



NEWS RELEASE

From New York State Inspector General
Catherine Leahy Scott

FOR IMMEDIATE RELEASE: May 20, 2013
Contact: (518) 474-1010

INSPECTOR GENERAL: TAX DEPARTMENT IMPLEMENTS INCREASED OVERSIGHT AND FINANCIAL CONTROLS AFTER NYSIG REVIEW OF “STING” OPERATIONS Investigation Uncovered Significant Failures in Operations and Accountability

New York State Inspector General Catherine Leahy Scott announced today that the New York State Department of Taxation and Finance (Tax and Finance) has strengthened financial controls over sting operations after the Inspector General uncovered significant vulnerabilities at the agency, in one case resulting in the loss of and failure to account for cash proceeds of approximately \$160,000. The Inspector General’s investigation found that the department’s Petroleum, Alcohol and Tobacco Bureau’s (PATB) oversight of sting operations was both insufficient and lacked an effective accounting system, which made proceeds and evidence susceptible to loss and theft.

“In its effort to undermine the black market sale of cigarettes, PATB’s flawed sting operations lacked textbook safeguards to ensure the legitimacy, integrity, and effectiveness of the stings,” said Inspector General Scott. “Enforcement operations of this nature require not only a full accounting of every dollar that changes hands during the stings but also internal controls and rigorous investigative protocols. That did not happen at PATB, undermining the credibility of the investigations. I commend the Department of Taxation and Finance for implementing necessary changes.”

From 2002 until mid-2010, PATB ran a multi-million dollar cigarette interdiction operation. Under the direction of former PATB Director Thomas Stanton, between 2002 and 2010 PATB bought tens of millions of dollars in cigarettes from wholesalers or manufacturers and resold them in sting operations. The Inspector General’s investigations found PATB lacked basic investigative protocols and controls, which was evidenced by a lack of thorough, accurate accounting of inventory and proceeds.

Specifically, the Inspector General’s investigation confirmed \$160,000 in missing cash and found that informants who were paid hundreds of thousands of dollars were not accounted for by Tax and Finance. In addition, the investigation uncovered a failure on the part of PATB to track inventory and evidence. The Inspector General’s report also documented significant findings of operational failures, including instances in which PATB investigators brought their own semi-automatic rifles – for which they were not formally trained or qualified to use in a New York operation – to out of state cigarette transactions and sting operations. PATB’s neglect of basic investigative protocols eventually led to dismissed prosecutions and the halting of sting operations in the summer of 2010.

The Inspector General’s investigation found additional problems which further undermined the credibility of PATB’s operations, including ineffectively utilizing cameras which failed to record cash

transactions; inoperable cash counting machines; cash proceeds counted by hand, or not counted at all; the practice of informants being paid by check made out to “cash.”

While investigating the \$160,000 deficit in cash proceeds from covert sales during one such PATB sting operation known as “Operation Keystone,” the Inspector General found that a PATB senior investigator and his wife – also a PATB employee – made numerous deposits totaling approximately \$25,000 in cash to their private bank account. The majority of these deposits took place within two weeks following cigarette sale transactions in which cash was found to be missing.

The investigation further determined that former Tax and Finance executives charged with supervising Stanton and PATB knew very little about the operations and their deficiencies.

As a result of the Inspector General’s investigation, managers implicated either left the agency voluntarily or were relieved of their duties. Stanton’s employment was terminated in 2010. Tax and Finance has pursued and is currently pursuing disciplinary action against current staff implicated in the investigation.

Also as a result of the Inspector General’s investigative findings Tax and Finance:

- Ceased all covert sting operations and closed all associated bank accounts;
- Has expanded its partnership with the New York State Police by utilizing senior police officers to further leverage joint resources as well as improve information sharing among federal, state and local law enforcement agencies;
- Has been training investigators on the proper standards of conduct and consequences of violating policy;
- Instituted new policies requiring the registration of confidential informants and tightening tracking and controls over payments made to them;
- Has implemented a new bar coding system for evidence management; and
- Has consolidated regional criminal division offices and plans to consolidate further and is redesigning the supervisory structure of the criminal division.

A copy of the Inspector General’s report can be found [here](#).

###