

**75** Years of  
**IRS Criminal  
Investigation  
History**

**1919-1994**



**Caution:**

This document is  
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## INTRODUCTION

This document is dedicated to those Internal Revenue Service special agents and Criminal Investigation employees, past and present, whose devotion to duty created this noteworthy record of achievement. Your achievements are not only evidenced in the following pages — they are also prominently imprinted on the pages of history.

As our organization has grown in stature from a mere six special agents at its inception in 1919 to over 3,200 today, we have also developed into an organization known for its diversity of expertise. Yet we continue to accomplish our mission and solve crimes in a way that no others can; we follow the money that ultimately leads to the criminal.

Federal prosecutors continue to seek the expertise of IRS special agents as a critical asset to any investigative team. The training and expertise as well as the unique financial investigative skills continue to make the IRS special agent a necessary element in every investigation involving the flow of money.

Our investigations involve individuals from all segments of our society, from the high-level drug traffickers and financiers to individuals who appear to be pillars of the community, doctors, lawyers, accountants, legislators and corporate executives. Therefore, investigations vary from the very dangerous to the very sensitive with each investigation requiring a high degree of sensitivity, discretion and above-all fairness.

One of the most fascinating aspects of IRS Criminal Investigation is that we

seem to be in a constant mode of change. Whether it's a change in the laws that refocus our enforcement priorities, a change in organizational structure that revitalizes our mission, or internal implementation of a new concept that revolutionizes the way we work — change is what has always kept Criminal Investigation on the cutting edge of law enforcement, management techniques and technology.

Our history of change, accomplishments, and new challenges brings us to 1994 — our 75th anniversary as a law enforcement organization. As always, we are prepared for and look forward to change — to improvement — to effective law enforcement. Indeed, during the past 75 years, much has been accomplished. However, there is still much that can and must be done.

It is our job to continue the 75-year tradition of professionalism, dedication and commitment. It is not a difficult challenge, because the majority of men and women in Criminal Investigation have that same level of commitment and pride that Elmer Irey envisioned for IRS special agents 75 years ago.

I am confident that Criminal Investigation will continue to meet the challenges of the future with the same enthusiasm and skill that has inspired our special agents for the past 75 years. And the future will demonstrate the commitment of this organization to strong enforcement of the tax laws and support for the overall efforts to combat financial crimes wherever they occur.

Donald K. Vogel

## FOREWORD

This document has several segments. The first segment profiles, through photographs and biographical data, each of those honored to serve as the head of the Criminal Investigation function since its formation in 1919.

The second segment is a verbatim reprint of the only remaining copy of a document issued in the mid-1930's that portrays the history of the Intelligence Unit from 1919 to 1936. It describes the Unit's early organization and functions. It also contains summaries of cases, including several that contributed to our enduring reputation as "the giant killers."

The next segment is a sequel covering mid-1936 to 1994. It outlines, decade by decade, significant organizational and operational highlights during those 51 years, and summarizes cases and projects representative of our activities and accomplishments. The sequel is an overview rather than an exhaustive study.

The primary purpose of the Internal Revenue Service is, of course, the collection of taxes in a fair and impartial manner. Achieving the highest possible degree of voluntary compliance with the internal revenue laws is an important goal toward that end. Criminal Investigation's support

of this task represents one of the nation's most important law enforcement jobs because of the importance of the tax system to the proper functioning of the Government. The successful prosecution of tax evaders not only serves to protect the public revenue, but also warns potential tax evaders that they cannot defeat the system of voluntary compliance. Over the years, investigative activity has resulted in individuals being convicted for tax evasion in almost every occupation, profession, and segment of the economy. In addition, the ability of Criminal Investigation to use criminal sanctions for tax violations against otherwise untouchable criminals continues to be a powerful weapon in the fight against organized crime.

This historical record is primarily about activities of the Criminal Investigation function. However, we gratefully acknowledge the invaluable contributions of the other IRS components, particularly the Examination and Collection functions, our partners in many of these endeavors. Similarly, we gratefully acknowledge the important roles played by the Office of Chief Counsel and the Department of Justice.

## PROFILES

Presented below are brief biographical sketches of the sixteen individuals privileged to serve as the principal executive of the IRS Criminal Investigation function since its inception on July 1, 1919.



**Donald K. Vogel**

*February 28, 1993–Present*

Donald K. Vogel earned a bachelor's degree in business administration with a major in accounting from Creighton University in Omaha, Nebraska. He is a native of Sigourney, Iowa.

He entered federal Service in 1965 with the Department of the Army. In 1971 he joined the IRS as a special agent in the Criminal Investigation Division in Omaha, Nebraska. He held various positions in Criminal Investigation including group manager in San Antonio, Texas; Branch Chief in Austin, Texas; Assistant Division Chief in St. Louis and Executive Assistant to the Assistant Regional Commissioner in Southwest Region.

After completing the IRS Executive Selection and Development Program in 1987, he became Assistant Director of the St. Paul District. In 1988, he was named Assistant Regional Commissioner for Criminal Investigation in Midwest Region.

He was selected as Assistant Commissioner (Criminal Investigation) in February 1993.



**Inar "Smitty" Morics**  
*December 3, 1989–January 10, 1993*

Inar "Smitty" Morics is a native of Liepaja, Latvia; He holds a bachelor's degree from Northwestern University in Evanston, Illinois.

In 1962, Morics began his IRS career as a criminal investigator in Chicago. He transferred to the National Office in Washington in 1970 where he held several management positions in the Criminal Investigation function. He became Chief of the Criminal Investigation Division in the St. Paul District in 1976.

In March of 1987, he completed the IRS Executive Selection and Development Program. In October 1987, he was selected as Assistant Regional Commissioner (Criminal Investigation), Central Region. He was appointed Assistant Commissioner (Criminal Investigation) December 3, 1989. In 1993, he became the District Director in St. Paul, Minnesota.



**Bruce V. Milburn**  
*May 8, 1988–October 20, 1989*

Bruce Milburn earned a bachelor's degree in accounting and business from Union College in Barbourville, Kentucky. He is a native of Point Pleasant, New Jersey.

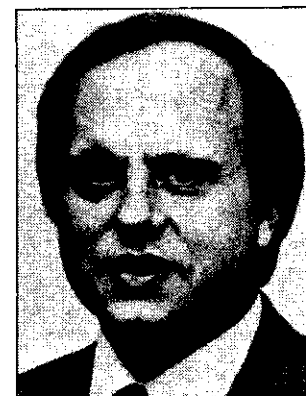
He began his IRS career in 1969 as a special agent in Cincinnati. He served in Washington and Atlanta before becoming a supervisory criminal investigator in 1974, in Birmingham, Alabama. He became a program analyst in Cincinnati in 1976, was promoted to Assistant Chief of the Criminal Investigation Division in Detroit in 1977, and appointed Division Chief in New Orleans in 1981. He served as Division Chief in Detroit in 1982, and was appointed Assistant Regional Commissioner in North Atlantic Region in 1983.

Upon completing the IRS Executive Selection and Development Program in 1987, he was named Assistant Director of the Newark (New Jersey) District. In 1988, he was selected as Assistant Commissioner (Criminal Investigation), the position he held until his retirement.



**Anthony V. Langone**  
*February 2, 1987–April 3, 1988*

Anthony V. Langone is a native of Brooklyn, New York. He received a bachelor's degree in economics from Brooklyn College. He began his IRS career in 1961 as a special agent in the Intelligence Division in Brooklyn. He held a series of management positions in the Intelligence Division in the Washington, D.C. area, Detroit and San Francisco. In 1975, he was named Assistant Regional Commissioner (Intelligence) for the Southeast Region, and in 1978, he was chosen for the Executive Development Program. In 1981, Mr. Langone was named Assistant District Director in Jacksonville, Florida. In April 1986, he became the Deputy Assistant Commissioner (Criminal Investigation), the position he held until his selection, on February 2, 1987, as Assistant Commissioner (Criminal Investigation).



**Richard C. Wassenaar**  
*March 21, 1982–December 12, 1986*

Richard C. Wassenaar was born on April 27, 1939, in Worthington, Minnesota. He received a B.S. degree from Elmhurst College, Elmhurst, Illinois, in 1963 and studied law at DePaul University. Mr. Wassenaar began his Government career in 1963 as a special agent in Chicago. In 1971, he became Assistant Chief, Intelligence Division in the Los Angeles District. He completed the Executive Development Program in 1973, was named Assistant District Director in Seattle, and in 1975, became Assistant Regional Commissioner (Intelligence), Western Region. In March 1982, Mr. Wassenaar was appointed Assistant Commissioner (Criminal Investigation), the position he held until his death on December 12, 1986.





**Thomas J. Clancy**

*July 6, 1975–March 20, 1982*

Thomas J. Clancy was born on November 6, 1932, in Independence, Kansas. He received a B.S. degree from Wichita State University in 1954, and became a special agent in Wichita in 1957. In 1970, he was named Chief, Intelligence Division in the Omaha District and, in 1971, was appointed staff assistant to the Director, Intelligence Division. In 1973, he entered the Executive Development Program and was later selected as the Assistant Regional Commissioner (Intelligence), Mid-Atlantic Region. In July 1975, Mr. Clancy became Director, Intelligence Division (which was renamed Criminal Investigation Division in 1978). He held that position until his selection as the Director, Foreign Operations District in 1982. Mr. Clancy retired from the Service in 1986.



**John J. Olszewski**

*September 3, 1972–May 9, 1975*

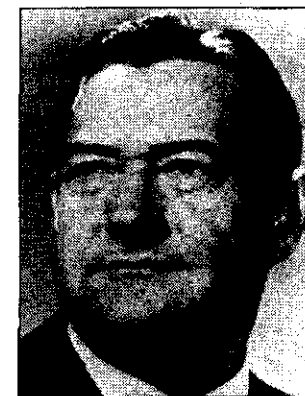
John J. Olszewski was born on December 12, 1923, in Detroit, Michigan. He received a B.S. degree in 1949, and a doctor of jurisprudence degree in 1955, both from the University of Detroit. In 1952, Mr. Olszewski became a special agent in Detroit and, in 1961, he was named Chief, Intelligence Division in the Detroit District. In 1970, Mr. Olszewski was promoted to Assistant Regional Commissioner (Intelligence), Midwest Region, the position he held until his selection as Director, Intelligence Division in September 1972. Mr. Olszewski retired from the Service in 1975.



**Robert K. Lund**

*October 4, 1970–June 30, 1972*

Robert K. Lund was born in Startup, Washington, and graduated in 1941 from the University of Washington in Seattle. He entered Government Service in 1941 as an investigator in Treasury's Foreign Funds Control Unit. He began his Internal Revenue career in 1944 as a special agent in San Francisco. In 1952, Mr. Lund was named Assistant Chief, Intelligence Division in the San Francisco District and, in 1957, was promoted to Chief in the Los Angeles District. In 1967, Mr. Lund became the Assistant Director of the Intelligence Division, the position he held until his selection as Director in 1970. Mr. Lund retired from the Service in June 1972.

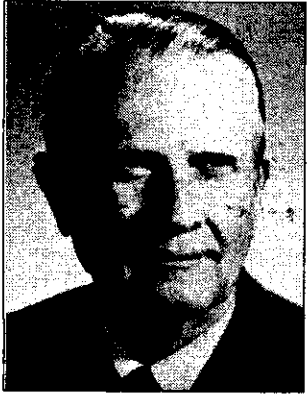


**William A. Kolar**

*December 31, 1965–June 13, 1970*

William A. Kolar was born in Baltimore, Maryland. He attended Washington College in Chestertown, Maryland and received an LL.B. degree from the University of Baltimore in 1943. Mr. Kolar was an FBI agent from 1943–1951. He later served as Chief Investigator for the Senate Judiciary Subcommittee on "Trading with the Enemy Act." In 1954, he joined the IRS as a special assistant to the Director of the Internal Security Division. In 1960, Mr. Kolar was named Director of the Internal Security Division and held that position until his selection as Director of the Intelligence Division in December 1965. He served in that capacity until his retirement from the Service in June 1970.





**H. Alan Long**

*June 30, 1959–December 31, 1965*

H. Alan Long was born in Burlington, Colorado; and, in 1927, graduated from the University of Colorado. He entered the Government in 1940, as a special agent in Denver. In 1950, Mr. Long, a certified public accountant, became a member of the Appellate Staff in New York City and remained there until his appointment in 1956, as the District Director in Chicago. In June 1959, he became Director of the Intelligence Division. Mr. Long held that position until December 1965, when he was named District Director in Pittsburgh.



**J. Perry August**

*October 18, 1955–June 30, 1959*

J. Perry August was born in Dorchester, Nebraska, in 1909, and graduated from the University of Wyoming. He entered government service in 1934 with the Bureau of Reclamation in Denver, Colorado, transferring three years later to the Bureau of Internal Revenue as a special agent in the Denver Office. Mr. Perry was named Special Agent in Charge of the Denver Office in March 1952, and became the Assistant Regional Commissioner (Intelligence) of the Dallas Region on July 1, 1953. He was the Director of the Intelligence Division from October 1955 to June 1959, when he retired from the Service. He died on June 12, 1984.



**A. Walter Fleming**

*December 20, 1953–August 15, 1955*

A. Walter Fleming entered Internal Revenue in 1923 as a special agent and advanced to Special Agent in Charge of various posts of duty. He later served as Regional Commissioner at Buffalo and Dallas. In December 1953, he was made Director, Intelligence Division. He held that position until August 1955, when he was appointed Regional Commissioner in New York.



**Garland H. Williams**

*January 1, 1953–August 31, 1953*

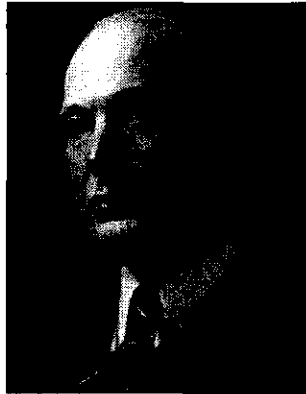
Garland H. Williams was born in Prentiss, Mississippi on January 5, 1903. He received a degree in engineering from the University of Mississippi. In 1929, Mr. Williams became an agent in the Bureau of Customs and, in 1936, he transferred to the Bureau of Narcotics. Mr. Williams distinguished himself in the U.S. Army upon being recalled during World War II. One of his achievements was organizing and becoming the first chief of the Counter-Intelligence Corps. After the war, Mr. Williams returned to the Bureau of Narcotics and later was recalled to active military duty for two more years. On January 1, 1953, he became Director of the Intelligence Division. He served in the position until August 1953.



**Frank W. Lohn**

*January 20, 1952–November 25, 1952*

Frank W. Lohn was born on March 2, 1898, in Lohn, Texas, and studied at West Texas State College. He was a high school superintendent for four years and served in the Artillery in World War I. Mr. Lohn became an Intelligence special agent in Dallas in February 1927. He held several Intelligence field positions, including Special Agent in Charge of the Seattle and the Kansas City Offices. In January 1952, Mr. Lohn became head of the Intelligence function and, on August 11, 1952, he became Director of the reorganized Intelligence Division. In November 1952, Mr. Lohn was named District Commissioner of the Denver Region.



**William H. Woolf**

*January 26, 1943–December 31, 1951*

William H. ("Harry") Woolf was born in Alderson, West Virginia, on May 8, 1886. He graduated from high school in Washington, D.C., and received an LL.B. degree from Georgetown University Law School. On October 6, 1919, Mr. Woolf transferred from the Office of the Chief Post Office Inspector to become Assistant Chief of Internal Revenue's Special Intelligence Unit. He was promoted to Chief of the Intelligence Unit in 1943, and served in that position until 1951. Mr. Woolf remained on as special advisor to the new head of the Intelligence function, and retired from Internal Revenue in 1952.



**Elmer L. Irey**

*July 1, 1919–January 26, 1943*

Elmer Lincoln Irey was born in Kansas City, Missouri, on March 10, 1888. He graduated from high school in Washington, D.C., and attended Georgetown Law School. Mr. Irey was a 31-year old Post Office Inspector in Lynchburg, Virginia, when in 1919 he was named Chief of the newly created Special Intelligence Unit of the Bureau of Internal Revenue. Beginning in 1937, Mr. Irey also served as chief coordinator of all Treasury law enforcement agencies. These included the Secret Service, Customs, Foreign Funds Control, Narcotics, Alcohol Tax and Intelligence. In 1943, Mr. Irey was relieved of his responsibility as Chief of the Intelligence Unit so he could devote full time to coordinating Treasury Enforcement activities. Mr. Irey retired from the Government in 1946. He died on July 19, 1948.

## HISTORY OF THE INTELLIGENCE UNIT

July 1, 1919—June 30, 1936

When engaged in common endeavor, a group, no less than an individual, needs occasionally, for the good of its soul and in the interest of its efficiency, to review and appraise its origin, its objectives, and its progress and development. This is the main thought that prompted the writings of the pages that follow.

Such occasional self-examinations have long been the policy of the Intelligence Unit. They have definitely contributed to the Unit's effectiveness. Successful results thus examined in retrospect have brought *pardonable pride and satisfaction* to the personnel. Unsuccessful and ineffective efforts have not been wholly without value; they have demonstrated the "ways not to do it" — the policies and methods to avoid.

On this occasion the opportunity has been seized to reduce the review to writing and embody in it a brief "life sketch" of the Unit and its work. This permanent record will be supplemented each year with a summary of the Unit's activities.

The Intelligence Unit, as a distinctive division of work in the Internal Revenue Service, was created 17 years ago. Its creation was deemed essential in the organization of the Service to administer properly the vastly extended field of Federal taxation which followed upon the entrance of the United States into the World War.

The work of the Unit is distinctive in that it is exclusively investigative and relates mainly to alleged or suspected

criminal violations of the revenue laws and the fitness of personnel already in the Service or those who aspire to enter it. Generally speaking, none of the investigations conducted by the Unit are initiated. They are made upon special direction of the Secretary or the Commissioner or upon request of an administrative officer directly responsible for the subject matter to which the proposed investigation relates.

As the pages to follow will disclose, the Unit investigations almost invariably involve questions directly affecting the character and fate of human beings. Investigation of the fitness of a candidate for entrance into the Service will discover facts that may disbar him from the *appointment he seeks*. An officer or employee of the Service, suspected of misconduct, may be removed — even indicted and prosecuted — upon the facts which the Unit must ascertain. The individual citizen or corporation officer, suspected of tax evasion or bribe giving, may wind up in jail as a result of the Unit's investigation. It is, therefore, obvious that the nature of its work demands skill, tact, discretion, energy and determination in no ordinary degree if the government's interests are to be properly protected on the one hand and injustice and irreparable injury to innocent suspects avoided on the other. Although this work is indispensable to the administration of the revenue laws, the men engaged in its performance have no enviable task.

The pages which follow contain an epitome of the Unit's 17 years of experience. Its principal functions and activities are described and typical cases are used to illustrate the varied nature of the work performed by its special agents. These cases, by their sharply contrasted patterns, reflect many of the tricks and artful devises of the tax dodger. They also indicate that whatever the guise or method he may use, the man who seeks to cheat his Government rides eventually to a fall.

Tax dodgers are found in all walks of life — bankers, racketeers, bootleggers, manufacturers, gamblers, judges, legislators, beer barons, senators, police chiefs, public officials, movie stars and magnates, stock promoters, and conspiring tax accountants and lawyers. All of these groups and others have contributed to the array of tax criminals who have been penalized for their wrongdoing. *Special agents of the Intelligence Unit have encountered tax evaders in all degrees of social station, official prominence and business affluence. The record will show that eminence of station is neither a warrant of honesty nor a shield to protect the wrongdoer.*

The vast majority of taxpayers are honest, of course, and they are entitled to know that when dishonesty is suspected that trail will be followed to its logical end. This is the special field to which the Intelligence Unit is called in the performance of its duties. *Facts alone can establish whether suspicion is justified. Both in discovering the facts and weighing them, fairness and impartiality must govern every step.*

The record of the Intelligence Unit is merely the composite result achieved by its special agents. Individual records, as well as the fine spirit of team work displayed by these men, would make an interesting story alone. In this review, their individual performances must be reflected impersonally against the official background.

It has been the good fortune of the present Chief of the Intelligence Unit to occupy this position since the Unit was created in 1919. Whether this has contributed to the Unit's efficiency or detracted from it may easily be questioned, but at least it has afforded a rare and ample opportunity for the present Head to appraise the services of his associates in the Unit and of his fellow officers and employees in the Bureau and Service at large. The fact that the successive Department and Bureau heads have felt justified in continuing the Unit as a special division of work and permitting the present Chief to continue responsibility for its supervision, may be attributed solely to two things. The first is the individual efficiency of the special agents, their unexcelled team work, and their fine loyalty to the Service. The second is the sympathetic and wholehearted cooperation and support of the successive Secretaries and Commissioners, their deputies, collectors of internal revenue, agents in charge, and practically all members of the Revenue Service organization with which the Intelligence Unit has been in contact.

In writing these introductory observations, the Chief of the Unit has been constantly aware that limits of space and time rather than depth of sentiment may cause

them to appear superficial. But what they may lack must be attributed to an inability to express in words and understanding, an appreciation, and a purpose that have been indelibly impressed by 17 years of active work in a great service.

*And the writing of this introduction has been good for his soul and in the interest of his efficiency, he believes.*

Elmer L. Irey  
Chief, Intelligence Unit

## Organization and Functions of the Intelligence Unit

The principal income of the Federal Government, before the enactment of the Sixteenth Amendment to the Constitution of the United States on February 25, 1913, consisted of customs duties and excise or indirect taxes.

The first income tax law under this Amendment, the Revenue Act of 1913, was enacted by Congress on October 3, 1913. It became effective March 1, 1913. A normal tax of 1% on the net incomes of individuals, estates, trusts and corporations was imposed. The surtax rate was graduated from 1% to 6% applicable to incomes in excess of \$20,000.

The Revenue Act of 1916 practically doubled the normal rates specified in the 1913 Act to provide for the increased Federal expenditures; and, the surtax rates were increased, running from 1% on incomes of \$20,000 to 13% on incomes of \$2,000,000 or over.

When the United States entered the World War on April 6, 1917, it was apparent from knowledge of the expenditures of other countries engaged in the war that this country would be obliged to assist these countries financially and that Congress would have to raise enormous revenue.

As a result, the income tax rates were increased and excess profits tax feature was added to the law as provided by the Revenue Act of 1917, enacted October 3, 1917, which was retroactively effective January 1, 1917.

This Act imposed the highest rates of taxation that had ever been known in the history of this country. The surtax rate of 1% on incomes of more than \$20,000, and a maximum of 6%, as provided in the 1913 Act, was increased to 1% on net incomes of \$5,000 and the rate was graduated up to a maximum rate of 63%.

It is worthy of note that internal revenue collections increased from \$344,424,454 for the fiscal year ended June 30, 1913, to \$5,407,580,252 for the fiscal year ended June 30, 1920, the largest amount of collections up to that time.

The growth of the Bureau of Internal Revenue from the inception of the income tax law in 1913 up to June 30, 1919, was rapid. The personnel of the Bureau had increased from a total of 4,000 employees on June 30, 1913, to 14,055 on June 30, 1919.

The 1917 Revenue Act made it necessary to increase quickly the number of employees. By 1919 many serious complaints were reaching Commissioner of Internal Revenue Daniel C. Roper, then Secretary of Commerce, relative to alleged tax frauds and charges of irregularities involving employees of the Internal Revenue Service.

Before Mr. Roper's appointment as Commissioner of Internal Revenue, he had been First Assistant Postmaster General and was familiar with the activities of the Post Office Inspectors. He regarded their service as a most important factor in the investigation and suppression of fraud in the use of the mails and irregularities or dishonesty among the personnel of the Post Office Department.

## Scope of Activities

Commissioner Roper decided to create an Intelligence Unit to perform similar functions for the Bureau of Internal Revenue. He, therefore, with the approval of the Secretary of the Treasury and the Postmaster General, on July 1, 1919, effected the transfers from the Post Office Inspection Service of six experienced Post Office Inspectors to the Bureau of Internal Revenue.

Elmer L. Irey was designated as Chief, Intelligence Unit, and shortly thereafter, W. H. Woolf, also connected with the Office of the Chief Post Office Inspector, was appointed as Assistant Chief. Both have continued in those positions to date.

During the negotiations for the transfer of Post Office Inspectors to the Bureau of Internal Revenue to create an organization for an Intelligence Unit, it was stipulated by the Postmaster General that Mr. Roper could have "six men of his own choosing but no more."

This enabled Commissioner Roper to choose Post Office Inspectors who had excellent records as investigators and were suited for the work which they would be called upon to perform in this Service. This original group of Post Office Inspectors, selected as a nucleus of the newly created Intelligence Unit, became the first Special Agents in Charge of Divisions in the new organization. They were able to establish an efficient and practical procedure because of their long experience in conducting thorough and impartial investigations. In the Intelligence Unit, an esprit de corps has been developed and maintained. Naturally, from its record, the members of the Unit feel an individual pride in its achievements.

## Responsibility of Special Agents

The special agents have great responsibility in making recommendations as to the action to be taken in cases which frequently involve tax liabilities of millions of dollars.

Their duties include these major steps:

1. Recommendation with regard to the assessment of fraud penalties, in addition to the taxes recommended by revenue agents.
2. Request in certain cases that jeopardy assessments be made.
3. Recommendation for the filing of liens on taxpayers' property in order to protect the Government's interests.
4. Definite recommendation as to prosecution of tax evaders, tax fraud conspirators or Service personnel involved in collusion or other irregularities.

If a special agent has been lax in his investigation, fails to obtain all the facts and is unable to arrive at a proper conclusion; or, having all the facts, does not use good judgment, the consequences may react unjustly upon the taxpayer. For example, in the event a special agent has made an improper recommendation as to the assessment of a large amount of additional taxes and fraud penalties, or unwisely requested that jeopardy assessment be made whereby the taxpayer's assets are levied upon, or recommends criminal prosecution that is not warranted, the damage to the taxpayer's reputation or business may be irreparable.

A similar situation exists with regard to personnel investigations. If the special agent fails to make a thorough and impar-

tial investigation of charges or recommends removal or criminal prosecution of an employee, based upon an improper or erroneous interpretation of the evidence, the entire life of the employee may be ruined by the unjust charges. Many of the personnel investigations concern those civil service employees to whom the government service is their life career.

Realizing this grave responsibility, all reports of investigations are carefully reviewed by the supervisory officials of the Intelligence Unit. They make certain that the investigation has been complete and that the recommendation is a logical conclusion as to the action which should be taken. The importance of thorough investigations and carefully considered recommendations has been emphasized with the result that such a procedure has become established as a matter of practice.

## Purposes and Duties

The Order creating the Intelligence Unit specified its purposes as the investigation of such charges against employees of the Internal Revenue Service as:

1. Extortion.
2. Solicitation or acceptance of a bribe.
3. Embezzlement.
4. Aiding in the prosecution of a claim against the Government.
5. Official and moral misconduct.

In addition to the foregoing, the Intelligence Unit was charged with the duty of investigating attempts to defraud the Government of taxes due under the various Internal Revenue Acts.

Since its organization the duties of the Intelligence Unit have been increased to include:

1. Investigation of applicants for positions in the Bureau of Internal Revenue and in various branches of the Treasury Department.
2. Investigation of applications of attorneys and accountants for permission to practice before the Treasury Department in representing taxpayers.
3. Investigation of charges of a criminal and unethical nature against enrolled attorneys and accountants.
4. Special investigations directed by the Commissioner and by the Secretary of the Treasury.
5. Investigations of applicants under consideration by the President for appointment as members of the Board of Tax Appeals.

## Types of Special Investigations

The files of the Bureau of Internal Revenue contain thousands of detailed reports of investigations which have resulted in convictions of tax dodgers.

A brief glance at the different types of investigative work will illustrate, at this point, although case types that are outstanding will be detailed more fully later in this review.

The principal activity of the Intelligence Unit has been the investigation of income tax fraud cases. These cases have involved prominent individuals in professional, commercial and public life. Large corporations have been investigated with success for the Government. Numerous investigations have been made of racketeers and public enemies who have amassed huge

fortunes through their illegal activities.

Al Capone, so-called Public Enemy No. 1, and the most notorious leader of organized racketeering in this country, was investigated by the Intelligence Unit. His conviction on income tax evasion was the first decisive blow struck at organized crime.

The New York income tax evasion drive against racketeers preying on legitimate industry likewise was very effective. The tax evasion investigation of prominent motion picture stars resulted in several criminal prosecutions and brought to the Treasury substantial amounts in taxes and penalties.

Dishonest public officials including minor peace officers, judges, mayors of large cities, governors of states, legislators, and members of the United States Senate also have been investigated by the Intelligence Unit. In all cases where the evidence warranted criminal prosecution such action has been recommended.

One of the best known public figures who has been investigated for tax fraud was the late Huey Long, Governor of Louisiana and later United States Senator. He was assassinated just prior to the time set for presenting evidence to the Federal Grand Jury relative to his tremendous income from "political racketeering."

The Teapot Dome investigation resulted in the collection of approximately \$6,000,000 in taxes.

The case of Charles E. Mitchell, New York banker, brought a change in the income tax law whereby the wealthy taxpayer no longer would be able to escape tax liability by claiming fictitious losses from alleged sales of securities.

Then, there is the case of two British subjects who sold their interest in a steamship company for a profit of \$4,200,000. They attempted to escape tax liability by having the money paid to them in currency just prior to the departure of the boat upon which they intended to return to England. They were apprehended before boarding the vessel.

The American Optical Company was caught in a scheme to evade income taxes by understating, in its inventory, the accumulation of gold borings and dust which was melted into gold bricks, each weighing one thousand ounces. The income from their sale was diverted to the individual owners of the business.

There are numerous other cases in the files of the Bureau of Internal Revenue which cover investigations made for the purpose of establishing definite evidence of indicated fraud whereby the tax, as well as fraud penalties, could be collected.

Many of such cases originated in years for which the tax has been outlawed for collection by the statute of limitations unless fraud can be proven by the government. Often fraud has been established, prosecutions followed and large sums recovered for the Treasury.

The Intelligence Unit also has cooperated in the investigation of estate tax frauds and numerous cases involving the attempted evasion of miscellaneous taxes such as gasoline, theater ticket and tobacco taxes.

The personnel investigations of the Intelligence Unit include numerous cases involving attempted bribes, extortion, embezzlement, irregularities on the part of Internal Revenue employees and collusion

between employees and taxpayers or their representatives in various schemes to violate the revenue laws.

During the period the Prohibition Service was a part of the Bureau of Internal Revenue, much of the work of the Intelligence Unit concerned the investigation of collusion of employees of the Service with persons engaged in the illicit traffic of liquor, liquor permit frauds and major conspiracies to violate the National Prohibition Act.

Such cases as the "\$5,000,000 Conspiracy" at Philadelphia, the Donegan liquor permit fraud conspiracy at New York City which made Donegan a temporary millionaire but brought him ten years imprisonment, and other cases of this type are commented upon briefly to show that phase of the work handled by the Intelligence Unit during the early years of its organization.

The Intelligence Unit, at the direction of the Commissioner of Internal Revenue and the Secretary of the Treasury, has been called upon frequently to make special investigations which are not related to tax frauds or personnel delinquency. This phase of the activity of the Intelligence Unit is varied in its scope. An outstanding example of an investigation of such nature in which the Intelligence Unit participated was the Lindbergh kidnapping case.

## Tax Evasion Investigations

The limited personnel of the Intelligence Unit at its inception devoted the greater part of its time to investigation of personnel matters, involving collusion, bribery, extortion and major conspiracy cases.

With the operation of the 1917 Revenue Act providing the higher emergency rates of taxation to pay for the additional wartime burden, numerous complaints were received indicating tax frauds. As time went on, more attention was required in these investigations with the result that the tax work of the Intelligence Unit has since become by far its most important activity. Such investigations which are made in cooperation with internal revenue agents and deputy collectors, have increased steadily throughout the existence of the Intelligence Unit.

During the period from July 1, 1919, to June 30, 1936, the records show that a total of 9,109 tax fraud cases were investigated. It is a significant fact that pleas of guilty or convictions have been obtained in more than 92% of all criminal cases involving tax frauds disposed of in the courts. Detailed schedules of prosecutions and dispositions, and of tax investigations and assessments are submitted as supplements at the end of this review.

During this same seventeen-year period the entire appropriation of the Intelligence Unit has been \$8,125,000, or an average of \$477,941 per year.

The assessments of taxes and penalties recommended for that period, as a result of joint investigations with revenue agents and deputy collectors, totaled \$385,905,602 or a ratio of 2.11%. In other words, the



**Intelligence Unit cost the Government \$2.11 for each \$100 of taxes and penalties recommended for assessment as a result of tax fraud investigations.** Recoveries in these cases represent revenue that would not have been obtained without disclosure through investigation. These results have been obtained despite the fact that, in addition to its work on tax fraud investigations, the Intelligence Unit has devoted from one-third to one-half of its time to personnel or special investigations.

There are also numerous cases in which investigations made by special agents of the Intelligence Unit with **revenue agents or deputy collectors** result in securing evidence to support the imposition of the 50% fraud penalty for years which otherwise would be uncollectible on account of the statute of limitations.

Of equal or greater importance to the government is the increased revenue which results from the indirect benefits of vigorous prosecutions of tax evaders which will be commented upon in detail later.

## **Dishonest Public Officials Prosecuted as Tax Evaders**

The Treasury has been enriched as a result of the persistent investigations by the Intelligence Unit of public officials who acquired fortunes through dishonesty and corruption. The revenue recovered in such cases has been very substantial and, in those cases where the evidence warranted criminal prosecution, such proceedings have been recommended.

### **Chicago Official's Graft**

The Gene Oliver case gained considerable public attention because Oliver was a member of the Board of Assessors of Cook County, Illinois, and wielded power as a political leader in Chicago.

It was disclosed during this investigation that the taxpayer deposited larger amounts of currency and checks in bank accounts in his wife's name as well as his own. Certain of these deposits were identified as proceeds from horse race betting, campaign contributions and payments of bribes made by large real estate owners to effect reductions of valuations of their properties for tax purposes. There were also numerous currency deposits the amounts and dates of which bore striking resemblance to amounts deposited by a syndicate operating slot machines in the territory over which Oliver held considerable political influence.

During the trial of this case many interesting questions of law were presented involving interpretations of income tax statutes. The court's rulings were confirmed by the United States Supreme Court and were of great value to the government in other tax prosecutions. Oliver was convicted and sentenced to eighteen months imprisonment in the Leavenworth Penitentiary and to pay fines aggregating \$12,500 together with the cost of prosecution. The case was appealed to the Circuit Court of Appeals which upheld the findings of the trial court. A petition for a writ of certiorari to the United States Supreme Court was applied for but denied and Oliver was committed to the Leavenworth penitentiary to serve his sentence.

### **Marriage License "Racket"**

James J. McCormick was Deputy City Clerk in charge of the Marriage License Bureau, Manhattan, New York City, for several years. It was his duty to issue marriage licenses for a fee which he was required by law to turn into the city treasury and, if called upon, it was his duty to perform marriages in the city chapel without a fee. His practice while performing a marriage ceremony was to have a large number of \$5, \$10 and \$20 bills exposed in an open drawer of his desk as a mute suggestion to the happy bridegroom. He made a fortune in this "racket," victimizing thousands of principals in marriage ceremonies. From payments made to him by bridegrooms, McCormick deposited in accounts in savings banks from 1925 to 1930, from \$40,000 to \$50,000 each year.

Hundreds of couples who had been married by McCormick were interviewed by Intelligence Unit agents and furnished testimony as to McCormick's method of exacting a fee from bridegrooms. It was clear that the fees were by no means voluntary. His high pressure methods of compulsion were amazing. He made sneering remarks before other couples when the fee was small and exhibited smiling satisfaction when the fee was large.

It was testified that when a bridegroom handed him a one dollar bill, McCormick would hold it up with a derisive frown so that the other bridegrooms waiting to be married might be influenced to be more liberal. McCormick's strategy usually succeeded. A \$5, \$10, or \$20 payment brought forth from the city clerk a fervent and cheerful "God bless you."

An interesting feature of this case is the fact that McCormick was called before the Seabury Investigating Committee of New York in 1931 and questioned, concerning his corrupt practices. The day following his appearance, he went to the Office of the Collector of Internal Revenue for the Second New York District, where his daughter was employed, and immediately filed delinquent returns.

McCormick made this move in an obvious effort to avoid responsibility. He knew that his testimony before the Seabury Committee would be published and that a tax investigation was imminent. McCormick was prosecuted and convicted during 1933 for failure to file returns for the years 1929 and 1930. Due to his prominence politically for many years, a great deal of influence was brought to bear in his behalf, particularly after McCormick had been convicted but prior to sentence.

Judge John C. Knox of the Southern District of New York, before whom the case was tried, made the following statement prior to imposition of sentence:

"I have so far as I recall, never failed to impose a prison sentence upon a man who wilfully fails to pay his income tax. My judgement is that those who hold out on the government in the way of tax payments should, when they are discovered, feel the rigors of law. The rest of us have to pay taxes and it is highly unfair for those who have means to fail to bear their just share of the cost of the government."

Upon representations made to the Court that McCormick was suffering from an incurable disease, Judge Knox sentenced him to serve four months' imprisonment on

each count to be served at an institution where he might receive medical attention and fined him, in addition, a total of \$15,000.

### **Police Chief-Tax Dodger**

Claude M. Worley, while Chief of Police at Indianapolis, Indiana, collected large amounts of graft. He received a six-year sentence and \$10,000 fine upon pleading guilty to tax evasion.

In passing sentence, United States District Judge Baltzell emphasized that he had taken into consideration, in determining the severe sentence imposed, the fact that Worley had made his large income from illegal sources during the period he was Chief of Police and responsible for the lives of the people of Indianapolis.

### **Legislator Convicted**

Lawrence C. O'Brien of Chicago, a member of the Illinois Legislature for many years, was convicted on charges of evading income taxes. He was sentenced to serve eighteen months in the Leavenworth Penitentiary and to pay a fine in the amount of \$6,000.

O'Brien operated a teaming and trucking contracting business engaged exclusively on public projects. Also, he derived income from special services as a real estate valuator for Chicago. It was further established that he owned a large building where several speakeasies were operated.

During the trial of this case, O'Brien's counsel argued that the unreported income was from a municipal body and considered by the defendant to be nontaxable. This contention was offered in an effort to negate wilful intent.

Anticipating the possibility of such a defense, the special agents had prepared their case to prove this contention was frivolous and inconsistent with the method by which O'Brien's false returns had been prepared.

The evidence of O'Brien's "tax-dodging" was so definite that defense counsel could not argue the merits of the case successfully. His tax liability for the years 1926 to 1928, inclusive, was established at \$143,315.

### **Building Commissioner Jailed**

Chris Paschen, Building Commissioner of Chicago, who was ambitious in his political efforts to succeed Mayor William Hale Thompson, was found to have had a very substantial income, only a small portion of which had been reported on his income tax returns.

It was established that he had received large payments from contractors who were favored in obtaining building permits. Paschen reported a net income of \$5,108 and \$28,614 on his returns from 1927 and 1928, respectively. His net income for each of those years was found to be \$232,418 and \$326,250. He was convicted and sentenced to serve two years at Leavenworth and to pay a fine of \$10,000, which conviction was affirmed on appeal.

### **Former Judge Convicted**

Nash Rockwood, one of the most prominent and successful trial attorneys in New York State, and formerly a county judge, was uncovered as a wilful tax evader. He had made a practice for several years of using obstructive and evasive tactics in

connection with his personal liabilities and attempted a similar procedure with respect to the payment of his income tax liability.

The investigation developed that he had received substantial fees from prominent clients and usually insisted that payment be made in currency. This necessitated a thorough and detailed inquiry with many ramifications. Sufficient evidence was finally obtained to show his proper tax liability and the facts warranted prosecution.

He was indicted finally and pleaded guilty. John W. Davis, former candidate for President, made a dramatic plea for leniency, urging that sentence be suspended. Rockwood, however, was sentenced to serve three months in jail and to pay a fine of \$2,500.

### **Judge's Graft in Public Contracts**

The investigation of Judge George B. Parr of Texas, developed that he was paid \$25,000 in currency from the "graft" fund of the Pearson Company. This company was engaged on road building work and was dependent upon the favor of public officials for road contracts.

Judge Parr was prosecuted because of his failure to report the \$25,000 and other unidentified income for tax purposes. He pleaded guilty and was sentenced to serve two years in jail, which was suspended upon the payment of a \$5,000 fine and immediate payment of the full amount of the liabilities including penalties, interest and cost prosecution. Shortly thereafter Judge Parr's suspension was revoked because of nefarious conduct and he was sent to jail to serve the sentence imposed.

There are various other related cases which were the outgrowth of a general

investigation of the Pearson Company graft payments as the means of securing public roads contracts, the investigation of which resulted in the assessment and collection of substantial amounts of tax. Several criminal prosecutions of other county officers likewise were successful.

### **Shipping Board Director a Tax Evader**

Frank J. Denniston, former District Director of the United States Shipping Board of the New York District, was investigated by the Intelligence Unit at the request of the United States Senate Committee Investigating Ocean and Air Mail Contracts.

Denniston was exposed as a grafter when he was indicted for tax evasion.

The assessment of \$90,439 in additional taxes and penalties against him and the development of cases against various stevedores operating on the New York waterfront resulted from this investigation.

### **Investigation of Huey Long**

Huey Long was termed by the press as a "political racketeer." He ruled the state of Louisiana through organized force and used the laws of the state to accomplish unlawful purposes.

He gathered around him a large organization of unscrupulous politicians and "strong-arm" men who enforced his dictates and controlled elections. Citizens of the state who voiced opinions contrary to those of Long were immediately subjugated through increases in real estate assessments. State laws were enacted by the Long "machine" to damage their opponents.

He gained his hold on the State of Louisiana when he was elected governor in 1928 and continued his domination after he became United States senator in 1930. He even went so far as to threaten publicly to bring about the secession of Louisiana from the United States. Tremendous amounts of graft were collected by his organization and he was the principal beneficiary. The Standard Dredging Company of New York City, the contracting firm which built the Shushan Airport at New Orleans, alone paid graft in excess of \$500,000.

Long advocated a so-called "share the wealth" movement, promising every man and woman in the country a home valued at \$5,000 and an annual income of \$2,500. The "share the wealth" movement gained a great many followers, who believed that Long was sincere in his plan to take wealth away from the rich people through legislation and distribute it to those who were less fortunate. The irony of this situation is that he was individually accumulating fabulous wealth through his organized corruption and control of contracts for state roads and other improvements in the State of Louisiana. This brought about an alarming deficit in the finances of the state.

The investigation developed evidence against prominent members of the Huey Long group. The first case tried, that of Joseph Fisher, a member of the state legislature, was prosecuted successfully. Fisher was sent to the Atlanta penitentiary for eighteen months.

The second case brought to trial involved Abe Shushan, President of the New Orleans Levee Board, and resulted in his acquittal.

This case was considered by the investigating agents and the prosecuting officers to be one of the clearest cases of fraud on the revenue ever presented in a court. Failure to convict Shushan indicated more clearly than anything else the tremendous influence of Long in Louisiana.

Prior to the time set for the trial of the other defendants, Huey Long was assassinated. The report outlining Long's tax evasion had been submitted late in August 1935 by the special agents. It was believed, upon review of the facts, that criminal prosecution was warranted.

On September 9, 1935, the Chief of the Intelligence Unit was in Dallas, Texas, consulting with former Governor Moody of Texas, who had been appointed Special Assistant Attorney General to handle the prosecution of these cases. They were arranging for a Grand Jury hearing to be held on October 3, 1935. On September 10, 1935, Long was assassinated.

Evidence of fraudulent tax evasions by Governor O.K. Allen of Louisiana, described in newspapers as Huey Long's "puppet" Governor, also was under consideration with a view to criminal prosecution, but he died before the case could be presented to the Grand Jury.

Long's assassination thus closed the files of the criminal case relating to him. In the course of these investigations, indictments were obtained against eleven other individuals, members of the Long group, and these individuals were awaiting trial at the time of Long's murder.

Delay ensued in bringing these cases to trial although every effort was exerted by the Treasury Department to have them disposed of promptly. In May, 1936, United

States Attorney Viosca, who on recommendation of the Treasury Department had been supplanted by Governor Moody in the handling of the cases, recommended to the Department of Justice that the remaining cases be dismissed. This was contrary to the judgment of Treasury officials and the Department of Justice was so advised. However, the United States Attorney was authorized to take such action in the matter as he might see fit.

Before receipt of this authority, a number of the defendants had been permitted, without the knowledge of the investigating officers, to plead guilty and pay the taxes due. Upon receipt of the authorization, the cases of the remaining six were dismissed. These included Seymour Weiss and State Senator Jules Fisher, who were the most important of the group.

This closed this group of cases in so far as criminal action was concerned, but the Treasury Department is proceeding vigorously in its efforts to collect all taxes, penalties and interest due by these taxpayers.

The investigation of the disposition of the more than \$100,000,000 of public improvement funds spent by the state of Louisiana and its political subdivisions during the reign of Huey Long, resulted in deficiencies and penalties in excess of \$2,000,000 being recommended against the many taxpayers who had been favored directly and indirectly by these expenditures. More than \$300,000 of this has been paid or collected; and an examination of the Bureau records shows that the indirect benefits — by way of the filing of more nearly correct returns, the reporting of receipts from graft, the filing of returns by persons who had not previously done

so, and the discontinuance of the claiming of unallowable deductions disguised as ordinary and necessary business expenses — have been enormous.

## Leading Gangsters Sent to Penitentiary

With the advent of Prohibition, organized crime quickly developed. Enormous profits were realized from trading in beer and liquor. Competition was extremely keen. In a few years the more successful bootleggers and their henchmen "took over" the territories of small operators. Their power and profits grew to amazing proportions.

The ability of a bootlegger to operate successfully on a large scale depended upon his "protection" which was of two kinds:

First: A corrupt alliance with dishonest politicians and police;

Second: The ability to withstand competition of other bootleggers by maintaining a gang of so-called "strong armed" men who were usually exconvicts.

Unfortunately, it seemed to be possible for the bootlegger to make contacts with local public officials who afforded him immunity from police interference. The principal consideration for "protection" was graft payments. The extent of such protection generally depended upon the size of the payments.

The second problem of the bootlegger was the elimination of competitors and competition by force, through the use of bombs and bullets.

This period marked the beginning of organized racketeering in the United States.

## Gangsters' Operations Syndicated

As the bootlegger's power increased, he sought new fields. Gambling, white slave traffic and all forms of lawlessness were syndicated in all large communities by the racketeers having the most power.

Eventually, legitimate business also was invaded by racketeers. They found many avenues of entry. For example, unscrupulous leaders of labor unions willing to sacrifice the interests of union members for their personnel benefit formed alliances with the racketeers.

The invasion of racketeers into legitimate business was brought about to some extent because it was the practice of certain industrial concerns to call on organized criminals to assist them in breaking strikes.

Labor unions provided a new bonanza for the racketeers. The racketeers were able to share in the direct income of unions by means of dues and special assessments. More important to them, financially, they were in a position to use their control of the labor union as a means of forcing employers to pay tribute.

## Public Sentiment Demanded Action

The next development was the formation of all sorts of alleged "commercial" and "protective" associations, fostered by the gangster leaders. By this means, racketeers exacted tremendous amounts of money from many branches of legitimate industry. The racketeers' weapons were force and compulsion. They did not hesitate to commit arson or use bombs or machine guns to accomplish their ends.

During the early days of prohibition, when bootleggers were confining their activities to the distribution of beer and liquor, public sentiment toward enforcement of the Prohibition Act was apathetic; and, to a considerable extent, the illicit traffic in liquor was condoned by a large portion of people in this country. However, when the activities of the racketeers finally reached those dealing in necessities and it became apparent that the racketeer's tribute was to be added to the consumer's cost, the public became aroused. Public sentiment demanded that immediate action be taken by law officers to curb this organized lawlessness.

Law enforcement agencies found it difficult to obtain evidence against notorious racketeers engaged in the active promotion of crime because of the fact that the leaders of the major gangster organizations carried on their lawlessness through gang subordinates.

The prosecution and conviction of employees did not affect the operations of the racketeer leaders as they immediately replaced the employees with other subservient tools in further crime.

The racketeers extended their underworld activities with considerable success by directing others to act for them, thus avoiding any personal activity which would cause their own apprehension.

The gang leaders always benefited financially and amassed great wealth. This provided an opportunity for the Intelligence Unit under the Income Tax laws to attack the leaders of organized racketeering where other law enforcement agencies had been unsuccessful in their efforts to reach the "big fellows."

In many instances, local prosecuting attorneys had been forced by public sentiment to prosecute the ringleaders in racketeering. Their prosecutions were unsuccessful because of bribes and corrupt political influence used by the racketeers. Prosecution witnesses were intimidated through fear of bodily harm if they testified against the racketeers.

The experience of the Intelligence Unit in its tax fraud investigations of bootleggers, grafters and other individuals engaged in illegal activities provided the means of striking at the heart of the powerful racketeering organizations. It seemed to be the only effective method by which the government could then proceed against them.

The Manley Sullivan tax case had established that those engaged in unlawful business were nevertheless subject to income tax. The United States Supreme Court in its decision in that case held that gains realized from illicit traffic in liquor were taxable under Federal revenue laws.

The personnel of the Intelligence Unit then consisted of less than 100 special agents. Their entire time was required for the performance of regular duties. However, from this limited personnel it was decided to detail a group of special agents to strike at the most powerful of these racketeers.

The group of agents detailed to this work included many of the best men in the Service. The course of the investigation into the hidden sources of income of the "big fellows" was a tortuous trail through the crooked ramifications of underworld intrigue.

Let us note some of the results.

## Al Capone — Public Enemy No. 1 Vicious Crime Organization Revealed

Chicago had gained an international reputation from 1924 to 1930 because of organized lawlessness. Gang killings were a frequent occurrence. The most notorious leader of organized crime in that city and in the nation was Al Capone, known as "Scarface Al," and termed by the newspapers as Public Enemy No. 1 of the United States. There is no doubt that he was the most vicious and dangerous racketeer in the history of this country. His reign as vice overlord began in 1924, when he succeeded Johnny Torrio, and continued up to the time of his conviction on the charge of evading income taxes, October 17, 1931.

Johnny Torrio had come to Chicago from New York during the early days of Prohibition to succeed the murdered Jim Colosimo, who was among the first of the notorious racketeers of the early Prohibition era. Torrio had considerable executive ability and was skilled in the ways of the underworld. He had seized the chance to gain power and wealth by organizing Chicago vice, liquor and gambling interests. He dominated not only the first ward controlled by Colosimo, but held lawless sway throughout the city. He made the most of his opportunity, and with considerable financial success. In 1924, Torrio became the target of a spray of bullets. Although badly wounded, he recovered and promptly quit Chicago.

Capone then came into power. Immediately upon his succession to the throne of gangdom in Chicago, there was a series of gang wars. Rival factions sought to displace his control of underworld activities.



There were 16 murders from gang casualties in 1924. Wars between gangs continued until 1929. The murder record rose to 64 in one year.

Capone thus established and maintained his place as recognized mob leader. His organization was acknowledged as being so highly effective in obtaining results that on one occasion he was called in by the Chicago newspapers to settle a strike of their employees.

Capone's income was enormous. Investigation disclosed that he had failed to report large profits from gambling, bootlegging and various forms of racketeering. When the special agents finally finished their investigation and built up a great mass of evidence, the government was ready to make its first public revelations of Capone and his crime organization.

Capone was brought to trial at Chicago in October 1931. The trial was publicized internationally, representatives of foreign newspapers and many national newspapers being in attendance. Upon conviction he was sentenced to ten years in the federal penitentiary and one year in the Cook County jail, to be served at the completion of the prior sentence, and was fined \$50,000. The conviction was appealed to the Circuit Court of Appeals and to the United States Supreme Court, but the trial court was sustained.

### **Capone's Henchmen Rounded Up**

The work of the Intelligence Unit at Chicago in bringing income tax evaders to justice was not confined merely to the Capone case. The investigation reached far into the secret recesses of other reigning

gangsters. Finally, the round-up included the principal lieutenants in his organization and outstanding rival gangsters.

Some of the most active members of Capone's organization, known as his "inner council," were Al Capone's brother, Ralph Capone, who was his principal lieutenant; Frank Nitto, Chief Executioner and Treasurer; Jack Guzik, Business Manager; Philip D'Andrea, Bodyguard; Murry L. Humphries, who specialized in the business rackets; also Ted Newbury, Rocco and Nick De Grazia, other principal lieutenants. The most notorious of the rival gangsters were Terry Druggan and Frank Lake.

Most of the tax evaders investigated in Chicago during the intensive drive were primarily engaged in different kinds of illegal business. They kept little or no records. They had no bank accounts in their own names.

Because of the nature of their activities, it was an exceedingly difficult task to secure the proper evidence to convict them in court of evasion of income taxes. Persons having knowledge of their financial transactions were extremely reluctant witnesses because of fear that their families would be killed.

The Capone organization had operated in various illegal business ventures for several years apparently without serious interference by local or federal authorities. The organization was so powerful that it was almost impossible to find witnesses to testify against them.

During the course of the trial of Al Capone, he was accompanied back and forth between the Federal Building and the Lexington Hotel by Philip D'Andrea, an ostensible personal bodyguard. D'Andrea

sat immediately behind the defendant in the court room. Since Capone was being escorted by squads of police, it appeared that D'Andrea was serving in some capacity other than that of a bodyguard.

It seemed clear to the special agents that he was present at the trial to intimidate Government witnesses as they took the stand and to bolster up the courage of defense witnesses.

On the first day of the trial, Judge Wilkerson ordered that no firearms be carried into the court room. Immediately before one of the noon recesses during the trial, D'Andrea was called from the court room by special agents and escorted into an anteroom. He was searched and a fully loaded 38-caliber revolver was found concealed inside his belt. In a vest pocket he carried a supply of extra cartridges. A warrant was issued for his arrest charging contempt of court and he was placed in jail pending disposition of the Capone case. Later, he entered a plea of guilty and was sentenced to six months in jail.

### **Judge Wilkerson Excoriates Gangsters**

In sentencing D'Andrea, United States District Judge Wilkerson stated:

"The respondent claims that he did not know what this band was doing but his understanding was that they are engaged in gambling and bootlegging.

"It is perfectly clear from a long array of conclusive circumstances that this band exercised a coercive influence over those with whom it comes in contact, which is nothing less than insurrection against the laws of the United States.

"The court would have been blind, indeed, if it had not observed the intimidation practiced on the witnesses almost under the eyes of the court.

"It must be borne in mind that this respondent was sitting with his concealed firearm behind the defendant (Capone), while the defendant was glaring at witnesses who were on the point of remembering something about the business in which the defendant was engaged, and which the witnesses could not possibly have forgotten, yet witnesses faltered and failed at the critical point.

"To this camp at the Lexington (Hotel) were summoned the witnesses who testified to the defendant Capone's losses on horse races. At that camp were summoned counsel for conferences and from that camp, under what coercive influence we can only conjecture from what transpired in court, came that array of shocking perjury with which the court was confronted during the closing days of the trial.

"We had here the spectacle of witness after witness testifying in a way which was psychologically impossible, pretending to remember things which, in the very nature of the human mind, the witness could not have remembered if he had forgotten the things which he pretends to have forgotten. It was perjury on its face. The activities of this band were a menace to the court and its officers to the due administration of justice."

## Capone's Conviction, Applauded by Press, Prompts Large Payments from Delinquents

Thus, we have a portrayal, in a very general way, of conditions as they existed in Chicago, when the Intelligence Unit began its investigation of the various members of the Capone syndicate.

The conviction of Al Capone brought favorable comment in the press. Newspapers, in their stories and editorials, highly commended the work of the Intelligence Unit. Editorial expression throughout the nation applauded the conviction and appealed for complete suppression of gangsters. An aroused public opinion was quickly manifested.

This conviction, press observers said, did more than anything else to provide the inspiration which induced law enforcement agencies, both local and federal, throughout the nation, to institute drives against organized crime.

The indirect results of the Capone prosecution were most beneficial. Many delinquent taxpayers, including those engaged in legitimate business, as well as individuals in illegal activities, immediately filed delinquent returns at the office of the Collector of Internal Revenue as the result of the Chicago drive.

It is worthy of note that an increase of \$1,136,588 in the collections from delinquent returns in 1931 over 1930, was reported by the Collector of Internal Revenue for the Chicago District. This sum was more than double the amount collected from that source in the preceding year.

Early in 1931, a "big-shot" gambler called the office of the Collector of Internal Revenue at Chicago and stated that,

"Knowing what was being done to others" engaged in underworld activities, he feared he would be prosecuted himself. He volunteered to cooperate in the investigation of his transactions. At the end of the investigation the gambler paid the Government \$200,000 in cash.

A somewhat similar experience was recorded with another individual engaged in illegal activities. Upon the conclusion of the investigation of his case, the Treasury received approximately \$238,000. Numerous other instances of this character could be cited.

Racketeers under investigation by the Intelligence Unit have endeavored to avoid criminal responsibility by offering to pay taxes and penalties with interest and frequently an additional amount in lieu of criminal prosecution. The policy of the Bureau of Internal Revenue has been that in those cases in which the evidence is deemed sufficient, criminal prosecution shall be instituted.

Steps are taken also to safeguard the Government's interests with respect to the collection of the civil liability by filing liens where necessary. It is the practice, during an investigation, to keep in mind the ultimate collectibility of the tax as well as the criminal procedure.

## Drive On New York Racketeers Nets 47 Indictments of Bootleggers, Gamblers, Officials, Lottery Operators

After the successful conclusion of the investigations in Chicago, the Intelligence Unit, in the early part of 1931, instituted an intensive drive against racketeers in New York City, who were evading income

taxes on illegal gains.

Preliminary inquiry resulted in investigations of approximately 250 individuals and several corporations.

Originally the drive was intended to cover only racketeers who were preying on legitimate business. As it progressed, it was extended to cover alleged corrupt officials in New York City. The irregularities of these officials were being discovered through the activities of the Seabury Committee, which at that time was making an extensive investigation of public officials.

Several of the most notorious bootleggers, gamblers, operators of lottery games and public officials in New York City were indicted and convicted of the charge of evading taxes.

Forty-seven indictments were obtained as the result of the drive. Additional taxes and penalties were recommended for assessment in the total amount of \$5,683,706 in this group of cases.

## "Waxey" Gordon Investigation Convicts Notorious Gangster—Underworld Activities Exposed

Among the list of those prosecuted as a result of the New York drive was Irving Wexler, better known as "Waxey" Gordon, a gangster who had been notorious in underworld activities in New York City since 1905. He was undoubtedly the most powerful of the racketeers in New York City and the eastern part of the country.

Reputable police officials have stated that he was responsible for a number of murders and other acts of violence. Waxey Gordon had been convicted for various crimes, including larceny, assault and robbery. He had been the subject of

investigation in connection with narcotic smuggling, bootlegging and other illegal activities.

The income tax returns which he filed for the years 1928, 1929 and 1930 reported net income in the respective amounts of \$6,852, \$7,394 and \$6,556. Gordon's personal living expenditures exceeded several times the amount of net income reported by him on his returns.

The investigation in this case was very tedious and complicated. Waxey Gordon had learned his lesson in 1924 when he was indicted for possession and transportation of two trunks of narcotics. In that case, he had written a letter to the railroad company transporting the trunks which were traced to him and led directly to his apprehension. From that time, Gordon carefully avoided signing any checks, memoranda or other records which might be used as a means of identifying his handwriting and involving him with transactions.

## Hidden Bank Accounts

All of Gordon's bank accounts which contained the proceeds from his syndicate's operations were maintained in fictitious names. All writing in connection with such accounts was done by his employees. These accounts contained millions of dollars in deposits. It was essential to identify the accounts as being those of Waxey's syndicate.

This made it necessary to devote a great deal of time to an analysis of the deposit slips in an effort to establish, by the handwriting and other means, the identity of the persons from whom the funds were received. It was vital to determine Gordon's

income from his bootlegging activities as evidenced by alias bank accounts. Also, investigators had to establish his ownership of various properties in which he was alleged to have held an interest.

The investigation in this case extended over a period of approximately two years and required perseverance and ingenious effort. Gordon had endeavored very carefully to safeguard himself by taking what he thought would be sufficient protection to avoid personal responsibility. Like other gang leaders his dealings were through his lieutenants and employees. But, a tax liability of \$821,136 finally was established.

Evidence was also developed to warrant criminal prosecution. He was tried in December 1933, for evading income taxes for the years 1930 and 1931 and for conspiracy to evade taxes for each of those years. The jury deliberated forty minutes and returned a verdict of guilty on all counts whereupon sentence was immediately imposed. He was committed to prison for ten years, fined \$20,000 and, in addition required to pay the cost of prosecution, totaling \$60,000.

#### **Judge Commends Prosecution**

After passing sentence Judge Coleman made a statement in which he complimented the government on its excellent preparation and trial of the case. He said, in part:

"...it is my firm conviction that never in this court or in any other court has there been such fine work done, either on behalf

of the government or of any private client, as has been done by the agents and the government attorneys in this case.

"So often it is stated that you cannot get the very highest quality of service in public office, that it is well to note it in this case. I defy anyone to show me any instance of higher quality of service on behalf of any private client.

"These agents, small salaried men, who unquestionably could have received fabulous sums had they been willing to deviate from the strict line of their duty, or even to relax their diligence, have gone ahead and have accomplished a collection of evidence such as is truly astounding."

Incident to the investigation of Waxey Gordon, several associated cases were successfully investigated with gratifying results both as to the amount of taxes recovered and with regard to criminal prosecution.

An interesting incident of the Waxey Gordon investigation concerned the refusal of Frederick S. Lang, Assistant Secretary and Treasurer of the Jefferson Trust Company of New York, New York, to testify before the grand jury relative to financial relations of his bank with Gordon. Lang was sentenced to jail for ninety days by Judge Knox.

Waxey Gordon unquestionably was Public Enemy No. 1 of the Eastern part of the United States. His confinement to the penitentiary to serve the 10-year sentence for tax evasion culminated a quarter of a century of lawlessness on his part.

#### **Investigation of Racketeers Preying On Legitimate Business**

When the New York drive was commenced, organized crime had been successfully making in-roads upon legitimate business. Many important business enterprises were gang victims, financially. But they were unable to obtain action from the local enforcement agencies because of existing collusion between public officials and racketeers, or inability to secure evidence.

#### **The Poultry "Racket"**

For example, an organization was formed under the name of the Greater New York Live Poultry Association. Its charter indicated altruistic purposes aimed toward improving conditions in the poultry industry. The idea was quickly seized and developed into a "racket" by two brothers, Charles and Arthur Herbert.

The Herberts, thereafter, by varied means, practiced extortion upon business men engaged in honest enterprise. These two brothers were the business agents of the two unions controlling labor in the poultry industry.

Poultry dealers were required to pay one cent a pound on all poultry sold in New York City. In addition, they were obliged to purchase all poultry feed from a company owned by the Herberts and other racketeers. They were likewise forced to rent all chicken coops for transporting poultry from a company which had a monopoly on the business and charged exorbitant rates.

Failure of any of the dealers to pay tribute in the various forms demanded invariably resulted in labor trouble

brought about by the Herberts or by "strong-arm" intimidation. The Herbert brothers paid a substantial tax liability; and, in addition, Charles Herbert was convicted of tax evasion and sentenced to the penitentiary.

#### **The Milk "Racket"**

There was in New York an organization known as the New York Milk Dealers Association. Its membership was built up through compulsion and each dealer was required to pay the organization according to the quantity of milk handled.

This organization was headed by Larry Fay, a notorious racketeer and night club operator of New York City. Fay was indicted on the charge of evading taxes. He was murdered a few days before the date set for his trial.

#### **Other "Association" Rackets**

The same situation existed in dry cleaning establishments, the garment industry and related businesses. Foodstuffs were not immune. There were racketeering organizations operating under the guise of "associations" which obtained substantial income from the fish and flour dealers, artichoke dealers and various other business concerns handling foodstuffs.

Investigations made by the Intelligence Unit were helpful in breaking up numerous organizations of racketeers who had been making considerable headway unmoled because of corrupt political alliances.



## Racketeers Use Labor Unions

The racketeers were very active in their efforts to obtain control of labor unions and had met with a considerable degree of success.

The business agent of a labor union was in a very favorable position to enrich himself by using his power as the executive head of the union to exact tribute from employers.

Several cases of this type were investigated and a great deal of publicity was given to the Commerford, Brandle and Maloy cases.

## The Commerford Case

Patrick J. Commerford was the business agent of the Hoisting Engineers Union. It developed that he had an income far in excess of his salary from the union as business agent. He was on the pay roll of contractors who employed members of Commerford's union on various projects, such as excavation on subway construction contracts, which required that the work be performed without delay.

Commerford's practice was to threaten to call a strike. Then the contractor would negotiate with him to avoid penalty for delay under the contract. By means of a substantial payment the contractor would be permitted to continue unmolested for a while longer.

Commerford was convicted of the charge of evading taxes for the year 1929 and sentenced to one year and one day in the Federal penitentiary at Atlanta and fined \$2,000.

## Wealthy Contractor Sentenced

During the Grand Jury Hearing on the Commerford case, Patrick McGovern, one of the most prominent subway construction men in New York City, was called as a witness and asked about the payment of \$380,000 by his company during 1928, 1929 and 1930.

His answers were evasive and as a consequence he was sentenced to thirty days in jail for contempt of court. This action caused considerable comment in newspapers because McGovern was very well known in New York City and immensely wealthy.

## Brandle — Tax Evader

Theodore M. Brandle, labor leader at Jersey City, gained considerable wealth as a result of his activities, but most of his income was not reported for income tax purposes.

He pleaded guilty to evasion of income taxes. The court sentenced him to pay the tax liability, approximating \$35,000 and a fine of \$5,000. The greatest blow to him, however, was the loss of prestige as a labor leader because of the disclosure of his individual gain and his deception of labor union members.

## Maloy's Strong-Arm Method

Thomas E. Maloy, business agent of the Chicago Moving Pictures Machine Operators, had dominated that organization for several years. He used terroristic methods, including bombing of theaters and physical attacks by his "strong-arm" men on obstreperous operators who attempted to dispute his control.

As a result of the tax fraud investigation by special agents, it was learned that substantial cash payments were made by various motion picture theater companies to a "racket" collector who was identified as an associate of Maloy.

On one occasion when Maloy's home was robbed, it was reported that \$63,000 in currency was taken. Maloy was indicted for evading taxes amounting to \$80,602. The day prior to the date set for his arraignment he was murdered by gangsters.

## Other Leaders in Organized Crime

It will be observed that many of the racketeers have been brought to justice through the collateral charge of evading income taxes. This has been the most effective means of reaching the leaders of organized crime. The "big fellows" have sought to protect themselves by avoiding any active part as a principal in illegal business other than orally directing its operation and receiving the financial benefits.

An outstanding example of this situation is the Monforte and Gagliano case. These men were originally small contractors doing lathing work for other contractors. They organized Italian contractors engaged in such work and created the Plasterers Information Bureau, Inc., in New York City. All the plastering contractors in the Bronx, with two exceptions, were forced to become members and pay fees to this "association." In exchange for these payments, they were to receive from the "association" credit, information and assistance in making bids for jobs.

As a matter of fact, the members were forced to pay five percent of the amount

called for by the plastering contracts but they received no service or information of any kind. If the plastering contractors failed to pay these "commissions" or "fees," their men would be called out on strikes.

When strikes failed to accomplish results, buildings under construction were set on fire. Sometimes, contractors were seriously injured physically. In some instances, actual murders took place. Among the buildings destroyed by fire were a number of very large apartment houses which were practically completed except for the plastering.

The income tax fraud investigation brought about the indictment of Monforte and Gagliano and ten members of their group. They were convicted and sentenced to terms varying from four months in jail to two years in the Federal penitentiary.

## Other Racketeers Convicted — Revenue Gains for Government

While the Chicago cases and the New York drive on racketeers have been commented upon in detail, there were, as a matter of routine, similar investigations of other notorious racketeers and tax evaders throughout the country. Several such investigations are worthy of brief comment.

## Max Hassel — Beer Baron

Mendel Hassel, better known as Max Hassel, was an immigrant to the United States in 1911, unable to read or write, with the worldly wealth of \$15 between five members of his family. During prohibition he became a beer baron operating in Pennsylvania and New Jersey.

In 1928, he was indicted and pleaded guilty to income tax violations. He paid the government \$150,000 and was fined \$2,000, but later he started anew to conceal his income. On April 12, 1933, five days after beer had become a legal product, Hassel was murdered. A key to his safe-deposit box was found on his person.

After considerable negotiations, a court order was obtained authorizing the opening of the box. It contained bundles of bank notes and gold certificates totaling \$214,000. The notes and certificates were each of not less than \$50 denomination, with several \$5,000 bills. A jeopardy tax assessment approximating \$100,000 was made, all of which was collected from the cash contained in the box.

#### **Sam Beard — Gambler**

Sam Beard was a notorious racketeer of Washington, D.C. He was active for several years as a professional gambler and boot-legger on a large scale.

Investigation developed that he had evaded taxes. He was indicted, convicted and sentenced to serve eighteen months in the penitentiary and to pay a fine of \$12,500, together with costs.

#### **Micro's "Numbers" Racket**

During recent years the "policy" or "numbers" games became very active throughout the country. The operators became wealthy. One of the most prominent was Jose Enrique Micro, . . . who operated the "numbers" game in Harlem and was very successful financially.

Ten different bank accounts with deposits totaling \$1,083,155 were found and evidence was obtained indicating substantial increase in net worth during the few years he was active in the Harlem district.

He was indicted and convicted on the charge of failing to file returns and for evasion of taxes. The court sentenced him to three years in the Federal penitentiary and to pay a fine of \$15,000.

#### **Jimmy LaFontaine — Gambler**

The case of Jimmy LaFontaine received much space in the newspapers because of his success as the operator of the largest professional gambling house catering to Government employees and residents of the District of Columbia.

LaFontaine flourished for years under a "do nothing" policy of authorities in Maryland and the District. He was suspected of paying out much money for "protection." The Gibson Investigating Committee of the House was amazed at this gambler's unchecked activity.

At the request of Mr. Wm. H. McReynolds, then head of the Bureau of Efficiency, and now Administrative Assistant to the Secretary of the Treasury, special agents were assigned to conduct a sweeping investigation. The result was the conviction of LaFontaine as an income tax evader. LaFontaine's trial was a sensational exposé of his operations. In his case, taxes and penalties in the total amount of \$206,651 were collected by the Bureau of Internal Revenue and LaFontaine was sent to jail.

#### **Aid to Prosecuting Attorneys**

The work of the Intelligence Unit is not completed with the investigation of a case and the determination of evidence to sustain the 50% fraud penalty in civil cases or in criminal prosecutions. Often, it develops that considerable work must be done by special agents after the tax evader has been indicted.

The United States Attorney is assisted in his preparation of the case for trial, and he is frequently aided in locating a fugitive from justice charged with violation of Internal Revenue laws.

For example, Eldridge S. Price, alias Price E. Crawford, of Dallas, Texas, was a high pressure promoter and confidence man and his operations covered all parts of the United States. His scheme was to promote a project in one section of the country and suddenly leave that vicinity and start operations elsewhere on a different project. None of these projects was ever successful.

Price and his wife gained the confidence of elderly women and widows who invested their funds with the result that many of them became paupers. Price was indicted for evading income taxes and released after furnishing bond. He failed to appear for trial. An exhaustive search was made covering a period of several months.

Whenever information was obtained as to his possible whereabouts, the office of the Intelligence Unit nearest to where the "tip" originated would be advised. Eventually, Price's trail was picked up in Alaska where he was apprehended. He was returned to Texas for trial, and convicted.

#### **Opium Smugglers**

Numerous cases relating to alleged evasion of income taxes by opium dealers in Honolulu, Hawaii, were referred to the Intelligence Unit for attention. The investigation which began in February 1932 was concentrated upon five of the most active opium dealers, Lee Kui, Sam Young, Hong Chang, Lim Beu and Hong Chack.

Within six weeks after the investigation had started, telegraphic assessments were made against the five opium dealers in the total amount of \$267,054 and liens were immediately executed against all of their assets. Indictments were obtained against all five defendants. Four of them pleaded guilty. The remaining defendant paid his taxes in full and the criminal case against him was dismissed.

A court ruling important to the Bureau was made during the trial of one of the defendants. The court laid down the principle that bank accounts showing almost daily deposits and withdrawals of substantial sums over a long period of time were prima facie evidence that the depositor was actively engaged in some business and was under legal duty to report it to the Bureau of Internal Revenue.

While these cases did not entirely eliminate the opium traffic in Hawaii, the effect was to reduce that traffic to a very low point and narrow the field of operations of narcotic dealers.

A significant result of these cases is the fact that the Collector of Internal Revenue, Honolulu, estimated that, since the prosecution of these cases, tax receipts from Oriental residents who previously were notorious tax defrauders have increased 100 per cent.

## **Motion Picture Stars Investigated — Several Million Dollars Collected**

During the early part of 1928, a former employee of Marjorie Berber, an accountant in Hollywood, California, gave the Intelligence Unit important information on **tax law violations in the movie colony**. The investigation developed facts that placed many of the movie stars in the stark role of **tax dodgers**.

Miss Berber's employee related that, during the period of her employment, information and evidence had come into her possession indicating that **her employer** was engaged in a scheme of tax evasion for the benefit of a large number of motion **picture actors, actresses, directors and producers**. For several months discreet preliminary inquiry was made with respect to these allegations. It was found that a plan of evading taxes on returns filed for clients had been practiced for years.

Miss Berber's scheme was to claim deductions from gross income of certain large, alleged expenditures which either, in fact, did not exist at all, or were not allowable deductions. **This was brought about largely by the manufacturing of substantiating evidence to support certain alleged deductions which had been claimed as ordinary and necessary "business expenses."** It was found that Miss Berber had prepared income tax returns for about 70 taxpayers, involving approximately two hundred case years.

### **Other Tax "Experts" Involved**

The investigation led to another accountant engaged in similar fraudulent practices. It developed that he had assisted 95 taxpayers to evade taxes.

Subsequently, three other accountants were included in the investigation because of the questionable manner in which they had prepared returns. About 200 different taxpayers were investigated, involving approximately five hundred case years.

These investigations resulted in evidence which indicated that these five accountants had knowingly and wilfully assisted taxpayers in filing false and fraudulent returns.

Miss Berber was found guilty and sentenced to two-and-one-half years in the federal penitentiary and fined \$5,000. The other four accountants also were successfully prosecuted.

### **Two Million Dollars Collected**

It developed that many of the taxpayers for whom fraudulent returns had been prepared knew of the action taken and knowingly participated in the attempts to evade taxes.

Of this group twenty-two entered pleas of guilty to those offenses. There were a number of taxpayers involved in this investigation concerning whom the evidence was not sufficient to warrant criminal prosecution. These cases were disposed of by the payment of taxes, penalties and interest and, in a few cases, by the acceptance of offers in compromise of the **criminal and civil liability**.

The remaining cases concerned those taxpayers who apparently did not have full

knowledge regarding the improper action taken by the accountant and did not understand that the deductions claimed were not allowable under the regulations. Settlement of such cases was permitted on the basis of the payment of additional taxes due and, in some cases where facts warranted, the negligence penalty was asserted.

As the result of this series of cases, taxes, penalties and interest in excess of \$2,000,000 were assessed and practically the entire amount was collected.

Some of the most prominent of the movie stars investigated in this drive were:

Tom Mix  
Robert W. & Mildred Browne  
Raymond Griffith  
Eleanor B. Vidor  
Dorothy Mackaill Mendes  
Lothar Mendes  
King Vidor  
Lewis Mitchell  
George F. Marion, Jr.  
Malcom McGregor  
Mrs. Malcom McGregor  
Dorothy Sebastian  
Bess Meredyth  
William Christy Cabanne  
Mrs. George F. Marion, Jr.  
Robert Z.L. Leonard  
Bert M. Lytell  
Glenn Tyron (Kunkel)  
Jack Hill  
Pat Chrisman  
Eugene Ford  
Tressie Eason  
Milton Sills  
Rod La Rocque  
William Haines

There were individual cases involving prominent motion picture actors, which are illustrated below. These were investigated separately and not connected with the group of cases listed above.

### **Marion Davies**

It cost Marion Davies Douras, best known by her stage name as Marion Davies, \$775,000 to learn that it does not pay to evade income taxes.

Marion Davies ranked among the highest **salaries** of the screen for nearly ten years and she resorted to various schemes to defraud the government of income taxes. For the years 1920 to 1927, she had been paying nominal income tax, approximating a few hundred dollars a year.

During June of 1928 an anonymous letter was received by the Intelligence Unit which alleged tax evasion by Miss Davies. A thorough investigation was accordingly made of her income tax returns. In the course of this inquiry, Miss Davies appeared for conference at the office of the Chief, Intelligence Unit. She endeavored to make light of her tax troubles and gave frivolous answers to questions concerning her income. It became necessary finally to advise her of the seriousness of her case — that the investigation had disclosed a tax liability in excess of \$1,000,000 and that consideration must be given to the question of criminal prosecution. Her attitude then changed completely. Undoubtedly, recalling the successful criminal prosecutions of other movie stars, she became visibly upset. She left the conference and a few moments afterwards a stenographer called the office of the Chief, Intelligence Unit, and stated that there was a woman, appar-

ently deranged, in the ladies' room, saying that she owed a million dollars in taxes.

When Marion Davies returned to the conference soon afterwards, it was evident that she no longer considered the understatement of income a frivolous matter. She used powerful influence in an effort to escape her liability but finally paid additional taxes and penalties in excess of three quarters of a million dollars.

Since the investigation of this tax case, frequent editorials and news items have appeared in the Hearst papers continually criticizing the Bureau of Internal Revenue. The publicity, obviously, was inspired by the Davies' case, as the evidence developed during the investigation indicated that she received substantial payments through certain corporations controlled by Hearst.

In this connection Arthur Brisbane, editor of the Hearst newspapers and the highest salaried editor in the United States likewise was investigated, resulting in the payment by him of approximately \$250,000.

### **Charlie Chaplin**

The first tax evasion case against a prominent motion picture actor concerned Charlie Chaplin. Chaplin evaded income taxes by claiming that a partnership existed between himself and his brother, Sydney Chaplin.

Investigation, however, established the fact that all of the partnership earnings which were credited to Sydney Chaplin found their way into the possession of Charlie Chaplin.

As a consequence, an assessment of taxes and penalties amounting to \$1,174,627 resulted, all of which was paid to the government.

## **Tax Evasion Cases Involving Prominent Individuals and Business Concerns**

While numerous tax evasion cases such as those which have been outlined have resulted in criminal prosecution, by far the greater percentage are civil cases handled administratively by the Commissioner or by the Board of Tax Appeals.

These civil cases result in the assessment and ultimate collection of taxes and fraud penalties on the basis of evidence of fraud established by agents of the Unit. Many business concerns, presumed to be reputable otherwise, have used ingenious means of endeavoring to evade the payment of taxes. Evidence of this character has not always been sufficient to justify a conclusion that successful prosecution can be had, but it has sufficed to enable the Bureau to collect the taxes evaded and, in addition, the penalties and interest. Following are cases of this kind.

### **Woman Reporter Reveals Fraud**

A young woman employed as a freelance newspaper writer once called the New York office of the Intelligence Unit. A memorandum which she carried outlined the concealment of approximately \$4,000,000 in income by the Atlantic Gulf and West Indies Steamship Company. She explained that she had obtained the mem-

orandum from an attorney in response to her request for material which would be suitable for a news article.

An investigation was immediately commenced, and even further fraud was disclosed above the concealment reported by the woman. This investigation resulted in the payment of \$2,631,000 to the Bureau of Internal Revenue. The fraud in this case was so well concealed that it is certain none of this amount would have been discovered or collected had it not been for the young lady reporter. She received a substantial reward under the moiety provision of Internal Revenue laws.

### **"Gold Brick" Case**

The American Optical Company understated its inventory by deliberately moving the decimal point one space to the left.

Investigation developed that, in obtaining gold for use in the business, it was the practice to purchase gold pieces. These were melted, an alloy was added by the company and then distributed to the departments as needed. Naturally, much scrap accumulated from borings, sweepings, gold dust and defective parts. This scrap was carefully collected and returned to the gold department of the company where it was melted into bricks of approximately one thousand ounces each.

The fraudulent scheme of segregating and holding a portion of the scrap gold was devised. The gold bricks into which it was melted were kept in a special vault and later sold to refineries and the inventory accordingly understated. The proceeds were placed in a separate fund and distributed secretly to three brothers, Chewing, J. Chaney and Albert S. Wells, who were

the principal officers of the corporation.

The total of tax, penalties and interest was established at \$925,004 and was paid. The individuals responsible for this fraud could not be criminally prosecuted because of the bar set up by the statute of limitations.

### **Teapot Dome Cases**

In the so-called Teapot Dome cases, total taxes of \$6,822,953 were assessed. Of this amount, \$5,669,792 has been collected. The proportion representing uncollected taxes is now in litigation before the Board of Tax Appeals.

During 1922, Secretary Fall of the Interior Department, leased oil property known as "Teapot Dome" to a corporation owned entirely by Harry F. Sinclair. About the same time, Fall leased another oil field to a corporation controlled by Edward L. Doheny.

A senatorial investigation ensued. It was disclosed that Doheny had given Fall \$100,000 in cash prior to the granting of the lease to his corporation and that Sinclair had given Fall \$25,000 in Liberty Bonds sometime after the granting of the Teapot Dome lease.

The leases accordingly were cancelled. Shortly afterward, Harry M. Blackmer, President of the Midwest Refining Company, and James E. O'Neil, President of the Prairie Oil and Gas Company, left this country and went to France.

It was developed later that substantial profits had been realized by Blackmer, O'Neil and Sinclair. Robert W. Stewart, President of the Standard Oil Company of Indiana, and Carl H. Pforzheimer, a stockbroker from New York City, who had been



associated with Blackmer in a large stock pool transaction, also had made profits in large sums.

The evidence as to Pforzheimer's connection was developed by special agents of the Intelligence Unit. When he realized that his profits would undoubtedly be discovered, he made payment of \$1,393,910 to cover additional taxes and penalties due on his 1921 and 1922 returns.

Blackmer's tax liability was found to be much greater than Pforzheimer's and, after twelve years, he paid a total of \$3,669,784 in settlement of his tax liability. Sinclair, Stewart and O'Neil denied that they personally benefited. However, as a matter of fact, they had made restitutions to their companies only after the Senate Investigation Committee had made the discovery of their secret profit a practical certainty.

Additional taxes, together with the fraud penalty amounting to \$1,331,229, were assessed against Sinclair, Stewart and O'Neil and are now in litigation. Compromise offers were submitted but have been rejected by the Secretary of the Treasury who directed that the cases be brought before the board of Tax Appeals unless payment was made in full.

#### **Julian Company Stock Fraud**

**The investigation of the Julian Petroleum Corporation is an outstanding case on the Pacific Coast.**

**This corporation** was organized by C.C. Julian, a high-pressure promoter who built his corporation into a sizeable organization. It owned its own storage tank farms, marine loading terminals, pipe

lines, filling stations and refineries. But it was lacking in oil production.

Julian had all his available capital tied up in the corporation and was unable to borrow money to continue operations. At that point, S.C. Lewis became interested and agreed to reimburse Julian for the amount of Julian's investment in the corporation in return for control of the company.

Upon assuming control, Lewis and his associate, Jacob Berman, alias Jack Bennett, both of whom were without funds at the time, started to overissue the stock of the corporation. A sufficient amount of the stock was sold to pay off Julian. A stock pool, known as the "Million Dollar Pool," was formed. Bankers and other wealthy individuals in and around Los Angeles participated. A million dollars' worth of stock was purchased by the pool and held for a period of 40 days. Then, it was paid off with a handsome profit to the participating members.

Subsequently, other pools were organized. In reality they were for the purpose of taking overissued stock off the market. This continued until the crash of the corporation and the overissue was then discovered.

A general investigation of this case involved approximately 250 individuals, partnerships and corporations, and a total additional tax and penalties of \$8,758,670.

#### **The E.M. Smith Company Case**

At the present time criminal prosecutions are pending against E.M. Smith of Los Angeles, California, and nine other individuals. Indictments were obtained in February 1936, following an investigation

which resulted in the determination of additional taxes and penalties in the amount of \$1,829,270.

E.M. Smith is the principal stockholder of the E.M. Smith Company, manufacturers of oil well equipment, and is likewise a large investor and promoter in oil properties located in California and Texas.

The fraud in this case consisted primarily of diversions of proceeds from sales by the company. These sales aggregated substantial sums. They totaled in excess of \$1,058,340 for one of the years under investigation. It was developed also that twenty-six relatives or employees of E.M. Smith conspired with him for the purpose of evasion of income taxes and consideration has been given to the question of indicting these individuals also.

#### **Rubel Corporation Fraud**

**The Rubel Coal and Ice Corporation of Brooklyn,** New York, affords an illustration of consistent evasion of taxes for a period of several years before disclosure. The period covered by the fraud undoubtedly was lengthened because of collusion with the taxpayer by the Revenue Agent who had examined the returns of this corporation for several years.

The investigation was most difficult and unusually complicated because of fraudulent overstatements of deductions for depreciation. In due course, additional taxes and penalties totaling \$3,900,000 were established. The cost of the investigation approximated \$50,000.

The special agent recommended the criminal prosecution of Rubel, as well as the Revenue Agent and three of the tax-

payer's accountants for conspiring to defraud the United States.

The case is now being considered. The Revenue Agent, of course, was removed from the Service. The taxpayer, through counsel, had expressed a willingness to stipulate a deficiency of \$1,700,000 but steps are being taken to collect the total tax liability.

#### **William Fox, Movie Magnate**

William Fox, internationally recognized as one of the magnates of the **motion picture industry**, is another tax evader who has been scrutinized by the Intelligence Unit.

A special agent was called into the case to cooperate with the Office of the Assistant General Counsel in preparing the case for trial before the Board of Tax Appeals, after an examination by revenue agents had disclosed an additional tax liability of \$1,628,000 for the years 1929 and 1930.

Following the special agent's investigation for the Assistant General Counsel, the deficiency for those two years, inclusive of penalties, was increased to \$3,700,000. Criminal prosecution as to William Fox and his accountant was recommended and now is being considered.

#### **Ringling Brothers Tax Fraud**

A case recently investigated by the Intelligence Unit involving **Ringling Brothers-Barnum and Bailey Combined Shows,** Sarasota, Florida, resulted in establishing a tax liability of \$4,528,925 for the years 1918 to 1932, also the indictment of six individuals — John Kelley, former attorney for John Ringling; Nathaniel F.

Rabner, Tax Accountant; Richard Fuchs, secretary to John Ringling; Ralph Sullivan and William Blum, former employees of the Bureau of Internal Revenue; and Charles D.M. Greer, Internal Revenue Agent.

The Grand Jury will consider this case further during the latter part of this year, and it is expected that indictments will be returned against additional defendants.

The fraud in this case was based on false bookkeeping records wherein fictitious purchases of animals and circus equipment were shown in their inventories. Hundreds of thousands of dollars of fictitious assets were added to the appreciation schedules. These assets were not purchased and were never in existence.

Fictitious claims were also made on the astounding claim that there had been abandoned 48 elephants, 5 giraffes, 8 tigers, 9 zebras, 23 camels, 23 lions and 665 horses.

The inventories listed a quantity of property allegedly used in connection with hip-podrome spectacles, and it was represented that such property had been owned by the circus in 1918 and the valuation was listed at approximately \$1,850,000. The investigation established that the spectacles for which the property was used had not been produced subsequent to the year 1893 and that practically all of such property had been out of existence since 1917.

It was disclosed that during the years 1918 to 1932, inclusive, the partners withdrew from the circus \$10,368,000. This amount exceeds by \$6,000,000 the net income shown by the taxpayers on their returns for that period.

John Ringling, who is the only surviving member of the famous Ringling family, appeared as a government witness before the Grand Jury at the time indictments were obtained.

These alleged 93 overt acts by which the defendants defrauded the government occurred between July 1, 1917, and July 24, 1932. The case is now awaiting trial.

#### **Charles E. Mitchell, Banker**

The tax case of Charles E. Mitchell, former Chairman of the Board of Directors of the National City Bank and a former director of the Federal Reserve Bank of New York, caused considerable newspaper publicity because it was the first criminal prosecution of a "stock loss" case, and further because it involved such a prominent individual.

The term "stock loss" was used to designate those cases in which a taxpayer had a taxable income and sought to escape tax liability by claiming deductions through the purported sales of securities, usually transactions between the taxpayer and immediate members of his family and a subsequent "resale."

Such transactions were executed with considerable legal formality, for the dual purpose of attempting to prove a legal sale and, at the same time, retain equitable ownership. The determination to be made in such cases was whether the transaction constituted a bona fide sale.

In the Mitchell case, the purported sales of securities whereby "losses" of \$2,872,305 and \$1,860,000 were fraudulently claimed on his 1929 and 1930 returns, consisted of transactions between Mitchell and his wife. The transactions were

not bona fide sales, "losses" were not actual and it was merely a sham to evade taxes.

Mitchell's practice of escaping tax liability by means of claiming fictitious losses was first brought to light when he appeared as a witness at a hearing before the Senate Banking and Currency Committee. There, it was developed, through questioning by Ferdinand Pecora, counsel for the committee, that Mitchell had claimed losses on his returns as a result of the alleged sales of securities to a "relative." It later developed, when the investigation was commenced, that the "relative" was his wife.

The practice of evading income taxes by this means had developed to such an extent that it very seriously affected collection of the revenue. Persons of wealth, having substantial incomes, would purport to sell sufficient securities to establish fictitious losses in amounts approximating their taxable income, thus eliminating tax liability.

The Mitchell case brought about an intensive drive by the Bureau throughout the country whereby millions of dollars of revenue were added to collections because of investigations resulting in the setting aside of such improper deductions.

The investigation and exposure of the evasion methods employed by this taxpayer were largely responsible for the passage of additional income tax legislation which protects the government revenues from such acts of evasion.

#### **Arthur W. Cutten, Grain Trader**

Arthur W. Cutten, grain trader, Chicago, Illinois, was indicted during April 1936, charged with evasion of taxes for the years 1929, 1930 and 1933. William E. Gatewood, a former Revenue Agent,

also was indicted for aiding and abetting the fraud.

The understatement of income related to failure to include profit from short sales in the stock market. The total tax liability was established at \$1,276,613. Canadian relatives of Cutten who also had profited in stock transactions in this country but failed to pay income taxes were likewise investigated.

Criminal prosecution in this case was terminated by the recent death of Mr. Cutten. However, the investigation is being continued in order to effect collection of the tax liability.

#### **T. Morris Wampler, Washington Attorney**

T. Morris Wampler, attorney, was engaged in the practice of criminal law at Washington, D.C. for several years. One of his clients was Edward B. Dean, Sr., an aged, wealthy and eccentric individual. Dean had been sued on several occasions by women who charged that he had assaulted them. Although Wampler was retained to act as Dean's attorney in these cases, he evolved a blackmailing scheme whereby large settlements could be obtained from Dean through "frame-ups."

Associated with Wampler in this conspiracy were Norman Bowles, a disbarred attorney, and Abe Lapin, a Bootlegger, who procured the women. The women were Christine Rock, Beatrice Cornelius, Lillian Belasco, Marie Lowe and others. Following the plan of Wampler and Bowles, these women would call to see Dean at his apartment under various ruses and later would bring suit claiming that they had been criminally assaulted by Dean.

The women were represented by attorneys who acted upon the instructions of Bowles; while Wampler on the other hand would advise Dean to settle the cases. Upon Wampler's suggestion, Dean would pay over large sums of money to him with instructions to obtain settlements. During the years 1930 and 1931, Dean was swindled out of more than \$100,000. The women who were involved received only nominal amounts. In one instance, Dean paid \$35,000 to settle the case of Christine Rock. Only \$1,500 of that amount was paid to her. The balance was retained by Wampler, who paid Bowles and Lapin a small share for their part in the "frame-up." The settlements with the other women were similar.

Wampler did not report any of this income on his returns. It was established that his correct income for the years 1930 and 1931 was \$49,772 and \$100,621. He had reported but \$19,103 and \$40,325 for those years, respectively.

Total additional taxes and penalties in the amount of \$32,985 were established. Wampler was indicted for tax evasion and on December 27, 1933, sentenced to serve eighteen months in the Atlanta penitentiary and to pay a fine of \$10,000.

### **"Hot" Oil Cases**

During recent years, the larger portion of the oil production in the United States has been centered in the States of Texas, Oklahoma and Louisiana. The uncontrolled production in these fields resulted in a "price war," which caused the price of crude oil to drop as low as 10 cents a barrel. Then followed Tri-States' action to conserve their natural resources and to

restore order to the then demoralized oil industry. Texas, Oklahoma and Louisiana passed legislation by which regulatory bodies in each state were authorized to regulate production of wells within their jurisdiction.

This action brought about an increase in the price of crude oil from 10 cents a barrel to an average of \$1.00 per barrel. For example, in the East Texas fields there are approximately 23,000 producing oil wells, some of which have a daily capacity of 25,000 barrels each, but are limited to an allowed daily production of 40 barrels per well.

This situation led to the production of excess or "hot" oil by many independent operators, some of whom, seeking the fullest possible profit, purchased, leased or built refineries and set up schemes for evading the State and Federal gasoline taxes, which, in their aggregate, were more than the basic cost of gasoline at the refinery. They were thus able, by evading the gasoline tax, to enjoy more than 100% profit on the gasoline in addition to the profits on the crude oil. These facilities likewise enabled them to take financial advantage of illegal producers and thieves who had no refining and marketing outlets.

From a number of the more important cases now being actively investigated by special agents on the Intelligence Unit, some interesting facts have come to light, for example:

One accountant who prepared several of the income tax returns, also supervised the bookkeeping and accounting records of these operators. Testimony has been received that the accountant advised that they need not show from whom they pur-

chased oil with cash and to whom they had made cash sales of oil and gasoline, as checks drawn to cash, and a statement to the effect that the transactions, because of their nature, were required to be handled in currency would be sufficient evidence for the Bureau of Internal Revenue to approve their determination of net income. So it is not strange that in many instances the proceeds of these checks were not used to purchase "hot" oil, but instead were invested in permanent assets; likewise, it was discovered that all sales were not recorded or the cash receipts deposited in their regular bank accounts. There is also evidence of other fraudulent practices such as fictitious salaries, padded depreciation, and unwarranted and fictitious reductions of inventories all with the knowledge and assistance of this accountant.

Completed investigations show that, in one case, an individual operated several refineries in fictitious names, and from May 1932 to October 1934, approximately 7,500,000 gallons of "hot" gasoline were refined. On this excess production neither the excise nor income taxes were paid to the Federal Government. The producers also were evading the State taxes on oil and gasoline.

One of the individuals under investigation as a "hot" oil operator was killed in an airplane accident during the early part of 1936. Before the airplane crashed, he threw overboard a "black book" containing a record in "code" of his transactions in "hot" oil.

The entries, when decoded, showed dealings with numerous oil operators to the extent of hundreds of thousands of dollars. The investigation of two of these parties

has been completed with recommendations for prosecution based upon this evidence, which has been substantiated and which they have admitted. It was also developed that he had accumulated a fortune in excess of \$5,000,000 within a few years through his illegal operations.

Many other such cases investigated by the Unit are of equal interest insofar as the extent of operation and the unique methods of concealing income from "hot" oil and gasoline are concerned.

A review of the reports of several of the completed cases of the considerable number now under active investigation by special agents shows that (1) five of the individuals have already been indicted; (2) criminal prosecution has been recommended against a number of others, including the accountant and (3) numerous taxpayers have confessed their tax evasion and have stated that they would enter pleas of guilty when indicted and would pay the taxes, penalties and interest when notified of the amount. The reports also reveal that criminal prosecutions will be recommended in a number of the other cases and that very substantial amounts of taxes, penalties and interest will be collected.

### **Women Tax Evaders Involved in Outstanding Fraud Cases**

Cases involving tax evasions by women include those of Mrs. Sarah Smith Scollard of Chicago and Seattle; Mrs. Lloyd M. Prewitt, alias Reverend Ethel Duncan, of Long Beach, California; and Bess Meredyth of Hollywood.



## **"Hetty Green" of LaSalle Street**

Mrs. Sarah Smith Scollard was known as the Hetty Green of LaSalle Street. She had a very colorful career, having married Hecla "Jim Smith," **mining promoter**, in a Chicago hospital a few hours prior to his death.

She acquired all of his estate, the most valuable of which was stock in the Hecla Mining Company. She was very shrewd but eccentric. On one occasion she withdrew \$8,800,000 in cash, securities and jewelry from safe-deposit boxes in a Chicago bank and took them in a valise aboard a train to Hollywood, California. She was known to have carried large sums of currency on her person at all times, usually bills in denominations of \$1,000, \$5,000 and \$10,000 sewn in her clothing.

One Reese B. Brown, reputed to be addicted to sharp and unscrupulous practices, became acquainted with Mrs. Smith when she was about seventy years of age. When she was warned by her bankers that Brown bore an unsavory reputation, Mrs. Smith became very angry and closed her account with the bank by withdrawing \$726,000.

Special agents had considerable difficulty in locating Sarah Smith Scollard in order to obtain her testimony relative to her financial dealings with Brown. Both were under investigation by the Unit. Apparently she then realized, for the first time, that Brown had fraudulently obtained control of her immense fortune; that he had outwitted her by representations that he would act as her business adviser and protect her from lawsuits which were then pending.

Shortly after the investigation began, she disappeared and all traces of her fortune estimated at \$5,000,000 likewise vanished. Reese Brown died shortly after her disappearance. During 1934, the widow of Reese Brown appeared in court at Yakima, Washington, with a package wrapped in crumpled paper. When Mrs. Brown took the stand to testify, she opened the package and exhibited a silver urn which bore the caption: "Sarah E. Smith — Died at Montreal July 24, 1932." The urn, she claimed, contained the ashes of Sarah Smith Scollard.

With this development a search throughout the United States was made to locate assets that could be applied to the tax liability of Sarah Smith Scollard and Reese B. Brown. In one instance, a safe-deposit box located at Kansas City, Missouri, containing \$53,540, was seized. Other assets totaling \$600,000 were located during this nationwide search.

## **Fortune Winning "Apostle"**

Mrs. Lloyd M. Prewitt, alias Reverend Ethel Duncan, established in Long Beach, California, "The Church of the Revelations" where fortune-telling seances were held. She claimed to be endowed with the "divine gift" which enabled her to see into the past, present and future. Later she founded the "First Church of the Apostles, Inc.," also the "Good Samaritan Relief, Inc."

Using the name of Reverend Ethel Duncan, she was very successful in obtaining funds for these two enterprises. She also made a substantial income as a fortune teller. Although she led the public to

believe her enterprises were solely for charitable and religious purposes, investigation developed that she and her husband, associated with her in the alleged "religious activities," spent approximately \$17,000 during one year for luxuries and high living.

During the same year, the total deposits of Mr. and Mrs. Prewitt in their personal bank accounts were \$105,953 while the total deposits in the church bank accounts were only \$11,871. They failed to file income tax returns and the investigation established a tax liability of \$1,703.

Both were indicted for failure to file returns and evasion of income taxes and the cases are now pending trial. Apparently the "divine power" which "Reverend Ethel Duncan" claimed to possess was not of any benefit to her in foreseeing that Government agents would eventually catch up with her.

## **Bess Meredyth — Scenario Writer**

Bess Meredyth of Hollywood, California, attempted to evade the tax liability on her earnings as a scenario writer.

The fraud was discovered and the Bureau of Internal Revenue collected fraud penalties in addition to the correct tax liability.

She was indicted, pleaded guilty and fined. In addition, she paid the tax, 50-percent fraud penalties and interest on the amounts evaded.

## **Aliens Seek To Evade Taxes — Treasury Recovers Many Millions in this Class of Tax Dodging**

The records reveal that numerous residents of foreign countries have made futile attempts to perpetrate frauds on the revenue, in different kinds of schemes.

Some instances of this kind, involving large sums in taxes, are briefly described.

## **Two British Subjects Miss the Boat — The Treasury Wins**

An Internal Revenue Auditor learned, during the course of an income tax examination of the Kerr Steamship Company, that the British owners, H.F. Kerr and A.E. Clegg, were about to sell their holdings to the Harriman Company of New York City at a net profit of \$4,200,000.

The British owners, it was learned, had planned to evade the payment of income taxes on this profit by having the purchaser pay them in currency a half hour before they were to sail for Europe. Special agents were at the bank when this fortune in cash was delivered. As soon as the money had been placed in suitcases preparatory to boarding the boat, the special agents seized the entire amount. This seizure was based on assessments against the two individuals totaling in excess of \$3,000,000. The currency contained in the suitcases, amounting to more than \$4,000,000, was placed in a vault pending court action and approximately \$2,200,000 was eventually established as a tax liability and placed in the Treasury.

### Clayton-Kennedy's Promotion Swindle

Colonel Kenneth E. Clayton-Kennedy was active in the United States during 1927 and 1928 in connection with the promotion of shale-oil properties in New Brunswick. **He organized an American corporation** as well as a Canadian corporation to conduct his enterprise. As usual in such swindles, he held out false promises of wealth to American investors. Investors lost their money and only Kennedy benefited.

It was learned that Kennedy was in this country during 1931 in connection with other schemes, likewise of a promotional nature. He was located and questioned concerning his tax liability on the income which he received as a president of the American company operating during 1927 and 1928, and his earnings from the shale-oil venture during those years.

He insisted that he had reported his income from all sources on the income tax return, which he claimed to have filed with the Canadian Government. It was learned, however, that he had given a similar explanation to the Canadian authorities. They also were making a tax investigation concerning the New Brunswick Corporation and were told by him that he had filed a return of all income in the United States. Kennedy was indicted at Baltimore, Maryland. He was found guilty and sentenced by the court to pay a fine of \$10,000.

### Kreuger, "Swedish Match King"

When Ivan Kreuger committed suicide in Paris, France, on March 12, 1932, the story of the collapse of his financial "empire" was then revealed. Kreuger and his associate, Anders Jordahl, were construction engineers. Their many engineering activities included employment on the construction of the Flatiron Building in New York City in 1902. They handled engineering projects throughout the Continent and South Africa, operating as the Kreuger and Toll Construction Company.

As they prospered, they became promoters. After the World War they gradually acquired match companies. Kreuger's "empire" in that industry was built up through control of 127 match factories and sales companies in 52 countries. His scheme was to make loans to the governments as an indirect means of establishing monopolies in the match business. Cooperative investigation participated in by the Intelligence Unit has resulted in the determination of a total tax liability of \$3,712,679.

Anders Jordahl was Kreuger's closest business associate and agent in this country. A jeopardy assessment was made in the Jordahl case and a lien served on a Jersey City, New Jersey, bank to attach property in a safe-deposit box carried in his wife's name. When the box was opened it was found to contain approximately \$1,000,000 in securities. Investigation now is being made to determine ownership. The tax cases are pending before the Board of Tax Appeals.

### Zelik Josefowitz — Gold Hoarder

A recent case which received considerable publicity is that of Zelik Josefowitz of Paris, France, and Zurich, Switzerland. It was developed that Josefowitz had been hoarding approximately \$344,000 of gold currency in violation of law. The investigation developed further that Josefowitz had substantial financial transactions in this country in brokerage and banking circles in his own name and those of his immediate family.

When the information was obtained by the Intelligence Unit as to the business activities of Josefowitz in this country, it was necessary to take swift action. The Bureau had to obtain a jeopardy assessment and file liens on his bank and brokerage accounts, as well as safe-deposit boxes, before the assets could be transferred to a foreign country. Josefowitz had notice that he was under investigation for illegally hoarding gold, and it was realized that he might cable instructions to close out his accounts at any moment.

At the time steps were taken to obtain the summary assessment, several special agents were assigned to the case. Immediate and simultaneous investigations were made of brokerage and bank accounts at organizations with whom Josefowitz had financial dealings. Within a few hours after the investigation was commenced, recommendation was made for a jeopardy assessment against Josefowitz and members of his family in the total amount of \$999,802. There was no record of tax returns having been filed by these individuals in this country.

Commissioner Helvering authorized the immediate assessment and, at 9 p.m. the

same night, telegraphic notice was sent to New York City advising of the jeopardy assessment and directing the filing of liens.

At the opening of business the following morning, the liens, which had been prepared during the night, were filed against the accounts. Sufficient assets were seized to guarantee the payment of what was believed to be the tax liability. The question as to the actual amount of tax due is now the subject of inquiry.

Josefowitz, it developed, had cabled his New York banks and brokers to transfer his assets to foreign accounts. But his instructions were received a few minutes after the liens were filed. A slight delay in this case would have resulted in the loss of several hundred thousand dollars to the Government.

## Investigations of Offers in Compromise Result in Detecting Concealment of Assets

One of the duties of the Intelligence Unit is to make investigations of offers in compromise tendered by taxpayers in cases where there are indications that assets have been concealed or when there is evidence of fraud in connection with the submission of the compromise offer.

Frequently it has developed that a taxpayer has submitted an offer predicated upon insolvency when, in fact, he had sufficient assets to pay the total tax liability due. The usual practice of a taxpayer who endeavors to understate his net worth is to convert assets into cash, conceal the

currency and fail to make any mention of it on the balance sheet submitted with his offer. It happens also that assets of various types are omitted from the taxpayer's statement of assets and liabilities.

It is the function of the Unit to determine, first, what assets are owned by the taxpayer with a view to establishing the net worth; and, secondly, to determine whether the understatement of net worth was intentional and therefore fraudulent.

### **False Offers by Racketeers**

During the Chicago investigations, Ralph Capone, Al Capone's brother, submitted a \$1,000 offer in compromise of his tax liability of \$5,082. He contended that he had no assets of any value. He later increased the offer to \$2,500. Subsequently he increased the offer to \$4,065 which was the amount of the additional tax, exclusive of penalties or interest.

Investigation developed that, at the time Ralph Capone tendered his first offer in compromise in the amount of \$1,000, contending he had no assets, he, in fact, had a bank deposit of \$25,236 under the alias of James Carter. It was further determined that, on the day of the submission of his *second offer*, he had on deposit in another bank account, in the name of Harry White, an amount substantially in excess of his offer.

He was indicted on the charge of filing two false offers in compromise and with failure to pay income taxes due for the years 1922 to 1925, inclusive; was found guilty on all counts and was sentenced to three years in the penitentiary and fined \$10,000.

Terry Druggan and Frank Lake, notorious Chicago racketeers, also attempted to defraud the government by filing false offers in compromise. They attempted to hide the ownership of race horses, an apartment house, a stock farm and a hotel valued at \$100,000. They were prosecuted and convicted. Druggan was sentenced to two and one-half years and a fine of \$5,000, while Lake received a one and one-half year sentence and was fined \$2,500.

### **Arcadia Knitting Mills, Inc.**

An interesting case having to do with offers in compromise is that of the Arcadia Knitting Mills, Inc., of Allentown, New York. This concern professed to make voluntary disclosure of understated income for 1930 and 1931, and offered \$225,000 in compromise of the understated tax liability.

Commissioner Helvering did not approve of the recommendation of his predecessor and called the matter to the attention of Secretary Morgenthau, who instructed that the offer in compromise be rejected and directed that the Intelligence Unit make a thorough investigation.

The officials of the company objected to the investigation, as they claimed the former Commissioner of Internal Revenue, before completing his term of office, had agreed to accept their figures.

It developed that the alleged voluntary disclosure by the Arcadia Knitting Mills was false. The actual understatement of income was \$1,373,792 and \$1,421,953 for the years 1930 and 1931, respectively. This case resulted in a total additional tax liability of \$493,306.

The special agent made a detailed investigation of the fraud in this case

and recommended prosecution of Isidor, Samuel and David Reinhard, president, treasurer and secretary, respectively, and also their three accountants.

## **Miscellaneous Tax Investigations**

The Intelligence Unit has been called upon frequently to make investigations of special tax cases embracing all classes of taxes other than those relating to income tax.

Of the total of 9,109 tax investigations by the Intelligence Unit up to June 30, 1936, 442 are classified as investigations of special tax cases.

### **Theater Ticket Speculators**

Theater ticket brokers at New York City and other principal cities throughout the country monopolized the sale of theater tickets. Their method was to buy choice seats for performances at box office prices and sell these tickets to theatergoers at prices substantially in excess of the figure shown on the ticket. In addition, they collected the admission tax and fraudulently evaded the special tax due the government on such excess charges.

Their records were manipulated in a manner to conceal the fraud. The investigation of this situation by the Intelligence Unit was directed primarily at the brokers who handled the sale of tickets for the Shubert and Erlanger theaters. Investigation led to similar conditions in Philadelphia and Boston. The prosecutions which ensued were nationally publicized. The evidence

established that the alleged practice was, in fact, carried on for several years.

The result was that the additional admission taxes and penalties paid by the Shubert and Erlanger groups were substantially in excess of \$100,000. The most important development resulting from this investigation was that it not only stopped this practice of mulcting theatergoers, but the prosecution of the most prominent brokers caused others, who had been following the same scheme, to pay voluntarily the tax liability which they had attempted to evade.

### **Oleomargarine Cases**

Numerous complaints had been received that the special tax of 10 cents per pound on oleomargarine was being evaded by individuals who had flooded the market in certain sections of the country with a product labeled "pure butter," which was, in fact, oleomargarine. This was a very profitable scheme because the individuals who sold oleomargarine as pure butter were able to undersell their competitors and yet make a very substantial profit.

One of the most persistent violators was Albert Haddad, who had been a salesman for an oleomargarine concern for several years. He organized a company during the period he was employed by the oleomargarine concern. Without the knowledge of his employer he sold his company 82,396 pounds of oleomargarine under false brands with labeling such as "pure creamery butter."

The investigation established that the blend of "pure creamery butter" contained but approximately eight percent of butter, the balance of the product consisting of

oleomargarine and a small portion of cooking butter.

Haddad and his associates were indicted. While awaiting trial, Haddad started a similar conspiracy to evade the tax on oleomargarine by associating himself with other individuals in New York City, operating under a different scheme.

Their plan was to purchase oleomargarine from legitimate dealers and then repack the oleomargarine in cartons marked "Creamery Butter," which they sold. This conspiracy was in operation only a short time when it was discovered by the Intelligence Unit and Haddad again was prosecuted.

Haddad's manipulations brought him a six-month jail sentence in the first case. A sentence of one year and six months and a \$5,000 fine was imposed in the other case. His associates, except those who turned State's evidence, also received jail sentences.

### **Tobacco Tax Evasion**

From time to time, the Intelligence Unit has made drives on tobacco tax violators. Recently, twenty-five arrests were made as the result of simultaneous raids on manufacturers and retailers of untaxed cigarettes at New York City.

### **Estate Tax Frauds**

There have been several cases relating to estate tax frauds involving returns filed for estates which intentionally failed to disclose all of the decedent's property. These investigations have required detailed inquiry in order to establish the extent of the decedent's property holdings at the time of his death.

In one case, it was established that the estate tax return was understated by approximately \$1,000,000 by the executor for the decedent. The executor had diverted the assets to his individual account.

The informant who reported this case had advised that the will was forged. Investigation, however, disclosed that the fraud consisted of forging the decedent's signature to antedated deeds covering real estate which were recorded at the Registry of Deeds within a few days after the decedent's death.

### **Records of Investigations of Revenue Personnel, Tax Accountants and Enrolled Attorneys**

Since the organization of the Intelligence Unit on July 1, 1919, and up to June 30, 1936, there have been "separated for cause" from the service of the Bureau of Internal Revenue 1,785 employees as a result of investigations made by special agents. Of that number, 616 employees were prosecuted on criminal charges.

Applications filed by attorneys and accountants for enrollment with the Treasury Department as tax practitioners have been investigated by the Intelligence Unit from April 1, 1924, to June 30, 1936, to determine their qualifications and fitness. A total of 32,886 applications were investigated and 714 rejections recommended.

The Unit also has investigated 1,142 cases involving charges against enrolled attorneys and agents. A total of 181 were

disbarred from practice and 333 were disciplined. Many have been prosecuted. Detailed schedules of personnel investigations supplement this review.

The figures, with respect to personnel investigations, relate to direct results. Equally important are the indirect results in maintaining a high standard of character among the employees of the Bureau of Internal Revenue. Successful prosecutions for bribery, for example, have tended to afford more protection to Internal Revenue employees against dishonest taxpayers and attorneys who would otherwise seek to corrupt them. Criminal prosecution or disciplinary action against employees found to be guilty of wrongdoing has served as a most effective deterrent.

### **Prohibition Personnel Problems**

On January 16, 1920, within a few months after the organization of the Intelligence Unit, the Prohibition Service was established. The personnel became a part of the Bureau of Internal Revenue and so continued up to April 1, 1927.

The establishment of this Service greatly increased personnel investigations. Many investigations of major conspiracy cases, involving collusion between employees and violators of the National Prohibition Act, were successfully investigated. In addition, there was increased work in connection with investigations of fraud against the revenue laws, involving liquor matters.

During the period from January 16, 1920, to April 1, 1927, more than 50 percent of the work of the Intelligence Unit was devoted to investigations of personnel

in the Prohibition Service and cases growing out of collusion of such employees with law violators.

### **Investigative Work Enlarges Under New Personnel Policy**

During the past two years, the work of the Intelligence Unit has been increased greatly because of the present policy requiring that all applicants for responsible positions with the Bureau of Internal Revenue, as well as in certain other branches of the Treasury Department, be investigated.

In accordance with this policy, a large number of relief workers who were designated for temporary duty with the Bureau of the Internal Revenue were investigated prior to appointment. From January 1935, to June 30, 1936, 5,070 investigations of this class were made.

The character investigations had to be made as promptly as possible because the employment was a relief project. Consequently, the Intelligence Unit worked at top speed to accomplish that purpose.

There were, of course, numerous rejections. The investigations disclosed, in many instances, that certain individuals did not possess satisfactory character to warrant their appointment to Internal Revenue work, even of a temporary nature.

During the last few months of the preceding fiscal year, this Unit cooperated in the oral examinations and made character investigations of 912 applicants for positions as revenue agents and 66 who sought appointment as special agents; and, in addition, 854 investigations were made of individuals under consideration for employment as deputy collectors.



Quickness and thoroughness in this particular class of investigations were necessary. Commissioner Helvering and Secretary Morgenthau believed that the addition of field personnel would expedite tax collections, especially in cases then pending.

It was their purpose to make the work of the Bureau approach a current basis. Enlargement of the field force was accomplished as speedily as possible. The result was the clearance of many pending cases, quicker dispatch of revenue business in the field and a substantial increase in tax collections.

#### **Unit's First Case, 17 Years Ago, Netted Government \$1,000,000**

The files of the Intelligence Unit show that the first investigation, "S.I.No.1," related to a conspiracy on the part of two Certified Public Accountants doing business under the trade name of the Sterling Accounting and Audit Company, New York City, with Morris Rosenblum, an Internal Revenue Inspector.

It was the practice to call on individuals and business concerns having substantial incomes and suggest to them that they participate in a "foolproof" scheme to defraud the Government of taxes. The fee which they asked was set at 20 percent of the amount of taxes defrauded.

The plan was a deliberate fraud and consisted of falsifying and destroying records. **The dishonest Internal Revenue Inspector's part in the conspiracy was to make the official examination of the fraudulent return, report superficial changes and otherwise accept the return as filed.**

One of the taxpayers approached by the group, Adolph Pricken, Vice President

and principal owner of the Coastwise Warehouses Incorporated, New York City, promptly reported the solicitation to the Collector of Internal Revenue at New York City.

The Intelligence Unit was called upon to investigate the matter. This Unit then was in the process of organization. There was only one Post Office Inspector other than the Chief of the Unit, whose transfer to the Intelligence Unit had been effected. This Inspector was the entire field force of the Unit, operating under the direction of the Chief at the time this case was assigned to the Unit for investigation. Within a few weeks, and prior to completion of the investigation, he was assisted by others who were as promptly as possible transferred from the Post Office Inspection Service.

The stage was set for the apprehension of the accountants and the Revenue Inspector. When the latter and one of the accountants left the taxpayer's office, they were taken into custody by the special agents. They found \$2,000 on the Revenue Inspector, the money having been marked for identification earlier in the day and then returned to the taxpayer for use in making the payments.

As a part of a prearranged plan, the files of the Sterling Accounting and Audit Company were seized. Examination disclosed that the defendants had prepared the income tax returns of 115 firms and individuals. Each of these cases was investigated very carefully. In almost every instance, substantial amounts of additional taxes were found to be due. It was clear that the conspirators had followed the same plan of defrauding the government of taxes throughout their entire clientele.

The additional taxes disclosed, as a result of the examination of their clients' returns, amounted to more than \$1,000,000, exclusive of penalties. The disclosure of this fraud was highly publicized. It served to put dishonest accountants, Internal Revenue employees and taxpayers on notice that there had been created an organization with which they would have to contend in any attempted fraudulent practices.

#### **Tax "Expert" and Bureau Employee in Million Dollar Tax Case**

Another case developed in the first stage of the Unit's organization, set the pace for other large cases that followed.

Garnett Underwood was a tax practitioner at Washington, D.C. Earl G. Rickmeier was Assistant Chief of the Personnel Section of the Income Tax Unit at the time. They attempted to obtain \$160,000 from one Spencer, a wealthy oil operator, on representations that they would destroy all evidence relating to a proposed assessment of taxes against Spencer and his associate, in excess of \$1,000,000.

At the time this information was first obtained, Underwood was known as the man who was handling the negotiations from the outside but the identity of the employee with whom he was dealing in the Bureau of Internal Revenue was not known. It was accordingly arranged that a special agent would represent himself to Underwood as Spencer's attorney for the purpose of developing the information and evidence desired. Negotiations ensued with Underwood ostensibly for the purpose of following out his proposal that all evi-

dence relating to the tax liability of Spencer and his associates be destroyed upon payment of \$160,000. Underwood insisted that the money be produced before the Bureau files relating to the cases would be exhibited.

The special agents proceeded carefully. At the time set to "pay" the \$160,000, Underwood produced the original returns of Spencer and his associates. Underwood was then arrested, and made a complete confession. He stated that Rickmeier was the Bureau employee with whom he had conspired and that he had agreed to pay Rickmeier \$40,000 of the amount to be received by him.

Underwood and Rickmeier were indicted on the charge of embezzling government documents. They pleaded guilty, and each was sentenced to serve a term of twenty-one months in the Federal penitentiary at Atlanta.

#### **Collusion Uncovered in Other Investigations**

The files of the Unit contain numerous reports relative to investigations similar to the Underwood case.

In each case of suspected collusion, it was necessary to map out the investigative procedure designed to bring about the apprehension of the wrongdoers, according to the facts and peculiar situation then presented by each specific case. In most cases, negotiations were conducted by some outside individual who, as a rule, represented that he had contact with a trusted Bureau employee whose identity, of course, would not be divulged.

A vital phase of the investigation, of course, is to establish the identity of the

Bureau employee. It is possible that the same employee might be dealing with several other outsiders. In order to accomplish this end, protracted negotiations have frequently been necessary. The "outside" party conducting the negotiations, with a view to "fixing" a case, would usually exercise the highest degree of care in protecting the identity of the Bureau "contact." Naturally, it would be highly important to the "outsider" that the employee's identity remain a secret in order that fraudulent negotiations might be carried on with other taxpayers.

### **Suppression of Collusion Strengthened Morale of Bureau Personnel**

Late in 1935, John W. Hardgrove, Assistant Chief Conferee in the Income Tax Unit; Henning R. Nelson, a Bureau Auditor; and Frank B. McElhill, a former Bureau employee, who resigned during 1922 to engage in business as a tax practitioner, at New York City, were prosecuted for conspiring to defraud the government.

All three were found guilty and each was sentenced to serve from four months to two years in jail. The evidence established that McElhill made representations to taxpayers that he was in a position to obtain confidential information relative to tax cases. He claimed that he could effect prompt and favorable settlements because of his connections with Bureau officials at Washington, D.C.

The case which brought about the apprehension of these three individuals involved the tax liability of Thomas M. McCarter, President of the Public Service Company of Newark, New Jersey. McElhill made

representations to McCarter, at the time he solicited the case, that he could guarantee a very substantial reduction of a proposed additional assessment of \$149,000.

Mr. McCarter promptly reported the matter to Secretary Morgenthau, who directed the Intelligence Unit to make an immediate investigation. Mr. McCarter actively cooperated in the investigation.

At the time of McElhill's negotiations with McCarter, it was learned that the former, in turn, was communicating with Hardgrove at the Bureau and at Hardgrove's residence in Washington concerning his conference with McCarter, and that his negotiations also included Nelson. Both Bureau employees were carrying on similar practices with other tax practitioners, in addition to their improper dealings with McElhill.

Secretary Morgenthau kept in close touch with this investigation, and it was through his efforts in personally contacting the Attorney General and the U.S. District Attorney that the case was brought promptly to trial. This case has had a most wholesome effect on the morale of the entire Bureau personnel.

### **Associate Reviewer Removed**

The files of the Bureau of Internal Revenue contain numerous case reports relating to employees who have been detected in ingenious schemes to defraud the government of taxes through conspiracies with outsiders. The most carefully conceived schemes, however, have left their usual "telltale" traces of guilt which cause suspicion, leading to investigation and exposure.

There is the case of Warren L. Heap, employed as an Associate Reviewer in the

Bureau of Internal Revenue, who was recently removed from the Service for tax fraud collusion. Evidence showed that he conspired with Guy S. Burtis, a former official of the N.R.A., in an effort to "fix" the tax case of the American Mining Company, Denver, Colorado, and reduce a proposed additional assessment of \$202,000 by at least half that sum. They were indicted in March 1936 and are now awaiting trial.

### **Tax Practitioners Caught in Forgery and Other Crimes**

In addition to cases of collusion of Bureau employees with "outsiders," there have been other instances where the "outsider" acted independently in his efforts to defraud the Government.

As an illustration of this kind of "practitioner racket," an ingenious type of fraud which may be cited involved Earl S. Clark, a Certified Public Accountant and Chairman of the Rhode Island State Board of Examiners of Certified Public Accountants. He was also treasurer of a national society of Certified Public Accountants and was enrolled to practice as an agent before the Treasury Department.

Clark made representations to the Bureau that a claim for tax refund had been filed for approximately \$100,000 by one of his clients. It was his contention that this claim had been filed within the time provided by statute; and, if his representations could be proven to be correct the claim would, of necessity, be allowed. Search in the Bureau and in the field offices, however, failed to produce any record of such a claim. Clark submitted

briefs and communications to the Bureau, insisting that the claim had, in fact, been filed. On one occasion, while at the Bureau, he requested and obtained permission to inspect the assembled case of the taxpayer in the presence of a Bureau employee in a futile search for the claim.

Several weeks afterwards he again called at the Bureau to look at the files in another case. Then, he asked to re-examine the files of the first case in which he had insisted a claim had been filed. At that time he called the attention of the Bureau employee to the fact that he had found a carbon copy of a report relating to an alleged "conference." He insisted that this confirmed his contention that a claim had actually been filed in the case. Search of this same file later disclosed such a claim.

Suspicious circumstances relating to other cases in which Clark appeared as the representative of the taxpayer resulted in an investigation by the Unit. It was developed that the alleged "conference report" which Clark "discovered" and the claim were prepared by himself and were forgeries which had been inserted in the file by himself while the Bureau employee was off guard.

Evidence to prove this charge was very difficult to obtain for the reason that the typing on the report was not that of any of the typewriters at Clark's office. Inquiry among concerns renting typewriters in the City of Providence developed the information that Clark had rented a machine for a brief period just a few days before his visit to the Bureau. This typewriter was located and examination showed it to be the very machine used in the typing of the papers inserted in the Bureau files.

Likewise, the rubber stamp used in making the impression indicating receipt in the Bureau of Internal Revenue on the fraudulent claim was traced as having been made by a firm at Providence, at Clark's request. The imprint of the sample was positively identified by the Bureau of Standards as identical with that appearing on the alleged claim. Clark had failed to pay the bills for renting the typewriter and for the rubber stamp, although they had been due for over a year. If he had paid *these two small bills the agents might not have been able to establish these two important links in the case.*

Clark was arrested and indicted. On the day before the trial, his attorneys requested permission to see the exhibits in the case. They conceded that no jury would acquit him in the face of such convincing evidence. Upon their advise, Clark pleaded guilty.

#### **Former Revenue Auditor Detected in Deceiving Tax Litigants**

One of the early cases which the Intelligence Unit investigated effected a savings to the government of more than \$2,500,000. This case involved Guil Barber, doing business as the Federal Tax Auditing Bureau of Washington, D.C.

Barber formed this concern immediately after resigning from his position as an Auditor in the Internal Revenue Service, during the early part of 1922. He evolved a scheme of soliciting business from various taxpayers, primarily those cases with which he was familiar because of his past employment in the Service.

Barber sought clients on a basis of a forty percent fee of the amount recovered. He represented to clients that he had confidential sources of information and associations with Bureau employees that enabled him to obtain prompt and favorable action on refunds.

The Intelligence Unit made a thorough investigation and requested that a special squad of auditors be assigned to reaudit all cases in which Guil Barber appeared, either directly or indirectly. Upon reaudit, it was determined that refunds totaling \$2,591,700 were improperly approved for payment and that \$1,963,554 of that total already had been refunded.

Steps were taken immediately to recover such payments and, in due course, repayments were made. Those claims that were erroneously approved but not yet paid, totaling \$628,145, were rejected.

Evidence of bribery or collusion of auditors was not definitely established. However, it was definitely shown that the auditors of the Special Assessment Section, handling such refund cases, had been negligent and inefficient in their approval of refunds, and particularly so in passing upon the cases handled by Barber.

Several of the auditors were removed and the personnel of the entire section was completely changed through transfers of the remaining employees. Administrative action was taken to prevent a recurrence of this kind of a situation.

Shortly afterward, the Treasury Department required the enrollment of all tax practitioners who desired to represent taxpayers before the Bureau of Internal Revenue. Although Guil Barber later

applied for that privilege several times, he was permanently barred from admission to practice.

#### **Embezzlements by Revenue Employees — Riotous Living Traps Offenders**

Many cases relate to the embezzlement of Internal Revenue funds by employees.

In many instances these were brought to light by clear indications that the employees suspected were living far beyond their incomes. A few cases of this type are mentioned.

#### **Assistant Cashier Convicted**

Clifford A. Shannon, an assistant cashier in the office of the Collector of Internal Revenue at Pittsburgh, was found to be frequenting night clubs and had established a reputation for high living and free spending. He was a married man, had a family and his salary was \$2,100 a year. There was something wrong, it seemed clear, when the Unit learned of Shannon's life of wild oat sowing.

Preliminary inquiry developed that Shannon's scheme was to break the seal of one end of the packages of documentary stamps and remove several sheets of \$5, \$10 and \$20 stamps. He turned the opened side of the stamp packages back to the wall to conceal the theft. When Shannon received an order for the sale of documentary stamps, he would substitute a sufficient quantity of the stolen stamps to equal approximately the total amount of currency collected during the day. Then, he would falsify the retained copy of the purchase requisition for stamps by elimi-

nating the number of stolen stamps which he had applied to the order. His embezzlements totaled \$19,500.

He was indicted, pleaded guilty and was sentenced to serve three years at the federal penitentiary at Atlanta.

This investigation likewise resulted in the removal of the cashier, Burke, who was found to be inefficient, and it also brought about a drastic change in the procedure of verifying inventories. The embezzlements had extended over a period of three years and would have been discovered at the outset if the packages of documentary stamps had been removed from the shelves when inventoried.

This is the only case brought to light where Revenue employees have stolen stamps and is a remarkable record in view of the fact that the value of revenue stamps sold each year exceeds the value of postage stamps sold by the Post Office Department.

#### **Chief Field Deputy Converts Funds**

Edward Selbmann, former Chief Field Deputy in the office of the Collector of Internal Revenue, Chicago, was investigated because of suspected irregularities. The Unit developed that he had made a practice of collecting money from taxpayers on distraint warrants assigned to him, and thus converted approximately \$16,000 to his own use.

He confessed, and, during the trial of the case, withdrew his plea of not guilty and entered a plea of guilty. Selbmann was sentenced to eighteen months' imprisonment and a fine of \$500 was imposed.



### **Baltimore Deputy Makes Restitution**

H. Clay Powell embezzled approximately \$3,300 during the period of his employment as Assistant Chief Field Deputy for the Baltimore Collection District in charge of the branch office at Washington, D.C. He confessed and reimbursed the Government in full. He was indicted, pleaded guilty to the charge and received a sentence of one year in jail.

### **Investigations of Revenue Officials**

Charges of irregularities involving Collectors of Internal Revenue and Internal Revenue Agents in Charge have been investigated by the Intelligence Unit.

The nature of the charges has varied from misconduct to improper use of the office for personal gain or disloyalty. In many of these cases, the evidence has warranted removal from office.

### **Chicago Collector — Confidence Game Victim**

Mrs. Myrtle Tanner Blackledge, who was Collector of Internal Revenue at Chicago, Illinois, became deeply involved financially as the victim of confidence men under circumstances which resulted in her removal from the Service. Mrs. Blackledge borrowed \$50,000 in currency from a prominent attorney at Chicago, upon representations that the money was urgently needed to save her "estate."

She then went to Springfield, Illinois, in accordance with prior arrangements and met the confidence men who quickly fleeced her out of the \$50,000 in a crooked faro game. She had been fooled completely by their

earlier representations that she would be able to make a "clean-up" provided she had \$50,000 in cash to put into the game.

After an investigation, it was established that Mrs. Blackledge borrowed the money through misrepresentations. It was her actual intention to use it as a means of making substantial winnings at the expense of someone else but, in the end, *found instead that she was victimized and cleaned out by the tricksters.*

### **Political Activity of Employees**

Another type of investigation concerns political activities inconsistent with orders issued by Secretary Morgenthau against improper political activity on the part of employees of the Department.

Illustrative of this situation, there was an investigation made at Philadelphia, Pennsylvania, involving Alvin F. Fix, the Collector of Internal Revenue, and certain of his administrative assistants who had solicited five per cent of the salaries of the employees of that office for political purposes.

The investigation established definite proof that employees in many instances made political contributions under compulsion. The Collector, the Assistant Collector and four assistants were found to be responsible. Fix and the Assistant Collector were removed from the Service and the four assistants were suspended from duty for a period of one year.

Secretary Morgenthau emphasized by his action in such cases that Treasury Department employees shall be free from political influence or coercion in the performance of their official duties.

### **Revenue Agent in Charge Disloyal**

E.A. Sudbrink, former Revenue Agent in Charge in St. Louis, was removed from the Service because of disloyalty to the Commissioner of Internal Revenue and proof that he had publicly divulged confidential Bureau instructions.

A mimeograph circular signed "Committee of Internal Revenue Agents," addressed to "Members of Congress, The Press, Chambers of Commerce, Internal Revenue Agents, and taxpayers Generally," was circulated throughout the United States, severely criticizing confidential instructions of the Commissioner of the Internal Revenue, relative to the examination of returns. The circulars had been mailed from Washington, D.C.

The Unit was directed to make an investigation to determine the responsibility for this offense. Samples of several hundred typewriters in use at the field offices of the Internal Revenue Bureau were compared with the typing on the mimeograph circulars and it was finally established that the type was similar to that of a typewriter used in the office of Internal Revenue Agent-in-Charge Sudbrink at St. Louis.

Sudbrink was ordered to Washington, D.C., and while he was being questioned here, his secretary was being interrogated at St. Louis. Sudbrink maintained innocence, but his secretary admitted that she had typed the mimeograph at his direction. She was then directed to proceed to Washington, D.C. Sudbrink intercepted her at Baltimore and endeavored to talk with her about the matter. But, a special agent was present and directed that the matter not be discussed.

It developed that he had represented to his secretary that he intended to marry her, but, despite that situation and his efforts to prevent her testimony, she reaffirmed her admissions. Sudbrink then confessed responsibility for the mimeograph and was removed from the Service.

### **Bribery and Extortion by Revenue Employees**

There have been numerous cases involving alleged extortion or bribery on the part of Revenue field employees, which have resulted in removals from the Service and convictions.

### **Attempted "Shakedown" of Harry F. Sinclair**

One case which gained considerable public attention was an attempt by two Internal Revenue Agents to extort \$37,500 from Harry F. Sinclair, oil magnate, upon their representation that they would reduce a proposed assessment against him from \$264,000 to \$30,000.

The extortion plan was promptly reported by Sinclair's lawyer. It was arranged to have special agents available and undercover in order that they might personally hear the proposal of the Revenue Agents and apprehend them.

One of the agents went to the office of Sinclair's attorney at the time of the final negotiations. In compliance with a pre-arranged plan, Sinclair's attorney made the preliminary payment of \$10,000 after the Revenue Agent had outlined that the proposed assessment would be reduced by approximately \$235,000 in consideration of the bribe.

As the Revenue Agent left the lawyer's office, he was intercepted by special agents, and the \$10,000 was found concealed in the Revenue Agent's straw hat. The Revenue Agents were indicted for attempted extortion and were dismissed from the Service following the disclosures.

### **Revenue Agents Try to Obtain \$17,500 Bribe**

This case is unusual in that two Revenue Agents, meeting each other for the first time at the taxpayer's office at New York City, where they had been separately assigned to make examinations of corporate returns, conspired to solicit a bribe of \$17,500.

Some years ago George Warren Smith, a very wealthy resident of Maine, died and left his estate in two corporations, the stockholders of which were his sons and heirs. One of the corporations was known as George Warren Smith, Incorporated, and the other, The George Warren Smith Corporation. The former handled the financial transactions of the estate and the latter was a real estate company.

Internal Revenue Agent Joseph M. Sattler had been assigned to handle the return of one of the corporations and Revenue Agent Victor Bergholz had the return of the other corporation. It so happened that both agents called at the office of these two corporations at 35 Nassau Street, New York City, at the same time.

The agents represented that there was a substantial tax liability due from both tax corporations and requested that Clifford W. Smith, son of the deceased George Warren Smith, be called from Maine to New York City to discuss the matter.

Agent Bergholz demanded that Clifford Warren Smith pay him \$5,000 to overlook an alleged violation of the corporation he was examining. Agent Sattler demanded \$15,000 to submit a report accepting the return as correct and for not recommending the additional tax liability which he claimed was due.

Smith reported the matter to the Intelligence Unit and a dictograph was installed prior to the next conference between Smith and the agents. He was instructed as to the procedure he should follow during the next conference in order that the acts could be clearly established.

When Smith's interview took place with Agents Bergholz and Sattler, the agents at first repeated their demands for bribes totaling \$20,000. But, after discussion lasting about two hours, Agent Sattler finally agreed to accept \$12,500 rather than \$15,000. Smith drew a check for \$17,500 on the Guaranty Trust Company and gave it to his employee to get the cash.

The special agents made a record of the serial numbers of the bills. Smith then paid the \$17,500 in cash to Bergholz and Sattler, and as they left the office, they were taken into custody. When informed that their entire conversation had been overheard, they admitted their guilt and pleaded guilty to the indictment found against them in the next few days. The Court sentenced each of them to serve six months in prison, and they were placed on probation for a period of two years.

### **Taxpayers Often Unwilling to Cooperate in Solving Bribe Attempts**

Taxpayers or their representatives have, in certain instances, reported that a revenue employee had solicited a bribe or was attempting to extort money, but have not extended their full cooperation whereby negotiations could be held open sufficiently long to allow special agents to obtain definite evidence of the crime.

In many cases, this unwillingness to cooperate is due to a dislike of publicity. Then, it is necessary to make an independent investigation to determine whether the employee has solicited bribes or obtained money improperly from other taxpayers. This procedure presents many difficulties. A taxpayer who has paid a bribe may be unwilling to give direct evidence concerning it unless considerable ingenuity is used in obtaining testimony.

Often, it has developed in cases of this character that employees under suspicion have left a trail of irregularities in the form of minor clues which have been the means of definitely establishing their wrongdoing.

The files of the Intelligence Unit show a large number of investigations of charges against personnel involving attempted extortion, bribery, collusion and other irregularities. The benefit to the Bureau of Internal Revenue is not solely in the apprehension of guilty employees; but, to a far greater extent, the wholesome effect of such detection as a deterrent to other employees in the Service.

It is of the utmost importance that the personnel of the Bureau of Internal Revenue be of the highest type of character. No other branch of government service

is more dependent upon the integrity of the employee who, either directly or indirectly, deals with taxpayers every day in cases involving large sums of money. Susceptibility to wrongdoing in the Internal Revenue Service would present far-reaching and disastrous consequences if unchecked.

The Intelligence Unit, in its investigation of personnel cases, and in bringing to justice those who have attempted to effect collusion with Revenue employees, has sought steadfastly to protect and preserve the respect which is now felt quite universally towards Bureau of Internal Revenue employees and officials by the citizens of the United States.

### **Sensational Exposures of Liquor Graft**

In earlier years, "prohibition scandals," in which many Revenue officers were in league with "big" bootleggers and others in tax fraud conspiracies, provided the Unit with a large volume of investigative work.

### **New York Permit Frauds**

One of the first investigations of this type was at New York City. Immediately after the National Prohibition Act became effective on January 17, 1920, an avalanche of applications for permits to withdraw and sell alcoholic liquors was filed with the Federal Prohibition Director at New York and other cities.

Men in nearly all walks of life besieged the corridors and lobbies of the Director's offices. They had the same spirit of eager enthusiasm that characterized the gold seekers in the mad rush to the Klondike in 1897. The congestion at the New York

offices of the Federal Prohibition Director was great.

Those who were fortunate enough to obtain permits to conduct wholesale liquor stores pleaded and demanded approval of permits for larger liquor withdrawals. During prohibition, wholesale liquor dealers were the principal outlets through which liquor could legally be obtained and sold to those permitted to buy for nonbeverage uses.

When the withdrawal permits with bona fide approval became more difficult to obtain, the unscrupulous resorted to the use of counterfeit forms and forgeries of the Prohibition Director's name, covering the withdrawal of whiskey from distilleries in thousand cases and carload lots.

Liquor permit applicants in their eagerness to procure permits, offered bribes to the employees and officials of the Prohibition Unit to have applications approved or to prevent disclosure of illegal withdrawals on counterfeit permits.

The tremendous profits in the liquor business led to corruption in official places. The resort to bribery was so extensive that it presented a serious problem.

An investigation by special agents of this New York situation alone resulted in 94 arrests and prosecutions. These included 8 clerks in the offices of the Federal Prohibition Director; 9 special prohibition agents and inspectors and 29 liquor dealers who bribed prohibition agents in efforts to obtain permits.

A total of \$11,580 tendered as bribes was received by the special agents in order that the violators might not be apprehended, and the money was retained by the government.

### **Philadelphia Liquor Frauds**

Another important conspiracy case growing out of the issuance of fraudulent liquor permits involved William C. McConnell, State Prohibition Director of Pennsylvania in 1921.

Special agents of this Unit developed evidence indicating that applications for withdrawals of liquor had been issued illegally by the Director. Investigation established that, during the first three months of his term in office, 215 fraudulent permits had been issued, covering 315,567 gallons of whiskey and 23,650 gallons of alcohol released and diverted for illicit purposes.

This investigation resulted in the removal and prosecution of McConnell as Prohibition Director, together with four members of his staff. If McConnell's activities had not been stopped, he would have released all of the whiskey in distilleries in Pennsylvania to the bootlegging trade within a year, at the rate he then was authorizing withdrawals.

### **Day Laborer Becomes Millionaire — Permits Obtained Through Girl Employees**

Another investigation by this Unit during the early days of prohibition which was given nationwide publicity was the Donegan conspiracy case. Edward Donegan, formerly an odd-job laborer and later a bootlegger operating on a small scale, evolved a scheme which made him a millionaire within about four months.

About September 1920, wholesale liquor dealers were permitted to withdraw liquor from distilleries in the various districts by permits which were issued by the gov-

ernment. In order to guard against fraudulent permits, the distillery, upon receipt of permits for the withdrawal of liquor, was required to telegraph to the Prohibition Director giving the permit number. The distillery would not ship the whiskey called for by the permit until word was received from the Prohibition Director that it was genuine.

Donegan's scheme was to sell forged and fraudulent sets of permits to various bootleggers at prices ranging from \$10 to \$20 a case. Through collusion with a girl employed in the office of the Prohibition Director, whose duty it was to verify permits, telegrams received at the Prohibition Office from distilleries holding Donegan's fraudulent permits would be answered with the false information that the permits were genuine.

Donegan operated this plan from September until December 1920, during which time his bank deposits totaled \$1,653,797. Donegan's illegal activities were discovered by special agents who called an apartment maintained by him in the McAlpin Hotel in December 1920, in connection with another investigation. At that time he attempted to bribe the special agents with \$6,500.

He was immediately placed under arrest for attempted bribery. A search of his room and person revealed about one hundred telegrams addressed to the Prohibition Director at New York requesting that the genuineness of certain numbered permits to purchase liquor be verified. When these telegrams were discovered and his scheme disclosed, he then tried to bribe one of the special agents with \$25,000.

Two girls employed by the Prohibition Director were with Donegan at the time and all three were arrested. The following day, cash bail was set for the three at the total amount of \$250,000, which Donegan immediately furnished. A search warrant was then obtained for a safe-deposit box which Donegan had, and it contained \$500,000 in cash.

Donegan was tried on the charge of having in his possession stolen property with the intent to defraud the United States. His attorney was the celebrated William J. Fallon. He was convicted and sentenced to serve a term of ten years. His appeal was drafted by the late Attorney Zoline, recognized authority on federal procedures. Argument on appeal was made by John W. Davis, former presidential candidate, but the conviction was sustained and Donegan was sent to prison to serve his sentence.

### **Major Prohibition Conspiracies Involving Prohibition Employees**

Numerous cases involving collusion between Bureau employees and those engaged in illicit liquor traffic have been investigated by this Unit.

Cases along such lines were the general investigation at Milwaukee, during the early days of prohibition; the Cleveland case; the Jack Daniel Distillery Company investigation and the New Hallam conspiracy case.

### **Milwaukee Liquor Scandal**

The Milwaukee investigation was made because of evidence that liquor was being illegally diverted through collusion with prohibition officials. An intensive investi-

gation developed evidence which resulted in the indictment and conviction of the following officials:

- 1 Assistant Chief, Legal Bureau,  
Prohibition Unit, Washington, D.C.
- 1 Federal Prohibition Director
- 1 Chief Prohibition Inspector
- 1 Prohibition Agent-in-Charge
- 1 Prohibition Inspector
- 1 Deputy Collector of Internal Revenue
- 1 Bank President
- 1 Prominent Attorney
- 15 Wholesale Liquor Dealers

A total of thirty-one years and fines totaling \$167,000 were imposed in these cases. It was established that, as a result of the conspiracy, approximately 100,000 gallons of whiskey had been illegally sold and that a total of \$110,000 in bribes had been paid.

#### **Revenue Officers in Bootleg Conspiracy**

In the so-called Cleveland conspiracy case, special agents obtained evidence that the Superior Industrial Alcohol Company was buying tremendous quantities of tax-free grain alcohol ostensibly for the purpose of denaturing for industrial uses, yet virtually none of it was denatured. It was sold to bootleggers over a large section of the country for beverage purposes.

As a consequence, 112 individuals were indicted, including two officers of the Revenue Service. Most of those who were indicted pleaded guilty, including the principal offenders. Terms of imprisonment totaling approximately eighteen years and fines in the total amount of approximately

\$49,000 were imposed. The Bureau recovered on the bonds of the Superior Industrial Alcohol Company in the sum of \$112,500, which was paid into the Treasury.

#### **St. Louis Bonded Warehouse Robbery**

The Jack Daniels Distillery Company, St. Louis, Missouri, case related to the robbery of the bonded warehouse of this distillery during August 1923. At that time, it was discovered that all but one of the 891 barrels of whiskey in the warehouse had been emptied and refilled with water. The actual shortage was computed to be 40,470 proof gallons.

The investigation developed that a group headed by George Remus, a notorious bootlegger from Cincinnati, Ohio, purchased the capital stock of this distilling company on June 26, 1923. It was established that Collector of Internal Revenue Hellmich of St. Louis made an inspection of the distillery premises in July 1923, in the company of "Jack" Kratz, a prominent St. Louis politician and former liquor dealer.

Shortly after this inspection, a veteran storekeeper gauger, who was on duty at the distillery, was transferred to another bonded warehouse and replaced by an appointee of the Collector, one Deputy Collector Kinney, who held the assignment during the entire month of August. It was during this period that the whiskey was pumped from the warehouse through a hose to trucks loaded with barrels.

This investigation resulted in the indictment of 39 individuals. These included Collector of Internal Revenue Hellmich and Deputy Collector Kinney, and the

others ranged from ex-convicts to men prominent in the business and political life of St. Louis and Cincinnati.

After trial, 24 of the defendants were found guilty and were sentenced to various terms ranging from four months in jail to two years in the federal penitentiary, together with fines of \$500 to \$5,000. Collector Hellmich was given a sentence of two years in the federal penitentiary at Leavenworth and fined \$5,000. Deputy Collector Kinney was sentenced to eighteen months in the federal penitentiary and was fined \$1,000.

#### **A \$5,000,000 Conspiracy**

One of the outstanding conspiracies to violate the National Prohibition Act investigated by this unit was the case referred to in the Philadelphia newspapers as "the \$5,000,000 Conspiracy."

A company had been organized to handle "export" shipments of liquor to Greece, ostensibly by lawful means. Their scheme was to obtain legal authorization for such "export" shipments, and substitute water in the place of the whiskey through collusion with Customs employees, just prior to actual shipment. The whiskey was diverted to the bootleg trade in this country and the barrels of water were to be shipped abroad.

Just prior to the organization of the company to handle the "export" business, Matthew F. Griffin, former Secret Service Operative-in-Charge of the Philadelphia Office, together with an employee of the United States Attorney's Office at Philadelphia, had resigned their positions. They organized detective agencies for the ostensible purpose of guarding the purported legal "export" of such whiskey.

It developed that the "export" company had arranged for the total shipment of 13,000 barrels of whiskey in the manner described, and if this plan had been successful, "the \$5,000,000 Conspiracy" would have been consummated.

This proposed plan for wholesale diversion came to light in connection with another investigation in which a special agent was making inquiries. Immediate inquiry into the matter was made and it was learned that this group had already arranged to ship 100 barrels. It was found that the 100 barrels designated for "export" shipment to Greece contained water, the whiskey having been diverted in accordance with the scheme of the conspirators.

The work of the special agents was then to establish criminal responsibility and obtain evidence which would bring about a successful prosecution of the principals involved. In this investigation, it was contended by the Customs officials that the diversion had taken place prior to the withdrawal of the whiskey from the bonded warehouse and during the period that it was under the supervision for the Internal Revenue Storekeeper Gauger. On the other hand, the Revenue Gauger insisted the diversion had taken place after the whiskey had left his custody.

The testimony was conflicting. Responsibility was finally fixed through a chemical analysis of the water contained in the barrels, and its comparison with samples of the water in the vicinity of the distillery and the water in the locality where the barrels were found. These chemical tests fully exonerated the Storekeeper Gauger. Confronted with this evidence, a Customs guard confessed that he was a participant in the conspiracy and that the

water was substituted for the whiskey while it was under his supervision. The identity of the other principals in this conspiracy was established and prosecution followed. The trial was spectacular and attended by considerable news publicity. Public attention was focused upon the case because of the extensive and unique character of the plot, and the fact that Griffin, for thirty years Secret Service Operative-in-Charge at Philadelphia, Pennsylvania, was one of the principals.

During the trial of this case, senior Judge Thompson of the United States District Court at Philadelphia, the Clerk of Courts for that District, and several other prominent persons appeared as character witnesses for Griffin. A verdict of guilty was returned and penitentiary sentences were imposed.

### **Chicago Narcotics Scandal Involving Federal Narcotic Agents**

Among numerous other outstanding cases investigated was a Chicago narcotic ring which was "protected" by federal narcotic officers.

Early in 1925, information was obtained indicating widespread corruption among the personnel attached to the Federal Narcotics Office at Chicago. It had been reported that all the narcotic agents stationed at Chicago, including Will Gray Beach, the Narcotic Agent-in-Charge, could be "fixed."

An investigation was made and evidence obtained that Beach and agents under his supervision exchanged morphine and cocaine for stolen jewelry. It was further established that two of the largest dealers in narcotics at Chicago

had Beach on their payroll for several years. A raid on the apartment of the dealers disclosed large quantities of opium, morphine, heroin and cocaine.

During the investigation, evidence of narcotic violation at numerous other places was obtained. Simultaneous raids, conducted by special agents, established the origin of quantities of illicit narcotics. A number of criminal prosecutions resulted from the evidence developed during the investigation of this case.

### **"Big Four" Liquor Ring Bought "Protection" From Officials**

The investigation of the "Big Four" smuggling ring at Savannah, Georgia, disclosed one of the most active bootlegging syndicates in the history of prohibition. The "Big Four" group had an organization which controlled liquor smuggling at the port of Savannah, Georgia, and directed the smuggling operations of their boats through a privately owned wireless.

Special Agents of the Intelligence Unit were called upon to assist in breaking up this ring. It was necessary for them to spend months making acquaintances with the principals before finally transacting business directly with them.

The "Big Four" was generous in its "protection" payments to public officials at Savannah and it was necessary to accumulate evidence in such a fashion that it would be practically ironclad as proof in criminal prosecution.

Evidence was obtained involving 85 defendants who were indicted. Public disclosure of these flagrant law violations awakened the public conscience of the people of Savannah. When the defendants

were brought to trial, the jury, responsive to the aroused attitude of the public, convicted the entire group of conspirators.

The Court imposed prison sentences ranging from four months to three years for the various defendants, together with fines ranging from \$200 to \$50,000 and totaling \$220,000.

## **Special Investigations**

In addition to the various types of cases elsewhere described, the Intelligence Unit has been called frequently by the Commissioner and the Secretary of the Treasury to make investigations not related to the regular routine duties.

During 1934, the Secretary directed that a very thorough and immediate investigation be made by the Intelligence Unit to determine the supply of silver bullion on hand in this country and by whom it was held. Time was a vital element. The unit obtained the cooperation of brokers and others dealing in silver in the commodity market of New York City. Within twenty-four hours a report was submitted to the Secretary.

On another occasion, the Unit was asked to cooperate with the Bureau of Efficiency to assist in a criminal investigation instigated by a congressional committee regarding the charges that illegal contracts had been made by officers of the District of Columbia.

In another instance, special agents cooperated with officials of the Department of Commerce in investigating charges of irregularities on the part of Commerce and Treasury Department employees. This case

resulted in the removal of two officials of the Commerce Department who held important positions.

A few years ago, a congressional committee investigating the Police Department of the District of Columbia desired evidence as to whether professional gambling was carried on in the District of Columbia. Special Agents of this unit were successful in obtaining the evidence establishing that gambling was carried on at many places in the District.

At the direction of the President, the Intelligence Unit was called upon during the early part of the Italo-Ethiopian War to make an inquiry to determine whether the Embargo Act prohibiting the shipment of munitions to warring nations was being complied with. Prompt and effective inquiry was facilitated because of contacts with munitions companies established by the Unit during prior tax investigations.

Special Agents of the Intelligence Unit frequently have been directed by the Secretary to make investigations of other agencies of the Treasury Department. In all such instances, the Unit's cumulative experience, as a result of investigating the great mass of cases of the type related in this report, has proved invaluable in establishing a definite course of procedure whereby prompt results can be obtained in the cases constantly arising.

### **Cooperation With Other Treasury Agencies in the Suppression of Liquor Smugglers**

In January 1935, an investigation of Canadian distillers and their subsidiary organizations was launched under the direction of Harold Graves, Assistant to

the Secretary, with participating personnel from the Bureau of Customs, Bureau of Narcotics, Alcohol Tax Unit, and Intelligence Unit.

It should be emphasized that the Intelligence Unit furnished only one member of a committee to handle this case and it was not primarily an accomplishment of this organization; however, the facts in this case are so interesting that they are described briefly below.

The Canadian distilleries under investigation had been the source of a large quantity of liquor smuggled into the United States during the Prohibition era. The distillers professed to be selling the liquor legally in Canada to American smugglers, who came there for it.

The distillers, however, were found to have been manufacturing liquors of a type designed only for the American trade. Investigation showed they had established depots at smuggling bases on the French Islands of St. Pierre et Miquelon, in the Bahamas, in British Honduras, in Ensenada, Mexico, in Papeete, Tahiti, in Vancouver, British Columbia, and in other countries.

The distillers thereby almost completely encircled the United States with liquor smuggling depots. They employed agents and solicitors in various parts of the United States and aided and assisted American smugglers in the illicit importation of liquor into this country. The investigation required the assembling and correlating of a vast amount of information obtained by various Treasury enforcement agencies.

An extensive inquiry extended into many parts of the United States and into Canada, and in some of the French and British Colonial possessions. The inquiry

was complicated by the fact that much of the necessary evidence had to be obtained in foreign countries.

Finally, a liability of several millions of dollars for customs duties and penalties evaded, and for excise and income taxes, was established against the distillers. The matter of enforcement of collection was a further obstacle, as the taxpayers were foreigners, and this presented a problem of obtaining jurisdiction.

The cases were made the subject of compromise negotiations. As a result, a total of \$3,000,000 was collected by the Treasury, which was paid as follows:

Distillers Corporation

Seagrams, Ltd. et. al., \$1,500,000

Hiram Walker-Gooderham and

Worts, Ltd. et. al., 1,000,000

Canadian Industrial Alcohol,

Ltd. et. al., 250,000

United Distillers, Ltd., 250,000

United Distillers, Ltd., had voluntarily tendered a smaller amount as an offer in compromise, after the Bureau of Customs had instituted a similar investigation with regard to another Canadian Distillery on the Pacific Coast.

This offer was increased to the amount indicated and was accepted by the Treasury. This collection was from a source which had been considered to be beyond reach.

### **Intrigue in High Places**

In 1922, the Intelligence Unit was requested to make a special investigation relative to Elmer Dover, the Assistant Secretary of the Treasury. Information had been obtained that he was endeavoring, through indirect means, to undermine the Secretary of the Treasury.

He sought to have the then Secretary of the Treasury and Commissioner of Internal Revenue removed from office on false charges with the purpose of succeeding the Secretary in office.

Evidence was obtained definitely proving that the Assistant Secretary was responsible for an extensive campaign of misrepresentation, and it was further established that he was working in collusion with certain officials of the Bureau of Internal Revenue.

The investigations resulted in the separation from the Service of the Assistant Secretary and two officials of the Internal Revenue who were found to be involved.

### **The Lindbergh Kidnapping**

One of the most important investigations in which the Intelligence Unit has participated, having no direct relation to the Unit's primary functions of dealing with tax evasion cases and personnel irregularities, is the Lindbergh kidnapping case.

On March 8, 1932, Colonel Charles A. Lindbergh telephoned the Secretary of the Treasury advising him of his desire to have the assistance of the Intelligence Unit to bring about the return of his son who had been kidnapped.

The Chief and special agents of the Intelligence Unit participated in frequent conferences with Colonel Lindbergh and Colonel Breckinridge, his counsel. During these conferences plans were made for the payment of the ransom, the recording of the serial numbers of the ransom currency, and the investigation of various persons under suspicion.

The kidnapping of the Lindbergh baby and the subsequent trial of Bruno Richard

Hauptmann received more publicity through newspapers, magazines and radio than any other single event in the history of this country, with the exception of the World War. This case was so highly publicized and its details are so familiar to the reading public that the story will not be elaborated here.

Briefly, the apprehension of Hauptmann and his subsequent conviction as the kidnapper is due to the fact that certain of the ransom bills were traced to him through their serial numbers. After this disclosure, collateral evidence was established indicating his guilt.

The serial numbers of the ransom bills were recorded only upon the insistence of the special agents, who were also responsible for the use of \$35,000 in Gold Certificates in the ransom payment. After the ransom was paid, the Intelligence Unit was instrumental in causing an immediate report of the receipt of any of the ransom bills by banks or business agencies.

On September 12, 1934, a filling station attendant noted the license number of Bruno Richard Hauptmann's automobile on a \$10 Gold Certificate used by Hauptmann to purchase gasoline. The bill was then deposited in the Corn Exchange National Bank at New York. A bank clerk checked the serial number of the Gold Certificate with the list of ransom currency furnished to the bank by the Treasury Department. It proved to be one of the ransom bills and Hauptmann then was arrested.

The Intelligence Unit also made an investigation of the financial transactions of Hauptmann. Special agents were able definitely to show that the increase in net

worth and disbursements of Mr. and Mrs. Bruno Richard Hauptmann from April 2, 1932, the date of the payment of the ransom, up to the date of Hauptmann's arrest on September 19, 1934, including ransom money on hand when arrested, totaled \$49,950 — slightly less than the total amount of the ransom paid.

This evidence introduced by a special agent at the trial of the case was very convincing. From the date of the arrest of Hauptmann, and throughout the trial, the Intelligence Unit cooperated with the Attorney General of New Jersey and his assistants in interviewing the principal prosecution witnesses.

After the defendant was convicted, Attorney General Wilentz wrote Secretary Morgenthau a letter dated February 14, 1935, expressing his appreciation and commending the services performed by the special agents who had been assigned to the case.

The Chief of the Unit was called to Flemington, New Jersey, during the trial of the Hauptmann case to confer with Attorney General Wilentz, who conducted the prosecution. On that occasion, Colonel Lindbergh expressed to Mr. Irey his sincere appreciation for the activities and accomplishments of the Intelligence Unit in connection with the investigation and said:

"If it had not been for your Service being in the case, Hauptmann would not now be on trial and your organization deserves the full credit for his apprehension." Colonel Lindbergh wrote Mr. Irey a letter as follows:

"Dear Mr. Irey:

I want you to know how much we appreciate all that you have done for us. It is not

possible for me to thank you sufficiently for your own assistance and that of your department. I know of nothing which could have been done which was not and I fully realize the time and effort that you have spent. It has meant a great deal to us to be able to go to you for advice and I want to thank you again for the many ways you have helped. Time and again during the past months I have realized the value of Federal organization.

Sincerely,  
Charles A. Lindbergh."

### **Indirect Results of Investigations — Fear of Penalties and Punishment Deter Large Classes from Revenue Law Violations**

Numerous cases of various types have been commented upon and the results likewise have been stated. Of greater importance, however, are the indirect results that have been brought about because of the prosecution of violators of the Internal Revenue laws.

The criminal prosecution of a tax evader and the prosecution or disciplinary action against an employee affects two certain classes of people:

1. The large number of taxpayers who have submitted false income tax returns, either with intent to defraud, or because of carelessness.

2. Those taxpayers who might seek to escape tax liability through bribery of employees.

When such individuals read of the criminal prosecution of prominent persons for evading taxes, it causes the natural reaction of prompting serious thought to their own income tax returns.

Tax evaders and tax dodgers who have either failed to file returns or understated their income, have filed delinquent or amended returns in large numbers immediately following news stories of income tax prosecutions. This has resulted, each year, in an increase in the revenues of the Government by many millions.

The criminal prosecution of an employee or disciplinary action for irregularities, serves as an effective deterrent to those employees and taxpayers who may be tempted to evade taxes through bribery.

The seriousness of the consequences of criminal prosecution has a wholesome effect upon employees. It is extremely important that the personnel of the Bureau of Internal Revenue be of the highest integrity because of the large dollar amounts involved in the cases upon which they pass.

Although several cases involving collusion on the part of Bureau employees are cited in this summary, it can be emphasized that the personnel of the Internal Revenue Service is, nevertheless, of a very high caliber. There are numerous instances of investigations that have shown the allegations to be false and the employees have been exonerated.

### **Elimination of Dishonest Employees**

The Intelligence Unit's records of investigations of charges against personnel show that there has been a steady decrease in recent years. The highest number was 535 during the fiscal year ending June 30, 1924, and the lowest, a total of 33, during 1932.

One of the reasons for this tendency is that the Unit started out on July 1, 1919, with the process of "cleaning house" of dishonest employees.

Thousands of additional employees were brought into the Service to handle the increased work resulting from the emergency war-time tax rates and in connection with the Prohibition Service. During 1927, the Narcotic and Prohibition personnel of the Internal Revenue Service was transferred to separate newly created Bureaus.

In that early period, after dishonest employees were removed from the Service, the policy was gradually established of investigating applicants. This has resulted in the weeding out of undesirables prior to employment, and has lessened the necessity for so many removals later.

To a very large extent, in recent years the work of the Intelligence Unit in regard to personnel has been preventive. This is attested by the fact that investigations involving charges against personnel have varied from 33 to 56 for the fiscal years 1931 to 1934.

The total personnel of the Internal Revenue Service approximated 12,000 employees during 1931 to 1934, inclusive. Since then it has increased to a present total of approximately 22,000.



Because of the recent increase in personnel, the number of investigations of charges against employees has been greater than in the years immediately preceding. Investigations of this type totaled 175 in the fiscal year ended June 30, 1936.

### **Probe of Tax Evasions**

As has been stated, the investigation of tax evasions which is the principal activity of the Intelligence Unit, has steadily increased during the past few years. The number of taxpayers is rapidly growing and the high tax rates are an incentive to dishonest taxpayers, accountants and attorneys to attempt to evade taxes.

While the necessity for an organized *force of experienced men to investigate* such tax evasions is readily apparent, it is not desired to convey the idea that the citizens of this country practice evasion of taxes on any large scale.

The number of tax evaders in comparison to the number of returns filed is, of course, small, but, to keep the number of tax evaders to a minimum, it is necessary to have full and continuous publicity regarding those individuals whose tax evasions are discovered. Such publicity has a very salutary effect on that small class of citizens who have to be frightened into paying their share of the tax, as required by law, toward the expenses of their country.

The evasion of income taxes is referred to as the rich man's crime. It follows that frequently considerable pressure is brought to bear politically or through other means to intimidate the investigating agents. The consistent policy has been that, in all cases where the facts warranted criminal

prosecution, such procedure was followed without respect to the prominence of the individual.

Thousands of complaints, anonymous letters and confidential information of all sorts alleging tax evasions are referred to the Intelligence Unit for investigation. Many successful tax fraud cases have resulted from these sources. On the other hand, it frequently develops that the complaint is without merit or is inspired by malice and not based on facts. Experience has established the wisdom of proceeding cautiously and impartially in the investigation of such complaints.

There are instances which resulted in the determination that there was no additional tax liability. In many instances, refunds have been recommended. The principal thought in mind always is to get the facts. The work of the Intelligence Unit would be ineffective if it was subject to influence or deviated from its practice of handling all cases impartially. An open mind is essential in all investigations until the facts are established. Action is then taken according to such facts.

### **Cases Without Criminal Basis**

Less spectacular than the investigation of cases which result in criminal prosecution, are those cases that do not reach the courts but are of considerable importance.

This involves work by the Intelligence Unit in the investigation of those tax fraud cases which, either because of the running of the statute of limitations or insufficiency of evidence, do not result in a criminal prosecution but are handled directly by the Commissioner or before the Board of Tax Appeals. A considerable volume of

such work has been performed. On the other hand, on account of the limited number of agents available, it has not been considered advisable for the Intelligence Unit to undertake the investigation of tax evasion cases involving small amounts and most of these minor cases are closed by Deputy Collectors without prosecution.

Occasionally, there are assigned to the Intelligence Unit tax matters in which there is no fraud or basis for criminal prosecution, but for various reasons other branches of the Internal Revenue Service have been unable to establish the facts in order to sustain additional tax assessments.

### **William Hale Thompson Case**

An illustration is the investigation made of five individuals, members of the William Hale Thompson organization at Chicago, Illinois, who had received exorbitant fees from that city as real estate experts in connection with appraisals. They had reported the income of \$2,876,063 but claimed that it was exempt on the theory that they were city employees. The General Counsel in office at the time had sustained the contention of the taxpayers.

The Commissioner was not satisfied and directed an investigation to determine the facts relative to their employment. It was established that the individuals in question were not city employees and their attempts at tax dodging were unsuccessful. The tax assessed as a result of this investigation exceeded \$900,000.

A taxpayer's suit against the five real estate experts and Mayor William Hale Thompson was instigated by the Chicago Tribune to recover the \$2,876,063 for the city, alleging that the payments were a

"steal" by the William Hale Thompson political organization and that the payments were illegal and fraudulent.

The suit was won by the taxpayer and judgments obtained against the five experts for the amount of the payments. The experts then, as part settlement of the judgments, assigned to the City of Chicago their claims for return of the income taxes paid to the government. However, the City of Chicago failed to take advantage of the opportunity to secure refunds from the government.

William Hale Thompson was still Mayor of the city and was fast becoming a national figure in this country, when the refund claims were assigned to the City of Chicago. It is believed that his failure to prosecute the claims was prompted by his reluctance to have the facts bearing on the illegal payment of \$2,876,063 again brought to light through the unfavorable publicity which would have been given to him throughout the country.

### **Criminal Prosecutions Spur Delinquents**

The prosecution for income tax violations of Capone and other prominent racketeers not only inspired other enforcement agencies, State and Federal, to undertake drives against public enemies and organized racketeers, but of even greater importance to the Treasury Department, it stirred the tax conscience of a very large body of delinquent taxpayers and tax dodgers.

In a radio address made on February 29, 1932, over a coast-to-coast network by a former Commissioner of Internal Revenue, he referred to the indirect result of criminal prosecution through the collection of taxes

from persons scared into the filing of delinquent and amended returns. He stated:

"In one collection district where this phase of the situation was looked into, it was apparent that this activity had pricked the conscience of many taxpayers who had failed to file returns or to make honest returns.

"Since the first publicity relating to these cases, the Government income from taxes has been increased in this district by hundreds of thousands of dollars which came from delinquent and amended returns from taxpayers, many of whom were engaged in gambling and various other business of an illegal nature.

"In mentioning the Capone case I do not want my radio listeners to feel that the Bureau has any thought than that ninety-nine and ninety-nine one hundredths percent of the taxpayers are scrupulously honest."

He referred also to some unfavorable comment in the press relative to the Government sharing in the way of taxes collected, in the profits derived from illegal business and in that regard stated:

"If we failed to collect taxes in cases of that kind, we would be establishing a class of tax-exempt citizens. In theory of course, a business should not be conducted in violation of State or Federal laws. If so conducted, however, and if a profit is realized from its operation, the Revenue laws tax this profit notwithstanding its source."

The successful prosecution of prominent individuals on the charge of tax evasion has served as a means of placing all taxpayers on notice that the Internal Revenue laws are administered impartially.

### **Cooperation Produces Benefits in Federal and State Law Enforcement**

Many years of experience have demonstrated that material benefits are consistently derived through the cooperation of the Intelligence Unit with the enforcement agencies of the Treasury Department, as well as administrative heads of state, county and municipal governments and the police agencies throughout the country.

The Post Office Inspection Service has cooperated fully with the Intelligence Unit in many ways, particularly in providing information concerning mail usage of individuals under investigation. Likewise, the State Department has cooperated constantly with the Unit. In the Lindbergh investigation, the State Department extended extremely helpful service with regard to matters concerning which they had records, or were in a position to obtain cooperation from other Governments.

It has been the consistent policy of the Intelligence Unit to cooperate with all other law enforcement agencies. This spirit has developed one of the greatest assets to the Intelligence Unit.

The goodwill which has been established over a long period of time has made it possible to obtain valuable assistance and active cooperation of all police and investigative agencies throughout the country.

In several cases involving tax fraud investigations of public enemies, the facilities of state and municipal police departments have been made available and were of considerable help.

### **Aid to State Authorities Promotes the Public's Interests**

At the request of Mayor LaGuardia of New York City, Secretary Morgenthau directed the Intelligence Unit to train a corps of New York City detectives to discover evasions of the New York City sales tax.

During 1934, an agent of this Unit, under the direction of Harold Graves, Assistant to the Secretary, supervised a drive at New York City in conjunction with the police to inspect all retail liquor businesses for Federal and State violations. It was arranged that each Federal employee assigned to this drive would work in cooperation with a city police officer in making a joint inspection.

This investigation resulted in the disclosure of numerous violations and in a considerable increase in the revenue of both the Federal and State Governments.

In the Dewey investigation of vice conditions at New York City instigated by Governor Herbert Lehman which is now active in the prosecution of racketeers in the State courts, considerable help has been and still is being furnished by the Intelligence Unit.

In the recent prosecution and conviction of Charles "Lucky" Luciano, who was sentenced on June 18, 1936, to thirty to fifty years in jail, the Intelligence Unit made available certain evidence which had been obtained during prior investigations at New York City.

Part of the evidence turned over to Prosecutor Dewey was used by him in his examination of the defendant Luciano and was of great value in demonstrating to the jury the previous criminal activities of

Luciano and his immense income from illegal sources.

The State Police of New Jersey had the full cooperation of the Intelligence Unit during the Lindbergh-Hauptmann investigation and special agents of the Unit directed the activities of certain New Jersey detectives during a period of about two years.

The purpose of the Intelligence Unit has been to promote and maintain a cooperative relation with all Federal, State and municipal agencies so far as law will permit, with the object of making available promptly all information or evidence which might be of help in bringing the criminal to justice on any charge in State or Federal courts.

### **Results During Present Administration**

At the time Secretary Morgenthau was appointed to office, there were pending several cases against well known racketeers. While reference has been made to some of these as typical cases, they will bear reiteration to show the sequence of significant enforcement events that followed in rapid order after the present Administration began.

### **Recent Criminal Prosecutions**

These more important cases included those of "Waxey" Gordon and "Dutch" Schultz, both of New York City; Murry Humphries and Tommy Maloy of Chicago; Leon Gleckman of St. Paul, Minnesota; and John Lazia of Kansas City, Missouri, all of whom had been indicted.

Secretary Morgenthau directed that all efforts of the Intelligence Unit be concentrated to bring about the conviction of these gangsters who had become leaders of organized racketeering in the localities where they operated.

"Waxey" Gordon was convicted by a jury on charges of evading income taxes for the years 1930 and 1931, and conspiracy to evade taxes amounting to \$547,424 for those years. Because of the magnitude of his illegal activities, the trial was lengthy and it was necessary to furnish detailed evidence of his financial manipulations. The jury considered the case but forty minutes, returning a verdict of guilty, and the court immediately sentenced Gordon to ten years of imprisonment and a fine to pay of \$80,000.

"Dutch" Schultz had been indicted but was a fugitive from justice. During the course of an exhaustive search by the special agents, he surrendered at Albany, New York, on November 28, 1934, and was released after bail in the amount of \$100,000 had been furnished. Schultz was tried in the Northern District of New York on two occasions, the first trial resulting in a disagreement and the second resulting in an acquittal. He was then indicted in the Southern District of New York on other tax charges and while the case was pending trial, he was murdered by other gangsters at Newark, New Jersey.

Murray Humphries became notorious as a racketeer because of his efforts to take over Al Capone's organization after Capone had been sent to the penitentiary. He was indicted for evasion of income taxes totaling \$25,185 and pleaded guilty on October 26,

1934, receiving a sentence of eighteen months and a fine of \$5,000.

Tommy Maloy, business agent for the Motion Picture Operators Union, Chicago, Illinois, had been investigated by the Intelligence Unit and evidence developed establishing that he had received a large income from his racketeering activities in the motion picture industry which had not been reported on his income tax returns. He was indicted for evasion of taxes amounting to \$80,603 but was murdered on February 4, 1935, the day prior to his arraignment.

Leon Gleckman, St. Paul, Minnesota, was known as the "Al Capone" of the twin cities. He was convicted on November 28, 1934, on charges of evading income taxes and sentenced to eighteen months at Leavenworth and a fine of \$5,000. The tax liability for the years 1929 to 1931, inclusive, was established at \$104,165.

John Lazia, notorious racketeer of Kansas City, Missouri, was indicted for evasion of income taxes, convicted upon trial and sentenced to two years in jail and a fine of \$5,000 was imposed. Lazia filed an appeal and, while awaiting decision, he was murdered by rival gangsters on July 10, 1934.

These cases received considerable newspaper publicity because the individuals concerned had carried on their racketeering activities for several years without serious interference by city or state enforcement agencies. They operated with success until they were prosecuted criminally on charges of income tax evasion and this brought about their downfall in organized crime.

### **Other Important Tax Fraud Cases During this Administration**

In addition to the criminal prosecution of notorious racketeers, the Intelligence Unit recently investigated numerous tax fraud cases involving prominent persons and business concerns.

Some of the cases coming within this category and which have been discussed in detail heretofore are:

William Fox, motion picture magnate, New York City.  
The Rubel Coal and Ice Corp., Brooklyn, New York.  
The Dupont and Raskob cases.  
Ringling Brothers-Barnum Bailey Combined Shows, Inc. Sarasota, Florida.  
The Arcadia Knitting Mills, Inc., New York City.  
The E.M. Smith Corporation, Los Angeles, California.  
Moses L. Parshelsky et al., Brooklyn, New York.  
Arthur W. Cutten, grain trader, Chicago, Illinois.  
The Kreuger cases.  
Zelik Josefowitz, Zurich, Switzerland.

The additional tax liability in these cases approximated \$22,000,000 and criminal prosecution has been recommended in most instances.

### **Secretary Morgenthau Extends Policy of Personnel Investigations**

When Secretary Morgenthau took office, it was the established policy of Commissioner Helvering to investigate applicants for practically all positions with the

Internal Revenue Service as to their character and fitness for the position sought. The Secretary broadened this policy to include the investigation by the Intelligence Unit of applicants for positions of importance in other branches of the Treasury Department.

These investigations have resulted in the rejection of a great number of applicants. This has succeeded in maintaining the character of the Service at a high standard.

The records show that:

- 1,656 applicants for appointment as Deputy Collectors were investigated and 138 rejected, a ratio of 8.33%
- 178 of the 1,147 applicants for positions as Revenue Agents were rejected, a ratio of 15.52%
- 359 investigation of individuals who sought positions in the Procurement Division resulted in 77 rejections, a 21.45% ratio.

These percentages of rejections confirm the wisdom of this new procedure.

A large proportion of the field service of the Bureau of Internal Revenue is concentrated in New York City. From January 1, 1934, to June 30, 1936, there were 54 separations from that service and other disciplinary action was taken in 12 additional cases following personnel investigations in that city. During the same period, 41 other investigations of charges against employees at New York City were found to be without foundation and the employees were exonerated.

A recent investigation involved officials and employees of the Customs Service at Buffalo, including the Border Patrol Service. This resulted in the removals of the Collector of Customs, Chief Border

Patrol Inspector and the storekeeper at the Customs Patrol Base; and the demotion and transfer of the Assistant Collector of Customs and a Border Patrol Inspector.

## Procedure in Disposition of Tax Fraud Cases

A situation with respect to income tax fraud cases which is of serious concern to the Intelligence Unit at this time is the reduced number of such cases which have been forwarded to United States Attorney for prosecution during the past three years, and which have been disposed of by the courts during the same period. This reduction had been in spite of the fact that there has been an increase during these years in the number of investigations and recommendations for prosecution by the Unit. Investigation of the causes for this situation has shown that it is due to a change in the policy of handling this class of cases.

Prior to 1924, it was the practice of the office of the Chief of the Intelligence Unit to forward reports of tax fraud investigations to the Penal Division of the General Counsel's office for consideration by attorneys specially qualified through training and experience to review prospective criminal cases. In each case in which the conclusion was reached that prosecution was warranted, the Penal Division prepared a communication for the signature of the Commissioner of Internal Revenue, addressed to the Collector of Internal Revenue, for presentation to the United States Attorney. This communication contained a discussion of the facts and the applicable law conclusions that an offense

had been committed and that prosecution was warranted; also an offer of the services of the Bureau of Internal Revenue to the United States Attorney in the preparation and trial of the case.

During 1924, it was discovered that in some instances untimely divulgence of proposals for prosecution had proved embarrassing. Accordingly, thereafter, for some ten years, the cases were forwarded, direct by the Commissioner, to the appropriate United States Attorney.

Occasionally questions arose which caused the United States Attorneys to communicate with the office of the Attorney General as to points of law and matters of procedure. On March 13, 1926, upon request of the Attorney General, it was arranged that a copy of the Commissioner's letter to the United States Attorney be forwarded to the Department of Justice, and, beginning on June 4, 1926, forms of proposed indictments were prepared by attorneys in the General Counsel's office and furnished to the office of the Attorney General for the use of the United States Attorney. After March 28, 1929, on the request of the Attorney General, the Commissioner also forwarded a copy of the special agent's report to that office, with the copy of the letter to the United States Attorney. Accordingly, there was a gradually increasing participation of the office of the Attorney General in the consideration of tax evasion cases proposed for prosecution. These developments with respect to handling criminal prosecutions of tax frauds had established an effective and satisfactory procedure.

However, on June 10, 1933, after the present administration had taken office

but prior to the incumbency of Secretary Morgenthau, Executive Order No. 61666 was promulgated, Section 5 of which stated, in part:

"As to any case referred to the Department of Justice for prosecution or defense in the courts, the function of decision whether and in what manner to prosecute, or to defend, or to compromise, or to appeal, or to abandon prosecution, or defense, now exercised by any agency or officer, is transferred to the Department of Justice."

In accordance with his interpretation of this Order, the Attorney General, on August 10th of the same year, notified all United States Attorneys not to present tax cases to grand juries except when authorized by the office of the Attorney General. On January 29, 1934, the Attorney General requested the Treasury Department to discontinue the practice of sending cases for prosecution direct to United States Attorneys, and, accordingly, orders were issued for such cases to be forwarded direct to the office of the Attorney General. On October 31, 1934, the practice of making recommendations and preparing and transmitting proposed forms of indictments to the Attorney General was discontinued by the General Counsel.

With these various changes in procedure effected as a result of the Executive Order of June 10th, the office of the Attorney General instituted the practice of reviewing the evidence and directing the United States Attorney, in forwarding a case to him, to conduct an investigation and submit a report and opinion to the Attorney General as to the advisability of prosecution. Upon receipt of the United States Attorney's review of the case, the office of

the Attorney General then gave the case further consideration, and, if a decision to prosecute was arrived at, the United States Attorney was authorized to proceed.

Beginning on April 30, 1936, through an informal arrangement between the Department of Justice and the office of the General Counsel of the Treasury Department, the Penal Division resumed the practice of making recommendations as to prosecution.

Prior to the issuance of Executive Order No. 61666, and in accordance with the provisions of Section 3229 of the Revised Statutes, it was the practice of the Commissioner, with the approval of the Secretary of the Treasury, to settle by compromise certain types of criminal cases without reference to the Department of Justice for the institution of criminal proceedings. This practice in such cases is still in effect. However, before the issuance of the Executive Order in question, there were certain cases which had been referred to the Department of Justice for prosecution, but which, for various reasons, it was considered advisable to settle by compromise. It was the practice in that class of cases for the Commissioner, with the approval of the Secretary of the Treasury and the concurrence of the Attorney General, to effect such compromise. However, since the issuance of the Executive Order, the Attorney General has interpreted this provision thereof as vesting in him sole authority of the compromise of such cases. Accordingly, the Treasury Department since June 10, 1933, has had no responsibility in the compromise of criminal cases after reference to the Department of Justice for prosecution. Power to compromise such cases has rested

entirely with the Department of Justice, and the taxing department of the Government has had no authority to exercise judgment in determining whether a compromise should be accepted, or whether the amount offered in compromise is a proper one for acceptance.

These things have contributed to a slowing up in the deposition of income tax fraud cases, in their presentation to United States Attorneys, and their disposition in the Federal courts. From the point of view of the Treasury Department, it is believed that the policies in effect prior to the issuance of the Executive Order of June 10, 1933, tended to dispose of these cases more satisfactorily and expeditiously; and a return to such practices would be desirable in the interest of the revenues of the Government.

The Intelligence Unit is particularly grateful for numerous commendatory statements by Federal Judges, United States Attorneys, and other officials and persons prominent in public life. An instance of such commendation is a statement by Honorable John J. Cochran of Missouri, Chairman of the Committee on Expenditures in the House of Representatives, made on the floor of the House during the course of a discussion on proposed reductions in appropriations, and particularly with respect to such a reduction in the appropriations for the Bureau of Internal Revenue, which would, of course, have materially affected the personnel of the Intelligence Unit. Congressman Cochran complimented the Head of the Unit and favorably commented on the accomplishments of the organization as a whole. He stated, in part, as follows:

"I am told he has made many enemies, and any number of powerful men have attempted to have him dismissed from the Service.

"Not only Irey but his men are threatened by those who are affected by the Unit's investigations. This is to be expected when their contact is with those who would defraud the Government.

"As previously stated, the value to the Government is not shown in dollars and cents collected. While that is a tremendous sum, still every case results in additional sums, due to other taxpayers making proper returns who might otherwise have failed to pay to the Government all to which it was entitled.

"Again I state there should be no economy in the office of the Intelligence Unit of the Bureau of Internal Revenue. The Congress would do well to increase this force by at least 50 men. Lack of sufficient help has resulted in many escaping who should have been required to make additional payments to the Government.

"When the Congress finds, in a case such as this, that by increasing the personnel it can increase the revenue many times over the cost of administration, it is folly for us not to provide for additional facilities.

"The citizen who, through the protection of the Government, is able to earn a large income should abide by the laws of the country and pay such assessments as the statutes provide; and when they do not, it is the duty of the Government to see that they not only pay but that they be punished for evading our tax laws.

"The record of this Unit in the past justifies the statement that, if given proper personnel, the dishonest citizen will not escape."

## **Statistical Summary of Work Performed by The Intelligence Unit Bureau of Internal Revenue**

**July 1, 1919 to June 30, 1936**

### **1. Summary of Investigations**

### **2. Tax Fraud**

### **3. Charges Involving Personnel**

### **4. Enrolled Attorneys and Agents**

### **5. Miscellaneous Investigations**



**Summary of Investigations  
The Intelligence Unit  
July 1, 1919 to June 30, 1936**

Fiscal Year Ended	Tax Fraud	Charges Involving Personnel	Enrolled Attorneys And Agents		Miscellaneous Investigations
			Applications	Charges	
6-30-20	83	110	*		86
6-30-21	56	259	*		98
6-30-22	71	355	*		189
6-30-23	261	363	*		170
6-30-24	254	535	*		337
6-30-25	434	489	2,637	108	320
6-30-26	477	456	2,343	79	278
6-30-27	464	225	2,672	82	340
6-30-28	553	227	2,822	102	352
6-30-29	739	163	2,674	113	173
6-30-30	925	120	2,523	105	71
6-30-31	916	46	2,398	100	83
6-30-32	856	33	2,609	97	60
6-30-33	884	35	2,598	107	68
6-30-34	695	56	1,923	64	511
6-30-35	621	147	2,901	88	3,003 **
6-30-36	820	175	4,781	97	1,418
Total	9,109	3,794	32,886	1,142	7,557

\*Investigation of enrolled attorneys and agents became a function of this Unit as of April 1, 1924.

\*\*The large increase in miscellaneous cases during Fiscal Year 1935 is due to adoption of the policy of having all applicants for positions in the Bureau of Internal Revenue investigated by the Intelligence Unit.

**Tax Fraud Cases  
The Intelligence Unit  
July 1, 1919 to June 30, 1936**

Fiscal Year Ended	Number of Cases Investigated			Additional Taxes And Penalties Recommended	
	Current Income Taxes	Other Taxes	Cumulative Combined	Current	Cumulative
6-30-20	80	3	83	\$ 4,375,797*	\$ 4,375,797
6-30-21	51	5	139	7,524,237*	11,900,034
6-30-22	62	9	210	10,832,766*	22,732,800
6-30-23	238	23	471	11,686,581*	34,419,381
6-30-24	230	24	725	18,944,001*	53,363,382
6-30-25	402	32	1,159	30,936,708	84,300,090
6-30-26	445	32	1,636	19,836,304	104,136,394
6-30-27	449	15	2,100	44,450,000	148,586,394
6-30-28	441	112	2,653	22,932,028	171,518,422
6-30-29	721	18	3,392	25,524,027	197,042,449
6-30-30	882	43	4,317	24,200,666	221,243,115
6-30-31	890	26	5,233	37,676,788	258,919,903
6-30-32	848	8	6,089	27,322,655	286,242,558
6-30-33	868	16	6,973	16,111,881	302,354,439
6-30-34	687	8	7,668	32,305,553	334,659,992
6-30-35	595	26	8,289	20,212,161	354,872,153
6-30-36	778	42	9,109	31,033,449	385,905,602
Total	8,667	442			

\*Figure of \$53,363,382 represents actual assessments made for this period. Individual year figures were not available so the amount was prorated over the five years.

## Results of Prosecution

Indicted or arrested	1,445
Cases tried	
Convictions	720
Acquittals	84
<b>Total</b>	<b>804</b>

Pending in United States  
Attorneys' offices, awaiting  
trial June 30, 1936 202

Pending in United States  
Attorneys' offices, without  
criminal action having  
been instituted 73

Note: The remaining cases have been disposed of in various ways, such as compromise by the Department of Justice, death of defendants, etc.

## Charges Involving Personnel The Intelligence Unit July 1, 1919 to June 30, 1936

Division	Separations	Indictments Returned	Convictions	Acquittals	Indictments Dismissed
Collectors' Office	463	197	127	20	17
Revenue Agents Office	350	70	37	13	17
*Prohibition Agents'	706	257	109	49	44
Other Divisions	266	92	40	21	21
<b>Total</b>	<b>1,785</b>	<b>616</b>	<b>313</b>	<b>103</b>	<b>99</b>

Note: Action summarized above was the result of 3,794 personnel investigations completed by the Intelligence Unit.

\* The large number of acquittals in the prosecutions of Prohibition personnel was due to general antipathy of the public towards Prohibition which was reflected in unfavorable verdicts rendered by the juries in such cases.

## Enrolled Attorneys and Agents Applications and Charges April 1, 1924 to June 30, 1936

Fiscal Year Ended	Unjacketed	Applications Jacketed	Charges Jacketed
6-30-25	2,630	7	108
6-30-26	2,334	9	79
6-30-27	2,663	9	82
6-30-28	2,812	10	102
6-30-29	2,663	11	113
6-30-30	2,514	14	105
6-30-31	2,380	18	100
6-30-32	2,583	26	97
6-30-33	2,571	27	107
6-30-34	1,921	2	64
6-30-35	2,901	-0-	88
6-30-36	4,781	-0-	97
<b>Total</b>	<b>32,753</b>	<b>133</b>	<b>1,142</b>

Recommendation:	
Acceptance	30,430
Rejection	714
No recommendation	1,609
<b>Total</b>	<b>32,753</b>

## Summary Of Action By The Committee On Enrollment and Disbarment

Applicants rejected	372
Reprimands	151
Suspensions	182
Disbarments	181

## Miscellaneous Investigations The Intelligence Unit July 1, 1919 to June 30, 1936

Fiscal Year Ended	Cases Completed	
	Current	Cumulative
6-30-20	86	86
6-30-21	98	184
6-30-22	189	373
6-30-23	170	543
6-30-24	337	880
6-30-25	320	1,200
6-30-26	278	1,478
6-30-27	340	1,818
6-30-28	352	2,170
6-30-29	173	2,343
6-30-30	71	2,414
6-30-31	83	2,497
6-30-32	60	2,557
6-30-33	68	2,625
6-30-34	511	3,136
6-30-35	3,003	6,139
6-30-36	1,418	7,557
Total	7,557	

Note: The large increase in the fiscal years 1935 and 1936 is due to the adoption of the policy of having all applicants for positions in the Bureau of Internal Revenue investigated by the Intelligence Unit. In addition to these figures there were 5,070 investigations of applicants taken from the relief rolls for temporary positions with the Treasury Department during the fiscal years 1935 and 1936.

## HISTORY OF THE CRIMINAL INVESTIGATION FUNCTION

1936 — 1994

This section briefly outlines significant organizational and operational highlights, and summarizes cases of interest and significance during those periods.

### General

The basic organizational structure of the Intelligence Unit, like the Bureau of Internal Revenue, remained essentially unchanged from 1919 through 1951. Jurisdictionally separate organizations, or "units," administered the different types of tax. Under that arrangement, the Intelligence Unit was a centralized organization. Special agents in the field worked under the Special Agent in Charge of a geographic area (called a "division"). The Special Agent in Charge, in turn, reported directly to the Chief of the Intelligence Unit in Washington, D.C.

During that period, the Intelligence Unit's principal functions continued to be investigating tax fraud, investigating charges against Internal Revenue employees and performing background investigations of applicants for Internal Revenue positions. In 1924, the Unit was also assigned the responsibility of investigating applications of attorneys and agents to practice before the Treasury Department, and investigating

charges against enrolled agents and attorneys. That same year, the word "Special" was dropped from the Special Intelligence Unit's organizational title.

In 1929, special agents were classified in Grades 7 through 13. The salary range for Grade 7 was \$2,600 to \$3,100; and for Grade 13, \$5,600 to \$6,400. Special agents were promoted to Grade 12 for "specially meritorious service." Grade 13 was confined to the Special Agents in Charge of the large "divisions."

The Special Intelligence Unit started in 1919 with six former Post Office inspectors. By 1930, the special agent staff had grown to 138, and by 1940, to 296.

### The Late Thirties and the Forties

From 1935 to 1943, the Intelligence Unit conducted an unprecedented number, nearly 42,000, of "miscellaneous" investigations. These were background investigations resulting from the Unit's expanded responsibility during that period to investigate applicants for practically all Internal Revenue positions, as well as applicants for positions of importance in other Treasury segments.

With the advent of World War II came additional duties in the form of assisting Treasury's Foreign Funds Control Unit in locating and freezing funds and other valuables belonging to Axis-power aliens living in the United States. This was done to deprive the enemy of resources that might finance espionage and sabotage.

In 1942, President Franklin D. Roosevelt sent a personal note to Unit Chief Elmer

Irey. The President warmly congratulated Irey for organizing the Intelligence Unit, and wrote: "As the years have gone by, the Intelligence Unit has become a shining mark not only of incorruptibility but what is just as important of A-1 efficiency. I know how much quiet pride you have in the reputation of the unit. I am taking this opportunity to let you know I share in that pride."

After World War II, the Intelligence Unit concentrated on investigating tax evasion cases implicit in war-swollen profits, black market activities, and the unprecedented amounts of currency in circulation. To meet this increased work load, the *Intelligence* field force was increased to more than 1,200 special agents. This rapid expansion necessitated the transfer of investigators from other enforcement agencies.

## Cases of the Late Thirties and the Forties

### **International Alliance of Theatrical Stage Employees Louis Compagna et al. Chicago, Illinois**

George Browne had been a member and business agent for the Chicago local of the International Alliance of Theatrical Stage Employees. In 1932, he ran for president of the union and was defeated. Soon after, Browne was to meet and form a partnership with Willie Bioff, a former West Coast labor leader.

However, leading members of the Chicago Syndicate, including Frank Nitti, Louis Compagna, Paul de Lucia alias Paul Ricca, Phil D'Andrea, Charles (Cherry Nose) Gioe, Francis Maritote, and John Rosselli forced an agreement upon Browne and Bioff by which they would receive, first, one-half and, later, two-thirds of all that the two might collect from motion picture exhibitors.

The group succeeded in getting Browne elected to the presidency of the union. Then, Bioff and Nick Circella, a Chicago night club operator and a member of the syndicate, were given union offices as personal representatives of Browne.

Early in 1935, all had been arranged and Bioff and Browne, who were to be spearheads, began to blackmail exhibitors of motion pictures in Chicago.

In May 1941, Bioff, Brown and Circella were indicted under the Federal Anti-Racketeering statute. Circella pleaded guilty and Browne and Bioff went to trial. Bioff was sentenced to ten years imprisonment and Browne got eight years. According to Elmer Irey, the first chief of the IRS Intelligence Unit, "the income-tax phase of the case" led to the convictions of the three.

On March 18, 1943, an indictment was filed against the actual leaders of the syndicate charging them with a conspiracy to extort money from producers and exhibitors of motion pictures during the years 1935 to 1940. That same day, Frank Nitti committed suicide.

On New Year's Eve, 1943, seven of the conspirators were sentenced — one to seven years and six to ten years imprison-

ment. All were fined \$10,000. And it was largely the testimony of Willie Bioff that led to the convictions.

By 1947, most of the conspirators were granted parole after serving about one-third of their sentences.

### **Enoch "Nucky" Johnson, Atlantic County Treasurer**

For 26 years, Nucky Johnson was the political boss of Atlantic City. He made \$12,000 a year as Atlantic County treasurer and clerk of the New Jersey Supreme Court. However, he spent \$4,000 a year on liquor, and \$3,000 a year on lobster, caviar and steak. He had a personal fleet of four 16-cylinder Cadillacs, a \$5,000-a-year suite in a swank New York hotel and a \$2,200-a-year New York apartment.

During a five-year investigation of all the racketeers and contractors in Atlantic City, several contractors and "Numbers Syndicate" operators testified before grand juries that they had made graft payments to Johnson. Through his control of the police department and other law enforcement agencies, Johnson furnished a number of illegal enterprises with absolute protection from molestation and also received graft on city and county contracts. In July 1941, Johnson went on trial for three counts of tax evasion for the years 1935 — 1937. On August 1, he was sentenced to ten years imprisonment, fined \$20,000 and ordered to pay the entire cost of prosecution.

### **Martin Hays Former State Congressman Boston, Massachusetts**

In February 1940, Martin Hays, who left his position as Republican floor leader of the Massachusetts House of Representatives in 1936, was indicted along with four others on charges of income tax evasion. All of the accused were stockholders in the Bay State Greyhound Association which conducted dog racing at the Wonderland track in Revere, Massachusetts.

Louis Fox, Hyman Abrams and Mario Ingraffia, all former bootleggers, formed the Bay State Greyhound Association in 1934, and retained Hays, then a member of the state legislature, as counsel.

According to the prosecution, it was decided among the defendants that, because of the unfavorable reputations of the three ex-bootleggers, they would furnish Hays with the names of nominees. Hays then supplied the names of his relatives, friends, chauffeurs and private secretary as nominees for Fox, Abrams, Ingraffia, and a fifth defendant named Barron, as well as for himself.

When the association declared a dividend of \$80 a share on November 30, 1935, dividend checks signed by Hays were sent to Fox, Abrams, Ingraffia and Barron instead of to the nominees.

All five pleaded guilty in April 1940. Barron was fined \$500, while Hays and the three others were fined \$2,000 each.

**Thomas "Boss" Pendergast**  
**Political Boss**  
**Kansas City, MO**

For two decades, "Boss" Pendergast dominated the politics of Kansas City, Missouri, and Jackson County, finally controlling the state and becoming a national political figure.

According to a Federal District Court, sometimes Pendergast was described as a "Political Boss" and sometimes as a "Party Leader," depending in part, "on the user's political affiliations and in part on whether the boss-leader's power at the moment was at high or low tide. His throne room was a small monastic-like cubicle on the second floor of a two-story building, well removed from the business center of the city. "One thousand-nine hundred and eight Main Street" was synonymous with power, it was the local Mecca of the faithful. To this Mecca came he who would be governor, he who would be senator, he who would be judge, and he who was great and little, craving audience and favors."

Pendergast's downfall and the collapse of his political organization occurred in 1939 when he pleaded guilty to Federal income tax evasion. Pendergast and Robert O'Malley, former state Insurance Superintendent, were charged with evasion of income taxes on \$377,500 which they received for settling Missouri's \$9,500,000 fire insurance rate cases in favor of the risk companies.

Pendergast was sentenced to 15 months in prison, followed by three years probation and fined \$10,000. O'Malley was sentenced to serve one year and one day followed by three years probation, and fined \$5,000.

In January 1945, Tom Pendergast died, "a broken political boss."

**Robert Gould**  
**Whiskey Broker**  
**Cincinnati, Ohio**

In 1945, Robert Gould, a Cincinnati whiskey broker, and the Dowling Brothers Distilling Company, in which Gould was the principal stockholder, were indicted on 48 counts of violating maximum price regulations under the Emergency Price Control Act in the sale of whiskey.

The prosecution charged that Gould's whiskey syndicate, and others like it, caused the shortage of liquor in the Fall of 1943 and early 1944; that the groups started to buy up distilleries and great quantities of 100 proof whiskey in 1941 and later sold the liquor at high prices in the black market.

Gould and Dowling Brothers were convicted; and on May 4, 1945, Gould was sentenced to six years imprisonment and fines of \$240,000 were levied against him and the distilling company. In June 1947, after a negotiated settlement, Gould gave the U.S. \$2,500,000 — at that time, the largest single cash payment of taxes in a fraud case.

**Henry Lustig**  
**Restaurant Chain President**  
**New York, New York**

In June 1945, Henry Lustig, multimillionaire president of the Longchamps restaurant chain, after learning Internal Revenue agents were planning to check his books, paid the Government \$1,800,000.

However, this was not the extent of Lustig's tax deficiencies. Lustig, his nephew and a third man were subsequently indicted on 23 counts of tax evasion for the years 1940 to 1944. Two others were also indicted as part of the conspiracy and pleaded guilty to 22 counts.

The investigation showed that Lustig understated his net income by \$3,455,755 and his resultant tax liability by \$2,872,766. Lustig and his fellow conspirators overstated purchases by \$2 million and understated sales by \$1.8 million. The millionaire also withdrew \$2 million in cash, maintained a safe deposit box to hide currency, and diverted a large part of the hat check tips received by employees of his restaurant chain.

After a month-long trial, the three were convicted. Lustig was sentenced to a four-year prison term and ordered to pay a \$115,000 fine.

**Frank "The Enforcer" Nitti**  
**Chicago Racketeer**

Frank Nitti paid his dues to the Internal Revenue Service twice, once when he was alive and another time after he died.

In the early 1930's, Nitti, a "public enemy" and a lieutenant in the Al Capone liquor organization, pleaded guilty to failing to pay \$173,000 on income of more than \$700,000. For this violation, he was sentenced to 18 months imprisonment and fined \$10,000.

Over a decade later, Nitti and a number of other Chicago gangsters were indicted under a Federal anti-racketeering statute for extorting money from motion picture exhibitors. That same day, March 18, 1943, Nitti committed suicide.

In December 1949, the U.S. Tax Court upheld a Government claim of \$441,237, which included evaded taxes and fraud penalties. The Tax Court held that Nitti evaded tax on hundreds of thousands of dollars in income derived from such sources as the motion picture exhibitors extortion racket, partnerships in various kennel club and horse racing ventures, and the slot machine business.

## The Fifties

The staff of special agents had grown to 1,622 by 1950.

In the early 1950's, hearings of Senator Estes Kefauver's Committee investigating organized crime generated concern about the limited extent of enforcement efforts devoted to the tax returns of racketeers.

In April 1951, shortly after the Kefauver Committee's second interim report was issued, Internal Revenue initiated a Special Tax Fraud Drive to subject every known racketeer to a thorough tax investigation. A master list of nearly 30,000 names was compiled for this purpose. The director of the drive used the facilities of the Intelligence Unit in the National Office. Racket squads comprised of special agents, revenue agents and deputy collectors were formed in offices throughout the country, and were placed under the overall direction of the Intelligence Unit's Special Agents in Charge. Support for the drive diminished rapidly in mid-1952, when Congress did not appropriate the additional funds requested, and officials realized that many of the cases completed involved small-time hoods and petty gam-



blers. Soon after, the racketeer program was integrated with the overall Intelligence effort, with emphasis placed on investigating the major racketeers.

In 1952, following a series of Congressional investigations into “tax-fixing” in high places, there was a comprehensive reorganization of the Bureau of Internal Revenue. As part of the reorganization, the Intelligence Unit’s organizational name was changed to Intelligence Division. Its criminal investigation program was decentralized, that is, integrated with other field revenue programs under District Directors. A system of regional administration was established under Regional Commissioners (initially called District Commissioners). Thus were created the positions of Assistant Regional Commissioner (Intelligence) (initially called Assistant District Commissioner (Intelligence)) and Chief, Intelligence Division. In addition, responsibility for conducting character and conduct investigations of employees was reassigned to the recently created Inspection Service.

On July 9, 1953, the Bureau of Internal Revenue became the Internal Revenue Service.

On December 1, 1955, the Intelligence Division issued its first Wanted Circular. It was for Ralph “Shorty Ralph” Caleca, who was described as a cigarette dealer, gambler and general racketeer. Caleca, a fugitive from justice, had been indicted in St. Louis, Missouri, and was wanted for income tax evasion and conspiracy to defraud the United States.

During 1957, the Intelligence Division processed more than 30,000 applications for renewal of enrollment cards. This resulted from a change in 1952 that limited the term of enrollment cards to five years.

The decentralization of Intelligence in 1952, and subsequent speculation about modifications, created considerable anxiety and misapprehension among Intelligence personnel. Commissioner Dana Latham tried to allay these concerns by issuing the following message in 1959:

“As you know, the proper placement of the Intelligence function in the overall Service organization was the subject of considerable study at the time of the [1952] reorganization of the Service and subsequent to that time it has been reviewed in the light of experience gained since reorganization. I am firmly convinced that the decision to place Intelligence at the district level, rather than to establish a regional or centralized organization, was a wise one. It not only permits a more uniform organization but it provides the District Director with an effective criminal enforcement arm, responsive to him, at the level where coordination with Audit and Collection Division activities can best be maintained, supervised and evaluated. These and other advantages of the present Intelligence organization are such that it will remain at the district level...”

The 1950’s also ushered in wagering tax enforcement, which is discussed in the Investigative Projects section below.

## Cases of the Fifties

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### **Harold Gross Bookmaker Forest Hills, New York**

Newspapers referred to Harry Gross as the “head of a Brooklyn bookmaking ring that reportedly did a business of \$20 million a year,” when he pleaded guilty to a charge of evading taxes for the year 1950. And by 1951, Gross had begun serving an eight-year term for bookmaking and conspiracy. Yet after two convictions, his troubles with the Government did not cease.

In 1959, Gross appeared before the McClellan Committee and refused to testify regarding certain payments he had received for allegedly preventing a feared work stoppage in connection with deliveries of the “American Weekly” magazine of the “New York Journal American” newspaper. The possible work halt was a result of rivalry between the Teamsters’ Union and the Newspapers and Mail Deliverers’ Union.

On October 15, 1959, Gross was indicted on six counts of tax evasion for the years 1953 through 1958. The charges were based on Gross’ failure to report the payments on his tax returns. Gross was convicted on all six counts; however, his conviction was later reversed by the U.S. Court of Appeals, Second Circuit. On retrial, Gross was convicted on two counts of the original indictment.

### **Mickey Cohen Los Angeles, California**

Michael “Mickey” Cohen, or Meyer Harris Cohen, always insisted he was a

gambler. However, the California Commission on Organized Crime, created by Governor Earl Warren in 1947, identified Cohen, a former lieutenant of slain racketeer Bugsy Siegel, as the head of a major underworld gang in Southern California. Senator Estes Kefauver, before whose Senate committee Cohen testified in November 1950, claimed that every facet of West Coast racketeering he explored led him to Cohen.

Mickey Cohen was investigated by five Federal agencies and state, county and local authorities, but only the Internal Revenue Service managed to come up with something that would stick against him.

Cohen was found guilty on June 20, 1951, on four counts of evading income taxes for the years 1946 through 1948, and of having knowingly given a false financial statement to IRS agents. On July 9, he was sentenced to five years in prison and fined \$10,000 on each count; the sentences to run concurrently and the payment of \$10,000 to satisfy the fines in full.

On February 14, 1952, Cohen was committed to McNeil Island Federal Penitentiary. He was released on parole on October 9, 1955.

In 1958, large amounts of newspaper publicity began to appear, which played up the fact that Mickey Cohen was living in a grand style while owing the Government a substantial amount of money (liabilities of previously evaded taxes). IRS also began receiving letters which asked in essence, “Why isn’t Mickey Cohen in jail?”

Prohibited by law from disclosing what role they had taken or planned to take in the Cohen case, IRS was nevertheless gathering information on Cohen’s finances.

In the meantime, ex-gambler Cohen's partnership in a landscaping and plant rental business and his excursion into the ice cream parlor business had flopped and he was attempting to sell his life story for a movie.

However, Cohen was making and spending money. He received an enormous amount of money in the form of loans, much of which was actually the product of fraud and extortion; the Government was later to charge.

On September 16, 1959, Cohen was arrested by Internal Revenue agents and charged with willful filing of false and fraudulent income tax returns of the years 1957 and 1958, attempting to evade payment of past taxes, concealing income by fraudulent means and giving a false statement to an Internal Revenue agent.

The trial began on May 2, 1961, and lasted eight weeks. It featured a parade of witnesses, from strippers to authors, from TV comedians to clergymen.

The jury was instructed on June 28, and decided that Cohen was guilty of eight of the thirteen counts in the indictment. The jury concluded that much of what Cohen claimed were gifts or loans were actually: 1) compensation for promoting a book called "Gus the Great," 2) compensation for promoting the career of an aspiring singer, 3) compensation for settling a row between some vending machine operators, 4) money obtained through deception, and 5) life story income. He also received loans from persons who hoped he would "turn to Christ" or subject himself to psychiatric study.

On July 1, 1961, District Court Judge George H. Boldt sentenced Cohen to 15 years in prison and fined him \$30,000. In his pre-sentence remarks, Judge Boldt called Cohen "an excellent specimen of decadence in society."

#### **Harold John Adonis Roseland, New Jersey**

**Harold John "Joe" Adonis was a former executive clerk in the office of ex-Governor Alfred E. Driscoll of New Jersey.**

In the late 40's and early 50's, New Jersey began to investigate organized gambling in the state. In the midst of this probe, in November 1950, Adonis left the country.

While Adonis was in Europe, he was charged by the state of New Jersey with receiving large sums of money from racketeers as graft in connection with the protection of gambling interests in northern New Jersey. Mentioned in the indictment were Frank Erickson and Joe Adonis, known racketeers.

Adonis voluntarily returned from Holland in 1952 and was arrested upon debarkation in Hoboken.

He was indicted on December 10, 1952, for evasion of his 1948 income tax, subsequently found guilty of tax evasion, and sentenced to five years in prison.

The principal evidence on which Adonis was convicted consisted of his expenditures, mainly with \$50 bills and \$100 bills, to build a \$45,000 house in Roseland, New Jersey. The house was built in 1948 when he received a yearly salary of \$4,250 from the state.

#### **Joseph Nunan IRS Commissioner New York and Washington, DC**

From March 1, 1944 to June 30, 1947, Joseph Nunan was the United States Commissioner of Internal Revenue. Before 1944, he had served as a tax collector and a State Senator from Queens County, New York. After resigning his post as Commissioner, Nunan joined a Washington law firm.

Nunan played a prominent role in hearings before the King Subcommittee in 1951 and 1952. The subcommittee called IRS special agents and Nunan himself to testify about his finances.

On December 2, 1952, Nunan was indicted on five counts of income tax evasion covering the years 1946 to 1950. He went on trial in June 1954, was convicted and sentenced to five years imprisonment and a \$15,000 fine.

The 16-day trial was highlighted by testimony of gambler Frank Erickson. Erickson testified that he lost a \$1,800 bet to Nunan that President Truman would not be re-elected in 1948. He said he gave Nunan, who was backing Truman, odds of 9 to 1. Nunan claimed he did not report the winnings on his tax return because it was offset by other gambling losses during the year.

#### **Frank Costello Gambler New York, New York**

The Report of the President's Crime Commission, published in 1967, contains the following passage on the impact of organized crime on American life:

Consider the former way of life of Frank Costello, a man who has been repeatedly called a leader of organized crime. He lived in an expensive apartment on the corner of 72nd Street and Central Park West in New York. He was often seen dining in well-known restaurants in the company of judges, public officials, and prominent businessmen. Every morning he was shaved in the barbershop of the Waldorf Astoria Hotel. On many weekends he played golf at the country club on the fashionable North Shore of Long Island. In short, though his reputation was common knowledge, he moved around New York conspicuously and unashamedly, perhaps ostracized by some people but more often accepted, greeted by journalists, recognized by children, accorded all the freedoms of a prosperous and successful man. On a society that treats such a man in such a manner, organized crime has had an impact.

Frank Costello arrived in New York in 1895, having been born in Italy four years earlier, in 1891.

In 1915, Costello was convicted of carrying a gun — this was to be his only conviction for almost forty years.

In 1946, the Federal Bureau of Narcotics charged that Costello headed a nationwide dope syndicate. In 1950, the California Commission on Organized Crime declared that Costello headed a slot machine syndicate that took in \$2 billion a year, of which \$400,000,000 was spent to bribe public officials throughout the country.

Costello was indicted for offenses a number of times — for bootlegging, for tax evasion — but was not convicted.

However, on March 11, 1953, he was indicted on four counts of wilfully attempting to evade or defeat a large part of his income tax for the years 1946 through 1949. Costello went on trial in April 1954, and was convicted on three of the four counts. He was subsequently sentenced to five years imprisonment and fined \$30,000. A Federal Court of Appeals later reversed one count, while affirming the other two counts.

**Albert Anastasia**  
**New York, New York**

Albert Anastasia, a reputed member of Murder, Inc., the Brooklyn syndicate that was crushed in 1940, went on trial in 1954 for tax evasion for the years 1947 and 1948. On November 23, 1954, the jury reported it was hopelessly deadlocked and a mistrial was declared.

At a second trial, Anastasia entered a plea of guilty to evading \$11,743 in taxes over the two-year period. He was fined \$20,000 and sentenced to a year in prison.

Anastasia concealed his source of income and his expenditures by dealing only in cash and making purchases through third parties and numerous aliases. But agents, using the net worth-expenditures method, found unreported expenditures relating to construction of a palatial residence, elaborate furnishings and personal automobiles.

Prior to Anastasia's second trial, he made a motion for a change of venue because of local newspaper stories dealing with the disappearance of a prosecution witness and his wife from their bloodsplattered home in Miami.

In the fall of 1957, Anastasia was murdered by two gunmen as he sat in a barber's chair in a New York hotel.

**Abner "Longie" Zwillman**  
**Bootlegger**  
**Newark, New Jersey**

"Longie" Zwillman was known as the "Al Capone of New Jersey," because of his notorious racketeering activities and Prohibition Era rum-running.

In 1952, the Internal Revenue Service claimed that Zwillman owed the Government over \$700,000 in additional taxes, penalties and interest for the years 1933 through 1946 and attached a lien in that amount against his assets. Later, Zwillman paid IRS \$119,122 of the back taxes.

On May 26, 1954, Zwillman was indicted for evading taxes for the years 1947 and 1948. The case finally came to trial in 1956 and ended in a hung jury. Indictments were later returned against two Zwillman associates, charging them with bribing jurors in the 1956 trial.

In February 1959, Zwillman committed suicide in West Orange, New Jersey, after his two associates pleaded guilty to bribing a juror and were sentenced to lengthy prison terms.

**Hyman Harvey Klein**  
**Whiskey Distiller**  
**Baltimore, Maryland**

In 1954, Hyman Harvey Klein, a whiskey distiller, and eight others were indicted for attempting to evade Klein's income taxes for the years 1944 through 1946 and for conspiracy in connection with the attempted evasion.

Klein and his fellow conspirators took advantage of the limited supply of whiskey in the United States during World War II by marketing, at excessive prices, an inferior Canadian whiskey. They created 37 foreign corporations through which they manipulated whiskey profits of some \$20 million in an attempt to make it appear that the profits were derived from sources outside the United States and therefore not subject to U.S. income taxes.

On September 23, 1955, Klein was sentenced to serve four years and pay a fine of \$8,000. Two other conspirators were given smaller prison terms and fines.

**Dave Beck**  
**Seattle, Washington**

In 1957, Dave Beck was president of the International Brotherhood of Teamsters, which at that time was the biggest labor union in the United States. However, by October of the same year, Beck would no longer be president and would be under indictment for grand larceny and tax evasion.

The Senate Labor Rackets Committee was to bring Beck unwanted headlines that year, as it spotlighted his personal use of union funds for construction of his home and even the purchase of five dozen diapers. A criminal investigation of his activities during the period 1950 to 1953 showed Beck misappropriated some \$365,000 from various union entities with which he was associated.

He went on trial on November 10, 1958, for wilfully attempting to evade his personal income tax and preparing false

returns. He was subsequently convicted, sentenced to five years and fined \$20,000. On appeal, two charges were dismissed, but this did not reduce Beck's prison sentence.

**Pete Licavoli**  
**Racketeer**  
**Detroit, Michigan**

Federal District Court Judge Alexander Holtzoff noted some "interesting and illuminating facts" in Pete Licavoli's probation report, when the latter appeared before him for sentencing, arising out of a Congressional contempt citation.

Judge Holtzoff observed that Licavoli was a "notorious figure of the Detroit underworld" and head of the famed Purple Gang which had its origin during the Prohibition era. He was a runner of whiskey from Canada during Prohibition and had an interest in every major gambling operation in Detroit. He also had an arrest record two pages long, including a pair of felony convictions 25 years apart. In 1933, Licavoli was sentenced to two years imprisonment for trying to bribe border patrol officials checking on his rum-running activities. In 1958, he was sentenced to two-and-a-half years imprisonment and ordered to pay a \$10,000 fine after pleading nolo contendere to one count of income tax evasion.

Licavoli attempted to conceal his unreported income by dealing in cash and cashier's checks, operating through nominees and "dummies" and failing to either record or report many of his business activities, other than to list a flat amount for "speculation."

**Abraham Minker  
Gambler  
Reading, Pennsylvania**

During the Summer of 1959, Internal Revenue Service agents conducted an intensive investigation of gambling operations in the vicinity of Reading, Pennsylvania. Suspected numbers writers and operators were placed under surveillance.

On October 3, 1959, a raid was conducted on a Reading gambling establishment, during which adding machines, numbers slips, summary sheets, and various other articles essential to a large-scale numbers operation were seized. On the same day, the apartment of Abe Minker, alleged rackets boss, was searched, but no incriminating evidence connecting him to the gambling operation was found.

On March 25, 1960, agents conducted another raid on a numbers bank in a farmhouse in Berks County. Again various adding machines, numbers slips and a tally sheet were seized. However, no direct evidence of Minker's participation in the lottery was found.

In the interval between the two raids, IRS agents had arranged with Anthony Damore, a trash collector, to permit them to examine the contents of a trash barrel used in common by several tenants in the apartment house where Minker lived. The contents were examined off the premises, and the agents retained certain adding machine tapes and other slips of paper. Handwriting identified as Minker's appeared on many of these items.

On May 26, 1960, Minker was indicted for evasion of excise taxes on wagers along

with John Wittig and seven other defendants, who were arrested in the Berks County raid.

All pleaded guilty, except Minker and Wittig, who went on trial in November 1960. A mistrial was declared after a Philadelphia newspaper referred to Minker and Wittig as "gamblers" and the defense claimed it was prejudicial.

Minker and Wittig went on trial again in March 1961. This time, Wittig was acquitted and Minker was convicted on five of seven counts of the indictment.

On October 25, 1961, he was sentenced to serve four years in prison and fined \$35,000.

**Matthew Connelly and  
Lamar Caudle  
White House Appointments  
Secretary  
Head of the Justice Department's  
Tax Division  
St. Louis, Missouri and  
Washington, D.C.**

In the late forties, Irving Sachs, a St. Louis manufacturer, was in tax trouble. Agents of the Bureau of Internal Revenue recommended that he be prosecuted for tax fraud.

Realizing his difficult situation, Sachs employed a Kansas City lawyer, Harry I. Schwimmer, for the express purpose of thwarting his threatened criminal prosecution.

Schwimmer first tried to show that Sachs had made a voluntary disclosure, which was proven false. He then sought to protect his client from criminal prosecution because of

ill health, claiming that his prosecution would probably result in his death.

Sachs was later examined by a government doctor who said that, in his opinion, any fatal outcome due to the prosecution and trial of Sachs was "remote indeed."

T. Lamar Caudle was head of the Justice Department's Tax Division at the time. He disregarded the recommendations of the government doctor and the IRS agents and ordered that the case be treated civilly.

Sachs and Schwimmer also received help from another high government official, Matthew Connelly, President Truman's appointments secretary. In August 1948, Connelly called the IRS Chief Counsel about Schwimmer to "let you know we know him." In September 1949, Connelly called Caudle requesting a delay in the Sachs case for his "friend" Harry Schwimmer.

Sachs rewarded Schwimmer for his services with \$46,000. Schwimmer, in turn, rewarded Connelly and Caudle with a substantial portion of that sum. Schwimmer also purchased an oil royalty and two made-to-order suits for Connelly.

Schwimmer, Connelly and Caudle were indicted for conspiring to defraud the United States of the proper administration of the Internal Revenue laws.

Soon after the beginning of the trial, Schwimmer suffered a heart attack. A mistrial was granted to him and the case proceeded against the other defendants.

In March 1957, both Connelly and Caudle were convicted, sentenced to two years imprisonment and fined \$2,500.

## The Sixties

There were 1,418 special agents in the Intelligence Division in 1960.

On January 1, 1960, all investigative functions involving persons enrolled or applying for enrollment to practice before the IRS were transferred to Inspection. This was done to permit Intelligence to concentrate its efforts on investigating criminal tax violations.

The introduction of automatic data processing (ADP) systems into IRS during the 1960's created new tools for Intelligence to ferret out tax fraud. ADP would be used to detect unreported income and to identify fraudulent returns, false claims for refund and failures to file. It would also permit the high-speed analysis of voluminous business records to establish and document tax evasion. For the first known time in modern criminology, ADP was used to coordinate information that culminated in the indictment in 1965 of 86 alleged bookmakers in the New York City area.

While addressing the graduates of Intelligence's Special Agent Basic Training School on April 13, 1962, Attorney General Robert F. Kennedy commented:

*"A lot of the success we have had [in dealing with organized crime] is due to the Treasury Department.... All the efforts that have been made — the Intelligence Division carrying the brunt of them — have been very successful and very effective.*

*So, your work is of great importance. It is not just the fact that you are dealing with a particular individual who has broken the law, but, in the larger context, the fact that for the*

*survival of this country, there has to be respect for the law. The only way there is going to be respect for the law is if you and I meet our responsibilities in this important field."*

In 1965, considerable adverse publicity was generated by hearings of Senator Edward V. Long's subcommittee that focused on the Intelligence Division's use of electronic surveillance devices. Charges were made that the use of electronic devices was widespread and that they were used in connection with the routine investigations of ordinary taxpayers. Nearly 50 IRS officials and agents appeared at public hearings between July 1965 and April 1967. Numerous other employees were interviewed by the subcommittee staff. A special IRS inquiry board was set up and conducted exhaustive inquiries. These were expanded beyond Intelligence Division activities to also include those of the Alcohol & Tobacco Tax Division and the Inspection Service. There were numerous instances of electronic device use reported, both legal and questionable. However, the IRS board found no evidence of improper use other than in cases where the individuals were engaged in criminal or illegal activity, with no spill-over to "ordinary" cases. The board also concluded there was no basis for holding individual employees accountable. IRS corrective action included establishing a clear policy and detailed proscriptions on the techniques involved.

In the years following the assassination of President John F. Kennedy in 1963, special agents of the Intelligence Division have been called upon to assist the U.S. Secret Service in the protection of the President and other officials.

The 1960's also introduced a major drive on organized crime and, later, the beginning of the Strike Force concept. These are discussed in the Investigative Projects section below.

## Cases of the Sixties

### Frank "Buster" Wortman St. Louis Racketeer

In January 1960, Frank Wortman, a major figure in St. Louis racket activities, especially gambling and jukebox machines, was indicted, along with five of his associates, for conspiring to evade his income taxes from 1944 to 1960, by concealing his interest in a number of clubs and business establishments.

On February 26, 1962, after a seven-week jury trial, Wortman, Elmer "Dutch" Dowling and Gregory Moore were found guilty on the conspiracy counts.

On March 3, 1962, Dowling and his bodyguard were murdered. Their bodies were found on a lonely country road several miles from East St. Louis. One of the items found on Dowling's body was a napkin on which was written the names of three of the jurors who sat at the Wortman trial.

### Tony Accardo Chicago, Illinois

Senator John McClellan once called Anthony Joseph Accardo, who testified before McClellan's Senate Rackets Committee, "the successor to Frank "The Enforcer" Nitti and Paul "The Waiter" Ricca as the head of the Capone empire."

Accardo, even before his widely publicized tax trial in 1960, had his tax problems. In a 1958 Tax Court case, which detailed the bookmaking operations of a night club in which Accardo held a 50-percent interest, Accardo and his partners were required to pay the government additional money.

Two years later, Accardo found himself in hotter water. He was indicted by a federal grand jury in the Northern District of Illinois on three counts of making false statements on his tax returns. Between 1956 and 1958, Accardo received salaries ranging from \$40,000 to \$60,000 as a sales promoter for the Premium Beer Sales company and claimed that 80 to 90 percent of his automobile expenses were incurred promoting beer sales.

The government claimed the expenses stated were false and Accardo knew it. During the trial, the government proved that Accardo was paid more than either the owner or president of Premium. In addition, a large number of Premium salesmen and bookkeepers, who would naturally come in contact with a sales promoter, had never seen nor heard of Accardo.

After a trial of nearly nine weeks, Accardo was convicted on all three counts and was sentenced to a total of six years in prison and fined \$15,000.

On January 5, 1962, the U.S. Court of Appeals, 7th Circuit, reversed Accardo's conviction because certain prejudicial information was admitted into evidence and because of prejudicial newspaper publicity.

### Johnny (Dio) Dioguardi Labor Racketeer New York, New York

The Senate Labor Rackets Committee, before going out of existence in March 1960, issued a report which said in part, "working by themselves, such racketeers as John Dioguardi...present a dangerous enough problem, but when they have the backing of top officers of the nation's largest union, particularly James R. Hoffa, now its general president, the situation becomes one for national alarm."

Committee Chairman Senator McClellan said that Hoffa helped Dio in trying to take over the campaign to organize the New York taxi drivers and supported Dio in an attempt to grab control of Joint Council #16 of the Teamsters.

In addition to assisting Hoffa, Dio had led a varied career on his own. In 1937, he was sentenced to three to five years for extortion; in 1954, he served 60 days for willful failure to file New York State income tax returns; he was sentenced to two years for conspiracy and bribery of a labor representative in 1957; also in 1957, he was sentenced to 15-30 years for extortion, but his conviction was later reversed; and he was indicted in 1956 on charges relating to the acid blinding of labor columnist Victor Riesel.

On April 7, 1960, Dio and his reputed bodyguard, Theodore Ray, were found guilty of income tax evasion for the years 1950 to 1952. An operator of a women's apparel store and a president of a union testified that they solicited the aid of Dio and that funds were siphoned off from their firms to Dio through Ray as a con-



duit. Dio and Ray did not pay taxes on these funds.

Dio was sentenced to four years imprisonment and fined \$5,000; while Ray was sentenced to ten months imprisonment and fined \$500.

Three years after serving his term for tax evasion, Dio was arrested again and charged with conspiring with others to conceal some \$34,000 in assets belonging to a bankrupt firm.

### **Bernard Goldfine Boston Industrialist**

The foundations of the Eisenhower Administration shook on June 5, 1958, when the chairman of the Special Subcommittee on Legislative Oversight announced that he had authentic information that the Federal Trade Commission (FTC) and the Securities and Exchange Commission (SEC) had been subject to pressure from high government officials "in respect of" several companies controlled by Bernard Goldfine, Boston industrialist. The Chairman said the subcommittee had evidence that Presidential Assistant Sherman Adams and one or two senators, and perhaps representatives, had occupied hotel rooms in Boston paid for by Goldfine.

Later testimony before the subcommittee revealed that Adams had accepted gifts of a vicuna coat and an oriental rug from Goldfine and had telephoned FTC officials with regard to Goldfine's business practices.

Adams denied the charges that he had improperly used his influence on behalf of Goldfine. Reluctantly, he resigned his post on September 22.

On July 11, 1958, Goldfine testified before the subcommittee, refusing to answer 22 questions. On August 13, the House adopted a resolution citing Goldfine for contempt of Congress; Goldfine was convicted of this charge on July 24, 1959.

During the summer of 1958, IRS agents started their investigation of Goldfine interests and in October 1960, Goldfine went on trial for evading \$450,961 in personal income taxes for the years 1953-1957 and \$340,784 in corporate taxes for the years 1952-1957. The IRS had already made a jeopardy assessment against Goldfine's property in the amount of \$2 million and a \$5 million claim against his textile mill.

In June 1961, Goldfine was fined \$110,000 and sentenced to one year and one day for tax evasion. An additional six-month sentence was suspended on condition that Goldfine pay the \$5 million tax claim and tell the U.S. Attorney and the Federal Grand Jury about a huge slush fund used by Goldfine interests.

### **Harry L. Donovan Virginia Numbers Operator Richmond, Virginia**

In January 1960, fourteen IRS special agents and six Deputy U.S. Marshals raided a "counting house," and the Richmond Amusement Sales Company, which was owned and operated by Harry Donovan, the "kingpin" of the Virginia numbers racket.

In their search of the two locations, agents discovered nine large bags of numbers bet slips, \$6,000 in currency, adding machines, a strong box, notebooks and other wagering paraphernalia. On March 9,

1960, a jeopardy assessment, in the amount of \$183,267, was made against Donovan for excise and occupational taxes and applicable penalties.

On March 15, 1960, Donovan was indicted by a special grand jury for violation of the federal wagering tax statutes.

On the fourth day of his trial, Donovan changed his earlier plea of innocent to guilty after viewing colored motion pictures of his numbers operation taken by IRS agents prior to the raid.

Donovan was sentenced to four years in prison.

### **Frank "Screw" Andrew Gambler Newport, Kentucky**

For years the newspapers in the Cincinnati and Northern Kentucky area referred to Frank "Screw" Andrews as the "kingpin" of the numbers racket in that area.

In 1954, he was convicted on a state charge of operating a numbers lottery, but served only 13 months of a one-to-seven year sentence.

In September 1956, he pleaded guilty to a charge of willfully attempting to evade the federal occupational tax on slot machines and received a sentence of one year and one day in the federal penitentiary.

Charges stemming from an August 1961 raid on the Sportman's Club were made against Andrews and seven others. They were accused of conspiracy, willful understatement or failure to pay excise taxes, violation of the FCC Act, and failure to register and pay the wagering occupational tax.

The conspirators used two schemes to evade the taxes. First, they reported about

one-quarter of taxes due on the "day" numbers game. Second, they paid no taxes at all on the "night" game.

Andrews and his seven co-conspirators were convicted and sentenced to five years in prison and a fine of \$10,000 each for evading \$387,555 in excise taxes.

### **Sam Mannarino Gambler New Kensington, Pennsylvania**

Sam Mannarino was identified by the FBI as the leading rackets figure in Western Pennsylvania for 30 years.

In 1961, IRS agents conducted successful raids on the Mannarino wagering operation in New Kensington and charged him with income tax evasion. He was convicted and served one year in the federal prison in Lewisburg, from which he was released in 1965.

In June 1967, Sam Mannarino died at the age of 61.

### **Benjamin Dranow Minneapolis Department Store Owner**

In July 1957, Ben Dranow was scheduled to appear before the Senate Labor Rackets Committee, headed by Senator McClellan, but it was November 1958 before he testified. On that occasion, Dranow invoked the Fifth Amendment 37 times when questioned by Committee Counsel Robert Kennedy.

In his book, "Crime Without Punishment," McClellan discussed the relationship between Dranow, the International Brotherhood of Teamsters, and Jimmy Hoffa:

*"Teamster welfare funds in the amount of \$1,200,000 were invested in a Minneapolis department store run by Benjamin Dranow. This store went into bankruptcy soon thereafter, and Dranow, an associate and friend of Hoffa's drew out \$115,000 of the company's funds immediately before a bankruptcy petition was filed."*

On January 13, 1961, Dranow was indicted on 21 counts of mail fraud, wire fraud and bankruptcy fraud. The government charged and later proved that Dranow caused fictitious, fraudulent merchandise inventories and false accounts receivable totaling \$449,000 to be entered in the records of the John W. Thomas Company, a department store. After a six-week trial, Dranow was convicted on 18 of the 21 counts and sentenced to seven years imprisonment and ordered to pay a \$12,000 fine and \$5,000 court costs.

A little over two weeks later, on September 8, 1961, Dranow was indicted on three counts of income tax evasion. On April 26, 1962, he was convicted on charges of failing to report about \$40,000 of income between 1955 and 1957 and defrauding the government of approximately \$9,600 in income taxes. He was sentenced to another seven-year prison term, which was to run concurrently with the mail fraud sentence, and fined \$10,000.

Dranow's problems with the government did not end there. On June 4, 1963, Dranow was indicted along with Jimmy Hoffa and five others on 28 counts of mail and wire fraud in a scheme to defraud the Teamsters' pension fund. Dranow and Hoffa were convicted.

### **Norbert Roll Campbell County, Kentucky Sheriff**

In 1956 and 1957, Norbert Roll was master commissioner of Campbell Circuit Court. He became sheriff in January 1958, but was ousted from his position in 1961 by Governor Bert Combs for failure to enforce vice laws.

In December 1961, a criminal information was filed against Roll on four counts of willfully failing to file income tax returns. He was convicted and sentenced to one year in prison.

### **Metro Holovachka Prosecutor Lake County, Indiana**

In June 1959, Metro Holovachka was called to testify before the McClellan Committee. However, the Lake County prosecutor refused to answer numerous questions asked of him by Committee Counsel Robert Kennedy.

Shortly after his Committee appearance, Holovachka resigned his position.

In 1961, Holovachka was indicted on tax evasion charges for evading \$39,000 in taxes for the years 1955 through 1957. His aggregate income during this period was \$179,543 over and above the amount he actually reported.

Holovachka was subsequently convicted and sentenced to three years imprisonment. And in 1964, the Supreme Court of Indiana disbarred him for life.

In the Court's majority opinion, Chief Justice Frederick Landis said: "It is difficult to conceive of a clearer example of illicit or depraved conduct than that here

exhibited by Holovachka, who, in his lust for wealth and power, increased his income from a paltry \$5,123 average a year as a lawyer to amounts far exceeding the maximum salary of \$12,000 provided by statute for the prosecutor of Lake County.

His receipt in his bank account of \$327,000 in small cash denominations which was unexplained by him, obviously was from vice and gambling activities which owed to Holovachka every cent of that money for their continued and successful operation in defiance of the law which it was Holovachka's sworn duty to uphold and enforce.

This was utter depravity and moral turpitude of the rankest sort.

Holovachka was disbarred on four specific charges: 1) for his tax fraud conviction, 2) for failing to prosecute persons guilty of vice and gambling violations, 3) for purchasing and selling bonds in Gary when he was city controller, violating local laws, and 4) for his offensive conduct in his dealings before the McClellan Committee.

### **George Chacharis Mayor Gary, Indiana**

"It's when you get to the top of the heap that everybody tries to knock you off. The climb up is tough, but staying on top is tougher."

These words were spoken by Gary, Indiana, Mayor George Chacharis four days before the start of his 1962 income tax evasion trial.

One month later, Chacharis was to voluntarily take himself from the top of the heap by resigning from his office as mayor

and pleading guilty to conspiracy to evade payment of taxes.

In February 1962, Chacharis and eleven other Indiana men, including the Sheriff of Lake County and five members of the city council of Hammond in 1955, were indicted on income tax charges.

Specifically, the Gary mayor, who immigrated from Greece in 1919, was charged with receiving \$226,686 in payoffs from contractors who did business with the city. Ten city and state officials and citizens served as conduits and intermediaries who funneled the kickbacks to Chacharis.

Chacharis was charged with paying only \$23,939 tax on \$67,120 of declared income for 1955 through 1958, while the government contended he actually had \$239,806 in income and should have paid \$191,355 in taxes.

After his guilty plea, Chacharis was sentenced on January 18, 1963, to serve three years in prison and pay a fine of \$10,000.

### **Harold Turk Miami Beach Mayor**

In September 1962, Harold Turk, Mayor of Miami Beach from 1949 to 1951, a member of the Beach City Council from 1937 to 1955, a member of the board of Brandeis University and a well-known lawyer, was charged with failing to file income tax returns for the years 1956 through 1960. His income for this period was \$236,525.

Turk waived a jury trial, suffered a mental breakdown which delayed his trial and finally pleaded guilty in August 1963, to failing to file a 1957 tax return on \$77,089 in income. The other charges were dropped.

Turk was sentenced to one year in prison, nine months suspended. He was also ordered to pay a \$5,000 fine.

**Richard Gosser**  
**Labor Leader**  
**Toledo, Ohio**

Prior to October 1962, the Internal Revenue Service had initiated an investigation of the income tax returns of Richard Gosser, the senior International Vice President of the United Auto Workers. The claims against him were subsequently settled without fraud penalties.

On October 19, 1962, an agent of the Toledo Intelligence Division office noticed that a secretary was engaged in typing reports which were not in her particular area of responsibility and she was placed under surveillance from October 22 through November 1.

On November 2, she was questioned by three agents and accused of giving information from the files of the Intelligence Division to Ted Maison, a figure in the numbers business who was married to her first cousin. Finally, the secretary admitted furnishing the information to Maison and took agents to her home, where they found copies of four sensitive case reports relating to an IRS investigation of Gosser for the years 1956 through 1958.

The secretary made one more "drop" of information — this time with IRS agents watching every move. After Maison picked up the documents, they were taken to Gosser's office. There, on November 12, 1962, Gosser, Maison and a third member of the conspiracy were arrested and later charged with conspiring to defraud the United States.

Following a trial of nine days, the jury returned a verdict of guilty against each defendant. All were sentenced to three-year prison terms.

**Joseph "Newsboy" Moriarty**  
**Numbers Operator**  
**Jersey City, New Jersey**

From a newsboy selling tabloids in the bars and restaurants of his neighborhood to Jersey City's number one numbers boss — this was Joseph Moriarty's story.

He was arrested no fewer than 25 times on gambling charges, as his name became a familiar one in the New Jersey newspapers.

However, Moriarty grabbed his biggest headlines when he was serving a two-to-three-year sentence on a gambling conviction in the State Prison at Trenton.

On July 3, 1962, two workmen came across \$2.4 million of Moriarty's money in an abandoned garage. Three days later another garage yielded \$168,675, all belonging to Moriarty.

At first, Moriarty denied ownership. However, he later changed his mind, filing a tax return, claiming earnings of \$5,500 as a newspaper distributor and listing \$2.4 million as "other income." He also requested a \$212,000 tax rebate.

In October 1963, Moriarty was convicted of failing to pay wagering taxes on gambling receipts from his numbers operation. He was sentenced to one year in prison, which was to begin after the State prison term ended. He was also fined \$12,500.

**James Landis**  
**Presidential Adviser**  
**New York, New York**

James M. Landis had a brilliant career in government. He was an adviser in the Roosevelt, Truman, and Kennedy Administrations. He also served as chairman of the Securities and Exchange Commission, chairman of the Civil Aeronautics Board and as a member of the Federal Trade Commission. He had also been Dean of Harvard Law School.

In August 1963, an information was filed charging Landis with willful failure to file income tax returns for the years 1956 to 1961. He pleaded guilty to three counts the same day the information was filed and was later sentenced to 30 days in jail.

Landis' defense claimed a five-year lapse of memory due to preoccupation with public affairs.

**Raymond C. Deering**  
**Executive Vice President**  
**of Manufacturers**  
**Hanover Trust Co.**  
**New York, New York**

Raymond Deering was the chief administrator of a bank with 133 branches and, until his resignation in 1961, a treasurer of the New York State Democratic Party.

On March 20, 1963, Deering resigned his banking post and pleaded guilty in Federal Court to evading payment of \$37,000 in income taxes.

Deering had been charged with eight counts of willful income tax evasion by filing fraudulent tax returns for 1957, 1958, and 1959, in an attempt to hide almost \$60,000 in income.

Deering was fined \$18,000 and placed on probation for one year. In sentencing Deering, Judge Thomas Croake gave consideration to the defendant's physical condition. Lawyers for Deering claimed that the banker "had an organic deficiency" and that "this in part could explain his apparent character change from honesty to its converse."

**Joseph "Doc" Stacher**  
**Gambler**  
**Beverly Hills, California**

On July 23, 1963, "Doc" Stacher, a one-time partner of New Jersey racketeer, Abner Zwillman, was indicted on two counts of evading \$43,000 in taxes for the years 1959 and 1960.

The government sought to show that Stacher held a secret interest in the Sands Hotel in Las Vegas.

After a year of legal debate, Stacher pleaded guilty and filed an affidavit promising to leave the U.S. for Israel and never return. Stacher, born in Russia, had been denaturalized in 1956, because he had concealed his long police record when he applied for citizenship in 1930.

On July 31, 1964, Stacher was fined \$10,000 and given a five-year suspended sentence; provided he keep his promise to go to Israel.

**James "Totto" Marchetti**  
**Gambler**  
**Bridgeport, Connecticut**

In the Summer of 1964, a special agent of the Internal Revenue Service was detailed to work in Bridgeport, Connecticut, as an undercover agent, posing as a person wish-

ing to make numbers and horse bets; and later as a would-be bookmaker.

In early September, the undercover agent asked Arthur Gjanci, a member of the Bridgeport gambling combine, if he could set up an arrangement to turn in bets and receive a commission. After Gjanci spoke to his "bosses," James "Totto" Marchetti and Frank Costello (not Frank Costello of New York), it was decided that the undercover agent would "book on 50%" with "Tony" with settlement to be made with Marchetti. On October 2, the agent placed bets with Costello, paying him with two marked \$20 bills.

On October 6, 1964, indictments were returned against Marchetti, Costello and a number of others, but the indictments remained impounded until October 8, 1964. On that day, 75 IRS special agents and 50 State policemen raided 40 gambling establishments and arrested 45 people, including Marchetti and Costello.

Chief Assistant U.S. Attorney Owens later said the raids had "broken the back of gambling" in Bridgeport.

Costello, Marchetti, and Gjanci were tried together and convicted of federal gambling violations. Costello and Marchetti received concurrent one-year prison terms and \$10,000 fines on a conspiracy indictment and an individual charge. On another count, their sentence was suspended and probation for two years was imposed. Gjanci's sentences differed in that the fine was \$2,000.

After their gambling convictions were affirmed by the U.S. Court of Appeals, Costello and Marchetti took their cases to the Supreme Court. Costello died before his case was decided. However, Marchetti's

conviction was overturned in a landmark decision.

The Court found that prospective registrants under the federal gambling laws "can reasonably expect that registration and payment of the occupational tax will significantly enhance the likelihood of their prosecution for future acts, and that it will readily provide evidence which will facilitate their convictions." The Court further held that "those who properly assert the Fifth Amendment constitutional privilege" as to the registration and Occupational Tax payment provisions of the federal gambling laws "may not be criminally punished for failure to comply with their requirements."

This case, and the case of Anthony Grosso, temporarily put an end to Intelligence's involvement in wagering.

#### **Anthony Grosso Gambler Pittsburgh, Pennsylvania**

At his 1964 trial on charges of failing to pay federal occupational gambling and wagering taxes and of conspiring to defraud the government, Anthony Grosso claimed that he quit the numbers racket in 1950. Therefore he was not liable for the gambling stamp and excise taxes. Grosso later claimed that, during his earlier numbers career, he grossed \$13 million a year.

Another former lottery operator testified at Grosso's trial for the government. He said Grosso was the boss of a numbers combine between 1958 and 1961, and that he operated under an agreement with Grosso to "lay off" his daily wagers in return for a commission and a share of the profits. His testimony was supported by a notebook containing a daily record of his business and his transac-

tions with Grosso. The notebook had been seized in April 1960, when IRS agents raided the witness' home.

The jury found Grosso guilty on 20 counts of the 21-count indictment and he was subsequently sentenced to nine years in prison.

While Grosso was appealing his conviction, he testified at the tax evasion trial of the assistant superintendent of the Pittsburgh police, Lawrence Maloney. Grosso later told a senate committee that he paid bribes to Maloney. When asked if he paid bribes to persons other than Maloney, Grosso declined to answer on Fifth Amendment grounds.

On January 29, 1968, the Supreme Court reversed Grosso's conviction, on the grounds that the federal gambling statutes violated the Fifth Amendment's guarantee against self-incrimination.

#### **Oklahoma Supreme Court Bench Scandal Judge Earl Welch Judge Nelson S. Corn**

On April 9, 1964, an Oklahoma City federal grand jury indicted 72-year old state Supreme Court Judge Earl Welch and 80-year old supernumerary Judge Nelson S. Corn on charges of income tax evasion.

On July 1, Judge Corn entered a nolo contendere plea to his indictment and was sentenced to a fine and concurrent imprisonment terms of eighteen months. At Corn's sentencing, the prosecution told the judge that Corn had received a bribe of \$150,000 in return for a favorable judicial decision in a state Supreme Court case. Corn had indicated to a witness that the money was to help him and others of the Supreme Court meet campaign expenses.

On October 5, 1964, Welch's trial began. Judge Corn was called as a witness, but invoked the Fifth Amendment and refused to answer any questions. Hugh Carroll, former president of Selected Investments Corporation, was also called as a witness, and in testimony delivered out of the presence of the jury, said he had paid Judge Corn the \$150,000 bribe. This testimony was later ruled inadmissible.

On November 13, 1964, Welch was sentenced to three years imprisonment and ordered to pay a \$13,500 fine.

On December 9, 1964, at the Medical Center for Federal Prisoners, Corn said that in 1956 he retained \$99,500 out of the \$150,000 paid to him by Carroll and that he received \$4,000 from O.A. Cargill, Oklahoma City attorney, to reverse one case and another \$7,500 to reverse a case involving Cargill's son-in-law. In connection with the Carroll bribe, Corn said he paid \$7,500 to Justice N.B. Johnson and Justice Welch. He also said he paid \$2,500 each to Judges Johnson and Welch to overturn another case.

By 1967, Welch had resigned his judgeship hours before impeachment, served time in prison and was released in about five months; Johnson was impeached by the state senate; Cargill was convicted of perjury and was appealing his case; and Corn was dead.

#### **Pete Castellana New York, New York**

Peter Castellana, alleged to be a "caporegime" in the Carlo Gambino family of the Cosa Nostra, was indicted with five others for violation of the National Bankruptcy Act, in connection with the bank-

ruptcy of a packing firm. In 1964, after a six-week trial, he was convicted and sentenced to serve five years in prison and pay a fine of \$45,000.

On March 30, 1965, Castellana was indicted on nine counts of willful evasion of corporate income tax and preparation of false returns. The next day Castellana surrendered and was arrested by IRS special agents.

On April 4, 1968, Castellana was ordered to pay a \$5,000 fine after a guilty plea to one of the nine counts of the indictment.

**George Raft**  
**Actor**  
**Los Angeles, California**

George Raft, the coin-flipping gangster in the 1931 movie, "Scarface," was indicted on August 31, 1965, for evading payment of income taxes on \$85,000 for the years 1958 through 1963.

Raft pleaded guilty to one count of the indictment for understating his 1961 income by \$35,000, but insisted it was a mistake.

After a Federal judge declined to sentence Raft to prison and ordered him to pay a fine of \$2,500, the famed movie tough guy broke down and sobbed.

**Bobby Baker**  
**Secretary to the Senate Majority**  
**Washington, District**  
**of Columbia**

In a civil suit filed September 9, 1963, Ralph L. Hill, president of Capitol Vending Company, charged Robert G. "Bobby" Baker, ex-senate page and Secretary to the Senate Majority for eight years, with using his influence to obtain contracts in defense

plants for a vending machine firm, Serv-U Corp. The suit also said that Baker had told Fred B. Black, a Washington consultant for North American Aviation Corp., that he was in a position to help obtain government contracts. It alleged that, in return, North American "entered into an agreement to permit Serv-U to install vending machines in its plants in California."

Baker denied the charges, and in little over a year, the suit was dismissed as the case was settled out of court for "approximately" \$30,000.

In the meantime, Baker resigned his Capitol position and became the subject of a senate investigation. After lengthy hearings, the Senate Rules and Administration Committee issued a report finding Baker "guilty of many gross improprieties," including influence peddling and deceptive business practices.

On January 15, 1966, after a 15-month investigation, a federal grand jury indicted Baker on nine counts, ranging from tax evasion to grand larceny.

On the larceny counts, the government charged that Baker obtained \$99,600 from California savings and loan executives by suggesting they raise money for campaign funds, then pocketed the money himself. Baker said he collected the money for the late Sen. Robert Kerr of Oklahoma, to whom he delivered it.

In January 1967, Baker was found guilty on all nine counts. He was sentenced to serve concurrent one-year prison terms on each of the charges, but was free on bail pending the outcome of his appeal.

Baker's associate, Fred Black, was convicted in May 1964, on charges of attempting to file false income tax returns in 1956,

1957, and 1958. He was awarded a new trial however, when it was disclosed that the FBI had bugged his Washington, D.C., hotel suite. He was acquitted in July 1968.

During his own trial, Baker charged the Government with violating his constitutional rights by obtaining certain evidence by means of electronic surveillance.

**Vincent "The Saint" Inzerro**  
**Chicago Racketeer**

Inzerro's name first appeared on the Chicago police records back in the early thirties. He was reported to be a "hitman" and "wheelman" for Chicago's organized crime, and he had a list of arrests which included murder, theft, and robbery.

In June 1966, Inzerro pleaded guilty to failure to file and was sentenced to two years in prison.

At sentencing, Inzerro told the Judge, "I didn't know I was supposed to file." Judge Will replied, "Some of your associates were experts on income tax laws. I can't believe you were naive on this."

Inzerro had failed to report his income from a vending machine partnership for which he rendered little, if any services.

**Danny Andrews, Jr.**  
**Gambler**  
**Highlands Heights, Kentucky**

In August 1966, the IRS began surveillance of a numbers operation in Northern Kentucky. Agents went undercover and placed coded bets with numbers "writers."

Money and bets were then taken to the "drop" house and from there to the Sportsman Club or to the home of Danny Andrews Jr., the nephew of convicted num-

bers kingpin, Frank "Screw" Andrews.

On November 9, the agents were ready to strike. They sledgehammered their way into Andrews' house and raided the Sportsman Club and other homes, simultaneously.

As a result of the raid, five men were arrested and three automobiles, a truck, five adding machines, and \$3,846 in currency and wagering records were seized.

Andrews, who was not picked up during the raids, surrendered to IRS agents the following day. He was charged with traveling interstate to carry on unlawful gambling activities, willful evasion of the wagering excise tax, and failing to pay for a Special Occupational-Wagering tax stamp. He was also charged with one count of conspiracy.

In a joint trial with nine other defendants, Andrews was convicted and sentenced to serve two years and pay a fine of \$10,000.

Included in the evidence used to convict the 25-year old Andrews were fingerprints raised from the wagering records by the Alcohol and Tobacco Tax lab in Cincinnati; a handwriting analysis of the "house summary sheets;" traced serial numbers from the adding machines used in the operation; and telephone toll records which were used to show interstate calls between the Andrews' residence in Kentucky and the residence of a numbers controller in Ohio.

**Morris "Max Courtney"**  
**Schmertzler**  
**Gambler**  
**New York, Miami and Bahamas**

In 1967, a British Royal Commission on gambling issued a report denouncing the role of three American gamblers in the development of the gambling industry in



the Bahamas. The Commission described the three men, whose employment as managers of the Monte Carlo Casino in Freeport became a political issue in the Bahamian elections, as "not suitable persons to have been employed."

The three gamblers, Max Courtney (whose real name was Morris Schmertzler), Frank Ritter, and Charles Brudner, had been indicted four times between 1964 and 1967 by federal grand juries in New York for activities as alleged heads of a U.S. sports bookmaking operation. They were accused of failing to buy a federal gambling stamp, failing to pay income taxes on bookmaking earnings between 1958 and 1964, and of traveling interstate in connection with racketeering.

In January 1967, Courtney, Ritter, and Brudner resigned their casino posts and were later ordered to leave the Bahamas.

After returning to the United States, Courtney and Ritter, who were described before the Miami Crime Commission as "the two biggest pay-off operators and the two biggest, heaviest bookmakers, and sports bookmakers in the country," pleaded guilty to conspiracy and failure to file tax return charges on November 6, 1968.

**Joseph (Joe Shine) Amabile**  
**Racketeer**  
**Chicago, Illinois**

When builder William G. Riley became the subject of an investigation by the Internal Revenue Service, Cosa Nostra figure Joseph Amabile threatened him with these words: "Don't say nothing or you never will be walking the streets again ...

I know where your kids go to school and where your mother lives."

Riley was in a financial mess because Amabile, Sam Battaglia (the Cosa Nostra's operating boss in Chicago), and David Evans (Riley's construction superintendent), were working together to extort money from him in connection with the building of an apartment complex in the suburb of Lansing. In addition, Amabile, Mayor Henry Neri of Northlake, Illinois, Aldermen Leo Shababy and Joseph Drozd, and Nick Palermo, a plumbing contractor, were extorting funds from him in connection with a Northlake apartment complex.

The IRS agent investigating Riley convinced him to talk to some special government prosecutors. As a result, a federal grand jury returned two indictments in February 1967, against the figures involved in the extortion plots.

Amabile was convicted and sentenced to two terms, totaling 30 years. Battaglia got 15 years; Palermo, 15 years; Neri, 12 years; Shababy, 10 years; Drozd, 7 years; and Evans, 5 years.

Commenting on the convictions of Amabile, Battaglia and Evans, the U.S. Attorney said the case "was made possible because of the persistent work of Internal Revenue agents in getting three men to tell the truth about their experiences and business relationships with the defendants. Just getting these men to talk was a formidable achievement; that alone took more than a year's work."

**Ed Levinson**  
**Gambler**  
**Las Vegas, Nevada**

In 1965 and 1966, through news stories and a court action involving a part owner of the Desert Inn, Ruby Kolod, the illegal practice of "skimming" in Las Vegas casinos came to light.

Skimming involves raking off portions of gambling receipts in casino counting rooms in order to evade the federal and state taxes on the profits.

In May 1967, after a federal grand jury investigation, seven licensed casino operators were indicted on skimming charges. One charge covered four former owners of the Fremont Hotel and Casino, including Ed Levinson, president of the Fremont and a figure in the senate investigation of Bobby Baker. The second charge covered three owners of the Riviera Hotel and Casino.

The backbone of the cases was a surveillance of gambling tables throughout a specific eight-hour shift by Internal Revenue Service agents. The surveillance enabled the agents to gain a figure of what the cash boxes attached to each table should hold.

Upon arraignment, Levinson and the six others pleaded innocent. Levinson had previously filed a \$4.5 million civil lawsuit against the FBI and Central Telephone Company, claiming that they had unlawfully eavesdropped on him.

In March 1968, Levinson and Joseph Rosenberg, an official of the Riviera Hotel, were fined \$5,000 and \$3,000, respectively, after changing their pleas to nolo contendere on charges of "willfully aiding and assisting in the preparation of a false

corporate return for the fiscal year ending in 1963."

On the same day, the Fremont Hotel dropped its damage suit against the FBI.

**Guido Fidanzi**  
**Chicago Extortionist**

Soon after the Internal Revenue Service launched an investigation of Guido Fidanzi, an extortionist and swindler, he told an IRS agent, "The man who you can get to testify that he gave me money hasn't been born yet."

On March 27, 1968, Fidanzi was found guilty by a jury in Chicago of income tax evasion for 1961 and failure to file income tax returns for 1963 through 1965. The jury deliberated approximately 20 minutes to find Fidanzi guilty on all counts.

During the trial, 15 witnesses testified regarding payments made to Fidanzi between 1961 and 1965, totaling \$52,800, all of which was unreported income. The purpose of these payments, according to the witnesses, ranged from investing in houses of prostitution, which Fidanzi said he was buying to obtaining a \$250,000 loan from the extortionist. One witness testified that Fidanzi once told him, "If you deal in cash, you don't have to pay taxes."

At the close of the trial, the government moved to deny appeal bond to Fidanzi. On April 18, during a two-hour hearing, 11 witnesses testified that Fidanzi threatened to kill or maim them if they testified against him. Calling Fidanzi a man of violence and a menace to the community, the judge ordered his bond revoked.

Fidanzi was sentenced to five years in prison.

### **Anthony Dichiarinte Chicago Racketeer**

Anthony Dichiarinte, who was described in Chicago newspapers as a "crime syndicate juice loan operator," went on trial in October 1968, for evading taxes for the years 1957 and 1958.

Dichiarinte, who had never filed an income tax return in his life, had previously been convicted of possessing hijacked liquor, armed robbery and robbery.

Based on the net worth method, the government said that Dichiarinte's income for 1957 through 1958 was \$55,906, on which he should have paid \$20,059 in taxes.

Internal Revenue Service agents testified during his trial that Dichiarinte told them his occupation was "thief" and that he had held a steady job only once — for a short time 30 years ago.

The agents also testified that when he was questioned about his wealth in the two years, his reply was that he hadn't earned a cent during that period but was able to spend from a hoard acquired in previous years "by illegal activities." Dichiarinte also lived in a \$60,000 home.

As Judge Bernard M. Decker sentenced Dichiarinte to nine years in prison and ordered him to pay a \$10,000 fine, he called the case "the most flagrant I could imagine."

### **Louis Miriani Mayor Detroit, Michigan**

Louis C. Miriani was a well-known political figure in Detroit for 25 years. As of 1968, he was City Councilman-elect and

before that he was Mayor of the city.

On May 20, 1968, Miriani was convicted of income tax evasion for the years 1959 through 1961. This period, during which Miriani was Mayor, saw his net worth rise in excess of \$600,000. Of this sum, he failed to report \$260,000 in income taxes.

The government successfully contended before the jury that the source of the unreported income was substantial campaign contributions from individuals, organizations, and testimonial dinners which Miriani diverted to his personal use by investing them in stocks, municipal and Government bonds, and joint bank accounts, thus making them taxable income.

More than 70 witnesses testified that they individually, or on behalf of some organization, made specific contributions to Miriani for political expenses. Their names were not included by Miriani on the sworn-to list of contributors he filed with the State of Michigan.

Miriani was sentenced to one year and a day in prison and fined \$40,000.

### **Tax Consultant Convicted**

In 1966, Charles A. DeLoach, a nationally known tax consultant was convicted of tax evasion and sentenced to three years in prison. DeLoach misrepresented himself to IRS officials throughout the country as a CPA, an attorney, and an enrolled practitioner. One hundred witnesses were used in the six-day trial.

### **IRS Deputy Collector Pleads Guilty**

In 1967, Castro H. Voss, a former deputy collector of IRS and a public accountant in Modesto, California, pleaded guilty to filing false individual income tax returns. Voss claimed dependents he did not support, understated gross receipts from a partnership and his tax service, and claimed automobile depreciation based on inflated value. Voss was sentenced to three years imprisonment.

### **Buddy Rich Fined**

Jazz bandleader-drummer Buddy Rich was fined \$2,500 and placed on probation for 5 years for failure to file federal income tax returns. Rich was arrested on July 1, 1967, at the Newport Jazz Festival at Providence, Rhode Island. His income for the year involved exceeded \$100,000.

### **Artist Guilty**

Aaron Bohrod, a nationally known artist at the University of Wisconsin, was found guilty of income tax evasion and fined \$10,000 plus court costs. Bohrod maintained no records of painting sales as he felt to do so was incompatible with his artistic life. However, he kept detailed records of his investments and dividends, and maintained saving accounts in 18 saving and loan associations throughout the country.

### **Wheat Farmer Guilty**

In 1966, a 60-year old Kansas wheat farmer pleaded guilty to one of five counts of knowingly understating his gross income. The Kansas farmer was sentenced

to three years in prison and fined \$2,500. The farmer had previously appeared before the court and been placed on probation for a similar tax violation in 1951.

### **Writer Charged**

In 1964, Boyd W. Lawlor, a writer, producer, announcer and radio executive, was charged with failure to file. Lawlor once wrote for and produced a number of well-known radio series, including the *Lone Ranger* and the *Green Hornet*.

## **The Seventies**

In 1970, the staff of special agents grew to 1,857.

The Bank Secrecy Act was enacted in 1970 as a result of concern expressed by law enforcement officials over the laundering of illegally generated funds through domestic banks and foreign tax havens. Since then, the Act has proven an effective tool for identifying and investigating tax evaders and for cutting the flow of money generated by illegal activities, especially narcotics trafficking. This is discussed further in the Investigative Projects section below.

During a six-month period in late 1970 and early 1971, a number of special agents were detailed with other Federal agents as "sky marshals" on international and domestic flights. This was an effort to combat the surge in "skyjacking" of commercial aircraft. The detail was ordered by President Richard M. Nixon. It was prompted by the skyjacking of three U.S. commercial aircraft by Palestinian terrorists

who diverted the planes to the Amman desert and blew them up. Sky marshal duties were subsequently assumed by Customs Security Officers.

In November 1973, the position of Chief, Intelligence Staff, was added to the IRS Service Center organization.

In 1974, the Service began a reevaluation of its participation in investigations of organized crime figures and narcotics traffickers to ensure that its criminal enforcement efforts were directed at the most significant violators of the tax laws. The general enforcement program emerged as having top priority. Nevertheless, the Intelligence Division continued to vigorously enforce the tax laws against special enforcement subjects, albeit at a somewhat reduced resource level.

In 1975, the Intelligence Division came under public and Congressional scrutiny for activities related to "Operation Leprechaun." That was an Intelligence effort to gather information about evasion schemes involving tax havens off the coast of Florida. There were allegations that Intelligence was gathering nontax-related information about the sex and drinking habits of individuals. The resulting investigations and hearings caused a reevaluation of, and substantial changes to, Intelligence Division operations, particularly the use of various sensitive investigative techniques. These included information gathering and confidential expenditures.

During the mid-1970's, Intelligence committed substantial resources to investigating fraudulent financial practices in large corporations. Investigations disclosed intricate corporate schemes designed to generate large amounts of cash for illegal or improper use and to evade taxes. These "slush funds" were used for such illegal purposes as corporate political contributions, bribery, lobbying and diversions to personal use. At one point, more than 100 corporations involved in making questionable payments were under active investigation.

On July 2, 1978, the Intelligence Division was renamed Criminal Investigation Division. This was based on the recommendations of a Service-wide organizational review study group. The group was concerned about the public being misled by the title, "Intelligence," and sought a more proper and understandable title. Although the group had initially recommended the title "Criminal Enforcement," "Criminal Investigation" was eventually adopted.

The 1970's also saw the introduction of a number of other important enforcement efforts. There were two major projects initiated against narcotics traffickers. Jurisdiction over wagering tax enforcement was returned to the Intelligence Division. And significant enforcement actions were started against unscrupulous tax return preparers, multiple tax refund schemes, illegal tax protesters, and promoters of abusive tax shelters. These projects are covered in the Investigative Projects section below.

## Cases of the Seventies

### **Former Chairman of Commissioners of the Massachusetts Department of Public Utilities Jailed and Fined**

Attorney Norman Mason, Taunton, Massachusetts, former Chairman of Commissioners of the Massachusetts Department of Public Utilities, was sentenced in 1970 to three months in prison and fined \$10,000. Mason was sentenced after pleading guilty on two counts of willful failure to file returns.

### **Vietnam War Protestor Receives Year in Prison for Supplying a False Form W-4**

James M. Shea, Jr., a war protestor and former philosophy professor at the George Mason College of the University of Virginia, was found guilty and sentenced to one year in prison for willfully supplying a false and fraudulent Employee's Withholding Exemption Certificate (Form W-4) to his employer in violation of IRC 7205. On February 20, 1970, Shea filed an amended Form W-4 declaring a total of 20 exemptions. This represented an increase of 14 exemptions since September 6, 1969, the date of the last Form W-4 filed by Shea with his employer. When the Richmond District special agent asked Shea for the names of the 14 additional dependents, Shea stated that he could not name them because they consisted of several million Vietnamese.

### **Ten-Year Jail Sentence for Major Narcotics Trafficker**

Lester Ramsey, Jr., a major narcotics trafficker in the Detroit area, was found guilty and sentenced to ten years imprisonment for evading his income taxes for the years 1968 and 1969.

### **Tax "Expert" Receives Three-Year Jail Term for Preparing False Returns**

Kenneth Chester Griffin, self proclaimed to be "the greatest tax man in American history," was found guilty on thirty-one counts of willfully aiding and assisting in the preparation and presentation of false and fraudulent income tax returns and was sentenced to three years in prison. Griffin's schemes for understating his clients' income over a three-year period amounted to \$1,500,000.

### **"Underboss" of Carlo Gambino Family Sentenced to Five Years for Tax Evasion**

Aniello Dellacroce, reputed "underboss" of the Carlo Gambino family was sentenced to five years and fined \$10,000 for evading his income taxes for 1968. An article in the "New York Post," referred to the conviction of Dellacroce as "one of the most significant courtroom victories against the Mafia in many years."

### **Ex-FHA Deputy Director Gets One Year for Income Tax Evasion**

John B. Boyle, former Deputy Director of the Federal Housing Administration (FHA) for the Philadelphia Region, was found

guilty of income tax evasion and was given a one-year jail sentence. Boyle failed to report cash payoffs he received from real estate brokers for inside information on FHA activities. Boyle also received unreported fees for guarantees that brokers' bids would be accepted.

### **Major Organized Crime Figure Receives Six-Year Prison Term and \$20,000 Fine for Tax Evasion**

Paul Vario, Sr., identified by the Senate Permanent Subcommittee on Investigations as a "caporegime" and "consigliere" in the Luchese Family, was sentenced to a prison term of six years and a fine of \$20,000. Vario was convicted on all three counts of a three-count indictment charging him with conspiring with Stephen DePasquale and Henry Younger to defraud the United States by concealing the income derived from a lucrative policy operation in violation of 18 USC 371 and failure to include his illegal gambling income on his income tax returns for the years 1965 and 1966 in violation of IRC 7206(1).

### **Illinois Legislator Sent to Prison for 15 Months After 7206(1) Conviction**

William D. Cox of Charleston, Illinois, was sentenced to 15 months imprisonment after he pled guilty to the charge of subscribing to a false income tax return for 1971. Cox, a four-term legislator, was also the Majority Whip of the Illinois House of Representatives. He had previously served as the Sheriff and Treasurer of Coles County and had played professional baseball for 10 years with the Chicago White Sox, St. Louis Cardinals and St. Louis Browns.

### **"The Big Bluff" Author Gets Three-Year Jail Term for Failure to File**

Marvin Cooley, a leader of the illegal tax protest movement in Arizona, was found guilty on three counts of failure to file and was sentenced to serve three years in prison. Cooley's book "The Big Bluff" says that tax collection methods violate individual rights and that the IRS should be cut off from receiving funds.

### **ADP Generates Its First Successful Section 7203 Prosecution In Chicago**

Ralph W. Coultrip entered a plea of guilty to willful failure to file his federal income tax return for 1965 and was sentenced to serve five months in prison. The investigation of Coultrip was on the basis of information received from the Data Processing Center in Kansas City, Missouri, and was the first successful prosecution generated by ADP in the Chicago District.

### **Former West Virginia Governor Sentenced to Twelve Years in Prison and Fined \$50,000**

William Wallace Barron, 26th Governor of the State of West Virginia, was sentenced to twelve years in prison and fined \$50,000 after entering a plea of guilty to three counts of bribing a federal juror. This case originated from an Intelligence Division investigation of Barron and others for *conspiring to transport bribe money interstate* (18 USC 1952) while Barron was Governor.

Barron was indicted and brought to trial. The jury was hung 11 to 1 in favor of conviction for several days. They ultimately returned a verdict of guilty as to all defendants except Barron, who was acquitted. A subsequent investigation of the foreman of the jury, Ralph Buckalew, disclosed that Barron's acquittal was a result of a \$25,000 bribe he paid to Buckalew.

### **Pro Football Star Guilty of Failure to File**

Richard F. Gordon, Jr., better known as Dick Gordon, of the Chicago Bears professional football team, was sentenced to 15 days in prison, \$5,000 fine and five years probation for willful failure to file his Federal income tax return for 1967.

### **Former Alabama Official Sentenced to Four Years in Prison for Tax Evasion**

Warren Seymore Trammell, former Director of Finance of the State of Alabama, was convicted and sentenced to four years in prison for attempting to evade his income tax liabilities for the years 1967 and 1968.

### **Former Racket Squad Chief Sentenced to Six Years and Fined \$30,000 for Filing False Returns**

Samuel G. Ferraro, a former Allegheny County (Pittsburgh) Detective Lieutenant was convicted on six counts of filing false income tax returns (IRC 7206(1)) and one count of conspiracy to obstruct state gambling laws (18 IRC 1511). Ferraro was immediately sentenced to prison terms totaling six years and fined \$30,000.

Ferraro's conviction was based upon government evidence that he had accepted racket payoffs totaling \$340,000 from 1966 to 1971. During this period Ferraro was Chief of the Bureau's Racket Squad. In this capacity he was in charge of all vice enforcement in the Pittsburgh area.

### **Jerome Daly gets One Year for Probation Violation**

Jerome Daly, a major figure in the illegal tax protest movement, was sentenced to one year in prison for willful violation of his probation. Daly was found guilty of failing to file his Federal Income Tax Return and was placed on three years probation in 1974. A condition of his probation was that he had to secure permission from his probation officer before leaving the state of Minnesota. Daly ignored this condition of his probation and traveled throughout the country appearing as a guest speaker at tax protest rallies. Seventeen district Intelligence Division offices throughout the country documented Daly's activities and submitted the information through the probation office to the chief judge of the Federal District Court in St. Paul. Based on this information, a warrant was issued for Daly's arrest. Daly was arrested leaving the Pittsburgh IRS Building and returned to St. Paul for his probation hearing.

### **A Rainy Night in New York for Brook Benton**

On May 24, 1974, popular singer Brook Benton was sentenced to two years probation, a \$500 fine and ordered to pay his back taxes as a result of his guilty plea to willful failure to file a tax return for

the year 1968. Brook Benton was born Benjamin Peay, in Camden, South Carolina, and resided in St. Albans, New York, at the time of his plea. He began his career during the late 1950's and was considered one of the country's top singers and recording artists during the 1960's. He earned at least a dozen "gold records." As a result of his last "gold record," "A Rainy Night in Georgia," Benton was nominated for a "Grammy" as top male singer.

### **U.S. Appeals Court Judge Convicted of Conspiracy and Tax Evasion**

On February 19, 1973, after a seven-week jury trial, Judge Otto Kerner, Jr., was found guilty on all counts as charged in a 17-count indictment. Kerner was sentenced to three years in prison and fined \$50,000. Upon his indictment in December 1971, Judge Kerner went on a leave of absence. He had been a sitting federal judge on the 7th Circuit Court of Appeals and formerly (1960 to 1968) governor of the state of Illinois. Prior to being elected governor of Illinois, Kerner held the positions of County Judge of Cook County, Illinois, and United States Attorney for the Northern District of Illinois. In addition, Kerner was a Major General in the Illinois National Guard and during 1967-1968 headed the President's Commission on Civil Disorders which authored a report commonly referred to as the "Kerner Report."

### **Former Internal Revenue Agent and Racketeer Sentenced for Evasion-Defendants Failed to Report Receipts from Bootleg Tape Operation**

Martin Stern, an ex-revenue agent in the Los Angeles District during 1956-1964, and Jack Fine, an organized crime associate of Mickey Cohen, were indicted in December 1971, for attempted evasion of income taxes, failure to file income tax returns, and conspiracy to evade income taxes for the year 1970. The unreported income consisted of receipts from a bootleg tape operation. Jack Fine pled guilty to the evasion count and was subsequently sentenced to a year in prison. Martin Stern opted for a bench trial, was convicted on all three counts and was sentenced to four years. Additionally, Stern was fined \$2,500 on each count. Total civil taxes and penalties assessed to Jack Fine were \$36,920; and \$1,361,385 in additional taxes and penalties were assessed to Martin Stern.

### **Vice President Agnew Resigns**

On October 10, 1973, Spiro T. Agnew resigned as Vice President of the United States and pleaded no contest to one count of evading \$13,551 of Federal income taxes on \$29,500 of unreported income in 1967.

Agnew, who previously was the Baltimore County Executive and the Governor of Maryland, permitted the government to publish evidence that he had extorted bribes for almost a decade. Agnew purportedly received about \$87,500 in unreported income between 1966 and 1973, all in cash kickbacks from engineering and consulting firms.

Agnew received a sentence of three years unsupervised probation and a \$10,000 fine.

### **Entire Village Government Convicted of Title 18 and 26 Violations**

On November 21, 1974, the Mayor of the Chicago suburb of Chicago Ridge, Joseph J. Coglianese; the entire Board of Trustees: Edward P. Cheske, John J. Jones, Edward J. McDonough, Frank J. Szymakowski; and two former trustees, William F. Jezewski and Robert H. Scanlan, were indicted on charges of filing false returns by not reporting corruption income, extortion, conspiracy to extort, and obstruction of a criminal tax investigation. On December 13, 1974, six trustees pled guilty to at least one tax charge, and all but one of those six pled guilty to at least one extortion charge. On January 9, 1975, the mayor and a former trustee pled guilty to tax and extortion charges, and within approximately three months from the time of indictment, on February 25, 1975, the last trustee pled guilty in the form of a nolo contendere plea to one count of filing a false tax return by not reporting his share of extortion proceeds. The mayor and a former trustee received prison terms of one year and a day, in addition to a \$55,000 fine imposed on the mayor. One other trustee received a prison sentence of 90 days and a \$5,000 fine, and the remaining trustees received fines ranging from \$2,500 to \$5,000.

### **Hawaiian Crime Syndicate Chief Sentenced to 24 Years in Prison for Evasion**

On May 20, 1975, Wilford K. "Nappy" Pulawa, Hawaii's crime syndicate boss, was sentenced to serve 24 years in prison for federal income tax violations. The sentence was the longest known for an offense of this type; more than doubling the 11-year sentence meted out to Chicago underworld boss Al Capone and exceeding the 15-year sentence of Los Angeles mobster Mickey Cohen.

### **Section 7215 Violation Results in Eighteen-Month Jail Sentence**

On June 19, 1975, Rodney H. Kight, Morgantown, West Virginia, was sentenced to 18 months in prison and a \$10,000 fine, on a trust fund violation. Kight was the president of Beverages, Inc., a soft drink bottling distributorship for portions for West Virginia, Ohio, Pennsylvania and Maryland. Kight pled guilty to three of the sixteen counts of failing to deposit approximately \$15,000 in taxes that he withheld from his employees.

### **New York City Police Lieutenant Sentenced to Serve Five Years and Fined \$35,000 for Tax Evasion**

On March 5, 1976, Pasquale Intrieri, a former New York City Police Lieutenant and Detective Squad Commander, was sentenced to serve five years in federal prison on tax and false statement charges in addition to paying a \$30,000 fine. Intrieri was investigated as part of an ongoing investi-

gation into the theft of 398 pounds of narcotics from the New York City Police Property Clerk's Office. Among the stolen drugs was the so-called "French Connection" heroin.

### **Nationally Prominent Tax Protester Sentenced to Three Years in Prison**

On November 26, 1975, W. Vaughn Ellsworth, purveyor of the "Fifth Amendment Income Tax Return Packet" through his tax protest firm called Constitutional Tax Consultants, was sentenced to four concurrent terms totaling three years in prison (3 years on IRC 7206(1); 1 year on each of three section 7203's) and a \$2,000 fine in U.S. District Court, Phoenix, Arizona.

### **Regional Director of SBA and His Deputy Convicted for Filing False Returns, Bribery and Conspiracy**

On November 9, 1976, Russell Hamilton, Jr., former Regional Director of the Small Business Administration's Region III, was sentenced to one year and a day in jail and four years probation. Also Joseph Clark, Hamilton's Deputy Regional Director, was sentenced to pay \$10,000 in fines and five years probation. The charges for which Hamilton and Clark were sentenced included filing a false tax return, bribery and conspiracy.

### **Largest Tax Case in New Jersey History**

The sentencing of Lester Genser and Lawrence Forman and their corporation, Genser Forman, Inc., by the Honorable Judge Herbert J. Stern on November 11, 1976, culminated in the successful investigation of one of the largest criminal and civil income tax investigations in the history of the nation and the largest income tax case until then in the state of New Jersey. The total taxes and penalties amounted to approximately \$16,000,000. Judge Stern sentenced each of the taxpayers to 57 years (49 years to run concurrently) and to fines of \$130,000 each.

### **Idaho Potato King Pleas Nolo to False Personal and Corporate Returns**

John R. Simplot, known as Idaho's Potato King, and his two corporations, the J.R. Simplot Company and Simplot Industries, Inc., pled nolo contendere to an eight-count information for filing false individual and corporate returns and aiding and assisting in the preparation of false corporate returns. Simplot waived indictment by the federal grand jury and pled to the information. He and the corporation were fined the maximum of \$5,000 for each count.

### **Tennessee Narcotics "Kingpin" Becomes Inmate Due to Joint Investigative Effort by IRS and DEA**

On August 19, 1977, Ronald L. McKinley was sentenced to ten years imprisonment and a \$10,000 fine following his plea of guilty to two counts of willfully attempting

to evade his Federal income taxes for the years 1974 and 1975. This action, brought about by a joint investigative effort by IRS and the Drug Enforcement Administration, under the DEA-IRS joint agreement, culminated an extensive four-year investigation of McKinley and his organization by virtually every local, state, and federal law enforcement agency.

### **Banker Gets Three-Year Sentence for Title 31 Violation**

George Thompson III, former chairman of the board of the Ridglea State Bank and a former city councilman in Fort Worth, Texas, was sentenced to three years in prison and fined \$20,000. Thompson was convicted of violating the currency transaction reporting requirements in furtherance of the violation of other federal laws. Thompson was found guilty of making currency loans to a convicted narcotics dealer for the purpose of purchasing cocaine and marijuana. In return for the loans, Thompson's mistress was supplied with narcotics.

### **Portland, Oregon, Businessman/Fence Gets 25-Year Sentence in Murder Plot Against Special Agent**

On February 20, 1979, Adolph Spears was sentenced to 25 years for the conspiracy to murder a special agent by burning down his residence. The judge called it a "horrendous" crime, and said that although it was a difficult case, he would have reached the same guilty verdict as did the jury after much consideration.

### **Father of Rock "n" Roll Sentenced for Tax Evasion**

Charles E. Berry, a/k/a Chuck Berry, who some claim to be the father of Rock "n" Roll, pled guilty to one count of willful evasion of federal tax for the year 1973 and was sentenced to the custody of the Attorney General for 36 months; 32 months were suspended. Berry was put on probation for 48 months under the special condition that he perform 1,000 hours of community service, including benefit concerts and charitable activities.

### **Famed Con Artist gets Ten-Year Sentence for Tax Violations**

On June 13, 1979, the trial of Billie Sol Estes started in Federal District Court in Dallas and lasted one month. After five days of deliberation by the jury, a guilty verdict was returned against Estes on the charge of conspiracy to conceal assets from the Internal Revenue Service. Estes was sentenced to ten years and his parole revoked. Estes previously served seven years in prison on mail fraud charges and was released on parole.

Billie Sol Estes was not an imposing figure in stature or education. Yet he made an impression on the American public and is legendary as the greatest swindler of the decade, if not of all time. Estes was the mastermind behind the infamous, nonexistent anhydrous ammonia fertilizer tank swindle that rocked the nation in 1962.



## The Eighties

The force of special agents increased to 2,782 in 1980.

In February 1980, the Cash Flow Project was initiated in the Jacksonville District. Its objective was to investigate money launderers and corrupt bank officials who violated currency laws by using financial institutions to launder large sums of currency generated primarily from narcotics trafficking. Cash Flow was part of Operation Greenback, a coordinated Treasury effort.

On May 27, 1980, the Criminal Investigation Division issued objective prosecution criteria, generally geared to the type of violation and the method of proof. The criteria substantially increased the dollar amounts of the prior unpublished rules-of-thumb.

On March 21, 1982, as part of a reorganization of the IRS National Office, the Criminal Investigation Division was elevated to assistant commissioner level, and the office of Assistant Commissioner (Criminal Investigation) was established.

In 1987, development was begun on the Automation of Criminal Investigation (ACI) Project, which will provide a nationwide, integrated computer system to enhance productivity. Among its many planned features are financial analysis tools for computing taxable income and tax; an investigative report generator; a support system to prepare documents such as summonses, requests for returns, and letters; and a case and time reporting system.

Also in the 1980's, a project was undertaken to detect tax evaders through "business opportunities" newspaper ads; a

major interagency drug investigation project Organized Crime Drug Enforcement Task Force (OCDETF) was initiated; and the Tax Haven Offshore Bank Project was established because of the increased use of tax haven countries by U.S. taxpayers. These are discussed in the Investigative Projects section below.

## Cases of the Eighties

### Former Cabinet Member Receives One Month Prison Sentence

Earl L. Butz, former U.S. Department of Agriculture Secretary under Presidents Nixon and Ford, was convicted of tax evasion, sentenced to 5 years and fined \$10,000. After serving one month in prison, Butz was placed on probation for the remaining 59 months of his sentence. Butz substantially understated fees he received from speaking engagements throughout the country.

### Club Operators Receive Long Sentence for Skimming

Based on information received from two informants that the owners of Plato's Retreat were skimming substantial amounts of money from club receipts and diverting the funds for their personal benefit, Criminal Investigation initiated an investigation. Plato's Retreat was a swingers club located in Brooklyn, New York, where people went to share various sexual experiences. The club was equipped with a swimming pool, discotheque, sauna room, movie theater, and private rooms for 4 individuals or less. Dress

or undress was optional. The admission cost was \$50 per couple.

The investigation showed that the owners of Plato's Retreat maintained a double set of books and skimmed \$2.3 million during a three-year period from 1977 through 1980. During that same period, Plato's Retreat had grossed \$3.6 million.

The three owners and their accountant were subsequently charged with conspiracy to defraud the government (Klein type), corporate income tax evasion, personal income tax evasion and the preparation of false payroll tax returns. All of the defendants were found guilty. The owners were fined a total of \$150,000 plus the cost of prosecution and sentenced to 8 years in prison. The accountant was sentenced to 4 years in prison and fined \$10,000 plus the cost of prosecution.

### Attorneys Claim "Honest Errors" in Tax Evasion Case

Two attorneys in Stamford, Connecticut, pleaded guilty to charges of income tax evasion and were sentenced to 90 days in prison and fined \$10,000 each. The attorneys had devised a scheme which understated their partnership income by \$100,000 per year. In preparing the partnership return, they deliberately computed the income deposits incorrectly by omitting the final digit on the adding machine or by subtracting rather than adding the deposits. They attempted to blame the adding machine for making "honest errors." However, while computing expenses, the adding machine appeared to err in the opposite direction. Digits were added to expenses, zeros were tacked on, and expenses were deducted twice.

### Former Philadelphia Police Commander Guilty of Corruption

On August 1, 1983, John DeBenedetto, former Commander of the Central Division of the Philadelphia Police Department, was sentenced to eight years imprisonment, five years probation and a \$2,000 fine on false return and Hobbs Act violations. The charges stemmed from DeBenedetto's systematic extortion of money from businesses susceptible to police harassment.

The case was the result of a grand jury investigation in Philadelphia conducted by the U.S. Attorney's Office, Criminal Investigation and the FBI. DeBenedetto was the Police Inspector who commanded the Central Police Division which comprised the entire center city area of Philadelphia.

DeBenedetto and officers under his command shook down businesses susceptible to harassment, including after-hours clubs, homosexual bars, distributors of gambling-type vending machines, bingo games, as well as modeling studios which fronted for prostitution. DeBenedetto made the initial contacts for all the payoffs and personally negotiated the amount of most of the bribes. On most occasions, the "victims" paid DeBenedetto personally, although on occasion, he would use three trusted officers to serve as "bag men." The three were convicted of Hobbs Act violations along with DeBenedetto.

### **Mail Order Minister Convicted of Tax Evasion**

Robert J. Fabre, a/k/a David Meredith, of Toledo, Ohio, began his mail order business in 1975 and, by 1980, had amassed a successful mini-empire. He used computers, had a toll free telephone for ordering and even accepted major credit cards.

Fabre began his association with the Universal Life Church (ULC), Modesto, California, in June 1978. He received his ordination, Doctor of Divinity Degree, and was granted the title of Bishop. Fabre immediately opened a checking and savings account in the name of ULC. Subsequently, he also opened church accounts in Illinois and Washington, D.C. The investigation revealed that disbursements from these accounts were nothing more than personal living expenses. Withdrawals from the church savings account included \$9,500 to purchase inventory for a newly formed partnership, \$30,000 for a down payment on a luxury residence and \$25,000 in cash which was illegally transported to Canada, placed in a safe deposit box, and subsequently brought back into the United States.

Fabre was indicted on Postal, Customs and IRS charges and subsequently pleaded guilty to 10 counts of a 61-count indictment. At sentencing, the Judge noted that the income tax evasion involved becoming a mail order minister and claiming to take a vow of poverty to avoid paying taxes. The Judge said "this not only violates the laws of man, it also violates the laws of God"... "thou shalt not take the name of the Lord in vain." The Judge pointed out that Fabre's church never performed the slightest religious service of any kind. Further,

none of the money that went to this so-called church did anything but maintain his habits of high living. He then sentenced Fabre to 22 months in prison and the maximum fine of \$15,000.

### **Mountain States Drug Task Force Raid Nets \$2,000,000 in Currency, Silver and Gold Krugerrands**

On January 9, 1984, federal, state and local agents of the Mountain States Drug Task Force executed federal search warrants in Aspen, Colorado; Miami, Florida; and Las Vegas, Nevada.

IRS, DEA, FBI, and Customs agents disrupted a major illegal organized narcotics network dealing in multi-kilos of cocaine throughout the United States.

Task Force agents seized approximately \$2 million in currency, silver, and gold Krugerrands, in addition to two luxury resort residences and eight vehicles, one being a Porsche 930 Turbo Carrera. The assets were seized under 21 USC 881.

The raids were generated from evidence obtained by the cooperative efforts of federal, state and local task force agents through the use of 24-hour visual and electronic surveillance over a period of several months. The agents lived, ate and roomed together around the clock to gather evidence necessary to obtain search warrants at various premises.

### **Las Vegas Federal District Judge Sentenced**

On October 3, 1984, Federal District Court Judge Harry E. Clairborne of Las Vegas, Nevada, was sentenced to two years

imprisonment and fined \$10,000. The investigation showed that Judge Clairborne accepted \$50,000 from a Las Vegas brothel owner to obtain an appeals court reversal of the brothel owner's conviction on income tax charges. These funds and \$107,000 in legal fees from his former law practice were not reported on his federal income tax returns.

### **Miami Bank Lauanders Millions in Illegal Drug Money**

Based on information received from a FDIC bank examiner that Currency Transaction Report (CTR) Forms were not being filled out properly and cash transactions were being handled in an unusual manner, the Criminal Investigation Division began an investigation of the Great American Bank (GAB) of Dade County, Florida.

An informant at the bank subsequently told investigators that large amounts of cash were being brought into the bank on an almost daily basis in cardboard boxes and suitcases by Latin males. A surveillance was established and corroborated the informant's information. A search warrant was obtained and executed on the bank by IRS and U.S. Customs special agents on February 27, 1981.

The search uncovered evidence which showed that during a 14-month period, \$94,000,000 in cash was either deposited or exchanged for cashier's checks through the GAB and that the bank failed to file CTR's and filed false CTR's.

Three bank officials, including a vice president and head teller, all pled guilty to Title 31 violations and the bank was fined \$375,000. Three major narcotics organiza-

tions were also identified as a result of this investigation.

### **Currency Skimming and Laundering Conspiracy Leads to Three-Year Prison Term for Indianapolis Millionaire**

An Indianapolis entrepreneur, with the help of business associates, skimmed and laundered millions of dollars in currency from the daily gross receipts of numerous Dairy Queen and Kentucky Fried Chicken stores in which he had a controlling financial interest. Store managers were told by the entrepreneur or one of his associates how much currency to skim each day and records were kept to ensure that store managers were not cheating the entrepreneur. The skimmed currency was laundered by purchasing bank cashier's checks in amounts under \$5,000 and depositing funds as loans from shareholders.

### **Gasoline Bootlegger Pleads Guilty**

In November 1982, a joint federal/local task force was formed for the purpose of investigating organized crime's infiltration and takeover of the wholesale gasoline industry on Long Island, New York. It found that many unbranded gasoline wholesalers had devised and used a "daisy chain" scheme to subvert the tax collection procedure or simply ignored the payment of federal excise taxes completely in hopes of evading detection and prosecution. The "daisy chain" used a series of paper transactions between various corporations in which gasoline was transferred among

various distributors for the purpose of thwarting government efforts to trace the origin of the gasoline sold and calculate the precise volume of gasoline on which the taxes were due. The gasoline bootleggers then pocketed the 27 cents of federal, state and local taxes due on each gallon of gasoline sold.

One gasoline wholesaler who used this scheme was Charles Forthmuller, the principal officer and sole stockholder of Amtec Petroleum Corporation. An investigation of Forthmuller and Amtec Petroleum disclosed that Forthmuller failed to account for and pay over approximately \$762,000 in excise taxes due on the purchase and sale of approximately 19,000,000 gallons of gasoline for the period July 31, 1980, through January 31, 1983. Forthmuller subsequently pled guilty and was sentenced to 18 months imprisonment and fined \$10,000 together with the cost of prosecution.

### **International Fashion Designer Receives Prison Sentence**

The investigation of Albert Nipon, an internationally acclaimed fashion designer, disclosed that Nipon charged to his corporation more than \$1,000,000 of expenditures used in reconstructing and furnishing his personal residence, and other personal items such as antiques, kitchen appliances, a Russian crown sable coat, pool table, landscaping and restoring a grand piano. These were reflected on the corporate books and records as factory expense, selling expense, trimmings, material, machinery and equipment, piece goods, office equipment and other business categories. The investigation also disclosed that when two IRS revenue

agents discovered what Nipon was doing, they agreed to falsify their audit in exchange for \$215,000 in bribes.

Nipon pleaded guilty and was sentenced to three years imprisonment for evading more than \$800,000 in tax on his 1978 personal and corporate tax returns and for paying \$215,000 to two IRS revenue agents for favorable treatment on his 1978 and 1979 individual and corporate tax returns. The investigation was worked jointly by the Criminal Investigation Division and Inspection.

### **"Rockefellers of Marijuana" Receive 17-Year Sentence**

In 1985, brothers Christopher and Robert Reckmeyer of McLean, Virginia, pleaded guilty to operating a \$100 million continuing criminal enterprise involving the importation, sale and distribution of marijuana. Robert Reckmeyer also pleaded guilty to subscribing to a false corporate income tax return, illegal possession of an Uzi machine gun, and failing to report the international transportation of U.S. currency. Christopher Reckmeyer pleaded guilty to subscribing to a false corporate income tax return, and aiding and assisting in the preparation and filing of a false individual income tax return. Both were sentenced to 17 years imprisonment without the possibility of parole. Assets in excess of \$6,000,000 were recovered from the Reckmeyer organization.

### **San Diego Waterfront Fraud**

Curtis Corn was a prominent San Diego land owner, millionaire, and a successful waterfront businessman who owned and

operated Allied Tank Cleaning, Inc., and Commercial Cleaning Corporation. Allied Tank Cleaning and Commercial Cleaning were in the business of cleaning fuel tanks on board U.S. Navy ships.

Although Corn was successful in obtaining several tank cleaning contracts from the Navy while making substantial profits, he paid little or no tax by inflating the cost of goods sold on his corporate tax returns. Corn created false invoices claiming that one of his firms had subcontracted tank cleaning work to another of his firms, while at the same time, not creating additional income for the firm supposedly doing the work on the false invoices. As a result, Allied Tank Cleaning, Inc., failed to report over \$500,000 in income during 1982, all of which was diverted for the personal use of Corn.

The investigation also showed that Corn was stealing and selling fuel and oil from U.S. Navy ships. Prior to cleaning the tanks, Corn was supposed to remove the remaining fuel from the ship's tanks and store it until the tanks on board the ship had been cleaned. The fuel and oil was to be returned to the U.S. Navy. However, Corn failed to return all of the fuel and sold some of it to civilian oil companies in exchange for cash.

Overall, Corn evaded approximately \$1.3 million in tax from these schemes. On September 23, 1985, Corn plead guilty to conspiracy to evade taxes and tax evasion on his 1982 personal income tax return and the 1982 tax return for one of his companies. He was sentenced to 18 months imprisonment, five years probation and fined \$600,000.

### **Major Tax/Narcotics Case in Florida**

The investigation of Robert W. Govern, et al. originated in 1977 from a high-level drug leaders project case development file and subsequently became a joint DEA-IRS Title 21/26 grand jury investigation in June 1981. The drug aspects of the investigation became evident in February 1981, when Lake County, Florida, firefighters, battling a forest fire, entered a barn endangered by the fire and found 23,000 pounds of marijuana. The property, although vacant, was owned by Robert Govern. The investigation eventually showed that Robert Govern was the head of one of the largest marijuana organizations in the country and responsible for the distribution of over two million pounds of marijuana over a four-year period.

On April 13, 1982, Govern and 12 other defendants were indicted for RICO violations, drug violations, and conspiracy to defraud the IRS. However, prior to the indictment, Govern was arrested as a private aircraft he had boarded at Orlando, Florida, was taxiing to the runway. Informant information had indicated that Govern would flee the country to avoid prosecution.

After the arrests, on the evening of April 13, 1982, a high-powered rifle shot was fired at the residence of one of the two IRS case agents. Several days later, the DEA case agent's wife received a threatening phone call indicating "she would be next." And a key witness identified during the bond hearing was fired upon twice in his driveway. These incidents led the U.S. magistrate to inform the defendants in court that any witness or agent "unable"

to testify at the trial would have his grand jury testimony entered into evidence.

On November 10, 1982, after a 5-week trial, Govern and nine other defendants were found guilty or pled guilty to RICO violations, drug, and Klein-type conspiracy violations. One defendant was found not guilty and two defendants were fugitives. After the jury had returned their verdict and all defendants were ordered incarcerated, information was received from a DEA informant that Govern had solicited the informant to kill the AUSA, the IRS special agents, the DEA special agents, and several witnesses for a fee of \$25,000 each.

On December 28, 1982, Govern was sentenced to 45 years in prison and in excess of \$5 million of real property was forfeited to the United States for RICO violations.

### **Prominent Prosecutor Convicted for Embezzlement**

Robert F. Leonard was the prosecuting attorney for Genessee County, Flint, Michigan, from 1963 until November 23, 1979, when he was convicted of filing a false income tax return and embezzlement. Leonard failed to report on his income tax return funds he had embezzled from county and federal revenue sharing monies he controlled as county prosecutor. These funds were intended for the payment of informants and the purchase of controlled substances by undercover investigators.

On February 25, 1980, Leonard was sentenced to serve 5 years in prison and fined \$15,000. He was also subsequently disbarred by the State Bar of Michigan from the practice of law for life.

### **Tax Evasion and Illegal Arms Export**

From 1976 to early 1980, Anatoli Maluta and Sabina Dorn Tittel directed the operations of six California corporations collectively known as the CTC companies. These companies were owned by Werner Bruchhausen, a West German national and international dealer in highly sophisticated electronic equipment. Under the direction of Maluta and Tittel, the CTC companies purchased in excess of \$10 million in electronic components and equipment from American manufacturers and shipped them to European corporations controlled by Bruchhausen. Bruchhausen then arranged for the sale and transfer of the goods to Soviet-bloc countries, primarily East Germany and the Soviet Union. Most of the equipment was classified as being controlled for national security purposes and required United States export licenses granted by the Departments of State and Commerce.

By means of the net worth and expenditures method of proof, special agents of the Criminal Investigation Division were able to determine that Maluta and Tittel had failed to report income in excess of \$370,000 and \$470,000 respectively. Most of the funds were used to purchase luxury automobiles, jewelry, residences, and certificates of deposit. In one year alone, Maluta purchased \$190,000 in South African Krugerrands in currency transactions.

On December 7, 1981, Maluta and Tittel were both sentenced to terms of imprisonment for income tax evasion, false statements, and violation of the Arms Export Control Act. Maluta was sentenced to five years and fined \$50,000 and Tittel was sentenced to two years and fined \$25,000.

### **Ex-Treasury Chief Sentenced to One Month**

On June 25, 1987, Robert B. Anderson, a former Secretary of the Treasury, once described by former President Dwight D. Eisenhower as "the finest candidate we could have" for President, was sentenced to one month in prison, five years probation for his role in several illegal business schemes.

Anderson, who served in President Eisenhower's Cabinet, pleaded guilty to illegally operating an offshore bank and evading taxes on about \$127,500 of income in 1984, most of it consulting fees from the Reverend Sun Myung Moon's Unification Church.

### **Noted Tennessee Banker Sentenced**

C.H. Butcher, Jr., a noted Tennessee banking entrepreneur, was sentenced to a maximum 20 years in prison for his scheme of defrauding thousands of creditors. Butcher was also fined \$341,000.

Butcher previously pled guilty to 16 Federal charges: two counts of money laundering, two counts of conspiring to commit income tax fraud, two counts of helping to prepare a false tax return, and five counts each of bank and bankruptcy fraud.

Butcher orchestrated a scheme to hide millions of dollars of assets from bankruptcy creditors. He and his brother Jake were forced into bankruptcy after the collapse of their Tennessee-Kentucky banks that at their height had assets of \$3 billion. Prosecutors estimated that Butcher's illegal business activities had cost East

Tennessee \$1 billion. Prosecutors recovered \$1.8 million from Butcher in assets owed to creditors.

## **The Nineties**

The number of field special agents increased to 2882 in 1990.

Two related studies were completed: CI at the Cross-roads and the Crossroads Follow-up Study. Recommendations provided for uniform procedures nationwide in the administration of Authorized Uncontrollable Overtime (AUO), the use of firearms, the use of enforcement vehicles, the physical fitness program, and also provided for the centralization of CI's financial accounts.

Directives, added to IRM 9141.2, are summarized below:

1. All series 1811 personnel in CI will be expected to work a minimum average of 25% AUO.
2. All CI field special agents and their immediate supervisors will have government vehicles available to them 24 hours a day.
3. All series 1811 field personnel in CI must have their assigned firearm available 24 hours a day.
4. All series 1811 employees must participate in a CI physical fitness program.

In addition, CI began the process of centralizing financial accounts under the Assistant Commissioner (CI) as financial plan manager.

These directives went a long way to promote consistency nationwide and reduce local differences of opinion.

In October 1993, the Assistant Commissioner, (CI) implemented a reorganization of CI at the district, regional and national levels.

Criminal Investigation district operations were consolidated and reduced in number to 34. The seven CI regional offices were eliminated. In their place, four SES Directors of Investigations (DI) were established reporting to the Assistant Commissioner (CI). National Training, the National Forensic Laboratory, the National Transcription Center, and Criminal Case Processing Systems were each placed under one DI.

The National Office was also reorganized. The Division of National Operations was created, with three offices: Narcotics/Money Laundering, Tax Crimes, and Special Investigative Techniques. The Review Division and the Finance Division were enlarged and made separate. Later, a Division of Policy and Information was formed.

Criminal Investigation supported the Servicewide Nonfiler Strategy. Bankruptcy fraud and Motor Fuel Excise Tax fraud received additional emphasis. These are discussed in the Investigative Projects section below.

## Cases of the Nineties

### Organized Crime Case

In 1989, based on information reflected on Currency Transaction Reports, the Criminal Investigation Division of the IRS initiated an investigation into the activities

of a local organized crime associate, Stephen Saccoccia. He had been making suspicious currency deposits into his business accounts.

Through the diligent efforts of IRS Special Agents, the Saccoccia organization was exposed as one of the largest narcotics money laundering organizations ever to operate in the United States. The investigation covered six states and agents from four different federal law enforcement agencies, as well as numerous state and local law enforcement personnel.

Over \$400 million was traced from street sales of cocaine in New York City to various Saccoccia storefronts. The funds were then traced through various businesses and bank accounts. Ultimately, the funds were traced to their final destinations in Colombia, to the accounts of high-level members of the Cali cartel.

In November 1991, with the cooperation of other federal and local law enforcement agencies, forty-five arrests were made simultaneously throughout the United States. At the same time, Saccoccia and his wife, Donna, were arrested in Geneva, Switzerland.

### A Dairy Gone Sour

Stew Leonard's Dairy, located in Norwalk, Connecticut, is known internationally for its customer-oriented service philosophy and the large volume of merchandise it sells. It is now the "World's Largest Dairy Store" as featured in "Ripley's Believe It Or Not." Leonard was mentioned 22 times by business guru Tom Peters in his book "A Passion for Excellence" and the dairy described as the model for an ideally operated and managed small business in a film

made by Peters titled, "In Search Of Excellence."

On August 9, 1991, special agents of the Internal Revenue Service's Criminal Investigation Division executed search warrants at Stew Leonard's Dairy as well as the home of its Executive Vice President. Copies of a computer program, a large volume of records, and \$484,000 in cash, mostly in \$100 bills were seized. This evidence helped prove that a 10-year long conspiracy had been in effect that permitted Leonard and other employees to skim some \$17 million in receipts.

On a weekly basis, a specially written computer program was run to permanently alter the books and records. Utilizing the Universal Product Code this program not only reduced total sales figures, but reduced sales on an item-by-item basis. The original data was destroyed forever and the reduced sales data was recorded on the journals from which the tax returns were prepared. The program itself was hidden in a hollowed-out book kept in the office of the Executive Vice President of Stew Leonard's.

On July 22, 1993, Stew Leonard, Sr., and the other conspirators in the case pleaded guilty to violation of Title 18, United States Code Section 371. Leonard agreed to pay approximately \$15 million in additional taxes, penalties and interest (\$10 million prior to sentencing and the remainder within three years.)

On October 20, 1993, Stewart Leonard was sentenced to 52 months in prison and fined \$850,000. Frank Guthman, Vice President, was sentenced to 41 months in prison, and Stephen Guthman, the Chief Financial Officer, was sentenced to 18 months in prison.

This investigation was the largest criminal tax case in the history of Connecticut. Nationwide publicity was generated that included national television network coverage, national newspaper coverage, and articles in *Time*, *Newsweek* and *New York* magazines.

### Hotel Executive Goes to Prison

On December 12, 1989, Leona M. Helmsley, Joseph E. Licari, and Frank Turco were each sentenced on separate counts, including conspiracy, tax violations, and mail fraud. Helmsley was an international hotel executive. Licari is a CPA and was chief financial officer for the Helmsley empire. Turco was Helmsley's chief assistant. Each was sentenced to prison, probation, and a fine.

Leona M. Helmsley, assisted by Licari and Turco, directed a large-scale, long-term scheme to evade taxes by disguising Helmsley's personal expenditures as business expenses of various companies in the real estate and hotel empire she and her husband controlled. That conspiracy resulted in substantial evasion of personal income taxes and the submission of numerous false and fraudulent corporate and partnership returns.

Millions of dollars in personal expenses of the Helmsleys were distributed for payment to the various companies they controlled, and were carried on the books and records of those companies as either operating expenses or capital expenditures. This widespread practice of having their business entities pay their personal bills gave the Helmsleys two illegal tax advantages. First, by having the company pay the vendor directly, the Helmsleys got the benefit

of the various goods and services without reporting the value of the payments as income on their personal tax returns. Second, the payments for the Helmsleys' personal expenses were reflected on the books and records of the companies as business expense deductions.

Leona Helmsley, who was 69 years old, was sentenced to 4 years in prison; 3 years probation; 750 hours community service; fines totalling \$7,152; payment of all taxes, interest, and penalties to the IRS (\$1.2 million) and New York State (\$470,000); and the costs of the investigation and prosecution.

After the sentencing, Judge John M. Walker, Jr. addressed a courtroom packed with reporters: "In closing, let me say... that when a citizen deliberately cheats the government on taxes owed, that person undermines the system of voluntary tax compliance upon which our country's financial security depends... that person also cheats the many millions of honest taxpayers who pay their fair share in taxes ...deliberate tax evaders cannot be permitted to escape unpunished. It is my hope that the sentence today will send a clear message to those who are thinking of cheating on their taxes. That if you do it and you are caught, you will face imprisonment. And finally, I trust that the sentences today will make it abundantly clear that no person, no matter how wealthy or prominent stands above the law."

### **Russian Godfather**

At the height of his power, Marat Balagula was a kingpin in a Brighton Beach Russian mob who traveled with a Paraguayan passport, traded in diamonds,

bought an island off West Africa, owned a Long Island mansion decorated in pink marble and had a knack for making his enemies disappear. Marat Balagula was a member and alleged leader of an organization of criminals made up of Russian and other Eastern European immigrants based in Brooklyn, New York.

During the mid-1980's Balagula controlled 100% of the bootleg gasoline which was distributed in New York City. Controlling terminals from Brooklyn to Westchester County in New York, his ring sold gasoline among various companies including bogus firms that reported having paid the excise taxes and then vanished before the Internal Revenue Service could follow the complicated and cumbersome paper trails.

In June 1993, he and seven individuals were indicted in the largest excise tax evasion scheme in United States history. Balagula along with Joseph Macchia; Macchia's three sons, Joseph, Jr., Larry, and George; Victor Batuner; Michael Varzar; and John Barberio were charged in a conspiracy to evade approximately \$85 million dollars in federal excise taxes.

In the fall of 1994 Balagula and his co-defendants plead guilty and are currently awaiting sentence.

This was not the first case to be brought against Balagula for excise tax evasion. In July 1992 Balagula, along with three other individuals, was convicted on one count of conspiracy to evade approximately \$500,000 in federal excise taxes and one count of excise tax evasion. For this conviction, Balagula received a 10-year sentence.

### **Crime Family Boss**

John Gotti failed to file federal income tax returns since 1984. He maintained a source of income through "no show" jobs, placing himself on payrolls of close friends in order to create some air of legitimate earnings. Over the years 1984 through 1989 Gotti received \$210,000 with just enough taxes withheld to make any income tax case de minimis.

Conversations on court authorized wiretaps characterized Gotti as the president or chairman of the board of the Gambino crime family, whose sole purpose was the acquisition of wealth through its illegal activities. Gotti had structured his entire life in a manner designed to conceal both his true occupation and the nature of his income. In his own words, Gotti acknowledged payments and "pieces" of companies that came to him by virtue of his position as boss of the Gambino family.

In 1990 an eleven-count indictment charged Gotti with racketeering, murder, gambling, and loansharking, along with a Klein conspiracy. The Klein conspiracy charged Gotti and others including Frank Locascio, the "underboss" with conspiring to impede, impair, obstruct, and defeat the lawful functions of the Treasury Department in the assignment and collection of income taxes for the years 1984 through 1989. This was the first time Gotti was linked with specific acts of racketeering, including murder.

The tax portion of the trial made front-page headlines along with national network news coverage, and likened Gotti to another infamous criminal, Al Capone. On April 2, 1992, after a three-month trial,

Gotti, together with Frank Locascio, was convicted of all counts including the Klein conspiracy.

### **Everything That Glitters Isn't Gold**

On August 21, 1992, Luis Roges was found guilty on 80 counts of money laundering, conspiracy, and filing false Forms 8300.

Roges, the president of Dear Enterprises, Inc., a wholesaler of fine gold, was first targeted in January 1990, by the Financial Analysis and Strategic Targeting Team (FAST). FAST was created to coordinate the efforts of the IRS and U.S. Customs. An analysis of CTR's filed by Dear showed that during the years 1987 through 1990, approximately 1,800 Forms 8300 were filed reporting transactions in excess of \$90,000,000. This accounted for approximately 32 percent of all the Forms 8300 filed in the New York metropolitan area.

Customers whose names appeared on the Forms 8300 stated they never made the purchases reflected on the Forms 8300. Roges created the invoices in question by forging the signatures of customers or inflating the dollar amounts on invoices where a sale did actually take place. Twenty-five customers identified 661 false Forms 8300 totalling approximately \$37,000,000.

### **President of National Sheriff's Association**

Marshall E. Honaker's prominence as the President of the 20,000-member National Sheriff's Association (NSA) and his political connections, particularly at the state



level, caused this investigation to draw national media attention. He was scheduled to be presented a Lifetime Achievement Award by the U.S. Marshal's Service Association. Virginia Governor Douglas Wilder, Lt. Governor Donald Beyer and Attorney General Mary Sue Terry's top deputy was present for his inauguration as president of the NSA.

Forty special agents from IRS-CID and the FBI executed search and seizure warrants at Honaker's residence and at the sheriff's office in Bristol, Virginia. In addition to a voluminous amount of financial records, the agents seized Honaker's spacious hillside home, certificates of deposit, a bank account, three vehicles, a coin collection, gold jewelry, and roughly \$64,000 in currency in \$100 bills found in the middle drawer of the sheriff's desk.

In six years, Sheriff Marshall Honaker had diverted in excess of \$500,000 in fees directed to the city of Bristol by the U.S. Marshal's Service, as well as various other surrounding municipalities, for warehousing prisoners. Approximately \$375,000 of the diverted funds had been specifically identified as being used by Honaker to acquire substantial personal assets.

A meeting was scheduled between Honaker, his attorney, investigating agents from IRS-CID, and the assistant United States attorney for 11 a.m. on January 22, 1992, to discuss a plea agreement.

On that date he entered the sheriff's office for the first time since the execution of the warrants, placed a sawed-off, 12 gauge, double-barreled shotgun, loaded with 00 buckshot, to his chest and pulled the trigger. He was pronounced dead on arrival at the Bristol, Tennessee, hospital.

### **1985 Outstanding State Trial Judge**

Judge Arthur D. Dalessandro was a judge for over 17 years, and the winner of the 1985 Outstanding Trial Judge Award. He was a 50 percent owner of the Gene Lispi Chevrolet Inc., automobile dealership in Pittston, Pennsylvania. The dealership had issued corporate checks to pay personal expenses of Judge Dalessandro, and Judge Dalessandro had personally directed employees to make these payments. Dalessandro's personal income tax returns reported no income from Lispi Chevrolet.

Twenty IRS special agents executed a search warrant and 60 boxes of business records were seized covering a four-year period. At trial, the government presented the testimony of 27 witnesses and entered over 2,200 exhibits into evidence, including 14 charts, 64 photographic enlargements, and copies of 23 computer schedules which were handed out to the jurors.

Dalessandro pleaded guilty to two counts of attempted tax evasion. He was sentenced to two one-year prison terms to be served concurrently and was ordered to pay a \$20,000 fine and costs of prosecution which amounted to more than \$19,000.

Judge Dalessandro's guilty plea and sentencing received incomparable media coverage throughout northeastern Pennsylvania. Local newspapers reported these events with front-page headlines reading: "Dalessandro Throws in the Robe" and "Judge to Trade Pinstripes for Prison Stripes."

### **Housing Authority Kickbacks**

An extensive federal investigation of misconduct in New Jersey led to successful prosecutions of the executive directors of four housing authorities for accepting kickbacks.

John J. Sudia, executive director of the Carteret Housing Authority, received \$55,000 in illegal payments from Alfred D. Bressaw, an electrical contractor who did over \$541,000 worth of work at the Authority. Sudia failed to report \$31,000 in 1984 income. Sudia had awarded an unusual number of emergency, non-bid contracts to Bressaw's firm, Alfred Bressaw, Inc.

Bressaw cashed roughly \$500,000 worth of Authority checks in two years instead of depositing them directly into his business bank accounts. A compliant bank officer cashed the checks and gave Bressaw the currency without filing the federal Currency Transaction Reports required for amounts in excess of \$10,000. He also wrote checks from the account to himself or to "cash" and recorded them on company books as repayments of personal loans. When confronted, Bressaw admitted using some of the diverted money to pay kickbacks for contracts with the Carteret, Woodbridge and Perth Amboy housing authorities. He agreed to wear a concealed microphone in order to obtain evidence against the executive directors of the authorities.

From January 1985, through December 1989, Bressaw paid \$23,000 in kickbacks to Gene A. Tomasso, Sr., Executive Director of the Woodbridge Housing Authority, in return for \$232,000 in contracts with the

Authority. Tomasso also admitted failing to report over \$9,000 in illegal payments on his 1985 income tax return.

From October 1984, through December 1988, Bressaw paid about \$100,000 in kickbacks in small denomination bills stuffed in sealed envelopes to Anthony J. Slotwinski, executive director of the Perth Amboy Housing Authority, in return for about \$1.2 million in contracts with the Authority. Slotwinski also admitted failing to report \$45,652 in illegal payments on his 1985 income tax return. In 1988 and 1989, plumbing contractor Michael F. Estavanik, Jr., paid \$20,000 in kickbacks to Slotwinski.

As each successful investigation led to another, federal investigators learned that from 1985 to 1988 Estavanik had paid \$22,000 in kickbacks to Ronald J. Jeffery, executive director of the North Bergen Housing Authority. At Jeffery's trial, Estavanik testified that Jeffery had demanded 10 percent of the profits he earned on Authority plumbing work.

Jeffery also extorted \$5,000 from William Waite, a window replacement contractor, and \$500 from Leonard Herman, a playground renovator. All three testified at Jeffery's trial that Authority payments for completed work were withheld until Jeffery received illegal kickbacks. Jeffery was found guilty of kickback and tax charges.

In yet another housing authority kickback scandal, on March 12, 1992, Roger Martin, owner of Quality Roofing, Inc., pled guilty in federal court to making a \$25,000 cash payoff in 1988 to the mayor of the city of Passaic in connection with a \$1.4 million 1987 contract to build the Passaic Housing Authority maintenance garage. The mayor was charged with extortion, bribery, conspiracy and tax evasion.

### **Slumlord Embezzles \$950,000**

Denise Ross was an Atlantic City, New Jersey, slumlord who, assisted by her father, Arthur Ross, and her CPA accountant, Ronald Oringer, CPA, embezzled approximately \$750,000 from federally-funded low-income housing funds. These monies were used to purchase additional real estate holdings, precious metals, coins, and stamps as well as to live a significantly more impressive lifestyle than her income tax returns would allow. In addition, these funds were used to pay bribes to building inspectors so that the building repairs to the low-income housing would be left unchecked.

Documenting the origin of the unreported income to Denise Ross was merely a matter of public records checks and contacts with government agencies. It was the misuse of these funds that drew them into the realm of taxable income. A summons to Ross's accountant prompted a \$50,000 extortion attempt to the accountant for his agreement to mislead the investigators. Through the use of consensual monitoring, admissions from the accountant were obtained and used to gain his cooperation. He admitted knowing that the Ross tax returns were false, that the depreciation schedules themselves showed an increase in assets far above what Ross could afford, and that Ross admitted to him that this increase was due to the misuse of government funds.

Both Denise Ross and her father, Arthur Ross, pled guilty to conspiring to evade and defeat federal income tax laws. Denise Ross was sentenced to six months in prison and four years probation. Arthur Ross was sentenced to three years in

prison, and while awaiting his reporting date to the U.S. Marshal's Service, fled to Argentina. Ross was captured several months later while attempting to enter the U.S. through Los Angeles International Airport with false Argentinean papers.

The accountant who assisted Ross in the preparation of false personal and corporate income tax returns agreed to plead guilty to assisting the Ross family in their evasion.

### **Mayor of Jersey City**

Gerald McCann, the former mayor of Jersey City, was convicted of defrauding the Southern Florida Bank Savings and Loan of Boca Raton, FL, by diverting for personal gain at least \$267,300 of a \$300,000 investment the bank entrusted to him in 1986 and 1987.

McCann, as a would-be-developer, formed a partnership with the bank known as Historic Equishares Inc., to invest in the development of a private marina at Liberty State Park in Jersey City.

McCann was found guilty of 10 counts of mail and wire fraud and one count of making a false statement to Midatlantic Bank of Jersey City to obtain a personal loan; and, he also was convicted of four federal income tax evasion charges that stemmed from an attempted cover-up of the diversion.

### **General Electric**

On July 22, 1992, General Electric Corporation (GE) pleaded guilty to four criminal charges including money laundering and defrauding the U.S. government in the largest whistle-blower case in history. It was the largest fraud involving the

Foreign Military Financing Program, and it was the first time a defense contractor was charged with money laundering.

General Electric was fined \$69 million (\$9.5 million criminal, \$59.5 million civil).

### **Peter E. Rose**

On April 20, 1990, Peter E. Rose, Major League Baseball's all-time hits leader and, many believe, future hall of fame candidate, pleaded guilty to income tax charges. Rose was sentenced to five months in prison and twelve months probation. Total fines were \$50,100.

### **Folk Art Entrepreneurs**

John and Virginia Long, J. Keith and Rhonda Blakely were involved in a country folk art business, putting on shows each weekend all over the U.S. Their shows were so popular that they rented professional football stadiums to display their wares and accommodate the thousands of buyers.

Search warrants were issued for both the Long's and Blakely's homes and their corporate office. \$1.2 million in currency was seized from the Longs' bedroom closet, plus over \$2 million in accounts from 12 banks, and various real and personal property.

The Longs and Blakelys pled guilty to income tax evasion and structuring charges. John Long and J. Keith Blakely each received 18 months in prison. Virginia Long and Rhonda Blakely each received prison sentences of one year and one day.

The defendants also agreed to forfeit \$4.2 million in assets (most of which was in bank accounts and a new home valued at \$1.4 million) and they agreed to pay \$5.8 million in taxes, interest and penalties.

The sentences were staggered so that only two defendants would go to prison at a time. Those out of prison could continue to successfully run their business to ensure full payment of their tax liabilities and protect the jobs of 60 employees.

### **Failure To Pay Gets Three Years**

Elbert L. Hatchett was a well-known attorney whose tax returns reported over a million dollars a year from his law practice. He did not pay any of the tax due.

He agreed to several payment plans but did not live up to any of the agreements. Collection activity was thwarted by his use of joint ownership of real property and placing personal assets in the name of his wife and children.

Hatchett purposely kept all of his income out of his law firm's bank accounts. On one occasion, Hatchett earned a legal fee of \$985,000. Hatchett purchased two cashier's checks in his name. When he wanted to pay expenses, he went to the bank and negotiated one of the cashier's checks. He deposited an amount needed to cover the checks written for those expenses and took the balance back in the form of a new cashier's check.

On other occasions, he had fees paid to other members of his law firm who, in turn, paid him when he needed the money.

The four-week trial showed a lavish and elegant lifestyle that included a home with an indoor pool and tennis court, Rolls Royce and Porsche automobiles.

After three and one-half days of deliberations, Hatchett was convicted of four counts of failing to pay income tax for the years 1982, 1983, 1984 and 1986. On June 1, 1989, Hatchett was sentenced to

three consecutive one-year terms of incarceration, five years special probation (including the payment of all back taxes and current estimated taxes) and fined \$100,000.

### **Millionaire Grocer**

Alex Dandy was a flamboyant millionaire who was one of Michigan's largest grocery store magnates. He evaded millions of dollars in personal income taxes by siphoning grocery store receipts through complicated and disguised kickbacks from vendors dependent on the chain's business. He also forced vendors to place relatives and friends on their payrolls for work never performed. He demanded kickbacks of \$50,000 a month from one vendor, disguising the money through an intricate use of gift certificates. Some of the kickbacks were paid to a church to appear as church contributions.

Dandy changed Certified Public Accounting firms four times in five years, each time taking steps to mislead the firms as to the true nature of certain corporate and personal transactions.

During the 10-week trial, 75 witnesses testified and over 2,000 exhibits were placed into evidence. Dandy was found guilty on all ten counts including income tax evasion, filing false income tax returns, obstruction of an IRS examination, mail fraud and bankruptcy fraud.

On May 22, 1992, Dandy was sentenced to 23 years in prison; fined \$2 million and ordered to pay \$3.8 million in restitution. He was immediately placed in custody. When he is paroled, he must perform eight hours of community service each week in the form of manual labor to assist the poor,

physically impaired, handicapped or elderly until he reaches the age of 84 or he becomes physically incapacitated. Dandy was 64 at the time of sentencing.

### **Doctor Fails To Report Investment Income**

On March 28, 1991, Dr. William J. Alt and his return preparer daughter, Karen, were convicted of conspiring to evade the personal income tax liabilities of William Alt for 1982, 1983 and 1984 and the corporate income tax liabilities of William J. Alt, M.D., P.C. for fiscal years 1983 and 1984.

During 1982 through 1984, William Alt invested over \$1,200,000 in nearly 40 oil and gas and real estate limited partnerships. He claimed all possible credits, deductions, and losses. None of the income generated from these investments was ever reported.

Much of the unreported income was converted to assets held in the names of nominee corporations. Vehicles and real property were acquired in the names of shell corporations created by William and Karen Alt.

On June 7, 1991, both Karen Alt and William J. Alt were each sentenced to two consecutive five-year terms, fined \$200,000, three years probation and the costs of prosecution.

### **Former Police Chief**

Former Detroit Police Chief William L. Hart was sentenced to ten years in prison for embezzling \$2.4 million from the police department's imprest cash account, known as the "Secret Service Fund." Hart was also ordered to sell his substantial personal assets and use his Detroit Police Depart-

ment Pension to repay the City of Detroit for the amount of the embezzlement.

The 18-month grand jury investigation, conducted jointly by the IRS and FBI, was made difficult by the city of Detroit's total lack of cooperation.

The 14-week trial included the introduction of more than 1,100 exhibits by 94 prosecution witnesses. The jury deliberated seven days before convicting Hart on two counts of embezzling funds from the city of Detroit and two counts of income tax evasion.

### **Untouchables Saga Repeated**

In 1983, IRS-CID began an investigation of Chicago's most notorious organized crime street crew headed by Rocco Infelise. The crew controlled the largest extortion, juice loan and gambling operations of the Chicago Crime Syndicate (CCS). Members were also prime suspects in the gangland murders of several "independent" bookmakers including one of the country's largest, Hal Smith. The overseer of the gambling empire was William Jahoda. During a seven-year period, Infelise, Jahoda and their subordinates were the targets of numerous CID search warrants and FBI wiretaps.

In 1989, Jahoda met with the case agent and offered to cooperate with the government. Chicago's technical agents wired a luxury high-rise apartment rented by CID to house Jahoda in his undercover role. During the next 5 months, he made over 200 recorded conversations on topics ranging from murder to tax fraud. These conversations confirmed Jahoda's previous statements to CID agents about the torture murder of Hal Smith, and detailed the

CCS monthly expenditures of \$35,000 paid to members in jail and various public officials. Infelise also gave an IRS undercover agent a \$50,000 juice loan to bribe a zoning official. On February 7, 1990, 5 years to the day after the murder of Hal Smith, 20 members of the Infelise street crew were indicted on charges ranging from RICO to murder and tax evasion.

All but Infelise and four others accused of the Smith murder pled guilty. Jahoda was relocated through the Federal Witness Protection Program. The Infelise et al. trial lasted for over five months. The finale of the trial was Jahoda's 4 weeks of direct examination and 2 weeks under the most strenuous cross examination seen in a Chicago courtroom. Four defendants were convicted on RICO and tax charges. Infelise and his two top lieutenants were sentenced to life without parole, the other to 18 years.

Jahoda was the last defendant to be sentenced. He had pled guilty to RICO, murder and tax charges. His sentencing guideline was also life without parole. The Government, citing Jahoda's unprecedented cooperation, asked for a substantial downward departure. The last to speak was Jahoda. He started his remarks by turning from the podium to face the crowded courtroom. He told the judge that he did not consider himself, as others had, a hero. He said he had worked for only four months, the real heroes were the agents who dedicated their lives to the fight.

The judge sentenced Jahoda to 54 months and then gave him credit for time served (which started when he began his cooperation with CID in 1989 and being placed in the Federal Witness Protection Program).

William Jahoda, though still a marked man by the CCS, was free.

### **Project Greylord**

Project Greylord was a joint FBI/IRS project independently conceived and undertaken by each agency in the early 1980's to ferret out judicial corruption in Cook County, Illinois. The U.S. Attorney's office requested that the two agencies join forces.

Among the many investigations and trials (all which obtained much press coverage) two cases are highlighted.

### **John H. McCollom**

John H. McCollom was the second highest ranking judge in Cook County. A John Doe subpoena had been served on the judge, requesting production of all his personal bank accounts. McCollom fought the subpoena on grounds of self-incrimination/privilege all the way to the United States Supreme Court. Eventually, McCollom appeared before the grand jury and produced nothing, saying that he no longer possessed his records.

Later the agent received a call from a next-door neighbor of McCollom's Wisconsin summer home. The judge's wife was placing documents into a metal garbage can, and setting the trash can ablaze while the judge stood there looking on.

The agent obtained a search warrant and arranged for an expert in burnt records from the forensic lab to remove the clumps of ashes, placing them in boxes lined with styrofoam packing balls.

The Forensic Lab managed to "reconstitute" the ashes and among them were the very checks which had been subpoenaed and that McCollom testified no longer

existed. When confronted with the burnt evidence, the judge quickly pled guilty mid-trial. He was sentenced to 11 years at a prison farm.

### **Martin Hogan**

Marty Hogan was a young, clean-cut judge assigned to auto court. Hogan took cash bribes to fix cases. He was found guilty and was sentenced to 10 years.

Hogan argued that the discrepancy between the cash method of unreported income of \$20,000 and bribe amounts testified to (totaling only \$4,400) should be enough to overcome the verdict.

Only during trial did the defense trot out the dead man defense: Hogan was the recipient in pre-prosecution years of large cash gifts from a now-deceased multimillionaire. The CPA firm of Price Waterhouse had handled the deceased's financial accounting for years. The dead "source" of money did give cash gifts to various individuals over the years, but each gift was meticulously recorded and gift tax returns filed. The name of Martin Hogan never was recorded.

### **Cigarette Smuggling Results in Multi-Million Dollar Forfeiture**

On November 22, 1991, agents from the IRS, ATF, and local law enforcement executed thirteen simultaneous search warrants throughout the Pacific Northwest seeking evidence of illegal cigarette smuggling from the Flathead Indian Reservation, Montana, to Indian Smoke Shops in Washington State. The value of cigarettes smuggled by Larry and Dorothy Clinkenbeard exceeded \$46 million over a four-year period.

The Clinkenbeards and Stan Feist, owner of one of the largest cigarette wholesalers in the Pacific Northwest, evaded both federal and state excise taxes estimated in the millions of dollars. The tax-exempt cigarettes (for sale on an Indian reservation) were delivered from Feist's Sheehan Majestic Wholesale Company in Missoula, Montana to the Clinkenbeards' Busted Ass Ranch on the Flathead Indian Reservation. The cigarettes were then smuggled by truck to the Indian Smoke Shops in Washington State and sold without paying the federal and state excise taxes.

A 2,835-count indictment was returned against 24 individuals for cigarette smuggling, conspiracy, RICO, and money laundering. Also included in the indictment were seizures involving in excess of \$46 million dollars.

Larry and Dorothy Clinkenbeard agreed to plead guilty to one count of RICO each and a total forfeiture of \$1,187,000. Stan Feist also agreed to plead guilty to one count of RICO and a total forfeiture of \$1,000,000.

### **Largest Credit Union Loss in U.S. History**

Lawrence (Larry) E. King, Jr. was responsible for the largest credit union failure in U.S. history.

King hired three development officers who ran a pyramid scheme to sell tens of millions of dollars worth of certificates of deposits. A secret account, created by a trusted friend and confidant, was used to divert funds for his personal use. In ten years, King had diverted \$775,474 to himself and his family, and in 1987 alone, King stole \$3,264,217.

A substantial amount of the absconded credit union funds were spent by King on unprofitable business ventures. Impressive amounts were also spent on his lavish life style, which included extravagant parties in Omaha, Dallas, New Orleans and Washington, D.C. At the Republican convention in 1984, King spent \$150,000 for a party at Southfork, the mansion used in the 'Dallas' television series. In Washington, D. C., he rented the former Brazilian Embassy for \$146,000.

King had stolen more than \$15 million from a credit union which could account for only \$2 million.

He had reported income of approximately \$15,000 a year, but arrived at an audit driving a large Mercedes-Benz and wearing dazzling rings and an expensive watch. Ultimately, a grand jury was formed to resolve the allegations.

To sustain the embezzlement scheme, King and his conspirators concealed the expenses of King and the credit union.

The Internal Revenue Service and other federal law enforcement and regulatory agencies conducted coordinated raids at three locations. Several large truckloads of records and computer files were seized. King and his associates had systematically looted more than \$40 million from the depositors of the Franklin Community Federal Credit Union. The financial institution's failure was the largest monetary loss by a federally chartered credit union in U.S. history.

King was indicted on 40 counts relating to a Klein Conspiracy, filing false tax returns, bank embezzlement and money laundering and later pled guilty. Lawrence E. King, Jr., was sentenced to fifteen years imprisonment

for tax conspiracy, bank fraud and embezzlement. Six other conspirators and King's wife also pled guilty to tax and embezzlement charges.

### **Captain Cocaine of the Kansas City Fire Department**

Gilbert Dowdy was a captain with the Kansas City, Missouri, Fire Department who financed cocaine distribution in the Kansas City, Missouri, area for ten years. Dowdy and ten other defendants were found guilty on a myriad of federal charges, including drug conspiracy, firearms use, currency structuring, and money laundering. The Dowdy drug ring fell in 1990 as a result of a joint investigation which was led by the Criminal Investigation Division of the Internal Revenue Service and included the Bureau of Alcohol, Tobacco, and Firearms; Customs Service; DEA; FBI; and the Kansas City, Missouri, Police Department.

Gilbert Dowdy made the drug connections between Kansas City, Missouri, and Miami, Florida, and gave the couriers machine guns and hundreds of thousands of dollars. One courier alone took several million dollars to Miami and brought back hundreds of pounds of cocaine for the Dowdys.

On one occasion, a teenage dealer of the Dowdy organization was part of a bad drug deal with a rival faction. The teenager hired an arsonist to firebomb a drug house of the rival and six individuals, including women and children, were burned to death in the fire.

The Dowdys used profits from cocaine sales to purchase distressed property in real estate agents' names, girlfriends' names, and business management front

company names. The Dowdys co-mingled rent payments with drug sales and thereby laundered drug profits through the management companies. Gilbert Dowdy also purchased bars and restaurants as fronts. He bragged that the bars, construction, and management companies were the sources of money he was spending to buy Rolls Royce, Mercedes Benz and Excaliber automobiles, and real estate.

A 265-page affidavit for search warrant was prepared and 13 search warrants were executed simultaneously by 150 federal agents and police officers.

Tremendous pretrial publicity occurred, as Gilbert Dowdy was an incumbent captain with the Kansas City, Missouri, Fire Department. During a one-year period there were 84 newspaper articles printed regarding Gilbert Dowdy, members of the drug ring, and the trial.

The jury listened to an incumbent Jackson County, Missouri, circuit court judge describe how he received \$300,000 in twenties over a several-month period from Gilbert Dowdy for the purchase of a building.

Gilbert Dowdy is currently serving a life term in Lom Poc, California.

### **Western Union Money Transfers**

In late 1988, St. Louis police narcotics detectives seized Western Union customer copies of money transfers showing the movement of funds between St. Louis, Missouri, and Patterson and Passaic, New Jersey. Subsequent analysis showed consistent use of fictitious addresses and a commonality of misspelled words. In January 1989, a grand jury subpoena was served on Western Union for all money

transfers over \$500 from St. Louis, Missouri, to New Jersey or New York.

Analysis of the foregoing revealed the existence of a large-scale cocaine conspiracy operated by persons of Colombian and Dominican ancestry headquartered in Patterson and Passaic, New Jersey. Forty federal search warrants were executed in St. Louis during an 18-month period. Over 40 defendants were prosecuted on drug and money laundering violations, with the vast majority agreeing to plea bargains. The six defendants who went to trial received a total of 185 years imprisonment. The distribution of more than 300 kilograms of cocaine was documented and \$1.5 million was seized. An additional \$1 million in wire transfers between St. Louis and New Jersey was documented through Western Union.

### **Personal Expenses Charged to Corporation**

In March 1988, Randall and Trula "Mikee" Walker were indicted for evasion of their 1981 through 1985 personal income taxes, including penalties and interest, totaling \$1,026,000. The Walkers were the former owners of Campbell 66, a large multi-state trucking company, which operated a network of 41 terminals in 13 states and had approximately 1300 employees.

The Walkers extensively renovated their personal residence and disguised costs associated with this renovation as business expenses of Campbell 66. Kitchen cabinets costing \$65,000, a residential security system totalling \$23,000, kitchen appliances costing \$15,600, wood and marble flooring, molding and trim, and

heating and air conditioning equipment were all expensed.

Randall Walker cashed checks paid to Campbell 66 totalling \$160,000, purchased personal assets and paid personal expenses. When a federal search warrant was executed at the Walkers' residence, it had been stripped of all furniture, fixtures, and appliances, leaving the house a shell.

Randall Walker pled guilty to all felony counts charged against him in the original indictment without any plea bargain agreement. After hearing six days of testimony in the trial of Trula Walker, the jury returned a verdict of guilty on all six counts of income tax evasion. At the conclusion of the trial, a pretrial investigation was completed on the Walkers. The personal financial statement, provided by the Walkers to the Office of Probation and Parole, reported cash of \$6250 and personal property of \$5000. Trula Walker had testified during her trial that she had sold, for cash, all of their personal assets to antique dealers after becoming aware of the IRS investigation.

An obscure lead was developed by the IRS and U.S. Attorney's office, which disclosed that the Walkers had hidden a substantial amount of cash, jewelry, and valuable antiques throughout Arkansas, Oklahoma, and Missouri. Internal Revenue Service special agents armed with search warrants located cash totalling \$315,000 sealed in glass jars and buried by the Walkers in a farm building; jewelry with a value of \$1 million was found sealed in a ten-foot long sewer pipe and buried two feet under the floor of another farm building. Fur coats, antique furnishings, classic Mercedes-Benz automobiles, gold-plated

bathroom fixtures, and museum-quality 18th century French art, which had been originally removed from the Walker residence, were found in numerous storage units. These seized items were sold at auctions through Sotheby's of New York and local auctions.

At the time of sentencing, the U.S. District Judge accused the Walkers of being "consumed by greed," whereupon he sentenced Randall Walker to 20 years in prison and a \$980,000 fine and Trula Walker to 30 years in prison and a \$960,000 fine. The proceeds from the various auctions of the Walkers' assets were used to pay the outstanding taxes, penalties, interest, and court fees totaling approximately \$2,966,000.

### **Georgia-Pacific Corporation**

On October 8, 1991, Georgia-Pacific Corporation, the largest paper products company in the world, pled guilty to Section 7201 for the tax year 1984. The court ordered Georgia-Pacific to pay a \$5,000,000 fine within 7 days. As a special condition, Georgia-Pacific was ordered to pay to the Treasury Department \$16,000,000 within 7 days pursuant to the provisions of the plea agreement.

Georgia-Pacific devised a scheme to recoup the company's investment of approximately \$2,000,000 in the Santa Fe Swamp located in central Florida. Georgia-Pacific had acquired the swamp for the purpose of removing the peat and using the peat as an alternative fuel. After spending substantial time and money, it became apparent that the State of Florida would not allow the swamp to be drained and the peat removed and used as a fuel. If the peat could not be

removed and used as an alternative fuel, the swamp was worthless to Georgia-Pacific.

There were no potential buyers who would purchase the swamp for the \$2,000,000 invested. The company donated the swamp to a nonprofit organization and claimed a contribution deduction for the fair market value of the property, which they valued as a working milled peat site, knowing that the State of Florida would not issue permits for the removal of the property.

Georgia-Pacific claimed a \$24,000,000 contribution deduction on the company's 1984 Corporate Income Tax Return, knowing that the fair market value of the Santa Fe Swamp was substantially less.

### **Mitsubishi International Corporation Defrauded**

In early June 1991, special agents of the IRS and FBI learned of a scheme devised by Joseph Lee Smith of Anniston, Alabama, and Raymond B. Lippincott III and Mary Ellen Lee of Atlanta, Georgia, to defraud Mitsubishi International Corporation, (MIC) of millions of dollars. Lippincott was the assistant general manager at MIC and Lee was an assistant sales manager in the textile division. Smith owned and operated Sun Fibres, Inc., which brokered and processed textile fibers. In late 1988, Smith established a business relationship with MIC, through Lippincott and Lee, whereby MIC provided Sun Fibres with the funds necessary to purchase various types of industrial and carpet yarn which was to be processed by Sun Fibres and ultimately resold to MIC's customers.

Lippincott and Lee acted as agents for MIC in the dealings with Sun Fibres. In

1989, Smith, on behalf of Sun Fibres, agreed to pay Lippincott and Lee kickbacks on each pound of yarn purchased by MIC. They split the kickbacks equally.

Between March 1989, and May 1991, Lippincott and Lee received kickbacks from Sun Fibres totaling \$6,997,429. They opened brokerage accounts and purchased luxury assets. Smith further defrauded MIC as little or no yarn actually existed.

Over the 18-month period from Sun Fibres' initial business, MIC was defrauded of approximately \$54 million.

Within ten days of the discovery of the scheme, multiple seizure warrants, arrest warrants and a search warrant had been obtained. Seized bank/brokerage accounts contained \$4,437,726. Also seized were three vehicles, including a new Mercedes, and two condominiums.

A 110-count indictment was returned a week later, charging Lippincott and Lee with money laundering, fraud and conspiracy. The first day of trial they negotiated a plea to income tax evasion, fraud and conspiracy. They each were sentenced to 27 months in prison, 3 years probation and ordered to pay full restitution to MIC. Smith consented to forfeit Sun Fibres, Inc., his \$800,000 home, a bank account, four expensive vehicles and a boat.

### **Thomas R. Mullens**

Thomas R. Mullens created Omni Capital Group Investment Firm as a vehicle to defraud investors of their money. Mullens solicited clients to invest their money with Omni Capital, and he falsely advertised that Omni had over \$30 million in assets, allowing the acquisition of 26 companies, such as manufacturing facilities, radio stations,

food franchises, and car dealerships. Mullens advised that 22 of the companies had been resold, resulting in annual returns to the investors of approximately 25 percent.

During the years 1987 through 1991, Mullens received \$25 million through his fraudulent scheme. During those same years, he acquired a \$2.2 million private jet plane, Rolls Royce and Mercedes-Benz automobiles, jewelry and a \$1 million home in Boca Raton.

Mullens pled guilty to a 44-count indictment including money laundering charges and on July 26, 1993, he was sentenced to 33 years and 7 months in prison.

### **South Florida CID Case Results In Largest Forfeiture In U.S. History**

Between 1986 and 1993, the Fort Lauderdale District was involved in the investigation and prosecution of a marijuana smuggling organization responsible for importing and distributing over one half million pounds of marijuana in the early 1980's. This investigation ultimately resulted in the forfeiture of the largest legalized card playing casino in the world. At the time of its seizure, the casino was also the largest single asset seized in U.S. history. The club building itself occupied over 100,000 square feet and employed over 2,000 people. The casino enjoyed gross receipts of approximately \$100 million per year with a net of \$25 million and had an after debt value of \$100 million. In addition, an entire marina, a luxury waterfront residence, a 90-foot yacht, a race boat and numerous luxury cars and trucks were seized and forfeited.



The massive investigation also produced indictments and convictions of 13 individuals including a world champion offshore powerboat racer, two prominent South Florida defense attorneys, a former state legislator, the presidents of two banks, a CPA, and the president of a major coin dealership. The sentences given out in the case totaled over 120 years.

This case was worked jointly with DEA and New Scotland Yard, involved the analysis of over 35,000 documents and required numerous trips to the United Kingdom and mainland Europe to secure records and interview witnesses.

While awaiting trial on RICO and tax charges, the principle defendant attempted a spectacular jail break using a helicopter. Unfortunately for the defendant, the helicopter hooked the barbed wire of the perimeter fence while attempting lift-off and crashed. After his injuries were sufficiently healed, the main defendant, his brother, the hired helicopter pilot, a cellmate and a former trusted employee were convicted of various escape attempt charges.

For his work on this case, the lead IRS special agent received both the International Narcotics Enforcement Officers (INEOA) Special Award of Honor and the prestigious Association of Federal Investigators 1990 Financial Investigator of the Year Award.

### **Operation Pick-Up**

Operation Greenback in Miami was an undercover operation targeting the Colombian narcotics money laundering industry that lasted eight years.

Operation Pick-up soon expanded nationwide to include Los Angeles, Laguna Niguel and Houston Districts. Field activ-

ity took place in New York, Puerto Rico, Detroit, Chicago, Las Vegas and a multitude of other cities.

During the 8-year run of this operation, there were clandestine meetings with Colombian cartel representatives, consent searches, probable cause arrests and raids on money-counting houses, thousands of hours in street surveillance, felony car stops and demanding confrontations in the Latin American narcotics environment.

As of December 31, 1992, this undercover operation had generated more than \$200 million in currency seizures and 420 defendants had been arrested and/or charged with a wide variety of federal violations. Prison sentences averaged more than 8 years. Narcotics seizures totaled 9,114 kilograms of cocaine, 23 pounds of heroin and 115 pounds of marijuana. Local police agencies received more than \$50 million in asset-sharing funds.

There were also a few records set by Operation Pick-up. The largest seizure ever of Canadian currency (\$3.4 million) took place in Miami. The largest single asset sharing check (\$11.7 million) ever issued to one law enforcement agency by the Department of Justice was given to Metro-Dade Police Department. The undercover agent was the first to receive the Assistant Commissioner's Award and completed the longest uninterrupted run in an undercover operation by an IRS special agent in the history of CID.

The INS was of great assistance throughout Operation Pick-up. ATF provided resources on an "as needed" basis and always responded when firearms were seized. DEA likewise, always responded when narcotics were found.

### **PTL Ministry**

The investigation of Reverend James Bakker and the PTL ministry received worldwide publicity and scrutiny.

Working with agents of the FBI and Postal Inspection Service, CID led the investigation into the multimillion dollar religious organization that included the third most visited theme park in the United States, after the two Disney locations.

A Charlotte news reporter's revelation of Bakker's sexual encounter with Jessica Hahn, and the resulting attempts to keep her quiet with \$265,000 of PTL funds, provided notoriety. Bakker had also drawn international attention through his offering of a lifetime — one week vacations at PTL for \$1,000. The intense sales campaign was overwhelmingly successful and brought in more than \$160 million.

Operating expenses far exceeded normal contributions, and Bakker quickly diverted the "partnership" funds to other activities. The lavish lifestyles of Bakker and his flamboyant wife, Tammy Faye, contributed to the financial difficulties at PTL.

The salary, bonuses, and living expenses authorized by the puppet PTL Board of Directors exceeded \$10 million during the investigative period.

David Taggart, Bakker's closest confidant and his brother James, received cash advances by check, cash advances from PTL credit cards, and credit card purchases totaling over \$1 million.

David and James Taggart were each convicted by jury of income tax evasion and sentenced to 18 and 17 years in prison respectively, and fined \$500,000 each. Richard Dortch, Bakker's TV sidekick and national leader in the Assembly

of God, pled guilty to conspiracy, mail and wire fraud, and was sentenced to eight years in prison and fined \$200,000. All three agreed to testify against Bakker.

James Bakker was subsequently convicted by jury of conspiracy, wire, and mail fraud. He was sentenced to 45 years in prison and fined \$500,000.

### **Biggest Drug Bust in Texas**

Approximately nine tons of cocaine were seized from a residence located in Harlingen, Texas. Following the arrest of three individuals at the stash house, additional search warrants were executed at various businesses and residences.

Due to the sheer size of the narcotics seizure, the case was designated as an OCDETF investigation directed from the Gulf Coast Organized Crime Drug Enforcement Task Force headquarters in Houston, Texas. The task force included Texas DPS, IRS, U.S. Customs, DEA, FBI, INS, and the Harlingen Police Department.

During a period of eight months, over 40 tons of cocaine and approximately \$45 million passed through the Harlingen stash house. In total, this segment of the Juan Garcia Abrego organization laundered in excess of \$70 million. The money was usually carried in hidden compartments in several vehicles in shipments of approximately \$15 million.

During the course of the investigation, numerous large currency seizures were made. Eighteen million dollars were seized on January 5, 1989, by a joint DEA-NYPD task force in New York City. IRS-CID seized \$5.7 million on February 4, 1989, in Houston, Texas. Federal agents in Brownsville, Texas, seized \$2 million in

April 1990, when two uniformed Mexican Customs officials were caught as they attempted to leave the United States with the currency.

Of the fifteen individuals indicted, all but three pled guilty prior to trial. At trial, the three remaining defendants were convicted on all counts of narcotics trafficking and money laundering and received a maximum sentence of twenty years for money laundering. In addition, two cooperating defendants pled to money laundering charges in lieu of being indicted.

Of the three defendants who were convicted of operating a Continuing Criminal Enterprise, two received life sentences and one remains to be sentenced.

### **Top Level Drug Dealer Gets Life Sentence**

The Miguel Medina-Reyes organization was involved in large-scale cocaine importation and distribution and international money laundering which operated in El Paso, Texas; Los Angeles, California; Phoenix, Arizona; Houston, Texas; Juarez, Mexico and Chicago, Illinois.

The Miguel Medina-Reyes organization was responsible for distributing approximately 1,925 kilos of cocaine from August 1989 through November 1991 and transported over \$15 million in U.S. currency.

Hector Rene Rubio, Stepson of Medina-Reyes, was responsible for carrying out the instructions from Medina-Reyes related to the importation and distribution of cocaine and the laundering of U.S. currency.

In October 1993, Miguel Medina-Reyes was sentenced to life in prison for drug trafficking and money laundering. His stepson, Rubio, was sentenced to over 21

years in prison for drug trafficking and money laundering.

### **ELF Scheme**

During five trials, the Houston District concluded the prosecution of 20 of the 24 individuals who were indicted in December 1991 for their role in what has been called the largest Electronic Filing (ELF) scheme in the nation. It involved over 750 false paper and electronic tax returns containing false Schedule C's, false Earned Income Credits and false fuel tax credits. Refunds claimed exceeded \$1.7 million and only about \$250,000 of this amount was stopped by the service centers.

The investigation began in early April 1991, when both the Austin Compliance Center and the Ogden Service Center began to detect fraudulent returns. Informants' calls provided additional information regarding the scheme and the return preparers/Electronic Return Originators involved. Undercover shopping contacts with two preparers were conducted on April 15, 1991, and search warrants were executed on these preparers' offices on April 17, 1991. Valuable evidence, including copies of the majority of the false returns, was seized.

Two Department of Justice trial attorneys were assigned to conduct the grand jury investigation. A team of special agents was required to find witnesses and conduct interviews. Since the majority of the taxpayers involved in this scheme were from Nigeria and the addresses used on the ELF returns were fictitious, one of the most difficult tasks was finding the taxpayers involved in this scheme. Various scams were used by the perpetrators to entice

people into participating. Individuals on welfare and receiving a housing allowance were told they could get a \$200 refund to help pay their utility bill. Students were told they could get \$500 to help pay tuition. Many taxpayers' names and social security numbers were used without their knowledge.

In October 1992, began what was going to be four consecutive trials involving four defendants per trial. During the second trial, the first threats against the presiding judge and the case agent occurred. On the first day of the fourth trial, a threatening letter arrived at the judge's chambers and due to this and poor security performance by the U.S. Marshals, the judge recused himself from the entire proceeding. Additional threats occurred during the remaining two trials in Judge Rosenthal's court, delaying one trial until the entire courtroom could be thoroughly searched. Thirteen defendants were found guilty of conspiracy to file false claims and/or filing false claims, two were acquitted, two pled guilty, two had charges dismissed before trial, one died while incarcerated before trial, and four are still fugitives, including the main perpetrator of the scheme. The fifteen convicted defendants were sentenced in April 1993 and received a combined total of 26 years and one month incarceration. The longest sentence was for 63 months incarceration and the shortest was four months. One of the defendants who pled guilty was ordered to pay \$10,000 restitution.

### **Money Launderer**

David Randolph Sassoon, who claims to be a cousin of Vidal Sassoon, laundered and

attempted to launder more than \$12 million in U.S. currency from January 21, 1993, through March 24, 1993. Sassoon received currency from narcotics dealers. He then transported the currency to Brinks, Inc., where he would drop it off for counting and transportation to the bank.

He opened a personal account and instructed Brinks to deposit the money into the account. He wine and dined the bank manager and purchased a vacation to Palm Springs, California, for the manager and the manager's wife. After the funds were deposited, Sassoon wire-transferred them to accounts in Colombia.

Sassoon's laundering activities came to a halt with his arrest on March 24, 1993, inside the Galleria Mall in Houston. Also arrested were two traffickers who had just delivered another \$2,000,000 to Sassoon. Agents let Sassoon deliver the money to Brinks, then arrested the three after they met to exchange car keys inside the mall.

Sassoon pleaded guilty to operating an illegal wire transmitting business. The other two defendants pleaded guilty to conspiring to distribute a controlled substance. The three received combined sentences of 28 years.

### **Death Sentence**

This OCDETF case involved the importation of huge amounts of cocaine and marijuana into the United States. It was smuggled from Mexico into southern California and transported to Oklahoma. Joseph Eduardo Arvizu (California) and James Norwood Hutching (Oklahoma) organized, managed, and supervised a continuing criminal enterprise involving five or more persons, committed repeated

felony drug violations, and both received enormous amounts of money.

A truck driven by Hutching was seized from one of Arvizu's stash locations in Moreno Valley, California, along with 1,859 pounds of marijuana, 146 pounds of cocaine, 1.7 pounds of heroin, 89 pounds of Ephedrine (a substance used to cut other drugs), assorted guns, records, scales, and associated equipment. Large quantities of the drugs were found in hidden compartments throughout the truck.

In July 1992, Hutching was arrested at his ranch in Oklahoma, and special agents seized a \$75,000 home; a ranch and over 530 acres of land; two businesses; four vehicles; five tractors; five horse trailers; 74 horses, 300 heads of cattle; corrals; and \$98,000 in currency.

In March 1993, Hutching was found guilty of numerous charges ranging from attempt to possess with intent to distribute cocaine, conspiracy, interstate travel with intent to commit murder, continuing criminal enterprise, killing an individual in furtherance of a continuing criminal enterprise, and other charges. One of the defendants was given the death penalty, and it is only the fifth such death sentence nationwide since the 1988 enactment of the CCE statute permitting such a penalty. The other three defendants were sentenced to life imprisonment without parole.

### **Ten Promoters Convicted in Nationwide Foreign Trust Tax Fraud Conspiracy**

A Wichita District undercover operation started in the Kansas City area revealed the inner workings of a multi-million dollar conspiracy based in Sacramento, California,

which sold fraudulent trusts for use by customers to evade individual income taxes in 38 states. Nine promoters, operating as International Business Association, were convicted on April 9, 1992, after a six-week trial. A tenth conspirator was convicted after a separate trial on January 26, 1993. They were all sentenced to serve prison terms ranging from 28 to 44 months.

The trust scheme was devised by Alex Yung and James M. Peterson. Yung and Peterson traveled throughout the United States conducting seminars during which they explained how they could use the trusts to conceal income and other assets. In addition to totally eliminating income tax liability, the trusts were also touted by the promoters as a means of moving assets beyond the reach of the IRS to thwart collection of taxes already assessed. Customers were charged a membership fee and required to pay from \$2,500 to \$30,000 for a package of trusts and advice on how to use them to avoid paying United States taxes by creating a series of sham paper transactions reflecting fictitious loans and gifts to conceal from the IRS the customer's control over the trusts. The other conspirators were sales people located in various parts of the country who set up the seminars, closed trust sales, and provided individual assistance to customers in evading their taxes. After funds were funneled through the trusts they were returned to the trust purchaser from an off-shore trust disguised as nontaxable gifts or loans.

Search Warrants served in Sacramento, California, and Independence, Missouri, netted documents showing that the conspiracy, started in 1987, involved sales of trusts allegedly set up in Belize, Central

America. Many of the trusts (sold for over 1.6 million dollars to more than 350 customers) were backdated to extend the fraudulent tax benefits to prior tax years. Production of the fraudulent documents was facilitated by an attorney in Utah and a Notary Public in Iowa.

Concealment of customer and trust identities made it virtually impossible to identify the total amount of evaded taxes. However, testimony at trial showed that a small number of customers used the trusts to conceal more than \$21.3 million in income from the IRS. These included one customer who ran one million dollars through his trust in one year; another who laundered \$540,000 in a year; two others who disguised \$200,000 through their trusts in a single month. Iowa income tax records revealed that 30 customers in that state evaded taxes on \$5.8 million dollars of income.

### **Largest Food Stamp Fraud Case in History**

On February 4, 1993, the Laguna Niguel District, working jointly with Special Agents from USDA-OIG, executed search warrants at four locations in Orange and Los Angeles counties. The investigation centered around food stamp fraud and money laundering activities of David and Juana Rodriguez and Evaristo and Maria Elena Pereira.

The Rodriguez's were charged with depositing fraudulently obtained food stamps during the period September 1991, through January 1993, in excess of \$9.5 million. A large portion of these funds were then structured as they were taken out of the accounts in currency.

Together these subjects defrauded the federal Government of approximately \$20 million. This is the largest case of food stamp fraud in conjunction with the money laundering of the proceeds ever uncovered and prosecuted.

David, Juana, and Eduardo Rodriguez pled guilty to structuring transactions and food stamp fraud. On June 14, 1993, Juana Rodriguez was sentenced to 42 months in federal custody. Eduardo and David Rodriguez each were sentenced to 18 months in federal custody. Maria Pereira and Evaristo Pereira were sentenced to 36 months.

### **PCP and Cocaine Trafficker Sentenced to Thirty Years**

Patrick Johnson was a large-scale PCP and cocaine trafficker based in Compton, California. During a surveillance in November 1988, agents saw Johnson and his associates loading a van with boxes. The van was stopped and searched as it approached the Mexican border. The boxes contained over \$1.6 million in currency.

Search warrants were executed at Johnson's and his associates' residences on June 23, 1990. A safe containing over \$1.5 million in currency was found buried under concrete and tile in the patio of Johnson's sister's residence.

Lula Metz assisted Johnson in converting drug cash into cashier's checks that were purchased in a structured manner, and she used the cashier's checks to purchase property in Patrick Johnson's name and in nominee names.

Johnson was charged with narcotics, money laundering, and tax violations. He pled guilty and was sentenced to thirty

years imprisonment. Eight others, including Johnson's sister and his girlfriend, also pled guilty to narcotics offenses and money laundering.

Lula Metz was convicted at trial of money laundering, structuring, and Klein conspiracy. She was sentenced to fifteen years imprisonment.

### **Luxury Car Dealership**

The Los Angeles Criminal Investigation Division took possession of an entire luxury car dealership on June 7, 1990. The investigation also resulted in one of the first large-scale prosecutions utilizing the currency reporting laws and the failure to file 8300 forms as part of the basis for seizure.

The owners of the dealership, known as AS Auto Sales, Sorena Solati, Majid Ghassemieh, and Ahmad Vosouoghi, saw a market for sales of high-priced luxury and exotic cars to the narcotics trade.

The names of the buyers were taken from the sales records and were run through TECS and NADDIS. Over 90 percent of the purchasers either had criminal records, or the purchasers were associates' girlfriends or partners.

Through the analysis of the purchases and the testimony of witnesses, agents proved that the business entity known as AS Auto Sales was established for the primary purpose of laundering the proceeds of narcotics traffickers through the sale of luxury vehicles. The Criminal Investigation Division seized AS Auto Sales, 47 Ferraris, Porphes, Mercedes, Rolls Royces and assorted other business assets, including several sets of gold-plated Mercedes hub caps.

### **Country Club Seized**

Ken International, a Japanese corporation primarily involved in the development of golf courses in Japan and the United States, pled guilty to Title 18, Sections 2314, 1956 and 1957, and agreed to forfeit property purchased in the United States worth over \$120,000,000.

The plea followed a two-year investigation conducted jointly by the Internal Revenue Service and U.S. Customs Service. Ken Mizuno, through Ken International, fraudulently oversold golf club memberships in a Japanese golf course. Ken International transferred approximately \$260,000,000 of the proceeds to the United States.

The transfer of money from Japan into the United States was accomplished through 47 wire transfers from Japanese banks to United States receiving banks and by couriers who carried the funds in the form of negotiable instruments.

Large gambling debts accrued by Mizuno were liquidated by some of the fraudulent wire transfers.

Properties purchased with the proceeds that were seized and forfeited in the plea agreement include: The Royal Kenfield Country Club, adjacent acreage, and several course-front properties located in Henderson, Nevada, purchased for \$18,000,000; the Indian Wells Country Club; Indian Wells Racquet Club; Hotel Indian Wells, adjacent acreage, and several homes located on the golf course in Indian Wells, California, purchased for \$61,262,000; a DC-9 aircraft purchased for \$5,000,000; a 1990 Rolls Royce Corniche III convertible purchased for \$214,900 and a 1990 Mercedes-Benz

purchased for \$112,433; a house and condominium in Beverly Hills, California, purchased for \$5,100,000; two homes and vacant land purchased in Hawaii for \$10,715,000.

Ken Mizuno was released on bail in Japan while his trial for tax evasion and fraud proceeded. Seven other Japanese citizens involved in the scheme were charged and convicted of tax evasion or fraud in Japan.

### **Illegal Tax Protester gets Eight Years in Prison**

Lonnie Schmidt was a Sacramento businessman who characterized himself as the U.S. representative of the first Surety Bank Limited (FSBL), Marshall Islands. Schmidt was also an illegal tax protester who helped other protesters hide their money and not pay their taxes. In August 1985, Schmidt was introduced to an IRS undercover agent (UCA) as part of the investigation of the National Commodity and Barter Association. Schmidt informed the undercover agent that he could launder the UCA's illegal income using FSBL and its U.S. representative firm International Commercial Business Management (ICBM) which he owned and operated. Schmidt received a total of \$200,500 from the undercover agent which he laundered by having the cash converted into cashier's checks or wire transfers. Schmidt did not file, nor did he obtain the information from the undercover agent necessary to file the Currency Transaction Reports (CTR) required from him as a financial institution.

Schmidt also structured the currency at various banks when purchasing the cashier's checks or making the wire trans-

actions and furnished the various banks with incorrect information when they prepared their CTR's.

While the case was at the U.S. Attorney's Office awaiting indictment, information was received that Schmidt was also operating in North Carolina, and a separate investigation and second undercover operation was initiated. A second undercover agent laundered over \$100,000 through Schmidt.

Schmidt turned out to be nothing but a con man out to make a dishonest buck. His Marshall Islands' bank was nothing more than a post office box and his businesses were only scams to bilk people of their money.

He was convicted in North Carolina of witness tampering and obstruction of justice.

For his efforts, Schmidt received an 8-year jail sentence in federal prison and a civil suit was brought against him by some of his victims for over \$250,000.

### **Espionage/Tax Investigation**

Two individuals, John Walker and Jerry A. Whitworth, while serving in the U.S. Navy and after retirement, were responsible for a potential catastrophic breach of the communications security of the United States through the sale of top secret cryptographic keying material to the then Soviet Union. The two worked undetected for over ten years, earning millions of dollars from the Soviets, before being exposed by Walker's estranged wife.

Once alerted, the government focused on Walker as the leader of the two. Overwhelming evidence of his deeds was quickly documented, and he eventually pled guilty to charges of espionage.

Despite a massive investigation by the Foreign Counter-Intelligence Division of the Federal Bureau of Investigation and the Naval Investigative Service, there existed little direct evidence to convict Whitworth of espionage violations. IRS-CID took the lead and an intensive financial investigation followed. Excess currency expenditures of over \$150,000 were documented (of an estimated total of \$332,000 paid to him by Walker).

Whitworth was convicted of espionage, subscribing to false tax returns and a Klein-type tax conspiracy. He was sentenced in Federal District Court to 365 years in prison, including maximum prison time on all of the tax counts. The jury foreman credited the evidence developed from the IRS investigations as the "absolutely deadly evidence" that led the jury to convict Whitworth on the espionage and tax charges.

Vitaly Yurchenko, a senior KGB defector, stated that the Walker-Whitworth operation was "the greatest in the history of the KGB" and that "had there been a war, we would have won it."

## Investigative Projects

Investigative projects have been used over the years to combat widespread areas of noncompliance. Usually the area is one requiring centralized coordination because of national importance or cross-regional aspects. This section describes several enforcement projects of significance, as well as other areas of special investigative emphasis.

## Wagering Tax Enforcement

During the 1930's and 1940's, Intelligence resources directed against gambling were concentrated on the identification and prosecution of major gamblers for tax evasion. In addition to the earlier laws which banned illegal lotteries, and the 1941 law which placed a tax on gambling machines, Congress passed a number of new laws which included a prohibition against the interstate transportation of wagering paraphernalia (18 USC 1953, in 1951); a prohibition against using communication devices to transmit wagering information (18 USC 1084, in 1951); and a wagering excise tax and wagering stamp tax (15 USC 4401 and 4411, in 1951).

Armed with these new wagering tax laws, the Intelligence Division began to create and train wagering squads. These squads performed the painstaking task of identifying illegal gamblers, bookmakers, lottery operators, etc., and securing the necessary documentation needed to successfully prosecute them for violations of the federal wagering laws. Because of the number of people involved in these types of illegal dealings, the Service directed its limited resources against the more prominent gambling groups.

From 1955 through 1973, the Intelligence Division conducted 13,609 full-scale wagering investigations. Of these, 11,772 were for failure to comply with the Occupational Tax Stamp requirement; and, 1,837 were for nonpayment of the wagering excise taxes. The Service recommended prosecution in 88 percent of these cases; 86 percent of these resulted in indictments, and 76 percent of those indicted were convicted. Sentences

for the 7,724 individuals convicted ranged from probation to five-years imprisonment, with most of the offenders receiving prison sentences.

During this period of wagering enforcement activity, there were 6,266 arrests, and the Service seized property valued at \$2.7 million and currency amounting to \$4.5 million. Additional tax and penalties recommended for assessments of cases fully investigated by the Intelligence Division during this period totaled \$26.1 million in tax stamp violations and \$207.9 million in wagering excise tax cases.

In 1968, the Supreme Court ruled in the Marchetti-Grosso cases that a gambler could use his/her fifth amendment privilege as a valid defense against prosecution for failure to comply with the wagering tax provisions. Thereafter, Intelligence discontinued criminal investigations directed toward prosecution for failure to register and pay the occupational tax and for willful failure to file the wagering excise tax returns.

In December 1974, the wagering tax laws were revised and primary enforcement of these statutes was given to the Bureau of Alcohol, Tobacco and Firearms. In 1977, this responsibility was returned to the Intelligence Division. As a result of limitations in the use of electronic surveillance, the reduction in penalties and the fact that most states had similar laws, the prosecution for most gamblers was left to local law enforcement. The Intelligence Division directed its limited resources at major gambling operations and continued to seek prosecutions for tax evasion and income tax conspiracy charges.

The records of Criminal Investigation are filled with many reports of agents breaking

down doors to gain entry to betting and numbers parlors before the operators had time to destroy the evidence. These records seldom reflect the countless hours spent on stakeouts and tracking down witnesses to obtain the necessary evidence needed to secure search warrants.

Some of our more outstanding cases are noted not so much for the people involved but for other factors. For example, in 1953, agents arrested Winston Reynolds of Tallahassee, Florida. Reynolds was the powerful head of a large Cuban-American gambling operation that spanned the entire Gulf Coast. Reynolds' gambling exploits were so notorious that he was given a seven-year prison sentence. During the course of this investigation, law enforcement sources targeted Reynolds as a key suspect in three homicides, including one where the victim was to be a government witness who would testify against him.

For eleven years the Gotham Hotel in Detroit had stood as an impregnable fortress that sheltered a number of Detroit's gambling groups from the local police. Although it was known as one of the largest bookmaking houses in the country, with an estimated annual take of \$21 million, no one had ever staged a successful raid against it. No one, that is, until special agents of the Intelligence Division set to work on that task in 1962. After working for months to obtain the evidence needed to secure a search warrant, Intelligence deliberately scheduled a raid in a neighboring county. Safe in the thought that they were not the target of that day's law enforcement activities, the occupants of the Gotham went about their daily business. The agents, ever mindful of security,

assembled two bus loads of raiders at a nearby military base. The special agents assaulted the ten-story building with axes, sledgehammers and crow bars. When the dust settled there were 42 arrests, \$60,000 in seized currency and 160,000 gambling slips collected. In addition, the agents recovered a number of stolen adding machines, packs of marked cards and loaded dice. The Gotham Hotel never recovered from this raid and was eventually torn down.

Our case files are also filled with reports where hard work and the quality of the investigation triumphed against people who thought they were invincible. There was Edward "Swaps" Mulligan who, after 77 arrests by the St. Louis Police Department without a conviction, was arrested and sentenced to nine months in prison for wagering tax violations.

Then there was Isaac "Tuffy" Mitchell who ran the numbers racket in Indianapolis for over twenty years, building it up to a \$1.5-million-a-year operation. Mitchell, although arrested 36 times, had served only one three-month jail term. Mitchell's luck ran out though, after he was arrested by special agents for wagering tax violations. The judge gave Mitchell five years to serve.

Wagering was not a poor man's racket as evidenced by Harry "Doc" Sagansky and Morris "Moe" Weinstein. Their operation was so successful that they offered our Boston undercover agent a real estate deal whereby they would hold a \$625,000 mortgage on an apartment house in Boston. The special agent took care of their housing needs by getting Sagansky and Weinstein a room at the nearby federal penitentiary.

## Organized Crime Drive

### Strike Force Program

The November 1957, "crime conference" in Appalachin, New York, and hearings by Senator John L. McClellan's Committee during 1957-1960 awakened public interest and emphasized the serious threat that organized crime presents to our social institutions. As a result, the government's drive on organized crime was initiated under the direction of the Department of Justice. The Intelligence Division's participation in this coordinated attack started in February 1961, and top priority was given to the investigation of the tax affairs of major racketeers.

In May 1966, the federal government initiated another program designed to strike a blow at key members of the underworld. The Criminal Division, Department of Justice, was designated to coordinate a unified program in which various federal agencies concentrated their enforcement efforts on designated organized crime subjects in selected target cities. Each project was called a "Strike Force." Criminal Investigation continues to be an important participant in this program.

Strike Forces continue in the following locations: Buffalo, Detroit, Brooklyn, Newark, Chicago, Boston, Cleveland, Kansas City, Los Angeles, New York, Fort Lauderdale, Philadelphia, San Francisco, New Orleans, Las Vegas, and Washington, D.C.

The Strike Force is a team made up of representatives of all federal agencies with significant enforcement responsibilities relating to organized criminal activities in

a particular location. Under the general direction of Strike Force attorneys from the Organized Crime and Racketeering Section of the Department of Justice, the agency representatives, as a team, plan a concerted investigative and prosecutorial attack on the organized crime figures in the location in question and decide which parts of that program are properly allocable to which agencies. Each Strike Force representative then has the task of obtaining local personnel to do the actual investigating, reporting their results to the Strike Force, and coordinating with other agencies.

The theory of the Strike Force operation is that a coordinated attack directed at organized crime members will weaken organized crime by breaking up its organization. In-depth investigations are conducted to attempt to remove major organized crime members from their positions in the criminal hierarchy. While the main targets of Strike Forces are the principal members of organized crime syndicates, lower echelon members and associates are frequently included as targets.

The Organized Crime and Racketeering Strike Force program has had successful prosecutions of a number of criminal tax cases involving racketeers. A sampling is presented below.

### Michael Pappadio

Pappadio, the brother of slain mob chief-tain Andimo Pappadio and an organized crime figure in his own right, was indicted in December 1978, for tax evasion and related charges. Pappadio, the owner of several New York City garment center firms, was charged with personally evading over \$500,000 in income taxes over a four-

year period, corporate income tax evasion, and obstructing the tax investigation by attempting to prevent several businessmen from furnishing information to the Internal Revenue Service.

### Louis Osterer

Osterer, a disbarred insurance broker of national notoriety, received a 20-year jail term after his conviction for evading the payment of more than \$6.8 million in income taxes over an 11-year period, together with his conviction for racketeering and embezzlement of union welfare-pension funds.

This conviction and sentencing of Osterer, a previously convicted felon with close ties to high-level Teamsters Union officials and organized crime members, was a significant accomplishment for the Service on a local, regional, and national level. The ultimate conviction involved the "evasion of payment" and established new case law.

Osterer had been the subject of five prior criminal tax investigations by both the Brooklyn and Manhattan Districts, all of which resulted in discontinued investigations. Significantly, those investigations all focused on income tax evasion as opposed to willful failure to pay. Since the 1960's, Osterer filed returns reflecting substantial tax liabilities. Throughout the same period, he utilized friends, relatives, and dummy corporations to place his assets beyond the reach of the Internal Revenue Service.

This case received extensive news media coverage. One prominent New York City newspaper headlined, "Mob Advisor Gets 20 Years for Tax Fraud."



Finally, Federal District Judge Kevin Duffy, prior to imposing sentence, commented about Osterer, "You got into trouble because you just won't pay your bills." He then sentenced him to 20 years imprisonment, a \$70,000 fine, and the cost of prosecution. The judge remanded him to jail in lieu of \$3.4 million bail because he considered Osterer "a real danger to the community."

#### **Dominic Frontiere**

Frontiere was the husband of the owner of the Los Angeles Rams Football Co., Georgia Rosenbloom Frontiere. During the 1980 pre-Superbowl period, Frontiere took control of over 10 percent of the 27,000 Superbowl tickets in the possession of the Rams. Through his organized crime connections, Frontiere sold those tickets at inflated prices and failed to report that income on his and his wife's joint 1980 tax return. It is estimated that Frontiere received between \$500,000 and \$750,000. Frontiere was sentenced to serve one year and one day, beginning in January 1987.

#### **Henry Huihui**

Henry Huihui was the syndicate leader in Hawaii, ascending from the ranks of the Winford "Nappy" Pulawa family that controlled organized crime in Hawaii during the 1960's and early 1970's. Huihui was convicted on various tax charges in 1975 and was sentenced to 15 years in prison.

#### **Michael Franzese**

Michael Franzese, the subject of numerous television news reports, who at the age of 34 became one of the richest and most

powerful New York crime family heads, was sentenced to 10 years in prison for income tax, labor racketeering, and mail fraud charges. Franzese was the target of a 3-year investigation by the Brooklyn Organized Crime Strike Force. In a unique twist, at his sentencing the government sought and obtained a judgement against Franzese whereby he admitted to having evaded taxes on over \$7 million in income during the years 1979 through 1985. Franzese was the key defendant in a 99-page, 28-count indictment. This investigation successfully prosecuted a total of 13 defendants. All 13 received sentences of 2 to 10 years in prison, fines, and probation.

### **Money Laundering**

The Criminal Investigation Division's Money Laundering Program is the compliance effort to address criminal violations of the Bank Secrecy Act, the Money Laundering Control Act of 1986, and 6050(I) of the Internal Revenue Code (Form 8300 filing requirements).

In 1970, the Congress, at the urging and with the support of the Treasury Department and other law enforcement agencies, enacted a succession of laws to enable law enforcement officials to detect and prosecute drug trafficking and other criminal activities which generate large amounts of illegal proceeds, and the laundering of those proceeds. The "Bank Secrecy Act" (BSA), enacted in 1970, gives the Treasury Department authority to require the filing of reports and maintenance of records that have been determined to have a high

degree of usefulness in enforcement of criminal, civil, and regulatory laws.

Under the authority of the BSA, Treasury's regulations impose four major reporting requirements. The Currency Transaction Report (CTR), requires designated financial institutions to report case transactions exceeding \$10,000. The Currency Transaction Report by Casinos (CTRC), requires that casinos report currency transactions in excess of \$10,000. The Report of International Transportation of Currency or Monetary Instruments (CMIR), requires that all persons report the import or export of currency and certain other monetary instruments in excess of \$10,000 into or out of the United States. Finally, the Report of Foreign Bank and Financial Accounts (FBAR), requires persons to make an annual report of their proprietary interest in foreign accounts which exceed \$10,000.

Treasury Delegation Order #15-41 delegated criminal jurisdiction over all financial institutions and civil jurisdiction over any financial institution not under the regulatory supervision of other federal banking agencies or the Securities and Exchange Commission (SEC) to the IRS. Also, IRS was delegated responsibility for civil jurisdiction over all miscellaneous financial institutions for which oversight authority has not otherwise been delegated. Approximately 25,000 miscellaneous financial institutions have been identified to date, and the count continues to expand.

In 1984, section 6050(I) was added to the Internal Revenue Code to require trades or businesses not subject to the Bank Secrecy Act to report (on IRS Form 8300) receipt of cash involving more than \$10,000.

In 1986, Congress passed the Money Laundering Control Act, which created offenses for money laundering and for knowingly engaging in monetary transactions in property derived from certain criminal activity (18 U.S.C. 1956 and 1957). Violations of these provisions very often involve conduct designed to avoid the reporting requirements of the BSA. Further, the "structuring" or breaking up of large amounts of cash into amounts below the \$10,000 reporting threshold, to avoid the BSA reporting requirements, was expressly made criminal. Willful violations of the provisions of the BSA, section 6050(I) and the money laundering statutes can result in severe criminal and civil penalties and forfeitures.

Aggressive enforcement of the various money laundering statutes has resulted in a growth in the filings of the various currency reporting forms, particularly the CTR forms and 8300 form. The following chart reflects the number of these forms filed in recent years.

#### **Summary of Number of CTR/8300 Document Filings For FY' 87 — FY' 93**

	Form CTR	8300
<b>1987</b>	4,607	13,000
<b>1988</b>	5,612	17,900
<b>1989</b>	6,365	22,000
<b>1990</b>	7,014	29,000
<b>1991</b>	7,229	56,000
<b>1992</b>	8,599	128,505
<b>1993</b>	10,219	136,987

(number in the thousands, for example 1991, 7,229,000)

## Investigative Efforts and Results

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Over the past decade, the Title 31 reporting requirements and the CTR provision in particular have emerged as the primary statutory weapon against money laundering. Criminal Investigation has, with great success, devoted substantial resources to the enforcement of Title 31. Our experience with Title 31 investigations has uncovered the existence of numerous large-scale money laundering organizations that are in the business of devising sophisticated schemes to conceal the source and amounts of taxable revenue earned.

## Significant Cases

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### Ramon Milan-Rodriguez

On May 4, 1983, following extensive surveillance, Milan-Rodriguez loaded his Lear jet at Fort Lauderdale International Airport with approximately twenty boxes suspected of containing U.S. currency. The aircraft was stopped by Operation Greenback agents and an outbound search was conducted. The twenty boxes were found to contain \$5.4 million in U.S. currency.

By his own admission, Milan-Rodriguez had transported or moved more than \$1 billion in U.S. currency for his clients over the past seven to ten years. During interviews with special agents, he admitted laundering from \$17 million to \$25 million

per month and was turning additional business away. He admitted to earning more than \$1 million per year as a money exchanger and courier, and that many of his clients were alleged to be involved in large-scale narcotics activities.

Milan-Rodriguez was convicted on currency, narcotics, and tax charges and on January 2, 1986, he was sentenced to serve 35 years in prison and fined \$6.49 million.

### Carlos Sarmiento and Robert Del Pino

From August 1985 through February 1986, Criminal Investigation undercover agents laundered money on behalf of a Colombian cocaine trafficking group. These agents received currency from Sarmiento's organization on 20 occasions. The currency was either converted to cashier's checks which were returned to the organization or wire transferred out of the undercover account. The operation identified the members of the Sarmiento organization as well as numerous "stash houses" where the currency was accumulated.

Agents in Miami and Los Angeles laundered approximately \$18 million and seized approximately \$12.5 million. Also, 270 pounds of cocaine was seized during the operation. As a result of this investigation, ten individuals were indicted in Los Angeles and Miami.

### Guillermo A. Garces, et al.

During October 1985, information was received that Garces and three other Colombian nationals were repeatedly purchasing money orders with currency at

various banks in Florida. It was later determined that Garces had only been visiting Florida, and he actually resided at a condominium complex in Fort Lee, New Jersey.

During the next six months, special agents began a surveillance of Garces' residence and identified numerous members of his organization. The investigation was brought to a conclusion on September 4, 1986, when special agents executed search warrants at three different locations and seized 307 kilograms (675 pounds) of cocaine and \$950,000 in currency and money orders. In all, eight members of the ring were arrested and subsequently convicted on numerous felony charges.

### Bank of Boston

In February 1985, the First National Bank of Boston pled guilty to a felony charge that it failed to inform the IRS about \$1.2 billion in cash that it exchanged with nine European banks. The case generated media coverage throughout the country and even resulted in congressional hearings.

## Narcotics Projects

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### Narcotics Traffickers Project

In June 1971, President Richard M. Nixon called for an increased effort to combat the growing problem of drug abuse. A Target Selection Committee, composed of Treasury's Director of Law Enforcement, with members from the Bureau of Customs, the Bureau of Narcotics and Dangerous Drugs, and the Audit and

Intelligence Divisions of IRS was formed. It established criteria and identified subjects for investigation.

In July 1971, IRS established the Narcotics Traffickers Project (NTP), designed to make systematic high priority tax investigations of middle and upper echelon narcotics dealers. Specially assigned revenue agents, special agents, and revenue officers worked exclusively on the project. Jeopardy and termination assessments were utilized in an aggressive manner against narcotics traffickers.

In March 1974, NTP activities were integrated into the IRS' regular tax enforcement effort and on September 24, 1975, the Narcotics Traffickers Program was formally abolished.

### High-Level Drug Leaders Tax Enforcement Program

On April 27, 1976, President Gerald R. Ford directed that a tax enforcement program be developed for high-level drug trafficking. President Ford, in his message to Congress, stated, "We know that many of the biggest drug leaders do not pay income taxes on the enormous profits they made in this criminal activity. I am confident that a responsible program can be designed which will promote effective enforcement of the tax laws against those individuals who are currently violating these laws with impunity."

As a result of this directive, the High-Level Drug Leaders (HLDL) Tax Enforcement Project was initiated in July 1976. The HLDL Project focused on high-level traffickers, investors, brokers, bankers,

and money laundering specialists, pursued both tax violations (Title 26) and banking violations (Title 31, Bank Secrecy Act). In July 1976, IRS signed a Memorandum of Understanding with the Drug Enforcement Administration (DEA) which set forth the roles of the agencies in a joint, cooperative effort to identify and investigate high-level targets. This was updated in February 1980. IRS and DEA signed a joint Memorandum of Cooperation in June 1980, which stressed, to the respective field personnel, a need to cooperate by sharing information as allowed by law (IRC 6103) and to conduct joint criminal investigations. This latter Memorandum also reaffirmed a joint commitment for an effective effort by both agencies against major narcotics traffickers who also violate the tax laws.

The Tax Equity and Fiscal Responsibility Act (TEFRA) permitted the Service to presume that, unless the individual identifies another person as the owner, the individual in possession of \$10,000 or more in cash is the owner, and (1) the cash represents gross income of that individual, (2) the owner shall be taxed at a 50 percent rate and, (3) collection of the tax is in jeopardy. This resulted in numerous assessments; for example, an individual was assessed over \$60,000 after she was found departing Kennedy Airport with \$120,065 in currency. In another case, an individual was discovered to have \$131,400 in cash. This resulted in an assessment of \$65,700.

### **Organized Crime Drug Enforcement Task Force (OCDETF) Program**

In January 1982, President Ronald Reagan established the South Florida Task Force to organize a coordinated attack against drug traffickers and their organizations in South Florida. This task force served as a prototype for broad-based, interagency efforts in interdiction, investigation, and prosecution.

In October 1982, President Reagan established the Organized Crime Drug Enforcement Task Force (OCDETF) Program, a major interagency drug investigative initiative which expanded the original concept into 13 distinct OCDETF Regions under the auspices of a core city U.S. Attorney. The original participating Federal agencies included: the BATF, DEA, FBI, IRS, the U.S. Attorneys' offices, the U.S. Coast Guard, the U.S. Customs Service, and the U.S. Marshals Service. The Immigration and Naturalization Service subsequently joined the program. OCDETF brings together expert financial investigators from IRS and Customs, working hand in hand with experts from FBI, DEA, and BATF in documenting substantive violations. Through joint investigations, the financial history of the entire trafficking organization can be developed.

With the implementation of the OCDETF Program in 1983, Criminal Investigation provided the largest commitment of resources of any Treasury agency. In addition, procedures relating to grand juries were streamlined and review processes were expedited for OCDETF cases.

Internal Revenue special agents have been recognized in the task forces as financial experts. One reason for this recognition is the Service's unique ability to identify the "professionals" in our society who profit from involvement in narcotics trafficking. This classification includes lawyers who finance traffickers' organizations and help launder narcotics money. It also includes the accountants who keep the books and disguise the source of narcotics proceeds. It includes doctors, engineers, stockbrokers, and wealthy businesspeople who have financed

shipments of narcotics. Historically, these individuals were not often targeted by drug law enforcement agencies because there was no firm informational or evidentiary link between them and narcotics. The only viable means of attack against this class of criminal is through financial investigations, where the paper trail of money earned from the sale of narcotics is tracked to its ultimate beneficiaries.

The success of Criminal Investigation's involvement in the OCDETF Program is reflected in the following table:

	Staff Years Expended	Prosecutions Recommended	Information/ Indictments	Convictions	% of Convicted Sentenced to Prison	Average Prison Sentenced (months)	Total Fines (Thousands)*
1983	156	127	70	22	89%	50	15
1984	323	440	315	177	74%	63	1,522
1985	335	638	480	339	78%	77	2,895
1986	330	760	647	516	74%	69	7,463
1987	371	753	702	506	78%	81	10,327
1988	419	669	547	463	77%	74	9,552
1989	496	761	660	575	84%	74	9,629
1990	521	745	616	507	83%	72	10,532
1991	529	1,063	974	768	80%	82	33,929
1992	530	1,152	1,110	732	83%	114	7,983
1993	537	1,057	1,004	920	90%	96	23,736

\*Prior to FY 1991 fines for investigations indicted on IRS charges, but sentenced on other charges were not included.

Since its inception, CID has been a major contributor to the program, second only to DEA, expending more than twice the resources reimbursed every year.

We continue to expand our involvement in the overall narcotics program by stationing special agents at the Financial Crimes Enforcement Network (FinCEN), El Paso Intelligence Center (EPIC), National Drug Intelligence Center (NDIC), Document Exploitation Unit at the Pentagon, and foreign posts of duty; currently in Bogota, Colombia and Mexico City, Mexico. We are exploring the feasibility of stationing agents in other foreign financial centers in the near future.

OCDETF cases have consistently achieved a higher success rate as compared to all other cases. They are completed in a shorter period of time and result in longer sentences and higher fines. Since most OCDETF cases are worked under the organizational approach, many fallout cases require less time and effort to prepare for prosecution.

## **Return Preparers Project**

For some time, the Service had been concerned about unscrupulous tax return preparers, their effect on taxes paid, and their effect on voluntary compliance. As a result of this concern, the Service launched a nationwide program during the 1972 filing period to identify and prosecute unscrupulous tax return preparers.

"Fly-by-night" practitioners received the greatest attention in the Return Preparers Project.

A large number of cases were identified as a result of a technique referred to as "shopping." Special agents, using assumed identities, posed as clients and presented a set of facts to questionable practitioners to determine the accuracy of returns prepared by the practitioners. Each district established its own program for "shopping." Of the 3,200 practitioners contacted throughout the nation during the 1972 filing season, more than 1,800 prepared inaccurate or false returns. A total of 4,977 tax returns were prepared for Service employees posing as clients during the 1973 filing period. Of those returns, 1,112 (or 22 percent) appeared fraudulent.

Widespread use was also made of computerized lists especially developed to identify suspect preparers and to identify the tax returns they prepared.

The Project peaked during the 1973 filing period. From January 1972 to June 30, 1973, Intelligence Division investigations resulted in the arrest or indictment of 420 tax return preparers. Criminal actions were filed against practitioners in 26 states.

Presented below are cases indicative of investigative efforts under the Return Preparers Project.

### **Gilbert Rivera**

Gilbert Rivera was indicted in 1973 on twenty-two counts of aiding and assisting in preparing false income tax returns. His clients testified at trial that Rivera, without

their knowledge or consent, had falsely claimed itemized deductions, personal exemption, and employee business expenses on their income tax returns. Many of his clients could neither read nor write English, and Rivera frequently diverted to his own use money intended to pay his clients' tax liabilities. He was convicted on all counts and sentenced to nine years in prison, with six years probation to follow imprisonment.

### **James Damon**

James Damon, an Austin, Texas, tax consultant, was convicted in April 1981, on one count of conspiracy to file fraudulent tax returns for clients and 41 counts of preparing fraudulent tax returns. Damon was found guilty of listing his wage-earning clients as being self-employed. The fictitious businesses then suffered massive losses that were deducted from their taxes. He was sentenced in May 1981, to 14 years imprisonment and a total of \$25,000 in fines.

### **Olive M. Elder**

Olive M. Elder, a tax return preparer in Perryville, Missouri, was sentenced in April 1982, to three years in prison and fined \$6,000 on three counts of a criminal information that charged her with aiding and assisting in the preparation of false Federal income tax returns. The judge commented that audits of returns prepared by Mrs. Elder resulted in the IRS recommending additional taxes of approximately \$350,000 against clients. Mrs. Elder had been in business as Ollie Elder's Bookkeeping and Tax Service.

## **Questionable Refund Program**

Before 1977, IRS efforts to identify refund schemes consisted of numerous fragmented programs with little or no coordination among them. As a result of this fragmentation, most schemes identified were handled as isolated incidents, and corrective measures were taken at the appropriate technical level with little or no dissemination of the findings and action taken to other groups within the Service.

In 1977, as a result of unfavorable publicity about refund schemes, congressional interest, and IRS studies, the Service developed a nationally coordinated detection effort called the Questionable Refund Program. This program still exists today.

Since its inception, the Questionable Refund Program has detected over 18,000 schemes involving approximately 200,000 returns and \$450,000,000.

A classic case of this involved Mr. and Mrs. Arno Arndt, both foreign nationals, who devised a scheme that ultimately put \$645,000 into their hands in Switzerland. After years of legal negotiations, this couple was finally prosecuted by the Swiss for financial crimes. However, it took almost six years to recover the funds.

Fortunately, the funds were available to be seized. Even in cases where IRS identifies the individual, we sometimes get there too late and the money has been spent. Typical of this situation are schemes pulled off by inmates, who have used the funds to purchase narcotics, bribe officials, and even contract for the killing of other prisoners. As a matter of fact, it was a letter to the Commissioner from a group manager in

1976 that first brought attention to the prison problems regarding multiple filers. Subsequently, in 1979 the General Accounting Office testified before a congressional subcommittee suggesting that the Service needed greater cooperation with federal and state prison systems in order to stem the tide of what was perceived as a growing problem. Schemes were being discovered indicating that vast networks existed within some prison systems whose sole purpose was to test and penetrate the IRS processing system.

Elaborate measures have been taken to try to combat these attempts but, even today, we are still faced with continuing attempts, especially from those who ironically are incarcerated for previously filing fictitious returns. The boldest attempt was by Paul Spitler who attempted to recover over \$6,000,000 in refunds by using the simple expedient of filing amended Forms 941 for a major corporation.

Another prisoner, doing time for filing false claims, obtained over 120 Social Security numbers from military uniforms that were being laundered by the prisoners in the local facility. Utilizing these numbers, the inmate then flooded the Service with bogus returns. However, this particular scheme was detected because an alert tax examiner recognized his handwriting, having previously worked on the very scheme that had caused the prisoner's downfall in the first place.

During the eighties, the program utilized discriminant function analysis to develop profiles and more stringent selection criteria. The program relies to a great extent on the labor intensive scrutiny of paper documents for indications of fraud. The advent

of electronic filing and funds transfer has provided ever increasing challenges. The amount of refund fraud has dramatically increased in conjunction with increases in both electronic filing and the Earned Income Tax Credit. Accordingly, more sophisticated means are currently being developed to detect fraudulent returns. Currently, the Electronic Fraud Detection System (EFDS) is under development in conjunction with Compliance Research and the Los Alamos National Laboratory. Additional systemic checks have been and will continue to be put in place to stop fraudulent returns before they are processed.

## **Abusive Tax Shelter Project**

Tax shelters are viable means created by Congress to spur investment in selected economic enterprises. Such enterprises include real estate, research and development, and oil and gas. Generally, tax shelters provide tax incentives to investors; however, along with the benefits of tax shelters have been massive abuses.

In response to the growing problem of abusive tax shelters, Criminal Investigation instituted an Abusive Tax Shelter Project in 1977. Due to the complex nature of these entities and the unusual considerations found in investigating these multi-regional conspiracies, most involving millions of dollars, Criminal Investigation combated them using undercover operations, grand jury investigations, and nationally coordinated cases and projects.

Statistics available from 1980 forward indicate increasingly significant accomplishments by Criminal Investigation in connection with the Abusive Tax Shelter Program. Cases initiated increased from 92 in FY 1980 to 312 in FY 1986. During that same period, prosecution recommendations increased from 31 to FY 1980 to 231 in FY 1986.

During 1985, service center programs were developed to identify abusive tax shelters on the "front-end" with the purpose of stopping the issuance of the refunds. During the 1985 and 1986 filing seasons, approximately \$19.5 million in refunds were stopped in connection with this program.

In 1986, Congress moved to eliminate the proliferation of abusive tax shelters through legislation — the Tax Reform Act of 1986. However, during the 7-year period from 1980-1986, Criminal Investigation conducted some of the most complex and significant investigations in the history of law enforcement in this country in a move to thwart a major threat to our voluntary compliance system. The following cases are indicative of tax shelter investigative efforts during this period:

### **Edward Markowitz**

Characterized by the U.S. Attorney for the Southern District of New York as one of the largest tax evasion cases ever prosecuted. The Markowitz case involved several hundred investors and \$445 million in false deductions. The list of investors duped by Markowitz includes many well-known individuals such as comedian/film director Woody Allen, television personality Dick Cavett, actors Frank Langella,

Peter Boyle and Christopher Walken and author Erica Jong.

The shelter supposedly involved the legitimate buying and selling of government securities. Markowitz utilized false documents to record fictitious trades to make it seem that his partnerships suffered enormous losses from 1979 to 1983. The fraudulent deductions ranged from \$4 to more than \$10 for each dollar invested.

Markowitz, a graduate of the Massachusetts Institute of Technology and former Merrill Lynch commodities trader, utilized the profits earned from his colossal shams to enjoy a high-powered life style which included homes in Washington, D.C. and New York, investments in race horses, and an interest in the Washington Capitals hockey team. It all came to an end, however, in April 1985, when Markowitz pleaded guilty to conspiracy and tax charges, admitting evading taxes on more than \$1 million of personal income.

### **Frank Forrester/International Dynamics, Inc. (IDI)**

The defendants in this case promised individuals that they could escape liability from federal income taxes by signing a "personal services contract" with their organization in which they purportedly sold their lifetime services for one dollar per year. However, the individuals continued to work for their present employers but turned over their paychecks to a Panamanian corporation. They immediately received checks equal to 90 percent of their paycheck from an entity known as the IDI Credit Union. The claim was this money represented tax-free gifts to the investor. Underreported income and false

and fraudulent deductions from investors totaled in the multi-millions of dollars. One of the major promoters of the scheme, Frank Forrester, died before he could be brought to trial. However, after a 2-week trial, James C. Russell, Earhl R. Schooff, and Lawrence M. Richey were convicted of conspiracy and tax evasion charges. This investigation was an example of the multi-district/region approach being utilized to deal with nationwide conspiracies and tax evasion schemes as investors and co-conspirators were spread coast to coast. Russell and Richey were investigated by the Seattle District and Schooff by the Portland District.

#### **Harry March, et al., Royal Investments, Inc.**

This scheme, which involved the promoters of abusive tax shelters and a CPA, included fraudulent investments in office buildings, oil drilling rigs, cattle feeding equipment, mobile home factories, and a ranch. The promoter, a previously convicted felon operating in the state of Washington, employed a Ponzi scheme to roll-over monies from "old" to "new" investors. The investors in the scheme were mostly elderly individuals, unsophisticated in financial matters, who proved to be easy targets for the subjects' fraudulent promotions. Adding additional credence to the scheme was the participation of the CPA and his free tax return preparation service for investors. Each of the promotions involved contained elements of investor fraud. In total, approximately 265 investors were involved and in excess of

\$12 million poured through the Royal Investments bank account. The investigation resulted in indictments on conspiracy, mail, securities, and income tax fraud. At the conclusion of a 6-week trial, the judge, citing March's lack of remorse and considering his prior criminal record, sent a strong message to promoters of abusive tax shelters by sentencing him to 21 years in prison.

### **Illegal Tax Protester Program**

Protest and resistance to the assessment and collection of taxes is not new. (After all, the Boston Tea Party was a tax protest.) Since the adoption of the Federal Income Tax in 1913, there have been periodic instances of individuals disobeying the tax laws as a method of protesting those laws or of protesting some other specific government policy.

During the late 1960's, the movement grew when protest returns were filed by individuals who shared similar beliefs regarding: (1) the Government's right to tax individual income; (2) the taxability of paper money vs. gold or silver; and/or, (3) the unwarranted growth of the government.

Individuals generally used a protest scheme which involved filing a blank Form 1040 tax return and citing the Fifth Amendment or monetary arguments.

The movement continued to grow and spread across the country as protesters made speeches and offered seminars often misrepresenting the tax laws. As the

nation's economic conditions worsened, the movement became more appealing. People from all walks of life became involved, and the schemes became more sophisticated. The schemes ranged from constitutional arguments and use of mail-order ministries to schemes involving domestic trusts (Family Estate) and complex foreign trust arrangements. The courts have repeatedly struck down the schemes used by the protesters.

During 1977, an IRS Illegal Tax Protester Study Group was established. As a result of this study, the Service established uniform procedures in January 1979. These procedures set up Illegal Tax Protester Teams as part of the Criminal Investigation Branch in each service center and established definitions of an illegal tax protester and the various schemes.

The number of returns and documents that the service centers are identifying as protester-filed have declined over the last several years. During 1982, 49,493 such returns and documents were filed. During 1986, these had declined to 19,334, a decline of 61 percent. During the same period of time, the number of identified taxpayers filing these returns and documents had declined from 53,628 to 18,472, a decline of 65.5 percent. The frivolous tax return penalty of \$500 and our prosecutions have significantly decreased the number of protesters.

The cases presented below are indicative of our investigative efforts against illegal tax protesters.

#### **Armen Condo**

Armen Condo, who founded Your Heritage Protection Association in 1975, adopted the position that income taxes need not be paid because Federal Reserve notes do not constitute legal, taxable income. Additionally, the association billed itself as a church. At one time there were approximately 6,000 members. One of the association's slogans was, "abolish the IRS." Condo was convicted of mail fraud and assisting 1,474 association members in filing documents that understated their tax liabilities. Condo received an 8-year prison term and a \$92,500 fine. He was assessed civil penalties of \$1.4 million.

#### **Irwin Schiff**

Irwin Schiff, a nationally known leader of the tax protester movement, claimed he had no "income" as defined by the U.S. Constitution and the IRS tax code. Schiff also expressed the belief that federal income tax is a voluntary assessment and the IRS had no authority to compel citizens to pay the tax. Schiff has written several books including "How Anyone Can Stop Paying Income Taxes" and "The Great Income Tax Hoax." Schiff was convicted in June of 1980 on two counts of failure to file tax returns, on which he served 5 months in prison and paid a \$5,000 fine. Subsequently, Schiff was again convicted in 1985 on three counts of evasion of personal income taxes and one count of failure to file a corporate tax return. Schiff was sentenced to 3 years in jail, 3 years probation (with special conditions), fined \$30,000, and ordered to pay the cost of prosecution which was \$27,600.



## Gordon Kahl

Gordon Kahl purportedly was a member of a vigilante group named Posse Comitatus. The philosophy of Posse Comitatus (Latin for "power of the county") seems to join Christian fanaticism with racial hatred and militant individualism. Many of the members of this group say they believe God is telling them not to pay taxes. Kahl attended Posse Comitatus meetings in Texas and is believed to have tried starting a chapter there. In February 1983, Kahl shot and killed two federal marshals who were attempting to serve Kahl with warrants for violating the terms of his probation from a 1977 conviction for failing to file income tax returns. Kahl then became the target of a nationwide manhunt. In June 1983, Kahl was killed in a shootout. A county sheriff was also killed during the exchange of gunfire.

## Business Opportunities Project

This project started from a special agent's curiosity about newspaper advertisements in the "Business Opportunities" section regarding businesses for sale.

The Business Opportunities Project (BOP) was approved as a local project in June 1977 and was expanded to a national project in January 1981. The objective of the project was to identify and investigate cases involving businesses offered for sale in which the owner understated taxable income, usually by "skimming" gross

receipts and/or claiming false deductions. Undercover techniques were used to good advantage in these cases.

During the active years of the project from 1981 to 1987, 88 cases were initiated and 26 of those were recommended for prosecution.

Presented below are representative cases investigated under the Business Opportunities Project.

### William E. and Gladys A. Jones

This couple owned the Acme Meat Company, a wholesale meat company in Phoenix, Arizona. This business was "shopped" by special agents posing as purchasers. During the meeting between the undercover agents and the owners, the owners admitted to skimming and explained how it was done. As a result, a case was initiated on each co-owner. A search warrant was subsequently executed, and records were obtained which reflected that approximately \$300,000 had been skimmed during a four-year period. In July 1986, William and Gladys Jones were each sentenced to 36 months probation for violating IRC 7206(1).

### Joseph Sorge

Sorge was the owner of a discotheque/bar/restaurant called "Kingsmen Pub." Sorge admitted to the undercover agents (posing as purchasers) that he was skimming at least \$50,000 per year from his business receipts, and he submitted records

to the undercover agents which verified the skimming. A search warrant was obtained and executed. There was plenty of evidence to support a recommendation for prosecution. In July 1984, Sorge was sentenced to two years to serve, 10 months suspended, and 24 months probation.

### Salvatore Sorrentino

Sorrentino was co-owner of the restaurant called "Boat 57-Rio de Janeiro" in New York. As a result of "shopping" this business, enough evidence was obtained to initiate a case. A search warrant was executed and books and records were seized which showed that the owners had been keeping two sets of books for several years. Sorrentino, along with Mario Cristovam and Luis Sa, were indicted for skimming approximately \$750,000 from the business receipts. Sorrentino pled guilty and was sentenced to three years in prison, 36 months suspended and 33 months probation. The other two co-owners fled the United States. After two years of being out of the country, Luis Sa attempted to enter the United States at the Mexico border. The U.S. Customs Service recognized him and immediately made an arrest. He was extradited to New York where he was sentenced to three years in prison and 24 months probation. Cristovam remained a fugitive.

## Tax Haven — Offshore Bank Project

In recent years, tax haven countries such as Switzerland, the Bahamas, and the Cayman Islands have been increasingly used by individuals to conceal income for the purpose of tax evasion. Growing numbers of narcotics traffickers, money launderers, illegal tax protesters, and abusive tax shelter promoters are turning to international banking and establishing offshore corporations in tax haven countries where financial secrecy is assured by stringent non-disclosure laws. This financial privacy affords numerous opportunities for the use of various illegal schemes and makes detection and identification of concealed income very difficult.

In response to the problems encountered by the IRS in dealing with the increasing use of tax haven country facilities by tax evaders, the Criminal Investigation and Examination Divisions formed a joint information gathering project designated "Project Tax Haven — Offshore Bank" (THOB). The project was initiated in May 1983, as a result of the convergence of concern and interest in this area expressed by the Office of the Secretary of the Treasury, the Commissioner of Internal Revenue, several congressional committees and the Assistant Commissioners (Criminal Investigation) and (Examination).

The objective of the project was to identify individuals using financial secrecy jurisdictions to facilitate tax evasion. The project was oriented toward collecting and disseminating domestic and foreign information on

users, promoters, banks, and other entities involved in tax haven countries.

The project developed raw intelligence data received from various sources, including confidential informants, and responded to field inquiries for information to substantiate allegations. As a result, the project responded to a total of 852 field inquiries and generated a total of 878 referrals from intelligence gathered. District feedback revealed information provided by THOB was useful in 85 percent of their investigations. In addition, numerous investigations were initiated as a result of the intelligence gathered and disseminated to the field offices by THOB.

The Tax Haven Offshore Bank Project identified many schemes. The following are some of the more exceptional.

#### **Advance Fee/Loan Scheme**

Corporations are organized by U.S. taxpayers in foreign countries for underreporting profits or income on goods and services acquired or sold within the United States and abroad. Funds accumulated are usually held on deposit in the foreign countries and are repatriated to the taxpayer in the form of loans. The Jeanne Farnan investigation became significant after THOB identified previously unknown assets. Unreported income of over \$2 million was discovered from advance fees that were disguised as documented loans.

#### **Failure to File**

Taxpayers faced with the prospect of collection action have converted assets to cash and transferred funds to foreign bank accounts. Later, funds were returned to the

United States through nominees who acted as financial representatives for a fee. Jan Brosnan was paid in excess of \$600,000 for his part in smuggling drugs into the U.S. THOB identified numerous foreign bank accounts and other foreign assets owned by the taxpayer and used to conceal illegal income. Brosnan later pled guilty to failure to file Reports of Foreign Bank and Financial Accounts, in addition to conspiracy to import marijuana.

#### **Offshore Trusts**

Reuben Sturman and his associates maintained offshore bank accounts and trusts. These trusts were created to receive and disburse funds, in such a manner as to alter their taxable nature. In this type of scheme, the taxpayer's name is not associated with the trust except as "agent" or "protector," although he/she directs the activities and maintains complete control of the trust. Sturman was later indicted for attempting to evade payment of taxes on \$817,023 of previously unreported income.

#### **Credit Card Schemes**

The offshore credit card scheme is used to allow the client access to funds already moved offshore. After the funds are deposited in an offshore bank, the client receives a credit card in the name of his or her offshore corporation. Although having signatory authority, his or her name is otherwise not associated with the card.

Purchases are made worldwide, including in the United States. The records are maintained in the foreign country, thus making access by authorities very difficult.

### **Nonfiler Program**

Taxpayers who fail to file their federal income tax returns pose one of the most serious problems facing tax administration today. Service estimates indicate that the government loses billions of dollars each year because taxpayers fail to file required returns and pay the taxes due on those returns. For individual income taxes, the unpaid tax on returns due but not timely filed for 1992 alone was more than \$10 billion.

In 1991, the Service adopted a nonfiler strategy to address this growing problem. This strategy was based on the realization that the traditional approach to solving such problems was not enough. Instead, it would be necessary to adopt a multifaceted strategy which brings all of the agency's resources to bear on the problem. Initial efforts focus primarily on individual income tax nonfilers and fully incorporate the two-fold elements of the Compliance 2000 approach: outreach and enforcement. First, reach out to nonfilers in order to help them overcome whatever problem has taken them out of the system, and help to bring them back into compliance.

The second element of the Nonfiler Strategy—enforcement—recognizes that there are those who will not respond to outreach attempts and simply refuse to comply with the law. The Service is devoting a greater share of its enforcement resources to finding and bringing these nonfilers into compliance. In the most egregious cases criminal sanctions are recommended. Two examples of these cases follow.

#### **William A. Batley**

#### **Jane E. Batley**

#### **Novus Windshield Repair Co.**

In March 1993, William A. Batley and his wife, Jane E. Batley, were sentenced on violations of failure to file federal income tax returns from 1985 through 1991 involving gross income of almost \$12 million. A Seattle, Washington, jury found each defendant guilty of all offenses.

William A. Batley was sentenced to 14 months in prison, a \$3,000 fine, followed by five years probation, and Jane E. Batley was sentenced to five years probation, with four months home detention, and fined \$3,000. Both were ordered to pay the cost of prosecution including payment of all back taxes due.

After charges were filed and before the jury was selected, the defendants paid a combined \$800,000 to the Internal Revenue Service as partial payment of their back taxes.

Since the 1980s, the Batleys have operated several Novus Inc. franchises known as Novus Windshield Repair Co.

#### **Lloyd N. Moore, Attorney Washington, D.C.**

In August 1993, Lloyd N. Moore, a prominent public utilities lawyer, was sentenced to one year in prison and ordered to pay all back taxes, interest and penalties for failing to file his 1986 federal income tax return.

Moore's sentencing stemmed from charges of not filing his 1986 and 1987

tax returns until 1990, after he knew he was under investigation by the Internal Revenue Service. Over the two year period, Moore earned more than \$1 million in total income.

### **Criminal Investigation's Role**

During FY 1992 and 1993, Criminal Investigation concentrated on investigating high impact, high visibility cases, to achieve greater media attention, maximize deterrent effect, and generate support for all aspects of the Service's Nonfiler Initiative. CI's efforts in identifying and vigorously investigating high quality cases, coupled with the cooperation from the Public Affairs Office, the Department of Justice (Tax Division), and the United States Attorneys in prosecuting and publicizing these important cases, yielded substantial results. CI has emphasized a continuation of this strategy.

During the period FY 1992—FY 1993, the average criminal tax deficiency in the Service's Nonfiler Initiative rose from \$45,000 to almost \$108,000. Further, the average term of imprisonment rose from 13 months to 28.5 months.

### **Significant Investigations**

Criminal Investigation's project on leading New York law firms received national media attention in August 1993. *The Wall Street Journal* disclosed that a prominent defense lawyer had been retained to defend "close to one dozen partners" of "large firms in the city." These attorneys were contacted by special agents after an analysis of the partnership returns of 40

major firms (4,200 partners) identified several hundred partners who either had not filed their returns or were chronic late filers. Many of these partners earned several hundred thousand dollars annually.

The publicity surrounding these investigations generated substantial interest among lawyers and C.P.A.'s and their respective professional associations regarding the extent of nonfiling in their professions. Most of these investigations are now completed and are currently being reviewed.

## **Motor Fuel Excise Tax Program**

The Motor Fuel Excise Tax Program was instituted to combat sophisticated evasion schemes designed to steal federal and state excise tax revenues. It is currently estimated that motor fuel excise tax evasion is responsible for the loss of at least \$1 billion annually, revenues that are urgently needed to improve and maintain our transportation systems.

In the early 1980's, corrupt fuel dealers and retailers joined with members of traditional organized crime elements and the newly emerging "Russian Mafia" in elaborate schemes to steal federal and state excise tax revenue in the greater New York metropolitan area. By 1987, these criminal elements had consolidated their control over a substantial portion of the independent fuel market in New York and Long Island and sought to expand their operations nationwide.

Criminal Investigation has aggressively investigated motor fuel excise tax evasion schemes. The 1980's saw the conviction

of the very criminals who first devised and operated them, including: the "Yuppie Don" Michael Franzese, Larry "the Fat Man" Iorizzo, David Bogatin, Michael Markowitz, George Krysing along with over 70 others.

During the 1990's, the Motor Fuel Excise Tax Program truly came of age. During the 1980's, the majority of our motor fuel cases were successfully investigated as "historical cases" using traditional methods. In 1991, Criminal Investigation began to use undercover operations in conjunction with more traditional investigative methods to address the motor fuel excise tax evasion problem. Criminal Investigation also sought to maximize our use of resources by enhancing cooperation with the Federal Bureau of Investigation (FBI), state and local enforcement, and regulatory agencies through our participation in nine Joint Federal/State Motor Fuel Enforcement Task Forces.

Throughout 1992 and 1993, our undercover operations began to produce results: during seven major enforcement operations, agents served search, seizure, and arrest warrants at hundreds of locations nationwide. These operations resulted in the seizure of tons of records in addition to assets valued in excess of \$15,000,000 which included: millions of gallons of diesel fuel and gasoline, cash, marketable securities, 60 fuel trucks, computers, luxury cars, jewelry, weapons, and an 850,000 barrel capacity fuel barge.

During 1993 and continuing through February 1994, evidence gathered during these operations was used to bring a series of the largest motor fuel evasion cases in history. Over eighty-six persons were

indicted and charged with the theft of over \$220 million in federal and state excise tax revenues. Many of those indicted are reputed to be members of traditional organized criminal elements and the "Russian Mafia." In another first, prosecutors, in addition to the traditional tax offense charges, charged many defendants with violations of the Racketeering and Corrupt Organization Statutes (RICO), money laundering, currency violations, extortion, wire fraud, and mail fraud.

In addition to the cases cited above, many other significant investigations were brought to a successful conclusion during the 1990's resulting in the convictions of: Oleg Yasko, Marat Balagula, Ronnie Messer, Joe Beadles, R.C. Martin, Alvy McQueen, John Barberio, and many others.

## **Bankruptcy Fraud Program**

The Bankruptcy Fraud Program is the latest in our long series of specialized enforcement efforts. The Bankruptcy Reform Act of 1978 restructured and overhauled the bankruptcy laws and liberalized debtor's access to bankruptcy relief. Annual filings rose from 300,000 in 1981 to 944,000 in 1991. The Service is a major creditor in these proceedings, filing hundreds of thousands of proofs of claim to protect billions of dollars of revenue. The goal of the Bankruptcy Fraud Program is to increase voluntary compliance with federal tax laws by selectively prosecuting persons who commit tax related crimes in the bankruptcy arena.

Denver Furniture Moguls Gary and Marcee Levine (along with their attorneys and accountants) were prosecuted for Bankruptcy Fraud, Tax Fraud, and Money Laundering Violations.

The law firm of Zimmerman and Schwartz along with partners, Steve Zimmerman and David Schwartz, Associate Attorney Tom Brown, C.P.A. firm of William Schwartz P.C., William Schlapman, and his wife, Sherri, were indicted in January 1990 in a 52-count indictment involving charges that Gary and Marcee Levine, their accountants, attorneys, and associates were involved in conspiracies to launder hundreds of thousands of dollars in a bankruptcy fraud ploy which involved one of the largest bankruptcy law firms in Denver.

In the early 1980's, it was nearly impossible not to see the Levines on Denver television. The couple bombarded their viewers with zany commercials which would feature Marcee Levine blaming Gary for some bone head business decision in which he would discount sofas below cost.

In 1985, the Levines' furniture empire collapsed, and their business was liquidated. A three-year investigation disclosed that the Levines conspired with their attorneys and C.P.A., to establish secret trust accounts through which they could funnel hundreds of thousands of dollars, siphoned off from their corporation during liquidation. Over \$400,000 was diverted into these accounts.

While the scheme devised by the Levines and their attorneys was simple, the task of assembling the evidence was extremely difficult. Nineteen bank accounts had to be analyzed due to commingling of funds and the use of numerous nominees. Further, many of the business records were destroyed and had to be reconstructed.

After a complicated trial, the Levines were convicted on seventeen felony counts including: conspiracy, money laundering, filing false returns, bankruptcy, and mail fraud. Their accountants and lawyers were convicted on mail fraud, money laundering, and conspiracy charges.

## International Initiatives

In recent years, Criminal Investigation has been increasing its activity in an area of enforcement that holds unlimited potential for the future; namely, the international workplace.

In addition to its agents working routinely through tax treaties the United States has with 37 countries, CI is making significant inroads against Title 31 violators, narcotics traffickers, and other organized crime figures and organizations, by tapping into the newer, more effective Mutual Legal Assistance Treaties (MLAT's). The United States has MLAT's with Switzerland, Turkey, the Netherlands, and Italy. The MLAT's have afforded Criminal Investigation the opportunity to get information, locate persons, and require the appearance of witnesses or

experts before relevant judicial authorities; activities that, in the past, left CI frustrated. MLAT's have proved to be very successful in helping to neutralize the effect of Swiss secrecy laws and blocking statutes.

Also in 1983, the International Mutual Assistance in Criminal Matters (IMAC) law became effective which allows Criminal Investigation to get information in strictly Title 26 cases where neither the issue of narcotics nor organized criminal activity is present.

Criminal Investigation broke major ground in April 1983, when it established the Simultaneous Criminal Investigation Program (SCIP) with Canada. It virtually eliminated many of the problems that Criminal Investigation faced in the past whereby taxpayers have used the border to provide a degree of immunity from the production of records and the proper reporting of income. SCIP inventory is currently at its all-time high and has firmly established itself as the premier and most visible revenue compliance program that the United States has with Canada.

Criminal Investigation also has Simultaneous Criminal Investigation Programs with Italy and France.

Another area in which Criminal Investigation has moved dramatically forward in international matters is in its commitment of resources. In addition to the staffing committed to SCIP matters, it has an agent assigned to the headquarters of Interpol (the International Police Organization) in St. Cloud, France, and a second agent assigned to Interpol at the National Central Bureau in Washington, D.C.

Finally, there are now two full groups of agents under the IRS Assistant Commissioner (International) that work strictly with international cases. One group is located in Washington, D.C., and the other is in Puerto Rico.

## INVESTIGATIVE TOOLS AND TECHNIQUES

### Undercover Activities

The Criminal Investigation function has used the undercover technique throughout our history. It is well documented that undercover played a significant role in the famous case of public enemy No.1., Al Capone. However, the real impetus for undercover began during the early years of the Kennedy Administration with the forerunner of the Strike Force—the Organized Crime Drive. The Intelligence Division was given the mandate to participate with other federal agencies to bring the full force of the law to bear on organized crime. As we found out with Capone, a very effective way to do this was to use the undercover technique.

The undercover program was centralized in the National Office in 1963. At that time, all undercover operations were run from the National Office and would frequently encompass more than one district. The main focus was in the area of wagering and organized crime. The objective was *not only to pursue designated targets*. It was equally important to gain intelligence and an understanding and knowledge of the groups and syndicates who were masterminding these various illegal activities. The intelligence and knowledge gained from these operations were the key ingredients in our participation in the

strike forces that evolved from the Organized Crime Drive.

Examples of early undercover operations include the Las Vegas Project that resulted in additional tax and penalties recommended against three casinos in the amount of \$8 million. During the late 1960's, Criminal Investigation initiated the Courier Project to attempt to corroborate persistent allegations concerning the movement of casino receipts by couriers to offshore tax havens. There also was a continuing interest in the infiltration of organized crime into the casinos through the use of nominees.

The undercover technique was almost exclusively directed toward organized crime targets through the mid-to-late 1970's. Also, during these early years, the activities were almost exclusively for intelligence gathering and were long-term (one to two years and beyond).

During the late 1970's, the undercover program was decentralized. Although the National Office retained review, approval, funding and training authority, the regions and districts became responsible for the initiation and day-to-day management of the operations.

During the late 1970's, the Service identified a noncompliance area that was eventually titled the Underground Economy. Because of their nature, these individuals employed the use of offshore banking and bartering and quite often became tax protesters. At the same time, illegal tax shelters were becoming more and more popular. The estimated revenue loss was approximately \$85 billion in 1981 and had increased to \$120 billion by 1985. The Service devel-

oped undercover techniques to combat this serious threat to the revenue. A new technique utilizing few contacts was developed. The purpose was to "sting" the illegal operation to secure evidence of its illegal activities and, it was oriented toward immediate results.

With the advent of the money laundering provisions, a substantial portion of the undercover operations became focused in this area. The "Grandma Mafia" case in California is a prime example of this type of undercover operation. Three women began to launder the drug profits for various narcotics traffickers and sought the help of a local bank. The banking official contacted the IRS which in turn set up a storefront to launder their funds. Prior to their arrest, the three women brought over \$20 million in narcotics traffickers' funds to undercover IRS special agents to be laundered. The "Grandma Mafia" was the subject of a major television network news special.

During the early years of our undercover activity few agents possessed the skills to utilize this technique. Today almost 200 special agents are trained in this technique. They are encountering many unusual and challenging situations in their roles. One agent spent nearly two years in the Fulton Fish Market in New York. Another was accepted as a member of some of the most violent tax protest groups in the country. One agent was stabbed repeatedly with an ice pick while investigating a tax shelter/money laundering scheme, and yet another was offered \$10,000 to murder the wife of one of the targets! Some of the agents have been so well accepted in their roles that the targets refused to believe they were IRS agents, even after the targets' arrests.

During FY 1983, the IRS issued new guidelines for undercover activities modeled after the proposed Senate Bill S.804 and the Attorney General's guidelines. The chart below shows the number of approved undercover operations since that time, by year.

### Approved Undercover Operations

Fiscal Year	Approved Undercover Operations
1984	215
1985	230
1986	240
1987	153
1988	176
1989	169
1990	152
1991	200
1992	187
1993	198

Currently CI has over 100 active undercover agents and has trained almost 200 for undercover "shopping" of preparer schemes.

### CI Forensic Laboratory

The IRS Criminal Investigation National Forensic Laboratory, located in Chicago, Illinois, provides analytical services and expert testimony to assist special agents throughout the country. The lab was under IRS Alcohol, Tobacco and Firearms, until ATF became a separate agency in 1972. Since those days as the Questioned

Documents Lab, the laboratory's services have grown to include questioned documents, ink and paper chemistry, latent prints, electronics, polygraph, and imaging.

The questioned document unit examines handwriting, printing, numerals, typewriting, mechanical impressions, and alterations. The types of evidence examined include: Forms W-2, 1040 checks and money orders, business documents, and gambling, drug and money laundering records. Additionally, this unit can provide a transcript of a multi-row, single-strike typewriter ribbon.

The latent print unit also processes a wide variety of evidence. Although paper evidence comprises the majority of evidence processed, the identification of prints has been made on weapons, computer equipment, brief cases, and credit cards. The latent print examiners have access to a state-of-the-art automated fingerprint identification system (AFIS). This system searches an unknown latent fingerprint, or even those on an inked card, against thousands of prints in other automated files.

Investigations involving many multiple filer cases have benefitted from the forensic services available. In a recent case, the laboratory was able to determine (through handwriting) who prepared and signed a number of false returns. A typewriter was seized in this case as a result of the issuance of a search warrant. Fortunately, the ribbon was still on the machine and a transcript of that ribbon disclosed the same information that appeared on the false W-2's. The tax returns were also examined for the presence of indented writing. The lab was able to determine the sequence in which they were prepared and

information regarding two additional returns that the Service center was not even aware of. In addition, latent prints were developed which identified the subject as having handled the false returns.

The ink and paper chemistry unit analyzes the writing on documents to compare and differentiate one ink from another, to determine the date of manufacture of inks and to determine the type of writing instrument used to create an entry. This unit also analyzes paper to determine the date of manufacture. The ability to provide dating analysis of inks is possible due to the acquisition of a copy of the Ink Standards Library. Over 6,000 inks, dating back over the past 30 years, comprise this library. If the date of preparation of a document is in question, this unit will try to determine whether the ink or paper was available.

The electronics unit, established in 1984, enhances audio recordings by reducing objectionable noise on tape recordings of interviews, undercover meetings, and telephone calls. Through the use of sophisticated filters, the recordings may be made more intelligible. This unit also has the ability to produce photographs from video surveillance tapes and to make adjustments for low light or poor conditions that existed when the tapes were made.

A recent case of national scope required the assistance of the electronics unit. Approximately one hundred and forty audio recordings were processed in an attempt to enhance their intelligibility. The majority of these recordings were ultimately entered into evidence in the criminal trial of the defendants, the officers of a major bank. The laboratory's examiner provided testimony in this case, in which

five hours alone were spent on cross examination by the six defense attorneys.

In October 1986, Criminal Investigation initiated a program for the administration of polygraph examinations, now centrally located in the laboratory. Using the latest computerized instrumentation, polygraph examinations are routinely administered to witnesses, informants, and defendants to verify the accuracy of any information they may provide. Polygraph examinations have been extremely useful in identifying additional suspects or by exposing the existence of hidden assets. Polygraph testing related to plea agreements continues to produce beneficial results.

In a recent case, polygraph examinations were administered to three defendants involved in money laundering and tax evasion. These tests were done pursuant to a plea agreement with the condition that the defendants pass the polygraph test. The tests were administered, and the defendants failed to admit to the involvement of others in the scheme. Consequently, a second test was administered, and this time the main defendant admitted to his involvement and to the involvement of other previously unknown conspirators.

The imaging unit provides forensic photography for laboratory personnel and photography support for field personnel. This unit routinely photographs, for preservation and recordation, evidence submitted to the laboratory for examination or processing. Color and/or black and white photographs, ranging in size from 4" x 5" to 40" x 60", are possible. Field agents can utilize this facility to process surveillance film or other 35mm film. Photographic enlargements for court presentations can be requested to assist the United States Attorneys.

In a further effort to expand the services to the field, the laboratory has added Crime Scene Response Teams, that will provide on-site forensic assistance. For example, document examiners can assist in preliminary examinations of handwriting, and the printing of various business machines. The latent print examiners are capable of processing almost any type of surface for latent prints. The laboratory's polygraph examiners are available to perform examinations of subjects, witnesses, or informants. The photographers are also available to provide field support depending on the situation.

## Use of Grand Juries

Although the IRS long had a policy of providing assistance and cooperation to U.S. Attorneys and grand juries for matters handled through normal administrative channels, few grand juries were impaneled to investigate income tax violations prior to the nineteen sixties and seventies. During these decades, with impetus from the Organized Crime Drive and Strike Forces, Service involvement with grand juries increased substantially.

Allegations of agency abuse of grand jury investigative processes, passage of Internal Revenue Code disclosure restrictions in the 1976 Tax Reform Act, and a 1977 amendment to Rule 6(e) (governing grand jury secrecy) of the Federal Rules of Criminal Procedure impelled the Service in the mid-seventies to conduct a comprehensive review of the relationship between the IRS and Federal grand juries. The purpose of



this review was to develop Service guidelines consistent with disclosure laws and Rule 6(e).

These grand jury guidelines were incorporated into the Internal Revenue Manual and provided procedural steps for requesting Service involvement in grand juries as well as when a grand jury was necessary and appropriate as an alternative to the preferred administrative process, that is, when:

1. It is apparent that the administrative process cannot develop the relevant facts within a reasonable period of time, or
2. Coordination of the tax investigation with an ongoing grand jury investigation would be more efficient; and
3. The case has significant deterrent potential.

The guidelines mandated approval by high-level Service executives and a legal review of the request before IRS resources could be committed to a grand jury investigation. Due to the Service's dual civil/criminal enforcement role, many issues had to be considered by approving officials. This included the propriety of suspending an independent civil audit pending the conclusion of a grand jury investigation and the unlikelihood of obtaining a court order, subsequent to the grand jury investigation, allowing the Service to utilize the information developed for civil purposes. These were important considerations because, once committed, Service personnel assigned to a grand jury acted as assistants to an attorney for the government and were bound by strict grand jury secrecy provisions. Thus, absent a court order, Service access to data developed in the grand jury was generally limited

to criminal matters. Grand jury information could seldom be used to assess or collect taxes.

The relationship of the Service and federal grand juries has been in the past, and remains, a sensitive issue. The 1984 Supreme Court decision of *Baggott*, which held that grand jury information may not be used for civil tax purposes, confirmed the Service's dilemma of assisting grand juries in their investigation of internal revenue violations and the prohibition of the use of this information for assessing and collecting civil tax liabilities. Close monitoring of court decisions and criminal investigations became ever more important by Service management to determine the degree of future IRS grand jury involvement.

## Criminal Investigation Badge

Although the Special Intelligence Unit was formed in 1919, its agents were not given badges until 1923. At that time, special agents were issued a finely detailed gold-plated circular shield designed by the U.S. Mint. The shield bore the seal of the President and contained the inscription, "Special Agent, U.S. Internal Revenue." The gold-plated finish was costly and wore off quickly, so the badges were issued in silver plate beginning in 1939.

The tremendous expansion of the Intelligence Unit after World War II resulted in a shortage of badges. This often required special agents to pool their badges and check them out to make arrests or conduct surveillance. In 1949, special agents began buying their own badges from a large New York

badge company. These badges, in a sunburst design, had a large "U.S." in the center and contained the inscription, "Special Agent, U.S. Treasury, Intelligence."

In 1954, new badges were issued by IRS. The badges had the familiar sunburst design of the previous "unofficial" badges. "Internal Revenue Service" and a badge number were added to the inscription. At first, badges were issued only to special agents working organized crime or wagering cases and those working cases involving "illiterates." Other agents again had to pool their badges until 1955, when a badge was provided to each special agent.

Starting in 1965, special agents were required to carry their badges pinned to the outside of standard credential cases. This was imposed, "to provide positive identification of special agents as law enforcement officers in their dealings with taxpayers." This requirement increased the complaints received about the sharp edges of the sunburst badges tearing holes in coat linings and trouser pockets.

In 1969, special agents were issued redesigned badges. The badges were in the shape of a shield, had smooth edges and fit into leather badge-credential holders.

The badge was again redesigned in 1978 concurrent with the organizational name change to Criminal Investigation Division. The new shields were issued in 1980 and are "lifetime" badges, that is, the badge is kept until the agent leaves the IRS or changes job series.

## TRAINING

Since 1927, the enforcement services of the Treasury Department have joined together and operated a combined training school covering the principles of criminal law and basic investigative techniques.

In 1937, specialized training for IRS special agents of the Intelligence Unit consisted of an outline of instructions and correspondence training courses covering accounting, income tax laws, evidence, commercial law, and other areas. New agents were also assigned to work with one of the experienced agents for an intensive training period of 6 weeks or less. At the end of the training period the new special agent received assignments and continued training by taking correspondence courses which were completed outside of duty hours.

In 1955, the Personnel and Training Division distributed a "Criminal Investigation Procedures Course" through the Assistant Regional Commissioner (Administration). This course consisted of ten texts and quizzes covering the probable cause, evidence, search warrants, searches without warrants, conspiracy, miscellaneous law, rules of criminal procedure, informants, and techniques for searching places.

Formal specialized classroom training for IRS special agents did not begin until May 1960, when the first Special Agent Basic School (SABS) was held in Washington, D.C. This was followed by the first Basic Income Tax Law Course (BITLC) in August 1964.

From 1960 until 1976 most special agents received their training in income tax law and investigative techniques in

either Washington, D.C., or at the National Training Center in Crystal City, Arlington, Virginia. National Office analysts, course developer instructors, and special agents on detail served as the course instructors. Revenue agents were also occasionally detailed to assist as instructors in BITLC.

In the fall of 1975, the Federal Law Enforcement Training Center in Glynco, Georgia, opened and the formal classroom training for IRS special agents was transferred from Washington, D.C., to Glynco in early 1976. After this transfer, all of the classroom instruction was done by detailed special agents. Since IRS had no permanent representative at Glynco, National Office analysts and course developer-instructors from Crystal City were also detailed to Glynco to coordinate and instruct Criminal Investigation classes.

Late in 1976, the Deputy Commissioner appointed a study group of IRS managerial personnel to ensure that special agents were properly trained in criminal investigative techniques and that the training was being done in a cost-effective manner.

Major recommendations of the study group were adopted and a revised special agent training program was implemented during 1977.

The study group also recommended that Intelligence Division employees receive advanced training for certain specialized duties. The first of these courses was "Large Case Training" to enable agents to conduct investigations of Coordinated Examination Program cases. This course consisted of studies on case analysis and planning, corporate structure, grand juries, referrals, and information. It was given to approximately 200 special agents in 1978.

Computer specialist training was also initiated for special agents in 1977.

In October 1977, training for IRS special agents came under the control of the Training and Development Division when the Criminal Investigation Training Section was created in Crystal City. This section was responsible for all Criminal Investigation course development and the staff detailed to Glynco. The section was staffed by special agent course developer-instructors and employee development specialists.

In 1978, the Criminal Investigation Training Operation Section was created at Glynco and detailed instructors were replaced with permanent resident lead instructors. This move improved both the quality and consistency of the special agent classroom training. Course development activities continued to be done by the Criminal Investigation Training Section in Crystal City.

In 1980, a new emphasis was placed on Continuing Professional Education (CPE) to provide special agents with additional training to ensure that they were kept up-to-date on the latest law and procedures. In the past, except for a few instances, the training of special agents beyond the basic level had frequently been relegated to a secondary status, particularly in times of budgetary constraints. The Criminal Investigation Training Section in Crystal City was responsible for this program.

In 1985, Criminal Investigation's two training sections were consolidated at Glynco. And these sections became the Criminal Investigation Training Branch in 1986 when the responsibility for Criminal Investigation training was transferred from the Training and Development Division

back to the Criminal Investigation function.

In June 1990, the first Criminal Investigation Curriculum Review Conference was held at Glynco. The major recommendations from this conference, approved by the Assistant Commissioner (Criminal Investigation), included combining Tax for Criminal Investigation (TAX-CI) and Special Agent Investigative Techniques (SAIT) into one school, Special Agent Basic Training (SABT); commencement of training immediately upon entrance on duty as a special agent; and a formal graduation ceremony at the conclusion of SABT, with presentation of enforcement badges by the Assistant Commissioner (Criminal Investigation).

In early 1991, two team leader supervisory positions were created, one responsible for training delivery, the other responsible for training development. A third team leader position was added in early 1992, and given responsibility for advanced computer training matters. In October 1992, the position title of team leader was changed to section chief.

In 1992 and 1993, the training branch, in conjunction with the field, developed a use of force training program that all special agents completed, via mandatory CPE, during FY 1994. This extensively researched, state of the art training program will prepare special agents to react properly in confrontational and other situations where force may be necessary.

An Advanced Special Agent Training (ASAT) course was also developed in 1992 and 1993. Subjects of interest to the field were identified, and then special agents with expertise in those areas were brought together in task forces to develop the train-

ing material. Four modules of training were developed: Innovative Financial Techniques, Money Laundering/Asset Forfeiture, Search Warrants/Search and Seizure, and Undercover Operations. This course was piloted at the Federal Law Enforcement Training Center (FLETC) in January, 1994, and is an available training program offered to qualified and interested special agents.

In October 1993, other changes were made to the training function because of the National Office reorganization. First, the name was changed from the Training Branch to National Training Division. Responsibility for certain programs that had been managed in Washington, D.C., was transferred to Glynco. These programs included National Firearms Coordination, Physical Fitness Coordination, and Management Training (Entry Level, and Mid/Top Level). Also, the Defensive Tactics Coordinator is now located at the National Training Division in Glynco.

## Statistical Data

The following statistics reflect results of Intelligence Division/  
Criminal Investigation Division activities.

### Summary of Investigations

July 1, 1936 — September 30, 1993

Fiscal Year Ended	Tax Fraud	Charges Involving Personnel	Enrolled Attorneys and Agents Applications	Charges	(1) Miscellaneous Investigations
6-30-37	884	126	3,934	84	3,751
6-30-38	830	145	3,988	85	3,429
6-30-39	987	107	3,624	92	2,143
6-30-40	1,014	104	2,845	79	1,050
6-30-41	817	87	2,411	57	7,535
6-30-42	863	114	2,696	76	13,581
6-30-43	984	95	2,404	75	5,688
6-30-44	1,083	84	2,863	42	133
6-30-45	1,253	84	2,699	34	45
6-30-46	2,037	85	2,693	23	42
6-30-47	4,125	95	5,079	37	41
6-30-48	3,806	73	5,560	32	44
6-30-49	2,962	75	4,793	32	40
6-30-50	3,120	81	5,668	38	26
6-30-51	3,219	77	4,885	31	50
6-30-52	3,872(2)	284	N/A	N/A	N/A
6-30-53	3,203	361	N/A	N/A	N/A
6-30-54	4,353	(3)	6,946	117	N/A

(1) Includes investigations of employee applicants of the Bureau of Internal Revenue until fiscal year '44.

(2) Includes wagering tax investigations.

(3) This function was assumed by Inspection Service during fiscal year '52.

Fiscal Year Ended	Tax Fraud Investigations	Prosecution Recommended	Enrolled Attorneys and Agents Applications	Charges	Misc. Inv.
6-30-55	4,231	1,956	5,726	85	24
6-30-56	4,650	2,253	4,522	N/A	42
6-30-57	4,538	2,271	8,081	60	28
6-30-58	4,184	1,946	7,241	82	31
6-30-59	3,969	1,640	7,160	51	34
6-30-60	3,561	1,817	(1)	(1)	29
6-30-61	3,677	2,096	N/A	N/A	31
6-30-62	3,469	2,128	N/A	N/A	44
6-30-63	3,648	2,208	N/A	N/A	46
6-30-64	3,797	2,392	N/A	N/A	64
6-30-65	3,643	2,382	N/A	N/A	52
6-30-66	3,772	2,418	N/A	N/A	33
6-30-67	3,193	2,015	N/A	N/A	50

(1) This function was assumed by Inspection Service during fiscal year '60.

<b>Fiscal Year Ended</b>	<b>Investigations Completed</b>	<b>Prosecution Recommended</b>	<b>Indictments &amp; Information</b>	<b>Total Convictions</b>
6-30-68	9,739	1,620	1,026	756
6-30-69	8,273	1,139	649	561
6-30-70	7,767	1,118	924	521
6-30-71	8,403	1,379	956	787
6-30-72	7,354	1,795	1,085	846
6-30-73	7,498	2,555	1,186	1,104
6-30-74	8,078	2,454	1,441	1,253
6-30-75	9,258	2,760	1,495	1,219
6-30-76	9,035	3,147	1,331	1,193
6-30-77(1)	8,901	3,408	1,636	1,476
9-30-78	9,481	3,439	1,724	1,414
9-30-79	9,952	3,338	1,820	1,611
9-30-80	8,077	2,267	1,832	1,601
9-30-81	5,481	1,978	1,785	1,494
9-30-82	6,498	2,297	1,844	1,624
9-30-83	5,785	2,610	1,801	1,492
9-30-84	5,925	2,990	2,158	1,808
9-30-85	6,065	3,234	2,452	2,025
9-30-86	5,861	3,524	2,954	2,460
9-30-87	5,595	3,526	2,906	2,556
9-30-88	5,000	3,044	2,769	2,491
9-30-89	5,036	3,242	2,669	2,282
9-30-90	4,980	3,228	2,875	2,472
9-30-91	5,628	3,677	3,341	2,911
9-30-92	6,075	4,252	3,782	2,950
9-30-93	5,992	4,266	3,575	3,216

(1) The fiscal year was changed from July 1 through June 30 to October 1 through September 30.