
November 1997

**TAX
ADMINISTRATION**

**IRS' Efforts to Place
More Emphasis on
Criminal Tax
Investigations**



General Government Division

B-275359

November 6, 1997

The Honorable Michael Dolan
Acting Commissioner of Internal Revenue

Dear Mr. Dolan:

The Internal Revenue Service's (IRS) Criminal Investigation Division (CID) investigates tax fraud and assists other law enforcement agencies in investigating financial crimes, such as money laundering associated with narcotics trafficking. In the early 1990s, IRS studies raised questions about CID's investigative priorities because they increasingly comprised nontax investigations that supported national drug and crime policies to the detriment of tax investigations, even as the estimated tax gap grew to about \$128 billion for 1992.¹ This concern caused CID to revise its investigative strategy, thereby focusing more resources on tax investigations. As part of this revised strategy, in fiscal year 1995 CID established fraud and narcotics as its main investigative program areas. The fraud program was further subdivided between tax gap fraud and other fraud, thus enabling CID to track resources applied specifically to tax gap investigations.

This report, which we prepared under our basic legislative responsibilities, discusses the actions CID has taken since the early 1990s to increase the time spent on tax investigations versus nontax investigations. It also highlights the investigations initiated by CID, as well as referrals to U.S. Attorneys for prosecution and court sentences based on these investigations, for fiscal years 1990 through 1996.

Results in Brief

Between fiscal years 1990 and 1992, IRS data show that the percent of time spent on tax gap investigations decreased by 10 percentage points, continuing a downward trend since the early 1980s. On the basis of the recommendations of two IRS studies done in the early 1990s, CID began in October 1993 taking actions designed to increase the amount of time its agents spent conducting tax investigations. Specifically, CID reorganized its administrative functions and operations with the intent of better targeting resource allocations. It also consolidated and recategorized its program areas with an objective of better tracking its investigations. In addition, as of fiscal year 1996 CID established goals for the percent of time to be spent on its investigations, particularly for tax gap investigations.

¹The tax gap is defined as total tax liability less taxes paid voluntarily. IRS' tax gap reports do not indicate how much of the tax gap is attributable to fraud.

Since these actions were initiated, the percent of time spent on tax gap investigations has increased by 13 percentage points from a low of 46 percent in 1992 to 59 percent in 1996.² Overall, the 59 percent in fiscal year 1996 represented a net increase of 3 percentage points over the fiscal year 1990 level.

Between fiscal years 1992 and 1996, there was an increase in the percent of tax gap investigations that CID initiated and in the percent of referrals to U.S. Attorneys for prosecution based on tax gap cases; since fiscal year 1994, the percent of court sentences based on tax gap cases has also increased. However, as of fiscal year 1996 the increases in these indicators have not been enough to match fiscal year 1990 levels.

Background

CID carries out IRS' criminal law enforcement responsibilities under three principal statutes. Under title 26 U.S.C., IRS has authority to investigate alleged criminal tax violations, such as tax evasion and filing a false tax return. Under title 18 U.S.C., IRS has authority to investigate a broad range of fraudulent activities, such as false claims against the government and money laundering. Under title 31 U.S.C., IRS is responsible for enforcing certain recordkeeping and reporting requirements of large currency transactions, such as cash bank deposits of more than \$10,000. In carrying out its responsibilities, CID coordinates as necessary with IRS' District Counsel, the Tax Division within the Department of Justice (Justice), and local U.S. Attorneys to prosecute violators of these statutes.

Combating money laundering and other financial crimes is considered a high priority by both Justice and the Department of the Treasury (Treasury). According to Justice officials, because of CID's expertise in conducting detailed financial investigations, U. S. Attorneys and law enforcement agencies routinely rely on CID's assistance in investigating financial crimes, particularly those involving money laundering related to narcotics trafficking. In addition, CID agents have access to tax information, which they can use to develop financial investigations more fully. CID is also involved in ongoing efforts to identify and investigate emerging financial crimes, such as health care and bankruptcy fraud. According to CID officials, although such assistance places competing

²At our request, CID staff used the characteristics defined in fiscal year 1995 for investigations conducted under its main program areas—fraud and narcotics—to identify the amount and percent of time applied to these types of investigations between fiscal years 1990 and 1994. The fraud program was further broken out by tax gap and other fraud. They did the same for the number and percent of (1) CID investigations initiated, (2) referrals to U.S. Attorneys for prosecution based on CID cases, and (3) court sentences based on CID cases.

demands on CID's time, it also aids in establishing the cooperative environment conducive to getting CID's tax cases prosecuted and in obtaining information that can lead to criminal tax investigations.

Historically, CID's total staffing and budget have represented about 5 percent of IRS' overall resources. As of the end of fiscal year 1996, CID had the full-time equivalent of 4,504 staff, including 3,065 special agents, and a budget of \$366 million. CID is also reimbursed for some of the assistance it provides to other law enforcement agencies, particularly Justice's Organized Crime Drug Enforcement Task Force (OCDETF) program.³

Scope and Methodology

To determine the actions CID has taken since the early 1990s to increase the time spent on tax investigations relative to nontax investigations, we interviewed senior CID officials in IRS' National Office, officials from both the Tax and Criminal Divisions in Justice, and officials from the Office of the Under Secretary for Enforcement in Treasury. We interviewed the CID officials because of their responsibilities in managing CID operations and setting division policies. Justice and Treasury officials were interviewed to obtain their opinions regarding CID's (1) assistance in narcotics and money laundering investigations and (2) increased emphasis on tax investigations. We also reviewed CID's annual goals and objectives and annual performance reports for fiscal years 1990 through 1996, as well as relevant documentation on the reorganization of its administrative functions and operations.

To determine the types of investigations initiated and the results of referrals to U.S. Attorneys for prosecution and sentences resulting from these prosecutions, we analyzed IRS' Criminal Investigation Management Information System (CIMIS) data. CID uses CIMIS data to track the status and overall results of its criminal investigations, including the direct investigative time (DIT) expended on investigations. DIT is the amount of time that CID agents spend directly working on investigations. We selected fiscal years 1990 through 1996 to identify CID's investigative trends in order to capture data from the time of the IRS studies that raised concerns about CID's investigative priorities through fiscal year 1996, the most recent period for which data were available.

³OCDETF is a federal interagency coordinated effort to investigate and prosecute major drug organizations, particularly those with connections to organized crime. Under a reimbursement agreement with Justice, CID is reimbursed up to the level allowed by Congress for the cost of its agents' salaries when assisting in OCDETF investigations. According to data provided by CID officials, between fiscal years 1990 and 1996, CID provided \$130 million in assistance to the OCDETF program over and above the \$205 million received in reimbursement from Justice.

We obtained and analyzed CIMIS data to identify nationwide by fiscal year (1) the number and results of various types of CID investigations, and (2) the principal sources of information that led to CID investigations. CID staff, at our request, reconfigured CIMIS data for fiscal years 1990 through 1996 to reflect the current IRS field alignment of 4 regions and 33 districts, as well as CID's current program areas—fraud and narcotics—with fraud further broken out between tax gap fraud and other fraud. Other than reconciling the totals from CIMIS data extracts to CID annual performance reports, we did not verify the accuracy of the CIMIS data.

We did our work from October 1996 to August 1997 in accordance with generally accepted government auditing standards. The work was done at IRS' National Office and Southeast Regional Office; IRS' Georgia, South Florida, and Delaware-Maryland District Offices; and at U. S. Attorney's offices in the Northern District of Georgia, the Southern District of Florida, and the Maryland District. We selected the offices we visited because of the proximity of our staff working on this assignment.

We requested comments on a draft of this report from the Acting Commissioner of Internal Revenue and the Attorney General. Their comments are discussed at the end of this letter.

Actions to Increase Direct Investigative Time Spent on Tax Investigations

In the early 1990s, concerns raised in IRS studies regarding CID's investigative priorities spurred CID to take actions to increase the amount of time its agents spent on tax investigations. Between fiscal years 1990 and 1992, the percent of DIT spent on tax gap investigations decreased from 56 percent to 46 percent; since then, the percent of DIT spent on tax gap investigations increased to 59 percent as of fiscal year 1996. CID has established a range of 57 to 61 percent of DIT to be spent on tax gap investigations as its goal for fiscal year 1997 and beyond.

Subsequent to hearings on IRS employee misconduct in 1989 before the Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations, the Commissioner of Internal Revenue appointed an independent panel to review various concerns raised during the hearings, including issues relating to criminal investigations. In its October 1990 report, the panel stated that there had been a significant decrease in CID resources applied to tax investigations and a corresponding increase in resources applied to nontax investigations. The panel believed that CID's work priorities were not properly aligned with IRS' strategic goal of increasing taxpayers'

compliance with the tax laws. The panel recommended that CID (1) establish a criminal enforcement policy in line with IRS' overall efforts to increase compliance with the tax laws, (2) ensure that its allocation of resources and mix of cases are consistent with such a policy, and (3) closely monitor and control implementation of this policy through the National Office.

Also, to address concerns about whether CID's workload was properly balanced between tax and nontax investigative efforts, IRS convened a study group that included representatives from Justice and Treasury. The study group's August 1991 report found that CID resources used for tax investigations had declined about 18 percentage points between fiscal years 1980 and 1990; on that basis, the study group recommended that resources devoted to tax investigations be increased and that future resources devoted to narcotics investigations be limited to the amount expended in fiscal year 1991. The IRS Executive Committee agreed with these recommendations, and in June 1992 CID initiated an action plan to implement them.

The actions led to a reorganization of CID, which began in October 1993 and was fully implemented in October 1994. The reorganization was done in part with the intent of giving CID's national office a better means to control and monitor field activities to keep them aligned with national policies and objectives as recommended by the review panel and the study group. In terms of its organizational structure, CID was reduced from 7 regions and 63 districts to 4 regions and 34 districts.⁴ In addition, the position of Director of Investigation (DI), reporting directly to the IRS National Office Assistant Commissioner for Criminal Investigation, was established in each region to oversee and coordinate investigative activities. The DIs replaced seven former Assistant Regional Commissioners for Criminal Investigation, who reported directly to the Regional Commissioners. The DIs are responsible for ensuring that CID field offices adhere to national office program objectives and policies.

Another action CID took to better track the allocation of its resources to tax versus nontax investigations was to consolidate its major program areas and to establish a specific category for tax gap investigations. In fiscal year 1995, CID consolidated the five program areas under which investigations had been categorized and tracked—narcotics, organized crime, public corruption, financial compliance, and other illegal

⁴CID was subsequently reduced to 33 districts when IRS' district office reorganization took place in fiscal year 1996.

crime—into two principal program areas—fraud and narcotics. The fraud program was subdivided into tax gap fraud and other fraud. Tax gap fraud pertains to investigations of legal industries with alleged criminal tax violations.⁵ The other fraud category involves investigations of illegal industries or money laundering investigations with no tax-related charges.⁶ The narcotics program primarily relates to investigations of money laundering activity by individuals and organizations involved in narcotics trafficking.

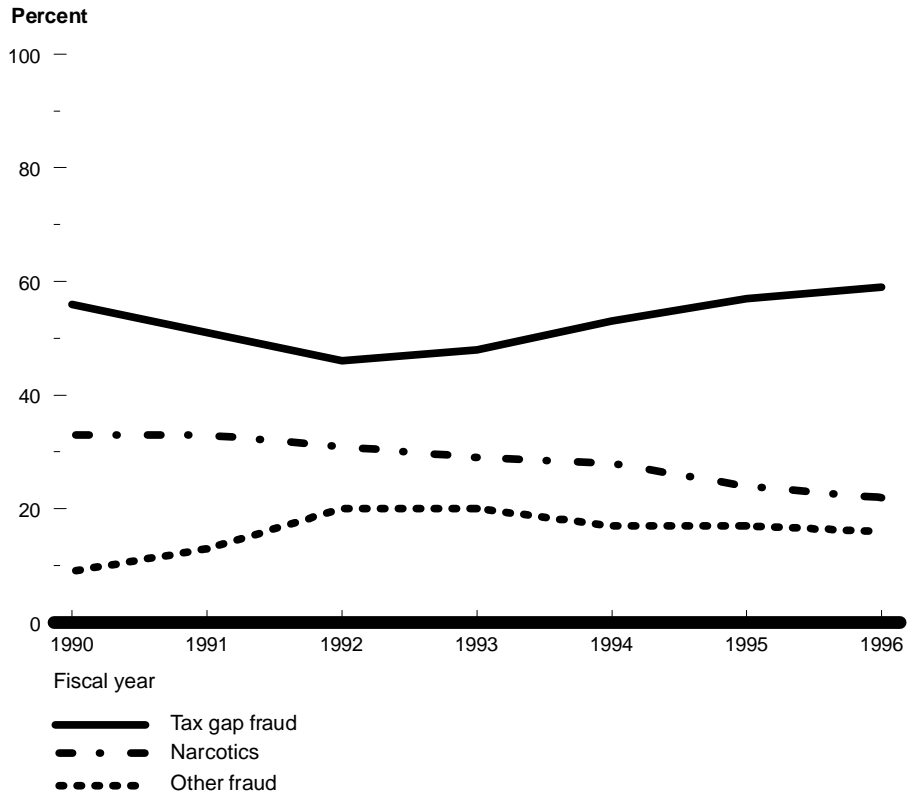
Beginning in fiscal year 1996, CID set specific national goals for the percent of DIT to be used on tax gap and narcotics investigations to help ensure that additional resources would be allocated to tax gap investigations. The fiscal year 1996 DIT goals were 58 percent for tax gap investigations—1 percent higher than the actual DIT for fiscal year 1995—and 24 percent for narcotics investigations—the same as the actual DIT for fiscal year 1995.

Since CID began taking these actions, DIT applied to tax gap investigations has increased. (See fig. 1.) According to data provided by IRS, the percent of time applied to tax gap investigations for fiscal years 1993 through 1996 increased 13 percentage points. As of fiscal year 1996, CID applied 59 percent of DIT to tax gap investigations, exceeding its goal by 1 percentage point, while applying 22 percent of DIT to narcotics investigations, 2 percentage points short of its goal.

⁵According to CID officials, although tax gap investigations usually result in prosecution and sentencing for Title 26 violations, they may also involve certain Title 18 violations, such as defrauding the government or filing a false claim. They further stated that they prefer prosecution and sentencing under Title 26, but they will opt to use Title 18 when they feel certain that Title 26 charges will not hold up in court.

⁶Investigations of illegal industries with alleged criminal tax violations are included in the other fraud program.

Figure 1: Percent of Nationwide DIT by Type of Criminal Investigation—Fiscal Years 1990 Through 1996



Source: GAO analysis of IRS data.

According to CID national office officials, the goal for the amount of DIT to be allocated to tax gap investigations in fiscal year 1997 is a range of 57 to 61 percent, and the goal for narcotics investigations is a range of 23 to 25 percent. They stated that these goals, which are expected to be the goals for the next few years, were developed with input from the DIS. It is CID officials' judgment that these goals will enable CID to (1) conduct investigations in support of IRS' strategic goal of increasing compliance with the tax laws; (2) contribute to the government's efforts in combating narcotics and money laundering; and (3) continue allocating some of its investigative time to cases involving emerging financial crimes, such as health care fraud.

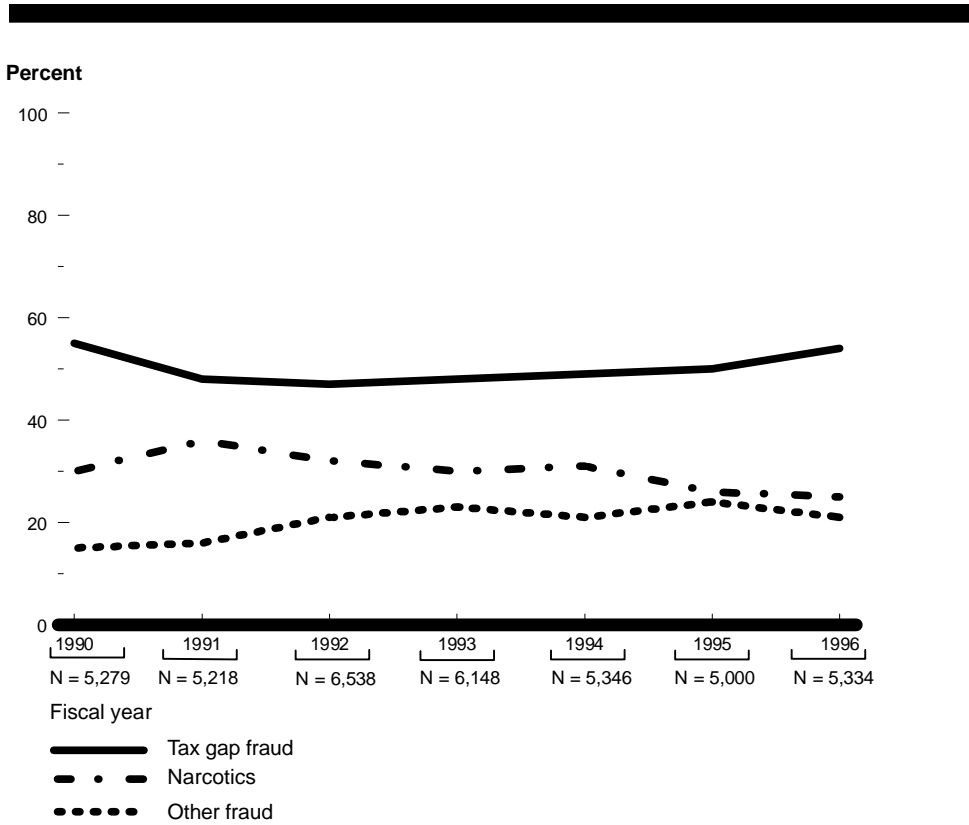
Trends in the Number and Results of CID Investigations for Fiscal Years 1990 Through 1996

CID considers completed investigations that merit referral to the U.S. Attorneys for prosecution as an important step toward the eventual prosecution, conviction, and sentencing for criminal tax violations and related financial crimes. By publicizing convictions, CID hopes to deter others from engaging in such criminal activity and to promote voluntary compliance with the tax laws. Consequently, CID uses statistical data from CIMIS to track the number and percent of investigations initiated, as well as the number and percent of referrals made to U.S. Attorneys for prosecution and sentences handed down by the U.S. courts based on CID cases. CIMIS data show that the percent of tax gap investigations initiated, the percent of tax gap cases referred to U.S. Attorneys for prosecution, and the percent of court sentences based on tax gap cases have all begun to increase since CID increased the time spent on tax gap investigations. However, as of fiscal year 1996, the increases have not been enough to match fiscal year 1990 levels for these indicators.

Trends in the Types of Investigations Initiated

As shown in figure 2, tax gap investigations represented 54 percent of all CID investigations initiated in fiscal year 1996. This is an increase over the fiscal year 1992 level of 47 percent and just under the fiscal year 1990 level of 55 percent. The figure also shows that between fiscal years 1990 and 1996, narcotics investigations decreased from 30 percent to 25 percent of all CID investigations initiated. Other fraud investigations were 6 percentage points higher in fiscal 1996 than in fiscal year 1990.

Figure 2: Percent of Criminal Investigations Initiated Nationwide by Type—Fiscal Years 1990 Through 1996

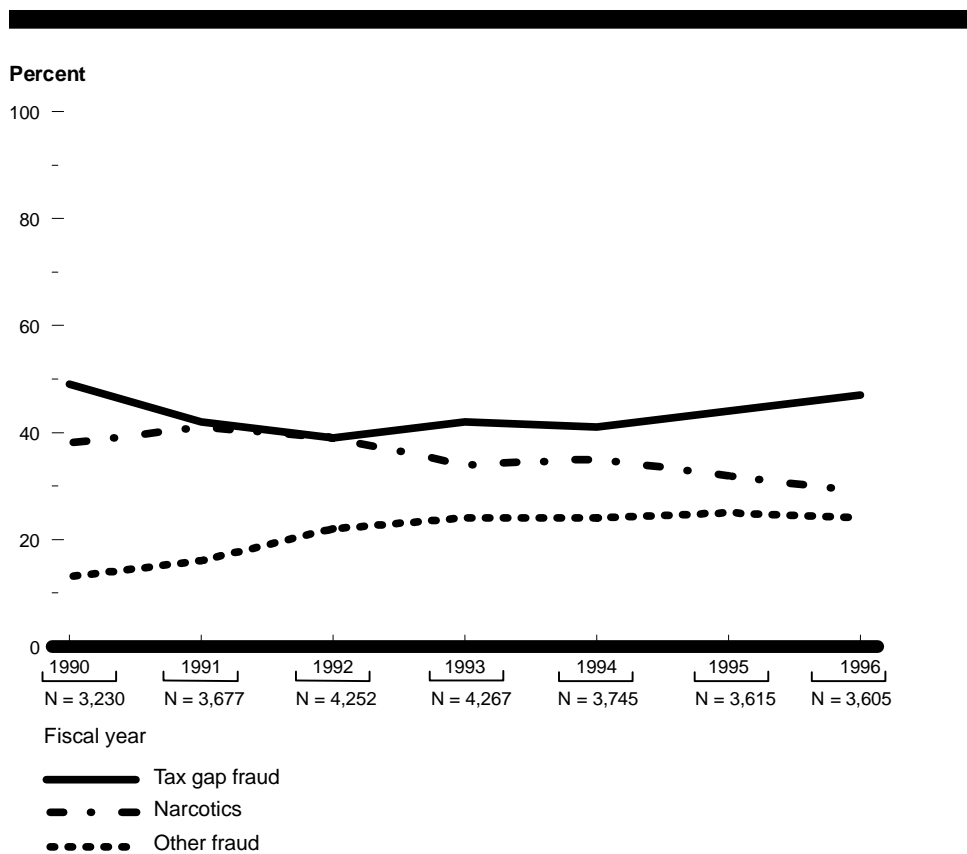


Source: GAO analysis of IRS data.

Trends in Investigations Referred to the U.S. Attorneys for Prosecution

Figure 3 shows that, in general, the percent of CID cases being referred to the U.S. Attorneys for prosecution for tax gap fraud since fiscal year 1992 has increased, while the percent of other types of referrals—narcotics and other fraud cases—either declined or remained somewhat stable. Specifically, tax gap referrals represented 47 percent of all CID referrals in fiscal year 1996 compared to 39 percent in fiscal year 1992 and 49 percent in fiscal year 1990.

Figure 3: Percent of Referrals for Prosecution Nationwide by Type of CID Investigation—Fiscal Years 1990 Through 1996



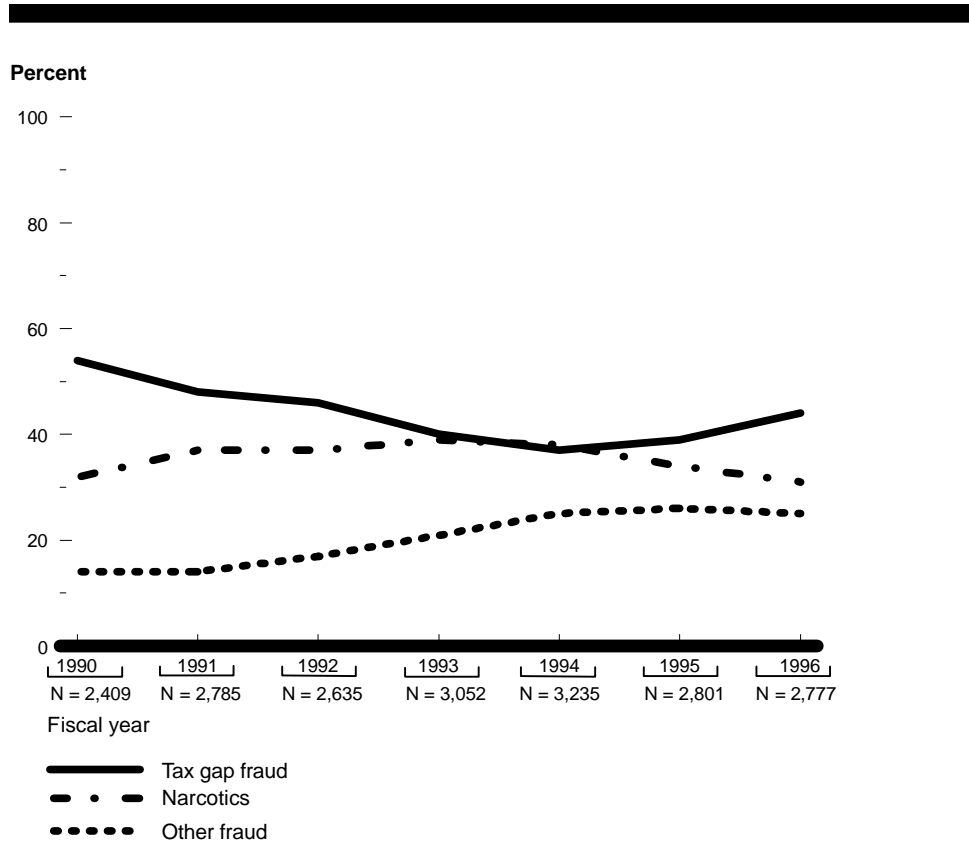
Note: Referrals for prosecution in a particular fiscal year do not necessarily relate to the year the case was initiated.

Source: GAO analysis of IRS data.

Trends in Sentences From Cases Referred to the U.S. Attorneys for Prosecution

Court sentences—including incarceration, probation, and fines—based on tax gap investigations decreased from 54 percent of all court sentences based on CID investigations in fiscal year 1990 to a low of 37 percent in fiscal year 1994. Since that time tax gap sentences have increased to 44 percent of all court sentences for CID cases as of fiscal year 1996. Overall, sentences based on narcotics investigations increased from 32 percent to 39 percent of all court sentences based on CID investigations between fiscal years 1990 and 1993, then decreased to 31 percent as of fiscal year 1996. (See fig. 4.)

Figure 4: Percent of Sentences Nationwide by Type of CID Investigation—Fiscal Years 1990 Through 1996



Note: Sentences in a particular fiscal year do not necessarily relate to the year the case was initiated or referred to a U.S. Attorney for prosecution.

Source: GAO analysis of IRS data.

Additional information relating to CID’s investigations between fiscal years 1990 and 1996 is shown in appendixes I, II, III, and IV. Appendix I shows the number of staff days applied nationwide by type of criminal investigation. Appendix II contains information on the percent of DIT applied to each type of criminal investigation by IRS location. Appendix III shows the numbers of investigations, referrals to the U.S. Attorneys for prosecution, and court sentences by type of criminal investigation. Appendix IV discusses the principal sources of information on which CID’s investigations were based.

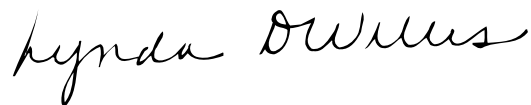
Agency Comments and Our Evaluation

IRS and the Department of Justice each provided comments on a draft of this report. Each agency generally agreed with the information presented in the report and offered technical comments, which we have incorporated where appropriate.

Copies of this report are being sent to the Chairmen and Ranking Minority Members of the Senate Committee on Finance, the Senate Committee on Governmental Affairs, the House Committee on Ways and Means, and the House Committee on Government Reform and Oversight; the Chairman and Ranking Minority Member of the Subcommittee on Treasury, General Government, and Civil Service, Senate Committee on Appropriations; and the Chairman and Ranking Minority Member of the Subcommittee on Treasury, Postal Service, and General Government, House Committee on Appropriations; various other congressional committees; the Secretary of the Treasury; the Attorney General; and other interested parties. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix VI. Please contact me on (202) 512-9110 if you or your staff have any questions about this report.

Sincerely yours,



Lynda D. Willis
Director, Tax Policy and
Administration Issues

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Abbreviations

CID	Criminal Investigation Division
CIMIS	Criminal Investigation Management Information System
DI	Director of Investigation
DIT	Direct Investigative Time
IRS	Internal Revenue Service
OCDETF	Organized Crime Drug Enforcement Task Force

Investigative Time Applied Nationwide by Type of Criminal Investigation in Fiscal Years 1990 Through 1996

This appendix presents the nationwide number of staff days applied directly to the major types of Criminal Investigation Division (CID) investigations. This does not include staff days applied to noninvestigative activities, such as training.

Table I.1: Number of Direct Staff Days Applied Nationwide by Type of Criminal Investigation in Fiscal Years 1990 Through 1996

Type of investigation	Number of staff days by fiscal year						
	1990	1991	1992	1993	1994	1995	1996
Fraud							
Tax gap	273,192	262,544	253,245	278,261	301,640	328,595	361,494
Other	43,906	66,923	110,107	115,942	96,753	98,002	98,032
Narcotics	160,988	169,882	170,665	168,116	159,357	138,356	134,794
Information items	9,757	15,444	16,516	17,391	11,383	11,530	18,381
Total direct staff days	487,842	514,793	550,533	579,711	569,133	576,483	612,702

Note 1: Investigative time spent following up on information provided to CID that indicates potential criminal violations prior to initiation of an investigation is categorized as information items.

Note 2: Totals do not add due to rounding.

Source: GAO analysis of IRS data.

Percent of Direct Investigative Time Applied to CID Investigations in Fiscal Years 1990 Through 1996

This appendix shows the percent of direct investigative time (DIT) applied to the major types of CID investigations nationwide, by regions, and by district offices from fiscal years 1990 through 1996. For fiscal year 1996, CID set national DIT goals of 58 percent for tax gap investigations and 24 percent for narcotics investigations. To achieve these goals, CID requested that the Directors of Investigation for each region help to ensure that the regional DIT was within a range of 58 to 60 percent for tax gap investigations and 24 to 26 percent for narcotics investigations.

Table II.1: Percent of Total DIT Applied to Tax Gap Investigations by Location in Fiscal Years 1990 Through 1996

Location	Percent of DIT by fiscal years						
	1990	1991	1992	1993	1994	1995	1996
Nationwide	56	51	46	48	53	57	59
Midstates Region	51	45	40	43	47	54	56
Midwest	52	46	44	50	55	57	62
Arkansas-Oklahoma	55	40	34	43	49	57	57
Houston	55	50	45	52	54	56	49
Illinois	61	56	47	50	50	55	59
Kansas-Missouri	54	53	44	42	48	53	61
North Central	58	48	53	56	60	64	73
North Texas	47	38	37	33	33	49	56
South Texas	26	26	18	20	32	46	34
Northeast Region	61	57	53	53	56	58	61
Brooklyn	71	70	65	62	66	62	60
Connecticut-Rhode Island	61	60	58	58	64	69	74
Manhattan	55	44	50	47	51	52	56
Michigan	60	58	55	55	58	58	60
New England	49	51	44	48	49	50	58
New Jersey	64	62	57	54	63	64	64
Ohio	60	48	42	45	50	55	63
Pennsylvania	64	64	51	52	52	57	62
Upstate New York	72	64	64	64	66	63	64
Southeast Region	54	49	46	49	55	58	59
Delaware-Maryland	56	51	47	52	55	59	59
Georgia	59	50	47	59	56	57	60
Gulf Coast	65	54	57	57	64	64	61
Indiana	70	63	58	59	60	67	66

(continued)

Appendix II
Percent of Direct Investigative Time Applied
to CID Investigations in Fiscal Years 1990
Through 1996

Location	Percent of DIT by fiscal years						
	1990	1991	1992	1993	1994	1995	1996
Kentucky-Tennessee	60	52	44	47	58	58	57
North-South Carolina	39	36	41	39	50	55	57
North Florida	46	45	41	40	46	49	52
South Florida	39	39	34	41	51	50	55
Virginia-West Virginia	61	55	53	50	60	65	64
Western Region	55	51	41	45	50	56	60
Central California	56	58	53	53	58	56	58
Los Angeles	60	52	45	50	60	62	68
Northern California	61	51	36	47	45	54	57
Pacific Northwest	49	50	43	47	50	49	57
Rocky Mountain	54	49	34	38	48	57	60
Southern California	51	48	41	37	42	53	58
Southwest	55	49	38	49	53	59	62

Note: Percentages have been rounded to the nearest whole percent.

Source: IRS Criminal Investigation Management Information System data.

Table II.2: Percent of Total DIT Applied to Narcotics Investigations by Location in Fiscal Years 1990 Through 1996

Location	Percent of DIT by fiscal years						
	1990	1991	1992	1993	1994	1995	1996
Nationwide	33	33	31	29	28	24	22
Midstates Region	37	38	36	35	32	25	26
Midwest	33	39	37	32	29	25	26
Arkansas-Oklahoma	21	28	27	25	21	19	16
Houston	34	35	37	32	33	30	40
Illinois	30	31	33	28	28	24	24
Kansas-Missouri	34	34	34	33	30	23	21
North Central	34	34	29	22	24	19	12
North Texas	33	34	36	41	39	22	19
South Texas	65	63	54	64	50	34	46
Northeast Region	28	29	28	26	26	25	23
Brooklyn	14	14	17	15	19	23	23
Connecticut-Rhode Island	31	25	23	21	19	13	10
Manhattan	38	43	36	36	35	35	32

(continued)

Appendix II
Percent of Direct Investigative Time Applied
to CID Investigations in Fiscal Years 1990
Through 1996

Location	Percent of DIT by fiscal years						
	1990	1991	1992	1993	1994	1995	1996
Michigan	27	26	27	25	24	26	25
New England	43	34	30	23	25	22	20
New Jersey	25	25	28	26	26	24	21
Ohio	26	32	29	31	26	26	22
Pennsylvania	26	25	30	28	29	25	25
Upstate New York	21	25	21	22	23	17	12
Southeast Region	34	35	30	28	26	23	21
Delaware-Maryland	35	36	31	30	30	23	26
Georgia	29	32	29	23	27	25	21
Gulf Coast	27	30	25	24	23	20	22
Indiana	18	18	20	20	21	18	17
Kentucky-Tennessee	25	26	18	21	19	16	14
North-South Carolina	43	45	34	35	30	23	23
North Florida	37	35	29	25	22	17	12
South Florida	56	52	46	39	33	35	27
Virginia-West Virginia	30	31	30	29	25	21	19
Western Region	33	31	32	28	28	23	19
Central California	36	34	26	19	21	19	14
Los Angeles	36	34	31	31	29	21	19
Northern California	28	28	33	26	28	22	22
Pacific Northwest	35	28	27	24	26	26	20
Rocky Mountain	33	32	32	27	27	21	18
Southern California	41	39	39	35	34	29	24
Southwest	25	27	37	30	26	17	12

Note: Percentages have been rounded to the nearest whole percent.

Source: IRS Criminal Investigation Management Information System data.

**Appendix II
Percent of Direct Investigative Time Applied
to CID Investigations in Fiscal Years 1990
Through 1996**

Table II.3: Percent of Total DIT Applied to Other Fraud Investigations by Location in Fiscal Years 1990 Through 1996

Location	Percent of DIT by fiscal years						
	1990	1991	1992	1993	1994	1995	1996
Nationwide	9	13	20	20	17	17	16
Midstates Region	11	15	21	19	18	19	17
Midwest	11	11	16	13	11	15	10
Arkansas-Oklahoma	20	30	36	29	28	22	25
Houston	9	13	17	14	12	12	10
Illinois	6	8	16	18	18	17	14
Kansas-Missouri	10	10	19	22	19	22	15
North Central	7	16	17	20	15	15	13
North Texas	18	25	27	25	27	28	24
South Texas	9	10	28	15	18	19	20
Northeast Region	8	11	16	18	15	14	13
Brooklyn	13	12	15	19	12	12	13
Connecticut-Rhode Island	5	12	16	19	15	16	14
Manhattan	6	9	10	13	11	10	9
Michigan	10	13	14	15	14	11	12
New England	6	12	22	25	23	24	20
New Jersey	8	9	13	18	10	11	13
Ohio	10	16	23	20	20	15	11
Pennsylvania	7	9	18	19	17	16	10
Upstate New York	6	10	13	12	10	19	22
Southeast Region	9	13	21	20	16	17	18
Delaware-Maryland	6	9	19	16	14	16	13
Georgia	8	15	22	17	16	18	18
Gulf Coast	6	13	15	16	9	15	16
Indiana	8	15	17	16	13	10	12
Kentucky-Tennessee	14	20	35	29	20	23	26
North-South Carolina	16	18	24	24	18	21	19
North Florida	14	17	26	31	27	30	31
South Florida	4	7	16	15	12	11	15
Virginia-West Virginia	7	12	15	18	13	13	15
Western Region	8	15	24	25	19	19	19
Central California	7	6	18	27	19	23	27
Los Angeles	2	12	22	17	9	14	11

(continued)

Appendix II
Percent of Direct Investigative Time Applied
to CID Investigations in Fiscal Years 1990
Through 1996

Location	Percent of DIT by fiscal years						
	1990	1991	1992	1993	1994	1995	1996
Northern California	8	17	28	25	24	22	18
Pacific Northwest	12	18	27	27	21	22	20
Rocky Mountain	10	18	32	33	24	20	20
Southern California	3	8	16	25	20	15	15
Southwest	15	20	22	19	18	20	23

Note: Percentages have been rounded to the nearest whole percent.

Source: IRS Criminal Investigation Management Information System data.

The Number and Results of CID Investigations in Fiscal Years 1990 Through 1996

This appendix presents information on the number of CID investigations that were initiated, the number of investigations in which CID recommended prosecution, and the number of sentences resulting from prosecutions from fiscal year 1990 through fiscal year 1996. According to CID officials, completing an investigation and subsequently prosecuting and sentencing the subject of the investigation may take a year or more. As a result, the number of prosecution recommendations and sentences shown in a particular fiscal year in tables III.2 and III.3 may not have resulted from the investigations initiated in the corresponding fiscal year in table III.1.

Table III.1: Number of CID Investigations Initiated Nationwide in Fiscal Years 1990 Through 1996

Type of investigation	Number of investigations initiated by fiscal year						
	1990	1991	1992	1993	1994	1995	1996
Fraud							
Tax gap	2,895	2,530	3,098	2,927	2,602	2,506	2,857
Other	781	822	1,345	1,396	1,103	1,201	1,144
Narcotics	1,603	1,866	2,095	1,825	1,641	1,293	1,333
Total investigations	5,279	5,218	6,538	6,148	5,346	5,000	5,334

Source: IRS Criminal Investigation Management Information System data.

Table III.2: Number of CID Investigations Referred to the U.S. Attorney for Prosecution Nationwide in Fiscal Years 1990 Through 1996

Type of investigation	Number of investigations referred by fiscal year						
	1990	1991	1992	1993	1994	1995	1996
Fraud							
Tax gap	1,574	1,561	1,642	1,805	1,535	1,579	1,708
Other	430	605	937	1,009	889	891	865
Narcotics	1,226	1,511	1,673	1,453	1,321	1,145	1,032
Total referrals for prosecution	3,230	3,677	4,252	4,267	3,745	3,615	3,605

Source: IRS Criminal Investigation Management Information System data.

**Appendix III
The Number and Results of CID
Investigations in Fiscal Years 1990 Through
1996**

Table III.3: Number of Sentences Nationwide Resulting From CID Investigations in Fiscal Years 1990 Through 1996

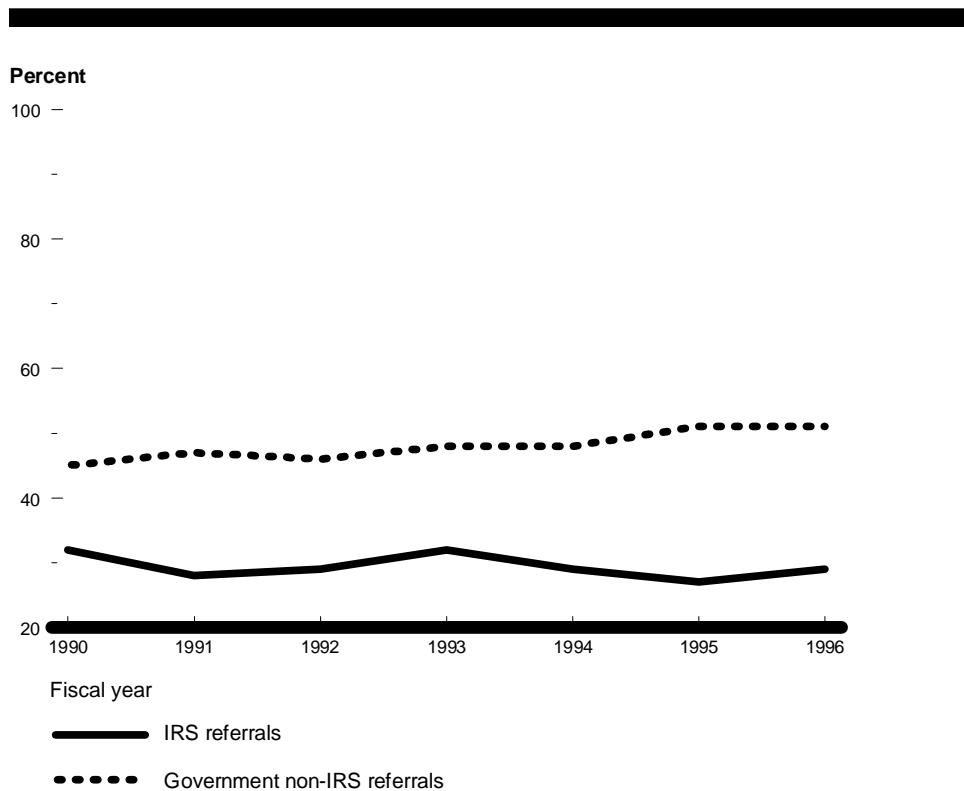
Type of investigation	Number of sentences by fiscal year						
	1990	1991	1992	1993	1994	1995	1996
Fraud							
Tax gap	1,310	1,344	1,203	1,225	1,194	1,104	1,223
Other	333	402	459	630	805	736	691
Narcotics	766	1,039	973	1,197	1,236	961	863
Total sentences	2,409	2,785	2,635	3,052	3,235	2,801	2,777

Source: IRS Criminal Investigation Management Information System data.

Sources of Information That Resulted in CID Investigations in Fiscal Years 1990 Through 1996

CID relies on various sources of information for initiating its investigations, including information from (1) within IRS, such as from the Examination Division; (2) other government sources, such as U.S. Attorneys; (3) currency transaction reports; and (4) the public. Although information from other government sources may result in various types of CID investigations, including tax fraud, information from within IRS predominantly results in tax fraud investigations. Information provided from within IRS and by other government sources accounted for about 75 percent of the total CID investigations initiated each year for fiscal years 1990 through 1996. As shown in figure IV.1, investigations based on information provided by other government sources increased from about 45 percent in fiscal year 1990 to about 51 percent in fiscal year 1996. Investigations based on information provided from within IRS fluctuated from about 32 percent in fiscal year 1990 to about 29 percent in fiscal year 1996.

Figure IV.1: Percent of Investigations Initiated Nationwide by Selected Sources—Fiscal Years 1990 Through 1996



Source: GAO analysis of IRS data.

**Appendix IV
Sources of Information That Resulted in CID
Investigations in Fiscal Years 1990 Through
1996**

In 1991, a study group convened to examine CID's workload and to recommend changes to better balance, direct, and strengthen its future investigative activities recommended that IRS reemphasize its internal fraud referral program. In an effort to increase the quality of internal fraud referrals from other IRS groups to CID that may lead to tax fraud investigations, IRS established formal fraud referral procedures effective for fiscal year 1996. This included establishing the position of fraud coordinator in each district office to act as a focal point for fraud referrals. According to CID officials, the objective of these procedures is to increase coordination between CID and other IRS functions, particularly the Examination Division, in an effort to ensure that only cases involving potential criminal fraud, rather than civil fraud, are referred to CID. CID officials further stated that it is too soon to determine the overall success of the new procedures.

Comments From the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OCT 30 2017

Ms. Lynda D. Willis
Director, Tax Policy and Administration Issues
United States General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Willis:

We were pleased to have the opportunity to review the General Accounting Office (GAO) report regarding GAO Report B-275359, "IRS' Efforts to Place More Emphasis on Criminal Tax Investigations." The opportunity to provide additional clarifying information was appreciated. We believe the overall report is indicative of the great strides that have been achieved as a result of the Criminal Investigation reorganization and the implementation of the tax gap strategy. The report also underscores the efforts and achievements in focusing resources on tax investigations.

If you have any additional questions, please feel free to contact Assistant Commissioner Ted F. Brown (Criminal Investigation) at 202-622-3200.

Sincerely,


Michael P. Dolan
Acting Commissioner

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