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BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON COMMERCE, JUSTICE, SCIENCE, AND RELATED
AGENCIES

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Good morning, Chairman Wolf, Ranking Member Fattah, and Members of the Subcommittee. Thank you for the opportunity to appear before you today to highlight the President's Fiscal Year (FY) 2014 Budget for the U.S. Department of Justice – and to discuss the Department's recent achievements and future priorities. I would also like to thank you for your support of the FY 2013 Supplemental Disaster Relief Act and the FY 2013 Consolidation and Continuation Appropriations Act, which provide important resources for our law enforcement, correctional, and litigation operations.

In the days ahead – as my Justice Department and FBI colleagues continue to work closely with our federal, state, and local partners to investigate the tragedy that took place in Boston on Monday – this type of support will be more critical than ever. I join every member of this Subcommittee in expressing my deepest sympathies to the victims of this cowardly terrorist act, and to those who lost friends and loved ones. I want to assure you, the citizens of Boston, and all Americans that we are working tirelessly to determine who is responsible for this incident. To this end, I have directed that the full resources of the Department be deployed to ensure that this matter is thoroughly investigated, to prevent any future attacks from occurring – and to make certain that the individual or group that carried out this heinous act is held accountable to the fullest extent of the law, and by any means available to us.

As you are aware, automatic spending reductions – known as sequestration – recently cut over \$1.6 billion from the Department's budget, leaving very little flexibility in how the cuts are applied. The sequester is having a significant impact on the Department's operations – affecting not only employees, but our ability to ensure the administration of justice in communities across the Nation. As a result, we have carefully and thoughtfully reviewed our spending levels and redoubled ongoing efforts to reduce expenses throughout the Department. Spending restrictions have been identified and established in the areas of hiring, contracts, travel, training, conferences, non-law enforcement employee overtime, and monetary awards.

While I recognize the need to take action to absorb these deep cuts, our actions must not threaten the critical operations of the Department that are necessary to protect life and safety. In

March, using my limited authorities to transfer and allocate existing funds from within the Department, I provided \$150 million to the Bureau of Prisons (BOP) to avoid furloughing correctional workers at our prison institutions. Without this intervention, we would have been forced to furlough 3,570 staff each day from the federal prisons around the country. The loss of these correctional officers and other staff who supervise the 175,000 prisoners at 119 institutions would have created serious threats to the safety and security of our staff, inmates, and the public. Chairman Wolf, Ranking Member Fattah, and Members of the Subcommittee, thank you for your full and immediate support of our action to provide relief to BOP.

However, I must note that I remain concerned about our ability to keep the Federal Bureau of Investigation (FBI), United States Marshals Service (USMS), and other staff on duty to fulfill the Department's missions. The solutions that we used to alleviate sequester cuts in FY 2013 will no longer be available to mitigate FY 2014 funding shortfalls.

This could threaten programs that affect the safety of Americans across the country, and undermine the remarkable work that the Department's nearly 116,000 dedicated employees have made possible over the last four years. Today, I affirm the Department's commitment to continue building on this work – to protect the Nation from terrorism and other national security threats, combat violent crime, eradicate financial fraud, and safeguard the most vulnerable members of society. While fulfilling this commitment, I will continue to explore innovative techniques to carry out our missions more efficiently – and to make targeted investments to protect the safety and security of the American people, our critical national infrastructure, and global financial markets.

The President's FY 2014 Budget request for the Department is \$27.6 billion. The request represents a 3.0 percent increase over the FY 2012 enacted level. More specifically, the President's FY 2014 Budget request:

- **Provides increased funding for adjustments to existing federal programs.** The request provides \$566.7 million over the FY 2012 enactment to fund adjustments in key areas where there is little short-term flexibility, such as rent costs, foreign expenses, prison operations, and restoring cancellation of balances. The request also funds employee pay adjustments.
- **Enhances critical counterterrorism and counterespionage programs intelligence gathering and surveillance capabilities.** The request includes \$14 million in program increases for technological and human capital resources to detect, disrupt, and deter threats to our national security.
- **Supports the administration's plans to reduce gun violence.** The request invests \$395 million in federal programs to support the Administration's plan. This includes \$100 million to double the existing capacity of the FBI's National Instant Criminal Background Check System (NICS), in anticipation of a universal background check requirement, and \$73 million for additional Bureau of Alcohol, Tobacco, Firearms and

Explosives (ATF) investigative and regulatory capabilities. It also includes improvements in ATF's tracing and ballistics systems. In addition, the request provides \$222 million for grant programs to assist states in making more records available in the NICS system, to improve school safety, to support officer safety programs—including a joint Office of Justice Programs (OJP)/FBI training for active shooter situations, to provide incentives for state and local governments to update NICS data with criminal history and mental health information, and to encourage the development of innovative gun safety technology.

- **Enhances efforts to combat and keep pace with increasingly sophisticated and rapidly evolving cyber threats.** The request provides \$92.6 million in program increases to improve the ability to share information in a timely and accurate manner, to develop forensic capabilities for a cloud architecture, to increase cyber collection and data analysis, to provide prompt victim notification and response, and to enhance the Department's cyber policy scope.
- **Invests in law enforcement efforts targeting financial fraud.** The request includes \$55 million more to improve the Department's capacity to investigate and prosecute a broad range financial fraud, including securities and commodities fraud, investment scams, and mortgage foreclosure schemes.
- **Strengthens enforcement of immigration laws.** The request invests \$25 million in additional personnel to process the increasing workload and improve the efficiency of our overall immigration enforcement efforts.
- **Invests in federal civil rights enforcement.** The request provides \$9 million, of which \$1.5 million is included as part of the Department's financial fraud investments, to enhance the Department's enforcement of federal civil rights laws, including human trafficking, hate crimes, police misconduct, fair housing, fair lending, disability rights, and voting rights.
- **Supports federal prisons and detention operations.** The request invests \$236.2 million to continue to maintain secure, controlled federal criminal detention and prison facilities and additional programming to reduce recidivism.
- **Enhances state, local, and tribal law enforcement programs.** The request invests \$2.3 billion, which is a net increase of \$201.3 million over the FY 2012 level. The Budget includes critical resources for police hiring, programs targeting violence against women, school safety, and general purpose criminal justice programs. The Budget expands programs that have demonstrated success, including new programs that are structured on evidence-based principles, and programs to reduce gun violence.

As I testified during my first appropriations hearing four years ago, I will continue to pursue a very specific set of goals:

First, my colleagues and I will continue to bolster the activities of the federal government that protect the American people from terrorism and other threats to our way of life. We will use every lawful instrument to hold terrorists accountable for their actions and bring them to justice.

Second, we will continue to enhance the credibility of the Department while promoting equality, opportunity, and justice for all.

Third, we will continue to strengthen the traditional missions of the Department. In partnership with government, law enforcement, and industry leaders, we will enforce the law and defend the interests of both consumers and the United States.

In addressing these priorities, I am profoundly grateful for the contributions of Justice Department employees here in Washington and around the world – and I look forward to the continued support of this Subcommittee and Congress, as a whole.

Protecting the American People from Terrorism and other National Security Threats

The FY 2014 Budget includes a total of \$4.4 billion to maintain critical national security programs within the Department. National security threats are constantly evolving and adapting, often requiring additional resources to address new critical areas. Increasing global access to technological advancements can result in new vulnerabilities that the Department must be prepared to address. This request includes \$14 million in program increases that provide the technology and personnel needed to effectively identify, obstruct, and avert threats to our national security.

Preventing, disrupting, and defeating terrorist acts before they occur remains the Justice Department's highest priority. Since 2009, the Department has thwarted multiple terrorist plots against the United States. In 2012, the Department obtained a conviction against Naser Jason Abdo for his role in a plot to use explosives to attack soldiers from Fort Hood. He was sentenced to life in prison. We also secured a conviction – and a life sentence – in the case of Adis Medunjanin, for his role in a plan to carry out a suicide terrorist attack in New York City.

In addition, the Department has successfully executed ground-breaking counterintelligence operations to safeguard sensitive U.S. military and strategic technologies and keep them from falling into the wrong hands. In 2012, Bryan Underwood, a former guard at a U.S. Consulate under construction in China, pleaded guilty in connection with his efforts to sell classified photographs and information about the U.S. Consulate to China. Working closely with our U.S. and international partners, we disrupted an international network conspiring to illegally export U.S.-origin materials to Iran for the construction of gas centrifuges used to enrich uranium. We also disrupted a Russian procurement network in the United States that was illegally exporting U.S. microelectronics to Russian military and intelligence agencies.

From terrorists seeking to sabotage critical infrastructure; to organized crime syndicates and cyber criminals attempting to defraud banks, corporations, and individuals; and other criminals searching for new ways to steal defense and intelligence secrets and intellectual property – our Nation’s economy and security are under constant threat from domestic and foreign sources. In the past year, Michael Patrick Sallert pled guilty in connection with his role in an international cybercrime ring believed to have caused more than \$72 million in total losses to more than one million computer users through the sale of fraudulent computer security software known as “scareware.” And we obtained a conviction against Shanshan Du and Yu Qin for conspiring to steal General Motors trade secrets with the intent to use them in a joint venture with an automotive competitor in China.

The Department continues to maintain and strengthen its own cyber security environment to counter cyber threats, including insider threats, and to ensure its personnel have unimpeded access to the IT systems, networks, and data necessary to fulfill their missions. In 2012, the FBI established Cyber Watch as its 24/7 operations center for cyber intrusion prevention and response operations.

Combating Violence and Other Crimes Against the American People

Gun violence has touched every state, county, city, and town in America. Especially in the wake of December’s horrific events in Newtown, Connecticut, the need to address this problem has come into sharp focus. Since then, the Department has been working with the White House – and our colleagues across the Administration – to develop and implement concrete, common-sense steps to combat the gun violence that devastates too many lives and communities every day.

The FY 2014 Budget provides funding and programs to reduce gun violence and prevent future tragedies. The Department of Justice seeks to invest \$395 million to strengthen the national background check system; enhance our investigative and regulatory resources; improve our tracing and ballistics systems; and assist law enforcement personnel in the dangerous work of protecting the American people from violence. The Department recognizes that gun violence is not just a federal problem, and our partners at the state, local, and tribal levels stand on the front lines of the critical work to keep our people safe – and our cities, neighborhoods, and schools more secure.

In the past year, the Department has spearheaded a number of collaborative efforts between federal law enforcement agencies and local police departments to combat violent crime in some of the most seriously afflicted neighborhoods across the country. As part of this initiative, the Department has enhanced its ability to re-target federal resources to areas experiencing the highest levels of violence. For example, last summer in Philadelphia, the U.S. Attorney’s Office for the Eastern District of Pennsylvania charged 92 defendants in 77 indictments; ATF made 84 federal and 17 state arrests; USMS arrested over 300 fugitives

charged with violent crimes and crimes closely associated with violence; DEA made 258 arrests for drug related offenses; and the FBI made over 140 arrests. As a result, we have seen violent crime significantly decline in these areas. As we've repeatedly seen, effectively combating violent crime demands that – with the help and leadership of our U.S. Attorneys' Offices, as well as the FBI, ATF, DEA, and USMS – we will continue to use every tool, resource, and authority to crack down on the gang-, gun-, and drug-fueled violence that menaces our streets and threatens our communities. Through intelligence-driven, threat-based prosecutions – we will focus on dismantling criminal organizations and putting them out of business for good. We will continue to measure the effectiveness of our endeavors in these crime-ridden areas to ensure that our efforts result in significant and lasting positive outcomes.

In addition to protecting our communities, the Department is working to safeguard our environment – and to hold accountable those responsible for the *Deepwater Horizon* disaster. In November 2012, BP Exploration and Production Inc. pleaded guilty to eleven counts of felony manslaughter, one count of felony obstruction of Congress, and violations of the Clean Water and Migratory Bird Treaty Acts for its conduct relating to the 2010 *Deepwater Horizon* disaster that killed 11 people and caused the largest environmental disaster in U.S. history. As part of its plea, BP agreed to pay a record \$4 billion in criminal fines and penalties. In addition, the two highest-ranking BP supervisors on the *Deepwater Horizon* oil rig were charged with 11 counts of manslaughter, and a former senior BP executive was charged with obstruction of Congress. In January 2013, Transocean Deepwater, which operated *Deepwater Horizon* oil rig, agreed to plead guilty to violating the Clean Water Act and to pay a total of \$1.4 billion in civil and criminal fines and penalties for its conduct in relation to this tragedy. Nearly 80 percent of these penalties will be distributed directly to the Gulf States as dictated by Congress under the RESTORE Act.

As we continue to investigate the explosion that led to the *Deepwater Horizon* oil spill, my colleagues and I are determined to hold accountable those who violated the law, pursue appropriate action to recover civil penalties under the Clean Water Act, and hold all parties liable for natural resource damages under the Oil Pollution Act.

Eradicating Financial Fraud

Beyond this work, the Administration and the Department remain committed to combating financial and mortgage fraud that harms the financial security of the American people and threatens national economic stability. The President's budget request provides program increases totaling \$55 million to improve the Department's capacity to investigate and prosecute allegations of such conduct.

In the past year, the Department has launched numerous investigations into those engaged in financial fraud – and these efforts are yielding significant results. For instance, we secured a \$160 million penalty from Barclays Bank, PLC, to resolve allegations related to the

role Barclays played in attempting to manipulate its submissions for the London Interbank Offered Rate (LIBOR), which is used as a benchmark interest rate in financial markets around the world. We also obtained convictions against three former UBS AG executives – Peter Ghavami, Gary Heinz and Michael Welty – for their participation in frauds related to bidding for contracts for the investment of municipal bond proceeds and other municipal finance contracts.

In connection with its ongoing investigations into the manipulation of LIBOR and other global benchmark interest rates, the Department obtained admissions establishing criminal liability from three major financial institutions in 2012 and 2013 – including corporate guilty pleas from the responsible subsidiaries of two banks. We received more than \$800 million in related penalties, which was part of a total \$2.5 billion in settlements paid by the banks to resolve their liability with U.S. and foreign regulators. And the Department charged two derivatives traders individually for their role in this scheme.

Fortunately, this is only the beginning. The Department also continues to make progress toward achieving justice for victims of mortgage fraud. In 2012, the Department played a major role in obtaining the largest joint federal-state settlement on record – against the nation’s five largest mortgage services – resulting in \$25 billion in financial penalties and extensive consumer relief. We secured a \$175 million fair lending settlement against Wells Fargo Bank to resolve allegations involving a pattern or practice of discrimination against qualified African-American and Hispanic borrowers in its mortgage lending from 2004 through 2009.

In February 2013, the Department filed a civil lawsuit against Standard & Poor’s Financial Services – as well as its parent company, McGraw-Hill – alleging that the credit rating agency S&P engaged in a scheme to defraud investors in financial products known as Residential Mortgage-Backed Securities, or RMBS, and Collateralized Debt Obligations, or CDOs. We alleged that, by knowingly issuing inflated credit ratings for CDOs – which misrepresented their creditworthiness and understated their risks – S&P misled investors, including many federally insured financial institutions, causing them to lose billions of dollars. In addition, we alleged that S&P falsely claimed that its ratings were independent, objective, and not influenced by the company’s relationship with the issuers who hired S&P to rate the securities in question – when, in reality, the ratings were affected by significant conflicts of interest, and S&P was driven by its desire to increase its profits and market share to favor the interests of issuers over investors.

Safeguarding the Most Vulnerable Members of Society

My colleagues and I are determined to uphold the civil and constitutional rights of all Americans, particularly the most vulnerable members of our society. The FY 2014 Budget includes \$258.6 million to support the Department’s vigorous enforcement of federal civil rights laws, including laws that address human trafficking, fair housing, fair lending, disability rights, and voting. This request includes an additional \$9 million for the Civil Rights Division and

Community Relations Service, of which \$1.5 million is included as part of the Department's financial fraud investments.

In 2012, the Department charged a record number of human trafficking cases. Through expanded partnerships with state and local law enforcement agencies, foreign governments, and non-governmental organizations, we prosecuted 73 human trafficking cases. We obtained a conviction – and a life sentence – against Weylin Rodriguez, for his role in sex trafficking and his violent use of firearms in recruiting three minor females and two young adults to work as prostitutes. We prosecuted Kala Bray, who was later sentenced to 14 years in prison, for her role in a conspiracy to engage in child sex trafficking by force, fraud, and coercion.

In addition to these high-profile cases, we secured the longest sentence ever recorded in a forced labor case, in which a defendant received a sentence of life plus 20 years for his role in a transnational organized criminal network that exploited Ukrainian men and women for labor on commercial cleaning crews in the Philadelphia area – by using threats, violence, and sexual assaults to intimidate and control the victims. We also convicted and secured life sentences against one sex trafficker who exploited young, vulnerable Micronesian women in brothels in Guam – and another who targeted Eastern European women and used brutal beatings, rapes, and threats to control every aspect of their lives – branding them with tattoos and compelling them into forced labor and prostitution.

Lastly, the Department remains focused on reinvigorating its fair housing and fair lending enforcement – and working to ensure that local governments and private housing providers offer safe and affordable housing on a non-discriminatory basis. In the past year, we secured a record monetary settlement in a fair housing accessibility case, including the largest civil penalty in any Fair Housing Act case.

Conclusion

Chairman Wolf, Ranking Member Fattah, and Members of the Subcommittee, I want to thank you for this opportunity to discuss my concerns about the adverse impact of sequestration on the Department, to highlight the Department's ongoing priorities, and to share our plans to strengthen our efforts in FY 2014.

As we speak, the Department is confronting significant funding and operational challenges across every component. Our ability to rise to these challenges will have serious consequences for the administration of justice. I am deeply troubled by the impact that the sequester will have on the Department's capacity to prevent terrorism, combat violent crime, and protect the most vulnerable among us. Despite the obstacles ahead – and the significant challenges we face every day – the Department remains committed to fulfilling our responsibilities to protect the American people, even as we navigate this period of fiscal uncertainty.

As we do so, we will continue to identify additional efficiencies and cost-saving measures – while making our programs and activities as efficient and effective as possible. I look forward to working with this Subcommittee and with the entire Congress to build on the record of achievement we've established over the past four years. And I am happy to answer any questions you may have.