
September 2009

COMBATING ILLICIT FINANCING

Treasury's Office of Terrorism and Financial Intelligence Could Manage More Effectively to Achieve Its Mission



GAO

Accountability * Integrity * Reliability



Highlights of [GAO-09-794](#), a report to the Committee on Finance, United States Senate

Why GAO Did This Study

In 2004, Congress combined preexisting and newly created units to form the Office of Terrorism and Financial Intelligence (TFI) within the Department of the Treasury (Treasury). TFI's mission is to integrate intelligence and enforcement functions to (1) safeguard the financial system against illicit use and (2) combat rogue nations, terrorist facilitators, and other national security threats. In the 5 years since TFI's creation, questions have been raised about how TFI is managed and allocates its resources. As a result, GAO was asked to analyze how TFI (1) implements its functions, particularly in collaboration with interagency partners, (2) conducts strategic resource planning, and (3) measures its performance. To conduct this analysis, GAO reviewed Treasury and TFI planning documents, performance reports, and workforce data, and interviewed officials from Treasury and its key interagency partners.

What GAO Recommends

GAO recommends, among other things, that the Secretary of the Treasury direct TFI to develop and implement (1) mechanisms to improve interagency collaborative efforts, (2) a process to improve strategic resource planning, and (3) performance measures that exhibit the key attributes of successful performance measures. Treasury commented that it plans to redouble some current efforts and undertake some new efforts that address GAO's recommendations.

View [GAO-09-794](#) or [key components](#). For more information, contact Loren Yager at (202) 512-4347 or YagerL@gao.gov.

COMBATING ILLICIT FINANCING

Treasury's Office of Terrorism and Financial Intelligence Could Manage More Effectively to Achieve Its Mission

What GAO Found

TFI undertakes five functions, each implemented by a TFI component, in order to achieve its mission, as shown in the following table.

TFI Components and Functions

Main function	TFI component	Year formed
Build international coalitions	Office of Terrorist Financing and Financial Crime	2004
Analyze financial intelligence	Office of Intelligence and Analysis (OIA)	2004
Administer and enforce the Bank Secrecy Act	Financial Crimes Enforcement Network (FinCEN)	1990
Administer and enforce sanctions	Office of Foreign Assets Control	1950
Administer forfeited funds	Treasury Executive Office for Asset Forfeiture	1992

Source: Treasury.

TFI officials cite the analysis of financial intelligence as a critical part of TFI's efforts because it underlies TFI's ability to utilize many of its tools. They said that the creation of OIA was critical to Treasury's ability to effectively identify illicit financial networks. To achieve its mission, TFI's five components often work with each other, other U.S. government agencies, the private sector, or foreign governments. Officials from TFI and its interagency partners cited strong collaboration in many areas, such as effective information sharing between FinCEN and the Justice Department (Justice). Officials differed, however, about the quality of interagency collaboration involving international forums. Treasury officials who led this collaboration stated that it runs smoothly and that they were unaware of any significant concerns, while Justice and State officials reported declining collaboration and unclear mechanisms to enhance or sustain it.

While TFI and some of its components have conducted selected strategic resource planning activities, TFI as a unit has not fully adopted key practices that enhance such efforts. For example, TFI and its components have produced multiple strategic planning documents in recent years, but the objectives in some of these documents are not clearly aligned with resources needed to achieve them. As a result, it may be unclear whether TFI has sufficient resources to address its objectives. Also, though TFI has undertaken some workforce planning activities, it lacks a process for performing comprehensive strategic workforce planning. Thus, it is unclear whether TFI is able to effectively address persistent workforce challenges.

Also, TFI has not yet developed appropriate performance measures, changing their number and substance each year. Though TFI's current measures fully address many attributes of effective performance measures, they do not cover all TFI core program activities. TFI officials acknowledge the need for improvement and have worked since 2007 to develop one overall performance measure to assess TFI. Yet questions remain about when TFI will implement its new measure and whether it will effectively gauge TFI's performance.

Contents

Letter		1
	Background	2
	TFI Performs Five Functions to Fulfill Its Mission, but Agencies Differ about the Quality of Some Interagency Collaboration	7
	TFI Has Not Clearly Aligned Its Resources with Priorities or Performed Comprehensive Workforce Planning	16
	TFI Has Not Yet Developed an Appropriate Set of Performance Measures, but Continues to Work to Improve Its Efforts	23
	Conclusions	30
	Recommendations for Executive Action	31
	Agency Comments and Our Evaluation	31
Appendix I	Scope and Methodology	34
Appendix II	Current U.S. Sanctions Programs	36
Appendix III	GAO Assessment of TFI's Fiscal Year 2008 Performance Measures	37
Appendix IV	Comments from the Department of the Treasury	40
Appendix V	GAO Contact and Staff Acknowledgments	45
Table		
	Table 1: GAO's Key Attributes of Successful Performance Measures	25
Figures		
	Figure 1: TFI Organizational Chart	4
	Figure 2: TFI Staffing Levels, Fiscal Years 2005-2008	6
	Figure 3: TFI Funding Levels, Fiscal Years 2005-2008	7

Figure 4: Changes in TFI Performance Measures, Fiscal Years 2005 to 2008	24
Figure 5: TFI's Fiscal Year 2008 Performance Measures Relative to the Key Attributes of Successful Performance Measures	26

Abbreviations

BSA	Bank Secrecy Act
FATF	Financial Action Task Force
FSRB	FATF-Style Regional Body
FTE	full-time equivalent
OFAC	Office of Foreign Assets Control
OIA	Office of Intelligence and Analysis
OMB	Office of Management and Budget
OSPPM	Office of Strategic Planning and Performance Management
OTA	Office of Technical Assistance
PART	Program Assessment Rating Tool
SAR	suspicious activity report
TEOAF	Treasury Executive Office for Asset Forfeiture
TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Office of Terrorism and Financial Intelligence
USA PATRIOT	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism
WMD	weapons of mass destruction

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

September 24, 2009

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

While the globalization of finance and trade has the potential to enhance economic prosperity and stability across the world, some individuals, organizations, and countries that pose a threat to U.S. national security have exploited worldwide financial channels. Governmentwide strategies, such as the 2006 *National Strategy for Combating Terrorism* and the 2007 *National Money Laundering Strategy* acknowledge the threats posed by the illicit use of the international financial system by terrorist organizations, weapons of mass destruction (WMD) proliferators, drug kingpins, and other national security threats. In 2004 Congress established the Office of Terrorism and Financial Intelligence (TFI) to provide policy, strategic, and operational direction to the Department of the Treasury's (Treasury) efforts to address issues such as terrorism financing, financial crimes, and intelligence analysis.¹

Based on your interest in TFI, this report assesses how TFI (1) implements functions to fulfill its mission, particularly in collaboration with interagency partners; (2) conducts strategic resource planning; and (3) measures its performance.

To meet these objectives, we reviewed documents and interviewed officials from Treasury and its key interagency partners. To analyze TFI's implementation of its functions, we reviewed Treasury reports and documents related to its efforts since 2004. We also interviewed officials from Treasury and its key interagency partners, the Departments of State (State) and Justice (Justice), to review interagency collaboration efforts. To analyze TFI's efforts to conduct strategic resource planning, we reviewed documentation relating to TFI's strategies (notably strategic plans), analyzed data on TFI resources for 2005 through 2008, and interviewed TFI officials involved in resource planning, including the

¹Pub. L. No 108-447, Div. H, Title II, Section 222, Dec. 8, 2004, 31 U.S.C. § 313.

Under Secretary for Terrorism and Financial Intelligence. To analyze how TFI measures its performance, we reviewed Treasury's performance measures included in its performance and accountability reports for 2005-2008 and interviewed officials from TFI and Treasury's Office of Strategic Planning and Performance Management. We conducted this performance audit from July 2008 to September 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. See appendix I for additional details regarding our scope and methodology.

Background

After the September 11, 2001, terrorist attacks, Congress passed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001,² which amended and broadened the scope of the Bank Secrecy Act (BSA)³ to include additional financial industry sectors and a focus on the financing of terrorism. Subsequently, Congress passed the Intelligence Authorization Act for 2004,⁴ which established Treasury's Office of Intelligence and Analysis (OIA). OIA is a member of the Intelligence Community, as defined under Executive Order 12333, as amended. The Intelligence Reform and Terrorism Prevention Act of 2004⁵ identified the Secretary of the Treasury or his or her designee as the lead U.S.

²Pub. L. No. 107-56, Oct. 26, 2001.

³The Bank Secrecy Act of 1970 requires U.S. financial institutions to assist U.S. government agencies to detect and prevent money laundering. Specifically, the act requires financial institutions to, among other things, keep records of purchases of negotiable instruments, file reports of cash transactions exceeding \$10,000 (daily aggregate amount), and report suspicious activity relevant to a possible violation of law such as money laundering, tax evasion, or other criminal activities.

⁴Pub.L No.108-177, Dec. 13, 2003.

⁵Pub. L No.108-458, Dec. 17, 2004.

government official to the Financial Action Task Force (FATF),⁶ to continue to convene an interagency working group on FATF issues. TFI's mission is to marshal Treasury's policy, enforcement, regulatory, and intelligence functions in order to safeguard the U.S. financial system from abuse and sever the lines of financial support to international terrorists, WMD proliferators, narcotics traffickers, money launderers, and other threats to U.S. national security.

The formation of TFI combined both existing and new units of Treasury. Five key components are included under the umbrella of TFI:

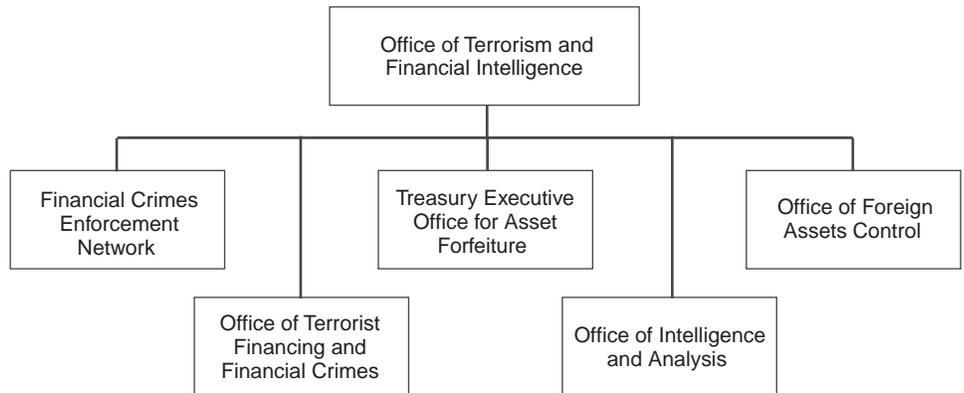
- Office of Foreign Assets Control (OFAC), formed in 1950, administers and enforces sanctions.
- Financial Crimes Enforcement Network (FinCEN), formed in 1990, administers and enforces the BSA and serves as the United States' financial intelligence unit (FIU).⁷
- Treasury Executive Office for Asset Forfeiture (TEOAF), formed in 1992, administers the Treasury Forfeiture Fund—the receipt account for the deposit of non-tax forfeitures made by member agencies.
- Office of Terrorist Financing and Financial Crimes (TFFC), established in 2004, serves as TFI's policy and outreach arm.
- OIA, also established in 2004, performs Treasury's intelligence functions, integrating Treasury into the larger Intelligence Community, and providing intelligence support to Treasury leadership.

FinCEN is a Treasury bureau;⁸ the other four components are offices within TFI, which is a part of Treasury's structure of departmental offices. Figure 1 shows TFI's current organizational structure.

⁶The FATF is an intergovernmental body that develops and promotes international standards for combating money laundering and the financing of terrorism. Established in 1989, it currently has 34 members and more than 20 observers, including eight FATF-style regional bodies. The FATF works to generate the necessary political will to bring about legislative and regulatory reforms in anti-money laundering and counterterrorist financing.

⁷An FIU is a central national agency responsible for receiving (and as permitted, requesting), analyzing, and disseminating disclosures of financial information concerning potential financing of terrorism or money laundering.

Figure 1: TFI Organizational Chart



Source: GAO analysis of Treasury documents.

To achieve its mission, TFI components often work with the following:

- *Other U.S. government agencies.* For instance, OFAC works with State and Justice, among others, to designate individuals and organizations under 21 separate sanctions programs.⁹ TFFC also works with State, Justice, and other agencies in developing and advocating a U.S. position in international forums related to money laundering and illicit financing. In addition, TEOAF works with State and Justice to administer sharing of large case forfeiture proceeds with foreign governments, pursuant to international treaties, whose law enforcement personnel cooperated with U.S. federal investigations.

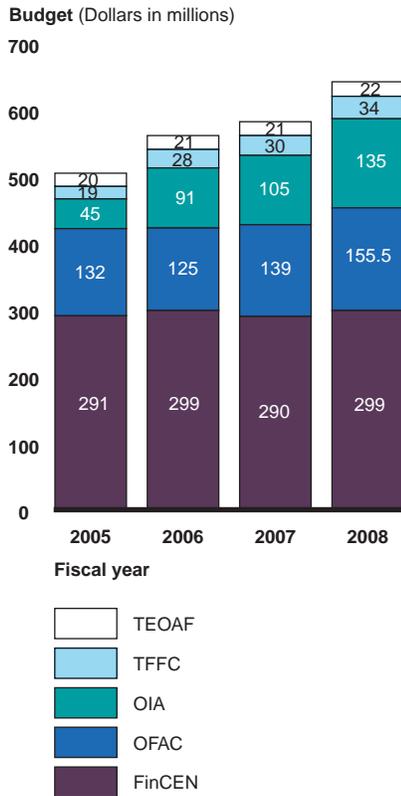
⁸Treasury is organized into two major parts: the departmental offices and bureaus. The departmental offices are primarily responsible for the formulation of policy, while the bureaus carry out the specific operations assigned to the department. Accounting for 98 percent of the Treasury workforce, the bureaus include the Bureau of Engraving and Printing, the U.S. Mint, FinCEN, the Internal Revenue Service, and the Bureau of the Public Debt, among others.

⁹A U.S. sanction is any restriction or condition on economic activity with respect to a foreign country or foreign nationals, or property in which a foreign country or foreign national has an interest, that is imposed by the United States for reasons of foreign policy or national security. For example, financial sanctions may be targeted against persons designated as either weapons of mass destruction proliferators or global terrorists, depending on which set of sanctions is employed, and any transactions with them by U.S. persons are prohibited and any property they have within the United States is blocked. According to Treasury, the goal of such actions is to deny sanctioned parties access to the U.S. financial and commercial systems. Treasury, and State, under certain programs, can make designations under these sanctions authorities, which are published in the *Federal Register*.

-
- *Other TFI components.* For example, OIA provides information to OFAC to assist in making decisions regarding whether to pursue designations of individuals and organizations. For completed designations, OIA also works with OFAC to declassify intelligence information for public dissemination.
 - *Private sector.* For example, in its role as the Secretary's delegated administrator of the BSA, FinCEN regularly interacts with the private sector, including the financial sector. One such mechanism for maintaining formal ties to the private sector is Treasury's BSA Advisory Group. FinCEN also conducts informal consultations with financial institutions regarding their individual financial intelligence efforts.
 - *Foreign governments and international organizations.* Treasury heads the U.S. delegation to the FATF, an international body that develops and implements multilateral standards relating to anti-money laundering and counterterrorist financing. TFFC leads this effort on behalf of Treasury. Similarly, FinCEN works with foreign governments to develop and strengthen capabilities of their FIUs as well as to respond to requests for assistance from foreign FIUs, which totaled more than 1,000 in fiscal year 2008.

As shown in figure 2, the size of TFI's staff has grown from approximately 500 in fiscal year 2005 to approximately 650 in fiscal year 2008. FinCEN, with 299 full-time equivalents (FTE) in fiscal year 2008, is TFI's largest component, and OIA gained the most staff—90—from fiscal years 2005 through 2008.

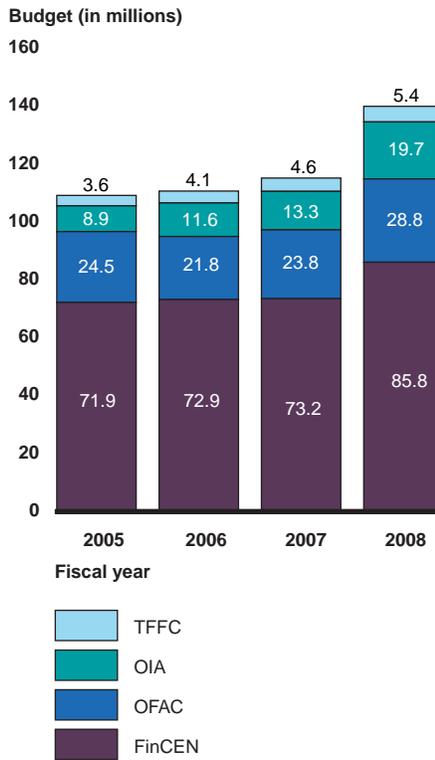
Figure 2: TFI Staffing Levels, Fiscal Years 2005-2008



Source: GAO analysis of TFI data.

As shown in figure 3, TFI's budget has grown from approximately \$110 million in fiscal year 2005 to approximately \$140 million in fiscal year 2008. With a budget of approximately \$86 million, FinCEN has the largest budget of any TFI component. In addition, OIA's budget has grown at the greatest rate, from about \$9 million in fiscal year 2005 to about \$20 million in fiscal year 2008.

Figure 3: TFI Funding Levels, Fiscal Years 2005-2008



Source: GAO analysis of TFI budget data.

Note: TEOAF's budget is not congressionally appropriated. It is derived from the Treasury Forfeiture Fund.

TFI Performs Five Functions to Fulfill Its Mission, but Agencies Differ about the Quality of Some Interagency Collaboration

According to TFI, it undertakes five functions in order to achieve its mission. Officials from TFI and its interagency partners cited strong collaboration with TFI in several areas, but differ about the quality of collaboration regarding U.S. participation in some international forums.

TFI Performs Five Functions to Fulfill Its Mission

According to TFI, it undertakes five functions to safeguard the financial system from illicit use and to combat rogue nations, terrorist supporters, WMD proliferators, money launderers, drug kingpins, and other national security threats. These functions are (1) building international coalitions, (2) analyzing financial intelligence, (3) administering and enforcing the BSA, (4) administering and enforcing sanctions, and (5) administering forfeited funds.

Building International Coalitions

TFI employs two primary means to build international coalitions to support U.S. national security interests. These are deepening engagement in international forums and improving international partners' capacity.

- *Deepening engagement in international forums.* TFI and other U.S. agencies participate in several international organizations intended to strengthen the international financial system so that it cannot be exploited by criminal networks. Two examples are the FATF and the Egmont Group.¹⁰ TFFC leads the U.S. delegation to the FATF, while FinCEN leads U.S. participation in the Egmont Group. According to TFI officials, U.S. participation in such organizations provides a unique opportunity to engage with international counterparts in the effort to develop international standards and a framework for countries to implement legal regimes that protect the international financial system from abuse.

TFI also uses international forums to advance the U.S. agenda in areas such as nonproliferation. For example, according to TFI, it has been working closely with other G-7 countries to determine what steps can be taken to isolate proliferators from the international financial system through multilateral action.¹¹ For instance, according to TFI officials, they are working with State to encourage the more than 85 countries that

¹⁰The Egmont Group is a global association of FIUs, currently with 116 members. The Egmont Group provides a forum for FIUs from around the world to cooperate in the fight against money laundering and financing of terrorism through information exchange, training, and the sharing of expertise in order to foster the implementation of domestic programs in member countries.

¹¹G-7 refers to the Group of Seven Finance Ministers and Central Bank Governors, which includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The G-7 has met regularly since the mid-1980s.

participate in the Proliferation Security Initiative to use financial measures to combat proliferation support networks.¹²

In addition to playing a leadership role in these organizations and forums, TFI officials report that they are also working to expand these organizations' membership so as to broaden the reach of international financial standards. For example, as of March 2009, FinCEN was sponsoring 12 countries' membership in the Egmont Group, including Afghanistan, Saudi Arabia, Pakistan, and Yemen. According to FinCEN officials, the addition of such new members will greatly strengthen FinCEN's ability to obtain valuable information related to the activities of illicit financial networks.

- *Improving international partners' capacity.* As part of TFI, FinCEN has made engagement with foreign FIUs in the detection and deterrence of crime one of its strategic objectives. To accomplish this objective, FinCEN has undertaken a variety of efforts to strengthen the global network of FIUs. For example, according to FinCEN officials, they engage in a variety of cooperative efforts with other FIUs aimed at fostering productive working relationships and best practices. In addition, according to TFI officials, they participate in mutual evaluation studies, as part of its participation in the FATF, to identify measures to improve other FATF members' regulatory regimes related to combating money laundering and terrorist financing.¹³ For example, in fiscal year 2008, the FATF performed

¹²The Proliferation Security Initiative is a multinational effort to prevent the trafficking of WMD, their delivery systems, and related materials to and from states and nonstate actors of proliferation concern. The Proliferation Security Initiative has no formal organization or bureaucracy. U.S. agencies are involved in the Proliferation Security Initiative as a set of activities, rather than a program. The Proliferation Security Initiative encourages partnership among states to work together to develop a broad range of legal, diplomatic, economic, military, law enforcement, and other capabilities to prevent WMD-related transfers to states and nonstate actors of proliferation concern. International participation is voluntary, and there are no binding treaties on those who choose to participate.

¹³The mutual evaluation program is the primary instrument by which the FATF monitors and assesses progress made by member governments in implementing the FATF Recommendations, which are designed to prevent use of financial systems for money laundering or terrorist financing. FATF assessors work to identify the systems and mechanisms developed by countries with diverse legal, regulatory, and financial frameworks, in order to implement robust anti-money laundering and counterterrorist financing systems. Using a set of established criteria, assessors observe the degree of compliance with FATF Recommendations as well as the effectiveness of a country's anti-money laundering and counterterrorist financing regime. See FATF, *Methodology for Assessing Compliance with the FATF 40 Recommendations and the FATF 9 Special Recommendations* (Paris, France, 2004).

Analyzing Financial Intelligence

six mutual evaluations; the United States delegation, led by TFFC, sent representatives to serve as assessors for four of these mutual evaluations.

TFI officials cite OIA's analysis of financial intelligence as a critical part of TFI's efforts because it underlies TFI's ability to utilize many of its tools. The first step in disrupting and dismantling illicit financial networks is identifying those networks, according to TFI officials. They said that the creation of OIA was critical to TFI's ability to effectively identify these illicit financial networks. As a member of the broader intelligence community, OIA performs analysis of intelligence information related to national security threats with a view toward potential action and utilization of tools available to TFI. Staff in other TFI components and TFI management then use this intelligence analysis to draft papers to implement such strategies or actions.

In addition, TFI utilizes intelligence analysis to assess the impact of the actions it takes. For example, according to the Under Secretary for TFI, intelligence analysts have assessed the impact of previous financial actions taken to address the national security threat posed by North Korea. Those assessments were then used to shape the U.S. policy response to the most recent missile and nuclear tests by North Korea.

Administering and Enforcing the BSA

According to TFI officials, FinCEN's administration of the BSA plays a key role in TFI's ability to achieve its mission. The BSA includes a variety of reporting and record-keeping requirements that provide useful information to law enforcement and regulatory agencies. For example, pursuant to the BSA, Treasury (FinCEN) requires financial institutions to report suspicious financial activities relevant to a possible violation of law. Such suspicious activity reports (SAR) are then analyzed by FinCEN and made available to the law enforcement and regulatory communities.¹⁴ In 2007, financial institutions filed nearly 1.3 million SARs, which federal, state, and local law enforcement agencies use in their investigations of money laundering, terrorist financing, and other financial crimes.

The BSA, as amended by the USA PATRIOT Act, also grants Treasury additional authorities, which are delegated to FinCEN, to combat money laundering and terrorist financing. For example, Section 311 of the USA

¹⁴For additional information, see GAO, *Bank Secrecy Act: Suspicious Activity Report Use Is Increasing, but FinCEN Needs to Further Develop and Document Its Form Revision Process*, [GAO-09-226](#) (Washington, D.C.: Feb. 27, 2009).

Administering and Enforcing Sanctions

PATRIOT Act amended the BSA to provide an additional tool to safeguard the U.S. financial system from illicit foreign financial institutions and networks.¹⁵ According to TFI officials, Section 311 is an important and extraordinarily powerful tool, as it authorizes Treasury to find a foreign jurisdiction, foreign financial institution, type of account, or class of transaction as being of “primary money laundering concern.” Such a finding enables Treasury to impose a range of special measures that U.S. financial institutions must take to protect against illicit financing risks posed by the target. These special measures range from enhanced record-keeping and reporting requirements up to prohibiting U.S. financial institutions from maintaining certain accounts for foreign banks if they involve foreign jurisdictions or institutions found to be of primary money laundering concern.

The imposition of economic sanctions has been a long-standing tool for addressing a range of national security threats. OFAC currently maintains primary responsibility for administering more than 20 separate sanctions programs. (See app. II for a list of current U.S. sanctions programs.) These sanctions programs fall into two categories: (1) country-based programs that apply sanctions to an entire country—such as Cuba, Iran, or Sudan—and (2) targeted, list-based programs that address individuals or entities engaged in specific types of activities such as terrorism, WMD proliferation, or narcotics trafficking. For example, according to TFI officials, they use the authorities under the International Emergency Economic Powers Act and Executive Order 13224 to designate those who provide support to terrorists, freezing any assets they have under U.S. jurisdiction and preventing U.S. persons from doing business with them. From fiscal years 2004 through 2008, Treasury designated or supported the designation of more than 1,900 individuals and organizations under various sanctions programs.

To help ensure compliance with U.S. sanctions programs, Treasury also has the authority to impose civil penalties on individuals and organizations that violate U.S. sanctions. From 2004 through 2008, OFAC imposed more than 1,500 civil penalties related to violations of its sanctions programs. As a result, OFAC assessed nearly \$15 million in penalties.

¹⁵We reported on Treasury’s Section 311 activities in GAO, *USA PATRIOT Act: Better Interagency Coordination and Implementing Guidance for Section 311 Could Improve U.S. Anti-Money Laundering Efforts*, [GAO-08-1058](#) (Washington, D.C.: Sept. 30, 2008).

Administering Forfeited Funds

According to TEOAF, an important tool in the U.S. fight against money laundering is asset forfeiture.¹⁶ Forfeiture assists in the achievement of TFI's mission in two ways. First, asset forfeiture strips away the profit from illegal activity, thus making it less attractive. According to TEOAF, in fiscal year 2008 it received more than \$500 million in total forfeiture revenue; the majority, after net expenses, came from forfeitures processed by Immigration and Customs Enforcement and the Internal Revenue Service–Criminal Investigation. Second, according to the Director of TEOAF, the revenue derived from such forfeited assets can be used to fund federal law enforcement activities, including initiatives directed at further combating illicit financing networks. For example, in fiscal year 2008, TEOAF provided approximately \$1 million in funding to Immigration and Customs Enforcement to provide training to international partners. Specifically, the funding was provided to allow the expansion of existing training activities to assist in combating bulk cash smuggling by terrorist groups and other criminal networks.

Despite General Approval of Interagency Collaboration with TFI, Agencies Differ on Quality of Collaboration for International Forums

Collaborating with interagency partners is important to TFI's ability to perform effectively. Many of the tools TFI utilizes to combat national security threats involve multiple agencies reviewing the proposed action. For example, according to Treasury officials, they consult with officials from State, Justice, and the Department of Homeland Security on decisions to designate individuals or organizations that support terrorism. In addition, other tools, such as advocating actions to strengthen the international financial system through the FATF, benefit from the expertise and input from collaboration with a variety of agencies, including State, Justice, the Securities and Exchange Commission, the Department of Homeland Security, and others. Prior GAO work has identified several practices that can enhance and sustain such interagency collaboration.¹⁷ One such practice is establishing compatible policies, procedures, and other means to operate across agency boundaries.

¹⁶Asset forfeiture is a legal mechanism by which title to property involved in or derived from unlawful activity is divested to the United States.

¹⁷GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

Another practice is developing a mechanism for monitoring, evaluating, and reporting on the results of collaborative efforts.¹⁸

Officials at TFI and other agencies said that they generally are satisfied with the quality of interagency collaboration. TFI's interagency partners report close, collaborative relationships in many situations. For example, State officials told us that they have strong working relationships with officials in almost all TFI components. They highlighted their collaboration with TFI during the designation process and suggested that it is generally effective. These officials commented that if State has information from its embassies abroad that indicates that a specific designation would be particularly damaging to U.S. foreign policy interests, they relay this information to Treasury and discuss alternative approaches. State officials added that the designation process operates effectively, even when agencies may have disagreements over a particular designation, because the National Security Council leads a process to coordinate terrorism designations. It serves as an impartial arbiter that prevents any single agency from exerting too much influence. In addition, Justice officials described a strong working relationship with FinCEN regarding asset forfeiture and money laundering issues. Specifically, they recounted effective communication and information sharing. For example, Justice officials told us that FinCEN has granted Justice access to BSA data, thus allowing Justice to perform its own analyses for law enforcement purposes. Additionally, Justice officials said that FinCEN has helped them utilize its network of international contacts at other countries' FIUs.

However, TFI's interagency partners have expressed concerns regarding collaboration in other areas. For example, in September 2008, we reported that State and Justice expressed concerns regarding Treasury's consultations with them when implementing Section 311 of the USA PATRIOT Act.¹⁹ In addition, TFI and other agencies' officials differed about the effectiveness of interagency collaboration for the function of building international coalitions, particularly when participating in the

¹⁸Other practices include (1) defining and articulating a common outcome, (2) establishing mutually reinforcing or joint strategies to achieve the outcome, (3) identifying and addressing needs by leveraging resources, (4) agreeing upon agency roles and responsibilities, (5) reinforcing agency accountability for collaborative efforts through agency plans and reports, and (6) reinforcing individual accountability for collaborative efforts through agency performance management systems.

¹⁹[GAO-08-1058](#).

international forums of the FATF and FATF-Style Regional Bodies (FSRB). On the one hand, TFFC officials suggest that interagency collaboration regarding the FATF and FSRBs has been highly effective over the past 5 years and that Treasury's ability to effectively lead the U.S. delegation has been greatly strengthened by the participation of a wide variety of regulatory, law enforcement, and other agencies.²⁰ The Deputy Assistant Secretary for Terrorist Financing and Financial Crimes added that during this time, there have been no major disagreements between agencies regarding the positions the United States should take in such international forums. TFI officials also stated that interagency collaboration runs smoothly and that they were unaware of any significant concerns regarding the quality of interagency collaboration.

Officials from State and Justice, however, indicated that the quality of interagency collaboration regarding the FATF and FSRBs has declined substantially over the past 5 years. These officials expressed two types of concerns regarding TFI's collaboration with other agencies regarding participation in international forums: (1) the exclusion of non-Treasury personnel in key situations and (2) the extent to which TFI makes unilateral decisions regarding the U.S. government position.

With regard to TFI's exclusion of non-Treasury personnel in key situations, TFI and other agencies differ. State and Justice officials cited several examples of situations they believe undermined U.S. effectiveness at combating illicit financing networks. For example, according to State officials, a State official who has taken the necessary training has not been allowed to participate as a member of the U.S. team conducting FATF mutual evaluations. According to these officials, this results in the exclusion of senior staff with significant experience and expertise that could benefit the evaluation teams. In response, TFFC officials indicated that they have included other agencies in the mutual evaluation process. For example, they indicated that officials from Justice and other agencies participated in at least six mutual evaluations from 2004 through 2009. According to TFI, it encourages and attempts to facilitate such participation by other agency officials who have attended the necessary 1-week training course and whose agencies will pay for their travel to foreign countries to conduct and defend their evaluations.

²⁰ According to TFFC officials, in addition to State and Justice, participating agencies include the Department of Homeland Security and the Securities and Exchange Commission.

Additionally, Justice officials stated that when TFI allows other agencies to review and comment on U.S. policy proposals related to anti-money laundering and counterterrorist financing, it consistently provides too little time for review. Specifically, Justice officials told us that TFI regularly provides agencies 24 hours to review and provide comments on policy proposals, which may make it impossible for agencies to conduct an appropriate review and effectively excludes them from the process. According to TFI officials, they distribute materials as soon as possible; for FATF materials this occurs within 24 hours of receiving them, though they acknowledge that they often are provided short deadlines by the FATF Secretariat. According to TFI officials, they sometimes request an extension of the deadline or submit the U.S. response late in order to obtain interagency views.

With regard to concerns about TFI's unilateral decision making, TFI and other agencies also differed. State and Justice officials cited a situation related to the U.S. position on how to treat the European Union (as a single entity or as separate countries) for the purposes of cash-smuggling regulations. According to State and Justice officials, during interagency meetings prior to the FATF working group session at which the issue was to be discussed, a consensus U.S. position was developed. However, State and Justice officials said that at the FATF plenary meetings, Treasury officials advocated a position that was different from the consensus U.S. position agreed to in advance of the meeting. A Treasury official told us that the agency did not deviate from the consensus position agreed to before the meeting.

Justice, State, and Treasury officials said that there is no guidance specifying how the interagency process should operate to develop U.S. positions in advance of FATF meetings. Specifically, there is no guidance regarding the process or time frames for circulating or approving U.S. policy statements to be made at international meetings to discuss anti-money laundering and counterterrorist financing issues. In addition, there is no formal mechanism for monitoring, evaluating, or reporting on the results of agencies' collaborative efforts.

According to State and Justice officials, the inconsistent quality of interagency collaboration may undermine some efforts to combat illicit financing networks through international forums. State officials suggested that the exclusion of non-Treasury personnel may mean that expertise available within the U.S. government is not effectively utilized, thus potentially weakening the United States' ability to influence international partners' actions. In addition, they suggested that unilateral action by

Treasury in international forums may cause confusion among international partners regarding the nature of the U.S. position on key issues. On the basis of comments they received from foreign officials, Justice and State officials concluded that such confusion might weaken the United States' ability to influence the activities of international partners. TFFC responded that it has not observed any confusion among its international partners in FATF regarding the U.S. position on key issues.

Justice and State officials did not raise similar concerns concerning FinCEN's collaboration when participating with them on issues related to the Egmont Group. In contrast, Justice officials expressed some criticisms of more recent collaboration with OFAC on issues such as information sharing. OFAC responded that it has regular contact with Justice with respect to enforcement matters and that the two agencies have an ongoing dialogue regarding information sharing. OFAC also noted that only a small subset of its enforcement cases involve the type of knowing conduct that is appropriate for referral to criminal authorities.

TFI Has Not Clearly Aligned Its Resources with Priorities or Performed Comprehensive Workforce Planning

While TFI has conducted strategic planning activities at different levels within the organization, TFI as a unit has not fully adopted certain key practices. In particular, TFI has not clearly aligned its resources with its priorities. TFI's strategic planning documents do not consistently integrate discussion of the resources needed to achieve TFI's strategic objectives. In addition, TFI's resource levels for each component cannot be clearly linked to its workload. Also, while some TFI components have taken the initiative to conduct some workforce planning activities, TFI management has not developed a process for conducting comprehensive strategic workforce planning.

TFI Has Not Clearly Aligned Its Resources with Its Priorities

Our review of TFI's and its components' strategic planning documents and discussions with TFI officials showed that TFI has not clearly aligned its resources with its priorities. TFI officials indicated that priorities could be

identified in TFI's strategic plan. TFI identified four relevant strategic plans: one for TFI as a whole and one each for FinCEN, OIA, and TEOAF.²¹

Strategic plans are used to communicate what an organization seeks to achieve in the upcoming years, according to Treasury instructions. The goals and strategies presented in the plan provide a road map for both the organization and its stakeholders. Strategic plans should guide the formulation and execution of the budget as well as other decision making that shapes and guides the organization. These plans are a tool for setting priorities and allocating resources consistent with these priorities, according to Treasury. Our previous work has shown that strategic plans should clearly link goals and objectives to the resources needed to achieve them and are especially important in those cases where agencies submit a strategic plan for each of their major components and a strategic overview that under the guidance is to show the linkages among these plans.²² Government Performance and Results Act guidance also establishes six key elements of successful strategic plans, and Treasury's instructions suggest plan formats.²³

However, we found that TFI's and its components' strategic plans do not consistently integrate discussion of the resources necessary to achieve TFI objectives. Specifically, we found that

²¹In June 2009, the Under Secretary for TFI provided us a copy of a document that he characterized as TFI's strategic plan and said that he used it to manage TFI. However, this unsigned, undated document lacked some characteristics typically found in a strategic plan (including those of some TFI components) such as an indication of the time period covered and the name of the senior official who approved the document.

²²GAO, *Managing for Results: Critical Issues for Improving Federal Agencies' Strategic Plans*, [GAO/GGD-97-180](#) (Washington, D.C.: Sept. 16, 1997)

²³The six elements are (1) a comprehensive agency mission statement; (2) agencywide long-term goals and objectives for all major functions and operations; (3) approaches (or strategies) and the various resources needed to achieve the goals and objectives; (4) a description of the relationship between the long-term goals and objectives and the annual performance goals; (5) an identification of key factors, external to the agency and beyond its control, that could significantly affect the achievement of the strategic goals; and (6) a description of how program evaluations were used to establish or revise strategic goals and a schedule for future program evaluations.

-
- FinCEN's²⁴ and TEOAF's²⁵ strategic plans contain some discussion of the resources needed to achieve their objectives.
 - TFI's and OIA's²⁶ strategic plans do not contain discussion of the resources needed to achieve their objectives.
 - OFAC and TFFC do not currently have strategic plans.

While TFI's strategic plan includes a mission statement; a list of threats, goals, and objectives; and means and strategies, it does not include any discussion or analysis of TFI's resource needs. Moreover, TFI's strategic plan lists all four of its goals, and each of its means and strategies under each goal as equivalent: it does not indicate any prioritization among its various goals, means, and strategies.²⁷

The Under Secretary for TFI said that he uses the annual budget process to align resources with priorities. However, two reasons suggest why the results of the budget process do not necessarily reflect TFI's strategic priorities. First, there are many other factors that affect the budget process that are unrelated to TFI's priorities. The amount of resources TFI seeks is integrated into a larger Treasury budget request, which may entail modifying TFI's request. Congress, then, may choose to provide more or less than the amount of resources to TFI that Treasury requested. Second, the annual budget process reflects priorities only for a given year, unlike strategic plans, which are intended to be multiyear documents and thus reflect longer-term priorities.

²⁴Department of the Treasury, Financial Crimes Enforcement Network, *Strategic Plan: Fiscal Years 2008-2012* (Washington, D.C.: April 2008).

²⁵Department of the Treasury, Treasury Forfeiture Fund, *Strategic Plan, Fiscal Years 2007-2012* (Washington, D.C.: September 2007).

²⁶Department of the Treasury, Office of Intelligence and Analysis, *Strategic Direction, Fiscal Years 2009-2011* (Washington, D.C.: July 2008).

²⁷Strategic goals in TFI's strategic plan are to (1) provide expert all-source analysis on financial and other networks supporting terrorism, weapons of mass destruction proliferation, and other national security threats in order to marshal TFI priorities and action; (2) execute the nation's financial sanctions policies and use other TFI tools and authorities to advance U.S. government objectives; (3) lead policy development, coordination, and coalition building to counter financial aspects of national security threats and pressure obstructionist countries; and (4) enhance the transparency and integrity of the financial system, and support law enforcement and financial regulators in fighting crime.

Further, the linkage between the resources allocated to each TFI component and its workload is unclear. Estimated workload measures for each of TFI's components show a growth in workload since 2005, but it is unclear how this growth relates to resource increases. For example, one measure of FinCEN's workload—the number of SARs it must analyze—has increased 50 percent and the number of employees in FinCEN has increased 3 percent.²⁸ In addition, TEOAF has seen an 83 percent increase in the value of seized assets it manages and the number of FTEs has grown 10 percent.²⁹ Further, the number of OFAC licensing actions increased 56 percent while the number of FTEs grew 18 percent.³⁰ Additionally, OIA experienced a more than 500 percent increase in intelligence taskings from 2006 to 2008 and has received a 200 percent increase in FTEs.³¹ Finally, TFFC estimates that its workload related to developing policy papers, legislative and rulemaking papers, trips, and public outreach events increased between 100 and 200 percent from 2005 to 2009; its FTEs grew nearly 80 percent from 2005 to 2008.³²

According to TFI officials, their ability to allocate resources to their highest priorities is constrained in some circumstances. The Under Secretary and other TFI officials identified activities related to Iran and North Korea as persistent priorities. However, OFAC officials noted that in spite of the importance of Iran- and North Korea-related activities, they must expend a significant amount of resources on implementing the Cuba embargo. With regard to acting on specific licensing requests for exports and travel to Cuba, according to OFAC officials, they have little flexibility under the law.³³ OFAC is required to process all license applications that it

²⁸From 2005 to 2008, the number of SARs grew from approximately 900,000 to 1.3 million and the number of employees grew from 291 to 299.

²⁹From 2005 to 2008, the value of seized assets grew from \$304 million to \$557 million and the number of FTEs grew from 20 to 22.

³⁰From 2005 to 2008, the number of license actions grew from approximately 40,000 to approximately 63,000 and the number of FTEs grew from 132 to 155.5.

³¹OIA's staff grew from 45 FTEs in 2005 to 135 FTEs in 2008. We are not reporting the specific number of intelligence taskings, as this information is for official use only.

³²TFFC's staff grew from 19 FTEs in 2005 to 34 FTEs in 2008.

³³Treasury administers the Cuban Assets Control Regulations, 31 CFR Part 515, which includes provisions on obtaining licenses to engage in certain otherwise prohibited activities. These regulations were recently amended. See 74 Fed. Reg. 46000. Recent changes include the authorization of family travel under a general license rather than a specific license. It is unclear at this time what impact these changes will have on OFAC's resources.

receives. For 2005 through 2008, this amounted to more than 200,000 licensing actions—more than 95 percent of which related to the Cuba program. In 2008 alone, OFAC responded to nearly 60,000 licensing requests related to the Cuba travel program. OFAC officials characterized this situation as a resource burden.

In contrast, according to OFAC officials, they have some flexibility regarding how they enforce the Cuba sanctions program, for example, through the assessment of civil penalties for violations. According to OFAC officials, for many years (through 2005), OFAC assessed a large number of civil penalties related to the Cuba travel regulations. As violations of these regulations have a relatively small financial penalty associated with them, the average penalty amount was relatively low. Since 2006, according to OFAC officials, they have consciously utilized the flexibility they are allowed in order to dedicate their enforcement resources to higher-value areas (e.g., those related to trade with Cuba, Iran, and North Korea). As a result, the number of penalties assessed annually related to the Cuba sanctions program has dropped significantly, from 498 in 2005 to 46 in 2008. At the same time, the average value of OFAC's civil penalties for violations of all sanctions programs has increased significantly, from approximately \$2,400 in 2005 to nearly \$31,000 in 2008.

TFI Has Not Taken a Comprehensive Approach to Strategic Workforce Planning

Despite efforts by some components, TFI management has not yet conducted comprehensive activities to address the key principles of strategic workforce planning. According to the Under Secretary, TFI's workforce is its greatest asset, and ensuring that it is the right size and includes the right skills is critical to TFI's future ability to achieve its mission. Prior GAO work has identified key principles to assist agencies in conducting strategic workforce planning.³⁴ Among these principles are (1) involving top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan, and (2) monitoring and evaluating the agency's progress toward its

³⁴GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

human capital goals and the contribution that human capital results have made toward achieving programmatic results.³⁵

According to TFI officials, some TFI components have taken the initiative individually to perform some strategic workforce planning activities. Specifically, as a Treasury bureau, FinCEN has an internal human resources group that, among other things, performs some strategic workforce planning activities. For example, according to FinCEN officials, they undertook an effort to identify mission critical occupations, which resulted in designating three positions as mission critical. As a result, FinCEN developed plans to address human capital challenges related to these occupations and regularly reports to Treasury's Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer on its progress. In addition, OIA has taken a variety of steps to address human capital challenges. For example, according to OIA officials, to address challenges in recruiting and retaining intelligence analysts, OIA cataloged the human capital flexibilities available to provide recruiting and retention incentives. As a result, OIA officials indicated that they have identified and are now able to utilize a variety of human capital flexibilities, such as student loan repayment to attract and retain staff and the Pat Roberts Intelligence Scholarship Program to pay for the continuing educational needs of its analysts.

Nonetheless, TFI management has not yet conducted comprehensive activities to address the key principles of strategic workforce planning for TFI as a whole. TFI top management has not set the overall direction and goals of workforce planning or evaluated progress toward any human capital goals. The Under Secretary for TFI told us that since the creation of TFI, growing OIA's human capital has been one workforce planning priority. He also stated that he has conducted additional targeted workforce planning in consultation with the heads of the largest TFI components, such as FinCEN. However, neither TFI officials nor Treasury human capital officials were aware of any explicit workforce planning goals set by TFI management. In addition, TFI officials were unaware of

³⁵Other principles are to (1) determine the critical skills and competencies that will be needed to achieve current and future programmatic results; (2) develop strategies that are tailored to address gaps in number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies; and (3) build the capability needed to address administrative, educational, and other requirements important to supporting workforce strategies.

any formal reviews or reports that evaluated the contribution of human capital results to achieving programmatic goals.

Moreover, TFI currently lacks an effective process for conducting comprehensive strategic workforce planning. According to the Under Secretary for TFI, most workforce planning takes place as a part of the annual budget process. TFI has not established a separate, comprehensive strategic workforce planning process led by TFI management. According to an official from Treasury's Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer, the office has provided targeted workforce planning assistance to OIA and, in spring 2009, began discussing how they could assist TFI in broader workforce planning efforts. In particular, they cited the need to conduct an overall workforce analysis and succession planning.

According to TFI's Senior Resource Manager, TFI's workforce planning mainly occurs as a component of the annual budget preparation process. As a part of this process, individual components can request additional staff resources for priority initiatives they identify. TFI management then evaluates these individual proposals and determines what will be included in TFI's budget request.

Without the benefit of comprehensive strategic workforce planning to assist in identifying solutions, it is unclear whether TFI will be able to effectively address persistent workforce challenges. These include the following:

- *Lack of comprehensive training needs assessment.* While some TFI components have assessed the training needs of their staff, there has been no similar TFI-wide effort. Without such an assessment, it is unclear whether TFI staff are being prepared to address the challenges posed by illicit financing in the future.
- *Obstacles to hiring intelligence analysts.* According to officials from OIA and Treasury's Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer, OIA continues to be at a competitive disadvantage relative to other agencies in the Intelligence Community regarding recruiting. Specifically, according to Treasury officials, most other agencies in the Intelligence Community can hire intelligence analysts into the excepted service, thus bypassing the need for competitive selection of candidates. In addition, OIA lacks direct hire authority for its intelligence analysts. According to OIA officials, these

challenges make OIA's hiring process more complicated and lengthier than those of other agencies in the Intelligence Community.

TFI Has Not Yet Developed an Appropriate Set of Performance Measures, but Continues to Work to Improve Its Efforts

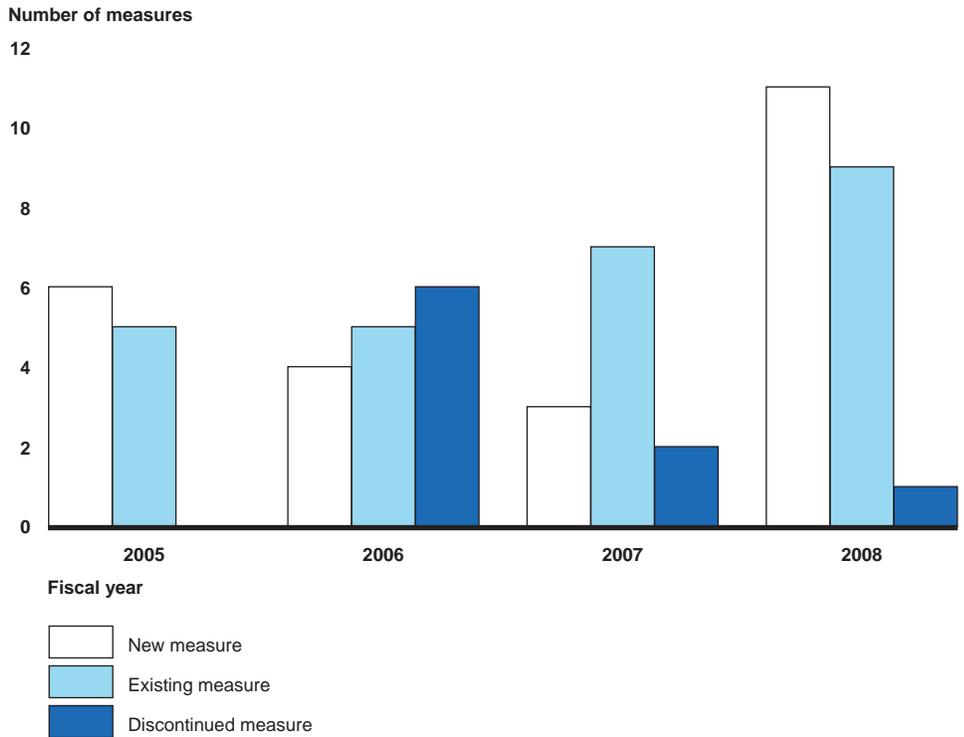
TFI has not yet developed an appropriate set of performance measures, but continues to attempt to improve its efforts. Since TFI was formed, its individual performance measures have varied substantially in number and the extent to which they address attributes of successful performance measures that GAO has identified. For fiscal year 2008, the performance measures of TFI's components vary in the extent to which they address attributes of successful performance measures identified by GAO. TFI's performance measures address many, but not all, of these attributes. According to Treasury officials, TFI recognizes the need to improve its performance measures, and is developing a new set of measures to assess its performance. However, our review of a draft version of these revised measures suggests that some concerns would remain if they are implemented as proposed.

Performance Measures Related to TFI Functions Have Varied over the Years

As shown in figure 4, since its formation in 2004, TFI's performance measures have varied over time. TFI reported on 11 total measures in fiscal year 2005, 9 measures in fiscal year 2006, 10 measures in fiscal year 2007, and 20 measures in fiscal year 2008. The number and content of performance measures have varied within components over time, as well. For example, FinCEN had 6 measures in fiscal year 2007 and 16 in fiscal year 2008. Components have frequently introduced new measures only to discontinue them in subsequent years. For instance, OFAC reported 4 measures in fiscal year 2005, and then discontinued 3 for fiscal year 2006. OIA, newly formed in 2004, reported 1 performance measure in fiscal year 2006 and none the following years.³⁶ The extent of inconsistency in TFI's performance measures creates challenges for managers to using performance data in making management decisions.

³⁶ According to TFI, since 2007 OIA has tracked its timeliness, relevance, and accuracy to measure its performance and has reported on these measures to the Office of the Director of National Intelligence each year. These data were not included in Treasury's performance and accountability reports.

Figure 4: Changes in TFI Performance Measures, Fiscal Years 2005 to 2008



Source: GAO analysis of Treasury performance and accountability reports, fiscal years 2005-2008.

According to TFI officials, the sharp increase in the number of performance measures reported in fiscal year 2008 was a response to the evaluation and recommendations of the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) in 2005 and 2006.³⁷ The PART process identified potential enhancements to FinCEN's performance measures, leading to the inclusion of new measures for FinCEN.³⁸ FinCEN officials said that Treasury performance officials asked that the newly developed measures be added to FinCEN's contribution to

³⁷PART was used to assess and improve federal program performance. PART encouraged the development of performance measures that are outcome-oriented, relate to the overall purpose of the program, and have ambitious targets. All programs receiving PART assessments also developed improvement plans that should be ambitious, include actions with completion dates, and be designed to improve program results.

³⁸OFAC's Economic and Trade Sanctions Program was also evaluated by PART, in 2002. It was recommended that OFAC develop long-term performance goals with specific time frames and measures.

the fiscal year 2008 performance and accountability report. According to officials in Treasury’s Office of Strategic Planning and Performance Management (OSPPM), the nature of FinCEN’s work is operational, making it easier to evaluate the bureau’s performance. TFI’s policy-making components, such as TFFC, have found it more difficult to develop meaningful performance metrics.

TFI’s Current Performance Measures Exhibit Many, but Not All, Attributes of Successful Performance Measures

The performance measures TFI currently has in place also vary in the degree to which they exhibit the attributes of successful performance measures. Prior GAO work has identified nine attributes of successful performance measures.³⁹ Table 1 shows the nine attributes, their definitions, and the potentially adverse consequences of not having the attribute.

Table 1: GAO’s Key Attributes of Successful Performance Measures

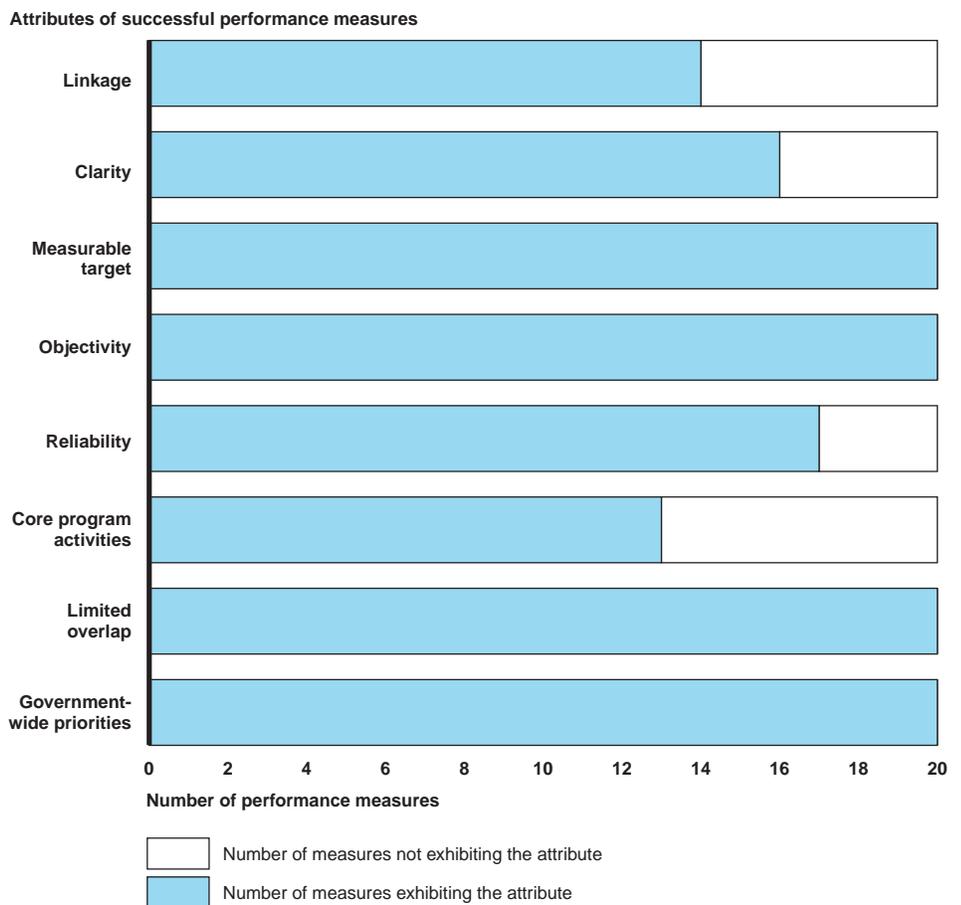
Attribute	Definition	Potentially adverse consequences of not having attribute
Linkage	Measure is aligned with division and agencywide goals and mission and clearly communicated throughout the organization.	Behaviors and incentives created by measures do not support achieving division or agencywide goals or mission.
Clarity	Measure is clearly stated and the name and definition are consistent with the methodology used to calculate it.	Data could be confusing and misleading to users.
Measurable target	Measure has a numerical goal.	Cannot tell whether performance is meeting expectations.
Objectivity	Measure is reasonably free from significant bias or manipulation.	Performance assessments may be systematically over- or understated.
Reliability	Measure produces the same result under similar conditions.	Reported performance data are inconsistent and add uncertainty.
Core program activities	Measures cover the activities that an entity is expected to perform to support the intent of the program.	Not enough information available in core program areas to managers and stakeholders.
Limited overlap	Measure should provide new information beyond that provided by other measures.	Manager may have to sort through redundant, costly information that does not add value.
Balance	Balance exists when a suite of measures ensures that an organization’s various priorities are covered.	Lack of balance could create skewed incentives when measures overemphasize some goals.
Governmentwide priorities	Each measure should cover a priority such as quality, timeliness, or cost of service.	A program’s overall success is at risk if all priorities are not addressed.

Source: GAO-03-143.

³⁹GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

TFI's performance measures address many of these attributes of successful performance measures, but do not fully address other attributes. Figure 5 represents our assessment of TFI's 20 performance measures versus the key attributes of successful performance measures.

Figure 5: TFI's Fiscal Year 2008 Performance Measures Relative to the Key Attributes of Successful Performance Measures



Source: GAO analysis of Treasury performance and accountability reports, fiscal years 2005-2008.

According to our analysis, TFI's 20 measures have many of the attributes of successful performance measures, including the following.

- *Measurable target.* All 20 of TFI's measures have measurable, numerical targets in place. Numerical targets allow officials to more easily assess whether goals and objectives were achieved because comparisons can be made between projected performance and actual results.

-
- *Limited overlap.* We found limited overlap among TFI's 20 measures, that is, little or no unnecessary or duplicate information provided by the measures.
 - *Objectivity.* We found all of TFI's measures to be objective, or reasonably free from significant bias.
 - *Governmentwide priorities.* We also determined that TFI's 20 measures are linked to broader priorities such as cost-effectiveness, quality, and timeliness.

However, the measures did not fully satisfy the following attributes.

- *Linkage.* Six TFI measures are not clearly linked to Treasury goals. For example, TEOAF measures the proportion of its forfeitures that come from high-impact cases. However, it is unclear why high-impact cases in particular are measured as opposed to all cases. Our analysis could not link TEOAF's measure to broader agencywide goals related to removing or reducing threats to national security.
- *Core program activities.* Seven TFI measures do not sufficiently cover core program activities. For example, OFAC has three main responsibilities related to the administration of sanctions: (1) issuing licenses, (2) designation programs, and (3) enforcement through civil penalties. However, OFAC's one performance measure only assesses cases involving civil penalties resulting from sanctions violations.
- *Balance.* We found that TFI's set of performance measures is not balanced. In fiscal year 2008, TFI reported on 20 measures, 16 of which related to FinCEN's programs and activities, 1 that related to OFAC, 1 that related to TEOAF, 2 that related to TFFC, and none that related to OIA. As a result, a disproportionate number of measures (16) relate to administering and enforcing the BSA and none to the analysis of financial intelligence. An emphasis on one priority at the expense of others may skew the overall performance and preclude TFI's managers from understanding the effectiveness of their programs in supporting Treasury's overall mission and goals. In addition, the lack of balance exhibited by TFI's measures may give the impression that administering the BSA is prioritized over other functions, such as the analysis of financial intelligence or administration of licensing and designations programs.

TFI Is Working to Replace Its Performance Measures, but Some Concerns Remain

Treasury officials acknowledge the limits of TFI's current performance measurement and have been working to enhance its measures, by replacing them with a single new TFI-wide measure. According to OSPPM officials, they began an initiative to overhaul TFI's performance measurement in 2007. OSPPM officials stated that TFI's performance measures did not effectively reflect the impact of TFI's activities. After consultation with each TFI component, OSPPM decided to design a new composite measure that will provide a way to assess how TFI is performing overall as a unit. The new measure would outline the roles and functions of TFI's components and evaluate the outcomes of their activities. However, the process of reforming TFI's performance measurement has not been completed. The implementation of the new measure is still uncertain, although TFI management approved its use in May 2009 and components finalized the measures they will contribute.⁴⁰

According to a Treasury official, OSPPM decided on the format of the new composite measure after researching other federal agencies' approaches to performance measurement, as well as those of management consultancies in the private sector. The composite measure takes a similar form to the measure implemented for Treasury's Office of Technical Assistance (OTA), first reported in Treasury's fiscal year 2008 performance and accountability report.⁴¹ The measure aims to provide a more comprehensive snapshot of the outcome of OTA's activities by measuring impact and traction.⁴²

The composite measure for TFI will align the two Treasury outcomes that relate to their activities with TFI's performance goals and focus areas, according to Treasury.⁴³ Each focus area corresponds with a TFI

⁴⁰After approval from the appropriate Treasury management, the measure will be sent to OMB for its endorsement. OSPPM managers told us that OMB has seen a draft of the composite measure and been informed of the overall approach.

⁴¹Department of the Treasury, *Fiscal Year 2008 Performance and Accountability Report* (Washington, D.C.: Nov. 17, 2008).

⁴²According to Treasury officials, "impact" refers to whether or not the policy initiative had a positive outcome. "Traction" refers to how efficiently and effectively the policy office works with partners or the extent to which the policy office influences progress toward an outcome.

⁴³The Treasury outcomes for TFI are (1) removed or reduced threats to national security from terrorism, proliferation of WMD, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks, and (2) safer and more transparent U.S. and international financial systems.

component (OFAC, OIA, TFFC, and FinCEN). The components will track 3 to 6 performance measures and will assign a numeric score to the performance at the end of the year. Each component's measures will be combined to reach an overall score for the component. In the end, an overall score for TFI will be determined by averaging the individual scores of the components.

All TFI components except TEOAF have been involved in the process of developing the composite measure. Both OSPPM and TEOAF officials stated that TEOAF would not be included, since its work did not logically fit in one of the focus areas. OIA, TFFC, and OFAC have developed new measures to assess the impact of their activities. FinCEN will use 5 of its existing measures for its contribution to the composite measure.

TFI faces significant challenges in developing and implementing the new composite measure. There is an inherent difficulty in creating quantitative measures for policy organizations, whose activities may not be easily represented with numbers. Many TFI managers pointed to the difficulty of making qualitative information measurable for performance reporting.

While the initiative to improve TFI's performance measurement is a positive step, our preliminary analysis raises concerns regarding the extent to which the new TFI composite measure will allow full and accurate assessment of TFI's performance. For example, we identified the following concerns:

- *Objectivity and reliability of survey-based measures.* OIA has developed surveys to measure the timeliness, relevance, and accuracy of its intelligence support, all-source analysis, and security and counterintelligence. The survey respondents are internal customers of OIA's products within Treasury such as the Deputy Secretary, Under Secretaries, Assistant Secretaries, Deputy Assistant Secretaries, and senior staff. The objectivity of the surveys is not clear given that respondents' answers may be biased because they have a vested interest in the outcome, as it is a reflection on their performance. The reliability of the measures is also questionable, as only between 7 and 13 internal customers—rather than external customers in the Intelligence Community—will be asked to complete the survey. TFI believes that while there is no perfect method for evaluating OIA's performance, the surveys are an effective means for Treasury policymakers to assess OIA's performance. They also noted their plan to survey customers in other parts of the Intelligence Community in 2010.

-
- *Lack of validation for some components' self-assessment-based measures.* Some components' performance measures rely exclusively on self-assessments by component managers and lack external verification. For example, TFFC has 4 measures for which management will compile supporting information and assign a high, medium, or low rating for TFFC's performance in that area. Treasury and TFI acknowledge (but have not yet addressed) a lack of a process to independently verify TFFC's self-assessment. OTA's composite measure, which OSPPM officials cited as similar to TFI's, also uses elements of self-assessment, but those results are independently validated by an external source and reviewed by Treasury.
 - *Calculation of overall TFI score.* According to TFI, to calculate the composite measure, individual components' results will be averaged into a single TFI measure. Since the components are not all contributing the same number of measures to the overall composite measure, averaging components' scores means components' individual performance measures are not weighted equally in TFI's overall measure.

Conclusions

Since its creation in 2004, TFI has undertaken a variety of activities to address a broad range of national security threats, such as enhancing the use of financial intelligence against terrorism and the proliferation of weapons of mass destruction. In addition, TFI and its components have taken some steps toward more effective management of TFI as an organization. For instance, TFI and some components have developed strategic plans and have performed workforce planning activities.

Nonetheless, TFI has not fully utilized some management tools to create an integrated organization with a consistent, well-documented approach to planning and managing its operations. As a result, additional opportunities for improvement exist. First, despite the critical role interagency collaboration plays in many of TFI's functions and general approval by key interagency partners, such collaboration may not be as effective as it could be in certain respects. TFI and some of its interagency partners had strikingly different perceptions about the quality of collaborative efforts involving multilateral forums. Lacking clearly documented policies and procedures for collaboration in this area, interagency partners were unsure how to resolve their differences. Without a mechanism to monitor and report on the results of such interagency collaboration, TFI officials were generally unaware that differences existed or what impact they might be having, and thus saw no need to take steps to understand or address them. Second, TFI management has not clearly aligned its resources with

its priorities. Without clear, consistent objectives and an understanding of how resources are aligned with them, it may be unclear to Congress, TFI's interagency partners, or even TFI staff what TFI's priorities are and whether TFI has sufficient resources to address them. In addition, while some components have undertaken workforce planning activities, TFI management has yet to implement a comprehensive strategic workforce planning process for TFI as a whole. As a result, TFI may be at risk of not having the workforce required to address future national security threats. Finally, TFI's performance reporting has been uneven. Though TFI has been working to improve its ability to effectively measure its performance as a unit, TFI has not yet developed a set of performance measures that embody the attributes of successful performance measures. Without a set of effective performance measures, it is difficult to judge how well TFI is achieving its mission.

Recommendations for Executive Action

To help strengthen Treasury's ability to achieve its strategic goal of preventing terrorism and promoting the nation's security through strengthened international financial systems, we recommend that the Secretary of the Treasury direct the Under Secretary for Terrorism and Financial Intelligence to take the following four actions:

1. develop and implement, in consultation with interagency partners participating in international forums related to anti-money laundering and counterterrorist financing issues, (a) compatible policies, procedures, and other means to operate across agency boundaries and (b) a mechanism for monitoring, evaluating, and reporting on interagency collaboration;
2. develop and implement policies and procedures for aligning resources with TFI's strategic priorities;
3. develop and implement a TFI-wide process, including written guidance, that addresses the key principles of strategic workforce planning; and
4. ensure that TFI's performance measures exhibit the key attributes of successful performance measures.

Agency Comments and Our Evaluation

We provided a draft copy of this report to the Departments of the Treasury, State, and Justice. Justice and State declined to provide comments. Treasury provided comments, which are reprinted in appendix IV.

Treasury's comments highlighted what it views as TFI's significant contributions since 2005. Treasury said that TFI has helped reduce the threat of terrorist financing, stating that al Qaeda is in its worst financial position in at least 3 years. In addition, Treasury highlighted TFI's efforts to counter the financing of proliferation, for example, using Executive Order 13382 to isolate banks, companies, and individuals tied to North Korean, Iranian, and Syrian proliferation.

Treasury's comments also discussed ongoing or planned actions related to our four recommendations:

- With regard to our recommendation that TFI develop and implement policies and procedures to operate across agency boundaries and develop a mechanism for monitoring, evaluating, and reporting on interagency collaboration, the Under Secretary for Terrorism and Financial Intelligence indicated that his counterparts in other agencies have never expressed concerns about process or substance to him regarding TFI's collaboration. Nonetheless, Treasury stated that it would redouble its efforts to coordinate with other agencies, but did not identify specific steps it plans to take. As discussed in our report, we recommend that such steps include developing clear policies for conducting and monitoring the results of interagency collaboration.
- In response to our recommendation to develop and implement policies and procedures for aligning resources with TFI's strategic priorities, Treasury indicated that TFI is working to improve its processes in this area. While Treasury stated that its use of the annual budget process has worked well to match resources to strategic goals, we have concluded that the annual budget process does not necessarily reflect TFI's strategic priorities, in part because it reflects priorities for only a given year and not longer-term priorities.
- In relation to our recommendation to develop and implement a TFI-wide process to address the key principles of strategic workforce planning, Treasury commented that it is working with Johns Hopkins University's Capstone Consulting to develop a workforce planning model for Treasury. As a part of this effort, TFI plans to develop and disseminate written guidance establishing a process to align resources with TFI and Treasury strategic goals in the next 12 months.

-
- Finally, Treasury stated that it will work to implement our recommendation to ensure that TFI's performance measures exhibit the key attributes of successful performance measures. At the same time, Treasury contends that TFI's true performance will often be best conveyed through briefings to those who possess the appropriate security clearances. To ensure that such briefings provide systematic evidence regarding TFI's performance, they should include assessments based on performance measures that exhibit the key attributes of successful performance measures discussed in this report. Further, we would note that using classified information to help assess TFI's performance does not preclude TFI from developing unclassified performance measures or from producing an unclassified assessment of its performance. In fact, Treasury's statements about the financial condition of al Qaeda referenced in its response to this report provide Treasury's assessment of TFI's impact on al Qaeda without disclosing classified information.

As agreed with your office, 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 of this report to the appropriate congressional committees as well as the Secretaries of the Treasury, State, and Justice. We 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 has any questions about this report, please contact me at (202) 512-4347 or YagerL@gao.gov. GAO staff who contributed to this report are included in appendix V.

Sincerely yours,



Loren Yager
Director, International Affairs and Trade

Appendix I: Scope and Methodology

To analyze the Office of Terrorism and Financial Intelligence's (TFI) use of its tools to address national security threats, we reviewed Treasury reports and documents related to its efforts since 2004. For example, we reviewed all of Treasury's performance and accountability reports and FinCEN's annual reports since TFI was formed. We also reviewed other documents discussing activities involving TFI, including the *National Money Laundering Strategy* and the *National Strategy for Combating Terrorism*. To identify practices for enhancing interagency collaboration, we reviewed prior GAO reports. We then interviewed officials from Treasury and its key interagency partners (the Departments of State and Justice) to understand TFI's processes for interagency collaboration.

To analyze TFI's efforts to conduct strategic resource planning, we reviewed a variety of Treasury documents. To identify TFI's priorities, we reviewed documents such as Treasury's performance and accountability reports, congressional testimony by the Under Secretary for Terrorism and Financial Intelligence, and TFI's Web site. In addition, we reviewed documentation from TFI and its components related to strategic planning, including the current strategic plans for TFI and each component. Further, we reviewed TFI data regarding the number of staff (full-time equivalents or FTE) in each TFI component for fiscal years 2005 through 2008. We then obtained data from TFI components to illustrate how their workload has changed over time. We determined that these data are sufficiently reliable for the purpose of this report. Additionally, we reviewed prior GAO work related to principles of effective strategic workforce planning.¹ To determine the extent to which TFI's practices reflect these principles, we interviewed TFI management, including the Under Secretary for Terrorism and Financial Intelligence and managers from TFI components. Further, we interviewed officials from Treasury's Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer.

To analyze the extent to which TFI's performance measures provide an effective assessment of TFI's performance, we reviewed Treasury's reporting on TFI's performance. Specifically, we analyzed the performance measures contained in Treasury's performance and accountability reports for fiscal years 2005 through 2008. We also evaluated TFI's performance measures for fiscal year 2008 against key attributes of successful performance measures. To perform this evaluation, two analysts

¹[GAO-04-39](#).

independently assessed each of the performance measures against the nine attributes identified in the specifications for each attribute included in that report.² Those analysts then met to discuss and resolve any differences in the results of their analyses. A supervisor then reviewed and approved the final results of the analysis. To obtain information on TFI's process to improve its set of performance measures, we interviewed officials from each TFI component and Treasury's Office of Strategic Planning and Performance Management. We also obtained a copy of draft TFI performance measures that will be presented to the Office of Management and Budget for its review. We then interviewed officials from each TFI component and Treasury's Office of Strategic Planning and Performance Management regarding how the data for these draft performance measures would be obtained and how the overall TFI composite measure would be developed.

We also present data on TFI staffing and budget for fiscal years 2005 through 2008. As these data are presented for background purposes, we did not assess their reliability.

²[GAO-03-143](#).

Appendix II: Current U.S. Sanctions Programs

Office of Foreign Assets Control country-based sanctions programs

Burma

Cuba

Iran

Sudan

Source: Department of the Treasury.

Office of Foreign Assets Control list-based sanctions programs

Anti-Terrorism

Belarus

Burma

Cote d'Ivoire

Counter Narcotics Trafficking

Darfur

Democratic Republic of Congo

Iraq

Lebanon

Liberia (former regime of Charles Taylor)

Non-proliferation

Syria

Western Balkans

Zimbabwe

Source: Department of the Treasury.

Other Office of Foreign Assets Control sanctions programs

Highly enriched Uranium

North Korea

Rough Diamonds

Source: Department of the Treasury.

Appendix III: GAO Assessment of TFI's Fiscal Year 2008 Performance Measures

Table 3: GAO Assessment of TFI's Fiscal Year 2008 Performance Measures

TFI performance measures	Component	Linkage	Clarity	Measurable target	Objectivity	Reliability	Core program activities	Limited overlap	Government-wide priorities
Number of open civil penalty cases that are resolved within the statute of limitations period	Office of Foreign Assets Control (OFAC)	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Increase in the number of outreach engagements with the charitable and international financial communities	Office of Terrorist Financing and Financial Crimes (TFFC)	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) recommendations	TFFC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Percentage of forfeited cash proceeds resulting from high-impact cases	Treasury Executive Office for Asset Forfeiture (TEOAF)	No	No	Yes	Yes	Yes	No	Yes	Yes
Average time to process enforcement matters (in years)	Financial Crimes Enforcement Network (FinCEN)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Percentage of bank examinations conducted by the federal banking agencies indicating a systemic failure of the anti-money-laundering program rule	FinCEN	Yes	No	Yes	Yes	Yes	No	Yes	Yes
Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable	FinCEN	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

**Appendix III: GAO Assessment of TFI's Fiscal
Year 2008 Performance Measures**

TFI performance measures	Component	Linkage	Clarity	Measurable target	Objectivity	Reliability	Core program activities	Limited overlap	Government-wide priorities
Median time taken from date of receipt of Financial Institution Hotline Tip Suspicious Activity Report (SAR) to transmittal of a written analytical report to law enforcement or the intelligence community (days)	FinCEN	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Percentage of complex analytical work completed by FinCEN analysts	FinCEN	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Percentage of countries/ jurisdictions connected to the Egmont Secure Web within 1 year of Egmont membership	FinCEN	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable	FinCEN	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Percentage of private industry or financial institution customers finding FinCEN's SAR products highly valuable	FinCEN	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cost per Bank Secrecy Act (BSA) form e-filed	FinCEN	No	Yes	Yes	Yes	Yes	No	Yes	Yes
Number of largest BSA report filers using e-filing	FinCEN	No	Yes	Yes	Yes	Yes	No	Yes	Yes
Number of users directly accessing BSA data	FinCEN	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

**Appendix III: GAO Assessment of TFI's Fiscal
Year 2008 Performance Measures**

TFI performance measures	Component	Linkage	Clarity	Measurable target	Objectivity	Reliability	Core program activities	Limited overlap	Government-wide priorities
Percentage of customers satisfied with the BSA e-filing	FinCEN	No	Yes	Yes	Yes	No	No	Yes	Yes
Percentage of customers satisfied with WebCBRS and secure outreach	FinCEN	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Share of BSA filings submitted electronically	FinCEN	No	Yes	Yes	Yes	Yes	No	Yes	Yes
Percentage of federal and state regulatory agencies with memorandums of understanding (MOU) or information-sharing agreements	FinCEN	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Percentage of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system	FinCEN	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes

Source: GAO analysis of the Treasury fiscal year 2008 performance and accountability report.

Appendix IV: Comments from the Department of the Treasury



UNDER SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

September 4, 2009

Loren Yager, Ph.D.
Director
International Affairs and Trade
United States Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Dr. Yager:

Thank you for the opportunity to review the draft Government Accountability Office (GAO) report entitled, "Combating Illicit Financing, Treasury's Office of Terrorism and Financial Intelligence Could Manage More Effectively to Achieve its Mission." This report assesses the Office of Terrorism and Financial Intelligence (TFI) five years after its creation, focusing on the office's interagency coordination, its strategic workforce planning, and its performance measures. In addition to responding to the report's recommendations regarding TFI's processes, we want to take this opportunity to provide an update on the office's performance and some of its substantive accomplishments.

Since TFI's creation, this office – because of its unique authorities and capabilities, along with its dedicated workforce – has added a new financial dimension to U.S. strategies for combating our most pressing security challenges and has contributed significantly to the protection of our national security. Among the issues on which we have worked most intensely are:

- **Reduced terrorist financing threat: Al Qaida in its worst financial position in at least three years.** The 9/11 Commission's Public Discourse Project awarded the U.S. Government's efforts to combat terrorist financing its highest grade, an A-, noting that the United States has won the support of key countries and has made significant strides in using terrorism finance as an intelligence tool. We have a long way to go, but the strategy is working. Today, al Qaida is starved for funds as its core leadership is having increasing difficulty raising money and sustaining itself. Al Qaida is in its worst financial position in at least three years. While we would like to go into greater detail, we are unable to do so in an unclassified format.
- **Made counter-proliferation finance a real endeavor: Advanced new means of countering the threat.** The concept of counter-proliferation finance as part of an overall counter-proliferation strategy is a recent development. We applied the lessons learned from using financial tools in the terrorism context to advance a counter-proliferation finance strategy using a new authority, Executive Order 13382. We have used this authority to isolate banks, companies, and individuals tied to North Korean, Iranian, and Syrian proliferation. Banks worldwide are implementing these designations even when their own laws do not require them to do so, making it difficult for those designated in the

United States to operate in the international financial system. We have been working with the Financial Action Task Force (FATF) to develop international standards to combat proliferation finance. There is now global recognition that targeted financial authorities are an effective means to combat proliferation, and this tool is increasingly becoming part of multilateral strategies, including at the UN Security Council.

- **Built first-ever intelligence analysis office in any finance ministry.** In 2004, with the creation of TFI's Office of Intelligence and Analysis (OIA), Treasury became the first finance ministry in the world to develop in-house financial intelligence and analytic expertise. OIA's analysis plays an integral role in all aspects of our strategies – from mapping illicit networks, to developing targets for action, to information-sharing with other governments and the private sector, to determining the impact of our actions.
- **Developed financial strategies for pressuring states and preventing them from abusing the financial system.** TFI has played an integral role in the development and implementation of U.S. Government strategies for responding to various country-specific national security threats. We have used all of the tools at our disposal in an integrated approach.
 - **Iran:** As the result of U.S. and multilateral government actions, designations of those supporting Iran's nuclear and missile programs by the United States, UN Security Council, and European Union, combined with unprecedented outreach to dozens of banks around the world about how Iran uses its banks and the international financial system to pursue proliferation and terrorism, there is now a broad international consensus that Iran poses a clear threat to the integrity of the international financial system. As a result, most major banks have cut off or dramatically reduced their business with Iran.
 - **North Korea:** We have pursued a strategy that has made it more difficult for North Korea to engage in illicit conduct, including: 1) our action under Section 311 of the *USA PATRIOT* Act against Macau-based Banco Delta Asia; 2) our designations of a number of North Korean proliferation firms under E.O. 13382; 3) our issuance of advisories alerting banks to North Korea's illicit and deceptive financial conduct; and 4) our ongoing outreach to dozens of governments and banks regarding this conduct and the financial provisions of UNSCRs 1718 and 1874. Even beyond protecting the international financial system from illicit North Korean activity, these actions have put pressure on the regime and provided valuable leverage for our diplomatic efforts.

Our focus on combating national security threats using financial authorities is complemented by our work to build a foundation of strong systemic safeguards in the financial sector.

- **Promoted an understanding of threats to the financial system and devised strategies to counter them.** An important part of our mission to ensure a safe, sound and secure financial system has been our work to understand how illicit actors misuse the financial system and then develop strategies to counter that misuse.
 - **Money laundering:** In 2006, TFI coordinated the first government-wide Money Laundering Threat Assessment, identifying current and emerging trends and

techniques used to raise, move and launder illicit proceeds. That effort was followed by our work with the Departments of Justice and Homeland Security to craft the 2007 National Money Laundering Strategy, which is mapped to the vulnerabilities identified in the threat assessment.

- **Mortgage loan modification fraud:** This year, Treasury launched an interagency effort to target mortgage loan modification fraud and foreclosure rescue scams, issuing an advisory to alert financial institutions to various “red flags” and leading an advanced targeting effort. This effort has produced leads that have helped to halt the illegal practices of those offering loan modification or foreclosure scams.
- **Strengthened global requirements for protecting the financial system.** Given the global nature of the financial system, focusing only on the U.S. financial system and its anti-money laundering and counterterrorist financing (AML/CFT) regime is not sufficient. TFI has worked through the FATF to set, and seek to ensure global compliance with, strong international AML/CFT standards. We have also supported the progressive development of international standards against terrorist, proliferation, and other illicit financing at the UN Security Council.
- **Developed strong partnership with the private sector.** Because the private sector brings valuable insight into how the international financial system works and how we can be effective in protecting it, TFI has also forged important partnerships with the domestic and international private sectors to utilize their expertise.
 - **Charities:** TFI has issued guidance to assist charities in mitigating the risk of exploitation by terrorist groups and has engaged in comprehensive outreach to the charitable sector and the Arab/Muslim-American communities to discuss issues of mutual concern.
 - **Private Sector Dialogues:** TFI established regular meetings to facilitate coordination among U.S. financial institutions, foreign financial institutions, and foreign financial regulators.
 - **Information Sharing:** TFI has pursued extensive information-sharing with financial institutions through formal means – such as Section 314(a) of the *USA PATRIOT Act* – and informal means with the over-arching objective of enabling those institutions and the U.S. Government to detect, investigate and prevent abuse of the financial system by money launderers, terrorist financiers, WMD proliferators and other illicit actors.
- **Implemented actions to protect our financial system against specific vulnerabilities.** We have taken action against jurisdictions and individual financial institutions to protect our financial system from specific, discrete vulnerabilities using Section 311 of the *USA PATRIOT Act*. These actions have helped to protect the U.S. financial system and have also spurred action by governments and financial institutions. In some cases, these actions have facilitated the development of rehabilitative measures by a financial institution or jurisdiction that effectively addressed the underlying systemic vulnerability and led to our withdrawal of the Section 311 designation.

These are just some of the highlights of TFI's progress. As we move forward, we will continue these important efforts as we, at the same time, devote attention to improving our processes.

With respect to the report's recommendation that TFI improve its interagency coordination, we appreciate the GAO report's discussion of TFI's "close, collaborative relationships" with its interagency partners. The report notes concerns, however, with regard to TFI's collaboration on two particular issues – the implementation of Section 311 of the *USA PATRIOT* Act and building international coalitions within international forums related to AML/CFT. As the report recognizes, TFI already has a robust process to engage with the interagency in both of these areas. TFI's extensive coordination with the interagency in implementing Section 311 was addressed in my letter to you of September 22, 2008. In the context of the Financial Action Task Force (FATF) and the FATF-style regional bodies, this process involves regular communication to ensure that all relevant agency views are considered and the U.S. Government is appropriately represented. Of course, each agency's individual view does not, and cannot, prevail each time. While I recognize that it is inevitable that our interagency partners may from time to time be dissatisfied with the process for one reason or another, their dissatisfaction has never risen to the level of an expression of concern to me by any of my counterparts about either process or substance. In any event, in light of the information the GAO report brought to our attention, we will redouble our efforts to coordinate with our colleagues.

The report also recommends that TFI develop a process to improve strategic workforce planning by: 1) developing and implementing policies and procedures for aligning resources with TFI's strategic priorities; and 2) issuing written guidance as part of the implementation of a TFI-wide process to address the key principles of strategic workforce planning. As the report notes, to date, TFI as a whole has used the annual budget process as a review of how our offices' resources match up to its strategic goals and how they should be adjusted. Conducting this review in the context of the budget process has provided an efficient means to determine whether we are, or are not, on target in terms of meeting our goals, as well as performing other necessary regulatory and sanctions functions. This approach has worked well in light of the office's steady growth since 2004, the new authorities and responsibilities we have been given, and evolving challenges and priorities as set forth by the National Security Council. However, TFI is working to improve its processes in this area.

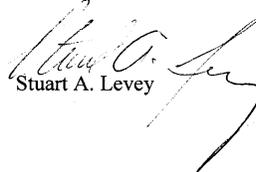
Specifically, Treasury is currently working with the Johns Hopkins Group to develop a detailed workforce planning model for the Department. The Capstone Team returns to Treasury in October to refine and ultimately pilot the model within Treasury's Departmental Offices (DO) in the May-June 2010 timeframe. The focus of the model is to integrate offices' budget requirements and determine how needed skill sets can be successfully recruited within identified funding restraints to meet current and anticipated future mission requirements. TFI plans to work closely with DO Human Resources and establish clear and well defined processes to be incorporated into written guidance. This document will be used to more effectively align limited resources with TFI and Treasury strategic goals. TFI expects to develop and disseminate written guidance within the next 12 months.

Finally, we will work to implement the GAO's recommendation that TFI develop performance measures that exhibit the nine attributes of successful performance measures. The GAO report

correctly notes that the number and substance of TFI's performance measures have not been constant – they have evolved year by year as the office's size, mission, and responsibilities have continued to expand. We believe that it is appropriate that we continue to raise the bar for our performance, rather than maintain static measures that can easily be met, and we view this approach to performance measures as a means to push the organization as a whole to improve. With respect to performance measures generally, as stated above, the best measure of our performance – the actual impact of our actions – is not one that can be easily quantified or reduced to an unclassified statement. Our assessment of impact often is derived from highly classified intelligence. Thus, while we will finalize performance measures and work to ensure they meet the attributes of successful measures, it will nonetheless be the case that our true performance will often best be conveyed through briefings to those who possess the appropriate clearances.

Thank you for your important efforts during this review, and please do not hesitate to contact me or my staff if you have any questions.

Sincerely,



Stuart A. Levey

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Loren Yager, Director, (202) 512-4347, YagerL@gao.gov

Staff Acknowledgments

In addition to the individual named above, Jeff Phillips (Assistant Director), Jason Bair, Lisa Reijula, Katherine Brentzel, Martin de Alteriis, and Mary Moutsos made key contributions to this report. Elizabeth Curda, Karen Deans, Cardell Johnson, Barbara Keller, and Hugh Paquette also contributed to the report.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

