



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
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OIG-CA-17-021

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 April 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 (OFAC) administers the U.S. foreign sanction programs and the Financial Crimes Enforcement Network (FinCEN) administers the Bank Secrecy Act (BSA).²

Treasury's Efforts to Combat Terrorism

The following notable events took place for Treasury this quarter:

- On April 13, 2017, Treasury designated ISIS financial facilitators Ali Ahmidah al-Safrani (al-Safrani) and Abd al Hadi Zarqun (Zarqun), as well as Algerian ISIS

¹ Using ISIS instead of 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 (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.

supporter Hama Hamani (Hamani). Al-Safrani and Zarqun were designated pursuant to Executive Order (E.O.) 13224³ and Hamani was designated pursuant to E.O. 13224 and E.O. 13726.⁴ Al-Safrani and Zarqun are Libyan nationals and have played important roles in ISIS's financial operations in Libya. Hamani is an Algerian national who provided support to ISIS.

- On May 11, 2017, Treasury designated Hayat Ullah Ghulam Muhammad (Haji Hayatullah) pursuant to E.O. 13224. Treasury designated Haji Hayatullah for acting for or on behalf of ISIS and ISIS-Khorasan.⁵ Haji Hayatullah offered weapons and financial support, along with recruiting, for ISIS-Khorasan members in Afghanistan.
- On June 12, 2017, Treasury designated Attallah Salman 'Abd Kafi al-Jaburi (al-Jaburi) pursuant to E.O. 13224. Treasury designated al-Jaburi for acting for or on behalf of ISIS as well as for assisting in, sponsoring, or providing financial, material, or technological support for, or financial or other services to or in support of ISIS.
- On June 15, 2017, Treasury designated Umar al-Kubaysi (al-Kubaysi) and Al-Kawthar Money Exchange pursuant to E.O. 13224. Al-Kubaysi's involvement with ISIS and its predecessor organizations dates back to 2006 when al-Kubaysi was transferring operational funds primarily for ISIS's predecessor, al-Qa'ida in Iraq, and other insurgent groups. As of mid-2016, al-Kubaysi owned Al-Kawthar Money Exchange, which was located in ISIS-controlled territory. Between late 2015 and early 2016, Al-Kawthar Money Exchange reconciled financial transfers worth approximately \$2.5 million with another Iraq-based money exchange company that was associated with ISIS financial facilitators.
- On June 16, 2017, Treasury designated Fared Saal (Saal) pursuant to E.O. 13224. Treasury designated Saal due to his involvement in serving ISIS as a facilitator, recruiter, and fighter since 2014.
- On April 27, 2017, the Acting Director of FinCEN, appeared before the U.S. House of Representatives Committee on Financial Services' Subcommittee on Terrorism and Illicit Finance. Among other things, the Acting Director informed the committee that financial institutions reporting suspicious activities is an essential component in identifying foreign terrorist fighters, financial and logistical facilitators, and their methods of moving funds. In 2015, FinCEN issued non-public advisories related to ISIS financing. Following the publication of the advisories, financial institutions have made reports, which demonstrate the utility of FinCEN's collection process and the seriousness with which the financial industry takes its reporting obligations. The advisories also resulted in new terrorist financing related SARs, amendments to previously filed SARs to indicate possible terrorist financing, and additional terrorist financing tips to

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

⁴ Executive Order 13726, *Blocking Property and Suspending Entry into the United States of Persons Contributing to the Situation in Libya*

⁵ In January 2016, the U.S. Department of State, in consultation with the Departments of Justice and the Treasury, designated ISIS-Khorasan as a Foreign Terrorist Organization. The group is based in the Afghanistan/Pakistan region and is composed primarily of former members of Tehrik-e Taliban Pakistan and the Afghan Taliban.

FinCEN's hotline. These additional efforts generated valuable financial intelligence that FinCEN shares with law enforcement.

Fiscal Year 2018 Treasury Budget

For Fiscal Year 2018, TFI requested approximately \$117 million. Some of TFI priorities for the fiscal year include (1) increasing focus on targeted financial measures that address threats from ISIS; (2) assisting partner countries in the development and implementation of anti-money laundering and counter-terrorist financing standards; and (3) identifying opportunities for Treasury to use its authorities to combat and counter terrorist financing in Africa and the Middle East.

In addition, FinCEN requested approximately \$113 million. Some of FinCEN priorities for the fiscal year include (1) expanding analysis of illicit networks, institutions, jurisdictions, and schemes, with emphasis on national security threats and terrorist groups such as ISIS; (2) ensuring the BSA regulatory structure effectively and efficiently targets illicit financing risks; and (3) fostering strong public-private partnerships with the financial industry.

Treasury OIG Products

On May 23, 2017, we issued *Terrorist Financing/Money Laundering-Federal Agencies Are Generally Satisfied with TFFC Collaboration Efforts, but Enhancements Can Be Made (OIG-17-044)*. Terrorist Financing and Financial Crimes (TFFC) develops initiatives and deploys strategies to support TFI in combating money laundering, terrorist financing, weapons of mass destruction proliferation, and other criminal and illicit activities, both domestically and abroad. This effort requires TFFC to collaborate with interagency partners—including law enforcement, regulatory, policy, diplomatic and intelligence communities, as well as the private sector and foreign governments—to identify and address threats of illicit finance to the international financial system.

Our audit objective was to determine how, and to what extent, TFFC 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.

We found that most Federal agencies are satisfied with TFFC's collaboration efforts and that TFFC took their concerns and comments into consideration when developing positions. However, some Federal agencies believed there were opportunities for enhanced collaboration by improving communication through feedback, holding intersessional meetings, and widening inclusion in bilateral meetings with TFFC and foreign countries during the Financial Action Task Force

Plenary (FATF).⁶ We also found that TFFC had not established policies or procedures for collaboration or a mechanism to monitor, evaluate, and report the results of its collaborative efforts and does not have performance measures specific to TFFC's collaboration efforts.

We recommended that TFFC (1) develop policies and procedures to ensure continuity and consistency in collaboration efforts with interagency task forces and working groups; (2) develop and implement a mechanism to monitor, evaluate, and report on the effectiveness of TFFC's interagency collaboration; and (3) develop meaningful performance measures specific to TFFC collaboration.

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:

- April 13, 2017, Treasury Press Release, *Treasury Sanctions Libya-Based ISIS Financial Facilitators and Algerian ISIS Supporter and Arms Trafficker*
- May 11, 2017, Treasury Press Release, *Treasury Targets Pakistan-Based Terrorist Leaders and Facilitators*
- June 12, 2017, Treasury Press Release, *Treasury Targets ISIS Leader Involved in Chemical Weapons Development*
- June 15, 2017, Treasury Press Release, *Treasury Sanctions Iraq-Based ISIS Financial Facilitation Network*
- June 16, 2017, Treasury Press Release, *Treasury Sanctions ISIS Facilitator-Recruiter-Fighter*
- U.S. Department of the Treasury FY 2018-Congressional Justification for Appropriations and Annual Performance Report and Plan for:
 - Department of the Treasury Office of Terrorism and Financial Intelligence
 - Department of the Treasury Financial Crimes Enforcement Network
- April 27, 2017, Statement of Jamal El-Hindi, Acting Director, Financial Crimes Enforcement Network, United States Department of the Treasury Before the United States House of Representatives Committee on Financial Services Subcommittee on Terrorism and Illicit Finance
- Treasury OIG Report OIG-17-044 (May 23, 2017), *Terrorist Financing/Money Laundering-Federal Agencies Are Generally Satisfied with Terrorist Financing and Financial Crimes (TFFC) Collaboration Efforts, but Enhancements Can Be Made*

⁶ 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. FATF Plenaries occur three times a year. Meetings are open to delegations from FATF members, observer jurisdictions, and observer organizations and are not open to the public.