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The Fraud-Terror Link

Terrorists are Committing Fraud to Fund Their Activities

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“A society that applauds innovation in the world of business can hardly expect to escape innovation in the world of crime.”

– Criminologist Leon Radzinowicz¹

CFEs now need to be extra cognizant of their roles in homeland security. As more terrorist plots are revealed, so are the links to their funding through fraud. It’s easier than ever to steal an ID and disappear or embezzle funds and relocate them halfway around the world with just the click of a mouse. Here’s practical information we can use to discern frauds that are being used to fund terrorist activities.

The threat of terrorism has become the principal security concern in the United States since 9/11. Some might perceive that fraud isn’t linked to terrorism because white-collar crime issues are more the province of organized crime, but that perception is misguided. Terrorists derive funding from a variety of criminal activities ranging in scale and sophistication – from low-level crime to organized narcotics smuggling and fraud. CFEs need to know the latest links between fraud and terror.

Credit card fraud, wire fraud, mortgage fraud, charitable donation fraud, insurance fraud, identity theft, money laundering, immigration fraud, and tax evasion are just some of the types of fraud commonly used to fund terrorist cells. Such groups will also use shell companies to receive and distribute illicit funds. On the surface, these companies might engage in legitimate activities to establish a positive reputation in the business community.

Financing is required not just to fund specific terrorist operations but to meet the broader organizational costs of developing and maintaining a terrorist organization and to create an enabling environment necessary to sustain their activities. The direct costs of mounting individual attacks have been relatively low considering the damage they can yield.

“Part of the problem is that it takes so little to finance an operation,” said Gary LaFree, director of the University of Maryland’s National Consortium for the Study of Terrorism and Responses to Terrorism.² For example, the 2005 London bombings cost about \$15,600.³ The 2000 bombing of the USS Cole is estimated to have cost between \$5,000 and \$10,000.⁴ Al-Qaida’s entire 9/11 operation cost between \$400,000 and \$500,000, according to the final report of the National Commission on Terrorist Attacks Upon the United States.⁵

Terrorist groups require significant funds to create and maintain an infrastructure of organizational support, sustain an ideology of terrorism through propaganda, and finance the ostensibly legitimate activities needed to provide a veil of legitimacy for their shell companies.⁶ However, don’t think that only large operations are needed for terrorists to carry out attacks; small semi-auton-

omous cells in many countries are often just as capable of conducting disruptive activities without extensive outside financial help – they just conduct smaller-scale frauds.⁷

Even though the nexus between fraud and terrorism is undisputed, there’s concern at state and local levels that law enforcement professionals lack specialized knowledge on how to detect the fraud-terror link because they’re more apt to investigate and prosecute violent crimes.⁸

A critical lack of awareness about terrorists’ links to fraud schemes is undermining the fight against terrorism. Fraud analysis must be central, not peripheral, in understanding the patterns of terrorist behavior.⁹

EXAMPLES OF THE FRAUD-TERROR NEXUS

Identity Fraud

According to identity fraud expert Judith Collins of the Michigan State University Identity Theft Crime and Research Lab, “All acts of terrorism enacted against the United States have been facilitated with the use of a fake or stolen identity.”¹⁰ Collins said that 5 percent of all identity thieves are connected to terrorism and 2 percent specifically to al-Qaida.¹¹ In fact, one of the al-Qaida terrorists involved in the 9/11 attacks had opened 14 bank accounts using several different names, all of which were fake or stolen.¹²

Terrorists often use stolen or fabricated Social Security numbers, credit cards, and passports to create false identities and pay for their operations.¹³ Identity theft is possibly one of the most lucrative enterprises that terrorists have engaged in, and they get much more than money from this crime. Identity theft allows them to avoid watch lists, obscure their whereabouts, assist in terrorist funding activities, and gain unauthorized access to entry points such as airline gates, border crossings, or other monitored facilities.¹⁴

One critical aspect of identity theft, according to Denis Lormel, formerly of the FBI’s Terrorism Review Group, is the “cloak of anonymity” that it provides; identities are often stolen to carry out bank fraud, credit card fraud, wire fraud, mail fraud, bankruptcy fraud, and computer crimes.¹⁵ Moreover, the anonymity means that “the use of a stolen identity enhances the chances of success in the commission of almost all financial crimes,” Lormel said, which again enhances the importance of forensic examiners to unravel identity mysteries.¹⁶

The 9/11 Commission Report established that the terrorists involved with the bombing of the World Trade Center committed identity fraud, noting that “travel documents are as important as weapons.”¹⁷ After all, terrorists typically have to travel clandestinely to meet, train, plan, case targets, and gain access to attack.¹⁸

Mortgage Fraud

Financial experts say that mortgage fraud has become the fastest growing type of white-collar crime.¹⁹ It’s the ease by which terrorists and their supporters can raise hundreds of thousands of dollars in a short period of time that makes mortgage fraud so attractive compared to the high-risk world of drug distribution or the low returns from other known petty crimes that have previously been used to finance terrorism.²⁰

The FBI has uncovered a nexus between mortgage fraud and terrorism investigations. In 2006, Nemr Ali Rahal from Michigan pleaded guilty to mortgage fraud to prevent being charged additionally with terrorist activities. At the time of his arrest, federal authorities found books, posters, and recruitment videos for the Hezbollah terrorist organization inside Rahal’s home. Rahal had fraudulently obtained more than \$500,000 by falsifying information on a mortgage application.²¹

In another Michigan case, two men, Mohammed Krayem and Youssef Kourani, transferred more than \$200,000 obtained through real estate fraud and cigarette smuggling to the Hezbollah chief of military security for southern Lebanon.²² In June 2005, Ahmad and Musa Jebril were convicted of mortgage fraud after

defrauding six banks for \$250,000 and dozens of people of up to \$400,000.²³

The Jebrils were active supporters of Hamas, and federal authorities discovered that Ahmad Jebril was training a cell of local men to wage jihad against the United States.²⁴ Subsequent to their conviction of mortgage fraud, the Jebrils and one of their associates were additionally charged with trying to bribe a juror during their fraud trial.²⁵

Fortunately, the mortgage industry, which has already responded to the rapid rise of mortgage fraud, is becoming more aware of the involvement of terrorist organizations. In 2007, experts from the mortgage lending industry gathered together with law enforcement and banking regulatory officials at a conference sponsored by the Appraisal Foundation. Connie Wilson, CFE, of Interthinx, one of the leading mortgage fraud prevention firms, briefed attendees on how Hezbollah, Islamic Jihad, and even the Taliban, had established mortgage fraud rings in the United States.²⁶

Charitable Fraud

Many thousands of legitimate, charitable organizations exist all over the world that serve the interests of all societies, and often transmit funds to and from highly distressed parts of the globe. They enjoy the public trust, have access to considerable sources of funds, and their activities are often cash-intensive. Some charities have a global presence that provides a framework for national and international operations and financial transactions, often in or near areas heavy with terrorist activity. These are just a few things that make charities and nonprofit organizations attractive to terrorists.

According to internationally recognized terrorist expert Steven Emerson, in a paper published a year after 9/11, “Charities played a key role in the September 11 attacks.” Because charities face far less scrutiny from the IRS than other for-profit corporations and individuals, occasionally these same charities that engage in terrorist pursuits have succeeded in receiving financial assistance from government-sponsored grant programs such as the U.S. Agency for International Development (USAID), Emerson wrote.²⁷

Charities represent a perfect cover for collecting large amounts of money for terrorist activities. For example, in 2008, in the Northern District of Texas, all defendants in *United States v. Holy Land Foundation* were found guilty of terrorist financing that involved money laundering and tax fraud. Holy Land Foundation had raised millions of dollars for Hamas over a 13-year period.²⁸

The sheer volume of funds and other assets held by the charitable sector provides an excellent smoke screen for the diversion of even a very small percentage to disappear for the support of terrorism.

Insurance Fraud

In 2006, Karim Koubriti and his codefendant, Ahmed Hannon, were found guilty in a U.S. court of law of mail fraud, insurance fraud, and material support of terrorism in connection with his “economic jihad” scheme to defraud the Titan Insurance Company.²⁹ In this case, Koubriti and Hannon falsely claimed to have been injured in a car accident and filed a false insurance claim

with Titan. Koubriti and Hannon provided fictitious invoices for medical bills, lost wages, as well as mileage and services accrued due to the purported injuries.³⁰ Koubriti's motivation was twofold – “to commit fraud in order to both support terrorist activities and to ‘cause economic harm to U.S. businesses.’”³¹

According to media reports, “one enterprising pair of jihadists in Germany hoped to fund a suicide mission to Iraq by taking out nearly \$1 million in life insurance and staging the death of one in a faked traffic accident.”³² Insurance fraud is just one of many fraud schemes terrorists use. In 2005, Matthew Levitt, senior fellow at the Homeland Security Policy Institute and the Washington Institute, testified before the Senate Committee on Homeland Security and Governmental Affairs that there have been indications that terrorist elements have funded activities through credit card fraud, welfare fraud, coupon fraud, stealing and reselling baby formula, and food stamps fraud. In his testimony, Levitt said “U.S. officials believe ‘a substantial portion’ of the estimated millions of dollars raised by Middle Eastern terrorist groups comes from the \$20 million to \$30 million annually brought in by the illicit scam industry in America.”³³

Immigration Fraud

Several kinds of document fraud can occur during the immigration process through forgery, lying, false statements, or the misuse of visas. For many terrorists, immigration fraud is one of the first acts taken in a long line of criminal activities. Michael Cutler, a fellow at the Center for Immigration Studies, has written that when an alien acquires immigration benefits through fraud and deception, the security of the system is breached and it leaves the door open to criminal and terrorists to game the system.³⁴

Individuals who have planned acts of terror against the United States or raised money for terrorist organizations have engaged in immigration violations such as Ramzi Yousef, the mastermind of the first World Trade Center attack in 1993, who used an altered passport and fraudulent documents.³⁵ Janice Kephart, former counsel to the 9/11 Commission, authored a report titled “Immigration and Terrorism” that examines the histories of 94 foreign-born terrorists who operated in the United States between the early 1990s and 2004 and concluded that “about two-thirds (59) committed immigration fraud prior to or in conjunction with taking part in terrorist activity.”³⁶

RESOURCES DEVOTED TO FIGHTING FRAUD

In the early stages of the investigation into the events of 9/11, financial evidence quickly established links between the hijackers and identified co-conspirators.³⁷ The 9/11 Commission was able to trace money used because the terrorists were brazen enough to open American bank accounts and receive wire transfers from abroad.³⁸

The FBI and the U.S. Department of Justice (DOJ) identified a critical need for a more comprehensive, centralized approach to terrorist financial matters.³⁹ However, as we have observed, it's not always the large institutional investigations that might produce the evidence to prove an imminent attack; semi-autonomous terror cells engage in their own illicit fundraising, however

small, that can produce enough money to support their goals. The alarming news for those seeking to prevent further attack is that small amounts of money are harder to trace than large ones such as the case of the Holy Land Foundation.

The bureau slashed its criminal investigative workforce to expand its national security role after the 9/11 attacks, shifting more than 1,800 agents out of criminal programs and into terrorism and intelligence duties.⁴⁰ Current and former officials say the cutbacks have left the bureau seriously exposed in investigating areas like white-collar crime.⁴¹ DOJ data, which include cases from other agencies, such as the Secret Service and the U.S. Postal Service, illustrate the impact.

Prosecutions of frauds against financial institutions dropped 48 percent from 2000 to 2007, insurance fraud cases plummeted 75 percent, and securities fraud cases dropped 17 percent.⁴² Statistics from a research group at Syracuse University, the Transactional Records Access Clearinghouse, using somewhat different methodology and looking only at the FBI, show an even steeper decline of nearly 50 percent in overall white-collar crime prosecutions in the same period.⁴³

Even when investigations have pointed to corporate wrongdoing, the DOJ has agreed, in dozens of cases in the past four years, to “deferred prosecutions” that allowed companies to pay fines to avoid criminal prosecution.⁴⁴ According to Paul McNulty, who served as deputy attorney general under Alberto Gonzales, “There’s no question that the department has been stretched thin when it comes to resources generally, and that has affected white-collar enforcement in a variety of areas.”⁴⁵ Fortunately, the FBI has recently increased the number of agents used to investigate mortgage fraud and other white-collar crime cases because the Office of Management and Budget has increased the FBI’s budget for white-collar crimes by \$104 million for 2011.

It’s unclear, however, if this reflects an actual increase and/or if this increase will make a significant difference because it might simply reflect what the FBI’s white-collar crime budget should have looked like before it was cut. For example, from 2001 to 2007, the FBI sought an increase of more than 1,100 agents for its criminal investigations, such as white-collar crime, apart from national security investigations.⁴⁶ Instead, it suffered a decrease of 132 agents, according to FBI figures.⁴⁷ That same data showed that cutbacks have been severe in the staffing for white-collar crimes like mortgage fraud, with a loss of 625 agents or 36 percent of its 2001 levels.⁴⁸

LEGITIMATE BUSINESSES INTERACTING WITH TERRORISM

Though charities and other similar nonprofit entities provide excellent cover for terrorists, the usage of for-profit corporation’s directly aiding international terrorists has also been uncovered. These for-profit entities can alter their balance sheets and financial statements to hide that profits from various commercial enterprises (including real estate deals, Internet ventures, and other

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seemingly innocuous business transactions) were used to finance terrorism worldwide.⁴⁹ With fraudulent accounting practices in place, this corporate model allows terrorists to transfer money around the world with little public or government scrutiny.⁵⁰

When corporations operating on behalf of terrorist organizations desire to infiltrate a certain market or country, they often search for corporate accomplices within the particular market whose activities are respected and established.⁵¹ This was the situation that existed between Al Barakaat's subsidiary, Barakaat Telecommunications, renowned for its huge telecommunications market share in Somalia.

After the 9/11 attacks, the U.S. government froze the assets of the huge Al Barakaat conglomerate on Nov. 7, 2001 and designated Al Barakaat and its subsidiaries as Specially Designated Global Terrorist Entities.⁵² By controlling communications throughout Somalia, Barakaat could ensure that terrorists received a means to communicate with each other via the Internet or over secure telephones.

Because Somalia lacks any official currency, Barakaat Telecommunications also served to disperse funds around the world to terrorists, usually through banks in the Gulf States. Interestingly, Barakaat entered into a partnership with an American company named InterWave to expand Barakaat's existing telecommunications network.⁵³ In this case, terrorists were effectively working within the United States earning and spending money directly on 9/11 attacks.⁵⁴

In another case, the European Commission (EC) filed a lawsuit against RJ Reynolds Nabisco, the parent company of RJ Reynolds Tobacco Company (RJR), alleging money laundering and fraud activities conducted by RJR during cigarette diversion smuggling operations.

Because RJR couldn't directly market and sell their cigarettes in Iraq, they bypassed the restriction by using a Cyprus-based company to sell in Iraq, according to college professors Louise I. Shelley and Sharon A. Melzer in the article, "The Nexus of Organized Crime and Terrorism: Two Case Studies in Cigarette Smuggling," published in the Spring 2008 issue of the *International Journal of Comparative and Applied Criminal Justice*.

This case was the result of long-term EC investigations, which presented in U.S. court significant evidence that a major American company had broken both U.S. law and the UN embargo on sales to Iraq and had done so with the complicity of a recognized terrorist organization. This resulted in a loss of tax revenue to the EC.

The crime of cigarette smuggling allegedly was accompanied by other illegal acts such as document fraud, false invoicing, and money laundering, and RJR allegedly paid protection money to a terrorist group to achieve its large volume of sales.⁵⁵

In the end, it was discovered that RJR had allegedly committed wire fraud, produced fraudulent documents, evaded taxes, deliberately violated trade embargoes, and cooperated with identified terrorists to increase profit and market share – all traits

shared by criminal organizations, according to Shelley and Melzer. However, the case was dismissed not because the allegations against RJR weren't true, but because the U.S. court, in its written opinion, believed it wasn't within its jurisdiction to enforce foreign tax law. According to the court opinion, whether the EC suffered a tax revenue loss as a result of RJR's actions, it was the duty of the executive branch, not the judiciary, to make such a decision as to whether to acknowledge foreign tax law for U.S. courts to consider when resolving a conflict.⁵⁶

Setting the court's opinion aside, what is interesting about this case is there was no independent action taken by the U.S. investigators, even though the European investigation had overwhelming evidence that RJR had broken the U.S. and U.N. embargo of cigarette sales to Iraq.⁵⁷ In many respects, the cost-benefit analysis to corporations makes their associations with terrorists appear riskless because the probability of criminal prosecution is low and the monetary returns are enormous.

CONSIDERATIONS

"When the FBI transported Ramzi Yousef by helicopter over Manhattan following his capture in 1995 for the bombing of the World Trade Center's Twin Towers, an FBI agent pulled up Yousef's blindfold and pointed out that the lights of the World Trade Center were still glowing. As the FBI agent stated, 'They're still standing,' Yousef is reported to have responded, 'They wouldn't be if I had enough money and explosives.'"

– Christopher Dickey ("Securing the City: Inside America's Best Counterterrorism Force – The NYPD")

In reviewing the literature on the fraud-terror link, several themes consistently surface on areas for improvement. Often, comprehensive terror financial investigations are undermined by a series of factors including the refusal to share intelligence among agencies such as the FBI, the CIA, and the U.S. Treasury Department.⁵⁸

This problem is then compounded by the fact that federal agencies might not share intelligence with state governments. Even in today's post-9/11 environment it's extremely difficult, if not impossible, for state and local law enforcement to get anything substantive from federal agencies.⁵⁹

This creates a problem because the DOJ is relying more than ever on state and local authorities to investigate the white-collar crime cases they reject.⁶⁰ Interagency cooperation and information sharing are essential to creating synergistic solutions.⁶¹ Some believe 9/11 occurred without preemption because agencies like the FBI and the CIA didn't share their intelligence on the terrorists.⁶² Perhaps interagency memorandums of understanding can be developed to facilitate the cooperation without compromising agency integrity.

Part of the problem at the state and local levels is that prosecutors don't have the funding, training, and investigative support staff to properly fight fraud that might have connections to terrorism.⁶³ There tends to be a lack of awareness, education,

and experience on how fraud is committed and the important role fraud plays when it interacts with other crimes. For example, in Arizona, Attorney General Terry Goddard has pursued mortgage fraud and other white-collar cases, but he has limited resources and eliminated 49 positions this year because of state budget cuts.⁶⁴

At the state level, it's imperative to have prosecutors trained in fighting white-collar crimes and for the prosecution to have access to fraud examiners, forensic accountants, and forensic auditors who understand fraud from a terrorist perspective.⁶⁵

White-collar crime cases require specific investigative skills and shouldn't be viewed as inferior assignments especially given the important role they play in making terror feasible.⁶⁶ Agencies at the state and local level could benefit from increased funding for fraud specialization because they'll require this knowledge to investigate and prosecute these crimes.⁶⁷

Without proper training at the state and local levels, activities that could be interpreted as red flags for the convergence of fraud and terror can be missed. As we've seen, it doesn't take much financing to carry out an attack, and it can be the links that local and state investigators make in smaller frauds that make the difference in preempting a terror act.

Law enforcement personnel should also develop stronger working relationships with the business sector. In the past, there has been too little recognition of possible terror-financing issues among the clients of private-sector business corporations and banks.⁶⁸ In the spirit of public-private partnerships, corporations and banks should be vigilant in their obligations to identify indicators of fraud links to terrorist activity by filing Suspicious Activity Reports to the Financial Crimes Enforcement Network and alerting the appropriate law enforcement agency.

Law enforcement analysts should work closely with corporations to understand the trends that highlight organized crime and potential terror involvement.⁶⁹ Lastly, to send a message about the importance of the fraud-terror link, government and law enforcement agencies should develop specialized terror-finance experts.⁷⁰

TEAM UP TO STOP TERRORISTS

"Transnational crime will be a defining issue of the 21st century for policymakers – as defining as the Cold War was for the 20th century and colonialism was for the 19th. Terrorists and transnational crime groups will proliferate because these crime groups are major beneficiaries of globalization. They take advantage of increased travel, trade, rapid money movements, telecommunications and computer links, and are well positioned for growth."

– Louise I. Shelley ("Methods and Motives: Exploring Links Between Transnational Organized Crime and International Terrorism")

Many types of fraud can be exploited for terrorist financing, but CFEs should especially consider some red flags when evaluating terror financing methods. Terrorists are flexible about how they obtain their financing and their methods might have changed since 9/11.

According to terror finance expert Rohan Bedi, chief money laundering risk officer for Bank of America Merrill Lynch in Asia, the trend is for terrorist groups to be replaced by smaller, decentralized groups. So the premise that terrorists need a financial network might be outdated.

CFEs need to recognize the distinction between criminal misuse of financial systems and terror financing while remaining focused on transactions that are unusual or suspicious. It's important to constantly review red flags and update and ensure financial institutions are enhancing counter-terror financing programs. Pay special attention to these red flags:

Accounts

1. A dormant account containing a minimal sum suddenly receives a deposit or series of deposits followed by daily cash withdrawals that continue until the transferred sum has been removed.
2. When opening an account, the customer refuses to provide information required by the financial institution, attempts to reduce the level of information provided to the minimum, or provides information that's misleading or difficult to verify.
3. An account has several persons with signature authority, yet these persons appear to have no relation among each other (either family ties or business relationship).
4. Numerous small deposits are made into multiple accounts, all opened by the same person. The total amount in the deposits isn't commensurate with the expected income of the customer.

Deposits and Withdrawals

1. Deposits for a business entity are made in combinations of monetary instruments that are atypical of the activity normally associated with such a business. (For example, deposits might include a mix of business, payroll, and Social Security checks.)
2. Large cash withdrawals are made from a business account not normally associated with cash transactions.
3. Multiple transactions are carried out on the same day at the same branch of a financial institution but with an apparent attempt to use different tellers.
4. The deposit or withdrawal of cash in amounts fall consistently just below identification or reporting thresholds.

Wire Transfers

1. Wire transfers are ordered in small amounts apparently to avoid triggering identification or reporting requirements.
2. Information on the sender and/or receiver isn't included with wire transfers.
3. Funds are deposited into multiple personal and business accounts of nonprofit organizations or charities and then funneled immediately into a small number of foreign beneficiaries.
4. A third party makes foreign exchange transactions on behalf of a customer followed by wire transfers of those funds to locations, which have no apparent business connection to the customer or to countries of specific concern.

Characteristics of the Customer or His/Her Business Activity

1. Individuals involved in cash transactions are sharing addresses, which are business locations and/or don't seem to correspond

to the stated occupations – for example, student, unemployed, self-employed, etc.

2. The level or type of activity isn't commensurate with the stated occupation of the transactor – for example, a student or an unemployed individual who receives or sends large numbers of wire transfers, or who makes daily maximum cash withdrawals at multiple locations in a wide geographic area.

3. A nonprofit or charitable organization's financial transactions are made for no logical economic purposes and/or have no links between the organization's stated activities and the other parties in the transactions.

4. A safe deposit box is opened on behalf of a commercial entity when the business activity of the customer is unknown, or such activity does not appear to justify the use of a safe deposit box.

As I quoted from criminologist Leon Radzinowicz, criminals have adapted to globalization and incorporated those changes into their criminal schemes. But just as terrorists pool their abilities and resources to achieve synergistic outcomes, government agencies and all those who are directly or indirectly involved in the fight against fraud and its potential link to terror must pool their talents to counter the terrorists' inhumane goals. 🔍

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