



*Trends in the Criminal Investigation
Division's Enforcement Activities
Showed Improvements; However,
Some Goals Were Not Attained*

July 1, 2010

Reference Number: 2010-30-074

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.



HIGHLIGHTS

TRENDS IN THE CRIMINAL INVESTIGATION DIVISION'S ENFORCEMENT ACTIVITIES SHOWED IMPROVEMENTS; HOWEVER, SOME GOALS WERE NOT ATTAINED

Highlights

Final Report issued on July 1, 2010

Highlights of Reference Number: 201030030 to the Internal Revenue Service Chief, Criminal Investigation.

IMPACT ON TAXPAYERS

The Criminal Investigation Division's (the Division) primary resource commitment is to develop and investigate legal source tax crimes. The prosecution of these cases is key to supporting the Internal Revenue Service's (IRS) overall compliance goals, enhancing voluntary compliance with the tax laws, and promoting fairness and equity in our tax system.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of TIGTA's Fiscal Year (FY) 2010 Annual Audit Plan and addresses the IRS' major management challenge of Tax Compliance Initiatives. The overall objective of this review was to provide a statistical portrayal with trend analyses of the Division's enforcement activities for FYs 2000 through 2009.

WHAT TIGTA FOUND

The Division achieved its goal, spending 52.4 percent of its time on legal source tax and 72 percent on total tax investigations, both at a 10-year high. The Division also reported that the number of legal source tax investigation initiations increased by 13.3 percent and the number of tax-related initiations increased by 14.4 percent. Further, the number of subjects convicted of legal source tax crimes increased 2 percent from FY 2008 and has increased 17.5 percent since FY 2004. Similarly, the number of subjects sentenced for legal source tax crimes also increased 10.5 percent from FY 2008 and has increased 40.6 percent since

FY 2004. These percentages validate that tax cases are a priority for the Division.

However, the Division did not meet its goal to complete 3,900 investigations, and instead only completed 3,848 investigations during FY 2009. According to Division management, increased resources that were devoted to the prosecution of investigations in the pipeline inventory during FY 2008 resulted in a significant decrease in FY 2008 subject investigation initiations and a related decrease in case completions during FY 2009. The Division also uses the number of convictions and the conviction rate as budgetary performance measures. The Division did not meet either of its established goals for these measures, reporting declines in both the number of convictions and the conviction rate in FY 2009. Increased numbers of dismissals during FY 2009 (resulting from efforts to reduce the pipeline inventory) caused the drop in the overall conviction rate.

In addition, the Division continues to work on increasing its special agent staffing and coordinating with the operating divisions to strengthen the Fraud Referral Program.

WHAT TIGTA RECOMMENDED

Although TIGTA made no recommendations in this report, IRS officials were provided an opportunity to review the draft report. IRS management did not provide any report comments.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 1, 2010

MEMORANDUM FOR CHIEF, CRIMINAL INVESTIGATION

Margaret E. Begg
FROM: (for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Trends in the Criminal Investigation Division’s Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained (Audit # 201030030)

This report presents the results of our review to provide a statistical portrayal with trend analyses of the Criminal Investigation Division’s enforcement activities for Fiscal Years 2000 through 2009. This review was conducted as part of our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Although we made no recommendations in this report, we did provide Internal Revenue Service officials an opportunity to review the draft report. Management did not provide us with any report comments.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.



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Abbreviations

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



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Background

In February 2006, the Internal Revenue Service (IRS) released updated compliance estimates, showing that the gross tax gap¹ was \$345 billion in Tax Year 2001. In an explanation provided in the Criminal Investigation Division's (the Division) Program Assessment Rating Tool, the Office of Management and Budget examiners noted that the IRS has a goal regarding the percentage of taxpayers who believe it is acceptable to cheat on their taxes. Specifically, the IRS planned to reduce this percentage from 12 percent in Fiscal Year (FY) 2004 to 9 percent in FY 2009. The IRS reached this goal in FY 2008. However, a FY 2009 taxpayer attitude survey conducted by the IRS Oversight Board identified some softening of taxpayers' attitudes about cheating on their income tax responsibilities. According to survey results, 13 percent of the surveyed population believed that it was acceptable to cheat on their taxes, an increase compared to 9 percent from FY 2008. Eighty-four percent said it was not at all acceptable. The IRS Oversight Board, which conducted the survey, did not offer any perspective on why taxpayers' attitudes towards cheating might have changed. The IRS Commissioner, while emphasizing a balanced program between taxpayer service and tax enforcement, stressed the need for an aggressive enforcement program for those who understand their tax obligations but fail to comply.

The Division's primary mission is to serve the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes (e.g., money laundering, corporate fraud, and terrorism financing) to promote compliance with the tax law and confidence in the United States' tax administration system. The Division's special agents' investigative jurisdiction includes tax, money laundering, and Bank Secrecy Act laws. The Division prepared a Strategic Assessment document for FYs 2007 to 2012 to supplement and implement the goals in the IRS' Strategic Plan. The compliance, business, and communication strategies of the Division include:

- Maintaining focus on legal source tax investigations, partnering with the IRS operating divisions to deploy a successful Fraud Referral Program.
- Working effectively with the Department of the Treasury, the Department of Justice, and other law enforcement partners to combat corporate fraud, terrorism, and the financial aspects of other criminal activity and to enhance Bank Secrecy Act compliance efforts.
- Increasing workforce productivity through improvements in recruitment, retention, and strengthened leadership.

¹ See Appendix IV for a glossary of terms.



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- Increasing efficiency through improvements in business systems and the reduction of investigative cycle time.

Since FY 2004,² we have been presenting an annual statistical portrayal of the Division's enforcement activities. The objective of our first year's audit was to provide statistical information and trend analyses of the Division's statistics since the issuance of the Webster Report³ in April 1999, which concluded that the Division had drifted away from its primary mission of investigating criminal tax violations. Since then, our reports have focused on year-to-year statistical comparisons, as well as looking at trends over a protracted period, to provide perspective on the Division's enforcement activities.

Our data analyses were performed in the Treasury Inspector General for Tax Administration's offices in Atlanta, Georgia, and Chicago, Illinois, during the period December 2009 through April 2010. We used national reports from the Division's management information system during our review. Because of time and resource constraints, we did not audit the Division's systems to validate the accuracy and reliability of its information. Also, we did not assess internal controls because it was not applicable within the context of our audit objective. Otherwise, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. A glossary of terms is included in Appendix IV. Detailed charts and tables referred to in the body of this report are included in Appendix V.

² For more information, see Appendix VI, Report 1.

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



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Results of Review

The Division's Statistics Validate That Legal Source Tax and Tax-Related Investigations Are a Priority

In FY 2009, we reported declining trends in several areas, including the number of legal source tax investigation initiations and the number of tax-related initiations and case completions. The Division's Annual Business Plans have consistently described legal source tax investigations as a top investigative priority, and we agree that these investigations are an important component of all tax-related investigations.

The Division achieved its FY 2009 goal, spending 52.4 percent of its time on legal source tax and 72 percent on total tax investigations, both at a 10-year high.⁴ The Division's goal for FY 2009 was to maintain a minimum of 50 percent direct time on legal source tax investigations and 68 percent on total tax investigations. In FY 2009, the number of legal source tax investigation initiations increased by 13.3 percent and the number of tax-related initiations increased by 14.4 percent. In addition, the percentage of all initiations that were legal source tax and tax-related increased by 1.3 and 2.5 percentage points, respectively.⁵ The increased initiations and direct investigative time demonstrate the Division's commitment to pursuing legal source tax and tax-related investigations as its top investigative priority.

In FY 2007,⁶ we raised a concern that a FY 2008 budget initiative proposed to increase the direct investigative time on narcotics-related cases to a range of 12 to 14 percent would affect the Division's ability to investigate legal source tax and tax-related crimes. The Division subsequently established a targeted range of 11 to 13 percent. Last year, the Division reported that narcotics-related direct investigative time was 12.3 percent. This year, the Division again met its goal and reported an 11.5 percent rate. If the Division can maintain narcotics-related direct investigative time at or below these current levels, then the Division should maintain or see increased time applied towards its legal source tax and tax-related program areas.

The Division also continues to demonstrate efficiencies processing legal and illegal source investigations by showing improvements in the number of elapsed days to complete an investigation. The Division's benchmark figure for legal and illegal source investigation completions is 415 to 425 days. In FY 2009, the Division reported an average of approximately 401 elapsed days for legal and illegal source investigation completions, 3.4 percent below the

⁴ See Appendix V, Figure 3.

⁵ See Appendix V, Figures 5 and 6.

⁶ See Appendix VI, Report 4.



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benchmark range and only slightly above the FY 2008 average of 400 days. The average elapsed days to recommend a legal or illegal source investigation for prosecution improved to 394 days, from 407 days in FY 2008. However, the FY 2009 average of 413 days to discontinue a legal or illegal source investigation exceeded the 386 day average in FY 2008 by 7 percent. According to Division management, as the Division sought to reduce the pipeline inventory,⁷ it reviewed older investigations to determine whether or not the investigations were viable for prosecution. For those that the Division deemed no longer worthy of prosecution, it discontinued the investigation, thereby resulting in an increase in average elapsed days.

In FY 2009, the total number of investigations referred for prosecution declined by 7.7 percent from FY 2008. Because legal source tax and tax-related investigations comprise a subset of the total number referred for prosecution, these investigations also showed decreases. The number of legal source tax investigations referred for prosecution decreased 6.2 percent from FY 2008, and tax-related investigations referred for prosecution decreased 1.5 percent during this same time.⁸ The decreases in investigations referred for prosecution may result in decreases in the number of subjects indicted for legal source tax or tax-related crimes next fiscal year.

Legal source tax investigations are a top investigative priority, but the number of investigations referred for prosecution has decreased 6.2 percent from FY 2008.

The number of subjects convicted of legal source tax crimes increased 2 percent from FY 2008 and has increased 17.5 percent since FY 2004. Similarly, the number of subjects sentenced for legal source tax crimes also increased 10.5 percent from FY 2008 and has increased 40.6 percent since FY 2004.⁹ The number of subjects sentenced for a tax-related crime increased 9.5 percent from FY 2008. Additionally, the percentage of all sentences that were for tax-related crimes was 49.9 percent, the third highest percentage in 10 years and a 2 percentage point decrease from FY 2008.¹⁰ The prosecution of legal source tax and tax-related investigations is key to supporting the IRS' overall compliance goals, enhancing voluntary compliance with the tax laws, and promoting fairness and equity in the tax system.

The Division continues to emphasize publicizing its investigation results

The overall publicity rate for prosecutions in FY 2009 was 81.9 percent—an all-time high, and 3.9 percent higher than the targeted rate of 78 percent. The 87.9 percent publicity rate for legal source tax investigations is slightly lower than the publicity rate in FY 2008, which was an all-time high (88.5 percent).¹¹ In an effort to enhance voluntary compliance, the Division

⁷ See Appendix VI, Report 7.

⁸ See Appendix V, Figures 14 and 15.

⁹ See Appendix V, Figures 17 and 19.

¹⁰ See Appendix V, Figure 18.

¹¹ See Appendix V, Figure 21.



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continued to emphasize publicizing the results of prosecutions resulting from its tax investigations. This effort conveys to taxpayers that violations of the Internal Revenue Code and related financial crimes are investigated and prosecuted.

Research suggests that higher levels of criminal sentences lead to greater tax compliance. The average number of months a subject is incarcerated has increased since FY 2004. The percentage increase in the number of months a subject is incarcerated for legal source tax investigations rose 11.1 percent (from an average of 18 to 20 months) between FYs 2004 and 2009. The incarceration time increased 9.4 percent (from an average of 32 to 35 months) for illegal source investigations and 23.6 percent (from an average of 72 to 89 months) for narcotics-related investigations between FYs 2004 and 2009. From FY 2008 to FY 2009, the incarceration rate decreased 7.9 percent for illegal source investigations but increased 8.5 percent for narcotics-related investigations.¹²

Efforts to Reduce Pipeline Inventory Caused Case Completions to Continue to Decline

Last year, we expressed concerns that the Division would not meet its case completion goals due to the increased emphasis it planned to give to reduce the pipeline inventory, along with the loss of experienced special agents.¹³ To address this condition, the Division lowered its completion goal by 2.5 percent, from 4,000 to 3,900. However, the Division did not meet its goal to complete 3,900 investigations,¹⁴ and instead only completed 3,848 investigations during FY 2009. According to Division management, increased resources devoted to the prosecution of investigations in the pipeline inventory resulted in a significant decrease in FY 2008 subject investigation initiations and a related decrease in FY 2009 completions.

Further, the Division experienced a higher cost per conviction (\$327,328) than the planned rate of \$317,100. The Division uses this figure to measure its Program's effectiveness and calculates the amount by using its financial plan (i.e., the money allocated for its operations) divided by the number of convictions. Division personnel attributed the increased cost to unexpected increases in its operating budget and decreased convictions due to the Division's emphasis to reduce pipeline inventory.

The Division also uses the number of convictions and conviction rate as budgetary performance measures. In response to the Calendar Year 2005 Program Assessment Rating Tool review, the Division established ambitious, long-term goals for FY 2009 to:

- Increase the number of convictions by 25 percent, to 2,408 from 1,926 in FY 2002.

¹² See Appendix V, Figure 20.

¹³ See Appendix VI, Report 6.

¹⁴ The Division considers a completed case one it either discontinues or refers for prosecution.



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- Maintain or exceed a conviction rate of 92 percent.

The Division did not meet the long-term goal noted above or its revised conviction goal for FY 2009 of 2,135, reporting that it received only 2,105 convictions.¹⁵ In addition, the Division's conviction rate was 4.8 percent lower than the goal of 92 percent. The conviction rate is calculated by comparing convictions to the total number of convictions, acquittals, and dismissals. According to Division personnel, the increased number of dismissals during FY 2009 (resulting from efforts to reduce pipeline inventory) caused the drop in the overall conviction rate.

Despite not meeting some of its goals, the Division exceeded its FY 2009 goal of 4,000 by initiating 4,121 subject investigations. The FY 2009 initiations represent a 9.9 percent increase over the FY 2008 total of 3,749.¹⁶ In addition, the number of subject investigations open in inventory increased 7.7 percent over the FY 2008 total of 3,691 investigations.¹⁷ According to the FY 2009 Business Performance Review (BPR) document, the Division plans to complete 3,900 investigations and obtain 2,135 convictions in FY 2010. Division management expects that the 9.9 percent increase in initiations it experienced this fiscal year will provide for a future increase in completions and resulting convictions. Since the Division reported that it takes, on an average, less than 1 year (341 days) to refer a case for prosecution,¹⁸ we believe the anticipated increase in initiations will likely result in an increase in completions and may allow the Division to meet its completion goals next fiscal year.

The Division Works on Increasing Special Agent Staffing

Although total special agent staffing¹⁹ has decreased 2.5 percent since FY 2004, it showed improvement from last year—increasing 4.1 percent, from 2,617 to 2,725.²⁰ However, this increase does not represent an increase in fully trained agents ready to work on investigations. According to Division personnel, the gain of 108 positions represents the net between 312 newly hired agents (undergoing extensive training)²¹ and a loss of 204 experienced agents. The number of field special agents decreased 2 percent from FY 2008 and 10.2 percent since FY 2004.

During FY 2010, the Division expects to proceed with attrition hiring and anticipates receiving \$5.1 million under an initiative to support the Commissioner's emphasis on international tax

¹⁵ See Appendix V, Figure 16.

¹⁶ See Appendix V, Figure 4.

¹⁷ See Appendix V, Figure 10.

¹⁸ See Appendix V, Figure 13.

¹⁹ Includes new recruits, part-time special agents, field and Headquarters Office managers and program analysts, and Lead Development Center and Scheme Development Center special agents.

²⁰ See Appendix V, Figure 1.

²¹ Division personnel indicated that the full benefit of new hires, in terms of production ability, is generally not realized for 1 year. This is because academy training lasts for approximately 6 months and then new agents are assigned an on-the-job training coach.



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schemes. The Chief, Criminal Investigation, recently announced that the international initiative will require increased hiring and include a broader range of cases and sharply increased presence in other countries. In addition, the Division made over 200 tentative special agent selections that will be considered for class placement in FYs 2010 and 2011 (pending the necessary clearances.) As the Division prepares to hire special agents and shift some of its existing resources to support the international initiative, we are concerned about the impact this change might have on the resources at local field offices and their ability to achieve Division goals and business plan priorities.

Trends related to the number of investigations per special agent

The Division uses the average inventory of subject investigations per special agent²² and the average total inventory per special agent to measure the quantity of work performed by special agents. The average inventory calculation includes only open subject investigations, whereas the total inventory calculation includes primary investigations, open subject investigations, and pipeline subject investigation.

In FY 2009, the average inventory of subject investigations per special agent was 1.9, an 8.6 percent increase from 1.75 in FY 2008 and a 3.3 percent increase from 1.84 in FY 2004. The total inventory per special agent increased significantly to 6.99, a 50.7 percent increase from 4.64 in FY 2008, and 41.5 percent increase from 4.94 in FY 2004.²³ This increase occurred as a result of the IRS' March 2009 Voluntary Disclosure Program to enforce abusive tax shelters and offshore schemes. All Voluntary Disclosure cases were initially routed to the Division for processing. The IRS extended the Voluntary Disclosure Program to October 15, 2009, and, according to the FY 2009 BPR, the Division expected a significant volume of receipts for the first quarter FY 2010. We expect this will cause the total inventory per special agent figure reported next year to be near the same rate as this year.

Emphasis on Referrals From the Operating Divisions Would Increase Investigations Initiated From Internal Sources

The Division initiates investigations from many different sources within and outside of the IRS. The Division's primary sources from within the IRS include fraud referrals from the operating divisions and investigations from the Questionable Refund and Return Preparer Programs. The percentage of cases originating from within the IRS has remained relatively consistent since FY 2003, ranging from a low of 30.1 percent in FY 2004 to a high of 36.2 percent in FY 2005.²⁴ For example, the percentage of subject investigations initiated that originated from within the IRS increased slightly to 33 percent in FY 2009 compared to 32.3 percent in FY 2008.

²² The Division only considers the special agents that were actively working on investigations in these calculations.

²³ See Appendix V, Figure 9.

²⁴ See Appendix V, Figure 7.



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Sources of investigations from outside the IRS include the United States Attorneys' Offices and other Government agencies, both Federal and State. In addition, the Division initiates investigations based on information received from public sources, including the media and informants. During FY 2009, 54.6 percent of the 4,121 subject investigations initiated came from the United States Attorneys' Office or other Government agencies. The percentage initiated from these sources in FY 2009 was a slight decrease from the 54.9 percent in FY 2008. The percentage of the investigations initiated from a public source slightly decreased to 12.4 percent of total investigations initiated from 12.8 percent in FY 2008.

The Division is working closely with IRS operating divisions to strengthen its Fraud Referral Program.

Trends relating to fraud referrals continue to decline

The number of fraud referrals received by the Division decreased for a second consecutive year. The Division reported receiving 505 fraud referrals in FY 2009, a 13.4 percent decrease from the 583 received in FY 2008, and a 19.2 percent decrease from the FY 2005 high of 625.²⁵ Since fraud referrals remain a viable and important source of legal source tax investigations, we are concerned that the number of fraud referrals received has trended downward since FY 2005. During a February 2010 meeting, the Chief, Criminal Investigation, advised that this trend may change in the future since the operating divisions now have a performance commitment relating to fraud referrals.

In addition, the Division's goal is for field offices to ensure the timely evaluation of fraud within 30 workdays. We are concerned whether the Division will be able to achieve this goal because results showed less than half of the fraud referrals evaluated during FY 2009 were evaluated in 45 days or less. Further, the average elapsed days to act upon a referral increased from 68 days in FY 2008 to 72 days in FY 2009.

The Division's FY 2010 Annual Business Plan continues the commitment to focus on the delivery of high-impact, high-quality investigations by working closely with the IRS operating divisions to develop and investigate significant tax cases. This will help the IRS' overall efforts to reduce the tax gap (the difference between taxes paid and taxes owed). The Division and the operating divisions need to continue to emphasize the importance of these types of investigations as they relate to tax administration and the IRS' efforts to improve voluntary compliance.

²⁵ See Appendix V, Figure 8.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide a statistical portrayal with trend analyses of the Criminal Investigation Division's enforcement activities for FYs 2000 through 2009.

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

- Special Agent¹ Staffing.
- Investigations:
 - a. Initiated.
 - b. Open.
 - c. In the Pipeline.
 - d. Closed.
 - e. Referred for Prosecution.
- Subsequent Legal Actions.
- Compliance Strategy Programs.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We did not assess internal controls because doing so was not applicable within the context of our objective.

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



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Director, Operations Policy and Support, Criminal Investigation SE:CI:OPS
Director, Strategy, Criminal Investigation SE:CL:S
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:CL:S:PS



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Appendix IV

Glossary of Terms

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

Compliance Strategy Program – The Criminal Investigation Division's organizational 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 – 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 days between the initiation of a subject investigation to another date, such as the date discontinued or date referred for prosecution.

Field Special Agent – A special agent in 1 of the Division's 26 field offices.

Fraud Referral Program – A program designed as a partnership between the Criminal Investigation Division and the IRS operating divisions to promote fraud awareness and assist with fraud training.

Gross Tax Gap – The difference between the amount of tax that taxpayers should pay under the tax law and the amount they actually pay on time.

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

Internal Revenue Code – The codified collection of United States laws on income, estate and gift, employment, and excise taxes, plus administrative and procedural provisions.



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

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

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

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

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

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

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

Program Assessment Rating Tool – A tool developed to assess and improve program performance so that the Federal Government can achieve better results. Specifically, the review helps identify a program's strengths and weaknesses to inform funding and management decisions aimed at making the program more effective.

Questionable Refund Program – An IRS nationwide, multifunctional program designed to identify fraudulent returns, stop the payment of fraudulent refunds, and refer identified fraudulent refund schemes to the Criminal Investigation Division's field offices.

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

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

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



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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.

Total Tax – The percentage of direct investigative time devoted to legal source and illegal source tax cases. It includes time spent on legal source general investigations that are a source of tax subject investigations.

Voluntary Disclosure Case – The case that results from the IRS' voluntary disclosure program which provides a way for taxpayers with previously undisclosed income to contact the IRS and resolve their tax matters. As a part of the voluntary disclosure, taxpayers should provide the IRS with truthful, timely, and complete information.



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Appendix V

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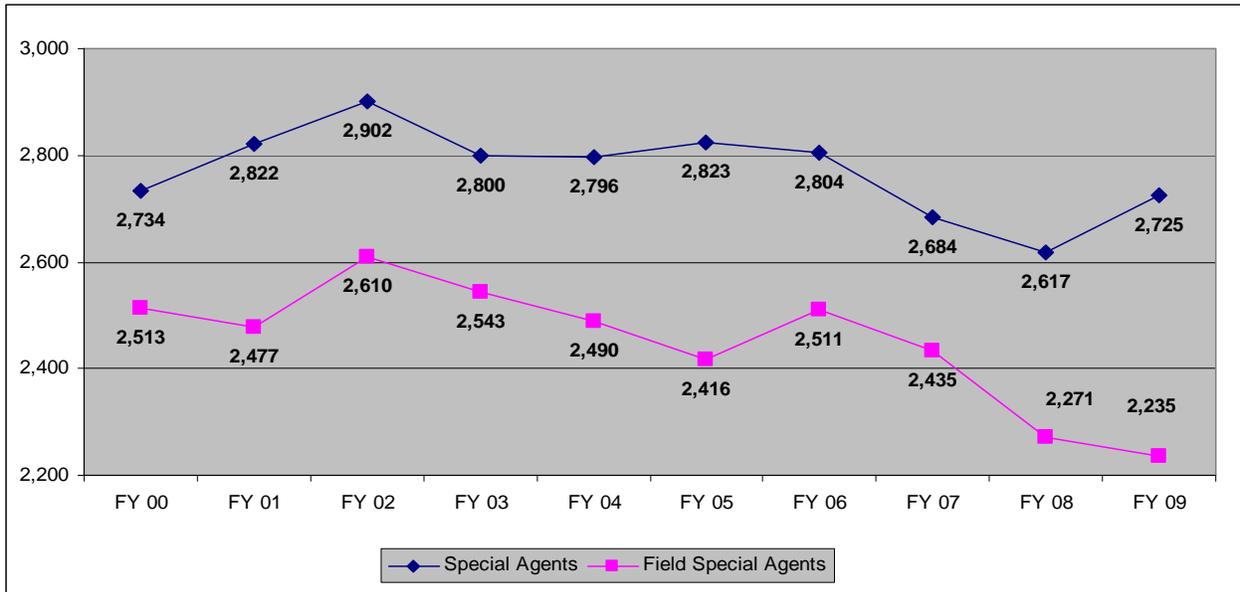
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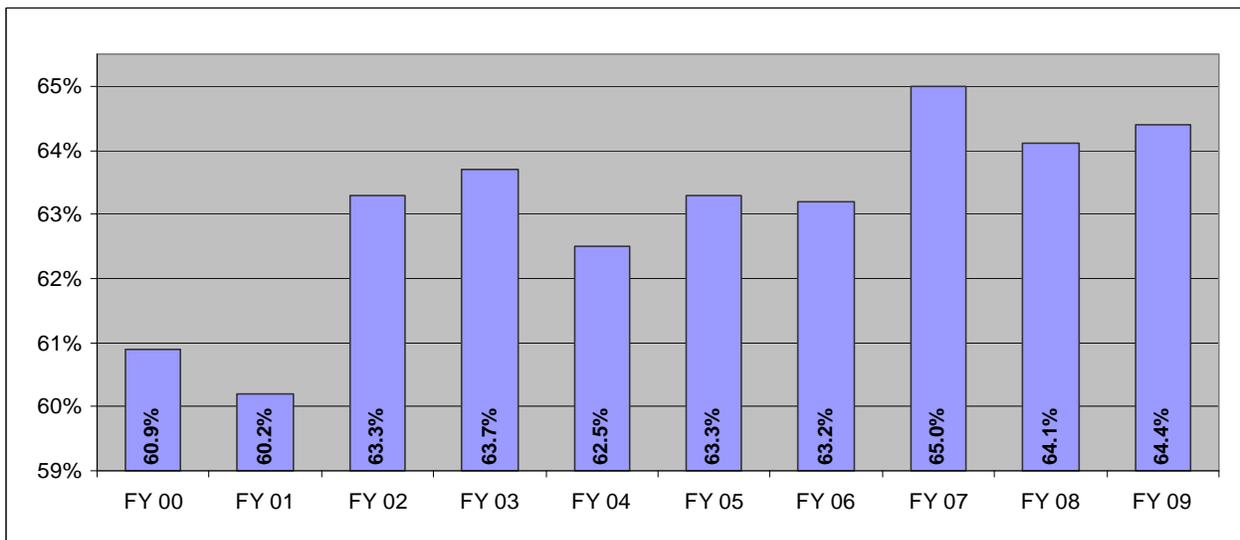
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

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



Source: The Division's analysis of staffing information.

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



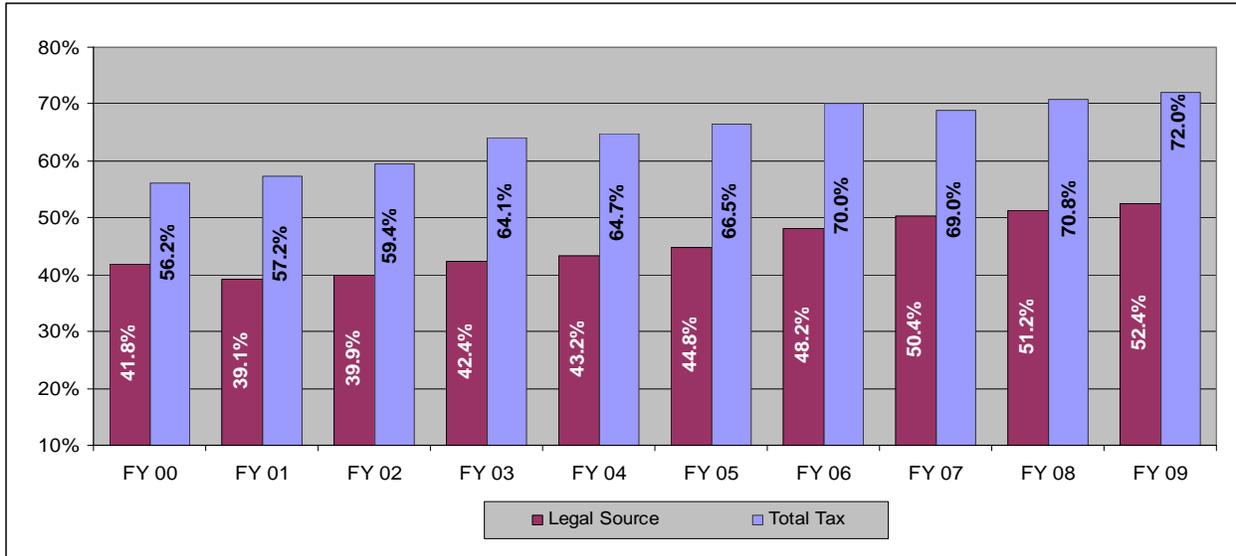
Source: The Division's analysis of direct investigative time information for FYs 2000 through 2002 and CIMIS Report INV001 (Criminal Investigation Summary Statistics) for FYs 2003 through 2009.

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



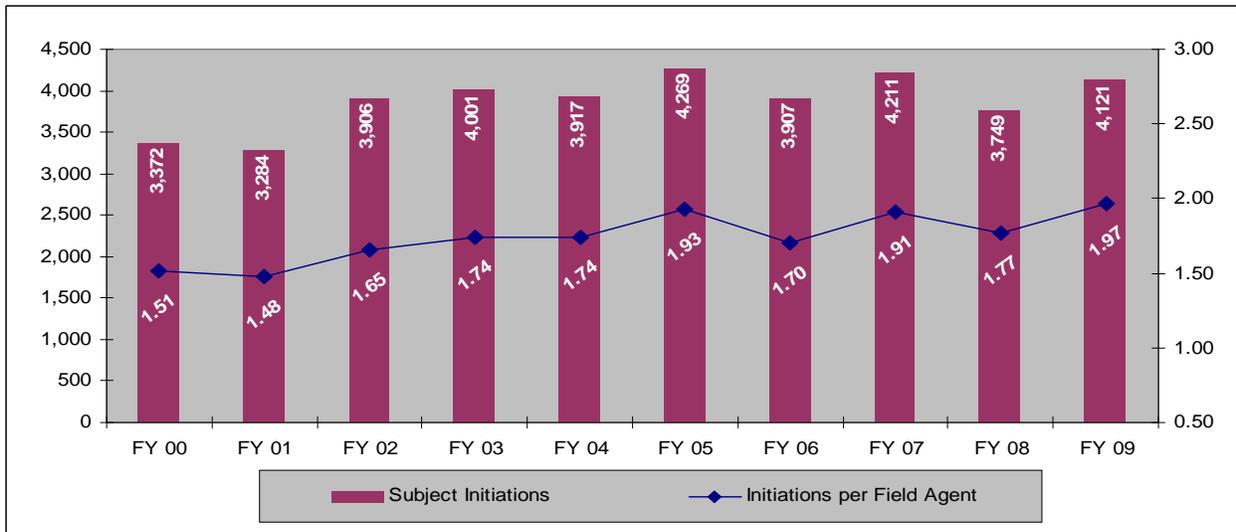
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

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



Source: The Division's BPR reports for FYs 2000 through 2006 and CIMIS INV001 (Criminal Investigation Summary Statistics) for FYs 2007 through 2009 legal source data. The Total Tax computation for FYs 2000 through 2003 was from the Division's analysis of the CIMIS. The Total Tax computation for FYs 2004 through 2009 was from the Division's BPR reports for FYs 2008 and 2009.

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

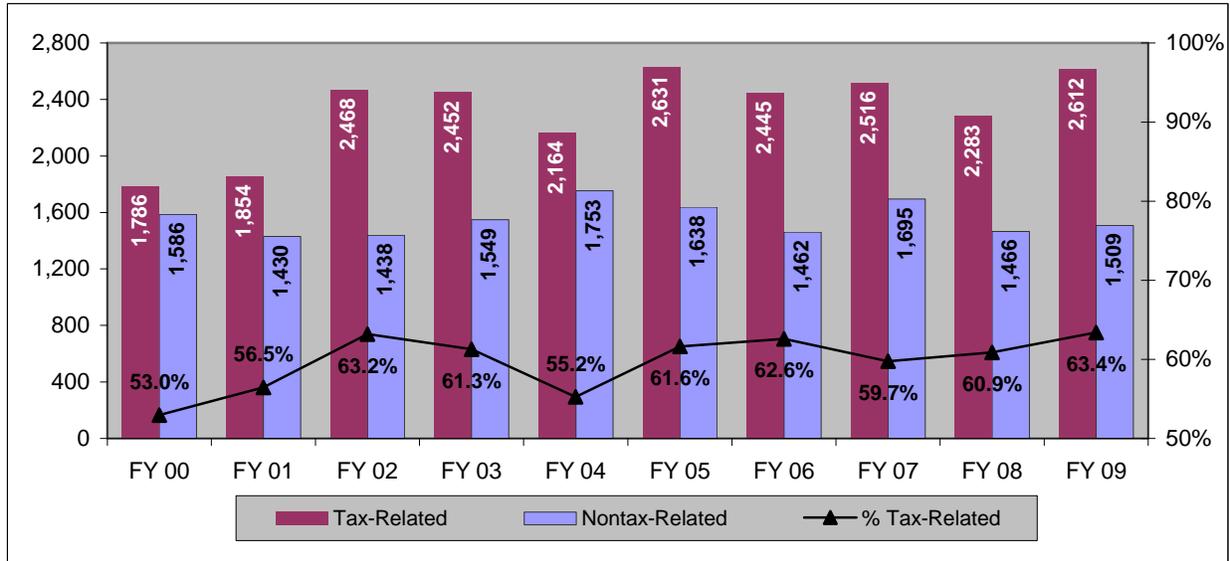


Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005, CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009, and our analysis based on the number of field special agents provided by the Division.



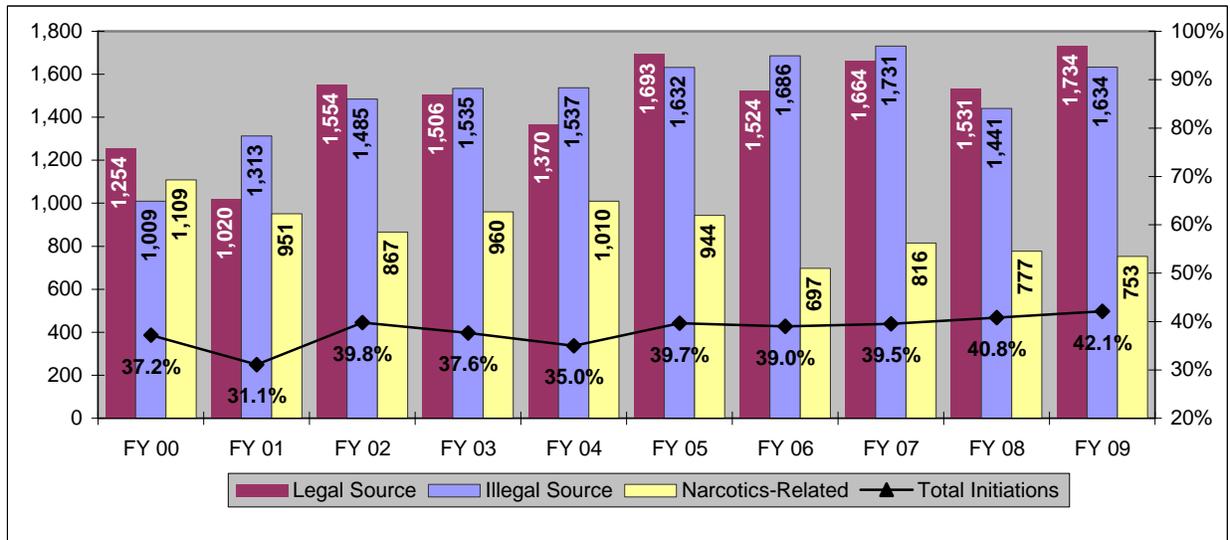
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

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



Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.

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

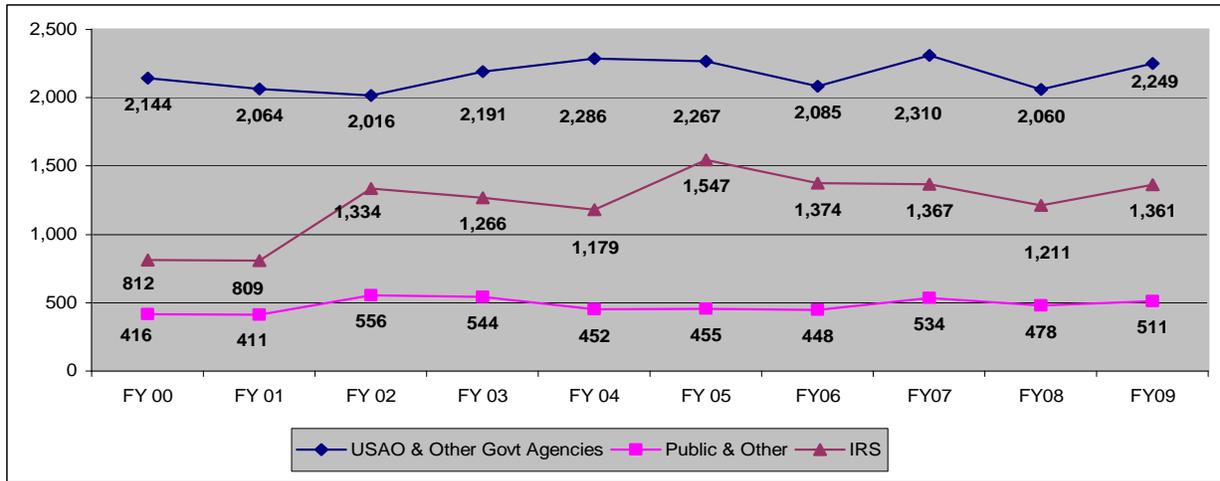


Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.



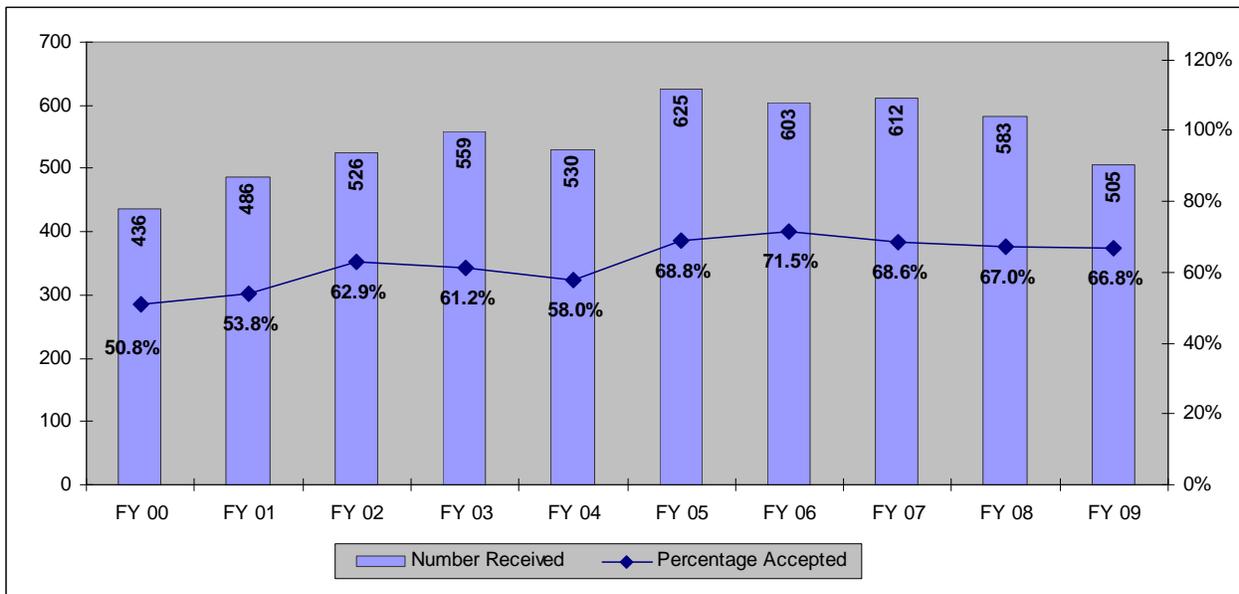
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

Figure 7: Number of Subject Investigations Initiated Each Fiscal Year by Source of the Allegation or Information. IRS sources include fraud referrals from the compliance divisions, investigations developed by the Fraud Detection Centers, and currency transactions.



Source: Our analysis of the CIMIS and CIMIS Report 11 (Program Summary Analysis) for FYs 2000 through 2005 and the Division's analysis of the CIMIS for FYs 2006 through 2009. USAO = United States Attorney's Offices.

Figure 8: Number of Fraud Referrals Received Each Fiscal Year and the Percentage Accepted.

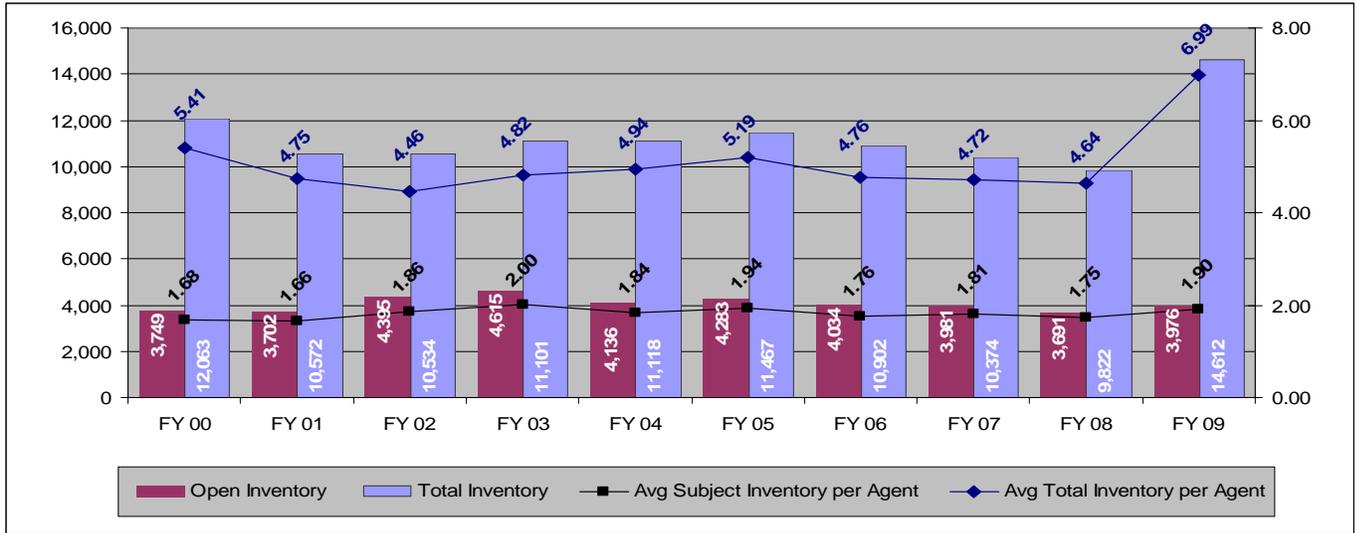


Source: The Division's BPR reports for FYs 2000 through 2005 and CIMIS Report INV001 (Criminal Investigation Summary Statistics) for FYs 2006 through 2009.



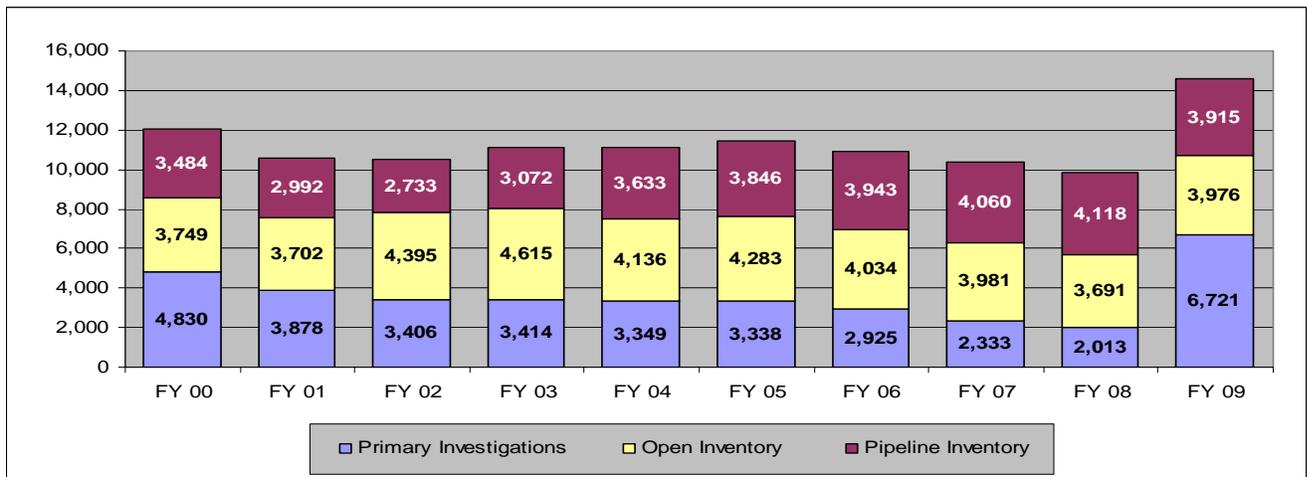
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

Figure 9: Number of Open Subject Investigations and the Total of All Investigations at the End of Each Fiscal Year and the Average Number of Each per Special Agent.²



Source: The Division's analysis of the CIMIS.

Figure 10: Number of All Types of Investigations Open at the End of Each Fiscal Year.²



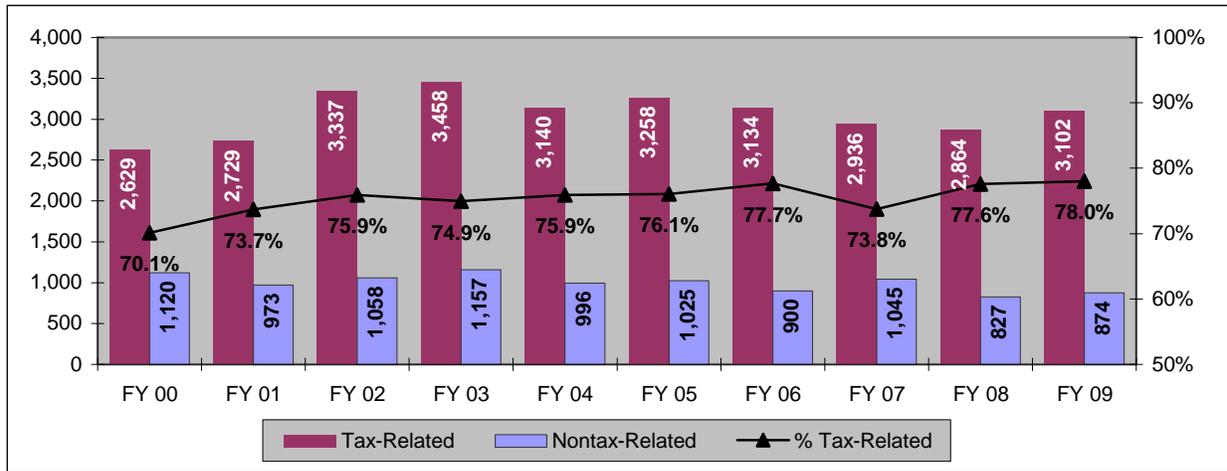
Source: The Division's analysis of the CIMIS. The Division's FY 2009 primary investigation inventory includes 4,224 cases as a result of the IRS' voluntary disclosure program.

² During FY 2006, the Division revised its formula for determining total inventory. The new formula does not include subject seizure investigation information or open primary investigations that had a corresponding subject investigation. As a result, data reported in Figures 9 and 10 for prior FYs changed and may not agree with our prior reports. Total inventory includes primary investigations not yet elevated to subject investigations, open subject investigations currently being worked in field offices, and subject investigations referred for prosecution (pipeline).



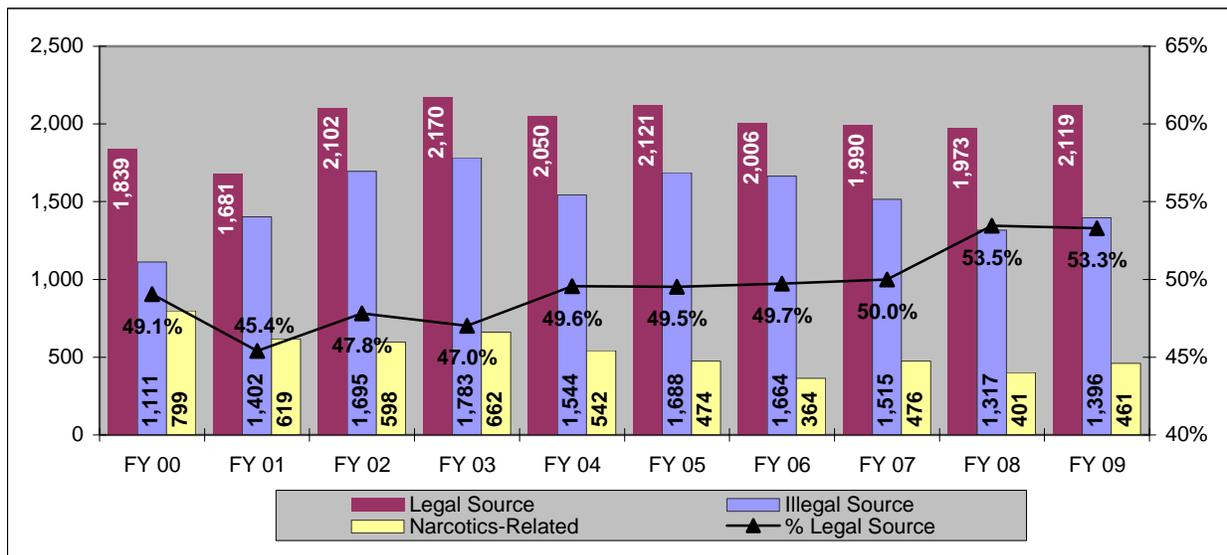
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

Figure 11: Number of Open Subject Investigations Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.



Source: The Division's BPR reports for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.

Figure 12: Number of Open Subject Investigations Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.

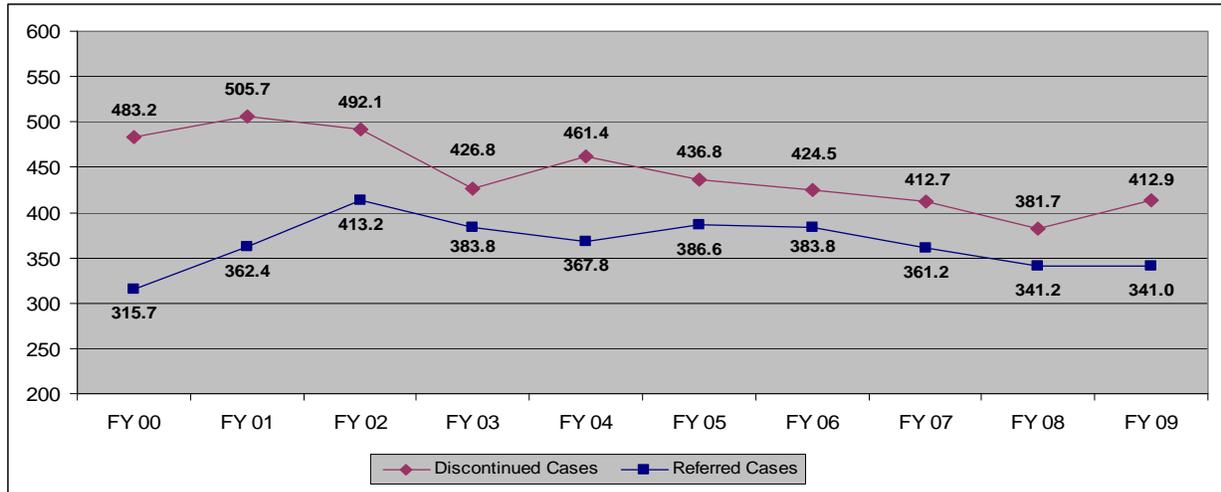


Source: The Division's BPR reports for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.



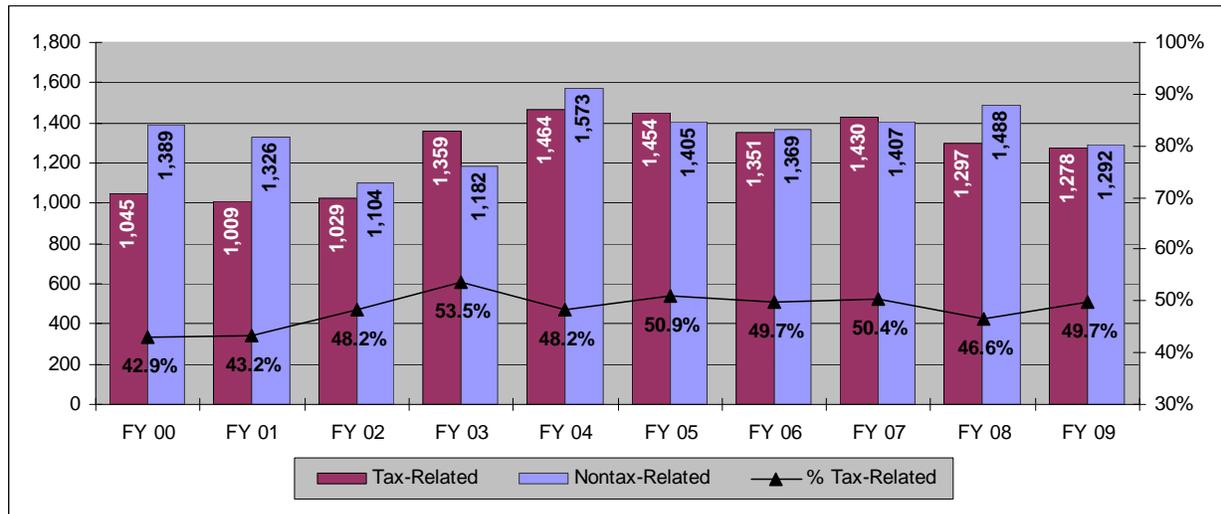
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

Figure 13: Average Elapsed Days of Subject Investigations Discontinued and Referred for Prosecution Each Fiscal Year.³



Source: The Division's analysis of the CIMIS for FYs 2000 through 2007, the Division's BPR report for FY 2008, and the CIMIS Report INV003 (Cycle Time Summary) for FY 2009.

Figure 14: Number of Subject Investigations Referred for Prosecution Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.



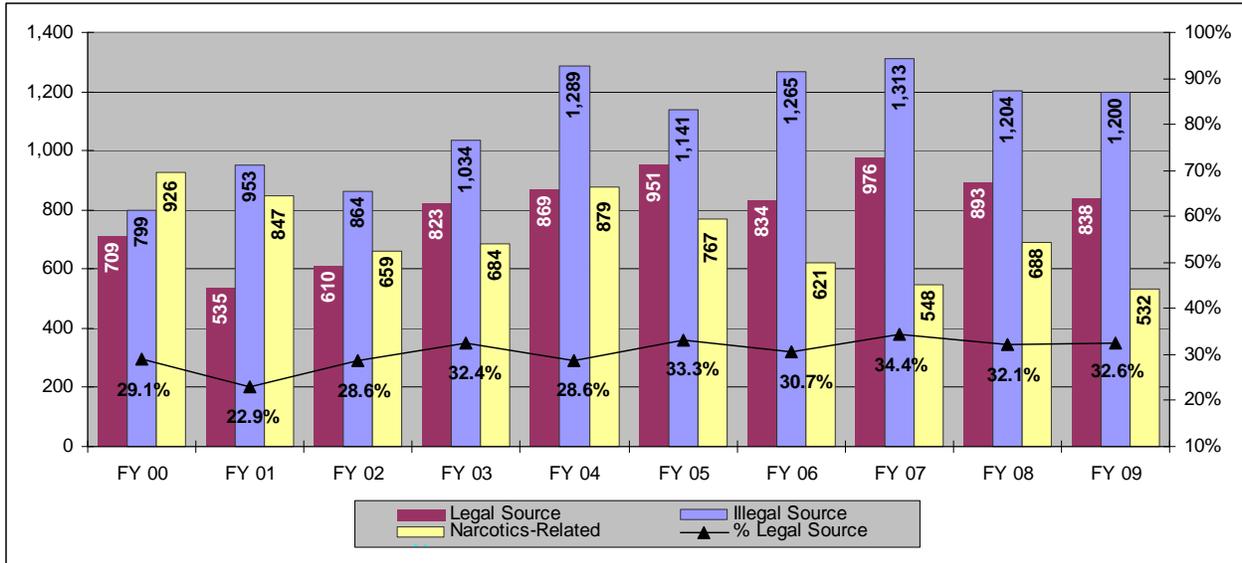
Source: The Division's BPR reports for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.

³ The Division revised its calculation formula in FY 2006 to include discontinued investigations that had been closed because of lack of resources. As a result, the numbers reported in Figure 13 for prior fiscal years may have changed and may not agree with our prior reports.



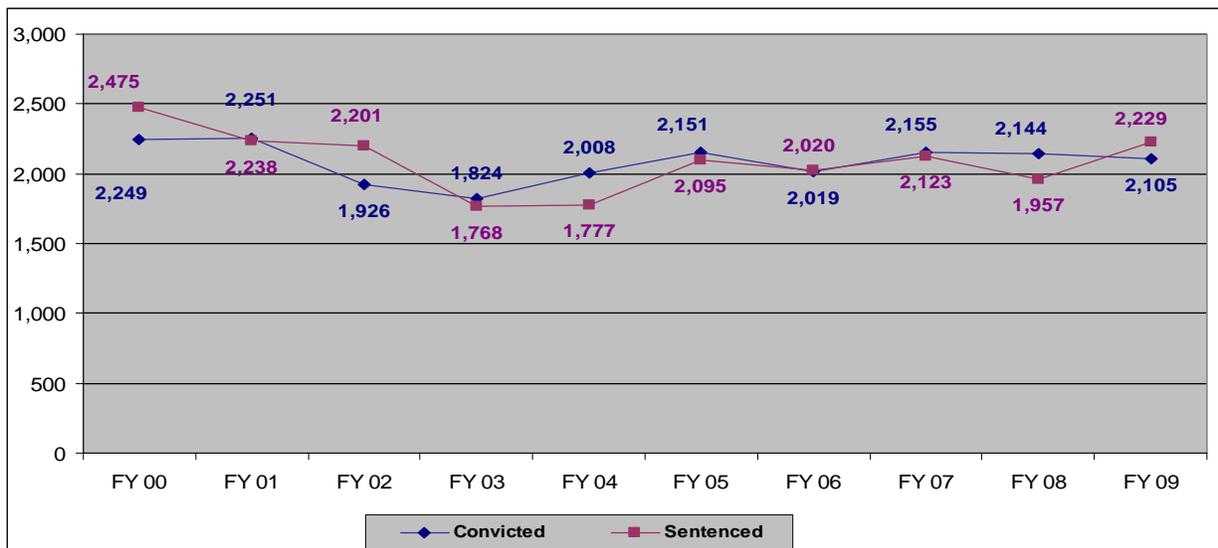
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

Figure 15: Number of Subject Investigations Referred for Prosecution Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.



Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.

Figure 16: Number of Subjects Convicted and Sentenced for a Crime Each Fiscal Year.

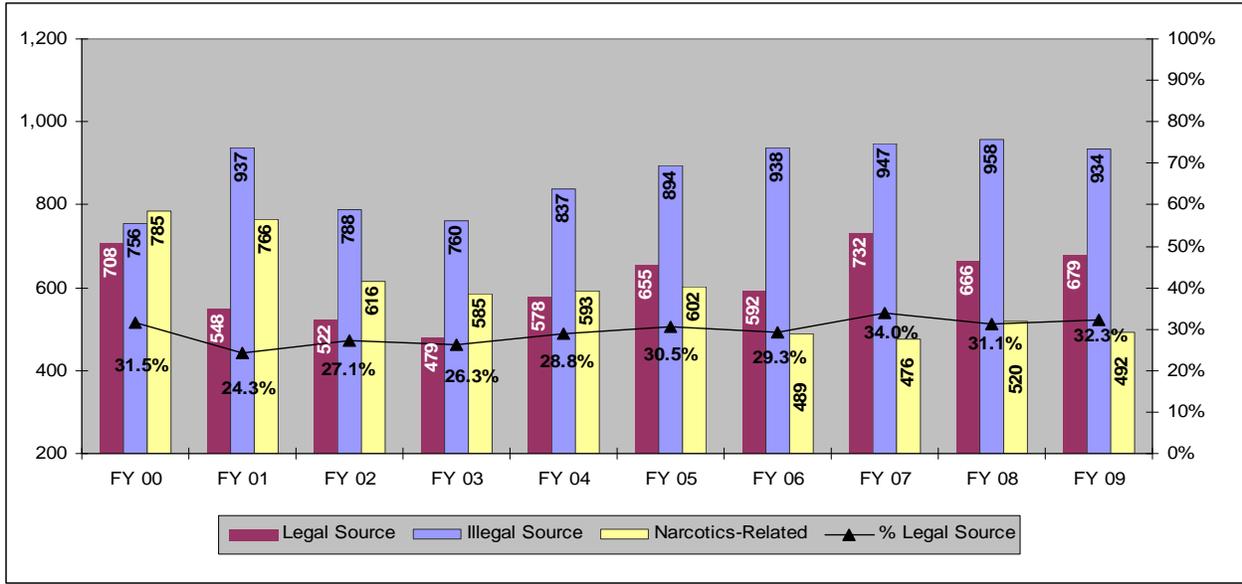


Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.



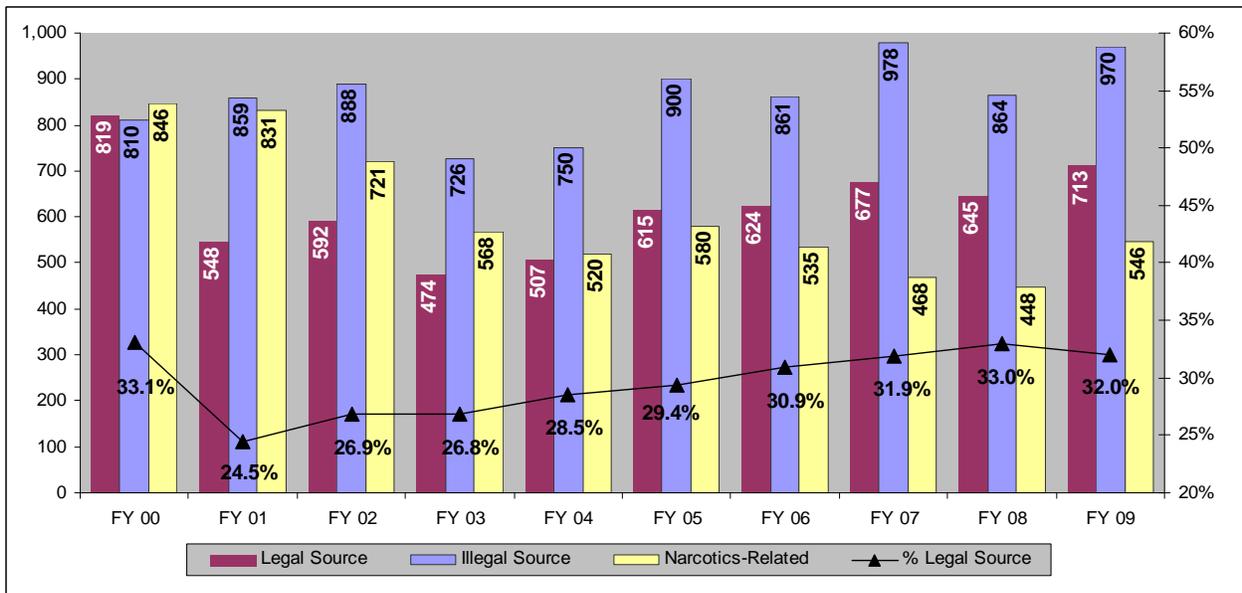
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

Figure 17: Number of Subjects Convicted of a Crime Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.



Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.

Figure 18: Number of Subjects Sentenced for a Crime Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.

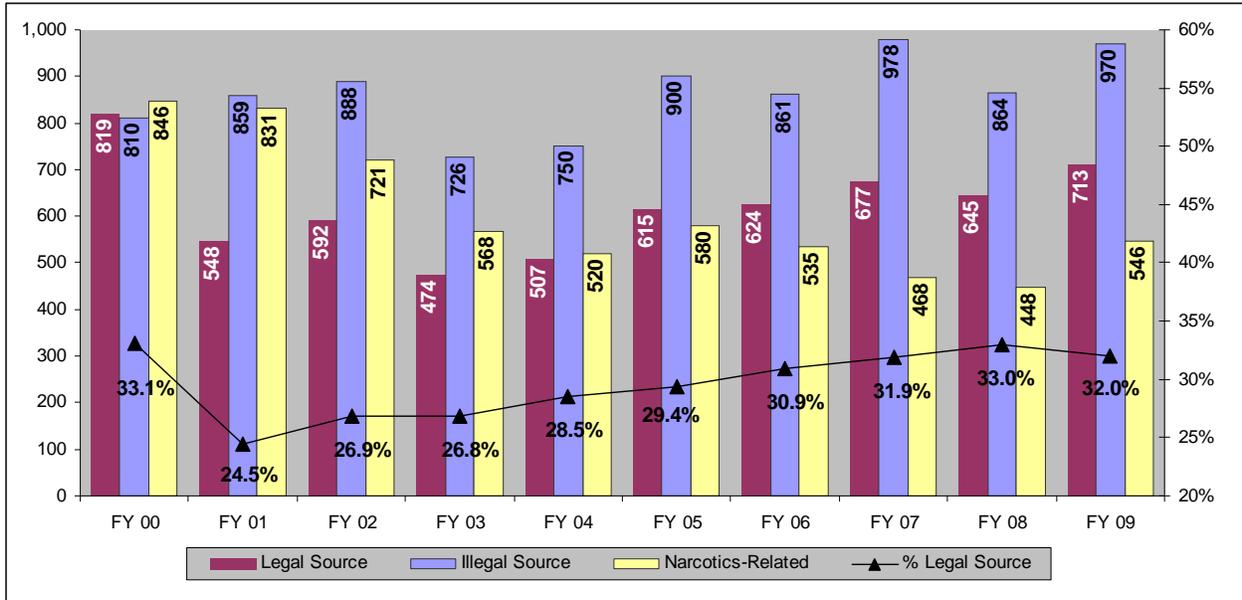


Source: The Division enforcement statistics from the IRS web site for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.



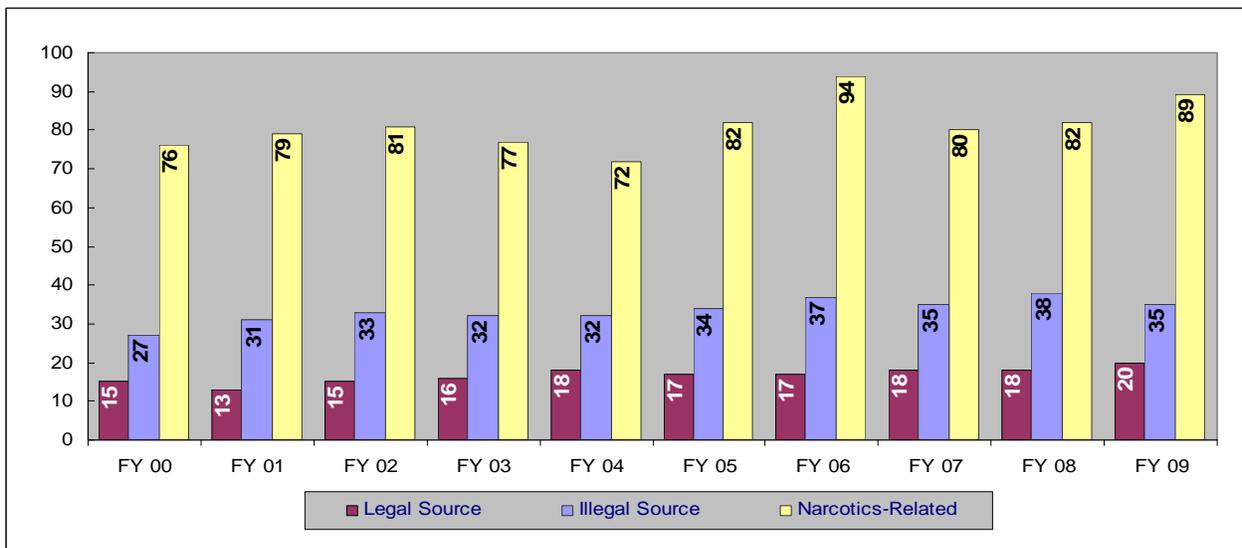
Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained

Figure 19: Number of Subjects Sentenced for a Crime Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.



Source: The IRS Data Books (Publication 55B) for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.

Figure 20: Average Number of Months a Subject Is Incarcerated Each Fiscal Year by Compliance Strategy Program. Incarcerated may include prison time, home confinement, electronic monitoring, or a combination thereof.

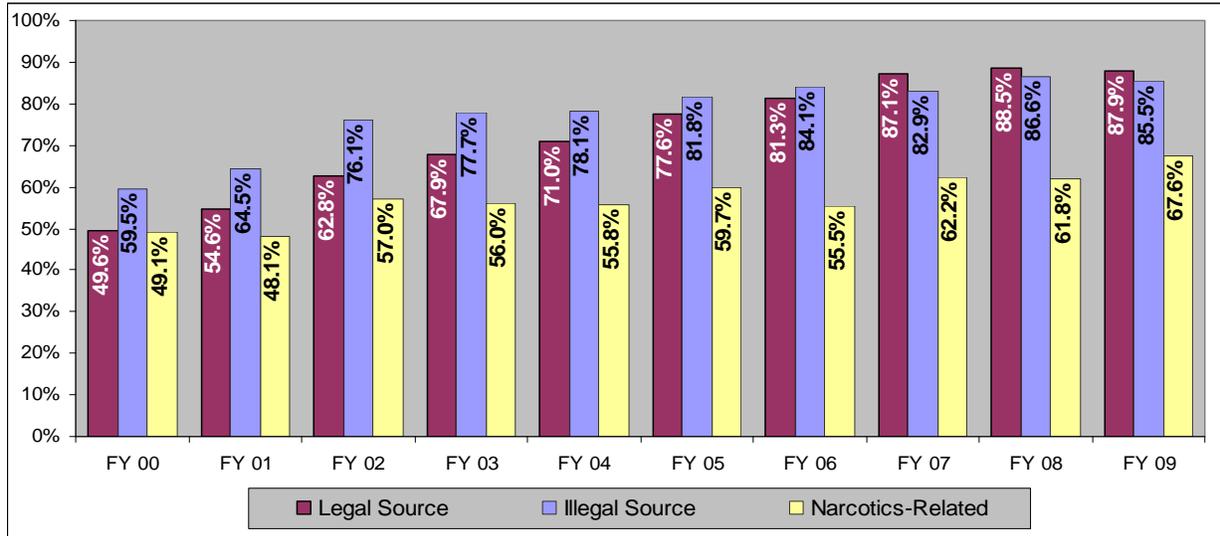


Source: The Division's analysis of the CIMIS for FYs 2000 through 2005 and the CIMIS Report INV002 (Summary by Program Area) for FYs 2006 through 2009.



*Trends in the Criminal Investigation Division's
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Figure 21: Percentage of Investigations That Received Publicity Each Fiscal Year by Compliance Strategy Program.



Source: The Division's BPR reports.



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Appendix VI

Related Treasury Inspector General for Tax Administration Audit Reports

1. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 1999 Through Fiscal Year 2003* (Reference Number 2004-10-115, dated June 29, 2004).
2. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 1999 Through Fiscal Year 2004* (Reference Number 2005-10-081, dated May 16, 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 12, 2006).
4. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 2000 Through Fiscal Year 2006* (Reference Number 2007-10-083, dated June 6, 2007).
5. *Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007* (Reference Number 2008-10-133, dated July 9, 2008).
6. *Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2008* (Reference Number 2009-30-053, dated March 26, 2009).
7. *Criminal Investigation Division Resources Devoted to Supporting Recommended Prosecutions Can Be Enhanced With a Stronger Strategic Focus* (Reference Number 2010-30-036, dated March 25, 2010).