Internal Revenue Service
Criminal Investigation

Fiscal Year 2013
National Operations

Annual Business Report

IRS

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Chief's Message – Richard Weber

Chief Weber listens to presentations during Elmer Irey Day awards ceremony.

As I reflect back on Fiscal Year 2013, it is clear that it was one of the most challenging years in recent memory for the Service. Despite those challenges, CI thrived. Our special agents and analysts continue to prove that tenacity and hard work in investigating financial crimes are the keys to successful prosecutions. It has been my experience that our agents have the undisputed and well-deserved reputation as the finest financial investigators in the world. Our professional staff remains steadfast in accomplishing the tasks at hand. I continue to be humbled with leading an organization with employees who have the skills and determination to stay mission focused and overcome difficulties and keep CI moving in a positive direction.

During Fiscal Year 2013, we were faced with the continued challenge of declining resources. Our staffing of special agents and professional staff were at the lowest in years, and budget constraints curtailed our official travel and training. However, we still remained a strong organization – working complex and sensitive investigations where we have the advantage of strong financial expertise. This annual report includes case summaries that represent the diversity and complexity of those investigations. Our cases involved individuals and corporations from all segments of society. They led us into corporate board rooms, offices of public officials, tax preparation businesses, ID Theft gangs and narcotics trafficking organizations. Some of the biggest stories of the year included Kwame Kilpatrick, Liberty Reserve, HSBC, Rashia Wilson, Tim Turner, and the Los Zetas drug cartel. Kwame Kilpatrick, the former mayor of Detroit, was convicted in Fiscal Year 2013 and subsequently received the longest sentence ever in a public corruption and tax case. Liberty Reserve, one of the largest digital currency and international money laundering cases in U.S. history, was indicted and operations shutdown by our agents and law enforcement partners. HSBC entered into a deferred prosecution agreement and agreed to forfeit $1.256 billion. Rashia Wilson claimed herself to be the “Queen of ID Theft” only to be arrested, tried and sentenced to 234 months in prison. Tim Turner, the self-proclaimed “President” of the sovereign citizen movements, was sentenced to 216 months in prison. Top members of the Los Zetas drug cartel were sentenced to lengthy prison terms. These are just a few of the myriad of multifaceted investigations CI worked this past year. In total, we initiated over 5,300 cases, recommended over 4,300 for prosecution, and supported prosecutors as they indicted almost 3,800 individuals and convicted over 93% of the cases closed this year. The conviction rate is especially important because it reflects the quality of our casework, our teamwork with federal law enforcement and the U.S. Attorneys' Offices, and represents an increase over 2011 and 2012.

CI also plays a vital role in the Service's effort to combat identity theft – one of our top priorities. CI works closely with other IRS business units to ensure there is an effective, coordinated Service-wide approach to battling this serious crime problem. Through our investigations we are able to provide the IRS with trends and filing patterns which they can in turn use to develop filters in identifying bad returns and stopping them prior to the refund being released. Working with our civil tax partners, we prevented over 1.3 million fraudulent returns from being released. Those fraudulent returns claimed over $7.1 billion in false refunds. As a whole we have done a tremendous job as it relates to identity theft, from investigations to outreach to assisting civil tax counterparts.

As we enter Fiscal Year 2014, we will continue these efforts and will look at new ways to work with our civil partners, federal, state, local, and international law enforcement and prosecutors. I am extraordinarily optimistic about the future of CI. Nothing great is ever achieved without dedication and enthusiasm, and our employees have plenty of both. We will remain the energetic, dynamic and adaptive organization that is simply the best at following the money. I am grateful for the service and dedication of all CI employees.

Vision for IRS 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.

Investigative Priorities:

Criminal Investigation's highest priority is to enforce our country's tax laws and support tax administration. The Fiscal Year 2013 investigative priorities were:

- Identity Theft Fraud
- Return Preparer Fraud & Questionable Refund Fraud
- International Tax Fraud
- Fraud Referral Program
- Political/Public Corruption
- Organized Crime Drug Enforcement Task Force (OCDETF)
- Bank Secrecy Act and Suspicious Activity Report (SAR) Review Teams
- Asset Forfeiture
- Voluntary Disclosure Program
- Counterterrorism and Sovereign Citizens

Accomplishments:

Overall Fiscal Year 2013 (FY 2013) Investigation Statistics:

- Subject criminal investigation initiations in FY 2013 were 5,314 investigations.
- Investigation completions in FY 2013 were 5,557, a 12.5% increase over FY 2012.
- Prosecution recommendations for FY 2013 were 4,364, reflecting an increase of 17.9% over FY 2012.
- Convictions totaled 3,311 in FY 2013. This represents an increase of 25.7% in comparison to FY 2012.
- Conviction rate is the percentage of convictions compared to the total number of convictions, acquittals, and dismissals. The conviction rate for FY 2013 is 93.1%, 0.1% more than the FY 2012 rate (93.0%).

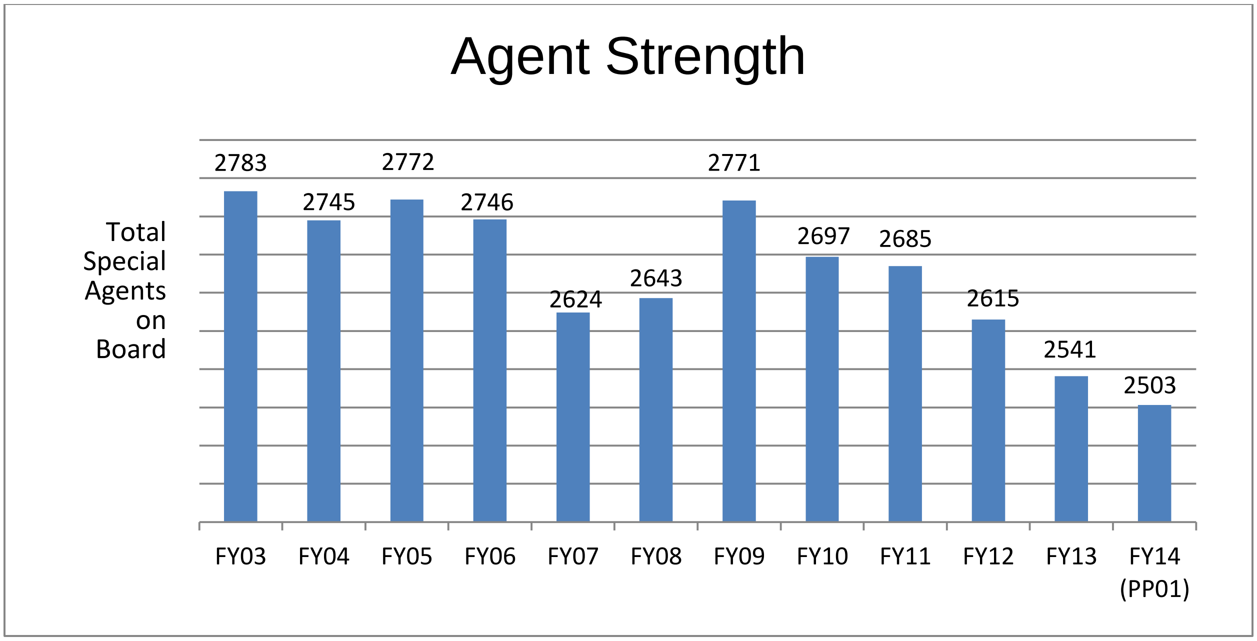
	FY 2013	FY 2012	FY 2011
Investigations Initiated	5314	5125	4720
Prosecution Recommendations	4364	3701	3410
Informations/Indictments	3865	3390	2998
Convictions	3311	2634	2350
Sentenced*	2812	2466	2206
Percent to Prison	80.1%	81.5%	81.7%

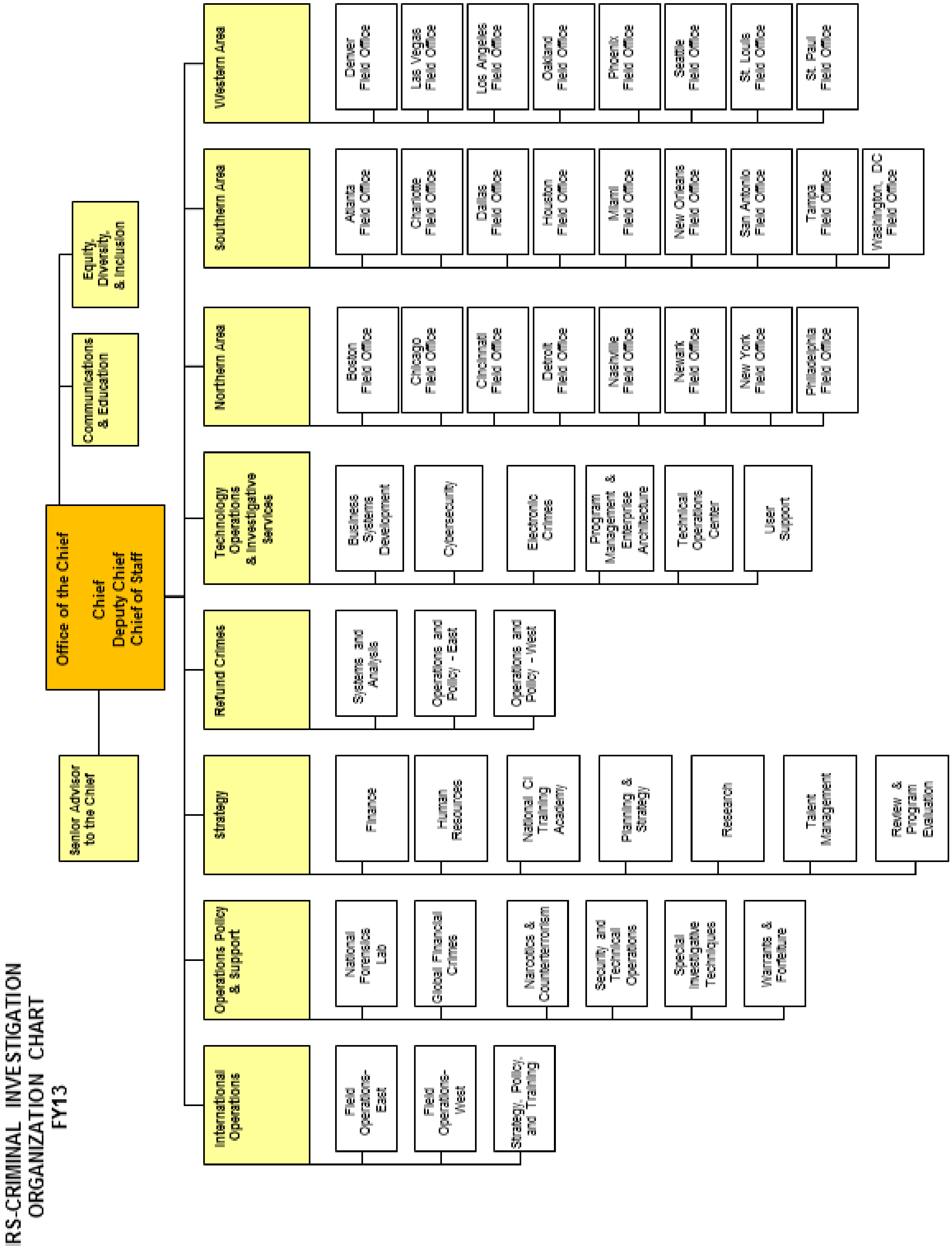
*Sentence includes confinement to federal prison, halfway house, home detention, or some combination thereof.
A fiscal year runs from October 1 through September 30.
Data Source: Criminal Investigation Management Information System
How to Interpret Criminal Investigation Data: Actions on a specific investigation may cross fiscal years, the data shown in investigations initiated may not always represent the same universe of investigations shown in other actions within the same fiscal year.

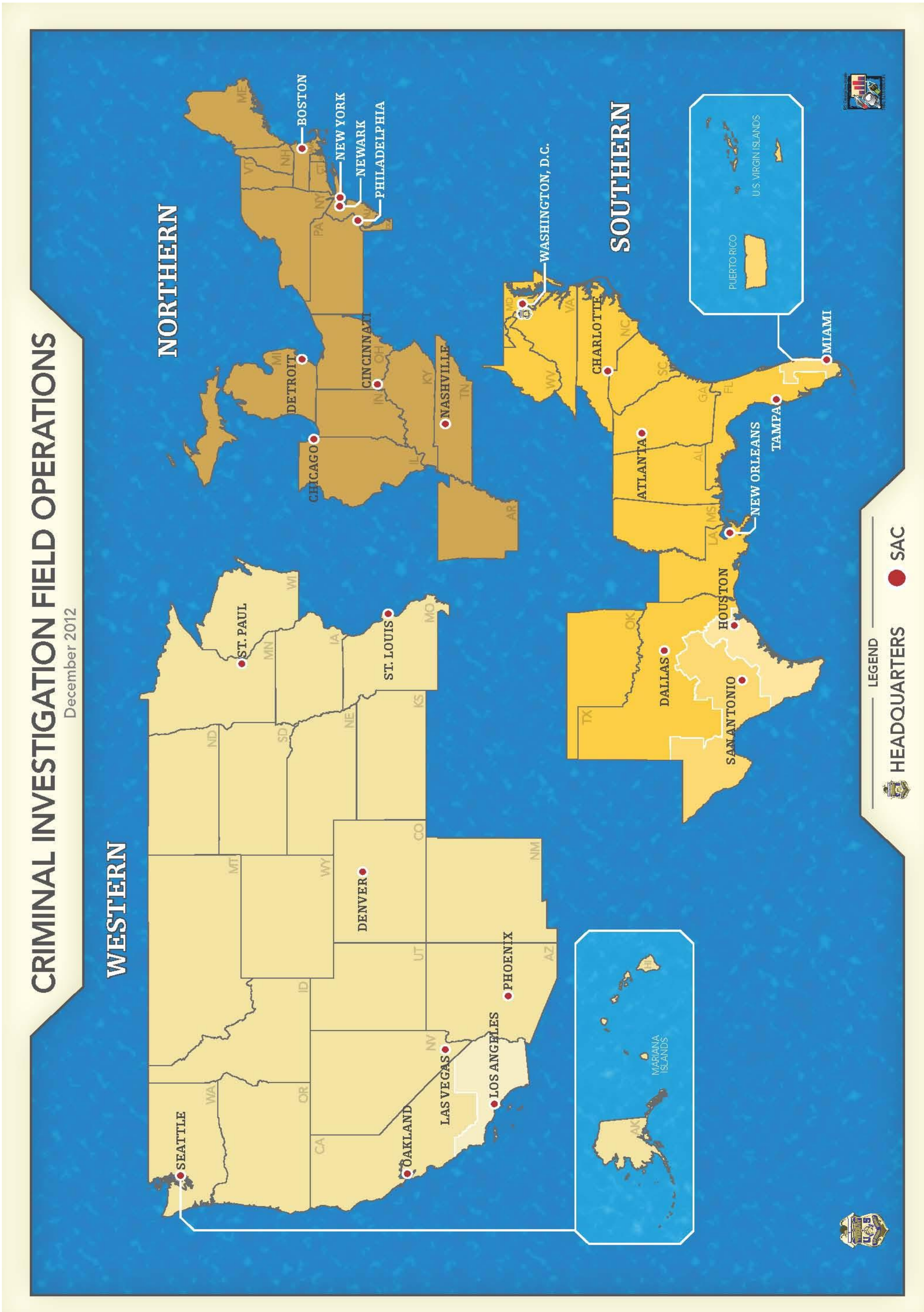
Staffing

- As of September 30, 2013, IRS-CI had 2,541 Special Agents on board, a 5.4% decrease compared to the number of special agents at the conclusion of FY 2012.

- Professional staff assigned at the conclusion of FY 2013 was 1,083, a 3.6% decrease from professional staff at the end of FY 2012.




IRS-CRIMINAL INVESTIGATION
ORGANIZATION CHART
FY13
Office of the Chief
Chief
Deputy Chief
Chief of Staff
Senior Advisor to the Chief
Communications & Education
Equity, Diversity, & Inclusion
International Operations
Field Operations-East
Field Operations-West
Strategy, Policy, and Training
Operations Policy & Support
National Forensics Lab
Global Financial Crimes
Narcotics & Counterterrorism
Security and Technical Operations
Special Investigative Techniques
Warrants & Forfeiture
Strategy
Finance
Human Resources
National CI Training Academy
Planning & Strategy
Research
Talent Management
Review & Program Evaluation
Refund Crimes
Systems and Analysis
Operations and Policy - East
Operations and Policy - West
Technology Operations & Investigative Services
Business Systems Development
Cybersecurity
Electronic Crimes
Program Management & Enterprise Architecture
Technical Operations Center
User Support
Northern Area
Boston Field Office
Chicago Field Office
Cincinnati Field Office
Detroit Field Office
Nashville Field Office
Newark Field Office
New York Field Office
Philadelphia Field Office
Southern Area
Atlanta Field Office
Charlotte Field Office
Dallas Field Office
Houston Field Office
Miami Field Office
New Orleans Field Office
San Antonio Field Office
Tampa Field Office
Washington, DC Field Office
Western Area
Denver Field Office
Las Vegas Field Office
Los Angeles Field Office
Oakland Field Office
Phoenix Field Office
Seattle Field Office
St. Louis Field Office
St. Paul Field Office


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
BOSTON
NEW YORK
NEWARK
PHILADELPHIA
WASHINGTON, D.C.
CHARLOTTE
ATLANTA
NEW ORLEANS
TAMPA
MIAMI
HOUSTON
DALLAS
SAN ANTONIO
MARIANA ISLANDS
PUERTO RICO
U.S. VIRGIN 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), Large Business & International (LBI) and Tax Exempt and Government Entities (TEGE). 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 filing of tax returns 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 through willful non-compliance do not pay their fair share of taxes. 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 2013 include:

Accountant Sentenced for Tax Fraud: On August 27, 2013, in Chicago, Ill., Robert Rome was sentenced to 63 months in prison and ordered to pay $1,786,053 in restitution to the IRS. According to court documents, Rome was the managing partner of the former Rome Associates LLP accounting firm in Chicago. One of his largest clients was a family who owned a group of plumbing wholesale supply companies. He provided accounting and tax services to the family members and their businesses. Rome had sole authority to sign checks, transfer funds and sign tax returns for the trusts he managed. He used his unlimited access to embezzle more than $4.3 million in trust funds between 2003 and 2007 by writing checks payable to himself or his firm. In addition to the trust funds, he stole money from a family investment partnership account and an account of the estate of a deceased family member. Rome spent the money he stole to pay personal expenses.

Two Connecticut Women Sentenced for Overseeing Pyramid Scheme: On August 13, 2013, in Hartford, Conn., Donna Bello and Jill Platt were sentenced to 72 months and 54 months in prison, respectively. In addition, Bello and Platt were ordered to pay $32,000 in restitution to several victims of their scheme. On February 20, 2013, Bello and Platt were convicted of conspiracy to commit wire fraud and conspiracy to defraud the IRS, multiple counts of wire fraud and filing false tax returns. According to court documents, from approximately 2008 to 2011, Bello and Platt, oversaw and profited from a pyramid scheme known as "Gifting Tables." The defendants recruited individuals to join the scheme,

[1] Investigation summaries are written from public court documents

prepared and distributed materials to recruits that contained false representations, and affirmatively misrepresented to recruits and participants that Gifting Tables was not a pyramid scheme. Bello and Platt also conspired to defraud the IRS by telling recruits and participants that monies given and received during the scheme were tax-free “gifts” under the IRS Code and that lawyers and accountants had approved Gifting Tables as legal ventures that generated tax-free proceeds. In addition, Bello and Platt filed false tax returns that failed to report income generated from the scheme.

Former Pilot Sentenced in Tax Fraud Scheme: On May 8, 2013, in Atlanta, Ga., Charlie Shivers, III, a former pilot, was sentenced to 84 months in prison and ordered to pay $5,630,681 in restitution to the United States Treasury. Shivers pleaded guilty on August 9, 2012 to two counts of filing false claims against the United States. According to court documents, from 2009 through 2012, Shivers filed, or caused to be filed, over 100 fraudulent corporate tax returns, claiming $35 million in refunds for fuel taxes falsely claimed to have been paid on fuel purchased for off-road company vehicles. The false claims were made in the names of corporations and shell companies, none of which used off-road vehicles or paid the fuel tax claimed for refund.

Idaho Home Builder Sentenced for Tax Evasion: On March 28, 2013, in Boise, Idaho, Justin D. Schoenauer, aka Corey J. Schoenauer was sentenced to 27 months in prison and ordered to pay $429,436 in restitution. Schoenauer pleaded guilty on October 30, 2012 to income tax evasion. According to court documents, Schoenauer was a general contractor who operated a sole proprietorship called Patagonia Construction, a business engaged primarily in building homes. Schoenauer admitted that during tax years 2005 through 2008, he concealed Patagonia’s business receipts. Schoenauer directed some customers to make checks payable to him personally, rather than to Patagonia, then ensured that those checks were not deposited into Patagonia’s main bank account.

President of Torco Racing Fuels Sentenced for Making False Claims: On November 21, 2012, in Grand Rapids, Mich., Evan Ward Knoll, the founder, owner and former president of Torco Racing Fuels, Knoll Gas Motor Sports and General Sales and Service, was sentenced to 168 months in prison and ordered to pay $82,933,652 in restitution to the IRS. Knoll pleaded guilty in July 2012 to eight charges of making false claims against the United States and to one count of bank fraud. According to court documents, Knoll exploited a refund program applicable to the federal “excise tax” of 18.3 cents per gallon on all automotive gasoline sold in the United States. The excise tax primarily funds highway construction, but where the gasoline is used for an “off road” purpose, such as drag-racing, the “off road” user who paid the tax can apply for a federal tax refund. Knoll filed false IRS forms over many years in which he falsely claimed to have purchased massive quantities of racing fuel, all of which resulted in refund payments of over $80,000,000.

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.

Identity Theft:

Identity theft-related crimes continue to be a priority area of investigation for CI. During Fiscal Year 2013, CI remained committed to investigating egregious identity theft schemes through administrative and grand jury investigations and through field office and multi-regional task forces including state/local and federal law enforcement agencies. Currently CI participates in over 70 task forces/working groups throughout the country which investigate both financial crimes as well as identity theft crimes. CI’s level of commitment towards the fight against identity theft continues to be evident through a designated management official to serve as the National ID Theft Coordinator to oversee national efforts concerning policy, procedures, etc. In addition to a National Coordinator there are ID Theft Coordinators within each of the 25 field offices.

Identity Theft Clearinghouse (ITC): The ITC continues to develop and refer identity theft refund fraud schemes to CI field offices for investigation. 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.

Victim Waiver Pilot Program: In March 2013, IRS announced to the public that the Law Enforcement Assistance Program, formerly known as the "Identity Theft Pilot Disclosure Program," was expanding nationwide. This program was developed jointly by 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.

Identity Theft Summit: In January 2013, CI hosted an Identity Theft Summit with law enforcement members from 14 federal agencies. The meeting discussed ways to strengthen collaborative efforts amongst agencies in the fight against Identity Theft. The summit included presentations focused on revenue protection and civil activities, CI operations and policies, special investigative techniques, international issues, and various legal considerations. The conference was the culmination of ongoing, coordinated efforts between numerous agencies and allowed for valuable dialogue concerning identity theft.

Data Processing Center (DPC): CI's DPC centralizes identity theft victims' lists and information forwarded to CI by other Federal, State, and local agencies. The information is shared with W&I and allows their employees to analyze and make necessary adjustments to accounts of taxpayers that are likely victims of identity theft. The DPC processed over 71.7% more identity records in FY 2013 than it did in FY 2012.

Examples of identity theft investigations adjudicated in FY 2013 include:

Alabama State Employee and Co-conspirators Sentenced in Identity Theft Scheme: On September 23, 2013, in Montgomery Ala., Lea'Tice Phillips was sentenced to 94 months in prison and ordered to pay $567,631 in restitution. Phillips pleaded guilty on May 30, 2013 to wire fraud and aggravated identity theft. According to the court documents, Phillips worked for an Alabama state agency and had access to state databases that contained forms of identification of individuals. Between October 2009 and April 2012, Phillips conspired with Antoinette Djonret and others to file false tax returns using stolen identities. On multiple occasions, Phillips accessed a state database to obtain identification which she then sent to Djonret. Djonret and her co-conspirators used an elaborate network of individuals to launder the tax refunds. They recruited individuals to purchase prepaid debit cards on their behalf. Fraudulently obtained tax refunds were directed to the prepaid debit cards that Djonret and her co-conspirators used to obtain the proceeds. In total, Djonret filed over 1,000 false tax returns that claimed over $1.7 million in fraudulent tax refunds. Antoinette Djonret was sentenced to 144 months in prison for her role in the conspiracy. On September 3, 2013, Angelique Djonret was sentenced to 24 months in prison for her involvement in the identity theft tax fraud scheme.

Ohio Woman Sentenced in Identity Theft and Tax Refund Scam: On September 16, 2013, in Cincinnati, Ohio, Bridgette Jones was sentenced to 61 months in prison and ordered to pay $477,490 in restitution to the IRS. In April 2013, Jones pleaded guilty to one count of conspiracy to submit false claims for federal income tax refunds with the IRS and to one count of aggravated identity theft. According to court documents, between January 2011 and September 2012, Jones conspired with others to obtain false claims for income tax refunds from the IRS by electronically filing false 2010 and 2011 federal income tax returns claiming at least $654,550 in refunds that they knew they were not entitled. Jones' primary role in the scheme was to prepare and submit false returns to the IRS using stolen identities. Co-conspirator Ellis Maurice Scott unlawfully obtained the individual names, dates of birth, and social security numbers used to prepare and file the false income tax returns. Jones and Scott kept lists of these individual's identities to be used in filing false income tax returns for multiple income tax years. In April 2013, Ellis Scott pleaded guilty and currently awaits sentencing.

Woman Sentenced for Running Stolen Identity Tax Fraud Scheme: On July 30, 2013, in St. Louis, Mo., Tania Henderson was sentenced to 144 months in prison and ordered to pay $835,883 in restitution to the IRS. Henderson pleaded guilty on April 29, 2013 to theft of government funds and aggravated identity theft. According to her plea agreement and other court documents, Henderson stole the identities of more than 400 individuals, many of whom were deceased, and filed fraudulent tax returns using their names and social security account numbers. Between August and November 2012, Henderson filed 236 fraudulent tax returns. Using a network of family and friends, she would collect refund checks or prepaid debit cards for the refund amounts.

Conspirator Sentenced in Bank Fraud and Identity Theft Schemes: On July 24, 2013, in Baltimore, Md., Derrick Elrod, of Philadelphia, Pa., was sentenced to 36 months in prison. According to court documents, Elrod worked for a nonprofit social services organization headquartered in Philadelphia. He was an advisor at a residential program that supports individuals with mental health needs. Elrod used his position to steal the personal identifying information of past or present residents of the program. Christopher Devine used the stolen personal information to file at least 13 false tax returns for the 2010 tax year. Christopher Andre Devine was sentenced in March 2013 to 121 months in prison. In addition, the following co-conspirators were sentenced for their roles in the scheme. Quanishia Williamson-Ross was sentenced to 42 months in prison. Quashonna Williamson and Lenee E. Williamson were sentenced to 36 months in prison. John Waters was sentenced to 27 months in prison.

Self-Proclaimed "First Lady" of Tax Fraud Sentenced: On July 16, 2013, in Tampa, Fla., Rashia Wilson was sentenced to 234 months in prison on wire fraud and aggravated identity theft charges stemming from her scheme to defraud the IRS, and to a consecutive 18 months in prison for being a felon in possession of a firearm. Wilson was also ordered to forfeit $2,240,096. According to court documents, from at least April 2009, through their arrests in September 2012, Wilson and her co-conspirator, Maurice J. Larry, filed false and fraudulent federal income tax returns in other persons' names, without those persons' permission or knowledge. Wilson and Larry filed these false and fraudulent federal income tax returns from multiple locations, including Wilson's residence and hotels in the Tampa area. Larry was sentenced in September 2013 to 174 months in prison.

Louisiana Woman Sentenced for Identity Theft and Tax Refund Fraud: On July 18, 2013, in Baton Rouge, La., Angela Myers was sentenced to 132 months in for wire fraud, making false claims, subscribing to false tax returns and aggravated identity theft. Myers was also ordered to pay $202,685 in restitution to the IRS. She has already forfeited $39,030. Based on the evidence presented during a four-day trial in March 2013, Myers operated Angie's Tax Service. Myers electronically filed false claims for tax refunds using the names and Social Security numbers of identity theft victims. Many of the victims were nursing home patients. Myers filed the identity theft tax returns using a unique preparer identification number assigned to her daughter. In addition, Myers lied on her own 2007 and 2008 federal income tax returns. She failed to report hundreds of thousands of dollars of tax preparation fees that she earned at Angie's Tax.

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

	FY 2013	FY 2012	FY 2011
Investigations Initiated	1492	898	276
Prosecution Recommendations	1257	544	218
Indictments/Informations	1050	494	165
Sentenced	438	223	80
Incarceration Rate	80.6%	89.2%	100.0%
Average Months to Serve	38	48	44

Return Preparer Program:

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 in FY 2013 include:

Kansas Tax Preparer Sentenced for Filing False Tax Returns: On September 16, 2013, in Wichita, Kan., Lata L. Tomlinson was sentenced to 36 months in prison. In April 2013, Tomlinson was convicted by a trial jury of 19 counts of preparing false income tax returns for a total of 17 people during tax years 2007, 2008 and 2009. According to trial evidence, in the tax returns Tomlinson prepared, she falsely stated deductions for depreciation, home improvements, business repairs, contract labor, legal fees, home repairs, medical expenses, advertising, insurance, car and truck expenses, hay and grain expenses, cell phones and care of dependents.

North Carolina Woman Sentenced for Preparing False Tax Returns: On September 12, 2013, in Greensboro, N.C., Leslie Louise Brewster was sentenced to 70 months in prison and ordered to pay $92,910 in restitution to the IRS. On February 20, 2013, Brewster pleaded guilty to preparation of false tax returns, aiding and assisting the preparation of a false tax return, wire fraud, and aggravated identity theft. According to court documents, Brewster was the manager of a tax return preparation franchise. Brewster falsified federal income tax returns for hundreds of clients in order to obtain larger tax refunds for the clients than they were actually entitled to receive. The returns Brewster prepared for clients reported, among other items, false dependents, fictitious businesses and bogus education credits. Brewster also purchased personal identifying information, including names and Social Security numbers, from members of the community. Brewster used this personal identifying information to claim false dependents on tax returns she prepared for clients, and provided some of the identities she purchased to other return preparers for their use in a similar fashion. Two defendants in related cases were also sentenced to prison for tax crimes arising out of this scheme. Saichelle McNeill was sentenced to 27 months in prison on August 20, 2013. Tiffany Rogers was sentenced to 48 months in prison on August 14, 2013.

Tennessee Man Sentenced for Tax Fraud: On September 6, 2013, in Memphis, Tenn., Terry Green was sentenced to 33 months in prison for tax fraud. In June 2013, Herman Shaw was sentenced to 26 months in prison. Both men were also ordered to pay $404,078 in restitution. According to court documents, from 2005 to 2009, Green and Shaw ran several tax preparation businesses in Memphis. Through the businesses, they routinely filed false federal income tax returns for their clients which falsely reflected losses and expenses arising from fictitious home-based businesses, such as cutting hair and landscaping. These false losses and expenses resulted in increased refund amount for the clients.

Texans Sentenced for Falsifying Income Tax Returns: On July 12, 2013, in Tyler, Texas, Tonderai K. Chari was sentenced to 30 months in prison and ordered to pay $777,952 in restitution jointly with Elton Gutura and Douglas Zinyama. According to the indictment, from November 2006 to January 2007, Gutura, Zinyama and Chari, all employed by Tax Expedia, falsified approximately 318 tax returns in order to obtain tax refunds or increased tax refunds for clients. The tax returns used false information about the Telephone Excise Tax Refund, the number of dependents claimed, wages and/or withholding amounts. After receiving the refunds from the IRS based on the fraudulent income tax returns, Gutura, Zinyama and Chari paid a portion of the refunds to clients and kept the rest as proceeds from their fraudulent actions. Gutura was sentenced to 51 months in prison in October 2010 and Zinyama was sentenced to 30 months in prison in September 2012.

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

	FY 2013	FY 2012	FY 2011
Investigations Initiated	309	443	371
Prosecution Recommendations	281	276	233
Indictments/Informations	233	202	176
Convictions	207	178	163
Sentenced	186	172	163
Incarceration Rate	78.0%	84.3%	87.1%
Average Months to Serve	27	29	25

Questionable Refund Program:

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

Examples of questionable refund program investigations adjudicated in FY 2013 include:

Texans Sentenced in Tax Refund Conspiracy Case: On August 21, 2013, in Dallas, Texas, Shaunthina Daniel Rushing was sentenced to 56 months in prison and ordered to pay $365,626 in restitution jointly with her co-defendant, Tommy Dean Turner. Turner was sentenced in June 2013 to 36 months in prison. According to court documents, Rushing and Turner conspired with others to file approximately 50 fraudulent tax returns that resulted in more than $400,000 in false claims. The returns included Forms 5405, representing that the taxpayers were entitled to claim a First-Time Homebuyer Tax Credit.

Pennsylvania Man Sentenced for Tax Refund Scheme: On July 26, 2013, in Philadelphia, Pa., Larry Ishmael was sentenced to 144 months in prison and ordered to pay $1,751,809 in restitution to the IRS. Ishmael was convicted on March 13, 2013, of committing a series of tax refund schemes that defrauded the United States. A federal jury found him and his co-conspirators guilty of multiple counts of both conspiracy and filing false claims/tax returns to the IRS. According to court documents, Ishmael and his co-conspirators solicited claimants whose personal information was used to file false tax returns claiming the Telephone Excise Tax Refund (TETR) in 2007 and the First Time Homebuyer Credit in 2009. Several other co-conspirators were sentenced in this scheme. On June 18, 2013, Calvin Johnson, Jr. was sentenced to 216 months in prison and ordered to pay $1.24 million in restitution. On June 11, 2013, Patricia Fountain, a former IRS employee, was sentenced to 228 month in prison and ordered to pay $1.7 million in restitution. In addition, Fountain filed false claims claiming the American Opportunity Tax Credit between 2010 and 2012. For each of the schemes, Fountain charged claimants a cash fee. With respect to her TETR scheme, which Fountain engineered using inside information from the IRS, Fountain warned that she would "red flag" those claimants who received a refund without paying her $400 fee. She then filed amended returns for certain claimants whom she believed had not paid her fee, causing the IRS to request repayment from them. On April 12, 2013, Howard Chilsom was sentenced to 16 months in prison and ordered to pay $67,952 in restitution to the IRS. On April 5, 2013, Calvin Johnson, Sr. was sentenced to 12 months and one day in prison and ordered to pay $375,811 in restitution to the IRS.

Founder and Promoter of Tax Fraud Scheme Sentenced: On May 17, 2013, in Santa Ana, Calif., Osman Norales, the owner and founder of "De La Fuente Ramirez and Associates" (DLFRA), was sentenced to 87 months in prison and ordered to pay $512,471 in restitution to the IRS. On February 22, 2013, Norales was convicted of orchestrating a tax fraud scheme that illegally sought millions of dollars in fraudulent tax refunds. The evidence presented during trial established that Norales recruited customers and filed false Forms 1099 OID (Original Issue Discount) and tax returns to the IRS. The false tax returns claimed refunds in the amounts of $815,000 and $760,000. Norales charged clients up-front fees of approximately $2,500 and a portion of the false refund received by the client. On May 31, 2013, Arturo Villarreal-Alba was sentenced to 96 months in prison. Villarreal-Alba, acting as a promoter, participated in a fraudulent OID scheme through two companies "Old Quest Foundation, Inc." and DLFRA. On March 17, 2010, Villarreal-Alba caused the filing of a fraudulent tax return using fictitious federal income tax withholding, which claimed a false tax refund of $452,572. He also caused a 2009 OID-based tax return claiming a $535,898 refund in 2010.

Man Sentenced for Inmate Tax Fraud Scheme: On April 18, 2013, in Panama City, Fla., Michael William Joseph, III, formerly an inmate in the Florida Department of Corrections, was sentenced to 63 months in prison. Joseph was also ordered to pay $37,196 in restitution to the IRS and forfeit $29,514 in United States currency as proceeds of his crimes. According to court documents, Joseph pleaded guilty to 41 counts including: conspiracy to defraud the government with respect to claims, conspiracy to commit mail fraud, filing false claims against the government and theft from the government. Joseph conspired with others to file 81 false claims for tax refunds against the government in the names of 41 inmates incarcerated in Florida Department of Corrections from February 7, 2008, through July 10, 2012. Most of the false refunds were directed to a bank account under the control of Joseph or were sent in checks to the residence of Joseph's mother.

Colorado Man Sentenced for Fraud and Tax Conspiracy: On November 20, 2012, in Denver, Colo., Curtis L. Morris was sentenced to 120 months in prison and ordered to pay $1,916,831 in restitution to the IRS. Morris was found guilty on April 30, 2012, after a three-week jury trial, of three counts of mail fraud, seventeen counts of filing false claims against the United States, and one count of conspiracy to defraud the United States. According to the testimony at trial, Morris, Richard Kellogg Armstrong and others conspired to file false federal income tax returns claiming large tax refunds based upon fictitious federal income tax withholdings taken from bogus Forms 1099-OID for themselves and others. Armstrong was sentenced on August 10, 2012, to 108 months in prison.

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

	FY 2013	FY 2012	FY 2011
Investigations Initiated	1513	921	578
Prosecution Recommendations	1267	574	404
Indictments/Informations	1056	507	288
Sentenced	485	262	180
Incarceration Rate	76.7%	85.5%	78.3%
Average Months to Serve	35	35	24

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.

Examples of abusive tax scheme investigations adjudicated in FY 2013 include:

South Dakota Surgeon Sentenced for Tax Evasion: On May 7, 2013, in Sioux Fall, S.D., Edward J.S. Picardi, a surgeon, was sentenced to 60 months in prison. On October 5, 2012 following a multi-week trial, Picardi was convicted by a federal jury of passing his earnings through a web of entities organized under the laws of Ireland, Hungary, Cyprus, Isle of Man, Jersey, and Guernsey. The money was ultimately deposited into various foreign accounts that Picardi controlled through a New Zealand trust, in the name of a corporation set up for him in Nevis, a Caribbean island. Through these offshore transactions, Picardi attempted to hide his income and evade over $1 million in taxes.

Former Bank Broker Sentenced for Promoting Illegal Tax: On March 22, 2013, in New York, N.Y., David Parse was sentenced to 42 months in prison and ordered to pay $115,700,000 in restitution and to forfeit $1 million. According to court documents, Parse was a broker and investment representative at a bank between 1997 and 2003. During that period, he worked with attorneys at a law firm and accountants at an accounting firm, as well as other bank brokers, on the design, marketing and implementation of high-fee tax strategies for individual clients. Those strategies, or "tax shelters," were designed to allow high-net-worth clients to eliminate, reduce, or defer taxes on significant income or gains. Among the fraudulent tax shelters designed, marketed, and implemented by Parse and his co-conspirators were "Short Sales," "Short Options Strategy" (SOS), and "Swaps." The Short Sale tax shelter was marketed and sold from 1994 through 1999 to at least 290 wealthy individuals and generated at least $2.6 billion in false and fraudulent tax losses. The SOS tax shelter was marketed and sold from 1998 through 2000 to at least 550 wealthy individuals, and generated at least $3.9 billion in false and fraudulent tax losses. The Swaps tax shelter was marketed and sold in 2001 and 2002 to at least 55 wealthy individuals, and generated more than $420 million in false and fraudulent tax losses. In addition, Parse steered his own bank clients to the fraudulent shelters, and was given a free tax shelter opinion letter by the attorneys, which he used to evade hundreds of thousands of dollars of his own income taxes. Parse was paid over $3 million in commissions by the bank attributable to the fraudulent tax shelters. Parse also took part in the illegal back-dating of certain tax shelter transactions. The attorneys worked with Parse to create documents and effectuate securities transactions at the bank after the close of the tax year and back-dated them using "as of" dates, which treated the documents as if they had been signed prior to the close of the tax year, in violation of tax accounting rules.

Owner of Law Offices Sentenced for Tax Fraud: On December 3, 2012, in Los Angeles, Calif., Robert M.L. Baker III, owner of Robert M.L. Baker III Law Offices of Santa Monica, Calif., was sentenced to 36 months in prison and ordered to pay $2,056,879 in restitution. On January 25, 2012, Baker pleaded guilty to willfully subscribing and filing false tax returns. According to court documents, Baker utilized shell entities and trusts to hide over $900,000 in client fees and assets from the IRS. Baker also submitted a false offer in compromise form by mail and filed false tax returns with the IRS in attempts to evade over $1 million in tax.

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. Criminal Investigation devotes investigative resources to individuals who simply refuse to comply with the law.

Examples of non-filer investigations adjudicated in FY 2013 include:

Economist Sentenced for Failure to File Tax Returns: On July 16, 2013, in Manhattan, N.Y., David Gilmartin, an economist, was sentenced to 48 months in prison and ordered to pay $1.67 million in restitution and $2,500 in the costs of prosecution. Gilmartin was convicted in January 2013 of tax evasion and mail fraud. According to court documents, Gilmartin failed to file income tax returns and pay income taxes on over $1.7 million in consulting income from 1989 through 2010. He justified his failure to pay taxes by claiming that he could not identify a provision in the tax code that made him liable for the payment of income taxes. Gilmartin evaded his taxes by providing a false social security number to one employer. In addition, he provided false withholding forms to employers that claimed that he was exempt from taxes. In order to prevent the IRS from assessing and collecting his taxes, from 1995 through 2002, Gilmartin paid nearly $500,000 from his paychecks directly to his banks for credit card purchases and payments on a line of credit. Gilmartin cashed over $338,000 in paychecks rather than deposit them into a bank account.

Nevada Physician Sentenced on Tax Charges: On May 10, 2013, in Las Vegas, Nev., Robert David Forsyth was sentenced to 27 months in prison and ordered to pay $306,171. Forsyth pleaded guilty on April 22, 2013 to income tax evasion and failing to file income tax returns. According to court documents, from 1999 through 2008, Forsyth worked as a physician and earned income from a variety of sources, including his medical practice, expert witness fees, and, beginning in 2002, Social Security benefits. Forsyth, however, failed to file individual income tax returns from 1999 through 2008. In fact, according to the indictment, Forsyth has not filed an income tax return since the 1994 tax year. Forsyth, a Canadian citizen and U.S. permanent resident alien, closed all of his personal bank accounts and used a third party business to cash his paychecks. He made extensive use of cash to pay personal expenses in an effort to avoid detection.

Washington Businessman Sentenced for Failing to Report Income: On May 2, 2013, in Spokane, Wash., J. Scott Vrieling was sentenced to 24 months in prison and ordered to pay $939,258 to the IRS. Vrieling was also ordered by the court to file all delinquent income tax returns and pay all tax due and owing, plus penalties and interest. In addition, Vrieling was ordered to pay a $100,000 fine and $14,269 in prosecution costs. Vrieling was convicted on four counts of failing to file federal income tax returns for the years 2004 through 2007. According to court records, Vrieling, the owner of Vrieling Financial, was an independent insurance agent licensed to sell employee benefits, health insurance and other insurance products. Evidence at trial established that Vrieling received over $2.6 million in gross income during the years 2004 through 2007. However, Vrieling failed to file federal tax returns reporting this income.

Alaskan Couple Sentenced for Tax Crimes: On February 4, 2013, in Anchorage, Alaska, James Leroy Jensen was sentenced to 36 months in prison. Robin L. Jensen was sentenced to 24 months in prison. The couple was also ordered to pay $311,605 in restitution and to file 2006 through 2009 tax returns. According to their plea agreements, James Jensen is a commercial fisherman and Robin Jensen ran a cabin rental business. After the IRS audited their 1994 through 1997 tax returns, the Jensen's owed over $100,000 in additional taxes. At this time, they began to challenge the jurisdiction of the IRS and the authority of the federal government to tax them. In 2001, the IRS recorded a Notice of Federal Tax Lien of $201,029 against the Jensen's for tax years 1994 through 1997. The Jensen's appealed the IRS collection process and went to tax court in 2003. The judge denied the appeal and fined James Jensen an additional $10,000. Instead of complying with the tax laws, the Jensen's created several entities including a trust in Nevada and two "corporation soles" in Utah. These nominee entities were used to take title of assets that belonged to the Jensens, and thereby, open bank accounts to conceal income, including over a million dollars accredited to James Jensen's fishing income between 2004 and 2007. In addition, James Jensen tried to thwart IRS collection efforts by mailing a false document called a "Bill of Exchange" to the Secretary of the U.S. Treasury. This document was purported to be a payment of $339,888 that would eliminate his tax debt for 1994 through 1997. The Jensens also filed false tax returns from 1998 through 2003, claiming they had no taxable income because their earnings were not taxable under the discredited "claim of right" theory. Finally, the Jensens failed to file tax returns from 2004 through 2007, based on claims that the corporation sole entities they created in Utah, were exempt from filing tax returns or paying taxes for religious reasons.

Employment Tax Fraud:

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 fraud investigations adjudicated in FY 2013 include:

Former Owner of Employee Leasing Company Sentenced for Failing to Pay Payroll Taxes: On July 18, 2013, Salt Lake City, Utah, Richard R. Whatley, a former owner of Alliance Staffing Management Inc. (ASM), was sentenced to 51 months in prison and ordered to pay $541,513 in restitution to the IRS. Whatley pleaded guilty in January 2013 to willfully failing to account for and pay over employment taxes, relating to three different employee leasing companies that he allegedly operated and controlled between the years 2001 and 2006. The tax loss associated with Whatley's criminal conduct during these years totaled more than $2.3 million. As charged in the superseding indictment, in the fourth tax quarter of 2003, Whatley caused the collection of employment taxes from ASM's employees' wages and then willfully failed to pay over $541,513 for the employees' portion of employment taxes to the IRS.

Owner of Japanese Restaurant Sentenced for Tax Crimes: On January 30, 2013, in San Francisco, Calif., Michael Chen, the owner of Fune Ya Japanese Restaurant, was sentenced to 33 months in prison and ordered to pay $459,105 in restitution. Chen was convicted by a jury on March 27, 2012, on filing false tax returns, failure to file tax returns, and mail fraud. Evidence at trial showed that Chen maintained detailed records of Fune Ya's daily receipts in twenty-six boxes marked "Seasoned Octopus." The boxes were stored in a crawl space beneath the restaurant floor. The cash sales shown on Fune Ya's receipts were not reported to the IRS. The evidence also showed that Chen maintained an encrypted Excel spreadsheet documenting $1,910,803 in sales, while he reported $65,738 in sales to the IRS. Chen also paid Fune Ya employees cash wages totaling $548,919 for the 2004 through 2006 tax years. Employees received cash wages in white envelopes each payday. Chen failed to include these cash wages on the quarterly payroll tax returns (Forms 941) filed with the IRS.

Owner of Washington Roofing Company Sentenced for Employment Tax Evasion: On November 29, 2012, in Seattle, Wash., Bruce H. Sprague, owner of Bruce's Roofing, was sentenced to 24 months in prison and ordered to pay $1,179,761 to the IRS. In July 2012, Sprague pleaded guilty to paying a portion of his employees' wages in cash from 2005 through 2008 and to not collecting employment taxes including Social Security, Medicare and income tax withholding from the cash wages. According to his plea agreement, Sprague informed his employees in early 2005 that they would receive a portion of their wages in cash. The cash payroll was about fifty percent of each employee's pay. No payroll taxes were collected on the cash portion of the employees' pay. By paying in cash and not reporting the wages, Sprague avoided approximately $1,179,761 in employment taxes for 2006 through 2008. Even as he was failing to collect and pay over the employment taxes, Sprague was taking more than $3.9 million in wages and profits from the business for 2005 through 2008.

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 2013 include:

Six Individuals Sentenced for their Roles in Large Bank Fraud Scheme: On July 18, 2013, in St. Paul, Minn., Joel Delano Powell III was sentenced to 42 months in prison and Trey Jeremiah Powell was sentenced to 57 months in prison. Both pleaded guilty to one count of conspiracy to commit bank fraud and one count of aggravated identity theft. In July 2013, Joel Delano Powell, Jr. was sentenced to 300 months in prison. Powell, Jr. was convicted following a jury trial of one count of conspiracy to commit bank fraud, seven counts of aiding and abetting bank fraud, and five counts of aggravated identity theft. On July 17, 2013, Elston Edwards Sharps was sentenced to 32 months in prison; Kevin Terrell Martin was sentenced to 124 months in prison; and Steven Lavell Maxwell was sentenced to 140 months in prison. All three pleaded guilty to one count of conspiracy to commit bank fraud and one count of aggravated identity theft. These individuals, along with over 100 others, were involved in a conspiracy from 2006 through December 2011 to defraud banks, bank customers, and businesses. The co-conspirators used victim information to create counterfeit checks and false identification documents to conduct fraudulent transactions at retail establishments where expensive merchandise was purchased and returned for cash. At banks, the conspirators posed as customers and withdrew money from victims' bank accounts. The members of the conspiracy conducted these fraudulent transactions throughout Minnesota and in at least 13 other states. Victim information was obtained by members of the conspiracy through multiple sources, including from individuals who stole victim information from their places of employment, from individuals employed at area banks, from those who stole the information from the mail, during vehicle break-ins, and business burglaries, among other sources.

Defendant Sentenced for Role in Mortgage Fraud Scheme: On July 2, 2013, in San Antonio, Texas, Robert Brooks was sentenced to 135 months in prison and ordered to pay approximately $8.5 million in restitution for his role in a mortgage fraud operation involving a series of "property flip" schemes. Brooks was convicted by jury on January 29, 2013, of one count of conspiring to commit bank, wire and mail fraud, eight counts of mail fraud and two counts of aiding the filing of false income tax returns. Evidence presented during trial revealed that from May 17, 2005, until February 21, 2008, twenty individuals, under the direction of Robert Brooks, participated in a mortgage fraud scheme where Brooks purchased properties at fair market value then resold at an artificially inflated price to straw purchasers. Brooks recruited his co-defendants, which included appraisers, loan processors, title company employees, and straw purchasers. He provided them with kickbacks from loan proceeds for their participation in the scheme. Brooks used the proceeds from the purported sales to various nominees to pay for his initial purchase of real estate, to pay closing costs for both his purchase and sale to the nominee, to pay the nominee's down-payment, to pay the nominee for the nominee's participation, and to pay the mortgage for the first 12 months, after which each mortgage went into default. Brooks' mortgage loan scheme involved over 40 properties and defrauded financial institutions of over $20 million. In addition, Brooks submitted false 2007 income tax returns for himself and his wife, and for a partnership, which contained a false business expense.

Ohio Men Sentenced in Bank Fraud Case: On July 10, 2013, in Cleveland, Ohio, Aziz Ukshini was sentenced to 42 months in prison and ordered to pay $3,303,817 in restitution jointly with Anthony Raguz to the National Credit Union Administration. According to court documents, from September 2003 through March 2010, Ukshini, aided and abetted by Raguz, the former Chief Operating Officer of St. Paul Croatian Federal Credit Union, fraudulently obtained numerous loans totaling approximately $2.8 million from the credit union. Ukshini obtained these loans by making false representations and promises. He received the loans after having already defaulted on previous loans issued to him by the credit union. Ukshini gave Raguz about $90,000 for approving and facilitating the approval of his fraudulent loans. Raguz was sentenced in November 2012 to 168 months in prison and ordered to pay more than $72.5 million. In addition, in March 2013, Marko Nikoli was sentenced to 27 months in prison and ordered to pay $1 million in restitution. In February 2013, A. Eddy Zai was sentenced to 87 months in prison and ordered to pay more than $23 million in restitution.

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 2013 include:

Former Texas Judge Sentenced on Racketeering Charges: On August 21, 2013, in Brownsville, Texas, Abel Corral Limas, former 404th State District Judge, was sentenced to 72 months in prison and ordered to pay $6,777,270 in restitution and to forfeit $257,300. Limas pleaded guilty on March 31, 2011 to racketeering charges. According to court documents, Limas used his office as a criminal enterprise to enrich himself and others through extortion. Limas accepted money and other consideration from attorneys in civil cases pending in his court in return for favorable pretrial rulings in certain cases, including a case involving a helicopter crash in February 2008. Limas served as judge for eight years, retiring in December 2008, and thereafter, he was associated with the law firm of Rosenthal & Watson, as “of counsel.” Limas participated in a series of meetings with attorneys at the Rosenthal & Watson law firm in the summer of 2008 during which they planned and negotiated the terms of Limas’ employment as an “of counsel” attorney with the firm. During those meetings, Limas was promised an advance of at least $100,000 as well as a percentage of attorneys’ fees earned in the helicopter crash case in return for favorable rulings on the case. Limas received a check for $50,000 in December 2008 and another check for $50,000 in January 2009. In October 2009, the helicopter case settled for approximately $14 million and Limas received approximately $85,000 from the law firm.

Former Congressman and Wife Sentenced: On August 14, 2013, in Washington, D.C., former Congressman Jesse L. Jackson, Jr. was sentenced to 30 months in prison for conspiring to defraud his re-election campaigns. Jackson’s wife, Sandra Stevens Jackson, a former Chicago alderman, was sentenced to 12 months in prison for filing false tax returns as part of the scheme. According to court documents, Jackson used about $750,000 in campaign funds to pay for personal items and expenses. He then filed misleading reports to conceal seven years of the illegal activities. Sandra Jackson pleaded guilty in February 2013 to filing false tax returns for calendar years 2006 through 2011. According to the government’s evidence, she knowingly and willfully failed to report nearly $570,000 in taxable income for those tax years. Jesse Jackson was elected to Congress in 1995 and served until November 2012 as the representative for the 2nd Congressional District of Illinois. Sandra Stevens Jackson was an alderman in Chicago from May 2007 until January 2013. Additionally, she had various roles in her husband’s re-election campaigns, starting in January 2005, working at different points as treasurer, consultant, and campaign manager. Jackson and his wife carried out the fraud scheme from in or about August 2005 until in or about April 2012.

Former Pennsylvania State Senator Sentenced on Tax Charges: On November 30, 2012, in Scranton, Pa., Robert Mellow, former Pennsylvania State Senator, was sentenced to 16 months in prison and ordered to pay $79,806 in restitution. Mellow previously paid over $31,000 in restitution for federal tax charges. Mellow pleaded guilty in May 2012 to conspiracy to commit mail fraud and to defraud the United States. According to court documents, Mellow, in his capacity as a state Senator and the Democratic Leader during 2006 through 2010, conspired with others to misuse the staff and resources of the Pennsylvania Senate for political fund-raising and campaign purposes. As part of the scheme, Mellow caused and knowingly permitted the submission to the Chief Clerk of the Senate of false job classification and re-classification forms and memos for Senate staff who performed political fund-raising and campaign work while being compensated by the Senate. Mellow also conspired with others to file a false individual federal income tax return for the year 2008. The unreported income consisted of money paid to Mellow in connection with the sale of property where Mellow’s district office was located.

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 2013 include:

Founder and Former Chief Executive Officer of Body Armor Company Sentenced on Federal Charges: On August 15, 2013, in Central Islip, N.Y., David H. Brooks, the former Chief Executive Officer of DHB Industries, Inc., was sentenced to 204 months in prison and ordered to pay a $8.7 million fine and to forfeit approximately $65 million. DHB Industries, Inc. is a supplier of body armor to the United States military and law enforcement agencies. According to trial evidence, Brooks and others conspired to loot DHB for personal gain. Brooks concealed his control of a related company in order to funnel more than ten million dollars from DHB to support a thoroughbred horse-racing business and to finance a lavish lifestyle. To cover up his theft, Brooks created, and directed others to create, fictitious documents and misclassified these personal expenses as business expenses on DHB's books and records. Brooks also falsely inflated inventory at a DHB subsidiary to artificially boost reported profits, and then lied to auditors in an effort to cover up the schemes. Brooks also engaged in accounting fraud schemes designed to increase the net income and profits that DHB reported in its press releases and filings with the Securities and Exchange Commission (SEC) by falsely inflating the value of DHB's existing inventory, adding non-existent inventory to the company's books and records, and fraudulently reclassifying expenses. Although Brooks was initially released on bail conditions requiring that he account for and repatriate all foreign assets, he was re-arrested and bail was revoked in January 2010 after the government discovered that Brooks had concealed millions of dollars in accounts in the tax haven principality of San Marino as well as in London, England.

Former Illinois Business Owners Sentenced for Filing False Tax Returns: On August 6, 2013, in Chicago, Ill., Michael H. Martorano and William S. Sefton were sentenced to 42 months and 48 months in prison, respectively. Both defendants were also fined $12,500 and ordered to pay the mandatory court costs. In addition, Martorano paid approximately $1.494 million in restitution and Sefton paid approximately $1.441 million in restitution, and together they paid approximately $7.308 million in corporate taxes owed by their business. Each defendant pleaded guilty in March 2013 to three counts of filing false income tax returns. According to court documents, Martorano was president and Sefton was vice president/secretary of the former Consumer Benefit Service, Inc., or Cbsi, a Naperville business that provided membership and consumer discount programs to businesses and associations worldwide. Martorano and Sefton admitted that on a number of occasions between December 2005 and December 2009, they caused Cbsi to transfer more than $21.656 million into bank accounts in the name of a consulting firm they controlled. Both defendants used some of this money to pay personal expenses and moved other amounts in approximately equal portions into other accounts they controlled individually. As a result, they each obtained approximately $10.828 million. Neither defendant disclosed the receipt of any of this money to their individual tax return preparer.

World Health Alternatives CEO Sentenced for $41 Million Fraud Scheme: On December 4, 2012, in Pittsburgh, Pa., Richard E. McDonald was sentenced to 130 months in prison. According to information presented to the court, in 2003, McDonald became the President, Principal Financial Officer, Principal Accounting Officer and Chairman of the Board of Directors of World Health Alternatives, Inc. (WHA). In June 2004, McDonald also became the Chief Executive Officer of WHA. Between February 2003 through August 15, 2005, McDonald defrauded WHA and its investors. He transferred funds from WHA to his personal bank account and other accounts under his control. McDonald also manipulated the financial records and statements of WHA by understating the amount of unpaid payroll taxes of WHA and its subsidiaries, and by overstating the amount of loans purportedly made by him to WHA. In addition, McDonald stole money from WHA by directing purchasers of newly issued shares to transfer the funds for the shares to accounts under McDonald's control. McDonald stole approximately $6 million, and then spent the money on himself. In his capacity as CEO of WHA, McDonald falsely represented to the SEC, WHA shareholders, and prospective purchasers of WHA stock, the actual number of outstanding WHA shares by understating, in WHA's financial statements, the actual number of outstanding

WHA shares. The fraudulent understatements of the number of outstanding WHA shares falsely overstated WHA's earnings per share, and thereby inflated the apparent market value of WHA stock. As a result of McDonald's fraudulent conduct, WHA shareholders lost $41 million. McDonald also failed to report the funds he had fraudulently obtained from WHA and its shareholders on his personal tax returns. Finally, McDonald failed to pay over to the IRS the payroll taxes which WHA had withheld from its employees.

Gaming:

Criminal Investigation focuses on the enforcement of tax, money laundering, and related financial crimes to combat illegal activity within the gaming industry, as well as to uncover and shutdown illegal gaming operations. The use of the Internet has greatly increased the reach of domestic and international gaming operations. Illegal gambling operations can be found in a number of different forms, including bookmaking, numbers, online gaming, and some charitable gaming operations. CI's gaming program consists of a two-faceted, proactive approach to industry compliance. First is the investigation of entities suspected of violating tax, money laundering, or related laws. Second are liaison activities with federal, state, and tribal gaming boards, licensing commissions, industry regulators, gaming operators, gaming industry suppliers, and other law enforcement. A critical component of both facets is CI's coordination with the civil functions of the IRS in addressing trends and concerns in the gaming industry.

Examples of gaming investigations adjudicated in FY 2013 include:

Men Sentenced for Illegal Gambling Operation: On August 21, 2013, in Oklahoma City, Okla., Richard Allen Hancock was sentenced to 16 months in prison for his involvement in an illegal gambling business. Hancock pleaded guilty to charges of prohibition of illegal gambling business and money laundering.On August 15, 2013, Gary John Gibb was sentenced to 16 months in prison and ordered to forfeit $500,000. Gibb pleaded guilty in March 2013 to prohibition of illegal gambling business. According to the indictment, Hancock, Gibb and others, participated in an illegal gambling business that operated "High Stakes" poker games from a residence in Oklahoma City. They took bets and wagers on sporting events on behalf of betting clients and used an illegal Internet gambling website in interstate and foreign commerce. In addition, Hancock and others conspired to launder over $8.1 million in money derived from the gambling operation.

Hawaii Resident Sentenced for Operating Illegal Gambling Business: On August 8, 2013, in Honolulu, Hawaii, Eric Ford was sentenced to 20 months in prison. Ford pleaded guilty on February 21, 2013 to one count of conducting, directing, managing, owning, and supervising an illegal gambling business and three counts of structuring transactions to evade reporting requirements. Ford also forfeited $129,566 in cash and a vehicle. According to court documents, from at least November 2009 to November 2012, Ford operated an illegal gambling business out of Aloha Springs Water Company. Ford took numerous sports bets over the phone and online, collected gambling debts, and paid out gambling winnings. Ford also knew financial institutions are required by law to record cash purchases of money orders and other monetary instruments totaling $3,000 or more. To avoid this record keeping requirement, Ford structured the purchase of money orders totaling more than $3,000 by purchasing smaller amounts at multiple financial institutions. Ford structured more than $120,000 between May 2009 and June 2012.

Pennsylvania La Cosa Nostra Capo Sentenced for Racketeering Conspiracy: On July 17, 2013, in Philadelphia, Pa., Anthony Staino Jr. was sentenced to 97 months in prison and ordered to pay a $7,500 fine. On April 18, 2013, Staino pleaded guilty to participating in a racketeering conspiracy as a capo in the Philadelphia La Cosa Nostra (LCN) Family and committing loan sharking and illegal gambling. According to court documents, Staino ran an illegal electronic gambling device business for the mob, providing video poker machines and other gambling devices for bars, restaurants, convenience stores, coffee shops and other locations in Philadelphia and its suburbs, and then collected the illegal gambling proceeds.

Connecticut Men Sentenced for Participating in Illegal Gambling Ring: On June 5, 2013, in Hartford, Conn., John Liquori was sentenced to 18 months in prison and ordered to forfeit $60,000. Liquori pleaded guilty on March 13, 2013 to one count of racketeering conspiracy. On June 3, 2013, Thomas Uva IV was sentenced to 21 months in prison and ordered to forfeit $100,000. On March 13, 2013, Uva pleaded guilty to one count of conspiring to violate the federal Racketeer Influenced and Corrupt Organizations Act (RICO) and one count of money laundering. On November 16, 2012, Michael Pepe was sentenced to 12 months and one day in prison and ordered to forfeit $100,000. On August 6, 2012, Pepe pleaded guilty to two counts of operating an illegal gambling business. According to court documents, Liquori, Uva and Pepe were involved in a large-scale sports bookmaking operation in which gamblers placed bets with offshore Internet sports-gambling websites based in Costa Rica. In addition, the defendants operated a card gambling club in Stamford, Conn. Analysis of the sports-betting web site utilized by the defendants determined that the total gross revenues of the Stamford-based gambling operation were nearly $1.7 million from October 2010 to June 2011.

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 the investigation of individuals who bill healthcare insurance companies for medical expenses never incurred or for unnecessary medical procedures and medical equipment.

Examples of insurance fraud and healthcare fraud investigations adjudicated in FY 2013 include:

Florida Chiropractor Sentenced for Fraudulent Insurance Scheme: On August 14, 2013, in Fort Myers, Fla., Dr. Stephen M. Lovell was sentenced to 60 months in prison and ordered to pay a $1.695 million money judgment. Lovell was convicted on February 28, 2013 on charges of conspiracy to commit health care fraud. According to trial evidence, Lovell was a licensed chiropractor and the purported co-owner of Xtreme Care Rehabilitation Center Inc. Lovell and his co-conspirators recruited people to be involved in staged accidents. These people would then go to Xtreme Care in exchange for payment. Xtreme Care then billed insurance companies by submitting false claims for alleged medically necessary treatments that these patients received. Treatment was either never provided to these patients or was not medically necessary. Upon payment by the insurance company, the funds were transferred to corporations created by the conspirators to launder the proceeds.

Mental Health Counselor Sentenced for Defrauding Medicaid: On August 8, 2013, in Charlotte, N.C., Linda Smoot Radeker was sentenced to 72 months in prison and ordered to pay $6,156,674 in restitution to Medicaid. In September 2012, Radeker pleaded guilty to one count of health care fraud conspiracy and two counts of money laundering. According to court documents, from 2008 to 2011 Radeker obtained at least $6.1 million in fraudulent reimbursement payments from false claims submitted to Medicaid. Radeker, a licensed professional counselor enrolled with North Carolina Medicaid, falsely claimed in billings submitted to Medicaid that she was the attending clinician for services provided to Medicaid recipients, when no such services were provided. In addition, Radeker "rented out" her Medicaid provider number to a network of co-conspirators and, in return, kept a percentage of the fraudulent Medicaid reimbursements, sometimes as much as 50 percent. On the fraudulent claims, the co-conspirators primarily used the Medicaid numbers of children whose parents thought they were being enrolled in after school programs. These after school programs were, in fact, owned and operated by Radeker's co-conspirators.

Texas Ambulance Company Owner and Operator Sentenced in Fraud Scheme: On June 18, 2013, in Houston, Texas, Julian Kimble was sentenced to 72 months in prison and ordered to pay $3,676,587 in restitution to the

Medicare Program. Kimble pleaded guilty on November 29, 2011 to money laundering and tax evasion. According to court documents, from March 2008 through December 2010, Kimble owned and operated four ambulance companies. Through these companies, Kimble routinely billed Medicare for basic life support ambulance transports that were not provided, not needed or not ordered by the treating physicians. None of these companies operated by Kimble owned licensed ambulance vehicles necessary to provide such transports. Kimble used third-parties and straw owners to register the ambulance companies with the Texas Department of Health. He and others often transported multiple beneficiaries at the same time in vans or sedans and fraudulently billed Medicare for allegedly providing individual transports in ambulances under the attention of qualified emergency medical personnel. Under Kimble's direction, Medicare beneficiaries received payments in exchange for agreeing to be transported to different facilities around the Houston area. From 2008 through December 2010, Kimble's companies fraudulently billed Medicare for approximately $8.7 million and received payment for approximately $3.6 million. To conceal proceeds from the health care fraud, Kimble withdrew funds from the business accounts of the ambulance companies, kept part of the funds and used the remainder to pay kickbacks to patients. From August to December 2010, conspirators received checks from Kimble totaling more than $1 million, none of which was reported as taxable income. In addition, Kimble overstated the business expenses for Pearl Ambulance Service on his tax returns for 2003 through 2007. Kimble also failed to file corporate tax returns for Pearl during this time until his assets were about to be seized. When he did file, the delinquent returns were discovered to be materially false.

Michigan Arson Ringleader Sentenced on Federal Charges: On May 8, 2013, in Detroit, Mich., Ali Darwich was sentenced to 137 years in prison for arson and other charges related to wire fraud, mail fraud, and money laundering. According to trial evidence, beginning in 2005, Darwich, along with eight co-defendants, ran an arson-for-profit ring in the greater Detroit metropolitan area. Specifically, Darwich, along with his co-conspirators, would purchase insurance for various dwellings, businesses and vehicles. After purchasing the insurance, Darwich and others would intentionally burn, vandalize, or flood the various properties or vehicles and then file false insurance claims seeking reimbursement for such things as structural repair, contents replacement, loss of profits and alternative living costs. Seven insurance companies were defrauded for over $5 million.

Bankruptcy Fraud:

According to the United States Bankruptcy Court, there were 1.1 million bankruptcy filings in Fiscal Year 2013. 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 2013 include:

Texas Man Sentenced for Bankruptcy Fraud and Tax Crimes: On July 17, 2013, in Fort Worth, Texas, Larry Lake was sentenced to 168 months in prison and ordered to pay $550,000 in fines and approximately $25 million in taxes, interest and penalties. Lake was convicted at trial in February 2013 of concealment of assets (bankruptcy fraud) and tax evasion. According to evidence presented at Lake's trial, the day before he filed for bankruptcy in November 2004, he knowingly and fraudulently transferred and concealed more than $3 million held in an on-line trading account and a bank account. He transferred the funds through a series of bank deposits, wire transfers and cashier's checks, as well as used a shell company to help hide assets. From August 2006 through November 2009, Lake and his spouse agreed to structure more than 1,100 currency deposits, into at least 13 different bank accounts. These accounts were spread among several financial institutions, and the total amount structured during this period was in excess of $9.3 million. Lake and his spouse created at least two shell companies, which he used to open some of the 13 bank accounts used in the structuring scheme. In addition, Lake under-reported income on his and his spouse's joint tax returns for the tax years 2006 through 2008.

Maryland Man Sentenced for Bankruptcy Fraud and Filing False Tax Returns: On June 27, 2013, in Baltimore, Md., Ricardo O. Curry II was sentenced to 87 months in prison and ordered to pay $1,114,988 in restitution to creditors in his bankruptcy case and $118,182 to the IRS. Curry was convicted on March 20, 2013 of filing of false tax returns, bankruptcy fraud, falsifying bankruptcy records and false testimony under oath at a bankruptcy proceeding. According to court documents, Curry worked for a North Carolina real estate corporation that oversaw the sale of property in North Carolina, including a development which contained more than 2000 lots. Curry recruited investors to purchase lots in the development and he received referral fees based on these sales. From 2005 through 2007, Curry earned referral fees totaling $415,201. Curry failed to report these referral fees on his 2005, 2006, and 2007 tax returns. On March 12, 2009, Curry filed for Chapter 13 bankruptcy in the United States Bankruptcy Court for the District of Maryland. Curry failed to disclose the referral fees and an ownership interest in a home worth approximately $325,000 on either the Statement of Financial Affairs he filed with the bankruptcy court, an amended statement or in testimony before creditors. Ultimately, Curry never provided documents to the trustee overseeing his bankruptcy case regarding either the referral fee income or the home, and as a result, Curry's attempt to discharge his debts through bankruptcy was denied.

New Jersey Dentist Sentenced for Tax Evasion and Bankruptcy Fraud: On June 12, 2013, in Camden, N.J., Stephen A. Beukas was sentenced to 21 months in prison, fined $50,000 and ordered to pay $69,883 in restitution to the bankruptcy trustee. Beukas pleaded guilty in June 2012 to income tax evasion and bankruptcy fraud. According to court documents and statements made in court, from early 2005 through 2008, Beukas was a practicing dentist and the sole owner of several dental practices located in New Jersey. For the years 2005 through 2008, Beukas failed to provide the IRS with accurate information on the $2.6 million income he received as owner of the three practices. On September 12, 2009, Beukas filed a tax return in which he falsely stated that his total income for the calendar year 2006 was $632,945, and that the tax owed was $187,905. Beukas failed to file timely tax returns in 2005, 2007, and 2008. His failure to disclose correct information to the IRS resulted in a tax loss of $800,309. In 2008, when Beukas filed for Chapter 11 bankruptcy, he also failed to disclose almost $1.3 million in income he received as the sole owner of one of the dental practices.

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; Sydney, Australia; and The Hague, the Netherlands. 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 and the International Organized Crime Intelligence and Operations Center (IOC-2) to combat the threats posed by international criminal organizations, assist in joint investigations and the apprehension of international fugitives.

Opportunities for training and foreign delegation visits have also increased. During Fiscal Year 2013, 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 and Public Corruption. CI also hosted delegations from foreign countries seeking information on 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 international investigations adjudicated in FY 2013 include:

Man Sentenced for Fraud Against Children's Charity: On September 5, 2013, in Grand Rapids, Mich., Nehemiah Muzamhindo, a citizen of Zimbabwe, was sentenced to 72 months in prison and ordered to pay over $629,000 in restitution and over $79,000 in back taxes. Muzamhindo was convicted on charges of money laundering and filing a false tax return. According to court documents, while Muzamhindo was being investigated for his role in a scheme to obtain fraudulent United States passports, agents discovered evidence that Muzamhindo had received large wire transfers from bank accounts held by a children's foundation in the Republic of South Africa. The children's foundation has its headquarters in Michigan and is one of the world's largest children's charities. The investigation revealed that Muzamhindo was part of a scheme to submit bogus invoices for payment to the charity. The charity paid members of the scheme a total of nearly $800,000 between 2006 and 2008 before learning that it was being swindled. Muzamhindo did not report to the IRS any of the money he received from the charity during those years.

Illinois Businessman Sentenced for Tax Evasion: On July 16, 2013, in Chicago, Ill., Peter Troost, of Skokie, Ill, was sentenced to 12 months and one day in prison and ordered to pay a $32,500 fine. Troost already paid $1,039,343 in back taxes to the IRS, as well as a civil penalty of approximately $3.75 million. Troost pleaded guilty in March 2013 to tax evasion. According to his plea agreement, from at least 1999 until 2009, Troost transferred hundreds of thousands of dollars from the United States to his individual offshore UBS account for the sole purpose of evading domestic income taxes. He maintained at least one offshore UBS account between 1981 and 2009, while maintaining at least one additional joint account. He managed both accounts with the assistance of a UBS personal banker based on the Island of Jersey. In addition to failing to report interest income, Troost admitted that he intentionally failed to report all of his income from his monument business and his rental properties. In addition, Troost stated on his returns for each of those years that he did not have an interest in a financial account in a foreign country, when, in fact, he knew he maintained the offshore account.

Businessman Sentenced for Hiding Income in Undeclared Bank Accounts: On July 9, 2013, in Newark, N.J., Sameer Gupta was sentenced to 19 months in prison and ordered to pay a $20,000 fine. As part of his plea agreement, Gupta has paid to the United States Treasury a one-time Report of Foreign Bank and Financial Accounts (FBAR) penalty of $259,045 and has cooperated with the IRS in the investigation of his outstanding taxes due and owed for 2006 through 2009. Gupta pleaded guilty on February 26, 2013, to one count of tax evasion in connection with his diverting funds from the wholesale merchandise business, J.S. Marketers Inc., to undisclosed foreign accounts at HSBC in India, among other places. According to court documents, from 2006 through 2009, Gupta diverted $822,916 of the business' receipts into 17 different personal bank accounts held in the names of various individuals, including himself and family members. He directed more than $250,000 of those diverted funds into six different accounts held offshore at a branch of HSBC. From 2007 through 2009, Gupta caused 22 corporate checks to be made payable to himself and family members in amounts identical to invoices from the business' suppliers. Gupta endorsed those checks, which totaled $375,138, and deposited them into bank accounts that he controlled. Gupta filed individual income tax returns for the years 2006 through 2009 that did not report his income from the diverted funds. As a result, Gupta evaded taxes on $1,198,054 in income for 2006 through 2009. He also failed to file FBARs for 2006 through 2008.

Mexican Pecan Company Owner Sentenced for Scheme to Defraud the U.S. Export-Import Bank: On November 7, 2012, in El Paso, Texas, Leopoldo Valencia-Urrea, the owner of a pecan brokerage company in Ciudad Juarez, Chihuahua, Mexico, was sentenced to 48 months in prison and ordered to pay $58,000 in restitution and $399,075 in forfeiture. Valencia pleaded guilty on October 13, 2011, to one count of conspiracy to commit wire fraud, one count of wire fraud and one count of money laundering conspiracy in connection with the scheme to defraud the Export-Import Bank of the United States (Ex-Im Bank) of approximately $400,000. According to court documents, Valencia, a U.S. citizen, admitted that in 2006, he applied for an Ex-Im Bank insured loan for $406,258 through a bank in Miami. Valencia and others submitted a fraudulent loan application, financial statements, invoices, letters and bills of lading to falsely represent to the Miami bank and the Ex-Im Bank the purchase and export of U.S. goods to Valencia in Mexico. After the exporter who conspired with Valencia received $399,075 from the Miami bank, Valencia and others diverted the loan proceeds directly to Valencia and others in Mexico. As a result of the fraud, Valencia's loan defaulted, causing the Ex-Im Bank to pay a claim to the lending bank on a $371,962 loss.

Ohio Attorney Sentenced on Tax Fraud Charges: On November 2, 2012, in Columbus, Ohio, Aristotle R. Matsa, aka Rick Matsa, was sentenced to 85 months in prison and ordered to pay a $265,000 criminal fine, $388,000 in restitution to the IRS and $24,069 in restitution to a client. Matsa was convicted by a jury in April 2012 on one count of a corrupt endeavor to obstruct and impede the IRS; 15 counts of aiding and assisting in the preparation of false and fraudulent tax returns, that related to five different trusts; one count of willfully failing to file a FBAR; one count of conspiracy to obstruct justice, commit perjury and make false statements; two counts of witness tampering; one count of submitting a false statement; and one count of obstruction of justice. Matsa's mother and co-defendant, Loula Z. Matsa, was sentenced to three years of probation and ordered to pay a $150,000 criminal fine for her role in the conspiracy with her son to obstruct justice, commit perjury and make false statements. According to court documents and trial evidence, Matsa created and operated several nominee entities in order to disguise and conceal his income and assets from the IRS. The false trust return charges relate to filings for at least five separate trust entities during the tax years 2003 to 2005. In fact, the evidence at trial showed that he had been filing similarly false returns for the trusts dating back to 1990. Each of the trusts reported receiving significant amounts of interest income each year, yet no income tax was ever reported as due because the trust tax returns fraudulently claimed deductions for distributions purportedly paid annually to a foreign beneficiary. The evidence at trial established, however, that Rick Matsa used funds from these trusts to purchase a 150-acre farm in Hocking County as well as a home in Worthington, Ohio. In addition, the trusts' purported foreign beneficiary was located in the Netherlands and testified that she was not the beneficiary of the trusts. The evidence at trial also showed that during calendar year 2003 Rick Matsa violated the foreign bank account reporting requirements, by failing to disclose his ownership and control over a foreign bank account held in The Netherlands. This account had in excess of $300,000 from at least August 2003 to November 2003.

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

	FY 2013	FY 2012	FY 2011
Investigations Initiated	284	211	244
Prosecutions Recommendations	214	196	195
Indictments/Informations	184	153	149
Convictions	149	110	133
Incarceration Rate	70.4%	87.9%	70.6%
Average Months to Serve	51	71	61

MONEY LAUNDERING AND BANK SECRECY 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.

Virtual Currency: During Fiscal Year 2013, Criminal Investigation began pursuing investigations in the new program area of virtual currency. These currencies resemble money and can come with their own dedicated retail payment systems. Virtual currency is considered any medium of exchange that operates like a fiat currency. As with any money, virtual currency can be used in a wide variety of crimes involving money laundering and other financial crimes. In 2013, IRS-CI was at the forefront of some of the most prominent investigations that involved virtual currency. In May 2013, IRS-CI's Global Illicit Finance Team led the investigation that resulted in the indictment of Liberty Reserve.

Users exchanged fiat currency for “Liberty Reserve Dollars” (a virtual currency) and transacted with other Liberty Reserve Dollar users. To better combat the criminal use of virtual currency it is vital to share information with and learn how other law enforcement and regulatory agencies are dealing with virtual currency. IRS-CI meets quarterly with other law enforcement agencies as a participant of the Virtual Currency and Emerging Threats (VCET) group to discuss trending topics in the virtual currency industry. As virtual currency becomes a more accepted form of payment there are reports of salaried wage earners receiving portions of their wage payments in virtual currencies such as Bitcoin.

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 experienced success in identifying significant and complex money laundering schemes and other financial crimes. Criminal Investigation 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 CI 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 150 state or local agencies have joined FCTFs across the country and have detailed over 350 law enforcement officers to become Task Force Officers. The Task Force Officers are granted the authority to investigate money laundering and BSA violations under the direction of IRS-CI.

In addition, during Fiscal Year 2013, CI hosted three bank forums to help strengthen relationships with officials within the financial industry. The bank forums provide an opportunity for CI and the Anti-Money Laundering officials to discuss emerging trends of criminal activity.

Examples of money laundering investigations adjudicated in FY 2013 include:

Texas Man Sentenced for Role in ‘Black Market Peso Exchange’ Scheme: On September 11, 2013, in Houston, Texas, Willie Whitehurst was sentenced to 151 months in prison for his role as one of the leaders of a criminal conspiracy that laundered more than $20 million through shell business bank accounts. In January and February 2013, Whitehurst and co-conspirators Enrique Morales, Fulton Smith and Anthony Foster pleaded guilty to conspiracy to commit money laundering and conspiracy to operate an unlicensed money transmitting business. Another co-conspirator, Sarah Combs, also pleaded guilty to conspiracy to operate an unlicensed money transmitting business. According to court documents, from October 2009 to September 2011, the defendants placed United States currency gained through the sale of drugs into bank accounts held in the names of the organization’s shell companies. The money was then transferred to different accounts in the United States and in Mexico. In exchange, pesos were transferred back to accounts owned by the organization’s clients. Morales was previously sentenced to 188 months in prison, and Foster received a sentence of 121 months in prison. Smith was sentenced to 30 months in prison, while Combs was sentenced to 24 months in prison.

Las Vegas Attorney Sentenced for Structuring Bank Deposits and Tax Crimes: On August 22, 2013, in Las Vegas, Nev., Paul Wommer, an attorney, was sentenced to 41 months in prison and ordered to pay a $7,500 fine and to forfeit any proceeds of his crimes. Wommer was found guilty in April 2013 following a bench trial for making structured bank deposits to hide money from the IRS, evading income taxes and filing a false tax return. According to the court records and evidence introduced at trial, between June 30 and July 15, 2010, Wommer made or assisted in 15 structured deposits totaling $138,700 for the purpose of evading bank reporting requirements. These deposits were made as part of a pattern of illegal activity involving more than $100,000 during a 12-month time period. During that same time period, Wommer willfully attempted to evade federal income taxes in the amount of $13,020 by concealing and attempting to conceal his assets, by making false statements to the IRS, and by placing funds and property in the names of nominees. The judge found that Wommer's testimony at trial was not credible and increased his prison sentence for obstruction of justice.

North Carolina Businesswoman Sentenced for Participation in a Drug Conspiracy and Money Laundering: On July 22, 2013, in New Bern, N.C., Cynthia Marquez was sentenced to 120 months in prison. Marquez pleaded guilty on October 24, 2011 to conspiracy to distribute and possess with the intent to distribute 5 kilograms of cocaine and money laundering. According to court documents, Marquez distributed approximately 67 kilograms of cocaine from 2010 through January 18, 2012. Marquez laundered drug proceeds through her businesses including Joyeria Perez Jewelry Incorporated and her real estate business. Marquez previously agreed to forfeit over $146,000 in United States currency and 18 pieces of real property.

Arizona Man Sentenced on Drug and Money Laundering Charges: On July 8, 2013, in Phoenix, Ariz., Nadunt Chibeast was sentenced to 120 months in prison. Chibeast was convicted in April 2013 of conspiracy to possess with intent to distribute more than 1,000 kilograms of marijuana and less than 500 grams of cocaine, and conspiracy to commit money laundering. According to evidence presented at trial, Chibeast assisted a drug trafficking organization by driving a suspected drug load, assisting with marijuana packaging and conspiring to launder money. Chibeast allowed the organization to direct its drug buyers to deposit money into his bank accounts in their home states and then he would transfer the money to the drug trafficking organization member's bank accounts or withdraw cash to physically provide it to other members.

President and Vice-President of Car Dealership Sentenced for Laundering Money for the Gulf Cartel: On May 8, 2013, in Orlando, Fla., Joel Torres was sentenced to 40 months in prison. Torres was found guilty on December 3, 2012, for money laundering and failing to file IRS Forms 8300, a form required for cash purchases over $10,000. According to court documents, Torres, the President of JM2 Auto Sales, Inc., laundered narcotics proceeds for the Gulf Cartel, a drug trafficking organization based in Mexico. Torres received cash, and then sent vehicles back to members of the Cartel in Texas. He also sold vehicles to local Cartel members. On February 4, 2013, Eladio Marroquin-Medina, vice-president of JM2 Auto Sales, was sentenced to 72 months in prison for conspiracy to possess with the intent to distribute 1,000 kilograms or more of marijuana and conspiracy to engage in money laundering.

New York Man Sentenced for Money Laundering: On April 18, 2013, in Rochester, N.Y., Michael Kardonick was sentenced to 120 months in prison and ordered to pay $2,164,059 in restitution for conspiracy to commit money laundering. According to court documents, between January 2004 and July 2008, Kardonick defrauded investors who had invested approximately $2.5 million in international currency trading investments through the company Atwood & James S.A. During the course of the scheme, Kardonick used the mail and wire communications to facilitate the execution of the fraud, using the illegally obtained investor proceeds to promote the scheme, in violation of the federal money laundering provisions.

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

Money Laundering Investigations	FY 2013	FY 2012	FY 2011
Investigations Initiated	1596	1663	1726
Prosecution Recommendations	1377	1411	1383
Indictments/Informations	1191	1325	1228
Sentenced	829	803	678
Incarceration Rate	85.4%	84.7%	86.1%
Average Months to Serve	68	64	70

Bank Secrecy Act (BSA) Investigations	FY 2013	FY 2012	FY 2011
Investigations Initiated	922	923	795
Prosecution Recommendations	771	683	518
Indictments/Informations	693	575	462
Sentenced	453	342	344
Incarceration Rate	70.6%	76.6%	75.3%
Average Months to Serve	36	40	33

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. CI continues to be a partner with other law enforcement agencies in fighting narcotics and money laundering organization worldwide.

The Fiscal Year 2013 goal for Direct Investigative Time (DIT) in narcotics investigations ranged between 11-13% of the total DIT. CI reached that goal with a final rate of 11.8% of DIT charged to narcotics investigations. In addition, the Fiscal Year 2013 goal of 90% of all narcotics investigation dedicated to the Organized Crime Drug Enforcement Task Force (OCDETF) program was reached with a final 91.5%.

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. CI has played a prominent role in many investigations of individuals and organizations believed to be involved in or supporting international terrorist activities. 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. Criminal Investigation took measures to enhance the counterterrorism program, translating into improved service to the CI field offices, re-establishing working relationships with outside agencies and partnering with the IRS civil counterparts for case support and development.

Examples of narcotics investigations adjudicated in FY 2013 include:

Los Zetas Cartel Members Sentenced for Drug Trafficking and Money Laundering: On September 6, 2013, in Austin, Texas, Eusevio Maldonado Huitron was sentenced to 97 months in prison for his role in a complex conspiracy to launder millions of dollars in illicit Los Zetas drug trafficking proceeds. On May 9, 2013, a jury convicted Huitron of one count of conspiracy to commit money laundering. On September 5, 2013, Jose Trevino Morales, Francisco Colorado Cessa and Fernando Solis Garcia were sentenced for their roles in laundering millions of dollars. Morales and Cessa were each sentenced to 240 months in prison. Garcia was sentenced to 160 months in prison. Morales and Cessa were convicted by a federal jury on May 9, 2013 of one count of conspiracy to commit money laundering. Evidence presented during trial revealed that Los Zetas are a powerful drug cartel based in Mexico and generate multi-million dollar revenues from drug trafficking. Since 2008, Miguel and Oscar Trevino Morales would direct portions of the bulk cash generated from the sale of illegal narcotics to Jose Trevino and his wife, Zulema Trevino, for purchasing, training, breeding and racing American quarter horses in the United States. Testimony also revealed a shell game by the defendants involving straw purchasers and transactions worth millions of dollars in New Mexico, Oklahoma, California and Texas to disguise the source of drug money and make the proceeds from the sale of quarter horses or their race winnings appear legitimate. Furthermore, the defendants implemented a scheme to structure cash deposits in amounts under $10,000 in order to circumvent mandatory bank reporting requirements. Over 400 quarter horses were seized by federal authorities and later auctioned for approximately $9 million. The Government also seeks the forfeiture of real property, farm and ranch equipment and funds contained in multiple bank accounts allegedly used in the defendants' scheme. The Government is also seeking a monetary judgment in the amount of $60 million representing property involved in, and derived from, the conspiracy.

Doctor Sentenced for Running a Pill Mill: On September 25, 2013, in Philadelphia, Pa., Norman M. Werther was sentenced to 300 months in prison. In June 2013, Werther was found guilty of 184 counts of illegally distributing oxycodone, 116 counts of money laundering, six counts of conspiracy to distribute controlled substances, one count of maintaining a drug-involved premises and distribution of a controlled substance resulting in death. According to court documents, Werther was part of a multi-million dollar drug conspiracy involving illegal prescriptions, phony patients and multiple drug trafficking organizations. At the time, Werther was a physician, running a physical therapy and rehabilitation practice. He conspired with six separate groups of drug dealers who recruited large numbers of pseudo-patients. The drug conspiracy operated between February 2009 and August 2011 and resulted in the illegal distribution of more than 700,000 pills containing oxycodone. At least one of the drug trafficking organizations working with Werther trafficked pills valued at more than $5 million that Werther illegally prescribed.

Last of the Arellano-Felix Brothers Sentenced: On August 19, 2013, in San Diego, Calif., Eduardo Arellano-Felix, who acted as the chief financial officer of the notorious Mexican drug cartel that bears his family name, was sentenced to 180 months in prison and ordered to forfeit $50 million. Arellano-Felix is the last of four brothers to be sentenced for leading what was once among the world's most violent and powerful multi-national drug trafficking organizations. He pleaded guilty in May 2013 to money laundering and conspiracy charges. According to court documents, the Arellano-Felix Organization (AFO) moved hundreds of tons of cocaine and marijuana from Mexico and Colombia into the United States and made hundreds of millions of dollars in the process. Arellano-Felix laundered hundreds of millions of dollars in drug trafficking proceeds and used some of the income to pay AFO members to commit crimes; to buy firearms, ammunition and vehicles; to travel on AFO-related business; to pay bribes; and to purchase drugs.

Kentucky Man Sentenced for Drug and Money Laundering Offenses: On May 2, 2013, in Lexington, Ky., Marquis Deron Heard was sentenced to 360 months in prison for distribution of cocaine, possession of a weapon by a convicted felon and 29 counts of money laundering. According to trial evidence, between 2008 and 2011, Heard was involved in trafficking large quantities of cocaine from a Mexican source into Lexington for distribution. Heard had distributed at least 45 kilograms of cocaine. In addition, Heard reinvested the proceeds of the drug transactions into the purchase of multiple vehicles and residences in both Lexington and Louisville, Ky.

Leader of Street Gang Sentenced on Federal Charges: On January 14, 2013, in Los Angeles, Calif., Santiago Rios was sentenced to 235 months in prison. Rios was the lead defendant in a federal racketeering indictment that targeted the Azusa 13 criminal enterprise. In June 2011, a federal grand jury returned a 24-count indictment that charged 51 defendants with a host of crimes, including conspiracy to violate the Racketeer Influenced and Corrupt Organizations (RICO) Act. Rios, who was the leader of the gang in 2008 and 2009, pleaded guilty in May 2012 to conspiracy charges. In addition, the indictment alleged a long-running conspiracy to distribute narcotics, specifically heroin, methamphetamine and cocaine. As part of its narcotics operation, the gang extorted payments from street-level drug dealers in exchange for authorization to conduct business in Azusa 13 territory. Rios admitted that the Azusa 13 gang controlled the drug trafficking activity that occurred within the City of Azusa. Members of the Azusa 13 gang would permit narcotics traffickers to distribute narcotics in exchange for a percentage of any narcotics proceeds that were generated in the gang's territory. These payments of drug proceeds – known as "rent" or "tax" – were funneled to members of the Mexican Mafia who exerted control over the gang.

Examples of counterterrorism investigations adjudicated in FY 2013 include:

HSBC Enters into Deferred Prosecution Agreement: On December 11, 2012, HSBC Holdings PLC (HSBC Group) and HSBC Bank USA N.A. (HSBC Bank USA) agreed to forfeit $1.256 billion and enter into a deferred prosecution agreement with the Justice Department for HSBC's violations of the Bank Secrecy Act (BSA), the International Emergency Economic Powers Act (IEEPA) and the Trading with the Enemy Act (TWEA). HSBC Bank USA violated the BSA by failing to maintain an effective anti-money laundering program and to conduct appropriate due diligence on its foreign correspondent account holders. The HSBC Group violated IEEPA and TWEA by illegally conducting transactions on behalf of customers in Cuba, Iran, Libya, Sudan and Burma – all countries that were subject to sanctions enforced by the Office of Foreign Assets Control (OFAC) at the time of the transactions. In addition to forfeiting $1.256 billion, HSBC agreed to pay $665 million in civil penalties.

Man Sentenced for False Claim Conspiracy and Lying in Federal Investigation
On April 18, 2013, in Orlando, Fla., Jonathan Paul Jimenez was sentenced to 120 months in prison and ordered to pay $5,587 in restitution to the IRS. Jimenez pleaded guilty on August 28, 2012 to making a false statement to a federal agency in a matter involving international terrorism and conspiring to defraud the IRS. According to court documents, in November 2010, Jimenez relocated from New York to Central Florida, where he began training with Marcus Dwayne Robertson in the skills necessary to participate in violent jihad overseas. In order to have funds available for him when he was overseas, Jimenez and others conspired to submit a false 2010 tax return for Jimenez, in which Jimenez falsely claimed three children as his dependents and falsely represented that he lived with each of the three

children for all of the year 2010. As a result of those false representations, Jimenez obtained a refund from the IRS in the amount of $5,587.

Frivolous Arguments Working Group

In Fiscal Year 2013, Criminal Investigation created a working group to develop recommendations on tracking investigations and sharing information about potential safety concerns against the law enforcement community, IRS employees and other government officials. Some members of the sovereign citizen movement espouse frivolous arguments opposing the tax laws, as well as other laws.

Examples of frivolous argument investigations adjudicated in FY 2013 include:

Self-Proclaimed Leader of Sovereign Citizen Group Sentenced for Promoting Tax Fraud Scheme: On July 31, 2013, in Montgomery, Ala., James Timothy Turner was sentenced to 216 months in prison and ordered to pay $26,021 in restitution to the IRS. In March 2013, following a five-day jury trial, Turner was convicted of conspiracy to defraud the United States, attempting to pay taxes with fictitious financial instruments, attempting to obstruct and impede the IRS, failing to file a 2009 federal income tax return and falsely testifying under oath in a bankruptcy proceeding. Based on the evidence introduced at trial and in court filings, Turner, the self-proclaimed "president" of the sovereign citizen group Republic for the united States of America (RuSA), traveled the country in 2008 and 2009 conducting seminars teaching attendees how to defraud the IRS by preparing and submitting fictitious bonds to the United States government in payment of federal taxes, mortgages, and other debt. Turner was convicted of sending a $300 million fictitious bond in his own name and of aiding and abetting others in sending fifteen other fictitious bonds to the Treasury Department to pay taxes and other debts. Turner taught people how to file retaliatory liens against government officials who interfered with the processing of fictitious bonds. Turner filed a purported $17.6 billion maritime lien in Montgomery County, Ala., Probate Court against another individual. This investigation began after Turner and three other self-proclaimed "Guardian Elders" sent demands to all 50 governors in the United States in March 2010 ordering each governor to resign within three days to be replaced by a "sovereign" leader or be "removed."

'Sovereign Citizen' Sentenced for Tax Fraud Scheme: On June 14, 2013, in Tacoma, Wash., Raymond Leo Jarlik Bell was sentenced to 97 months in prison and ordered to pay $705,276 in restitution. Jarlik Bell was convicted in March 2013 of five counts of filing false, fictitious and fraudulent claims, fifteen counts of assisting in filing false tax returns, three counts of mail fraud, and one count of criminal contempt. Jarlik Bell and his wife, Ute Christine Jarlik Bell, are members of the 'Sovereign Citizen' movement. Members of the Sovereign Citizen movement profess a belief that both state and federal government entities are illegitimate. According to court records, Jarlik Bell's investigation centered on the filing of false tax returns using a scheme known as OID (Original Issue Discount) fraud. Jarlik Bell advised and assisted others in using the scheme. In 2006, Jarlik Bell obtained a tax refund in excess of $30,000 using the scheme. In 2005, the courts ordered Jarlik Bell to stop promoting fraudulent tax schemes. Less than three years later, he was back promoting another massive tax fraud scheme.

Nevada Man Sentenced for Conspiracy and Money Laundering Crimes: On March 20, 2013, in Las Vegas, Nev., Shawn Rice was sentenced to 98 months in prison and ordered to forfeit $1.29 million in assets and pay $95,782 in restitution. Rice, a member of an anti-government movement known as the "Sovereign Movement," was convicted by a jury in July 2012 of one count of conspiracy to commit money laundering, thirteen counts of money laundering and four counts of failure to appear. According to court records, from about March 2008 to March 2009, Rice and co-defendant Samuel Davis laundered approximately $1.3 million of monies that they thought were from the theft and forgery of stolen official bank checks. Rice and Davis laundered the monies through a nominee trust account controlled by Davis and through an account of a purported religious organization controlled by Rice. Davis and Rice took approximately $74,000 and $22,000, respectively, in fees for their money laundering services. Davis pleaded guilty and was sentenced in October 2011 to 57 months in prison. Davis and Rice are heavily involved in the "Sovereign Movement," whose members believe they do not have to pay taxes and believe the federal government deceived Americans into obtaining social security cards, driver's licenses, car registrations, etc., and that if these contracts are revoked; persons are "sovereign citizens." Members of the sovereign movement widely use fictitious financial instruments such as fraudulent money orders, personal checks, and sight drafts, and participate in "redemption" schemes where the fictitious financial instruments are used to pay creditors. Davis is a national leader of the movement, traveling nationwide to teach different theories and ideologies of the movement. Rice allegedly claims that he is a lawyer and rabbi, and uses his law school education and businesses to promote his sovereign ideas and to gain credibility in the community.

WARRANTS AND FORFEITURE

Criminal Investigation uses asset forfeiture statues to disrupt and dismantle criminal enterprises by seizing and forfeiting their assets or property used or acquired through illegal activities. Criminal Investigation also maintains an active fugitive program and 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 2013. 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**
652	2514	$465,150,567

Forfeitures		
Count of Investigations	**Count of Assets**	**Total Forfeited Value**
501	1568	$517,026,852

Examples of investigations involving forfeitures during FY 2013 include:

- **Ernst & Young -** On March 1, 2013, Ernst & Young (E&Y) entered into a Non-Prosecution Agreement (NPA) admitting wrongful conduct related to four tax shelters in an effort to defer, reduce, or eliminate tax liabilities of more than $2 billion. As a result of the conduct, E&Y agreed to pay $123 million to the United States.
- **Abbott Labs -** Abbott Labs pleaded guilty to a criminal misdemeanor for misbranding Depakote in violation of the Food, Drug and Cosmetic Act (FDCA). Under the plea agreement, Abbott Labs agreed to forfeit assets totaling $198.5 million.
- **William Scott –** Owner and controller of WorldWide Telesports (WWTS), a business enterprise involved in the business of gambling, betting and wagering based in St. John's Antigua, pleaded guilty to international money

laundering and conspiracy. As part of Scott's plea agreement, Scott agreed to the entry of a Consent Order of Forfeiture for $6,976,934 plus interest.

- **Stanley Tollman -** Tollman failed to report approximately $35 million dollars in income he earned from his corporation and funneled the money to offshore bank accounts in the Channel Islands. Tollman pleaded guilty to and agreed to pay restitution to the IRS in the amount of $60,381,691 and to $44.7 million in forfeiture. The total assets forfeited during FY 2013 equal $36,037,118.

- **Frank LaForgia –** LaForgia pleaded guilty to money laundering relating to the purchase of home heating oil on the "Black Market." LaForgia agreed to forfeit $25 million as property involved in the money laundering conspiracy.

During FY 2013, Criminal Investigation apprehended eighty-eight (88) fugitives from justice.

- **Scott E. Cavell**, a fugitive, was arrested November 12, 2012. Prior to his arrest, Cavell resided in Ireland. Cavell entered a not guilty plea, November 13, 2012. The indictment charges that Cavell allegedly was involved in a mortgage fraud scheme.

- **Rafael Marmol**, a fugitive, was arrested March 7, 2013. The criminal complaint alleges his involvement in money laundering conspiracy.

Also in FY 2013, a jury found former fugitive, **James Joseph** "**Whitey**" **Bulger, Jr**., guilty of racketeering conspiracy and numerous racketeering acts of money laundering, murder, extortion, narcotics distribution, and possession of firearms including machine guns. Bulger, who led the violent Winter Hill Gang, a largely mob, that ran loan sharking, gambling and drug rackets in the Boston area, was apprehended near Los Angeles after spending 16 years on the run during an epic manhunt. Bulger was subsequently sentenced to two consecutive life terms plus five years and ordered to pay $19.5 million in restitution

NATIONAL FORENSICS LABORATORY

The National Forensic Laboratory (NFL) is a federal forensic science laboratory whose operations fall under the authority of IRS Criminal Investigation. The NFL provides the results of forensic testing and technical services to special agents in the field for use in the investigation of potential criminal violations of the Internal Revenue Code and related financial crimes. The NFL is made up of seven units, including Electronics, Latent Prints, Questioned Documents, Ink and Paper Chemistry, Polygraph, Imaging, and Evidence Control. The laboratory forensically examines evidence and offers opinions based on the evidence presented. The laboratory will assist in the presentation of its findings in any judicial proceeding by providing expert testimony.

In addition to assisting the special agents around the country with processing forensic evidence to support their investigations, the NFL is involved in research and the use of new models to secure forensic evidence. One such science is the reconstruction methodology of documents. As an example, the NFL received many identity theft cases, some of which included bags of shredded and torn paper bearing names and Social Security numbers. These cases were submitted to the laboratory to have the documents reconstructed. One case involved a bag of crosscut shredded documents, which involved colored self-adhesive notes. The examiner assembled the pieces much the same way a jigsaw puzzle is reconstructed. Once a small cluster of shred was assembled, the pattern into which the note was shredded could be predicted and other documents assembled.

TECHNOLOGY OPERATIONS AND INVESTIGATIVE SERVICES

In Fiscal Year 2013, Technology Operations & Investigative Services (TOIS) continued to gain CI performance efficiencies through the use of new and improved technology, development of software applications, and by providing upgraded IT infrastructures. TOIS employees also insured that CI's legacy information technology systems and new applications were secure from intrusion, attack and data loss. Significant accomplishments during Fiscal Year 2013 included completing an enterprise wide Win-7 operating system upgrade and increasing mobile field communications through the issuance of smart phones to the vast majority of special agents. The phone upgrade is expected to be completed in Fiscal Year 2014, at which point all of CI's special agents will be issued smart mobile communication devices as part of their standard equipment model.

TOIS business system development section initiated several new projects to improve CI's data analytics and evidence processing capabilities during Fiscal Year 2013. TOIS is currently comparing a number of different "big data" analytic systems that will dramatically improve CI's case development capabilities beginning with an identity theft case project during the 2014 filing season. A new digital evidence management program (ATLAS) was started in Fiscal Year 2013 and is expected to significantly improve special agent productivity through automated evidence organization and report writing applications. Once fully implemented, ATLAS will also provide identity de-confliction of subjects, witnesses and third parties documented during each agent's investigative activities with all other CI case files. The value of ATLAS' identity de-confliction capabilities was proven in Fiscal Year 2013 when a limited roll out of the program was used to determine relationships between identity theft subject, victim and witness records to build larger and more significant cases. This project supplemented TOIS traditional Data Center efforts, which processed over 470,000 identity theft related documents during Fiscal Year 2013.

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. In Fiscal Year 2013, the amount of seized electronically stored information/data for investigations doubled from the prior year to almost 1,700 terabytes. 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 for judicial proceedings. Special agents are also trained in the use of mobile forensics hardware and software.

In Fiscal Year 2013, CI established a Cyber Crime Unit (CCU) pilot that will allow CI to proactively identify and pursue tax, money laundering, identity theft and other financial crimes in the virtual world. The CCU will also be available to provide expertise to all field offices in strategic and tactical planning of cyber investigations to increase prosecution potential.

Electronic Crimes Enforcement Statistics	FY13 Totals
Total Operations/Search Warrants	582
Total Sites	1018
Total CISs Deployed	1106
Total Systems Encountered	4979
Total Volume of Data (Terabytes) Seized	1699.068