



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 10, 2018

OIG-CA-18-020

MEMORANDUM FOR DEPARTMENT OF DEFENSE
LEAD INSPECTOR GENERAL

FROM: Gregory Sullivan /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, ISIS, and Anti-Money
Laundering for Third Quarter Fiscal Year 2018

This summary provides an update on the Department of the Treasury (Treasury) programs to combat terrorist financing and specific examples of activities to disrupt the Islamic State of Iraq and Syria's (ISIS)¹ financing, and work performed by Treasury Office of Inspector General (OIG) to review these programs. These activities occurred subsequent to our April 2018 summary.² Per your request, we have provided this information in a question and answer format to help streamline the information.

Q1: During Quarter 3, has your office performed any activities such as inter-agency activities, task force efforts, etc. related to the line of effort: Disrupting ISIL Finances? If so, please provide a brief summary.

Our office did not perform any activities such as inter-agency activities or task force efforts. Our office primarily performs audits of Treasury programs and operations. The audits our office issued this quarter did not relate to disrupting ISIS' finances, however, in fiscal year 2019 we plan to conduct an audit of Treasury's Office of Terrorism and Financial Intelligence's (TFI) actions to disrupt ISIS' finances.

¹ Using ISIS instead of Islamic State of Iraq and the Levant (ISIL) to be consistent with the *Presidential Memorandum, Plan to Defeat the Islamic State of Iraq and Syria* (January 28, 2017).

² Treasury's Office of Terrorism and Financial Intelligence (TFI) provided a response related to question 5 below summarizing Treasury's actions prior to April 2018. Since this is a new question and useful information, we included Treasury's response in this summary.

Q2: During Quarter 3, has the Treasury Department conducted and/or participated in any congressional/public hearings, inter-agency activities, task force efforts, etc. related to the line of effort: Disrupting ISIL Finances? If so, please provide a brief summary of each activity.

Treasury has global terrorism authorities to target the activities of extremist groups, including ISIS; and Treasury's 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 administers the Bank Secrecy Act.³ The Office of Terrorist Financing and Financial Crimes (TFFC) is responsible for formulating and coordinating comprehensive strategies to target national security and foreign policy threats and safeguard the U.S. and international financial systems from abuse. TFFC also supports TFI's mission through its leadership of the U.S.' delegation to the Financial Action Task Force (FATF).⁴

TFI performed and/or contributed to the following activities such as congressional/public hearings, inter-agency coordination efforts, etc. associated with combating terrorist financing:

- April 11, 2018, Treasury Testimonies, *Statement of Secretary Steven T. Mnuchin before the U.S. House Appropriations Subcommittee on State, Foreign Operations, and Related Programs*

On April 11, 2018, Secretary Mnuchin testified before the U.S. House Appropriations Subcommittee on State, Foreign Operations, and Related Programs on the Treasury Department's request for \$1.4 billion for International Programs which reflects a request to balance priorities and direct government resources to programs that support the national interest and national security. Secretary Mnuchin highlighted a \$30 million request for the Office of Technical Assistance's (OTA) role in combating terrorist financing and its provision of technical assistance is key to enforcing relevant laws.

³ 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 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 Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), have been enacted to amend the BSA.

⁴ FATF is an inter-governmental body established in 1989. Its objectives are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

- May 22, 2018, Treasury Testimonies, *Statement of Secretary Steven T. Mnuchin before the Senate Appropriations Subcommittee on Financial Services and General Government*

On May 22, 2018, Secretary Mnuchin testified before the Senate Appropriations Subcommittee on Financial Services and General Government on the President's Budget and the priorities of the Treasury Department. In his testimony, Secretary Mnuchin stated the President's fiscal year 2019 budget reflected a summary of the priorities of protecting and strengthening America's financial system and national security. The budget included funds for TFI's help in advancing the work of the Terrorist Financing Targeting Center, a collaborative effort with Saudi Arabia and the Gulf Cooperation Council to fight terrorism, counter Iran's malign influence, and isolate the Assad regime. Treasury is working aggressively to combat terrorist groups, transnational criminal enterprises, proliferators of weapons of mass destruction, human rights abusers, and other malign actors.

- June 5, 2018, Treasury Press Releases, *Under Secretary Sigal Mandelker Speech before the Foundation for the Defense of Democracies*

On June 5, 2018, Under Secretary Mandelker addressed the Foundation for the Defense of Democracies. She informed the group about the surreptitious means Iran uses to finance itself and its long list of malign activities. She noted TFI's role in tracking and targeting terrorist financing, proliferation financing and a myriad of other illicit activities, including the methods adversaries use to attempt to conceal their behavior. Under Secretary Mandeleker spoke about FATF's role in highlighting the terrorist financing risk emanating from Iran and the threat it poses to the international financial system. The Under Secretary stated that in February 2018, the FATF concluded that Iran failed to address the majority of its anti-money laundering/combating the financing of terrorism action plan requirements.

- FATF and Middle East and North Africa Financial Action Task Force (MENAFATF) Joint Plenary, *Outcomes FATF-MENAFATF Joint Plenary 27-29 June 2018*

In February 2018, FATF adopted its second counter-terrorist financing operational plan of action, which provides a framework for a flexible and dynamic response to terrorist financing threats. Improving the identification and understanding of terrorist financing remains a core element of the FATF's strategy and delegates discussed ongoing work in this area, including the review of risk, threats and vulnerabilities associated with crypto-assets, and an update on the financing methods employed by ISIL and affiliates. The FATF Plenary

discussed the ongoing review of the effective implementation of measures concerning risk, policy and coordination, investigation and prosecution, and preventative measures and financial sanctions.

Q3: Provide information on: (a) individuals and organizations sanctioned for providing support to ISIS during this reporting period (April 1 - June 30); (b) the number, if any, of previously sanctioned individuals, and/or organizations removed from the sanctions list; and (c) the methods and processes the Treasury Department employs to identify and sanction individuals and organizations providing support to ISIS. (Please include descriptions of inter-agency collaboration, improvements to the process over time, outcomes of the improvements, along with challenges and mitigation efforts planned or underway.)

a) April 30, 2018, Treasury Press Release, *Treasury Sanctions ISIS-Philippines Facilitator for Terror Support*

During this reporting period one individual was designated. Myrna Mabanza (Mabanza), a Philippines-based facilitator who provided support to ISIS-Philippines (ISIS-P) was named as a Specially Designated Global Terrorist pursuant to Executive Order 13224. Mabanza was designated for assisting in, sponsoring, or providing financial or other services to or in support of ISIS-P. In January 2016, Mabanza was involved in the transfer of up to \$107,000 with then ISIS-P leader Isnilon Hapilon (Hapilon). In February 2016, Mabanza served as an intermediary between Hapilon and ISIS elements in Syria and in March 2016, Mabanza coordinated another transfer of funds with Hapilon. In April 2016, Mabanza helped facilitate the travel of a Jamaah Ansharut Daulah⁵ representative who traveled from Indonesia to the Philippines to purchase arms for ISIS-aligned forces in Indonesia and to set up training courses for pro-ISIS recruits from Indonesia with ISIS-P.

- b) No individuals or organizations sanctioned for providing support to ISIS were removed from the sanctions list during this reporting period.
- c) Treasury's OFAC agreed to provide a briefing to the Department of Defense Lead Inspector General to address this question.

Q4: Provide a publicly releasable summary of the actions the Treasury Department has taken to counter ISIS's efforts to move funds out of Iraq and Syria, especially the use of informal money transfers such as hawalas in order to shift funds.

⁵ Jamaah Ansharut Daulah is a terrorist group based in Indonesia that was formed in 2015 and is composed of almost two dozen Indonesian extremist groups that pledged allegiance to ISIL leader Abu Bakr al-Baghdadi.

We requested this information from TFI and will provide in the next quarterly report, if available.

Q5: Describe any efforts the Treasury Department has undertaken to assist the Iraqi government in strengthening its banking system in order to prevent money laundering and terrorist financing using Iraqi financial institutions.

In January 2018, OTA officials completed a three-week technical assistance mission, as part of its ongoing efforts with the Government of Iraq to strengthen its anti-money laundering and countering the financing of terrorism regime. OTA's mission is to help finance ministries and central banks of developing and transition countries strengthen their ability to manage public finances effectively and safeguard their financial sectors. This January 2018 OTA engagement is targeted at financial intelligence unit development and support for the bank supervision staff of the Central Bank of Iraq and includes on-the-job training and mentoring. Governments that develop effective financial sector oversight regimes are valuable partners in the global effort to combat money laundering and terrorist financing.

We requested updated information from TFI and will provide in the next quarterly report, if available.

Q6: Describe what efforts the Treasury Department has undertaken to assist regional partners in the Middle East in strengthening their banking institutions to prevent money laundering and terrorist financing.

We requested this information from TFI and will provide in the next quarterly report, if available.