



FISCAL YEAR 2003  
NATIONAL OPERATIONS

## **ANNUAL BUSINESS REPORT**

Internal Revenue Service  
Criminal Investigation

The Criminal Investigation Mission  
Criminal Investigation serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax systems and compliance with the law.



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## Chief (CI) Message – Nancy J. Jardini

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### Achieving Many Goals

Boardrooms to Baghdad and everywhere in between! Criminal Investigation (CI) was there! The FY 2003 National Operations Annual Business Report showcases CI's continued emphasis on tax administration and traditional support of important national law enforcement priorities. This report is a tribute to all employees, whose individual and collective efforts make CI such a unique and dynamic law enforcement agency.

In FY 2003, overall case initiations are up 2 percent from last year and prosecution recommendations and indictments rose 19 percent and 11 percent respectively. Criminal Investigation's highest investigative priority over the past several years has been not only to increase the number of tax case initiations but to concentrate on egregious, high impact investigations. The successful prosecution of major tax cheats fosters deterrence and enhances voluntary compliance. Criminal Investigation has partnered with the Small Business/Self Employed (SB/SE), Large and Mid-Sized Business (LMSB), and Tax Exempt & Government Entities (TE/GE) operating divisions to develop quality fraud referrals and joint strategies to identify and combat non-compliance with all of the enforcement tools available.

Tax evasion is a serious crime. In reviewing CI's FY 2003 Annual Business Report, particularly those sections dealing exclusively with tax offenses, I think most will agree the sentences imposed reflect the seriousness of the conduct!

National law enforcement priorities remain an important component of CI's work. The unique financial skills of our agents are in high demand. Criminal Investigation traditionally has made important contributions to task forces organized to combat money laundering, narcotics, and health care fraud. More recently, CI agents have become an integral part of the Department of Justice's Corporate Fraud Task Forces. Criminal Investigation continues to apply its expertise to help combat international and domestic terrorism as a member of the

Federal Bureau of Investigation's (FBI) Joint Terrorism Task Forces and is playing an important role in tracking down assets looted from Iraq by Saddam Hussein and his regime.

Commissioner Everson has made enforcement a top priority, and I am committed to making every effort to maximize CI's use of resources. Criminal Investigation is reviewing all aspects of the investigative process to make recommendations for streamlining administrative procedures, and enhancing productivity. These changes coupled with technology upgrades already being implemented will enable our employees to work smarter and faster without compromising quality.

In reviewing CI's current achievements it is important to look toward the future. Criminal Investigation is on the verge of hiring a significant number of agents to replace those that retired. The agents hired in recent years are outstanding and I ask all employees to continue to actively encourage qualified candidates to apply.

Further, it is important to note that while CI develops and implements strategies to recruit the best and brightest candidates available, a strong emphasis will be placed on building a diverse workforce. We are committed to ensuring a positive, professional environment that respects differences, values integrity, and capitalizes on the diverse talents of all employees. Diversity improves the quality of our workforce and offers a higher return on our investment in human capital.

I also encourage employees who have an interest in management to join the management team. If CI can continue to attract talented special agents and managers there is nothing we can't accomplish.



## Strategies

### IRS, Criminal Investigation FY 2003 Compliance Strategy

#### Achieving Many Goals

IRS Criminal Investigation serves the American public by investigating potential criminal violations of the Internal Revenue code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the laws.

The dynamic aspect of CI's mission is that tax evasion and money laundering schemes are limited only by human ingenuity and are constantly evolving. Criminal Investigation is working closer than ever before with the other IRS operating divisions to maximize the effectiveness of our enforcement tools. A new program titled "Abusive Tax Schemes" has been initiated to counter the proliferation of schemes using various flow-through entities and offshore financial arrangements.

During this fiscal year, CI also played a critical role in many important national law enforcement initiatives, especially the war on terrorism. The successful pursuit of international terrorists requires the ability to analyze complex domestic and international financial transactions. The skills of our agents have taken them half way around the world where they are assisting other law enforcement agencies and nations in tracking terrorist fundraising, curtailing the abuse of charities and pursuing assets looted by Saddam Hussein.

This year's achievements cut across a broad range of chronic and emerging compliance problems. Many significant prosecutions involving the non-filing of returns, employment tax fraud, refund crime, offshore tax evasion schemes and a wide variety of general tax fraud were brought to a successful conclusion. These accomplishments reflect the high caliber of specialized expertise and dedication of the IRS CI workforce.

#### Criminal Investigation FY 2003 Annual Business Plan

The operational priorities for CI's Compliance Strategy were:

- Support of the Non-Filer Strategy
- Address non-compliance with employment tax laws
- Refund and preparer crimes
- Electronic crimes (E-Crimes) and technology-based tax crimes (domestic and international)
- International and domestic terrorism
- Promoters of abusive foreign and domestic trusts and schemes based on frivolous legal arguments
- Inform and educate the public and enlist support of the professional community to counter abusive promotions
- Money laundering

Other program priorities included:

- Increasing the efficiency of criminal investigations
- Improving employee productivity and satisfaction

Criminal Investigation's Compliance Strategy objective for FY 2003 mandated continued emphasis on legal source

#### CI Overall Enforcement Statistics

	FY 2000	FY 2001	FY 2002	FY 2003
Investigations Initiated	3372	3284	3906	4001
Completed Investigations	3499	3340	3201	3766
Prosecution Recommendations	2434	2335	2133	2541
Convictions	2249	2251	1926	1824
Incarceration Rate	80.9%	84%	82.2%	84%

cases and other income tax related investigations. Criminal Investigation sustained the same level of legal and illegal source tax case initiations in FY 2003 that was achieved in FY 2002.

Criminal Investigation’s overall enforcement statistics (legal, illegal, and narcotics) for FY 2003 are reflected in the charts below:

Significant increases in prosecution recommendations, indictments, and convictions were also achieved in the following program areas during FY 2003 compared to FY 2002:

## Accomplishments

### Annual Strategies and Operational Priorities

#### Fraud Referrals from Other IRS Operating Divisions

To strengthen the fraud referral program, CI continues to conduct fraud awareness training classes for the Small Business/Self-Employed (SB/SE), Large and Mid-Size Business (LMSB), Wage and Investment (W&I), and Tax-Exempt and Government Entities (TE/GE) operating divisions. Fraud awareness training is one method used

#### Number of Subject Criminal Investigations Initiated by Category

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	FY 2001	FY 2002	FY 2003	Decrease <sup>1</sup>
Legal Source Tax	1020	1554	1506	(3.1%)
Illegal Source Tax	1313	1485	1535	3.4%
Narcotics	951	867	960	10.7%

<sup>1</sup> Increase/decrease from FY 2002 to FY 2003

#### Prosecution Recommendations      Indictments      Convictions

	Prosecution Recommendations	Indictments	Convictions
Questionable Refund	54.9%	21.6%	27%
Return Preparer	89.9%	78.7%	4.7%
Non-Filer	23.8%	0.4%	(3.1%)
Employment Tax	17.8%	(20%)	NA
Abusive Schemes	45.4%	65.9%	57.7%
Counter-Terrorism	270%	655%	18.8%



by CI to identify and develop legal source tax investigations. Like CI, SB/SE has established a Lead Development Center (LDC) to detect and combat abusive scheme promoters and return preparers. Additionally, the SB/SE LDC is a valuable source of fraud referrals. The 61 percent fraud referral acceptance rate for FY 2003 is only 2 percent less than the all-time high acceptance rate of 63 percent achieved in FY 2002.

Focusing on the coordinated enforcement efforts of the civil and criminal functions at IRS has proven to be a powerful tool in combating tax-related schemes. This effort has resulted in the development of parallel

investigation procedures that maximize the effectiveness of civil and criminal sanctions. These parallel investigations permit the simultaneous investigation and litigation of separate criminal and civil cases involving a common set of facts. Today, civil injunctions are used to stop a scheme promoter from continuing to sell his/her scams while a criminal investigation is on-going.

**Refund Fraud Program**

Criminal Investigation’s efforts to deter refund fraud are critical to overall tax compliance. Both internal and

**Questionable Refund Program Statistics**

	FY 2000	FY 2001	FY 2002	FY 2003
Investigations Initiated	154	170	328	291
Prosecutions Recommended	95	113	144	223
Indictment/Information	102	95	125	152
Convictions	104	102	100	127
Incarceration Rate	79.4%	88.3%	88.2%	90.6%
Average Months to Serve (w/Prison)	19	22	21	24
Average Months to Serve (All Sentence)	15	19	19	22

**Return Preparer Program Statistics**

	FY 2000	FY 2001	FY 2002	FY 2003
Investigations Initiated	139	116	254	229
Prosecutions Recommended	62	73	89	169
Indictment/Information	61	70	61	109
Convictions	58	63	64	67
Incarceration Rate	84.3%	92.9%	86.8%	83.7%
Average Months to Serve (w/Prison)	20	20	27	23
Average Months to Serve (All Sentence)	17	19	23	19

external stakeholders play a valuable role. Criminal Investigation works with W&I to address the organizational and systemic issues involved with refund-related crimes. In CI's efforts to enlist the support of the practitioner community, a new fraud alert poster and brochures were published and distributed to further community outreach.

Fraud and abuse associated with the Questionable Refund Program (QRP) and the Return Preparer Program (RPP) are increasing. A primary contributing factor to this increase in fraud is identity theft. Additionally, the Earned Income Tax Credit (EITC) program remains subject to widespread abuse. To more effectively combat fraud, CI is evaluating a streamlined investigative and report writing process to reduce elapsed time and bring the investigations quickly to fruition. The use of the Service's Electronic Fraud Detection System and the analytical skills of the Fraud Detection Centers (FDC) have enabled CI and W&I to develop effective deterrents to both QRP and RPP schemes.

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The following case summaries are excerpts from public record documents on file with the courts in the judicial district in which the cases were prosecuted.

### **Lubbock Man Sentenced To Serve 30 Months In Prison Following Federal Tax Conviction**

On August 12, 2003, in Dallas, TX, Emilio Chavez, Jr., a tax return preparer, was sentenced to 30 months in prison following his May 2003 guilty plea to one count of false, fictitious or fraudulent claims on income tax returns. Chavez was also ordered to pay \$126,315 in restitution to the IRS.

During the 2001 filing season, Chavez prepared approximately 100 income tax returns and of those, 25 were fraudulent and claimed false income tax refunds. Chavez admitted that he would take basic Form W-2 information from clients and then give them a verbal estimate of their tax refund. Unknown to the client, Chavez would prepare and report a fictitious Schedule C on their return showing the client to be a self-employed long haul trucker. The Schedule C would reflect fictitious amounts of income and expenses. Chavez would also prepare a fraudulent Form 4136, Credit for Federal Tax Paid on Fuels, which reflected that the client was entitled to a fuel

tax credit. Chavez knew he was creating a large fraudulent income tax refund to which the client was not entitled.

Chavez electronically filed these returns and requested that the refund be direct-deposited into a Refund Anticipation Loan account. When the refund was received, Chavez would issue a check to the client for the smaller estimated refund he had previously quoted and keep the difference. The total amount of the fraudulent income tax refunds claimed by Chavez on the 25 false returns was \$318,407.

### **Three Sentenced For Filing Numerous Bogus Tax Returns**

On March 19, 2003, in Los Angeles, CA, Leroy Green was sentenced to 30 months in prison and ordered to pay \$195,998 in restitution. Green was convicted on ten counts, including one count of conspiracy to defraud the United States by filing false refund claims. On January 21, 2003, Herman Hill, and his wife Sharon Fields-Hill were sentenced after pleading guilty to filing 30 false income tax returns with the IRS that claimed refunds of \$69,529. Hill was sentenced to an 18-month prison term and ordered to pay \$213,878 in restitution. Fields-Hill was sentenced to six months home detention and ordered to pay \$43,152 in restitution. Green, Hill, and Fields-Hill prepared tax returns that contained bogus self-employment Schedule C-EZ and Schedule C forms that resulted in false claims for refunds based upon the Earned Income Tax Credit.

### **Over \$2.7 Million in Bogus Refunds Claimed**

On October 24, 2002, in Baltimore, Maryland, Mark A. Knight was sentenced to 40 months in prison for aiding and assisting in the preparation and filing of more than 1100 fraudulent federal income tax returns seeking over \$2.7 million in refunds from the IRS. Knight offered taxpayers his services in preparing amended income tax returns by falsely claiming that he was previously employed with the IRS. Knight charged his clients \$100 for each return prepared. Typically, Knight fraudulently claimed unreimbursed business expenses, false medical deductions, and personal property taxes on the returns he prepared.

**Non-filer Program**

The IRS has a national non-filer strategy that addresses this chronic compliance problem. Criminal Investigation plays an important role in this strategy. In addition to its investigative efforts, CI launched a fraud alerts page on the Internet summarizing recent prosecutions to inform taxpayers about the serious consequences that can result from the failure to file required tax returns. This site is also linked to a paper prepared by IRS Chief Counsel that refutes the frivolous arguments employed by some non-filers. See [www.irs.gov](http://www.irs.gov) and type in "key word: Fraud" for more information. Non-filer investigations remain an important investigative priority.

The following case summaries are excerpts from public record documents on file with the courts in the judicial district in which the cases were prosecuted.

**Maximum Sentenced Received**

On October 1, 2002, Edward Bruce Baker of Altamonte Springs, Florida was sentenced to 24 months in prison on two counts of failure to file federal income tax returns and was remanded to the custody of the Marshals at that time. During 1994, Baker received gross income of approximately \$231,339 and in 1995 received approximately \$281,824. Baker failed to file returns for either of these years. Baker was found guilty by a jury on July 22, 2002.

**Longest Prison Term for Tax Offenses in Alaska**

On November 21, 2002 in the District of Alaska, Richard Ray Blankenship received the longest sentence ever imposed in Alaska for tax-related offenses. Blankenship was sentenced to eight years and eight months in prison.

Blankenship renounced his US citizenship and social security number, claiming he had no obligation to the Internal Revenue Service. Blankenship has not filed a legitimate tax return since 1994. The indictment filed on June 19, 2002, charged him with willful failure to file returns for 1996, 1997, 1998, 1999 and 2000. The indictment also charged Blankenship with several counts of mailing threatening communications and passing fictitious obligations.

On September 12, 2002, a federal trial jury in Anchorage convicted him of failing to file federal income tax returns, mailing threats to judges and attempting to pay a hospital bill with a fraudulent United States Treasury sight draft.

In imposing sentence, Chief Judge John Sedwick commented that Blankenship's conduct was among the most selfish he had ever encountered. He likened Blankenship to a recruit who was always out of step with the rest of his company and reminded him of his obligations to pay taxes and obey the law.

**Non-filer Program Statistics**

	FY 2000	FY 2001	FY 2002	FY 2003
Investigations Initiated	376	464	503	536
Prosecutions Recommended	257	269	244	302
Indictments/Information	265	257	233	234
Convictions	232	219	227	220
Incarceration Rate	80.1%	83.2%	88.1%	81.7%
Average Months to Serve (w/Prison)	39	43	45	44
Average Months to Serve (all Sentence)	33	36	49	40

**Owner of Video Stores Failed to Report \$1 Million in Income**

On November 7, 2002, in Mobile, Alabama, David Eugene Bryan was sentenced to 27 months in prison followed by three years supervised release and ordered to pay restitution in the amount of \$414,124 to the U.S. Treasury, after pleading guilty to tax evasion. Bryan failed to file federal income tax returns and report his income from the operation of several video stores for the years 1996 through 2000. Bryan used eight different bank accounts for depositing his gross receipts, but he placed five of those bank accounts in the names of nominees. In addition, he failed to deposit all of the cash receipts from his businesses into these bank accounts. Bryan admitted that he dealt extensively in cash, diverted business income for personal use, and failed to keep accurate books and records of his business. As a result, he intentionally failed to report approximately \$1,019,034 in taxable income and failed to pay approximately \$414,124 in federal income taxes.

**Employment Tax**

Ensuring that income and employment taxes are withheld and paid to the government is an important compliance issue. Since 1999 CI has placed increased emphasis on investigating a wide variety of employment tax evasion schemes.

The following case summaries are excerpts from public record documents on file with the courts in the judicial district in which the cases were prosecuted.

**Operator of Convenience Stores Evaded \$247,000 in Employment Taxes**

On July 25, 2003, in New Haven, CT, Russell Mahler, Sr., who operated a chain of gasoline/convenience stores, was sentenced to 18 months imprisonment followed by three years supervised release. Mahler was also ordered to pay a fine of \$40,000 and all back taxes, plus interest and penalties. Mahler pleaded guilty on March 11, 2003, to conspiring to impede the functions of the IRS. Mahler's son, Russell Mahler II, also pleaded guilty to the same charges in March and had been sentenced in May 2003 to one year and one day imprisonment followed by three years supervised release. The Mahlers admitted to paying a substantial portion of many of their employee's wages in cash and failing to pay over to the IRS payroll taxes totaling an estimated \$247,000. In addition, Russell Mahler, Sr. admitted evading about \$46,000 of his personal income taxes.

**Small Business Consultant Withdrew Over \$1 Million from Client's Payroll Accounts**

On July 14, 2002, in Kansas City, KS, Floyd McMillon, owner of Acculine Consulting Group, Inc., was sentenced to 63 months in prison and ordered to pay more than \$621,000 in restitution to the small businesses he

**Employment Tax Statistics**

	FY 2000	FY 2001	FY 2002	FY 2003
Investigations Initiated	36	64	92	104
Prosecutions Recommended	38	40	56	66
Indictments/Information	47	33	55	44
Sentenced	45	31	41	45
Incarceration Rate	80.0%	74.2%	78.0%	75.6%
Average Months to Serve (w/Prison)	17	20	19	27
Average Months to Serve (all Sentence)	13	15	15	20

defrauded. McMillon pleaded guilty on February 10, 2003, to one count of filing a false tax return and one count of failing to pay over taxes to the IRS. McMillon's business, Acculine Consulting Group, Inc., provided tax return preparation, bookkeeping and payroll services for small businesses. Acculine calculated employment taxes to be withheld from the paychecks of employees of the businesses, withdrew that amount from the businesses bank accounts, deposited the funds into Acculine's bank account, and submitted the required employment tax forms to the IRS. However, McMillon admitted that he withdrew more than \$1 million from Acculine's bank account which was set up to pay the employment taxes.

#### **Construction Contractor Pleads Guilty in \$3.6 Million Employment Tax Fraud Case**

On March 14, 2003, in Memphis, TN, David Cantu Jr., was sentenced to 48 months in prison, ordered to pay \$860,435.13 in restitution to the IRS and pay a forfeiture amount of \$10,000,000 to the United States. On December 17, 2002, David Cantu, Jr. and his company, Brother's Construction II, pleaded guilty to conspiracy to commit money laundering and willful failure to file proper payroll taxes, as well as conspiracy to harbor, encourage, or induce aliens to work at a variety of construction sites. The construction sites included the Adelphia Stadium, home of the Tennessee Titans NFL team, and the Federal Express World Headquarters. Cantu maintained the workers were 'independent contractors' and his company was not responsible for taxes. During a five quarter tax period covering January 1, 1999, and ending March 31, 2000, Cantu, doing business as Brother's Construction II, paid in excess of \$3.6 million in gross wages to employees, which should have resulted in approximately \$631,478 in payroll taxes and federal withholding taxes.

#### **Owner of Temporary Employment Services Businesses Sentenced**

On January 3, 2003, in Boston, MA, Hong Van Lam was sentenced to two years in prison, to be followed by three years supervised release and ordered to pay restitution in the amount of \$372,000 to three insurance companies he defrauded. Lam pleaded guilty to a three-count information charging him with filing false personal and employment tax returns and with mail fraud. Lam established a business for the purpose of providing

temporary employment services to contracting companies in the Boston area. The business operated until the spring of 1998 using various names, including New England Temporary Work, New England Temp Work and N. Tech Temp Service. Lam, along with others, opened and ran these businesses in the names of three individuals who acted as "straws" in order to hide their true ownership. During this time, no income tax returns were filed by any of the businesses, however, U.S. Quarterly Employment Tax Returns were filed which underestimated both the maximum number of employees during any quarter, and the annual payroll. It is estimated that Lam will owe the IRS \$575,000 in taxes, plus penalties and interest.

#### **Former Owner of Defunct Security Agency Sentenced to 32 Months**

On December 11, 2002, in Philadelphia, PA, Samuel Kuttab, former owner of the now defunct Central Security Agency was sentenced to 32 months in prison, to be followed by 3 years supervised release. In addition, Kuttab was fined \$10,000 and ordered to pay all back taxes, with interest and penalties. On June 26, 2002, Kuttab pleaded guilty to federal charges of conspiracy and tax fraud. Central Security Agency paid some employees in cash to avoid paying withholding taxes, thus causing the filing of false Forms 941. Kuttab also admitted to not filing federal tax returns for 1992 to 1999. The estimated tax loss is \$2 million for both personal and business returns.



## Abusive Trust Schemes

Abusive tax promotions have proliferated in recent years, creating a significant threat to the nation’s revenue. Promoters and return preparers have grown increasingly sophisticated and the Internet provides promoters instantaneous and inexpensive access to a wide audience. These advantages have permitted tax schemes to proliferate at a phenomenal rate, sometimes faster than the IRS has been able to react. Criminal Investigation plays an important role in combating abusive tax schemes by focusing their investigative efforts on the promoters and prominent clients.

Abusive tax schemes have evolved from the abusive trust promotions that historically were the primary vehicle for committing these frauds. The growing complexity of the schemes coupled with the extensive use of various flow-through entities and offshore financial arrangements has necessitated expanding the CI Foreign and Domestic Trust Fraud Program. Beginning in FY 2004, the newly renamed Abusive Tax Schemes Program will encompass all methods used by promoters and preparers to assist their clients evade tax.

The following case summaries are excerpts from public record documents on file with the courts in the judicial district in which the cases were prosecuted.

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### Millions of Dollars Transferred to Corporations, Trusts, and Bank Accounts in Ireland, the Bahamas, Gibraltar, and the Isle of Jersey

On August 22, 2003, in Sacramento, CA, Neil R. Brown was sentenced to 70 months imprisonment to be followed by three years supervised release. In addition, Brown was ordered to pay \$4,797,603 in restitution to the victims of his crimes. In March 2003, Brown pleaded guilty to conspiracy to defraud the U.S. by impairing the IRS in the assessment, and collection of federal income taxes; aiding or assisting the filing of false tax returns; conspiracy to commit mail and wire fraud, and mail and wire fraud.

Evidence presented in court, showed that from about July 1, 1993, through about November 15, 2000, Brown and his associates schemed to defraud the U.S. by marketing a program that used foreign corporations and trusts to conceal income and assets from the IRS while giving the false appearance of legitimate business expenses. Under Brown's scheme, clients formed foreign corporations and trusts in the Bahamas and were advised to transfer money and income to these foreign entities. The funds were repatriated back to the clients without paying taxes on it through fictitious loans or through the use of credit cards.

Further, from about January 1, 1996, through about November 15, 2000, Brown and his associates schemed to defraud the U.S. by counseling their clients to transfer

## Abusive Trust Scheme Statistics

	FY 2000	FY 2001	FY 2002	FY 2003
Investigations Initiated	47	79	108	79
Prosecutions Recommended	44	30	55	80
Indictments/Information	53	32	44	73
Convictions	31	45	26	41
Incarceration Rate	93.1%	80.8%	88.2%	79.1%
Average Months to Serve (w/Prison)	33	64	32	45
Average Months to Serve (all Sentence)	31	52	28	47

their rights to employment, money, and income to foreign entities as part of a fictitious "employee leasing" program. The purpose of the program was to give the appearance that the clients earned substantially less income than they actually had.

### **Promoter of Sham Trusts Sentenced 2100 Months Imprisonment**

On September 17, 2003, in Charlotte, NC, Terry W. Stewart was sentenced to 2100 months in federal prison and ordered to pay approximately \$28 million in restitution for his role in a \$56 million "Ponzi" scheme known as Banyan International Limited ("Banyan"). In the same case, five other defendants, Phillip Mark Vaughan, Philip B. Greer, Timothy B. Burnham, John Reaser, and Howard T. Prince, III, have already been sentenced. Stewart became involved in various groups which encourage and assist individuals to evade taxes and other liabilities by "asset protection" schemes which involve hiding assets, income, and activities in sham or abusive trusts or other purported entities, but supposedly allow the owner to continue to control the income and assets. Eventually Stewart became a leader in such groups, including National Director of Customer Services and Regional Manager for Commonwealth Trust Company, a group which provided sham trusts or similar arrangements, including their so-called "Pure Trust Organizations" [PTOs], for persons who wanted to evade taxes. On November 9, 2001, Stewart was convicted by jury on 27 counts, including conspiracy to commit money laundering, bank fraud, and securities fraud. The use of sham trust arrangements was done to evade federal income tax obligations. In addition, accounts were opened in an offshore bank on the island of St. Vincents, which Banyan could control from the United States and which would cater to persons using sham trusts or other devices to evade taxes.

### **Abusive Trust Scheme Promoter Goes to Federal Prison**

On August 11, 2003, in Los Angeles, CA, Edward J. Lashlee was sentenced to 36 months imprisonment and fined \$12,500. Lashlee pleaded guilty on March 7, 2003, to creating thousands of abusive trusts that helped

hundreds of people hide their income and assets. According to court records, Lashlee promoted trust investments into "The Genesis Fund," which claimed to be an unregulated private investment fund based in Orange County that engaged in foreign currency trading through offshore brokerage accounts. Lashlee admitted that he handled the transfer of approximately \$24 million of Genesis investor funds to offshore bank accounts in Hong Kong and elsewhere.

Lashlee provided clients with offshore bank accounts and Visa debit cards issued by Swiss American National Bank of Antigua. These cards enabled clients to secretly retrieve and spend money that had been transferred from offshore accounts. Lashlee also created trusts for business owners that improperly deducted the clients' personal expenses, such as loan payments, rent, and personal living costs, as expenses of the trust. Phony business expenses were also created for the trust, such as bogus debts, so that the trust tax returns would report little or no taxable income for the clients' businesses. In his guilty plea agreement, Lashlee also admitted that, from 1992 through 2000, he failed to report approximately \$3 million in income he earned from promoting abusive trusts.

### **Contractor Sentenced for Tax Evasion**

On July 14, 2003, in Fresno, CA, Michael Gilbert was sentenced to 24 months imprisonment followed by 36 months supervised release. Gilbert pleaded guilty on December 23, 2002, to not paying more than a quarter-million dollars in taxes. By entering his plea to five counts of tax evasion, Gilbert admitted to several elaborate schemes to avoid paying over \$266,000 in federal income taxes. The methods used to hide his assets included transferring assets into trusts, using fraudulent business licenses, conducting cash transactions, using false social security numbers, filing inaccurate Currency Transaction Reports (CTR's), providing false taxpayer identification numbers, utilizing a concealed room within his residence to store hundreds of thousands of dollars in cash, using incorrect identifying information when opening up bank accounts and failing to file tax returns.

**Golf Course Architect Sentenced to 121 Months Imprisonment**

On July 31, 2003, in West Palm Beach, Florida, Theodore M. McAnlis, a well-known golf course architect, was sentenced to 121 months imprisonment, followed by three years supervised release. In addition, McAnlis was ordered to pay the costs of prosecution and to cooperate with the IRS to pay back taxes. On April 9, 2003, McAnlis was convicted on eight counts of income tax evasion. Evidence presented during trial showed that McAnlis concealed his income and assets from the IRS by using common law trusts, a sham church, false social security numbers, nominee names, and a Bahamian bank account. The estimated loss to the government was over \$1.3 million in federal taxes, penalties and interest.

**Former CPA Sentenced to 39 Months in Prison for Tax Fraud Using Abusive Trust Arrangements**

On November 24, 2003, in Phoenix, Arizona, Ralph N. Whistler, a certified public accountant, was sentenced to 39 months in prison. On July 30, 2003, Whistler was convicted of 15 felony counts of aiding and assisting in the preparation and filing of false 1995 federal income tax returns. According to evidence, Whistler purchased a so-called "trust package" that purported to legally reduce his federal income tax liabilities. Whistler then modified this package which he promoted and sold to approximately 20 clients for between \$5,000 and \$10,000 per client. Clients testified that Whistler directed them to transfer business income to and through a series of bank accounts titled in the names of trusts. Whistler claimed the amounts placed in these bank accounts as deductions on the client's federal income tax returns.

**Dentist Used Sham Trusts to Evade Payment of Taxes**

On December 16, 2002, in Detroit, Michigan, Dr. Gerald T. Mann, a dentist, was sentenced to 28 months in prison, followed by three years supervised release, ordered to perform 300 hours of community service and fined \$6,000. Dr. Mann was also ordered to make arrangements with the IRS to file corrected returns and pay all back taxes, including interest and penalties.

On April 11, 2002, Dr. Mann, along with his wife, Laurel Rose Mann, were indicted on three counts of willfully

failing to file a 1993, 1994, and 1995 income tax return and three counts of willfully attempting to evade and defeat a substantial portion of their 1993, 1994, and 1995 income tax due and owing. The combined gross income was approximately \$671,000. Dr. Mann pleaded guilty to tax evasion by failing to file a 1994 federal tax return, coupled with affirmative acts of evasion by creating and using sham trusts. Since 1993, Dr. Mann has not filed federal or state income tax returns and has used nominee bank accounts and sham trusts to evade the payment of taxes. He put his dental practice into a trust and used a trust with an offshore foreign business address to move money from the dental practice to a Swiss bank account.

## Other Programs

### Counterterrorism

Prior to the events of September 11, 2001, CI's role in counterterrorism primarily involved the investigation of domestic terrorism, typically involving extremist groups that espouse anti-government beliefs. Criminal Investigation was often involved in investigations of individuals affiliated with these groups because of their reluctance to comply with our tax laws. Criminal Investigation also participated on a limited basis in the FBI Joint Terrorism Task Forces (JTTFs) in accordance with the Attorney General's counterterrorism plan. However, the events of September 11th increased CI's counterterrorism commitment. Financial investigations are a critical part of the total war on terrorism and CI's expertise continues to be in high demand.

On a nationwide level, CI is now fully embedded with the FBI's JTTFs and the Attorney General's Anti-terrorism Task Forces (ATTFs), concentrating on the financial infrastructure and the fundraising activities of domestic and international terrorist groups. Criminal Investigation works diligently with the FBI, other law enforcement agencies, the Department of Treasury, and the Department of Justice (DOJ) to disrupt and dismantle the financial components of terrorist organizations. Money laundering and income tax investigations relating to

terrorist fundraising activities and investigations involving the use of tax exempt organizations to finance terrorist activities are a high investigative priority.

Aside from CI's association with domestic task forces, CI's counterterrorism program includes direct participation in a multi-agency, multi-government, financial investigative task force located in Riyadh, Saudi Arabia. At the request of the Saudi Arabian government, CI has recently agreed to partner with the FBI and Saudi investigators in a cooperative arrangement designed to provide access to financial information previously considered to be unattainable. Criminal Investigation special agents are adept at conducting sophisticated financial investigations and their unique statutory jurisdiction over tax, money laundering and Bank Secrecy Act offenses should prove extremely useful.

In addition to the increased support to investigative task forces, CI has recently assumed a new role regarding the war on terrorism and the international conflicts in the Middle East. The Department of Treasury, armed with executive orders and United Nation resolutions, has been tasked with identifying and tracing assets belonging to the former Hussein regime for repatriation to the Iraqi people. In this Treasury-directed effort, CI has assumed the leading role and has partnered with the Department of Defense (DOD), various intelligence agencies, and other Treasury bureaus to accomplish this mission.

### Counterterrorism Statistics

	FY 2002	FY 2003
Investigations Initiated	157	151
Prosecutions Recommended	20	54
Indictments/Information	9	68
Convictions	16	19
Incarceration Rate	100.0%	90.5%
Average Months to Serve (w/Prison)	41	40
Average Months to Serve (all Sentence)	41	36

The following case summaries are excerpts from public record documents on file with the courts in the judicial district in which the cases were prosecuted.

### **Benevolence Director Sentenced After Pleading Guilty To Racketeering Conspiracy**

On August 18, 2003, in Chicago, IL, Enaam M. Arnaout, the executive director of Benevolence International Foundation, Inc. (BIF), a purported charitable organization based in south suburban Chicago, was sentenced to 136 months in prison after pleading guilty in February 2003 to racketeering conspiracy. Arnaout admitted that he fraudulently obtained charitable donations in order to provide financial assistance to persons engaged in violent activities overseas. Arnaout was ordered to pay restitution in the amount of \$315,000 to the Office of the United Nations High Commissioner for Refugees. Arnaout admitted that for approximately a decade BIF was defrauding donors by leading them to believe that all donations were strictly being used for humanitarian purposes, while instead a material amount of the funds were diverted to fighters overseas. Arnaout specifically admitted providing items for fighters in Chechnya and Bosnia.

### **Mohamad Hammoud Sentenced to 155 Years**

On February 28, 2003, Mohamad Youssef Hammoud, 29, was sentenced to 155 years imprisonment. Hammoud, a native of Lebanon, was convicted by a federal jury in Charlotte, NC, of providing material support to a designated foreign terrorist organization, Hizballah. Mohamad Hammoud and his brother, Chawki Hammoud, were both found guilty on numerous other criminal counts, including racketeering, conspiracy, cigarette smuggling, money laundering, and immigration fraud. The guilty verdicts were returned following a five-week jury trial.

Originally code-named "Operation Smokescreen," the investigation went on for approximately four years. Trial testimony revealed the story of a group of young Lebanese men who came to this country illegally through fraudulently obtained visas, remained in this country through fraudulent marriages to U.S. citizens, and while

living here conspired to commit a host of crimes (interstate smuggling of contraband cigarettes, the laundering of the proceeds and bank and credit card fraud) and sent some of the proceeds of their criminal enterprise to Hizballah, a designated foreign terrorist organization.

Twenty-five individuals had been charged in the case. Eighteen of the 25 entered guilty pleas and only the Hammoud brothers requested trial by jury, which resulted in their convictions. Ten individual defendants have been convicted of conspiring under the RICO statutes to engage in a series of criminal offenses and sending some of the illegal proceeds to Hizballah. Six people were indicted for providing material support and resources to a designated foreign terrorist organization and of the six, one entered a guilty plea and the other, Mohamad Hammoud, was the first conviction in the country at trial under the statute. Four defendants charged with material support remain fugitives, including the chief of Hizballah's procurement activities, the leader of Hizballah in the Beirut suburbs, and a top Hizballah operative. A fifth fugitive is charged with conspiracy to commit cigarette smuggling and money laundering.

Prior to September 11, Hizballah was responsible for the deaths of more Americans than any other terrorist group. Hizballah attacked the Marine barracks in Lebanon in 1983 resulting in the deaths of over 250 American soldiers. Hizballah also attacked the American Embassy in Lebanon in 1983. Today Hizballah remains very active and threatens the entire Middle East peace process.



**Money Laundering**

Money laundering is a term given to the various methods by which individuals attempt to make illegally earned money appear legitimate and to facilitate the evasion of a variety of taxes. Since September 11, 2001, the definition of money laundering has expanded to include the movement of money into or through the United States for the purpose of supporting terrorist activities.

The ability to launder money is critically important to criminal organizations because it not only enables them to promote and finance their illegal activities but also to enjoy their ill-gotten gains. The ways money can be laundered are limited only by the imagination and the available resources of the individual.

Money laundering is a threat to tax administration because tax and money laundering violations are closely related and involve similar activities. Illicit funds are rarely reported on tax returns. Money laundering is not only used by criminal enterprises to conceal their illegal proceeds but is also an integral part of many tax evasion schemes. Criminal Investigation’s Suspicious Activity Report (SAR) review teams, in each of the 35 CI field offices, have proven extremely useful in detecting not only money laundering cases, but also legal and illegal source tax schemes. To effectively utilize its resources, CI targets high-profile money laundering investigations, particularly those that directly or indirectly enhance tax compliance.

Criminal Investigation is one of the key agencies supporting the National Money Laundering Strategy. This strategy was designed to coordinate the Federal government’s anti-money laundering efforts. To further the goals of the National Money Laundering Strategy, the Department of Treasury has provided \$3.1 million per year to CI to equip and staff task forces located in High Intensity Financial Crime Areas (HIFCA). These funds are also used to support other money laundering task forces, SAR review teams, and to develop an electronic Bank Secrecy Act (BSA) report filing system for the Financial Crimes Enforcement Network (FinCEN).

The following case summaries are excerpts from public record documents on file with the courts in the judicial district in which the cases were prosecuted.

**Telemarketing Fraud Promoter Sentenced to 292 Months**

On June 6, 2003, in San Diego, California, Marc Levine was sentenced to 292 months in custody, 3 years supervised release and was ordered to pay restitution in the amount of \$49,050,378.00. Levine was the lead defendant in a 4 1/2-month telemarketing fraud/money laundering trial in the Southern District of California. Levine was sentenced following his conviction on multiple counts including conspiracy, money laundering, mail fraud, and wire fraud charges. The scheme operated by Levine and others involved a series of offerings that were

**Money Laundering Statistics**

	FY 2000	FY 2001	FY 2002	FY 2003
Investigations Initiated	1606	1459	1448	1590
Prosecutions Recommended	1342	1294	1061	1141
Indictments/Information	1279	1237	943	1041
Sentenced	884	897	861	667
Incarceration Rate	87.7%	89.4%	89.5%	89.2%
Average Months to Serve (w/Prison)	71	71	72	68
Average Months to Serve (all Sentence)	66	66	70	66

pitched to investors which included investments in partnerships that purported to be ongoing businesses about to begin profitable operations. The businesses involved pay-per-call service providers, and "virtual shopping malls" on the Internet, which were similar to "QVC" and the "Home Shopping Network" shows on cable television. The scheme defrauded over 3,000 victims of nearly \$50,000,000.

**Leader Of \$74 Million Investment Fraud Scheme Involving More Than 3,200 Victims Sentenced To 30 Years' Imprisonment**

On July 28, 2003, in Seattle, WA, John W. Zidar the leader of a fraudulent investment program that defrauded more than 3,200 victims in the United States and Canada of approximately \$74 million was sentenced to 30 years imprisonment. Zidar was convicted in August 2002 of seven counts of mail fraud, seven counts of wire fraud, and nine counts of money laundering. Five additional people, Steven C. Moreland, John W. Matthews, Elizabeth Anne Phillips, William H. Cravens, and Larry Hall, either entered guilty pleas, or were convicted at trial on charges of fraud and conspiracy in connection with the same fraudulent investment scheme.

Beginning in 1997 and continuing until 2000, the defendants induced members of the public to invest in a series of purported investment funds called Vista International (Vista), Oakleaf International (Oakleaf), and Rosewood International (Rosewood). Investors were

required to pay \$1,028 to purchase a unit in Vista or \$1,294 to purchase a unit in Oakleaf or Rosewood. The defendants promised investors a return of 120% per year and told them their principal was assured against loss. Further, investors were told that if they rolled a single unit over for ten years it would be worth millions of dollars. In fact, the defendants were operating a Ponzi scheme, in which early investors were paid with later investors' money. The evidence at trial established that the defendants diverted millions of dollars for their own use. The defendants also laundered millions of dollars through bank accounts in Samoa, the Bahamas, and Costa Rica. The government has recovered in excess of \$20 million dollars of victims' money from bank accounts controlled by the defendants and assets purchased by the defendants using victims' money. The money recovered will be returned to the victims of the fraud.

**Narcotics Related Financial Crimes**

Criminal Investigation's Narcotics Related Financial Crimes Strategy supports the goals of the National Drug Control Strategy and the National Money Laundering Strategy by seeking to reduce or eliminate the profit and financial gains of narcotics trafficking and money laundering organizations.

With its specialized financial investigative expertise, CI plays a unique role in the "war on drugs." Criminal Investigation's mission is to disrupt and dismantle significant narcotics trafficking and narcotics money

**Narcotics Related Financial Crime Statistics**

	FY 2000	FY 2001	FY 2002	FY 2003
Investigations Initiated	1109	951	867	960
Prosecutions Recommended	926	847	659	684
Indictments/Information	871	812	585	653
Convictions	785	766	616	585
Incarceration Rate	87.8%	88.6%	89.7%	90.3%
Average Months to Serve (w/Prison)	78	80	80	76
Average Months to Serve (all Sentence)	76	79	81	77

laundering organizations through the financial investigation and prosecution of those involved and the seizure and forfeiture of their profits. Criminal Investigation uses all statutes within its statutory jurisdiction to accomplish this mission.

Criminal Investigation is a participating member of the Organized Crime Drug Enforcement Task Force (OCDETF) Program, which was established in 1982. By focusing on sophisticated cases that meet the high OCDETF designation standards, CI contributes significant value to the overall investigative effort.

The High Intensity Drug Trafficking Areas (HIDTA) Program was established to provide assistance to federal, state, and local agencies operating in areas most adversely affected by drug trafficking. Criminal Investigation supports the HIDTA program with staffing resources.

The following case summaries are excerpts from public record documents on file with the courts in the judicial district in which the cases were prosecuted.

#### **Seattle Man Sentenced**

On May 15, 2003 in Seattle, Washington, Melvin J. Jordan was sentenced to 110 months in prison for his role in a drug distribution and money laundering conspiracy, which took place between 1999 and 2001. From at least 1999 to 2001 Jordan was involved in a marijuana distribution conspiracy with co-defendant James Altenburg and others. Jordan purchased at least 15 pounds of marijuana per month. After purchasing the marijuana, which totaled at least 270 pounds, Jordan sold the marijuana to other persons at a profit. Jordan spent over \$700,000 to purchase the drugs during the course of the conspiracy.

Jordan used at least \$358,864 of the profits from the marijuana sales to purchase, furnish, sell and/or gift 5 real properties and 9 vehicles. Jordan also spent at least \$474,914 for various personal items. Jordan's primary source of income came from drug dealing. With the help of others, Jordan concealed his ownership of the properties and the vehicles.

#### **Omaha man sentenced to eight years**

On February 26, 2003, Gary A. Storey was sentenced to eight years and one month in prison, to be followed by five years supervised release. Storey entered a guilty plea on October 11, 2002, to drug conspiracy and money laundering charges, and agreed to the forfeiture of currency and property totaling over \$2,000,000.

Storey admitted that on or about September 6, 1998 through November 1, 2001, he conspired with others to distribute more than 100 kilograms of marijuana. On or about July 22, 2000, Storey purchased a 2001 Dodge Ram 1500 Quad Cab pickup truck, knowing that the monies used to make the purchase were derived from illegal drug activity.

Storey agreed to forfeit several pieces of property derived from the drugs proceeds, including trucks and residential property, \$371,920.00 from the sale of motorcycles, lake properties and assets in a brokerage account and \$902,284.00 in currency that was seized by the government on November 1, 2001. The Judge found that Storey was a manager or supervisor of at least five people in the conspiracy and that factor was taken into account in determining the sentence.

#### **Federal Tax Evasion Lands Lawyer 42 Months in Federal Prison**

On February 28, 2003, in Gainesville, FL, Henry John Uscinski, Esq. was sentenced to 42 months in prison, to be followed by three years of supervised release and was ordered to pay a \$250,000 fine. Uscinski pleaded guilty to evading his taxes by failing to include \$1.5 million he received from his client Claude DeBoc in 1996. Uscinski admitted that he knew the funds he received were drug proceeds. Uscinski is the third lawyer to be prosecuted for misuse of funds received from DuBoc. Previously, F. Lee Bailey spent 44 days in federal prison on a contempt conviction and Penelope Shelfer was sentenced to 135 months for her part in a money laundering conspiracy with DuBoc.

## Electronic Crimes and Technology Based Tax Crimes

Computers are increasingly used to facilitate or commit sophisticated financial crimes. The records of financial transactions are moving from the paper ledger to the computer, to off-site, online storage. Criminal Investigation is a leader in developing tools and techniques to track and find records, wherever they may be.

The IRS CI Office of Electronic Crimes was formed in 2001 to organize and develop CI's expertise in the critical area of computer forensics. In FY 2003, Computer Investigative Specialists (CIS) assigned to the Electronic Crimes program participated in over 800 search warrants and seized and processed over 85 terabytes of data. This represents a tenfold increase over FY 2001 and more than a hundred fold increase in five years. Criminal Investigation set the standard for processing digital information seized during search warrant execution. Electronic Crimes provided training in computer forensics to federal, state, and local law enforcement and to European revenue collection agencies. In 2003, Electronic Crimes opened the Technology and Support Center, a 10,000-sq. ft. laboratory and training facility in Springfield, Virginia. This state of the art facility will be used to provide technical support and training and will enable CI to conduct research on emerging technologies.

## Employee Satisfaction

Criminal Investigation measures employee satisfaction through the IRS Employee Satisfaction Survey, which is administered on a yearly basis. Criminal Investigation's participation rate for Survey 2003 was up approximately 3% from Survey 2002. The increase in the participation rate was attributed to a more aggressive communication and marketing campaign entered into with CI Communication and Education. Survey 2003 was again administered by the Gallup Organization. The "Q12" questions, which measure those aspects of employee engagement that link to business outcomes, showed increased results in both the CI Grand Mean score and the overall satisfaction rate from Survey 2002 to Survey 2003.

The CI function-specific question results and verbatim responses from Survey 2003 highlighted certain areas of concern for employees. These areas included: providing employees with the resources and support they need to do their jobs; balancing workload against employee staffing and improving management effectiveness. The CI Senior Staff instituted several measures to address these results. A Chief's Advisory Group, which will have representation from field offices across the country, will meet on a regular basis. Time has been allocated during the Senior Staff's scheduled FY 2004 managerial meetings to discuss the Survey 2003 results. Additionally, the CI function-specific questions for Survey 2004 are being structured to focus on the employees' areas of concern. The questions will attempt to further define the employees' issues and identify the level of management where these concerns originate.

## EEO and Diversity

Today's tax evasion schemes are becoming more complex, involving a more multi-cultural, diverse group of individuals. As a result, it is imperative that CI establish and maintain the technical, financial, and human resources necessary to counter the latest schemes. This includes the ability to recruit and retain a diverse staff of skilled, highly trained agents and future leaders to identify corporate fraud schemes, and support undercover programs and surveillance operations. Building a diverse group of talented agents to support these day to day operations requires extensive planning, specialized training, and effective recruitment. The Office of EEO and Diversity (EEOOD) is committed to supporting CI's efforts to identify and recruit qualified, diverse candidates who support the Criminal Investigation mission. Ultimately, CI's goal is to become a model organization, one of inclusion where differences are valued, employees are respected, and our workforce is reflective of the public we serve.

The Office of EEO and Diversity is heavily engaged in the recruitment process, working closely with the CI Office of Human Resources with respect to identifying and eliminating barriers to minority recruitment, as well as with the development of strategic recruitment initiatives. The

primary goal of EEOD is to support CI with respect to creating a workforce that values diversity, is representative of its customer population, and is in compliance with EEO laws and regulations.

During FY 2003, EEOD partnered with a group of human resource officials to develop a CI Recruitment, Hiring, and Retention strategy. The recruitment plan was developed to serve as a tool designed to guide management recruiting activities, placing an emphasis on identifying and recruiting a diverse group of qualified candidates. In conjunction with the plan, EEOD was involved in the process which identified the more than thirty highly qualified college students who were selected to participate in the CI Student Career Experience Program (Special Agent Training Program). More than 75% of the students selected were minorities.

Addressing workplace conflict and EEO complaints typically affects productivity, places a drain on resources, and lowers morale. Criminal Investigation is committed to treating employees, applicants for employment, and customers fairly in an environment free from discrimination on the basis of race, color, religion, national origin, sex, sexual orientation, parental status, age, protected genetic information, and mental or physical disability. The Office of EEO and Diversity has been instrumental in providing management with program guidance and direction geared towards resolving complaints at the lowest level possible. The office develops and delivers EEO Program training to managers, implements CI specific directives and guidance, participates on executive level interview/award panels, and provides guidance relative to new federal EEO laws for implementation within CI.



# Criminal Investigation Statistics

INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION						
SUMMARY BY PROGRAM AREA FOR FY 2003						
	SI <sup>1</sup> INITIATED	PROS RECS	INDICTED	CONVICTED	SENTENCED	DIT %
<b>FRAUD</b>						
LEGAL <sup>2</sup>	1506	823	601	479	474	42.4
ILLEGAL	1535	1034	874	760	726	40.8
<b>TOTAL FRAUD<sup>3</sup></b>	<b>3041</b>	<b>1857</b>	<b>1475</b>	<b>1239</b>	<b>1200</b>	<b>83.2</b>
<b>FRAUD SUB-PROGRAM AREAS</b>						
GENERAL FRAUD <sup>4</sup>	1814	974	770	688	672	49.9
QRP	291	223	152	127	128	6.9
RETURN PREPARERS	229	169	109	67	49	7.7
ABUSIVE SCHEMES	79	80	73	41	43	4.3
HEALTH CARE	103	59	47	42	45	2.4
FINANCIAL INSTITUTION	167	127	108	82	83	3.9
BANKRUPTCY	58	21	16	11	14	1.4
INSURANCE	21	17	19	22	24	0.6
PUBLIC CORRUPTION	141	91	86	58	52	3.0
GAMING	62	61	61	51	39	1.6
TELEMARKETING	64	30	30	47	46	1.0
EXCISE TAX	12	5	4	3	5	0.3
<b>TOTAL SUB-PROGRAMS</b>	<b>3041</b>	<b>1857</b>	<b>1475</b>	<b>1239</b>	<b>1200</b>	
<b>NARCOTICS</b>						
OCDETF	587	445	433	393	374	8.5
OTHER	46	30	27	21	25	1.2
HIDTA	23	2	6	5	5	0.7
HIDTA/OCDETF	304	207	187	166	164	4.7
<b>TOTAL NARCOTICS</b>	<b>960</b>	<b>684</b>	<b>653</b>	<b>585</b>	<b>568</b>	<b>15.1</b>
<b>RECEIPT OF INFO/ OTHER</b>						<b>1.6</b>
<b>TOTAL</b>	<b>4001</b>	<b>2541</b>	<b>2128</b>	<b>1824</b>	<b>1768</b>	<b>100.0</b>

<sup>1</sup>Subject Criminal Investigation.

<sup>2</sup>Legal source investigations are defined as those involving taxpayers in legal occupations and industries, being investigated for tax or tax-related violations only, with CI as the sole investigating agency. Illegal source investigations involve taxpayers in illegal occupations or industries which are investigated with the cooperation of other federal or state agencies and may involve currency and/or money laundering violations.

<sup>3</sup>Includes 0.2% direct enforcement time (DET) - protection, escort, special assignments and FOIA/Privacy Act/PRP.

<sup>4</sup>The General Fraud sub-program area encompasses a variety of investigations including both legal and illegal source cases. The General Fraud program is the source of new trends in the area of non-compliance.

## Criminal Investigation Statistics

INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION				
SUMMARY BY UNITED STATES CODE TITLE AND SECTION FOR FY 2003				
	SI INITIATED	PROS RECS	INDICTED	SENTENCED
<b>TITLE 26 SECTION</b>				
7201 – Evasion	1025	277	224	173
7206(1) – False Return	423	319	269	234
7206(2) – Aid or Assist	243	168	96	54
7203 – Failure to File	131	61	49	66
7207 – False Document	1	4	9	9
Title 26 – Other	52	47	28	58
<b>TITLE 26 TOTAL</b>	<b>1875</b>	<b>876</b>	<b>675</b>	<b>594</b>
<b>TITLE 18 SECTION</b>				
286 – Conspiracy False Claims	142	146	98	53
287 – False Claims	173	98	71	56
371B – Conspiracy Title 26 or Title 31	3	3	3	0
371K – Conspiracy Title 26	148	220	168	107
371T – Conspiracy Title 31	6	25	26	8
371M – Conspiracy Title 18	30	35	43	44
1001 – False Statements	11	9	9	4
1623 – False Declarations	9	9	9	5
1955 – Illegal Gambling	0	0	0	1
1956 – Money Laundering	1298	886	798	492
1957 – Money Laundering	107	98	100	70
Title 18 – Other	77	65	73	178
<b>TITLE 18 TOTAL</b>	<b>2004</b>	<b>1594</b>	<b>1398</b>	<b>1018</b>
<b>TITLE 31 – Monetary Transactions</b>	<b>122</b>	<b>71</b>	<b>55</b>	<b>45</b>
<b>OTHER TITLES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>111</b>
<b>TOTAL</b>	<b>4001</b>	<b>2541</b>	<b>2128</b>	<b>1768</b>

## Operational Overview

### International

Criminal Investigation's International Program plays an important role in supporting the national Money Laundering Strategy. One of the key roles is to assist foreign governments with money laundering training. As part of the State Department's anti-terrorism working group, CI continues to deliver training and technical assistance to countries that are developing legislation to track and combat terrorist financing. Criminal Investigation also hosts numerous delegations and foreign dignitaries through the CI International Visitor's Program.

The international demands of large-scale investigations and CI's counterterrorism efforts resulted in increased requests for assistance from CI's 35 field offices. Requests for information from the Caribbean Basin and Costa Rica increased over 100 percent and requests for assistance in the Middle East have increased significantly. In response to the ratification of exchange agreements and requests for assistance from foreign countries, CI International expanded its global presence this year by adding a foreign attaché post in Bridgetown, Barbados. Currently, foreign attachés are located in Mexico City, Mexico; Frankfurt, Germany; Hong Kong; Bogota, Colombia; Ottawa, Canada; London, England and Bridgetown, Barbados.

### Asset Forfeiture

The Asset Forfeiture Program continues to be one of the federal government's most effective tools against drug trafficking, money laundering, and organized crime. The asset forfeiture statutes are utilized to dismantle criminal enterprises by seizing and forfeiting their assets. The underlying investigations associated with forfeiture cases include narcotics, money laundering, organized crime, and illegal gaming, as well as a variety of other violations. The equitable sharing and reimbursement provisions of the Asset Forfeiture Program allow federal, state, and local law enforcement agencies to apply forfeiture proceeds to critical law enforcement efforts.

Criminal Investigation's Asset Forfeiture Program had seizures in FY 2003 of approximately \$139 million, consistently making CI the second largest contributor to the Treasury Forfeiture Fund and the largest net contributor since FY 2000. Treasury agencies significantly benefited from the contributions made by CI because these net contributions are available to meet their law enforcement needs.

Criminal Investigation has Asset Forfeiture Coordinators (AFC) in each of its 35 field offices, who are charged with oversight responsibility for the Asset Forfeiture Program. These coordinators work directly with agents and management to effectively utilize the forfeiture statutes by providing assistance in identifying cases with seizure/forfeiture potential.

The following case summaries are excerpts from public record documents on file with the courts in the judicial district in which the cases were prosecuted.

#### **Americable Companies Sentenced and Ordered to Pay \$22 Million**

On September 17th, 2003, United States District Judge Patricia Seitz sentenced Americable International, Inc., Americable International Moffett, Inc., and Americable International New York, Inc. (the "Americable companies") to fines, forfeiture, and restitution in excess of \$22 million.

On November 7, 2002, all three Americable companies pleaded guilty to conspiring to defraud the United States. Americable International, Inc. also pleaded guilty to conspiring to launder the proceeds of mail fraud. Judge Seitz fined Americable International, Inc., \$7,500,000 and ordered that it forfeit \$8,075,445.08 to the government and pay separate restitution of \$5,454,720. Judge Seitz also fined Americable International Moffett, Inc., and Americable International New York, Inc., \$500,000 each, which represented the statutory maximum fines applicable to their offenses. Judge Seitz also imposed five-year terms of institutional probation on all three Americable companies.

The Americable companies provided cable television service to customers residing at various locations in the United States and Japan. The Americable companies

serviced customers residing in private homes as well as customers residing on military bases operated by the United States Department of Defense (DOD).

The defendants' guilty plea to defrauding the United States stemmed from a scheme in which they attempted to defraud DOD. Starting in the early 1990s, DOD closed military bases in various locations throughout the United States, including bases that had received cable television service from the Americable companies. In connection with these closures, the Americable companies submitted to DOD forms known as "Settlement Proposals" or "Termination Settlement Proposals (TSP)" in order to seek reimbursement from DOD for investments that had been made by the defendant companies at closed bases and that had not been fully depreciated. However, the defendants submitted TSPs that falsely represented certain expenditures, based upon approximately \$8 million in fictitious invoices and supporting documentation within the companies' records.

The money laundering conspiracy stemmed from a six-year scheme in which the Americable companies defrauded various cable television networks, such as A&E Television Network, Discovery Channel, ESPN, and MTV, as well as other nationally-known and regional networks, out of funds owed to them for providing their programming to Americable customers. Americable companies historically under-reported and under-paid amounts owed to the networks. Former company head, Charles C. Hermanowski, would direct employees to write checks to the victim networks, which he would falsely endorse and deposit into his personal bank account. This scheme resulted in over \$8 million in fraud proceeds siphoned from the Americable companies into Hermanowski's personal bank account.

As part of the five-year term of institutional probation imposed on the Americable companies, Judge Seitz prohibited the Americable companies and their affiliates from employing or transacting any business with Charles C. Hermanowski and that the Americable companies submit to a compliance program and hire a compliance officer to monitor their activities. Judge Seitz further ordered that Americable International, Inc., hire an independent auditor to audit the company on behalf of

the Court and file all missing income tax returns within 10 months.

The government estimated that the fines, forfeitures, and restitution imposed by Judge Seitz represented between 30-35% of the value of the Americable companies.

#### **Banco Popular de Puerto Rico Forfeits \$21.6 Million**

On January 16, 2003, a criminal information was filed charging Banco Popular de Puerto Rico with one count of failing to file Suspicious Activity Reports (SARs) in violation of Title 31 USC 5318(g)(1) and 5322(a). Banco Popular waived indictment and accepted responsibility. The bank forfeited \$21.6 million dollars to the United States.

From approximately June 1995 and June 2000, a number of unusual or suspicious transactions were conducted in connection with certain accounts at Banco Popular. Although the bank filed Suspicious Activity Reports (SARs) on these accounts they were not timely or were inaccurate. In one series of the transactions, Roberto Ferrario Pozzi deposited approximately \$20 million dollars in cash into a Banco Popular account from June 1995 to March 1998. Deposits were made to the account by Ferrario and employees of "Phone Home" a phone card, long distance, and money transmission service - often in paper bags or gym bags filled with small denomination bills. Despite the suspicious nature of the deposits, the bank did not investigate and file timely and complete SARs reporting the activity. These untimely filings, in the absence of supplementary SARs and the errors in the SARs that the bank did file hindered law enforcement's ability to initiate investigations on these accounts in a timely manner, resulting in the laundering of millions of dollars of drug proceeds through these accounts. Ferrario was sentenced to 97 months imprisonment for money laundering in 2002.

## Undercover

An undercover operation is a law enforcement technique used to detect and expose criminal activity by acquiring evidence for criminal prosecution.

Criminal Investigation utilizes undercover operations in significant financial investigations when it is not possible to obtain evidence through less intrusive means. Justifiably, this technique is not routinely used. Undercover operations are extremely sensitive and potentially dangerous. Careful planning and management is critical to the success of an undercover operation and to the safety and security of the undercover special agent.

The IRS CI office of Special Investigative Techniques (SIT) manages the undercover program and processes undercover requests. This office also provides technical assistance to field offices regarding the proper use of other specialized investigative techniques, such as electronic surveillance.

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Criminal Investigation undercover operations are classified as either Group I or Group II. Group I operations include the most sensitive undercover scenarios. The operations are anticipated to last longer than six (6) months and/or have anticipated costs in excess of \$20,000. Operations not meeting these criteria are classified as Group II.

## National CI Training Academy

The Basic Training Section of the National Criminal Investigation Training Academy (NCITA) is responsible for

the development and delivery of all new special agent training. The Special Agent Basic Training (SABT) program consists of three phases. Phase one is Pre-Basic, a three day class during which agents receive the materials they need as new IRS employees. The second phase is Criminal Investigator Training Program (CITP). This phase is approximately 9 weeks long and is instructed by the staff of the Federal Law Enforcement Training Center (FLETC). During CITP, agents learn basic marksmanship, policing skills, defensive tactics, constitutional law and the Federal Rules of Criminal Procedure. The final phase of training, which lasts about 14 weeks, is Special Agent Investigative Techniques (SAIT). During this phase, agents acquire the specific knowledge and practice the techniques which allow them to become investigators for CI. During FY 2003 115 new special agents graduated from the Academy. The Basic Training Section is also responsible for the development and delivery of On-the-Job-Instructor (OJI) training.

During the past year, the Advanced Training Section of NCITA provided audience driven training in leadership, advanced agent, support, and international program areas. During the year approximately 328 participants benefited from CI's domestic training programs while the international training program was presented in approximately 32 countries with over 1,145 in attendance. Advanced Training is at the forefront of creating training modules for E-learning and web-based training initiatives. Several task forces were convened during the fiscal year to ensure that CI's domestic and international training materials were updated.

The Academy forged and maintained a strong working relationship with training council partners, Tax Advisory

Undercover Operations	FY 2001	FY 2002	FY 2003
Group I	37	35	35
Group II	28	39	36
<b>Total</b>	<b>65</b>	<b>74</b>	<b>71</b>



Administrative Services, HQ International, Treasury's Executive Office of Terrorism, and Financial Crimes to promote quality training programs.

## Communication and Education

The CI Communication and Education division develops and delivers key messages to a wide range of audiences, with a primary focus on external communications. The key external audiences include the compliant taxpayer, the practitioner community, and the non-compliant taxpayer. Internal audiences include CI employees, IRS employees, and other federal agencies, including the offices of the United States Attorneys.

The compliant taxpayer has been identified as our most important audience as IRS continues its efforts to foster compliance and ensure the tax system is administered in a fair and equitable manner. Working in conjunction with the other IRS operating divisions, CI Communication and Education disseminates that message via Internet sites at [www.treas.gov/irs/ci](http://www.treas.gov/irs/ci) and [www.irs.gov](http://www.irs.gov) through fraud alerts and the publication of the CI enforcement strategy.

By working with the practitioner community, CI is able to promote awareness and solicit information regarding the numerous tax schemes being promoted across the United States. This year, CI participated in IRS sponsored tax forums where presentations regarding refund fraud and abusive schemes were made to more than 15,000 attendees. As a result of this outreach effort, CI received numerous fraud referrals and initiated several investigations.

The community of non-compliant taxpayers is a difficult audience to reach; however, publicity of criminal tax and financial-related fraud efforts can deter others from similar conduct. Criminal Investigation's publicity efforts, through the 35 Special Agent/Public Information Officers, are at an all-time high and have expanded from newsprint to vertical magazine publications, the nightly news and talk radio broadcasts.

Part of the outreach to the external audience is based on the principle that "IRS does not want this to happen to you." Statistical information and summaries of

investigations involving individuals who have been convicted of tax and other financial related fraud are developed regarding specific market segments. Fact sheets regarding fraud in the construction, restaurant, automobile sales, medical, and return preparer industry have been published and posted on CI and IRS websites. Follow-up articles and interviews within specific groups have resulted in increased publicity and awareness in the targeted market segment.

Criminal Investigation Communication and Education posted a new webpage this year regarding IRS' significant role in national and international money laundering investigations.

The CI Communication and Education Strategy for FY 2003 was developed in conjunction with the IRS and CI strategic plans. Some of the key elements of this strategy include:

- Using the 35 Special Agent/Public Information Officers to increase publicity related to local investigations and to perform outreach efforts to the tax practitioner community.
- Expanding our web presence by posting criminal enforcement information on [www.irs.gov](http://www.irs.gov).
- Continuing our institutional commitment to become more open and provide more comprehensive information about our enforcement efforts.
- Implementing a press strategy that links individual cases in a systematic way to larger compliance issues and enforcement programs.

A significant part of CI's media strategy is located on the [www.irs.gov](http://www.irs.gov) website (keyword: fraud), which provides information about compliance-related enforcement activities to the public. The website includes fraud alerts relating to Return Preparers, Employment Tax Fraud, Non-filers, General Tax Fraud, and Abusive Schemes. During FY 2003, a Money Laundering section was added. The website allows CI to target its enforcement efforts to specific media outlets or other specialized websites to reach key audiences. This entire effort is accomplished in cooperation with the United States Attorneys' Offices and DOJ and adheres to the disclosure provisions of the Internal Revenue Code.

The goal of CI Communication and Education's external outreach strategy is to allow CI to provide the media, the compliant taxpayer, the tax practitioner and the non-compliant taxpayer with more comprehensive information about CI's enforcement efforts and to place individual prosecutions in the context of a larger compliance initiative.





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Department of the Treasury  
**Internal Revenue Service**

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Publication 3847 (Rev. 6-2004)  
Catalog Number 32206Y

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