



## Treasury Inspector General for Tax Administration Office of Audit

### CRIMINAL INVESTIGATION CAN TAKE STEPS TO STRENGTHEN OVERSIGHT OF ITS UNDERCOVER OPERATIONS

Issued on February 3, 2012

## Highlights

Highlights of Report Number: 2012-30-014 to the Internal Revenue Service Chief, Criminal Investigation.

### IMPACT ON TAXPAYERS

Criminal Investigation (CI) uses undercover operations as an essential technique in the detection and investigation of criminal activity involving tax and money laundering offenses. Our review determined that weaknesses in the controls over undercover operations continue to exist. Given the risks associated with undercover operations, stronger oversight helps ensure that undercover operations are properly managed and meet operational objectives, and that Federal tax dollars are used in the most efficient manner to ensure the public's confidence in CI's investigative techniques.

### WHY TIGTA DID THE AUDIT

This audit was part of TIGTA's Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. This review is a follow-up to TIGTA's Fiscal Years 2001 and 2002 reviews of CI undercover operations. The overall objective of this review was to determine whether CI has effective policies and procedures to ensure undercover operations are properly monitored, expenses are appropriate, and any income earned is properly controlled. In addition, TIGTA evaluated the practices used to protect the safety of special agents working on undercover operations.

### WHAT TIGTA FOUND

TIGTA found that other Federal law enforcement agencies respect CI's undercover program because of the financial expertise CI special agents bring to a joint investigation. TIGTA also found that CI's undercover practices appear to be more thorough in some aspects than other Federal agencies.

Although CI took steps to strengthen controls over its undercover operations in response to our Fiscal Year 2002 review, TIGTA identified repeat findings and determined that internal control weaknesses continue to exist because corrective actions were not implemented sufficiently. In addition, some undercover expenditures

that could be considered as questionable did not have documentation indicating the expenditures were preapproved.

Although CI's undercover agents said their training was sufficient and safety was emphasized, TIGTA believes that additional steps could be taken to protect the identity of undercover agents. TIGTA also determined that financial reviews of undercover operations that earned income, *i.e.*, churning, were not conducted timely.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief, CI: 1) modify existing guidance to include specific criteria regarding when operational and financial reviews are required, 2) develop a process to alert CI officials that operational and financial reviews are due, 3) strengthen controls to ensure that expenditures are properly and timely approved and documented, 4) strengthen procedures to protect the identity of undercover agents, and 5) ensure that the financial reviews of undercover operations with churning authority are requested within 90 calendar days after the undercover operation portion of the investigation is concluded.

In their response to the report, IRS officials agreed with the recommendations and plan to take corrective actions.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2012reports/201230014fr.pdf>.