

**TESTIMONY  
OF  
JOHN F. MOYNIHAN  
LARRY C. JOHNSON  
BEFORE THE  
HOUSE COMMITTEE ON FINANCIAL SERVICES  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS  
HEARING ON  
“PROGRESS SINCE 9/11: THE EFFECTIVENESS OF  
U. S. ANTI-TERRORIST FINANCING EFFORTS”  
MARCH 11, 2003**

Madame Chairwoman and members of the committee we want to thank you for inviting us to be with you today at this very important hearing. The last time we appeared before the committee was on October 3, 2001, just a few weeks after the tragic events of September 11<sup>th</sup> and like most Americans we were eager to find a way to help the Government respond to the terrorist attacks.

For the record my name is Larry Johnson and seated with me here on the panel is my business partner, John Moynihan. I am a former CIA analyst and State Department counter-terrorism official, and Mr. Moynihan, with an MBA in international finance, is a former DEA Intelligence analyst. He was later recruited by the Drug Enforcement Administration (DEA) and was assigned to the New York Division, where he implemented and coordinated Sensitive Undercover Operations, which focused on international drug money laundering. After four years at DEA he joined an international accounting and consulting firm, where he helped develop the forensic accounting section, which offered clients products and services related to money laundering prevention and detection. After two years with the accounting firm, he decided to go out on his own and together with me, he started this company, BERG Associates LLC with our third partner, Robert Nieves, a former DEA Senior Executive.

As the Committee and staff are aware our expertise lies in international terrorism, forensic accounting and the financial analysis of criminal activity. Through our experiences in and out of government, we have conducted money laundering and product counterfeiting investigations for the US Government and for U.S. financial institutions and corporations that encompass both international and domestic financial transactions. We have first hand experience working in areas such as the Colon Free Trade Zone in Panama and have seen how merchants with ties to terrorist organizations use the infrastructure of the U.S. financial system to launder money and hide resources.

We appear before you today to discuss the progress in the war on terrorist finances and to highlight some specific problem areas we are seeing in our field work. Based on our experience we know that terrorism cannot thrive nor flourish without money. Money may not make the world go round, but it is a critical resource for any group intent on carrying out international terrorist attacks. Building a car bomb or hijacking a plane may not be as expensive as constructing an aircraft carrier, but terrorism still requires a solid

financial base. Terrorists are not born, rather they are made. The making of a terrorist requires a place to train, qualified instructors, access to weapons and explosives, and the time to devote to this activity without having to worry where the next meal is coming from.

Beyond the costs of recruitment and training, international terrorism also confronts the problem of logistics. When an international terrorist travels from one country to another country to carry out an attack they must use some form of public transportation or walk. Terrorist groups do not have their own air force or navy. Travel using planes, trains, ships, or automobiles requires money. Once in place the terrorist still has to cope with the mundane tasks of paying for daily living expenses and local transportation.

Prior to 1991, most of the active terrorist groups relied on nation states, chiefly the Soviet Union, Iran, Iraq, Libya, Syria, and Cuba, for financing and materiel assistance. The collapse of the Soviet empire in 1991 and international sanctions imposed on Libya for its role in bankrolling the bombing of Pan Am 103 led to a rather dramatic reduction in funds for many terrorist groups. Faced with a cash crunch many terrorist groups turned to a variety of activities, including organized crime, as a way to stay alive. Groups such as the Revolutionary Armed Forces of Colombia and the Kurdish Workers Party of Turkey turned to drug trafficking as one way to keep funds flowing in.

Nonetheless some countries continue to bankroll terrorists—principally Iran, Syria, and Iraq. We think it is important to highlight the fact that Iraq continues to provide financial support, safe haven, training, or weapons and explosives to groups or individuals that carry out terrorist attacks. While the links to Al Qaeda may be tenuous, there is incontrovertible evidence of Iraqi support for Palestinian terrorist groups. From 1991 thru 2001 there were 4143 international terrorist attacks throughout the world. Saddam Hussein and his regime were implicated in at least 73 of these incidents, which accounted for fewer than two hundred fatalities. According to Central Intelligence Agency data, there is no credible evidence implicating Iraq directly in any mass casualty terrorist attacks since 1991. As reported in *Patterns of Global Terrorism 2000*, Saddam Hussein's regime "has not attempted an anti-Western terrorist attack since its failed plot to assassinate former President Bush in 1993. However, Iraq continued to aggressively target and attack anti-regime opponents and UN personnel working in Iraq."

Iraq has directed most of its support for terrorism to groups that have attacked Iran and Israel. The United States Government accuses Iraq of providing sanctuary and/or assistance to several groups which include:

- Arab Liberation Front
- Palestine Liberation Front (PLF & Abu Abbas)
- Abu Nidal (ANO)
- 15 May (Abu Ibrahim)

The **Arab Liberation Front (ALF)** is part of the PLO. The ALF, like the other factions of the Palestine Liberation Organization, left Lebanon in a US-brokered deal after Israel's

1982 invasion of Lebanon. Many ALF combatants ended up in Baghdad. The ALF continues to funnel money to Palestinians who carry out terrorist attacks against Israel.

The **Palestine Liberation Front (PLF)** split with the PFLP-GC in the mid-1970s. It subsequently split again, according to the U.S. State Department, into pro-PLO, pro-Syrian, and pro-Libyan factions. The pro-PLO faction, led by Muhammad Abbas (Abu Abbas), established a presence in Baghdad. Abbas's group was responsible for the October 1985 hijacking of the Achille Lauro cruise ship. The PLF also launched a failed 1990 seaborne raid against Israel. This group continues to focus its wrath on Israel. During 2002 Israel recovered documents and arrested PLF members who testified that had received military training for terrorist operations in Iraq.

**Abu Nidal Organization (ANO)** was one of the most active and deadly terrorist groups in the 1970s and 1980s. Its leader, Sabri Al-Banna masterminded attacks that included the December 1985 Rome and Vienna airport massacres, the September 1986 hijacking of Pan Am Flight 73, and the July 1988 assault on the City of Poros day-excursion ship. During the 1990s ANO dramatically scaled back its activities and was implicated in only two terrorist attacks, with the last one occurring in 1995. Al-Banna disappeared from public view after seeking refuge in Baghdad in 1998, but resurfaced in August 2002 with the news that he shot himself several times in a successful "suicide" attempt while resisting Iraqi agents who were trying to arrest him.

The **15 May Organization**, led by Muhammad al-Umari (aka Abu Ibrahim), was formed in 1979 and disbanded in the mid-1980s. 15 May was implicated in the 1981 bombings of El Al's Rome and Istanbul, the August 1982 bombing of a Pan Am flight from Tokyo to Honolulu, and attacks against the Israeli Embassies in Athens and Vienna. It has not been linked to terrorist attacks since 1984. Abu Ibrahim reportedly still lives in Iraq.

Israel has been the major target of Iraqi sponsored terrorism. Iraq's funding and training of members of the **Popular Front for the Liberation of Palestine-General Command (PFLP-GC)** and the **PLF** now is beyond dispute. Documents seized by Israel in raids against Palestinian Authority offices in the West Bank during 2002 detail Iraq's funding of Palestinian terrorism. Israeli officials provided CBS 60 Minutes correspondent Leslie Stahl documents in September showing that Saddam's closest deputy, Vice President Taha Yasin Ramadan, personally signed checks made out to Palestinian terrorist leaders who had organized suicide-bombing attacks. The captured documents included ledgers of "martyrs" who carried out suicide operations against Israel, showing how much and when each was paid and the number of the check. It included internal memoranda, computer disks, hard drives, videotapes and bank statements.

Terrorists have taken the initiative in seeking alternative funding sources. An extensive and compelling body of evidence shows that some of the more sophisticated and lethal terrorist groups have engaged in a web of financial activities that are as complex as any carried out by any multi-national corporation. The spectrum of activity ranges from criminality to legally constituted businesses.

The evidence accumulated since the attack of 9-11 shows that Al Qaeda and Hezbollah have been particularly adept at using petty crime and low profile felonies as a means to earn a living. Al Qaeda operatives in Canada and Europe, for example, have engaged in

credit card theft, robbery, and identity theft. Some groups with ties to the Middle East are stealing coupons from newspaper inserts and redeeming these coupons for cash that is then sent overseas. In a recent case in North Carolina involving Hezbollah operatives smuggling cigarettes police discovered that some of the key individuals in this scheme had substantial rap sheets. They had not been prosecuted previously because the crimes were viewed as “nuisance” crimes that did not merit the limited resources of the local prosecutor. Clearly, some of the terrorists are counting on leniency by the U.S. judicial system in order to carry out their nefarious activities. By engaging in “low priority” albeit profitable, criminal activity they often remain under the law enforcement and intelligence communities’ radar.

Terrorist groups have also used charitable organizations as a device to move funds. The Bush Administration has scored some major successes in disrupting groups such as the Benevolence International Foundation, Global Relief, and the Quranic Literacy Institute. The case of the Quranic Literacy Institute (QLI) highlights how the money laundering techniques of structuring and “cut-outs” are used to put money in the hands of terrorists. Unlike traditional money laundering, which starts with a predicate crime such as drug trafficking, groups like Hamas, Hezbollah and Al Qaeda have used legally constituted charitable organizations to obtain funds or to move funds. In the case of the QLI, more than \$1 million was channeled in through the charity or someone allegedly acting on its behalf. These funds subsequently were used for terrorist operations in Israel.

Madame Chairwoman, this concludes my portion of the testimony, I would now like to turn over the testimony to my partner John Moynihan who will discuss in detail a vulnerability in our nation’s financial system that criminals and terrorists are exploiting.

On the occasion of our last appearance before the committee I testified about BERG’s experiences with and understandings of the numerous informal financial systems that operate around the globe. At that time the committee had great interest in hearing about my experiences with Hawalas, the Black Market Peso Exchange and other “parallel money markets” and how money moves in these underground financial systems. We helped shed light on ways to implement programs to stem the flow of illicit dollars within criminal terrorist groups, like “Al Qaeda”.

The committee may recall that I specifically recommended that “A federal law criminalizing the act of engaging in money exchanging without a license needed to be adopted.” Indeed, the PATRIOT ACT, enacted just a few months later modified the law (section 1960 of Title 18 US Code) making it a more important and effective tool for use in the prosecution of “unlicensed money remitters”. We would like to applaud the actions of the committee in moving that legislative amendment forward and making the law a more effective tool to combat international organized crime and terrorism. Likewise, we would like to applaud the efforts of the various federal law enforcement agencies, which have aggressively investigated and penetrated these “hawalas” and “black market financial systems” over the past 18 months. You should know that our work as a government contractor brings us into close personal contact with federal investigations from a variety of federal agencies and we can personally assure the

committee that good use is being made of Title III of the PATRIOT ACT. Important investigations are being conducted and significant advances in the war against organized crime and international terrorism are being made using the recommendations made within these chambers on section 1960 of Title 18 US Code.

With that said, more needs to be done.

Today we would like to address another important area of international money movement, which in our experience has proven to be a very effective means of laundering criminal proceeds internationally, that being, the use or more correctly, abuse of “Cash Letters”, sometimes referred to as an “International pouch”.

So, what is a “Cash Letter?”

In layman’s terms, a “cash letter” is an inter-bank transmittal letter that accompanies checks or cash instruments sent from one bank to another internationally. Large banks receive cash letters on a daily basis from correspondent banks. These cash letters can often contain hundreds or thousands of checks that are bundled together and sent to the correspondent bank for collection. Once received the checks must be sorted and processed and ultimately forwarded to the payee banks for collection. Checks are often routed through the Federal Reserve System, other banks or regional check processing centers for collection. In short, the Cash Letter agreement between banks is a depository action that is in place to ensure that foreign banks get paid for checks that they accept for deposit from abroad.

In recent years, we have personally noticed an increase in the use of “Cash letters” as a vehicle for International money laundering. As wire transfers and other forms of traditional laundering have come under increased scrutiny and regulation, organized crime groups and terrorists have turned to other methods of moving their money internationally. Consequently, the international movement of bulk quantities of personal checks now figures prominently in money laundering or money movement schemes.

First, some relevant background: Banks open accounts for other banks; these are known as correspondent accounts. These correspondent accounts are used for the movement of funds between banks. Many times, the correspondent will send monetary instruments from their overseas locations to the United States to be deposited into their correspondent bank accounts. Those checks, money orders, cashiers checks etc. are accompanied by a deposit slip that details the value of the instruments with a date and the accompanying checking account number the funds are to be deposited into. This is the essence of the cash letter; it is very much a hard copy transaction.

These cash letters are sent to designated areas of the bank for processing. Some banks handle as many as five to seven million checks a day for processing. Therefore, when these cash letters are delivered to the banks by shipping companies in pouches and overnight bags, it would be extremely difficult to ensure that those instruments are not the subject of or facilitating money laundering.

How do these instruments end up in the hands of the correspondent banks abroad? There are many ways in which this can happen. As an extension to the last time we were here regarding 18 USC 1960 involving unlicensed money remittances, many persons seeking to send monies abroad will send dollar denominated checks to beneficiaries in foreign countries. These beneficiaries will then present them at a bank in their home country. . The local bank receiving the checks will then establish a credit balance for the depositor who presented the checks in the local currency. When the account holder seeks to liquidate the deposit and use the local currency he is free to do so at his discretion. This is an example of how the beneficiaries receive the funds abroad and are not identified as they would be if a wire transfer had been used.

Once the checks are in the foreign bank, the bank wants to get credit for them. Therefore they initiate a package delivery to be sent to their correspondent in the United States. The correspondent receives the package of instruments (the cash letter) and credits the correspondent account in U.S. dollars.

How then are these cash letters used in a money laundering scenario? Through our work we have seen many examples where cash is structured using money orders.

1. Persons buy multiple money orders at or below \$10,000 or even given current regulations at or below \$3,000. The sum total of the purchases of money orders is in excess of \$10,000. Given this, it would be necessary to file a Cash Transaction Report. The act of purposefully purchasing the money orders in denominations below reporting thresholds to by pass the filing of a cash transaction report is structuring.
2. These structured money orders are now sent to a foreign location. The receiver accepts delivery of these money orders abroad. This person proceeds to his local bank. He presents these U.S. denominated money orders to his bank for deposit. The foreign bank accepts the money orders and credits his account for the equal and offsetting value in the local currency.
3. The receiving bank now will seek to obtain credit for these money orders. They will present these money orders back to their correspondent bank in the United States. The reason they bring these checks back to the United States is because the checks are denominated in U.S. dollars. Once these checks are presented to the bank in the United States, the foreign bank is credited into their correspondent account.
4. The United States bank will now process these checks. They will use a variety of systems to send the checks back to the issuing banks. The structured money orders will be eventually sent back to the bank or vendor issuing them.. Thus the complete cycle of the structured purchasing of money orders being sent to a foreign bank for credit and the eventual return to the United States of those checks has been completed.

There are many other examples of how “bad” money in the form of checks moves through the cash letter product. Many checks that float in the black markets around the world end up in these correspondent accounts from the deposits of cash letters. Checks

with two or maybe even three different styles of hand writing dated five or six months earlier than the deposit date are clear indicators of black market operations. Sometimes personal checks are presented where amounts of \$9,990 and other amounts close to \$10,000 are included in the deposits. Again, the amounts are indicative of attempts to evade reporting requirements. Some checks do not even have payees indicated and third parties purchase these checks, stamp them with their own name and then deposit them. The return of all of these checks to the United States correspondent is done through the cash letter process.

To be sure, the cash letter business involves billions of dollars in checks that originate in U.S. based banks. . Monitoring these millions of checks manually is a daunting if not impossible task. Given this, money launderers and terrorists exploit this lack of monitoring for their particular interests. This is the latest issue that I feel needs to be addressed as a new and important element of a comprehensive anti-money laundering strategy.

#### RECOMMENDATION:

The federal government should immediately conduct a review of the “cash letter” money laundering connection in money center banks and large correspondent banks and propose rules that would require those correspondent banks to monitor cash letter transactions for suspicious activity.

A vigorous monitoring program would identify and stop payment on suspicious instruments, thereby taking the profit out of the activity and making it difficult for suspect money to move through the system. Additionally, it would identify those overseas banks who are the most egregious offenders and put them on notice that they need to cease and desist their activities. If necessary and warranted, repeat offenders could be fined, sanctioned or lose their ability to bank through the United States.

#### CLOSING THOUGHTS:

Madame Chairwoman, we want to thank the committee for this opportunity to address you. It is our hope that we have shed light on a new and emerging area of money laundering that needs to be checked and controlled. We know that this system is being abused by Organized Criminal groups not only from Latin America but also from the Middle East and, although we cannot state for the record, that these individuals have connections to Al Qaeda or other terrorist organizations, we can say unequivocally that the money is the proceeds of criminal activity. We know that terrorists do exploit loopholes like this. We believe that criminals from all backgrounds are manipulating this cash letter system and the system is growing larger by the day. The crisis that we find ourselves in today, with respect to international criminal money movement, has been growing for some time. It seems that when we put pressure on one aspect, like wire transfers, we find that they adapt and seek other methods of money movement. We have no doubt that terrorists use this system much the same as other criminal groups. We believe that terrorists do not need to create a new system to move their money; rather

they create and find new relationships with other international criminals, which allow them to expand their capabilities. In short, the sooner we get our arms around this abuse of the cash letter system, the sooner we will be able to identify those overseas institutions that are part and parcel of the problem.

Thank you Madame Chairwoman. We will be more than happy to answer any questions that you or members of the Sub-Committee may have at this time.

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## **LARRY C JOHNSON**

Larry C. Johnson is CEO and co-founder of BERG Associates, LLC, an international business-consulting firm that helps multinational corporations and financial institutions identify strategic opportunities, manage risks, and counter threats posed by terrorism and money laundering.

Mr. Johnson, who worked previously with the Central Intelligence Agency and U.S. State Department's Office of Counter Terrorism, is a recognized expert in the fields of terrorism, aviation security, crisis and risk management.

Mr. Johnson's experience includes:

- Identifying business opportunities and conducting due diligence for multinational corporations with operations in Europe and Latin America.
- Advising money center banks, financial institutions, and insurance companies on business opportunities, compliance programs, and exchange risks in Latin America and Europe.
- Investigating financial crimes and product counterfeiting for corporations with international operations.
- Designing terrorism war games to test US military readiness and civilian consequence management capabilities.
- Assessing terrorist threats and recommending counter measures for multi-national corporations, government and non-profit business, academic, and social entities.
- Designing, evaluating, and implementing technologies and security measures and for security related companies, airlines, airports, and government entities.
- Evaluating database systems for the private sector and governments for tracking chemical and biological terrorist threats.

Mr. Johnson has analyzed terrorist incidents for a variety of media including the Jim Lehrer News Hour, National Public Radio, ABC's Nightline, NBC's Today Show, the New York Times, CNN and the BBC. Mr. Johnson has authored several articles for publications, including *Security Management Magazine*, *the New York Times*, and *The Los Angeles Times*. He has lectured on terrorism and aviation security around the world, including the Center for Research and Strategic Studies at the Ecole Polytechnique in Paris, France. He represented the U.S. Government at the July 1996 OSCE Terrorism Conference in Vienna, Austria.

From 1989 until October 1993, Larry Johnson served as a Deputy Director in the U.S. State Department's Office of Counter Terrorism. He managed crisis response operations for terrorist incidents throughout the world and he helped organize and direct the US Government's debriefing of US citizens held in Kuwait and Iraq, which provided vital intelligence on Iraqi operations following the 1990 invasion of Kuwait. Mr. Johnson also

participated in the investigation of the terrorist bombing of Pan Am 103. Under Mr. Johnson's leadership the U.S. airlines and pilots agreed to match the US Government's two million-dollar reward.

From 1985 through September 1989 Mr. Johnson worked for the Central Intelligence Agency. During his distinguished career, he received training in paramilitary operations, worked in the Directorate of Operations, served in the CIA's Operation's Center, and established himself as a prolific analyst in the Directorate of Intelligence. In his final year with the CIA he received two Exceptional Performance Awards.

Mr. Johnson is a member of the American Society for Industrial Security. He taught at The American University's School of International Service (1979-1983) while working on a Ph.D. in political science. He has a M.S. degree in Community Development from the University of Missouri (1978), where he also received his B.S. degree in Sociology, graduating Cum Laude and Phi Beta Kappa in 1976.

## JOHN F. MOYNIHAN

Mr. Moynihan is a partner and founder of BERG Associates. He has pioneered the design of monitoring and compliance programs to prevent and detect fraudulent financial schemes and is an expert investigator of financial crimes.

Mr. Moynihan has extensive domestic and international experience investigating money laundering and associated financial crimes. He most recently has worked as a Senior Manager at a big six accounting firm as the firm's specialist in money laundering matters. Mr. Moynihan has dedicated his career to the disruption of the surreptitious flow of illegal proceeds through financial as well as non-financial and multinational organizations. Mr. Moynihan has counseled multinational corporations and government employees dedicated to anti-money laundering initiatives in the United States, Latin America, Africa and Europe. Mr. Moynihan has formerly been employed with the United States Department of Justice, Drug Enforcement Administration, as an Intelligence Specialist dedicated to financial analytical support in developing money laundering investigations worldwide.

Mr. Moynihan has successfully investigated and documented highly sophisticated money laundering cartels operating both internationally and domestically. He has also investigated multi-million dollar contract frauds involving taxpayer funds. Highlights of some of these investigations are detailed below:

- **Money Laundering:** Investigated many money laundering schemes worldwide and issued recommendations on reducing corporate vulnerabilities, risk and liabilities on such matters. Has advised corporations and governments on regulatory issues confronting the efforts levied against money laundering cartels.
- **International Trade:** Federal investigations which identified hundreds of millions of dollars transferred to and through U.S. and International organizations that were the direct result of illegal narcotics sales.
- **Insurance:** Identified a multi-million dollar insurance fraud involving the falsification of information on applications.
- **Import/Export:** Directed an investigation on several fictitious import/export companies that resulted in bank seizures of over \$10,000,000.
- **Contracts:** Investigated statewide contractor fraud in the area of Public Works projects.

Mr. Moynihan received his B.A. in Economics from Holy Cross College. He is a magna cum laude graduate of Old Dominion University where he received his Masters in Business Administration with the specialty of International Finance.

# QURANIC LITERACY INSTITUTE

**President:**  
Ahmad Zaki Hameed

**Corporate Secretary & Trustee**  
Amer Haleem

**Coporate Secretary & Trustee**  
Abraham Abusharif

?Mohammed Salah

# QLI Suggests Property Purchase

Golden Marble (G.M.) Dr. Tamer Al-Rafai  
Bids \$820,000 for Woodbridge Property (May 1991).

Saudi citizen Yassin Kadi (owner of Kadi International)  
Wires \$820,000 to Golden Marble (July 19,1991).

Golden Marble (G.M.) sends three checks to QLI worth  
\$150,000 (Sep. 11, Sep. 12, Nov 27 1991).

QLI Endorses checks from G.M. to 3rd Party  
(March 1992).

# Money Movement to HAMAS

