



# Homeland Security Investigations

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STATEMENT OF  
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HOMELAND SECURITY INVESTIGATIONS  
U.S. DEPARTMENT OF HOMELAND SECURITY  
REGARDING A HEARING TITLED  
*“The Precursor Pipeline”*  
BEFORE THE  
U.S. SENATE CAUCUS  
ON INTERNATIONAL NARCOTICS CONTROL

Tuesday, October 24, 2023  
608 Dirksen Senate Office Building  
3:00 p.m.

Chairman Whitehouse, Co-Chairman Grassley, and distinguished Members:

Thank you for the opportunity to appear before you today to discuss Homeland Security Investigations' (HSI) efforts to disrupt and dismantle transnational criminal organizations (TCOs) and combat the flow of illicit fentanyl into the United States. With more than 6,800 special agents in hundreds of offices throughout the United States and the world, HSI investigates, disrupts, and dismantles terrorist, transnational, and other criminal organizations that threaten our nation's security. My statement today will focus on the broad spectrum of HSI activity to counter the illicit trafficking of fentanyl and its precursors as well as HSI's efforts to counter the TCOs which profit from this deadly substance.

As the principal investigative component of the U.S. Department of Homeland Security (DHS), HSI is responsible for investigating transnational crime in all its forms. In collaboration with our partners in the United States and abroad, HSI special agents develop evidence to identify and advance criminal investigations against TCOs, terrorist networks and facilitators, and other criminal elements that threaten the homeland. HSI works with prosecutors to arrest and indict violators, execute criminal search warrants, and seize criminally derived money and assets to disrupt and dismantle TCOs operating throughout the world. These efforts help protect the national security and public safety of the United States.

TCOs flood the United States with deadly drugs, including illicit fentanyl and other opioids. HSI conducts federal criminal investigations at every phase of the illicit drug supply chain: internationally, where TCOs operate and manufacture illicit drugs; at our nation's borders and ports of entry (POEs), where smuggling cells attempt to exploit America's legitimate trade, travel, and transportation systems; and in communities throughout the United States. HSI combats TCOs through multiple avenues of criminal enforcement. HSI targets not only the narcotics smuggling activities of the TCOs, but also the financial networks they utilize to fund and profit from their illegal activity.

Recognizing the unprecedented epidemic of deaths from illicit opioids, HSI developed and launched a Strategy for Combating Illicit Opioids. The Strategy builds upon many of HSI's core investigative authorities and capabilities in combating TCOs and focuses efforts on four main goals, all of which align with the National Drug Control Strategy: 1) reduce the international supply of illicit opioids; 2) reduce the domestic supply of illicit opioids; 3) attack the enablers of illicit opioid trafficking: illicit finance, cybercrime, and weapons smuggling; and 4) conduct outreach with private industry.

### **Evolution of Transnational Criminal Organizations**

Criminal organizations in the 21<sup>st</sup> century do not limit themselves to a single criminal enterprise. TCOs have expanded beyond narcotics smuggling and have morphed into poly-criminal organizations involved in the associated crimes of weapons trafficking, human trafficking, human smuggling, money laundering, and other crimes, all of which HSI investigates. Rather than narrowly focusing on a single element, HSI combats TCOs by using its unique investigative authorities to enforce a broad range of over 400 federal laws.

TCOs have also evolved beyond insular entities and have sought out partnerships with

competing TCOs. For example, the collaboration between Chinese money laundering organizations (MLOs) and Mexican cartels has created a complex criminal ecosystem that is fueling money laundering and narcotics trafficking operations, specifically illicit fentanyl, into and within the United States. Chinese MLOs have developed sophisticated networks in the United States, Mexico, China, and throughout Asia. These organizations use their vast global infrastructure to clean illicit proceeds for various criminal organizations, including Mexican cartels. Moreover, as Mexican cartels have taken over fentanyl production and operate on an industrial scale, they are obtaining precursor chemicals from China and using these chemicals in Mexico to synthesize fentanyl. Mexican cartels then smuggle the fentanyl into the United States in either powder or pill form for distribution. HSI is attacking this illicit narcotics supply chain through an intelligence-based counternarcotics approach that blends traditional investigative and analytical techniques with interagency collaboration, industry partnerships, international partnerships, and computer-based tools.

Chinese criminal actors also facilitate the trafficking and distribution of illicit fentanyl pills by providing the Mexican cartels with the pill presses to make fake oxycodone pills, which look identical to prescription oxycodone but are laced with deadly fentanyl. These fake pills are the most common type of illicit fentanyl pill and are responsible for thousands of overdose fatalities, as the user believes they are taking a real oxycodone pill. To manufacture these pills, Mexican cartels require pill press equipment to turn powdered fentanyl into pill form. Mexican cartels purchase these pill presses directly from Chinese manufacturers that produce equipment specifically for illicit activity. HSI is actively disrupting the pill press supply chain through a national effort to identify and inhibit the illicit flow of pill presses, parts, and die molds, and to date has seized over 1,500 pill presses and parts used to make fentanyl-laced pills. HSI investigations targeting the illicit opioid supply chain continue to find the pervasive use of shell companies by TCOs. Additionally, payments for Chinese precursor chemicals are often remitted using money service businesses and cryptocurrencies.

### *Chinese-based MLOs*

The number of HSI investigations involving the People's Republic of China (PRC) continues to increase every year. Last year, HSI opened more than 500 such investigations, a 300 percent increase from 2019. Chinese MLOs represent one of the most worrisome new threats in combating transnational organized crime. Virtually unheard-of less than a decade ago, Chinese MLOs – comprised primarily of small cells of Chinese nationals, including student visa holders – have come to dominate money laundering in our country. Chinese MLOs have become key cogs in the multi-billion-dollar criminal empires run by Mexican cartels and other TCOs. Chinese MLOs are known to use a variety of complex money laundering techniques, including trade-based schemes as well as informal value transfer systems (IVTS), such as underground banking.

While Chinese MLOs provide money laundering services for TCOs, their primary objective is to acquire and subsequently sell U.S. currency (and other foreign currencies) using underground banking or other IVTS schemes for Chinese nationals seeking to evade the PRC's capital flight restrictions.<sup>1</sup> Chinese MLOs operating in the United States increasingly need access to significant

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<sup>1</sup> In 2017, the Chinese State Administration of Foreign Exchange capped foreign exchange transfers at \$50,000.

amounts of U.S. currency to satisfy the demand for underground banking services by Chinese nationals. This is how they make most of their profits, setting them apart from other professional MLOs. Since the use of large sums of cash in the United States is uncommon and raises flags, Chinese MLOs regularly source the U.S. dollars they need from TCOs operating throughout the country. This has created a symbiotic relationship: Chinese MLOs have a supercharged demand for U.S. dollars, while TCOs need their illicit gains laundered.

Chinese MLOs enable Mexican cartels to seamlessly exchange U.S. dollars derived from the sale of narcotics for Mexican pesos. Once the Chinese MLO retrieves the criminal cash in the United States, a comparable sum of Mexican pesos is then released – almost immediately and with nearly non-existent commission rates – to the cartel in Mexico using underground banking or other IVTS schemes. Dirty dollars remain in the United States where, at least in part, they are broken down into smaller amounts and deposited into U.S. bank accounts, often opened by international students and other mules. This method, known as “smurfing,” allows the cartels to avoid the risk and cost associated with attempting to smuggle bulk cash across our southern border. The Chinese MLO then sells the dollars to Chinese nationals for a profit. In some instances, Chinese MLOs are known to dispose of the dirty cash by purchasing high-value electronics, such as phones and computers which are often stolen or otherwise fraudulently obtained, and then shipped overseas where they are resold for a substantial profit. In other cases, the criminal funds are used to purchase real estate in the United States on behalf of Chinese nationals.

### **International Efforts**

HSI’s efforts to combat TCOs and illicit fentanyl begin abroad. HSI has the largest international investigative presence within DHS, comprising hundreds of HSI special agents assigned to 93 offices in 56 countries, including the United States. Among these are offices in Mexico, where the vast majority of illicit fentanyl is produced, and throughout the Asia-Pacific region, where synthetic drug precursor chemicals most originate.

HSI special agents abroad develop and foster relationships with host government law enforcement partners to exchange information, coordinate, and support investigations, and facilitate enforcement actions and prosecutions of mutual interest to disrupt and dismantle TCOs. HSI and its counterparts in other countries identify and disrupt sources of illicit drugs, transportation and smuggling networks, and money laundering operations. These efforts by HSI and its partners aim to prevent narcotics and other illicit goods from reaching our borders as well as stop illicit outbound flows of illegally derived currency and weapons.

#### *Transnational Criminal Investigative Unit Program*

The effectiveness of our international counternarcotics efforts is greatly enhanced by HSI’s Transnational Criminal Investigative Unit (TCIU) Program. TCIUs are comprised of vetted foreign law enforcement officials and prosecutors who support some of HSI’s most significant extraterritorial investigations and prosecutions targeting TCOs. HSI has established 16 TCIUs (including 2 International Task Forces<sup>2</sup>) around the world. These consist of more

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<sup>2</sup> ITFs are non-polygraphed units, although they are still vetted against Leahy Amendment standards as well as internal record checks against criminal investigation and criminal convictions.

than 600 vetted and trained law enforcement officers across North, Central, and South America, the Caribbean, the Middle East, and Asia. In Fiscal Year (FY) 2023, TCIU efforts worldwide resulted in 2,846 criminal arrests and the seizure of over \$6.2 million (U.S. dollar equivalent), 434 weapons (including two machine guns, a grenade, and a rocket), and over 277,000 pounds of narcotics.

Targeting the fentanyl precursor chemical supply chain is an integral element of HSI's approach to stopping the production of illicit drugs. HSI blends interagency and foreign collaboration, industry partnerships, financial intelligence, and computer-based tools to identify, target, and interdict precursor chemical shipments destined for Mexican cartels. Disruptions to the procurement phase can have an outsized impact on the narcotics production supply chain. Mexican cartels operate on an industrial scale when procuring precursor chemicals, and many interdiction efforts are led by investigators and prosecutors in the Mexican Attorney General's office who comprise the Mexico City TCIU. In FY 2023, efforts by the Mexico TCIU resulted in 60 criminal arrests and seizures of currencies at the approximate value of \$943,987 USD, as well as 64,138 pounds of precursor chemicals. The TCIU also leads investigations targeting the labs where the chemicals are synthesized into illicit drugs.

#### *National Targeting Center – Investigations*

HSI's National Targeting Center-Investigations (NTC-I) was established in 2013 in collaboration with U.S. Customs and Border Protection's (CBP) National Targeting Center to further our shared border security mission. NTC-I supports the entire border security continuum, from CBP interdictions and HSI investigations, to the joint exploitation of intelligence. Through NTC-I, HSI supports all of DHS's domestic and international offices by targeting illicit precursor chemical movements within the commercial air and maritime transportation systems.

The combination of NTC-I targeting and foreign action through HSI's TCIUs is critical to stopping the flow of illicit drugs and dismantling TCOs. HSI processes large volumes of data to identify precursor chemical suppliers and TCO procurers and uses this information to target precursor chemicals that are transshipped through the United States or seized by its TCIUs abroad before the chemicals can be converted into drugs. Thus far, this methodology has resulted in the seizure of approximately 3.4 million pounds of dual-use precursor chemicals intended for use in making illicit fentanyl and methamphetamine.

#### **Domestic Efforts**

HSI's ability to conduct complex large-scale investigations represents one of DHS's best weapons for dismantling TCOs. Part of HSI's mandate is to turn individual border seizures and arrests into multi-jurisdictional, multi-defendant investigations to disrupt, dismantle, and prosecute high-level members of TCOs. HSI special agents work every day with CBP officers and U.S. Border Patrol agents and in coordination with other federal, state, local, and tribal law enforcement partners to identify and investigate drug smuggling organizations.

CBP's expansion of non-intrusive inspection (NII) scanning at Southwest Border ports of entry (POE) will continue to increase the number of CBP-origin seizures, which HSI special

agents are required to investigate. Recent Congressional appropriations for HSI tied to NII expansion represent an important initial step. HSI is moving quickly to deploy these new resources to Southwest Border POEs receiving NII augmentation.

### *Border Enforcement Security Task Forces*

The Jaime Zapata Border Enforcement Security Task Force (BEST) Act was signed into law in December 2012. The Act was named in honor of Jaime Zapata, an HSI special agent who, while working to combat violent drug cartels, was killed in the line of duty in Mexico. This law amended the Homeland Security Act of 2002 to formally establish the BEST program, with the primary mission of combating emerging and existing transnational organized crime. The program employs a threat-based/risk mitigation investigative task force model that recognizes the unique resources and capabilities of all participating law enforcement partners. In June 2022, the Bipartisan Safer Communities Act provided HSI with statutory authority to reimburse the salaries for state and local law enforcement task force officers who participate in BESTs.

BESTs eliminate the barriers between federal and local investigations, close the gap with international partners in multinational criminal investigations, and minimizes the vulnerabilities in our operations that TCOs have traditionally capitalized on to exploit our nation's borders. There are 92 BESTs across the United States, including Puerto Rico and the U.S. Virgin Islands, comprising approximately 1,000 law enforcement officers and personnel representing federal, state, local, tribal, and international law enforcement agencies, as well as Army National Guard units. In FY 2023, BESTs initiated more than 5,300 investigations resulting in more than 6,180 criminal arrests and seizures of more than 317,000 pounds of illicit drugs, more than 480,000 pounds of precursor chemicals, and more than \$206 million of illicit proceeds and assets.

As part of HSI's response to the exploitation of international shipping to move illicit drugs, HSI increased the number of BESTs at international mail facilities (IMF), express consignment hubs, and international airports acting as IMFs. HSI's *Strategy* facilitates the immediate application of investigative techniques on seized parcels, which aids in establishing the evidence needed to effect enforcement actions on individuals associated with parcels containing illicit drugs.

### *Operation Opioid Response and Investigation of Networks (ORION)*

In August 2023, HSI's counter-fentanyl operations transitioned from Southwest Border and international surge efforts (Operation Blue Lotus) to a nationwide counter-opioid initiative known as Operation ORION. This effort aligns with the goals and strategies set forth in HSI's Strategy for Combating Illicit Opioids, allowing HSI to continue to leverage its administrative, civil, and criminal law enforcement authorities to attack fentanyl distribution.

Operation ORION will continue to prioritize and target dark web vendors and other cyber-enabled actors that engage in fentanyl distribution via the internet; plan additional surges of personnel to support current national initiatives and local field office investigations; and increase joint operations with CBP's Office of Field Operations at border access points such as international airports, international mail facilities, seaports, and land ports throughout the nation. As a result of Operation Blue Lotus, Operation ORION, and other counter-fentanyl efforts, HSI seized over

41,480 pounds of fentanyl in FY 2023, which exceeded the FY 2022 total by 98 percent.

### *Monroe Project*

The Monroe Project, Task Group-1 (TG-1), in collaboration with NTC-I, developed a national targeting framework to systematically analyze fentanyl seizures across the Southwest Border. Attributing the seizures to specific criminal networks allows TG-1 to illuminate TCO activity across the United States, forming a common intelligence picture and supplementing ongoing cases with new information. TG-1 is also supporting HSI field investigations to disrupt trade-based money laundering (TBML) and bulk cash smuggling to counter the illicit financial activities tied to the fentanyl supply chain. TG-1 focuses and intensifies the effectiveness of HSI, and partner DHS and U.S. Government efforts, by pairing subject matter experts with technology experts. To date, this initiative has supported over 135 HSI investigations which have led to 229 seizures and 110 criminal arrests, to include six high-level TCO members, and the disruption of five clandestine synthetic drug labs in Mexico.

### **Illicit Finance Efforts**

One of HSI's top priorities is to investigate the vast international money laundering schemes connected to the illicit narcotics trade and other cross-border criminal activities. HSI is uniquely positioned to identify criminal conspiracies that hide ill-gotten proceeds within legitimate commerce; in vehicles, vessels, and on persons entering or departing the United States; or in virtual assets, such as cryptocurrency. As a legacy customs agency with significant access to financial and trade data, HSI is the U.S. Government's primary law enforcement agency responsible for investigating TBML – one of the key schemes used by Chinese MLOs and other criminal actors to launder narcotics proceeds. HSI's financial efforts in FY 2023 resulted in 2,366 arrests, 1,499 criminal indictments, 787 convictions, and the seizure of more than \$938 million in illicit currency and other assets (as valued at the time of seizure). HSI investigations related to cryptocurrency have risen from one criminal investigation in 2011 to over 530 criminal investigations in FY 2023. In FY 2022, HSI seized nearly \$4 billion (as valued at the time of seizure) in cryptocurrency. This substantial increase signifies growing confidence in cryptocurrency use by criminals and criminal networks.

A key component of HSI's Strategy is to attack the criminal financial networks that are the lifeblood of their operations. In 2023, HSI established the Cross-Border Financial Crime Center (CBFCC) to strengthen the United States' anti-money laundering framework. The CBFCC convenes federal law enforcement agencies, partner nation authorities, banks and financial institutions, and financial technology companies to promote collaboration on cross-border financial crime. This effort at the national level directly supports the prosecution, disruption, and dismantlement of TCOs, strengthens the financial and fintech industry against illicit activity, and enhances communication between government and private sector partners.

At the local level, HSI's El Dorado Financial Crimes Task Forces (EDTFs) remain one of the most effective platforms to identify, mitigate, and close the gaps exploited by TCOs to disguise and move their illicitly obtained funds. Initially established in New York and Miami<sup>3</sup>, the

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<sup>3</sup> The initial EDTF was established in New York in the 1992 under the former United States Customs Service. A second EDTF was created in Miami, Florida, in 2018.

EDTFs – perhaps the most successful multi-agency model for investigating and prosecuting complex financial crimes – bring together federal, state, tribal, and local law enforcement to disrupt and dismantle transnational MLOs. The EDTFs prioritize high-priority financial investigations; actively engage private sector partners; and leverage federal and state laws and regulations to bring successful prosecutions. Historically, the EDTFs have been responsible for some of HSI’s most significant money laundering investigations. For instance, EDTF investigations have led to the identification, indictment, and extradition of the hierarchy of Colombian and Mexican cartels engaged in the trafficking of cocaine as well as corrupt foreign officials. These cases have resulted in record fines to multinational banking institutions. Over the last decade, EDTF investigations have led to over 2,100 arrests, the seizure of over \$2.68 billion in illicit proceeds, and equitable asset sharing of over \$500 million.

Earlier in 2023, HSI approved the expansion of the EDTF model to the agency’s 30 domestic Special Agent in Charge offices to further enhance the ability of the United States to investigate and prosecute individuals, businesses, and banks involved in money laundering and other financial crimes. The CBFCC will assume responsibility for managing implementation of the EDTF program. This task force model is increasingly important to address emerging and evolving threats to the U.S. anti-money laundering framework, including those posed by Chinese MLOs and other criminal actors.

### *Trade-Based Money Laundering*

TCOs are constantly adapting traditional money laundering activities with use of alternate value platforms in response to financial regulations and law enforcement efforts to identify money laundering networks. A single movement of proceeds may involve bulk cash, stored value cards, money orders, cryptocurrency, wire transfers, funnel accounts, and TBML. TBML is the process of disguising criminal proceeds through international trade to hide their illicit origins. As the U.S. Government’s primary law enforcement agency that investigates TBML, HSI uses DHS-maintained data resources encompassing trade, travel, and financial information to identify TBML schemes.

TG-1 sets out to cross reference FinCEN (Financial Crimes Enforcement Network) data sets and investigative holdings to generate monetary seizures from bank accounts associated with TCOs. HSI’s Innovation Lab aims to strengthen the U.S. financial infrastructure by collaborating with financial institutions and using financial data sets to identify risks to their financial operations.

### *Cryptocurrency*

As cryptocurrency adoption grows, so does its utilization in increasingly sophisticated money laundering schemes. Cryptocurrencies can be exploited by any criminal organization, and this is especially true with online distribution of fentanyl and other illicit drugs.

Cryptocurrencies are attractive to TCOs because of their nearly instantaneous transaction speeds, borderless transfers, and pseudonymous system of transactions. Numerous account-less cryptocurrency exchanges continue to operate globally outside the scope of regulation. Mixing



and obfuscation tools help TCOs conceal the illicit origin of funds.

As noted earlier, HSI investigations related to cryptocurrency have grown from one in 2011 to over 530 in FY 2023.

### **Cyber Efforts**

International collaboration is essential to combat trafficking of fentanyl and precursors on internet-based platforms. To enhance global collaboration, HSI recently became a member of Europol's Joint Cybercrime Action Taskforce, building on a long-established relationship with other Europol working groups and teams aimed at combatting fentanyl trafficking on the dark web. HSI also recently created four international cyber liaison positions located in Ottawa, London, The Hague, and Sydney. While these positions will focus on all aspects of cybercrime, combating fentanyl trafficking on the dark web is a priority.

#### *Cyber Crimes Center*

HSI created the Cyber Crimes Center (C3) to provide investigative assistance, training, and equipment to support domestic and international investigations for DHS. C3 supports HSI's mission through the oversight and coordination of investigations of cyber-related criminal activity and provides a range of forensic, intelligence, and investigative support services across all HSI programmatic areas.

With trained cyber investigators and analysts, C3 supports HSI online undercover investigations targeting market site operators, vendors, and prolific buyers of fentanyl on the dark web and helps trace and identify proceeds. In addition, C3's Computer Forensics Unit and the HSI Computer Forensic Program are critical tools in combating the flow of drugs into the United States. C3's Computer Forensics Unit also provides forensic training and support to our federal, state, local, tribal, and international law enforcement partners.

A top priority for HSI is to improve collective law enforcement capabilities by training partner law enforcement agencies. For example, C3 developed a cyber-training curriculum with a focus on darknet investigations and illicit payment networks associated with opioid smuggling and distribution. Since 2017, HSI has delivered this training course to more than 15,000 federal, state, local, and international law enforcement personnel in over 70 locations worldwide.

### **Conclusion**

Thank you again for the opportunity to appear before you today and for your continued support of HSI and our efforts to use our unique authorities and global footprint to combat the flow of illicit fentanyl into the United States. I look forward to your questions.