SKIT # 1

**Introduction: Jennifer Breen**

**Revenue Agent Jones: Elizabeth Blickley**

**Group Manager Brown: Alina Marshall**

**Fraud Technical Advisor Malone: Chris Rizek**

**Special Agent Wilson: Jason Selmont**

Facts:

Revenue Agent Jones is currently assigned to the Sip & Sing examinations. After several months of work in the examination, RA Jones had concerns that indications of fraud existed. She consulted with the Fraud Technical Coordinator and determined that the potential fraud case had firm indications of fraud and that it met the criminal criteria. She has suspended the examination and has not disclosed to the taxpayer or representative the reason for the suspension. She has prepared and submitted Form 2797, *Referral Report of Potential Criminal Fraud Cases*. She and her Group Manager, Mr. Brown, are now meeting with Special Agent Wilson and Fraud Technical Advisor Malone for a “10-day Conference” to discuss the merits of the criminal fraud.

**Wilson:**

Alright, I have here a copy of the Form 2797 you submitted, Agent Jones. Why don’t you give us a little background on your review of the tax returns and other information gathered during your examination and the evidence you believe supports the alleged offense.

**Jones:**

Sure, so first off, the corporation I have been examining is an entity named “Sip & Sing,” which operates karaoke bars in the DC metro area. The sole owner and the CEO is a man by the name of Joseph Smith

When the examination first began, Mr. Smith, through his representative, was cooperative enough and provided me with the materials and information I requested in my IDRs. I realized fairly quickly that there seemed to be overly large deductions for royalty payments for the use of the Sip & Sing logo. I started asking more and more questions around these payments and from a review of the company’s books and records, it looks like they are wired to an offshore bank account. On one GL entry there was a note “S&S Ireland” and in doing some internet research, it looks like S&S Ireland may be an Irish entity owned by Mr. Smith.

**Wilson:**

What has Mr. Smith or his representative said about these payments and this entity, S&S Ireland?

**Jones:**

They’ve stone walled me. When I asked about S&S Ireland, the representative got angry and told me that S&S Ireland was not under examination so they were not going to answer any questions regarding that entity as they don’t represent S&S Ireland. I asked for wire transfer records or bank records, and they’ve not provided any. I asked for ownership information and they gave me evasive answers.

I finally asked to set up a time to meet with Mr. Smith and they refused to let me meet with him and said he was not available. So, I summonsed Mr. Smith to appear in May of last year.

**Wilson:**

And how did that go?

**Brown:**

Agent Jones did the best she could, but it was a disaster. He wouldn’t answer anything – he kept telling us he didn’t remember, that he’d been under a lot of stress due to the financial impacts of Brexit and he’d just broken up with his girlfriend. We both felt that he was being very evasive.

**Wilson:**

What can you tell me about Mr. Smith?

**Jones:**

He’s a fixture on the social scene here in DC and is considered a “social media influencer.” He’s always attending the biggest social events and has been romantically tied to one of the “Real Housewives.” I guess you could say he’s a bit of a B-list celebrity. He’s dual UK/US citizen and before coming to the US, he attended Oxford University. He’s 55 years old and aside from the stress he mentioned during the interview, he seems to be in good health. He sure goes to enough parties here in DC and is always smiling for the camera – he’s in all of the social pages. And you should see his social media accounts, he flashes money around like you wouldn’t believe.

**Malone:**

I want to add here that it appears that Mr. Smith may also be paying the employees of Sip & Sing under the table and underreporting employee wages, transferring money between multiple offshore accounts that he either owns or has control of, and is using this money to support his lavish “social media influencer” lifestyle.

There is likely a significant amount of additional tax due to fraud so CI would more likely be interested. Also, the employment tax piece and international issues touch priority areas so this case may have a better chance to move through the system.

**Wilson:**

Thanks for this information. I’ll review the file you sent over in more detail and ask Mr. Malone to schedule a disposition conference. We can discuss CI’s decision to accept or decline this referral at that time and I’ll provide you with written feedback, Agent Jones.

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QUESTIONS – Lead by Drita Tonuzi

Ted: Can you walk us through the fraud referral process?

Jim: How many referrals on average does CI receive from Exam each year? How many does CI accept?

Jim: What are some of the things that Exam would look for in deciding whether or not to make a referral?

Jim: What are some reasons why CI would not accept a referral?

Ted: What is Counsel’s role in this process?

Jim: What is a Fraud Technical Coordinator and what is their role?

Bryan: How might a taxpayer or their representative know that a referral has been made or is pending? Is there anything a taxpayer or their representative can do to address this?

SKIT # 2

**Introduction: Jennifer Breen**

**Bookkeeper Shumway: Jason Bergmann**

**Special Agent Wilson: Jason Selmont**

**Supervisory Special Agent Irey: Eric LoPresti**

Facts:

Bookkeeper Shumway has worked for Mr. Smith and Sip & Sing since 2010. He continues to work for the company and was made aware of the examination by the accountant when he had several questions for Mr. Shumway as he was responding to several of the IDRs. Mr. Shumway knows that Mr. Smith keeps a separate set of books, he’s seen them in his office when he was there late one night trying to close out the quarter. He’s been uneasy ever since. He is also aware of the offshore accounts and has been told by Mr. Smith to never mention those to anyone, especially the accountant. He contacted Agent Jones who was listed on the IDR he saw and told her that he wanted to visit with the IRS about some information he knew about Sip & Sing and Mr. Smith. Agent Jones arranged for him to meet with Special Agent Wilson and Supervisory Special Agent Irey. Fearing what Mr. Smith would do to him if he found out, Mr. Shumway asked to meet in private at a local library, somewhere Mr. Smith would never go.

**Wilson:**

Hello Mr. Shumway, I’m special agent Wilson and this is my supervisor, Supervisory Special Agent Irey. Thanks for meeting with us. Revenue Agent Jones said you had some information you wanted to share with the IRS.

**Shumway:**

First off, will this be kept confidential? If Mr. Smith finds out I am talking with you, I’m afraid of what he will do to me. His very litigious and he has a huge following on social media, he could ruin me.

**Irey:**

Yes, Mr. Shumway. Everything you share with us will be kept confidential. We will not disclose any information that would identify you in any way.

**Shumway:**

Ok, thanks. My wife said I was asking for trouble sticking my nose into this, but I just get so angry when I think of what Mr. Smith has been doing.

**Wilson:**

What has Mr. Smith been doing, Mr. Shumway? What are you concerned about?

**Shumway:**

So, I’ve been working for Sip & Sing for a long time now. In the beginning, I just thought Mr. Smith was really disorganized and didn’t really know how to run a business. I thought I was helping him get his books and records in order, but over time, I realized that he actually did know what he was doing.

**Wilson:**

Go on.

**Shumway:**

Each month, he was transferring a huge amount of the Sip & Sing income to an offshore account. When I asked him how I should book these transfers, he told me he had come up with this brilliant plan to get his money out of the United States tax free. He said it was what all of the big multi-national companies were doing. He read all about it on the internet apparently. He put the Sip & Sing logo into an Irish company who would allow Sip & Sing to use the logo for a substantial royalty.

**Wilson:**

Who owns the Irish Company and the offshore account?

**Shumway:**

He does. I know because I’ve seen the bank statements which are addressed to him in care of some lawyers in Ireland. I also know he sometimes makes withdraws from that bank account for payroll or for personal expenses when he is traveling overseas. But he told to me never tell the accountant because she’d probably make him file some additional paperwork with the IRS and charge him for having to prepare it. So I kept it secret.

**Wilson:**

Do you know if he keeps any other books or records reflecting these accounts?

**Shumway:**

Yeah, a few months ago I was at Sip & Sing going through some of the receipts I needed to close out the quarter, and I found a ledger book, kind of like a “day-planner” type organizer. When I flipped through it I realized it had financial information about income and some bank accounts, but it wasn’t anything I’d ever seen before. I realized that Mr. Smith was keeping a second set of books. It showed much more income from Sip & Sing than I’d ever been made aware of or that I’d provided to the accountant for tax reporting purposes. From what I could see, Sip & Sing’s income was double what I thought it was.

**Wilson:**

So those records are kept at Sip & Sing?

**Shumway:**

I think he locks them in his desk. But I guess you should know that last year, he started closing down those foreign accounts and transferring the money to other foreign companies he has an ownership in and I think he shredded all of the bank records he had for those accounts.

This IRS audit has him really rattled. I just can’t shake the feeling that he’s in the process of moving money to hide it and getting rid of documents.

I overheard him on the phone the other day telling someone that if he got tired of dealing with everything, he’d just hop on his jet and get the hell out of the United States. I’m not sure if he meant this IRS audit or the drama with his ex-girlfriend. Did you know, she’s on Real Housewives of DC?

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QUESTIONS – Lead by Drita Tonuzi

Jim: How do informants generally come to the attention of CI?

Ted: Wouldn’t there be 6103 violations if the IRS were talking about a taxpayer’s case with an informant? How do you address that?

Ted: The agents assured the bookkeeper that her identity would be protected. But isn’t the taxpayer able to obtain their tax return information? Would they be able to obtain information around this conversation and figure out who the informant is? How can you withhold this information? What are the various considerations that arise in dealing with an informant (are they culpable, is there a monetary incentive?

Jim: Could an informant become a target or vice versa?

Bryan: What do you tell whistleblowers who are concerned about confidentiality?

SKIT # 3

Facts:

Fearing that Mr. Smith will destroy records or take them from the country, Special Agent Wilson has received approval to obtain a search warrant to search the Sip & Sing for books and records of the business. Assistant US Attorney Richards has faxed over an application and affidavit for a search warrant to District Court Judge Holmes’s chambers. The AUSA and Special Agent Wilson now appear before Judge Holmes.

**Introduction: Jennifer Breen**

**District Court Magistrate Judge: Judge Holmes**

**Assistant US Attorney Richards: Joshua Savey**

**Special Agent Wilson: Jason Selmont**

**Judge Holmes:**

I read your warrant and affidavit and I have some questions. How do you know that there are books and ledgers reflecting the offshore accounts and tax evasion of Mr. Smith?

**Richards:**

Your Honor, I’d like to ask Special Agent Wilson to share with the court the information he has learned of during his investigation of Mr. Smith that will address this question.

**Wilson:**

During an interview with the bookkeeper, I specifically asked him if Mr. Smith kept ledgers and records of his offshore accounts and actual income of Sip & Sing. The bookkeeper, Mr. Shumway stated that he was aware that Mr. Smith kept records in a “day-planner” type organizer and that it contained information about his offshore accounts and income received by Sip & Sing, that had not been reported on the Sip & Sing tax return.

**Judge Holmes:**

So based upon this information, where you believe you have probable cause to search?

**Wilson:**

Mr. Shumway specifically remembered seeing the ledger in his office at Sip & Sing and he stated that he believes Mr. Smith locks them in his desk. Additionally, based upon my experience as a special agent and executing search warrants and seizing evidence at business locations, I know that individuals involved in concealing offshore bank accounts and tax evasion frequently maintain records of the proceeds of those activities within their private workspace areas and on their computers at their place of business.

**Richards:**

Therefore, we believe that there is probable cause to search Mr. Smith’s work space, his computer, and computer network at Sip & Sing, for the items to be seized that we’ve identified the affidavit. It is intended that the scope of this warrant be limited to the areas over which Mr. Smith had personal control.

**Judge Holmes:**

I hear what you’re saying, but this court takes seizure of personal and business books and records very seriously. Why should we grant this application, Attorney Richards? Isn’t there any other way to obtain the information you need?

**Richards:**

These bank account records and ledgers fall within the scope of records that were requested during the audit but they were not turned over. And, we have reason to believe that Mr. Smith may be actively destroying evidence of his crimes and is a flight risk with access to a private jet. He may take these materials with him.

**Judge Holmes:**

Alright fine, based upon this information and the details you’ve provided in Agent Wilson’s affidavit, I’ll grant your application.

**Richards:**

Thank you, Your Honor.

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QUESTIONS – Lead by Drita Tonuzi

Ted: Can you walk us thorough the process that the government goes through leading up to the application for a search warrant? Who is involved?

Jim: Judge Holmes referenced an affidavit. What’s generally in that affidavit?

Jim: After a warrant is signed by the judge, then what? Who participates in the execution of the warrant?

Ted: What happens if the seized materials include privileged attorney-client materials?

Bryan: What, if anything can a taxpayer do if a search warrant is issued?