

January 9, 2017

OIG-CA-17-008

MEMORANDUM FOR DEPARTMENT OF DEFENSE  
LEAD INSPECTOR GENERAL

FROM: Kieu T. Rubb /s/  
Audit Director

SUBJECT: Operation Inherent Resolve - Summary of Work Performed by the  
Department of the Treasury and Office of Inspector General Related  
to Terrorist Financing, ISIL, and Anti-Money Laundering

This summary provides an update to the Department of the Treasury (Treasury) programs to combat terrorist financing and specific examples of activities to disrupt the Islamic State of Iraq and the Levant's (ISIL) financing, and work performed or planned by Treasury Office of Inspector General (OIG) to review these programs. These activities occurred subsequent to our October 2016 summary.

As previously discussed, Treasury has global terrorism authorities to target the activities of extremist groups, including ISIL. Treasury's Office of Terrorism and Financial Intelligence (TFI) disrupts the ability of terrorist organizations to fund their operations. Within TFI, the Office of Foreign Assets Control (OFAC) administers the U.S. foreign sanction programs and the Financial Crimes Enforcement Network (FinCEN) administers the Bank Secrecy Act (BSA).<sup>1</sup>

Treasury's Efforts to Combat Terrorism

The following notable events took place for Treasury this quarter:

- On October 24, 2016, Treasury participated in the sixth meeting of the Counter ISIL Finance Group.<sup>2</sup> The meeting provided an opportunity for members to provide updates on the progress to disrupt ISIL's sources of revenues and its access to the

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<sup>1</sup> The Currency and Foreign Transactions Reporting Act of 1970, commonly referred to as BSA, requires U.S. financial institutions to assist U.S. government agencies to detect and prevent money laundering. Specifically, the act requires financial institutions to keep records of cash purchases of negotiable instruments, file reports of cash transactions (CTRs) exceeding \$10,000 (daily aggregate amount), and report suspicious activity (SARs) that might signify money laundering, tax evasion, or other criminal activities. BSA is also referred to as the "anti-money laundering" (AML) law. Several AML acts, including provisions in Title III of the USA PATRIOT Act of 2001, have been enacted to amend the BSA.

<sup>2</sup> Established in January 2015, the Counter ISIL Finance Group is a key component of the Global Coalition to Counter ISIL, a broad international group formed to degrade and ultimately defeat ISIL. The mission of the Global Coalition to Counter ISIL is to disrupt ISIL's sources of revenue and its ability to move and use funds to wage its campaign of terror. The United States co-chairs the group with Italy and Saudi Arabia.

international financial system. Detailed meeting briefings described efforts to target ISIL's oil exploitation, as well as the international community's understanding of ISIL's financial relationships with its affiliate groups abroad. The meeting also served as a venue to share best practices and lessons learned for regulating exchange houses and money transfer companies. Additionally, members sought to anticipate the possible future trajectory of ISIL's finances as military efforts have forced ISIL out of territories, shrinking its access to resources and populations to extort.

- On December 13, 2016, Treasury designated two money exchange businesses and a financier for sanctions pursuant to Executive Order 13224.<sup>3</sup> Treasury added Iraq-based Selselat al Thahab Money Exchange, Hanifa Currency Exchange, and ISIL financier Fawaz Muhammad Jubayr al-Rawi to its list of Specially Designated Nationals. The three entities played an important role in ISIL's financial operations by helping the terrorist group move its money.

### Treasury OIG Products

During this quarter, Treasury OIG issued the Inspector General's Annual Management and Performance Challenges Memorandum to the Treasury Secretary pursuant to the Reports Consolidation Act of 2000, the Fiscal Year 2017 Annual Plan, and two audit reports. Further details on these products are discussed below:

- The Inspector General's October 2016 Management and Performance Challenges Memorandum identified Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act enforcement as one of the four most serious management and performance challenges facing Treasury.<sup>4</sup> Reported as a challenge for many years, we consider the Department's programs and operations to combat terrorist financing and other financial crimes to be inherently risky. As stated in the Memorandum, risks and challenges include: (1) vacancies in multiple key TFI positions for months or even years; (2) FinCEN's continuing challenge to enhance financial transparency through its BSA initiatives; and (3) increasing use of non-traditional banking platforms.
- The Treasury OIG Fiscal Year 2017 Annual Plan identified 20 in-progress and planned projects related to Treasury's efforts to combat terrorism financing. We have provided a list of the projects and related objectives in the Appendix to this memorandum.
- Audit report OIG-17-016, *FinCEN Needs to Improve Administration of Civil Monetary Penalty Cases*, presented the results of our audit of FinCEN's BSA administration and enforcement.<sup>5</sup> Regulating agencies, law enforcement, and financial institutions refer financial institutions with significant BSA violations or deficiencies to FinCEN. FinCEN conducts case reviews based on the referred information, and depending on the

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<sup>3</sup> Executive Order 13224, *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*

<sup>4</sup> OIG-CA-17-003. The other three management and performance challenges identified by the Treasury Inspector General were Cyber Threats, Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments, and Management of Treasury's Authorities Intended to Support and Improve the Economy.

<sup>5</sup> OIG-17-016 (November 16, 2016)

severity of the violations, determines whether to assess a civil monetary penalty. FinCEN may assess a penalty by itself or in a joint action with another regulator.

- Audit report OIG-17-024, *Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2016 and 2015 Financial Statements*, presented the results of the fiscal year 2016 financial and operational condition of the Treasury Forfeiture Fund (Fund).<sup>6</sup> The Fund, established in 1992, is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by law enforcement bureaus that participate in the Fund. It is a "special receipt account" that can provide money to other federal entities toward the accomplishment of a specific objective for which the recipient bureaus are authorized to spend. Allocation of Fund resources is governed by law, policy, and precedent, as interpreted and implemented by Treasury. A key objective is the long-term viability of the Fund to ensure that there are ongoing resources to support member-bureau seizure and forfeiture activities into the future. An emphasis of the Fund is on high impact cases that can do the most damage to the criminal infrastructure.

For this quarter's summary, we used information provided in previous quarters' summaries, testimonies, and press releases. For reference, we are providing copies of the following documents (as separate attachments) used to prepare this summary:

- October, 26, 2016, Treasury Notes, *The Sixth Counter ISIL Finance Meeting Convenes in Kuwait*
- December 13, 2016, Treasury Press Release, *Treasury Sanctions Senior ISIL Financier and Two Money Services Businesses*

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<sup>6</sup> OIG-17-024 (December 15, 2016)

Department of the Treasury Office of Inspector General Planned Projects  
Fiscal Year 2017 and Future Years

**In-Progress Projects at the Beginning of Fiscal Year 2017**

1. Terrorist Finance Tracking Program  
Objective: To provide on-going and appropriate oversight of the program in accordance with the program agreement.
2. Operation Inherent Resolve  
Objective: To conduct ongoing work and provide appropriate oversight of the Department of the Treasury's (Treasury) involvement in Operation Inherent Resolve in support of the Department of Defense Lead Inspector General's effort.
3. Office of Foreign Assets Control (OFAC) Licensing Programs  
Objective: To determine (1) the universe of licensing programs under OFAC's jurisdiction; (2) the related laws, regulations, and OFAC's policies and procedures for these programs; and (3) whether the programs are administered in an appropriate manner.
4. Office of the Comptroller of the Currency's (OCC) Bank Secrecy Act (BSA) and USA PATRIOT Act Compliance Examinations and Enforcement Actions  
Objective: To determine the effectiveness of OCC's programs to conduct supervisory activities and, when necessary, take enforcement actions to ensure that national banks have controls in place and provide the requisite notices to law enforcement to deter and detect money laundering, terrorist financing, and other related criminal acts.
5. Financial Crimes Enforcement Network (FinCEN) Implementation of USA PATRIOT Act Information-sharing Procedures  
Objective: To determine the extent to which information sharing is occurring among the Government and financial institutions.
6. Financial Institution Filing of Reports to OFAC and FinCEN on Blocked Transactions  
Objective: To determine whether OFAC and FinCEN implemented controls to ensure that information in reports filed with OFAC on blocked transactions is available to law enforcement through FinCEN databases as appropriate.
7. FinCEN Civil Penalties for BSA Program Violations (OIG-17-016, *FinCEN Needs to Improve Administration of Civil Monetary Penalty Cases*; issued November 16, 2016)  
Objective: To determine FinCEN's process for assessing and collecting civil penalties when BSA violations occur.

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8. FinCEN Suspicious Activity Report (SAR) Data Quality  
Objective: To assess whether the quality of the data provided by SAR filers has improved since the implementation of FinCEN's universal SAR filing mandate.
9. Office of Terrorist Financing and Financial Crimes Interagency Collaboration with the National Security Community  
Objective: To determine how and the extent the Office of Terrorist Financing and Financial Crimes collaborates with the national security community to identify and address threats to the international financial system from money laundering and other forms of illicit finance.
10. FinCEN's Regulatory Helpline  
Objective: To determine and assess the controls over the Regulatory Helpline to provide guidance to users that is responsive and consistent with the BSA, USA PATRIOT Act, and related regulations.
11. FinCEN's Implementation of Section 311 of the USA PATRIOT Act  
Objective: To assess the mechanisms FinCEN has in place to implement actions under Section 311 of the USA PATRIOT Act.
12. Responsibilities of the Office of Intelligence and Analysis under the Intelligence Authorization Act  
Objective: To assess the office's progress toward meeting its responsibilities for receiving, analyzing, collating, and disseminating foreign intelligence and foreign counterintelligence information related to Treasury operations.

**New Projects Planned to Start in Fiscal Year 2017**

1. OFAC's Implementation of Changes to the Cuban Sanctions Program  
Objective: To determine whether changes made by OFAC to the Cuban sanctions program (1) reflect administration policy changes designed to ease sanctions against Cuba and (2) were properly documented and approved by appropriate OFAC officials.
2. Effectiveness of FinCEN Actions in Response to Panama Papers Issues  
Objective: To determine whether FinCEN adequately identifies, prioritizes, and addresses money-laundering and terrorist financing risks associated with the issues surrounding the Panama Papers leak.

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3. OFAC's Implementation of Changes to the Iran Sanctions Program  
Objective: To determine whether changes made by OFAC to the Iran Sanctions program (1) reflect administration policy changes designed to ease sanctions against Iran and (2) were properly documented and approved by appropriate OFAC officials.
4. Treasury's Efforts and Guidance on Banks' Use of De-risking and Its Impact to BSA/Anti-Money Laundering  
Objective: To determine (1) the effect of banks' de-risking of certain financial sectors on FinCEN's anti-money laundering and counter-terrorist financing efforts and (2) the measures FinCEN is taking to limit de-risking activities of domestic and international financial institutions.
5. FinCEN's Guidance on Expectations Regarding Marijuana-related Businesses  
Objective: To determine how FinCEN is assessing the impact of its guidance to BSA compliance.
6. Implementation of FinCEN BSA Information Technology (IT) Modernization Program  
Objective: To determine how well the BSA IT Modernization program is meeting the needs of FinCEN and other users after the system has been fully operational for several years.
7. Treasury Executive Office for Asset Forfeiture (TEOAF) Management Controls over the Security of Forfeited Property  
Objective: To determine whether TEOAF has established an effective system of internal controls for maintaining accountability and control of property stored in warehouses.
8. Classified Work  
Objective: Classified

**Projects under Consideration for Future Fiscal Years**

1. Treasury's Enhanced Personnel Security Program  
Objective: To assess the effectiveness and fairness to covered individuals of Treasury's enhanced personnel security program in accordance with performance measures and standards established by the Director of National Intelligence.

Department of the Treasury Office of Inspector General Planned Projects  
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2. Office of Technical Assistance's Economic Crimes Team Effectiveness  
Objective: To determine the effectiveness of the Office of Technical Assistance's Economic Crimes Team's actions in foreign countries to decrease money laundering and terrorist financing.
3. FinCEN Target on Real Estate Identification  
Objective: To assess the effectiveness of the Geographic Targeting Orders in gaining the appropriate identification information on all-cash real estate purchases.
4. FinCEN's Administration of the Financial Fraud Kill Chain  
Objective: To determine (1) how FinCEN is administering the financial fraud kill chain and how it differs from other payment stopping authorities; (2) the reliability of data from foreign Financial Intelligence Units; and (3) the effectiveness of the program at stopping fraudulent transactions.
5. FinCEN's Final-rule Process  
Objective: To assess FinCEN's process for developing, issuing, interpreting, amending, and repealing final rules.
6. FinCEN's Guidance on Virtual Currencies  
Objective: To determine how FinCEN identifies, prioritizes, and addresses money-laundering and terrorist financing risks associated with virtual currencies.
7. OFAC's Management of the Specially Designated Nationals and Blocked Persons List  
Objective: To determine and assess OFAC's management controls over the process of listing and delisting individuals and entities from the Specially Designated Nationals and Blocked Persons lists and assess the effectiveness of the new data system in helping OFAC manage this process.
8. FinCEN's Memorandum of Understanding with the National Counterterrorism Center  
Objective: To determine how FinCEN has implemented the memorandum of understanding with the National Counterterrorism Center.
9. FinCEN's Monitoring the Use of BSA Data  
Objective: To assess FinCEN controls over the sharing of BSA data to prevent and detect the misuse of data.

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10. FinCEN Guidance on Prepaid Access  
Objective: To assess FinCEN's actions to address money laundering and terrorist financing risks associated with prepaid access.
11. FinCEN's Oversight of Casino Compliance with BSA  
Objective: To assess FinCEN's oversight of BSA compliance by the casino industry.
12. FinCEN's and OFAC's Oversight of the Insurance Industry  
Objective: To review FinCEN's guidance for the insurance industry regarding BSA compliance and OFAC's activities to educate the industry about compliance with sanctions programs.
13. OFAC's Efforts to Identify Terrorist Activities in Charities  
Objective: To assess OFAC's process for monitoring charities for compliance with foreign sanction programs.
14. FinCEN's Protection of Information Shared with Foreign Financial Intelligence Units  
Objective: To determine how FinCEN protects information shared with foreign Financial Intelligence Units from unauthorized disclosure.
15. OFAC Implementation of the Foreign Sanctions Evaders List  
Objective: To determine OFAC's process for maintaining the Foreign Sanctions Evaders List and monitoring activities of these designated individuals and entities.
16. OFAC Civil Penalty Cases  
Objective: To determine whether OFAC has implemented case-management processes to ensure timely action for its civil and criminal penalty activities.
17. FinCEN's Analysis and Dissemination of Report of International Transportation of Currency or Monetary Instruments Data  
Objective: To assess FinCEN's efforts to analyze the report's data and coordinate with Department of Homeland Security's Customs and Border Protection to detect and pursue money laundering schemes.
18. Treasury's Compliance With Intelligence Reporting Requirements  
Objective: To assess Treasury's processes for identifying reportable matters under Executive Order 13462 and related directives.
19. TEOAF's Controls over Super Surplus and the Secretary's Enforcement Fund  
Objective: To identify the controls in place over the use of the funds from the Super Surplus and Secretary's Enforcement Funds.