countries (the actual focus of the draft report).

See comment 2.

Consistent with the primary focus of the draft report, Treasury suggests modifying the title of the draft report along the lines of the following: "Integrated U.S. Strategic Plan Needed to Improve the Coordination of Counterterrorism Finance Training and Technical Assistance to Certain Priority Countries." As such, the first section of the draft report, with appropriate modifications, rather than attempting to address the full range of distinct CFT initiatives, could provide a useful introduction of the initiatives most relevant to the particular technical assistance and training efforts that represent the overwhelming focus of the draft report.

To help put this suggestion in perspective, consider how the coordination of technical assistance to select priority countries fits within the much broader strategy of Treasury and the USG to combat terrorist financing abroad. This strategy, described initially as the first of three fundamental goals in the *2003 National Money Laundering Strategy (2003 NMLS)*, includes the following core aims:

- Applying targeted financial sanctions against individuals and entities comprising terrorist organizations and their support networks;
- Establishing international standards to combat terrorist financing;
- Ensuring global compliance with these international standards;
- Addressing terrorist financing mechanisms of particular concern;
- Facilitating international information sharing; and
- Facilitating outreach and cooperation with the private sector and the international financial community.

These strategic aims implicate Treasury's fundamental responsibilities. As you are aware, the Congress and the Administration established last year the Office of Terrorism and Financial Intelligence (TFI) as a central pillar within Treasury to formulate and coordinate the Department's CFT and anti-money laundering (AML) efforts, which include working with the interagency community to advance each of the strategic aims identified above.

The draft report focuses on only a small part of the efforts to combat terrorist financing abroad. As explained in the *2003 NMLS*, the strategic aim delineated in the third bullet point above – ensuring global compliance with international standards – has as one of its three components providing capacity-building to key countries. It is this component that is implicated (in part) by the technical assistance and training to select priority and vulnerable countries that are the focus

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See comment 1.

of the draft report. As such, the draft report focuses on one aspect of a singular component of one of seven core strategic aims that the USG has identified and is pursuing to combat terrorist financing abroad. While the draft report describes some of these strategic aims in briefly discussing U.S. efforts to combat terrorist financing abroad, this discussion is incomplete and fails to place the coordination of CFT technical assistance to certain priority and vulnerable countries in the context of the overall U.S. CFT strategy.

See comment 3.

Moreover, the draft report's discussion of this issue mischaracterizes the USG's relationship with the international financial institutions – namely, the International Monetary Fund and the World Bank. Treasury bears a fundamental responsibility in managing this relationship, which is crucial towards advancing global compliance with international CFT standards. These and other inaccuracies are more exhaustively covered in the attached Annex.

The draft report's focus on coordinating CFT technical assistance and training to certain priority and vulnerable countries also fails to place these efforts in the context of Treasury's broader technical assistance and training mission in many of these countries. Treasury's Office of International Affairs comprehensively manages this mission through the Office of Technical Assistance (OTA) – to advance core competency in the following strategic financial areas:

- Tax policy and administration;
- Government debt issuance and management;
- Financial institutions policy and regulation;
- Budget policy and management; and
- Financial crime and enforcement.

OTA pursues these strategic aims through a multi-disciplined, macro-economic approach to foreign technical assistance, typically advanced by long-term Treasury resident advisors to counterpart finance ministries or central banks. These resident advisors are supplemented by short-term experts and technicians to comprise specific teams designed to promote the five core interests identified above.

OTA has dedicated specific resources since 1997 in its Financial Enforcement Program (FEP) to providing technical assistance to combat financial crimes, of which the CFT component has become more prominent in recent years. OTA is unique in that all of its five technical assistance teams, including FEP, work synergistically to ensure that the economic reforms promoted by the USG are approached in a holistic, comprehensive manner. Each team supports the work of the others so that financial systems are comprehensively strengthened and protected.

See comment 1.

Treasury's broad CFT and technical assistance interests, briefly summarized above, drive the Department's participation in the State Department's coordination of interagency and international CFT technical assistance and training to certain priority countries. Treasury believes that such efforts have been often successful. In contrast, the draft report, while focusing on the difficulties of, and the inevitable differences in viewpoints arising from, the interagency process, fails to give due credit to the relevant Departments, and the USG as a whole, for the successes that have been achieved through unprecedented interagency coordination.

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See comment 5.

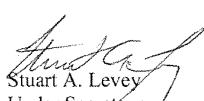
The enclosure provides some detailed responses to the text of the draft report, as well as additional information which we think might help to provide a more balanced understanding of the issues that are the focus of the report. As a final comment with respect to the overall scope of the draft report, we noted earlier the report's third objective of examining, on pages 18-20, the usefulness of Treasury's *Annual Assets Report*. This section on accountability issues related to OFAC terrorist blocking efforts appears somewhat incongruous in a report dedicated to CFT technical assistance in training.

See comment 6.

While you might wish to consider whether this forms an appropriate part of the report, we have taken the liberty to suggest a revised text that more accurately reflects Treasury's understanding of the nature of this annual report; the challenges Treasury faces in assessing the impact of economic sanctions on the Global War on Terrorism; and the status of performance measures for OFAC. We recognize that OFAC's performance measures, which relate to OFAC's internal administrative effectiveness in implementing its terrorist sanctions programs, require adjusting. OFAC is in the process of revising its performance indicators and has established milestones for completing this process. If the section is retained, we recommend that the revised text suggested in the attached Annex be substituted for pages 18-20 of the draft report and that the recommendations section of the report (pages 5 and 7) be modified accordingly.

Treasury agrees that the GAO has raised a number of important questions with respect to the coordination of CFT technical assistance and training in priority countries. Although the USG devotes significant resources to CFT assistance and training, competing demands upon scarce CFT expertise do frame Treasury's view on issues such as its preference for the use of contractors in certain situations. Treasury supports the GAO's call for tracking USG CFT technical assistance and training efforts to priority countries and developing performance measures to assess and improve the effectiveness of these efforts. But expectations must be tempered by a realistic understanding of the challenges in working with foreign countries to develop and implement effective CFT regimes.

Sincerely,


Stuart A. Levey
Under Secretary
Office of Terrorism and Financial Intelligence
Department of the Treasury


Timothy D. Adams
Under Secretary
Office of International Affairs
Department of the Treasury

The following are GAO's comments on the Department of the Treasury's letter dated October 5, 2005.

GAO Comments

1. Treasury notes in its comments that the report falls short in describing the comprehensive efforts of the U.S. government efforts to combat terrorist financing abroad. While a number of comments suggested including information indicative of the successes of agency efforts to address terrorist financing abroad, much of this information is outside of the scope of this report. However, we have made a number of changes in response to these comments. First, we have added information on the accomplishments of U.S. agencies to the report. For example, we added that Treasury has coordinated bilateral and international technical assistance with the FATF and the international financial institutions, such as the World Bank and International Monetary Fund, to draft legal frameworks, build necessary regulatory and institutional systems, and develop human expertise. Second, we have adjusted our first objective to clarify that we are providing an overview of U.S. agencies' efforts to address terrorist financing abroad. Third, as we note in other comments, we have adjusted the title of the report to better reflect the focus of our work.
2. Treasury suggests that the title of the draft report be modified to be consistent with the primary focus of the report. We agree and have revised the title of the report to focus on the key recommendations.
3. Treasury states that the report does not accurately characterize Treasury's role in managing the U.S. government's relationship with international financial institutions. We recognize that Treasury plays an important role and added more examples of Treasury's relationship with international financial institutions as provided in Treasury's technical comments. For example, we added Treasury's relationship with an intergovernmental body --the Financial Action Task Force-- in setting international standards for anti-money laundering and counter-terrorism financing regimes. In addition, we added mentions of Treasury's relationship with the Asian Development Bank, IMF and the World Bank.
4. Treasury comments that the report focuses on the difficulties and differences arising from the interagency process to coordinate training and technical assistance to combat terrorist financing abroad and fails to give due credit for the successes that have been achieved through

unprecedented interagency coordination. Our report concludes that the U.S. government lacks an integrated strategy to coordinate the delivery of training and technical assistance because key stakeholders do not agree on roles and practices, there is not a clear presentation of what funding is available for counter-terrorism financing training and technical assistance, and a system has not been established to measure performance and incorporate this information into its planning efforts. Our report notes that, according to agency officials, the lack of effective leadership leads to less than optimal delivery of training and technical assistance to vulnerable countries. However, we have included some interagency accomplishments such as numbers of assessments in our description of training and technical assistance efforts under objective 1. To best provide evidence of the effectiveness of the U.S. government efforts, the U.S. government should continue to develop a system to measure performance and incorporate this information into its planning efforts.

5. In its comments, Treasury states that the report's third objective on accountability issues appears somewhat incongruous in a report dedicated to U.S. counter-terrorism training and technical assistance. Our requesters asked us to address specific issues related to U.S. efforts to combat terrorist financing abroad, including accountability issues Treasury faces in its efforts to block terrorists' assets held under U.S. jurisdiction, particularly with regard to the Treasury's annual *Terrorist Assets Reports*.
6. We reviewed the revised text provided by Treasury for our report's third objective on accountability issues the Department faces in its efforts to block terrorists' assets held under U.S. jurisdiction. We noted that we already cover many of Treasury's points in our report. However, in some cases we incorporated technical information to help clarify the challenges the department faces in assessing the impact of terrorist designation activities. In addition, we updated the report to reflect the most current status of Treasury's efforts to establish performance measures for OFAC. Additionally, we acknowledge that the language in the mandate for the *Terrorist Assets Reports* did not explicitly design the reports as an accountability measure of the Office of Foreign Assets Control's effectiveness in identifying and blocking terrorist assets; however, nothing in the statutory language or in the congressional intent underlying the mandate precludes Treasury from compiling and reporting information in the manner in which we have suggested in this report. Furthermore, we believe that inclusion of comparative

information and additional explanation regarding significant shifts between years will enhance program reporting and congressional oversight.

**Additional Comments from
the Department of the
Treasury**

In addition, Treasury provided information in its technical comments that we believe are important to the key findings and recommendations in this report. While we have addressed Treasury's technical comments as appropriate, we have reprinted and addressed specific technical comments below.

1. Treasury technical comment (on our Results in Brief):

"The second paragraph of this section states, "First, although the Department of State asserts that it leads the overall effort to deliver training and technical assistance to all vulnerable countries, the Department of Treasury does not accept State in this role." This statement should be clarified to reflect that while Treasury does acknowledge State's role, it believes that State's function is necessarily one of coordination. State's role in this process is not to actually "deliver" assistance. Rather, Treasury believes that State's role is coordinating each USG agency's personnel and expertise to allow them to deliver the needed training in commonly agreed upon priority countries. Treasury also acknowledges that the draft report is helpful in pointing out that this coordination can and should be improved to facilitate more effective delivery of assistance in priority countries."

GAO response: As Treasury states above, they believe that State's role is limited to coordination for priority countries and does not accept State's position that it leads all U.S. training and technical assistance efforts to vulnerable countries, not just priority countries. We have adjusted the language in our report and it now reads, "First, Treasury, a key stakeholder, does not accept State's position, based on statements in NSC guidance, that it leads all U.S. counter-terrorism financing training and technical assistance efforts to vulnerable countries."

2. Treasury technical comment (on our first objective):

"The first paragraph contains the following statement "*According to the Department of State, its Office of the Coordinator for Counterterrorism is charged with directing, managing, and coordinating all U.S. government agencies' efforts to develop and provide counter-terrorism financing programs.*" This statement is inaccurately overbroad, as Treasury (and likely other government agencies) has developed numerous counterterrorist financing programs to advance the core strategic aims identified in the 2003 NMLS [National Money Laundering Strategy]. It is more accurate to say that the department of State coordinates the USG provision of CFT [combat the financing of terrorism] technical assistance and training to priority countries."

GAO response: GAO's draft statement was attributed to State and was supported by State, so we did not change it in the report. Rather we added the information provided by Treasury to the section on "U.S. Effort Lacks Buy-in from Key Stakeholder on Roles and Procedures" noting that Treasury asserts that State overstates its role and that the role is limited to coordinating other U.S. agency's provision of counter-terrorist financing training and technical assistance in commonly agreed upon TFWG priority countries and notes that there are numerous other efforts outside of States' purview.

3. Treasury technical comment (on our third objective):

"Substitute [text] with the following language: 'However, the TAR [Terrorist Asset Report] was not mandated or designed as an accountability measure for OFAC's effectiveness in assisting U.S. persons in identifying and blocking assets of persons designated under relevant Executive orders relating to terrorism. The report, as mandated, was intended to provide only a snapshot view in time of terrorist assets held in the United States by terrorist countries and organizations.'"

GAO response: We acknowledge that the language in the mandate for the *Terrorist Assets Reports* did not explicitly design the reports as an accountability measure of the Office of Foreign Assets Control's effectiveness in identifying and blocking terrorist assets; however, nothing in the statutory language or in the congressional intent underlying the mandate precludes Treasury from compiling and reporting information in the manner in which we have suggested in this report. Furthermore, we believe that inclusion of comparative information and additional explanation regarding significant shifts between years will enhance program reporting and congressional oversight.

4. Treasury technical comment:

"Substitute [text] with the following language: 'OFAC officials have advised that OFAC's new performance measures are expected to be completed by December 1, 2005, and its new strategic plan is expected to be completed by January 1, 2006.'"

GAO response: We updated the report to reflect the most current status of Treasury's efforts to establish performance measures for OFAC.

5. Treasury technical comment (on our third objective):

"In the second paragraph, the following language: "We also recommend that the Secretary of Treasury provide more complete information on the nature and extent of asset blocking in

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the United States in its Terrorist Assets Report to Congress and establish milestones for developing meaningful performance measures on terrorist designations and asset blocking activities.....” Should be replaced with the following language:

.... “We also recommend Congress consider discontinuing the requirement that Treasury produce the annual Terrorist Assets Report to Congress. The report, based upon the input of numerous government agencies, provides a snapshot of the known assets held in the United States by terrorist-supporting countries and terrorist groups at a given point in time. These numbers may fluctuate during each year and between years for a number of policy-permissible reasons. The amount of assets blocked under a terrorism sanctions program is not a primary measure of a terrorism sanctions program’s effectiveness, and countries that have been declared terrorist supporting, and whose assets are not blocked by a sanctions program, are already wary of holding assets in the United States.””

GAO response: We noted Treasury’s position on this recommendation in our report. However, we continue to believe that the annual *Terrorist Assets Report*, with the incorporated changes, would be useful to policymakers and program managers in examining their overall achievements of the U.S. efforts to block terrorists’ assets.

GAO Contact and Staff Acknowledgments

GAO Contact

Loren Yager, (202) 512-4347

Staff Acknowledgments

In addition to the contact named above, Christine Broderick, Assistant Director; Tracy Guerrero; Elizabeth Guran; Janet Lewis; and Kathleen Monahan made key contributions to this report. Martin de Alteriis, Mark Dowling, Jamie McDonald, and Michael Rohrback provided technical assistance.

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