

**WRITTEN TESTIMONY OF
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CRIMINAL INVESTIGATION
INTERNAL REVENUE SERVICE
BEFORE THE
SENATE FINANCE COMMITTEE
ON
BREAKING THE METHAMPHETAMINE SUPPLY CHAIN: LAW ENFORCEMENT
CHALLENGES
SEPTEMBER 12, 2006**

Chairman Grassley, Ranking Member Baucus, and Members of the Committee, I appreciate the opportunity to discuss the Internal Revenue Service's Criminal Investigation Division's (CI) role in combating money laundering and narcotics trafficking. These are serious national problems that erode our economy and destroy thousands of lives each year.

CI Mission

The fundamental mission of the Criminal Investigation Division, or CI, is to serve the American public by detecting and investigating criminal violations of the Internal Revenue Code and related financial crimes. Nearly 2,800 of our 4,330 workforce in CI are federal criminal investigators who have accounting or business backgrounds. Through a process of rigorous training and years of experience, we shape our agents into law enforcement professionals adept at investigating the most sophisticated financial crimes whether they involve tax evasion, corporate fraud or narcotics trafficking. Our highly skilled special agents follow the money in tax and related investigations that involve sophisticated schemes and complex transactions that span the globe.

Many of the “badges of fraud” our agents pursue in tax investigations are identical to those in money laundering investigations. These include the extensive use of nominees, currency, multiple bank accounts, layering of financial transactions through multiple entities, and the movement of funds offshore. Therefore, the same financial investigative skills required to conduct complex tax cases can be readily adapted to money laundering investigations. This is especially true in intricate financial investigations involving the movement of funds associated with organized criminal enterprises. CI’s statutory authority for money laundering, coupled with the financial expertise of its special agents, has made it possible to disrupt and dismantle criminal organizations employing complex financial transactions to launder illegal proceeds.

These unique skills place our special agents in high demand throughout the law enforcement community. The Attorney General recently communicated to IRS Commissioner Everson, “The agents of the Internal Revenue Service-Criminal Investigation (IRS-CI) are among the most important resources we can bring to bear in connection with the complex financial investigations that are critical to our success.”

Strategic Priorities

The IRS Criminal Investigation strategic plan is comprised of three interdependent programs: Legal Source Tax Crimes; Illegal Source Financial Crimes; and Narcotics Related Financial Crimes. Within these three programs, our special agents utilize all statutes within IRS-CI’s jurisdiction, the grand jury process, multi-agency task forces and various enforcement techniques to combat tax, money laundering and currency crime violations.

Managing the Strategic Priority Balance

Tax Administration

The tax administration system in our country depends on voluntary compliance. Our core mission at the IRS *is* tax administration. This fact was reinforced by Judge William Webster who was commissioned by the IRS in response to concerns raised by this committee in 1998 to direct an independent review of IRS-CI and assess our effectiveness in accomplishing our mission as the Service's criminal enforcement arm. Judge Webster concluded that IRS-CI suffered from a "mission drift" away from investigating core mission focused tax cases. Judge Webster specifically attributed "demands placed on CI by other law enforcement entities to participate in narcotics investigations" as a primary cause of the drift away from the investigation of criminal violations of the Internal Revenue Code. Thus, CI's primary focus is criminal investigations involving legal source tax crimes and those financial crimes that have a direct nexus to tax enforcement.

More importantly, IRS-CI must investigate violations arising out of the Internal Revenue Code (or Title 26 of the USC) because no other federal law enforcement agency has the authority or responsibility to do so. Without a criminal investigation component, voluntary compliance would be seriously compromised. At the same time that IRS CI has sharpened its focus on tax investigations, we have carefully monitored our narcotics work to ensure we are focusing our scarce resources on those narcotics cases that bring the most value to the government's counterdrug efforts. With the tax gap estimated at over \$300 billion, CI's focus on tax investigations must remain our top priority.

IRS-CI's Role in the Law Enforcement Community

As part of the larger law enforcement community, we recognize that IRS-CI's role is broader than tax administration. We contribute our financial investigative expertise to many areas including money laundering, counterterrorism and public corruption. When traditional law enforcement investigative tools cannot solve a crime, IRS-CI can often make the connection between the crime and the criminal through a financial investigation. Tracing the money is often the key to a conviction. The broader financial linkage of multiple participants in criminal activity is also effective in dismantling criminal enterprises. IRS-CI works with other Federal, state and local law enforcement agencies because the unique skills we bring to the collaborative investigative effort cannot be easily duplicated.

State and Local Law Enforcement Support

IRS-CI supports cooperative efforts with Federal, state and local law enforcement agencies through task force participation under the auspices of each United States Attorney Office across the country. In particular, IRS-CI has consistently provided resource support to the following Federal, state and local joint initiatives, including but not limited to:

- High Intensity Drug Trafficking Areas (HIDTA)
- High Intensity Financial Crime Areas (HICFA)
- The OCDETF Fusion Center (OFC)
- DEA Special Operations Division (SOD)
- Suspicious Activity Report (SAR) Review Teams
- Bulk Currency Project
- Joint Terrorism Task Forces (JTTF)
- USAO Anti-Terrorism Advisory Councils (ATACs)
- El Paso Intelligence Center (EPIC)
- Interpol

IRS-CI Narcotics Program

IRS-CI's narcotics enforcement program works under the principal that drug trafficking organizations are motivated by greed, money, and assets – as are the financial and other professionals who assist drug traffickers and their organizations. Our ability to remove profits and identify all conspirators is often accomplished through in-depth financial investigations. In this respect, IRS-CI agents are important and logical additions to any investigative team when following the money helps piece together an intricate puzzle. This has proven true since our very first IRS narcotics investigation in 1920 when an opium grower failed to report the income earned from his product.

The objective of the IRS-CI narcotics-related financial investigation program is to leverage its financial investigative expertise to disrupt and ultimately dismantle the highest level drug trafficking and drug money laundering organizations that pose the greatest threat to Americans and American interests. We accomplish this in two ways. First, we foster compliance and confidence in the tax system through the investigation of unreported and “untaxed” proceeds (legal or illegal). Second, IRS-CI special agents trace the path of illicit drug proceeds and help prosecute drug and money laundering organizations by identifying the financial linkages among their members, associates, and all other co-conspirators. In fact, IRS-CI views money laundering violations as “tax evasion in progress” because the offenders are essentially trying to hide their dirty money from the government.

Historically, money launderers used legitimate businesses to “launder” their illegal proceeds. Now money launderers use more sophisticated schemes, computer technology, and international borders to conceal their income and/or assets. The leaders and lieutenants of criminal drug organizations go to great lengths to conceal their illicit income and its sources.

Department of Justice

IRS-CI focuses its narcotics program investigative resources on the highest level investigations as designated by the Department of Justice through the Organized Crime Drug Enforcement Task Force (OCDETF) Program. An indication of this type of quality investigation focus can be seen in the continually high prosecution recommendation acceptance rate by the Department of Justice – which has been 100% for the last three years. Examples of methamphetamine investigations meeting this OCDETF significant case standard and to which IRS-CI has committed investigative resources include Operation Northern Star; Operation Brain Drain; Operation Snow Globe; and Operation Ice Storm.

Our narcotics enforcement strategy does not focus on specific types of illegal drugs; rather, our targeting efforts conform to the qualitative framework established by the Department of Justice. In this respect, the OCDETF program places emphasis on conducting financial investigations as an integral part of each investigation to eliminate the infrastructure of drug organizations and to permanently remove the profits enjoyed by drug traffickers. As a result, all OCDETF-approved investigations must include a financial investigation, beyond merely the seizure of cars or other personal property of the main defendants.

Conclusion

In conclusion, regardless of the type of drug threat, whether it is methamphetamine, cocaine, heroin, or marijuana, IRS-CI will continue to support the Department of Justice through its OCDETF program in strategically targeting and dismantling the most significant drug trafficking organizations. The women and men of IRS-CI—the most skilled financial investigators in federal law enforcement—carry on an 87-year tradition of solving financial crimes by following the money trail. We also carry a proud tradition of working in a spirit of cooperation with our law enforcement partners in the Department of Treasury, Department of Justice, Department of Homeland Security and the state and local law enforcement community.

Mr. Chairman, I thank you for this opportunity to appear before this distinguished committee and I will be happy to answer any questions you and the other committee members may have.