



U.S. Immigration and Customs Enforcement

STATEMENT

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REGARDING A FIELD HEARING ON

***“STOPPING THE FLOW OF ILLICIT DRUGS IN ARIZONA BY
LEVERAGING STATE, LOCAL AND FEDERAL INFORMATION SHARING”***

BEFORE THE

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON HOMELAND SECURITY
SUBCOMMITTEE ON BORDER AND MARITIME SECURITY**

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Phoenix, Arizona**

INTRODUCTION

Chairman Quayle, Ranking Member Cuellar, and distinguished Members of the Subcommittee:

On behalf of Secretary Napolitano and Director Morton, I would like to thank you for the opportunity to discuss the role of U.S. Immigration and Customs Enforcement (ICE) Homeland Security Investigations (HSI) in stopping the flow of illicit drugs in Arizona and along the Southwest Border (SWB) by leveraging state, local and federal information sharing, as well as our efforts to combat transnational criminal organizations (TCO), including narcotics smuggling and money laundering organizations that operate along the SWB. Over the last ten years, TCOs have grown more sophisticated, complex, and global. They have dramatically expanded in size, scope, impact, and endanger people of all countries. In addition, TCOs:

- Threaten national and global security;
- Weaken our economies and endanger the public by counterfeiting and stealing intellectual property rights;
- Profit from smuggling and trafficking human beings;
- Traffic in illegal narcotics and weapons;
- Exploit minors and children; and
- Threaten sensitive corporate and government computer networks through cybercrime.

No one entity can tackle global criminal enterprises alone. Rather, it requires a multi-agency, multi-national, and layered approach. To that end, HSI forges strong and cooperative relationships and works closely with our state, local, tribal, federal, and international partners toward our mission to uphold public safety and protect national security.

Today, I will discuss some of the specific drug smuggling and money laundering threats we face and how HSI targets TCOs here in Arizona. But first, let me give you a brief overview of who we are and what we do.

ICE comprises more than 20,000 employees with an operating budget of nearly \$6 billion. Most people know that ICE is charged with enforcing the immigration laws of the United States. However, ICE is also responsible for investigating criminal offenses including narcotics trafficking with a clear articulable nexus to the U.S./Mexico border, money laundering, human smuggling and trafficking, violent transnational gangs, and intellectual property theft.

We operate under two operational directorates – HSI and Enforcement and Removal Operations (ERO). The men and women of ERO are charged with enforcing our administrative immigration laws together with our partners in U.S. Customs and Border Protection (CBP) and U.S. Citizenship and Immigration Services. ERO's main priority is to apprehend and remove convicted criminals, fugitives, illegal re-entrants, and recent border violators.

HSI is the criminal investigative component of ICE and the largest criminal investigative program in the U.S. Department of Homeland Security (DHS), with statutory authority to investigate violations of more than 400 federal criminal statutes. HSI conducts criminal investigations against terrorist and other criminal organizations that threaten national security, and combats worldwide criminal enterprises that seek to exploit America's legitimate trade, travel, immigration, and financial systems. With nearly 7,000 special agents, HSI maintains offices in every state and 71 offices in 47 countries. HSI's global footprint strengthens our capacity to conduct successful domestic, international, and multilateral investigations.

The Drug Smuggling and Money Laundering Threat in Arizona

Arizona is one of the entry and distribution point for drugs that enter the United States from Mexico. In fiscal year (FY) 2011, approximately 23 percent of the narcotics and approximately 53 percent of the currency and monetary instruments connected with narcotics investigations that HSI seized along the entire SWB were seized in Arizona. Specifically, in HSI's Arizona area of responsibility, we seized approximately 307,000 pounds of marijuana, 5,400 pounds of cocaine, 1,300 pounds of methamphetamine, and 424 pounds of heroin.

The State of Arizona is bordered by the State of Sonora to our south and the Sinaloa Cartel is the dominant criminal element in the State of Sonora. The border areas in Mexico that adjoin the United States are divided by the Sinaloa Cartel into "Plazas" that are supervised by "Plaza Bosses" or "Gatekeepers." These plaza bosses and gatekeepers are responsible for overseeing and coordinating smuggling activities in a given geographic area and collecting taxes or fees from anyone wishing to smuggle contraband, including human smuggling organizations.

We are often asked whether human smuggling organizations are part of the "cartels." Based on HSI investigations and intelligence, it is our opinion that while alien smugglers pay taxes and fees to the cartels to smuggle in a specific geographic area, they are generally run as distinct criminal enterprises in both Mexico and the United States. We believe that the plaza bosses and gatekeepers play a coordinating role with alien smugglers, dictating when and where they will be allowed to cross the border. This coordination ensures that alien smugglers and their human cargo do not bring unwanted law enforcement attention, particularly in the United States, to their smuggling efforts. Our investigations have shown that when alien smugglers do not heed warnings from drug smuggling organizations about where and when they smuggle, they can be targeted for physical violence, including murder.

By volume, marijuana is the most frequently encountered smuggled drug in Arizona, and is most commonly smuggled between the ports of entry (POE) after having been backpacked across the international border with Mexico. However, CBP Officers at POEs seize marijuana daily from both commercial and privately-owned vehicles in quantities ranging from under one pound to multi-thousand pound loads in both commercial vehicles and cargo.

Mexico continues to be a transit point for cocaine that has originated in South America, primarily Colombia, ultimately destined for domestic markets in the United States. Mexico also is both a production country and a transit point for heroin. Partly as a result of successful efforts to control precursor chemicals in the United States, Mexico has become a major source country for methamphetamine.

The smuggling organizations that we face are very agile and creative. In response to law enforcement successes, these organizations simply change smuggling tactics to increase their chances of success and to avoid arrest. One such example is the increased use of subterranean tunnels to smuggle drugs. We believe that the continued attempts to use tunnels to smuggle drugs, particularly in Nogales, where we have seen the most tunnels in Arizona, is evidence that smugglers are being forced to move away from traditional smuggling techniques due to enhanced enforcement efforts. In addition, in the last several years we have seen smugglers utilize ultra-light aircraft to smuggle marijuana payloads of up to 300 pounds into the United States. We believe that use of ultra-light aircraft is an indication that smugglers are less capable of smuggling marijuana using other preferred methods. Over 350 HSI Special Agents assigned to the HSI Phoenix area of operations are engaged in identifying, disrupting, and dismantling the smuggling organizations that employ these innovative methods to smuggle narcotics into the United States.

Our investigations and intelligence also tell us that proceeds of smuggling activities, particularly drug smuggling, move back to Mexico in the same geographic areas where drug organizations exercise dominion and control. For this reason, we believe that Arizona serves as a consolidation point for drug proceeds owed to the Sinaloa Cartel for drugs smuggled into Arizona and distributed to other illicit markets within the United States.

We believe that multi-million dollar quantities of drug proceeds are broken down into smaller quantities for smuggling in order to minimize the impact of a single seizure on an organization, a risk management practice that mimics how drugs are smuggled into the United States.

One of the most significant developments in the last two years has been a change in Mexican banking regulations that severely limits the amount of U.S. dollars that can be deposited with Mexican financial institutions, which has proven to be a successful tool to combat drug smuggling and the cartels. This change in Mexican regulations has caused cartels to change how drug proceeds are laundered. While we believe that cartels are still adapting to this change, we believe that one result may be a desire to place these funds into U.S. financial institutions and then wire the proceeds to Mexico. We continue to work closely with the Government of Mexico to identify emerging money laundering trends.

Domestically, we have seen some changes in how drug proceeds are moved within the United States. In the last several years, we have seen domestic drug organizations attempt to place illicit funds in U.S. financial institutions to avoid currency transaction reporting requirements. In one version of this scheme, referred to as the “funnel account” model, drug organization members in destination cities make cash deposits into bank accounts opened in Arizona. In turn, the account holder (a nominee for the drug organization) will withdraw funds

in Arizona and turn them over (often minus a small fee) to the drug organization. The scheme has been difficult for bank anti-money laundering personnel to identify because the funds deposited are under the statutory reporting limit of \$10,000.

This tactic was initially identified in Arizona as being utilized by human smuggling organizations, but we have since seen its use expanded to domestic drug organizations. We believe that the emergence of this tactic came as a direct result of the successful enforcement focus on money service businesses (MSBs) that were being used by human smugglers to receive payments from “sponsors” in the United States. When the ability to easily use MSBs ended, a transition to the funnel account model was observed. Through ongoing outreach and education efforts with financial institutions and the Treasury Financial Crimes Enforcement Network, banks have begun to identify this activity and are reporting it to law enforcement regularly.

Money Laundering and Bulk Cash Smuggling Investigations

One of the most effective methods for dismantling TCOs is to attack the criminal proceeds that are the lifeblood of their operations. HSI takes a holistic approach toward investigating money laundering, illicit finance, and financial crimes by examining the ways that individuals and criminal organizations earn, move, store, and launder their illicit proceeds.

The combination of successful financial investigations, reporting requirements of the Bank Secrecy Act (BSA), and anti-money laundering compliance efforts by financial institutions have served to strengthen formal financial systems. Criminal organizations are now being forced to seek other means to diversify the movement of illicit funds, such as the use of MSBs and bulk cash smuggling. HSI’s broad jurisdiction includes the enforcement and investigation of money laundering and bulk cash smuggling violations. In FY 2011, HSI special agents initiated more

than 4,200 financial investigations, which involved allegations of some type of money laundering or cross-border financial crime. During that same period, federal prosecutors obtained convictions in over 1,000 cases involving such conduct and ICE seized approximately \$359 million, including \$331 million in currency and monetary instruments.

Illicit Pathways Attack Strategy (IPAS)

Last July, the Administration took an important step in fighting transnational crime by issuing the Strategy to Combat Transnational Organized Crime. This strategy complements the Administration's National Security Strategy by focusing on the growing threat of international criminal networks. The strategy's single unifying principle is to build, balance, and integrate the tools of American power to combat transnational organized crime, and related threats to national security—and to urge our foreign partners to do the same.

HSI plays a key role in this multidimensional and collective strategy. Our response was the creation of the IPAS to break TCO strongholds. With the IPAS, we implement the Administration's strategy and identify significant threats to national security. Once threats are identified, we integrate our authorities and resources (both domestic and foreign) to target, disrupt, and dismantle them.

IPAS goes beyond our physical borders. We are working with our foreign and domestic law enforcement partners to attack transnational crime at all points along illicit pathways, and break down transnational networks that operate within the United States.

IPAS is a coordinated strategy to attack criminal networks at multiple locations along the illicit travel continuum. The concept involves four basic principles:

- Attack criminal networks within and beyond our borders;

- Prioritize networks and pathways that pose the greatest threats;
- Participate and facilitate robust interagency engagement; and
- Pursue a coordinated regional approach that leverages foreign partners.

We focused our first IPAS on high-risk human smuggling in the Western Hemisphere to identify and target human smuggling organizations and their pathways across the globe. We initially targeted human smuggling as this is often a precursor crime that can lead to other illegal activities, including human trafficking. People may have illegally entered the United States only to find themselves in exploitative circumstances and vulnerable to being used by force, fraud, or coercion for the purposes of commercial sex or forced labor.

While our initial focus of IPAS has been on human smuggling, we are currently expanding this strategy to include money laundering and, eventually, to every HSI investigative program area.

Attacking TCOs through Partnerships

We conduct outreach to industry, academics, and the general public. Our domestic partnerships include the HSI-led Border Enforcement Security Task Forces (BEST), the Organized Crime Drug Enforcement Task Force (OCDETF), the High Intensity Drug Trafficking Areas, Suspicious Activity Report (SAR) Task Forces, the Alliance to Combat Transnational Threats, as well as our international partnerships including a BEST operating in Mexico and our Transnational Criminal Investigative Units (TCIUs).

Border Enforcement Security Task Forces (BEST)

HSI continues to expand the BEST program, which currently operates in 31 locations throughout the United States and Mexico. BEST leverages over 750 federal, state, local, and foreign law enforcement agents and officers representing over 100 law enforcement agencies. BEST also provides a co-located platform to conduct intelligence-driven investigations aimed at identifying, disrupting, and dismantling transnational criminal organizations that operate in the air, land, and sea environments. In FY 2011, HSI-led BESTs made 2,245 criminal arrests, 1,130 administrative arrests, and federal prosecutors obtained 1,358 indictments and 1,187 convictions in BEST-investigated cases.

In 2009, Secretary Napolitano announced the formation of the first-ever Mexico-based BEST to facilitate the exchange of law enforcement information and to support the joint investigation of criminal activity that falls within HSI's jurisdictional purview. These crimes include weapons and munitions smuggling, money laundering, human smuggling, human trafficking, customs fraud, and cybercrime violations. The Mexico City BEST includes both Mexican law enforcement officers and prosecutors working collaboratively with HSI and other U.S. governmental agencies to share information and expertise in cooperative investigations.

Alliance to Combat Transnational Threats

The Alliance to Combat Transnational Threats is a collaborative, cooperative enforcement approach against criminal organizations using the capabilities and resources of a variety of Arizona agencies including federal, state, local, and tribal law enforcement and public safety organizations. These strategic partners continue to develop coordinated operational plans based on each agency's mission, capabilities, and jurisdiction.

Phoenix OCDETF Strike Force

The mission of the Phoenix OCDETF Strike Force is to disrupt and dismantle major drug trafficking organizations designated by the U.S. Department of Justice as Consolidated Priority Organization Targets and their affiliates that operate in Arizona, thereby reducing the availability of illegal drugs and reducing drug-related crime in Arizona. The groups are co-located and comingled, and are supervised by their respective agencies with a Drug Enforcement Administration (DEA) Assistant Special Agent in Charge serving as the Strike Force Commander who oversees fiduciary responsibilities and administrative taskings related to the Strike Force. An executive committee, composed of leaders of federal agencies with a chairmanship that rotates annually, approves changes in policy or procedures in addition to resolving jurisdictional conflicts with other law enforcement agencies. The U.S. Attorney approves funding based on a budget request submitted by the Strike Force Commander on a monthly basis.

The OCDETF Strike Force consists of investigators from federal, state, and local law enforcement agencies. The federal participants include: HSI, the U.S. Attorney's Office for the District of Arizona, the Bureau of Alcohol, Tobacco, Firearms, and Explosives, the Federal Bureau of Investigation (FBI), the Internal Revenue Service, the U.S. Marshals Service, the Bureau of Indian Affairs, and DEA. The state and local partners include the Arizona Department of Public Safety, the Phoenix Police Department, the Maricopa County Sheriff's Office, the Mesa Police Department, and other state and local agencies.

Arizona Suspicious Activity Reports Task Force

In 2004, the Internal Revenue Service – Criminal Investigations (IRS-CI), HSI, and other federal law enforcement agencies began meeting in Phoenix to exploit SAR and other BSA information to effectively target money laundering in Arizona. Leads were developed by zip code and case category, and then referred to the agencies for investigation.

In late 2006, the U.S. Attorney's Office took leadership of the SAR Review Committee and an Assistant U.S. Attorney began attending meetings and actively assisting in guiding investigations. In 2007, in conjunction with the SAR Review Committee, a federal grand jury was empanelled to investigate and facilitate initial SAR investigations.

The HSI/IRS-CI SAR Task Force was formed as a result of the Phoenix SAR Review Committee, where both HSI Phoenix and the IRS-CI jointly cooperated to exploit BSA information. The SAR Review Committee evolved from a working group that primarily focused on de-confliction to an effort by HSI and IRS-CI to jointly work money laundering cases. The dramatic increase in SAR filings by financial institutions in Arizona led to a necessity by HSI to form partnerships with other federal, state and local agencies to combat money laundering of criminal proceeds in Arizona.

HSI's National Bulk Cash Smuggling Center

The National Bulk Cash Smuggling Center (BCSC) generates long-term, multi-jurisdictional bulk cash investigations through the processing of incident reporting and by conducting intelligence-driven operational support to HSI field offices. When contacted by federal, state, and local law enforcement for support, the BCSC provides information to the requesting jurisdiction by exploiting the full scope of its law enforcement intelligence data

sources, assisting that jurisdiction in every way possible, including the referral to a local HSI field office for immediate response. Since its inception in August 2009, the BCSC has initiated 568 investigations, which have resulted in 319 criminal arrests, 96 indictments, and 68 convictions.

Operation Firewall

HSI's Operation Firewall disrupts the movement and smuggling of bulk cash en route to the border, at the border, and internationally via commercial and private passenger vehicles, commercial airline shipments, airline passengers, and pedestrians. Since 2005, Operation Firewall has been enhanced to include surge operations targeting the movement of bulk cash destined for the SWB to be smuggled into Mexico. Since its inception in 2005 through March 2012, Operation Firewall has resulted in more than 6,613 seizures totaling more than \$611 million, and the arrests of 1,416 individuals. These efforts include 469 international seizures totaling more than \$267 million and 302 international arrests.

International Partners and Cooperation

HSI works closely with our federal law enforcement and international partners to disrupt and dismantle transnational criminal organizations. As part of these efforts, HSI currently maintains nine TCIUs worldwide composed of highly-trained host country counterparts who have the authority to investigate and enforce violations of law in their respective countries. Since HSI officials working overseas do not possess general law enforcement or investigative authority in host countries, the use of these TCIUs enables HSI to provide actionable information in order to dismantle, disrupt, and prosecute TCOs while respecting the sovereignty of the host

country and cultivating the international partnership. During FY 2011, two more TCIUs became operational and HSI plans to open additional TCIUs by the end of FY 2012.

In FY 2010, HSI's international partners played a central role in Operation Pacific Rim. Working closely with the Colombian National Police, Mexican authorities, our partners in Ecuador and Argentina, as well as the FBI and DEA, HSI led an investigation that spanned the globe and effectively disrupted one of the most powerful and sophisticated bulk cash and drug smuggling organizations in the world. This organization was believed to be responsible for nearly 42 percent of all Colombian cocaine smuggled into the United States. The case began when HSI and Colombian police intercepted a suspicious shipment of what was labeled as fertilizer, but was instead bundles of shrink-wrapped cash.

HSI's El Dorado Task Force, which coordinated Operation Pacific Rim, targets financial crime at all levels and consists of 260 members of federal, state, and local law enforcement, intelligence analysts, and federal prosecutors. As a result of this domestic and international law enforcement cooperation, this operation resulted in 12 convictions, 24 indictments, and the seizure of more than \$174 million in cash, 3.8 tons of cocaine, and \$179 million in property.

Working with Mexican Authorities

Assisting the Government of Mexico in its battle against drug violence requires strong coordination to ensure both nations are operating together to combat this transnational threat. HSI continues to engage Mexican authorities on a number of levels in our joint efforts to combat border violence. For example, HSI's Border Liaison Officer (BLO) program allows HSI to more effectively identify and combat cross-border criminal organizations by providing a streamlined information and intelligence-sharing mechanism. The BLO program creates an open and

cooperative working relationship between United States and Mexican law enforcement entities. HSI has recently quadrupled the number of officers in the BLO program by redeploying agents to the SWB.

The HSI Attaché Office in Mexico City has coordinated the establishment of vetted Special Investigative Units of Mexican law enforcement officers. HSI has also strengthened the coordination with the Government of Mexico by increasing HSI Attaché personnel in Mexico by 50 percent and deploying additional special agents to Mexico. Through our Attaché in Mexico City and associated sub-offices, HSI assists in efforts to combat transnational drug trafficking, weapons smuggling, human smuggling, and money laundering syndicates in Mexico. HSI Attaché personnel work on a daily basis with Mexican authorities to combat these transnational threats, and these efforts have been enhanced by additional officers.

Transnational Gangs

Transnational gangs often conspire with other dangerous criminal organizations, which allow them to mature from small autonomous criminal groups into larger, international criminal enterprises engaged in human smuggling and trafficking, narcotics smuggling and distribution, money laundering, weapons smuggling and arms trafficking, kidnapping, extortion, and export violations.

Operation Community Shield, an anti-gang program, combines HSI's statutory and administrative enforcement authorities with our law enforcement partnerships. Operation Community Shield increases public safety by combating the growth and proliferation of transnational gangs in communities throughout the United States. Operation Community Shield

consists of targeted enforcement operations using criminal arrest and administrative removal authorities against gang members, thereby disrupting the ability of gangs to operate.

In addition, these targeted enforcement operations lead to the development of information critical to the successful prosecution of transnational gang members for conspiracy and racketeering-related violations. Since its inception in 2005, Operation Community Shield has led to the arrest of nearly 26,000 gang members and associates, of whom over 10,000 had prior violent criminal histories. In addition, more than 300 gang leaders have been arrested and more than 3,000 weapons have been seized.

In April 2012, as part of Operation Community Shield's nationwide transnational gang enforcement operation, HSI concluded "Project Nefarious," which consisted of enforcement operations in 150 cities in both the United States and Honduras while working with 148 other law enforcement agencies at the international, federal, state, and local levels. Of the 792 individuals arrested, 637 were identified as gang members or associates from approximately 168 different gangs. Of the 637 gang members arrested, 479 were charged with criminal offenses, 158 were charged with administrative violations, 210 had violent criminal histories, and 10 were wanted for murder. In addition, HSI special agents seized 52 firearms, over 75 grams of methamphetamine, nearly 2,500 kilograms of marijuana, over 2,445 grams of cocaine, \$201,437 in U.S. currency, and 14 vehicles.

CONCLUSION

Thank you again for the opportunity to appear before you here in Phoenix and for the subcommittee's continued support of ICE and its law enforcement mission. ICE is committed to enhancing public safety and combating narcotics trafficking and money laundering through

efforts such as those I have discussed here today. We look forward to continuing our good work, refining our existing programs and partnerships and collaborating with our federal, state, local, and tribal partners to ensure the safety and security of all Americans.

I would be pleased to answer any questions.