

**Statement of
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Before the

**House Government Reform
Subcommittee on Criminal Justice, Drug Policy and Human Resources**

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***“Terrorist Financing and Money Laundering Investigations:
Who Investigates and How Effective are They”***

Chairman Souder and distinguished members of the Subcommittee, it is a pleasure to appear before you today to discuss the importance of combating money laundering and terrorist financing as it is one of the cornerstones of Administrator Karen P. Tandy’s vision for the Drug Enforcement Administration (DEA). My name is Donald Semesky, and I am the Chief of DEA’s Financial Operations. On behalf of Administrator Karen P. Tandy, I would like to thank this subcommittee for its unwavering support of the men and women of the DEA and its mission.

Overview

The motivation for virtually everyone involved in illegal drug trafficking, from kingpin to street dealer, is the money. To make a significant impact on the drug trade in America and around the world, there is no strategy more effective than following the money back to the sources of drug supply and taking away the dirty profits of that trade. While the Office of National Drug Control Policy (ONDCP) has estimated that Americans spend approximately \$65 billion per year on illegal drugs, current seizures are well short of \$1 billion per year. That amount of money is less than 10% of the average fee paid by drug traffickers to launder their illicit incomes.

Administrator Tandy has systematically transformed not only the organization and operation of the DEA regarding financial investigations, but also the fundamental mindset. Since every drug transaction has a profit motive, every investigation has a financial component. Therefore, the Office of Financial Operations (FO) was established at DEA headquarters and financial teams were placed in each field division. FO augments all of the DEA’s domestic and foreign financial investigations in the field by providing the necessary assistance to enhance and build the expertise to identify, document, disrupt, dismantle, and prosecute drug and drug-money laundering organizations, and identify, seize and forfeit their illicit revenues. The formation of FO is an integral part of revitalizing DEA’s attack on the illicit proceeds of drug trafficking organizations.

Each of the DEA's 21 field divisions has already established at least one Financial Investigative Team (FIT). Many of the FIT Teams are staffed not only with DEA special agents and analysts but also with special agents from the Internal Revenue Service-Criminal Investigation Division (IRS-CID), U. S. Immigration and Customs Enforcement (ICE), the Federal Bureau of Investigation (FBI), the Postal Inspection Service, and state and local law enforcement officers. These FIT Teams are vital to our success and will be responsible for handling the more complex drug-money laundering investigations and projects, serving as field division resident experts and supporting DEA's national money laundering initiatives. We are placing an increased emphasis on the DEA's collection of intelligence relative to the way drug networks make, transport, and store money and assets. DEA Special Agents in Charge and Country Attaches agency-wide are reemphasizing the importance of debriefing human sources of information about the drug trade and the money that fuels it. DEA Country Offices in Colombia and Mexico are increasing their special agent commitments to money laundering investigations. Other DEA Country Offices also are refocusing their investigative efforts to increase concentration on the financial aspects of their investigations. We are also making financial background a priority in hiring new special agents and undertaking additional initiatives to increase interagency cooperation and enhance training in drug financial investigations. The DEA is already bringing this focus to bear on such problems as bulk currency movement and the black market peso exchange.

Training

The DEA also has expanded and reemphasized financial investigations in our hiring and training. With respect to hiring, we are aggressively recruiting new personnel with financial degrees and work experience.

With respect to training, FO currently conducts and coordinates all training for DEA relating to money laundering and financial investigations. Training is also provided to federal, state, local, and international law enforcement counterparts in addition to individuals in the banking and financial sectors. DEA Training at Quantico is in the process of increasing its financial investigative instructor cadre and will be assuming most of the responsibility for DEA's financial investigative training.

The DEA conducts a three-day conference annually on Attorney General Exempted Operations (AGEO). A DEA supervisor, case agent, and an Assistant United States Attorney (AUSA) from each of DEA's 21 field divisions attend. Representatives from other various Department of Justice (DOJ) components are also in attendance. A representative from each AGEO provides an overview on their operation. Presentations are also made from such agencies as the World Bank, Office of the Controller of Currency and Commerce and Treasury Departments on matters relating to currency flow and trade. Representatives are also sought from the private banking arena to discuss standard banking practices.

Specific Priorities and Financial Initiatives

Understandably, DEA cannot address the entire \$65 billion generated by the illegal drug industry all at once. We must prioritize our efforts against the financial infrastructure of the drug networks and their drug proceeds that will best allow us to accomplish our mission, which is to eliminate the supply of illegal drugs in the United States. Knowing that the illicit drug proceeds that flow back to international sources of drug supply fuel the machines that send poison to our country, we have targeted our anti-money laundering efforts on investigations and interdiction on that portion of illegal drug proceeds that facilitate future production of drugs, support the financial infrastructure of drug trafficking organizations, and finance terrorism. As we progress in this arena, we also will be focusing on the personal wealth of major drug traffickers, especially where this wealth causes economic and social harm, such as an unfair competitive advantage that a business financed with drug dollars would have over legitimately financed enterprises. More specifically, DEA is currently concentrating on bulk currency, the black market peso exchange, and the Southwest border.

Bulk Currency

The USA PATRIOT Act tightened the controls and reporting requirements on financial and non-financial institutions, dramatically decreasing smuggling through legitimate channels. Use of illegitimate channels, such as smuggling of large sums of cash across our borders, has grown in prevalence and continues to be the primary method used to expatriate drug proceeds from the United States.

To address this increasing threat, the DEA, IRS-CID and ICE are working together to initiate a bulk currency program to coordinate all U.S. highway interdiction money seizures in order to develop the evidence necessary for identifying, disrupting and dismantling large-scale narcotic trafficking organizations. Upon notification of a cash seizure by a state or local municipality, agents will respond to the scene, assist with debriefing of the defendants, and coordinate potential controlled deliveries of currency. Agents will also assist in follow-up investigations, seizure and forfeiture of currency, and provide guidance on federal prosecution. The resources of the DEA's El Paso Intelligence Center (EPIC) will be used to conduct research and analyze evidence and intelligence relating to priority organization targets and other types of investigations.

Black Market Peso Exchange (BMPE)

The Black Market Peso Exchange (BMPE) is currently the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated \$5 billion worth of drug proceeds per year from the United States back to Colombia. The BMPE is a "parallel exchange" system where drug traffickers sell U.S. drug proceeds to brokers for pesos. Brokers then sell the drug proceeds to Colombian importers who purchase goods in the United States and elsewhere. These goods often appear in Colombia as smuggled contraband. By purchasing the U.S. dollars on the BMPE and not through Colombia's regulated exchange system, the importers avoid Colombian taxes and tariffs, gaining significant profit, and a

competitive advantage over those who import legally. Prosecution of individual peso brokers, their agents in the U.S. who are often referred to as “smurfs”, and businesses that buy or receive BMPE dollars have been successful individually, but have had little effect on the system and no effect on the Colombian drug trafficking organizations who sell their dollars to the peso brokers. Consequently, DEA is changing its investigative tactics to assure that our BMPE money laundering investigations are focused to inflict the most damage against the Colombian sources of drug supply. DEA is also a participant in a multi-agency initiative to attack the BMPE as a system rather than on an individual case-by-case basis.

Bilateral Southwest Border Collective Targeting Initiative

The Bilateral Southwest Border Collective Targeting Initiative focuses on identifying and targeting Southwest Border money laundering schemes. The DEA Southwest Border Offices are investigating a wide range of narcotics related money laundering and bulk smuggling practices. We presently have active investigations targeting laundered U.S. dollars from Mexico and Colombia into the United States and the smuggling and transportation of bulk cash shipments from the United States into Mexico.

Information Sharing

We also are working to share information on drug financial investigations with other agencies, both to assist in the fight against terrorism and to improve overall coordination and cooperation for financial investigations.

Terrorism

Drug enforcement can play a critical role in protecting our national security by starving the financial base of criminal organizations. Traditional criminal organizations continue to dominate the international drug trade at all levels, but some terrorist organizations are involved in drug-related activities. Drug income is among the sources of revenue for some international terrorist groups. Department of Justice investigations have highlighted the links between groups and individuals under investigation for drug violations and terrorist organizations. In fact, 47 percent of the 36 Foreign Terrorist Organizations identified and updated by the Department of State in October 2003 are on record with DEA as having possible ties to the drug trade.

Although the DEA does not specifically target terrorists or terrorist organizations we do target those associated with major drug trafficking organizations like the FARC and the AUC. For example, in 2002, several high ranking members of the Revolutionary Armed Forces of Colombia (FARC) and the United Self-Defense Forces of Colombia (AUC) were indicted in the United States for drug trafficking. This case represents one of the first times that drug-trafficking charges were brought in the United States against members of foreign terrorist organizations. In fiscal year 2003, DEA disrupted one and dismantled four Priority Target Organizations with terrorism links. As of May 4, 2004, DEA can identify a total of 55 Priority Target Investigations that have links to terrorist organizations. Of these 55 active Priority Target Investigations, 5 are identified as having money laundering as the primary focus and are supported by OCDETF.

Interagency Cooperation

The DEA Terrorism Information Sharing Program institutionalizes within DEA the Attorney General's directive to coordinate information and activities to prevent and disrupt terrorist activities. Under this program, all DEA entities must identify investigations that have a nexus or potential nexus to extremist and terrorist organizations. For financial investigations, FO provides DEA's coordination to the National Money Laundering Committee, the Treasury Department's Financial Crimes Enforcement Network and Interagency Coordinating Group and the FBI's Terrorist Financial Review Group. In addition, DEA's Special Operations Division coordinates and mutually shares investigative and intelligence resources with the FBI, ICE, and IRS-CD in a concentrated and centralized environment.

Conclusion

Drug trafficking organizations attack the soul and fabric of America in pursuit of one thing, money. As America's defenders against these vile organizations, it is incumbent upon us in the Drug Enforcement Administration to attack these groups on all fronts. There is no more important battle in this effort than the attack against the proceeds that fuel this illicit industry and provides the motive to those who prey upon our society. The DEA is embracing this responsibility through its investigative efforts, to lead the fight against drug money laundering.

Mr. Chairman, thank you for the opportunity to testify here today and I will be happy to answer any questions you may have.