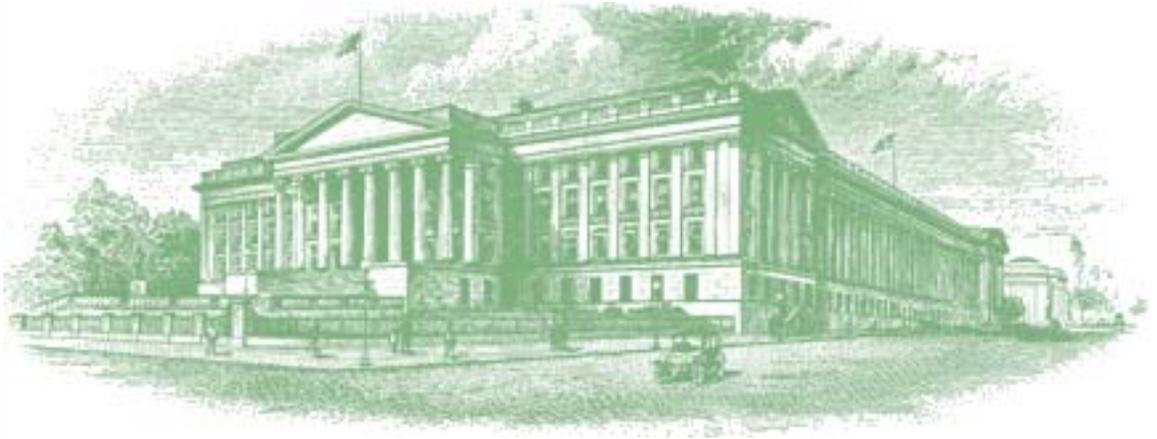




# Audit Report



OIG-05-032

TERRORIST FINANCING/MONEY LAUNDERING: Office of Terrorist Financing and Financial Crimes Needs to Refine Measures for Its Performance Budget and Implement a Data Collection and Reporting System

March 23, 2005

Office of  
Inspector General  
Department of the Treasury



# Contents

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<b>Audit Report</b> .....	3
Results in Brief.....	4
Background .....	5
Findings and Recommendations .....	9
EOTF/FC Performance Measures Were Not Included in the Fiscal Year 2005 Budget.....	9
Recommendation .....	14
Performance Measurement Data Was Not Routinely Collected and Validated for Reporting Purposes .....	14
Recommendations.....	17

## Appendices

Appendix 1:	Objectives, Scope, and Methodology .....	19
Appendix 2:	Five Areas Needing Global Attention .....	21
Appendix 3:	Management Response .....	23
Appendix 4:	Report Distribution.....	28

## Abbreviations

BSA	Bank Secrecy Act
DO	Departmental Offices
EOTF/FC	Executive Office for Terrorist Financing and Financial Crimes
FATF	Financial Action Task Force
FinCEN	Financial Crimes Enforcement Network
FTE	Full Time Equivalent
GPRA	Government Performance and Results Act
IRS-CI	Criminal Investigations Division of the Internal Revenue Service
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPB	Office of Performance Budgeting
OTF	Office of Terrorist Financing
TEOAF	Treasury Executive Office for Asset Forfeiture

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TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Office of Terrorism and Financial Intelligence
TO	Treasury Order

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*The Department of the Treasury  
Office of Inspector General*

March 23, 2005

Mr. Juan C. Zarate  
Assistant Secretary for Terrorist Financing

The Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC) was established on March 31, 2003, within the Department of the Treasury to provide policy, strategic, and operational direction to the Department on issues relating to terrorist financing, financial crimes, money laundering, and other offenses threatening the integrity of the financial system. EOTF/FC was given direct oversight of the Financial Crimes Enforcement Network (FinCEN), the Office of Foreign Assets Control (OFAC), and the Treasury Executive Office for Asset Forfeiture (TEOAF). EOTF/FC was also assigned to coordinate policy with the Criminal Investigative Division of the Internal Revenue Service (IRS-CI). In April 2004, the Department realigned these functions in a newly created Office of Terrorist Financing (OTF) headed by the Assistant Secretary for Terrorist Financing within the Office of Terrorism and Financial Intelligence (TFI). TFI is headed by the Under Secretary for Enforcement.<sup>1</sup> In December 2004, OTF was again renamed, this time to the Office of Terrorist Financing and Financial Crimes (TFFC). TFFC remains within TFI. FinCEN, OFAC, and TEOAF now report directly to the Under Secretary for TFI.

We reviewed the efforts of EOTF/FC (now TFFC) to meet performance measurement requirements. A description of our objectives, scope, and methodology is included in Appendix 1.

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<sup>1</sup> Treasury Order (TO) 105-17, *Establishment of the Office of Terrorism and Financial Intelligence*, dated April 28, 2004.

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## Results in Brief

We found that EOTF/FC developed an initial set of performance measures in June 2003 for the fiscal year 2005 budget. However, these measures were not included in the budget submission because, at the time, Treasury's Office of Performance Budgeting (OPB), which had responsibility for the budget submission, did not consider the measures to be sufficiently outcome-oriented as required by the Office of Management and Budget (OMB). OPB instead submitted two OFAC performance measures to represent EOTF/FC. The complex nature of terrorist financing and money laundering crimes, as well as the fact that EOTF/FC was newly established, made it difficult for EOTF/FC to develop outcome-oriented measures. Treasury's Acting Assistant Secretary for Management believed that OPB's initial assessment of EOTF/FC's 2003 draft measures was incorrect. As a result, TFFC recently proposed 5 performance measures, including 2 outcome measures, and worked with the Department's Office of Management to implement these for reporting purposes. The Department plans to seek OMB concurrence with these measures.

We also found that EOTF/FC had not implemented a routine data collection and recording system to report performance results. Once a data collection and reporting system is developed, TFFC will need to establish a process to ensure the data is verified and validated, and to assess the completeness and reliability of its performance data.

We are recommending that TFFC ensure that the recently developed performance measures, with revisions as necessary after consultation with OMB, are implemented and included in the fiscal year 2006 budget submission. TFFC should also implement data collection and reporting procedures; develop methods for assessing the completeness and reliability of data; and create a mechanism for routinely gathering reliable data to report on its performance measures.

In response to our draft report, the Assistant Secretary for TFFC indicated general agreement with our recommendations. TFFC is

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committed to refining performance measures in close consultation with OMB and Treasury's OPB, and to instituting a reliable data tracking system.

The Assistant Secretary emphasized, however, that measuring effectiveness is a constant challenge that needs consistent revision and focus, and TFFC will continue to refine the performance measures moving forward. Further, while TFFC is committed to establishing a system to collect data that will measure its performance and to provide for an assessment of the data's completeness and reliability, TFFC did not provide its detailed plan and estimated completion date to finalize and implement this recommendation. While we consider this recommendation to have a management decision, TFFC will need to provide a detailed action plan for input into the Department's audit tracking system. TFFC's complete response is included as Appendix 3.

## **Background**

### **Federal Reporting and Performance Budget Requirements**

The Government Performance and Results Act (GPRA) of 1993 requires agencies to produce a strategic plan, an annual performance plan (including goals and performance measures), and an annual performance report. Performance measures are designated as either output- or outcome-oriented. An output measure is the tabulation, calculation, or recording of an activity or effort that is expressed in a quantitative or qualitative manner, whereas an outcome measure is an assessment of the results of a program activity compared to its intended purpose.

Under GPRA, the Director of OMB is to require federal agencies to prepare an annual performance plan covering each program activity set forth in the budget of such agency. Agencies may aggregate, disaggregate, or consolidate program activities, except that any aggregation or consolidation may not omit or minimize the significance of any program activity constituting a major function or operation for the agency.

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Beginning with the fiscal year 2005 budget, instead of preparing an annual performance plan, agencies now prepare a “performance budget” including an annual program performance report. This change from GPRA was made as part of the President’s Management Agenda to integrate performance and budget information. OMB Circular Number A-11, *Preparation, Submission and Execution of the Budget (Revised 07/25/2003)*, provides federal managers with guidance on the preparation, submission, and execution of the performance budget. EOTF/FC was listed in the *Budget of the United States Government Fiscal Year 2005, Department of the Treasury, DO Obligations by Program Activity*, under the program activity titled “Financial Crimes Policies and Programs.”

OPB ensures that Treasury’s annual performance budget supports the Department’s strategic plan and supports the execution of the budget. OPB: (1) provides leadership, management, and direction on budget and performance issues; (2) provides Treasury management with information that can be used to make informed decisions on budget requests to OMB and the Congress; and (3) serves as the Department’s focal point for budget matters with OMB and the Congress.

### **Establishment of EOTF/FC**

In early 2003, significant law enforcement functions were transferred from the Department of the Treasury to the Departments of Homeland Security and Justice. Following the transfer, Treasury reorganized the remaining staff within its headquarters operation that dealt with these law enforcement issues. As part of this reorganization, Treasury established the EOTF/FC.<sup>2</sup> At that time, the Deputy Assistant Secretary for Terrorist Financing headed EOTF/FC and reported directly to the Deputy Secretary.

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<sup>2</sup> TO 105-16, *Establishment of Executive Office for Terrorist Financing and Financial Crimes, and Assignment of Enforcement Functions*. This TO was replaced by TO 105-17, *Establishment of the Office of Terrorism and Financial Intelligence*.

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Since inception, EOTF/FC has had limited staff and funding. For example, its travel budget was quickly exhausted by staff members who frequently traveled to foreign countries. Due to its limited staff size and the responsibilities of the Office, additional personnel were detailed to EOTF/FC. According to OPB officials, EOTF/FC was initially funded using money from existing vacated positions and was understaffed in light of its responsibilities. For fiscal year 2004, EOTF/FC was funded at about \$7 million with 14 full time equivalent (FTE) staff. At the time of our review, EOTF/FC's staff consisted of 11 full-time employees.

Mission TFFC, the successor office to EOTF/FC: (1) develops and implements U.S. government strategies to combat terrorist financing, domestically and internationally; (2) develops and implements the National Money Laundering Strategy as well as other policies and programs to fight financial crimes; (3) participates in the Department's development and implementation of U.S. Government policies and regulations in support of the Bank Secrecy Act and the USA PATRIOT Act; (4) represents the United States at international bodies dedicated to fighting terrorist financing and financial crimes; and (5) develops U.S. Government policies relating to financial crimes. When created as EOTF/FC, TFFC was given responsibility for policy guidance and oversight of FinCEN, OFAC, and TEOAF, and policy guidance for IRS-CI. Through its work with these offices, and through work with foreign countries and international bodies such as the Financial Action Task Force (FATF), TFFC endeavors to ensure that all countries cooperate and implement appropriate measures to prevent the corruption of the global financial system. In accordance with the fiscal year 2005 appropriation (Public Law 108-447), FinCEN, OFAC, and TEOAF now report directly to the Under Secretary for TFI.

Participation in the FATF TFFC heads the U.S. delegation to FATF and has assigned seven staff to support this effort. The FATF is the leading policy-making and standard-setting body in the international effort against money laundering and terrorist financing. FATF's mission is to set international standards in anti-money laundering and counter-terrorist financing, assess countries

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against these standards, and when necessary, compel compliance through diplomatic pressure and economic sanctions through its member countries.

### **Establishment of the Office of Terrorism and Financial Intelligence**

The Administration announced the establishment of TFI on March 8, 2004. In addition to TFFC, TFI includes an Office of Intelligence and Analysis led by an Assistant Secretary. TFI brings together intelligence, regulatory, law enforcement, sanctions, and policy offices, and is intended to allow Treasury to be more effective in the war on terrorist financing and in securing the international financial system.

### **Treasury's Goals Related to Terrorist Financing and Money Laundering**

According to testimony in April 2004 by the Deputy Secretary,<sup>3</sup> the Treasury Department must continue to play a critical role in driving national policies related to terrorist financing, money laundering, financial crimes, and economic sanctions. He stated that these efforts have to be improved, amplified, and supported because of their growing importance at home and abroad.

In his testimony, the Deputy Secretary identified five broad goals of the Department and the Administration. TFI is the Treasury office that will be working to achieve these goals. The goals include: (1) leveraging the Government's assets to focus on identifying the financial infrastructure of terrorist groups and directing our most effective authorities to attack these networks; (2) focusing Treasury's powers on identifying and addressing vulnerabilities in domestic and international financial systems, including informal financial systems; (3) directing the Government's efforts on financial missions of critical importance to our national security interests, such as the accumulation and concentration of terrorist funds and identifying and recovering stolen Iraqi assets;

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<sup>3</sup> Testimony presented by Dr. Samuel W. Bodman, Deputy Secretary, Department of the Treasury, before the Senate Committee on Banking, Housing, and Urban Affairs, on April 29, 2004.

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(4) promoting a stronger partnership with the private financial sector by sharing more complete and timely information about systemic vulnerabilities, typologies of financial crime, sanctions programs, emerging international standards, and domestic implementation issues; and (5) improving domestic and international coordination and collaboration in combating financial crime by increasing the frequency and value of financial information shared across our government and with other governments.

## **Findings and Recommendations**

### **Finding 1      EOTF/FC Performance Measures Were Not Included in the Fiscal Year 2005 Budget**

EOTF/FC worked with outside consultants in June 2003 to create a pilot set of performance measures. The performance measures that EOTF/FC initially developed encompassed all of the major areas that EOTF/FC manages. The performance measures included goals to combat domestic and international terrorist financing and money laundering, and also included performance measures for FinCEN and OFAC for which EOTF/FC had oversight. EOTF/FC submitted these performance measures to OPB, which decided not to include them in the Department's fiscal year 2005 budget request forwarded to OMB. At the time, OPB staff considered the performance measures more output-oriented than outcome-oriented and, therefore, not meeting OMB requirements for the budget submission. According to Treasury's Acting Assistant Secretary for Management, with whom we met in August 2004, OPB was incorrect in concluding that the measures were inappropriate for the budget request because several of EOTF/FC's measures were outcome-oriented.

The summary on the next page presents the EOTF/FC performance measures linked to the Department's strategic goal and objectives and EOTF/FC's mission that were developed but not forwarded for the fiscal year 2005 budget:

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## EOTF/FC's Draft Performance Measures for FY 2005

### **TREASURY'S STRATEGIC GOAL**

- Preserve the Integrity of Financial Systems.

### **DEPARTMENTAL OFFICE'S (DO) STRATEGIC OBJECTIVES**

- Disrupt and dismantle flow of funds to terrorists.
- Counter money laundering and other financial crimes.
- Attack financial infrastructure of drug trafficking and related crimes.

### **EOTF/FC MISSION STATEMENTS AND DRAFT PERFORMANCE MEASURES**

Mission Statement 1: Develops and implements U.S. government strategies to combat terrorist financing domestically and internationally.

Performance Measures:

- Dollar amount of terrorist assets and of transactions blocked worldwide annually
- Number of countries in full compliance with FATF eight special recommendations on terrorist financing

Mission Statement 2: Develops and implements the National Money Laundering Strategy.

Performance Measure:

- Estimated amount of money laundered in the U.S. and abroad annually

Mission Statement 3: Participates in the Department's development and implementation of U.S. government policies and regulations in support of the BSA and the USA PATRIOT Act.

Performance Measure:

- Increase in the % of U.S. financial institutions (by sector) found to be in compliance with Bank Secrecy Act (BSA) and PATRIOT Act requirements

Mission Statement 4: Represents the United States at international bodies dedicated to fighting terrorist financing and financial crimes.

Performance Measure:

- Number of countries in full compliance with FATF 40 recommendations on money laundering

Mission Statement 5: Develops U.S. government policies related to financial crimes.

Performance Measure:

- Estimated \$ flow of funds from U.S. to sanctioned entities

Source: Treasury's Strategic Goal and DO Strategic Objectives obtained from the *Performance Measures For The DO, Discussion Document* dated June 23, 2003. EOTF/FC Mission Statement obtained from the Treasury Web site.

To fulfill OMB requirements for fiscal year 2005, OPB submitted OFAC performance measures to represent EOTF/FC. OPB personnel explained that this was acceptable because of EOTF/FC's

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oversight role of OFAC. OFAC's performance measures accepted for the FY 2005 budget were:

- Increase the number of drug trafficking/terrorist related financial sanctions targets identified and made public
- Increase sanction targets frozen under drug and terrorist-related sanctions programs

Following OPB's rejection of EOTF/FC's initial set of performance measures, EOTF/FC devoted staff time to other initiatives and did not revisit the task of developing performance measures. On the domestic side, EOTF/FC worked on:

- completing the 2003 *National Money Laundering Strategy*;
- building relationships with the private sector to enlist its support as the gatekeepers to the financial system; and
- attacking money laundering and terrorist financing through non-banking financial systems under the USA PATRIOT Act by subjecting new sectors of the economy (such as money service businesses and broker-dealers) to anti-money laundering controls like record-keeping and reporting requirements, previously imposed on banks alone.

Simultaneously, EOTF/FC handled several international issues. These included:

- identifying, freezing, and repatriating Iraqi assets;
- working with its counterparts in the FATF;
- engaging the International Monetary Fund and World Bank to gain their recognition of the FATF 40 Recommendations to combat terrorist financing and financial crimes;

- 
- working closely with Saudi Arabia to freeze the assets of organizations and individuals suspected of providing support to Al Qaeda terrorist groups; and
  - increasing awareness about the abuse of charities by terrorist groups through both enforcement actions and outreach efforts.

As a general observation, money laundering and terrorist financing methods and techniques are moving targets that change in response to developing counter-measures. The 2003-2004 FATF *typology exercise* provides a global perspective on current money laundering and terrorist financing trends, as well as information on the nature and scope of the threat posed by these transactions, and illustrates the difficulty associated with developing meaningful performance measures.<sup>4</sup> (See Appendix 2 for more detail about the results of this exercise.) In light of these complexities, TFFC is challenged with reporting its progress toward preventing terrorist financing, money laundering, and financial crimes. In the past it has proven difficult for federal law enforcement agencies engaged in combating money laundering to develop appropriate performance measures.

Nevertheless, performance measures are useful for important policy and budget decisions regarding program activities. Decisions formulated with insufficient information could adversely impact such areas as resource allocation and recommendations to improve program performance for TFI. In this case, efforts to combat terrorist financing and financial crimes could be impacted.

### **Proposed TFFC Measures**

In August 2004, we met with the Acting Assistant Secretary for Management, the Director of the Department's Office of Strategic Planning and Performance Management, and TFFC officials to discuss this finding and the process for establishing TFFC's fiscal

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<sup>4</sup> FATF members along with organizations such as the International Monetary Fund and World Bank performed this review to examine the methods and trends of money laundering and terrorist financing. This information is to be used to help FATF policy makers develop and refine anti-money laundering and counter-terrorist international financing standards.

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year 2006 performance measures. The Acting Assistant Secretary for Management believed that OPB incorrectly disregarded EOTF/FC's 2003 draft measures. As a general observation, the Acting Assistant Secretary commented that TFFC needs practical and useful measures to demonstrate success in achieving its objectives to disrupt and dismantle the flow of funds to terrorists, counter money laundering and other financial crimes, and attack financial infrastructure of drug trafficking and related crimes. In this regard, TFFC staff communicated to the Department's Office of Strategic Planning and Performance Management that the draft measures that were not put forward in the fiscal year 2005 budget were nevertheless useful in managing EOTF/FC's programs. The Acting Assistant Secretary advised subsequent to these meetings that his Office and TFFC staff worked together to implement the following performance measures for TFFC going forward, which build upon and included some of the initial draft measures, and which his Office considered a reasonable array of measures in the context of Treasury's overall financial crimes program:

- Percent reduction in the number of countries removed from the Financial Action Task Force 40 + 8 non-cooperative countries and territories list, as an outcome measure.
- Increase the dollar amount of terrorist assets and number of financial channels blocked, as an outcome measure.
- Number of countries that are assessed for compliance with the Financial Action Task Force 40 + 8 recommendations, as an output measure.
- Increase the number of international measures and bodies established internationally to protect the financial system from money laundering and terrorist financing, as an output measure.
- Increase the number of outreach engagements with the charitable and international financial communities, as an output measure.

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The Acting Assistant Secretary further advised that the Department planned to discuss these proposed measures with OMB to gain its concurrence.

**Recommendation**

We recommend that the Assistant Secretary for Terrorist Financing ensures that the Office of Terrorist Financing and Financial Crimes implements the recently proposed performance measures, adjusted as appropriate based on planned discussions with OMB, and includes the measures in the Department's fiscal year 2006 budget submission.

Management Response The Assistant Secretary for Terrorist Financing stated that five performance measures, including two outcome measures, were created for the fiscal year 2006 budget process as a result of work performed by OIG and Treasury's OPB. However, he said that the best measures of the TFFC's performance are often classified and anecdotal, and the measures should correlate with the office's objectives, and not distort its priorities with deficient performance measures. The Assistant Secretary believes performance measures developed in June 2003 for the fiscal year 2005 budget, though not included in the budget, were important benchmarks to monitor the office's progress. The Assistant Secretary stated that going forward, his office will refine its performance measures in close consultation with OMB and Treasury's OPB. He recognizes that because of the Office's mission, performance measures need consistent revision and focus.

OIG Comment Management has taken corrective action that satisfies the intent of our recommendation.

**Finding 2**

**Performance Measurement Data Was Not Routinely Collected and Validated for Reporting Purposes**

EOTF/FC had not implemented the routine data collection and recording methods necessary to report performance results.

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EOTF/FC obtained most of its performance data ad hoc by relying on input from EOTF/FC staff and by consulting with organizations outside of the Department. In the absence of specific measures, EOTF/FC had not consistently captured performance data. Once performance measures are established and a data collection system implemented, TFFC will need to determine the means to verify and validate the performance data values. TFFC will also need to annually assess the completeness and reliability of this performance data. In addition, TFFC will need to obtain available information about the accuracy and reliability of data obtained from sources outside of the Department and consider this information when using the data for its performance measures.

According to the Government Accountability Office, performance data is only useful if it is relevant, credible, and reliable. The data must be comprehensive and provide valid measures of program outcomes. The benefit of collecting performance information is fully realized only when this information is actually used by managers to bring about desired results.

### **Data Sources for EOTF/FC Performance Measures**

At the time of our audit, EOTF/FC did not have routine performance data collection procedures. Instead, it obtained data ad hoc from both internal and external sources. The Director of EOTF/FC explained that data was informally collected from staff members whenever necessary. The Director also stated that all staff members have different areas of expertise and have been able to provide the appropriate data upon request. The types of information provided by the staff include: (1) the amount of Iraqi assets identified, frozen, and recovered; (2) illegal funds handled by charities and money service businesses; (3) statistics on convictions, prosecutions, suspicious activity reporting, seizures, and forfeitures resulting from financial crimes; and (4) the status of foreign countries' compliance with anti-money laundering and counter-terrorist international financial standards.

Among the outside sources from which EOTF/FC gathered data were the Department of State, FATF, and the United Nations. We

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believe it beneficial for TFFC to reach agreement with these organizations to regularly collect data, once TFFC establishes its performance reporting system. TFFC should concurrently identify which data it will need to collect, record, and report in order to satisfy both internal controls and reporting requirements.

### **Assessing the Completeness and Reliability of Performance Data**

We also found during our audit that EOTF/FC did not have a mechanism to validate the data it reported or to assess the reliability of data obtained. In accordance with the Reports Consolidation Act of 2000, agencies must include an assessment and a related statement regarding the reliability and completeness of the performance data included in the annual program performance report. In this regard, the agency is to describe how the reliability and completeness of the data was assessed. Also, the agency should identify instances where performance data is deemed materially unreliable and describe the actions that will be taken to resolve this situation.

### **Actions Taken to Improve Data Collection and Reporting**

At the conclusion of our audit, TFFC officials stated that they began to institute data collection and reporting procedures. The Office was in the process of creating a database, and every 2 weeks, for example, planned to accumulate data on the amount of Iraqi assets frozen using information provided in cables sent from different countries. Once these procedures are formalized for performance measurement reporting purposes, TFFC needs to describe the means for validating and verifying the measured values, and assess the reliability and completeness of the data, when reporting on its performance.

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## Recommendations

We recommend that the Assistant Secretary for Terrorist Financing ensures that the Office for Terrorist Financing and Financial Crimes:

1. Implements routine data collection and reporting procedures to help manage its operations and report on its performance measures.
2. Creates a mechanism that will allow the office to regularly gather reliable data from organizations outside of Treasury.
3. Develops methods to assess the completeness and reliability of its performance measurement data.

Management Response The Assistant Secretary for Terrorist Financing stated that TFFC needs to develop a system to collect data and track progress. He stated that his office is committed to instituting a reliable data tracking system to assess the completeness and reliability of data that TFFC gathered. He stated that TFFC has collected, analyzed, and used performance measurement data to report and monitor the office's progress, but not through a single database. He also stated that FinCEN and OFAC provide performance measurement information with their own data collection and reporting requirements.

OIG Comment While TFFC indicated it is committed to establishing a system to collect data that will measure its performance and to provide for an assessment of the data's completeness and reliability, TFFC did not provide its detailed plan and estimated completion date to finalize and implement this recommendation. While we consider this recommendation to have a management decision, TFFC will need to provide a detailed action plan for input into the Department's audit tracking system.

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We would like to extend our appreciation to TFFC and Office of Management officials for their cooperation and courtesies extended to our staff during the audit. If you have any questions, please

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contact me at (202) 927-5400 or Donald Benson, Director, Eastern Field Audit Office, at (617) 223-8640. Major contributors to the report were Mr. Benson; Sharon Torosian, Audit Manager; Maryann Costello, Auditor-in-Charge; and Audrey Philbrick, Auditor.

Marla A. Freedman  
Assistant Inspector General for Audit

The objectives of this audit were to determine if EOTF/FC had established performance measures and had adequate data collection, validation, and reporting systems to ensure the goals outlined in the Treasury's strategic plan are achieved. This audit was included in *Office of Inspector General Fiscal Year 2004 Annual Plan*.

We reviewed draft performance measures developed by EOTF/FC in June 2003 to determine if the performance measures appropriately demonstrated that program goals were being achieved. We assessed the relevancy of the draft performance measures to EOTF/FC's mission and responsibilities. We also evaluated EOTF/FC's procedures for collection, validation, recording, and reporting of performance measurement data. Because we determined that EOTF/FC was a Treasury policy office that had not officially established performance data reporting for the Department, tests of the management controls were not performed.

We reviewed (1) applicable laws and regulations related to the development and reporting of performance measurement data, (2) congressional testimonies by Treasury officials, (3) EOTF/FC Briefing Materials, (4) recent Government Accountability Office testimony on performance measurement reporting and on terrorist financing, and (5) FATF documents addressing anti-money laundering and terrorist financing issues. These documents include (1) *Report on Money Laundering Typologies 2003-2004* examining current methods and trends of money laundering and terrorist financing, (2) the FATF 40 Recommendations providing the basic framework for international anti-money laundering efforts, and (3) the FATF Eight Special Recommendations addressing international efforts to combat terrorist financing.

To obtain information about EOTF/FC's performance measures and data collection, we interviewed officials at Treasury Headquarters in Washington, D.C., from TFFC and the Office of Management.

Appendix 1  
Objectives, Scope, and Methodology

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We conducted our audit between December 2003 and August 2004 in accordance with generally accepted government auditing standards.

As additional perspective on current money laundering and terrorist financing trends, we are providing the following information for the 2003-2004 FATF *typology exercise* as to five areas needing global attention:

Wire transfers Wire transfers are a fast and efficient way of moving funds for terrorist purposes. Given that wire transfers do not involve the actual movement of currency, they are a rapid and secure method for transferring value from one location to another. Complex wire transfer schemes can be used to create a deliberately confusing audit trail to disguise the source and destination of funds destined for terrorist use.

Non-profit organizations The examination of terrorist misuse of non-profit organizations found that the diversion of even a very small volume of funds could represent a potentially serious terrorist financing problem. Non-profit organizations possess many characteristics that are particularly vulnerable to misuse for terrorist financing. They enjoy the public trust, have access to considerable sources of funds, and are often cash-intensive. Some of these organizations have a global presence that provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity. Depending on the country and legal form of the non-profit organization, there are few obstacles to their creation, and they are often subject to little or no regulation.

Insurance industry Inconsistent regulation of the insurance industry may provide an opportunity that could be exploited by money launderers. The industry provides risk transfer, savings, and investment products to a variety of consumers, from individuals to multi-national corporations and governments. The industry is viewed to be most vulnerable at the integration stage of the money laundering cycle. Once funds have been placed into an insurance policy, the launderer has made significant steps in layering and integrating the funds into the international financial system.

Politically exposed persons Politically exposed persons are individuals who are, or have been in the past, entrusted prominent public functions in a particular country. Politically exposed persons often conceal their illicit assets through networks of shell companies and off-shore banks located outside the politically exposed person's country of origin. Politically exposed persons are known to use middlemen or family members to move or hold assets on their behalf.

Gatekeepers Specialized financial advice providers referred to as gatekeepers are legal and financial specialists who provide advice to criminals for handling their funds. A small number of these specialists are providing information about schemes to launder criminal proceeds and about the best vehicles and offshore locations used to launder money. These specialists also act as gatekeepers because they offer legitimacy to criminal operations by serving as intermediaries in dealing with financial institutions.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

March 10, 2005

MEMORANDUM FOR MARLA A. FREEDMAN  
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: JUAN ZARATE *JZ*  
ASSISTANT SECRETARY  
TERRORIST FINANCING AND FINANCIAL CRIMES

SUBJECT: *RESPONSE TO DRAFT AUDIT REPORT CONCERNING  
PERFORMANCE MEASURES*

Thank you for the opportunity to comment on your draft audit report "*Office of Terrorist Financing Needs to Refine Measures for Its Performance Budget and Implement a Data Collection and Reporting System*". We appreciate the time and effort your staff put into studying this issue and in working with us on the final product.

As the title of your report indicates, measuring our effectiveness – with a mission that ultimately entails the successful prevention and deterrence of terrorist financing, money laundering, and financial crimes -- is a constant challenge that needs consistent revision and focus. This report comes at an important time as the entire Office of Terrorism and Financial Intelligence (TFI) within the Treasury Department develops common mechanisms to measure our effectiveness. The work of your staff as well as Treasury's Office of Performance Budgeting (OPB) has resulted in the creation of five performance measures, including two outcome measures, as part of the FY 2006 budget process.

In general, we agree with the draft recommendations of your report, but we have some specific comments that help place the recommendations in proper context:

*Inclusion of Performance Measures in FY 2005.* We have worked diligently since the creation of the Executive Office of Terrorist Financing and Financial Crimes (EOTF/FC) in March 2003 – now the Office of Terrorist Financing and Financial Crimes (TFFC) -- to develop measurements that reflect the product of our work. Ultimately, our goal is to protect the integrity of the U.S. financial system and to disrupt and deter terrorist financing, money laundering, and financial crimes. As we have indicated to Congress in the past, the best measures of our performance are often classified and anecdotal, and are therefore not available through standard data collection mechanisms. We must take care not to seize upon substitute measures that do not directly correlate with our objectives, at the risk of distorting our priorities in the service of ascertainable but deficient measures.

Even so, we have committed to trying to develop empirical markers to help assess our work and our effectiveness. That is why we developed – in consultation with

professional management consultants working with the Treasury Department – a comprehensive set of measurements in June 2003, to help gauge our effectiveness. Though these measurements were not ultimately included in the Treasury’s budget submission for FY 2005, we feel they provided important benchmarks to monitor our progress both domestically and internationally in preventing flows of tainted capital that threaten the national security and safety of the United States. We are including a copy of these measurements as an attachment to provide a record of the markers we were using to grade ourselves.

*Collection and Validation of Performance Measurement Data.* Certainly, we agree that TFFC, as part of the larger Treasury Department’s Office of Terrorism and Financial Intelligence (TFI), needs to develop a system to collect data in a manner that allows us to track our progress. Even so, it is important to note that information related to the fulfillment of the measurements mentioned above has been collected, analyzed, and used for the purpose of reporting and monitoring our progress. Such data – though not kept in a single database – is available to Treasury from a number of different sources, including through the Office of Foreign Assets Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN), which each have their own data collection and reporting requirements.

Admittedly, our focus when standing up TFFC in March 2003, was on building and integrating the office such that it could begin to fulfill its vital mission as quickly as possible with the resources available. This has included, among other things, (1) setting, elaborating, and implementing international standards regarding anti-money laundering and counter-terrorist financing; (2) targeting, along with our inter-agency partners, emerging threats and concerns in the fields of terrorist financing and money laundering; (3) focusing on key strategic relationships like those with Saudi Arabia and Russia to effect a major impact in our efforts to combat terrorist financing; (4) leading the Iraqi asset hunt and other asset recovery efforts; and (5) publishing and implementing the 2003 National Money Laundering Strategy (NMLS).

Moving forward, we are committed to refining our performance measures in close consultation with OMB and Treasury’s OPB. We are also committed to instituting a reliable data tracking system, which appropriately assesses the completeness and reliability of data, and will provide OPB with proper updates on the information gathered.

We appreciate your work and patience on this issue and stand ready to answer any further questions you may have.

## PRESERVE THE INTEGRITY OF FINANCIAL SYSTEMS (I)

Strategic goal

DO strategic objectives and key outcome measures (5-year horizon)

DO initiatives and performance goals for FY2004

Preserve integrity of financial systems

Disrupt and dismantle flow of funds to terrorists

- Dollar amount of terrorist assets and of transactions blocked worldwide (accounts, systems, etc.) annually
- Number of countries in full compliance with the FATF eight special recommendations on terrorist financing

Develop, lead and implement US anti-terrorist financing strategy

- Increase dollar amount of terrorist assets and number of financial channels blocked (e.g. accounts, systems, etc.)
- Increase percentage of designated persons' accounts frozen of those identified during the previous year
- Increase the number of regional or country-specific counter-terrorism financing strategies developed and implemented
- Increase the number of terrorist financing networks discovered due to financial analysis

Deter terrorist financing and support

- Increase the number of donors, facilitators and fundraisers exposed and designated
- Increase the number of 311 designations of financial entities or transactions for facilitating terrorist financing
- Increase the number of channels disrupted through public or diplomatic action
- Increase the number of outreach programs to charitable communities

Ensure global compliance on counter-terrorism financing standards (e.g., FATF 8)

- Increase the number of FATF member countries in full compliance with each of the FATF 8 special recommendations on terrorist financing
- Increase the number of non-FATF members in compliance with any of the FATF 8 special recommendations on terrorist financing
- Increase the number of countries receiving technical assistance provided by Treasury
- Increase the number of countries initiating or enhancing oversight of charitable sector

Engage international partners in disrupting terrorist financing

- Increase the number of countries acting simultaneously with US designations
- Decrease the time to provide feedback on international inquiries

- Strategic outcomes measures
- Potential FY04 performance targets
- Internal indicators

## PRESERVE THE INTEGRITY OF FINANCIAL SYSTEMS (II)

Strategic goal

DO strategic objectives and key outcome measures (5-year horizon)

DO initiatives and performance goals for FY2004

Preserve integrity of financial systems

Counter money laundering and other financial crimes

- Estimated amount of money laundered in the U.S. and abroad annually
- Number of countries in full compliance with FATF 40 recommendations on money laundering

Develop, lead and implement US anti-money laundering strategy

- Increase number of designations as primary money laundering concerns
- Increase cost of money laundering in the U.S. and abroad, adjusted for inflation
- Increase dollar amount forfeited resulting from Treasury actions and analysis or support

Ensure domestic compliance with anti-money laundering laws and regulations

- Increase in percentage of U.S. financial institutions (by sector) found to be in compliance with Bank Secrecy Act (BSA) and Patriot Act requirements
- Increase the number of newly-registered entities subject to the BSA
- Increase the number of entities newly subject to anti-money laundering regulations that have been audited/inspected
- Increase the number of educational programs offered to new sectors subject to regulation
- Increase the number and dollar amount of fines levied for violations of BSA
- Increase the number of compliance updates and advisories to various financial sectors (including feedback to financial community)

Ensure global compliance with anti-money laundering standards

- Increase the number of FATF member countries in full compliance with each of the FATF-40 recommendations
- Increase the number of countries that have moved off the NCCT process
- Increase the number of countries implementing legislative or regulatory improvements
- Increase the number of countries evaluated/assessed

Provide information and analytical support for law enforcement agencies

- Increase the number of cases supported by FinCEN, OFAC, and IRS-CI
- Decrease the time taken to administer civil penalties
- Increase the number of proactive cases provided to law enforcement from BSA data and analysis
- Decrease the time taken to provide proactive leads
- Decrease the number of related BSA filings necessary to develop a lead for investigation

Develop the use and capacity of international financial intelligence units

- Increase in membership in the Egmont Group
- Increase the number of countries with established financial intelligence units
- Increase the amount of information shared among financial intelligence units
- Decrease the time to provide feedback on international inquiries
- Increase the number of financial intelligence unit-related training missions

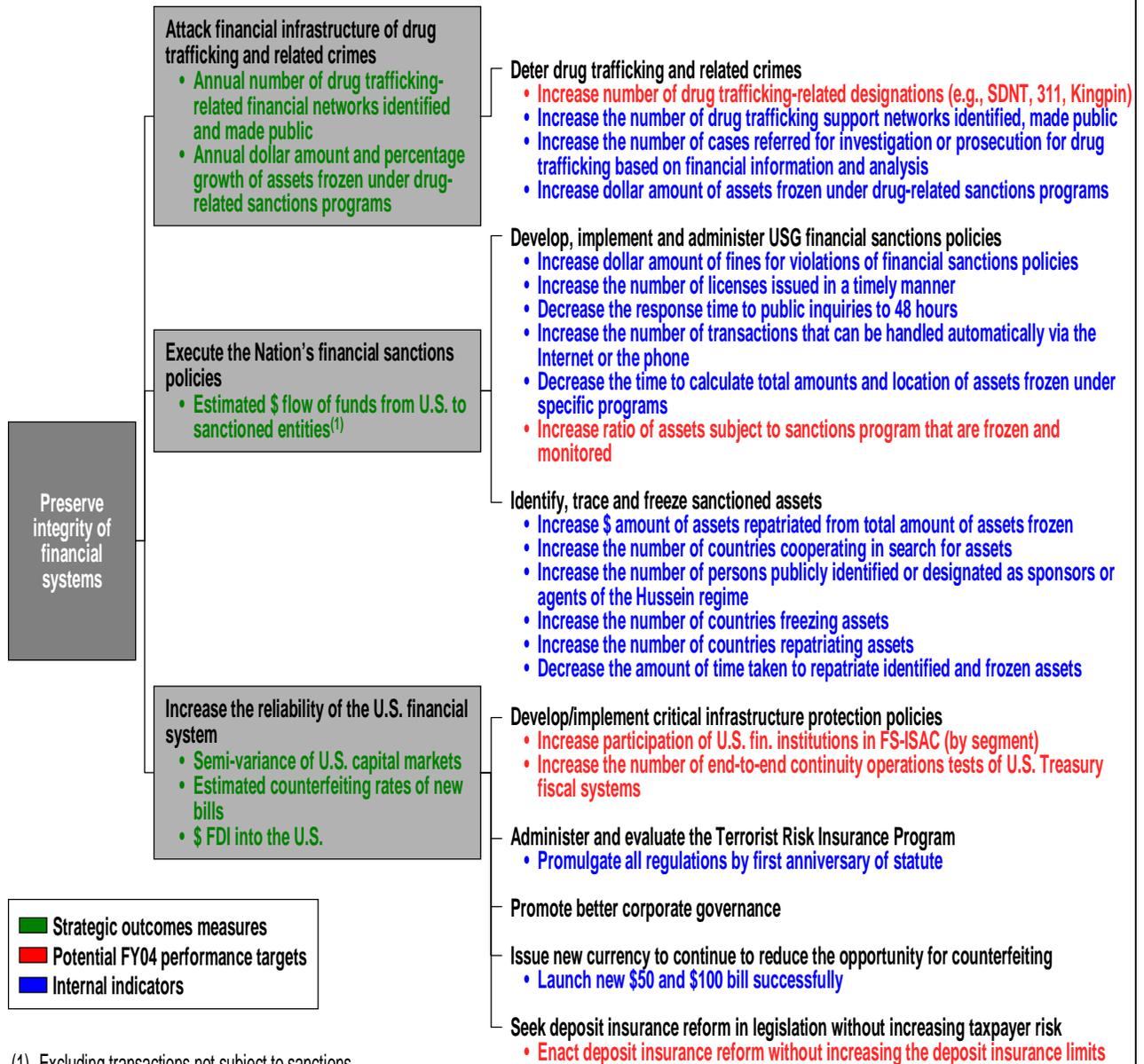
- Strategic outcomes measures
- Potential FY04 performance targets
- Internal indicators

## PRESERVE THE INTEGRITY OF FINANCIAL SYSTEMS (III)

Strategic goal

DO strategic objectives and key outcome measures (5-year horizon)

DO initiatives and performance goals for FY2004



**The Department of the Treasury**

Under Secretary for Enforcement  
Assistant Secretary for Terrorist Financing  
Acting Assistant Secretary for Management  
Acting Chief Financial Officer  
Office of Strategic Planning and Performance  
Management  
Office of Accounting and Internal Controls

**Office of Management and Budget**

OIG Budget Examiner