

**STATEMENT OF ROBERT S. MUELLER, III
DIRECTOR OF THE FEDERAL BUREAU OF INVESTIGATION
BEFORE THE UNITED STATES SENATE
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON COMMERCE, JUSTICE, SCIENCE, AND RELATED
AGENCIES**

April 15, 2010

Good morning, Chairwoman Mikulski, Ranking Member Shelby, and members of the Subcommittee. On behalf of the more than 30,000 men and women of the Federal Bureau of Investigation (FBI), I am privileged to appear before the Subcommittee to present and discuss the FBI's Fiscal Year (FY) 2011 Budget. At the outset, I would like to thank you for your past support of the Bureau. Your support enables the FBI to achieve its three-fold mission: Protecting and defending the United States against terrorism and foreign intelligence threats, upholding and enforcing the criminal laws of the United States, and providing leadership and criminal justice services to federal, state, municipal, and international agencies and partners.

The FBI's FY 2011 Budget requests a total of \$8.3 billion in direct budget authority, including 33,810 permanent positions (13,057 Special Agents, 3,165 Intelligence Analysts (IAs), and 17,588 Professional Staff). This funding, which consists of \$8.1 billion for Salaries and Expenses and \$181.2 million for Construction, is critical to continue our progress started toward acquiring the intelligence, investigative, and infrastructure capabilities required to counter current and emerging national security threats and crime problems.

Consistent with the Bureau's transformation towards becoming a threat-informed and intelligence-driven agency, the FY 2011 Budget request was formulated based upon our understanding of the major national security threats and crime problems that the FBI must work to prevent, disrupt, and deter. We then identified the gaps and areas which required additional resources. As a result of this integrated process, the FY 2011 Budget proposes \$306.6 million for new or expanded initiatives – \$232.8 million for Salaries and Expenses and \$73.9 million for Construction – and 812 new positions, including 276 Special Agents, 187 Intelligence Analysts, and 349 Professional Staff. These additional resources will allow the FBI to improve its capacities to address threats in the priority areas of Terrorism, Computer Intrusions, Weapons of Mass Destruction, Foreign Counterintelligence, White Collar Crime, Violent Crime and Gangs, Child Exploitation, and Organized Crime. Also, included in this request is funding for necessary organizational operational support and infrastructure requirements; without such funding, a threat or crime problem cannot be comprehensively addressed.

Let me briefly summarize the key national security threats and crime problems that this funding enables the FBI to address.

National Security Threats

Terrorism: Terrorism, in general, and al-Qa'ida and its affiliates in particular, continue to represent the most significant threat to our national security. Al-Qa'ida remains committed to its goal of conducting attacks inside the United States and continues to leverage proven tactics and tradecraft with adaptations designed to address

its losses and the enhanced security measures of the United States. Al-Qa'ida seeks to infiltrate overseas operatives who have no known nexus to terrorism into the United States using both legal and illegal methods of entry. Further, al-Qa'ida's continued efforts to access chemical, biological, radiological, or nuclear material pose a serious threat to the United States. Finally, al-Qa'ida's choice of targets and attack methods will most likely continue to focus on economic targets, such as aviation, the energy sector, and mass transit; soft targets such as large public gatherings; and symbolic targets, such as monuments and government buildings.

Homegrown violent extremists also pose a very serious threat. Homegrown violent extremists are not clustered in one geographic area, nor are they confined to any one type of setting---they can appear in cities, smaller towns, and rural parts of the country. This diffuse and dynamic threat – which can take the form of a lone actor – is of particular concern.

While much of the national attention is focused on the substantial threat posed by international terrorists to the Homeland, the United States must also contend with an ongoing threat posed by domestic terrorists based and operating strictly within the United States. Domestic terrorists, motivated by a number of political or social issues, continue to use violence and criminal activity to further their agendas.

Cyber: Cyber threats come from a vast array of groups and individuals with different skills, motives, and targets. Terrorists increasingly use the Internet to

communicate, conduct operational planning, propagandize, recruit and train operatives, and obtain logistical and financial support. Foreign governments have the technical and financial resources to support advanced network exploitation, and to launch attacks on the United States information and physical infrastructure. Criminal hackers can also pose a national security threat, particularly if recruited, knowingly or unknowingly, by foreign intelligence or terrorist organizations.

Regardless of the group or individuals involved, a successful cyber attack can have devastating effects. Stealing or altering military or intelligence data can affect national security. Attacks against national infrastructure can interrupt critical emergency response services, government and military operations, financial services, transportation, and water and power supply. In addition, cyber fraud activities pose a growing threat to our economy, a fundamental underpinning of United States national security.

Weapons of Mass Destruction: The global Weapons of Mass Destruction (WMD) threat to the United States and its interests continues to be a significant concern. In 2008, the National Intelligence Council produced a National Intelligence Estimate to assess the threat from Chemical, Biological, Radiological, and Nuclear weapons and materials through 2013. The assessment concluded that it remains the intent of terrorist adversaries to seek the means and capability to use WMD against the United States at home and abroad. In 2008, the Commission on the Prevention of WMD Proliferation and Terrorism concluded that “the United States government has yet to fully adapt....that the risks are growing faster than our multilayered defenses.” The WMD Commission warned that

without greater urgency and decisive action, it is more likely than not that a WMD will be used in a terrorist attack somewhere in the world by the end of 2013.

Osama bin Laden has said that obtaining WMD is a “religious duty” and is reported to have sought to perpetrate a “Hiroshima” on United States soil. Globalization makes it easier for terrorists, groups, and lone actors to gain access to and transfer WMD materials, knowledge, and technology throughout the world. As noted in the WMD Commission’s report, those intent on using WMD have been active and as such “the margin of safety is shrinking, not growing.”

Foreign Intelligence: The foreign intelligence threat to the United States continues to increase as foreign powers seek to establish economic, military, and political preeminence and to position themselves to compete with the United States in economic and diplomatic arenas. The most desirable United States targets are political and military plans and intentions; technology; and economic institutions, both governmental and non-governmental. Foreign intelligence services continue to target and recruit United States travelers abroad to acquire intelligence and information. Foreign adversaries are increasingly employing non-traditional collectors – e.g., students and visiting scientists, scholars, and businessmen – as well as cyber-based tools to target and penetrate United States institutions.

To address current and emerging national security threats, the FY 2011 Budget proposes additional funding for:

- **Counterterrorism and Counterintelligence investigations and operations:** 90 new positions (27 Special Agents, 32 IAs, and 31 Professional Staff) and \$25.2 million to enhance surveillance and investigative capabilities, improve intelligence collection and analysis capabilities, and enhance the Bureau's Legal Attaché presence in Pakistan and Ethiopia.
- **Computer Intrusions:** 163 new positions (63 Agents, 46 IAs, and 54 Professional Staff) and \$45.9 million for the Comprehensive National Cybersecurity Initiative to continue the enhancement of the FBI's capacities for combating cyber attacks against the U.S. information infrastructure.
- **Weapons of Mass Destruction:** 35 positions (15 Special Agents and 20 Professional Staff) and \$9.1 million to develop further the FBI's capacity to implement countermeasures aimed at detecting and preventing a WMD incident, improve the capacity to provide a rapid response to incidents, and enhance capacities to collect and analyze WMD materials, technology, and information.
- **Render Safe:** 13 new positions (6 Special Agents and 7 Professional Staff) and \$40.0 million to acquire necessary replacement aircraft critical to the timely deployment and response of specialized render safe assets.

Major Crime Problems and Threats

White Collar Crime: The White Collar Crime (WCC) program primarily focuses on: Corporate Fraud and Securities Fraud; Financial Institution Fraud; Public Corruption; Health Care Fraud; Insurance Fraud; and Money Laundering. To effectively and efficiently combat these threats, the FBI leverages the resources of our civil regulatory and criminal law enforcement partners by participating, nationally and on a local level, in task forces and working groups across the country. For example, the FBI participates in 86 Corporate Fraud and/or Securities Fraud working groups, 67 Mortgage Fraud working groups, and 23 Mortgage Fraud task forces. By working closely with our partners, to include the sharing of intelligence, the FBI is better able to develop strategies and deploy resources to target current and emerging WCC threats.

Financial Institution Fraud: Mortgage Fraud is the most significant threat within the Financial Institution Fraud program. The number of pending Mortgage Fraud investigations against Real Estate professionals, brokers and lenders has risen from 436 at the end of FY 2003 to over 2,900 by the end of the first quarter of FY 2010. This is more than a 500 percent increase. Over 68 percent of the FBI's 2,979 mortgage fraud cases involved losses exceeding \$1 million per case. Suspicious Activity Reports (SARs) regarding Mortgage Fraud increased from 6,936 in FY 2003, to 67,190 in FY 2009. If first quarter trends of FY 2010 continue, the FBI will receive over 75,000 SARs by the end of FY 2010.

Corporate Fraud: The majority of Corporate Fraud cases pursued by the FBI involve accounting schemes designed to deceive investors, auditors, and analysts about the true financial condition of a corporation. While the number of cases involving the falsification of financial information has remained relatively stable, the FBI has observed an upward trend in Corporate Fraud cases associated with mortgage-backed securities (MBS).

Securities Fraud: The FBI focuses its efforts in the Securities Fraud arena on schemes involving high yield investment fraud (to include Ponzi schemes), market manipulation, and commodities fraud. Due to the recent financial crisis, the FBI saw an unprecedented rise in the identification of Ponzi and other high yield investment fraud schemes, many of which each involve thousands of victims and staggering losses – some in the billions of dollars. With this trend, and the development of new schemes, such as stock market manipulation via cyber intrusion, Securities Fraud is on the rise. Over the last five years, Securities Fraud investigations have increased by 33 percent.

Public Corruption: The corruption of local, state, and federally elected, appointed, or contracted officials undermines our democratic institutions and sometimes threatens public safety and national security. Public corruption can affect everything from how well United States borders are secured and neighborhoods protected, to verdicts handed down in courts, and the quality of public infrastructure such as schools and roads. Many taxpayer dollars are wasted or lost as a result of corrupt acts by public officials.

The FBI also created a national strategy to position itself to effectively address the increase in corruption and fraud resulting from the Federal Government's economic stimulus programs, including expanding our undercover capabilities and strengthening our relationships with the Inspectors General community on a national and local level.

Health Care Fraud: Some of the most prolific and sophisticated WCC investigations during the past decade have involved health care fraud. It is estimated that fraud in health care industries costs consumers more than \$60 billion annually. Today, the FBI seeks to infiltrate illicit operations and terminate scams involving staged auto accidents, online pharmacies, Durable Medical Equipment, outpatient surgery centers, counterfeit pharmaceuticals, nursing homes, hospital chains, and transportation services. Besides the federal health benefit programs of Medicare and Medicaid, private insurance programs lose billions of dollars each year to blatant fraud schemes in every sector of the industry.

Insurance Fraud: There are more than 5,000 companies with a combined \$1.8 trillion in assets engaged in non-health insurance activities, making this one of the largest United States industries. Insurance fraud increases the premiums paid by individual consumers and threatens the stability of the insurance industry. Recent major natural disasters and corporate fraud scandals have heightened recognition of the threat posed to the insurance industry and its potential impact on the economic outlook of the United States.

Money Laundering: Money Laundering allows criminals to infuse illegal money into the stream of commerce, thus manipulating financial institutions to facilitate the concealing of criminal proceeds; this provides the criminals with unwarranted economic power. The FBI investigates Money Laundering cases by identifying the process by which criminals conceal or disguise the proceeds of their crimes or convert those proceeds into goods and services. The major threats in this area stem from emerging technologies, such as stored value devices; as well as shell corporations, which are used to conceal the ownership of funds being moved through financial institutions and international commerce. Recent money laundering investigations have revealed a trend on the part of criminals to use stored value devices, such as pre-paid gift cards and reloadable debit cards, in order to move criminal proceeds. This has created a “shadow” banking system, allowing criminals to exploit existing vulnerabilities in the reporting requirements that are imposed on financial institutions and international travelers. This has impacted our ability to gather real time financial intelligence, which is ordinarily available through Bank Secrecy Act filings. Law enforcement relies on this intelligence to identify potential money launderers and terrorist financiers by spotting patterns in the transactions conducted by them. The void caused by the largely unregulated stored value card industry deprives us of the means to collect this vital intelligence. Moreover, stored value cards are often used to facilitate identity theft. For example, a criminal who successfully infiltrates a bank account can easily purchase stored value cards and then spend or sell them. This readily available outlet makes it much more unlikely that the stolen funds will ever be recovered, thus costing financial institutions and their insurers billions of dollars each year.

Transnational and National Criminal Organizations and Enterprises:

Transnational/National Organized Crime is an immediate and increasing concern of the domestic and international law enforcement and intelligence communities.

Geopolitical, economic, social, and technological changes within the last two decades have allowed these criminal enterprises to become increasingly active worldwide.

Transnational/National Organized Crime breaks down into six distinct groups: (1) Eurasian Organizations that have emerged since the fall of the Soviet Union (including Albanian Organized Crime); (2) Asian Criminal Enterprises; (3) traditional organizations such as the La Cosa Nostra (LCN) and Italian Organized Crime; (4) Balkan Organized Crime; (5) Middle Eastern Criminal Enterprises; and (6) African Criminal Enterprises.

Due to the wide range of criminal activity associated with these groups, each distinct organized criminal enterprise adversely impacts the United States in numerous ways. For example, international organized criminals control substantial portions of the global energy and strategic materials markets that are vital to United States national security interests. These activities impede access to strategically vital materials, which has a destabilizing effect on United States geopolitical interests and places United States businesses at a competitive disadvantage in the world marketplace. International organized criminals smuggle people and contraband goods into the United States, seriously compromising United States border security and at times national security. Smuggling of contraband/counterfeit goods costs United States businesses billions of

dollars annually, and the smuggling of people leads to exploitation that threatens the health and lives of human beings.

International organized criminals provide logistical and other support to terrorists, foreign intelligence services, and hostile foreign governments. Each of these groups is either targeting the United States or otherwise acting in a manner adverse to United States interests. International organized criminals use cyberspace to target individuals and United States infrastructure, using an endless variety of schemes to steal hundreds of millions of dollars from consumers and the United States economy. These schemes also jeopardize the security of personal information, the stability of business and government infrastructures, and the security and solvency of financial investment markets.

International organized criminals are manipulating securities exchanges and perpetrating sophisticated financial frauds, robbing United States consumers and government agencies of billions of dollars. International organized criminals corrupt and seek to corrupt public officials in the United States and abroad, including countries of vital strategic importance to the United States, in order to protect their illegal operations and increase their sphere of influence.

Finally, the potential for terrorism-related activities associated with criminal enterprises is increasing due to the following: alien smuggling across the southwest border by drug and gang Criminal Enterprises; Columbian based narco-terrorism groups influencing or associating with traditional drug trafficking organizations; prison gangs being recruited by religious, political, or social extremist groups; and major theft criminal

enterprises conducting criminal activities in association with terrorist related groups or to facilitate funding of terrorist-related groups. There also remains the ever present concern that criminal enterprises are, or can, facilitate the smuggling of chemical, biological, radioactive, or nuclear weapons and materials.

Violent Crimes/Gangs and Indian Country. Preliminary Uniform Crime Report statistics for 2008 indicate a 3.5 percent decrease nationally in violent crimes (murder and non-negligent manslaughter, forcible rape, robbery, and aggravated assault) for the first six months of the year compared to the same period in 2007. This follows a slight decline (1.4 percent) for all of 2007 compared to 2006. While this overall trend is encouraging, individual violent crime incidents such as serial killings and child abductions often paralyze entire communities and stretch state and local law enforcement resources to their limits. In addition, crimes against children, including child prostitution and crimes facilitated through the use of the Internet, serve as a stark reminder of the impact of violent crime on the most vulnerable members of society. Since the inception of the Innocence Lost National Initiative in 2003, the FBI has experienced a 239% increase in its investigations addressing the threat of children being exploited through organized prostitution. The FBI addresses this threat by focusing resources on criminal enterprises engaged in the transportation of children for the purpose of prostitution using intelligence driven investigations and employing sophisticated investigative techniques. These types of investigations have led to the recovery of 915 children, 549 offenders convicted, and the dismantlement of 44 criminal enterprises.

Gang Violence: The United States has seen a tremendous increase in gangs and gang membership. Gang membership has grown from 55,000 in 1975 to approximately 960,000 nationwide in 2007. The FBI National Gang Intelligence Center (NGIC) has identified street gangs and gang members in all 50 states and the District of Columbia. Thirty-nine of these gangs have been identified as national threats based on criminal activities and interstate/international ties. NGIC estimates the direct economic impact of gang activity in the United States at \$5 billion and the indirect impact as much greater. Furthermore, NGIC identified a trend of gang members migrating to more rural areas. NGIC has also seen an expansion of United States based gangs internationally, with such gangs currently identified in over 20 countries.

Indian Country: The FBI has 104 full-time dedicated Special Agents who currently address 2,406 Indian Country (IC) cases on approximately 200 reservations. Seventy-five percent of the cases are investigated in the Minneapolis, Salt Lake City, Phoenix, and Albuquerque Field Offices. Fifty percent of the cases involve death investigations, sexual and physical assault of children, and felony assaults, with little or no support from other law enforcement agencies due to the jurisdictional issues in IC. As a consequence, there are only half as many law enforcement personnel in IC as in similar sized rural areas. Furthermore, Tribal authorities can only prosecute misdemeanors of Indians, and state/local law enforcement do not have jurisdiction within the boundaries of the reservation, with the exception of Public Law 280 states and tribes.

To address current and emerging crime problems and threats, the FY 2011 Budget requests additional funding for:

- **White Collar Crime** – 367 new positions (143 Special Agents, 39 IAs, and 185 Professional Staff) and \$75.3 million to address increasing mortgage, corporate, and securities and commodities fraud schemes, including a backlog of over 800 mortgage fraud cases with over \$1 million in losses per case.
- **Child Exploitation** – 20 new positions (4 Special Agents, 1 IA, and 15 Professional Staff) and \$10.8 million to enhance on-going Innocence Lost, child sex tourism, and Innocent Images initiatives.
- **Organized Crime** – 4 new positions (3 Special Agents and 1 Professional Staff) and \$952 thousand to establish, in partnership with the Criminal Division of the Justice Department, a new integrated international organized crime mobile investigative team to focus on combating illicit money networks and professional money laundering.
- **Violent Crime/Gangs and Indian Country** – 2 new positions and \$328 thousand to provide enhanced forensic services for Indian Country investigations. Additionally, \$19.0 million is requested as a reimbursable program through the Department of the Interior to hire an additional 45 Special Agents and 36 Professional Staff to investigate violent crimes in Indian Country.

Operational Enablers – FBI operations and investigations to prevent terrorism, thwart foreign intelligence, protect civil rights, and investigate federal criminal offenses require a solid and robust enterprise infrastructure. Our operational and investigative

programs are vitally dependent on core information technology, forensic, intelligence, and training services. Growth in FBI national security and criminal investigative programs and capabilities require investments in our core infrastructure. The FY 2011 Budget proposes 118 new positions (15 Agents, 69 Intelligence Analysts, and 34 Professional Staff), and \$99.0 million for key operational enablers -- intelligence training and transformation, information technology upgrades, improved forensic services, and facility improvements – including construction of a new dormitory building and renovations to existing facilities at the FBI Academy, Quantico.

Program Offsets. The proposed increases for the FY 2011 Budget are offset, in part, by \$17.3 million in program reductions, as follows: \$10.3 million in travel; \$3.2 million in training; and a \$3.8 million reduction in vehicle fleet funding. The FY 2011 Budget also proposes an elimination of \$98.9 million of balances for the construction of a permanent facility to house the Terrorist Explosive Device Analytical Center (TEDAC), but maintains current funding and personnel for the FBI's TEDAC program, which is responsible for analyzing Improvised Explosive Devices that are used in Iraq and Afghanistan. In addition, to provide long-term support for overseas operations, the FY 2011 Budget proposes to recur \$39 million of the \$101.6 million enacted for Overseas Contingency Operations in the Consolidated Appropriations Act, 2010, a non-recurrence of \$62.7 million.

Reimbursable Resources. In addition to directly appropriated resources, the FY 2011 Budget includes resources for reimbursable programs, including \$134.9 million

and 776 full time equivalents (FTE) pursuant to the Health Insurance Portability and Accountability Act (HIPPA) of 1996; \$148.5 million and 868 FTE under the Interagency Crime and Drug Enforcement Program; and \$189.9 million and 1,303 FTE for the Fingerprint Identification User Fee and the National Name Check Programs. Additional reimbursable resources are used to facilitate a number of activities, including pre-employment background investigations, providing assistance to victims of crime, forensic and technical exploitation of improvised explosive devices by the Terrorist Explosive Device Analytical Center, and temporary assignment of FBI employees to other agencies.

Conclusion

Chairman Mikulski and Ranking Member Shelby, I would like to conclude by thanking you and this Committee for your service and your support. Many of the accomplishments we have realized since September 11, 2001, are in part due to your efforts and support through annual and supplemental appropriations. I'm sure you will agree that the FBI is much more than a law enforcement organization. The American public expects us to be a national security organization, driven by intelligence and dedicated to protecting our country from all threats to our freedom. For 100 years, the men and women of the FBI have dedicated themselves to safeguarding justice, to upholding the rule of law, and to defending freedom.

From addressing the growing financial crisis to mitigating cyber attacks and, most importantly, to protecting the American people from terrorist attack, you and the

Committee have supported our efforts. On behalf of the men and women of the FBI, I look forward to working with you as we continue to develop the capabilities we need to defeat the threats of the future.