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TERRORIST FINANCING AND COUNTERTERROR INITIATIVES
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Good Morning, Mr. Chairman and distinguished members of the committee. I appreciate the opportunity to be here today to discuss the Internal Revenue Service Criminal Investigation Division's (CI) capabilities to combat money laundering and terrorist financing, a grave threat to the nation at home and abroad.

CI Mission

CI is the IRS law enforcement component charged with enforcing the criminal provisions of the Internal Revenue Code and related financial crimes. When the Criminal Investigation Division was formed in 1919, IRS Special Agents were *only* responsible for investigating criminal violations of the Internal Revenue Code. Over the years, our financial investigative expertise has been recognized and increasingly sought by prosecutors and other investigative agencies and, as a result, our investigative jurisdiction has expanded to include money laundering and Bank Secrecy Act criminal violations.

In 2000, IRS modernized its entire organizational structure, including CI. A number of important changes significantly improved our ability to carry out our mission effectively. For example, CI became a line organization, reporting directly to the Chief of CI in Washington. Previously, CI field offices reported to civil IRS managers. This restructuring enabled us to more effectively manage the workload balance in each of our 35 offices. Also, IRS Chief Counsel, Criminal Tax, became more involved in our casework at the onset rather than at the end of an investigation. This has helped reduce elapsed time on investigations and has supported our continually high prosecution acceptance rate at the Department of Justice. However, the most important change was a reshifting of our focus back to tax administration work. Over the years, as Judge Williams Webster said in his review of CI, "CI had a mission drift, working on narcotics and money laundering investigations that were not focused on tax administration." Judge Webster further said, "Over the last twenty years, Congress and the Department of Treasury have expanded CI's jurisdiction to cover

offenses not only under the Internal Revenue Code but also under the money laundering and currency reporting statutes. The apparent rationale for this expansion essentially has been that effective investigation of these crimes requires the sophisticated financial expertise that CI agents uniquely possess.”

As a result of the IRS modernization effort and Judge Webster’s report, CI began the process of moving its focus back to tax. Since 2000, CI’s tax investigations have increased by 37 percent and narcotics work is now focused only on the most critical counter drug cases, amounting to about 15 percent of all investigations. CI is reimbursed for its narcotics work by the Department of Justice.

Today, we continue to fine-tune our reorganization and our focus on tax administration. The financial investigative skills used by our Special Agents to investigate complex, convoluted tax schemes are the same skills we use to assist our partners in federal law enforcement in the fight against terrorism.

Investigative Jurisdiction

In addition to our primary jurisdiction, which is set forth in Title 26 of the United States Code (Internal Revenue Code), CI also has investigative jurisdiction involving other financial-related statutes. Beginning in 1970, Congress enacted a number of laws that led to greater participation by CI in the financial investigative environment. The Currency and Foreign Transactions Reporting Act of 1970 (Bank Secrecy Act); The Comprehensive Crime Control Act of 1984; The Anti-Drug Abuse Acts of 1986 and 1988; Crime Control Act of 1990; The Annunzio-Wylie Anti-Money Laundering Act of 1992; The Money Laundering Suppression Act of 1994; The Antiterrorism and Effective Death Penalty Act of 1996; The Health Insurance Portability and Accountability Act of 1996; and the USA PATRIOT Act of 2001 all developed and refined the existing anti-money laundering and anti-terrorism laws under Titles 31 and 18 of the United States Code.

This expanded jurisdiction, in money laundering and Bank Secrecy Act (BSA) violations, has permitted CI to effectively and efficiently follow the money. For more than 85 years, CI has solved complex tax and other financial crimes from Al Capone to John Gotti, Heidi Fleiss to Leona Helmsley, from corporate fraudsters to fraud promoters. CI Special Agents have developed, through specialized training and investigative experience, the keen ability to identify, trace, and document sophisticated and complex illicit transactions.

The IRS Special Agent’s combination of accounting and law enforcement skills are essential to investigating sophisticated tax, money laundering, and financial crimes. By collecting and analyzing financial records and tracing offshore transactions designed to hide assets, we document the source and ownership of funds whether they are controlled by a tax evader, a drug kingpin, corrupt corporate executive, or a

terrorist. This rigorous investigative process provides the experience that makes the IRS Special Agent unique and a formidable opponent to the financial criminal.

Our Special Agents are uniquely trained and skilled, possessing particularly strong accounting, financial and computer skills. CI is the only federal law enforcement agency that has a minimum accounting and business educational requirement for all prospective Special Agents. Once hired, they endure a rigorous 26-week training course that includes general criminal investigation techniques, as well as intensive training in forensic accounting and financial investigations. At the Federal Law Enforcement Training Center (FLETC), CI agents routinely benefit from specialized anti-terrorist financing training designed and provided by the Department of Justice's Counterterrorism Section prosecutors. Their unique training and skills enable CI agents to analyze complex, often unusual, financial transactions, and easily equip them to investigate terrorism-financing involving:

- The leadership and members of extremist groups who have committed tax, money laundering, or currency violations;
- Persons engaged in fundraising activities to support terrorism, especially if tax exempt organizations are being utilized; and
- Terrorism investigations involving complex, extensive or convoluted financial transactions.

Intersection of CI Mission with War on Terrorism

Prior to the terrorist events of September 11, 2001, CI's role in counterterrorism primarily involved the investigation of domestic terrorists. Many domestic extremist groups have espoused anti-government and anti-taxation philosophies. Criminal Investigation is often involved in investigations of individuals affiliated with these groups because of their violations of federal tax, money laundering, and currency statutes.

The 1983 shoot-out between US Marshals and Gordon Kahl, a fugitive wanted on tax charges and a member of the Posse Comitatus (Power of the Country), resulted in the death of two US Marshals. The Marshals were attempting to serve Kahl with warrants for violating the terms of his probation from a 1977 conviction for failing to file income tax returns. In the 1990's IRS offices were the targets of 61 bomb threats and three actual bombings. During the Oklahoma City Bombing investigation, our agents were assigned to develop leads to identify those responsible. Our agents obtained receipts documenting the purchase of the fertilizer and dynamite used to manufacture the bomb and the truck rental receipt. Using this evidence our agents were able to construct a time line of the conspirators' whereabouts. Gordon Kahl, Timothy McVeigh, the Montana Freeman, members of the anti-tax movement and other such groups derive their core beliefs from an anti-tax, anti-government movement and CI

has been actively involved in the investigation of these persons and organizations for many years.

Prior to September 11th, CI participated on a selected basis in the Federal Bureau of Investigation's (FBI) Joint Terrorism Task Forces (JTTFs) in accordance with the Attorney General's five-year Counterterrorism and Technology Crime plan. However, the events of September 11th significantly increased CI's counterterrorism commitment. Financial investigations are a critical part of the total war on terrorism and CI's expertise continues to be in high demand.

It is important to emphasize the nexus between our core mission and terrorist financing. After September 11th, CI developed plans to use the unique information collected by the IRS to include BSA data to develop and support terrorist financing investigations. In addition, we instructed our field offices to work directly with the Joint Terrorism Task Forces, the Department of Justice's Anti-Terrorism Task Forces, and the FBI's Strategic Information Operations Center in response to the government's efforts to mobilize the resources of federal law enforcement agencies to combat terrorism. Statistics show that the work we perform within our counter terrorism program is often related to our tax administration mission. Of our current 150 active terrorism investigations, 56% involve income tax violations and over 18% involve purported charitable and tax-exempt organizations.

What CI is doing in counterterrorism today

The disruption of terrorist financing mechanisms is critically important. The detailed financial investigations aimed at terrorist funding are capable of identifying the flow of money and the entities and individuals who conspire to harm the United States. The link between where the money comes from, who gets it, when it is received, and where it is stored or deposited, are vital pieces of information. By focusing on financial details, terrorism cells can be identified and neutralized. To effectively conduct terrorism investigations, strong cooperative relationships must exist between the federal law enforcement agencies to leverage the skills and contributions of each.

The Department of Treasury is aware of the need to ensure appropriate coordination among its regulatory and enforcement components to ensure the most effective anti-money laundering and anti-terrorist financing infrastructure possible. Included in these overarching responsibilities is the need to ensure effective BSA compliance and enforcement.

Responsibility for ensuring compliance with the BSA of all non-banking and financial institutions not otherwise subject to examination by another federal functional regulator(i.e., Money Service Businesses (MSBs), casinos and credit unions) was delegated to the IRS by the Department of Treasury in December 1992. Under the

delegation, IRS is responsible for three elements of compliance – the identification of MSBs, educational outreach to all three types of organizations, and the examination of these entities suspected of noncompliance. The IRS performs these compliance functions along with its criminal enforcement role.

The processing and warehousing of all BSA documents into the Currency Banking and Retrieval System (CBRS), including FBARs¹, CTRs², 8300s³ and SAR⁴s, are also the responsibility of the IRS. All documents entered into the CBRS (approximately 14 million annually) are made available to other law enforcement and regulatory agencies in addition to IRS. However, the IRS is the largest user of the CBRS. The total projected IRS costs for BSA for FY04 is \$132 million for both compliance and enforcement.

Each of the IRS-CI's 35 field offices has a functioning Suspicious Activity Report Review Team (SAR-RT) that works jointly with Federal/state law enforcement representatives. Nationwide approximately 300-345 employees are assigned, either full or part-time, to the SAR-RTs. These duties include proactive evaluation and analysis of the SARs for case development and field office support. Each month, the field office SAR-RTs throughout the country review approximately 12,000-15,000 SARs.

CI has fully utilized the tools now available under Title III of the US Patriot Act. For example, Section 314(a) of the USA PATRIOT Act authorizes federal law enforcement agencies to utilize the existing communication resources of FinCEN to establish a link between their respective agencies and over 26,000 financial institutions for the purpose of sharing information concerning accounts and transactions that may involve terrorist activity or money laundering. During the time period from April 2003 through March 2004, CI submitted fifteen requests pertaining to sixty-three individuals and seventeen businesses. 1,182 financial institutions had positive responses, resulting in the identification of 635 positive account matches.

Section 319(a) of the USA PATRIOT Act provides that when a criminal deposits funds in a foreign bank account and that bank maintains a correspondent account in the United States, the government may seize and forfeit the same amount of money in the correspondent account. Utilizing section 319 (a), CI has participated in two investigations that together resulted

¹ Foreign Bank & Financial Account Report (FBAR)

² Currency Transaction Report – (CTR) FinCEN Form 104 and FinCEN Form 103 (filed by casinos)

³ Report of Cash Payments Over \$10,000 Received in a Trade or Business (IRS and FinCEN form 8300)

⁴ Suspicious Transaction Reports – filed by financial institutions when there is suspicious activity, as determined by the financial institution.

in the seizure of approximately \$3.5 million in funds from accounts held at correspondent banks in the United States.

Sharing our knowledge with others

In addition to our financial investigative work, CI is also working with many foreign governments to train their investigators in the area of money laundering, financial investigative techniques, and terrorist financing. We are an active member of the Department of State led Terrorist Finance Working Group and we work in conjunction with the Department of State and other governmental and law enforcement agencies to provide a broad array of financial investigative training to foreign governments related to money laundering and financial crimes. In addition, CI also provides training jointly with the Department of Justice.

Some specific current training conducted jointly with the Department of State and other law enforcement agencies such as Alcohol, Tobacco, and Firearms (ATF), FBI, Drug Enforcement Agency (DEA), and Immigration and Customs Enforcement (ICE) includes:

- Financial Investigative Techniques course at the International Law Enforcement Academies in Bangkok, Budapest, and Gaborone;
- Joint Terrorism Finance Training conducted by FBI and CI in the United Arab Emirates, Pakistan, Malaysia, Colombia , Turkey, Qatar, Jordan, and Indonesia; and
- Department of State, International Narcotic and law Enforcement Affairs training is scheduled to be conducted in Egypt, Paraguay, and Brazil later this year.

Internally, CI has delivered international, anti-terrorism finance training to our Special Agents who are assigned to the Joint Terrorism Task Forces around the country. The goal of this training is to bring the agents assigned to the task forces together to learn, discuss, and share experiences.

We are working in partnership with Treasury's Executive Office for Terrorist Financing and Financial Crimes, the Office of Foreign Assets Control (OFAC), and the Financial Crimes Enforcement Network (FinCEN) to leverage all of the tools and skills of the Department of Treasury most effectively.

CI's long-standing relationship with FinCEN continues to be a source of referrals that have resulted in significant financial investigations. During the fiscal year, CI's Garden City Counterterrorism Lead Development Center has received 101 potential terrorism investigative leads from FinCEN. Both CI and the SB/SE have permanent staff assigned at FinCEN to facilitate a continual flow of information.

Our work with OFAC has increased dramatically since the Department of Treasury's "trace and chase" activities began with the search for Iraqi assets. We are working closely with the Department of Treasury and OFAC in their efforts to recover Iraqi assets so that they can be used for the reconstruction of Iraq. CI is also working with the Terrorist Financing Working Group comprised of numerous intelligence, law enforcement, and regulatory agencies to review the proposed anti-money laundering and anti-terrorist financing laws being drafted for Iraq.

Some other CI efforts and partnerships focused on the investigation of terrorism financing include:

- Treasury Working Group on Terrorist Financing and Charities – Both CI and IRS civil division Tax Exempt/Government Entities.
- SAR Review Teams – designed to analyze and evaluate all suspicious activity reports filed through CBRS.
- Interpol – The CI Liaison to the US national Central Bureau of INTERPOL assists CI field offices and other Federal, state and local law enforcement officers in obtaining leads, information and evidence from foreign countries.
- Defense Intelligence Agency Center (DIAC) (known as the Fusion Center).
- High Intensity Drug Trafficking Area (HIDTA).
- Anti-Terrorism Advisory Council established by the Attorney General.
- Joint Terrorism Task Forces (JTTF) - On a national level CI is embedded with FBI on both the JTTFs and Attorney General's Anti-Terrorism Advisory Council, concentrating on the financial infrastructure and fundraising activities of domestic and international terrorist groups.
- The High Intensity Money Laundering and Related Financial Crime Area (HIFCA) Task Forces. HIFCAs analyze Bank Secrecy Act and other financial data and analyze potential criminal activity, including terrorist financing. Twenty-six percent of our 150 open terrorism-financing investigations are the result of, or involve, Bank Secrecy Act data.
- Representation in FBI's Terrorist Financing Operations Section (TFOS).

In addition to our participation on these groups, we also make a unique contribution to counterterrorism efforts through the use of our computer investigative expertise. IRS has a unique software tool used by international, domestic, federal, state and local intelligence agencies. This software tool has the capability of analyzing multi terabytes of data in multiple languages, including Farsi. We have used this tool successfully in numerous investigations – from computers seized in abusive tax schemes to those found in caves in Afghanistan.

Investigative Statistics

Since October 1, 2000, IRS CI has conducted 372 terrorism investigations in partnership with other law enforcement agencies. Over 100 investigations have resulted in indictments. Of the 270 open investigations, 120 have already been referred to the Department of Justice for prosecution. Of the remaining 150 terrorism investigations currently being worked by IRS CI Special Agents:

- 56% involve tax violations;
- 97% involve participation with other agencies;
- 26% either were results of, or involve, Bank Secrecy Act data; and
- 18% involve purported charitable or religious organizations

What we are doing within IRS

Experience gained during the last two years has identified areas where CI can have a greater impact addressing terrorism related financial issues without duplicating the efforts of other law enforcement agencies. CI is piloting a counterterrorism project in Garden City, New York, which, when fully operational, will use advanced analytical technology and leverage valuable income tax data to support ongoing investigations and pro-actively identify potential patterns and perpetrators.

The Garden City LDC was established in July 2000 to assist field offices in ongoing income tax and money laundering investigations. Due to the unique application of the skills and technology deployed to develop investigations at Garden City, it has been converted to focus exclusively on counterterrorism issues. When fully implemented, CI's efforts at the Counterterrorism LDC will be dedicated to providing nationwide research and project support to CI and JTTF terrorist financing investigations. Relying on modern technology, the Center is staffed by CI Special Agents and Investigative Analysts, in conjunction with experts from the IRS' Tax Exempt/Government Entities (TE/GE) Operating Division. Together these professionals research leads and field office inquiries. Using data from tax-exempt organizations and other tax-related information that is protected by strict disclosure laws, the Center analyzes information not available to, or captured by, any other law enforcement agency. Thus, a complete analysis of all financial data is performed by the Center and disseminated for further investigation.

This initiative supports the continuation of CI's response to domestic and international terrorism, and ensures efficient and effective use of resources through advanced analytical technology by subject matter experts. Analytical queries and proactive data modeling assist in identifying previously unknown individuals who help fund terrorist organizations and activities, with particular focus on the use of purported charitable organizations, hawalas, wire

remitters, and other terrorist funding mechanisms. Pending before Congress is legislation that would extend the manner by which confidential tax return information can be disclosed in terrorism-related matters. Changes to the federal tax disclosure laws dealing with terrorism issues were made in the "Victims of Terrorism Act of 2001." Those changes, however, expired on December 31, 2003.

Following are examples of two terrorist investigations in which CI was involved:

A federal search warrant was executed FBI, DHS/ICE, and IRS-CI on February 18, 2004, against the property purchased on behalf of an Islamic Foundation in Oregon. The warrants were executed pursuant to a criminal investigation into possible violations of the Internal Revenue Code, the Money Laundering Control Act, and the Bank Security Act. The US Treasury and the Kingdom of Saudi Arabia had jointly designated the Bosnian and Somalia Branches of this organization as supporters of terrorism. An associate established a tax-exempt charitable organization in the U.S., and knowingly filed a materially false information tax return in violation of Internal Revenue Code Section 7206.

Benevolence Director Sentenced After Pleading Guilty To Racketeering Conspiracy. On August 18, 2003, in Chicago, IL, Enaam M. Arnaout, the executive director of Benevolence International Foundation, Inc. (BIF), a purported charitable organization based in south suburban Chicago, was sentenced to 136 months in prison after pleading guilty in February 2003 to racketeering conspiracy, admitting that he fraudulently obtained charitable donations in order to provide financial assistance to persons engaged in violent activities overseas. Arnaout was also ordered to pay restitution in the amount of \$315,000 to the Office of the United Nation High Commissioner for Refugees. Arnaout admitted that, for approximately a decade, the BIF was defrauding donors by leading them to believe that all donations were strictly being used for peaceful, humanitarian purposes while a material amount of the funds were diverted to fighters overseas. Arnaout specifically admitted providing items to fighters in Chechnya and Bosnia.

International Arena

Aside from CI's association with domestic task forces, CI also participates in the international arena. Through efforts developed by the Department of Treasury, CI participates in the newly created Joint Terrorist Financing Task Force in Riyadh, Saudi Arabia along with local Saudi investigators. Through this task force, agents from FBI and Criminal Investigation have gained unprecedented access to Saudi accounts, witnesses, and other information. The Task Force agents both provide and receive investigative lead information

on various terrorist-financing matters. Investigations involving the use of tax-exempt organizations to finance terrorist activities are a high investigative priority for Criminal Investigation. This initiative supports the continuation of CI's ability to identify and investigate those who use U.S. organizations and financial institutions to fund terrorist activities.

CI has seven law enforcement attachés assigned to American Embassies or US Consulates in Mexico City, Bogotá, London, Frankfurt, Bridgetown, Ottawa and Hong Kong. Their primary mission is to coordinate and support all field office requests for international assistance.

CI is a permanent member of the US Delegation to the Financial Action Task Force (FATF) and its Caribbean equivalent (CFATF). CI is involved in the drafting of the recently revised 40 recommendations that set the standards for best practices to be adopted by countries to combat money laundering.

CI has participated in the assessments of numerous Middle Eastern, South American, and European countries anti-money laundering laws, policies, and procedures. As a result, during Fiscal Year 2004, CI will participate in follow up anti-terrorism and anti-money laundering training with the FBI in countries such as Saudi Arabia, Thailand, Egypt, Pakistan, United Arab Emirates, Oman, Qatar, Bahrain, and others.

Our liaison to the US national Central Bureau of INTERPOL has provided urgently needed identifying information to the OFAC in terrorist related actions.

Among the myriad of tax evasion schemes facing law enforcement today, those perpetrated through offshore transactions are some of the most successful and difficult to detect and prosecute. The IRS has investigated numerous schemes where individuals and businesses have committed tax evasion involving both domestic and foreign source income. Investigation has revealed that purported charitable international organizations that support terrorism sometimes avail themselves of these arrangements and hide their transactions through similar sophisticated offshore arrangements.

Conclusion

Today we carry on our 85-year tradition of solving financial crimes in concert with our other partners in the Department of Treasury and the rest of law enforcement, and we do that by following the money.

CI's achievements are the result of a collective effort and are a tribute to what can be achieved when government works together. I am proud of the role that the Internal Revenue Service and CI, in particular, have played in achieving those successes. It is one of the great rewards of public service.

Mr. Chairman, I thank you for this opportunity to appear before this distinguished committee and I will be happy to answer any questions you and the other committee members may have.