

[H.A.S.C. No. 109-41]

**FINANCING OF THE IRAQ INSURGENCY**

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JOINT HEARING

BEFORE THE

TERRORISM, UNCONVENTIONAL THREATS AND  
CAPABILITIES SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES

MEETING JOINTLY WITH

OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE

OF THE

COMMITTEE ON FINANCIAL SERVICES

[Serial No. 109-50]

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

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HEARING HELD

JULY 28, 2005



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U.S. GOVERNMENT PRINTING OFFICE

26-145

WASHINGTON : 2006

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# CONTENTS

## CHRONOLOGICAL LIST OF HEARINGS

2005

|                                                                 | Page |
|-----------------------------------------------------------------|------|
| HEARING:                                                        |      |
| Thursday, July 28, 2005, Financing of the Iraq Insurgency ..... | 1    |
| APPENDIX:                                                       |      |
| Thursday, July 28, 2005 .....                                   | 29   |

### THURSDAY, JULY 28, 2005

#### FINANCING OF THE IRAQ INSURGENCY

##### STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

|                                                                                                                                                    |   |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---|
| Gutierrez, Hon. Luis V., a Representative from Illinois, Ranking Member, Oversight and Investigations Subcommittee .....                           | 4 |
| Kelly, Hon. Sue W., a Representative from New York, Chairman, Oversight and Investigations Subcommittee .....                                      | 1 |
| Meehan, Hon. Martin T., a Representative from Massachusetts, Ranking Member, Terrorism, Unconventional Threats and Capabilities Subcommittee ..... | 5 |
| Saxton, Hon. Jim, a Representative from New Jersey, Chairman, Terrorism, Unconventional Threats and Capabilities Subcommittee .....                | 3 |

##### WITNESSES

|                                                                                                                                          |    |
|------------------------------------------------------------------------------------------------------------------------------------------|----|
| Glaser, Daniel L., Acting Assistant Secretary, Office of Terrorist Financing and Financial Crimes, U.S. Department of the Treasury ..... | 6  |
| Roberts, James "JQ", Acting Deputy Assistant Secretary of Defense for Special Operations and Combating Terrorism .....                   | 8  |
| Temple, Caleb, Director of Operations, Joint Intelligence Task Force for Combating Terrorism, Defense Intelligence Agency .....          | 10 |

##### APPENDIX

|                                                                                                                                                                                                 |    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| PREPARED STATEMENTS:                                                                                                                                                                            |    |
| Glaser, Daniel L. ....                                                                                                                                                                          | 33 |
| Roberts, James "JQ" .....                                                                                                                                                                       | 44 |
| Temple, Caleb .....                                                                                                                                                                             | 49 |
| DOCUMENTS SUBMITTED FOR THE RECORD:                                                                                                                                                             |    |
| Wall Street Journal Article entitled "Digging in Former Bush Aide Turns Tough Critic as Iraq Inspector, Mr. Bowen Finds Poor Controls, Waste in Reconstruction; Seeking Missing Millions" ..... | 59 |
| QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD:                                                                                                                                                 |    |
| Mr. Gutierrez .....                                                                                                                                                                             | 67 |



## FINANCING OF THE IRAQ INSURGENCY

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HOUSE OF REPRESENTATIVES, COMMITTEE ON ARMED SERVICES, TERRORISM, UNCONVENTIONAL THREATS AND CAPABILITIES SUBCOMMITTEE, MEETING JOINTLY WITH COMMITTEE ON FINANCIAL SERVICES, OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE, *Washington, DC, Thursday, July 28, 2005.*

The subcommittees met, pursuant to call, at 2:00 p.m. in room 2118, Rayburn House Office Building, Hon. Sue Kelly (chairman of the Subcommittee on Oversight and Investigations) presiding.

### **OPENING STATEMENT OF HON. SUE W. KELLY, A REPRESENTATIVE FROM NEW YORK, CHAIRMAN, OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE**

Mrs. KELLY. The hearing on financing of the insurgency in Iraq will come to order.

We have heard dramatic stories about the direct influence of cash on terrorist attacks in Iraq with reports, for example, of cash rewards for setting up roadside bombs or otherwise participating in terrorist attacks. But more broadly, we know that money is what buys the supplies, weapons, and loyalties which makes the insurgency a viable killing force. The funding sources and methods for the insurgency are as diverse as the insurgency itself, thereby presenting significant challenges.

And while financial defenses by themselves are not enough, they are critically important and can help save lives. As military officials have pointed out, success in taking out local paymasters can have a direct effect in reducing attacks on our forces.

A number of specific areas demand our interest. Syria too often appears a willing conduit for cash and killers to terror networks in Iraq. The job of repatriating the assets of Saddam Hussein has been very complicated, due in no small measure to Syrian inaction. Elements of the former Hussein regime are, without question, operating in Syria in support of the insurgency. Furthermore, Syria has proven to be a favored gateway for the foreign fighters into Iraq, many of them undoubtedly carrying substantial sums of cash. Syria's cooperation has been episodic at best and unacceptable in its totality.

We must consider new actions to address Syria, including a blanket designation under section 311 of the PATRIOT Act. A section 311 designation isolating the Syrian financial system must be at the very top of our list of potential next steps. I will accept for the moment Secretary Snow's thoughts that a 311 designation of Syria may not be the best course of action at this time, but we must all

give such a possibility serious consideration in the coming weeks and months.

There are substantial weaknesses with Saudi Arabian financial defenses. Treasury Under Secretary Levy recently said, and I am quoting: Private Saudi donors may be a significant source of terrorist funding, including for the insurgency in Iraq.

This brings to the forefront once again questions about accountability in Saudi Arabia for terror finance. We must ask the question: Has the Saudi Government done enough in reaching out to its citizens to condemn the ongoing insurgency in Iraq and demonstrate in unmistakable terms that those caught funding insurgents' operations will be punished?

Flawed Saudi charity regulations may ease the flow of cash to insurgents as well. The troubling precedent set by the Saudi Government-run Charitable Committee for Palestinians, which appears to have knowingly supported terrorism, directs our attention to a charitable committee run by the Saudi Government for Iraq. Furthermore, the Saudis' continuing reluctance to include large Saudi-based Islamic charities under their developing oversight mechanisms remains highly problematic. We must continue to work together with our allies in Saudi Arabia in resolving these concerns.

We also have to look beyond the region immediately surrounding Iraq. There is no doubt Islamic extremist groups are in Africa and elsewhere, and they are supporting the insurgency. There are reports, for instance, of North Africans financing insurgents' operations via Europe and Syria.

We must also look at Europe. There is, for example, the 10 Euros for the Iraqi Resistance. And I believe I have a poster somewhere that should demonstrate that. Can you just turn that around so people can see this? I want people to see this because this is a poster taken directly from the 10 Euros for Iraqi Resistance campaign in Italy. If you notice that poster, you will see there is an American flag on the uniform of the soldier who is being shot by the Iraqi insurgents.

This 10 Euros for the Iraqi Resistance campaign was established by the anti-imperialist camps, a network of radical groups in Europe openly hostile to America. Just this year, the campaign was used to ship supplies to insurgents in Fallujah.

I want to thank my colleagues who recently joined me in sending a letter to the Italian Ambassador on this issue. The Ansar al Islam terror network has had operatives in Germany and Sweden arrested for involvement in insurgency financing activities.

And we must even look within our own country. U.S. Central Command (CENTCOM's) General Abizaid stated just this month that money for the insurgency has likely come from the United States of America. Insurgents in Iraq are also able to easily exploit current circumstances in Iraq in obtaining financial resources. Kidnapping, extortion, and theft within Iraq are undoubtedly used to secure funds for insurgents. Additionally, the case-based nature of the economy and the prevalence of informal value transfer systems like hawala make the detection of suspicious activity extremely difficult.

In total, we confront a difficult set of issues, but ones our government has engaged extensively in in Iraq and throughout the globe.

So I very much appreciate the administration officials coming here today to discuss this often overlooked aspect of Operation Iraqi Freedom. I hope this hearing and the testimony provided by Danny Glaser, the Assistant Secretary of Treasury for Terrorism and Financial Intelligence, and James Roberts, the Deputy Assistant Secretary of Defense for Special Operations and Low Intensity Conflict, and Cal Temple, Director of Operations of the Joint Intelligence Task Force for Combating Terrorism, Defense Intelligence Agency, will provide the Congress policy options to assist our troops in the field to defeat these terrorists and defeat their paymasters.

I recognize myself for the purpose of a unanimous consent request to allow nonmembers of the subcommittees to sit with us. And I now yield to Chairman Saxton.

**STATEMENT OF HON. JIM SAXTON, A REPRESENTATIVE FROM NEW JERSEY, CHAIRMAN, TERRORISM, UNCONVENTIONAL THREATS AND CAPABILITIES SUBCOMMITTEE**

Mr. SAXTON. The Subcommittee on Terrorism, Unconventional Threats and Capabilities meets this afternoon in joint session with our colleagues from the Committee on Financial Services, Subcommittee on Oversight and Investigations, to examine a topic of critical national importance: Where is the Iraqi insurgency getting its financial support and how can we stop it?

The topic cuts across multiple committee jurisdictions certainly concerning the committees represented here today. But more importantly, this problem cuts across multiple executive branches as well; at the very least, involving the Departments of State, Treasury, and Justice, two of whom are represented here at the witness table today.

Our goal this afternoon is to understand the problem and the measures necessary to staunch the flow of funds to the insurgents. It does little good for our brave troops to risk their lives to kill and capture those insurgents operating in Iraq now, if the resources and will exists for replacements to pour in as fast as existing insurgents are put out of action. I don't pretend to know the answers, but I am disturbed about the number of potential funding sources I see just by reading the daily newspaper. There are credible reports of open fundraising for the insurgency being conducted in Western Europe and more clandestine fundraising in the Middle East and even here in the U.S., here at the homeland.

It is possible that the international drug trade is a source, as well as corruption within Iraq itself. The nation has no effective banking system, using cash, a cash economy. This fluidity of funds combined with the amount of money the United States is investing in Iraq reconstruction creates a dangerous situation.

What we hope to gain today is an understanding of the issues and how U.S. policy is coordinated to ensure that we have a coherent plan of action. We as a Nation may need to adjust course in public diplomacy, international monetary policy, or law enforcement. We do know that the continued carnage in Iraq must stop. A free society must be a law-abiding society. Our troops are doing all they can to quell the insurgency, and we intend to help by mak-

ing it harder for insurgents to get the funds that they must have to operate.

I would like to acknowledge at this time the great leadership of my friend Sue Kelly, the gentlewoman from New York, for suggesting this hearing and I look forward to hearing from our witnesses today.

Mrs. KELLY. Thank you. We turn now to Chairman—excuse me, to Mr. Gutierrez.

**STATEMENT OF HON. LUIS V. GUTIERREZ, A REPRESENTATIVE FROM ILLINOIS, RANKING MEMBER, OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE**

Mr. GUTIERREZ. I am pleased to be here today, along with our colleagues on the Armed Services Committee, to inquire into funding sources of the Iraqi insurgency. I have been at many hearings regarding terrorist financing and am somewhat versed in the concept of following the money.

I am particularly interested in following the path of the assets of the former regime. A significant amount of the former regime's assets may have derived from trade protocols with Jordan, Turkey, Syria, and Egypt. These protocols were entered into after the U.N.-imposed sanctions against Iraq. Reportedly, Hussein's regime earned a total of approximately \$8 billion through these protocols. These and other regime assets were deposited in banks in several countries. And I am particularly interested in the progress that the U.S. Government has made in tracking these transactions.

I am also extremely concerned about certain issues detailed in a Wall Street article that appeared on Tuesday titled, "Digging In: Former Bush Aide Turns Tough Critic as Iraq Inspector. Mr. Bowen Finds Poor Controls, Wasted Reconstruction, Seeking Missing Millions." Wall Street Journal.

I would ask unanimous consent that that be part of the official record today.

Mrs. KELLY. So moved.

[The information referred to can be found in the Appendix on page 59.]

Mr. GUTIERREZ. After the fall of Iraq, the Coalition Provisional Authority, CPA, received a number of funds from Iraqi accounts. But there was significant mishandling, waste, fraud, and mismanagement of these funds. According to the report, the U.S. failed to keep track of approximately 9 billion turned over to the new Iraqi government ministries, which appears to have been embezzled or could even possibly be in the hands of the insurgents. The CPA was rife with managerial failings and structural problems and even criminal misappropriations of funds.

I sincerely hope that we have made every effort to clean up our own books and that our failings are not providing insurgents access to funding.

This morning, National Public Radio interviewed Stuart Bowen, the Special Inspector General for Iraq Reconstruction. He stated on the program that there have been a great deal of criminal activity, waste, and fraud through these reconstruction projects. The fraud was committed, he says, by both government—American government officials and American contractors. And this, according to our

own Special Inspector General, appointed specifically by President Bush. Millions of dollars that were allocated for construction projects are missing from the development fund for Iraq, and the construction projects were not completed.

I hope that Mr. Glaser can enlighten us as to what Treasury has done to track these funds that were earmarked for construction projects as well as the 9 billion transferred to the new Iraqi Government. At the proper time I would like to hear what the U.S. Government has done to identify any parties connected with the disappearance of these funds and determine whether any of this money is indeed a current source of funding for the Iraqi insurgency.

If this is the case, I would like to know what mechanisms are available to the U.S. Government to cut off the source of funding. I hope to discover that the Treasury is working to identify all of the banks where these assets may lie, and that it is seriously invoking section 311 of the PATRIOT Act against these institutions. I expect to learn that the Treasury has worked with the relevant countries to urge them to freeze these assets and have them repatriated to the current Iraqi Government.

I look forward to these and other answers and yield back the balance of my time.

Mrs. KELLY. Thank you, Mr. Gutierrez. We now turn to Mr. Meehan.

**STATEMENT OF HON. MARTIN T. MEEHAN, A REPRESENTATIVE FROM MASSACHUSETTS, RANKING MEMBER, TERRORISM, UNCONVENTIONAL THREATS AND CAPABILITIES SUBCOMMITTEE**

Mr. MEEHAN. Thank you Madam Chairwoman. And let me thank you for holding this hearing and prompting more investigation of this topic.

I want to associate myself with the comments of Mr. Saxton. I too remain committed to denying funding to terrorists not only in Iraq, but other places around the globe as well. Stopping funding from reaching terrorist organizations is one of the most valuable and effective defenses in preventing future attacks.

Chairman Saxton's mention of public diplomacy, international monetary policy, and law enforcement deserves special attention as it more fully touches upon the broad nature of the struggle and with ideological extremism. The war on terror is about both confronting terrorists today and preventing the recruitment of terrorists for tomorrow. It is a battle of both arms and ideas. It requires a balanced approach in addressing both near- and far-term trends and realities.

With regard to Iraq, a sound banking system with respect for law is paramount, and indeed the two are closely intertwined. Until they are established, the pervasive influence of crime and corruption will continue spreading and creating conditions from which future generations of terrorists will emerge. In the world at large, America must show other members of the international community how their interests are served in this fight.

This is a Global War on Terror in which a violent insurgency in one part of the world has the potential for spreading to other na-

tions without regard to sovereign boundaries. One need only look at the recent attacks in London and Egypt as evidence of the possibilities.

I look forward to today's panel and testimony, and I hope that our panelists can help shed light on the challenges ahead and provide some solutions for consideration.

Mrs. KELLY. The Chair would inform the joint committees that by prior agreement by both Chairmen and the Ranking Members, we are going to ask that all members hold their statements and we will accept them in the record. And with that, I would like to now call on our first panel, starting with Assistant Secretary Glaser. We welcome you, sir.

**STATEMENT OF DANIEL L. GLASER, ACTING ASSISTANT SECRETARY, OFFICE OF TERRORIST FINANCING AND FINANCIAL CRIMES, U.S. DEPARTMENT OF THE TREASURY**

Mr. GLASER. Thank you, Chairwoman Kelly, Chairman Saxton, Ranking Members Gutierrez and Meehan, and distinguished subcommittee members. Thank you for inviting me to testify today before both subcommittees on the important issue of Iraqi insurgency financing and the efforts of the Department of the Treasury in conjunction with our interagency colleagues to combat it.

This is obviously a critical and worrisome matter and one which captures our focused attention on a daily basis. Just as we despair at the many lives lost in the recent terrorist attacks in London, we feel the same sense of anguish when we read reports of our troops and Iraqi civilians losing their lives in the fight against an insurgency that are ultimately trying to destroy democracy in Iraq.

I share with you and with my counterparts at the Department of Defense a sense of urgency in doing our utmost to disrupt the flow of funds to those seeking to attack our troops, coalition partners, and innocent civilians.

The groups responsible for conducting the Iraqi insurgency require considerable organization and logistical support. It has been said that a single act of violence may not require extensive financial resources; but insurgency efforts require much more than that. Significant financing is needed to secure the loyalty of network members and to pay for salaries, coordination and organization, propaganda, housing, food, shelter, medical care, and transportation of the foreign insurgency fighters into and throughout Iraq. Disrupting the flow of these funds provides an important means of combating the entire insurgency.

In my written testimony I go into great detail about the many efforts Treasury has made to do its part in combating the insurgency. These efforts involve close coordination with the interagency community, particularly with the Department of Defense, both on the ground in Iraq and here in the U.S. My DOD colleagues can speak in more detail to our efforts on the ground.

I would like to focus my remarks today on the global efforts Treasury is leading to stem the flow of funds to the insurgency. Our efforts can be broadly characterized as, one, targeted action against the specific elements of insurgency financing; two, systemic efforts to improve financial transparency in Iraq and throughout

the region; and three, engagement with Iraq's neighbors to cut off the financial flows to the insurgency.

The two primary external sources of funds to the insurgency are, first, former regime elements, including senior officials of the former Iraq regime particularly; and second, Sunni jihadists such as the al Qaeda influence of Abu Mus Al-Zarqawi and his network. Domestically funded tribal groups and local militias also make up a substantial component of insurgency financing.

To combat the insurgency's external sources, Treasury has at its disposal numerous effective tools:

Executive Order 13315. This Executive order targets senior officials of the former regime. To date we have designated scores of Iraqi-related entities under this program, including 65 senior Iraqi officials who were named by President Bush, and 47 as a follow-up on this. Only a week ago, we designated six of Saddam Hussein's nephews and their names have now been accepted at the United Nations (U.N.) Four of the designated individuals provided financial support and, in some cases weapons and explosives, to the Iraqi insurgents.

Similarly on June 17, 2005, we designated Muhammad Yunis Ahmad for providing funding leadership and support from his base in Syria to several insurgent groups that are conducting attacks in Iraq.

Executive Order 13224. This Executive order targets global terrorists and was signed by President Bush in the immediate aftermath of September 11. The Treasury Department has designated many terrorists involved in the Iraqi insurgency, including numerous supporters of the Zarqawi network under this authority. But targeting individuals is not enough. Iraq's neighbors must ensure that they are not conduits for insurgency financing.

The Syrian Iraq border is of particular concern. In May of last year, we designated the Commercial Bank of Syria as a primary money-laundering concern pursuant to section 311 of the U.S. PATRIOT Act. This designation was premised on concerns about financial wrongdoings of that bank, including terrorist financing. This designation is but one of the actions we have recently taken to pressure Syria to change course on a number of fronts, including adequately policing its border to cut off the flow of funds to the Iraqi insurgency. The insurgency in Iraq will not be defeated simply by attacking its financial support structure. However, this is an important component of the comprehensive attack on the insurgency that employs all tools of national power.

The U.S. And the U.N. efforts to freeze and repatriate former regime element assets worldwide have removed billions of dollars of potential sources of insurgency support: designations and targeted financial sanctions under various Executive orders have isolated financial networks and our overall efforts to systematically safeguard the international financial system from abuse and increase the risks and costs of doing business for terrorist financiers.

Much remains to be done. We are learning more about the insurgency and its funding mechanisms every day and we will continue to do all we can to support our military and Coalition partners who are in harm's way and who contribute to our collective efforts to bring peace and security to the people of Iraq.

Thank you for holding these hearings. Thank you for your sustained interest, and I look forward to answering questions.

Mrs. KELLY. Thank you very much Mr. Glaser.

[The prepared statement of Mr. Glaser can be found in the Appendix on page 33.]

Mrs. KELLY. Mr. Roberts.

**STATEMENT OF JAMES "JQ" ROBERTS, ACTING DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR SPECIAL OPERATIONS AND COMBATING TERRORISM**

Mr. ROBERTS. Thank you, Madam Chairwoman Kelly, Chairman Saxton, Ranking Members Gutierrez and Meehan, and distinguished members of the two subcommittees.

I would like to associate myself with the importance of terrorist financing and insurgency financing made in the statements of the two Chairmen just a few minutes ago.

My colleague from the Treasury Department has discussed Treasury's activities. In a few moments, my colleague from (DIA) will specifically focus in on the activities of the Central Command in Iraq and in the region. And I am going to discuss more broadly DOD's efforts to address terrorist financing in the Global War on Terrorism.

I would like to briefly discuss the Department of Defense's ongoing work to address terrorist-financed exploitation beyond Iraq. Although DOD sees the Treasury Department as the lead Federal agency in this arena, the Department of Defense has work underway to support their efforts in two major areas; one area that we refer to as terrorist financing, and a second area that we refer to as threat financing. While terrorist financing focuses on organization cells and individuals directly linked to terrorism, threat financing is a broader-based concept that includes financing associated with weapons of mass destruction proliferation, narcotrafficking, organized crime, human trafficking and the like.

Mrs. KELLY. Mr. Roberts, could you pull that microphone a little closer to you—

Mr. ROBERTS. Is that okay—

Mrs. KELLY. That is much better. Thank you.

Mr. ROBERTS. We are convinced that following the money in all of its forms is a crucial element to mapping the networks and understanding the relationships between the nodes in those networks. It is also a key enabler for achieving the Department of Defense's objectives. We believe these clandestine activities threaten U.S. national security interests and can generate large amounts of revenue. A portion of these funds may directly or indirectly fund terrorists' and insurgents' activities. This greatly increases the complexity of identifying, tracking, and disrupting financial targets.

Terrorists use a wide, imaginative, and quickly evolving series of tactics to transfer money throughout their networks, from high-tech means such as sophisticated bank transfers to low-tech and no-tech means such as courier. The nature of the problem mandates that we focus on more than just the formal financial mechanisms traditionally associated with terrorist financing. The international community has done much in this vein since 9/11 through the Financial Action Task Force and the 8 regional bodies com-

prised of more than 150 countries and territories. Driven largely by the U.S. and its partner countries, the international community continues to address threat financing, focusing on money service businesses such as wire transfers, insurance and brokerages, informal wire services such as hawalas, diversions of charitable contributions transport, or cash transfers through the Postal Service or FedEx, and falsified trade documentation. The international community needs to focus more on precious metal and precious gem transfers, smuggling, and the like.

Identifying global links between networks, including witting and unwitting coalitions of convenience within those networks, is part of the challenge for the intelligence community. Ideally, actions taken against a local target should have network-wide effects. The Secretary of Defense's National Defense Strategy, signed in March of this year, describes our counterterrorism objectives as far as protecting the homeland; second, disrupting and attacking terrorist networks; and third, countering ideological support for terrorism.

With this in mind, the Department of Defense has developed a national military strategic plan for the war on terrorism which provides specific guidance on how to achieve these objectives. The first of six military strategic objectives outlined in that plan is to deny terrorists the resources that they need to operate and survive. Our list of resources, which includes funds, also addresses leadership; safe havens, both geographical and virtual funding; communications and movements; weapons, including access to weapons of mass destruction; foot soldiers; access to targets; and, most importantly, ideological support.

As you know, the U.S. Special Operations Command, SOCOM, has been designated to lead this DOD Global War on Terrorism campaign. It is synchronizing the counterterrorism plans of the five geographic military commands as components of a global campaign. It is also working closely with the U.S. Strategic Command on these missions. The geographic commands are currently assessing both the ability of terrorists and insurgents to finance operations and the effectiveness of the U.S. military to deny resources to terrorists. Initial data from these assessments indicate that DOD has enjoyed some successes in tracking and disrupting funds to terrorists and insurgents. And although each of these commands have made notable gains against the target, I have chosen to highlight activities in the U.S. Pacific Command and the U.S. Central Command for this testimony.

In Pacific Command (PACOM), the Interagency Regional Action Plan for that area of responsibility discusses the complexity of eliminating sources and channels of terrorist financing and the interagency nature of that work. Part of the plan's focus includes suspect charities, alternative remittance systems, cash couriers, bulk cash smuggling, trade-based terrorist financing and kidnaping for ransom, among others.

The Treasury Department's Financial Crimes Enforcement Network is providing invaluable assistance to PACOM's regional financial intelligence operations. PACOM and its interagency partners are working with partner nations to, number one, identify financial support networks of terrorists and insurgents; number two, help partner nations develop prosecutorial expertise in money launder-

ing and terrorist financing; and three, very importantly, encourage those nations in the region with strong expertise in this area to provide technical and administrative assistance to less capable nations.

Other successful initiatives include Central Command's Threat Finance Exploitation Unit which my colleague Mr. Temple will describe in more detail in a few minutes. That unit works with DOD and non-DOD intelligence, law enforcement, and regulatory agencies that are responsible for taking actions against terrorists and insurgency financial networks with a particular emphasis on Iraq. The success of this unit has created interest among other combatant commands who would like to create similar organizations for their respective areas of responsibility.

To that end, the Office of the Secretary of Defense is working closely with the Joint Staff and Combatant Command to more clearly delineate the roles and responsibilities for threat finance exploitation organizations within the department.

Mrs. KELLY. Mr. Roberts, if you could sum up your testimony it would be helpful.

Mr. ROBERTS. Surely. Much has been done, much remains to be done. Thank you, Madam Chairman.

Mrs. KELLY. That was certainly succinct.

All of your written testimony, without objection, the written testimony of every one of the witnesses today will be made part of the record. And we appreciate the fact that you were very succinct there, Mr. Roberts.

[The prepared statement of Mr. Roberts can be found in the Appendix on page 44.]

Mrs. KELLY. We go now to Mr. Temple.

**STATEMENT OF CALEB TEMPLE, DIRECTOR OF OPERATIONS,  
JOINT INTELLIGENCE TASK FORCE FOR COMBATING TERRORISM,  
DEFENSE INTELLIGENCE AGENCY**

Mr. TEMPLE. Thank you, Chairwoman Kelly, Chairman Saxton, distinguished members of both subcommittees. Thank you for inviting Defense Intelligence to participate today.

I would like to offer brief findings to paint a picture of financial terrorists and insurgents in and around Iraq. Defense Intelligence views the ongoing financing of the Iraq-based terrorists and insurgents as an important issue for Operation Iraqi Freedom. Defeating Iraq terrorists and insurgent funding is tough but it is a critical challenge. We have enhanced our capabilities and we have had success.

The enemy and those who financially support the enemy, however, are adaptive. Overall, countering terrorist and insurgent finances is just one reinforcing line of operations in our overall strategy to defeat terrorists and insurgents in Iraq.

My goal today is to sketch for you what we know, what we don't know, and what we think about Iraq-related funding activity. Attending with me are intelligence officers from U.S. Central Command and the Defense Intelligence Agency. Several, including myself, have deployed to Iraq and Afghanistan. All are responsible for developing intelligence and assessing opportunities to diminish terrorist and insurgent finance activities.

Financing challenges related to Iraq terrorism and insurgency are complex, a formal and informal multidimensional phenomenon involving external money flows and internal revenue generation and distribution networks. The diversity of terrorist and insurgent financial activities, a variety of high-tech and low-tech tactics, techniques, and procedures challenges our intelligence collection capabilities in different ways. The intelligence instruments required for identifying and collecting on this wide set of activities are diverse.

Our capabilities, however, are robust. We believe terrorists' and insurgents' expenses are moderate in Iraq and pose little significant restraint to armed groups in Iraq. We remain concerned that wealthy private donors in the Middle East and elsewhere continue to be an important part of the steady flow of funds into Iraq. We also believe former regime elements are a source of insurgent funding. Corrupt members of some transnational charities and non-governmental organizations around the region and inside Iraq continue to siphon and embezzle money for terrorists and insurgents, an unregulated form of value-transfer systems are prevalent throughout the Middle East and south Asia. Terrorists have access to a potentially large revenue base by conducting criminal activities ranging from low-level crime and extortion to involvement in smuggling and drug trafficking. Organized criminal activities are deeply rooted in some sectors of Iraqi society and are difficult to stamp out.

In response, Defense Intelligence has developed and is executing combating terrorist and insurgent financial all-source operations across the Combatant Command and the military services. These diverse activities form the core of our efforts and come together in support of warfighters serving in Iraq and around the region.

U.S. Special Operations Command, as mentioned, has been designated by the Office of the Secretary of Defense to synchronize the Department of Defense's counterterrorism activities. U.S. Central Command serves as the focal point for combating terrorists and insurgent finances in and around Iraq, and it is aggressively focused on this challenge. The commander and deputy commander of CENTCOM have stated that the disruption of terrorist and insurgent financing is a priority.

The Defense Intelligence Agency's role in combating terrorism and insurgent financing stems from our all-source operations and analytic production responsibilities and our mission to conduct defense human intelligence and measurement and signature technical intelligence activities. In 2004 and in 2005, DIA sharpened its focus on terrorist and insurgent financial activities significantly.

In conclusion, combating terrorist and insurgent finances has an effect on the enemy. Drying up money, stopping its movement, degrades terrorist and insurgent operations. It hinders recruitment. It impedes couriers. It disrupts procurement of bomb components, and it creates uncertainty in the minds of suicide bombers regarding whether their families will receive promised compensation.

Defense counter-finance activities, however, is just one element among several that integrate to form the basis of our overall strategy to defeat terrorists and insurgents in Iraq and strengthen Iraq. Alone, counterterrorist activities are not a silver bullet, but com-

bined with other efforts it is an important and effective weapon. With that, ma'am, I look forward to your questions.

Mrs. KELLY. Thank you very much.

[The prepared statement of Mr. Temple can be found in the Appendix on page 49.]

Mrs. KELLY. I will begin the questioning by saying that Mr. Glaser has stated that we have used section 311 designations already with some institutions and individuals in Syria. My interest in a blanket 311 designation of Syria is growing. Having heard Secretary Snow's recent comments before the Financial Services Committee, I know he is deeply committed and concerned about Syria but does not yet feel that a 311 designation is necessary because some things—and I quote him—“are going in the right direction.”

I would be interested in this panel setting out their views as to what Syria is doing and what is it that is so problematic for us and what is meant by going in the right direction. I understand that some of this information may be discussed better in the classified portion of this briefing. So if you can take it as far as you can and just indicate that we can take it further in the classified portion, I would appreciate that too.

We will start with you, Mr. Glaser.

Mr. GLASER. Thank you, Congresswoman. Syria is obviously a major concern for the United States on a whole range of issues relating to regional security. They are a state sponsor of terrorism. There are Syrian entities designated in our Executive order relating to weapons of mass destruction. There are individuals in Syria who have been designated under our former regime elements Executive order. The current Interior Minister of Syria is designated under an Executive order for interference in the internal affairs of Lebanon, and we have also designated the Commercial Bank of Syria under section 311 of the PATRIOT Act.

So we are deploying a full range of financial tools against Syria in order to try to persuade Syria to behave responsibly on any number of issues.

Now, specifically relating to insurgency finance, there are two—I would say two primary issues of concern. One would be former regime elements within Syria who are assisting the insurgency on a related issue of that of cross-border flow of funds into Syria. And then there is the second issue of the Commercial Bank of Syria and the \$262 million that is currently frozen in that bank that is related to proceeds of the trade protocol between Iraq and Syria. That also is a concern, and that is also something that Syria needs to do. That is a specific requirement that Syria must meet in order to have our designation of the Commercial Bank of Syria lifted.

Now, when Secretary Snow said that things are going in the right direction with respect to the section 311 designation, there were a series of demands made to Syria in the context of the section 311 designation, and I would be happy to go into this in more detail in the closed session. Many of those demands have been fulfilled. And some very very important ones have not been; in particular, cross-border currency across the Syrian border and the \$262 million that is sitting in the Commercial Bank of Syria right now. So those do still remain significant concerns.

One thing I will also say on this with respect to the concept of what we would call Treasury jurisdictional 311 with respect to Syria—it is an idea that we do need to consider—but one thing to keep in mind is the Commercial Bank of Syria represents the vast majority of the Syrian financial sector, I would say well over 90 percent. So by doing the designation of the Commercial Bank of Syria, you are getting virtually the entire Syrian financial sector simply with that one designation. Thank you.

Mrs. KELLY. Thank you. Mr. Roberts.

Mr. ROBERTS. The Department of Defense recognizes the problems and challenges that Syria presents both in terms of terrorist financing and financing to the insurgency and other regional security problems as well. We differentiate somewhat between the challenges that Syria presents across the border into Iraq and its continued support and activities in Lebanon.

Of course the Iraqi situation directly impacts on the current war in Iraq, but the activities in Lebanon show Syria's continued focus on its relationship with terrorist groups in Lebanon and the Global War on Terrorism more widely. As is always the case in these matters, the Department of Defense follows the lead of the rest of the interagency Federal family. You are well aware we have an embassy in Syria. We continue to have diplomatic relations, although oftentimes strained, and therefore I think I will limit my remarks to what I have said. Thank you.

Mrs. KELLY. Thank you, Mr. Roberts. I think Americans, especially those with loved ones fighting in Iraq, have a right to know as much as they can about any country that is financing and sending material goods to the enemy. Mr. Temple, do you have anything you would like to add?

Mr. TEMPLE. Thank you ma'am. I don't have anything that I would like to add, at least in this forum.

Mrs. KELLY. Thank you. We turn now—my time is up. We turn now to Chairman Saxton.

Mr. SAXTON. Thank you, Madam Chairlady.

I find the situation in Syria very interesting for a number of reasons. It seems to me with the death of the former Assad, a new set of challenges vis-a-vis Syria, even though the challenges under the former Assad were significant. Perhaps in a way, they are even more significant and tougher today because of the type of leadership vacuum that may exist in Syria today.

I have had direct conversations with Syrian people who know the situation very well and they tell me that President Assad is a very weak leader; that he may or may not control certain aspects of government and government policy and people who may be associated with or even unassociated with his government; and that much of the problem that we are experiencing, we are experiencing because there is very little way to influence activities on the ground there through the government because of this vacuum of leadership.

I was wondering if you could give us your take on this subject and how important a problem is this. Whoever would like to.

Mr. GLASER. Well, thank you Chairman Saxton. I certainly wouldn't hold myself out as an expert on the internal political dynamic within the Syrian Government. I can tell you that I have personally traveled to Damascus within the last year to have dis-

cussions with Syrian officials on some of the issues we are talking about here today. I have met in the last year three times with the Financial Minister of Syria. I do think that there are people within the Syrian Government who would like to do the right thing. I do think that there are forces within Syria that seek to reform. In a certain sense I am not sure how important that is from my job, from where I sit, which is that I have to deal with Syrian behavior as I find it. The Treasury Department and the United States Government needs to deal with Syrian behavior as we find it, and we have to deploy the resources that we have. And I think that you are right to be concerned about the issues that you are concerned about with Syria. We share your concerns. I mean, that is why we have taken the series of actions that we have taken, that I have elaborated already and would be happy to go into greater detail on.

Mr. SAXTON. Mr. Temple, do you have anything to add?

Mr. TEMPLE. Thank you, sir. The only thing I would add to my colleague's remarks is that we have taken a pretty good look at Syria and I think what you are referring to, sir, is capabilities versus intentions.

Mr. SAXTON. I am sorry?

Mr. TEMPLE. I think what you are referring to is capability versus intentions and any results that may occur between those two. We have taken a pretty good look at that and I would be able to expound on that, sir, in a follow-on session.

Mr. SAXTON. Thank you very much.

Let me just go south a little ways to Saudi Arabia. And we talk a lot about charities helping to fund the insurgency, and I have a concern that perhaps, at least from a congressional point of view, we have understated the importance of this situation particularly with regard to Saudi Arabia.

Wearing another hat, I chair the Joint Economic Committee, and one of the areas of study that we have gotten into recently is the price of petroleum and how the money that we pay at the pump translates back into profits for the Fahd family and others. And we are told that it costs about \$1.50 to get a barrel of crude out of the ground. And of course there are costs that add on that as we move forward. But it is nowhere near \$60 a barrel. So what this tells me is that there is a huge profit margin with regard to petroleum.

And we also know that in Saudi Arabia, there is a fair amount of dislike for the West, particularly in the so-called Wahhabi community. And we also know that there is a custom in Saudi Arabia to be quite generous, particularly among those who have a lot of money.

So given those three factors, it seems to me that one could draw a conclusion that it would be quite—it could be less than difficult to put together a large amount of money through charities and funnel it into Iraq. Is that a major source of funding for the insurgency?

Mr. GLASER. The insurgency in Iraq is in many senses the new frontier for the international jihad movement. I mean, we can see that with the strategic alliance that has been formed between Zarqawi and bin Laden. So the jihadist financial support network, if you want to call it that, has long used charities as one of the primary means of financing themselves. So it is not a particularly big

step that you have to take to say, well, the international jihadist community is focused on the insurgency. They raise their money largely through charities; therefore, it is likely that charities, that these charities that are being used to raise money, are in part contributing to the insurgency in Iraq. I don't think that is a very large step to take at all.

With respect to Saudi Arabia particularly, Saudi Arabia has long been a concern in this area, in the area of terrorist financing. Chairwoman Kelly has visited Saudi Arabia herself and she has engaged with them. I visited Saudi Arabia several times, most recently with Fran Townsend, and also had conversations with them, including on the issue of the use of charities. Now, the Saudis have done a lot of good things, and I think we need to acknowledge that they have done a lot of good things with respect to the regulation of charities. They have very strict laws with respect to the financial activities of charities. And also I should say that we enjoy very, very close cooperation with the Saudis on an operational level through the Joint Financing Task Force that we have in Riyadh. So I think we do need to acknowledge the good things when we see them.

There are problems still remaining, though, and one of the most important problems is that Saudi Arabia still has not created their charities commission, which they have been talking about for a while, which is supposed to bring some structure and order to the way they oversee their charities. And we are waiting for that.

And I think the second and equally important issue is some of their largest charities, the IRO and WAMI, which currently fall outside of their charitable regulations and need to be included. And I think until we see those types of reforms not only put into place, but truly implemented, it will continue to be a concern of ours and something that we will continue to be pressing the Saudis on.

Mr. SAXTON. Mr. Roberts.

Mr. ROBERTS. I would like to go back to this issue of control by leadership and vacuums of control, because I believe that across the region and in fact across much of the Third World, these issues are germane to the discussion. And it is a careful balancing act, as Dan has just been discussing, between encouraging appropriate reforms in governments that are there to continue to expand, if you will, their footprint of governance across these various activities, and push that forward at an appropriate pace, without pushing so hard as to rupture the relationship or damage your future access or the kinds of operational cooperation that Dan was talking about.

And in our National Strategy for the War on Terrorism, we recognize this and we believe that building capacity inside these governments to improve their ability to govern is one of the key ways to begin to expand the footprint of governance to match the footprint of sovereignty. And this is a huge challenge and it goes across all elements of national power in these Third World countries. But the answer that Dan gave on Saudi Arabia is symptomatic of pushing all of these countries across the region.

Mr. TEMPLE. Sir, the final piece I would add regarding capacity building and strengthening allies, when we are just—as you stated, sir, when we were discussing about these Islamic charities that are operating out there, we are talking about a large amount of money

that is moving around. And from our perspective the real challenge in working with our allies is trying to sort out the very granular details of bad people that may be operating inside otherwise good charities, and it is a pretty significant investigative challenge in order to get down to that. And that is probably part of the core of what my two colleagues have just articulated in terms of the strength in the region.

Mr. SAXTON. Thank you very much, Madam Chairlady.

Mrs. KELLY. Thank you. Mr. Gutierrez.

Mr. GUTIERREZ. I am just going to read a couple of paragraphs from the Wall Street Journal article dated today:

“during their routine audit last summer of an American office in charge of doling out reconstruction funding in Iraq, U.S. Government investigators made a series of startling discoveries. The office had paid a contractor twice for the same work. A U.S. official was allowed to handle millions of dollars in cash, weeks after he was fired for incompetence. Of the \$119 million allocated for regional products, 89 million was disbursed without contracts or other documentation. An additional 7.2 million couldn’t be found at all.

“a contractor charged the U.S. 3.3 million for phantom employees assigned to an oil pipeline repair contract, and the U.S. failed to keep track of nearly 9 billion it transferred to the new Iraqi Government, much of which appears to have been embezzled.”

And this is from the Special Inspector General for Iraq.

I would like to ask Mr. Glaser, what has Treasury done to track these funds that were earmarked for construction projects as well as the 9 million transferred to the new Iraqi Government?

Mr. GLASER. Thank you, Mr. Gutierrez. Reports like this are certainly quite disturbing, and I do agree that we need to do all we can to track these down.

With respect to what Treasury can do to help in that, we have an IRS criminal investigator on the ground in Baghdad. He is one of only eight IRS attaches we have in the world, foreignly posted, and he is in Baghdad. And he is there, among other things, to assist with financial investigations.

Another thing, and I go into this in some detail in my testimony, is a project that we have—and I would like to go into it in a little bit more detail in the closed session—but we do have a project of currency tracing. When we recover currency from individuals who are captured, or apprehended insurgents, we look at their currency and we see how we, by using the serial numbers and working with the Fed, we can trace that currency to find out where it came from.

Again, I could give you a bit more information on that in the closed session.

Mr. GUTIERREZ. Because my 5 minutes usually wind up to be 7 or 8 minutes, I have to be a little more precise. I want to make sure that we understand that I think it is great for us to look at charities. I think it is important to look at charities in terms of international financing of terrorist jihadist groups. I think it is important that we look at the PATRIOT Act and what we do in Syria and looking to freeze those funds. Of course, there were protocols with seemingly allied countries of ours, since we sent Egypt hundreds of millions of dollars, and they too had a protocol in violation of the U.N. embargo, as well as Jordan, as well as Turkey.

And so I would hope that we would look at Syria and that we would look at the other countries that had agreements with Saddam Hussein's corrupt regime and may also have holdings in their banking system.

But I also think it is important that we begin at home. And given that this is—while that article is fresh, today, it isn't the first time that the inspector, the Special Inspector General for Iraq, who I believe was named by the Defense Secretary—he had the role of naming him. He has made a lot of different—I mean, we have to look at our own house. So maybe we could talk later, but I would really like to see what we are doing to tighten up our own processes so that none of this money, as we have read in other reports where the regime that is there has been infiltrated by former members—indeed, their armed services and their military and protective have been—I would hate to think that there are contractors there and other people involved in getting money which then, unknowingly, unwittingly, goes back to help the insurgency. I think it is very, very important to look at this report and what we are doing.

I would like to ask the Department of Defense and Mr. Roberts who represents—since the Special Inspector General—you can correct me if I am wrong—was appointed by your boss, the Secretary of Defense, to this job. What has the U.S. Government done to identify any parties connected with the disappearance of these funds that have been determined by the Special Inspector and determine whether any of this money is indeed a current source of the Iraqi insurgency?

Mr. ROBERTS. Mr. Gutierrez, regrettably, I am the terrorism guy, and I am not the Iraq guy and the CPA guy and the investigative guy. So I would encourage you to submit that for the record, and I will take it back to the Department and get the proper answers.

As you well know, the Department is always concerned with allegations of wrongdoing or abuse and seeks to follow up and investigate them appropriately. But I cannot give any more details on what is going on. I simply don't know.

[The information referred to can be found in the Appendix beginning on page 67.]

Mr. GUTIERREZ. Well, I am sorry. I thought that since—I am sorry that I asked a question you didn't know the answer to. That happens to me frequently also, so you are not in a situation all by yourself.

Mr. ROBERTS. Happens several times a day to me.

Mr. GUTIERREZ. People ask me where their garbage can is at or that their tree needs to get trimmed, I tell them the Congress—that is not their particular problem of the particular day.

As you can see, you don't have the answer to my particular query and what the problem is today. I earnestly understand that. That is certainly fair that you not give an answer that you don't know; it is not your job, it is not your area of expertise.

Does anybody have an area of expertise from Treasury or anyone in terms of what we are doing to track this money? Any of the three panelists?

Mrs. KELLY. Mr. Gutierrez, you are free to submit that. We have already got it in the record. We would hope that the panel—

Mr. GUTIERREZ. I am sorry.

Mrs. KELLY [continuing]. Will give us an appropriate answer from the appropriate people who are the experts.

Mr. GUTIERREZ. I am sorry. Forgive me for asking questions that may be a bit uncomfortable. It is just that they were so glib and so forthcoming with answers. But probably mine are inappropriate before—thank you very much. I think my time has expired.

Mrs. KELLY. Thank you, Mr. Gutierrez.

Mr. Meehan.

Mr. MEEHAN. Mr. Temple, your written testimony states that some insurgent groups have enough sources of money to continue the current level of violence indefinitely. Could you be more specific in terms of the source of those funds and how they are accessed?

Mr. TEMPLE. Thank you, sir.

The source of those funds for terrorists and insurgents is pretty complex, diverse and dynamic. It includes a combination of and a shifting combination of former regime elements, charities of misguided or intentionally malicious charities, private patrons who support anti-Iraq activities. Those are primarily the dynamic flows of foreign money that is coming inside of Iraq from outside its border.

Within Iraq itself, the country at this point, given the relative level of instability, terrorists and insurgents, are conducting a lot of criminal activities, extortion and kidnapping, in particular, as a way to acquire revenues—possibly drug smuggling, as well.

So, sir, all this adds up to a relatively robust, diverse and resilient set of funding that—we have tried to match up the costs for operating for a given time frame for terrorists and insurgents versus what we think is coming in. And that calculus has led us to assess that, for some terrorists and insurgents, their violent activities could continue indefinitely.

So, sir, in this forum, that is what I would offer you; and we could take it into the classified forum if you wish as well.

Mr. MEEHAN. For members of the panel, within Iraq do U.S. forces have the tools to address cases where the insurgents are cooperating, or is this too sensitive an area for us to tackle head on?

Mr. ROBERTS. I am sorry, I didn't hear the noun. Who was cooperating?

Mr. MEEHAN. The cooperation within the insurgency.

A lot of the insurgencies—cooperates one day, doesn't cooperate another day. There are people that go back and forth within the insurgency. You can talk to any general in Iraq, they will tell you one day they are working in a particular neighborhood and people are cooperating, and then there is a—it changes.

Mr. ROBERTS. Cooperating back and forth with the Iraqi Government on the one hand and the U.S. forces and then assisting the insurgency on the other hand?

Mr. MEEHAN. Right.

Mr. ROBERTS. That is your question.

That certainly does occur. It is endemic in insurgencies.

Mr. MEEHAN. But how do we address it?

Mr. ROBERTS. We address it again by building capacity within the government. One of the key factors is, in many cases in the Third World, what is the salary of the designated security official?

Oftentimes that salary is so low as to barely permit him to sustain himself and his family.

I don't believe this is the case in Iraq right now, but in other places this is the case. You are operating in a zone of the world where kleptocracies and thugocracies have operated for a long time, and it is very difficult to break these habits. We saw the same kind of ebbing and flowing in Vietnam where villages would cooperate with the Government of South Vietnam one day and would cease to cooperate next and the third day, come back again.

This is one of the challenges of these complex contingency operations that we are confronting.

Mr. MEEHAN. It is apparent that the Department of Defense is focusing on the problem of terrorist financing, judging from the level of activity at Special Operations Command, Central Command and the Defense Intelligence Agency.

Can we say we have made progress? Where are we weakest? What haven't we done as well? What do we need to do from a policy perspective, both the DOD and the administration and the Congress, to address the weaknesses?

Mr. ROBERTS. First, within the Department of Defense, as I mentioned, we have identified the flow of funds as one of the eight key contributing elements of both the insurgency in Iraq and the Global War on Terrorism. We are at, I won't say the front end, but we are perhaps a quarter of the way in to determining exactly how best to collaborate with our interagency partners and create appropriate structures at the various combatant commands to provide DOD adequate insights and leverage over this problem.

The experiment at Central Command, with the terrorist finance exploitation unit that they have there, is a precursor to possible other similar structures and other combatant commands that would enable the Department of Defense to play its proper role. Again, we do not see ourselves as a lead Federal agency in this arena.

We must have close collaboration with Treasury, State and the remainder—and the other elements of the intelligence community to put together—and Justice and the FBI to put together a cohesive interagency package that allows all tools of power on the U.S. side and with the governments with which we are interfacing, to address this problem.

As I say, we are on that road. We are looking at the terrorist finance exploitation unit. We are looking at the experiment in PACOM, at valuable lessons learned, to determine how we best do this in the Department of Defense.

I don't know whether Dan wants to address Treasury's piece of that or not.

Mr. MEEHAN. Basically, what I am asking you for is, have we made progress? Where do we need to do better, both from the administration perspective and also Congress' perspective?

Mr. GLASER. Well, as I said in my oral statement, as Treasury approaches this issue, I think you could lump it into three categories, targeting specific individuals, entity mechanisms that are actually providing funding. That is first.

Second of all, enhancing financial transparency both within Iraq and throughout the region, and really throughout the world.

Then third of all, working with the countries that border on Iraq to ensure that money does not flow through those countries to the insurgency.

I mean, I think on each of those there is more that we could do and that there is more that we are doing. On the first one, on identifying and targeting the individuals and entities, in the last 6 weeks, we have had—we have designated six, seven or probably eight people in the last—individuals or entities, maybe, I don't know, 10 or 11. I don't know the exact number.

We have designated quite a few in the past 6 weeks and we are continuing to work on that. We are working with DOD and the Intelligence Community and Department of State and Justice and the FBI to identify who these individuals are and put them in what we would—say, a box, put them in a financial box to cut them off in the financial system.

That doesn't mean they are not going to still be able to operate—as everyone here has been saying, using cash couriers, hawala and other mechanisms—but you start to make them use costlier, riskier, less efficient means of using their money. It is going to make things harder for them. That is the first thing we need to continue doing.

As far as transparency within Iraq, Treasury is working right now to develop a payment system for Iraq right now so they don't have to be so cash reliant. That is something that is a major, major problem for the Department, I think, that will pay big dividends for the people of Iraq in a big way, including a transparent financial system that will not be as susceptible to terrorist financing.

Within the region, we are working with the—the U.S. government helped create an organization called the MENAFATF. Middle East North Africa Financial Action Task Force. Fourteen different countries in the northern Middle East region are working together to help all of them to come into compliance with national standards to improve transparency, to deal with such issues as cash couriers.

I am the head of the U.S. delegation to that organization. They are going to be having a plenary session in Beirut in September. I look forward to hearing about what progress they have made. It is a new organization; we will see how effective they are. I can't sit here and tell you that I am 100 percent positive that this is going to work. But it has a chance of working, and we are going to work with those countries to help it work.

Then, with respect to the border countries—and I think Congressman Gutierrez was exactly correct; it is not just Syria that we should be focusing on. Syria is a particular problem, but all countries in the region and all countries in the world have an obligation under Security Council Resolution 1483 to freeze former regime assets and return them to the people of Iraq.

We don't just focus on Syria. We focus on all countries that have these assets. We work with all of them. We encourage all of them to do so. So it is not one thing.

It is not so easy to say we have succeeded or we have failed. But it is continuous work on all these fronts that I think ultimately will have this—will be successful in disrupting and dismantling the networks that do support the insurgency.

Mr. MEEHAN. Thank you.

Mrs. KELLY. Thank you, Mr. Meehan.

Mr. PRICE.

Mr. PRICE. Thank you, Madam Chair. I appreciate it. I want to thank you for holding this hearing along with Chairman Saxton and the ranking members. It is an incredibly important topic.

I want to thank the panelists for coming. When I think sometimes I have a difficult job, then I look at what you all are trying to do and say, it ain't nothin' with what we are trying to do here. So I want to thank you for your solid work and commend you today for coming to be with us.

I am interested in each of you giving a perspective on what the insurgency costs. Help me get my arms around what it costs to put on this insurgency.

Mr. TEMPLE. Sir, we have done quite a bit of work on that issue. I have to tell you that our methodology—the tradecraft we have applied, and the data that we have had in order to derive our findings—has been a learning experience and dynamic on this problem set. We have a good sense, we think, of how much the insurgency costs in all its forms—terrorist activity, insurgent activity, tribal and clan-based violence and so on. I can tell you we have worked that pretty hard and have some findings.

What I would like to tell you is, I would like to defer those findings to the follow-on session, if we could do that.

Mr. PRICE. Sure.

Does anyone else want to? I am a surgeon. I need real concrete stuff. Anybody want to put a number to it here?

Later.

Let me follow up on Congressman Meehan. I too am interested in making certain that we are doing everything we can. I heard a lot of discussion about—have heard a lot of discussion about what the executive branch is doing and the logistics of it. But is there any other assistance or any other avenue that Congress needs to explore from a policy standpoint that would be of aid to you all?

Thoughts? Criticisms?

Mr. GLASER. I think that Congress' holding hearings like this and showing a sustained interest in this and doing your job of making sure we are doing our job is what Congress needs to continue to do. From Treasury's perspective, we have the authorities that we need to be effective in this fight, and it is a question of our just doing a good job and making sure that we keep our eye on the ball and do everything we can with the tools that you have given us.

Mr. PRICE. Mr. Roberts.

Mr. ROBERTS. I would agree. I think we in the Department of Defense and the executive branch have the authorities that are required. I think there can be, from time to time, challenges in orchestrating those authorities, especially against a very rapidly changing non-state actor network.

In the Department, we have spent a lot of time focusing on how to attack and defeat a state-organized enemy armed force, and the Global War on Terrorism is forcing us to look at a global, mobile, morphing, clandestine, non-state actor network, with coalitions of convenience of both witting and unwitting partners.

That is a very different security environment for us to be operating in. We would look to work closely with Congress as we work our way through that.

Mr. PRICE. We aren't putting any roadblocks in front of you to make it so that you can't do your job?

Mr. ROBERTS. No.

Mr. PRICE. Any comment?

Mr. TEMPLE. No, sir.

Mr. PRICE. Let me ask you, I read about 10 Euros for Iraq. I am stunned, frankly, that that kind of fund-raising—apparently, it is fund-raising for the insurgency, I guess.

Is there any way to track who is doing that and stop that kind of fundraising?

Mr. GLASER. We are aware of this group. Congresswoman Kelly showed that very troubling poster earlier in the session. They seem to be a collection of European left-wing radicals who are more or less united by a strong sense of anti-Americanism. They have—over the years, have a very inflammatory Web site, and they have organized rallies, which were fairly well attended around the time of the war in Iraq and seem to be less well attended in more recent years and months.

Regarding the insurgency activities, I can say—I would be happy to go into this in much greater detail in the closed session, but I can say that they don't seem to be particularly effective as fundraisers or in terms of getting any funds that they happen to raise to actual designated insurgency groups.

That being said, of course, we need to keep our eye on them, but they really—there are a lot of major sources of funding for Iraq that we need to really be focusing on.

Mr. PRICE. Thank you. I appreciate your answers.

My time has expired, Madam Chair, and I yield back.

Mrs. KELLY. Mr. Lynch.

Mr. LYNCH. Thank you, Madam Chair. First of all, Madam Chair, I want to thank you and Chairman Saxton and Ranking Member Gutierrez and Mr. Meehan for holding this hearing. It is great stuff, and it needs to happen.

Mr. Glaser, at a previous hearing, your predecessor talked about sort of a blind spot that we had with the banking community in the Middle East; and back in March and April, I had the opportunity to go to Amman, Jordan, and also to Ramallah in the West Bank as well as Baghdad. At least the reports out of Treasury at that point were that we were not getting cooperation in terms of just the basic accounting protections that we expect from major banking institutions—suspicious activity reports, suspicious transaction reports coming out of these banks.

I will be back in Amman and Baghdad next week. I am just concerned.

Are we getting any better response from our friends in the banking community in the Middle East with respect—I heard that the Arab bank in Ramallah had not, in the past 3 years, filed one, single suspicious activity report. You know, I am someone who is—you know, they have got 30 to 50 percent unemployment among their young men between age 18 and 35 years old. I am someone who thinks we need to—we need to invest in the West Bank and try to

reduce that unemployment rate so as to discourage the frustration of young men turning to violence and getting swept up in other activities. I would rather put them to work, if we could.

Are we getting any better cooperation from the banking community there? Are they still resisting? And isn't there something—with all the money that we are pumping into this region, isn't there sort of carrot-and-stick available that we could encourage them into greater compliance?

Mr. GLASER. Thank you, Congressman. I think there are some very important issues that you raised. I think I will focus first on Jordan and then on the Palestinian Territories. Also, I have been to Amman twice in the last year to engage with the Jordanian Government on precisely the issues that you are talking about.

I think the question is not so much, are we getting cooperation from the banks in Jordan as, is there an effective anti-money-laundering counterterrorist financing regime in Jordan that the banks need to be complying with. The answer is no, Jordan does not have an comprehensive anti-money-laundering law. They need to pass one.

This is the point that the United States Government, through both the State Department and Treasury Department, has made to Jordan many times; and we are still looking forward to seeing them enact a comprehensive anti-money-laundering kind of terrorist law and implement those regulations. So I think that you have identified a very important issue.

With respect to the—with respect to the Palestinian Territories, I have also been to the Palestinian Territories and met with both Finance Minister Fayyad and some of the private sector banks. I was actually the person to whom they said that they haven't filed a suspicious activity report.

It is really—it is a starkly different situation. They have certainly been living in extraordinary circumstances in that particular region. One of the few things that actually has been working fairly well has been their banking system. That is not an excuse for not having effective anti-money-laundering regimes in that part of the world. In fact, it is one of the most important regions that really does need to have anti-money-laundering regulations on the books and being enforced.

We are working with the Palestinian Authority precisely to do so.

One of the most important things that I think we can help them do with this creation of a financial intelligence unit—and the Treasury Department and USAID have been engaged with them to do that—and what we hope that financial intelligence unit will do is precisely follow up on the issues that are of concern to you, failure of banks to engage in customer identification, keep records, file suspicious activity reports. They could share those financial suspicious activity reports with the United States and with other countries.

So I think you have put your finger on a very important issue that we are certainly aware of, that we are seized with, and that we continue to work with both governments on.

Mr. LYNCH. Thank you.

Before I let the other two gentlemen respond, the Financial Intelligence Units (FIUs), have they been established in either

Ramallah or Amman? I don't want to single them out because, you know, God knows, there is a lot of this stuff going on in the Middle East. But there should be a systemic approach to—since we are pumping a lot of money in over there, just a requirement of compliance that putting these basic safeguards in place.

There is no sense in trying to track, you know, gold bullion and, you know, and shipments in the night if the regular banking system is just riddled with holes and folks can, you know, draw money out of there for illicit purposes and not fear being discovered.

Mr. GLASER. You are exactly right. Neither country will—neither the Palestinian Authority nor Jordan has financial intelligence units. We are still waiting for Jordan to enact a law that gives them the authority to establish a financial intelligence unit, and we have told the Jordanians many, many times—I have personally told the Jordanians that once they get to building a financial intelligence unit, the U.S. Treasury Department certainly stands ready to provide them with whatever assistance and whatever guidance we can provide them.

We have even discussed internally within Treasury the notion of sending somebody out there on a long-term basis to help them establish one of these things, but we need the law passed first.

Mrs. KELLY. Mr. Lynch, those were good questions.

Mr. LYNCH. I am sorry?

Mrs. KELLY. Unfortunately, your time is up. I hope that you will stay for the closed session so you can continue the questioning if you like.

Mr. LYNCH. Actually, I have the DEA in my office waiting, but I will come right back.

Thank you, Madam Chair.

Mrs. KELLY. Thank you.

Mr. Cleaver.

Mr. CLEAVER. Mr. Temple, on page 36 your statement, in the middle paragraph, you talk about the mosque and both the Shi'a and Sunni mosque where it appears that religious leaders are in some way financing or assisting in the financing of the insurgency.

Isn't that going to be something that we would essentially have to say, Hands off? That is a very sensitive issue.

Because this whole conflict at least is being defined in part by the insurgencies that this is an attack on Islam. So if we try in any way to disrupt the money that comes out of the mosque to the insurgents, we are likely going to inflame things even further.

Do I have this close to being accurate?

Mr. TEMPLE. Thank you, sir. We are concerned about mosques, Sunni, Shi'a meeting houses and other local-type gathering organizations and fund-raising activities for terrorists and insurgencies that may occur in those venues.

Sir, I think you hit the nail right on the head. This is a tough, sensitive issue. I think we have tools in Iraq, engagement kinds of tools and strategies, to address these sensitive issues. But it is a concern to us, and it is a sensitive and tough challenge, yes, sir.

Mr. CLEAVER. I am not familiar with the work on the Iraqi constitution, but I am assuming that there will be protections even there. I can't imagine that they won't—that there won't be some-

thing in the constitution that would prohibit, you know, what would be considered, you know, meddling into religious affairs.

So as long as that is happening, aren't we at a disadvantage to the point that we really can't stop the money from flowing?

Mr. TEMPLE. Sir, I would say, as I state in my open testimony, that the important thing here is not counter-finance as a silver bullet, but engaging in counter-finance activities against terrorists and insurgents to affect them, to create doubt in their minds, to deny them latitude, to stop growth in revenues and to force them to have to think and make decisions and be constrained.

That is, really, I think, the ultimate purpose of a counter-finance strategy against terrorists and insurgents. It is certainly not a silver bullet.

Mr. CLEAVER. Thank you.

Mrs. KELLY. Thank you, Mr. Cleaver.

Mr. Scott.

Mr. SCOTT. Thank you, Madame Chairlady. I really appreciate that.

How much of the current Iraqi insurgency is being funded through fraud from the Oil-for-Food program?

Mr. GLASER. Well, since we can't give—first, I think there are several answers to that. Since we can't give an overall number on the total resources available to the Iraqi insurgency, I think it would be hard to give a percentage of funds that initially originated from Oil-for-Food fraud.

So I will leave it at that.

Mr. SCOTT. In your opinion, is the U.N. Taking prompt action to investigate and reform this program?

Mr. GLASER. That is a question I would defer to the State Department.

Mr. SCOTT. Is it possible that some of the billions that were lost by the Coalition Provisional Authority might now be funding the insurgents?

Mr. GLASER. There are many possible sources of funding for the insurgency. There is a lot of money in the region. There is a lot of cash in the region. I mean, we have to be concerned with all sources of funding.

Mr. SCOTT. What is the United States doing to track down and recover any of those billions of dollars that have been lost and squandered around?

Mr. GLASER. The billions of dollars from Oil-for-Food?

Mr. SCOTT. No. There were billions of dollars that were lost from the Coalition Provisional Authority that were allocated, our money, not accounted for. It is clear that some of that money—it is a lot of money. We know it is lost.

The two questions that ought to be found an answer to: Is it getting into the hands of the insurgent; where is it? And have we become concerned enough to try to find out where it is and track it down?

Let me ask you this one: How much of the insurgency is being funded directly through funding in the United States and European countries?

Mr. GLASER. Again, I can't give you a specific percentage, but I think that there is a significant amount of funds emanating from Europe.

Mr. SCOTT. Have international efforts been successful on shutting down known funding sources at home or in coalition countries?

Mr. GLASER. With respect to—within the United States, again, I would defer to the Department of Justice on those questions.

With respect to outside of the United States, I think that we have had successes. There have been a number of arrests and prosecutions in Europe. Sweden, for example, has just had a prosecution, a successful conviction with respect to funding for Ansar al-Islam. I think that is a very, very significant step for Europe, which has had trouble getting convictions.

But we do see a number of investigations, prosecutions and convictions in Europe, specifically with regard to supporters of the insurgency.

Mr. SCOTT. Have the Saudis stepped up their efforts to regulate charitable funds that are being directed to known terrorists?

Mr. GLASER. The Saudis have an impressive regulatory scheme in place with respect to charities. The problem is with that is, it puts an enormous amount of regulation on the financial activities of charities, and they should be commended for it.

There are a number of problems with that scheme, loopholes within that scheme, that we have been calling upon the Saudis to deal with for some time now, and we continue to for them to deal with it. They have told us that they are dealing with it.

One of them is the exemption of three of the most significant Saudi charities from the charities regulation. The second is the creation of a charities commission. They have assured us numerous times and have assured us quite publicly that they are going to establish a charities commission, and they have not yet done so. They have assured us they are working on it, and one will be forthcoming.

Once that is established, I think that we need to work to make sure that the charities commission is doing what it needs to do to make sure the charities within Saudi Arabia are not a source of funding for the jihadist movement worldwide and for the insurgency movement in Iraq.

Additionally, the Saudis have been cooperating with us operationally through the joint operating task force on the ground. So they should be commended for that.

There are other mechanisms that I could describe to you by which funds can flow out of Saudi Arabia. They create accounts within banks. Mrs. Kelly referenced one, that I don't believe is operational anymore, with respect to support for the Intifada.

But they open up accounts in banks and encourage people to deposit money into these accounts, and then the money goes out. I think it is certainly fair for us to ask the Saudis how they manage these accounts and how they account for the finances in those accounts.

So I think with respect to Saudi Arabia, they have taken a lot of measures, and I think that there are still measures that we would expect them to take in order to adequately deal with the problem of terrorist financing emanating from the kingdom.

Mr. SCOTT. Al Qaeda——

Mrs. KELLY. Mr. Scott, I am sorry, we are going to have a vote. I am trying to get everything in so we can have a closed hearing. Will you hold your question until the closed hearing, please?

The Chair notes this is a very busy time. There are members who will have questions for this panel and will submit them in writing. So we will hold the open session of this hearing open for 30 days for those questions to be submitted and the answers to be returned to us.

At this point, we will now excuse everyone who is not involved in our closed session, and we thank you very much for your participation.

We will now move to the closed session.

[Whereupon, at 3:38 p.m., the subcommittees proceeded to other business in closed session.]



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**A P P E N D I X**

JULY 28, 2005

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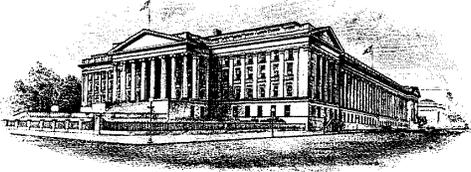
**PREPARED STATEMENTS SUBMITTED FOR THE RECORD**

JULY 28, 2005

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**DEPARTMENT OF THE TREASURY  
OFFICE OF PUBLIC AFFAIRS**

EMBARGOED UNTIL 2:00 PM  
July 28, 2005

CONTACT: Molly Millerwise  
(202) 622-2960

**Testimony of Daniel L. Glaser, Acting Assistant Secretary  
Office of Terrorist Financing and Financial Crimes  
U.S. Department of the Treasury**

**Before the House Financial Services Subcommittee on Oversight and Investigations  
and the House Armed Services Subcommittee on Terrorism**

Chairwoman Kelly, Chairman Saxton, Ranking Members Guterrez and Meehan, and distinguished Subcommittee members, thank you for inviting me to testify today before both subcommittees on the important issue of Iraqi insurgency financing, and the efforts of the Department of the Treasury, in conjunction with our interagency colleagues, to combat it. This is obviously a critical and worrisome matter, and I share with you, and with my counterparts at the Department of Defense, a sense of urgency in doing our utmost to disrupt the flow of funds to those seeking to attack our troops, coalition partners, and innocent civilians in Iraq.

**I. OVERVIEW**

The groups responsible for conducting the Iraqi insurgency, like other terrorist organizations, require organization and logistical support. It has been said that single acts of violence may not require extensive financial resources. For instance, suicide bombers and those who plant improvised explosive devices (IEDs) reportedly are paid only a few hundred dollars each. However, it takes much more money to support the overarching insurgency/jihadist effort. Significant financing is required to secure the loyalty of network members and pay for salaries, coordination and organization, propaganda, housing, food, shelter, medical care, and transportation of foreign insurgency fighters into and throughout Iraq. Disrupting the flow of these funds provides an important means of combating the entire insurgency effort. Following the money upstream and downstream can help us identify, locate, and disrupt the insurgents themselves, as well as their financial networks. It is for this reason that combating insurgency financing has become a top priority of the Departments of the Treasury and Defense, and of the entire U.S. Government.

### ***A. Insurgency Groups***

The Iraqi insurgency encompasses several distinct, but often overlapping groups:

- Sunni jihadists, such as al Qaida-endorsed Abu Mus Al-Zarqawi and the Zarqawi network (aka Tanzim Qa'idat Al-Jihad Fi Bilad Al-Rafidayn or Al-Qaida of the Jihad in the Land of the Two Rivers), and the Ansar Al-Sunnah/Ansar Al-Islam network;
- Former Regime Elements (FRE)/Ba'athists. This group includes senior officials of the former Saddam regime (particularly former Iraqi Ba'ath Party officials and members of the Iraqi military and security services), their family members, and agents; and
- Indigenous tribal groups and local militias whose tribal loyalties, nationalist goals, or Islamist ideologies have caused them to engage in acts of violence against Coalition forces and the civilian population.

Despite their different motivations, it appears that these groups are capable of tactical cooperation when it suits their purposes.

### ***B. Sources of Insurgency Financing***

The financing networks of the Iraqi insurgency are complex and diverse. Insurgents draw on both external financing and on internal Iraqi sources of funds and materiel. For example, the Zarqawi Network and other jihadist groups use a variety of classic al Qaida-type terrorist financing mechanisms, including:

- Funds provided by charities, Iraqi expatriates, and other deep pocket donors, primarily in the Gulf, but also in Syria, Lebanon, Jordan, Iran, and Europe;
- Criminal activities, such as kidnapping for ransom, possible narcotics trafficking, robbery, theft, extortion, smuggling, and counterfeiting (goods and currency).

Former Regime Elements fund their insurgency activities by using assets pilfered by the former Iraqi regime and secret accounts in other countries. FRE still inside Iraq, as well as indigenous tribes and local militias, also rely on local charities and mosques, local sympathizers, legitimate businesses, donations from middle-class Iraqi businessmen, and grassroots donors for support. Furthermore, Iranian-backed proxy groups transfer funds and materiel provided directly by Iran into Iraq.

While internal financing clearly provides significant support for the Iraqi insurgency, the Treasury Department, and my testimony, focuses primarily on efforts to combat external insurgency financing.

### ***C. Efforts to Combat Insurgency Financing***

The complexity of disrupting insurgency financing is clear, but can essentially be divided into two components:

- *Identifying and Disrupting Funding and Support Networks Globally.* For example, our efforts to disrupt the funding of the Zarqawi Network and of other Sunni jihadists focus on the Gulf region and Europe, while our primary areas of concern for FRE insurgency funding are Syria, Lebanon, and Jordan.
- *Identifying and Disrupting the Mechanisms By Which Funds Are Transferred Into and Disbursed Within Iraq.* Once these groups raise the funds, they must be transported into Iraq. Though we must of course be vigilant about all potential financial mechanisms – e.g., formal financial systems, *hawala*, trade-based value transfers, etc. – the mechanism of greatest concern is the physical transportation of cash into Iraq, particularly across the Iraqi-Syrian border.

Addressing these challenges requires a comprehensive effort, relying on contributions from the intelligence, law enforcement, diplomatic, military, and financial communities within the U.S. Government. The Treasury Department is an important component of this overall effort, and as described in detail below, we have a range of financial tools that we have deployed vigorously to address both the funding and transfer elements of Iraqi insurgency finance.

## II. IDENTIFYING AND DISRUPTING FUNDING AND SUPPORT NETWORKS GLOBALLY

As I have noted, the international components of the Iraqi insurgency can be divided roughly into three groups: (i) Former Regime Elements; (ii) Sunni Jihadists; and (iii) indigenous tribal groups.

### A. *Former Regime Elements: Return of Looted Iraqi Assets*

Since March 2003, the U.S. Government has focused on the need to locate, freeze, and repatriate Iraqi assets from around the world, as well as to find cash and other assets within Iraq that were stolen and hidden by Former Regime Elements. From the beginning, the Iraqi asset hunt was a top priority in order to return the money to its rightful owners, the Iraqi people. It is also critically important, however, to locate and repatriate these funds in order to prevent former regime assets from being used to support the Iraqi insurgency. At this time, we are monitoring several streams of money, some of which belong to FRE and some of which were caught up in old illicit trading accounts. We want to prevent the leakage of any of this money into the hands of those supporting the insurgency.

In May 2003 the United Nations Security Council adopted UNSCR 1483, which calls on U.N. Member States to identify, freeze and transfer to the Development Fund for Iraq (DFI) assets of senior officials of the former Iraqi regime and their immediate family members, including entities owned or controlled by them or by persons acting on their behalf. The President subsequently issued Executive Order (E.O.) 13315, which authorizes the Secretary of the Treasury to freeze the assets of former regime elements. To date, under E.O. 13315, the Department of the Treasury has designated scores of Iraq-related entities and individuals

(including 55 senior Iraqi officials who were named by the President in issuing E.O 13315, and 47 administrative or “derivative” designations.) The U.S. Government, in turn, submits these names to the United Nations for listing by the UN 1518 Committee under UNSCR 1483.

Only a week ago, the Department of the Treasury designated six of Saddam Hussein’s nephews (sons of Saddam’s half brother and former presidential advisor, Sabawi Ibrahim Hasan Al-Tikriti), and we understand that their names have now been accepted at the UN. Four of the designated individuals provided financial support (and in some cases, weapons and explosives) to Iraqi insurgents. Similarly, on June 17, 2005, we designated, Muhammad Yunis Ahmad for providing funding, leadership and support from his base in Syria to several insurgent groups that are conducting attacks in Iraq.

On June 9, 2005, we also designated two associated Syrian individuals, General Zuhayr Shalish and Asif Shalish and a related asset, the Syria-based SES International Corporation for their support to senior officials of the former Iraqi regime. SES also acted as false end-user for the former Iraqi regime and facilitated Iraq’s procurement of illicit military goods in contravention of UN sanctions.

The effect of our sanctions increases exponentially when they are applied multilaterally. Therefore, it is absolutely vital for the countries around the world, particularly those with assets of designees within their borders, to act in conjunction with the U.S. and consistently with their obligations under UNSCR 1483. A significant portion of FRE funds are in Syria or are controlled by individuals within Syria, and we are convinced that the Syrian Government can do significantly more to address it. Though there have been some encouraging recent steps on related issues, including Syria’s recent transfer of \$117 million to the DFI, in addition to the \$3.8 million transferred in January, these steps are insufficient. At the beginning of Operation Iraqi Freedom, there was an estimated \$850 million in Iraqi accounts in Syria. Of this amount, Treasury investigators found that the Syrian government had paid out approximately \$580 million in claims to Syrian businesses without the authorization of SOMO, and that \$262 million remained frozen in an account at the Commercial Bank of Syria. This bank was subsequently designated by the Treasury Department in May 2004 as a “primary money laundering concern” under Section 311 of the USA PATRIOT Act. Syria should act immediately to bring itself into compliance with its international obligations and transfer these funds back to the people of Iraq. They should also work with the Iraqi government to review both the pending and the previously-paid claims.

FRE assets clearly are not stashed in Syria alone. Large amounts of frozen Iraqi assets are in Lebanon and Switzerland. We, together with the State Department, are working with these countries to identify and isolate former regime assets where we find them and to transfer these assets to the Development Fund for Iraq, as required by resolution 1483.

#### ***B. Sunni Jihadists: Classic Terrorist Financing***

Fund raising for the Sunni jihadist groups in Iraq – such as the al Qaida-affiliated Zarqawi network – follows similar patterns as fund raising for Sunni jihadist terrorist groups throughout the world, including deep-pocket donors and the abuse of charities. Indeed, there is reason to

believe that extremist networks throughout the world that had been providing financial support to jihadist terrorist groups are directing portions of their funds to Iraqi insurgency groups. It should therefore not be surprising that, as with other jihadist terrorist groups, our efforts to identify and disrupt the fundraising of jihadist/insurgency groups is focused, though not limited to, the Gulf region and Europe. It should also not be surprising that we have at our disposal many of the same tools and authorities.

Just as there is a U.N. Security Council Resolution requiring countries to freeze the assets of former Iraqi regime elements, so too are there U.N. Security Council Resolutions requiring countries to freeze the assets of individuals and entities related to al Qaida, Usama bin Laden, and the Taliban (UNSCR 1267) and other global terrorist groups (UNSCR 1373). The U.S. implements its obligations under these resolutions through E.O. 13224. To date, the Treasury Department has designated over 400 individuals and entities under E.O. 13224. These actions include individuals and entities tied to jihadist insurgency groups:

- Sulayman Khalid Darwish (January 25, 2005) (Syria-based Zarqawi supporter/financier), also designated by the UN, pursuant to UNSCR 1267; Syria joined the U.S. in co-designating Darwish at the UN.
- Muhsin al-Fadhli (February 15, 2005) (Kuwait-based Zarqawi and Al Qaida supporter, also designated by the UN, pursuant to UNSCR 1267); and
- Bilal Mansur Al-Hiyari (April 13, 2005) (Jordan-based member of the Zarqawi Network), whose name was also submitted to the UN for listing pursuant to UNSCR 1267.

While stand-alone designations by the U.S. are important, they do not carry the same weight or effect as international actions. We need to act in concert with our partners in the regions of greatest concern. It is for this reason that the Departments of the Treasury and State have worked tirelessly both to improve the effectiveness of national targeted financial sanctions regimes throughout the world, and to encourage countries to use this tool proactively and aggressively.

In this respect, U.S. outreach efforts to countries in the Gulf region are manifold, both bilaterally and multilaterally. For example, just this calendar year I have personally traveled to Saudi Arabia, Bahrain, and Kuwait, and have led the U.S. delegation to the Middle East/North Africa Financial Action Task Force (MENA FATF) – a new multilateral body that works to ensure the implementation of comprehensive anti-money laundering and counter-terrorist financing systems throughout the region. Launched in November 2004, this 14-member body held its first plenary session in Bahrain in April 2005 and is preparing for its second plenary session in September of this year, currently scheduled to take place in Beirut. This body has the potential to be effective in persuading its members to implement systems to freeze assets in a timely and effective manner. It remains too early to tell how effective MENA FATF will be, but the indications so far demonstrate considerable enthusiasm and energy. We support this initiative and hope that it will succeed on the difficult road that lies ahead of it.

We also have extensive outreach efforts to Europe – most prominently the US-EU Counter-Terrorist Financing Working Group, chaired by Assistant Secretary of State Anthony Wayne. Through this and other mechanisms, we are working to ensure the effective and aggressive implementation of targeted financial sanctions throughout Europe. Recently, British Chancellor Gordon Brown highlighted the urgency of this task when he told EU finance ministers that they must improve efforts to seize terrorist assets. While he recognized that some countries are taking effective measures, he noted that the collective effort is “only as strong as your weakest link.” We are working with the UK as well as many other countries in Europe to build on this momentum and strengthen efforts to track and seize terrorist assets.

Of course, targeted financial sanctions are not the only tool we have in the fight against terrorist financing. The full range of U.S. efforts against terrorist financing are coordinated by the Terrorist Financing Policy Coordination Committee (PCC), which is chaired by Deputy National Security Advisor Juan Zarate, and includes representatives from the Departments of the Treasury, State, Justice, and Defense, as well as representatives from the law enforcement and intelligence communities.

### **III. IDENTIFYING AND DISRUPTING THE MECHANISMS BY WHICH FUNDS ARE TRANSFERRED INTO AND DISBURSED WITHIN IRAQ**

As discussed above, once funds are raised for insurgent groups, they must be transported into and disbursed within Iraq. Though we must of course be vigilant about all potential financial mechanisms – such as, formal financial systems, *hawala*, and trade-based value transfers, *etc.* – the mechanism of greatest concern is the physical transportation of cash into Iraq.

#### ***A. Cash Couriers: Insurgency Transfer Mechanism of Choice***

There are numerous reasons why cash couriers are the primary mechanism for the transfer of insurgency funds into Iraq. These include (i) porous borders of neighboring states; (ii) the availability of long-established smuggling routes within the region; and (iii) a formal financial system within Iraq that is still maturing.

##### *1. Syria and others*

The use of cash couriers is of particular concern with respect to those neighbors of Iraq who continue to ignore the problem. Even if the governments of these countries are not complicit in the transfer of cash across their borders, they are certainly aware of it and can take steps to stop it. The biggest problem country is Syria. Through various sanctions programs, the Treasury Department has targeted Syrian individuals, entities, and officials for a range of issues, including harboring assets of the former Iraqi regime, interfering in Lebanon, inadequately policing the flow of cash across its borders, and failing to implement money laundering and terrorist financing controls. Syria must take action to address all of these concerns, which include securing its border with Iraq and cracking down on cash couriers.

##### *2. Regional Systemic Reform*

Porous borders, long-established smuggling routes, and informal financial systems characterize much of the region. We are aware of the regional vulnerabilities and are working with all of these countries to take this matter very seriously. Because cash couriers are a region-wide problem, we are working through regional bodies to address it. I previously mentioned the MENA FATF, which we expect to play a leadership role in ensuring regional compliance with global standards. One of these standards, articulated by the global FATF (Financial Action Task Force) is the enforcement of measures taken to stop the illegal smuggling of cash by couriers. We know that this issue already tops MENA FATF's agenda, and look forward to working with all of the organization's members to underscore the importance of their efforts and implement the appropriate measures.

The Treasury Department and other agencies are also working bilaterally with countries in the region to address cash couriers. For example, the Department of Homeland Security's Immigration and Customs Enforcement (ICE) Office of Investigations, in concert with Customs and Border Protection (CBP) is currently providing bulk cash smuggling training in the region as part of the State Department-chaired Terrorist Finance Working Group (TFWG). To date, ICE and CBP have conducted this training in two countries in the Middle East and plans are currently underway to provide this training to Iraq.

### *3. Assisting Iraq's Establishment of an Effective Payment System*

At present, nearly all payments in Iraq are made in cash; dollars for bigger-ticket (imported) items and real estate transactions, and dinars for other payments. For example, the U.S. military pays its contractors in U.S. dollars, and almost all Iraqi salaries, including the salaries of Iraq government employees, are also paid in cash dollars. Reliance on currency for transactions not only leads to very large inefficiencies in terms of the operation of the financial system; it also carries significant risks with respect to insurgency financing. Since Iraq and its neighboring countries are flooded with U.S. dollars, insurgents can move funds into the country by cash courier without raising attention. Insurgency flows blend into the movement of legitimate funds.

The Department of the Treasury has been engaged in a major effort to help develop a modern payment system for Iraq that follows international best practices.

The Iraq Payment System, as the project is called, is being coordinated by Raleigh Tozer, Senior Vice President, Federal Reserve Bank of New York, and involves various parties, including the Central Bank of Iraq, Iraqi Telephone and Post Company, the U.S. Embassy in Baghdad, the IMF, and the World Bank, as well as the Department of the Treasury. Once implemented, the Iraq Payment System will be able to process instantaneous, electronic large value payments (real time gross settlements (RTGS) and smaller recurring salary and other payments (automated clearing house (ACH)). The system will be internal to Iraq, but will be capable of linking to international payment systems to make or receive payments from outside Iraq.

The Iraq Payment System should begin providing widespread benefits shortly after its implementation. The targeted date for implementing RTGS is January 2006, with ACH a month later, though delays are possible. The Kurdish region has not participated in preparations for the new payment system; however, Kurdish officials have recently expressed interest in taking part.

Establishing a modern payments system could significantly help combat the use of cash couriers by insurgents. Moving from a largely cash economy to a functioning banking and payment system will make it easier to monitor and control financial flows, thereby improving the ability of U.S. and Iraqi financial and law enforcement officials to detect the movement of insurgency funds into and within Iraq.

***B. Investigations, Analysis and Asset-Tracking on the Ground in Iraq***

In addition to working to identify and disrupt insurgency fund raising and transfers into Iraq, the Treasury Department has worked closely with our interagency counterparts on the ground in Iraq to investigate insurgency funding methods, trace the disbursement of insurgency funds, and enhance the financial investigative capability of the Iraqis. The following provides a sense of the diverse and important missions undertaken by Treasury personnel in Iraq:

*1. Currency Tracing*

A notable initiative is our on-going currency tracing efforts. Treasury personnel in Iraq work closely with the military to trace the flow and sources of U.S. currency found in Iraq that may be used to fund the insurgency. In this regard, the IRS attaché routinely obtains serial numbers from bulk currency seized by the military from suspected insurgents and transmits this information through Treasury to the Federal Reserve Board of Governors and the Bureau of Engraving and Printing (BEP) to trace its origin and distribution. At present, we are able to trace U.S. currency only into Iraq. However, we are in the process of working with the military to establish a currency tracking program that would trace large-value movements of U.S. currency into, through, and back out of Iraq. If fully implemented, this system should enable us to trace the movement of U.S. currency seized from insurgents into the country, all the way to the insurgents themselves, so that we can both cut off the flow of future funds and also better target insurgency operatives.

*2. IRS-Criminal Investigation Agents Assigned to Iraq*

From March 2004 through March 2005, IRS-CI deployed seven Special Agents to Iraq to assist in targeting insurgency financing. The IRS-CI agents were embedded with the U.S. military in Iraq, and participated in the Joint Interagency Task Force on the Insurgency (“Insurgency Task Force”). The IRS-CI agents worked closely with the military, the FBI, and the Intelligence Community to identify, trace, and secure assets inside and outside Iraq that might be used to fund insurgent activities. In particular, IRS-CI agents in Iraq helped:

- Interrogate/interview high value targets detained in Iraq, as well as other detainees, money couriers, and a currency exchange dealer, to try to determine the methods used to finance insurgency operations and terrorism in Iraq and uncover front companies and agents;
- Exploit documents recovered in insurgency strongholds and elsewhere in Iraq in order to identify and trace insurgency-related funds, including FRE funds;

- Provide standardized questions on insurgency financing for use by military interrogators;
- Execute search warrants on insurgency targets, including assisting the military with financial and technical advice regarding which items were most relevant for seizure and evidence exploitation. For example, one search warrant targeted a *hawaladar* (currency exchanger) in the Baghdad area;
- Conduct investigations in which the military believed the subjects were involved in financing some forms of terrorist activity, including assassination; and
- Query Treasury's Financial Crimes and Enforcement Network (FinCEN) to track a number of the insurgents and the individuals believed to be involved in funding the insurgency, where there may be a U.S. nexus.

As new task forces and financial investigative mechanisms are being developed within Iraq, the Treasury Department is working closely with our interagency counterparts to determine the most effective deployment of IRS-CI agents, including exploring the possibility of sending IRS-CI agents back to Iraq.

### 3. *IRS-Attaché in Iraq*

As of November 2004, Treasury has stationed an additional IRS-CI agent to serve as the IRS attaché at the U.S. Embassy in Baghdad - one of only eight IRS attachés in the world. The IRS attaché works closely with the Insurgency Task Force. Among other things, the attaché:

- Follows up on FRE designations;
- Coordinates U.S. and Iraqi Government efforts to identify and recover Iraqi assets in and outside Iraq;
- Helps uncover new front companies and agents;
- Facilitates efforts to trace U.S. currency seized from insurgents in Iraq (see discussion above);
- Established and heads an interagency Asset Recovery and Containment of Terrorist and Insurgent Capitalization Task Force (ARCTIC), with a mission to identify and freeze FRE assets in Iraq and identify and freeze funds financing terrorists and insurgents;
- Works with the Chief Judge of the Iraqi Special Tribunal to develop Iraq's capacity to freeze FRE and other insurgency assets seized by Iraqi law enforcement or military forces in Iraq;

- Otherwise helps pursue all possible financial leads involving the insurgency, including conducting interviews of detainees and other persons with possible knowledge of insurgency financing methods and flows; and
- In general assists the U. S. mission in Iraq with issues of financial compliance, including efforts to battle insurgency financing by establishing a formal financial system with proper compliance measures.

#### *4. Treasury Attaché*

In addition to the IRS attaché, Treasury has assigned a separate Treasury attaché to the U.S. Embassy in Baghdad. The Treasury attaché:

- Works with the Iraqis to establish the payments system discussed in greater detail above, which will help combat the use of cash couriers to move insurgency funds;
- Assists the Iraqis in crafting a legal regime that can facilitate confiscating FRE assets, which will improve our ability to keep these funds out of the hands of insurgents; and,
- Along with the IRS attaché, coordinates activities with Iraqi counterparts to find hidden FRE assets that may still be in the country and may be used to fuel the Insurgency.

#### *C. Treasury Department/Defense Department Cooperation*

Given the prominent role of the military in Iraq, the Treasury Department also has taken steps to ensure maximum cooperation between the Departments of Treasury and Defense in the area of insurgency financing:

- Treasury has posted a full-time Foreign Terrorist Analyst to the U.S. Central Command (CENTCOM) Joint Inter-Agency Coordination Group in Tampa, Florida, which has greatly facilitated interagency information sharing and operational coordination. Very recently, CENTCOM placed a representative in Treasury's Office of Terrorism and Financial Intelligence to further our collaborative counter-insurgency financing efforts.
- Treasury works closely with the Threat Financing Exploitation Unit (TFEU) and other collaborative efforts between CENTCOM and other U.S. government agencies. TFEU is designed to consolidate and share financial intelligence on terrorist and insurgency financial networks in Iraq.

#### **IV. CONCLUSION**

The insurgency in Iraq will not be defeated simply by attacking its financial support structure. This effort, however, is an important component of a comprehensive attack on the insurgency

that employs all tools of national power. Identifying and disrupting the insurgency's financial networks can degrade its capabilities, limit its effectiveness, and reveal valuable information on its operations. We have already achieved some success. U.S. and UN efforts to freeze and repatriate FRE assets worldwide have removed billions of dollars in potential sources of insurgency support. Designations and targeted financial sanctions under various Executive orders have isolated financing networks. And our overall efforts to systemically safeguard the international financial system from abuse have increased the risks and costs of doing business for terrorist financiers. Much remains to be done. But we are learning more about the insurgency and its funding mechanisms every day, and we will continue to do all that we can to support our military and coalition partners who are in harms way, and to contribute to our collective efforts to bring peace and security to the people of Iraq.

Thank you again for holding this hearing and for your sustained commitment to this topic. I would be happy to take your questions.

44

**STATEMENT OF**

**MR. JAMES Q. ROBERTS**

**ACTING DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR SPECIAL  
OPERATIONS AND COMBATING TERRORISM**

**BEFORE**

**THE HOUSE ARMED SERVICES SUBCOMMITTEE ON TERRORISM,  
UNCONVENTIONAL THREATS, AND CAPABILITIES**

**AND**

**THE HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON OVERSIGHT  
AND INVESTIGATIONS**

**28 JULY 2005**

STATEMENT OF MR. JAMES Q. ROBERTS, ACTING DEPUTY ASSISTANT  
SECRETARY OF DEFENSE FOR SPECIAL OPERATIONS AND COMBATING  
TERRORISM POLICY

BEFORE THE HOUSE ARMED SERVICES SUBCOMMITTEE ON TERRORISM,  
UNCONVENTIONAL THREATS AND CAPABILITIES AND THE HOUSE  
FINANCIAL SERVICES SUBCOMMITTEE ON OVERSIGHT AND  
INVESTIGATIONS, 28 JULY 2005

**Madame Chairman Kelly, Chairman Saxton, Ranking Members Gutierrez and  
Meehan and distinguished members of the House Financial Services Subcommittee  
on Oversight and Investigations and House Armed Services Subcommittee on  
Terrorism, Unconventional Threats & Capabilities:**

Thank you for the opportunity to speak today on terrorist and insurgent financing. My colleagues from the Treasury Department and the Defense Intelligence Agency have just provided you with a detailed report outlining how Iraqi insurgents fund their activities and what the U.S. is doing to assess and attack that problem. The DoD appreciates and applauds the outstanding interagency cooperation which is a hallmark of this effort.

I would like to briefly describe the Department of Defense's ongoing work to address terrorist finance exploitation beyond Iraq. Although DoD sees the Treasury Department as the lead federal agency in this arena, the Department of Defense has work underway to support these efforts in two major areas: "terrorist financing" and "threat financing." While terrorist financing focuses on organizations, cells, and individuals directly linked to terrorism, threat financing is a broader-based concept and includes WMD funding, narco-trafficking, organized crime, and human trafficking. We are convinced that "following the money" (in all forms) is a key element to mapping the network and understanding relationships between nodes and a key enabler for achieving DoD objectives.

These clandestine activities threaten U.S. interests and can generate large amounts of revenue. A portion of these funds may directly or indirectly fund terrorist and insurgent activities. This greatly increases the complexity of identifying, tracking, and disrupting financial targets.

Terrorists use a wide, imaginative, and quickly evolving series of tactics, techniques, and procedures to transfer money throughout their networks, from high-tech means such as sophisticated bank transactions to low-tech/no-tech means such as couriers. The nature of the problem mandates that we focus on more than just the formal financial mechanisms traditionally associated with terrorist financing, as the international community has done since 9/11 through the Financial Action Task Force and the eight regional bodies, comprised of more than 150 countries and territories.

Driven largely by the U.S. and its partner countries, the international community continues to address “threat financing,” focusing on money service businesses such as wire transfers, insurance, and brokerages, informal wire services such as hawala, diversions of charitable contributions, trans-border cash transfers through the postal service or FedEx, and falsified trade documentation. The international community needs to focus more on precious metal and gem transfers, smuggling, and the like. Identifying global linkages between networks, including witting and unwitting coalitions of convenience, is part of the challenge for the Intelligence Community. Ideally, actions taken against a local target should have network-wide effects.

The Secretary of Defense’s National Defense Strategy, signed in March of this year, describes our counterterrorism national defense objectives as: first, protect the homeland; second, disrupt and attack terrorist networks; and third, counter ideological support for terrorism. With this in mind, the Department of Defense has developed a National Military Strategic Plan for the War on Terrorism<sup>1</sup> which provides specifics on how to achieve these national defense objectives.

The first of six military strategic objectives outlined in the National Military Strategic Plan is to “deny terrorists the resources they need to operate and survive.” Our list of “resources,” which includes funds, also addresses:

- Leadership (capture/kill key terrorist leaders or degrade their standing with followers and potential recruits)
- Safe havens (deny or disrupt access to both geographic and virtual safe havens)
- Funds (disrupt and deny funds from all sources)
- Communications and movement (deny communications and movement between terrorists/insurgents and protect U.S. communications and movement)
- Weapons (counter asymmetric use of technologies; deny access to WMD)
- Foot soldiers (counter returning foot soldiers from Afghanistan, Pakistan, and Iraq. Also counter “home grown” foot soldiers motivated by extremist ideology – especially among disenfranchised Muslim immigrant populations marginally integrated into Western societies)
- Access to targets (protect potential U.S. and Allied targets), and
- Ideological support (de-legitimize extremism; bolster voices of moderation and tolerance within the Islamic world)

As you know, the U.S. Special Operations Command (SOCOM) has been designated to lead this DoD Global War on Terrorism campaign. It is synchronizing the counterterrorism plans of the five geographic military commands as components of a global campaign. SOCOM is also working closely with U.S. Strategic Command on these missions. The geographic commands are currently assessing both the ability of terrorists and insurgents to finance operations and the effectiveness of the U.S. military to deny resources to terrorists. Initial data from these assessments indicate that the DoD, while enjoying some successes in tracking and disrupting funds to terrorists and

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<sup>1</sup> 4 March 2005

insurgents, is progressing slowly in combating the problem on a global scale. And although each of these commands have had notable successes against this target, I have chosen to highlight U.S. Pacific Command (PACOM) and U.S. Central Command (CENTCOM) initiatives to demonstrate how DoD is working with other U.S. and international partners to address this problem.

The Interagency Regional Action Plan for the PACOM area of responsibility discusses the complexity of eliminating sources and channels of terrorist financing. Part of the plan's focus includes suspect charities, alternative remittance systems, cash couriers and bulk cash smuggling, trade-based terrorist financing, and kidnapping for ransom. The Treasury Department's Financial Crimes Enforcement Network is providing invaluable assistance to PACOM's regional financial intelligence operations. PACOM and its interagency partners are working with partner nations to:

- Identify financial support networks of terrorists and insurgents
- Help partner nations develop prosecutorial expertise in money laundering and terrorist financing
- Encourage those nations with strong expertise in this area to provide technical and administrative assistance to less capable nations

Other successful initiatives include CENTCOM's Threat Finance Exploitation Unit or TFEU. As DIA has already described, the unit works with DoD and non-DoD intelligence, law enforcement, and regulatory agencies that are responsible for taking actions against terrorist and insurgent financial networks, with a particular emphasis on Iraq. The success of this unit has created interest among other Combatant Commands who would like to create similar organizations for their respective areas of responsibility. To that end, the Office of the Secretary of Defense is working closely with the Joint Staff and Combatant Commands to more clearly delineate the roles and responsibilities for Threat Finance Exploitation organizations. This will enable the other Geographic Combatant Commands to build on CENTCOM's success.

*Conclusion:*

Much has already been done – using all instruments of national power – to deny terrorist networks and insurgents the financial resources they need to operate and survive. From a Department of Defense perspective, SOCOM's integration of Regional Command Plans into a comprehensive and synchronized global campaign plan is clearly a big step forward and will enable the U.S. and partner nations to maximize the effectiveness of counterterrorism operations.

The problem of high-tech versus low-tech/no-tech tactics, techniques, and procedures employed by these terrorists and insurgents does present a major challenge for the Department of Defense and the rest of the Interagency. One key to success is flexibility at all levels – strategic, operational, and tactical – and close cooperation both within the Interagency and internationally.

A key concept which figures prominently throughout DoD's National Military Strategy Plan for the War on Terrorism is the requirement for building capacity for improved governance. Our goal, at the DoD and USG levels, is to work with partners across all elements of their national power (diplomatic, informational, military, economic, financial, intelligence, and law enforcement) to improve their ability to detect and disrupt these often interlinked, illegal, clandestine non-state actor networks. Our partner nations need these capabilities on their borders, within their national territories, and in their coastal waters.

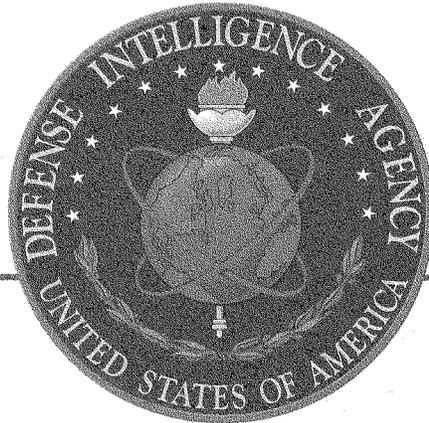
This may require changes to how the U.S. currently aids and trains foreign troops, police, and other security forces to combat terrorism within their regions. It may also mean training soldiers and other security officials "on the ground" in new ways to identify, collect, and report relevant information on enemy tactics, techniques, and procedures.

It will certainly mean reinforcing bilateral and multilateral relationships with partner nations. Local law enforcement agencies operating in targeted areas can potentially provide key data on low-tech/no-tech tactics, techniques, and procedures. Combined, these measures will improve our abilities and those of our allies to disrupt and attack terrorist resource networks.

I look forward to your questions.

**UNCLASSIFIED**

**FINANCING OF INSURGENCY OPERATIONS IN IRAQ  
HEARING**



**STATEMENT FOR THE RECORD**

**HOUSE ARMED SERVICES SUBCOMMITTEE ON TERRORISM,  
UNCONVENTIONAL THREATS, AND CAPABILITIES**

**And**

**HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON  
OVERSIGHT AND INVESTIGATIONS**

**28 JULY 2005**

**Mr. Caleb Temple  
Senior Intelligence Officer  
Defense Intelligence Agency**

**UNCLASSIFIED**

**Defense Intelligence Testimony**

Mr. Chairman and Distinguished Members of the Subcommittees:

Thank you for the opportunity to discuss current issues regarding the funding of Iraqi terrorists and insurgents. The Department of Defense views the ongoing financing of Iraq-based terrorists and insurgents as an important issue for Operation Iraqi Freedom. The main theme you'll hear today is that identifying and defeating Iraq terrorist and insurgent funding is a tough but critical challenge. We've enhanced our capabilities and have had measurable success. The enemy and those who financially support the enemy, however, are adaptive and it is a relatively inexpensive fight to conduct. Overall countering terrorist and insurgent finances is one reinforcing line of operation in our overall strategy to defeat terrorists and insurgents in Iraq.

My goal today is to sketch for you what we know, what we don't know, and what we think about Iraq-related funding activity. I'd also like to present to you what Defense Intelligence has done to understand and attack the Iraq funding problem—on our own and in coordination with other U.S. instruments of power. Attending with me today are intelligence officers from U.S. Central Command and the Defense Intelligence Agency; several have deployed to Iraq and Afghanistan to implement counter-finance strategies. All are responsible for developing intelligence and assessing opportunities to diminish terrorist and insurgent finance activities.

Our success in disrupting Iraq-related terrorist and insurgency funding relies on collaborative interagency efforts. The Department of Defense is part of a National Security Council Policy Coordination Committee on Terrorism Finance. Through this effort, and others I will describe to you, we work with experts at Treasury, State, FBI, and the Intelligence Community. We coordinate on Treasury-led E.O. 13224 ("Blocking Terrorist's Property and Financial Transactions") designations and State-initiated designations of Foreign Terrorist Organizations (FTOs). In addition, part of our role in this effort is to ensure that financial information we collect is made available to these partners, and to translate our partners' expertise into actionable information that U.S. Central Command (CENTCOM) and the Multi-National Force-Iraq (MNF-I) can move on.

The financing challenge related to Iraq terrorism and insurgency is a complex, formal and informal multi-dimensional phenomenon involving external money flows and internal revenue generation and distribution networks. These numerous revenue generation and distribution structures are mostly decentralized, with different funding sources and streams overlapping and mutually reinforcing each other. Some networks that finance terrorists and insurgents are self-regenerating, especially networks and revenues sources that are internal to Iraq. Finally, terrorists and insurgents are adaptive. In the past, as we've affected one stream of

financing, we've observed terrorists and insurgents transition to other areas in response.

The diversity of terrorist and insurgent financial activities—a variety of high tech, low tech and no tech tactics, techniques, and procedures—challenges our intelligence collection capabilities in different ways. The intelligence instruments required for identifying and collecting on sophisticated international bank transactions are far different than the instruments required to identify and collect on a courier on a bike delivering a bag full of cash to the insurgency. Both intelligence targets may be equally important to identify, penetrate and neutralize terrorist and insurgent financing activities.

Some terrorist and insurgent groups in Iraq have enough sources of money to sustain the current level of anti-Coalition violence indefinitely, and groups linked to the former regime elements (FREs) control enough assets to support increased fighting.

We believe terrorist and insurgent expenses are moderate and pose little significant restraints to armed groups in Iraq. In particular, arms and munitions costs are minimal--leaving us to judge that the bulk of the money likely goes toward international and local travel, food and lodging of fighters and families of dead fighters; bribery and pay-offs of government officials, families and clans; and possibly into the personal coffers of critical middlemen and prominent terrorist or insurgent leaders.

To facilitate a more detailed discussion I've divided terrorist and insurgent finance activities into two broad categories--financial activities external to but flowing into or supporting Iraq-based anti-Coalition fighters; and financial activities internal to Iraq that support these fighters.

#### Financial Activities External to Iraq

We remain concerned that wealthy private donors in the Middle East and elsewhere continue to be an important part of a steady flow of funds into Iraq. Wealthy extremist patrons in the Arabian Gulf region are of particular concern and appear to be continuing to support terrorist volunteers traveling to, and inside, Iraq.

We also believe former regime Elements (FREs) are a source of insurgent funding. Many FREs fled Iraq to Syria, Jordan, Iran, Saudi Arabia, the United Arab Emirates and surrounding countries following the U.S. liberation of Iraq and established financial bases to support the insurgency.

Corrupt members of transnational charities and non governmental organizations around the region and inside Iraq continue to siphon and embezzle money for terrorists and insurgents. The majority of Islamic charities supporting terrorists effectively conceal terrorist connections and

launder funds by commingling them with money destined for legitimate humanitarian projects.

Unregulated informal value-transfer systems—hawalas—are prevalent throughout the Middle East and South Asia. In and around Iraq, where the formal banking sector has not developed extensive retail services, hawalas are a significant means that terrorists use to move money. Tracking this money is challenging. There is limited information about funds' recipients, who are often known to payout agents simply by their aliases. There is rarely detailed information about funds' originators. The majority of hawala transactions consist of well-intentioned personal or commercial funds transfers, with few clues to differentiate them from the relatively few terrorist transfers.

#### Financial Activities Internal to Iraq

While significant finances continue to flow into Iraq from outside its borders, terrorists and insurgents are also tapping revenues inside Iraq.

A number of mosques in Iraq, both Shi'a and Sunni, play an important role in supporting insurgent groups through financial donations. Mosques act as a conduit for insurgent funding from both internal and external sources. Money is gathered through various means, including alms-giving. Religious leaders of these mosques, such as Imams, are sometimes openly sympathetic to the insurgency and openly espouse support for the anti-government cause. In some cases, the Imam and Mullah are financially supported by the insurgent group using the mosque, indicating a quid pro quo relationship between insurgents and religious officials.

Terrorists have access to a potentially large revenue base by conducting criminal activities ranging from low level crime and extortion, to involvement in smuggling and drug trafficking.

For example, terrorists and insurgents continue to employ kidnapping as a means to raise money. Kidnapping in Iraq is primarily conducted by anti-government groups of Iraqis targeting fellow citizens for money or intimidation. Drug transactions and similar smuggling or black-market activities inside Iraq, and around the region, are also a source of terrorist and insurgent income. Organized criminal activities, which became the default suppliers to the Iraqi economy during the years of sanctions, are deeply rooted in some sectors of Iraqi society and are difficult to identify and stamp out.

#### Defense Intelligence Efforts to Attack Iraq-Related Terrorist and Insurgency Financing

Defense Intelligence has developed and is executing combating-terrorist and insurgent financial all-source operations across the Combatant Commands

and Military Services. These diverse activities form the core of our efforts, and come together in support of the warfighters serving in Iraq and in the region. I'd like to take this opportunity to touch briefly on two specific organizations' counter-finance efforts.

#### U.S. Special Operations Command

U.S. Special Operations Command (USSOCOM) has been designated by the Office of the Secretary of Defense to synchronize the Department of Defense's counterterrorism efforts. In December of 2004, USSOCOM held the first Terrorism Finance Joint Planning Group meeting to begin to outline a way-ahead for Combatant Command planning for terrorism finance network disruption efforts. That meeting was followed by a joint USSOCOM and U.S. Central Command (USCENTCOM) hosted terrorism finance conference in February 2005. Face-to-face collaboration between terrorism finance analysts from multiple government agencies was accomplished. Organizations represented included U.S. Department of Treasury, U.S. Department of State, the Federal Bureau of Investigation, the Internal Revenue Service, other intelligence community members, representatives from the Combatant Commands and the Defense Intelligence Agency. Beginning in April 2005 and through July 2005 a joint USSOCOM, ASD/Special Operations/Low Intensity Conflict, DIA delegation visited each of the Combatant Commands to share lessons learned and solicit input on synchronizing DoD efforts.

#### U.S. Central Command

USCENTCOM serves as the focal point for combating terrorist and insurgent finances in and around Iraq, and has aggressively focused on the challenge of terrorist and insurgent finances in Iraq. The Commander and Deputy Commander of USCENTCOM have stated that disruption of terrorist financing is a priority for the command.

USCENTCOM established the Threat Finance Exploitation Unit (TFEU) in August 2004. The TFEU has been working with US Interagency law enforcement and regulatory agencies on a weekly basis to share and deconflict information and focus on people and organizations that are providing financial support to terrorist and insurgent groups.

The TFEU has had several successes and a large impact on the problem set. Its services are in high demand across DoD and interagency communities. The TFEU maintains daily contact with Department of Defense and non-DOD intelligence, law enforcement and regulatory agencies that are responsible for taking actions against terrorist and insurgent financial support networks. There have been numerous analytical exchange visits between USCENTCOM and the various participating Interagency headquarters in Washington. USCENTCOM is providing valuable data on several terrorism/insurgency financiers currently in the pipeline for designation under Executive Order 13224—"Blocking Terrorist's Property and Financial Transactions;" Executive

Order 13315—"Blocks property of Former Iraqi regime Elements;" and, Executive Order 13338—"Blocking Property of Certain Persons and Prohibiting the Export of certain Goods to Syria." TEFU personnel are also educating, guiding and directing collectors in the field to ensure counter-finance intelligence requirements are being addressed and reported.

Planning is underway to deploy TFEU personnel to select Interagency Headquarters in Washington as liaison officers and to establish a forward presence in Southwest Asia. The TFEU is also currently planning and coordinating training for USCENTCOM personnel on terrorist and financial operations.

Multi-National Force-Iraq (MNF-I) is USCENTCOM's primary coalition operating element in Iraq. MNF-I leverages USCENTCOM and other all-source operations to fight terrorist and insurgent finance activities. MNF-I's Combined Intelligence Operations Center developed a Crime and Economic Terrorism Team to produce, tailor and apply all-source analysis in support of warfighters and decision makers in Iraq.

#### The Defense Intelligence Agency

DIA's role in countering finance stems from its all-source operations and analytic production responsibilities and its mission to conduct Defense human intelligence and measurement and signature (MASINT) technical intelligence collection. In 2004 and 2005 the Defense Intelligence Agency significantly sharpened its focus on analyzing and defeating terrorist and insurgent financial activities. DIA has developed and routinely updates a comprehensive functional defeat study on behalf of U.S. Special Operations Command and the Joint Staff that includes an in-depth analysis of terrorist finances and lays out strategic CT opportunities.

In 2005, DIA also expanded its analytic team that produces all-source national-level analysis regarding terrorist insurgent financing activities and challenges relating to Iraq.

DIA has deployed intelligence personnel to educate and ensure interviewers and document and media exploitation personnel are working to fill finance-related intelligence needs. Our Defense HUMINT personnel are working hard to ensure we acquire the information we need to understand and counter terrorist and insurgent finance activities.

Finally DIA has embedded analysts forward deployed to collaborate on intelligence judgments and develop potential actionable opportunities.

#### Counter Finance as a Component of an Integrated Strategy

Combating terrorist and insurgency finances has had an effect on the enemy in Iraq. Drying up money and stopping its movement degrades terrorist and

insurgent operations. It hinders recruitment and impedes couriers, disrupts procurement of bomb components, and creates uncertainty in the minds of suicide bombers regarding whether their families will receive promised compensation.

Defense counter-finance activities, however, are just one element among several that integrate to form the basis of our overall strategy to defeat terrorists and insurgents in Iraq and strengthen Iraqi institutions and society. Alone, counter-finance is not a silver bullet. Combined with our other efforts, it's an important and effective weapon.



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**DOCUMENTS SUBMITTED FOR THE RECORD**

JULY 28, 2005

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July 26, 2005



PAGE ONE

**Digging In**  
**Former Bush Aide**  
**Turns Tough Critic**  
**As Iraq Inspector**

**Mr. Bowen Finds Poor Controls,  
Waste in Reconstruction;  
Seeking Missing Millions**

**Harsh Rebuke From Bremer**

By YOCHI J. DREAZEN  
Staff Reporter of THE WALL STREET JOURNAL  
July 26, 2005; Page A1

During a routine audit last summer of an American office in charge of doling out reconstruction funding in Hillah, Iraq, U.S. government investigators made a series of startling discoveries.

The office had paid a contractor twice for the same work. A U.S. official was allowed to handle millions of dollars in cash weeks after he was fired for incompetence. Of the \$119.9 million allocated for regional projects, \$89.4 million was disbursed without contracts or other documentation. An additional \$7.2 million couldn't be found at all.

To many officials in both Baghdad and Washington, the only thing more surprising than the problems was the identity of the man who had uncovered them: Stuart Bowen, the special inspector general for Iraq reconstruction.



**Stuart Bowen**

Mr. Bowen is a Texas lawyer who parlayed a job on George W. Bush's first gubernatorial campaign into senior posts in Austin and Washington. He began the Iraq war lobbying for an American contractor seeking tens of millions of dollars in reconstruction work. Last October, California Democratic Rep. Henry Waxman singled him out in a report on "The Politicization of Inspectors General" in the Bush administration. The report suggested that such auditors wouldn't be "independent and objective."

Instead, Mr. Bowen has become one of the most prominent and credible critics of how the administration has handled the occupation of Iraq. In a series of blistering public reports, he has detailed systemic management failings, lax or nonexistent oversight, and apparent fraud and embezzlement on the part of the U.S. officials charged with administering the rebuilding efforts.

White House officials declined to comment on Mr. Bowen. But he has drawn harsh criticism from other quarters.

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Aides at both the State Department and the Defense Department have tried to curb the independence of his office. L. Paul Bremer, head of the Coalition Provisional Authority until June 2004, has criticized Mr. Bowen for "misconceptions and inaccuracies" and for expecting the occupation authority, amid postwar chaos, to follow accounting standards that "even peaceful Western nations would have trouble meeting." Newt Gingrich, the former House speaker, has called Mr. Bowen's staff "dramatically out of touch with the practical realities of waging war and setting up a new government in a war-torn country."

Mr. Bowen acknowledged in one report that "the CPA operated in a dangerous working environment under difficult conditions." But the report said the U.S. still should have "established controls and provided oversight over" reconstruction funds "precisely because there was no functioning Iraqi government."

#### Close Inspection

Some findings of Stuart Bowen, the special inspector general for Iraq reconstruction:

- A third of the \$10 billion in contracts signed in fiscal 2003 were awarded without competition.
- A contractor charged the U.S. \$3.3 million for phantom employees assigned to an oil-pipeline repair contract.
- Iraqi construction firms allegedly paid U.S. soldiers to help steal construction equipment from the interim government.
- At least a third of the government-owned vehicles and equipment that Halliburton was paid to manage were believed lost.
- The U.S. failed to keep track of nearly \$9 billion it transferred to the new Iraqi government, much of which appears to have been embezzled.

In 1994, Mr. Bowen was a senior member of Mr. Bush's campaign team in his successful run for governor of Texas. After Mr. Bush took office, Mr. Bowen served as assistant general counsel in the governor's office and then deputy general counsel under Alberto Gonzales, now U.S. attorney general. Mr. Bowen crafted some of Gov. Bush's most controversial legal decisions, such as ousting a Democratic judge and dismissing widespread questions about the guilt of a death-row inmate.

When Mr. Bush ran for president, Mr. Bowen spent 35 days in Florida during the recount, and then served as deputy counsel to the Bush transition team. He rejoined Mr. Gonzales at the White House as associate counsel. In a 2002 ceremony marking the unveiling of Mr. Bush's official gubernatorial portrait in Austin, the president singled out Mr. Bowen as one of the aides who followed him to the presidency. "I truly believe America is better off as a result of the influx of Texans who showed up" in Washington, he said.

Mr. Bowen left the administration in March 2003 for a job at Patton Boggs, a prominent Washington law firm with a big lobbying operation. The U.S. launched the invasion of Iraq a few weeks later, and Mr. Bowen began lobbying for reconstruction work on behalf of URS Group Inc., a San Francisco-based company specializing in international construction planning and management. Mr. Bowen, one of three Patton Boggs attorneys on the account, says his only work for the company involved organizing an April 2003 meeting with a senior official at the U.S. Agency for International Development. URS didn't win any AID contracts as a result of that meeting, but the company ultimately won a series of CPA contracts valued at as much as \$30 million to oversee reconstruction projects.

The effort to rebuild Iraq quickly became the largest U.S. reconstruction effort since the end of World War II. The funds eventually included \$18.4 billion in U.S. money and more than \$22 billion in seized Iraqi assets turned over to the U.S. by the United Nations.

#### Strings Attached

In the fall of 2003, Congress created a CPA inspector general to oversee how the money was spent -- a post that eventually morphed into the job of inspector general for all Iraq reconstruction. The official would answer to Mr. Bremer, who headed the occupation authority, and present reports to Congress at least once every three months. The office was given a budget of \$75 million.

At the request of the Bush administration, the job was created with many strings attached. Unlike other federal inspectors general, the new official was to be appointed by the secretary of defense, not the president, and wouldn't be subject to Senate confirmation. The White House also won the right to block the inspector general from releasing a report on national-security grounds -- though none have been blocked so far. Administration officials and many Congressional Republicans argued that the situation in Iraq was too chaotic to require normal oversight. They also cited the danger that an unfettered release of information could help insurgents plan more effective attacks against U.S. forces there.

Critics were skeptical that, under those conditions, the inspector general could offer real oversight. The skeptics weren't encouraged when, in January 2004, the White House tapped Mr. Bowen, perceived as a loyal Bush ally, to fill that position.

Mr. Bowen, 47 years old, has an athlete's build and the bearing of the Air Force captain he once was. He usually keeps packed bags in his office near the Pentagon, along with his bulletproof vest, handy for his frequent trips to Baghdad.

He traveled to Iraq for the first time in February 2004, riding from the airport to the heavily fortified Green Zone in an armored bus built to withstand direct hits from rockets and roadside bombs. He and his staff slept in trailers and crammed their entire operation into two small offices.

One of his flights out of Baghdad had to bank sharply and release flares to avoid an insurgent missile. An auditor on his staff resigned after seeing a friend decapitated in a rocket attack.

Mr. Bowen's arrival in Iraq coincided with a significant ramp-up in the pace of the American rebuilding effort. The U.S. had initially planned to maintain full control of Iraq for several years. But with violence raging and influential Iraqis expressing impatience with the American timetable, the Bush administration announced plans to turn over power to an interim Iraqi government by June 30.

Hoping to give the incoming government a public-relations boost, Mr. Bremer ordered American rebuilding officials to use captured Iraqi money to fund as many small-scale rebuilding projects as could be completed by the handover date.

Mr. Bowen's audits later found evidence that the push led contracting officials to take shortcuts that made it difficult to determine where the money actually went. In Hillah, for instance, a contracting officer told Mr. Bowen's investigators that he had been given \$6.75 million in cash on June 21 with the expectation that he would spend the entire amount before the handover, which ultimately took place two days earlier than planned on June 28.

He soon found other examples of apparently lax oversight. An employee of the CPA comptroller in Baghdad, for example, kept the key to a safe containing more than \$140,000 in cash in an unattended backpack.

In one of his most attention-grabbing reports, issued on Jan. 30, 2005, Mr. Bowen concluded that the American occupation authority failed to keep track of nearly \$9 billion that it transferred to Iraqi government ministries, which lacked financial controls and internal safeguards to prevent abuse. One Iraqi ministry cited in the audit inflated its payroll to receive extra funds, claiming to employ 8,206 guards when it actually employed barely 600.

The report sparked harsh responses from both Mr. Bremer, the former occupation chief, and the Pentagon. Mr. Bremer chided the auditor for expecting conventional levels of accountability, saying that "given the situation the CPA found in Iraq at liberation, this is an unrealistic standard." The Pentagon also questioned Mr. Bowen's conclusions. Spokesman Bryan Whitman noted that "the CPA was

operating under extraordinary conditions, from its inception to mission completion."

Mr. Bowen says that many of the management problems identified in his reports stem from structural failings in the broader reconstruction venture. He argues that the rebuilding effort has been understaffed. In one report, he noted that the central U.S. contracting office was unable to fill nearly a third of its authorized slots. That meant contracting personnel worked "13 to 15 hours each day, six days a week, with a shortened shift of six to 11 hours on the seventh day."

"An inspector general shouldn't play 'gotcha,' " he says. "My job is to help promote success in Iraq by identifying inefficiencies and helping correct them. I want to be part of the solution."

#### **Taking On Halliburton**

In a November 2004 report, Mr. Bowen took on the big contractor Halliburton Co. in two separate reports. He urged the Army to withhold nearly \$90 million in payments to Halliburton because the company couldn't justify what it had charged the government. The report added that "weakness in the cost-reporting process" was such a problem that his investigators couldn't do a standard audit of Halliburton's bills to the CPA. Halliburton spokeswoman Cathy Mann says the Houston-based oil-services and contracting company is working with the Army to resolve the matter and "we expect to work through any remaining issues in a cooperative manner."

Mr. Bowen's audits have also described what appears to be outright criminal behavior by several government officials. In one case, an Army soldier serving as the assistant to an American boxing coach admitted to gambling away half the \$40,000 he was given to cover the expenses of an Iraqi athletic team during a trip to the Philippines; his case was referred to the military's justice system for a court-martial. Mr. Bowen also recently gave the Justice Department information on possibly criminal behavior on the part of U.S. contracting officers in Hillah, the first time government officials have been implicated in potential fraud in Iraq. The officers left the country with no record of how they had spent nearly \$1.5 million that couldn't be found by investigators.

With his caseload increasing, Mr. Bowen is hiring new investigators and lawyers in both Virginia and Iraq. He has numerous audits under way, including one looking at the efficiency of a military program that has allowed commanders to disburse hundreds of millions of dollars in cash without going through normal contracting channels. His aides recently began sending engineering teams to U.S.-funded reconstruction projects across the country to assess the actual quality of the work.

The future of Mr. Bowen's job has been embroiled in politics.

Shortly before the June 2004 handover of political sovereignty in Iraq, the State Department proposed folding Mr. Bowen's office into its own inspector-general system. Under heavy fire from Democrats, the plan was dropped.

Another bureaucratic fight erupted in the fall of 2004 as lawmakers debated a bill sponsored by Sen. Russell Feingold, Democrat of Wisconsin, that would convert Mr. Bowen into a standing special inspector general. The new job would probe the entire rebuilding effort while being only loosely overseen by the secretaries of defense and state. The Pentagon's inspector general warned Defense Secretary Donald Rumsfeld in a memo that such a bill would effectively leave Mr. Bowen "accountable to no one" and said he would prepare a directive tying him to the Pentagon's inspectors.

Nonetheless, the bill was signed into law on Oct. 29, 2004, expanding Mr. Bowen's role. Mr. Bowen assumed his new post immediately and currently has a staff of 32 in Baghdad and 70 in Arlington, Va.

Now defenders of Mr. Bowen's office are trying to keep it from being shut down next year. The bill that

created Mr. Bowen's position empowered him to probe the rebuilding effort until 10 months after 80% of the reconstruction funds were contracted out. That point is likely to be reached this month, which means that the office will close next summer -- well before the money will actually have been spent. Earlier this month, Sen. Feingold introduced a bill extending the life of Mr. Bowen's office, but the measure's prospects are uncertain.

Despite endorsements from initially skeptical Democrats, Mr. Bowen insists that his work shouldn't be seen through the prism of partisan politics. He says he rarely hears from anyone in the White House these days -- either professionally or socially. He says he remains an admirer of President Bush. The only picture in Mr. Bowen's suburban Virginia office other than a photograph of his children is a framed shot of the two men at a White House dinner.

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**QUESTIONS AND ANSWERS SUBMITTED FOR THE  
RECORD**

JULY 28, 2005

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**QUESTIONS SUBMITTED BY MR. GUTIERREZ**

Mr. GUTIERREZ. What has the U.S. Government done to identify any parties connected with the disappearance of these funds that have been determined by the Special Inspector and determine whether any of this money is indeed a current source of the Iraqi insurgency?

Mr. ROBERTS. In response to the question of what has been done to determine if insurgents are getting the Iraqi money, that issue is being worked by the Iraqi Commission on Public Integrity and the Board of Supreme Audit. We no longer have jurisdiction to permit tracing Iraqi money.

We have no indications that U.S. appropriated funds are going to insurgents.

