



*Statistical Portrayal of the Criminal
Investigation Function's Enforcement
Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

June 6, 2007

Reference Number: 2007-10-083

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.

Phone Number | 202-927-7037

Email Address | Bonnie.Heald@tigta.treas.gov

Web Site | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 6, 2007

MEMORANDUM FOR CHIEF, CRIMINAL INVESTIGATION

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Statistical Portrayal of the Criminal Investigation Function’s Enforcement Activities From Fiscal Year 2000 Through Fiscal Year 2006 (Audit # 200710025)

This report presents the results of our review of statistical information that reflects activities of the Criminal Investigation function (the function). The overall objective of this review was to provide statistical information and trend analyses of the function’s enforcement activities for Fiscal Years (FY) 2000 through 2006. We initiated this review as part of the Treasury Inspector General for Tax Administration’s FY 2007 Annual Audit Plan.

Impact on the Taxpayer

During this annual review, we analyzed information from the function’s management information system reports to determine the trends and changes in the major areas of criminal enforcement. Although some indicators showed an increase in FY 2006, several key performance measures declined, such as the number of criminal investigations initiated or in process and the number of subjects convicted of a crime. There is a need for continued progress in enforcement of criminal tax and tax-related violations to enhance voluntary compliance and foster confidence in the integrity of the tax system.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Synopsis

We previously reported that the function showed improvements in tax-related enforcement from FYs 2004 to 2005.¹ For example, the total numbers of subject investigations² initiated, subjects convicted, and subjects sentenced had increased and the percentage of direct investigative time had increased slightly.

In FY 2006, although the percentage of tax-related subject investigations initiated and the percentage of direct investigative time applied to tax-related subject investigations increased, several key performance measures showed decreases from FY 2005. For example, the number of subject investigations initiated decreased 8.5 percent, the number of subject investigations in open inventory decreased 5.8 percent, the number of subject investigations referred for prosecution decreased 4.9 percent, the number of subjects convicted of a crime decreased 6.1 percent, and the number of subjects sentenced for a crime decreased 3.6 percent.

In addition, the pipeline inventory was at a 6-year high of 3,943 subject investigations, which is almost the same as the number of subject investigations open in inventory. This resulted in the function spending more direct investigative time to prepare these investigations for adjudication instead of initiating new investigations. Concerned with the continued increases in pipeline inventory, the function's Office of Planning and Strategy completed a review of the pipeline inventory. The study determined the pipeline inventory for FYs 2002 through 2005 increased over 40 percent and the United States Attorney's Offices' operational priorities were not optimally aligned with the function's priorities. The Chief, Criminal Investigation, requested that we evaluate whether limited resources at the United States Attorney's Offices will continue to affect the function's pipeline inventory. We have scheduled that review to commence in FY 2007.

In addition, increasing overall special agent staffing remains a challenge as the function continues to lose experienced special agents to attrition faster than it is replacing them. We raised concerns in last year's report that this staffing trend might adversely affect the current levels of and improvements in productivity the function had experienced in FY 2005.³ We believe the flat staffing pattern has partially attributed to the decreases reported for several of the FY 2006 yearend performance measures.

¹ For more information, see Appendix IV, report 3.

² See Appendix V for a glossary of terms used in this report.

³ For more information, see Appendix IV, report 3.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Recommendations

We made no recommendations in this report. However, key Criminal Investigation function management officials reviewed the report prior to its issuance and provided written comments to add perspective on areas such as the function's legal source program and direct investigative time relating to narcotics-related investigations. In addition, the response requested we remove several paragraphs that the function did not believe were relevant to the FY 2006 statistical accomplishments. However, we disagree and believe these areas give perspective to the reader on Congressional concerns in areas that can affect the function's future accomplishments in the Questionable Refund Program area. Management's complete response to the discussion draft report is included as Appendix VII.

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 Program), at (202) 622-8500.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Table of Contents

BackgroundPage 1

Results of ReviewPage 3

 Several Key Performance Measures Declined in Fiscal Year 2006 Page 3

 Challenges Remain to Complete Investigations and Reduce
 Pipeline InventoryPage 4

 Declining Trends Related to Legal Source Income Tax and
 Tax-Related Investigations Cause ConcernPage 6

 Challenges Remain to Increase the Number of Special AgentsPage 8

 Congressional Concerns About the Criminal Investigation Function's
 Questionable Refund Program ContinuePage 9

 Investigations Initiated From External Sources Increased SlightlyPage 10

Appendices

 Appendix I – Detailed Objective, Scope, and MethodologyPage 13

 Appendix II – Major Contributors to This ReportPage 14

 Appendix III – Report Distribution ListPage 15

 Appendix IV – Related Treasury Inspector General for Tax
 Administration Audit ReportsPage 16

 Appendix V – Glossary of TermsPage 17

 Appendix VI – Detailed Charts of Statistical InformationPage 20

 Appendix VII – Management's Response to the
 Discussion Draft ReportPage 39



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Abbreviations

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



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Background

In 1999, overall Internal Revenue Service (IRS) enforcement activities began to erode, and a survey conducted in 2003 indicated 17 percent of the survey population believed it was acceptable to cheat on their taxes. 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 2006 Taxpayer Attitude Survey conducted by the IRS Oversight Board¹ indicated there is now stronger taxpayer support for compliance. Approximately 86 percent of those participating in the Survey agreed that it is “not at all” acceptable to cheat on their income taxes. In addition, 63 percent were in favor of additional funding so the IRS can enforce the tax laws and ensure taxpayers pay what they owe.

The IRS Strategic Plan for Fiscal Years (FY) 2005 to 2009 provides that enforcing tax compliance, both civilly and criminally, is critical to maintaining the 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 owed and paid).

The Criminal Investigation function (the function) has the authority to investigate criminal tax violations. The vigorous enforcement of criminal statutes within the function’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 function’s jurisdiction to also cover offenses under money-laundering and currency-reporting statutes.² Accordingly, the function has been investigating tax violations involving both legal and illegal sources of income, including those involving organized crime and narcotics.

In April 1999, Judge William Webster issued a report³ on his review of the function’s operations and concluded the function had drifted away from its primary mission of investigating criminal violations of the Internal Revenue Code (United States Code [U.S.C.] Title 26). Judge Webster recommended the function refocus on its primary mission of investigating criminal violations of the internal revenue laws.

¹ See Appendix V for a glossary of terms used in this report.

² United States Code (U.S.C.) Title 18 Sections (§§) 1956 and 1957 (2004) and U.S.C. Title 31 (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.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

The function addressed many of the Webster Report concerns by creating a revised mission statement, developing a compliance strategy designed to guide the function to develop and investigate 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. Function executives continue to emphasize the importance of developing and investigating those cases that have the greatest effect on tax administration, whether the sources of income in those investigations are derived from legal or illegal industries.

We initiated this review as part of the Treasury Inspector General for Tax Administration's FY 2007 Annual Audit Plan. While our trend analyses covered FYs 2000 through 2006, our report concentrates on providing a perspective for the 2 most current fiscal years.

Our data analyses were performed in the Treasury Inspector General for Tax Administration Chicago, Illinois, office during the period January 2007 through March 2007 using data accumulated by the function. The audit was conducted in accordance with *Government Auditing Standards*. However, we relied on information accumulated by the function and did not verify its accuracy. Much of the data in this report were updated from our prior report on criminal enforcement trends.⁴ 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 VI.

⁴ For more information, see Appendix IV, report 3.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Results of Review

Several Key Performance Measures Declined in Fiscal Year 2006

We previously reported the function had continued to show improvements from FY 2004.⁵ For example, the total numbers of subject investigations initiated, subjects convicted, and subjects sentenced had increased and the percentage of direct investigative time had increased slightly.

Although the percentage of tax-related subject investigations initiated and the percentage of direct investigative time applied to tax-related subject investigations increased in FY 2006,⁶ several key performance measures showed decreases from FY 2005. For example, the number of subject investigations initiated decreased 8.5 percent, the number of subject investigations in open inventory decreased 5.8 percent, the number of subject investigations referred for prosecution decreased 4.9 percent, the number of subjects convicted of a crime decreased 6.1 percent, and the number of subjects sentenced for a crime decreased 3.6 percent.⁷ In addition, the pipeline inventory is at a 6-year high of 3,943 subject investigations, which is almost the same as the number of subject investigations open in inventory.⁸

Further, the Department of Justice acceptance rate decreased 4.1 points from FY 2005, to 92.2 percent. Similarly, the United States Attorney's Offices' acceptance rate decreased 3.9 percent from FY 2005.

The function attributed the decreases in subject investigations initiated, subject investigations referred for prosecution, and subjects convicted of a crime to planned reductions in resources applied to narcotics-related investigations, increased time applied to pipeline investigations, and continued emphasis on complex tax and tax-related investigations. In addition, function management cited a *Washington Post* article about severe staffing shortages at the United States Attorney's Offices and indicated this presents a significant challenge to the function in reducing its pipeline inventory. This area of concern has been brought to the attention of the Attorney General by the Honorable Henry A. Waxman (D-California) and the Honorable John Conyers (D-Michigan), who, in a letter dated July 24, 2006, stated that the lack of staff and resources force Federal Government prosecutors to forego prosecutions in some important investigations and to reach plea bargains in others. In its FY 2008 budget request, the Department of Justice requested \$5.2 million for the Tax Division to enhance "Operation Continued Follow-Through," a tax law enforcement initiative that supports the President's focus on reducing tax fraud. We

⁵ For more information, see Appendix IV, report 3.

⁶ See Appendix VI, Figures 3 and 5.

⁷ See Appendix VI, Figures 4, 11, 15, and 23.

⁸ See Appendix VI, Figure 22.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

believe this additional funding, if approved, might alleviate some of the delays the IRS is experiencing with the Department of Justice.

Challenges Remain to Complete Investigations and Reduce Pipeline Inventory

The function projected it would complete 3,945 subject investigations during FY 2006. It actually completed 4,157 subject investigations, exceeding the FY 2006 performance goal outlined in the IRS FY 2008 Congressional Budget Submission. Of these 4,157 completed investigations, 65.4 percent were referred for prosecution, a 4.9 percent decrease in the number of investigations referred for FY 2005.⁹ The number of subjects convicted of a crime was 2,019, which is 11 percent below the FY 2006 performance plan number (2,260) and a decrease of 6.1 percent from FY 2005. In addition, the number of subjects sentenced decreased 3.6 percent from FY 2005 (from 2,095 to 2,020).¹⁰

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

In FY 2006, the function reported average elapsed days for legal source income tax and illegal source income investigation completions at 436.6 calendar days. This was 2.7 percent above the benchmark range; yet, it was 5.7 percent below the FY 2005 average of 463.2 calendar days. The national average of elapsed days to recommend an investigation for prosecution and to discontinue an investigation showed slight improvements from FY 2005 to FY 2006.¹¹

The function's FY 2007 Annual Business Plan includes a business strategy to "Improve Efficiency and Reduce Elapsed Time on Criminal Subject Investigations." The function plans to accomplish this through appropriate management oversight and direction to maintain optimum workload levels and ensure all investigations progress appropriately. We are encouraged by management's efforts to reduce elapsed days to complete an investigation and believe their constant oversight should result in continued improvements in this area.

⁹ See Appendix VI, Figure 15.

¹⁰ See Appendix VI, Figure 23.

¹¹ See Appendix VI, Figure 16.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Pipeline inventory continues to increase

The pipeline inventory continues an upward trend. The FY 2006 inventory was the highest in the last 6 years with 3,943 subject investigations, a 2.5 percent increase over FY 2005. The ratio of pipeline inventory to open subject criminal investigations had dramatically increased to 97.7 percent as of September 30, 2006. This is an increase from the FY 2002 level of 62.2 percent.¹²

Concerned with the continued increases in pipeline inventory, the function's Office of Planning and Strategy completed a review of the pipeline inventory and determined the pipeline inventory for FYs 2002 through 2005 increased over 40 percent. During that period, the number of legal source income tax investigations in the pipeline increased 56 percent, while illegal source income and narcotics-related pipeline inventory increased 51 percent and 12 percent, respectively.¹³ By the end of FY 2005, the function's pipeline inventory comprised 47 percent of total¹⁴ subject criminal investigations and had used 19 percent of the function's direct investigative time. Furthermore, this study concluded the United States Attorney's Offices' operational priorities were not optimally aligned with the function's priorities.

According to data reported in the Business Performance Review (BPR) document for FY 2006, the number of investigations categorized for the Department of Justice Tax Division increased at a slower rate between FYs 2002 and 2006 than the number of investigations categorized as preindictment or postindictment at the Department of Justice. For example, the Tax Division's inventory increased from 345 investigations in FY 2002 to 366 investigations in FY 2006, whereas the United States Attorney's Offices' preindictment inventory increased from 937 investigations in FY 2002 to 1,516 investigations in FY 2006. Further, the postindictment inventory increased from 1,451 investigations to 2,065 investigations during the same period.

The amount of direct investigative time applied to the pipeline inventory has increased 7 percentage points in the last 5 fiscal years, from 14.5 percent to 21.5 percent. The function indicated the timely resolution of these pipeline investigations will remain a challenge. We are still concerned that a continuing expansion of the pipeline inventory will affect future productivity levels because fewer new investigations will be initiated.

The Chief, Criminal Investigation, requested that we evaluate whether limited resources at the United States Attorney's Offices will continue to affect the function's pipeline inventory. We had previously discussed this area with the Deputy Chief, Criminal Investigation, and have included this review in our FY 2007 audit plan.¹⁵

¹² See Appendix VI, Figure 11.

¹³ See Appendix VI, Figure 22.

¹⁴ Total subject investigations include subject investigations currently under active investigation and those referred for prosecution and adjudication (pipeline).

¹⁵ Coordination With the Department of Justice on Pipeline Inventory (Audit # 200710026).



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Declining Trends Related to Legal Source Income Tax and Tax-Related Investigations Cause Concern

The function's Annual Business Plans have consistently described legal source income tax investigations as a top investigative priority, and we believe these investigations are an important component of all tax-related investigations. We previously challenged the function's efforts to show progress toward increasing the level of legal source income tax investigations, despite its articulation of a focus on these types of investigations in its strategic documents.¹⁶ Although we could not conclusively determine whether the function was conducting enough legal source income tax investigations or to what extent it can or should increase the number, we identified several areas in which the function could make improvements to the legal source income tax investigative program and more effectively measure the program's impact on tax compliance.

In FY 2006, the percentage of direct investigative time spent on legal source income tax and tax-related investigations was at a 7-year high, increasing 6.4 percentage points and 8.7 percentage points, respectively, since FY 2000. During FY 2006, the function spent 67.1 percent of its time investigating tax-related cases and 48.2 percent of its time on legal source income tax investigations.¹⁷

Although the function reported it was spending more time investigating legal source income tax and tax-related investigations, overall investigations initiated decreased, thus affecting the number of legal source income tax and tax-related investigations initiated during FY 2006. For example, the number of legal source income tax investigations initiated decreased 10 percent (from 1,693 in FY 2005 to 1,524 in FY 2006) yet was higher than that reported in FY 2004. Likewise, the number of tax-related investigations initiated decreased 7.1 percent during the same period, yet tax-related initiations were higher than what was reported in FY 2004.¹⁸ As previously mentioned, the function indicated the lower numbers of initiations were a result of its planned reductions in resources applied to narcotics-related investigations, increased time applied to pipeline investigations, and continued emphasis on complex tax and tax-related investigations, which have the greatest impact on tax compliance.

In addition, the total open subject investigation inventory decreased from FY 2005, as did the number of legal source income tax and tax-related investigations in open inventory. The function had 2,121 legal source income tax investigations in open subject investigation inventory at the end of FY 2005. This decreased 5.4 percent to 2,006 in FY 2006; however, there was a slight increase in the percentage of total open inventory that was legal source.¹⁹ In addition, the number of tax-related investigations in open inventory decreased 3.8 percent, from 3,258 in

¹⁶ For more information, see Appendix IV, report 1.

¹⁷ See Appendix VI, Figure 3.

¹⁸ See Appendix VI, Figures 6 and 5.

¹⁹ See Appendix VI, Figure 13.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

FY 2005 to 3,134 in FY 2006. However, the percentage of total open inventory that was tax-related increased 1.6 percentage points during this time.²⁰

Case completions also showed declining statistics from FY 2005. The numbers of legal source income tax and tax-related investigations referred for prosecution decreased 12.3 percent and 7.1 percent, respectively.²¹ The function attributed these decreases to the steady increase in direct investigative time applied to pipeline inventory and to flat staffing levels.

Further, while the number of subjects convicted of a legal source income tax crime decreased 9.6 percent from FY 2005, the number of subjects sentenced for a legal source income tax crime increased slightly during this time.²² Although the number of subjects sentenced for a tax-related crime decreased during FY 2006, the percentage of tax-related sentences is at a 7-year high of 49.3 percent.²³

We are concerned that the pending FY 2008 budget initiative to increase the direct investigative time on narcotics-related cases, to a range of 12 percent to 14 percent, may continue to affect the function's ability to investigate legal source income tax and tax-related crimes. While this range is lower than those reported by the function in the years following issuance of the Webster Report, it is an increase from the overall direct investigative time of 9.6 percent reported in FY 2006. According to the BPR document for FY 2006, the function will increase narcotics-related direct investigative time for FY 2007 by redirecting resources from the nontax-related portion of illegal source income investigations. If the pending proposal for FY 2008 is approved, we believe the function should continue to look for opportunities to redirect resources from the nontax-related categories to minimize any impact on the legal source income tax and tax-related investigations program.

Tax compliance and 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 percentage increase in the number of months a subject is incarcerated for legal source income tax investigations rose 13.3 percent between FYs 2000 and FY 2006. During the same period, incarceration time increased 37 percent (from an average of 27 months to 37 months) for illegal source income investigations and 23.7 percent (from 76 months to 94 months) for narcotics-related investigations.²⁴

In an effort to ensure voluntary compliance, the function changed its philosophy to allow for more publicity of its tax investigations. It continues to increase the publicity on tax prosecutions,

²⁰ See Appendix VI, Figure 12.

²¹ See Appendix VI, Figures 18 and 17.

²² See Appendix VI, Figures 24 and 27.

²³ See Appendix VI, Figure 26.

²⁴ See Appendix VI, Figure 29.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

and the overall publicity rate of 75.6 percent for prosecutions in FY 2006 was an all time high. The 81.3 percent publicity rate for legal source income tax investigations is also an all time high.²⁵ This increased exposure indicates the function is receiving media attention and sending the message to taxpayers that violations of the Internal Revenue Code and related financial crimes are being investigated and prosecuted.

Challenges Remain to Increase the Number of Special Agents

While total special agent staffing²⁶ increased 2.6 percent between FYs 2000 and 2006, the number of field office special agents was near the same level in FY 2006 as in FY 2000. According to staffing data provided by the function, 189 positions were classified as special agent recruits in training in FY 2005. Some of these recruits graduated during FY 2006, resulting in an increase in the number of field special agents from 2,416 in FY 2005 to 2,511 in FY 2006.²⁷

While there was growth in the number of field special agents, increasing special agent staffing remains a challenge as the function continues to lose experienced special agents to attrition faster than it can replace them. According to its most recent estimates, the function's planned hiring will not offset the FY 2006 attrition of 142 agents or the FY 2007 expected attrition of approximately 150 agents.

Last year²⁸ we expressed our concern that the decrease in staffing may adversely affect the current levels of and improvements in productivity the function experienced in FY 2005. We believe the flat staffing patterns have partially attributed to the lower numbers of subject investigations initiated, subject investigations per special agent, investigations referred for prosecution, and subjects convicted of a crime.

Trends related to the number of investigations per special agent

The function 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, open subject investigations, and pipeline subject investigations.

In FY 2004, the average inventory of subject investigations per special agent was 1.84. This increased to 1.94 in FY 2005 but decreased to 1.76 in FY 2006. In addition, the total inventory

²⁵ See Appendix VI, Figure 30.

²⁶ 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.

²⁷ Appendix VI, Figure 1.

²⁸ For more information, see Appendix IV, report 3.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

per special agent, which we believe is a better indicator of a special agent's workload, decreased from 5.19 percent in FY 2005 to 4.77 percent in FY 2006.²⁹

As previously stated, function management indicated the planned reductions in resources applied to narcotics-related investigations, increased direct investigative time applied to pipeline investigations, and increased emphasis on complex tax and tax-related investigations resulted in the lower numbers of open subject criminal investigations per agent.

Congressional Concerns About the Criminal Investigation Function's Questionable Refund Program Continue

Refund fraud continues to grow. Between Processing Years 2003 and 2005, the number of fraudulent³⁰ or potentially fraudulent returns detected increased 36.2 percent and the total amount of refunds stopped increased 53.8 percent.³¹ As part of its continuing efforts to increase enforcement and combat refund fraud, the function has increased staffing dedicated to refund fraud by 33.1 percent since FY 2003.

However, the statistics for Processing Year 2006 reflect the recent problems the function has experienced with the Questionable Refund Program. In Processing Year 2005, the function identified approximately \$511 million in fraudulent or potentially fraudulent refunds, compared to approximately \$274 million in Processing Year 2006. In addition, the function actually stopped 53.4 percent fewer fraudulent dollars, stopping \$191 million in Processing Year 2006 compared to about \$410 million in Processing Year 2005. However, even with the unavailability of the Electronic Fraud Detection System for all of Processing Year 2006, 69.6 percent of the dollars associated with identified fraudulent refunds were eventually stopped, compared to 80.1 percent in Processing Year 2005.³²

In our opinion, these differences were largely due to the unavailability of the Electronic Fraud Detection System.³³ As expected, the number of fraudulent returns detected also significantly decreased (60.4 percent) from 132,054 in Processing Year 2005 to 52,338 in Processing Year 2006.³⁴

During the past couple of years, Congressional concerns with the function's Questionable Refund Program have increased. The concerns began with the number of fraudulent prisoner

²⁹ See Appendix VI, Figure 10.

³⁰ The function recently advised us it had begun to refer to these returns as "potentially fraudulent" because an actual fraud determination could not be made without the taxpayer's explanation.

³¹ See Appendix VI, Figures 31 and 32.

³² See Appendix VI, Figure 32.

³³ For more information, see Appendix IV, report 4.

³⁴ See Appendix VI, Figure 31.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

refunds being issued; more recently, they have related to the operation of the Electronic Fraud Detection System and the Questionable Refund Program process of freezing taxpayer accounts.

In April 2005, at the request of the House Ways and Means Subcommittee on Oversight, we conducted a limited-scope review³⁵ concerning refund fraud committed by individuals who are incarcerated in Federal and State prisons, which has grown significantly in recent years. We reported that inaccurate and missing information from the prisoner data file prevented the IRS from detecting all fraudulent refund returns filed by prisoners. In addition, Internal Revenue Code § 6103³⁶ generally prohibited the IRS from sharing Federal tax information with other agencies such as State prison authorities, except under limited circumstances. We made no recommendations in that report; however, the President's FY 2008 Budget included a legislative proposal to permit the IRS to disclose tax return information to prison officials.

In January 2006, the National Taxpayer Advocate issued the 2005 Annual Report to Congress reporting significant problems with the Questionable Refund Program. Shortly thereafter, the Senate Finance Committee and the House Ways and Means Oversight Subcommittee sent letters to the Secretary of the Treasury and the IRS Commissioner expressing concern that taxpayers whose refunds were frozen were not always notified. Congress requested a review of the Questionable Refund Program, and on January 24, 2006, the IRS Commissioner announced he had initiated an internal review. We included the IRS' resulting changes to the Questionable Refund Program in our audit and issued a report³⁷ indicating that, while we are encouraged by the IRS' actions to address stakeholder concerns and restore balance between taxpayer rights and effective administration of the tax laws, we are concerned some of the changes will not stop millions of dollars of potentially fraudulent refunds from being issued. IRS management agreed with three of our seven recommendations, partially agreed with one recommendation, and neither agreed nor disagreed with three other recommendations. For the three agreed-to recommendations, IRS management plans to obtain more current time periods for completing verification; to collaborate with the Department of Justice on referral criteria; and, through a task force, to consider revising review procedures. For the other four recommendations, the IRS proposed different types of actions and plans to evaluate the results from the 2007 Questionable Refund Program, make recommendations on any adjustments to procedures for the 2008 Filing Season, and work with relevant parties to discuss initiating a legislative proposal.

Investigations Initiated From External Sources Increased Slightly

The function initiates investigations from many different sources, both within and outside the IRS. The primary internal sources include fraud referrals from the Compliance offices and investigations developed by the Criminal Investigation function itself through the Questionable

³⁵ For more information, see Appendix IV, report 2.

³⁶ Internal Revenue Code § 6103 (2006).

³⁷ For more information, see Appendix IV, report 5.



Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 2000 Through Fiscal Year 2006

Refund and Return Preparer Programs. The primary external sources of investigations include the United States Attorney's Offices and other Government agencies, both Federal and State. In addition, the function initiates investigations based on information received from public sources, including the media and informants.

During FY 2006, about 53.4 percent of the 3,907 subject investigations initiated came from the United States Attorney's Offices or other Government agencies. This was a slight increase from 53.1 percent in FY 2005. In contrast, during FY 2006, about 35.2 percent of subject investigations initiated originated from within the IRS. This is a decline from the 36.2 percent reported in FY 2005 but is still an increase from 31.6 percent and 30.1 percent reported in FYs 2003 and 2004, respectively. Further, in FY 2006, the number of subject investigations initiated from a public source increased to 11.5 percent of the total investigations initiated, from 10.7 percent in FY 2005.³⁸

The function's FY 2007 Annual Business Plan states it will maintain its investigative resources applied to quality legal source income tax investigations by continuing to work closely with the Compliance offices and will pursue significant investigations involving illegal source income and other financial crimes that adversely affect tax administration. We continue to believe that, because investigations generated from internal sources are more likely to be legal source income tax investigations, the function should remain vigilant when evaluating whether the level of cases initiated from sources external to the IRS maintains a proper balance with the stated priorities.

Fraud referral program successes

In response to our prior report on the legal source income tax program,³⁹ the function committed to taking several steps to enhance the 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' commitments. As a result of these changes, the function succeeded in accomplishing its FY 2006 compliance strategy to strengthen the fraud referral program. While the number of fraud referrals received in FY 2006 decreased 3.5 percent from FY 2005, the acceptance rate increased 2.7 percentage points in FY 2006, indicating the IRS Compliance offices are improving the quality of their criminal fraud referrals. The FY 2006 acceptance rate of 71.5 percent was the highest in the last 7 years. The rate of acceptance has increased 20.7 percentage points since FY 2000.⁴⁰

The fraud referral program remains a high priority with the function, which continues to work with the Small Business/Self-Employed Division in assessing the program's effectiveness.⁴¹ A

³⁸ See Appendix VI, Figure 8.

³⁹ For more information, see Appendix IV, report 1.

⁴⁰ See Appendix VI, Figure 9.

⁴¹ The Office of Audit Small Business Programs unit is conducting an audit to evaluate the Examination function's fraud program and referrals to the Criminal Investigation function (Audit # 200630009).



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

critical issue facing the program is the inconsistency among the various United States Attorney's Offices in accepting Title 26 investigations for prosecution. The function is currently conducting a study to determine whether all the United States Attorney's Offices have consistent policies regarding Title 26 prosecutions. The goal of this study is to identify inconsistencies and assist the Small Business/Self-Employed Division in modifying local referral criteria to conform to the prosecution thresholds of the United States Attorney's Offices.

Because fraud referrals remain a viable and important source of legal source income tax investigations, we are encouraged by the recent results demonstrated by the fraud referral program. We believe the function and the Compliance offices 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.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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 function's enforcement activities for FYs 2000 through 2006.

To accomplish our objective, we reviewed IRS data publications and function management information to analyze data and identify trends. We relied on information accumulated by the IRS and the function in established reports and the function's management information system and did not verify its accuracy. The major issues we focused on included:

- Special Agent¹ Staffing.
- Investigation Initiations.
- Open Investigations.
- Pipeline Investigations.
- Investigation Closures.
- Investigations Referred for Prosecution.
- Subsequent Legal Actions.
- Compliance Strategy Programs.

¹ See Appendix V for a glossary of terms used in this report.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
John R. Wright, Director
Diana M. Tengesdal, Audit Manager
Janice A. Murphy, Lead Auditor
Todd M. Anderson, Senior Auditor



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Appendix III

Report Distribution List

Acting Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
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



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Appendix IV

*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. *The Internal Revenue Service Needs to Do More to Stop the Millions of Dollars in Fraudulent Refunds Paid to Prisoners* (Reference Number 2005-10-164, dated September 2005).
3. *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).
4. *The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified* (Reference Number 2006-20-108, dated August 9, 2006).
5. *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).



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Appendix V

Glossary of Terms

Business Performance Review – Quarterly, the Criminal Investigation function (the function) reports on its performance measures, business results, employee and customer satisfaction, and other items of importance to the function.

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

Criminal Investigation Management Information System (CIMIS) – 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.

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

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

Field Special Agent – A special agent in 1 of the function's 29 field offices.

Filing Season – The period from January through mid-April when most individual income tax returns are filed.

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

Grand Jury Investigation – An investigation conducted through use of a Federal grand jury to determine if 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 function or by an attorney for the Federal Government.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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

Inventory per 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 – 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 may move forward in a cogent, focused direction.

Lead Development Center – Coordinates local and national projects initiated to identify specific areas/industries of noncompliance. It is the focal point for the fraud referral program, coordinating all referrals to and from the operating divisions and providing fraud awareness training to operating division employees.

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

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

National Taxpayer Advocate – An independent organization within the IRS to help taxpayers resolve problems with the IRS and recommend changes that will prevent the problems.

Pipeline Inventory – Investigations in which the function has made a prosecution recommendation but for which the subsequent legal process has not been completed. Function personnel may still be actively involved with pipeline cases, to assist with trial preparation or to testify as witnesses.

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 with the IRS. Generally, returns for Tax Year 2005 were processed during Calendar Year 2006, although returns for older years were also processed in 2006.

Questionable Refund Program – A nationwide, multifunctional program designed to identify fraudulent returns, stop the payment of fraudulent refunds, and refer identified fraudulent refund schemes to the function field offices.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Referred for Prosecution – A subject investigation that resulted in the determination of prosecution potential referred to the Department of Justice or 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 may or may not have knowledge of the false claims.

Special Agent – A function 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 function. 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 function. 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 function. 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.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Appendix VI

Detailed Charts of Statistical Information

Figure 1 – Special Agent and Field Special Agent Staffing at the
End of Each Fiscal YearPage 23

Figure 2 – Special Agent Direct Investigative Time Expended Each
Fiscal YearPage 23

Figure 3 – Percentage of Direct Investigative Time Spent on Legal Source
and Tax-Related Investigations Each Fiscal YearPage 24

Figure 4 – Number of Subject Investigations Initiated and the Number
Initiated per Field Special Agent Each Fiscal YearPage 24

Figure 5 – Number of Subject Investigations Initiated Each Fiscal Year for a
Tax-Related or Nontax-Related Violation and the Percentage
That Is Tax-Related.....Page 25

Figure 6 – Number of Subject Investigations Initiated Each Fiscal Year by
Compliance Strategy Program and the Percentage That Is
Legal Source Tax Crimes.....Page 25

Figure 7 – Number of Subject Investigations Initiated Each Fiscal Year by
Principle U.S.C. Title.....Page 26

Figure 8 – Number of Subject Investigations Initiated Each Fiscal Year by
Source of the Allegation or Information.....Page 26

Figure 9 – Number of Fraud Referrals Received and the Percentage Accepted
Each Fiscal YearPage 27

Figure 10 – Number of Open Subject Investigations and the Total of
All Investigations at the End of Each Fiscal Year and the Number
per Nonsupervisory Special Agent in Field Offices.....Page 27

Figure 11 – Number of All Types of Investigations Open in Various Stages at
the End of Each Fiscal YearPage 28

Figure 12 – Number of Open Subject Investigations Each Fiscal Year for
a Tax-Related or Nontax-Related Violation and the Percentage
That Is Tax-RelatedPage 28



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Figure 13 – Number of Open Subject Investigations Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax CrimesPage 29

Figure 14 – Number of Open Subject Investigations at the End of Each Fiscal Year by Type of Investigation: Grand Jury or Nongrand Jury InvestigationPage 29

Figure 15 – Number of Subject Investigations Discontinued or Referred for Prosecution Each Fiscal Year and the Percentage Referred for ProsecutionPage 30

Figure 16 – Average Elapsed Days of Subject Investigations Discontinued and Referred for Prosecution Each Fiscal YearPage 30

Figure 17 – Number of Subject Investigations Referred for Prosecution Each Fiscal Year for a Tax-Related or Nontax-Related Violation and the Percentage That Is Tax-Related.....Page 31

Figure 18 – Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax CrimesPage 31

Figure 19 – Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Principle U.S.C. Title.....Page 32

Figure 20 – Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Type of Investigation: Grand Jury or Nongrand Jury InvestigationPage 32

Figure 21 – Number of Tax-Related and Nontax-Related Subject Investigations in the Pipeline Each Fiscal Year and the Percentage That Is Tax-RelatedPage 33

Figure 22 – Number of Subject Investigations in the Pipeline Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax CrimesPage 33

Figure 23 – Number of Subjects Convicted of and Sentenced for a Crime Each Fiscal Year.....Page 34

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.....Page 34



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Figure 25 – Number of Subject Investigations Initiated, Referred for
Prosecution, Indicted, and Convicted Each Fiscal YearPage 35

Figure 26 – Number of Subjects Sentenced for a Crime Each Fiscal Year
for a Tax-Related or Nontax-Related Violation and the
Percentage That Is Tax-RelatedPage 35

Figure 27 – Number of Subjects Sentenced for a Crime Each Fiscal Year by
Compliance Strategy Program and the Percentage That Is
Legal Source Tax CrimesPage 36

Figure 28 – Number of Subjects Sentenced for a Crime Each Fiscal Year by
Principle U.S.C. TitlePage 36

Figure 29 – Average Number of Months a Subject Is Incarcerated Each
Fiscal Year by Compliance Strategy ProgramPage 37

Figure 30 – Percentage of Investigations That Received Publicity Each
Fiscal Year by Compliance Strategy ProgramPage 37

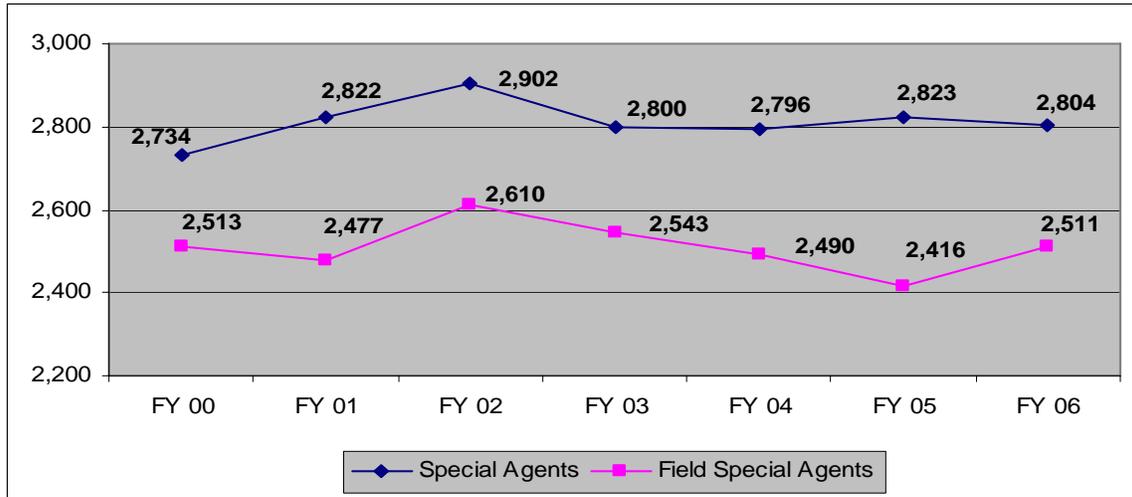
Figure 31 – Number of Paper and Electronic Returns Determined to Be
Fraudulent or Potentially Fraudulent by the Criminal Investigation
Function Questionable Refund ProgramPage 38

Figure 32 – Dollar Amounts of Fraudulent Refunds Identified and
Stopped by the Criminal Investigation Function
Questionable Refund Program.Page 38



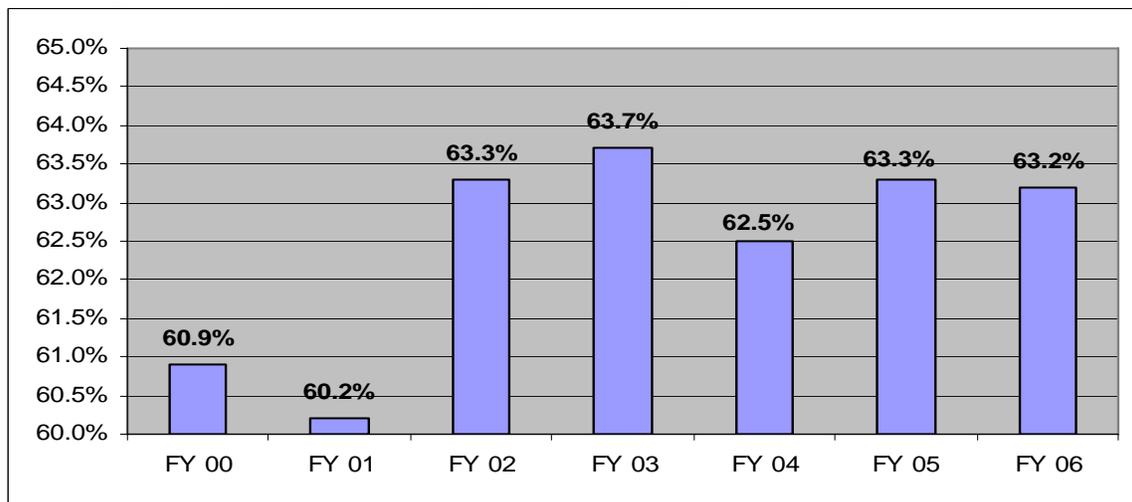
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



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

Figure 2: Special Agent Direct Investigative Time Expended Each Fiscal Year.¹



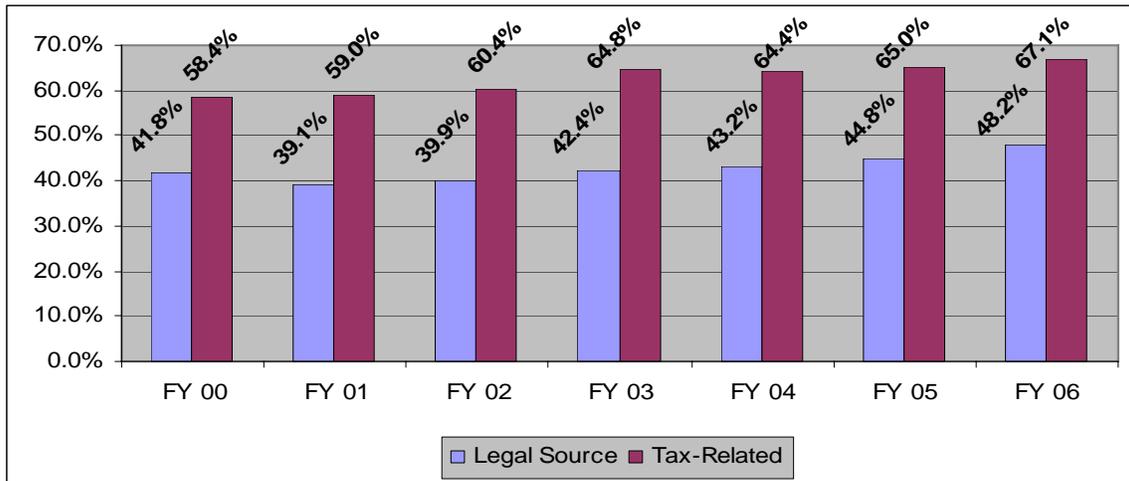
Source: *The function's analysis of direct investigative time information for FYs 2000 through 2002 and CIMIS Report INV001, Criminal Investigation Summary Statistics, for FYs 2003 through 2006.*

¹ In FY 2006, the function revised its calculation formula for direct investigative time on tax and tax-related investigations; therefore, the numbers reflected in Figures 2 and 3 may not agree with those in prior reports.



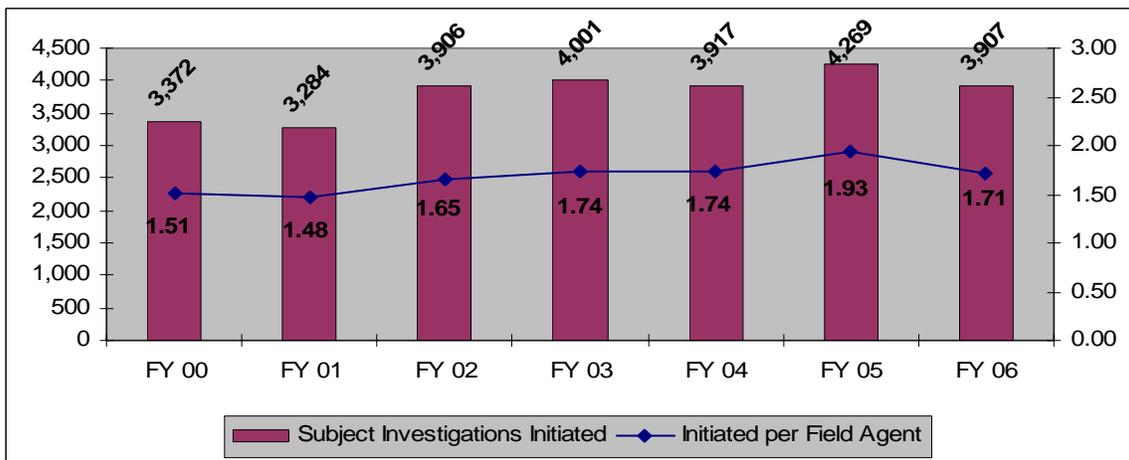
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: The function's BPR reports for FYs 2000 through 2005 and the function's analysis of the CIMIS for FY 2006.

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

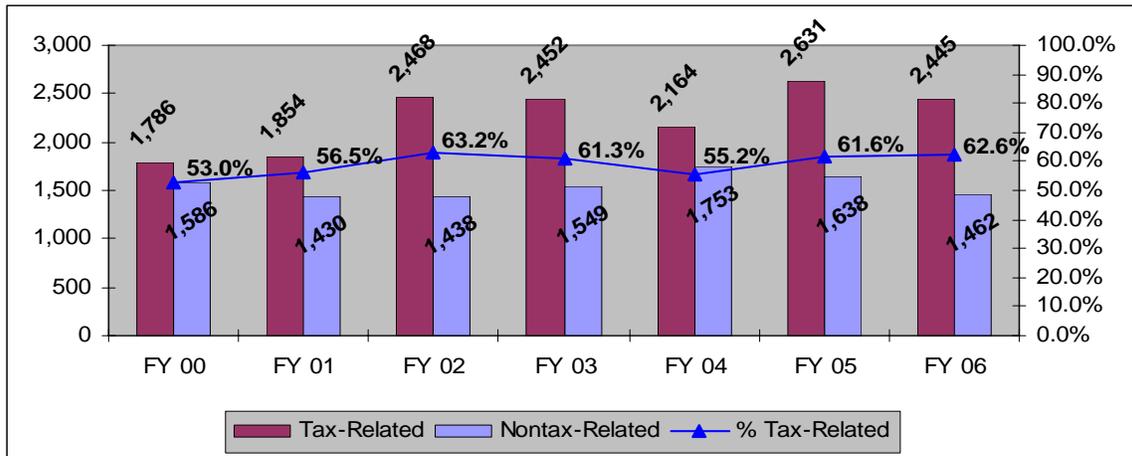


Source: The IRS Data Book, Publication 55B, for FYs 2000 through 2005; CIMIS Report INV002, Summary by Program Area, for FY 2006 investigations initiated; and our analysis based on the number of field agents provided by the function.



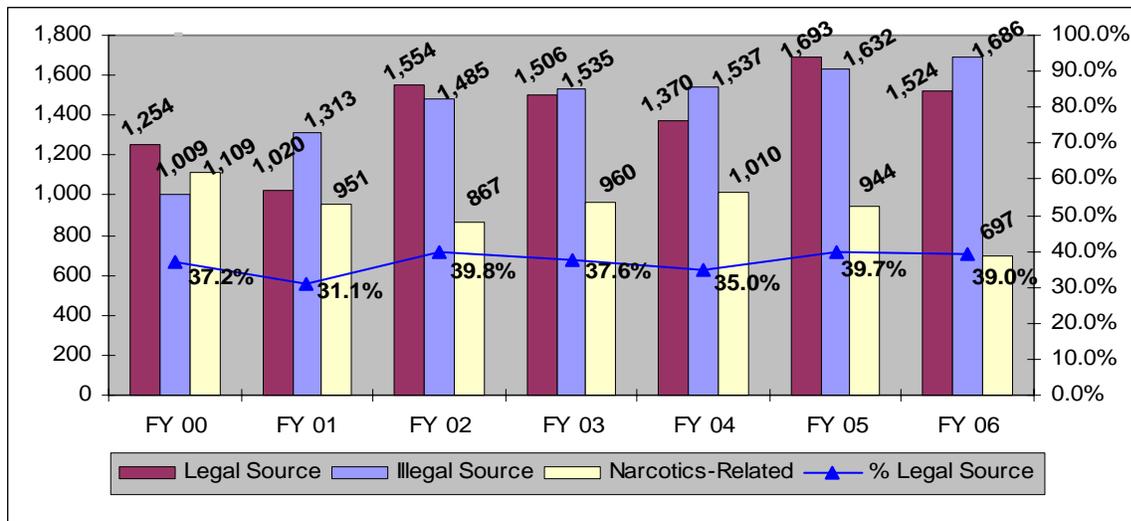
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: The function's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.

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

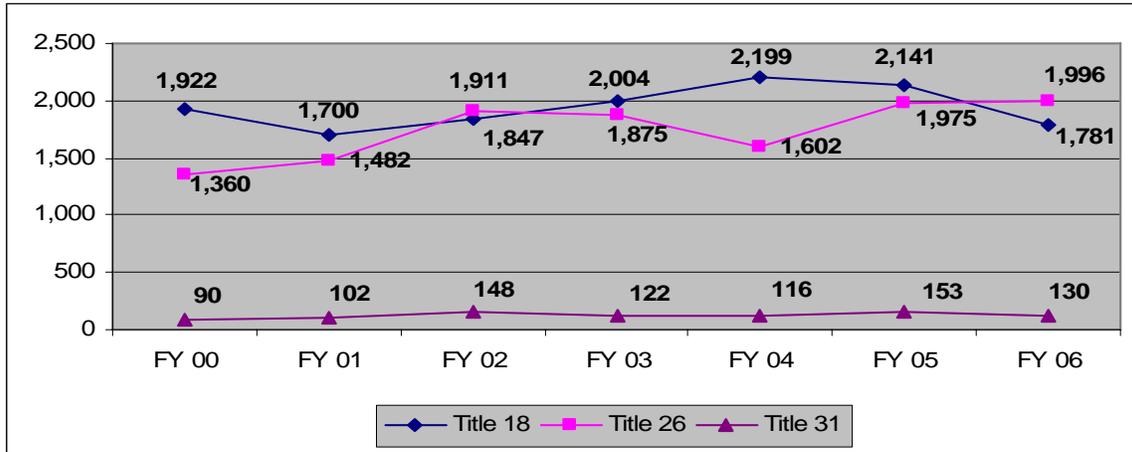


Source: The IRS Data Book, Publication 55B, for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.



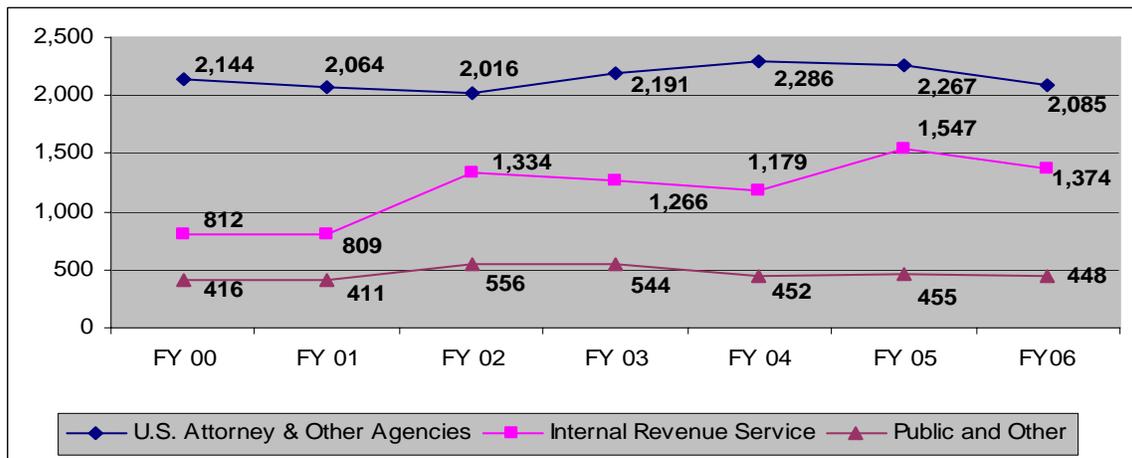
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Figure 7: Number of Subject Investigations Initiated Each Fiscal Year by Principle U.S.C. Title.



Source: CIMIS Report 11, Program Summary Analysis, for FYs 2000 through 2005 and the function's analysis of the CIMIS for FY 2006.

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

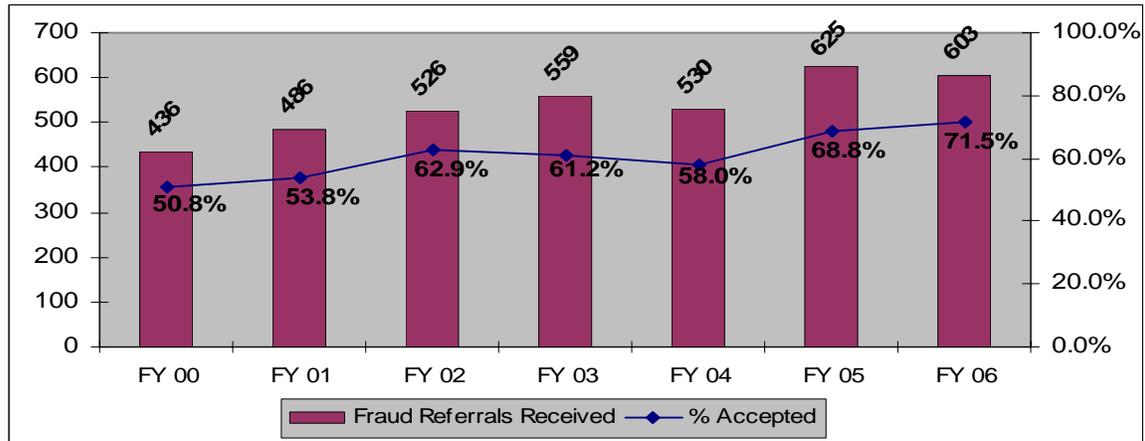


Source: Our analysis of the CIMIS; CIMIS Report 11, Program Summary Analysis, for FYs 2000 through 2005; and the function's analysis of the CIMIS for FY 2006.



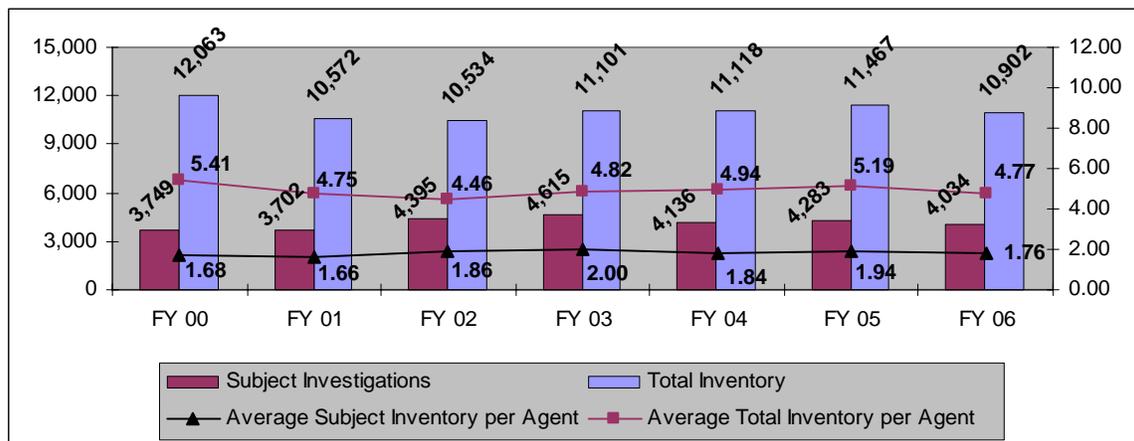
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: The function's BPR reports for FYs 2000 through 2005 and CIMIS Report INV001, Criminal Investigation Summary Statistics, for FY 2006.

Figure 10: Number of Open Subject Investigations and the Total of All Investigations at the End of Each Fiscal Year and the Number per Nonsupervisory Special Agent in Field Offices.²



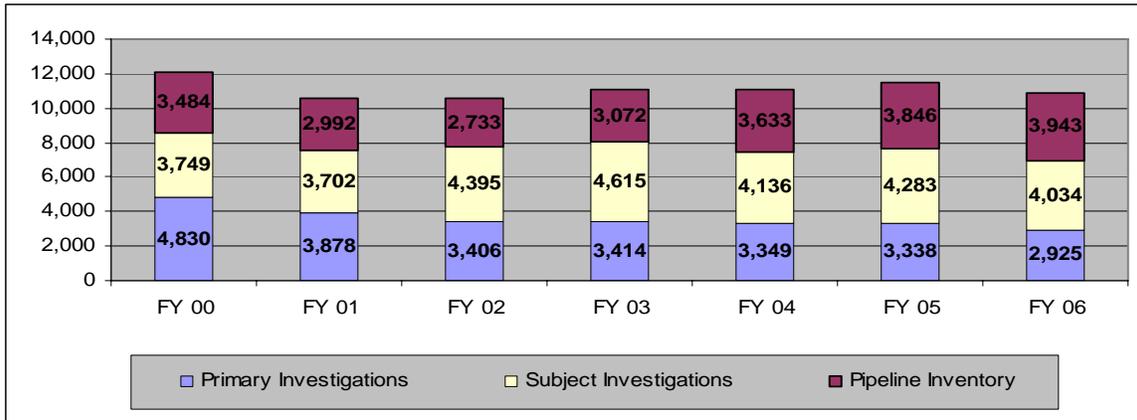
Source: The function's analysis of the CIMIS.

² During FY 2006, the function 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 Figures 10 and 11 for the prior fiscal years changed and may not agree with those in our prior reports. The total inventory includes primary investigations not yet elevated to a subject investigation, open subject investigations currently being worked in the field office, and subject investigations that have been referred for prosecution (pipeline).



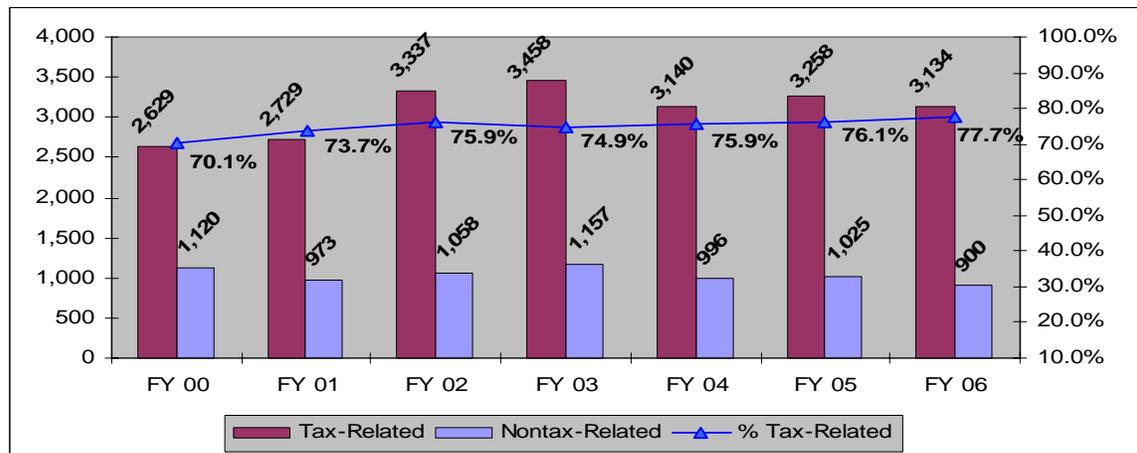
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: The function's analysis of the CIMIS.

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

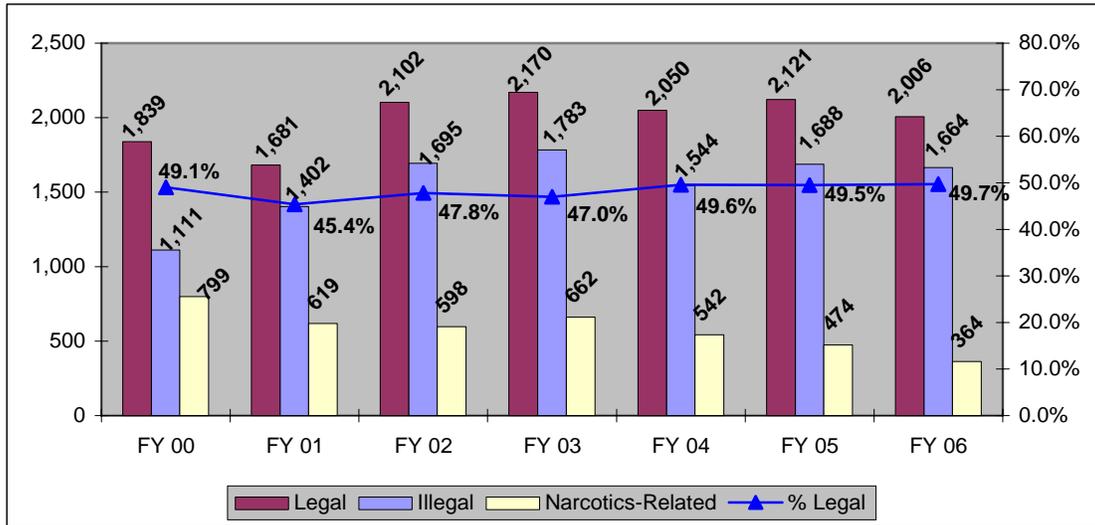


Source: The function's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.



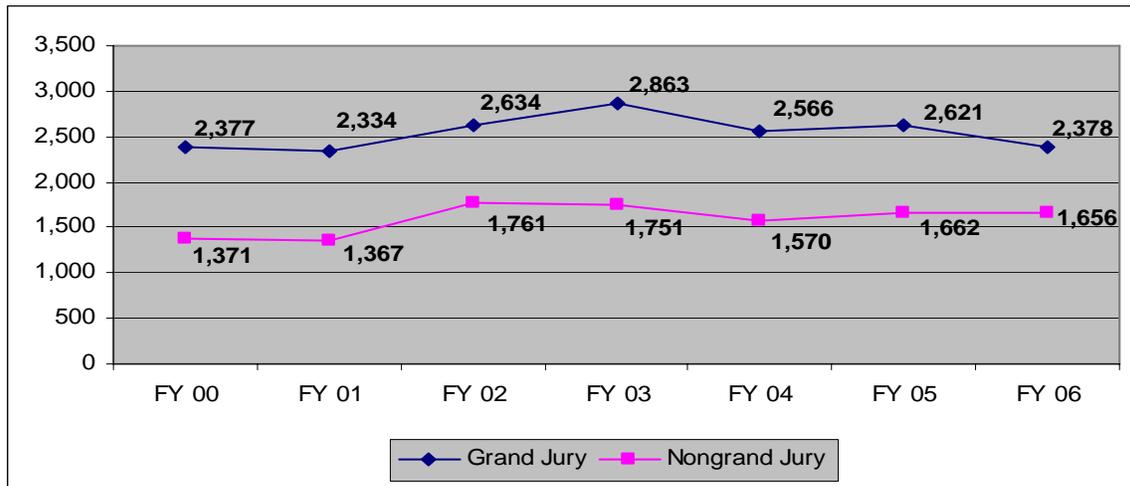
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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 function's National Criminal Investigation Statistics for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.

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

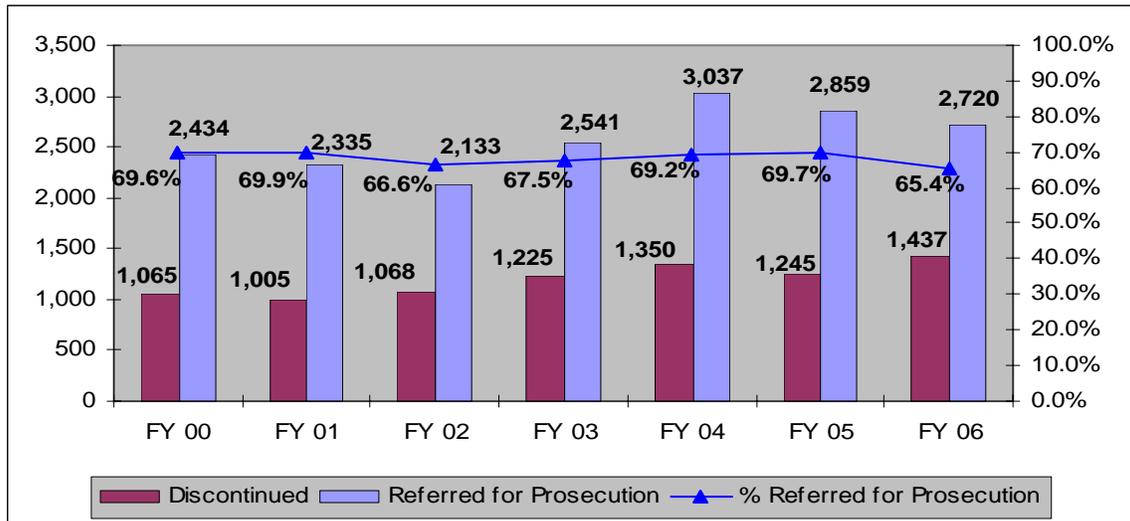


Source: CIMIS Report 11, Program Summary Analysis, for FYs 2000 through 2005 and the function's analysis of the CIMIS for FY 2006.



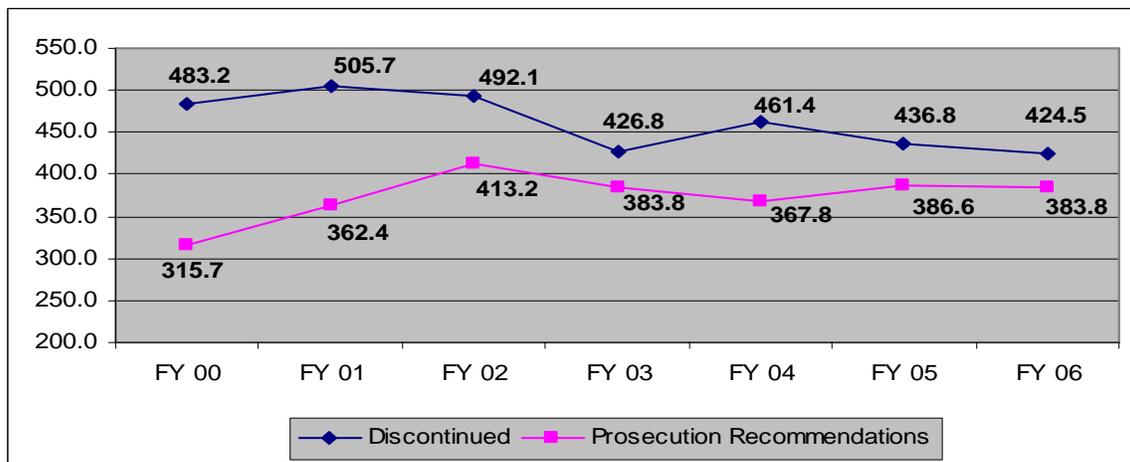
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: *The IRS Data Book, 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 FY 2006.*

Figure 16: Average Elapsed Days of Subject Investigations Discontinued and Referred for Prosecution Each Fiscal Year.³



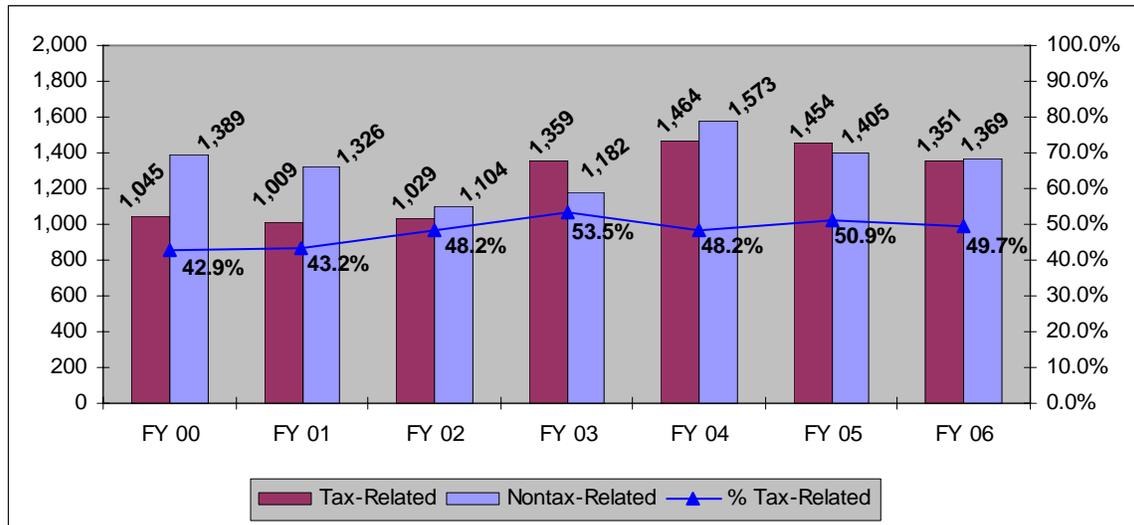
Source: *The function's analysis of the CIMIS for FYs 2000 through 2006.*

³ The function 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 may have changed and may not agree with those in our prior reports.



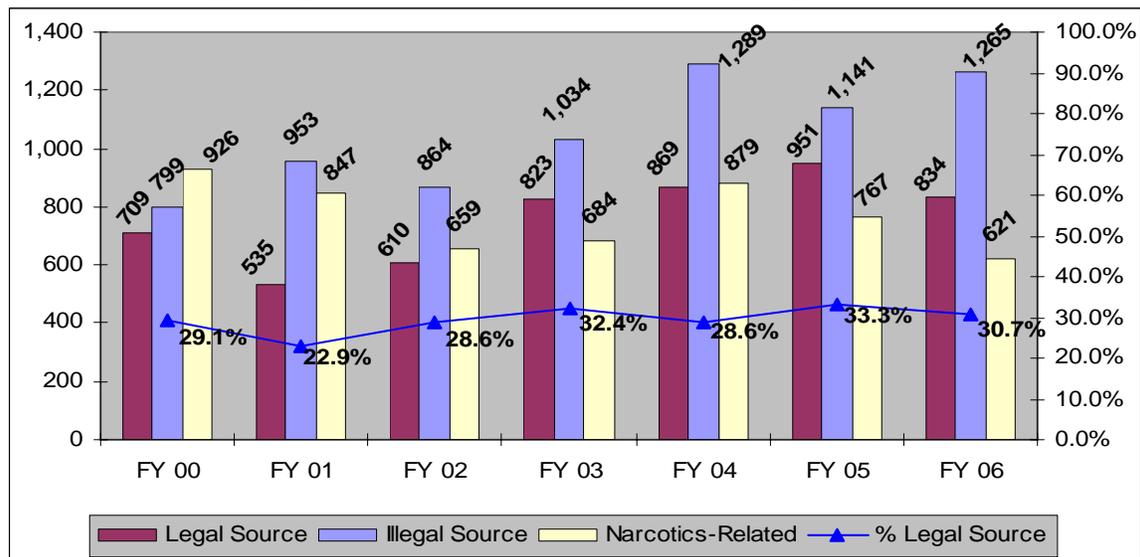
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: The function's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.

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.

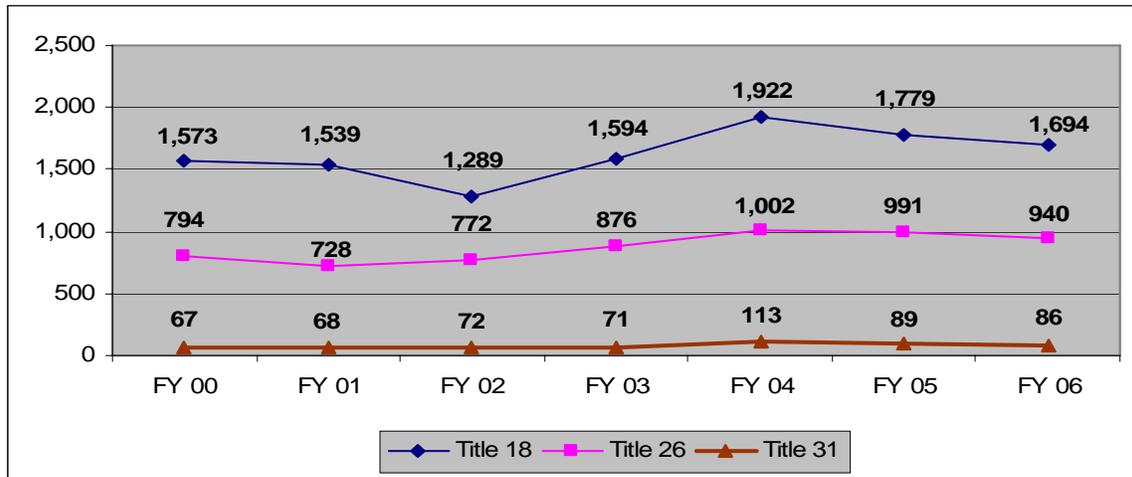


Source: The IRS Data Book, Publication 55B, for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.



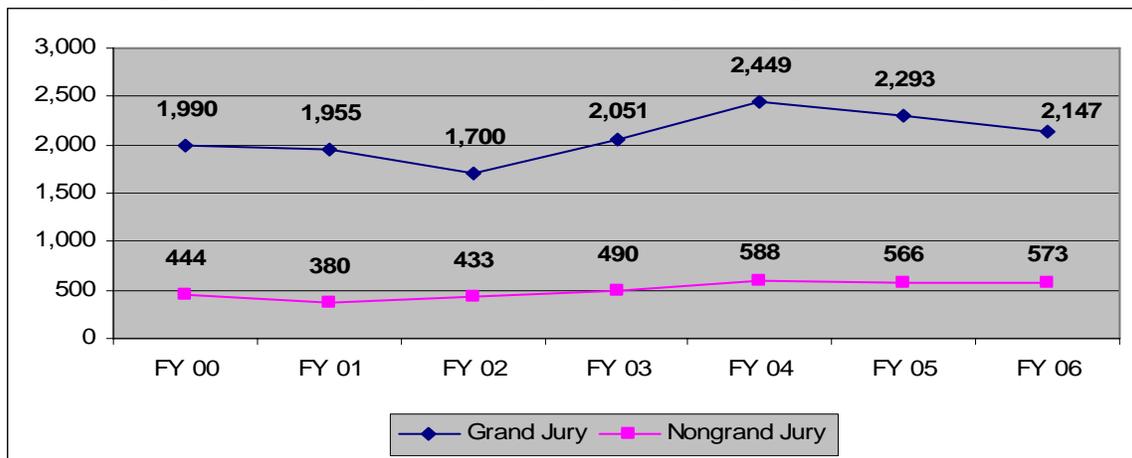
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Figure 19: Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Principle U.S.C. Title.



Source: CIMIS Report 11, Program Summary Analysis, for FYs 2000 through 2005 and the function's analysis of the CIMIS for FY 2006.

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

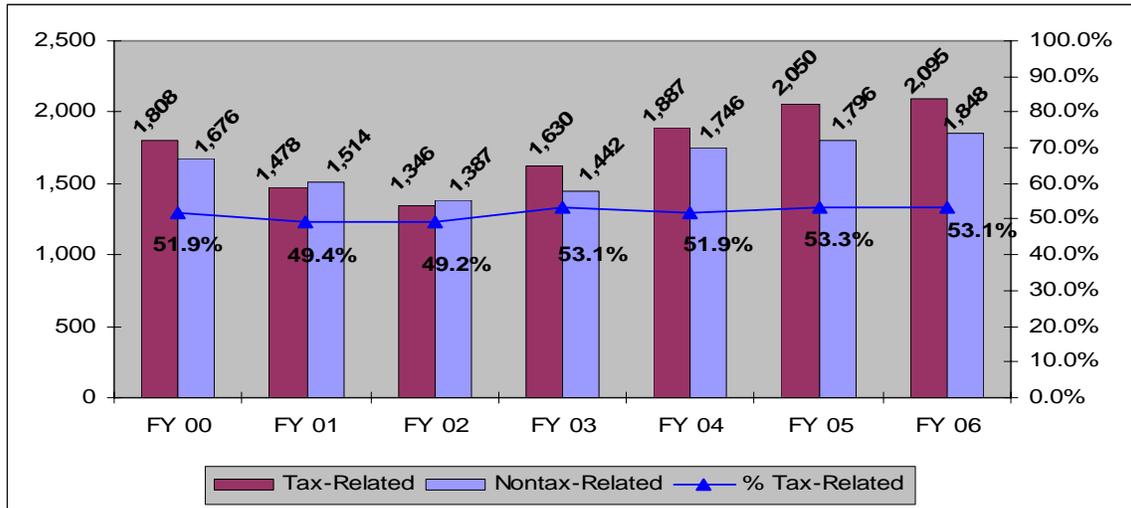


Source: CIMIS Report 11, Program Summary Analysis, for FYs 2000 through 2005 and the function's analysis of the CIMIS for FY 2006.



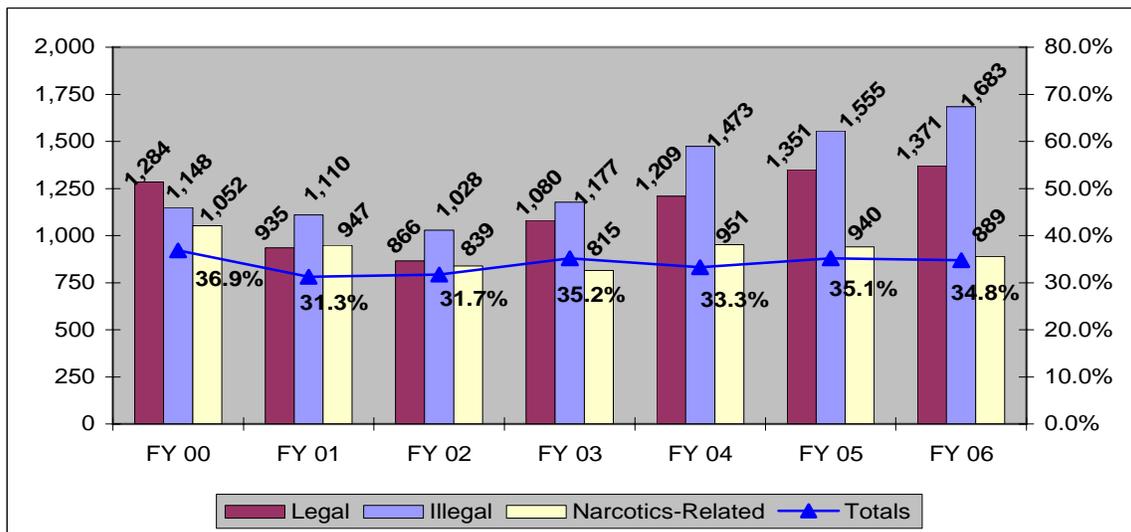
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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 function's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.

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.

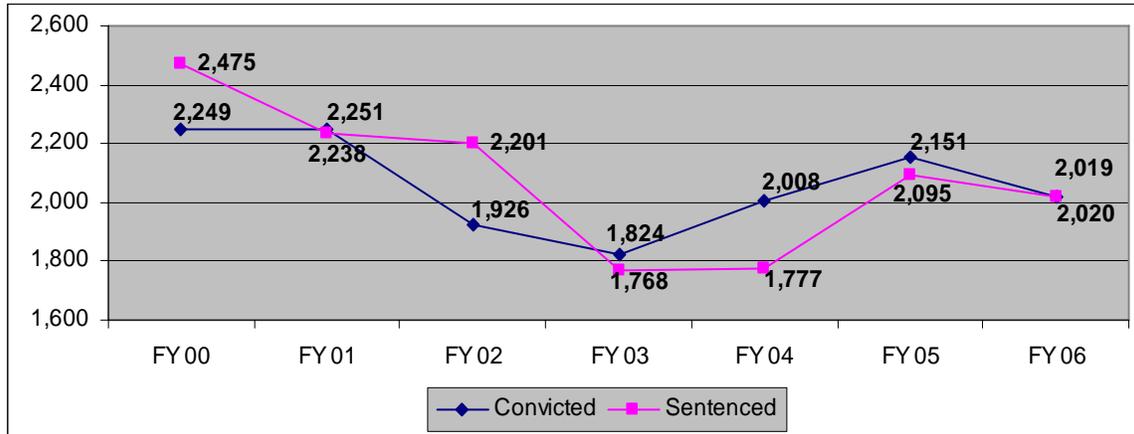


Source: The function's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.



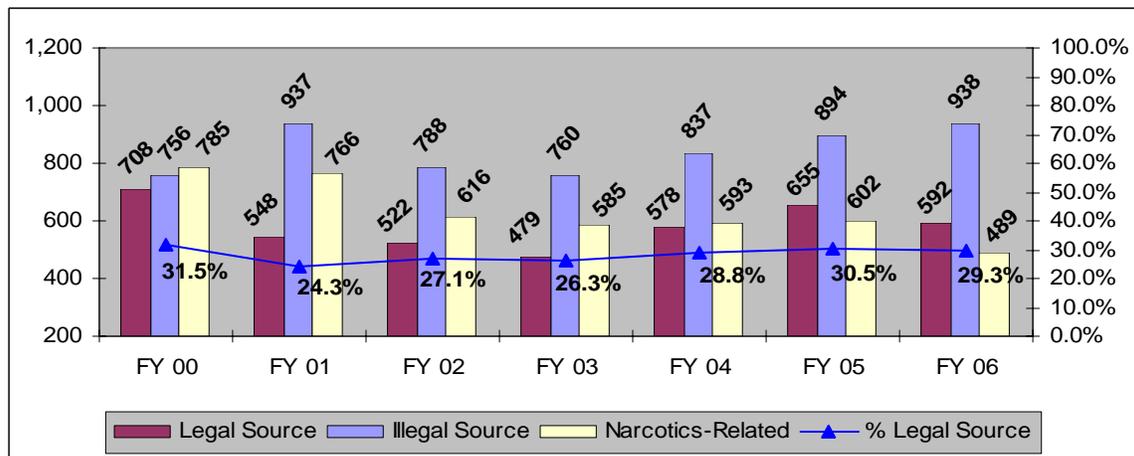
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: *The IRS Data Book, Publication 55B, for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.*

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.

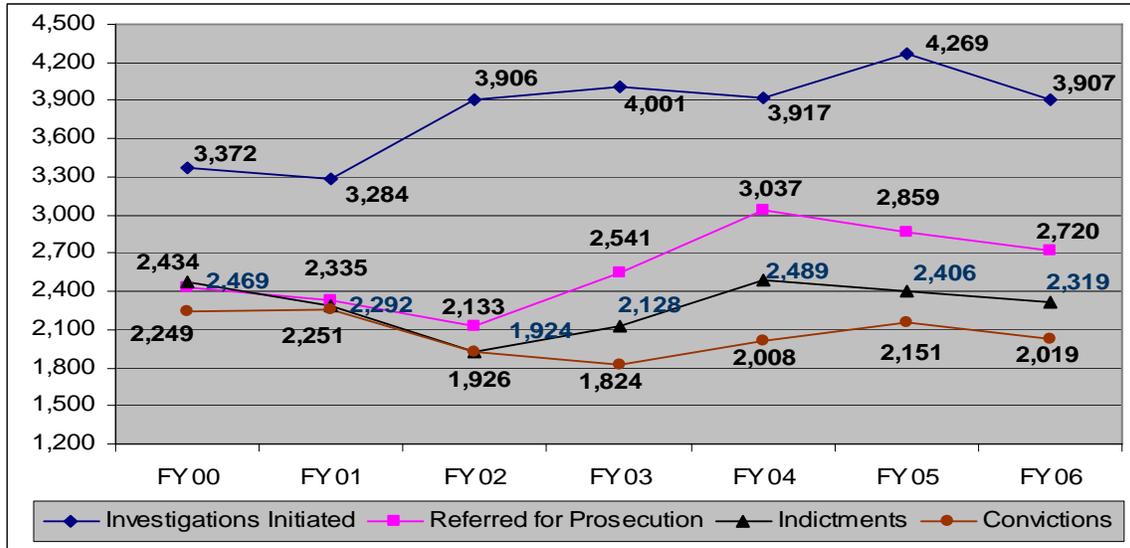


Source: *The IRS Data Book, Publication 55B, for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.*



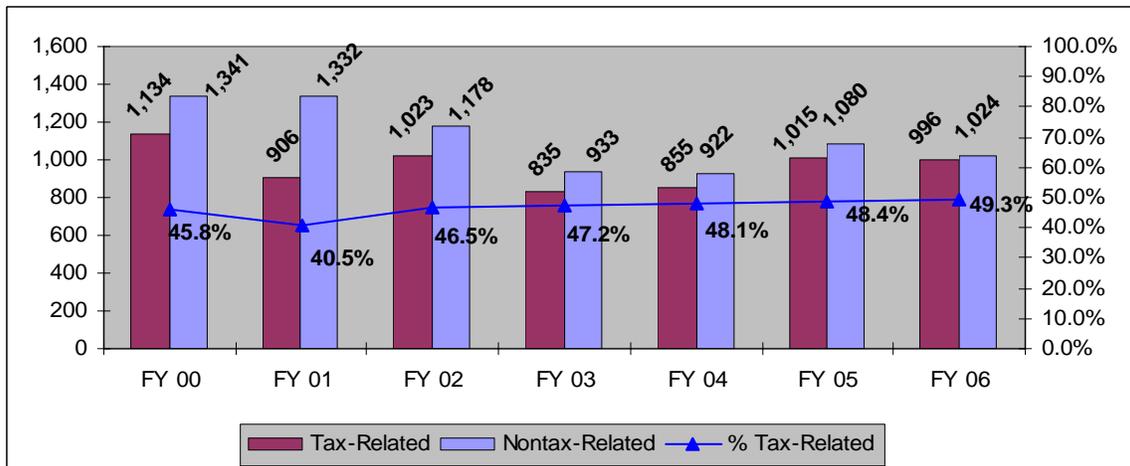
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: *The IRS Data Book, Publication 55B, for FYs 2000 through 2005 and CIMIS Report INV001, Criminal Investigation Summary Statistics, for FY 2006.*

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

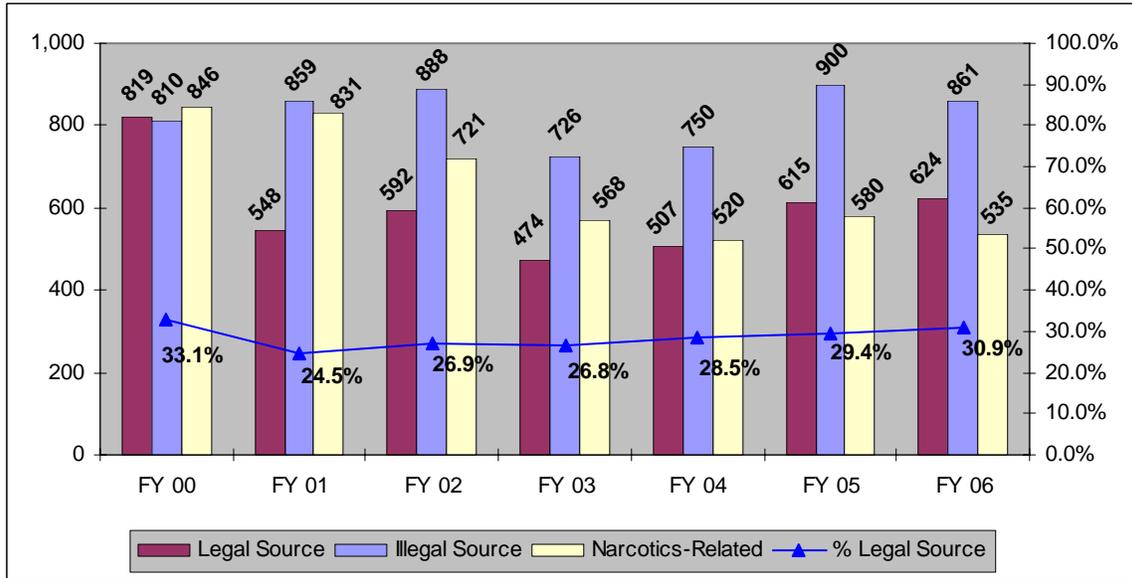


Source: *The function's enforcement statistics derived from the IRS Internet web site for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.*



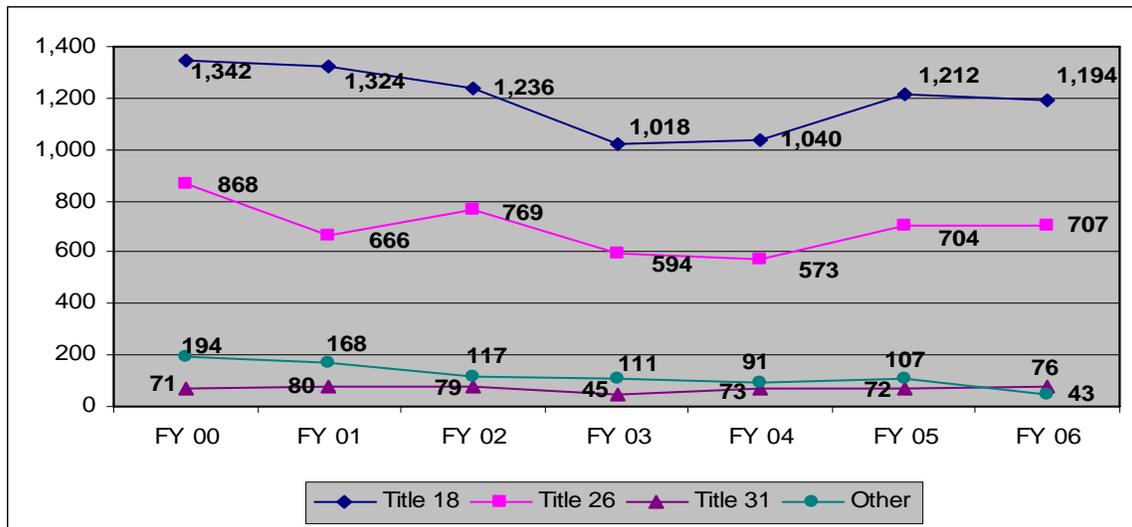
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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 Book, Publication 55B, for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.*

Figure 28: Number of Subjects Sentenced for a Crime Each Fiscal Year by Principle U.S.C. Title.

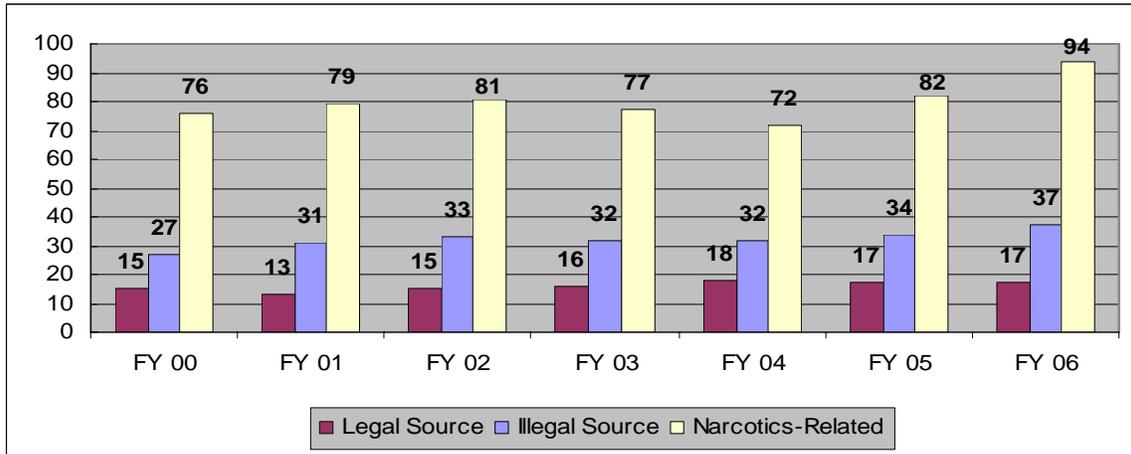


Source: *CIMIS Report 11, Program Summary Analysis, for FYs 2000 through 2005 and the function's analysis of the CIMIS for FY 2006.*



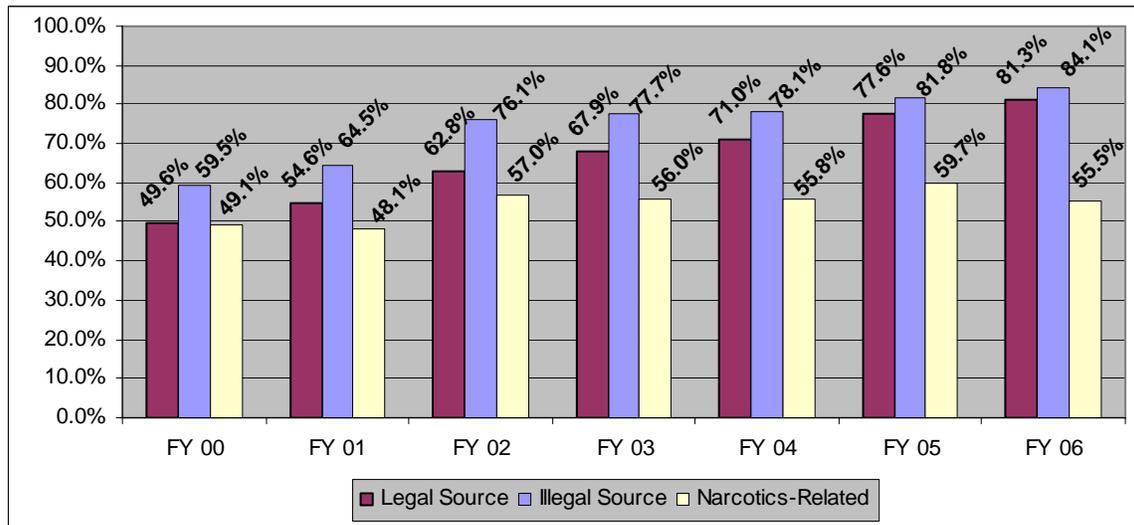
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

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



Source: The function's analysis of the CIMIS for FYs 2000 through 2005 and CIMIS Report INV002, Summary by Program Area, for FY 2006.

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

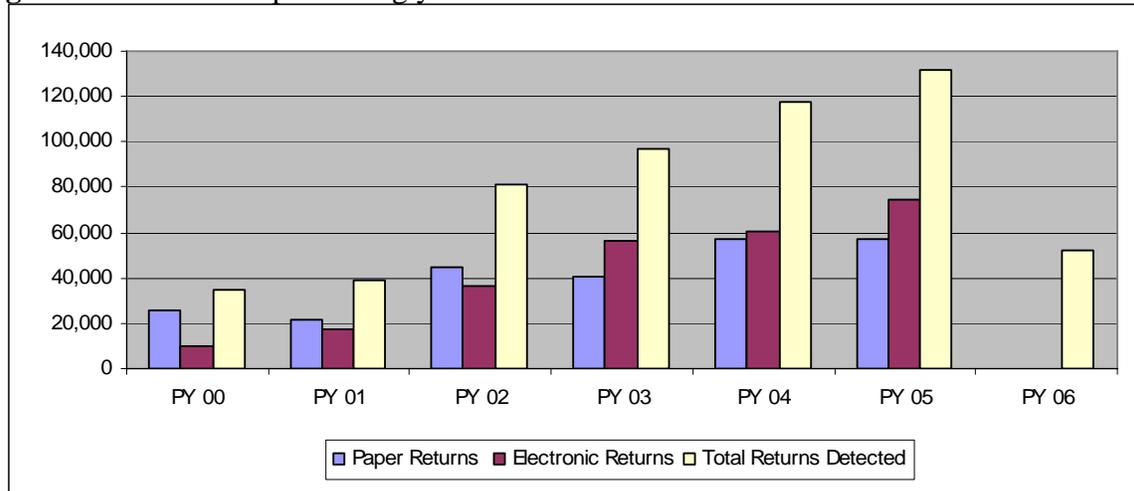


Source: The function's BPR reports.



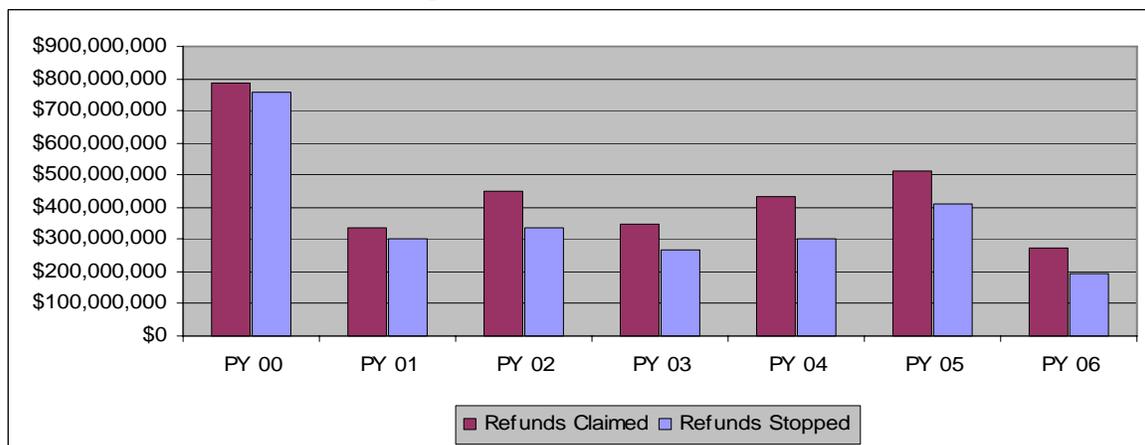
*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Figure 31: Number of Paper and Electronic Returns Determined to Be Fraudulent or Potentially Fraudulent by the Criminal Investigation Function Questionable Refund Program.⁴ PY refers to processing year.



Source: The function's Office of Refund Crimes.

Figure 32: Dollar Amounts of Fraudulent Refunds Identified and Stopped by the Criminal Investigation Function Questionable Refund Program. Processing Year 2000 includes a refund fraud scheme that involved 1,672 tax returns with over \$215 million in false refunds claimed and more than \$214 million stopped. Processing Year 2004 figures do not include 2 returns that claimed refunds totaling more than \$1.8 billion.



Source: The function's Office of Refund Crimes.

⁴ Due to the unavailability of the Electronic Fraud Detection System in Processing Year 2006, function management advised us they were unable to calculate the electronic and paper filed returns for Processing Year 2006. As a result, the chart presentation for Figure 31 changed from those shown in our prior reports to include just total returns detected.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

Appendix VII

*Management's Response to the Discussion Draft
Report*



Criminal Investigation

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

May 3, 2007

RECEIVED

MAY - 3 2007

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Eileen C. Mayer
Chief, Criminal Investigation SE:CI

SUBJECT:

Discussion Draft Audit Report – Statistical Portrayal of the
Criminal Investigation Function's Enforcement Activities From
Fiscal Year 2000 Through Fiscal Year 2006 (Audit #
200710025)

Criminal Investigation previously provided TIGTA with corrections to some of the statistical data in the report, which will not be commented on further. However, some general comments on selected sections of the draft report are presented below to ensure the reader is fully informed of the issues involved.

Page 6, Paragraphs 1 and 2 and Paragraph 3, in pertinent part, state

The CI function's Annual Business Plans have consistently described legal source income tax investigations as a top investigative priority, and we believe these investigations are an important component of all tax-related investigations. We previously challenged the CI function's efforts to show progress towards increasing the level of legal source income tax investigations, despite articulating a focus on these types of investigations in its strategic documents. Although we could not conclusively determine whether the CI function was conducting enough legal source income tax investigations or to what extent it can or should increase the number, we identified several areas in which the CI function could make improvements to the legal source income tax investigative program and more effectively measure the program's impact on tax compliance.

In FY 2006, the percent of direct investigative time spent on legal source income tax and tax-related investigations was at a seven-year high increasing 6.4 and 8.7 points, respectively, since FY 2000. The CI function spent 67.1 percent of its time investigating tax-related cases during FY 2006 and 48.2 percent of its time on legal source income tax investigations.

Although the CI function reported it was spending more time investigating legal source income tax and tax-related investigations, overall investigations initiated decreased, thus impacting the number of legal source income tax and tax-related investigation initiations during FY 2006. For example, the number of legal source income tax investigations initiated decreased 10.0 percent from 1,693 in FY 2005 to 1,524 in FY 2006, yet was higher than what was reported in FY 2004.



*Statistical Portrayal of the Criminal Investigation Function's
Enforcement Activities From Fiscal Year 2000 Through
Fiscal Year 2006*

2

The Treasury Inspector General for Tax Administration is commended for recognizing the increase in direct investigative time (DIT) applied to legal source investigations. However, the reference to decreases in legal source and tax related initiations warrants additional comment. In order to fully evaluate CI's commitment and effectiveness in the legal source program important quality and complexity indicators also need to be considered. Legal source income cases have always been both time and resource intensive because they are generally more complex and require rigorous documentation and corroboration to meet the government's burden of proof. Any increase in high impact legal source investigations will invariably result in some reduction in the overall number of subject criminal investigations being initiated and completed. In fiscal year (FY) 2006 it took approximately 22 and 49 percent longer to complete legal source and tax related investigations, respectively. It also should be noted that in FY06 the average term of imprisonment was 17 months. The significant sentences imposed contributes to the increased publicity rate referenced in this report and is further evidence that complex legal source investigations garner media attention and foster deterrence and enhance compliance. These statistical indicators reaffirm CI's commitment to vigorously pursuing egregious legal source and tax related investigations.

Page 7, Paragraph 3

One area of concern we have that may continue to impact the CI function's ability to investigate legal source income tax and tax-related crimes is the pending FY 2008 budget initiative to increase the direct investigative time on narcotics-related cases to a range of 12 to 14 percent. While this is lower than the ranges reported by the CI function in the years following the Webster Report, it is an increase from the overall direct investigative time of 9.6 percent reported in FY 2006. According to the Business Performance Review document for FY 2006, the CI function will increase narcotics-related direct investigative time for FY 2007 by redirecting resources from the non tax-related portion of illegal source income investigations. If the pending proposal for FY 2008 is approved, we believe the CI function should continue to look for opportunities to redirect resources from the non tax-related categories to minimize any impact on the legal source income tax and tax-related investigations program.

Criminal Investigation did not propose an increase the narcotics direct investigative time (DIT) goal indiscriminately. The proposed increase was pursuant to the United States Attorney General's request for the commitment of additional resources to Organized Crime Drug Enforcement Task Force (OCDETF) cases, if appropriate funding became available. The initiative was not included in the president's budget. Consequently, narcotics DIT will remain at the current level of 10 to 12 percent.

Page 10, paragraphs 1 – 3

Criminal investigation did not include the paragraphs cited above in the response because they should be removed from the report. The inclusion of these paragraphs imparts little to the reader regarding CI's FY 2006 statistical accomplishments. In addition, the information was previously disclosed to the IRS in prior documents, and CI and/or the IRS have taken steps to make improvements. Making references to deficiencies cited in prior audits/reports without also referencing in detail the efforts of the IRS to improve its processes since the reports were released is not conducive to clarity or balance and should be removed.