



INTERNAL
REVENUE
SERVICE

CRIMINAL
INVESTIGATION

2016 ANNUAL REPORT



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FROM THE CHIEF'S OFFICE



Richard Weber
Chief

When we speak at different events around the country, we talk about our past successes as an agency so that audiences – both internal and external – remember our great and proud history. That connection between our past and our present has never been clearer. Whether we are talking about complex offshore tax evasion cases, employment taxes, other core mission tax cases, or even a cyber case involving the dark net – the investigative methods are basically the same. We follow the money and there is simply no one better at doing that than Internal Revenue Service-Criminal Investigation (IRS-CI) special agents and the professional staff that support and carry out our mission on a daily basis. The connection to our past was very real this year as we unveiled a new Wall of Remembrance Memorial at headquarters in Washington, DC. This stunning tribute is a solemn reminder every day of the sacrifices that are made on behalf of the men and women of IRS-CI.



Don Fort
Deputy Chief

We have seen first-hand the great work that is being done in field offices throughout the country and abroad. With diminishing resources, we asked you to stay mission-focused and open only those highest priority cases that would have the greatest impact on tax administration. Not a day goes by that we do not read a news story about a great case being worked by one of our field offices. While the number of cases we open each year is directly impacted by the size of our organization, the quality and the impact of those cases is significant and our relevance as a law enforcement agency cannot be overlooked. We simply cannot underestimate the impact or the deterrent effect we are having on would-be criminals around the world.

This annual report includes just a sampling of case summaries that represent the diversity and complexity we have come to expect from CI agents and professional staff. Focusing on core mission tax investigations, tax-related identity theft, money laundering, public corruption, cybercrime and terrorist financing, you continue to pile up some of the most successful cases in CI history and continue to make us proud.

Congratulations and great job! We are excited about our future and thank you for your continued dedication and commitment to CI.

VISION & PRIORITIES

VISION FOR IRS-CRIMINAL INVESTIGATION

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

INVESTIGATIVE PRIORITIES

Criminal Investigation's highest priority is to enforce our country's tax laws and support tax administration to ensure compliance with the law. Criminal Investigation focused on high impact criminal investigations to promote deterrence worldwide and industry-wide. Fiscal Year 2016 investigative priorities were:

TAX CRIMES

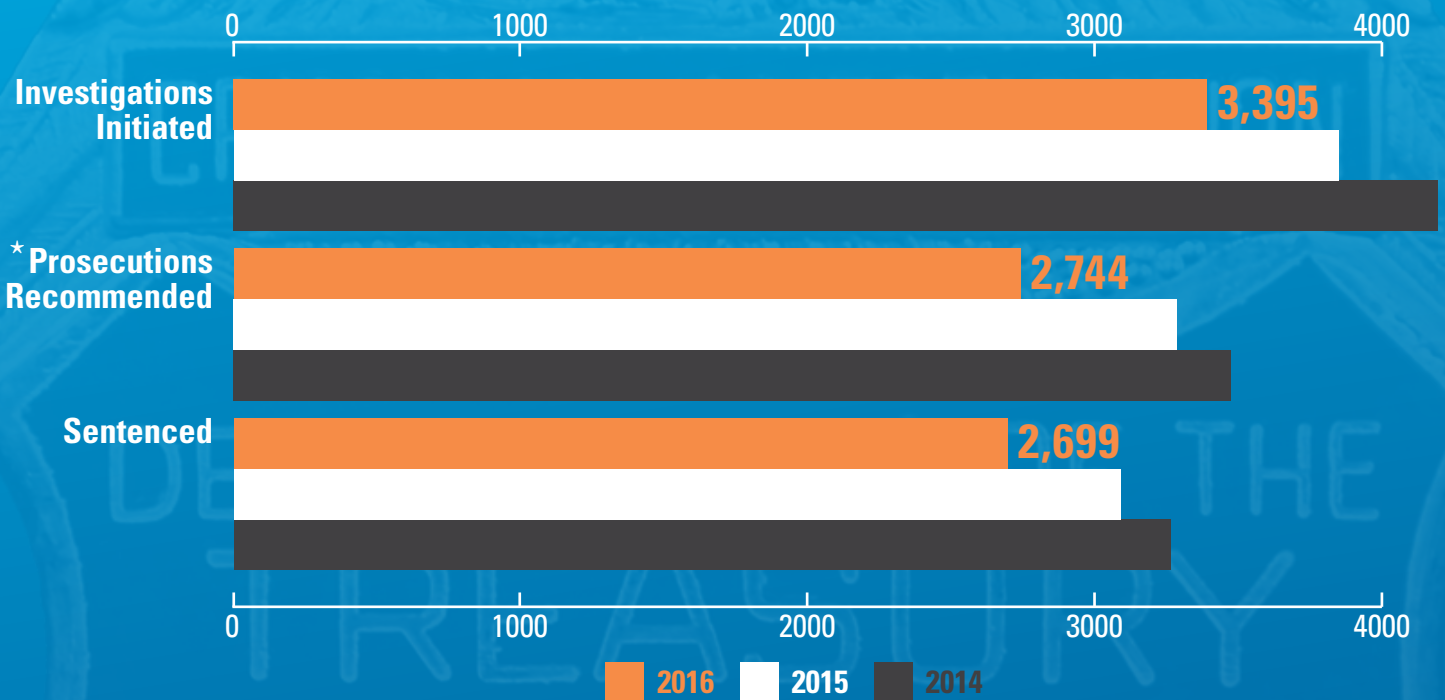
- Abusive Return Preparer Fraud
- Abusive Tax Scheme Fraud
- Employment Tax Fraud
- Fraud Referral Program
- Identity Theft Fraud
- International Tax Fraud
- Questionable Refund Fraud

OTHER FINANCIAL CRIMES

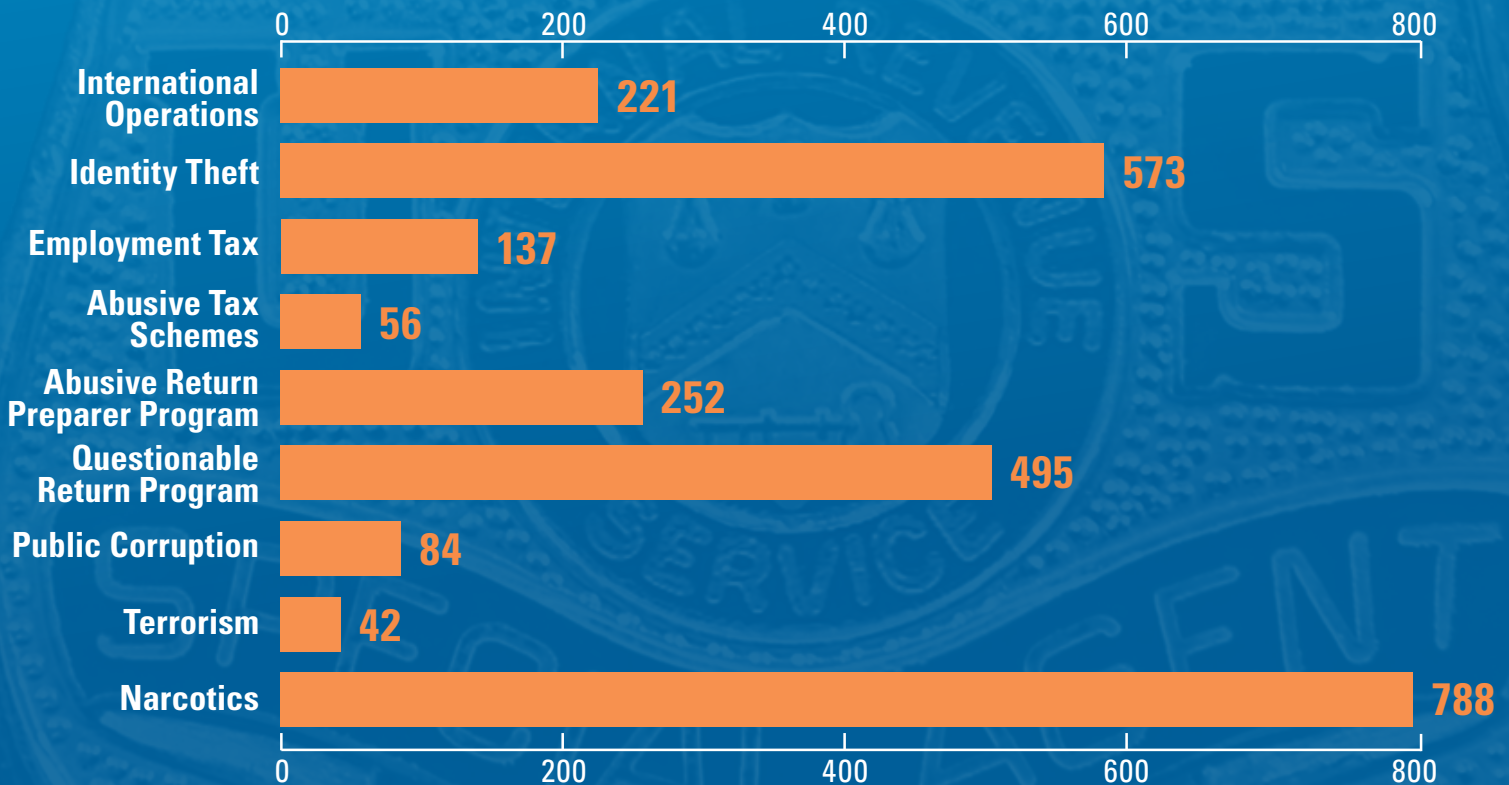
- Counterterrorism / National Security / Terrorist Financing
- Cyber-crimes (including Virtual Currency)
- OCDETF / HIDTA / Transnational Organized Crime
- Public Corruption

BUSINESS RESULTS

FY 2016 BUSINESS RESULTS



HIGH IMPACT AREA CASES INITIATED



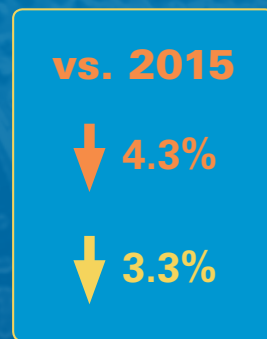
*Sentence includes confinement to federal prison, halfway house, home detention, or some combination thereof.

A fiscal year runs from October 1 through September 30. Data Source: Criminal Investigation Management 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, 2016, IRS-CI had 2,217 special agents, a 4.3% decrease compared to the number of special agents at the conclusion of FY 2015. Professional staff personnel were 907 reflecting a decrease of 3.3% compared to FY 2015. Total CI Staffing in FY 2016 was 3,124, a 4.0 % decrease compared to FY 2015. Over the past five years (FY 2011-FY 2016), staffing levels for special agents and professional staff have decreased by 522 and 251 respectively representing 19.1% and 21.7% reductions respectively.

SPECIAL AGENTS

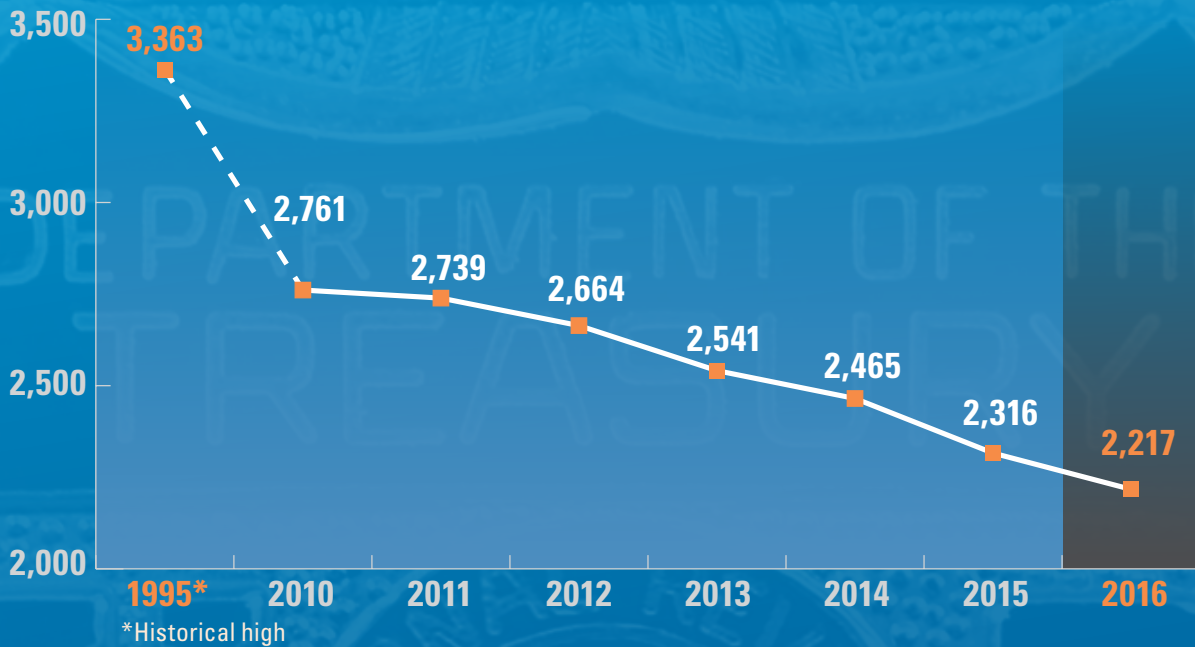


PROFESSIONAL STAFF

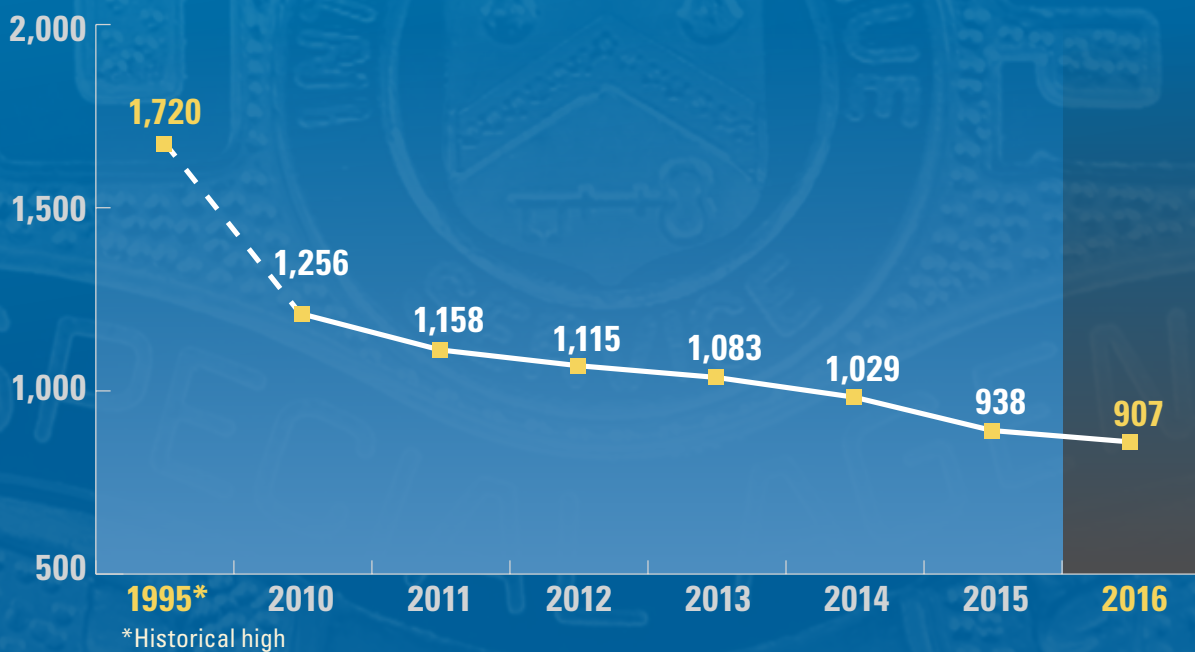
STAFFING

The data in the following graphs illustrates CI's staffing patterns from 1995-2016. The staffing levels are based on the Employee Master Database, as reported in the IRS Human Resources Reporting section.

Historical Agent Staffing

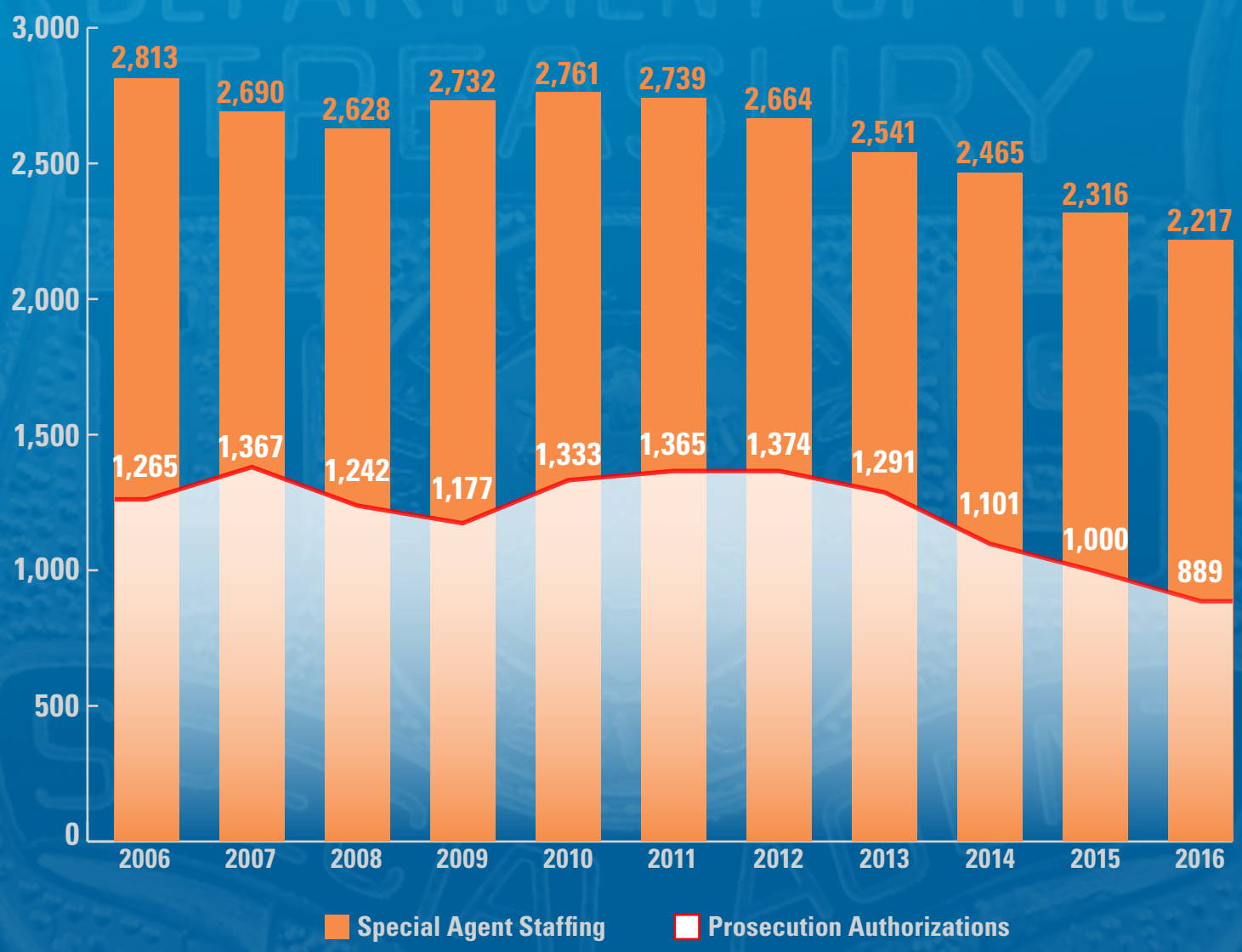


Historical Professional Staffing



CORE MISSION CHALLENGES

- Tax prosecutions directly impact voluntary compliance via criminal deterrence and are a critical component of a strong tax system.
- There is a clear trend of IRS-CI staffing decline affecting our core mission tax work.
- Between FY12 and FY16 our net attrition was 447 agents and we processed 485 fewer tax prosecution authorizations.



ORGANIZATION CHART





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 supports the overall IRS compliance goals and enhances 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. Criminal Investigation 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. Criminal Investigation is committed to the timely evaluation of each fraud referral.

REFUND FRAUD PROGRAM

Refund fraud poses a significant threat to the tax system. Criminal attempts to obtain money from the government under false pretenses via the filing of a fraudulent tax return not only results in the loss of funds needed for vital government programs but can also impact taxpayer's confidence in the tax system and their willingness to voluntarily meet tax filing obligations. The Refund Fraud Program is broken down into identity theft investigations, the Questionable Refund Program and the Abusive Return Preparer Program.

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

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.

IDENTITY THEFT

Identity theft-related crimes continue to be a priority area of investigation for CI. During FY 2016, CI remained committed to investigating egregious identity theft schemes through administrative and grand jury investigations utilizing various field office and multi-regional task forces including state/local and federal law enforcement agencies. Currently, CI participates in more than 60 task forces/working groups throughout the country that investigate both financial crimes as well as identity theft crimes.

Criminal Investigation's level of commitment towards the fight against identity theft continues to be evident. There is a designated management official who serves as the National Identity Theft Coordinator. This position is responsible for overseeing CI's national identity theft efforts including formulating policy and procedures. In addition to a national coordinator, there are identity theft coordinators within each of CI's 25 field offices. Criminal Investigation is a key partner on the Commissioner's Security Summit, which includes the IRS, State Divisions of Taxation, and private sector entities who joined in a collaborative effort to share critical information and ideas to combat tax-related identity theft.

Data Compromises

Data compromises, more commonly referred to as data breaches, have impacted all sectors of society. During FY 2016, CI continued to see tax-related identity theft linked to compromises targeting detailed financial records maintained by tax professionals and payroll administrators. Most notably was an increase in phishing attempts to acquire payroll records. Throughout the year twenty-three field offices were actively pursuing investigations linked to computer intrusions, account takeovers, and data compromises affecting tax administration. Criminal Investigation continued outreach efforts within the IRS, the law enforcement community, and the private sector to acquire information regarding com-

promised data that could impact tax administration. This information helped CI to proactively identify or prevent successful false claims for refunds utilizing the stolen data. Additionally, CI continues to participate in a cross-functional working group within the IRS to develop new analytical filters, as well as enhanced victim assistance.

Identity Theft Clearinghouse

The Identity Theft Clearinghouse (ITC) continues to develop and refer identity theft refund fraud schemes to CI field offices for investigation. The ITC serves as a centralized focal point to address incoming identity theft leads from throughout the country. The ITC’s primary responsibilities are analyzing identity theft leads and facilitating discussions between field offices with multi-jurisdictional issues.

Law Enforcement Assistance Program

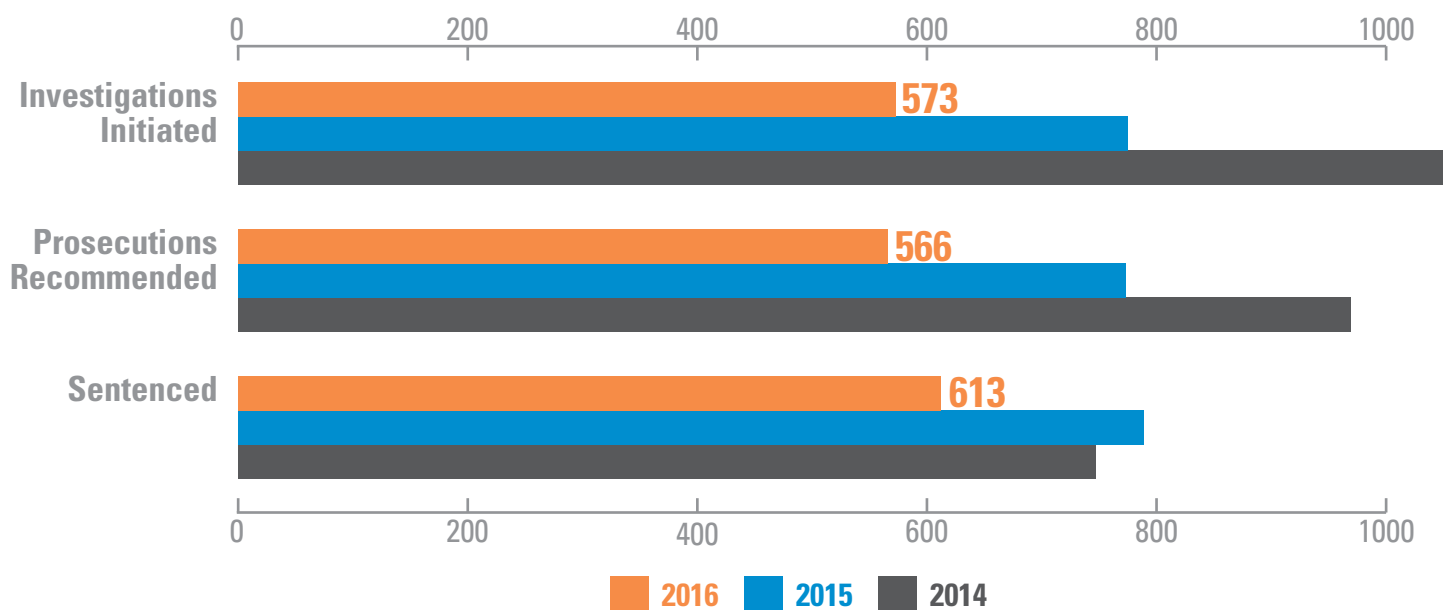
In March 2013, IRS announced that the Law Enforcement Assistance Program (LEAP), formerly known as the “Identity Theft Pilot Disclosure Program,” was expanding nationwide. This program was developed jointly by CI and other IRS counterparts as a result of a significant increase in requests from state 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. **To date, more than 1,400 state and local law enforcement agencies from 48 states have participated in this program**

Outreach

Criminal Investigation’s outreach strategy included hosting or attending educational events focusing on enhanced IT security efforts, tax-related identity theft investigative techniques and other refund-related frauds. Target audience groups included law enforcement partners, private sector entities involved in tax preparation, payroll service industries and IRS personnel. Local and national events included presentations at the International Association of Financial Criminal Investigators, National Association of Attorneys General, American Payroll Association training seminars and tax practitioner events throughout the country. Additional efforts included creating educational materials regarding LEAP and information on the impact of identity theft/data compromises on tax administration. These included fraud alerts,

IDENTITY THEFT INVESTIGATIONS



bulletins, and training materials to regional law enforcement information sharing systems, the International Association for Chiefs of Police and the National Sheriff's Association.

Proactive Prevention

Criminal Investigation continues to receive information from private and public sector sources involving compromised personally identifying information. This information is shared with W&I and allows the IRS to analyze and make necessary adjustments to accounts of taxpayers that are likely victims of identity theft. Additionally, CI collaborates with cross functional partners in the development and implementation of analytical filters designed to identify fraudulent claims at filing and prevent further victimization of impacted individuals.

Examples of identity theft investigations adjudicated in FY 2016 include:

Nine Defendants Sentenced for \$11.1 Million Tax Refund, Food Stamp Conspiracy

On June 23, 2016, in Tallahassee, Florida, nine Florida residents were sentenced for conspiracy, theft of government funds and aggravated identity theft. The defendants were sentenced as follows

- John Walter Simmons, Tampa - 168 months in prison;
- Daria Patrice Simmons, Tampa - 65 months in prison;
- Jazzman Shabazz Simmons, Tallahassee - 65 months in prison;
- Anre' Juardon Davis, St. Petersburg - 36 months in prison;
- Rashard LaVonta McMillian, Quincy - 36 months in prison;
- Ronald Edward Brown, Quincy - 30 months in prison;

- Addrain Montez McMillan, Overland Park, Kansas - 18 months in prison;
- Ja'baree Vazquez Allen, Tallahassee - 36 months of probation
- Mercedes Shevon Sutton, Tampa - 36 months of probation

Another defendant, Jasmine Junae Robinson, is scheduled to be sentenced at a later date. The defendants conspired to file fraudulent income tax returns using stolen personally identifying information (PII) from approximately 2,800 individuals. The stolen PII was used to file 1,466 fraudulent income tax returns, claiming refunds of approximately \$11.1 million and resulting in \$2,695,253 being issued by the IRS. Sutton, John Simmons, and Jazzman Simmons were also involved in a scheme to file fraudulent Supplemental Nutrition Assistance Program applications. Between August 2013 and January 2014, stolen PII was used to electronically submit 165 fraudulent food stamp applications, seeking \$176,704 in benefits.

Five Sentenced in Connection with a Fraudulent Multi-Million Dollar Income Tax Refund Scheme

On August 12, 2016, in Austin, Texas, five individuals, including three sisters, were sentenced to federal prison for their roles in a scheme that involved over 3,200 fraudulent income tax returns that claimed refunds totaling more than \$9 million.

Sentenced were:

- Natividad Mercado Medina, a Mexican national, 121 months;
- Elizabeth Mercado Medina, a Mexican national, 108 months;
- Sofia Mercado Medina, a Mexican national, 108 months;
- Bertin Sanchez Garcia, a Mexican national, 33 months; and
- Yajaira Limon Lopez, a Mexican national, 51 months.

All five defendants, who have remained in federal custody since their arrests in February 2016, entered guilty pleas to one count of conspiracy to commit mail fraud earlier this year. In addition to prison, the defendants will pay, joint and severally, \$3,888,519 restitution to the IRS; and serve three years of supervised release. Sophia's and Elizabeth's residences in Georgia and \$93,000 in U.S. currency will also be forfeited to the U.S. government. Beginning in 2014, under the direction of Natividad Medina, the defendants conspired to steal money from the U.S. Treasury by exploiting the Individual Taxpayer Identification Numbers (ITIN) system. The Medina sisters collected Mexican identification documents from unknown people in Mexico and used those to fraudulently obtain ITINs. The Medina sisters then used those ITINs to submit false and fraudulent income tax returns to the IRS Center in Austin. They requested that the IRS mail refund checks to residences or to one of more than 200 post office boxes in and around the Houston area which Lopez had rented and maintained on behalf of the Medina sisters.

Mexican Business owner Sentenced for Stolen Identity Tax Refund Fraud Scheme

On August 30, 2016, in El Paso, Texas, Elizabeth "Betty" Garcia de Nieto, aka Elizabeth Jurado, of Delicias, Chihuahua, Mexico, was sentenced to 192 months in prison and ordered to pay \$3,009,999 in restitution to the U.S. government for her role in an income tax return scheme that resulted in fraudulent refunds being issued by the IRS. Garcia was convicted by jury trial on March 23, 2016, for conspiracy to defraud the United States; mail fraud; aiding and abetting aggravated identity theft; and conspiracy to defraud the United States with respect to claims. From January 2010 to February 2015, Garcia used stolen identities to create fraudulent U.S. tax returns. Each return claimed an approximate \$5,000 refund from the IRS. Garcia gave some of the IRS refund checks to individuals to bring into the U.S. to be cashed at money service businesses in El Paso. She mailed others to individuals residing in the U.S. to be

converted to U.S. currency. All monies derived from the scheme, minus agreed-to-fees retained by co-defendants, were wired back to Garcia. In September 2014, U.S. Customs agents at the Paso del Norte Port of Entry seized 10 fraudulent tax returns from an employee of Garcia. Co-defendant Rodolfo Ramirez-Estrada of El Paso, also pleaded guilty to conspiracy to defraud the U.S. and was sentenced to 18 months in prison for his part in the conspiracy. Additional co-conspirators, Christina Perez Altamirano of Oklahoma City, Oklahoma, and Alberto Altamirano Armendarie of Montgomery, Alabama, pleaded guilty to conspiracy to commit mail fraud and were sentenced to one year in prison and time served, respectively.

Florida Man Sentenced for Identity Theft Scheme Involving Income Tax, Unemployment, and Credit Card Frauds

On October 22, 2015, in Miami, Florida, Leonce V. Jeudy, of Plantation, was sentenced to 111 months in prison and three years of supervised release for his participation in a scheme utilizing stolen identities to commit income tax, unemployment, and credit card frauds. A restitution hearing is scheduled for January 2016. Jeudy previously pleaded guilty to possession with intent to distribute controlled substances, access device fraud and aggravated identity theft. On January 7, 2015, the Sunrise Police Department initiated a traffic stop of a vehicle driven by Jeudy. After smelling the odor of marijuana emanating from the vehicle, the detective conducted a search of the car and found a loaded handgun, ammunition, approximately 20 credit cards in various names, new iPhones and iPads, bank records of an unrelated individual, and receipts of four Visa debit cards purchased earlier that day for approximately \$2,000. During the execution of a search warrant, officers found more than 100 credit and debit cards in the names of various individuals, numerous documents with the personally identifying information (PII) of different individuals, along with various electronic devices including computers, thumb drives and cellular telephones. Subsequent forensic analysis by

federal law enforcement revealed more than 8,000 sets of PII was found on the recovered digital devices. In addition, an analysis revealed that some of the recovered debit cards had received approximately \$30,000 in fraudulent income tax refunds and were associated with fraudulent unemployment insurance claims. Law enforcement further determined that Judy was responsible for filing unemployment insurance benefits claims totaling \$100,000.

Former Louisiana Public Health Care Employee Sentenced for Participating in Tax Refund Scheme

On April 6, 2016, in Lafayette, Louisiana, Ta'sha Thomas was sentenced to 36 months in prison, three years of supervised release and ordered to pay \$464,765 in restitution to the IRS. Thomas worked for a health unit where she stole personal identifying information (PII) of patients and sold the PII to Mona Hill. Hill used the stolen PII to prepare and file false tax returns. Between January and August of 2012, she also sold more than 400 access devices to Hill. In 2014, Hill was sentenced to 65 months in prison and ordered to pay \$491,268 in restitution to the IRS.

QUESTIONABLE REFUND PROGRAM

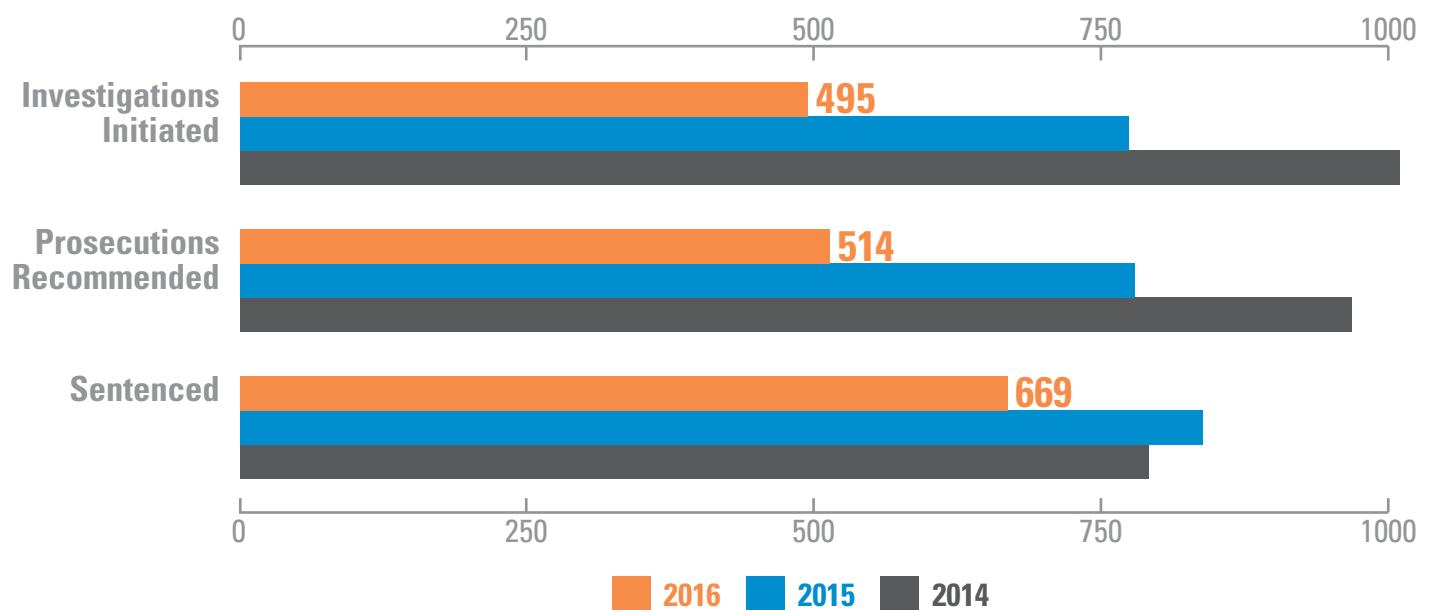
The primary focus of the Questionable Refund Program is to identify and prosecute those that file fraudulent claims for tax refunds. Generally, these schemes involve individuals filing multiple false tax returns supported by false information or using the identifiers of other individuals knowingly or unknowingly.

Examples of questionable refund program investigations adjudicated in FY 2016 include:

Texas Man Sentenced for Filing False Tax Claims and Obstructing the IRS

On June 22, 2016, in Houston, Texas, Kenneth Robert Bruce was sentenced to 180 months in prison, three years of supervised release and ordered to pay more than \$3.3 million in restitution to the IRS for willfully filing a false claim and impeding the IRS. Bruce prepared 26 false income tax returns or amended income tax returns claiming a total of more than \$9 million in false income tax refunds. One return was for himself and 25 were for other taxpayers. As part of the scheme, Bruce attached false IRS forms 1099-OID (Original

QUESTIONABLE REFUND INVESTIGATIONS



Issue Discount) to the tax returns, falsely reporting the taxpayers had received huge amounts of income from OID and had all or nearly all of the false amounts of income withheld for federal income taxes.

Eight Sentenced in Massive Stolen Identity Tax Refund Fraud Scheme

On November 4, 2015, in Houston, Texas, eight defendants were sentenced to prison after pleading guilty for their roles in a stolen identity and fraudulent tax return scheme. Travis White, Jalan Willingham, U.S. postal carrier Calvin Shelton, all of Atlanta, Georgia were ordered to serve 224, 132 and 57 months in prison, respectively, for conspiracy, wire fraud and aggravated identity theft. Postal carriers Edward Dwayne Vallier, of Houston, Shawn Phillip Thornton, of Atlanta, and Tangela R. Jackson-Lezeau, of Port Saint Lucie, Florida, received sentences of 27, 45 and 46 months in prison, respectively, for mail fraud, wire fraud and aggravated identity theft. Kerry Lionel Ruffin, and Rance Hunter, both of Atlanta, were sentenced to 50 and 84 months in prison for. All the defendants will serve three years of supervised release. In addition, the court ordered restitution in the total amount of \$7,845,652, with the defendants paying varying amounts in accordance with their roles in the scheme. The case against a ninth defendant - Dwayne Biggs - was transferred to the Northern District of Georgia. He also pleaded guilty and is awaiting sentencing. According to court documents, from 2010 through 2014, the co-conspirators used stolen personally identifiable information (PII) to file thousands of fraudulent tax returns claiming more than \$12 million in refunds. According to IRS records, the National Treasury paid out more than \$7 million before the scheme was discovered. Ringleader White recruited Shelton and Thornton, and gave instructions to co-conspirators on what to do in this scheme, acquired stolen information and filed the false tax returns. Also, once he recruited letter carriers, he instructed them to mail refund cards to him or Willingham. He also moved the scheme to Houston when he realized law enforcement was on their trail. Hunter had access

to the Fulton County, Georgia, Sheriff's Office database that contained PII of arrestees, inmate and employees. He sold the PII to Biggs, who then provided it to Ruffin. Ruffin acted as a conduit, funneling the stolen PII to the co-conspirators in Houston. Vallier, Jackson-Lezeau and Shelton allowed fraudulent refunds to be mailed to addresses on their routes. After gathering the mail containing the refund debit cards, they sent them to their co-conspirators in Houston.

ABUSIVE RETURN PREPARER PROGRAM

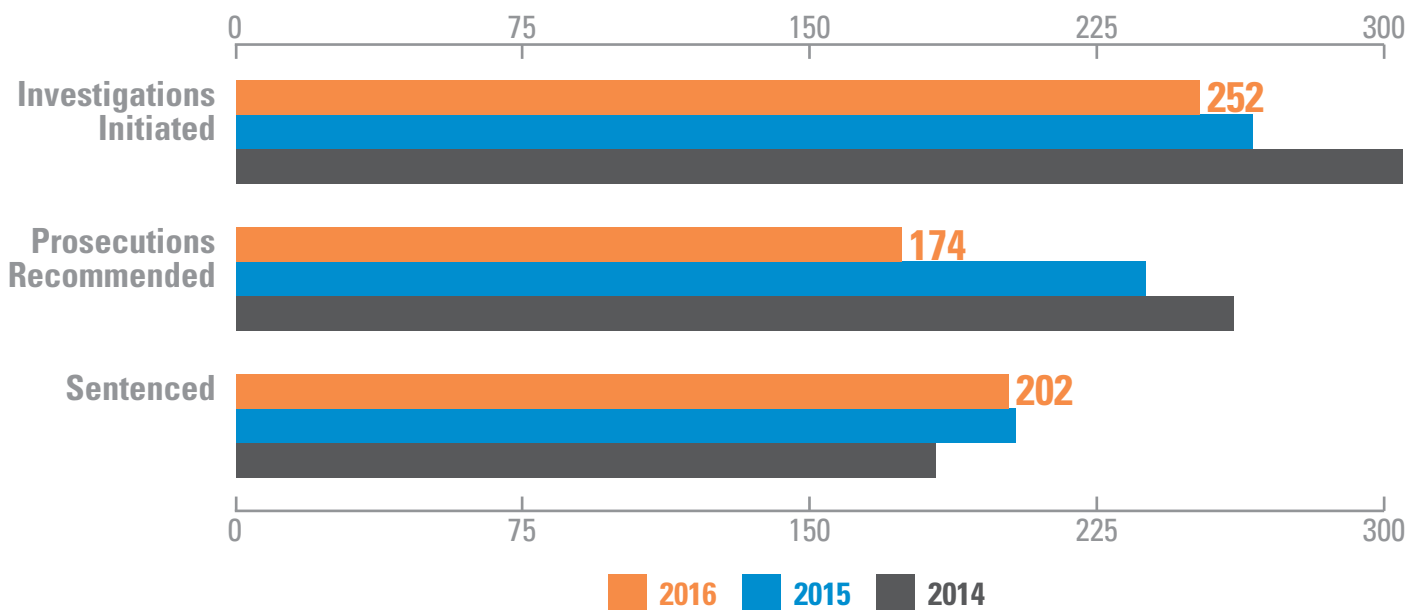
The Abusive Return Preparer Program investigations generally involve the preparation and filing of false income tax returns by dishonest preparers who may claim: inflated personal or business expenses, false deductions, excessive exemptions, and/or unallowable tax credits. The preparers' clients may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

Examples of abusive return preparer program investigations adjudicated in FY 2016 include:

Georgia Tax Preparers Sentenced for Tax Fraud

On March 24, 2016, in Atlanta, Frederick Jenkins and Willie Jenkins, both of Douglasville, were sentenced to 78 and 75 months in prison, respectively. Each was also sentenced to three years of supervised release and ordered to pay restitution of \$3.5 million to the IRS. Between 2009 and 2012, the two men prepared and filed thousands of tax returns at Global Tax Service, a business they managed together. The Jenkins created fictitious, unprofitable businesses that they listed on their clients' tax returns as a way to generate fraudulent deductions. Those deductions lowered the clients' taxable income and made their refunds larger. Ultimately, however, the clients were left to resolve their situations with the IRS and state authorities, while the

ABUSIVE RETURN PREPARER INVESTIGATIONS



defendants kept the fees they charged for preparing the returns. In the end, the Jenkins conspired to create fraudulent business deductions that resulted in a tax loss of over \$3.5 million.

deductions or credits against taxes; or hiding or transferring assets to avoid payment.

Examples of general tax fraud investigations adjudicated in FY 2016 include:

GENERAL TAX FRAUD

General tax fraud investigations are the backbone of CI’s enforcement program and have 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

New Jersey Man Sentenced for Biodiesel Fraud Scheme

On January 7, 2016, in Indianapolis, Indiana, Joseph Furando, of Montvale, New Jersey, was sentenced to 240 months in prison, three years of supervised release and ordered to pay more than \$56 million in restitution and forfeit a Ferrari, a million-dollar home and other property. Furando and his companies, Caravan Trading Company and CIMA Green, began supplying Indiana-based E-biofuels, LLC with biodiesel that was actually made by other companies and had already been used to claim tax credits and renewable identification number (RIN). Furando and his co-conspirators claimed that E-biofuels made the fuel making it eligible for the tax credits despite the fact that the credits were already utilized. Over approximately two years, the defendants fraudulently sold more than 35 million gallons of fuel for over \$145.5 million realizing \$55 million in gross profits. Furando’s companies, CIMA Green LLC, and

Caravan Trading LLC, were both sentenced to pay \$56 million in restitution and million dollar fines. E-bio-fuels LLC, operated by Furando's co-defendants Craig, Chad and Chris Ducey, was also sentenced to pay \$56 million in restitution. E-biofuels is in bankruptcy and its few remaining assets are being distributed to creditors and victims through the bankruptcy process. All of the other defendants in this case have pleaded guilty and are awaiting sentencing. Another co-conspirator, Brian Carmichael, was sentenced to five years in prison.

Florida Business Entrepreneur Sentenced for Tax Evasion

On June 24, 2016, in Pensacola, Florida, Trenton S. Sommerville of Destin, Florida, was sentenced to 51 months in prison for wire fraud and tax evasion. Sommerville pleaded guilty in January 2016. According to court documents, Sommerville obtained funds from investors for ventures he controlled, including that of an insurance provider and companies involved in gambling initiatives in the Caribbean. Sommerville concealed from investors that he would take a salary and pay for personal expenses with investment funds. He also did not invest any of his own capital in his ventures. Between January 2011 and December 2014, Sommerville embezzled investment funds by making personal expenditures directly from corporate accounts, transferring investment funds to his personal account, and writing corporate checks to a family member. As of May 2012, Sommerville owed approximately \$549,789 in taxes to the IRS for the tax years 2004 through 2010. He tried to evade paying taxes by concealing income and assets from the IRS through the use of nominee names and accounts, by using a cashier's check to pay off the mortgage on his residence, and by selling his personal shares and instructing the buyer to wire the money into another bank account. Sommerville failed to file federal income tax returns for the tax years 2011 through 2013, despite earning approximately \$585,214 in income and owing approximately \$103,279 in taxes for those years.

Former Oklahoma State Senator Sentenced for Wire Fraud and Tax Evasion

On March 11, 2016, in Tulsa, Oklahoma, Ricky L. Brinkley, a former Oklahoma State Senator, was sentenced to 37 months in prison and ordered to pay \$1,829,033 in restitution. On August 20, 2015, Brinkley, of Owasso, pleaded guilty to five counts of wire fraud and one count of subscribing to a false tax return. According to court documents, Brinkley represented the 34th District in Oklahoma. From August 2, 1999, to April 26, 2015, Brinkley was employed as the President and Chief Executive Officer and then the Chief Operations Officer of the Better Business Bureau (BBB). From November 2005 to February 2015, Brinkley diverted in excess of \$1.2 million dollars through the creation of fraudulent invoices for services not rendered, and improperly represented these invoices as reimbursement for legitimate expenses. He fraudulently signed checks, transferred, used, and disbursed funds to pay personal expenses and debts. Brinkley also used his employer's credit card to make cash withdrawals at automated teller machines in casinos to support his gambling habit. In addition, Brinkley failed to report approximately \$165,625 in income for tax year 2013 to the IRS.

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 2016 include:

Massachusetts Investment Advisor Sentenced for Hedge Fund Fraud

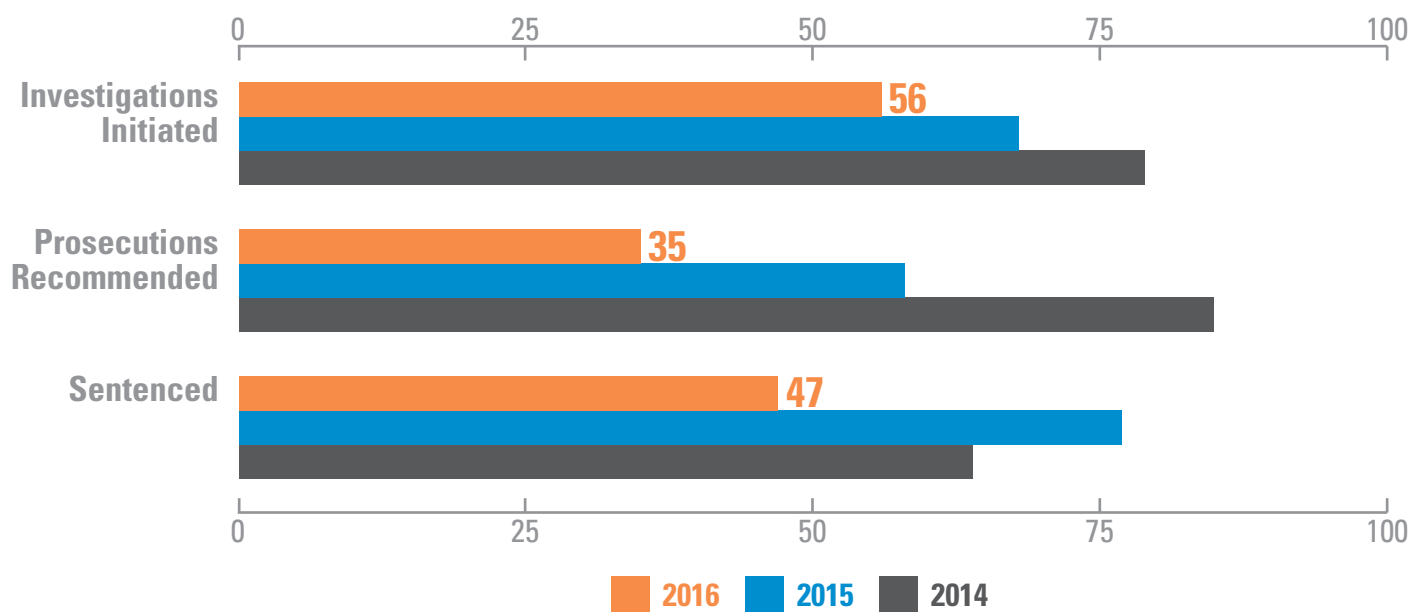
On July 27, 2016, in Boston, Massachusetts, Rosalind Herman, of Woburn, was sentenced to 84 months in prison, three years of supervised release and ordered to pay restitution of \$1,819,391. In April 2016, Herman was convicted of investment adviser fraud, tax fraud, wire fraud and conspiracy charges. Herman owned and controlled companies in Massachusetts and Nevada that provided investment advice and sold insurance products to individual investors. From 2008 to March 2013, Herman and her business partner, Gregg Caplitz, pitched a new hedge fund company investment to existing clients. The purported investment was billed by Caplitz and Herman as a hedge fund company owned by Herman. No hedge fund ever existed, however, and the more than \$1.3 million in investment funds obtained from clients were used to pay personal expenses for Herman, her family and Caplitz. In addition, from 2003 to 2012, Herman failed to file accurate tax returns for herself and her companies, including the \$1.3 million in investor funds she took from investors, and also by fabricating business expenses. In many instances during this time period, Herman failed to file any tax returns for herself or her companies. In May

2016, Caplitz was sentenced to 42 months in prison after pleading guilty to fraud and tax charges.

California Return Preparer Sentenced for Creating Fraudulent Tax Shelters

On January 21, 2016, in Santa Ana, California, Randall Craig Hutchens, former Chief Executive Officer and President of Accounting Services, Inc. (“ASI”), was sentenced to 57 months in prison and ordered to pay \$1.4 million in restitution to the IRS. From approximately May 2010 until October 2013, Hutchens sold fraudulent tax shelters to numerous clients through his tax preparation company, by promoting them as legal ways to reduce their prospective tax liabilities. For customers who bought the shelters, Hutchens would then prepare their tax returns, including in them false losses related to the tax shelter. Hutchens prepared and filed with the IRS at least 125 false federal income tax returns that resulted in tax losses to the United States of at least \$1,622,512.

ABUSIVE TAX SCHEME INVESTIGATIONS



Arkansas Man Sentenced for Wire Fraud Relating to Fraudulent Refund Coal Tax Credits

On October 7, 2015, in Little Rock, Arkansas, Stephen K. Parks was sentenced to 27 months in prison, three years of supervised release and ordered to pay \$845,000 in restitution to the IRS. Additionally, Parks will forfeit approximately \$7.5 million. On May 27, 2015, Parks pleaded guilty to wire fraud relating to a fraudulent investment scheme involving the sale of refined coal tax credits. According to court documents, on or about June 1, 2010, Parks formed Global Coal, LLC, and served as its CEO, President and Manager. He was also President of Ecotec Coal, LLC and King Coal, LLC. Global Coal has never refined any coal or sold any refined coal to an unrelated third party. Global Coal has never had a facility in place to refine coal. As of March 2015, Global Coal has failed to file any federal income tax returns and has never purported to create refined coal tax credits in any federal tax return. Despite knowledge of these facts, Parks approved and facilitated the sale of nonexistent Global Coal refined coal tax credits through a broker to the investor, representing that the tax credits were valid and available for sale. On January 9, 2012, an investor agreed to purchase 845,000 Global Coal tax credits and 268,000 Ecotec Coal tax credits for total payment of \$723,450. Parks subsequently used a large portion of the proceeds of that sale for his personal use and the use of his family.

NON-FILER INVESTIGATIONS

Taxpayers who fail to file an income tax return 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 2016 include:

Two Sentenced for Conspiracy to Avoid Paying Federal Taxes

On March 2, 2016, in Springfield, Missouri, Wesley Vernon Delpert, of Ozark, was sentenced to 46 months in prison and ordered to pay a \$5,000 fine and \$585,733 in restitution to the IRS. Co-defendant Alton Louis Vaughn Sr., of Greene County, was sentenced to 42 months in prison and ordered to pay \$585,733 in restitution to the IRS and \$3,595 in restitution to a victim. Delpert was the owner of Abundant Health & Wellness. Between January 1, 2004 and December 31, 2013, Delpert received approximately \$4.7 million in gross receipts that he did not report to the IRS or pay taxes on. Delpert submitted documents to the IRS consisting of frivolous arguments in order to impede and delay an IRS examination. He also attempted to place his funds and assets beyond the reach of IRS collection efforts. Delpert and Vaughn also attempted to impede a federal grand jury in its investigation of Delpert by refusing to comply with federal grand jury subpoenas for tax and business records, by sending correspondence to the U.S. Attorney's Office falsely stating that an IRS Revenue Officer had personally seized and collected all of Delpert's original income documents for the years 2003 through 2009 and by Vaughn falsely testifying before the grand jury. Both also attempted to impede a federal grand jury in its investigation by counseling an employee to refuse to testify.

Former Insurance Agent Sentenced for Investment Fraud Scheme and Tax Fraud

On February 22, 2016, in Columbia, South Carolina, Timothy David Mays, of Walterboro, was sentenced to 42 months in prison, three years of supervised release and ordered to pay restitution of \$583,087 to his victims and \$127,051 to the IRS. From late 2008 through 2011, Mays was an insurance agent licensed to sell life insur-

ance and accident/health insurance, who also touted himself as a “licensed” investor and CEO of Life Trust Financial, LLC, and Mays Group Financial investment companies. Mays received approximately \$1,089,000 from investors under false pretenses. Mays invested only \$200,000 of the funds and returned approximately \$203,000 to clients who asked for their money back. He spent approximately \$583,000 on a variety of personal and business expenditures. Approximately \$104,000 of funds he had left in his accounts were turned over to federal authorities during the investigation. In addition, Mays filed a false U.S. Individual Income Tax Return in February 2007 for calendar year 2006 that understated his total income, and he willfully failed to file U.S. Individual Income Tax Returns for calendar years 2007, 2008, and 2009.

EMPLOYMENT TAX FRAUD

Employment tax schemes can take a variety of forms. Some of the more prevalent methods include employee leasing, paying employees in cash, filing false payroll tax returns, failing to file payroll tax returns or “pyramiding.” Pyramiding is when a business withholds taxes from its employees, but intentionally fails to remit

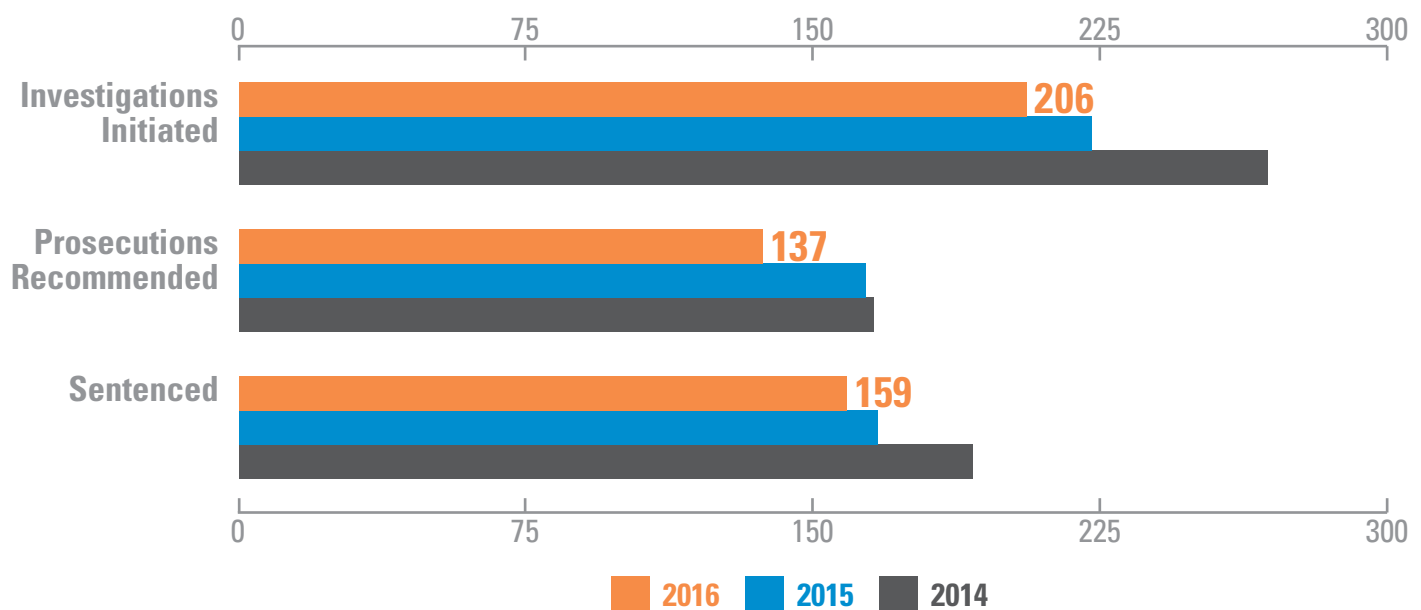
payment to the IRS. After a liability accrues, the individual starts a new business and begins to accrue a new liability. Employment taxes include federal income tax withholding, Social Security taxes, and federal unemployment taxes. Some business owners withhold taxes from their employees’ paychecks, but intentionally fail to remit those taxes to the IRS.

Examples of employment tax fraud investigations adjudicated in FY 2016 include:

Operator of Third Party Payroll Company Sentenced For Embezzling from Client Companies

On December 15, 2015, in Charlotte, North Carolina, James William Staz was sentenced to 135 months in prison, two years of supervised release and ordered to pay over \$17 million in restitution. Staz pleaded guilty in March 2015, to wire fraud, transactional money laundering and tax evasion. Staz operated a third-party payroll company, “Employee Services.Net, Inc.” (ESN) that provided services to client companies. Staz was ESN’s vice president and later the company’s president. ESN had access to the clients companies’ bank accounts to cover expenses associated with the services

NON-FILER INVESTIGATIONS



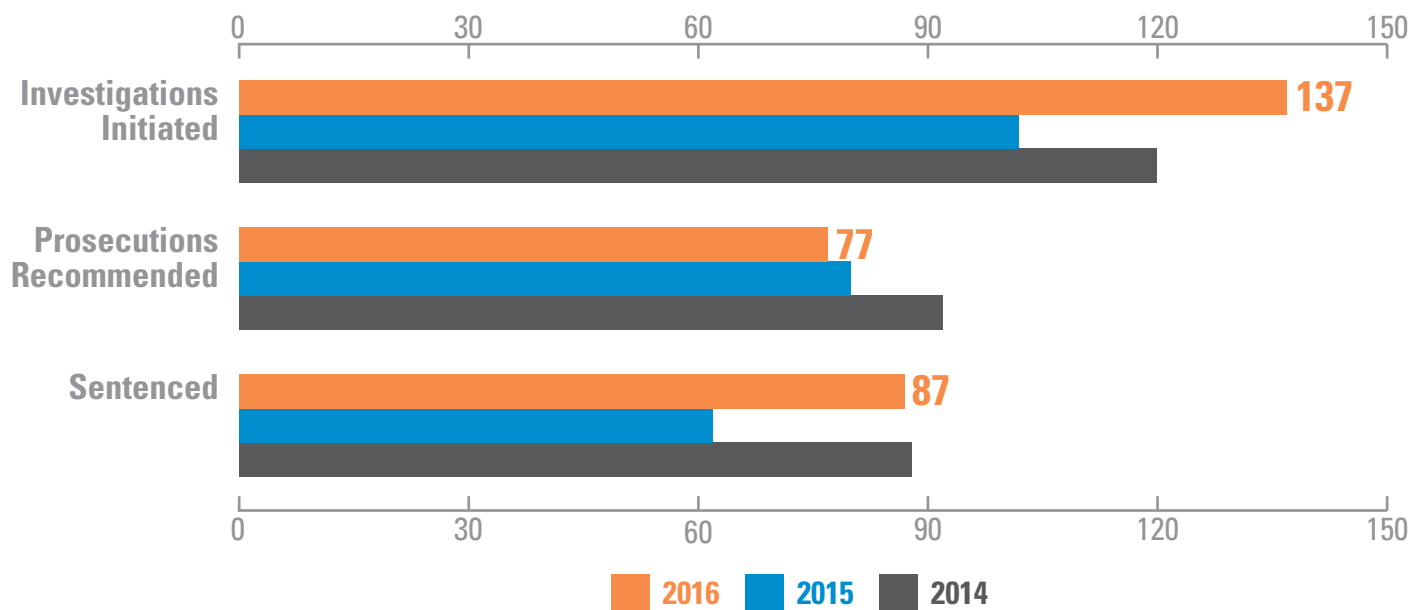
it provided. From 2008 to March 2014, Staz defrauded at least 113 ESN clients of almost \$17 million dollars intended for payroll and employment tax payments and used it to support his personal lifestyle. Staz stole at least \$3.7 million in client funds and used the money to pay for alcohol, strip club entertainment, jewelry, a Mercedes Benz and a luxury home. To conceal his embezzlement, Staz made false entries into ESN's accounting system to make it appear as though the funds were used for legitimate client expenses.

Colorado Man Sentenced for Failure to Pay Millions in Employment Taxes

On March 24, 2016, in Denver, Colorado, Lucilious J. Ward was sentenced to 26 months in prison, three years of supervised release and ordered to pay \$5,955,231 in restitution to the IRS. Ward pleaded guilty on January 3, 2014, to failure to account for and pay over the employment taxes withheld from his employees' paychecks and making a false claim against the United States. Since at least 2004, Ward owned and operated Global Access, which provided public and private transportation services. From January 2005 through the second quarter in 2011, Ward withheld employment taxes from Global Access's employees' paychecks. Ward know-

ingly and willfully failed to file with the IRS Forms 941 (employment tax forms) as required by law, failed to pay to the IRS the employment taxes that Ward had withheld from their paychecks and failed to pay the required employer's matching portion of FICA. Rather than paying the IRS the employment taxes owed by Global Access, Ward spent it on a variety of expenses. Additionally, in 2010, Ward filed with the IRS an amended personal tax return (Form 1040X) for the tax year 2007 which falsely claimed that \$76,479 of federal income tax withholdings had been withheld from his paychecks by Global Access and paid to the IRS. Ward intentionally filed this false return so that he would be assessed a refund of \$76,479 to which he was not legitimately entitled.

EMPLOYMENT TAX INVESTIGATIONS





ILLEGAL SOURCE TAX CRIMES

The Illegal Source Financial Crimes Program encompasses 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 ill-gotten 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 Special Agents work 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's 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. The United States Attorneys' recognize CI's financial investigative expertise in this complex area.

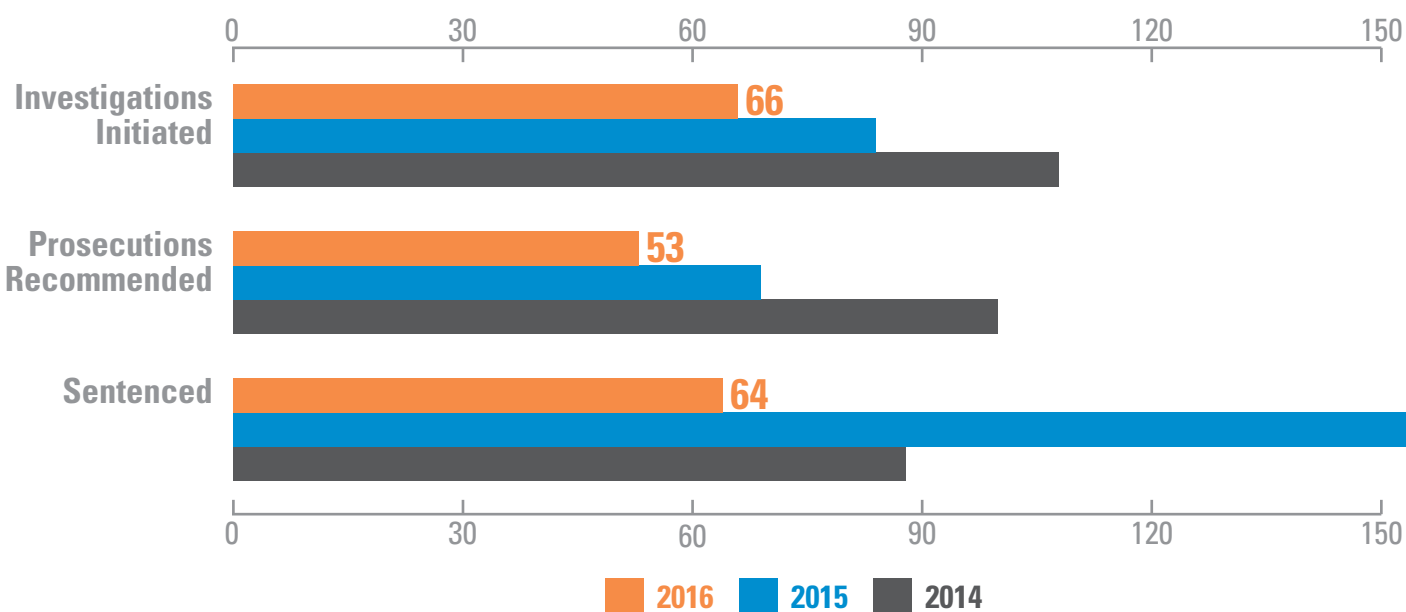
Examples of financial institution fraud investigations adjudicated in FY 2016 include:

Former Florida CEO Sentenced in Scheme to Defraud Investors

On February 22, 2016, in Key West, Florida, Fred Davis Clark Jr., aka Dave Clark, the former Cay Clubs Chief Executive Officer, was sentenced to 480 months in prison for his participation in a \$300 million dollar vacation rental fraud scheme. In addition, forfeiture money judgments were entered against Clark that includes \$303,800,000 for the bank fraud and \$3,300,000 for the SEC obstruction. There is also court-ordered

forfeiture of specific overseas assets of approximately \$2.6 million. Clark was convicted on December 11, 2015, of three counts of bank fraud and three counts of making a false statement to a financial institution. The scheme involved sales at Cay Clubs Resorts and Marinas (Cay Clubs), to approximately 1,400 investors. Clark also was convicted of obstruction of the U.S. Securities and Exchange Commission (SEC), in connection with the SEC's efforts to investigate his conduct related to Cay Clubs. From 2004 through 2008, Cay Clubs marketed vacation rental units for locations in Florida, Las Vegas and the Caribbean, to investors throughout the United States. Despite its promises, Cay Clubs never developed the properties but operated as a Ponzi scheme, using proceeds from sales to new investors to pay overdue obligations to earlier investors. In order to meet Cay Clubs' financial obligations and obtain funds for himself, Clark engaged in a series of fraudulent mortgage transactions totaling more than \$20 million worth of bank loans. Clark also used proceeds from the investor sales to purchase a gold mine, a coal reclamation project and a rum distillery for his personal benefit. Clark's co-conspirators Barry J. Graham, and Ricky Lynn Stokes, both of Ft. Myers, Florida, were both previously sentenced to 60 months in prison and ordered to pay restitution of \$163,530,377 to numerous individual and financial institution victims.

FINANCIAL INSTITUTION FRAUD INVESTIGATIONS



Ohio Man Sentenced for Credit Union Fraud

On December 22, 2015, in Cleveland, Ohio, Gezim Selgjekaj, of Avon Lake, was sentenced to 300 months in prison and was ordered to pay \$16 million in restitution. Previously, Selgjekaj was found guilty of one count of conspiracy, 15 counts of financial institution fraud, five counts of bribery and six counts of money laundering. Selgjekaj fraudulently obtained more than \$10.6 million in loan proceeds from the St. Paul Croatian Federal Credit Union between 2003 and 2010. Selgjekaj obtained the loans by providing more than \$200,000 in bribes to Anthony Raguz, the chief operating officer of the credit union. Selgjekaj is the latest of more than two dozen people convicted of crimes related to the collapse of St. Paul Croatian Federal Credit Union. The credit union was closed and then liquidated in 2010 after sustaining approximately \$170 million in total losses, with approximately \$72.5 million of those losses tied to individual criminal fraud schemes, making it the largest credit union failure in American history. Raguz is currently serving a 14 year prison sentence.

PUBLIC CORRUPTION

Criminal Investigation continues the pursuit of both elected and appointed individuals who violate the public's trust. These individuals are 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 2016 include:

Former County Chief Deputy Auditor Sentenced for Embezzling Government Funds, Tax Fraud and Wire Fraud

On March 2, 2016, in South Bend, Indiana, Mary Ray, of LaPorte, was sentenced to 84 months in prison and was ordered to forfeit \$137,249 and pay \$801,315 in restitution. On Sept. 17, 2015, Ray was convicted of two counts of theft of government monies, two counts of making false statements on a tax return and seven counts of wire fraud. According to court documents, from September 2011 through December 2012, while she served as chief deputy auditor for LaPorte County, Ray embezzled more than \$150,000 from county coffers and underreported her income on her U.S. Individual Tax Returns by failing to report the embezzled funds. Ray also defrauded her father-in-law, an 86-year-old disabled veteran, out of more than \$600,000 in funds that he entrusted her to oversee. Ray used the illegally-obtained funds to gamble at casinos.

Former New York City Police Department Detective Sentenced

On January 21, 2016, in Central Islip, New York, Rafael Astacio, of Copiague, was sentenced to 72 months in prison, three years of supervised release and ordered to pay a \$200,000 forfeiture money judgment and restitution of \$1.8 million. Previously, Astacio, a former detective with the New York City Police Department, pleaded guilty to conspiracy to commit interstate transportation of stolen property and filing a fraudulent tax return. Between 2010 and 2012, Astacio was a member of a burglary crew that committed approximately three dozen commercial burglaries and ten residential burglaries stealing approximately \$8,000,000 in cash and property. Astacio personally participated in six of the commercial burglaries and five residential burglaries stealing more than \$5.3 million in cash and property. Astacio used his position with the NYPD to locate potential burglary targets' home addresses.

Former State Senator Leland Yee and Three Others Sentenced on Racketeering Conspiracy Charges

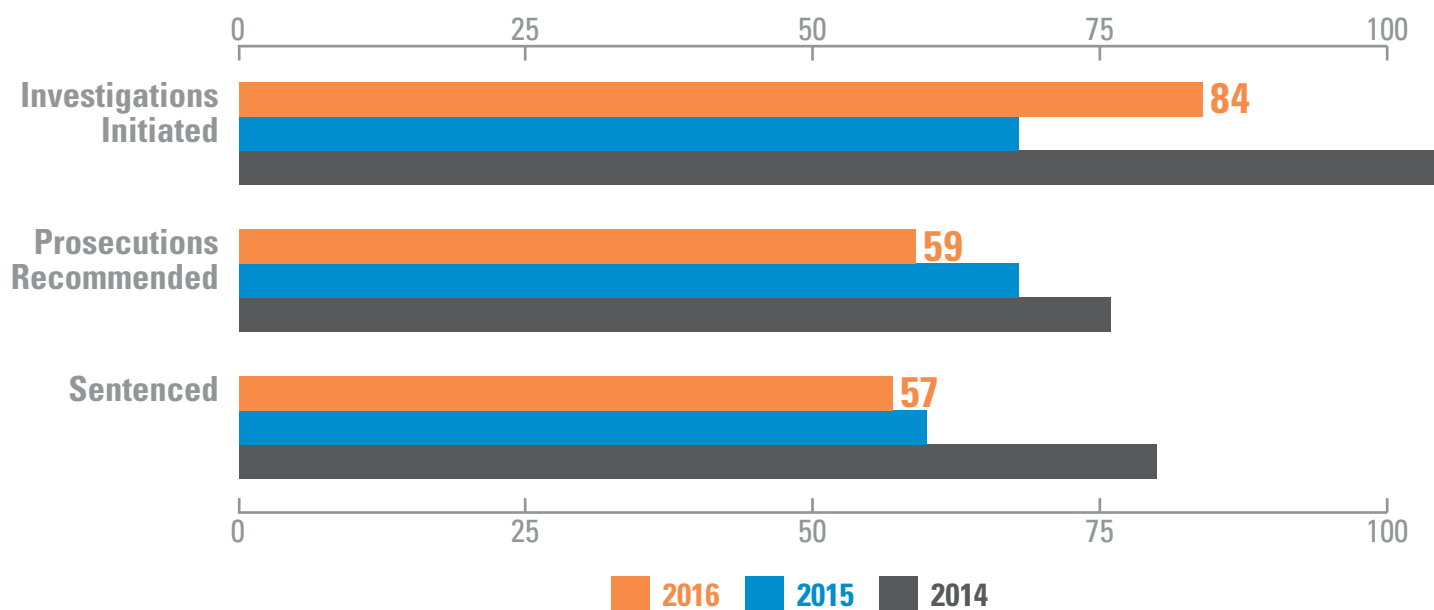
On February 24, 2016, in San Francisco, California, former State Senator Leland Yee was sentenced to 60 months in prison, three years of supervised release, fined \$20,000, and forfeiture of certain property. Co-conspirator, Keith Jackson was also sentenced to 108 months in prison, three years of supervised release, and forfeiture of certain property. On July 1, 2015, Yee and Jackson pleaded guilty to using the Leland Yee for Mayor 2011 campaign and the Leland Yee for Secretary of State 2014 campaign to conduct RICO crimes. According to government filings, the conspiracy involved three different, but related, areas of criminal activity: (1) honest services fraud in which he exchanged official acts for money, (2) a weapons trafficking conspiracy, and (3) money laundering. In November of 2012, Yee devised extortion schemes in which he planned to obtain campaign contributions by leveraging his Senate committee vote on an upcoming decision to dissolve the California State Athletic Commission. Yee requested campaign contributions from individuals interested in keeping the Commission alive. In the second scheme, Yee was prepared to vote for or against pending legislation on workers compensation for professional athletes

playing in California depending on which competing interest gave him the most money. Keith Jackson participated in the RICO conspiracy with Yee. Jackson accepted cash and checks for bribes and committed wire fraud, money laundering and conspiracy to illegally import firearms and ammunition from the Philippines. Brandon Jamelle Jackson and Marlon Sullivan were also sentenced to 54 and 66 months respectively, for their roles in a separate, but related conspiracy.

Connecticut Man Sentenced for Bribing Housing Authority Official

On February 26, 2016, in Hartford, Connecticut, Andrew Ross, of New Haven, was sentenced to 12 months and one day in prison and three years of supervised release. Restitution will be determined at a later date. On Sept. 3, 2015, Ross pleaded guilty to conspiracy to commit bribery in connection with a program receiving federal funds. According to court documents, Ross paid nearly \$350,000 in bribes to Michael Siwek, the former executive director of the West Haven Housing Authority (WHHA) in exchange for government contracts and business. As part of his duties, Siwek had substantial discretion over awarding WHHA business and contracts. Siwek also owned and controlled

PUBLIC CORRUPTION INVESTIGATIONS



Four Star Development Company, LLC (“Four Star”). Between January 2007 and February 2012, Ross, who controlled business entities that received WHHA business and contracts for financial and consulting services, made approximately \$349,500 in corrupt payments to Siwek and Four Star. In total, Siwek received approximately \$1.5 million in bribes from individuals who received business with the WHHA and the entities that the WHHA controlled. On September 4, 2014, Siwek pleaded guilty to related charges.

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 cor-

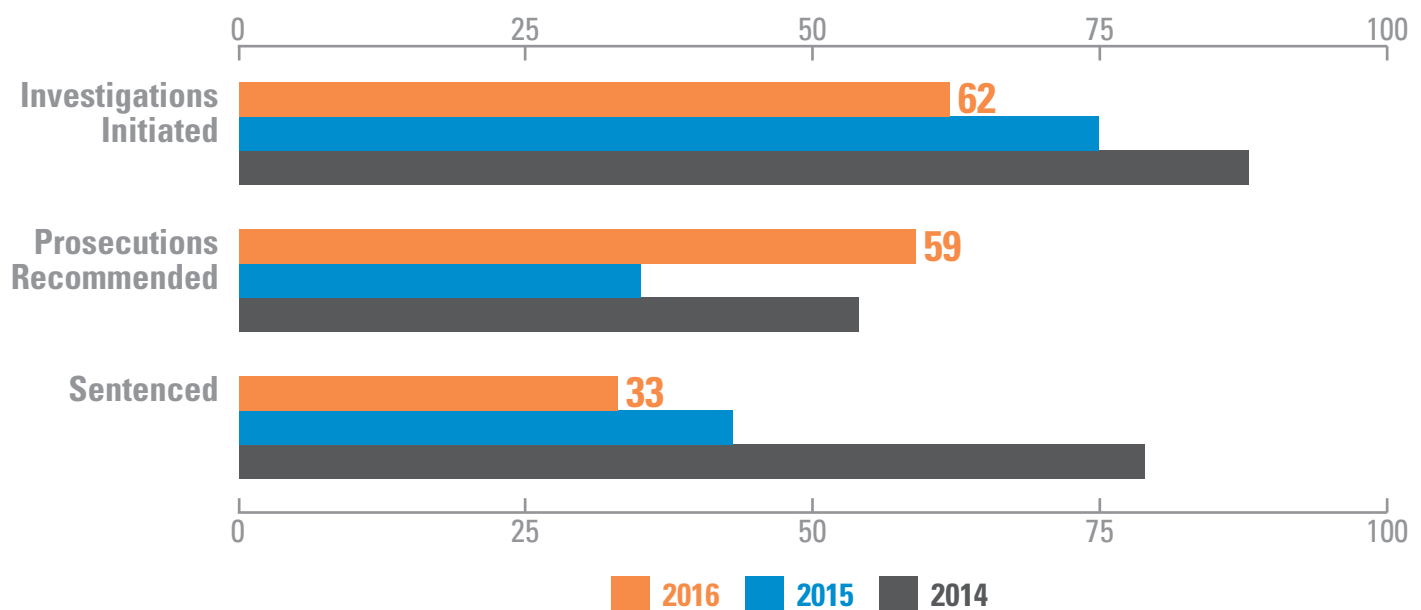
porate fraud investigations are joint efforts involving other federal agencies.

Examples of corporate fraud investigations adjudicated in FY 2016 include:

Former Samsung America Director Sentenced for Embezzling More Than \$1 Million

On June 29, 2016, in Newark, New Jersey, John Y. Lee, a/k/a “Yong Kook Lee,” of West New York, was sentenced to 75 months in prison, three years of supervised release and ordered to pay restitution to Samsung America Inc. of \$1,693,271. Lee previously pleaded guilty to wire fraud and subscribing to false individual income tax returns. According to court documents, Lee was involved in an elaborate scheme to embezzle funds from Samsung America, a Ridgefield Park-based global trading and investment company and American subsidiary of the Korean conglomerate Samsung Corp. In September 2000, Lee created a fictitious entity that he called the Engelhard Supple (sic) Co. to make it appear as though that entity was actually Engelhard Corp., a provider of metal refining services. Lee created numerous false financial documents to make it appear that Samsung Corning Precision Glass Ltd., a joint venture

CORPORATE FRAUD INVESTIGATIONS



involving the Samsung Corporation and Corning Inc., had ordered services from Engelhard when in fact, no real services had been ordered or provided. Lee induced Samsung America to wire money directly into a bank account Lee controlled. The loss to the company was between \$1 million and \$2.5 million. Lee also signed and filed a 2006 Individual Income Tax Return that failed to include \$339,138 he had embezzled from Samsung America in 2006.

Former Maryland Businessman Sentenced for \$7 Million Bond Scheme and Tax Fraud

On November 10, 2015, in Baltimore, Maryland, Wilfred T. Azar III, formerly of Queenstown, was sentenced to 63 months in prison and three years of supervised release for securities fraud and filing a false tax return. In addition, Azar was ordered to pay restitution of \$7,219,362 to victim investors and \$469,936 to the IRS. According to court documents, in 1999, Azar became president and majority owner of Empire Corporation and exercised complete control over the operations of Empire. From January 2006 to April 2010, Azar caused Empire Corporation to sell bonds to 64 individual investors for more than \$7 million. Azar diverted millions of dollars of proceeds from the bond sales to his own bank account and the bank accounts of other companies that he controlled. Azar also diverted more than \$1.07 million in Empire funds as “loans” to other unrelated businesses he controlled, which were never repaid and another \$3.31 million to make lulling payments. Finally, Azar failed to report approximately \$1,959,250 of embezzled income on his 2009 tax return.

CEO of “Green” Cleaning Product Company Sentenced for Defrauding Investors

On January 21, 2016, in Sacramento, California, Brent Lee Newbold, of Granite Bay, was sentenced to 51 months in prison and ordered to pay more than \$2.9 million in restitution. On September 3, 2015, Newbold

pleaded guilty to a scheme to defraud investors that ran from October 2007 to January 2010. Newbold was the chief executive officer of Holy Cow, a business that produced a “green” cleaning product. According to court documents, Newbold made a variety of misrepresentations to investors about the financial health of the company, including the company’s debt levels and how invested funds would be used. Between July 2008 and January 2010, Newbold solicited 13 individual investors and falsely claimed that he was authorized to act on behalf of Holy Cow; that he owned Holy Cow; that he owned the majority of Holy Cow stock; and that Holy Cow was financially sound, stable and profitable. In some cases, Newbold provided his individual investors with false Holy Cow stock certificates, false Holy Cow purchase order reports, and corporate promissory notes. In fact, Holy Cow bore a significant amount of debt, and Newbold continued to take additional debt related to Holy Cow. Newbold used investor funds for nonbusiness purposes, diverting it to himself and his wife, paying his mortgage, and paying previous investors. By December 2009, Spence Enterprises put Holy Cow into bankruptcy as a result of the unauthorized and undisclosed debt. The loss amount was over \$2.9 million.

Former Executive of Nuclear Power Company Sentenced

On January 7, 2016, in Boise, Idaho, Jennifer R. Ransom, of Meridian, was sentenced to 30 months in prison and three years of supervised release, the first six months in home confinement. Ransom was also ordered to forfeit \$580,780 and pay \$116,138 in restitution to victim-investors. Ransom pleaded guilty to securities fraud on April 21, 2015. According to the plea agreement, Ransom was the Senior Vice President of Administration of Alternate Energy Holdings, Inc. (“AEHI”). Ransom, along with co-defendant, Donald L. Gillispie, the former President and CEO of AEHI, and other “nominees,” participated in a scheme to defraud or deceive AEHI investors. The scheme involved Gillispie and Ransom recruiting nominees to

make purchases of AEHI stock on the market for the express purpose of artificially inflating the market price of AEHI stock. Ransom received shares of AEHI stock as executive compensation. From June 2010 through September 2010, a period during which attempts were being made to artificially inflate the market price of AEHI stock, Ransom sold approximately 1,000,000 of her shares and received approximately \$675,326 in return, of which approximately \$580,780 was the proceeds of securities fraud.

GAMING

CI 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. Criminal Investigation'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 2016 include:

Video Poker Business Owner Sentenced

On February 24, 2016, in Columbia, South Carolina, Larry Flynn, aka L.W., of Richland County, was sentenced to 15 months in prison; three years supervised

release and ordered to pay \$251,000 in restitution. Flynn ran an illegal video poker business called Magic Minutes from 2011 through 2013. Magic Minutes placed video poker machines throughout the state, generally in gas stations, liquor stores and party shops. For a fee, the machines allowed gamblers to play games of chance – with the ability to cash out their winnings with the owners of the stores where the machines were housed. Magic Minutes was a profitable illegal gambling business, in two years making well over a million dollars. However, during this same time, the defendant paid no taxes and had members of his family on Medicaid.

Pennsylvania Bookmaker Gets Prison Term for Tax Charges

On October 2, 2015, in Philadelphia, Pennsylvania, Jacob Corropolese, Sr., of Norristown, was sentenced to 12 months and a day in prison and one year of supervised release for tax charges in connection with his sports bookmaking operation. Corropolese was also ordered to pay \$238,000 in taxes, interest, and penalties to the IRS. On May 6, 2015, Corropolese pleaded guilty to two counts of filing false tax returns. According to court documents, Corropolese received more than \$500,000 in proceeds from bettors when he ran a sports bookmaking operation but did not report any of the income on his federal income tax returns for 2010 and 2011. As a result he substantially underreported his income resulting in a total tax loss of \$120,002.

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 2016 include:

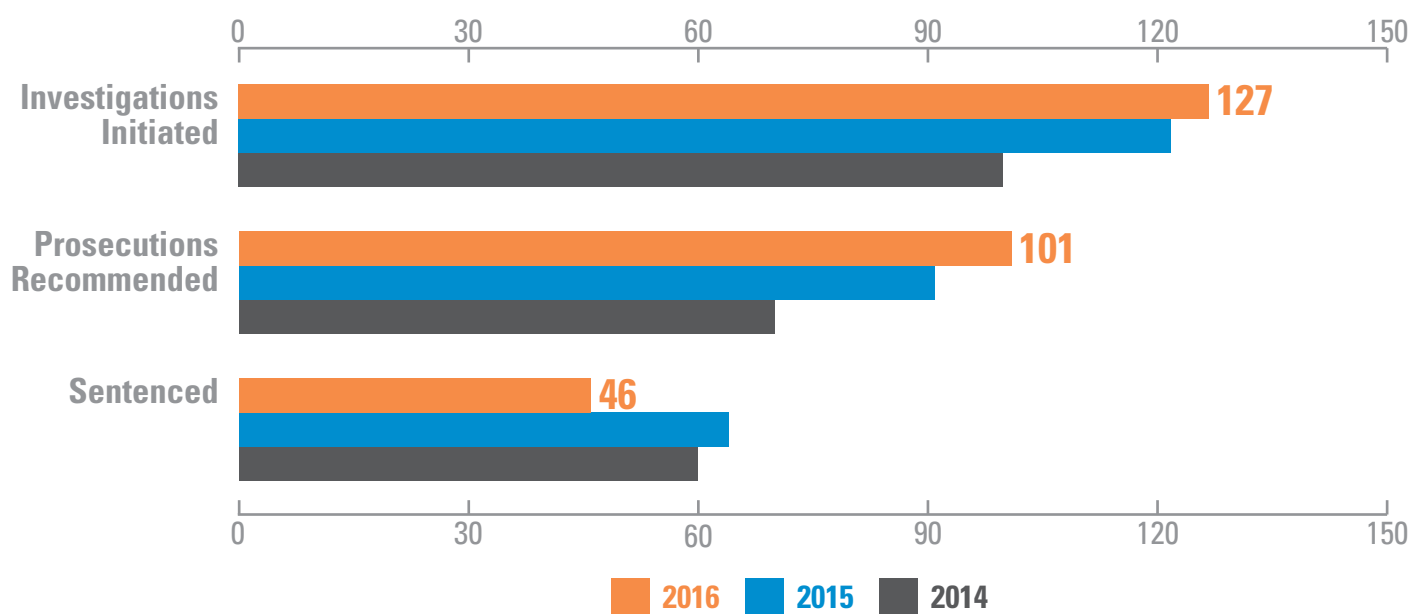
North Carolina Behavioral Health Businessman Sentenced for Medicaid Fraud

On March 22, 2016, in Wilmington, North Carolina, Terry Lamont Speller, of Winterville, was sentenced to 240 months in prison, three years of supervised release and ordered to pay restitution of \$5,962,189 to the victims of the offense, which included the North Carolina Medicaid program and a physician. Between 2010 and 2015, Speller used Carter Behavior Health Services, a Medicaid provider he operated, and other providers to fraudulently bill Medicaid millions of dollars in fraudulent claims. Speller and others fraudulently caused Medicare to pay out some \$4.9 million in funds. Speller converted approximately \$1 million of the fraud proceeds into alleged loan payments to a third party however, no documentation supported the loans. The loan proceeds were then transferred back to Speller.

Texas Chiropractor Sentenced for Receiving Millions in Kickbacks and Money Laundering

On June 10, 2016, in Austin, Texas, Garry Wayne Craighead, a chiropractor from Leander, Texas, was sentenced to 168 months in prison, three years of supervised release and ordered to pay \$17,908,170 restitution to the U.S. Department of Labor (DOL); forfeit to the Government property located in Williamson County as well as an aircraft. On December 4, 2015, Craighead pleaded guilty to one count of solicitation and receipt of illegal remunerations in federal health programs and one count of engaging in monetary transactions in property derived from specified unlawful activity. Craighead acknowledged that he operated several medical and rehabilitation clinics that treated injured workers, particularly postal employees, covered by federal worker's compensation program (FECA), in Austin, San Antonio, Killeen, Corpus Christi, Dallas, Fort Worth, and Weslaco. From 2008 through 2015, Craighead solicited and received millions in kickbacks from health care providers, including multiple pharmacies, hospitals, ambulatory surgical centers, and affiliated businesses, in return for referring his FECA patients to those providers for medical items and services, including prescription drugs, surgeries, and other

HEALTHCARE FRAUD INVESTIGATIONS



procedures. The DOL paid millions as a result of the tainted referrals made by Craighead. In addition to the kickbacks, Craighead admitted to laundering the proceeds of his illegal conduct. Craighead was arrested on March 2, 2016 for continuing to receive approximately \$600,000 in kickbacks, dissipating the funds, lying to government investigators, and testing positive for illegal drug use while on bond.

Doctor Sentenced in \$20 Million Health Care Fraud Scheme

On January 6, 2016, in Los Angeles, California, Dr. Kenneth Johnson, of Ladera Heights, was sentenced to 108 months in prison. Johnson is one of three people found guilty in 2014 and one of 16 defendants who have been convicted in relation to the scheme that generated fraudulent billings of more than \$20 million. Johnson fraudulently prescribed expensive anti-psychotic medications and then repeatedly re-billed the government for the drugs. Johnson pre-signed thousands of prescriptions that were later used to fill millions of dollars in fraudulent prescriptions for anti-psychotic drugs. Using prescriptions that were pre-signed by Johnson, employees of Manor Medical generated thousands of prescriptions for identify theft victims – such as elderly Vietnamese beneficiaries of Medicare and Medi-Cal, military veterans who were recruited from drug rehab programs, and others. Members of the conspiracy created or doctored patient files to make it falsely appear the drugs were necessary and the patients were legitimately treated. After the prescriptions were filled at pharmacies and paid for by Medicare and Medi-Cal, they were sold on the black market and redistributed to pharmacies, where the drugs would be subject to new claims made to Medicare and Medi-Cal as though they were new bottles of drugs.

Owner of Home Health Care Agency Sentenced for Role in \$7 Million Scheme

On March 22, 2016, in Newark, New Jersey, Irina Krutoyarsky, of Springfield, was sentenced to 60 months in prison and three years of supervised release. Krutoyarsky was also ordered to pay \$7 million in restitution and a forfeiture order was entered for \$7 million. Krutoyarsky and her conspirators defrauded Medicaid by submitting fraudulent bills for services and false documentation regarding the certifications of home health aides. Krutoyarsky also directed certain home health aides to establish checking accounts at a bank near HHCH's office and then took control of their checkbooks. After Medicaid paid the claims and transferred the funds into HHCH accounts, Krutoyarsky then transferred portions of the money into the aides' accounts and used the money for her and her family's use and benefit. Krutoyarsky paid two bribes totaling approximately \$25,000 to an employee of the N.J. Department of Labor (NJDOLE) to obstruct and unlawfully influence NJDOLE investigations. Finally, between 2007 and 2011, Krutoyarsky cheated the IRS out of \$907,150 in taxes.

Michigan Physician Sentenced for Role in \$5.7 Million Medicare Fraud Scheme

On March 23, 2016, in Detroit, Michigan, Laran Lerner, of Northville, was sentenced to 45 months in prison and ordered to pay \$2,789,409 in restitution. Lerner lured patients into his clinic with prescriptions for medically unnecessary controlled substances and then caused Medicare to be billed for a variety of unnecessary prescriptions, diagnostic tests and office visits. Medicare was billed \$5,748,237 as a result of Lerner's unnecessary prescriptions, office visits and diagnostic testing. Lerner also structured cash deposits he received as a result of his scheme in \$5,000 increments on consecutive days at various bank locations in the Detroit

area to avoid the requirement that domestic banks file a currency transaction report for all currency transactions over \$10,000.

BANKRUPTCY FRAUD

According to the United States Bankruptcy Court, there were 860,182 bankruptcy filings in FY 2015. 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 2016 include:

Developer Sentenced for Investment and Bankruptcy Fraud

On January 27, 2016, in Phoenix, Arizona, John Keith Hoover, of Mohave Valley, was sentenced to 120 months in prison. His wife, Deborah B. Hoover, was convicted of conspiracy to commit bankruptcy fraud and was sentenced to 12 months of home confinement and five years of supervised release. John Hoover was a homebuilder and created nearly two dozen companies that he used to solicit money from Arizona and California investors for bogus real-estate developments beginning in 1997. Several investors were widows who gave Hoover control of the bulk of their estates based on his friendship with their families and because of the

trust he developed as an attorney. Hoover told investors their money would go to specific real-estate developments and encouraged investors to liquidate retirement accounts, life-insurance policies, mutual funds and securities, and Social Security death benefits to fund their investments with him. Hoover then used investor money to pay his living expenses. When Hoover ran out of money, he refinanced properties with false representations about salary, assets, liabilities, employment, and sources of down payments. Then, he and his wife hid their assets and filed for bankruptcy.

North Carolina Man Sentenced for Bankruptcy and Tax Fraud

On March 16, 2016, in Greensboro, North Carolina, Faiger Blackwell, of Burlington, was sentenced to 24 months in prison, three years of supervised release and ordered to pay \$404,619 in restitution. Blackwell owned several businesses, including a funeral home. In 2007, Blackwell filed for bankruptcy for himself and his funeral home after accumulating more than \$300,000 in outstanding federal taxes and more than \$1 million in other debts. During the bankruptcy proceedings, Blackwell concealed rental income from the bankruptcy court and used the money to pay for business and personal expenses. In July 2009, after the IRS levied one of Blackwell's business bank accounts, he set up another company created solely for banking purposes and corresponding bank accounts in order to divert funds and circumvent the levy. Blackwell concealed these funds from the bankruptcy court, the IRS and other creditors and used them to pay for business and personal expenses.



INTERNATIONAL OPERATIONS

International crimes require international solutions. The immense growth in the utilization of global financial markets presents new challenges to tax administration worldwide. 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.

INTERNATIONAL OPERATIONS

New patterns and trends emerging in complex international tax avoidance schemes and cross-border transactions have heightened the IRS' concern about tax compliance. Individuals may attempt to use foreign accounts, trusts, and other entities to commit criminal violations of U.S. tax laws as well as narcotics, money laundering and BSA violations. Independent pursuit of international financial crimes has revealed a more global interdependent approach is necessary to combat crimes that have no borders.

CI 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 CI with the ability to develop international case leads and to support domestic investigations with an international nexus. CI attachés are especially focused on promoters from international banking institutions who facilitate United States taxpayers in evading their United States tax requirements. Additionally, 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.

The growth of the CI's footprint internationally has also increased the opportunities for CI to educate foreign governments and agencies on crime detection, investigative techniques, emerging trends, and best practices. CI plays a significant role in the International Visitor's Program (IVP) that is administered by IRS Large Business & International (LB&I) division. In FY2016, CI hosted and presented to various international visitors from over thirty (30) countries.

Since the means to evade taxes and commit fraud is not limited by sovereign borders, CI has partnered with the Department of Justice - Tax Division to aggressively pursue those who attempt to evade the law by hiding their assets outside of the United States. CI

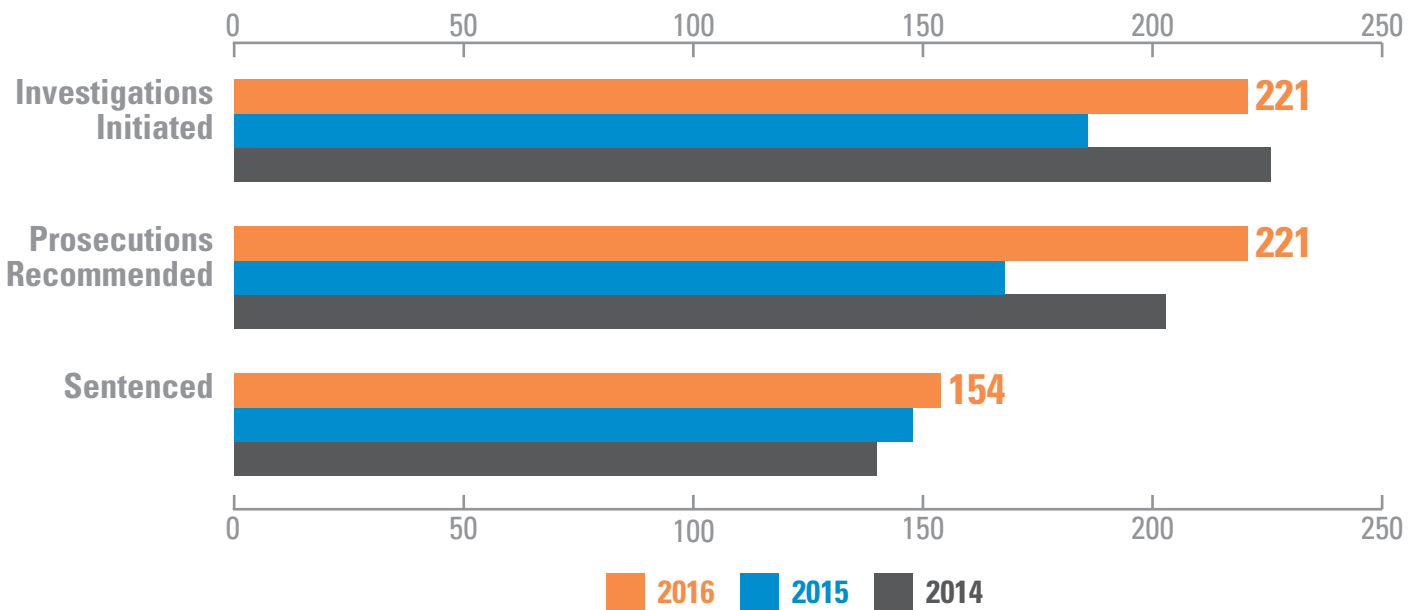
special agents were detailed to the Swiss Bank Program and assisted the Tax Division with the mitigation phase of the program. In January 2016, the final non-prosecution agreement under Category 2 of the Swiss Bank Program was signed bringing the total banks with executed agreements to eighty (80). These agreements have resulted in more than \$1.36 billion in penalties being imposed on the banks. The primary focus of the program has shifted to the development of investigative leads involving taxpayers that have a high probability of committing criminal tax violations. Since then, numerous investigative leads have been referred to CI field offices and LB&I division.

Examples of international investigations adjudicated in FY 2016 include:

Two Cayman Island Financial Institutions Plead Guilty to Conspiring to Hide More Than \$130 Million

On March 9, 2016, in Manhattan, New York, Cayman National Securities Ltd. (CNS) and Cayman National Trust Co. Ltd. (CNT), two Cayman Island affiliates of Cayman National Corporation, pleaded guilty to conspiring with many of their U.S. taxpayer-clients to hide more than \$130 million in offshore accounts from the IRS and to evade U.S. taxes on the income earned in those accounts. CNS and CNT will pay a total of \$6 million to the U.S. and provide the account files of non-compliant U.S. taxpayers who maintained accounts at CNS and CNT. According to court documents, from at least 2001 through 2011, CNS and CNT assisted certain U.S. taxpayers in evading their U.S. tax obligations to the IRS and otherwise hiding accounts held at CNS and CNT from the IRS. CNT set up sham trusts and shell companies for U.S. taxpayer-clients and permitted these clients to trade in U.S. securities without requiring them to submit Form W-9s as required. CNS and CNT agreed to maintain these structures for U.S. taxpayer-clients after many of them expressed concern that their accounts would be detected by the IRS. In 2009, CNS and CNT had approximately \$137 million in assets under management relating to undeclared

INTERNATIONAL OPERATIONS INVESTIGATIONS



accounts held by U.S. taxpayer-clients. From 2001 through 2011, CNS and CNT earned more than \$3.4 million in gross revenues from the undeclared U.S. taxpayer accounts that they maintained.

Liberty Reserve Founders Sentenced for Laundering Hundreds of Millions of Dollars

On May 13, 2016, in Manhattan, New York, Vladimir Kats was sentenced to 120 months in prison and three years of supervised release. Kats previously pleaded guilty to conspiracy to commit money laundering, two counts of conspiracy to operate an unlicensed money transmitting business, receipt of child pornography and marriage fraud. On May 6, 2016, Arthur Budovsky was sentenced to 240 months in prison and ordered to pay a \$500,000 fine. Budovsky previously pleaded guilty to conspiring to commit money laundering. According to court documents, Kats and Budovsky ran a massive money laundering enterprise through their company Liberty Reserve S.A. (“Liberty Reserve”). Liberty Reserve billed itself as the Internet’s “largest payment processor and money transfer system” and allowed

people all over the world to send and receive payments using virtual currency. Kats and Budovsky directed and supervised Liberty Reserve’s operations, finances, and business strategy and were aware that digital currencies were used by other online criminals. Liberty Reserve grew into a financial hub for cybercriminals around the world, trafficking the criminal proceeds of Ponzi schemes, credit card trafficking, stolen identity information and computer hacking. By May 2013, when the government shut it down, Liberty Reserve had more than 5.5 million user accounts worldwide and had processed more than 78 million financial transactions with a combined value of more than \$8 billion. United States users accounted for the largest segment of Liberty Reserve’s total transactional volume – between \$1 billion and \$1.8 billion – and the largest number of user accounts – over 600,000. Co-defendants Mark Marmilev and Maxim Chukharev were sentenced to 60 months and 36 months in prison, respectively. Co-defendant Azzeddine El Amine pleaded guilty and is scheduled to be sentenced. Charges remain pending against Liberty Reserve and two individual defendants who are fugitives.



CRIMINAL INVESTIGATION

NARCOTICS & COUNTERTERRORISM

As part of IO, the Narcotics and Counterterrorism section provides policy guidance and operational coordination support to the field for the investigation of domestic and international narcotics traffickers and related money laundering organizations and investigations of individuals and organizations believed to be involved in, or supporting, terrorist activities.

U.S. DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
SPECIAL AGENT

NARCOTICS

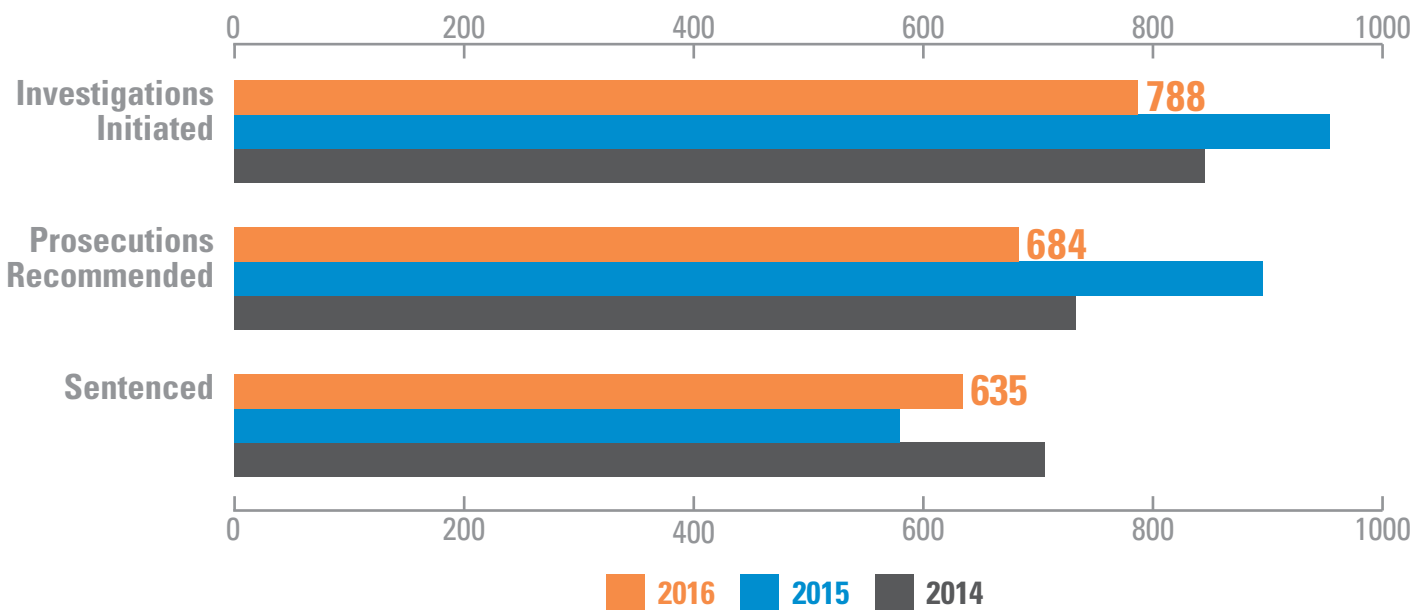
Criminal Investigation’s Narcotics and Counterterrorism Program support the goals of the President’s Strategy to Combat Transnational Organized Crime (TOC), the U.S. National Drug Control Strategy, the National Money Laundering Strategy, and the U.S. Government’s National Counterterrorism Strategy. Criminal Investigation contributes to the strategies by seeking to reduce or eliminate the profits and financial gains of individuals, entities, and Transnational Criminal Organizations involved in the financing of terrorism, narcotics trafficking, and money laundering. Criminal Investigation special agents expertise in “following the money” is vital to fulfilling the goals of U.S. government narcotics and counterterrorism strategies. Criminal Investigation special agents utilize their unique financial investigative expertise to trace the profits from an illegal activity back to an individual or criminal organization with the intent to dismantle, disrupt, and prosecute the criminal.

Criminal Investigation is an integral partner in combatting the trafficking of narcotics and the financing of terrorism by investigating criminal violations of the Internal Revenue Code, Bank Secrecy Act and Federal Money Laundering statutes. Since its inception in 1982,

CI has participated in the Organized Crime Drug Enforcement Task Force (OCDETF) program by focusing its narcotics efforts almost exclusively on high-priority OCDETF cases where its contributions have the greatest impact. The FY 2016 goal for CI’s Direct Investigative Time (DIT) in narcotics investigations ranged between 11-12.5% of the agency’s total DIT. At fiscal year-end, CI achieved its goal with a final rate of 11.6% of DIT charged to narcotics investigations. In addition, the FY 2016 goal of 90% of all narcotics investigation dedicated to the OCDETF program was reached with a final 92.5%.

Criminal Investigation’s Narcotics Program also 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 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).

NARCOTICS INVESTIGATIONS



Examples of narcotics investigations adjudicated in FY 2016 include:

El Monte Flores Gang Member Sentenced on Multiple Racketeering Charges

On May 19, 2016, in Los Angeles, California, Christian “Bossy” Lafargo, was sentenced to 210 months in prison. Lafargo pleaded guilty to multiple charges, including Racketeer Influenced and Corrupt Organizations (RICO) conspiracy, violent crime in aid of racketeering – attempted murder, violent crime in aid of racketeering – conspiracy to commit murder, and discharging a firearm during and in relation to a crime of violence. According to indictment, Lafargo, a long-time El Monte Flores (“EMF”) gang member, participated in drug distribution, extortion, and crimes of violence on behalf of the enterprise and the most aggravating aspect of defendant’s offense conduct was his violent activity on behalf of the gang. Even during his periods of incarceration, LaFargo continued to participate in criminal activity on behalf of the gang and Mexican Mafia within the walls of the state prison. Five others have been sentenced in this case receiving prison terms ranging from 27 to 130 months in prison. James Gutierrez, a Mexican Mafia member who was a “shotcaller” of the gang also pleaded guilty to conspiring to violate the RICO Act, conspiring to distribute controlled substances, including methamphetamine and heroin, and conspiring to launder money. Gutierrez has also agreed to a sentence of 15 years in prison and will be sentenced later this year.

Largest cocaine supplier to Alaska sentenced to 16 years imprisonment Infiltrated airport security to send over 250 kilograms of cocaine to Alaska from 2010 to 2014

On March 25, 2016, in Anchorage, Alaska, Clarence Anthony Hatton, aka “C-Money,” of Las Vegas, Nevada, was sentenced to 192 months in prison, fined \$40,000 and ordered to forfeit expensive vehicles and

over \$700,000 in drug proceeds. Hatton previously pleaded guilty to conspiring with others to distribute cocaine and launder the proceeds of cocaine trafficking. Hatton, who lived in Las Vegas, would obtain large quantities of cocaine from California, where he was from. He then paid employees at Las Vegas McCarran International Airport to take the cocaine into the employee entrance at the airport so it was not subjected to normal security. The employee would then meet with a traveler to Alaska (or Michigan) in the men’s bathroom in the secure area of the terminal and transfer the cocaine. Over 250 kilograms of cocaine were sent to Alaska in this manner, and over 100 kilograms of cocaine were sent to Michigan using the same scheme. Hatton had been sending cocaine to Alaska for the past 20 years, and had amassed great wealth in doing so.

Drug Trafficker Sentenced for Conspiracy and Money Laundering Convictions

On August 11 2016, in Dallas, Texas, Jose Guerrero, a/k/a “J.D.,” one of the principal defendants charged in a major drug distribution conspiracy that operated in the Dallas–Fort Worth area and elsewhere, was sentenced to 425 months in prison. Guerrero will also forfeit \$20,970 in U.S. currency found by federal agents in his safety deposit box, \$40,276 seized from a bank account, a firearm and a 2007 Hummer H3 vehicle. Guerrero pleaded guilty in September 2015 to one count of conspiracy to possess with intent to distribute and distribute 500 grams or more of methamphetamine and one count of laundering of monetary instruments. According to documents, beginning in November 2012, Guerrero, along with Tony Ruvalcaba, a/k/a “Lil Tony,” Eusebio Martinez Ramirez Jr., a/k/a “Sip,” “Eduardo Ruvalcaba, a/k/a “Lalo,” Kenneth Johnson, a/k/a “KJ,” Noel Escamilla, Octavius Donnel Williams and Kenneth Johnson, a/k/a “KJ,” conspired to possess with intent to distribute 500 grams or more of methamphetamine. Guerrero admitted he was being supplied multi-kilogram amounts of methamphetamine, which he then worked to distribute to various individuals. In addition, Guerrero admitted that on Feb.

22, 2013, he accepted \$13,000 cash from co-defendant Ernest Olivarez, knowing that the money he received was illegal drug proceeds. Guerrero also admitted that, in August 2013, he provided \$17,040 in drug money to an undercover officer so that it could be laundered.

Convicted Drug Trafficker and Money Launderer Sentenced to Prison

On April 7, 2016, in Boston, Massachusetts, Miguel Fernandes, aka Orlando Sanchez, of Brockton and formerly of Los Angeles, California, was sentenced to 144 months in prison, four years of supervised release and ordered to forfeit \$1 million and a 2007 Ferrari. In January 2016, Fernandes pleaded guilty to conspiracy to possess with intent to distribute 500 grams or more of cocaine, possession with intent to distribute 100 kilograms or more of marijuana, and conspiracy to launder monetary instruments. According to court documents, Fernandez, as the organizer and leader, oversaw all aspects of a well-organized conspiracy responsible for the transportation and distribution of cocaine and marijuana from Los Angeles to Boston. Fernandes obtained the drugs from sources in Los Angeles, and utilized various means to ship the drugs to various cities in the greater Boston area. Fernandes and his co-conspirators also laundered the proceeds made from the sale of those drugs. The conspiracy utilized “funnel accounts” controlled by individuals in Los Angeles who allowed deposits for Fernandes to be made to their accounts in Massachusetts and withdrawn in Los Angeles. As many as 40 funnel accounts were utilized, through which Fernandes and his co-conspirators laundered as much as \$5 million in drug sale proceeds. Co-defendants Nelson Teixeira, Michael Alves and Alex Gomes were sentenced to terms ranging from 24 to 30 months in prison.

including but not limited to harnessing every tool at the U.S. Government’s disposal, including intelligence, military, and law enforcement. Criminal Investigation special agent’s expertise in tracking financial records is vital to the goal to disrupt, dismantle, and prosecute individuals, entities and TOC groups that finance terrorism. Criminal Investigation contributes to the strategy’s goal by having its special agents use their financial investigative expertise to identify and investigate terrorism financing schemes.

As the threats to our national security continue to emerge and evolve, CI will continue to vigorously support our nation’s whole of government approach. In FY 2016, CI re-doubled its efforts to support counterterrorism initiatives, updated our counterterrorism strategy, and established a new counterterrorism training program.

Through our participation on the Joint Terrorism Task Forces around our nation, CI has actively been involved in the investigations into the attacks on the homeland by homegrown violent extremists. Criminal Investigation stands ready to continue flowing the money and keeping our nation safe.

While CI’s involvement may not always result in a tax charge, the financial investigative expertise brought by CI special agents to these types of investigations is invaluable. Criminal Investigation has been involved in every recent investigation involving domestic terrorist threats or incidents and continues to support the other federal law enforcement agencies in this way.

COUNTERTERRORISM

The goals of the U.S. Government’s National Counterterrorism Strategy are guided by several key principles,



CRIMINAL INVESTIGATION

MONEY LAUNDERING & BANK SECRECY ACT

In partnership with other law enforcement agencies and the Department of Justice, CI 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.

MONEY LAUNDERING

Criminal Investigation seeks to deprive individuals and organizations of their illegally obtained cash and assets through effective use of the federal forfeiture statutes. In 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.

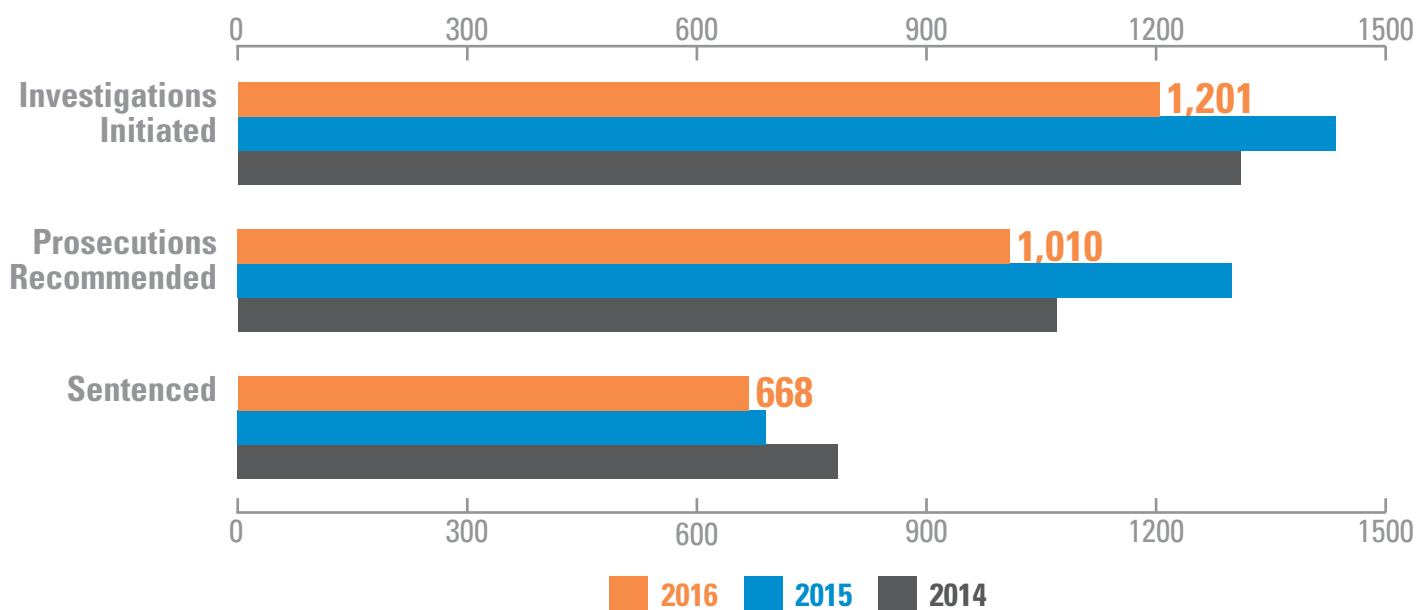
Examples of money laundering investigations adjudicated in FY 2016 include:

Former Prosecutor Sentenced for Massive Wire Fraud and Money Laundering Scheme

On May 23, 2016, in Anchorage, Alaska, Mark Avery was sentenced to 160 months in prison, five years of supervised release, ordered to pay a \$100,000 fine, and pay restitution to the May Smith Trust of \$45,925,737. Avery was convicted on February 29, 2016, of three counts of wire fraud, six counts of money laundering, one count of bank fraud and one count of making false statements to a bank. Avery served as a trustee

and lawyer to the May Smith Trust from early 2002, and received yearly compensation in the amount of \$600,000 in trustee fees for his fiduciary role. Avery engaged in a scheme wherein he pledged assets of the May Smith Trust as collateral to secure a \$52 million loan for himself. The jury's verdicts found that Avery defrauded May Wong Smith and the May Smith Trust by using the \$52 million loan funds for his personal use and to invest in various businesses without any indicia of normal business practices. The money was obtained and spent with no written business plan, no controls over how the money was to be spent, no repayment terms, no promissory note and none of the common safeguards of commercial investments. Avery exhausted the \$52 million he obtained from the trust in six months using the funds on various purchases for himself. Avery was also convicted of bank fraud and making false statements to Wells Fargo Bank in October 2006 in connection with a \$500,000 line of credit in which he failed to list the \$52 million dollar debt when applying for the loan. This is the largest wire fraud and money laundering conviction by amount ever prosecuted in Alaska.

MONEY LAUNDERING INVESTIGATIONS



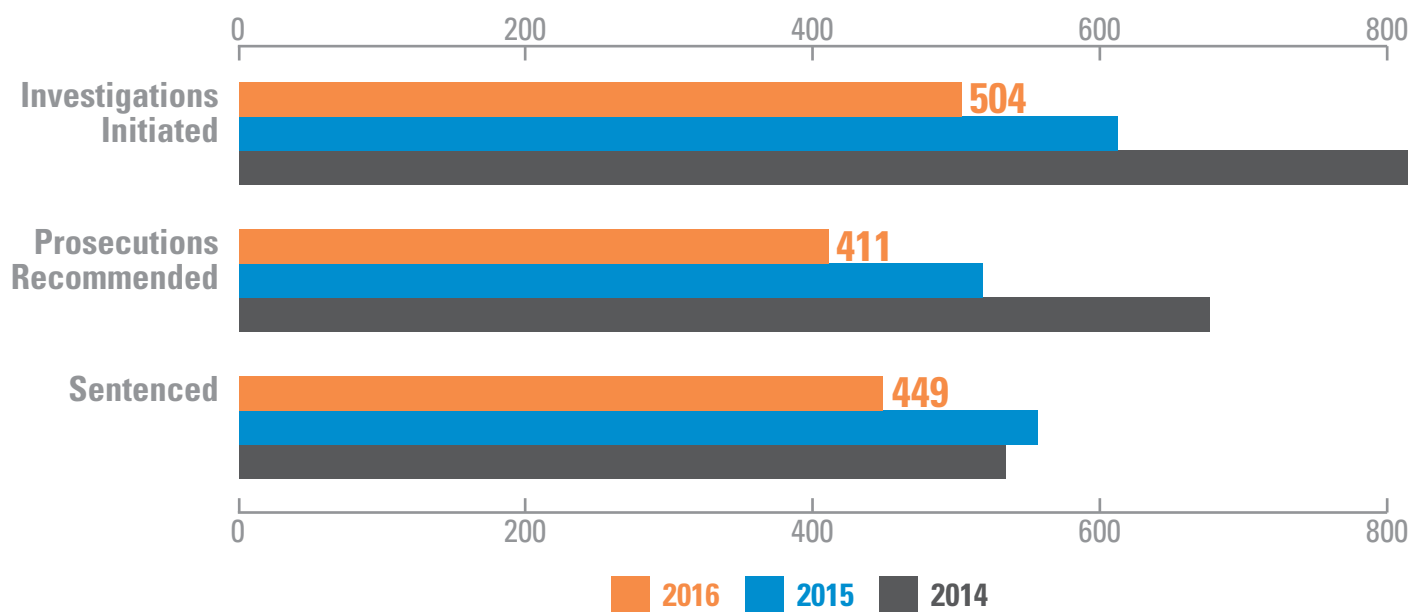
Nevada Man Sentenced for Shipping Illegal Drugs and Money Laundering

On December 29, 2015, in Las Vegas, Nevada, Damien Williams, was sentenced to 151 months in prison, plus two additional consecutive years in prison. Williams pleaded guilty to conspiracy to distribute a controlled substance, conspiracy to launder money, and aggravated identity theft. According to the plea agreement, between May 2012 and October 2013, Williams used the identification documents of “Goldie Cage” to obtain a Nevada identification card, rent an apartment, obtain an automobile loan, and open bank accounts. During the same period, Williams was sending packages of controlled substances, including codeine and marijuana, to people in Tennessee and Texas. Williams received approximately \$856,000 in proceeds, which were deposited by others into the bank accounts that Williams had opened under Cage’s name. Williams would then withdraw the funds and use them in furtherance of additional illegal drug activities. The deposits and withdrawals were structured in amounts of less than \$10,000 in order to avoid federal bank reporting requirements.

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. CI is the largest consumer of BSA data. The CI BSA Program has grown substantially since its inception in early 2000. The mission is a continued focus to scrutinizing BSA data to identify significant illicit financial criminal activity. The current CI BSA program is comprised of joint partnerships in 94 judicial districts led by the respective U.S. Attorney Office and sponsorship and management of 55 Financial Crimes Task Forces (FCTF) throughout the country. The FCTF involves collaboration between CI and state or local law enforcement agencies for the purpose of identifying and investigating specific geographic area illicit financial crimes, including BSA violations, money laundering, narcotics trafficking, terrorist financing and even tax evasion. More than 150 state or local agencies have joined FCTFs across the country and have detailed more than 250 law enforcement of-

BANK SECRECY ACT INVESTIGATIONS



ficers to assist in this effort. CI strengthens the BSA program area by maintaining excellent working relationships with anti-money laundering officials within the financial industry. Additionally, CI maintains excellent relationships with IRS civil functions responsible for BSA Compliance and other external sources. These relationships are developed at the headquarters and field office levels through outreach activities.

In addition, during FY 2016, CI hosted two 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.

In January of 2016 and July of 2016, The Financial Crimes Enforcement Network (FinCEN) issued Geographic Targeting Orders (GTO) that will temporarily require certain U.S. title insurance companies to identify the natural persons behind companies used to pay “all cash” for high-end residential real estate in selected US counties. FinCEN will require certain title insurance companies to identify and report the true “beneficial owner” behind a legal entity involved in certain high-end residential real estate transactions

The GTO is assisting IRS-CI identify possible illicit activity, in particular, a significant portion of covered transactions have indicated possible criminal activity associated with the individuals reported to be the beneficial owners behind shell company purchasers and has provided greater insight on potential assets held by persons of investigative interest. This corroborates Federal Law Enforcements concerns that the transactions covered by the GTOs (i.e., all-cash luxury purchases of residential property by a legal entity) are highly vulnerable to abuse for money laundering and other financial crimes to include tax evasion

VIRTUAL CURRENCY

Since 2013, CI has pursued investigations into the use of virtual currency for illicit purposes. Virtual cur-

rency is any medium of exchange that operates like a fiat currency but does not have legal tender status in any jurisdiction. As with any money, virtual currency can be used in a wide variety of crimes involving tax fraud, money laundering, and other financial crimes. CI has had substantial roles in many virtual currency investigations. Some examples include the Liberty Reserve investigation, the Silk Road investigation and the related corruption investigation into corrupt Drug Enforcement Administration and U.S. Secret Service agents who transferred bitcoins into their personal wallet while investigating Silk Road. Using old-fashioned “follow the money” techniques, CI was able to successfully trace the bitcoin transfers through the “blockchain”.

Criminal Investigation is a member of the IRS’ Virtual Currency Issue Team that studies issues related to virtual currency, including how taxpayers can use virtual currency as a tool to evade the payment of taxes. During the past year, CI has placed an emphasis on educating investigators on cybercrimes and virtual currency trends. All of CI’s 25 field offices attended training on cybercrimes and virtual currencies in fiscal year 2016. CI has partnered with the civil division to create training material that was presented to the Fraud Technical Advisors. This training is available to all of IRS. Criminal Investigation will follow the virtual currency trends and disseminate that information.

In FY 2017, CI will continue to focus on financial crimes that involve virtual currency by collaborating with the Financial Crimes Enforcement Network (FinCEN) and other federal law enforcement agencies to identify the movement of illegal monies utilizing virtual currency. In addition, IRS-CI continued its collaboration efforts with other Business Operating Divisions (BOD) within IRS to include SB/SE and LB&I to promote voluntary compliance and to investigate those individuals who use virtual currency as a tool to evade taxes. CI will work with private companies and organizations to strengthen our public-private partnership and to stay current with the threats posed by the use of virtual currency.

NATIONAL FORENSIC LABORATORY

The IRS National Forensic Laboratory (NFL) has been examining evidence and supporting IRS investigations for more than 40 years. Forensic scientists in a state-of-the-art laboratory help support field investigations by offering forensic testing or technical services in electronics, imaging, latent prints, polygraph, questioned documents, ink chemistry, and trial illustration. Examiners at the NFL report the results of forensic testing or technical services to investigators for use in the investigation of potential criminal violations of the Internal Revenue Code and related financial crimes. Furthermore, when called upon to do so, examiners provide expert testimony in judicial proceedings. Although the NFL is a small branch of CI, its work is critical in ensuring the efficient processing of crucial evidence in our investigations.

Since 2015, the NFL's questioned document, chemistry and latent print forensic disciplines have been accredited to internationally recognized standards by ANSI-ASQ National Accreditation Board (ANAB). The NFL's polygraph program has been accredited for more than 20 years through the National Center for Credibility Assessment (NCCA) Quality Assurance Program (QAP). In FY2016, the NFL received a total of 111 cases which resulted in 171 assignments, or work requests. Trial Illustration worked on a total of 131 trial presentations and special projects.



CRIMINAL INVESTIGATION

TECHNOLOGY OPERATIONS & INVESTIGATIVE SERVICES

Technology continues to play an important role in CI investigations as the sophisticated nature of financial crimes continues to evolve. CI's Technology Operations & Investigative Services (TOIS) division is responsible for managing its IT assets, both enterprise and operational (infrastructure/administrative and investigative).

TOIS ensures that special agents and professional staff are equipped with the most effective technologies to do their job. The TOIS Electronic Crimes section also directly supports CI's financial investigations by forensically acquiring and analyzing large volumes of seized digital evidence. In FY 2016, special agent computer investigative specialist (SA-CISs) saw a 27% annual increase in the amount of data to be forensically analyzed from thousands of systems, at nearly 2,000 terabytes for FY 2016. TOIS is unique as a technology organization in that it includes a mix of information technology specialists and law enforcement agents with specialized technology skills who work closely together to provide mission critical services to CI employees nationwide.

Each year TOIS prioritizes and updates its IT investments to focus on meeting the emerging challenges of cyber enabled financial crimes, the prevalence of digital evidence, and increasing data sharing requirements. In FY 2016, TOIS developed five Program Goals to address these challenges.

In addition to meeting these accomplishments, TOIS continues to focus on ways to leverage cost effective alternatives to balance its limited resources and technological capabilities while maintaining the highest level of service possible to its CI customers.

TOIS FY16 accomplishments included implementing Operation Helping Hand (OHH) nationwide. OHH decreased the core hours a Computer Operations Administrator (COA) would directly respond to field issues and allowed administrative work to be completed. OHH also introduced the Service Request Email (SRE) system allowing the field to request COA support via email with the requests automatically tracked. Lead and Case Analytics successfully deployed two new field agent workflows. Over 2000+ special agents received training. Electronic Crimes developed and delivered greater Internet investigation capabilities and a training curriculum to educate special agents on cyercrimes. TOIS delivered the FY16 Release Plan illustrating all TOIS projects and dependencies.



APPENDIX A

Appendix A includes the investigation data from the statistical graphics in the annual report as well as extended information regarding prison sentencing and rates.

FY 2016 Business Results

	2016	2015	2014	2013
Investigations Initiated	3395	3853	4297	5314
Prosecution Recommendations	2744	3289	3478	4364
Informations/Indictments	2761	3208	3272	3865
Sentenced	2699	3092	3268	2812
Incarceration Rate	79.9	80.8%	79.6%	80.1%
Average Months to Serve	41	40	42	44

Abusive Return Preparer Program

	2016	2015	2014	2013
Investigations Initiated	252	266	305	309
Prosecution Recommendations	174	238	261	281
Informations/Indictments	204	224	230	233
Sentenced	202	204	183	186
Incarceration Rate	72.8%	80.4%	86.3%	78.0%
Average Months to Serve	22	27	28	27

Abusive Tax Scheme

	2016	2015	2014	2013
Investigations Initiated	56	68	79	119
Prosecution Recommendations	35	58	85	88
Informations/Indictments	35	51	72	80
Sentenced	47	77	64	64
Incarceration Rate	76.6%	67.5%	81.3%	68.8%
Average Months to Serve	25	21	24	31

Bank Secrecy Act (BSA)

	2016	2015	2014	2013
Investigations Initiated	504	613	809	922
Prosecution Recommendations	411	519	677	771
Informations/Indictments	399	533	608	693
Sentenced	449	557	535	453
Incarceration Rate	74.8%	72.4%	74.8%	70.6%
Average Months to Serve	36	31	35	36

Corporate Fraud

	2016	2015	2014	2013
Investigations Initiated	62	75	88	60
Prosecution Recommendations	59	35	54	66
Informations/Indictments	49	29	65	60
Sentenced	33	43	79	40
Incarceration Rate	97.0%	81.4%	72.2%	90.0%
Average Months to Serve	37	35	40	67

Employment Tax

	2016	2015	2014	2013
Investigations Initiated	137	102	120	140
Prosecution Recommendations	77	80	92	97
Informations/Indictments	71	87	78	78
Sentenced	87	62	88	84
Incarceration Rate	70.1%	77.4%	73.9%	79.8%
Average Months to Serve	14	24	17	24

Financial Institution Fraud

	2016	2015	2014	2013
Investigations Initiated	66	84	108	156
Prosecution Recommendations	53	69	100	128
Informations/Indictments	46	73	91	122
Sentenced	64	160	88	146
Incarceration Rate	75.0%	80.6%	64.8%	78.8%
Average Months to Serve	37	44	30	32

Healthcare Fraud

	2016	2015	2014	2013
Investigations Initiated	127	122	100	122
Prosecution Recommendations	101	91	70	107
Informations/Indictments	90	79	79	98
Sentenced	46	64	60	52
Incarceration Rate	84.8%	82.8%	81.7%	78.8%
Average Months to Serve	41	54	45	33

Identity Theft

	2016	2015	2014	2013
Investigations Initiated	573	776	1063	1492
Prosecution Recommendations	566	774	970	1257
Informations/Indictments	649	732	896	1050
Sentenced	613	790	748	438
Incarceration Rate	87.8%	84.6%	87.7%	80.6%
Average Months to Serve	40	38	43	38

International Operations

	2016	2015	2014	2013
Investigations Initiated	221	186	226	284
Prosecution Recommendations	221	168	203	214
Informations/Indictments	187	166	199	184
Sentenced	154	148	140	125
Incarceration Rate	83.1%	78.4%	80.0%	70.4%
Average Months to Serve	45	43	46	51

Money Laundering

	2016	2015	2014	2013
Investigations Initiated	1201	1436	1312	1596
Prosecution Recommendations	1010	1301	1071	1377
Informations/Indictments	979	1221	934	1191
Sentenced	668	691	785	829
Incarceration Rate	84.1%	84.1%	82.2%	85.4%
Average Months to Serve	62	65	66	68

Narcotics

	2016	2015	2014	2013
Investigations Initiated	788	955	846	991
Prosecution Recommendations	684	897	734	888
Informations/Indictments	721	872	688	795
Sentenced	635	580	707	611
Incarceration Rate	85.5%	85.3%	83.6%	88.4%
Average Months to Serve	69	71	71	84

Non-Filer

	2016	2015	2014	2013
Investigations Initiated	206	223	269	279
Prosecution Recommendations	137	164	166	223
Informations/Indictments	157	166	167	211
Sentenced	159	167	192	233
Incarceration Rate	79.9%	83.2%	80.7%	85.8%
Average Months to Serve	38	36	35	48

Public Corruption

	2016	2015	2014	2013
Investigations Initiated	84	68	106	93
Prosecution Recommendations	59	68	76	67
Informations/Indictments	61	69	66	67
Sentenced	57	60	80	57
Incarceration Rate	80.7%	73.3%	85.0%	91.2%
Average Months to Serve	29	25	35	36

Questionable Refund Program

	2016	2015	2014	2013
Investigations Initiated	495	775	1028	1513
Prosecution Recommendations	514	780	969	1267
Informations/Indictments	594	767	928	1056
Sentenced	669	839	792	485
Incarceration Rate	84.6%	83.6%	85.5%	76.7%
Average Months to Serve	34	34	37	35

Terrorism

	2016	2015	2014	2013
Investigations Initiated	42	18	17	33
Prosecution Recommendations	33	6	12	22
Informations/Indictments	19	5	16	22
Sentenced	1	16	19	21
Incarceration Rate	100%	75.0%	73.7%	61.9%
Average Months to Serve	84	42	36	54