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FBI INC.*How the world's premier police corporation totally hit the skids*

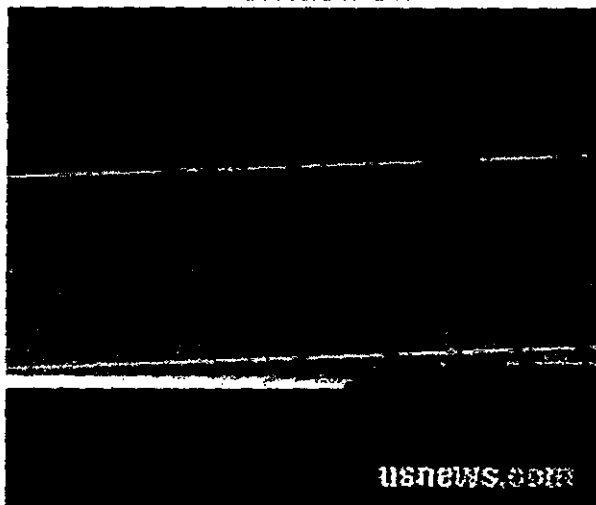
By Chitra Ragavan

As brands go, they don't get much better. In the swaggering world of big-time law enforcement, no other agency could touch the Federal Bureau of Investigation. Not even London's fabled Scotland Yard. Cybercrime, tracking terrorists—you name it, when it comes to police work, the FBI was the hands-down best. That's probably still the case. Just look at the numbers. The FBI's more than 11,000 special agents and its \$3.6 billion annual budget make most other police agencies look like Dogpatch deputies. Yet for all its resources—and despite all its headline-grabbing successes—the FBI today is staggering through one of the worst periods ever, with much of the damage caused from within.

And it's not simply the latest blunder—the FBI's failure to disclose 4,000 pages of evidence to lawyers for Timothy McVeigh, the Oklahoma City bomber. That's why McVeigh's scheduled

week alone won't repair the damage. A survey conducted for U.S. News found that 37 percent of Americans have less confidence in the FBI today as a result of its handling of the McVeigh prosecution. Since McVeigh was such a heinous killer (he called the children killed in the bombing "collateral damage"), the erosion in public support for the FBI is clearly not due just to this one case. The McVeigh screw-up closely followed another, infinitely more devastating disclosure. The arrest of a veteran FBI agent, Robert Hanssen, on charges of spying for Moscow for 15 years, is a blow from which the bureau is still reeling. The FBI is the nation's premier spy-chasing agency, and though Hanssen has

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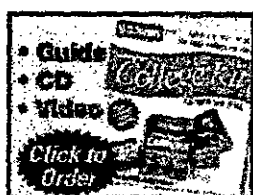
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asserted his innocence, the lengthy indictment filed against him offers damning evidence that the bureau's top mole hunters failed repeatedly to recognize a spy from within. Before Hanssen, the litany of embarrassments stretches back years, a conspiracy buff's string of worry beads—Ruby Ridge, Waco, Wen Ho Lee.

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Echo chamber. When the FBI makes a big case, as it did this month with the convictions of four terrorists in the bombings of the two U.S. embassies in East Africa, the echo-chamber effect is enormous—banner headlines, glowing TV highlights, and all the rest. But when it stumbles, as it did with McVeigh, the echo chamber resounds with a thunderous clang. That's the nature of high-wire police work. But a look behind the big wins and losses shows an agency at once beset troubles and, in some respects, unready for the future. One of the FBI's divisions still uses computers with 386 microprocessors—chips so old that they haven't been sold for nearly a decade. FBI computers don't have rudimentary Internet browsers. Agents can't even send E-mail outside the bureau's internal network.

With Director Louis Freeh stepping down after eight turbulent years, the challenges of fixing what's broken and redirecting resources falls to someone else. President Bush is expected to name a successor to Freeh shortly. An examination by U.S. News shows that whoever replaces Freeh must do more than restore the luster to the FBI brand tarnished by embarrassments like McVeigh. In fact, some of the toughest criticism of the bureau comes from current and former high-ranking agents. Within the bureau, says John Sennett, president of the FBI Agents Association, "there's a lot of soul-searching, a lot of befuddlement."

There are problems within the ranks as well. While many mature corporations have trouble with an aging workforce, the FBI has the opposite dilemma. Freeh has deliberately kept the bureau overstaffed. "He really wanted to invest in shoe leather," says one former justice official. But that ramping up of staff was combined with a rapid retirement of senior agents in charge and deputies (lured in part by lucrative pensions and large private sector paychecks), leading to a young workforce. "You've got the new leading the new," says the FBI's deputy director, Tom Pickard. "They're going to make mistakes. It's hard to absorb that many young employees, [to] have adequate management supervision over them."

The FBI, many current and former agents say, is a corporation in crisis. Over the years, the bureau has worked hard to nurture its "always gets its man" legend. The Hoover legacy had become an increasing embarrassment, and it wasn't just the alleged penchant for party dresses and the paranoia that made Richard Nixon look like Mister Rogers. A Vietnam-era generation of agents and supervisors upended the Hoover approach to crime, which piled up penny-ante busts of gamblers and treated organized crime as a creature of myth. The new guys (and they were almost all guys) thought big. Using new racketeering laws and sophisticated surveillance tools, they took on the Mob (Page 20). By the mid-1980s, they had brought the five big Italian crime families in New York to their knees, putting *capos* of one away for long stretches. Whether it was Italian mob bosses then or Islamic terrorists now, the FBI makes its cases with singular flair. "Among all the government agencies," says branding expert Al Ries, "the FBI is probably the best known and most respected. [But] that

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doesn't mean it doesn't have a lot of negatives."

Some of those negatives, even admirers of Freeh say, must be laid at the outgoing FBI director's door. When President Clinton named him to head the FBI, in the summer of 1993, Freeh seemed sent by Central Casting. A square-jawed street agent who worked undercover against the Mafia, Freeh rose to the top of the FBI, with stops along the way a top federal prosecutor and a no-nonsense federal judge. A driven moralist, Freeh brooks no opposition on issues of right and wrong—even when those issues involve a sitting president. On the sunny day Clinton announced his nomination, Freeh declared that the FBI "must stand for absolute integrity, be free of all political influence."

This, in the end, may be Freeh's true legacy. Freeh has tried to nourish the values that have made the FBI's corps of agents relatively free of corruption. He has ordered all agents to attend a two-day refresher course in ethics and law at the FBI Academy and expanded the regular ethics training for agent recruits. Obsessed by the horrors of Nazi Germany, Freeh implemented a program requiring every new FBI agent to spend a full day at the Holocaust Museum to learn about the evils of abused power. He also reached out to street agents at all levels. Says Sennett: "There was nothing imperious about the man."

Opening doors. In another first, Freeh also worked hard to break the walls of an agency that had long prided itself on its insularity. For years, FBI brass refused to let outside experts review procedures in the vaunted crime lab. Then, once it became evident that the lab, in fact, had bungled all kinds of important forensic tasks—Freeh ordered changes, inviting in outside consultants to help fix the lab's problems and hiring others to run whole divisions. "We've recognized," says Deputy Director Pickard, "that we don't have all the answers."

The problems that arose on Freeh's watch shouldn't obscure the other successes the FBI has had during his eight years at the top—or cloud the triumphs in the day-to-day work of the bureau. During that time, FBI agents opened nearly 800,000 cases on every kind of criminal activity—conspiracy, bank robberies, drug deals, homicides, credit-card crime, child pornography, and terrorism. Because of the burgeoning, global nature of crime, Freeh traveled to 68 countries and substantially increased the number of legal attaché offices at U.S. embassies, a prescient move given that today 40 percent of all FBI cases have a foreign component. "The real irony here," says FBI spokesman John Collingwood, "is that despite the commotion over McVeigh, everything Freeh has done for the bureau will all still be here when he walks out the door, but it will be largely unnoticed by the public."

But Freeh's lack of management training clearly didn't serve him, or the FBI, well. He could talk the talk of "empowerment" and "decentralization," but he failed to fully address the FBI's desperate technology and record-keeping problems. When the Oklahoma City bombing case erupted, the FBI was still using a records system based largely on paper. Most of the investigative paper records were mailed to Oklahoma City by Express Mail for entry into a separate database. In a case with some 1 million pages of documents, the records system was doomed to implode. "We've watched this fiasco in every one of these superinvestigations which create millions of records," says a senior FBI official. "Not only was our record keeping bad to begin with,

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we don't know what we don't have. We're hanging ourselves."
"Looking back," says Agent Sennett, "it had to be treated as a Code Red situation requiring active attention at the top."

But the bureau didn't get it. Despite its reputation for deploying whiz-bang technology, the FBI has been slow to enter the Internet age. Retired IBM executive Bob Dies, 52, recently hired to fix the bureau's computer woes, says that for half a century "agents and friends of agents" ran everything. "What do they know about computers? Beats me." Almost every corporation upgrades its computer networks every two or three years, Dies says, but at the FBI, 60 percent of the desktop PCs are four to eight years old, the networks 12 years old. "The system," he says, "is not built for the level of complexity agents must deal with today."

But the FBI bureaucracy seems to defeat any attempt at change. After Dies learned how long it would take to get his new FBI business cards ordered, he decided to go out and buy his own. The FBI's macho culture also added to the ills. The FBI, like many government agencies, has been plagued by a culture that says "real men don't type," Sennett says. "Twenty-five years ago, senior agents asked Molly, Cathy, or Peggy to come in from the steno pool and sit primly in the chair and take shorthand."

Lone wolf. If Freeh failed to make significant changes in that culture, critics and admirers say, it may be due in part to the fact that he was too much the lone wolf. Freeh went through seven deputies in eight years; he relied on a clutch of trusted friends, many from his days in New York. But he often failed to heed input from his agents, supervisors, and even from some of those trusted friends, relying instead on his own instincts and judgment. In the Hanssen debacle, Freeh and top aides ignored warnings of a mole in the FBI's holiest of holies—its supersecret spy-chasing division. FBI investigator Thomas Kimmel said he warned Freeh and other top officials two years earlier about a spy within the bureau.

Where Freeh clearly has not had success—and where his successor will face one of his greatest challenges—is in breaking what many see as an unfortunate FBI penchant for keeping secrets. In a light most favorable to the FBI, perhaps the failure to locate more than 4,000 pages of evidence in the McVeigh case and turn them over to his lawyers was due to lousy recordkeeping procedures. But the FBI has a long, disturbing track record of playing keep-away. Years after the deadly inferno at the Branch Davidian compound near Waco, Texas, former Missouri Sen. John Danforth was enlisted to investigate the FBI's failure to disclose key evidence in the affair. FBI agents and supervisors had already concealed from Justice Department lawyers the use of incendiary devices during the standoff. During his review, Danforth said, it became clear that some of the FBI's lawyers viewed his request for documents as a "nuisance" and "with resentment." "It was asking people to clean their attic," Danforth told *U.S. News*. "They just didn't want to deal with it."

The same thing happened with Ruby Ridge and the FBI's attempt to arrest separatist Randy Weaver, holed up in a mountain cabin with his family. Even before he arrived at the siege, the commander of the FBI's Hostage Rescue Team unilaterally changed the rules of

engagement, allowing snipers to shoot on sight any armed person out in the open. An FBI sharpshooter shot and killed Weaver's wife as she was holding their 10-month-old infant daughter. But once again FBI brass were less than forthcoming during a trial of Weaver and Harris on charges of murder and conspiracy to murder a federal marshal. U.S. District Judge Edward Lodge, furious with the FBI's delay in turning over documents, fined the government \$1,920. The FBI, Lodge said, had shown a "callous disregard for the rights of defendants and the interest of justice," and a "complete lack of respect for the court." Last week, a federal appeals court ruled that the sharpshooter could be tried for manslaughter.

In the case of Wen Ho Lee, the nuclear scientist accused by the FBI of spying at the top-secret federal Energy Department lab at Los Alamos, the FBI's conduct was even more egregious. Lee was kept in near solitary confinement for almost a year while the government prepared its case—only to have a senior agent admit in the end that he had misrepresented a key piece of evidence in courtroom testimony. Lee, facing dozens of felony charges, pleaded guilty to a single count—not of spying but of mishandling sensitive documents. "They did not embarrass me alone," U.S. District Judge James Parker said of the FBI and the prosecutors. "But they embarrassed this entire nation and everyone who is a citizen of it." In the poll conducted for *U.S. News*, 36 percent of those surveyed said they had more confidence in the FBI's effectiveness at fighting crime than in its honesty in doing so. Citing these and other problems, *U.S. News* has learned that Freeh will reverse a long-standing position and acknowledge that Attorney General John Ashcroft should seek the appointment of an independent inspector general as a watchdog over the bureau.

For all its woes, the FBI's problems aren't due to lack of money. The FBI's budget has nearly doubled from \$2.1 billion in 1993 to \$3.6 billion in the current budget request—and that at a time when the budgets of many other federal agencies are being slashed. According to TRAC, a Syracuse University database of Justice Department statistics, the FBI's workforce of special agents and support personnel has grown to 25,000 under Freeh—a record—at a time when the rest of the government's civilian workforce has declined by nearly 20 percent.

The engine driving the budget increases, of course, is terrorism. Since 1993, the FBI's counterterrorism budget has exploded, from \$77 million to \$376 million. The biggest increases came after the carnage wrought by McVeigh in Oklahoma City. Just recently, Freeh asked for an additional \$26 million to expand a joint terrorism strike force. Not surprisingly, the terrorism pitch is a winning one on Capitol Hill. But the big increases have come at a time when terrorist attacks against Americans have sunk to a 20-year low. Last year, the State Department listed 153 significant terrorist incidents around the world, but only 17 against Americans. Of those, five were bombings—one of them the attack in Yemen on the USS Cole, which killed 17 Americans. "The FBI quickly found that terrorism was better than an American Express Gold Card," says Larry Johnson, a counterterrorism specialist: "You can get what you want."

But the numbers, as always, fail to tell the full story. The FBI's Collingwood says chasing terrorists is a lot tougher, and more expensive, than bank robbers. In going global, the FBI also has increased its ranks of intelligence officers. According to TRAC, the

number of FBI intelligence analysts increased nearly fivefold from 224 in 1992 to 1,025 in 1999. They represent just a small part of the cost associated with chasing terrorists in remote redoubts on foreign soil.

"Latte division." Still, many in the FBI wonder how much is too much. While terrorism has become a top FBI priority, the fact is that most agents still focus more on old-line cops-and-robbers cases. TRAC statistics show that 54 percent of convictions still come from drugs, bank robberies, and bank fraud cases. David Burnham, TRAC co-director, says, "it's very clear the FBI is spending far too much time on matters that mostly could be handled by local officials." Some FBI agents resent the massive reallocation of resources away from traditional FBI pursuits to an area where the threat, while real, is less than all-consuming. Agents working violent-crime cases often refer to the new Counterterrorism Division created by Freeh to fight terrorism as the "latte division." On days when there's no new intelligence about a suspected terrorist or bomb attack, these agents say, many in the division spend their time reading newspapers, going out for coffee, knocking off early to beat the evening rush home. "It's nice work if you can get it," says a veteran agent in Washington. "But it's not the FBI I signed up for, I'll tell you that."

Congress has been responsible for broadening the FBI's mandate not just in the counterterror arena, but by federalizing crimes like car-jacking and drug sales near public schools. Freeh, who declined to be interviewed for this article, recently told Congress that the FBI cannot continue to be all things to all people. "My successor," he said, "is going to have to make some choices."

Whoever he or she is, the FBI's new CEO will have to fix the fundamental tools that just aren't up to the job. But he will also have to fix the FBI brand. Like other corporations that have suffered public embarrassment, the FBI can still come back. "Tylenol killed seven people, and the brand lived on," Ries says. "Virtually every major airline has had problems and accidents. Yet the brand lives on. Look at Richard Nixon, how he came back. Look at Bill Clinton. The thing that helps powerful brands is people's ability to forget the bad."

With David E. Kaplan and Douglas Pasternak

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