

WRITTEN STATEMENT OF
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BEFORE THE
COMMITTEE ON GOVERNMENT REFORM,
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY
AND HUMAN RESOURCES
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HEARING ON
TERRORIST FINANCING AND MONEY LAUNDERING INVESTIGATIONS:
WHO INVESTIGATES AND HOW EFFECTIVE ARE THEY?
MAY 11, 2004

Good morning, Mr. Chairman and distinguished members of the subcommittee. Before I begin, Mr. Chairman, I would like to recognize you and the members of your subcommittee for your support of the IRS' mission and the men and women who serve it. Our IRS Commissioner, Mark W. Everson, has made enforcement a top priority at the Internal Revenue Service and your interest in our work is appreciated. I am pleased 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 CI 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.

The fundamental mission of CI is to serve the American public by detecting and investigating criminal violations of the Internal Revenue Code and related financial crimes. Many of the "badges of fraud" in tax investigations are identical to those in money laundering investigations. These include the extensive use of nominees, currency, multiple bank accounts, and the movement of funds offshore. Therefore, the same financial investigative skills required to conduct complex tax cases can be readily adapted to money laundering investigations. This is especially true in intricate financial investigations involving the movement of untaxed funds offshore to tax haven jurisdictions. Tax evaders conceal their activities through the use offshore bank

accounts, foreign corporations, and trusts. CI's statutory authority for money laundering, coupled with the financial expertise of its special agents, has made it possible to disrupt and dismantle criminal organizations employing complex transactions to launder illegal proceeds. Today CI is combating terrorism financing activities using similar techniques.

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.

The combination of tax and money laundering statutes enables IRS to identify and investigate tax evasion cases involving legal and illegal income sources. This ability has often resulted in major contributions to important national law enforcement priorities.

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. In addition, CI deals with anti-tax militants, anti-government militants, and international terrorists. CI Special Agents have developed, through specialized training and investigative experience, the keen ability to identify, trace, and document sophisticated and complex illicit transactions.

IRS Enforcement

Under Commissioner Everson's leadership, we are strengthening the focus on enforcement at the IRS. What once was termed simply as 'tax evasion' has evolved into complex, convoluted, multi-object financial crimes.

At the IRS, our goal is to provide appropriate service to taxpayers. At the same time, the IRS must strengthen enforcement of the tax laws in a balanced, responsible fashion.

The IRS CI balanced enforcement program includes three specific investigative priorities. These are legal income, illegal income, and narcotics-

related financial crimes. In addition, the IRS emphasizes counter-terrorism and money laundering.

Of our total direct investigative time, 25 percent is focused on money laundering and 15 percent is focused on narcotics-related financial crimes, primarily applied to the Organized Crimes Drug Enforcement Task Forces, (OCDETF), for which the IRS is reimbursed by the Department of Justice. CI spends about 4 percent of its direct investigative time on counterworks initiatives. For Fiscal Year 2004, CI projects that 160 FTE will be devoted to counterworks investigations.

At the IRS, we have four enforcement priorities. We must:

- Discourage and deter non-compliance, with emphasis on corporations, individual taxpayers, and other contributors to the tax gap.
- Assure that attorneys, accountants, and other tax practitioners adhere to professional standards and follow the law.
- Detect and deter domestic and offshore-based tax and financial criminal activity.
- Deter the misuse of tax-exempt and government entities by third parties for tax avoidance and other unintended purposes.

In addition to these four enforcement priorities, as noted in this statement, we are placing a very high priority on counter terrorism.

A recent 51-count indictment, involving an abusive tax scheme, touches upon all of the service-wide enforcement priorities. This scheme reflects some of the worst things going on in our nation's tax system. The indictment alleges efforts by the defendants to defraud the United States, to market and sell bogus trust packages, and to establish bogus charities. Some of the 650 well-to-do participants in this scheme laundered monies in Belize and through bank accounts in another foreign jurisdiction in order to escape IRS scrutiny. This scheme has cost taxpayers at least \$68 million.

IRS Forensic Accounting Skills

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 and 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 a formidable opponent to the financial criminal.

Our Special Agents are specially 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 undergo a rigorous 26-week training course that includes general criminal investigation techniques, as well as intensive training in forensic accounting and financial investigations.

Once CI agents have developed their skills working on tax-related investigations, they become involved in more complex financial investigations by working on illegal income cases such corporate fraud, healthcare fraud, and public corruption. Armed with the strong tax and money laundering background, agents can then easily adapt these skills to investigate narcotics-related and terrorist financing crimes.

This special training, job experience, and skill sets 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 money laundering investigations and terrorist financing.

CI Mission and Money Laundering Investigations

Detecting and investigating money laundering activity is an important part of tax compliance for IRS. In addition, the non-filing of Forms 8300 and criminal violations of the BSA, including the structuring of deposits to avoid currency transaction reporting requirements, often have a direct link to both tax evasion and money laundering. In some cases, because the schemes are sophisticated and we cannot get evidence from some foreign countries, it is almost impossible to conduct traditional tax investigations. In these circumstances, money-laundering violations represent the only possible enforcement tools to detect and prosecute tax evaders.

Money laundering is not only used by domestic and international criminal enterprises to conceal the illegal, untaxed proceeds of narcotics trafficking, arms trafficking, extortion, public corruption, terrorist financing and other criminal activities; it is also an essential element of many tax evasion schemes. With the globalization of the world economy and financial systems, many tax evaders exploit domestic and international funds transfer methods to hide untaxed income. They often use the same methods to hide money from illegal sources and/or unreported income. Both activities generally use nominees, currency, wire transfers, multiple bank accounts, and international “tax havens” to avoid detection.

Money laundering is the financial side of virtually all crime for profit. To enjoy the fruits of their crime, criminals must find a way to insert the illicit proceeds of that activity into the stream of legitimate commerce in order to provide the resources necessary for criminal organizations to conduct their ongoing affairs.

National Money Laundering Strategy

A significant uniting factor in interagency cooperation is the National Money Laundering Strategy. The *2003 Strategy* focuses on three major goals: (1) to cut off access to the international financial system by money launderers and terrorist financiers more effectively; (2) to enhance the Federal government's ability to target major money laundering organizations and systems; and (3) strengthen and refine the anti-money laundering regulatory regime for all financial institutions to improve the effectiveness of compliance and enforcement efforts.

Bank Secrecy Act Efforts

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. As of April 2004, CBRS has approximately 167,069,015 CBRS related documents on file. These documents are comprised of CTR's, SAR's, Form 8300's, CMIR's, FBAR's and various other BSA documents. All documents entered into the CBRS (approximately 14 million annually) are made available to other law

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.

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.

The civil functions of the IRS ensure that non-bank financial institutions are in compliance with the record keeping and reporting requirements of the BSA through an outreach effort to assist financial institutions in meeting their BSA obligations and compliance examinations. In addition, the civil functions ensure that trades and businesses are in compliance with the Forms 8300 system through the identification of businesses that regularly engage in reportable sales, an outreach effort to assist businesses in understanding and meeting their reporting requirements and compliance reviews. They also have examination authority for civil compliance with BSA for many non-bank financial institutions including money services businesses, currency dealers and exchangers, check cashers, issuers, sellers or redeemers of travelers checks, money orders and casino/club cards.

After September 11th, CI developed plans to use the unique information collected by the IRS to include BSA and exempt organization 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.

There are 41 Suspicious Activity Report Review Team (SAR-RT) across the country spread among the IRS-CI's 35 field offices. These teams work jointly with Federal/state law enforcement representatives. Nationwide approximately 300-345 employees are assigned, either full or part-time, to the SAR-RTs. Their duties include proactive evaluation and analysis of the SARs for case development and field office support. Each month, the field office SAR-RTs review approximately 12,000-15,000 SARs.

In addition to the expanded use of BSA data, CI has fully utilized the tools now available under Title III of the USA 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. Financial institutions had 1,182 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 in the seizure of approximately \$3.5 million in funds from accounts held at correspondent banks in the United States.

Money laundering investigative statistics

From October 1, 2002, through March 31, 2004, CI has initiated 4,795 money-laundering investigations, recommended prosecution on 3,120 individuals and 2,726 individuals were indicted. During this same time period, 2,042 individuals have been sentenced on money laundering violations.

Of the remaining money laundering investigations currently being worked by CI special agents:

- 35% involve tax violations;
- 81% involve participation with other agencies;
- 65% involve non-narcotics money laundering

Working cooperatively with others

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 this 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 continuous 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 the new government in Iraq.

Some other CI efforts and partnerships focused on money laundering include:

- The Office of National Drug Control Policy (ONCDP) was established by the Anti-Drug Abuse Act of 1988. It directs the Nation's anti-drug policies. CI has a full-time Liaison assigned to ONDCP whose responsibilities include promoting the development and implementation of money laundering enforcement policies and programs relating to narcotics trafficking activity
- The Organized Crime Drug Enforcement Task Force Program (OCDETF) is a federal drug enforcement program that focuses attention and resources on the disruption and dismantling of major drug trafficking organizations. OCDETF provides a framework for federal, state, and local law enforcement agencies to work together to target well-established and complex organizations that direct, finance, or engage in illegal narcotics trafficking and related crimes. (Related crimes include money laundering and tax violations, public corruption, illegal immigration, weapons violations, and violent crimes.) CI focuses the majority of its Narcotics Program resources on OCDETF and has assigned 9 agents as OCDETF Regional Coordinators. Each of our 35 Field Offices has active on-going multi-agency OCDETF investigations.
- High Intensity Drug Trafficking Area (HIDTA). The HIDTA Program designates geographic areas to which Federal resources are allocated to link local, state, and Federal drug enforcement efforts and to optimize the investigative return on limited fiscal and personnel resources. Criminal Investigation enhances the state and local efforts with the 28 HIDTA areas to attack the illegal drug threats in their area through a number of financial investigation initiatives, resources and training on the less sophisticated money laundering schemes used by criminals.
- Special Operations Division (SOD) in DEA plays a critical role in combating narcotics trafficking by providing information associated with identified money laundering organizations and by providing case coordination and deconfliction to ensure that FBI, DEA, ICE, and IRS multi-jurisdictional cases and prosecutions are conducted in concert to maximize the disruptive impact on illegal drug activity. CI has a Liaison assigned to SOD whose efforts are centered on the money laundering activity of major drug trafficking organizations.
- Treasury Working Group on Terrorist Financing and Charities – Both CI and IRS Tax Exempt/Government Entities Operating Division are part of this group.
- SAR Review Teams (41) are designed to analyze and evaluate all suspicious activity reports filed through CBRS and are comprised of IRS, FBI, ICE and state and local law enforcement agencies.

- 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 CT Fusion Center)- As a part of the Iraqi Assets Working Group, CI works jointly with other agencies in the “trace and chase” of Saddam Hussein’s assets.
- 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 84 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 relating to 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. A report is being compiled jointly by the Departments of Treasury and Justice, with concurrence by the Department of Homeland Security and their law enforcement and other components, reviewing the history and implementation of High Intensity Financial Crimes Area (HIFCA) designations in the National Money Laundering *Strategy* and evaluating the current posture of each HIFCA.
- Representation in FBI’s Terrorist Financing Operations Section (TFOS). CI liaison with FBI on terrorist financing, including the coordination of efforts on the Saudi Arabian Joint Terrorist Task Force.

Sharing our knowledge with others

The IRS is forging dynamic relationships across the financial sector, and with other government agencies, to combat abusive tax schemes, terrorist financing and money laundering.

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, at the Federal Law Enforcement Training Center, CI agents routinely benefit from specialized anti-terrorist

financing training designed and provided by the Department of Justice's Counterterrorism Section prosecutors.

Some specific training conducted jointly with the Department of State and other law enforcement agencies such as the Bureau of Alcohol, Tobacco, Firearms and Explosives (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 assigned to Joint Terrorism Task Forces around the country. The goal of this training is to bring the agents assigned to the task forces together to discuss and share experiences.

CI Mission and terrorist financing investigations

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. CI 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 County), 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.

International terrorists and their supporters often raise funds through the abuse of organizations that claim to be engaged in humanitarian relief or religious activities. Terrorist fundraising activities are also carried out through a variety of conventional criminal activities such as dealing in stolen property, insurance fraud, smuggling, and narcotics trafficking. All these activities employ convoluted financial transactions, "front businesses," nominees, and the use of both traditional and alternative remittance systems (e.g., Hawala) to achieve their aims.

Counter terrorism 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

Seventy-one percent (71%) of all open counterterrorism investigations involve money-laundering violations.

What CI is doing in counter terrorism today

Since September 11, 2001, IRS has stepped up its anti-money laundering activities in several ways. IRS Criminal Investigation has established a Counterterrorism section that focuses investigative efforts on money laundering activities associated with terrorist financing, and many special agents have been assigned to the Federal Bureau of Investigation's Joint

Terrorism Task Forces expressly for this purpose. For Fiscal Year 2004, CI projects that 160 FTE will be devoted to terrorism investigations.

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 evidence. By focusing on financial details, terrorism cells can be identified and neutralized.

CI supports the financial aspects of terrorism investigations. For terrorism investigations to be effective, 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.

Computer forensics aid investigators

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.

What we are doing within IRS about terrorist financing

Experience gained during the last two years has identified areas where CI can have a substantial impact addressing terrorism related financial issues without duplicating the efforts of other law enforcement agencies. Criminal Investigation 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 proactively identify potential patterns and perpetrators.

The Garden City Lead Development Center (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. 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.

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 purported 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.

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. The successful conclusion of this investigation was brought about by the close working relationship with the FBI and IRS.

CI role in the international arena involving money laundering and terrorist financing

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 some purported international charitable organizations support terrorism utilizing similar arrangements to obscure their true activities.

In addition, the IRS Small Business Self Employed Operating Division (SB/SE) has established anti-money laundering groups to focus more effort on identifying external stakeholders and educating the non-banking and other financial services industry about their registration, reporting, and record keeping requirements of the money laundering statutes.

Conclusion

Money laundering investigations are integral to our tax administration work. 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.

As I stated earlier in this testimony, the war on terrorism is a top priority of the Internal Revenue Service. We are prepared to increase our counter terrorism commitment from our base resources if necessary. We will coordinate our efforts closely with Treasury's new Office of Terrorist Financing and Financial Intelligence. The FY 2005 President's Budget includes a 17 percent increase in CI's resources. While this increase is targeted to enhancing our tax mission, it gives us additional flexibility to respond to any increased demands to support our nation's anti-terror efforts.

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 subcommittee and I will be happy to answer any questions you and the other committee members may have.