



Highlights of [GAO-04-501T](#), a testimony before the Caucus on International Narcotics Control, U.S. Senate

Why GAO Did This Study

The September 11, 2001, terrorist attacks highlighted the importance of data collection, information sharing, and coordination within the U.S. government. Such efforts are important whether focused on terrorism or as an integral part of a broader strategy for combating money laundering. In this testimony, GAO addresses (1) the challenges the U.S. government faces in deterring terrorists' use of alternative financing mechanisms, (2) the steps that the Federal Bureau of Investigation (FBI) and Immigration and Customs Enforcement (ICE) have taken to implement a May 2003 Memorandum of Agreement concerning terrorist financing investigations, and (3) whether the annual National Money Laundering Strategy (NMLS) has served as a useful mechanism for guiding the coordination of federal efforts to combat money laundering and terrorist financing.

GAO's testimony is based on two reports written in September 2003 ([GAO-03-813](#)) and November 2003 ([GAO-04-163](#)) for the Caucus and congressional requesters within the Senate Governmental Affairs Committee, as well as a February 2004 report ([GAO-04-464R](#)) on related issues for the Senate Appropriations Subcommittee on Homeland Security.

www.gao.gov/cgi-bin/getrpt?GAO-04-501T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4128 or yagerl@gao.gov or Richard Stana at (202) 512-8777.

COMBATING TERRORISM

Federal Agencies Face Continuing Challenges in Addressing Terrorist Financing and Money Laundering

What GAO Found

The U.S. government faces various challenges in determining and monitoring the nature and extent of terrorists' use of alternative financing mechanisms, according to GAO's November 2003 report. Alternative financing mechanisms are outside the mainstream financial system and include the use of commodities (cigarettes, counterfeit goods, illicit drugs, etc.), bulk cash, charities, and informal banking systems to earn, move, and store assets. GAO recommended more systematic collection, analysis, and sharing of information to make alternative financing mechanisms less attractive to terrorist groups. In response to our recommendation that the FBI, in consultation with other agencies, systematically collect and analyze information on terrorists' use of these mechanisms, Justice did not specifically agree or disagree with our recommendation, but other agencies agreed with the need for improved analysis. The Treasury agreed with our recommendation to issue an overdue report on precious stones and commodities, but it remains unclear how the resulting product may be used as the basis for an informed strategy as expected under the 2002 NMLS. The Internal Revenue Service (IRS) agreed with our recommendation to develop and implement procedures for sharing information on charities with states and issued IRS procedures and state guidance on December 31, 2003.

To resolve jurisdictional issues and enhance interagency coordination of terrorist financing investigations, the FBI and ICE have taken steps to implement most of the key provisions of the May 2003 Memorandum of Agreement. According to GAO's February 2004 report, the agencies have developed collaborative procedures to determine whether applicable ICE investigations or financial crimes leads may be related to terrorism or terrorist financing—and, if so, determine whether the FBI should thereafter take the lead in pursuing them. GAO's report noted that continued progress will depend largely on the ability of the agencies to establish and maintain effective interagency relationships.

From a broader or strategic perspective, the annual NMLS generally has not served as a useful mechanism for guiding coordination of federal efforts to combat money laundering and terrorist financing, according to GAO's September 2003 report. While Treasury and Justice had made progress on some strategy initiatives designed to enhance interagency coordination of investigations, most initiatives had not achieved the expectations called for in the annual strategies. The report recommended (1) strengthening the leadership structure for strategy development and implementation, (2) identifying key priorities, and (3) establishing accountability mechanisms. In commenting on a draft of the September 2003 report, Treasury said that our recommendations are important, should the Congress reauthorize the legislation requiring future strategies; Justice said that our observations and conclusions will be helpful in assessing the role that the strategy process has played in the federal government's efforts to combat money laundering; and Homeland Security said that it agreed with our recommendations.