



*Statistical Portrayal of the
Criminal Investigation Division's
Enforcement Activities for
Fiscal Years 2000 Through 2007*

July 09, 2008

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax Return/Return Information



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 09, 2008

MEMORANDUM FOR: CHIEF, CRIMINAL INVESTIGATION
Michael R. Phillips
FROM: Michael R Phillips
Deputy Inspector General for Audit
SUBJECT: Final Audit Report – Statistical Portrayal of the Criminal
Investigation Division’s Enforcement Activities for Fiscal
Years 2000 Through 2007 (Audit # 200810007)

This report presents the results of our review of statistical information that reflects activities of the Criminal Investigation Division (the Division). The overall objective of this review was to provide statistical information and trend analyses of the Division’s enforcement activities for Fiscal Years (FY) 2000 through 2007. We initiated this review as part of the Treasury Inspector General for Tax Administration FY 2008 Annual Audit Plan.

Impact on the Taxpayer

During this annual review, we analyzed information from the Criminal Investigation Management Information System¹ reports to determine the trends and changes in the major areas of criminal enforcement. Several key performance measures that had declined in prior years improved in FY 2007. Continued progress in enforcement of the tax laws and prosecution of criminal tax violations is important to enhancing voluntary compliance by taxpayers and fostering confidence in the integrity of the tax system.

Synopsis

We previously reported that from FY 2005 to FY 2006, several key performance measures had deteriorated, including the numbers of investigations initiated, investigations in open inventory, cases recommended for prosecution, subjects convicted of a crime, and subjects sentenced for a

¹ See Appendix IV for a glossary of terms.



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crime.² In addition, we reported that increasing special agent staffing remains a challenge as the Division continues to lose experienced special agents to attrition faster than it can replace them.

This year, however, several key performance measures that had declined in recent years improved. Subject investigations initiated, subject investigations completed, cases recommended for prosecution, indictments, subjects convicted of a crime, subjects sentenced for a crime, and publicity rates showed improvement in FY 2007. These improvements were achieved despite the fact that there were 120 fewer special agents on the rolls.

One area that remains a challenge is pipeline inventory (investigations referred to the Department of Justice for prosecution), which increased to its highest level in 8 years.

Recommendations

We made no recommendations in this report. However, key Criminal Investigation Division management officials reviewed the report prior to its issuance and agreed with the facts and conclusions presented.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report information. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

² See Appendix VI, Report 4.



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Abbreviations

BPR	Business Performance Review
CIMIS	Criminal Investigation Management Information System
FY	Fiscal Year
IRS	Internal Revenue Service
PY	Processing Year
U.S.C.	United States Code



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Background

In 1999, overall Internal Revenue Service (IRS) tax enforcement activities began to erode. A survey conducted in 2003 indicated that 17 percent of the surveyed population believed that it was acceptable to cheat on their taxes, while 81 percent stated that it was not at all acceptable. Since then, the IRS Commissioner has emphasized the importance and role of tax enforcement in overall tax compliance by recognizing the need to enhance levels of enforcement activity to provide a proper balance between service and enforcement. A 2007 taxpayer attitude survey conducted by the IRS Oversight Board¹ showed improvement. In this latest survey, 13 percent of the surveyed population believed that it was acceptable to cheat on their taxes, while 84 percent stated that it was not at all acceptable. In addition, 82 percent agreed that the more information and guidance the IRS provides, the more likely people are to correctly file their returns.

The IRS Strategic Plan for Fiscal Years (FY) 2005 to 2009 states that enforcing tax compliance, both civilly and criminally, is critical to maintaining American taxpayers' expectation that the tax system is fair. It also outlines several objectives to meet the goal of enhanced enforcement, including discouraging and deterring noncompliance with emphasis on corrosive activity by corporations, high-income individual taxpayers, and other contributors to the tax gap (the difference between taxes that are legally owed and taxes that are paid on time).

The IRS Criminal Investigation Division (the Division) has the authority to investigate criminal tax violations. The vigorous enforcement of criminal statutes within the Division's jurisdiction is an integral component of the IRS' efforts to enhance voluntary compliance and foster confidence in the fairness and integrity of the tax system.

Over the last few decades, Congress and the Department of the Treasury have expanded the Division's jurisdiction to cover offenses under money-laundering and currency-reporting statutes.² Accordingly, the Division has been involved with both legal and illegal source income investigations, including those involving organized crime and narcotics.

In April 1999, Judge William Webster issued a report³ on his review of the Division's operations and concluded that the Division had drifted away from its primary mission of investigating criminal violations of the Internal Revenue Code. Judge Webster recommended that the Division refocus on its primary mission of investigating criminal violations of the Internal Revenue laws.

¹ See Appendix IV for a glossary of terms.

² 18 United States Code Sections 1956 and 1957 (2004) and Title 31 U.S.C., Money and Finance sections.

³ *Review of the Internal Revenue Service's Criminal Investigation Division* (Publication 3388; 4-1999), also known as the Webster Report.



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The Division addressed many of the Webster Report concerns by creating a revised mission statement, developing a compliance strategy designed to guide the Division in developing and investigating cases that foster confidence in the tax system, reducing the resources placed on narcotics-related investigations, publicizing the results of its investigations, and conducting an empirical study to determine the effect investigations have on voluntary compliance. Division executives continue to emphasize the importance of developing and investigating cases that have the greatest effect on tax administration, whether the sources of income in those cases are derived from legal or illegal activities.

We initiated this review as part of the Treasury Inspector General for Tax Administration FY 2008 Annual Audit Plan. While the overall trend information presented covers FYs 2000 through 2007, our report concentrates on 1) analyzing program performance for the last 5 years and 2) providing an in-depth perspective on program activities for the 2 most current fiscal years. We reviewed several key performance measures, including staffing, investigations, fraud referrals, prosecution referrals, convictions, sentencing, and fraudulent returns.

Our data analyses were performed in the Treasury Inspector General for Tax Administration Washington, D.C., office during the period October 2007 through April 2008. We used national reports from the Division's management information system during our review. Because of time and resource constraints, we did not audit the Division's systems to validate the accuracy and reliability of its information. Also, we did not assess internal controls because doing so was not applicable within the context of our audit objective. Otherwise, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. Detailed charts and tables referred to in the body of the report are included in Appendix V. Much of the data included in this report update prior audit reports on criminal enforcement trends. See Appendix VI for a list of those reports.



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Results of Review

Most Key Performance Measures Improved in Fiscal Year 2007

Several of the key performance measures that had declined the year before improved in FY 2007. For example, the number of subject investigations initiated increased 7.8 percent in FY 2007, compared to a decrease of 8.5 percent in FY 2006.⁴ In addition, the number of subject investigations recommended for prosecution increased 4.3 percent in FY 2007, compared to a decrease of 4.9 percent in FY 2006. Further, the numbers of subjects convicted and sentenced in FY 2007 increased by 6.7 percent and 5.1 percent, respectively, compared to decreases of 6.1 percent and 3.6 percent in FY 2006.⁵

The Department of Justice acceptance rate for the Division's prosecution cases increased to 94.6 percent from 92.2 percent in FY 2006. Similarly, the United States Attorney's Offices' acceptance rate for the Division's prosecution cases increased to 90.2 percent, compared to 88.3 percent in FY 2006. In addition, the national average elapsed days to recommend an investigation for prosecution or to discontinue an investigation decreased by 5.9 percent and 2.8 percent, respectively, from FY 2006 to FY 2007.⁶

The Division exceeded most of its performance goals. Total subject investigation initiations increased from 3,907 in FY 2006 to 4,211 in FY 2007, representing a 7.8 percent increase⁷ and 102.1 percent of the Division's goal. The Division completed 4,269 subject investigations, which exceeded the FY 2007 performance goal of 4,000.

When cases were completed and received media coverage, the overall publicity rate for prosecutions in FY 2007 was 79.7 percent, which was an all-time high and was 4.1 percent higher than the rate in FY 2006.

⁴ See Appendix V, Figure 4.

⁵ See Appendix V, Figures 15 and 23.

⁶ See Appendix V, Figure 16.

⁷ See Appendix V, Figure 4.



While the Criminal Investigation Division Showed Improvements in Completed Investigations, Challenges Remain to Address the Growing Pipeline Inventory

As previously stated, the Division exceeded its FY 2007 performance goal of completed subject investigations as outlined in the IRS FY 2008 Congressional Budget Submission. Of these completed investigations, 66.5 percent were referred for prosecution, a 1.1 percent increase from FY 2006.⁸ The number of subjects convicted of a crime was 2,155, which exceeded the FY 2007 performance plan goal of 2,069 and was an increase of 6.7 percent from FY 2006. The number of subjects sentenced increased 5.1 percent from FY 2006 (from 2,020 to 2,123).⁹

In 2003, the IRS Commissioner raised concerns about the length of time needed to recommend an investigation for prosecution. Since then, the Division has emphasized the reduction of cycle time. The Division's Office of Planning and Strategy conducted a study to determine the desired cycle time range and established a benchmark figure for legal and illegal source investigation completions (415 days to 425 days, approximately 14 months), because these investigations closely align with the Division's mission and measure investigative efficiency.

In FY 2007, the Division reported an average of 412 elapsed days for legal and illegal source investigation completions, which was 1 percent below the benchmark range and 5.7 percent below the FY 2006 average of 437 days. The average elapsed days to recommend an investigation for prosecution or to discontinue a legal or illegal source investigation improved by 8.7 percent and 0.2 percent, respectively, from FY 2006 to FY 2007. The Division's FY 2008 Annual Business Plan included a business strategy to "Improve Efficiency and Reduce Elapsed Time on Criminal Subject Investigations." The Division plans to accomplish this through appropriate management oversight and direction to maintain optimum workload levels and ensure that all investigations progress appropriately. Based on the improvements cited previously, we are encouraged by Division management's efforts to reduce the elapsed days needed to complete an investigation and believe that their oversight should continue to bring about improvements in this area.

Pipeline inventory continues to increase

Pipeline inventory (investigations referred to the Department of Justice for prosecution) has increased continually for 5 years and now stands at an 8-year high. FY 2007 ended with 4,060 subject investigations in the pipeline, a 3 percent increase over FY 2006 and a 48.6 percent increase since FY 2002.¹⁰ For the first time since we began reporting on its enforcement activities, the Division had more investigations awaiting prosecution by the Department of

⁸ See Appendix V, Figure 15.

⁹ See Appendix V, Figure 23.

¹⁰ See Appendix V, Figure 21.



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Justice than open subject criminal investigations within the Division (3,981) as of September 30, 2007. According to the Division, a minimum number of hours are required every quarter to manage the pipeline inventory. As more time and investigative resources are expended on the pipeline inventory, fewer resources might be available to initiate and complete investigations.

In its FY 2008 budget request, the Department of Justice requested \$5.2 million for its Tax Division to enhance "Operation Continued Follow-Through," a tax law enforcement initiative that supports the President's focus on reducing tax fraud. If this budget request is approved, we believe that the additional funding might alleviate some of the delays the Division is experiencing with the Department of Justice.

Concerned with the continued increases in pipeline inventory, the Office of Planning and Strategy completed a review of the aging of pipeline inventory. By the end of FY 2005, the Division's pipeline inventory was 47.3 percent of total subject investigations¹¹ and had used 19 percent of the Division's direct investigative time. The study's conclusion that the United States Attorney's Offices' operational priorities were not optimally aligned with the Division's priorities still holds true today, and the situation is deteriorating. In FY 2007, pipeline inventory (4,060) was 102 percent of open subject criminal investigations (3,981), compared to 62.2 percent in FY 2002.¹² In FY 2007, pipeline investigations used 21.8 percent of the Division's direct investigative time.

According to data reported in the Business Performance Review (BPR) for FY 2007, the number of investigations in the Department of Justice Tax Division's inventory decreased slightly from FY 2003 to FY 2007, while the number of investigations categorized as pre-indictment and post-indictment at the United States Attorney's Offices increased significantly (from 1,007 pre-indictment investigations in FY 2003 to 1,710 in FY 2007 and from 1,627 post-indictment investigations in FY 2003 to 1,918 in FY 2007). The amount of direct investigative time applied to the pipeline inventory has increased 7.3 percent in the last 5 fiscal years, from 14.5 percent to 21.8 percent. The Division indicated that the timely resolution of these pipeline investigations would remain a challenge. We remain concerned that a continuing expansion of the pipeline inventory would affect future productivity levels, because fewer new investigations might be initiated and completed.

In light of these trends, the Chief, Criminal Investigation, requested that we consider evaluating whether limited resources at the United States Attorney's Offices will continue to affect pipeline inventory. We are beginning a review of this area.¹³

¹¹ Total subject investigations include investigations currently active and those referred for prosecution and adjudication (pipeline).

¹² See Appendix V, Figures 10 and 22.

¹³ *Department of Justice Pipeline Processing* (Audit # 200810008).



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Challenges Remain to Increase the Number of Special Agents

Total special agent staffing¹⁴ decreased 7.5 percent in the 5 years from FY 2002 to FY 2007, while the number of field special agents decreased 6.7 percent over the same period. About one-half of this change occurred in the past year; the total number of field special agents decreased 3 percent, from 2,511 in FY 2006 to 2,435 in FY 2007.¹⁵

Increasing special agent staffing remains a challenge as the Division continues to lose experienced special agents to attrition faster than it can replace them. According to its most recent estimates, the Division's planned hiring of approximately 96 special agents would not offset the FY 2007 attrition of 150 agents or the FY 2008 attrition of approximately 150 agents.

Last year, we indicated our concern that the decrease in staffing might adversely affect the levels of and improvements in productivity the Division experienced in FY 2006.¹⁶ Although these adverse effects have not yet been manifested, we believe that the continual net loss of experienced agents will negatively affect the Division's productivity in the near future.

Further complicating this issue is the Division's Electronic Crimes Program's preference to fill its open computer investigative specialist positions internally, by converting experienced special agents who have demonstrated information technology skills. We recently reported our concerns and recommended that the Director, Electronic Crimes, consider whether a deviation from its policy of internal recruiting is warranted, especially for the more experienced special agents.¹⁷

Despite Reduced Staff, Trends in Legal Source Income Tax and Tax-Related Investigations Improved

Last year, we reported significantly decreasing trends in several areas, including both legal source investigation initiations and tax-related investigations. The Division's Annual Business Plans have consistently described legal source tax investigations as a top investigative priority, and we believe that these investigations are an important component of all tax-related investigations. We previously challenged the Division's efforts to show progress toward increasing the level of legal source tax investigations, despite its articulation of a focus on these types of investigations in its strategic documents.¹⁸ In FY 2007, most of these trends were reversed and showed improvement. Although we cannot determine whether the Division conducts enough legal source income investigations or to what extent it can or should increase the number, we noted significant increases in the direct time applied to legal source tax

¹⁴ Includes new recruits, part-time special agents, field and Headquarters Office managers and program analysts, and Lead Development Center and Fraud Detection Center special agents.

¹⁵ See Appendix V, Figure 1.

¹⁶ See Appendix VI, Report 4.

¹⁷ See Appendix VI, Report 5.

¹⁸ See Appendix VI, Report 2.



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investigations, the number of legal source tax investigations initiated, and in both the number of legal source tax investigations referred for prosecution and the number of subjects convicted of legal source tax crimes.

In FY 2007, the percentage of direct investigative time spent on legal source income tax investigations was at an 8-year high, increasing 8.6 percentage points since FY 2000. During FY 2007, direct time spent on tax-related investigations increased 6.5 percentage points since FY 2000, also reaching an 8-year high. The Division spent 50.4 percent of its time investigating legal source income tax investigations and 64.9 percent of its time investigating tax-related cases.¹⁹ The percentage of all initiations that were legal source income tax investigations increased by 9.2 percent, and initiations that were tax-related increased by 2.9 percent.

However, total open subject investigation inventory decreased slightly (1.3 percent) from FY 2006 and has decreased substantially (9.4 percent) in the 5 years since FY 2002. Decreases also occurred in both legal source open inventory and tax-related open inventory since FY 2006 (1 percent and 6.3 percent, respectively). Here, the 5-year change was substantial--tax-related investigations in open subject criminal investigation inventory decreased from 3,337 in FY 2002 to 2,936 in FY 2007 (12 percent),²⁰ and legal source decreased from 2,102 to 1,990 (5.3 percent).²¹

Case completions showed increases. The number of legal source income tax investigations referred for prosecution increased 17 percent from FY 2006 and 60 percent from FY 2002. Tax-related investigations referred for prosecution also increased for the 1-year and 5-year periods, improving by 5.8 percent and 39 percent, respectively.²²

In addition, the number of subjects convicted of legal source income tax crimes increased 23.6 percent from FY 2006 and 40.2 percent from FY 2002. The number of subjects sentenced for legal source tax crimes increased during these periods by 8.5 percent and 14.4 percent, respectively.²³ The number of subjects sentenced for a tax-related crime increased 11.6 percent during FY 2007, and the percentage of all sentences for tax-related crimes was at an 8-year high of 52.4 percent.²⁴

Tax compliance correlates highly with increased publicity

Research suggests that higher levels of criminal sentences lead to higher tax compliance. The average number of months a subject is incarcerated has increased since FY 2000. The

¹⁹ Totals do not add up to 100 percent because tax-related cases include all legal and some illegal source investigations.

²⁰ See Appendix V, Figure 12.

²¹ See Appendix V, Figure 13.

²² See Appendix V, Figures 17 and 18.

²³ See Appendix V, Figures 24 and 27.

²⁴ See Appendix V, Figure 26.



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percentage increase in the number of months a subject is incarcerated for legal source income tax investigations rose 20 percent (from an average of 15 months to 18 months) between FYs 2000 and 2007. During the same period, incarceration time increased 29.6 percent (from an average of 27 months to 35 months) for illegal source investigations and 5.3 percent (from an average of 76 months to 80 months) for narcotics-related investigations, even though both categories showed a decrease in months served from FY 2006 to FY 2007.²⁵

In an effort to enhance voluntary compliance, the Division changed its philosophy to allow more publicity of its tax investigations. The Division continues to increase the publicity on tax prosecutions.²⁶ The overall publicity rate for prosecutions in FY 2007 was 79.7 percent, which was an all-time high and was 4.1 percent higher than the rate in FY 2006. This increased exposure indicates that the Division frequently receives media attention and, in our belief, sends a message to taxpayers that violations of the Internal Revenue Code and related financial crimes are investigated and prosecuted.

Trends related to the number of investigations per special agent are improving

The Division uses the average inventory of subject investigations per special agent and the average total inventory per special agent as business results measures. The average inventory calculation includes only open subject investigations, whereas the total inventory calculation includes primary investigations of allegations, open subject investigations, and pipeline subject investigations.

In FY 2006, the average inventory of subject investigations per special agent was 1.76, increasing to 1.81 in FY 2007. However, the average total inventory per special agent, which we believe is a better indicator of a special agent's workload, decreased slightly from 4.76 in FY 2006 to 4.72 in FY 2007.²⁷ The decrease in average total inventory per special agent reflects that although fewer cases were brought into open inventory, an increased number of that inventory was successfully processed and accepted for prosecution in FY 2007.

Questionable Refunds Continue to Be a Concern

Refund fraud continues to grow. The IRS Questionable Refund Program for Processing Year (PY) 2007 showed a considerable increase in the number of potentially fraudulent refund returns filed. In PY 2007, refund returns verified as containing false wage information increased 152.3 percent compared to PY 2005 (211,416 returns compared to 83,785). Of the 211,416 returns, 131,999 were forwarded for further disposition. The average fraudulent claim in PY 2007 was \$6,479, compared to \$3,764 in PY 2006. We believe that the limited availability of Examination Division resources for handling the increased volume of fraudulent refund

²⁵ See Appendix V, Figure 29.

²⁶ See Appendix V, Figure 30.

²⁷ See Appendix V, Figure 10.



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returns significantly influenced the number of fraudulent returns that the Division was able to stop.

During the past several years, Congressional concerns with the Questionable Refund Program have increased, particularly with the number of fraudulent prisoner refunds issued. More recently addressed was the span of operations of the Electronic Fraud Detection System and the process within the Questionable Refund Program of freezing taxpayer accounts. We issued a final report²⁸ in FY 2007 indicating that while we were encouraged by the IRS' actions to address stakeholder concerns and restore balance between taxpayer rights and effective administration of the tax laws, we were concerned that some of the changes were not stopping millions of dollars of potentially fraudulent refunds from being issued.

Investigations Initiated From External Sources Increased This Year

The Division initiates investigations from many different sources, both inside and outside the IRS. The primary sources inside include fraud referrals from the compliance divisions and investigations developed by the Division from the Questionable Refund Program and the Return Preparer Program. Sources of investigations outside the IRS include the United States Attorney's Offices and other Government agencies, both Federal and State. In addition, the Division initiates investigations based on information received from public sources, including the media and informants.

During FY 2007, 54.9 percent of the 4,211 subject investigations initiated came from the United States Attorney's Offices or other Government agencies, compared to 53.4 percent in FY 2006. In contrast, during FY 2007, 32.5 percent of subject investigations initiated originated from within the IRS, which was a decline from 35.2 percent in FY 2006 and from 34.2 percent in FY 2002. Further, in FY 2007, the number of subject investigations initiated from a public source increased to 12.7 percent of total investigations initiated, which is up from 11.5 percent in FY 2006.²⁹

The Division's FY 2008 Annual Business Plan states that the Division will maintain its investigative resources applied to significant legal source tax investigations by continuing to work closely with the other operating divisions to develop and investigate cases on significant tax violators. Doing so will help the IRS' overall efforts to reduce the tax gap. We continue to believe that because investigations generated from internal sources are likely to be legal source income investigations, the Division should remain vigilant when evaluating whether the level of cases initiated from sources external to the IRS maintains a proper balance with stated priorities.

²⁸ See Appendix VI, Report 3.

²⁹ See Appendix V, Figure 8.



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Despite a small drop in acceptance rates, trends in the Fraud Referral Program continue to improve

In response to our prior report on the legal source income tax program,³⁰ the Division committed to taking several steps to enhance its Fraud Referral Program, such as establishing fraud referral coordinator positions in each field office, fostering relationships with other IRS operating divisions, and incorporating language into the managers' performance commitments. As a result of these changes, the Division is increasing the awareness of the Fraud Referral Program. The number of fraud referrals received in FY 2007 increased 1.5 percent from FY 2006 and 16.3 percent from FY 2002. Although the acceptance rate by the Division decreased by 2.9 percent in FY 2007, it has improved by 5.7 percent since FY 2002.³¹ Prosecution recommendations to the Department of Justice based on fraud referrals also increased 2.1 percent in FY 2007 compared to FY 2006. In addition, the number of subjects sentenced for a crime increased 18.3 percent for the same period.

Because fraud referrals remain a viable and important source of legal source income tax investigations, we are encouraged by the recent results of the Fraud Referral Program. Notwithstanding small declines in FYs 2004 and 2006, the annual number of referrals received has increased, trending to a near all-time high in FY 2007. We believe that the Division and other operating divisions should continue to emphasize the importance of these types of investigations as they relate to tax administration and the IRS' efforts to improve voluntary compliance.

³⁰ See Appendix VI, Report 1.

³¹ See Appendix V, Figure 9.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide statistical information and trend analyses of the Criminal Investigation Division's (the Division) enforcement activities for FYs 2000 through 2007.

To accomplish our objective, we reviewed the IRS data publications and data from the Criminal Investigation Management Information System (CIMIS)¹ to analyze and identify trends. We relied on information accumulated by the IRS and the Division in established reports and the CIMIS and did not verify the accuracy of the information. The major issues we focused on included:

- Special Agent Staffing.
- Investigation Initiations.
- Open Investigations.
- Pipeline Investigations.
- Investigation Closures.
- Investigations Referred for Prosecution.
- Subsequent Legal Actions.
- Compliance Strategy Programs.

¹ See Appendix IV for a glossary of terms.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Director, Operations Policy and Support, Criminal Investigation SE:CI:OPS
Director, Strategy, Criminal Investigation SE:CI:S
Chief Counsel CC
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Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Director, Planning and Strategy, Criminal Investigation SE:CI:S:PS



Appendix IV

Glossary of Terms

Business Performance Review – A quarterly review by the Criminal Investigation Division (the Division) to report on its performance measures, business results, employee and customer satisfaction, and other items of importance.

Compliance Strategy Program – The Division's organizational strategy comprised of three interdependent program areas: Legal Source Tax Crimes, Illegal Source Financial Crimes, and Narcotics-Related Financial Crimes.

Computer Investigative Specialist (CIS) – An experienced special agent with excellent financial investigative skills and knowledge of accounting and legal principles. A CIS agent completes a standardized course study in computer evidence recovery and analysis. The mission of the CIS agent position is to serve as an investigator who contributes computer expertise to criminal investigations. A CIS agent is a member of his or her respective field office and should be used exclusively for CIS agent assignments.

Criminal Investigation Management Information System – A database that tracks the status and progress of criminal investigations and the time expended by special agents.

Cycle Time – Elapsed calendar days on completed investigations.

Direct Investigative Time – Time spent by special agents conducting investigations and other law enforcement activities.

Discontinued Investigation – A subject investigation that resulted in a determination that there was no prosecution potential.

Electronic Crimes Program – A program established as a formal organizational component of the Division in 2001 providing guidance and resources in securing, documenting, processing, maintaining, and presenting digital evidence in support of IRS criminal investigations.

Elapsed Days – The number of days between the initiation of a subject investigation and another date, such as the date discontinued or date referred for prosecution.

Electronic Fraud Detection System – The primary computer system used by the Division that greatly enhances its ability to identify and stop fraudulent filings.

Field Special Agent – A special agent in one of the Division's 29 field offices.

Fraud Detection Center – The Division organization responsible for identifying and detecting refund fraud, preventing the issuance of false refunds, and providing support for the Division field offices.



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Fraud Referral Program – A program designed to partner between the Division and IRS operating divisions to promote fraud awareness and assist with fraud training.

Grand Jury Investigation – Investigation conducted through the use of a Federal grand jury to determine whether a subject should be charged with a crime. Use of the Federal grand jury to investigate the potential crime(s) may be initiated by the Division or by an attorney for the Federal Government.

Illegal Source Financial Crimes – Crimes involving illegally earned income. They include crimes involving money laundering, 18 United States Code (U.S.C.) Sections (§§) 1956 and 1957; sections of U.S.C. Title 31, Money and Finance; and U.S.C. Title 26 violations investigated in conjunction with other agencies.

Inventory per Special Agent – The number of open subject investigations divided by the number of field special agents whose salary grade level is 13 or below and who have various position descriptions, including those of coordinator and reviewer.

IRS Data Book – A publication that provides information on activities conducted by the IRS such as taxes collected, enforcement, taxpayer assistance, budget, workforce, and other selected activities.

IRS Oversight Board – A nine-member independent body charged to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the Internal Revenue laws and to provide experience, independence, and stability to the IRS so it might move forward in a cogent, focused direction.

Legal Source Tax Crimes – Crimes involving legal industries and occupations and legally earned income.

Narcotics-Related Financial Crimes – Crimes involving tax and money laundering related to narcotics and drug trafficking.

Pipeline Inventory – A subject investigation that has been recommended for prosecution and the subject has not been convicted or acquitted, or the investigation has not been dismissed. It excludes investigations in which the subject became a fugitive after indictment.

Primary Investigation – An evaluation of an allegation that an individual or entity is in noncompliance with the Internal Revenue laws and related financial crimes.

Processing Year – Refers to the year in which taxpayers file their tax returns at the Submission Processing sites. Generally, returns for Tax Year 2005 were processed during Calendar Year 2006, although returns for older years were also processed in Calendar Year 2006.

Questionable Refund Program – A nationwide, multi-divisional program designed to identify fraudulent returns, stop the payment of fraudulent refunds, and refer identified fraudulent refund schemes to the Division's field offices.



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Referred for Prosecution – A subject investigation that resulted in the determination of prosecution potential referred to the Department of Justice or to a United States Attorney's Office.

Return Preparer Program – A program that pursues unscrupulous return preparers who knowingly claim excessive deductions and exemptions on returns prepared for clients. The clients might or might not have knowledge of the false claims.

Special Agent – A Division law enforcement employee who investigates potential criminal violations of the Internal Revenue laws and related financial crimes.

Subject Investigation – An investigation of an individual or entity alleged to be in noncompliance with the laws enforced by the IRS and having prosecution potential.

Subject Seizure Investigation – An investigation to locate and seize assets that are subject to seizure or forfeiture under various U.S.C. titles and sections such as 26 U.S.C. § 7302 or 18 U.S.C. §§ 981, 982, or 984.

Tax-Related Violation – A violation involving Title 26, Title 33 sections, or one of the following Title 18 sections: § 286, § 287, § 371, or § 514 associated with a Title 26 violation, or § 371 associated with a Title 26 and a Title 31 violation.

Title 18 – U.S.C. Title 18, Crimes and Criminal Procedure. Various sections of Title 18 apply to violations that are within the jurisdiction of the Division. Examples include § 286, Conspiracy to Defraud the Government with Respect to Claims; § 287, False, Fictitious, or Fraudulent Claims; § 371, Conspiracy to Commit Offense or to Defraud United States; and §§ 1956 and 1957, Laundering of Monetary Instruments and Engaging in Monetary Transactions in Property Derived from Specified Unlawful Activity. The most common section investigated under this statute is money laundering.

Title 26 – U.S.C. Title 26, Internal Revenue Code.

Title 31 – U.S.C. Title 31, Money and Finance. Several sections of Title 31 apply to violations that are within the jurisdiction of the Division. Examples include § 5322, Criminal Penalties (for willful violations of Title 31 sections), and § 5324, Structuring Transactions to Evade Reporting Requirement Prohibited.

Title 33 – U.S.C. Title 33, Taxation and Finance–Virgin Islands. Several sections of Title 33 apply to violations that are within the jurisdiction of the Division. Examples include § 1521, Attempt to Evade or Defeat Tax; § 1522, Conspiracy to Evade or Defeat Tax; and § 1523, Willful Failure to Collect or Pay Over Tax.



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¹ See Appendix IV for a glossary of terms.



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Figure 18 – Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes..... Page 27

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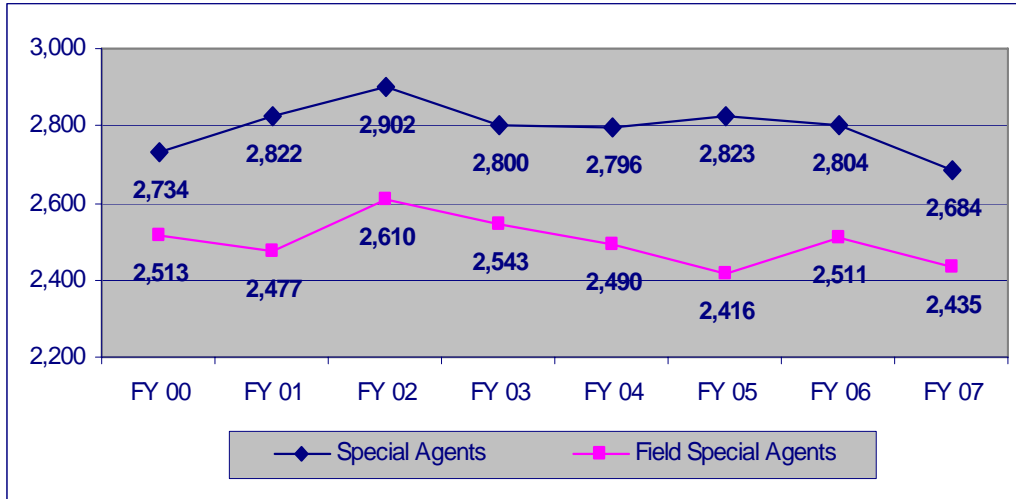
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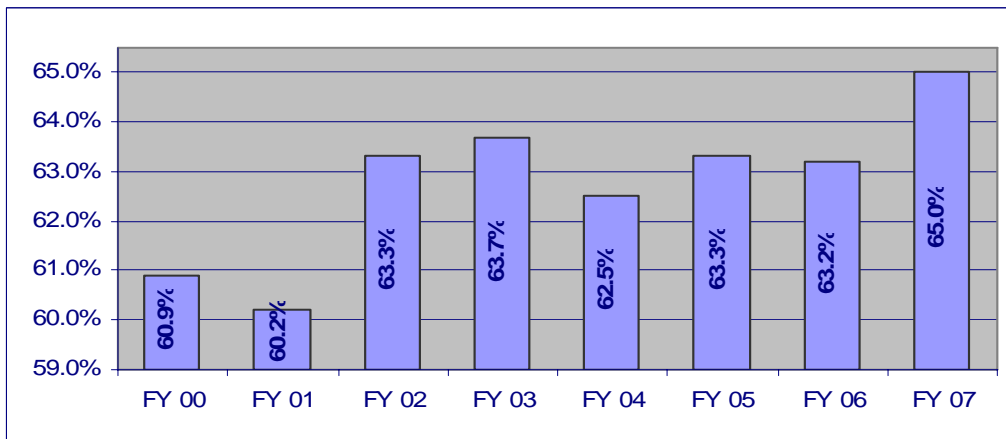
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 1: Special Agent and Field Special Agent Staffing at the End of Each Fiscal Year.



Source: The Criminal Investigation Division's (the Division) analysis of staffing information.

Figure 2: Special Agent Direct Investigative Time Expended Each Fiscal Year.²



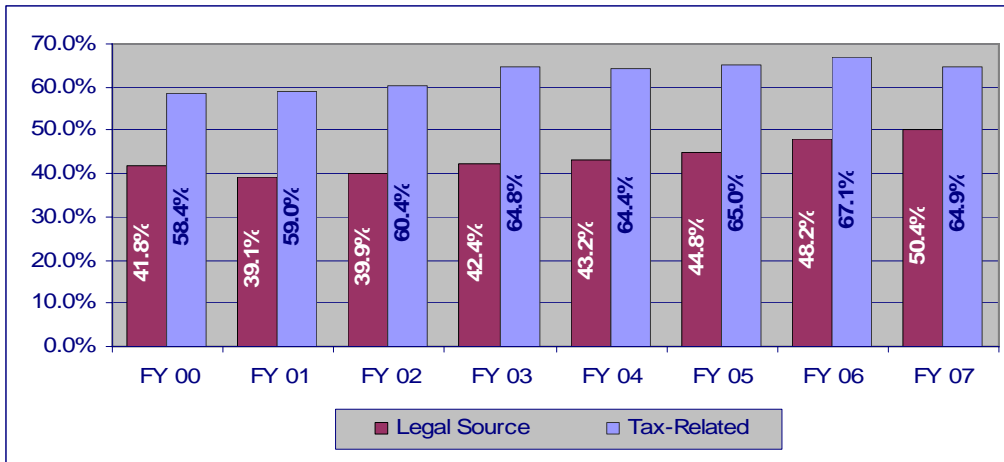
Source: The Division's analysis of direct investigative time information for FYs 2000 through 2002 and CIMIS Report INV001 (Criminal Investigation Summary Statistics) for FYs 2003 through 2007.

² In FY 2006, the Division revised its calculation formula for direct investigative time on tax and tax-related investigations. Therefore, the numbers reflected in Figure 2 might not agree with those in prior reports.



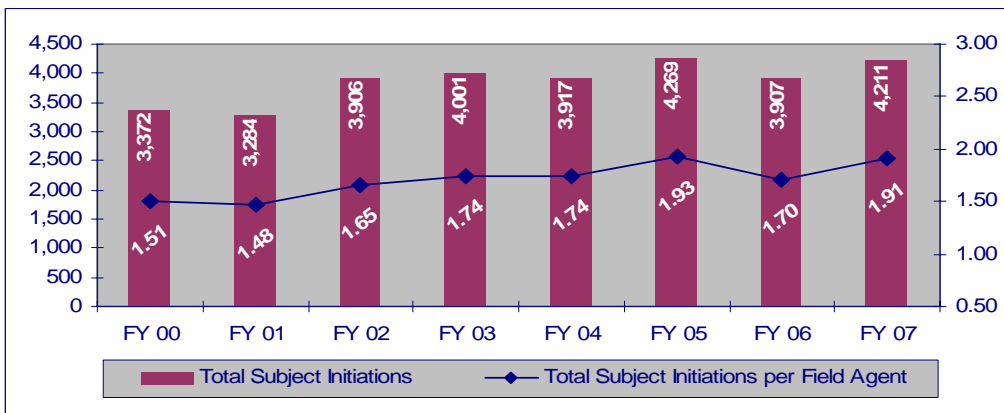
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 3: Percentage of Direct Investigative Time Spent on Legal Source and Tax-Related Investigations Each Fiscal Year.^{3,4}



Source: The Division's BPR reports for FYs 2000 through 2006 and CIMIS Report INV001 (Criminal Investigation Summary Statistics) for FY 2007.

Figure 4: Number of Subject Investigations Initiated and the Number Initiated per Field Agent Each Fiscal Year.



Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005, CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007, and our analysis based on the number of field special agents provided by the Division.

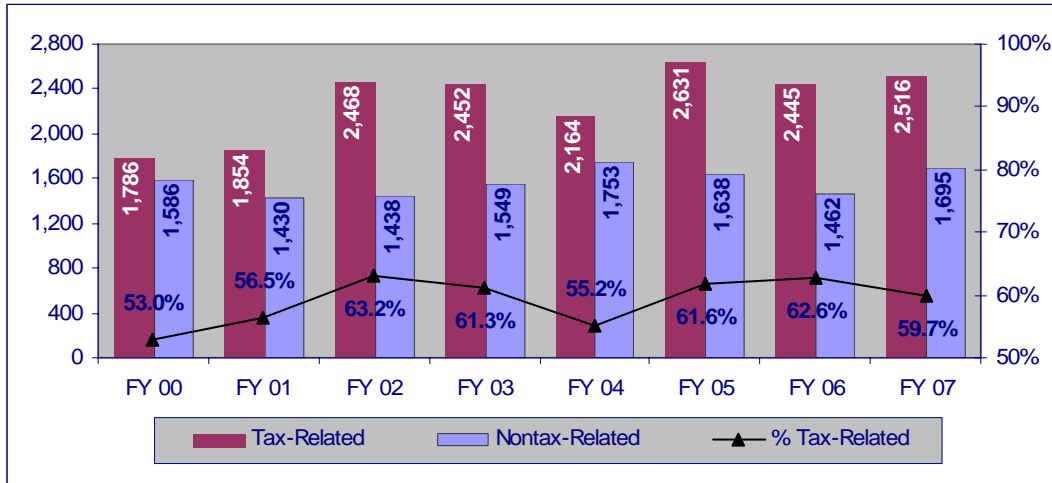
³ In FY 2006, the Division revised its calculation formula for direct investigative time on tax and tax-related investigations. Therefore, the numbers reflected in Figure 3 might not agree with those in prior reports.

⁴ Totals do not add up to 100 percent because tax-related cases include all legal and some illegal source investigations.



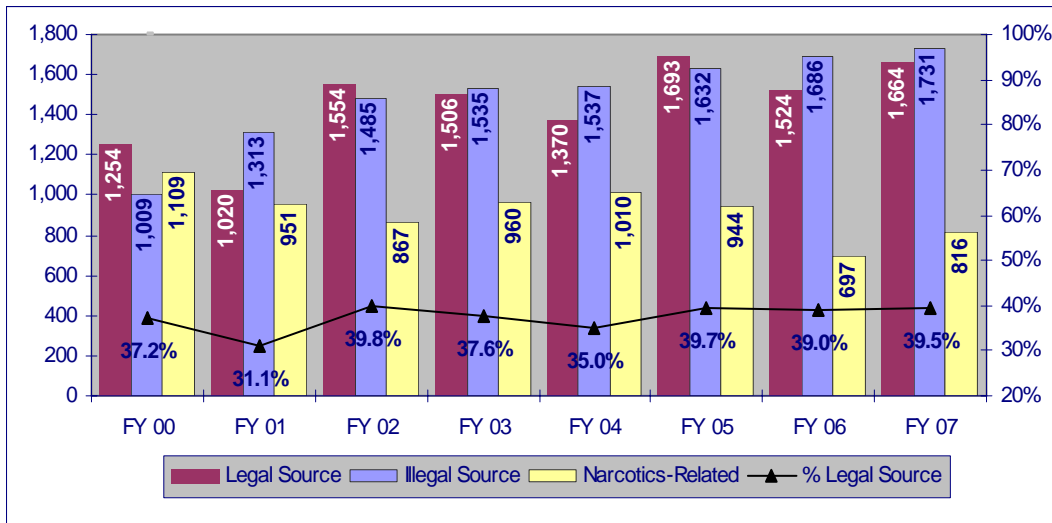
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 5: Number of Subject Investigations Initiated Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.



Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.

Figure 6: Number of Subject Investigations Initiated Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.

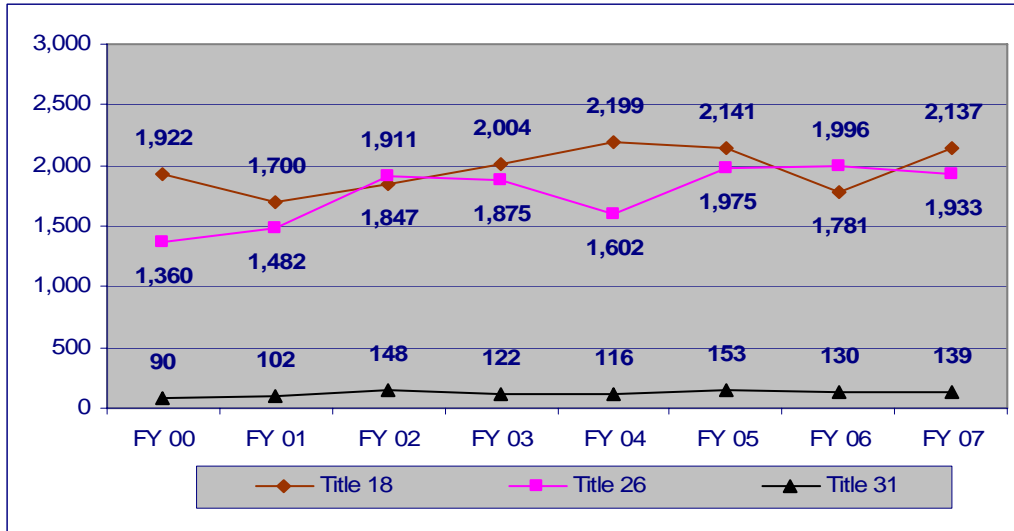


Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.



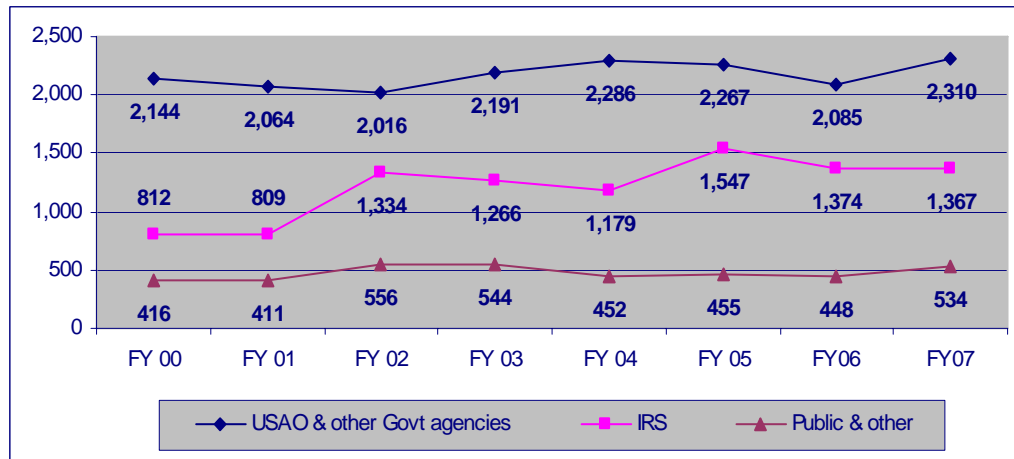
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 7: Number of Subject Investigations Initiated Each Fiscal Year by Principle United States Code Title.



Source: CIMIS Report 11 (Program Summary Analysis) and the Division's analysis of the CIMIS.

Figure 8: Number of Subject Investigations Initiated Each Fiscal Year by Source of the Allegation or Information. IRS sources include fraud referrals from the compliance divisions, investigations developed by the Fraud Detection Centers and Lead Development Centers, and currency transactions.

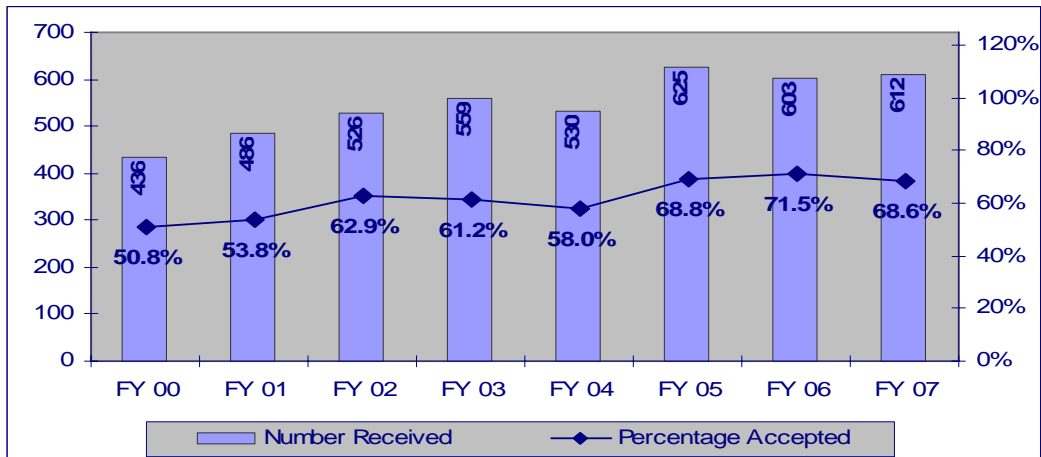


Source: Our analysis of the CIMIS and CIMIS Report 11 (Program Summary Analysis) for FYs 2000 through 2005 and the Division's analysis of the CIMIS for FYs 2006 and 2007. USAO = United States Attorney's Offices.



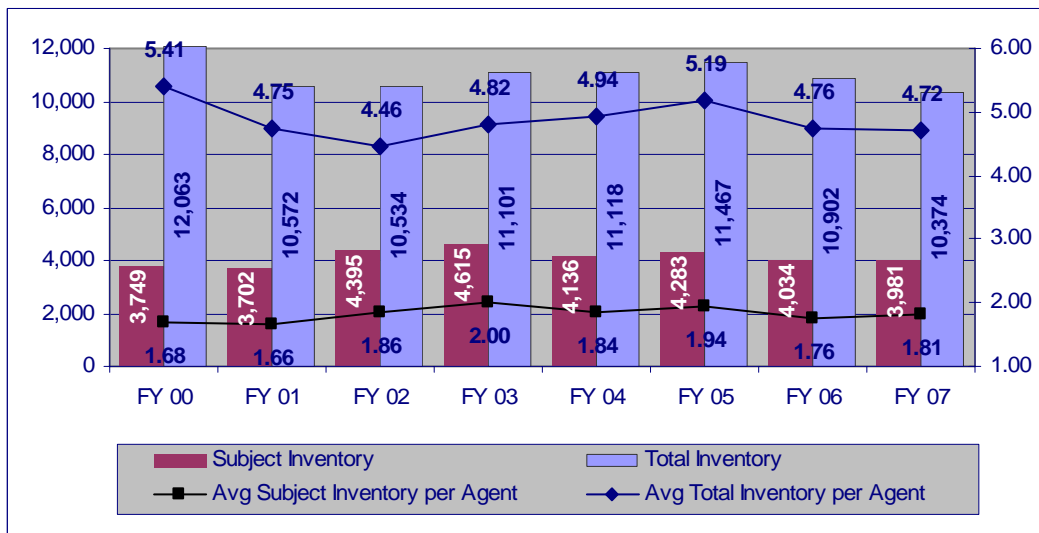
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 9: Number of Fraud Referrals Received Each Fiscal Year and the Percentage Accepted.



Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV001 (Criminal Investigation Summary Statistics) for FYs 2006 and 2007.

Figure 10: Number of Open Subject Investigations and the Total of All Investigations at the End of Each Fiscal Year and the Average Number of Each per Special Agent.⁵



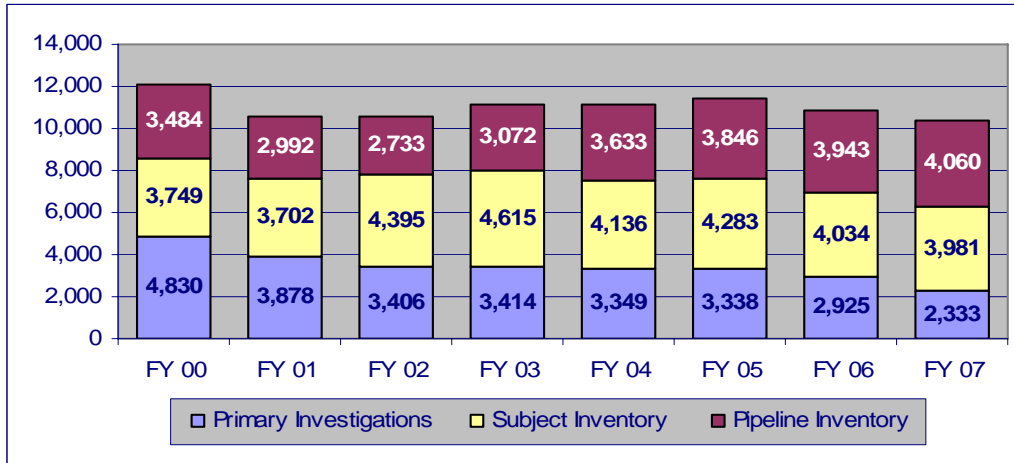
Source: The Division's analysis of the CIMIS.

⁵ During FY 2006, the Division revised its formula for determining total inventory. The new formula does not include subject seizure investigations or open primary investigations if they had a corresponding subject investigation. As a result, the inventory numbers reported in Figure 10 for prior fiscal years changed and might not agree with those in our prior reports. Total inventory includes primary investigations not yet elevated to subject investigations, open subject investigations currently being worked in field offices, and subject investigations referred for prosecution (pipeline).



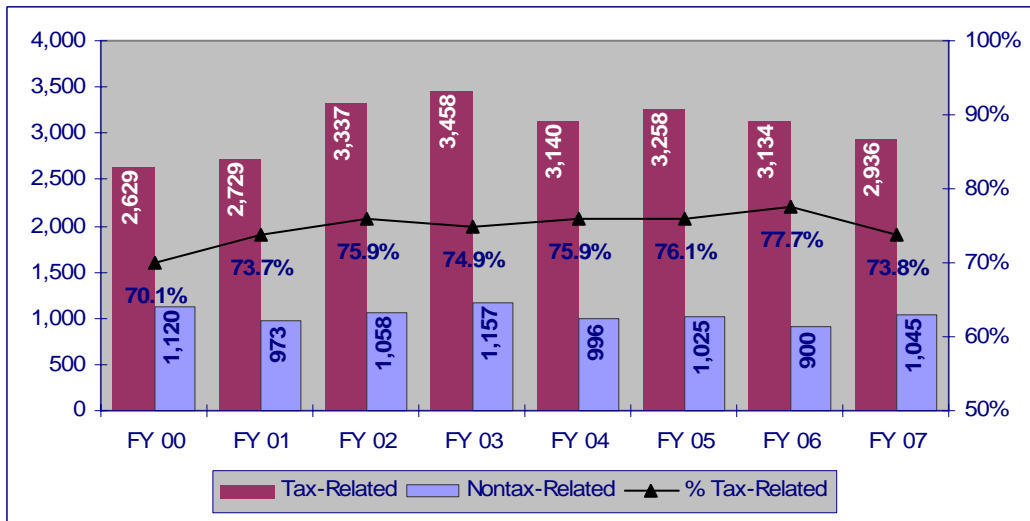
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 11: Number of All Types of Investigations Open at the End of Each Fiscal Year.⁶



Source: The Division's analysis of the CIMIS.

Figure 12: Number of Open Subject Investigations Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.



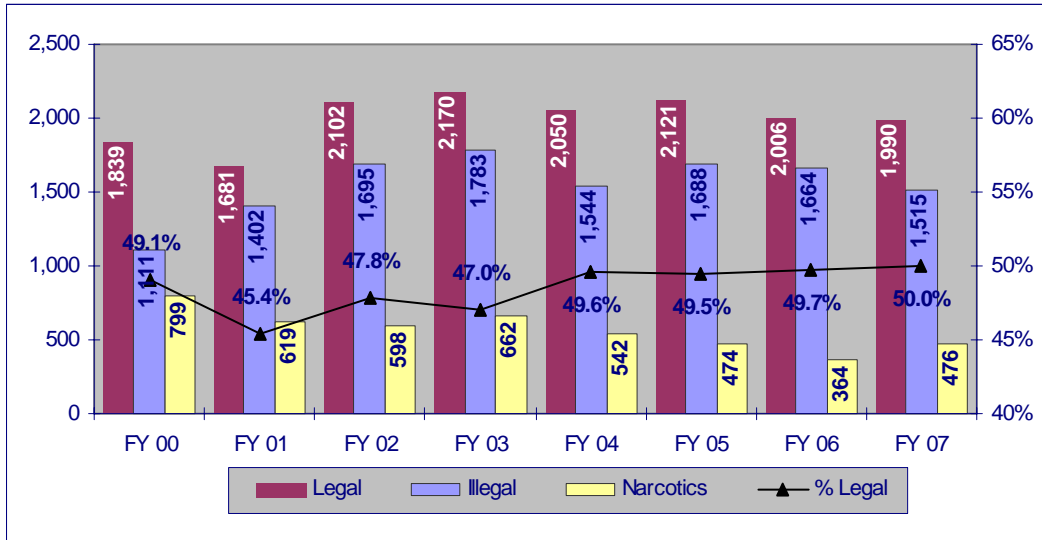
Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.

⁶ During FY 2006, the Division revised its formula for determining total inventory. The new formula does not include subject seizure information or open primary investigations if they had a corresponding subject investigation. As a result, the inventory numbers reported in Figure 11 for the prior fiscal years changed and might not agree with those in our prior reports. Total inventory includes primary investigations not yet elevated to subject investigations, open subject investigations currently being worked in field offices, and subject investigations referred for prosecution (pipeline).



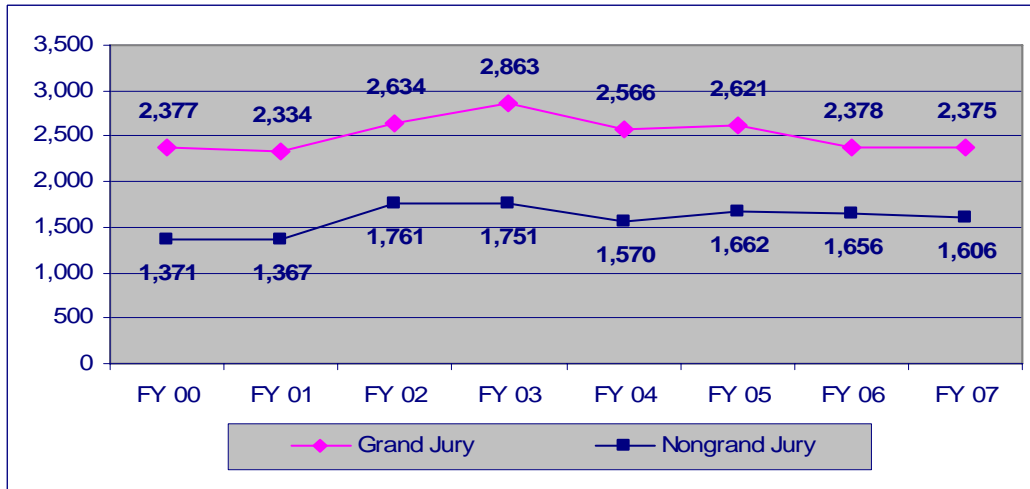
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 13: Number of Open Subject Investigations Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.



Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.

Figure 14: Number of Open Subject Investigations at the End of Each Fiscal Year by Type of Investigation (Grand Jury or Nongrand Jury).

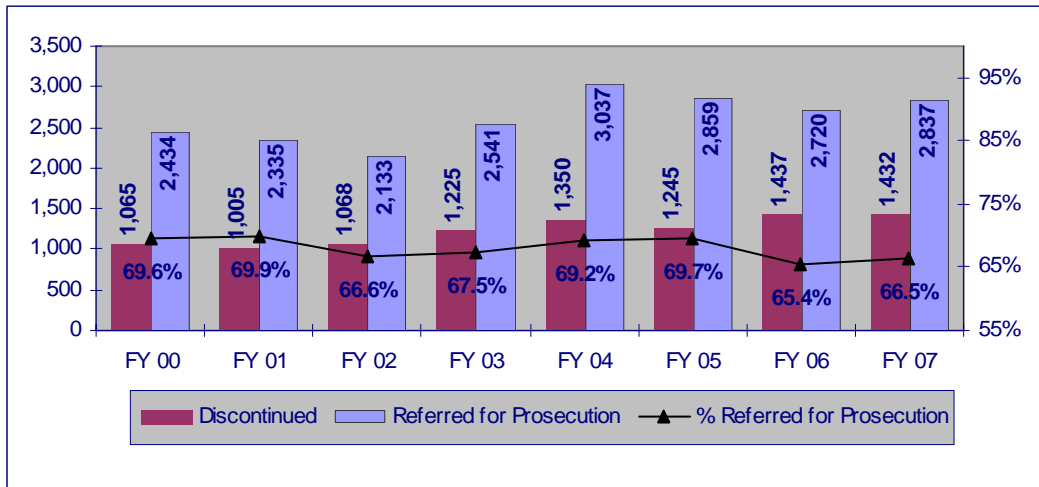


Source: CIMIS Report 11 (Program Summary Analysis) for FYs 2000 through 2007 and the Division's analysis of the CIMIS.



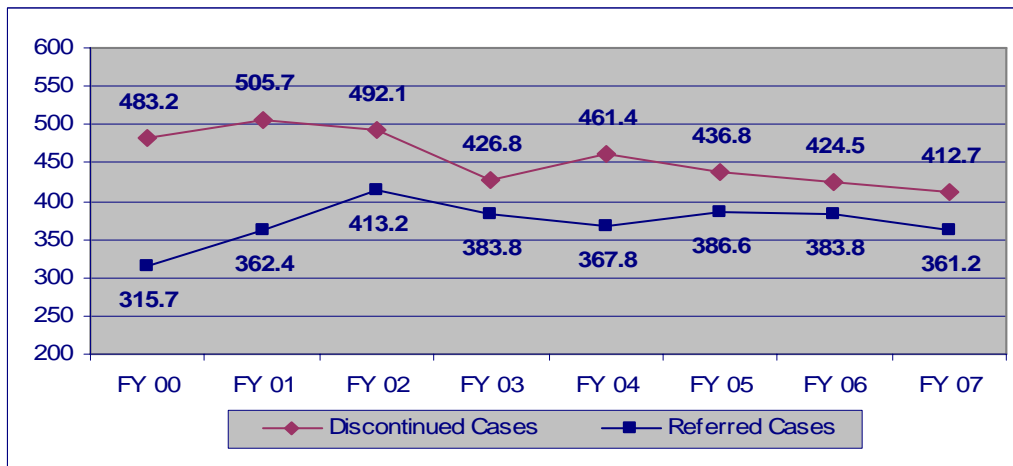
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 15: Number of Subject Investigations Discontinued or Referred for Prosecution Each Fiscal Year and the Percentage Referred for Prosecution.



Source: *The IRS Data Books (Publication 55B) for FYs 2000 through 2004, CIMIS Report 11 (Program Summary Analysis) for FY 2005, and CIMIS Report INV001 (Criminal Investigation Summary Statistics) for FYs 2006 and 2007.*

Figure 16: Average Elapsed Days of Subject Investigations Discontinued and Referred for Prosecution Each Fiscal Year.⁷



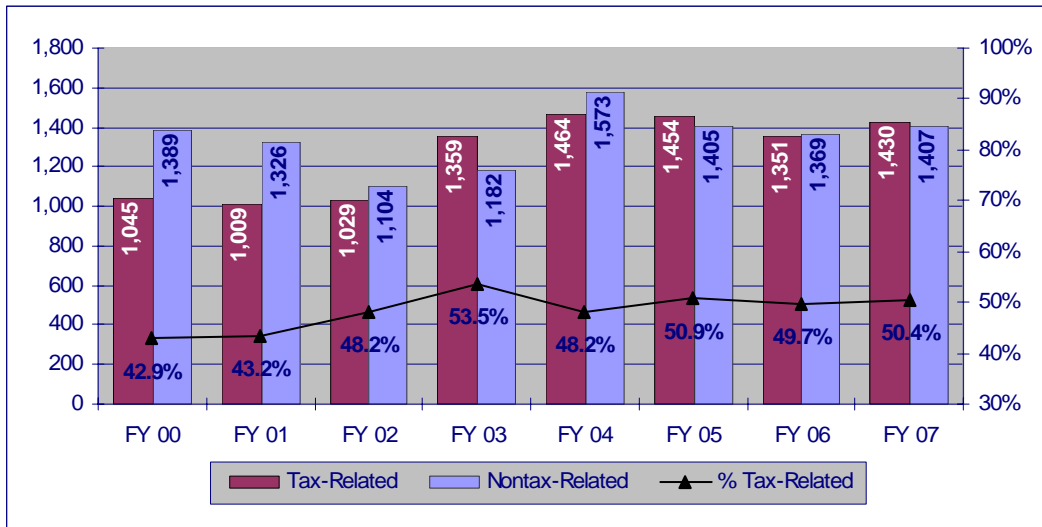
Source: *The Division's analysis of the CIMIS.*

⁷ The Division revised its calculation formula in FY 2006 to include discontinued investigations that had been closed due to lack of resources. As a result, the numbers reported in Figure 16 for prior fiscal years might have changed and might not agree with those in our prior reports.



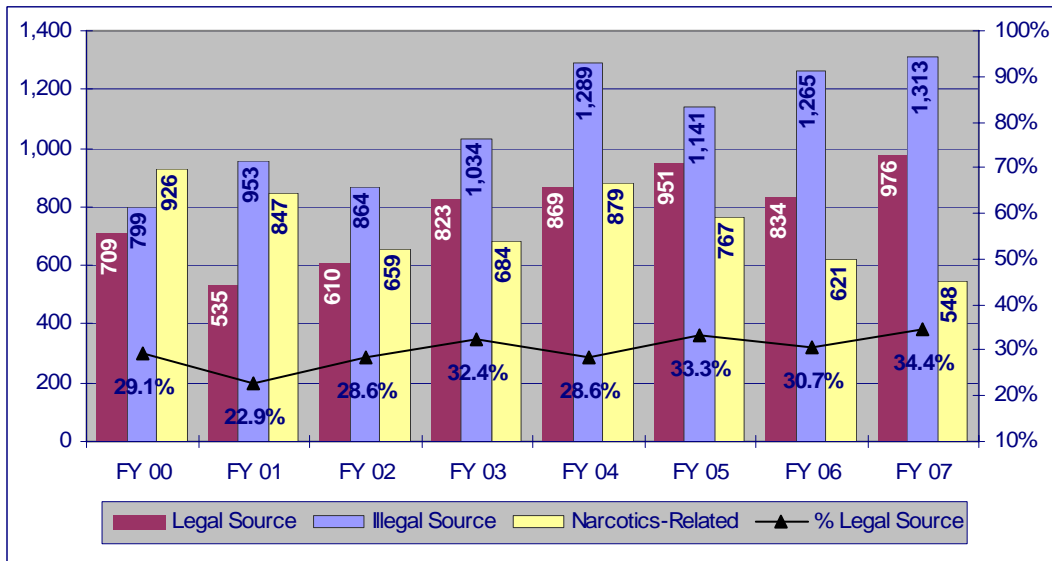
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 17: Number of Subject Investigations Referred for Prosecution Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.



Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.

Figure 18: Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.

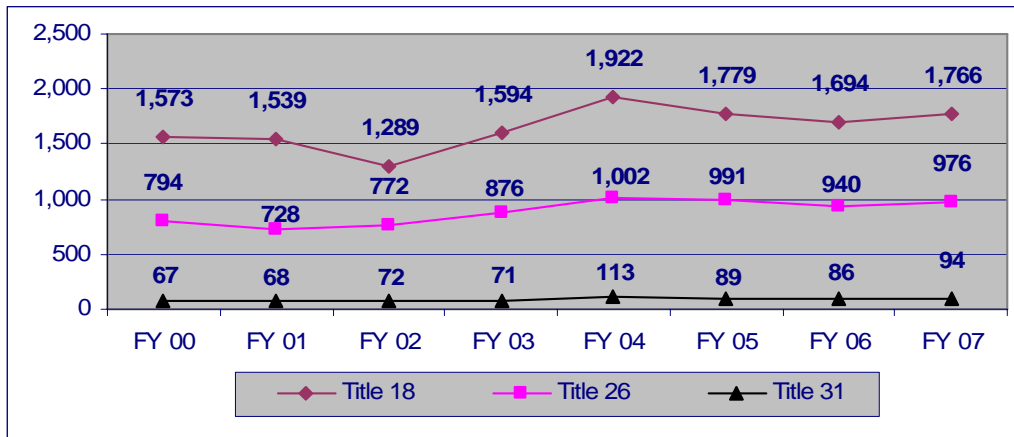


Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.



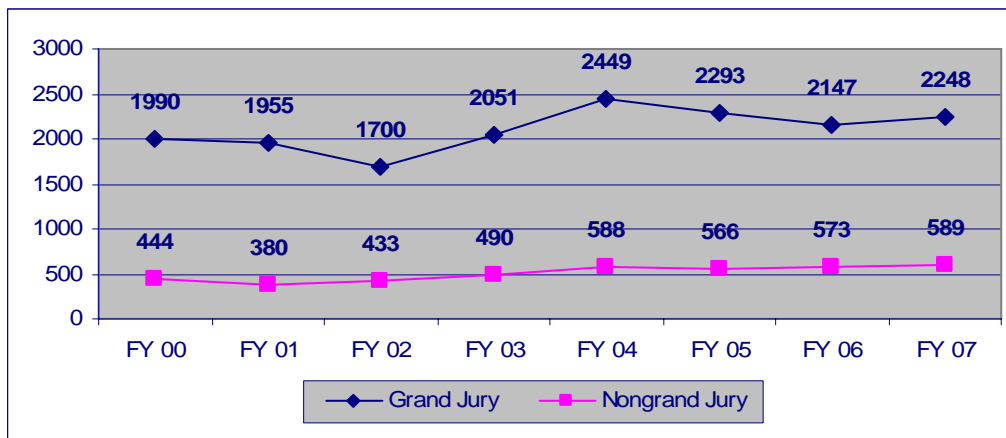
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 19: Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Principle United States Code Title.



Source: CIMIS Report 11 (Program Summary Analysis) for FYs 2000 through 2005 and the Division's analysis of the CIMIS for FYs 2006 and 2007.

Figure 20: Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Type of Investigation (Grand Jury or Nongrand Jury Investigation).

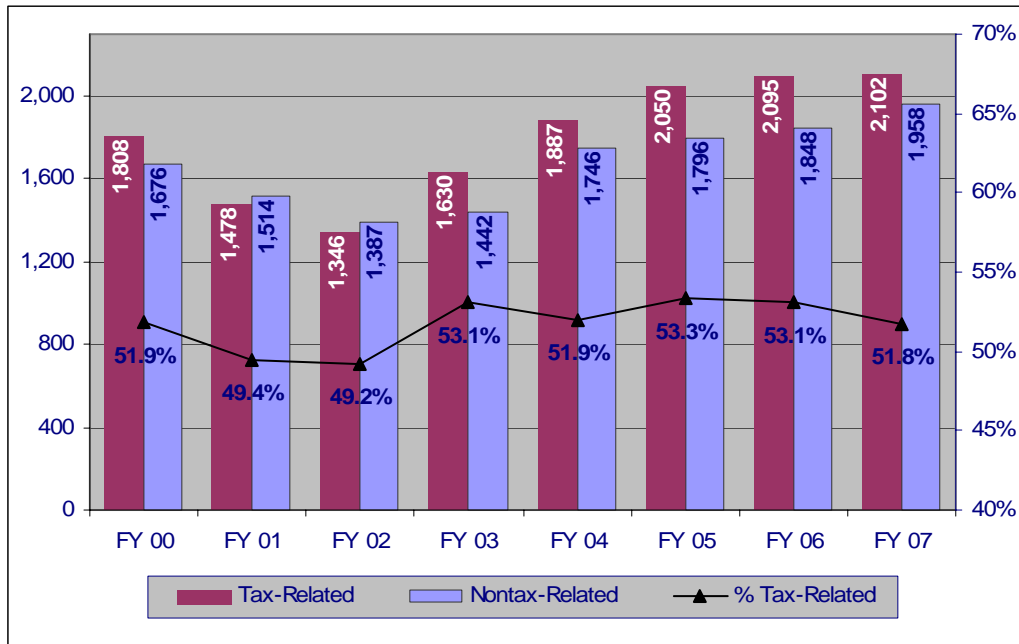


Source: CIMIS Report 11 (Program Summary Analysis) for FYs 2000 through 2005 and the Division's analysis of the CIMIS for FYs 2006 and 2007.



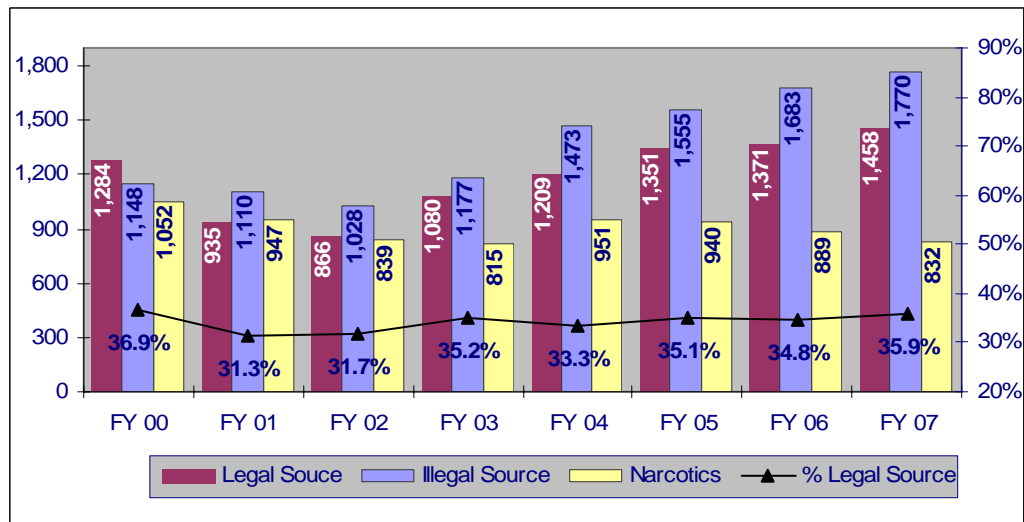
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 21: Number of Tax-Related and Nontax-Related Subject Investigations in the Pipeline Each Fiscal Year and the Percentage That Is Tax-Related.



Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.

Figure 22: Number of Subject Investigations in the Pipeline Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.

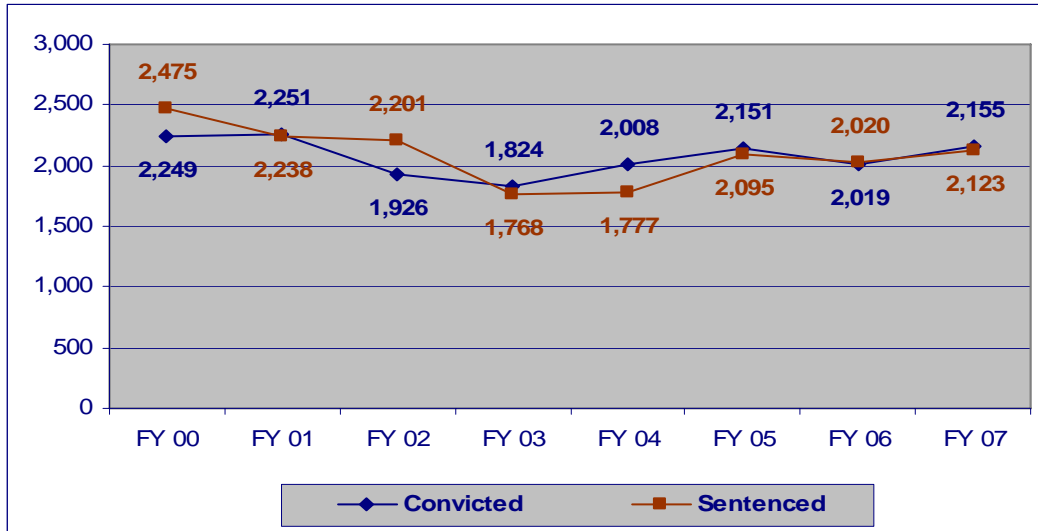


Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.



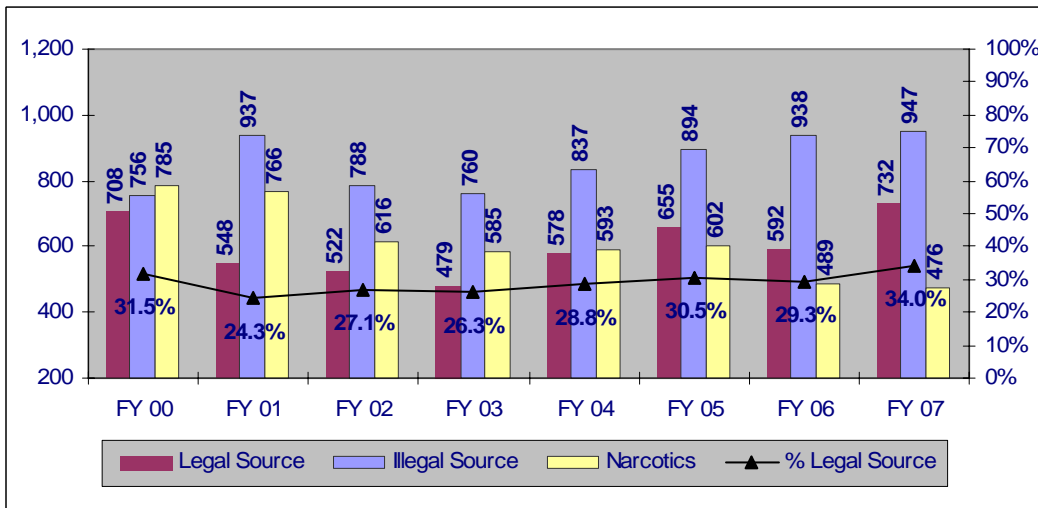
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 23: Number of Subjects Convicted and Sentenced for a Crime Each Fiscal Year.



Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.

Figure 24: Number of Subjects Convicted of a Crime Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.

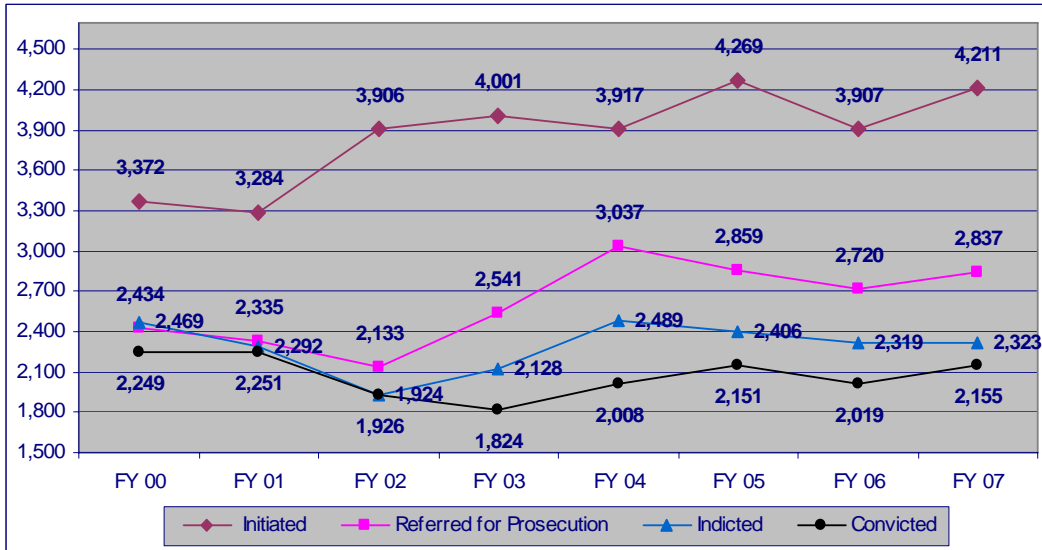


Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.



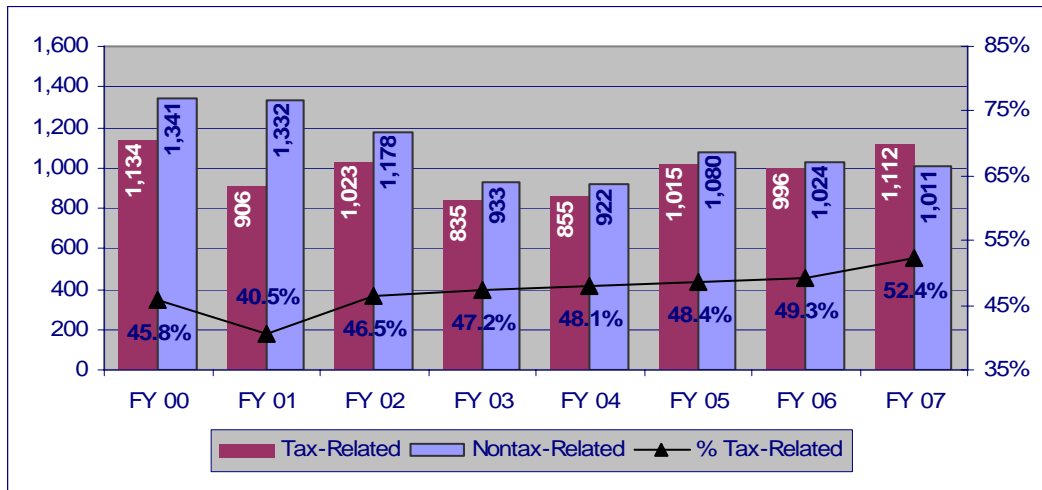
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 25: Number of Subject Investigations Initiated, Referred for Prosecution, Indicted, and Convicted Each Fiscal Year. Because actions on a specific investigation might cross fiscal years, the data shown in investigations initiated might not always represent the same universe of investigations shown in other actions within the same fiscal year.



Source: *The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and CIMIS Report INV001 (Criminal Investigation Summary Statistics) for FYs 2006 and 2007.*

Figure 26: Number of Subjects Sentenced for a Crime Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.

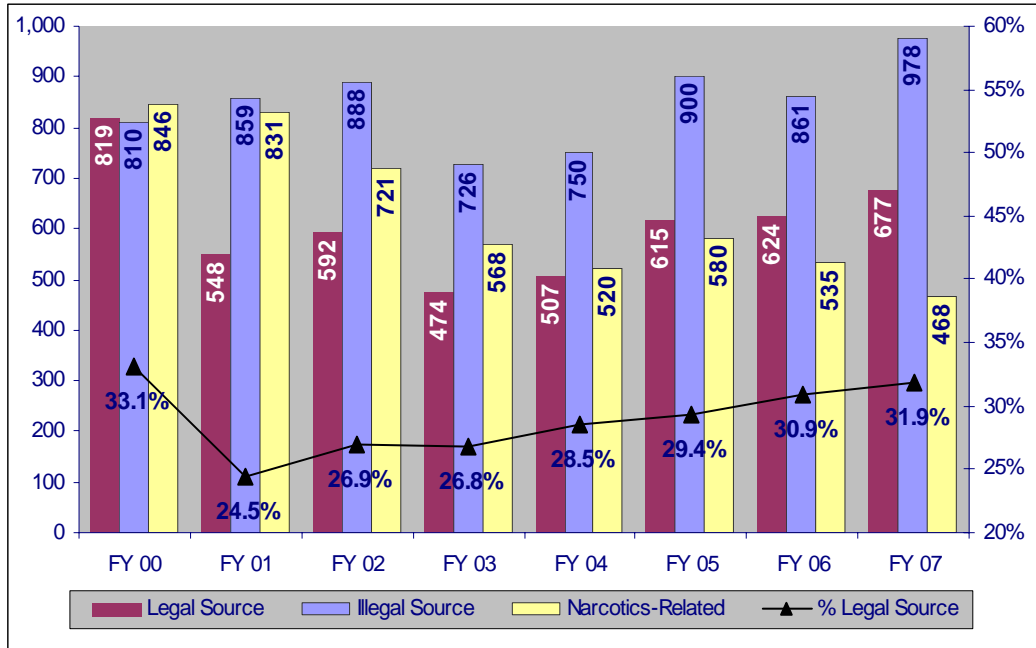


Source: *Division enforcement statistics from the IRS Internet web site (IRS.gov) for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.*



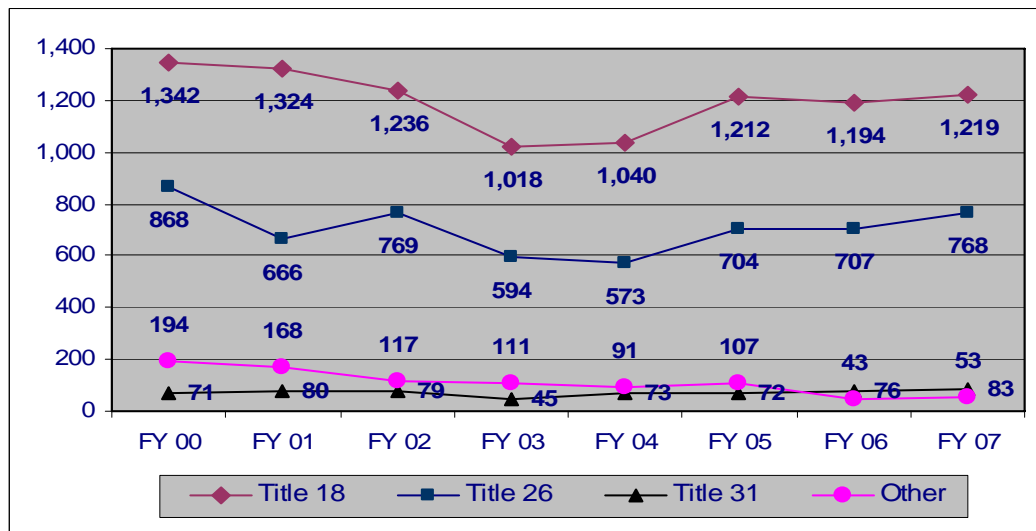
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 27: Number of Subjects Sentenced for a Crime Each Fiscal Year by Compliance Strategy Program, and the Percentage That Is Legal Source Tax Crimes.



Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.

Figure 28: Number of Subjects Sentenced for a Crime Each Fiscal Year by Principle United States Code Title.

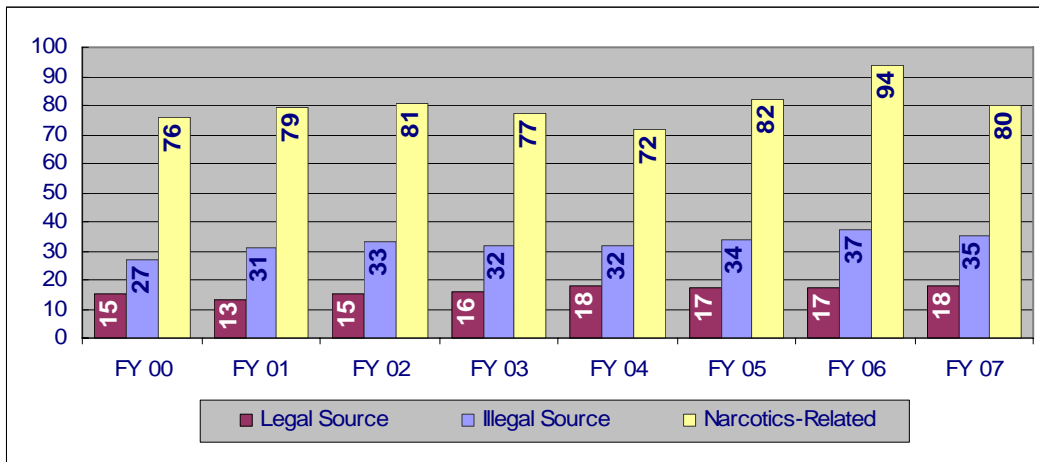


Source: CIMIS Report 11 (Program Summary Analysis) for FYs 2000 through 2005 and the Division's analysis of the CIMIS for FYs 2006 and 2007.



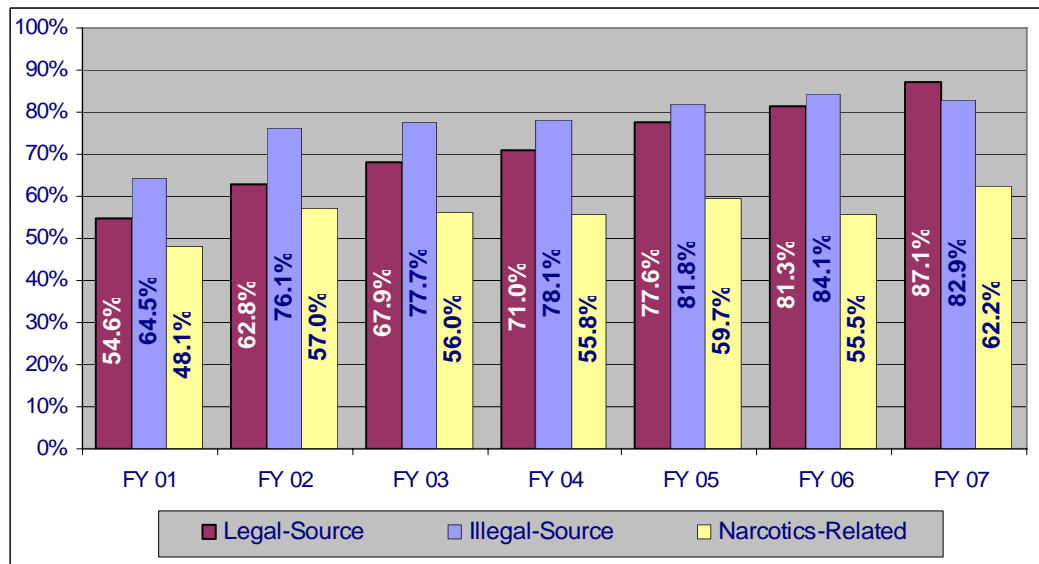
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 29: Average Number of Months a Subject Is Incarcerated Each Fiscal Year by Compliance Strategy Program. Incarcerated can include prison time, home confinement, electronic monitoring, or a combination thereof.



Source: The Division's analysis of the CIMIS for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 and 2007.

Figure 30: Percentage of Investigations That Received Publicity Each Fiscal Year by Compliance Strategy Program.

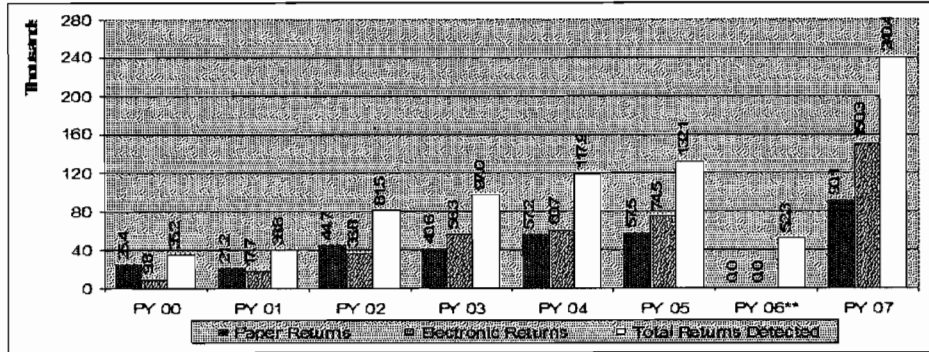


Source: The Division's BPR reports.



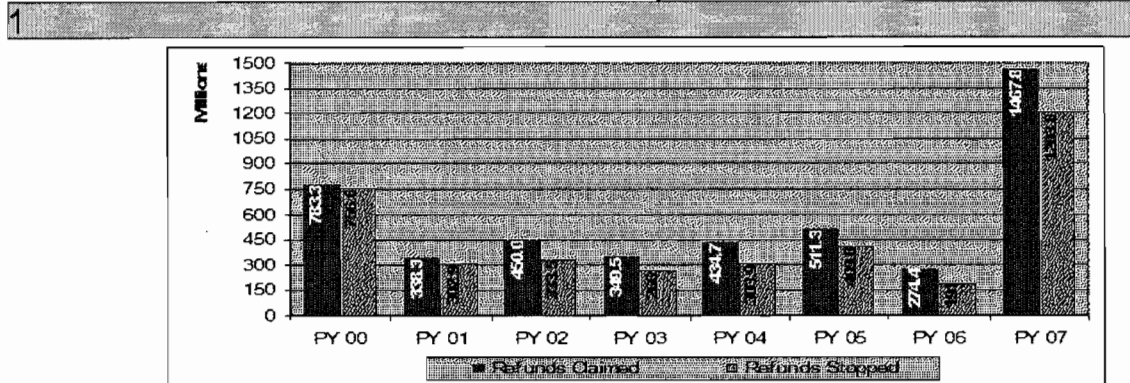
Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007

Figure 31: Number of Paper and Electronic Returns Determined to Be Fraudulent or Potentially Fraudulent by the Division's Questionable Refund Program.⁸



Source: The Division's Office of Refund Crimes.

Figure 32: Dollar Amounts of Fraudulent Refunds Identified and Stopped by the Division's Questionable Refund Program. PY 2000 includes a refund fraud scheme involving 1,672 tax returns with more than \$215 million in false refunds claimed, more than \$214 million of which were stopped.



Source: The Division's Office of Refund Crimes

⁸ Because the Electronic Fraud Detection System was unavailable in PY 2006, the Division advised us that it was unable to calculate the number of electronic and paper returns for PY 2006. As a result, the chart presentation for Figure 31 changed from that used in our prior reports to include total returns detected.



Appendix VI

Related Treasury Inspector General for Tax Administration Audit Reports

1. *The Criminal Investigation Function Has Made Progress in Investigating Criminal Tax Cases; However, Challenges Remain* (Reference Number 2005-10-054, dated March 2005).
2. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 2000 Through Fiscal Year 2005* (Reference Number 2006-10-074, dated May 2006).
3. *Actions Have Been Taken to Address Deficiencies in the Questionable Refund Program; However, Many Concerns Remain, With Millions of Dollars at Risk* (Reference Number 2007-10-076, dated May 31, 2007).
4. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 2000 Through Fiscal Year 2006* (Reference Number 2007-10-083, dated June 6, 2007).
5. *While Renowned for Its Forensic Capabilities, the Digital Evidence Program Faces Challenges and Needs More Controls* (Reference Number 2008-10-106, dated April 30, 2008).