Internal Revenue Service
Criminal Investigation

Fiscal Year 2012
National Operations

Annual Business Report

Internal Revenue Service, Criminal Investigation (IRS-CI) Mission:

IRS-CI 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 law.

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Chief's Message – Richard Weber

Chief Richard Weber stops to reflect on the first Chief – Elmer Irey.

In 1936, the first Chief of CI, Elmer Lincoln Irey, commissioned a summary book highlighting the significant cases completed by what was then the IRS Intelligence Unit. Mr. Irey was a humble man, and not accustomed to bragging about himself, but he had immense pride in what his beloved Intelligence Unit accomplished for the good of the nation. Given our proven capabilities, Mr. Irey foresaw a continual legacy of bringing to justice America's criminal elite and wanted us to always have a profound sense of purpose. To instill this, he believed we should regularly pause and examine our accomplishments and that such an exercise would bring much pride and satisfaction to all employees. Therefore, our first Chief asked that we periodically produce a book of achievements, successive testaments to CI's contributions to this great nation. In the spirit of Chief Irey, I have asked that we continue the legacy of a book of achievements.

I am very proud of the outstanding successes Criminal Investigation (CI) achieved in 2012. The key to our success continues to be the commitment from each employee to support and promote IRS' strategies and CI's operational goals. During the past year, I have traveled around the nation visiting our employees and conducting town hall meetings. I am proud and humbled to be the Chief of CI, an agency with an amazing and rich legacy. Since our inception in 1919, almost 100 years ago, we often have been the last line of defense in bringing down America's criminal elite. Criminal Investigation agents, analysts, and professional staff have a strong sense of purpose, dedication, and passion for following the money and pursuing those who want to terrorize and destroy this country, victimize others, and steal taxpayer dollars. It is truly not just a paycheck for those who work to promote CI's mission.

Our legacy is one of perseverance and taking on complex, sensitive investigations that many others simply did not have the financial sleuthing ability to complete. I realize now more than ever after visiting so many field offices that we are living up to that history every day by working great cases in the areas of tax fraud, ID theft, money laundering, public corruption, and the list goes on. Additionally, our Bank Secrecy Act (BSA) teams are doing amazing work - reviewing hundreds of thousands of Suspicious Activity Reports (SARs), finding good cases, investigating them and forfeiting millions of dollars in illegal proceeds. It is not just about the numbers. It is about the types of cases, the way we investigate them, our people and how we lead and manage. Through strategic investments in our workforce, increased communication, enhanced technology, and collaboration with domestic and global law enforcement partners, CI will continue to be the worldwide leader in tax and financial investigations.

This book showcases some of the many significant cases that were completed by CI during fiscal year 2012 and the many program areas we cover as an organization. These cases are just a few examples of the thousands of investigations initiated by CI last year, as we continue to make our mark as the finest financial investigators in the world. I want to thank and commend the agents, managers, analysts, and professional staff of CI on a very successful year. It has been an honor to serve you and I look forward to many more productive years ahead.

--Richard Weber, Chief, IRS Criminal Investigation

VISION FOR CRIMINAL INVESTIGATION:

Through strategic investments in people, increased communication, enhanced technology, and collaboration with domestic and global law enforcement partners, CI will continue to be the worldwide leader in tax and financial investigations.

GOALS AND EXPECTATIONS:

- Increase outreach and communications (internally and externally) to build stronger relationships with internal and external stakeholders as well as to educate the public about CI's investigations in order to deter crime.
- Recruit, select, promote, and retain the best candidates for Special Agent, Professional staff and Senior Leadership positions.
- Invest in training and employee development and reward employee accomplishments that help us achieve our unique business objectives.
- Develop a comprehensive succession plan and mobility policy for key leadership positions within CI.
- Enhance our technology capabilities to better support our Special Agents and Professional Staff in carrying out our Mission and Investigative Priorities.
- Develop talents and leverage diverse insights and opinions that will ensure our employees are fully engaged at every level, treated fairly and with consistency throughout the organization. CI's employees are our most valuable resource and we should encourage them at every level to share their insights and opinions. Therefore, CI will strive to become an organization where all individuals feel empowered and included and we will capitalize on the different talents and backgrounds we possess individually.

INVESTIGATIVE PRIORITIES:

- Identity Theft
- Offshore Tax Evasion
- Tax Treaty cases
- Fraud Referrals
- Sovereign Citizen cases
- Money laundering
- Other financial investigations including Terrorist Financing, Public Corruption, and Organized Crime Drug Enforcement Task Force
- Suspicious Activity Report Review Teams and Asset Forfeiture

ACCOMPLISHMENTS

Overall Fiscal Year 2012 (FY 2012) Investigation Statistics

- Subject criminal investigation initiations in FY 2012 were 5,125 cases.
- Investigation completions in FY 2012 were 4,937, a 5% increase over FY 2011.
- Prosecution recommendations for FY 2012 were 3,701, reflecting an increase of 8.5% over FY 2011.
- Convictions totaled 2,634 in FY 2012. This represents an increase of 12% in comparison to FY 2011.
- Conviction rate is the percentage of convictions compared to the total number of convictions, acquittals, and dismissals. The conviction rate for FY 2012 is 93.0%, 0.3% more than the FY 2011 rate (92.7%).

	FY 2012	FY 2011	FY 2010
Investigations Initiated	5125	4720	4706
Prosecution Recommendations	3701	3410	3034
Indictments/Informations	3390	2998	2645
Convictions	2634	2350	2184
Sentenced*	2466	2206	2172
Percent to Prison	81.5%	81.7%	81.5%

*Sentence includes confinement to federal prison, halfway house, home detention, or some combination thereof.
A fiscal year runs from October 1 through September 30.
Data Source: Criminal Investigation Management Information System

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IRS-CI Staffing

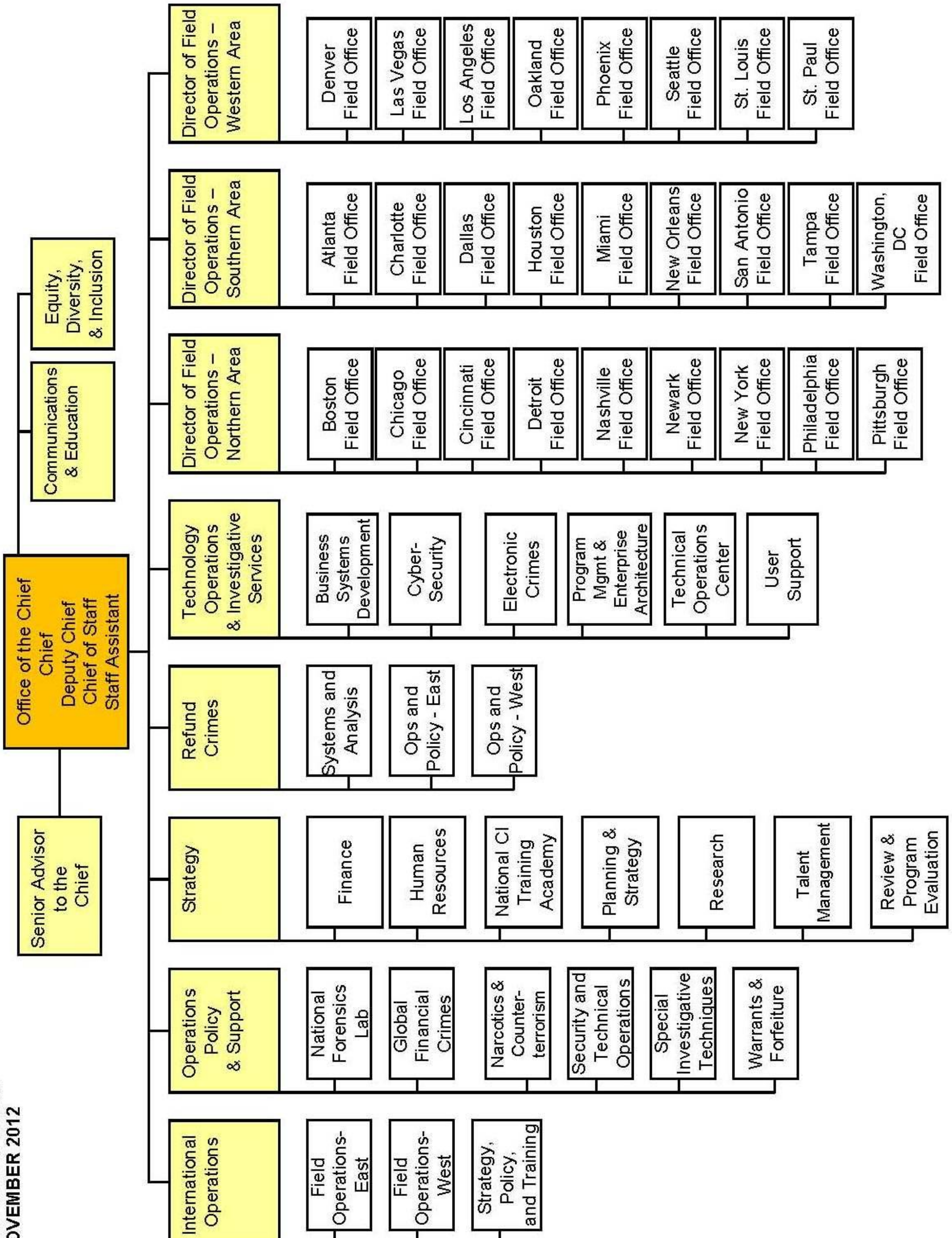
- As of September 30, 2012, IRS-CI had 2,657 Special Agents (SA) on board, a 2.7% decrease compared to the number of special agents at the conclusion of FY 2011.

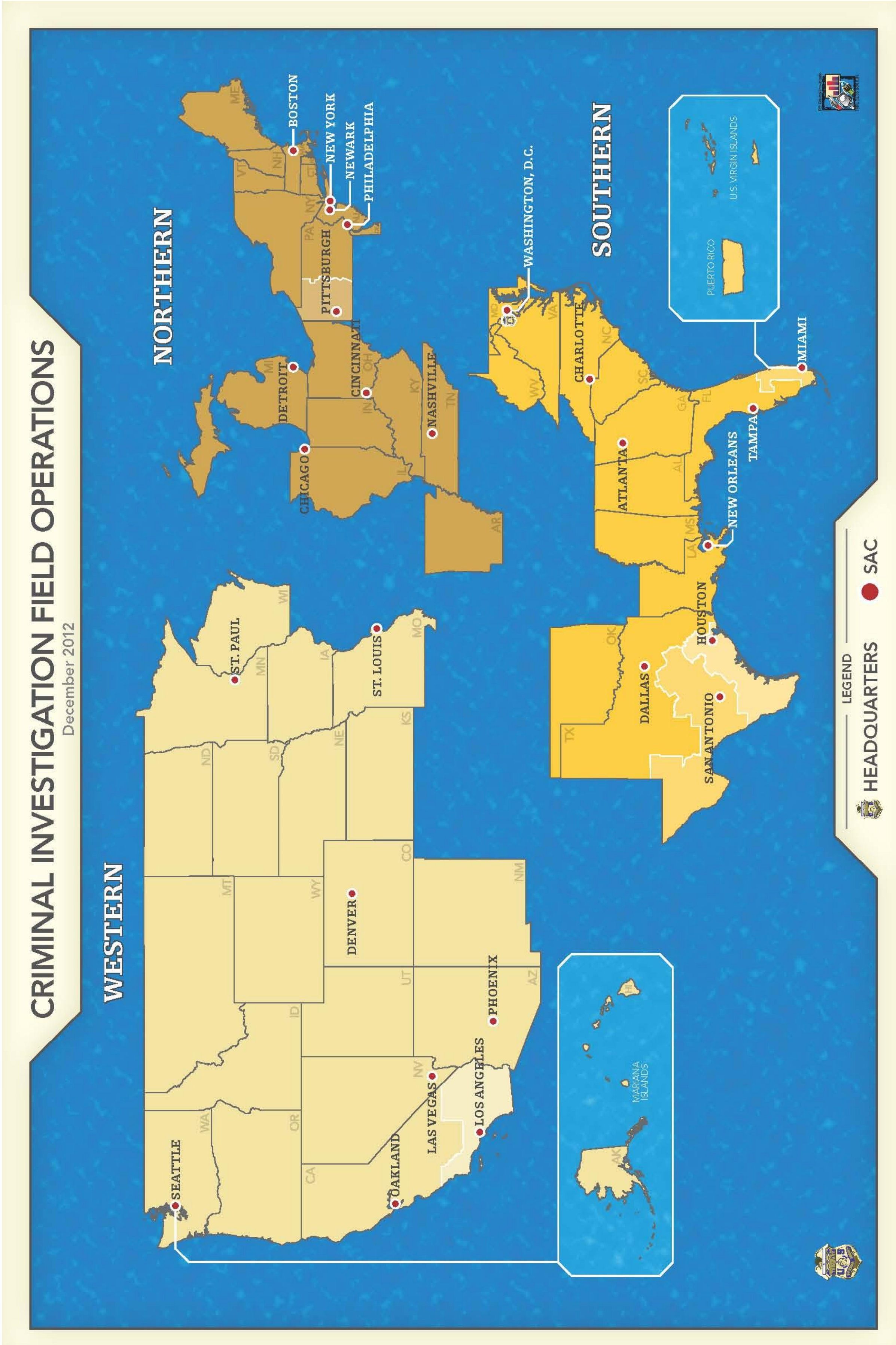
- Professional staff assigned at the conclusion of FY 2012 was 1,104, a 4.7% decrease from professional staff at the end of FY 2011.

EQUITY, DIVERSITY AND INCLUSION

The mission of CI's Equity, Diversity, and Inclusion (EDI) office is to identify, examine, and address the organization's employment practices, policies, guidelines, and procedures, to ensure they are free from unlawful discrimination, and that all employees and applicants for employment achieve equal opportunity in every facet of the IRS's programs, activities, and services. This is achieved by promoting a culture that values diversity and inclusion; identifying barriers as opportunities for organizational improvement and success; creating positive relationships and partnerships by demonstrating trust, respect, and integrity for one another; developing and coordinating diversity and inclusion initiatives to improve the organizational environment and the quality of work life; and, identifying and implementing solutions to the benefit of our most valuable resource, CI employees.

IRS-CRIMINAL INVESTIGATION
ORGANIZATION CHART
NOVEMBER 2012




CRIMINAL INVESTIGATION FIELD OPERATIONS
December 2012
WESTERN
NORTHERN
SOUTHERN
SEATTLE
OAKLAND
LAS VEGAS
LOS ANGELES
PHOENIX
DENVER
ST. PAUL
ST. LOUIS
CHICAGO
DETROIT
CINCINNATI
NASHVILLE
PITTSBURGH
BOSTON
NEW YORK
NEWARK
PHILADELPHIA
WASHINGTON, D.C.
CHARLOTTE
ATLANTA
NEW ORLEANS
TAMPA
MIAMI
HOUSTON
DALLAS
SAN ANTONIO
PUERTO RICO
U.S. VIRGIN ISLANDS
MARIANA ISLANDS
LEGEND
HEADQUARTERS
SAC

LEGAL SOURCE TAX CRIMES

Criminal Investigation's (CI) primary resource commitment is to develop and investigate Legal Source Tax Crimes. Typically, Legal Source Tax Crimes are committed by people in legally permissible occupations and industries and their actions violate tax laws or threaten the tax system. Prosecution of these cases support the overall IRS compliance goals and enhance voluntary compliance with the tax laws. Some of these investigations are worked with our federal, state and local law enforcement partners, as well as with foreign tax and law enforcement agencies.

Fraud Referral Program: Criminal Investigation places a high degree of emphasis on the fraud referral program. One source of investigations comes from civil IRS divisions in the form of a fraud referral. CI works closely with the civil divisions of Small Business/Self-Employed (SB/SE), Wage and Investment (W&I), and Large Business & International (LBI). It is through these fraud referrals that CI gets some of our core mission tax investigations. CI is committed to timely evaluation of each fraud referral.

General Tax Fraud

The General Tax Fraud investigations are the backbone of Criminal Investigation's enforcement program and has a direct influence on the taxpaying public's compliance with the Internal Revenue Code. Compliance with the tax laws in the United States depends heavily on taxpayer self-assessment of the amount of tax, voluntary return filing and remittance of any tax owed. This is frequently termed "voluntary compliance." There are individuals from all facets of the economy, whether corporate executive, small business owner, self-employed or wage earner, who do not pay their fair share of taxes through willful non-compliance. Criminal Investigation special agents use their financial investigative skills to uncover and quantify many different schemes, including deliberately under-reporting or omitting income ("skimming"); keeping two sets of books, or making false entries in books and records; claiming personal expenses as business expenses; claiming false deductions or credits against taxes; or hiding or transferring assets to avoid payment.

Examples of general tax fraud investigations[1] adjudicated in FY 2012 include:

Former New York Pizzeria Owner Sentenced for Tax Evasion: On September 18, 2012, in Buffalo, N.Y., Michael Gerace was sentenced to 21 months in prison and ordered to pay $176,000 in restitution to the IRS. According to court documents, from 2005 through 2007, Gerace maintained two separate sets of books and records for his business, Abbott Pizza. The first set of books accurately recorded the total revenue generated by the pizzeria. The second set of books, which recorded only a portion of the pizzeria's revenue, Gerace gave to his accountant to prepare his personal and corporate tax returns for 2005 through 2007. Gerace's unreported income during these three years was more than $500,000.

West Virginia Woman Sentenced for Tax Evasion: On August 20, 2012, in Huntington, W.Va., Georgiana Ciavarello was sentenced to 37 months in prison and ordered to pay $1,025,428 in restitution. According to her plea agreement, Ciavarello was employed as a bookkeeper by Quail Ridge Construction (QRC) Company from August 2007 through November 2010. She was responsible for the computer program QRC used for its general ledger and check register. Beginning in September 2007 and continuing until her discharge in November 2010, Ciavarello embezzled at least $689,790 from QRC. For tax years 2007 through 2010, Ciavarello did not report her embezzled income on her personal tax returns.

New Mexico Man Sentenced on Tax Charges: On December 14, 2011, in Albuquerque, N.M., Robert A. Fout was sentenced to 36 months in prison and ordered to pay $153,416 in restitution to the IRS and $33,999 to the State of New Mexico Taxation and Revenue Department. According to his plea agreement, from 2005 to 2008, Fout worked as a general and electrical contractor. Fout's general and electrical contracting work generated significant receipts; however, he willfully concealed those receipts from the IRS. Fout admitted that in calendar years 2005, 2006, 2007 and 2008, he filed false tax returns in which he failed to report $438,514 in taxable income resulting in the evasion of $153,416 in taxes.

[1] Investigation summaries are written from public court documents.

Refund Fraud Program

Refund fraud poses a significant threat to the tax system. When criminals attempt to misuse the Federal tax system in order to obtain money from the government under false pretenses, it not only results in the loss of funds needed for vital government programs, but it also can impact the taxpayers confidence in the tax system and willingness to voluntarily meet their tax filing obligations. The Refund Fraud Program is broken down into two distinct categories: the Return Preparer Program and the Questionable Refund Program, which includes identity theft investigations.

Return Preparer Program (RPP):

The Return Preparer Program investigations generally involve the orchestrated preparation and filing of false income tax returns, in either paper or electronic form, by dishonest preparers who may claim: inflated personal or business expenses, false deductions, excessive exemptions, and/or unallowable tax credits. The preparers' clients may or may not have knowledge of the falsity of the returns.

Examples of return preparer program investigations adjudicated during FY 2012 include:

Owner of Louisiana Tax Preparation Service Sentenced on Tax Charges: On September 26, 2012, in Baton Rouge, La., Ronald Wilkerson was sentenced to 92 months in prison, a forfeiture of $470,000, a judgment of $485,939, and ordered to pay $500,959 in restitution. According to court documents, Wilkerson prepared 635 false tax returns claiming approximately $1,415,388 in false telephone excise tax refunds.

Texas Return Preparer Sentenced for Filing False Returns: On July 3, 2012, in Del Rio, Texas, Juan Guerrero was sentenced to 36 months in prison and fined $7,500. According to court documents, Guerrero, dba Juan's Tax Service, prepared tax returns for clients from 2005 through 2007. Those returns falsely and fraudulently claimed Schedule C losses from business the clients did not have and deducted business expenses to falsely reduce their total income.

Tax Preparer Sentenced on Tax Charges: On June 11, 2012, in Philadelphia, Pa., Miguel Vazquez was sentenced to 120 months in prison and ordered to pay $1.6 million in restitution to the IRS. According to court documents, Vazquez prepared and assisted in preparing 1,654 fraudulent federal income tax returns. Vazquez prepared returns for his clients using fraudulent addresses on many of the returns. The returns falsely claimed that the filer was a business owner and falsely applied for a refund based upon an Earned Income Tax Credit. In addition, on his personal tax returns, Vazquez falsely reported an adjusted gross income of $28,000 for tax years 2008 and 2009, which he claimed was generated from Schedule C gross receipts. These claims were false because he netted approximately $500,000 in income during each of those years.

Illinois Tax Service Operator Sentenced in $1.6 Million Fraudulent Refund Scheme: On May 11, 2012, in East St. Louis, Ill., Delaun Leflore was sentenced to 90 months in prison. In addition, Leflore was ordered to cooperate with the IRS and prohibited from being in the tax preparation service business in the future. On May 4, 2012, his co-conspirator, Carey Herron was sentenced to 46 months in prison. According to court documents, from at least 2009 through April 2011, Leflore and Herron, dba Prime Time Tax Services, created fraudulent Schedule C information to falsely inflate the tax refund amount taxpayers were entitled to receive. Over 460 false federal tax returns were filed as part of the scheme.

The following table provides IRS-CI's Return Preparer Program statistics over the past three fiscal years:

	FY 2012	FY 2011	FY 2010
Investigations Initiated	443	371	397
Prosecution Recommendations	276	233	202
Indictments/Informations	202	176	182
Convictions	178	163	145
Sentenced	172	163	132
Incarceration Rate	84.3%	87.1%	88.6%
Average Months to Serve	29	25	24

Questionable Refund Program (QRP):

The primary focus of this program is to identify fraudulent claims for tax refunds. Generally, these schemes involve individuals filing false tax returns using the identifiers of other individuals knowingly or unknowingly.

Examples of questionable refund program investigations adjudicated in FY 2012 include:

Three Sentenced for Their Roles in Filing False Claims for Refunds: On August 2, 2012, in Kansas City, Mo., Candance McNeil was sentenced to 20 months in prison and ordered to pay $359,991 in restitution to IRS. On July 20, 2012, Waltia Williams was sentenced to 15 months in prison and ordered to pay $219,755 in restitution to the IRS. On June 11, 2012, Melvin Artis was sentenced to 21 months in prison and ordered to pay $228,217 in restitution to the IRS. According to court documents, from January 2009 to January 2010, McNeil, Williams and Artis caused 49 false tax returns to be filed claiming a total of $359,991 in refunds. McNeil and Williams created false and inflated Forms W-2 earnings and withholdings information for individuals and then prepared and filed the fraudulent federal tax returns electronically with the IRS. These fraudulent returns claimed tax refunds to which the individuals were not entitled to receive.

New York Inmate Sentenced for Filing False Claims Against the IRS: On July 2, 2012, in Buffalo, N.Y., Ronald Williams was sentenced to 120 months in prison. On January 27, 2012, a jury found Williams guilty of filing fraudulent claims against the United States. The evidence presented at trial showed that Williams, while an inmate at various New York State correctional facilities, filed 11 tax returns with the IRS during tax years 2006 through 2010 asking for refunds totaling $890 million. As part of his scheme to defraud the IRS, Williams applied for a fraudulent refund of $327,456. Prison authorities intercepted the check and returned it to the IRS. To further his claims, Williams fabricated withholdings on numerous Forms 1099-OID by claiming false withholding credits. Williams was also charged with aiding and abetting another prisoner with filing a fraudulent claim for a refund based upon the 1099-OID tax scheme.

Man Sentenced for Tax Fraud Conspiracy: On June 22, 2012, in Seattle, Wash., Ronald L. Brekke was sentenced to 144 months in prison and ordered to pay $6,206,998 in restitution. According to court documents, Brekke promoted a tax fraud scheme known as “1099 OID” fraud. Promoters of this scheme claim that the U.S. Treasury will pay out tax refunds equal to the value of a person’s personal debt. Brekke assisted nearly 1,000 people in three countries to claim over $763 million in fraudulent tax refunds. The IRS flagged the vast majority of the 1099 OID filings as frivolous. About two-thirds of Brekke’s customers were Canadians who had never paid income tax and were not owed any money by the U.S. Treasury. Brekke took in about $400,000 in fees over less than a two-year period from the people he aided in the fraud.

Mother and Daughter Sentenced for Role in Scheme to Obtain Payment of False Claims for Tax Refunds: On April 18, 2012, in Amarillo, Texas, Evelyn Wells was sentenced to 12 months and a day in prison and ordered to pay $100,360 in restitution. On March 29, 2012, Cassandra Dean was sentenced to 21 months in prison and ordered to pay $100,360 in restitution. According to court documents, for tax years 2006, 2007 and 2008, Wells and Dean provided false W-2 Forms containing fabricated employers’ names and fabricated amounts of tax withholdings for individuals they recruited. The false W-2 Forms were used to prepare false federal income tax returns, which were electronically filed with the IRS.

Two Wisconsin Women Sentenced for Filing Fraudulent Income Tax Returns: On March 1, 2012, in Milwaukee, Wis., Roshunda Smith was sentenced to 46 months in prison and ordered to pay $450,000 in restitution. Linda Townsend was sentenced to 24 months in prison and ordered to pay $70,000 in restitution. According to court documents, Smith and Townsend submitted more than 170 false income tax returns seeking more than $1.5 million in refunds using false employment tax, income, dependents, tax withholdings, and claiming to be eligible for the First Time Home Buyers Credit.

The following table provides IRS-CI's Questionable Refund Program statistics over the past three fiscal years:

	FY 2012	FY 2011	FY 2010
Investigations Initiated	921	578	504
Prosecution Recommendations	574	404	301
Indictments/Informations	507	288	196
Sentenced	262	180	130
Incarceration Rate	85.5%	78.3%	83.8%
Average Months to Serve	35	24	28

Identity Theft:

Identity theft tax refund fraud has increased substantially over the past couple of years, and CI has been on the forefront of combating this egregious crime against honest taxpayers. Identity thieves attempt to defraud the federal government of funds by filing fraudulent refund claims using another person's identifying information, stolen from a wide variety of places. CI regularly collaborates with federal, state and local law enforcement agencies and participates in task forces and working groups around the country in an effort to leverage the resources and expertise of various law enforcement agencies to address identity theft-related crimes. During 2012, CI took a number of proactive steps to fight the explosion of identity theft tax refund fraud.

One step was to establish an Identity Theft Coordinator position to aid CI efforts in combating the growing threat of Identity Theft on a national level. Through close coordination with senior management in CI's field offices, as well as with CI's partners in other law enforcement agencies and civil functions of IRS, the Identity Theft Coordinator helps to ensure CI's identity theft efforts are focused so as to garner the most impact on this extremely important investigative priority area.

Identity Theft Clearinghouse (ITC): The ITC receives all refund fraud related identity theft leads from CI field offices. The ITC's primary responsibility is to develop and refer identity theft schemes to the field offices, facilitate discussions between field offices with multi-jurisdictional issues, and provide support to on-going criminal investigations involving identity theft.

Stolen Identity Refund Fraud (SIRF): CI collaborated with Criminal Tax Counsel and the Department of Justice (DOJ) Tax Division to develop streamlined processes to more efficiently address identity theft related refund fraud cases. This collaboration resulted in the release of DOJ Tax Directive 144 to expedite cases of stolen identity refund fraud. Directive 144 created new policies that enable federal law enforcement and prosecutors to quickly open investigations and initiate legal actions when SIRF violations are alleged. For CI, this resulted in an expansion of federal criminal violations that may be investigated during tax-related schemes and enabled a significant streamlining of internal procedures, thereby enabling our special agents to react swiftly and initiate more SIRF investigations.

Victim Waiver Pilot Program: This program was developed jointly by IRS-CI and its civil counterparts as a result of a significant increase in requests from state and local law enforcement agencies for tax return documents associated with identity theft related refund fraud. The program allows for the disclosure of tax returns and return information associated with accounts of known and suspected victims of identity theft with the express written consent of those victims. The pilot program was initially available to law enforcement agencies in Florida, but has subsequently expanded to include the states of New York, New Jersey, Pennsylvania, Georgia, Alabama, Texas, Oklahoma, and California.

Examples of identity theft investigations adjudicated in FY 2012 include:

Illinois Woman Sentenced for Filing Fraudulent Tax Returns: On August 20, 2012, in Chicago, Ill., Katrina Pierce was sentenced to 132 months in prison, ordered to pay $123,670 in restitution to the

State of Illinois and $60,750 to the IRS, as well as forfeit $207,183. According to court documents, Pierce used stolen identities of deceased individuals and others to file approximately 180 fraudulent federal individual income tax returns for tax years 2006 and 2007. Pierce falsely claimed that the tax return was being submitted by a representative of a deceased taxpayer. Each fraudulent return listed actual deceased individuals as the taxpayers, and falsely stated that the person had died during the tax year. Over the course of the scheme, Pierce filed fraudulent tax returns falsely claiming a total of approximately $500,770 in tax refunds.

Five Sentenced for Multi-Million Dollar Tax Fraud and Identity Theft Scheme: On June 19, 2012, in Jacksonville, Fla., Bryan Adrain Copeland was sentenced to 264 months in prison and ordered to pay $3,547,373 in restitution to the IRS. According to court documents, Copeland filed fraudulent federal income tax returns using stolen identity information. Four other participants were sentenced in this scheme. Veronica Olivia Brown was sentenced to 30 months in prison and ordered to pay $767,555 in restitution to the IRS. Devron Tobey was sentenced to 12 months and one day in prison and ordered to pay $548,275 in restitution to the IRS. Prientice Hooks was sentenced to 12 months and one day in prison and ordered to pay $313,822 in restitution to the IRS. Beatrice Latangela Alphonse was sentenced to 63 months in prison.

Tennessee Resident Sentenced for Tax and Identity Theft Scheme: On May 16, 2012, in Memphis, Tenn., Rhonda Mayweather was sentenced to 168 months in prison and ordered to pay $218,577 in restitution to the IRS and $6,200 to individual victims of the scheme. According to the indictment, Mayweather and a co-conspirator obtained fraudulent refunds from the IRS by filing false 2005, 2006, and 2007 federal income tax returns in the names of individuals whose identities they had stolen. They attempted to obtain over $2 million by filing over 500 fraudulent tax returns.

Leaders of Multi-Million Dollar Fraud Ring Sentenced: On May 8, 2012, in Montgomery, Ala., Veronica Dale and Alchico Grant were sentenced to 334 months and 310 months in prison, respectively. Dale and Grant were both ordered to pay over $2.8 million in restitution to the IRS. According to court documents, beginning in 2009 and continuing through 2010, they used stolen identities to file over 500 fraudulent returns that sought at least $3,741,908 in tax refunds. These returns were filed using the names of Medicaid beneficiaries, whose personal information Dale obtained while working for a company that serviced Medicaid programs. A second indictment charged a conspiracy that involved Dale, Grant, Melinda Clayton, and Stephanie Adams. According to court documents, this conspiracy extended from January 2011 to April 2011. In her plea agreement, Dale admitted that this scheme involved a fraud loss of between $400,000 and $1 million. Dale admitted to providing Clayton with stolen identities to support the new scheme. The tax refunds were directed to bank accounts and prepaid debit cards that Dale and Grant purchased.

The following table provides IRS-CI's Identity Theft statistics over the past three fiscal years:

	FY 2012	FY 2011	FY 2010
Investigations Initiated	898	276	224
Prosecution Recommendations	544	218	147
Indictments/Informations	494	165	94
Sentenced	223	80	45
Incarceration Rate	89.2%	100.0%	88.9%
Average Months to Serve	48	44	41

Abusive Tax Schemes

Within the abusive tax schemes program, CI focuses on the investigation of promoters and clients who willfully participate in domestic and/or offshore tax schemes for the purpose of violating the tax laws. Participants in these abusive schemes usually create structures such as trusts, foreign corporations and partnerships for the purpose of making it appear that a trustee, nominee, non-resident alien or other foreign entity is the owner of the assets and income, when in fact the true ownership and control remains with a United States taxpayer. It should be noted that these schemes are being used by those promoting anti-government and sovereign citizen philosophies.

Examples of abusive tax scheme investigations adjudicated in FY 2012 include:

Former Pennsylvania State Auditor Sentenced for Tax Evasion, Obstructing and Impeding IRS: On April 10, 2012, in Harrisburg, Pa., Troy A. Beam was sentenced to 74 months in prison. According to evidence introduced at trial, Beam, a former certified public accountant and former state auditor in the Pennsylvania Auditor General's Office, operated a home construction business known as "Sunbeam Builders," as well as owned and operated two real estate businesses. The evidence at trial proved that from 1999 to 2007, Beam earned more than $10.3 million in gross income. Beam obstructed the IRS in its attempt to calculate and collect his taxes by using numerous sham trusts and other entities, including North Star Investment Holdings Ltd. to hide his income and assets. He used North Star to set up a bank account in the Cayman Islands into which he deposited nearly $3 million of income.

Honolulu Firearms Business Owner Sentenced on Tax Charges*:* On March 27, 2012, in Honolulu, Hawaii, Arthur Lee Ong was sentenced to 51 months in prison and ordered to pay $1 million in restitution to the IRS. According to evidence introduced at trial, Ong, the owner and operator of Thunder Bug Inc., dba Magnum Firearms, failed to report to the IRS millions of dollars of income he earned from the sale of firearms and related products. Ong, with the assistance of a Hawaiian attorney, created multiple sham trusts in 1990 to hide his income and assets. He stopped filing personal income tax returns beginning in 1994 and also filed false tax returns on behalf of the sham trusts that fraudulently reported to the IRS that the income from his businesses was attributable to these trusts and not to him. The evidence at trial showed that Ong evaded more than $600,000 in federal income taxes from 2000 to 2006.

Promoter of Abusive Trust Arrangements Sentenced on Tax Charges*:* On January 30, 2012, in Fresno, Calif., Michael S. Ioane was sentenced to 108 months in prison. Ioane was convicted by a jury in October 2011 of conspiring to defraud the United States and four counts of presenting fictitious documents to the United States. According to the evidence presented at trial, Ioane, who operated under the name Acacia Corporate Management and First Amendment Publishers, promoted sham or abusive trusts that purported to allow people to put their assets and income into trusts that would shield them from the IRS. When the IRS disallowed various trusts set up by Ioane, he would instruct co-defendant Vincent Steven Booth to set up new trusts, file false liens against his own properties and present bogus "Bills of Exchange" to the IRS that Ioane said constituted full payment of Booth's tax debt.

Non-filer Investigations:

Taxpayers who fail to file income tax returns and effectively stop paying income tax, pose a serious threat to tax administration and the American economy. Their actions undermine public confidence in the Service's ability to administer the tax laws fairly and effectively. IRS Criminal Investigation devotes investigative resources to individuals who simply refuse to comply with the law.

Examples of non-filer investigations adjudicated during FY 2012 include:

Asphalt Paver Sentenced for Failing to File Tax Returns: On May 9, 2012, in Detroit, Mich., Andrew Stanley was sentenced to 21 months in prison and ordered to pay $259,379 in restitution to the IRS for failing to file tax returns. According to court documents, from 2004 through 2008, Stanley earned income by working in Michigan as a private asphalt paver. During this time, Stanley received gross income of over $950,000 but failed to file federal income tax returns.

Two People Sentenced in Multi-Million Dollar Conspiracy to Defraud the Government: On December 15, 2011, Newark, N.J., Ronald Ottaviano was sentenced to 62 months in prison. Harriet Foster was sentenced to 13 months in prison. Ottaviano, a principal of Mid-Atlantic Trustees and Administrators (MATA), and others conspired to defraud the United States by marketing two fraudulent products, Pure Trust Organizations (PTOs) and Beneficiaries in Common (BIC). These products were designed to conceal assets from the IRS and fraudulently discharge debt. The defendants collectively made over $3.5 million in illicit gross receipts, most of which was hidden in PTOs controlled by the defendants. None of the defendants paid income taxes on the proceeds and filed no federal income tax returns at all.

Mississippi Man Sentenced for Tax Evasion and Obstruction Charges: On November 10, 2011, in Hattiesburg, Miss., Charles W. "Chip" Irby, Jr., was sentenced to 108 months in prison and ordered to pay $1,063,634 in restitution to the IRS. According to the indictment, Irby attempted to evade payment of federal income taxes totaling more than $245,000 for the years 1998 through 2001 through acts designed to conceal from the IRS the nature and extent of his assets and their location. He placed assets in nominee names and filed frivolous documents with the IRS. Irby also failed to file federal income tax returns for 2004 through 2007, when he had received income totaling approximately $197,363. Finally, Irby endeavored to obstruct the administration of Internal Revenue laws by promoting false information regarding the payment of federal income taxes to others, recruiting them to ignore their federal income tax obligations, preparing false and frivolous documents to send to the IRS such as false affidavits for particular tax years, and undertaking frivolous civil litigation against federal agents and others involved in the criminal investigation to impede its progress.

Employment Tax

Employment tax evasion schemes can take a variety of forms. Some of the more prevalent methods of evasion include "pyramiding," employee leasing, paying employees in cash, filing false payroll tax returns or failing to file payroll tax returns. Employment taxes include federal income tax withholding, social security taxes, and federal unemployment taxes. Some business owners withhold taxes from their employees' paychecks, but intentionally fail to remit those taxes to the IRS.

Examples of employment tax investigations adjudicated during FY 2012 include:

North Carolina Businessman Sentenced for Payroll Tax Fraud: On September 5, 2012, in Charlotte, N.C., Bruce Harrison, III, was sentenced to 144 months in prison and ordered to pay more than $43 million in restitution. According to court documents, Harrison owned or controlled temporary staffing companies operating in at least nine states under various corporate names. Harrison's staffing companies contracted with client businesses to provide temporary workers. Harrison's companies promised to assume full responsibility for paying wages and withholding and transmitting taxes to the IRS for those employees. Instead, Harrison failed to account for and pay over in excess of $40 million in federal payroll taxes for the employees.

Colorado Man Sentenced for Failure to Pay Over $1.3 Million to the IRS and Theft from 401(k) Plan: On April 4, 2012, in Denver, Colo., John C. Walshe was sentenced to 46 months in prison and ordered to pay $1,330,333 in restitution to the IRS. According to court records, Walshe was the owner and principal officer of Finzer Business Systems of Colorado, Inc. During the period of quarters ending June 30, 2005, through December 31, 2007, Walshe deducted and collected from Finzer employees, federal income taxes, Social Security taxes, and Medicare taxes totaling over $900,000. Walshe willfully failed to pay the money to the IRS. Furthermore, from June 15, 2006 through December 31, 2006, Walshe withheld money from employees' pay checks that the employees elected to be paid to their 401(k) plan; however, Walshe failed to pay this money over to the plan.

Virginia Woman Sentenced for Tax Evasion: On December 22, 2011, in Richmond, Va., Kim Jenkins Brandveen was sentenced to 60 months in prison. According to court documents, Brandveen owned Healthcare Solutions Medical Supply, LLC. Brandveen directed the withholding of federal employment taxes from employees' paychecks, but regularly failed to pay those taxes over to the IRS. When the IRS undertook collection efforts, Brandveen shut down that business and abandoned its bank accounts. She then operated as Healthcare Solutions Service Corporation, a virtually identical business performing largely the same functions from the same location with the same employees. Healthcare Solutions Service Corporation also failed to pay over employees' withheld employment taxes to the IRS.

Former Owner of Massachusetts Temporary Employment Agency Sentenced for Under-the-Table Scheme: On October 26, 2011, in Boston, Mass., Michael Powers, the former owner of a temporary employment agency, was sentenced to 84 months in prison and ordered to pay more than $9 million in restitution to the IRS, the Massachusetts Department of Unemployment Assistance, and two insurers. Powers and John Mahan were convicted in July 2011 of conspiracy to defraud the IRS and various workers' compensation insurers, mail fraud and filing false tax returns. According to court documents, between 2000 and 2004, Powers and Mahan owned and operated Commonwealth Temporary Services, Inc., which supplied hundreds of temporary laborers to businesses throughout Eastern Massachusetts. To avoid paying employment taxes and to fraudulently reduce the businesses' insurance premiums, Powers and Mahan under-reported their payrolls. To hide their fraud, they arranged to pay more than $30 million of their payroll in cash, under the table. The scheme avoided more than $9 million in federal and state payroll taxes and workers' compensation insurance premiums.

ILLEGAL SOURCE FINANCIAL CRIMES

The Illegal Source Financial Crimes Program encompasses all tax and tax-related, money laundering and currency violations. These investigations are focused on individuals deriving income from illegal sources, such as dollars obtained through embezzlement, bribery, and illegal gambling operations. The individuals can be legitimate business owners but obtain their income through illegal means. These investigations are also focused on methods through which individuals seek to "launder" their income by making it appear that the income is from a legitimate source. Frequent money laundering techniques include the manipulation of currency reporting requirements, layering of transactions and international movement of funds. In these types of investigations, CI works hand-in-hand with our federal, state, and local law enforcement partners, as well as with foreign tax and law enforcement agencies.

Financial Institution Fraud

This program addresses criminal violations involving fraud against banks, savings and loan associations, credit unions, check cashers, and stockbrokers. Criminal Investigation is a major contributor in the effort to combat financial institution fraud, and the United States Attorneys' recognize CI's financial investigative expertise in this complex area. The ability to bring income tax and money laundering charges augments prosecutors' effectiveness in combating fraud committed against financial institutions, whether the violators work within or outside of the institution.

Examples of financial institution fraud investigations adjudicated in FY 2012 include:

Mastermind of Multimillion Dollar Mortgage Fraud Conspiracy is Sentenced: On September 5, 2012, in Camden, N.J., Jong Shin was sentenced to 186 months in prison and ordered to pay $4.6 million in restitution. According to court documents, Shin defrauded mortgage lending institutions by purchasing residential properties in Atlantic City, N.J., and then recruiting "straw purchasers" to buy the properties. Shin prepared fraudulent contracts to sell the properties to the straw purchasers which included significantly inflated incomes, as high as $29,000 per month, on the loan applications. Another mortgage broker conspired with Shin to falsify the numbers on the applications and appraisals so that they would be accepted at the lending institutions. The straw purchasers owned seven properties with mortgages they could not pay and all seven properties went into foreclosure.

Ohio Man Sentenced for Role in Credit Union Collapse: On August 7, 2012, in Cleveland, Ohio, Arben Alia was sentenced to 108 months in prison and ordered to pay $3.2 million in restitution for his criminal activity related to the collapse of a federal credit union. According to court documents, from 2006 through 2009, Alia fraudulently obtained several loans, totaling approximately $4.5 million, from the federal credit union with the assistance of the former Chief Operating Officer.

New York Man Sentenced for Role in $10 Million Bank Fraud and Bribery Scheme: On June 14, 2012, in New York, N.Y., Christopher Cavounis was sentenced to 97 months in prison and ordered to pay $8.2 million in forfeiture and more than $7.9 million in restitution. Jagdesh Cooma was sentenced to 37 months in prison. According to court documents, from 2009 to November 2010, Cavounis, Cooma and others fraudulently obtained at least 16 commercial bank loans and lines of credit, receiving at least $10 million from eight different lenders. All of these loans are in default. To induce the lenders into providing the loans, Cavounis and Cooma prepared and submitted applications and supporting documentation that contained false and misleading information on behalf of empty shell companies with no existing businesses or assets. As part of the scheme, straw borrowers were recruited who provided personal identifying information to represent on loan applications that they were the owners or executives of various companies. Unbeknownst to the lenders, not only were the straw borrowers unaffiliated with the companies, but the companies either did not exist or had no actual earnings or income. To obtain the loans, Cavounis paid one bank employee more than $135,000 in bribes in 2010 to secure approval for several lines of credit. In total, Cavounis personally obtained approximately $2.45 million in loans that were issued to empty shell companies he controlled.

Former Bank Vice President Sentenced for Bank Fraud: On June 1, 2012, in Phoenix, Ariz., William Robert Liddle, a former bank vice president, was sentenced to 180 months in prison for defrauding Yuma's AEA Federal Credit Union (AEA) out of more than $20 million. According to court documents, Liddle used his position as the Vice President of Business Lending to approve risky business loans and loan increases to several entities owned in whole or part by Frank Ruiz. In exchange for approving the loans, Ruiz paid kickbacks to Liddle in the form of at least $250,000 in cash, a $600,000 house, and vehicles. The entities Ruiz used to obtain the loans were financially unstable and unqualified for the loans, and the few legitimate projects that were funded by the loans ended in failure. Ruiz was sentenced to 24 months in prison.

Public Corruption

Criminal Investigation continues to pursue investigations involving individuals who violate the public's trust. The individuals include both elected and appointed officials from all levels of government, including local, county, state, federal and foreign officials. Public corruption investigations encompass a wide variety of criminal offenses including bribery, extortion, embezzlement, illegal kickbacks, tax fraud and money laundering.

Examples of public corruption investigations adjudicated in FY 2012 include:

Former County Commissioner Sentenced for Racketeering, Tax and Other Charges: On July 31, 2012, in Cleveland, Ohio, Jimmy Dimora, former Cuyahoga County Commissioner, was sentenced to 336 months in prison. Dimora was convicted in March 2012 of racketeering, bribery, conspiracy, Hobbs Act conspiracy, tax charges and other crimes. According to court testimony, Dimora took more than $166,000 worth of bribes in exchange for his efforts to steer contracts to allies, get jobs and raises for associates, intercede with judges on pending cases, lobby for grants and favorable loans for people who paid him, and other official actions.

Former New York State Senator Sentenced for Filing Fraudulent Tax Returns: On June 18, 2012, in White Plains, N.Y., Nicholas A. Spano, a former New York State Senator, was sentenced to 12 months and one day in prison and ordered to pay a $30,000 fine. According to court documents, from 1987 until 2006, Spano served as a New York State Senator for the 35th district. In that capacity, he was responsible for voting on and approving the operating budget for New York State. A portion of the budget included funding for the Office of General Services (OGS). In 1993, a White Plains-based insurance company began paying Spano a $1,500 monthly fee. In 1996, after the insurance company was awarded a lucrative contract by OGS to become the broker of record for New York State, the payments increased to $5,000 per month. The payments subsequently increased to $6,000 per month in 1999 and $100,000 per year in 2002. The insurance company payments were made through various corporate entities controlled by Spano, including ONAPS, Inc., which had no employees or offices and was used almost exclusively to receive the insurance company payments. From 2000 through 2008, Spano filed false federal income tax returns that mischaracterized the income he received from the insurance company and other sources to unlawfully reduce his tax burden.

Former Maryland County Executive Sentenced for Extortion and Bribery: On December 6, 2011, in Greenbelt, Md., former Prince George's County Executive Jack B. Johnson was sentenced to 87 months in prison for his leadership role in an extortion conspiracy where, in exchange for bribes, Johnson corruptly used his public office to steer millions of dollars in federal and local funds to favored developers. Johnson was also ordered to pay a $100,000 fine and forfeit $78,000 and an antique

Mercedes Benz. Johnson was Prince George's County Executive from 2002 until December 2010. According to court documents, from 2003 through at least November 12, 2010, Johnson orchestrated a conspiracy in which various business persons offered bribes, including money, trip expenses, rounds of golf, mortgage payments and monetary and in-kind campaign contributions to Johnson and other state and local government officials. According to court documents, the amount of bribes extorted by Johnson and his co-conspirators totaled over $1.6 million.

Corporate Fraud

The Corporate Fraud program concentrates on violations of the Internal Revenue Code (IRC) and related statutes committed by publicly traded or private corporations, and/or by their senior executives. Some of the specific criminal acts within a corporate fraud investigation include falsifying and fabricating or destroying company records for the purpose of falsifying tax returns, financial statements or reports to regulatory agencies or investors. It also includes conduct by executives to enrich themselves by attempting to derive unauthorized compensation through unapproved payments or bonuses, payment of personal expenses with corporate funds, or bogus loans. Many corporate fraud investigations are joint efforts involving other federal agencies.

Examples of corporate fraud investigations adjudicated in FY 2012 include:

Co-Owners of US Fidelis Sentenced on Conspiracy and Tax Fraud Charges: On September 25, 2012, in St. Louis, Mo., Darain Atkinson was sentenced to 96 months in prison and ordered to pay more than $4 million in restitution. On September 18, 2012, Cory Atkinson was sentenced to 40 months in prison and ordered to pay over $4 million restitution to the IRS. According to court documents, Cory Atkinson and his brother Darain owned and operated US Fidelis, which was the nation's largest marketer of vehicle service contracts (VSCs). US Fidelis made its money by marking up the price of the VSC. As part of a criminal conspiracy, in 2008 Darain and Cory Atkinson made fraudulent payments on behalf of VSC purchasers who were in default or likely to be in default so that US Fidelis would receive its dealer profit when it was not entitled to receive such profit. In addition, Cory Atkinson admitted that he filed a false tax return for the tax year 2006 that failed to include millions of dollars in distributions that he received from US Fidelis. According to the plea agreement, between 2006 and 2008, Darain and Cory Atkinson received millions in distributions from US Fidelis, a substantial percentage of which funds were used to pay for their personal and non-business expenses. The tax loss was more than $4 million.

Former CEO of Connecticut Company Sentenced for Embezzling $1.7 Million: On July 10, 2012, in Bridgeport, Conn., Kevin Coleman was sentenced to 70 months in prison. According to court documents, from approximately November 2005 to December 2010, Coleman was the Chief Executive Officer (CEO) of a Shelton, Conn., company. From approximately October 2008 to November 2010, Coleman and Joanne Osmolik, who served as the company's Vice President for Human Resources, embezzled approximately $3.5 million in corporate funds to pay personal expenses. As part of the scheme, Coleman and Osmolik charged substantial personal expenditures on corporate credit cards. Coleman instructed Osmolik to destroy company records to conceal their fraudulent nature from others at the company. Coleman embezzled approximately $1.7 million from the company and Osmolik embezzled approximately $1.77 million. Coleman also did not file federal income tax returns for tax years 2007 through 2010. During these four years, in addition to his embezzled income, Coleman earned $1,585,128 in wages, resulting in a tax loss to the government of $741,029. The judge also ordered Coleman to pay $1,700,459 in restitution and an additional $450,000 jointly with Osmolik, to compensate the victim company for legal fees and other costs it incurred as a result of this crime. Coleman also was ordered to pay $1,372,711 in back taxes, interest and penalties. Osmolik was sentenced on April 26, 2012, to 48 months in prison and ordered to pay full restitution to the victim company. She also forfeited her interest in three residential properties in Vermont, six motorcycles, an all-terrain vehicle, four snowmobiles, vehicle trailers, jewelry, numerous appliances and other home furnishing items.

Texas Man Sentenced for Orchestrating $7 Billion Investment Fraud Scheme: On June 14, 2012, in Houston, Texas, R. Allen Stanford, the former Board of Directors Chairman of Stanford International Bank (SIB), was sentenced to 110 years in prison for orchestrating a 20-year investment fraud scheme in which he misappropriated $7 billion from SIB to finance his personal businesses. In addition, Stanford was ordered to forfeit approximately $333 million found and pay a $5.9 billion personal money judgment. According to court documents, SIB was an offshore bank Stanford owned based in Antigua and Barbuda which sold certificates of deposit (CDs) which typically paid a premium over interest rates on CDs issued by U.S. banks. By 2008, the bank owed its CD depositors more than $8 billion. Stanford diverted billions in depositor funds into various companies that he owned personally, in the form of undisclosed "loans." Stanford continued the operations of his personal businesses, which ran at a net loss each year totaling hundreds of millions of dollars, at the expense of depositors. Evidence at trial established Stanford also used the misappropriated CD money to finance a lavish lifestyle.

Former Virginia Resident Sentenced for Tax Evasion and Impeding the Internal Revenue Service: On December 16, 2011, in Alexandria, Va., Thomas J. Ernst was sentenced to 48 months in prison and ordered to pay $4,490,966 in restitution to the IRS. According to court documents, between 2000 and 2006, Ernst served as the president and chief executive officer of a health insurance benefits administration company. According to court documents, between 2001 and 2007, Ernst caused his employer to make payments of more than $3.3 million from its corporate bank account for numerous personal expenses. Ernst also admitted that he caused his employer company to fail to file corporate income tax returns, despite the fact that the company earned more than $11 million in gross receipts between 2001 and 2006.

Gaming

Criminal Investigation focuses attention on the gaming industry through the enforcement of tax, money laundering, and other related financial criminal statutes. The use of the Internet has increased the reach of domestic and international gaming operations.

Examples of gaming investigations adjudicated in FY 2012 include:

Two Men Sentenced on Racketeering Charges in Connection With Offshore Gambling Business: On June 28, 2012, in Boston, Mass., Daniel Eremian and Todd Lyons were sentenced on charges of racketeering and related offenses as a result of their participation in a large scale offshore gambling business. Eremian was sentenced to 36 months in prison and ordered to forfeit $7.7 million. Lyons was sentenced to 48 months in prison and ordered to forfeit $24.5 million. Lyons was the first defendant in the United States to be charged and convicted of violating the Unlawful Internet Gambling Enforcement Act (UIGEA). The statute was enacted by Congress in 2006 to deter the use of the United States banking system to pay Internet gambling debts incurred by United States citizens. Daniel Eremian and Robert Eremian built a massive online gambling ring called “Sports Offshore,” based in Antigua. The ring employed approximately 50 gambling agents in the United States, who had hundreds of customers. The government presented evidence that this gambling business laundered more than $10 million in checks and wire transfers. The defendants often shipped cash and checks back and forth to Antigua and also utilized a mail drop in Belize to receive proceeds of illegal gambling activities.

Louisiana Man Sentenced for Illegal Gambling Operation and Tax Evasion: On June 7, 2012, in New Orleans, La., Joseph A. Schillace IV was sentenced to 30 months in prison and ordered to pay $464,180 in restitution to the IRS along with interest, penalties, and any further IRS assessments. Schillace was also ordered to pay a $50,000 fine and forfeit a 2008 Infiniti and a 2005 Titan pickup truck. According to his plea agreement, beginning in January 1999 and continuing until April 2011, Schillace conducted, financed, managed, and owned an illegal sports betting business in Louisiana. Schillace admitted that his total unreported income was $819,917.

North Carolina Illegal Gambling and Money Laundering Operator Sentenced: On November 10, 2011, in Wilmington, N.C., Wallace Dixon Cox was sentenced to 33 months in prison and ordered to pay a fine of $50,000. According to the criminal Information, beginning about 1999, and continuing through 2006, Cox and others were actively involved in an illegal video poker business. The conspirators used money generated by the operation of illegal video poker machines in multiple locations to purchase new machines and to purchase and operate new locations with video poker machines. Cox and a co-conspirator attempted to purchase an airplane from a third party using profits derived from the video poker business and requested that the seller not file legally required currency reports with respect to a proposed $50,000 cash payment.

Insurance Fraud & Healthcare Fraud

The Insurance Fraud Program addresses criminal tax and money laundering violations relative to insurance claims and fraud perpetrated against insurance companies. Insurance fraud covers a wide variety of schemes, including phony insurance companies, offshore/unlicensed Internet companies and staged auto accidents. The Healthcare Fraud Program involves investigation of individuals who bill healthcare insurance companies for medical expenses never incurred or for unnecessary medical procedures and medical equipment.

Examples of insurance and healthcare fraud investigations adjudicated in FY 2012 include:

Four Individuals Sentenced in Massive Health Care Fraud Scheme: On June 29, 2012, in Houston, Texas, Kenneth Anokam was sentenced to 151 months in prison and ordered to pay $16,817,015 in restitution for a massive health care fraud conspiracy that billed Medicare and Medicaid for more than $45 million. Anokam was a manager at City Nursing. The owners of City Nursing, Umawa Oke Imo and Dr. Christina Joy Clardy, were sentenced to 327 and 135 months in prison, respectively. Joann Michelle White, an employee of City Nursing, was sentenced to 46 months in prison. Evidence presented at trial showed that Medicare and Medicaid beneficiaries were paid cash for going to City Nursing and signing undated blank treatment forms which were subsequently completed by Anokam and other City Nursing employees to reflect physical therapy treatment that was not provided. Despite billing more than $45 million for physical therapy services, City Nursing did not have a single licensed or otherwise qualified physical therapist on staff.

Leader of Massive Staged Car Accident Ring Sentenced: On May 25, 2012, in West Palm Beach, Fla., Oscar Luis Franco Padron was sentenced to 96 months in prison and ordered to pay $4,351,082 in restitution. According to his guilty plea, Padron managed several healthcare clinics. He and others would find individuals who owned automobiles and had car insurance to participate in staged automobile accidents.

Texan Sentenced for Defrauding Medicare: On January 30, 2012, in Houston, Texas, Aghaegbuna "Ike" Odelugo was sentenced to 72 months in prison, ordered to pay $9.9 million in restitution to Medicare and ordered to forfeit $7.45 million. According to court documents, Odelugo admitted that from July 2005 through March 2008, he entered into illegal agreements with 14 durable medical equipment (DME) company owners to fraudulently bill Medicare for millions of dollars. Odelugo was responsible for having marketers recruit the patients, for preparing the paperwork, for billing Medicare and for delivering some of the equipment. The DME company owner's role solely was to accept delivery of the patient files from Odelugo. In every instance, Odelugo was given control of the DME's Medicare provider number. Odelugo bought Medicare beneficiary information from recruiters and created paperwork and patient files to give the appearance of a valid claim. He then filed the claim electronically with Medicare and sent the patient files to the DME company owners. The proceeds from the false claims were deposited into the DME company's bank account and approximately 75 percent of the fraud proceeds then were transferred to Odelugo. The DME items billed to Medicare either were not delivered, not medically necessary, not prescribed by a doctor or up-coded from what was actually delivered.

Bankruptcy Fraud

According to the United States Bankruptcy Court, there were 1.3 million bankruptcy filings in fiscal year 2012. Bankruptcy fraud results in serious consequences that undermine public confidence in the system and taint the reputation of honest citizens seeking protection under the bankruptcy statutes. Since the IRS is often a creditor in bankruptcy proceedings, it is paramount that tax revenues be protected.

Examples of bankruptcy fraud investigations adjudicated in FY 2012 include:

Minister Sentenced in Scheme to Obstruct Bankruptcy Proceedings: On July 30, 2012, in Greenbelt, Md., Robert J. Freeman, aka "Dr. Shine," was sentenced to 27 months in prison and ordered to pay $631,050 in restitution for obstructing bankruptcy court proceedings. According to his plea agreement, Freeman served as pastor and leader of a ministry and two churches. Shortly after February 2001, Freeman used funds from church members to accumulate substantial assets, including luxury cars and a residence, which he concealed from the bankruptcy court when he sought a discharge of his debts in 2005. By October 2005, Freeman and his then-spouse owed over $1.3 million in debts. On October 14, 2005, Freeman filed a bankruptcy petition seeking to adjust or discharge his debts. Freeman lied to the bankruptcy court and obstructed its proceedings by not fully reporting his real or personal property, or property owned by another that Freeman controlled, including the home and luxury vehicles purchased with church funds. Freeman also falsely reported his occupation as a consultant of a maintenance company and failed to report any income from his ministry. Relying on the false information, on March 8, 2006 the bankruptcy court discharged hundreds of thousands of dollars in debts owed by Freeman.

Las Vegas Real Estate Agent Sentenced for Tax and Bankruptcy Fraud: On April 9, 2012, in Las Vegas, Nev., German A. Posada was sentenced to 18 months in prison and ordered to pay $212,016 in restitution to the IRS and $24,628 in restitution to victims of the bankruptcy fraud. According to court documents, Posada admitted to filing a false individual income tax return for 2004 that under-reported the income from his business as a real estate agent. Between 2003 and 2005, Posada earned commission income from International Realty and another realtor. He asked that International Realty issue some of his commission checks in the name of another individual and deposited those checks into a bank account in her name. Posada also admitted under-reporting his business income on his 2003 tax return, failing to file a timely 2005 tax return and failing to report the approximately $557,212 in income that he received in 2005. In addition, court records establish that in 2005, Posada filed for bankruptcy in the U.S. Bankruptcy Court for the District of Nevada. In his May 13, 2005, and August 2, 2005, bankruptcy petitions, he made false statements, including that he had no current income, he had received no income during the two years immediately preceding 2005, and 17 creditors held unsecured non-priority claims totaling $466,885 against him. Then, on September 2, 2005, at a meeting of creditors, Posada falsely testified under oath before the bankruptcy trustee that he had received "one or two" and "probably two" commissions since May 13, 2005, when in fact he knew that he had received at least 19 commission checks totaling $130,575 during that time period.

INTERNATIONAL OPERATIONS

The immense growth in the utilization of global financial markets presents new challenges to tax administration worldwide. IRS-CI's Office of International Operations (IO) promotes a comprehensive international strategy in responding to global financial crimes and provides support in combating offshore tax evasion. Since the means to evade taxes and commit fraud is not limited by sovereign borders, international collaboration is vital to CI's efforts to combat offshore tax evasion and fraud committed by individuals.

Criminal Investigation has special agent attachés strategically stationed in 10 foreign countries. Attachés continue to build strong alliances with our foreign government and law enforcement partners. These strong alliances provide IRS-CI with the ability to develop international case leads and to support domestic investigations with an international nexus. Criminal Investigation attachés are especially focused on promoters from international banking institutions which facilitate United States taxpayers in evading their United States tax requirements. Current oversea offices include: Beijing, China; Bogota, Colombia; Bridgetown, Barbados; Frankfurt, Germany; Hong Kong, China; London, England; Mexico City, Mexico, Ottawa, Canada; Panama City, Panama; and Sydney, Australia. The growth of the IRS-CI footprint internationally has increased the opportunities for case development. The International Lead Development Center (ILDC) is specifically tasked with conducting research on potential international criminal investigations. In addition, CI has personnel assigned to Interpol in Washington D.C. to assist in joint investigations and the apprehension of international fugitives.

Opportunities for training and foreign delegation visits have also increased. During FY 2012, the International Training Team delivered and/or assisted in providing financial investigative courses to further support United States Government initiatives in educating our law enforcement partners around the world in the fight against tax evasion and other financial crimes. These courses included Financial Investigative Techniques, Money Laundering, Terrorist Financing, Special investigative Techniques, Fraud, and Public Corruption. IRS-CI also hosted delegations from foreign countries seeking information on IRS-CI structure, operations, procedures, policies and training.

Simultaneous Criminal Investigation Program (SCIP) Agreements empower IRS-CI to better address offshore non-compliance activities, conduct simultaneous investigations, and share financial information on criminal tax suspects, their associated parties and promoters engaging in economic activities based in both the foreign country and United States. IRS-CI currently has SCIP agreements with Mexico, Italy, France, Canada, South Korea, and Japan.

Examples of investigations involving international aspects adjudicated in FY 2012 include:

New York Man Sentenced for Evading Taxes on Swiss Bank Accounts: On January 20, 2012, in New York, N.Y., Kenneth Heller was sentenced for income tax evasion for hiding more than $26.4 million in Swiss bank accounts. In connection with his guilty plea, Heller agreed to pay a civil penalty of over $9.8 million arising from his failure to file FBARs for those accounts. The charges against him arose out of the ongoing investigation into United States taxpayer clients of UBS and other overseas banks who conspired to hide such accounts from the IRS. Heller is a disbarred Manhattan maritime attorney who, in 2006, opened a UBS account in the name of a sham offshore corporation and deposited $26.4 million into the account. Though he controlled the trading in the account, Heller did not appear as the account holder on UBS account documents. Through Heller's concealment of the income earned in his UBS account, he evaded more than $2.3 million in federal income taxes.

Florida Man Sentenced for Investment Fraud: On November 28, 2011, in Tampa, Fla., John S. Morgan was sentenced to 121 months in prison and ordered to forfeit a 2003 Fountain Lightning Fever Powerboat and pay a money judgment of $10,085,375. According to his plea agreement, from about March 2005 through August 2009, Morgan, his wife, Marian I. Morgan, and others perpetrated an investment fraud scheme through a Danish entity named Morgan European Holdings APS (MEH). Morgan and others falsely represented to investors that MEH trading programs would yield returns of 30-70 percent per month or 200 percent per 90-120 day period, and that the investors' funds would never be put at risk. Investors transferred more than $28 million to MEH accounts. Approximately $10.8 million was used by the Morgans for their personal benefit. More than 80 investors located throughout the United States, Canada, and Europe entrusted the Morgans with their funds.

Defendant in Advance Fee Scheme Sentenced for Defrauding Canadian Company and Others: On November 10, 2011, in Seattle, Wash., Aaron Wilmot was sentenced to 20 months in prison and ordered to pay $230,861 in restitution. Wilmot and Lynn Marie Abreu, an attorney, pleaded guilty to one count of wire fraud. According to court documents, between about September 2005 and continuing through about November 2006, Abreu participated in an advance fee scheme to defraud Advanomics Corporation, located in Montreal, Quebec, and others. Wilmot helped establish a company called Investcorp and helped represent that Investcorp would lease bank instruments which could be used to obtain financing. Clients were required to pay an up-front fee to lease these instruments. The advance fees were to be deposited into Abreu's trust account and held there until the funding was provided, when they were to be returned to the clients. In reality, no financing was provided and the victim's funds were not held in trust, but were instead used by the defendants for their personal use.

California Man Sentenced for Filing False Tax Returns and Failure to File FBAR: On November 9, 2011, in San Francisco, Calif., Robert E. Greeley was sentenced for filing a false federal income tax return and failure to file FBARs. Greeley concealed more than $13 million in two bank accounts he had with UBS in Switzerland and agreed to pay a civil FBAR penalty of more than $6.8 million. According to the plea agreement, Greeley admitted in 2002 and 2004, with the assistance of UBS banker Renzo Gadola, he opened two bank accounts at UBS in Switzerland in the names of Meyrin Investors and Exchange Preferred Limited, both Cayman Islands nominee entities. Greeley was the beneficial owner of Meyrin Investors and Exchange Preferred Limited and directed the financial transactions concerning these bank accounts. Greeley admitted that between 2002 and 2008, the Meyrin Investors bank account's highest total net asset balance was $2,855,894 and the Exchange Preferred Limited bank account's highest total net asset balance was $12,616,881. Between 2003 and 2008, Greeley earned more than $734,000 in interest income in the two UBS bank accounts and none of the interest income was reported on any tax return that he filed with the IRS. Greeley willfully failed to report both his financial interest in and signature authority over the two bank accounts at UBS and interest income of more than $146,000 that he earned from these two bank accounts on his 2008 tax return.

Executives Sentenced for Bribing Officials at State-Owned Telecommunications Company in Haiti: On October 25, 2011, in Miami, Fla., Joel Esquenazi and Carlos Rodriguez were sentenced for their roles in a scheme to pay bribes to Haitian government officials at Telecommunications D'Haiti

S.A.M. (Haiti Teleco), a state-owned telecommunications company. Esquenazi, the former president of Terra Telecommunications Corp. was sentenced to 180 months in prison. Rodriguez, the former executive vice president of Terra, was sentenced to 84 months in prison. Esquenazi and Rodriguez were also ordered to forfeit $3.09 million. Esquenazi and Rodriguez were convicted in August 2011 of one count of conspiracy to violate the Foreign Corrupt Practices Act (FCPA) and wire fraud; seven counts of FCPA violations; one count of money laundering conspiracy; and 12 counts of money laundering. According to the evidence presented at trial, Terra had a series of contracts with Teleco (the sole provider of land line telephone service in Haiti) that allowed the company's customers to place telephone calls to Haiti. At trial, the evidence showed that Esquenazi and Rodriguez participated in a scheme to commit foreign bribery and money laundering from November 2001 through March 2005, during which time the telecommunications company paid more than $890,000 to shell companies to be used for bribes to Teleco officials.

The following table provides IRS-CI's International Operations statistics over the past three fiscal years:

IRS-CI Statistics - International Cases	FY 2012	FY 2011	FY 2010
Investigations Initiated	211	244	351
Prosecutions Recommendations	196	195	216
Indictments/Informations	153	149	181
Convictions	110	133	96
Incarceration Rate	87.9%	70.6%	87.4%
Average Months to Serve	71	61	50

MONEY LAUNDERING AND BANK SECREY ACT (BSA)

In partnership with other law enforcement agencies and the Department of Justice, Criminal Investigation seeks to protect the United States financial system through the investigation and prosecution of individuals and organizations that are attempting to launder their criminally derived proceeds. Criminal Investigation also seeks to deprive individuals and organizations of their illegally obtained cash and assets through effective use of the federal forfeiture statutes. In most money laundering cases, the money involved is earned from an illegal enterprise and the goal is to give that money the appearance of coming from a legitimate source. Money laundering is one means by which criminals evade paying taxes on illegal income by concealing the source and the amount of profit.

Bank Secrecy Act

The Bank Secrecy Act (BSA) mandates the reporting of certain currency transactions conducted with a financial institution, the disclosure of foreign bank accounts, and the reporting of the transportation of currency across United States borders. Through the analysis of BSA data, CI has experience success in identifying significant and complex money laundering schemes and other financial crimes. CI is the largest consumer of BSA data.

The Criminal Investigation BSA Program has grown substantially since its inception in the early 2000s when we helped establish the initial 41 Suspicious Activity Report Review Teams (SAR-RT). The mission then, as it is today, was to scrutinize BSA data to identify and target significant illicit financial criminal activity. The current BSA program is comprised of participation in 94 SAR-RTs (one in each judicial district and led by the responsible U.S. Attorney Office), and sponsorship and management of over 50 Financial Crimes Task Forces (FCTF) throughout the country. The FCTF is a collaboration between Criminal Investigation and state or local law enforcement agencies for the purpose of identifying and investigating in a specific geographic area illicit financial crimes, including BSA violations, money laundering, narcotics trafficking, terrorist financing and even tax evasion. Over 140 state or local agencies have joined FCTFs across the country and through execution of memorandums of agreement, detailed over 280 law enforcement officers to become Task Force Officers with authority to investigate money laundering and BSA violations on behalf of IRS.

Examples of money laundering investigations adjudicated in FY 2012 include:

Alabama Man Sentenced for Structuring Currency Transactions: On June 22, 2012, in Birmingham, Ala., Jerry Dwayne Lang was sentenced to 36 months in prison and ordered to forfeit $75,000. Lang was a scrap metal dealer who ran C&J Recycling. Lang was convicted in December 2011 on 70 counts of structuring cash transactions with two separate banks between April 2008 and October 2008. Lang's transactions were designed to avoid the legal requirement for banks to report currency transactions in excess of $10,000 to the federal government. According to evidence at trial, he structured his transactions as follows: Lang bought wrecked vehicles at auction and hired American Recycling to crush the vehicles for scrap metal. American Recycling issued multiple checks made out to Lang, not to C&J Recycling, of less than $10,000, instead of one check of more than $10,000. Lang would cash the checks at different times.

North Carolina Man Sentenced on Money Laundering Conspiracy Charges: On May 17, 2012, in Wilmington, N.C., George Bell, Jr. was sentenced to 36 months in prison. Bell pleaded guilty on September 6, 2011, to conspiring to launder monetary instruments. According to court documents, Bell, an employee and the son of the owner of an auto dealership, sold vehicles to three individuals but put different names on the vehicle titles. The vehicles were purchased with illegal funds. Bell allowed falsified information to be presented to the financial institutions to secure the loans for the vehicles. The investigation also revealed that Bell sold automobiles to Donald Shealey, the leader of a violent drug organization.

Tennessee Man Sentenced for Oxycodone Distribution and Money Laundering Charges: On April 16, 2012, in Knoxville, Tenn., Peter Mayo was sentenced to 162 months in prison. Mayo pleaded guilty in October 2011 to conspiracy to distribute and possession with intent to distribute oxycodone and conspiracy to commit money laundering. According to his plea agreement, between January 2009 and September 2011, Mayo directed numerous "pill shoppers" to obtain multiple prescriptions for oxycodone. Mayo would then ship the pills to co-conspirators in Knoxville, Tenn. Once the pills were distributed by his co-conspirators, Mayo directed the deposit of the drug proceeds into his personal bank accounts. Mayo then used funds to promote continued drug trafficking and to purchase many high-value assets, including luxury vehicles, motorcycles, jet-skis, a martial arts training facility, jewelry, and travel.

Father and Son Sentenced in $39 Million Investment Scam: On January 30, 2012, in Los Angeles, Calif., Richard Alan Cohen was sentenced to 153 months in prison for his role in running a scheme that defrauded more than 1,000 victims out of over $39 million with promises of large returns in companies. On January 23, 2012, Daniel Cohen, Richard's son, was sentenced to 151 months in prison for his role in the fraudulent scheme. In addition, the Cohens were ordered to pay $39,590,212 in restitution to victims of the fraud. According to court documents, in the mid-2000s, the Cohens formed several companies that they used to solicit investors with false claims that the businesses were successful and generated large profits. Potential investors were solicited in several ways, including by a team of salespeople who worked in a "boiler room." In addition to making claims that the businesses were viable and successful, salespeople often told potential investors that the companies were on the verge of "going public" or were going to be taken over by larger companies. Salespeople commonly told potential investors that they could buy company stock from a widowed investor who was willing to sell her investment at a discounted price. In reality, the Cohen companies were not successful, the stock certificates issued by the companies were worthless, and a substantial portion of the money received from victim-investors was skimmed by the Cohens to fund their lavish lifestyles.

Two New Jersey Men Sentenced in Money Laundering Scheme: On January 4, 2012, in Trenton, N.J., Rabbi Eliahu Ben Haim and Akiva Aryeh Weiss were sentenced for their roles in a money laundering scheme. Ben Haim was sentenced to 60 months in prison. Akiva Aryeh Weiss was sentenced to five years probation. According to court documents, from June 2007 to July 2009 Weiss operated an unlicensed money transmitting business with individuals residing in Israel. Beginning in October 2006, Haim met with a cooperating witness, Solomon Dwek, and for a fee of approximately 10 percent, agreed to launder and conceal Dwek's funds through an already-existing underground money transfer network. Haim admitted that prior to laundering Dwek's funds, Dwek repeatedly told him the funds were the proceeds of Dwek's illegal businesses and schemes, including bank fraud, trafficking in counterfeit goods, and bankruptcy fraud. To conceal and disguise the nature and source of the funds, Haim directed Dwek to make the checks payable to several organizations that Haim operated. Once he received the checks from Dwek, Haim deposited them into bank accounts held in the names of the organizations and then wired the proceeds of those checks to a co-conspirator in Israel or to bank accounts held by other individuals and corporations in various foreign countries, including Israel, Turkey, China, Switzerland and Argentina. The co-conspirator in Israel would then make cash available through an underground money transfer network. In conducting his business from a location in Brooklyn, Weiss admitted he transferred between $200,000 and $400,000 in cash to Haim and Dwek.

Illinois Man Sentenced for Investment Fraud: On December 13, 2011, in Springfield, Ill., Edward Moskop was sentenced to 240 months in prison and ordered to pay $1.49 million in restitution for mail fraud and money laundering. According to court documents, from 1991 through 2010, Moskop persuaded friends, family and neighbors to become his customers and provide him with funds for investment. Instead of making the investment, he kept the funds for his own use. Moskop created and mailed to his customers fraudulent receipts for investments identified with fraudulent account numbers. Moskop created periodic investment statements showing false interest and gains in the investments. From 1991 to 2010, Moskop obtained by fraud, approximately $2,424,000 from 26 victims.

The following table provides IRS-CI's money laundering and Bank Secrecy Act (BSA) statistics over the past three fiscal years:

Money Laundering Investigations	FY 2012	FY 2011	FY 2010
Investigations Initiated	1663	1726	1597
Prosecution Recommendations	1411	1383	1240
Indictments/Informations	1325	1228	1066
Sentenced	803	678	751
Incarceration Rate	84.7%	86.1%	83.8%
Average Months to Serve	64	70	69

Bank Secrecy Act (BSA) Investigations	FY 2012	FY 2011	FY 2010
Investigations Initiated	923	795	738
Prosecution Recommendations	683	518	456
Indictments/Informations	575	462	380
Sentenced	342	344	299
Incarceration Rate	76.6%	75.3%	73.9%
Average Months to Serve	40	33	38

BSA statistics include investigations from Suspicious Activity Report (SAR) Review Teams, violations of BSA filing requirements, and all Title 31 and Title 18-1960 violations.

NARCOTICS AND COUNTERTERRORISM

Criminal Investigation's mission in narcotics law enforcement is to disrupt and dismantle significant narcotics trafficking and money laundering organizations through the investigation and prosecution of their members and associates, and the seizure and forfeiture of their profits. Criminal Investigation special agents utilize their unique financial investigative expertise to follow the money trail, tracing the profits from the illegal activity back to the criminal organization. Within this program, CI investigates violations of the Internal Revenue Code, Bank Secrecy Act and Federal Money Laundering statutes.

The CI Narcotics Program supports the National Drug Control Strategy and the National Money Laundering Strategy through the assignment of CI personnel to the White House Office of National Drug Control Policy as well as the assignment of personnel to multi-agency task forces, including Organized Crime Drug Enforcement Task Force (OCDETF), OCDETF Fusion Center (OFC), High Intensity Drug Trafficking Area (HIDTA), High Intensity Financial Crimes Area (HIFCA), Drug Enforcement Administration Special Operations Division, (SOD), and the El Paso Intelligence Center (EPIC).

Criminal Investigation also plays a significant role in protecting our nation from terrorist threats. CI special agents are assigned to the various FBI-led Joint Terrorism Task Forces (JTTF) throughout the country. These agents use their financial investigative expertise to unravel terrorism financing schemes. Furthermore, CI's Counterterrorism Lead Development Center proactively develops terrorism related cases for the CI field offices to further investigate. The Counterterrorism Center also provides investigative support to CI special agents working terrorism cases.

Examples of narcotics investigations adjudicated in FY 2012 include:

Drug Kingpin Sentenced to Life in Prison: Ángel M. Ayala-Vázquez, aka "El Negro," "Ángelo Millones," "El Buster," and "Papa Upa," was sentenced to life in prison in San Juan, Puerto Rico. Ayala-Vázquez was found guilty of conspiracy to possess with intent to distribute and to import controlled substances at the Public Housing Projects, José Celso Barbosa and Sierra Linda in Bayamón, Puerto Rico. He was also found guilty for a forfeiture allegation with a money judgment of $100 million.

Florida Pill Mill Owner Sentenced in Operation Snake Oil: Vincent Colangelo was sentenced to 240 months in prison and three years of supervised release in Miami, Fla. Colangelo was also ordered to forfeit five properties valued at more than $2.5 million, approximately $911,951 seized from seven bank accounts and a safety deposit box, 52 vehicles and vessels worth more than $6 million and jewelry valued at approximately $20,000. Colangelo pleaded guilty to conspiracy to distribute and dispense large amounts of oxycodone without a legitimate medical purpose and outside the usual course of professional practice, money laundering and filing a false 2009 federal income tax return.

Former Leader of the Arellano-Felix Organization Sentenced for Racketeering and Money Laundering Offenses: Benjamin Arellano-Felix, the former leader of the Tijuana Cartel/Arellano-Felix Organization (AFO), was sentenced to 300 months in prison and ordered to forfeit $100 million in criminal proceeds in San Diego, Calif. Arellano-Felix and other AFO members conspired to import and distribute within the United States hundreds of tons of cocaine and marijuana, for which the AFO obtained hundreds of millions in United States dollars in profits.

Texas-based Kingpin Sentenced to Life: Leandro Salas-Galaviz was sentenced to life in prison in Laredo, Texas for his role as a leader/organizer in a drug and money laundering conspiracy engaged in trafficking cocaine and marijuana for the Gulf Cartel and Los Zetas. A money judgment of $13 million was also entered in addition to a final order of forfeiture for a property in Laredo, Texas, and $118,998 in money seizure. Salas-Galaviz shipped tons of marijuana and cocaine from Laredo to Dallas, Fort Worth, Chicago and other areas. He and his wife, mother and sister used multiple bank accounts to conduct financial transactions designed to conceal and disguise the true nature and ownership of the thousands of dollars of cash proceeds deposited and withdrawn from those accounts.

Nebraska Co-Conspirator Sentenced on Drug and Money Laundering Charges: On November 7, 2011, in Omaha, Neb., Shannon Williams was sentenced to 480 months in prison and fined $300,000 for marijuana trafficking and money laundering. According to court documents, from 2006 thru 2009, Williams directed a conspiracy that arranged for over 7,000 pounds of marijuana to be transported to Omaha from the Tucson, Arizona area.

Sovereign Citizens

During 2012, CI found a re-emergence of individuals and/or entities who proclaimed themselves Sovereign Citizens. Generally, they utilized anti-government or anti-tax rhetoric schemes to disrupt the tax administration process. CI has partnered with Department of Justice and Office of the Inspector General for Tax Administration to create a working group to address this emerging threat.

Examples of sovereign citizen investigations adjudicated in FY 2012 include:

Self-proclaimed "Governor" of Alabama Sentenced for Tax Fraud: On May 29, 2012, in Montgomery, Ala., Monty Ervin and Patricia Ervin were sentenced to prison for conspiring to defraud the United States and tax evasion. Patricia Ervin was also sentenced for structuring transactions to avoid bank reporting requirements. Monty Ervin was sentenced to 120 months in prison. Patricia Ervin was sentenced to five years of probation, with the condition that she spend 40 consecutive weekends in jail. The Ervins were also ordered to pay $1,436,508 in restitution to the IRS. The evidence established that Monty and Patricia Ervin filed numerous documents in probate court renouncing their U.S. citizenship and claimed they were part of a "sovereign citizens" organization. The Ervins owned and managed Southern Realty, a property management company and amassed hundreds of investment properties over the last decade, receiving more than $9 million in rental income. Despite receiving this income, the couple paid no federal income taxes. As the evidence showed at trial, the couple concealed their assets from the IRS by placing investment properties into the names of nominees – "trusts" and "trustees." Patricia Ervin also structured deposits into Southern Realty's bank account in an effort to evade federal currency reporting requirements.

Washington Man Sentenced for Assisting in the Filing of False Tax Returns: On February 1, 2012, in Seattle, Wash., Timothy Garrison was sentenced to 42 months in prison and ordered to pay $95,626 in restitution. Garrison pleaded guilty in November 2011 to two counts of assisting with the filing of false tax returns. According to court documents, Garrison, as a tax preparer, prepared more than 50 returns with false or fraudulent information, resulting in a tax loss of more than $2.5 million. Garrison has been active in the "County Ranger" and "Sovereign Citizen" movements. Activists in these groups believe state and federal laws do not apply to them. Garrison's activities include making threats to "arrest" law enforcement officers and filing bogus liens against the homes of law enforcement officers. Garrison is the second of six defendants being prosecuted in the Western District of Washington for crimes tied to the "Sovereign Citizen" movement. In January 2012, David Russell Myrland was sentenced to 42 months in prison for making threats against the Mayor and City Attorney of Kirkland, Washington.

Warrants and Forfeiture

Criminal Investigation uses asset forfeiture statues to dismantle criminal enterprises by seizing and forfeiting their assets. Forfeiture are also use in white collar crimes when the criminal derived dollars are acquired through illegal activities. Under the fugitive program, CI coordinates information with other law enforcement agencies in order to identify and apprehend fugitives from justice where the fugitive has been charged with violations of the Internal Revenue laws and related offenses.

The chart below summarizes the seizures and forfeitures during fiscal year 2012. This chart shows the number of investigations involved and the number of assets seized and forfeited.

Seizures		
Count of Investigations	**Count of Assets**	**Total Asset Appraisal Value**
665	2346	$754,673,569

Forfeitures		
Count of Investigations	**Count of Assets**	**Total Forfeited Value**
414	1166	$97,670,943

Examples of investigations involving forfeitures during FY 2012 include:

- **Wegelin & Co:** Indicted for conspiring with United States taxpayers and others to hide more than $1.2 billion in secret accounts and income from the IRS. Wegelin & Co. agreed to forfeit $16,260,693.42 which was deposited into the Treasury Forfeiture Fund in June 2012.

- **Wachovia Bank N.A.:** Forfeited $110 million, of which $35 million was equitably shared with the Treasury Forfeiture Fund. A deferred prosecution agreement was reached in which the bank accepted responsibility for failing to maintain an effective anti-money laundering program and agreed to pay a fine of $50 million for the violations. Additionally, Wachovia failed to block Mexican currency exchange houses from laundering billions of dollars, including illegal narcotics trafficking proceeds through the bank.

- **Google, Inc.:** Agreed to forfeit $500 million in illegal proceeds garnered from accepting payments for advertisements from online Canadian pharmacies. The $500 million represents the gross revenue from both Google, received from its AdWords program, and Canadian pharmacies, from sales to United States customers. IRS-CI's portion of the forfeiture was $35 million, which was deposited into the Treasury Forfeiture Fund.

- **Miguel Angel Trevino Morales & Omar Trevino Morales**: Indicted for money laundering. Both individuals were key figures in the Zetas drug operation for setting up a money laundering operation utilizing race horses that operated from a ranch near Lexington, Okla. On June 12, 2012, the San Antonio FO seized over 400 horses with an estimated value of $12,000,000.

Examples of investigations involving fugitives apprehended during FY 2012 include:

- **Joe Don Johnson**: Johnson and another individual defrauded investors. On February 3, 2012, he was charged for $5,946,965 of securities fraud and money laundering. Johnson fled the country shortly after indictment. He remained a fugitive until apprehended in the Philippines in March 2012.

- **Joshua Lankford**: Lankford and others conspired in a scheme to control and manipulate stocks. On February 10, 2009, Lankford was indicted in a $1,000,000 securities fraud and money laundering scheme. Lankford fled the country prior to trial. He remained a fugitive until apprehended in Costa Rica in May 2012.

TECHNOLOGY OPERATIONS & INFORMATION SERVICES

Criminal Investigation continues to ensure our enforcement efforts and operating needs are strengthen by technology. CI has increased performance efficiencies through the use of new and improved technology, development of software applications, and by providing upgraded IT infrastructures.

Computers are increasingly used to facilitate and commit sophisticated financial crimes. CI has trained special agents in the recovery and preservation of hardware and software evidence. The volume of evidence seized and analyzed has increased dramatically over the years, and CI is leveraging technology and human resources to meet the demand.

The majority of CI Special Agent-Computer Investigative Specialists are certified in the use of top level forensic software, thus raising proficiency and providing an important certification to the Curriculum Vitae for judicial proceedings. Special Agents are also trained in the use of mobile forensics hardware and software.

Investigations from FY 2012 with a high level of information technology support include:

Minnesota Ponzi scheme: The Trevor Cook investigation involved five subjects who orchestrated a scheme that bilked more than 900 investors out of approximately $158 million. The Computer Investigative Specialist (CIS) assigned to the case, analyzed data from more than 60 computers during the course of this investigation, which totaled approximately 10.5 TB of data. An agent review workstation was set up at the United States Attorney's office to provide manageable electronic data to the case agents. The CIS testified to significant amounts of electronic evidence introduced at trial. Trevor Cook and Christopher Pettengil pleaded guilty. The remaining three defendants, Bo Beckman, Gerald Durand, and Pat Kiley, went to trial in May 2012 and each was convicted on multiple counts of wire fraud, mail fraud, money laundering, and tax evasion.

Credit Union Embezzlement: Holly Cowan embezzled approximately $223,000 over a five-year period. She fraudulently converted funds using fictitious deposits and loan payments resulting in losses totaling over $912 million dollars to a federal credit union. IRS-CI information technology specialists located hidden accounting software, restored the software, queried the general ledger and determined that the ledger was being used to keep track of "ghost" deposits to the account and facilitate the theft through the creation of income statements and balance sheets provided to auditors. It was also discovered that the subject was maintaining dual sets of books, a false one to show auditors and the real one that showed the amounts embezzled. Due to the extensive investigative analysis done, Cowen pleaded guilty in April 2012 and on January 24, 2013 was sentenced to 15 months in federal prison and ordered to repay the money that she embezzled.