



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20543

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GENERAL GOVERNMENT
DIVISION

May 12, 1981

Mr. Philip E. Coates
Assistant Commissioner for
Compliance
Internal Revenue Service
Department of the Treasury

Dear Mr. Coates:

Subject: Observations Concerning the Internal Revenue
Service's Management of Criminal Tax Cases
(GGD-81-66)

During the past 4 years, we have performed various reviews of the Internal Revenue Service's (IRS') criminal investigative activities at the request of the Joint Committee on Taxation and other congressional committees. As a result of those reviews, we have issued several reports and testified before congressional subcommittees on various issues affecting IRS' Criminal Investigation Division (CID).

Actions IRS has taken in response to our recommendations, particularly those discussed in our report on CID's case development and selection activities, 1/ will enhance the Division's effectiveness. Also, we anticipate that the recommendation in our report on the legal review process for criminal tax cases, calling for the streamlining of that process, will, if implemented, lead to further improvements in efforts to enforce the Federal tax laws. 2/

1/"Improved Planning for Developing and Selecting IRS Criminal Tax Cases Can Strengthen Enforcement of Federal Tax Laws" (GGD-80-9, Nov. 6, 1979).

2/"Streamlining Legal Review of Criminal Tax Cases Would Strengthen Enforcement of Federal Tax Laws" (GGD-81-25, Apr. 23, 1981)

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Our evaluation of the legal review process was part of a broader review in which we also evaluated CID's management of criminal tax cases. We found CID's case management activities to be generally effective. However, we did note one area where CID could improve.

OBSERVATIONS CONCERNING
CASE MANAGEMENT ACTIVITIES

CID's case management activities have several positive features and have been generally effective. However, cases are not always actively investigated and closed timely.

Case management activities have
several positive features

Our review of CID's case management activities, which included extensive discussions with CID personnel and analyses of randomly selected samples of criminal tax cases, disclosed that several factors have contributed to CID's general effectiveness in managing cases. The Division's organizational structure sets forth clear lines of authority and responsibility thus facilitating management direction and control. CID's national office staff has afforded field office managers and special agents valuable guidance on case management techniques. The recently issued handbook for group managers exemplifies this.

Assistant Regional Commissioners, CID, have implemented that guidance, developed and issued supplemental guidance, and effectively monitored district CID operations. Similarly, CID chiefs and group managers at the district level have assigned cases to special agents, planned case approaches, monitored case progress, provided technical guidance to special agents, and otherwise handled cases from inception through resolution. Of course, the financial investigative expertise and professional manner of special agents have contributed greatly to CID's success.

Finally, we noted that CID managers at all levels have various methods for measuring program effectiveness and correcting deficiencies. These include the national office review program, regional office evaluation teams, quarterly narrative reports, CID's management information system, continuing reviews of ongoing cases by district chiefs and group managers, and a centralized review process for proposed prosecutive recommendations.

District CID managers do not always actively investigate and timely close cases

CID's case management guidelines require that all criminal tax cases be closely managed to ensure they are actively investigated and completed timely. Expeditionary investigation and completion of criminal tax cases enables IRS to (1) achieve the fullest potential deterrent effect, (2) expedite the recovery of taxes, interest, and penalties, (3) reduce the risk that cases may not be prosecuted due to the statute of limitations, and (4) promote equitable treatment of taxpayers. District CID managers, however, did not always ensure that cases were actively investigated or quickly closed when a decision to discontinue them apparently had been made.

We reviewed a randomly selected, judgmental sample of 117 of 657 cases discontinued by the same four IRS district offices during the 18 months ended March 31, 1978. Seventy, or about 60 percent of the 117 cases, were open for extended periods of time without substantial investigative activity. Included within this group were 20 cases involving delays in closing after a decision apparently had been made to discontinue them.

In analyzing the level of investigative activity on these 117 cases, we compared the total number of staff days expended on each case to the number of calendar days it was open. We also took into consideration any mitigating circumstances, such as summons enforcement problems. The 70 cases were open for an average of 350 days; yet only an average of 25 investigative staff days had been applied to each case. For several cases, we were able to obtain information on specific time periods during which no investigative time was charged. These included one case with no activity for 18 consecutive months, five with none for 9 months, and four with none for 6 months.

The following are examples of cases in which we found long periods of inactivity and/or case closing delays after a decision to discontinue the investigation had been made.

- A self-employed person allegedly was skimming money by using false cash register tapes. A criminal tax case was opened but only 21 investigative hours were applied to it during the first 3 months. There was no investigative effort during the following 3 months. The case was reassigned twice during the

first 11 months it was open. The initial taxpayer interview was conducted 1 year after the case had been opened. After that, 102 hours were devoted to the case over the next 2 months. Then, another 3 months of inactivity ensued before CID decided to discontinue the case due to lack of resources. In total, CID spent about 3 weeks of investigative effort on the case over a 17-month period. The investigative results were inconclusive as to whether a crime had occurred and could be successfully prosecuted.

--CID recognized that a particular case lacked prosecution potential, decided to discontinue it, and stopped its ongoing investigation. However, the case was not officially closed until 4 months later. The responsible special agent told us that "after you realize that a case is not prosecutable, there is no hurry to write it off, especially if you have another case to work on."

--CID initiated a case against a tavern owner but other, higher priority cases resulted in long periods of inactivity on this case. The case was closed after 15 months had elapsed; there had been no activity at all on the case during the 3 months immediately before it was officially closed.

We have no way of knowing whether any of the 70 cases would have resulted in a prosecutive recommendation had CID actively investigated them. Also, district CID managers cited other, higher priority cases as the primary reason for inactivity on the 70 cases. That reason seemed valid in many instances with respect to the individual special agent assigned.

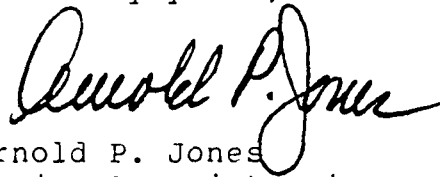
On the other hand, investigative delays can reduce the likelihood of successful prosecution. During extended investigations, witnesses may forget, move, or die, and dated evidence loses jury appeal. Moreover, once CID decides to initiate a criminal tax case, it has a duty to promptly complete the investigation. Otherwise, taxpayers are subjected to the unnecessary trauma of an extended investigation. This is especially true when CID has apparently made a decision to discontinue an investigation. In such cases, taxpayers ought to be promptly notified that they no longer are the subject of a criminal tax investigation.

SUGGESTION FOR FURTHER IMPROVING
CID'S CASE MANAGEMENT ACTIVITIES

To ensure active investigation of all initiated cases, prompt closure of discontinued cases, and fair and equitable treatment of taxpayers, CID could develop a more effective means for promptly identifying staffing problems. When a case cannot be investigated by the assigned special agent or must be set aside after only limited investigative efforts, a managerial decision is warranted. In such instances, cases should be reassigned to other special agents and actively investigated, or they should be promptly discontinued and the taxpayer so notified. Improvements in these areas can be accomplished through national, regional, and district office emphasis on existing guidelines governing these matters. Also, national and regional office CID evaluators could include specific tests of compliance with these guidelines as part of their normal review procedures.

We appreciate the assistance you, the CID director and his staff, and CID personnel in the various regional and district offices have provided us throughout our review efforts. We would be pleased to discuss our observations and suggestion with you if you think it would be beneficial. We look forward to working with you in the future on other IRS-related issues and concerns.

Sincerely yours,



Arnold P. Jones
Senior Associate Director

