



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 10, 2017

OIG-CA-18-001

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, ISIS, 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 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 July 2017 summary.

As previously discussed, Treasury has global terrorism authorities to target the activities of extremist groups, including ISIS. 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 administers the U.S. foreign sanction programs and the Financial Crimes Enforcement Network (FinCEN) administers the Bank Secrecy Act (BSA).²

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 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.

Treasury's Efforts to Combat Terrorism

The following notable events took place for Treasury this quarter:

- On July 21, 2017, Treasury designated Malik Ruslanovich Barkhanoev as a Specially Designated Global Terrorist (SDGT) pursuant to Executive Order (E.O.) 13224.³ Treasury designated Barkhanoev for acting for or on behalf of ISIS. In 2015, he publicly announced fighting alongside ISIS.
- On August 29, 2017, Treasury designated Salim Mustafa Muhammad al-Mansur (Mansur), an ISIS finance emir, as a SDGT pursuant to E.O. 13224 for acting for or on behalf of ISIS. Mansur's involvement with ISIS and its predecessor, al-Qaida in Iraq (AQI), dates back to 2009 when he was an AQI commander involved in fundraising activities to support terrorism in Iraq. Between 2014 and 2015, Mansur was involved in moving hundreds of thousands of Iraqi dinars⁴ to ISIS and laundered and transferred money on behalf of ISIS. Starting in 2016, he was responsible for selling crude oil that ISIS extracted from oil fields in Iraq and Syria.

Treasury OIG Product

On September 18, 2017, we issued *FinCEN's 314 Information Sharing Programs Are Useful But Need FinCEN's Attention (OIG-17-055)*. FinCEN administers the BSA, which established a framework to combat criminal use of the financial system. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) amended BSA to focus on additional financial industry sectors and the financing of terrorism.⁵ Section 314, of the USA PATRIOT Act (Section 314) created two programs to facilitate the sharing of information about financial crimes between government agencies and financial institutions. Section 314(a) requires financial institutions to search their records to identify and report to FinCEN information regarding a particular subject suspected of engaging in terrorist acts or money laundering activities. Section 314(b) provides for the voluntary sharing of information among financial institutions to identify and report activities that may involve terrorist acts or money laundering. Our audit objective was to determine the extent to which information sharing is occurring among the government and financial institutions.

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

⁴ The dinar is the currency of Iraq, issued by the Central Bank of Iraq.

⁵ P.L. 107-56, 115 Stat. 272 through 402. Title III of the USA PATRIOT Act is separately entitled "International Money Laundering and Anti-Terrorist Financing Act of 2001." Title III contains the majority of the USA PATRIOT Act's anti-money laundering and anti-terrorist financing provisions (October 26, 2001).

We found that a majority of the law enforcement agencies' (LEA) program users stated that FinCEN's Section 314(a) program helped LEAs by locating financial assets owned by subjects of terrorism and money laundering investigations and by identifying recent transactions that those subjects made. However, some users suggested that FinCEN could enhance the program and provide more information to assist in investigations and subpoena preparation. We also noted that FinCEN did not always require financial institutions to provide all information set forth by regulations. Specifically, FinCEN exempted some institutions and instructed them to respond only if the name(s) supplied by LEAs matched the name(s) on an account or a transaction and provide additional information in the comment field of their Section 314(a) response if they believe additional information is needed. We found that the comments made by these institutions did not provide consistent information for law enforcement. In some cases, financial institutions submitted duplicate responses to Section 314(a) inquiries despite FinCEN's instructions prohibiting them.

We recommended that FinCEN (1) incorporate the user recommendations for enhancements in addition to the public comments received when evaluating its proposed renewal of the Section 314(a) program; (2) identify the impact on LEAs of exempting information from the responses to their 314(a) requests and determine if FinCEN should continue to exempt information set forth in its regulations; (3) ensure that Section 314(a) survey questions are clarified to provide for consistent interpretation and responses about the program, and allow sufficient time for feedback to gain a more complete understanding of how Section 314(a) information benefits law enforcement cases; and (4) identify and address areas of concern regarding the Section 314(b) program and include these in guidance and outreach to encourage greater participation in the program.

For this quarter's summary, we also 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:

- July 21, 2017, Treasury Press Release, *Treasury Sanctions ISIS Fighter*
- August 29, 2017, Treasury Press Release, *Treasury Collaborates with Iraqi Government to Sanction ISIS Finance Emir*
- Treasury OIG Report OIG-17-055 (September 18, 2017) *FinCEN's 314 Information Sharing Programs Are Useful But Need FinCEN's Attention*