

Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2013 – SEPTEMBER 30, 2013



TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION (TIGTA)

TIGTA's VISION

Maintain a highly skilled, proactive, and diverse Inspector General organization dedicated to working in a collaborative environment with key stakeholders to foster and promote fair tax administration.

TIGTA's MISSION

Provide quality professional audit, investigative, and inspections and evaluations services that promote integrity, economy, and efficiency in the administration of the Nation's tax system.

TIGTA's CORE VALUES

Integrity – Maintain the highest professional standards of integrity, personal responsibility, independence, objectivity, and operational excellence in pursuit of TIGTA's mission.

Organizational Innovation – Model innovative practices in organizational structure, operational programs and processes, audit, investigative, and inspection and evaluation methodologies, and the application of advanced information technology.

Communication – Achieve effective organizational approaches and solutions by encouraging open, honest, and respectful communication among TIGTA's executives, employees, offices, and functions, as well as between TIGTA and its external stakeholders.

Value Employees – Respect the dignity, contributions, and work-life balance of our employees, and recognize diversity as fundamental to the strength of our organization.

Commitment to Collaboration – Establish and maintain collaborative and professional relationships with other Government and non-Government stakeholders.



TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY



Inspector General's Message to Congress

It is my privilege to submit this Semiannual Report to Congress for the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of April 1, 2013 to September 30, 2013. This report highlights TIGTA's dual responsibility to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of our Nation's system of tax administration.

This reporting period is significant for several reasons. First, July 22nd marked the 15th anniversary of the passage of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). With the approval of that legislation, the IRS Inspection Service was reconstituted into TIGTA in January 1999, marking the birth of our agency and the beginning of a new era of commitment to efficiency, professionalism, and integrity in IRS operations.

Also during this period, several TIGTA reports have brought the IRS under some of the most intense scrutiny that it has experienced since the events leading up to the passage of RRA 98. Our report on the IRS's use of inappropriate criteria to review applications for tax-exempt status stands out for having drawn the most attention to internal IRS procedures of any reports published during my tenure as Inspector General.

Meanwhile, other TIGTA audits and evaluations raised important questions about the IRS's spending on travel and training. TIGTA reported that the IRS's Small Business/Self-Employed (SB/SE) Division spent a reported \$4.1 million on a single conference in Anaheim, California. Another TIGTA report found that the IRS purchase card program lacked consistent oversight to identify and address inappropriate use, leading to inappropriate and illegal purchases by IRS employees. Yet another report, by TIGTA's Office of Inspections and Evaluations, disclosed that the IRS spent \$9.5 million on executive travel over a two-year period, much of it to and from Washington, D.C.

TIGTA's work on tax-related identity theft also drew significant public interest during this reporting period. In the first of three reports on the issue, we addressed the IRS's efforts to assist victims of identity theft, while in the second we examined the IRS's efforts to detect and prevent the filing of fraudulent tax returns by identity thieves. In the third report, issued in June 2013, we evaluated whether the Taxpayer Protection Program was effectively assisting taxpayers that the IRS proactively identifies as potential identity theft victims.

TIGTA's Office of Investigations (OI) continued its emphasis on investigations of allegations of wrongdoing by IRS employees who abuse the public's trust in the integrity of Federal tax administration. One such instance involved an IRS employee indicted in the Eastern District of Kentucky on identity theft and related charges.

Significant legal action taken during the reporting period as a result of TIGTA's investigations included the sentencing of an IRS employee to 19 years in prison for fraud and extortion charges and the guilty plea and sentencing of a former supervisory Internal Revenue Agent on charges of accessing taxpayer information contained in the IRS computer system over 2,000 times for the purpose of conducting her private tax and accounting business.





As part of a proactive initiative to promote IRS employee integrity, OI worked with State and local officials in New York, California, and Tennessee to identify seasonal IRS employees who continued to receive unemployment benefits after being recalled to work from furlough status. OI continued its efforts to protect IRS employees during the performance of their official duties by assisting the Justice Department in prosecuting individuals who threaten or assault IRS employees.

Finally, during this reporting period we also examined the IRS's international programs. TIGTA's reports found that: the IRS has not established a process to ensure that billions of dollars in taxes withheld from foreign persons are remitted; improvements are needed to strengthen systems development controls for the Foreign Financial Institution Registration System; and the IRS's International Campus Compliance Unit is improving individual tax compliance by United States taxpayers or foreign taxpayers whose cross-border transactions are subject to U.S. taxation.

TIGTA's work has significant quantifiable results. Our combined audit and investigative efforts have recovered, protected, and identified monetary benefits totaling \$15.45 billion during this reporting period. Over the past six months, TIGTA's Office of Audit has completed 85 audits, and OI has closed 1,711 investigations.

Just as important and less easy to quantify is the impact our reports, evaluations, and investigations have on the American taxpayer. For many Americans, their most direct interaction with the Federal Government comes through the payment of Federal income taxes. If they are to have faith in their Government, particularly in trying times, we must be relentless in our quest to ensure that the IRS achieves excellence in all of its operations, acts as a responsible steward of the people's money, and finally, enforces the law with impartiality and fairness for all.

Sincerely,

A handwritten signature in black ink, reading "J. Russell George", is enclosed in a thin black rectangular box.

J. Russell George
Inspector General



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TIGTA's Profile

The Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of the Department of the Treasury's matters involving IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. Although TIGTA is placed organizationally within the Department of the Treasury and reports to the Secretary of the Treasury and to Congress, it functions independently from all other offices.

TIGTA oversees all aspects of activity related to the Federal tax system as administered by the IRS. TIGTA protects the public's confidence in the tax system by identifying and addressing the IRS's management challenges and implementing the priorities of the Department of the Treasury.

TIGTA's organizational structure is comprised of the Office of the Inspector General and six functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; the Office of Information Technology; and the Office of Chief Counsel (see chart on page 8).

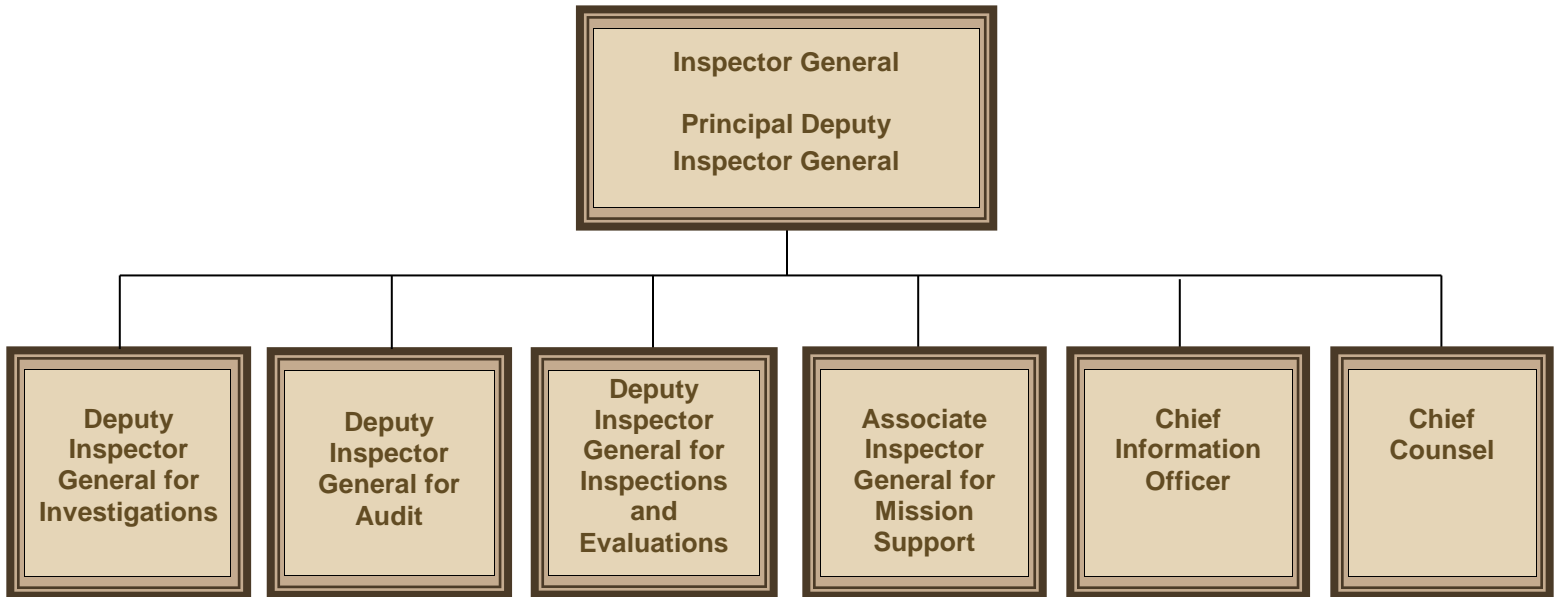
TIGTA provides audit, investigative, and inspection and evaluation services that promote economy, efficiency, and integrity in the administration of the Internal Revenue laws.

Statutory Mandate

- **Protect** against external attempts to corrupt or threaten IRS employees.
- **Provide** policy direction and conduct, supervise, and coordinate audits and investigations related to IRS programs and operations.
- **Review** existing and proposed legislation and regulations related to IRS programs and operations, and make recommendations concerning the impact of such legislation or regulations.
- **Promote** the economy and efficiency in the administration of tax laws.
- **Prevent** and detect waste, fraud, and abuse in IRS programs and operations.
- **Inform** the Secretary of the Treasury and Congress of problems and deficiencies identified and of the progress made in resolving them.



Organizational Structure



Authorities

TIGTA has all of the authorities granted under the Inspector General Act of 1978, as amended.¹ TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA must also report potential criminal violations directly to the Department of Justice. TIGTA and the IRS Commissioner have established policies and procedures delineating responsibilities to investigate potential criminal offenses under Internal Revenue laws. In addition, the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)² amended the Inspector General Act of 1978 to give TIGTA the statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Internal Revenue Code (I.R.C.) Section 7608(b)(2).

¹ 5 U.S.C. app. 3 (amended 2008).

² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., and 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



TIGTA's Highlights

Examples of High-Profile Cases by the Office of Investigations:

IRS Employee Sentenced to Total Term of Imprisonment of 228 Months

On June 11, 2013, in the Eastern District of Pennsylvania, IRS employee Patricia Fountain³ was sentenced for conspiracy to defraud the United States and the IRS, false claims to the IRS, filing a false tax return, aiding and abetting the presentation of a false tax return, and Hobbs Act extortion.⁴ Fountain was convicted of the charges on March 13, 2013.⁵

As an IRS employee, Fountain was entrusted with a variety of duties, including sending disallowance letters to taxpayers whose claims for certain tax credits or refunds were not properly calculated or lacked supporting documentation. Fountain and her co-conspirators knowingly, intentionally, and voluntarily conspired and agreed together and with others to defraud the United States and the IRS by obtaining and aiding to obtain the payment or allowance of false, fictitious, and fraudulent claims, that is tax returns, claiming undeserved tax credits and refunds.⁶

According to court documents, from November 2006 to December 2007, Fountain and her co-conspirators obtained the personal identifying information (PII) of various taxpayers, including their name and Social Security Numbers, and filed false Federal income tax returns in the names of those taxpayers claiming refunds to which they were not entitled. Fountain directed each taxpayer who received a refund from the IRS to pay a \$400 fee, warning them that if they failed to pay the cash fee she would "red flag" their account. For those taxpayers who failed to pay the \$400 fee, Fountain prepared and filed IRS Forms 1040X, reversing the refunds for eight taxpayers.⁷

Fountain was sentenced to a total term of imprisonment of 228 months and ordered to pay \$1,740,211.40 in restitution.⁸ This case was worked jointly with the IRS's Criminal Investigation Division.

³ E.D. Pa. Third Superseding Indict. filed Oct. 9, 2012.

⁴ E.D. Pa. Judgment filed June 11, 2013.

⁵ E.D. Pa. Verdict Sheet filed Mar. 13, 2013.

⁶ E.D. Pa. Third Superseding Indict. filed Oct. 9, 2012.

⁷ *Id.*

⁸ E.D. Pa. Judgment filed June 11, 2013.



Former IRS Employee Sentenced for Conflict of Interest, Unauthorized Disclosure

On July 16, 2013, in the Southern District of New York, former IRS employee Dennis Lerner⁹ was sentenced for acts affecting a personal financial interest and unauthorized disclosure of information.¹⁰

According to court documents, Lerner, while an IRS employee, personally and substantially participated in IRS settlement negotiations with a company while actively seeking employment with the company. Lerner also, while still an IRS employee, knowingly and willfully disclosed tax return information regarding audits being conducted by the IRS to an individual who was not an IRS employee.¹¹

Lerner was sentenced to three years of probation and 150 hours of community service, and was fined \$10,000.¹²

⁹ S.D. N.Y. Info. filed Dec. 18, 2012.

¹⁰ S.D. N.Y. Judgment In A Criminal Case filed July 16, 2013.

¹¹ S.D. N.Y. Info. filed Dec. 18, 2012.

¹² S.D. N.Y. Judgment In A Criminal Case filed July 16, 2013.



Examples of High-Profile Reports by the Office of Audit:

Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review

The IRS used inappropriate criteria to identify for review Tea Party and other organizations applying for tax-exempt status based upon their names or policy positions instead of indications of potential political campaign intervention. The kind of tax exemption an organization is granted under the I.R.C. determines the nature of the activities it may undertake.

For example, I.R.C. § 501(c)(3)¹³ charitable organizations are prohibited from directly or indirectly participating or intervening in any political campaign on behalf of or in opposition to any candidate for public office (hereinafter referred to as political campaign intervention).¹⁴ However, I.R.C. § 501(c)(4)¹⁵ social welfare organizations, I.R.C. § 501(c)(5)¹⁶ agricultural and labor organizations, and I.R.C. § 501(c)(6)¹⁷ business leagues may engage in limited political intervention. Tax-exempt organizations formed under Section 501(c)(4) can participate in some political campaign activity, but those activities cannot be a significant portion of their activity.

Ineffective management:

- Allowed inappropriate criteria to be developed and stay in place for more than 18 months;
- Permitted substantial delays in processing certain applications; and
- Allowed unnecessary information to be requested.

Although the IRS began processing some applications with indications of potential significant political campaign intervention soon after receiving them, no work was completed on the majority of these applications for 13 months because the IRS specialists were awaiting assistance from the Exempt Organizations function Headquarters Office. Of the 296 total political campaign intervention applications TIGTA had reviewed as of December 17, 2012, 108 had been approved, 28 had been withdrawn by the applicant, none had been denied, and 160 had been open from 206 to 1,138 calendar days (some for more than three years and crossing two election cycles).

More than 20 months after the IRS identified the initial case with indications of significant political campaign intervention, it began processing the cases. The IRS requested from many organizations additional information that included unnecessary and burdensome questions (e.g., lists of past and future donors). The IRS later

¹³ I.R.C. § 501 (c)(3) (2012).

¹⁴ Political campaign intervention is the term used in Treasury Regulations §§ 1.501(c)(3)-1, 1.501 (c)(4)-1, 1.501(c)(5)-1, and 1.501(c)(6)-1.

¹⁵ I.R.C. § 501 (c)(4) (2012).

¹⁶ I.R.C. § 501 (c)(5) (2012).

¹⁷ I.R.C. § 501 (c)(6) (2012).



informed some organizations that they did not need to provide the information it had previously requested. IRS officials stated that any donor information received in response to a request from its Determinations Unit was later destroyed.

TIGTA recommended that the IRS:

- Finalize the interim actions taken;
- Provide better documentation for the reasons why applications potentially involving political campaign intervention are chosen for review;
- Develop a process to track requests for assistance;
- Finalize and publish guidance;
- Develop and provide training to employees before each election cycle;
- Craft and provide workshops to employees before each election cycle to define what constitutes a political campaign intervention versus general advocacy, and follow up with those organizations that conduct activities which may jeopardize their tax-exempt status;
- Expeditiously resolve remaining political campaign intervention cases (some of which have been in process for three years);
- Request that social welfare activity guidance be developed by the Department of the Treasury; and
- Develop and provide training to employees on the process of how to obtain additional information and the appropriate format in which to request it.

In their response to the report, IRS officials agreed with seven of our nine recommendations and proposed alternative corrective actions for two more. TIGTA does not agree that the alternative corrective actions will accomplish the intent of the recommendations and continues to believe that the IRS should better document the reasons why it chooses applications with indications of significant political campaign intervention for review, and should develop and publish guidance thereto.

Reference No. 2013-10-053

Review of the August 2010 SB/SE Division's Conference in Anaheim, California

The Small Business/Self-Employed (SB/SE) Division held a conference for an estimated 2,609 Division executives and managers at a reported cost of \$4.1 million at the Marriott, Hilton, and Sheraton hotels located in Anaheim, California. Procedures at the time of the conference did not require IRS management to track and report actual conference costs. As a result, TIGTA could not validate the conference costs reported by the IRS.

TIGTA determined that the IRS did not use available internal personnel to assist in searching for the most cost-effective location, as required. Instead, SB/SE Division management approached two non-governmental event planners to identify a suitable off-site location for the conference. These two planners were not under contract with the IRS; hence, they had no incentive to negotiate a favorable room rate for the IRS. Instead, the three hotels paid the event planners an estimated \$133,000 commission based on the total cost of rooms paid for by the IRS.



The IRS may have been able to negotiate a lower lodging rate to reduce conference expenses if it had not used non-governmental event planners and had eliminated some of the negotiated concessions provided by the hotels (e.g., daily continental breakfast, a welcome reception with two drink coupons for all attendees, and a significant number of suite upgrades). TIGTA also identified other questionable expenses related to the conference, including planning trips, outside speakers, video productions, an information corridor, and promotional items and gifts for IRS employees.

TIGTA recommended that the IRS:

- Verify that costs are being tracked for recent conferences;
- Track conference attendance;
- Ensure that the appropriate IRS office is contacted and used to plan future conferences;
- Develop procedures outlining the appropriate use of non-governmental event planners for IRS conferences;
- Establish procedures related to planning trips, information corridors, videos, and other technology for future conferences;
- Evaluate whether hotel upgrades should be sought for future conferences; and
- Ensure that taxable travel is identified and Forms W-2, *Wage and Tax Statement*, are issued to applicable employees.

IRS management agreed with all of TIGTA's recommendations. The IRS plans to issue additional guidance related to conference spending and attendance, the tracking of Continuing Professional Education credits, the use of event planners, the solicitation of hotel room upgrades, video productions, planning trips, and the conference approval process. The IRS also stated that it plans to issue Forms W-2 to all applicable employees.

Reference No. 2013-10-037



TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY



Promote the Economy, Efficiency, and Effectiveness of Tax Administration

TIGTA's Office of Audit (OA) strives to promote the economy, efficiency, and effectiveness of tax administration. TIGTA provides recommendations to improve the IRS's systems and operations and to ensure the fair and equitable treatment of all taxpayers. TIGTA's comprehensive and independent performance and financial audits of the IRS's programs and operations primarily address TIGTA's statutorily mandated reviews and high-risk challenges faced by the IRS.

The IRS's implementation of audit recommendations results in:

- Cost savings;
- Increased or protected revenue;
- Protection of taxpayers' rights and entitlements; and
- More efficient use of resources.

Each year, TIGTA identifies and addresses the IRS's major management and performance challenges. OA places audit emphasis on the statutory coverage required by RRA 98 and other laws, as well as areas of concern to Congress, the Secretary of the Treasury, the Commissioner of the IRS, and other key stakeholders.

Audit Emphasis Areas for April 2013 through September 2013

- Security for Taxpayer Data and Employees
- Tax Compliance Initiatives
- Modernization
- Implementing the Affordable Care Act and Other Tax Law Changes
- Fraudulent Claims and Improper Payments
- Achieving Program Efficiencies and Cost Savings

The following summaries highlight significant audits completed in each of these areas of emphasis during this six-month reporting period:

Security for Taxpayer Data and Employees

The IRS faces the daunting task of securing its massive computer systems against the growing threat of cyberattacks. Effective information systems security is essential to ensure that data are protected against inadvertent or deliberate misuse, improper disclosure, or destruction, and that computer operations supporting tax administration are secured against disruption or compromise.



Contractor Employees Have Millions of Dollars of Federal Tax Debts

As of June 14, 2012, 691 (5 percent) of the 13,591 IRS contractor employees reviewed by TIGTA had \$5.4 million in Federal tax debt. These Federal tax debts were either agreed to by the taxpayers or affirmed by courts of law. Of the 691 contractor employees, 352 were not on a payment plan to resolve their tax debt. Most of the contractor employees appeared to have been compliant when their initial staff-like access was granted. However, at least 319 contractor employees had tax debts assessed after they were granted staff-like access, and these employees were not on a payment plan. Under IRS policy, these 319 contractor employees were not eligible for staff-like access and should not have had access to IRS facilities, systems, or data.

TIGTA identified five IRS contractor employees who either did not file required tax returns or filed them late but were still granted staff-like access. TIGTA also identified 13 employees of IRS contractors who were tax-compliant at the time staff-like access was granted, but who subsequently failed to file a required Federal tax return while assigned to an active IRS contract.

TIGTA identified weaknesses in the IRS's existing practices that allowed contractor employees with Federal tax debts and instances of nonfiling to go undetected after staff-like access had been initially granted, because the IRS does not continuously monitor contractor employee tax compliance in the same way it monitors IRS employee tax compliance. Instead, the IRS reviews contractor tax compliance only every five years or if the contractor employee has longer than a two-year break in service.

TIGTA recommended that the IRS:

- Monitor contractor employee tax compliance in a manner similar to the way it monitors Federal tax compliance by IRS employees;
- Conduct a complete tax compliance check after a break in service longer than two years; and
- Evaluate contractor employees identified as potentially noncompliant, and either bring noncompliant individuals into compliance or remove them from IRS contracts.

IRS management agreed with our recommendations and plans to convene a team to fully explore all viable options to address any future tax noncompliance.

Reference No. 2013-10-082

While Efforts Are Ongoing to Deploy a Secure Mechanism to Verify Taxpayer Identities, the Public Still Cannot Access their Tax Account Information Via the Internet

RRA 98 requires the IRS to allow taxpayers to access tax account information online. The IRS successfully implemented Release 1 of the eAuthentication application during Fiscal Year (FY) 2012, which allowed a small number of taxpayers to securely verify their identities with the IRS and participate in the eTranscripts for Banks application.



While several applications have been developed and implemented by the IRS, none of these applications meet RRA 98 requirements. TIGTA also determined that required capacity testing was not adequately completed to ensure that the eAuthentication application can support the expected number of users at any given time and noted deficiencies with the reporting functionality in Release 1 of the eAuthentication application, which will be addressed in future releases. Finally, TIGTA noted that total cost information for the project is not readily obtainable for project management.

TIGTA recommended that the IRS:

- Reprioritize its efforts to develop and implement applications that both serve the taxpayer and comply with RRA 98 requirements;
- Perform complete capacity testing of the eAuthentication application prior to Release 2;
- Continue its efforts in upgrading the reporting functionality of the eAuthentication application; and
- Develop a formal system to provide reports of actual costs received and accepted by Contracting Officer Representatives.

The IRS agreed with three of our four recommendations. The IRS plans to: prioritize release of applications that meet the requirements of RRA 98; complete performance and capacity testing as part of Release 2 of the eAuthentication application; and increase reporting functionality in Release 2 of the eAuthentication application.

The IRS agreed with the intent and spirit of the fourth recommendation, to develop a formal system to provide reports of actual costs received and accepted by the Contracting Officer Representatives, but disagreed with TIGTA's finding that actual cost information is not readily available for project management purposes. The IRS contends that this finding is based on an isolated example.

Reference No. 2013-20-127

Better Cost–Benefit Analysis and Security Measures Are Needed for the Bring Your Own Device Pilot

The IRS has taken several noteworthy actions to implement its Bring Your Own Device (BYOD) pilot. For example, the IRS has proceeded toward BYOD in phases and has begun a proof-of-concept effort that will allow the IRS to apply security settings on BYOD devices to mitigate risks. However, the IRS has not developed a complete cost-benefit analysis to fully justify the implementation of the BYOD concept.

Federal-level guidance states that BYOD should be cost-effective and that a cost-benefit analysis is essential. While the IRS did prepare a simple cost analysis that compared the estimated cost of BYOD to the cost of the IRS's existing mobility programs prior to the start of the BYOD pilot, that analysis was not updated with complete information on assumptions and costs. BYOD could provide significant benefits; however, these benefits are just conjecture until a thorough analysis is conducted.



Additionally, increased attention is still needed to address security concerns related to the 460 users participating in the BYOD pilot. The IRS allows BYOD devices access to resources on the IRS network in addition to e-mail access, thereby increasing the risk that privacy and taxpayer data could be put at risk. The IRS also allows devices based on the Android[®] operating system to participate in the BYOD pilot, even though these devices are more subjected to malware than the Apple[®] devices tested in earlier phases. Audit trails and training also need to be improved.

TIGTA recommended that the IRS:

- Ensure that a cost-benefit analysis for BYOD is completed that complies with Federal guidance;
- Ensure that BYOD users are allowed access to e-mail functions only;
- Defer admitting Android into a BYOD pilot or program until a security risk assessment has been completed;
- Retain and review audit trails in compliance with existing IRS policies; and
- Provide periodic training for BYOD participants on threats and recommended security practices specific to BYOD.

In its response to the report, the IRS agreed with four of TIGTA's five recommendations and proposed some corrective actions that it plans to take only if the BYOD pilot is expanded or funding is identified. The IRS disagreed with TIGTA's recommendation to defer admitting Android devices into the pilot until a security risk assessment is completed. TIGTA believes that some of the corrective actions proposed by the IRS are inadequate because they are contingent on BYOD expansion or additional funding. The relevant controls should be put in place for the existing BYOD effort, which is being used by hundreds of employees and devices within the production environment.

Reference No. 2013-20-108

Tax Compliance Initiatives

Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and oversight of tax-exempt and Government entities. Increasing voluntary taxpayer compliance and reducing the Tax Gap¹⁸ remain the focus of many IRS initiatives. Although the IRS reported that the Tax Gap is caused by both unintentional taxpayer errors and willful tax evasion or cheating, it does not have sufficient data to distinguish the amounts attributable to each. The IRS also reported that a meaningful improvement in the voluntary compliance rate requires a long-term, focused effort involving taxpayer service, modernization, and enforcement.

Payment Agreements

Payment agreements are programs which allow taxpayers to make partial payments on their tax liability and provide a simple and convenient format to do so. Often times these payments can be made paperless, involving a toll-free call and no personal

¹⁸ The Tax Gap is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year.



interaction with the IRS. These agreements are beneficial to taxpayers or their authorized representatives because they reduce taxpayer burden. They also decrease costs and increase revenue for the IRS.

Controls Over Partial Payment Installment Agreements Can Be Improved

When establishing a Partial Payment Installment Agreement (PPIA), the IRS is required to complete a financial analysis of the taxpayer and to continue assessing the financial condition of taxpayers with a PPIA every two years. TIGTA reviewed a random sample of 100 PPIAs and found that the two-year reviews were not always properly performed, and that some PPIAs were established without a complete financial analysis and/or manager approval.

To begin the two-year financial assessment, the IRS should conduct an automated review process of PPIAs at the two-year mark. However, the automated two-year review processes did not occur in eight (10 percent) of the 84 PPIAs that required a two-year review. If the automated review process determines that the financial condition of the taxpayer may have improved, a manual review is required. However, the manual reviews were not performed properly for 15 (52 percent) of the 29 PPIA cases for which a manual review was required. IRS procedures do not require managers to review or approve the results of the two-year review of PPIAs.

In addition, 15 (15 percent) of 100 PPIAs sampled were established without a complete financial analysis. Without a complete financial analysis, there is a higher risk that the taxpayers are not paying the maximum amount that they can afford, or that they are unable to afford the amount in the agreement. Further, 34 (34 percent) of the 100 PPIAs did not have evidence that a manager approved the PPIA. The absence of documented manager approval indicates that the managers are not reviewing PPIAs before they are established.

The IRS Collection Process Study report recommended that the IRS expand the use of PPIAs by offering a modified minimum PPIA to all individual taxpayers in uncollectible status. The report estimated that if PPIAs were offered to 230,000 individual taxpayers classified as unable to pay, the collection potential could be as high as \$69 million annually. The IRS advised TIGTA that it does not have plans to implement this recommendation due to resource limitations.

TIGTA made recommendations to improve controls over the establishment and two-year review process of PPIAs. TIGTA also recommended that management test the viability of expanding the use of PPIAs on a sample of taxpayers in uncollectible status.

IRS management agreed with most of the recommendations and plans to take corrective actions. The IRS did not agree to test the viability of expanding the use of PPIAs. However, its disagreement was based on results from a different program which TIGTA does not believe is comparable.

Reference No. 2013-30-040



The Online Payment Agreement Program Benefits Taxpayers and the IRS, but More Could Be Done to Expand Its Use

The Online Payment Agreement (OPA) program allows an individual taxpayer to enter into a payment agreement with the IRS while eliminating the need for personal interaction. This program is beneficial to both the taxpayer and the IRS. Taxpayers' use of the OPA program has increased from 18,291 taxpayers in FY 2007 to 95,979 in FY 2012 (a 425 percent increase). In addition, the default rate of streamlined installment agreements processed with the OPA program is 44 percent lower than the overall default rate.

The IRS projected that the OPA program would process 3.2 million streamlined installment agreements for FYs 2007 through 2012. However, only 308,246 taxpayers (10 percent of the goal) used the OPA program to establish their installment agreements during this period.

The IRS did not establish a process to measure program results against the OPA program goals. IRS managers and employees associated with the OPA program were unaware of its goals. Management could do more to promote the program and identify and remove potential barriers, which could further expand the use of the program.

Despite the modest annual growth, the OPA program has significantly underperformed and is not meeting usage goals. The OPA projected that the program would process 583,443 streamlined installment agreements in FY 2012. However, it processed only 95,979 installment agreements in FY 2012, which is only 16 percent of the FY 2012 goal. The OPA program would have had to process more than six times as many installment agreements as it did in FY 2012 to meet its goal.

TIGTA recommended that the IRS:

- Measure OPA performance results against program goals;
- Improve promotion efforts; and
- Perform an evaluation of the OPA and installment agreement programs to identify barriers and the reasons taxpayers used the methods they did to establish their payment agreements.

The IRS agreed with our recommendations and stated that it has begun taking steps to implement them.

Reference No. 2013-30-121

Employers Do Not Always Follow IRS Worker Determination Rulings

The Determination of Worker Status Program was established in 1994. This program allows either a business or a worker to request a letter from the IRS regarding the worker's tax status as either an independent contractor or an employee. Known as the SS-8 Program, it has faced a growing inventory of cases, longer processing times, and limited employer adherence to program determination rulings. In response to these issues, the SS-8 Program implemented new prescreening techniques that have the



potential to reduce the time required to process cases while improving the quality of the inventory.

TIGTA analyzed 5,325 closed Calendar Year (CY) 2009 worker determination rulings in which the individual was identified as an employee. Results showed that not all employers are complying with the determination rulings. However, some of these employers may qualify for relief from employment taxes if their business qualifies under Section 530 of the Revenue Act of 1978. Section 530 provides for relief from employment taxes related to the proper classification of workers if certain requirements are met. The IRS should identify the reasons for employer noncompliance and develop a strategy to increase compliance with its worker determinations.

TIGTA recommended that the IRS:

- Incorporate documentation in the Internal Revenue Manual¹⁹ (IRM) that describes the features of the new prescreening techniques;
- Update performance goals for case processing times;
- Evaluate the new prescreening techniques including the impact on staffing; and
- Assess SS-8 Program changes needed to increase employer compliance with determination rulings.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.

Reference No. 2013-30-058

The Correspondence Audit Selection Process Could Be Strengthened

TIGTA evaluated a statistical sample of 102 of 7,470 single-year correspondence audits in which the taxpayers involved agreed that they understated their tax liabilities by at least \$4,000. For 43 of the 102 taxpayers in the statistical sample, TIGTA found that similar tax issues also existed on their prior and/or subsequent-year tax returns. TIGTA also found that 32 of those 43 taxpayers did not have their tax returns audited and, as a consequence, may have avoided additional assessments ranging from \$2,343 to \$18,874.

The IRS places an emphasis on keeping its audit inventories free of older tax years, so there is sufficient time to complete audits and assess any resulting taxes within the three-year assessment statute of limitations. This emphasis is one factor that contributed to the limited number of prior and/or subsequent-year tax audits in our sample. Control issues also exist over how current-year audit results are used in deciding whether to audit the prior and/or subsequent-year returns.

¹⁹ The Internal Revenue Manual is the IRS's primary source of instructions to its employees relating to the administration and operation of the IRS. It contains directions that employees need in order to carry out their operational responsibilities.



TIGTA recommended that the IRS:

- Develop and implement procedures that instruct how current-year correspondence audit results are to be used in deciding whether the prior and/or subsequent-year tax returns warrant an audit;
- Ensure that the instructions are followed; and
- Monitor the procedures to determine how effectively current-year correspondence audit results are used in deciding to audit prior and/or subsequent-year returns.

The IRS agreed with TIGTA's recommendations and plans to develop an IRM section to address the case selection and delivery process and the duties and roles of analysts and examiners.

Reference No. 2013-30-077

Trends in Compliance Activities Through FY 2012

During FYs 2011 and 2012, the IRS encountered challenges that included administering recent legislative changes in an environment of decreasing resources. For example, approximately 50 of the 500 Affordable Care Act²⁰ (ACA) provisions add to or amend the Internal Revenue Code. At the same time, the IRS operated under a continuing resolution for FY 2012 that funded it at a little more than \$11.8 billion, which is a 2.7 percent reduction since FY 2010.

Since FY 2010, approximately 8,000 full-time IRS positions have been lost—about 5,000 of those from front-line enforcement personnel. In addition to the IRS offering early retirements and buyouts, more than one-third of its executives and nearly 20 percent of its non-executive managers are currently eligible for retirement.

Enforcement revenue collected declined by 9 percent in FY 2012, from \$55.2 billion to \$50.2 billion. This number has decreased for two straight years and is 13 percent less than the \$57.6 billion collected in FY 2010. The 13 percent reduction in enforcement revenue correlates to the 14 percent reduction in the number of enforcement personnel.

IRS Collection function activities showed mixed results for FY 2012. For the third straight year, revenue collected on Taxpayer Delinquent Accounts²¹ by the IRS Collection Field function has increased. However, collections by the Automated Collection System declined for the first time in four years. The IRS continues to receive more new Taxpayer Delinquent Accounts than it closes. The amount owed increased by 22 percent in FY 2011 (\$56.2 billion) and by 12 percent in FY 2012 (\$63.1 billion) and has grown 46 percent over the past five years.

The Examination function's recent decrease in revenue agents and tax compliance officers contributed to a decline in the examinations of individual tax returns, resulting in

²⁰ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

²¹ A Taxpayer Delinquent Account is a balance due on a taxpayer account.



an overall decrease in examinations. The number of corporate, partnership, and S corporation examinations increased during FYs 2011 and 2012. The no-change rate for examinations of individual income tax returns by revenue agents in FY 2012 was 11 percent, but remained lower than the no-change rate reported in FY 2008.

TIGTA made no recommendations in this report, nor did the IRS provide any comments.

Reference No. 2013-30-078

Modernization

The Business Systems Modernization Program is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system. The IRS's modernization efforts are expected to provide the foundation for implementing a real-time tax system, reducing improper payments and fraudulent refunds, and providing the technology infrastructure and architecture that will enable taxpayers and other stakeholders to securely access tax account information.

Improvements Are Needed to Ensure Successful Development and System Integration for the Return Review Program

The IRS has not yet established roles for program-level governance for the Return Review Program (RRP), nor has it documented or clearly identified the key role of system integrator. From January to December 2012, the IRS conducted activities to validate that technology product solutions had been integrated successfully. However, critical systems development products were not completed or approved by major stakeholders before the IRS committed significant resources. Uncertainty about the systems development path for the RRP and the absence of Enterprise Life Cycle guidance for prototypes hindered initial systems development efforts. Further, alternative commercial software products were not fully considered prior to selecting technology solutions for the RRP system.

TIGTA recommended that the IRS:

- Establish appropriate program-level governance with enterprise-wide authority for the RRP;
- Document the RRP systems integrator's roles and responsibilities;
- Complete the RRP Prototype Management Plans, clarify how to measure prototype success, map prototype activities to requirements, incorporate lessons learned, and obtain approval from governance bodies;
- Document for approval by established RRP governance bodies the decided RRP systems development path;
- Establish sufficient Enterprise Life Cycle guidance for prototypes; and
- Take appropriate steps to ensure that change requests include alternative analyses and impact assessments and also establish and implement Enterprise Architecture guidelines for evaluating later versions of tested commercial products.



The IRS agreed with the recommendations and stated that it has taken or plans to take corrective actions.

Reference No. 2013-20-063

Annual Assessment of the IRS Information Technology Program

Since TIGTA conducted last year's assessment report, the IRS has made progress improving information security. As a result, the Government Accountability Office made a determination to downgrade information security from a material weakness to a significant deficiency. Even still, TIGTA's reviews identified weaknesses in system access controls, audit trails, and remediation of security weaknesses.

In addition, the IRS took important steps to correct system performance issues of the Modernized e-File system, allowing delivery of a successful filing season. However, TIGTA continues to believe that the IRS's Modernization Program is a major risk. TIGTA identified several systems development issues that should be addressed to further strengthen and support the IRS's modernization efforts. For example, our review of the Customer Account Data Engine 2 database determined that existing data quality issues prevented the downstream interfaces from being implemented. Further, the development and implementation of new systems for the ACA present major information technology management challenges. As a result, TIGTA plans to continue its strategic oversight of this area.

Achieving program efficiencies and cost savings is an important goal for the IRS. In October 2012, the IRS achieved Information Technology Infrastructure Library[®] Maturity Level 3 to help achieve greater efficiency delivering information technology services. While the IRS has made progress on improving program effectiveness and reducing costs, TIGTA's recent audit work involving data center consolidation, the Aircard and BlackBerry[®] smartphone program, and hardware and software management, identified several opportunities for the IRS to achieve additional cost savings.

As this was an assessment report of the IRS's Information Technology Program through FY 2013, TIGTA did not make any recommendations. However, TIGTA provided recommendations to the IRS in the audit reports referenced throughout this report.

Reference No. 2013-20-126

Implementing the Affordable Care Act and Other Tax Law Changes

Each filing season tests the IRS's ability to implement tax law changes made by Congress, because the IRS must often act quickly to assess the changes and determine the necessary actions to:

- Ensure that all legislated requirements are satisfied;
- Create new or revise existing tax forms, instructions, and publications;
- Revise internal operating procedures; and
- Reprogram major computer systems used for processing returns.



The ACA contains an extensive array of tax law changes that will present a continuing source of challenges for the IRS in the coming years. While the Department of Health and Human Services will have the lead role in the policy provisions of the ACA, the IRS will administer the law's numerous tax provisions. The IRS estimates that at least 50 provisions will either add to or amend the tax code, and that at least eight provisions will require the IRS to build new processes that do not exist within the current system of tax administration.

Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season

As of May 4, 2013, the IRS received more than 133.6 million tax returns and issued more than 99.5 million refunds totaling more than \$264 billion. However, due to the late passage of the American Taxpayer Relief Act of 2012 and errors in tax preparation software packages, approximately 11.6 million taxpayers were unable to file their tax returns until February or March 2013, depending on the type of forms they included.

The IRS reported that it identified 579,183 tax returns with \$3.6 billion claimed in fraudulent refunds during tax return processing and that it prevented the issuance of \$3.47 billion (96.4 percent) of those refunds. The IRS continues to expand its efforts to identify fraudulent tax returns and prevent them from being processed.

The IRS offered a number of different options for taxpayers to seek information and assistance. The use of self-assistance options has grown significantly. These options provide taxpayers with access to the IRS 24 hours a day, seven days a week. In comparison, declining IRS resources have reduced the number of taxpayers the IRS estimates that it can assist at Taxpayer Assistance Centers.

Finally, many tax return preparers continue to not comply with the Earned Income Tax Credit (EITC) due diligence reporting requirements; questionable education credits and Qualified Plug-in Electric Drive Motor Vehicle Credits continue to be issued; and Homebuyer Credit repayments and dispositions are still being incorrectly processed.

TIGTA recommended to the IRS that it:

- Ensure the Earned Income Tax Credit penalty is assessed for those who failed to comply;
- Update the filters to verify the age of those claiming education credits;
- Initiate a program to recover education credits from those who were ineligible;
- Correct programming errors to eliminate the overassessment of ineligible applicants for the Homebuyer Credit;
- Implement computer programming changes to eliminate the incidence of errors in processing Homebuyer Credits;
- Institute a program to accurately record the transfer of Homebuyer Credit repayments;
- Establish procedures to safeguard the proper recording of the 17-character Vehicle Identification Number; and



- Create a program to identify, review, and recover erroneous Plug-in Motor Vehicle credits.

The IRS agreed with seven of the recommendations and partially agreed to another. Form 8936 Qualified Plug-in Electric Drive Motor Vehicle Credit will be reviewed to determine if changes are necessary to ensure that reported VINs contain the requisite number of characters.

Reference No. 2013-40-124

Affordable Care Act: Improvements Are Needed to Strengthen Systems Development Controls for the Premium Tax Credit Project

The IRS has completed development and testing for the Premium Tax Credit Computation Engine, (PTC-CE) needed to calculate the Advanced Premium Tax Credit and the Remainder Benchmark Household Contribution, and the IRS developed a process to verify the accuracy of the PTC-CE calculations. However, improvements are needed to ensure the long-term success of the PTC Project by adherence to systems development controls for: (1) configuration and change management; (2) the interagency test management process; (3) security; and (4) fraud detection and mitigation in accordance with applicable guidance.

TIGTA recommended that the IRS improve the identification of questionable claims for the education credits and Qualified Plug-In Electric Drive Motor Vehicle Credit and reduce errors associated with the Homebuyer Credit repayments and dispositions. In addition, TIGTA recommended that the IRS initiate programs to recover the erroneous and questionable credits TIGTA identified and to ensure that EITC due diligence penalties are assessed when appropriate.

The IRS agreed with a majority of TIGTA's recommendations and plans to implement corrective actions. However, the IRS disagreed with one of our recommendations to ensure that the cybersecurity organization resolves or develops an action plan for the failed security tests. TIGTA maintains that this recommendation should be addressed to verify that corrective measures for failed controls have been implemented.

Reference No. 2013-23-119

Fraudulent Claims and Improper Payments

Improper payments include any payments that should not have been made or that were made in an incorrect amount (both overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Erroneous and improper payments issued by the IRS generally involve improperly paid refunds, tax return filing fraud, or improper payments to vendors or contractors. They also include the growing problem of identity theft.

Identity Theft

Identity theft continues to be a serious and growing problem with a significant impact on tax administration. The IRS reported that this crime affected 1.2 million taxpayers in CY 2012, and that, as of June 29, 2013, an additional 1.6 million were impacted in CY



2013. Undetected tax refund fraud results in substantial unintended Federal outlays and erodes taxpayer confidence in the Federal tax system.

The Taxpayer Protection Program Improves Identity Theft Detection; However, Case Processing Controls Need to Be Improved

The Taxpayer Protection Program has improved identity theft detection. In CY 2012, the Program identified 324,670 tax returns that involved identity theft and prevented the issuance of fraudulent tax refunds totaling \$2.2 billion. These tax returns were identified before processing was completed, to protect tax refunds from being issued.

However, controls over identity theft tax returns that the IRS worked in the Taxpayer Protection Program need to be strengthened. Tests of identity theft cases showed that the controls, cases worked, and training related to the Taxpayer Protection Program data were insufficient. For example:

- Identity theft indicators are not always added to taxpayer accounts;
- Account Management Services system cases are not clearly documented or closed accurately;
- Timeliness measures have not been established to accurately track the time frame required to resolve cases; and
- Documentation of employee training is insufficient.

TIGTA recommended that the IRS:

- Develop a process to ensure that required identity theft indicators are placed on taxpayer accounts;
- Create procedures to update the Account Management Services system regarding employee actions taken when working identity theft cases;
- Establish measures to accurately track the time frame for resolving Taxpayer Protection Program cases; and
- Ensure that employees complete mandatory training and maintain the required documentation in the Enterprise Learning Management System.

The IRS agreed with the recommendations and plans to take corrective actions.

Reference No. 2013-40-062

Detection Has Improved; However, Identity Theft Continues to Result In Billions of Dollars in Potentially Fraudulent Tax Refunds

Our review identified that expanded identity theft detection efforts by the IRS are helping identify fraudulent tax returns. However, billions of dollars in potentially fraudulent refunds continue to be paid. Our analysis of Tax Year (TY) 2011 tax returns identified approximately 1.1 million undetected tax returns filed using Social Security Numbers that have the same characteristics as those in IRS-confirmed identity theft tax returns. Potentially fraudulent tax refunds issued totaled approximately \$3.6 billion, which is down by \$1.6 billion compared to the \$5.2 billion TIGTA reported for TY 2010.



In addition, TIGTA expanded its TY 2011 analysis to include tax returns for which the primary Taxpayer Identification Number on the tax return is an Individual Taxpayer Identification Number (ITIN). TIGTA identified more than 141,000 TY 2011 tax returns filed with an ITIN that have the same characteristics as IRS-confirmed identity theft tax returns involving an ITIN. Potentially fraudulent tax refunds the IRS issued for these undetected tax returns totaled approximately \$385 million.

Lastly, actions still have not been taken to prevent multiple tax refunds from being deposited to the same bank account. This continues to provide identity thieves with an easy method to obtain fraudulent tax refunds.

TIGTA recommended that the IRS:

- Deactivate ITINs assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement, in an effort to reduce tax filing fraud; and
- Continue to analyze the characteristics of identity theft tax returns, including using the characteristics of questionable ITIN application data to expand identity theft filters.

The IRS agreed with the recommendations and plans to take corrective actions.

Reference No. 2013-40-122

Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft

A review of a statistical sample of 100 identity theft cases closed during the period August 1, 2011, through July 31, 2012 showed that the IRS correctly determined the rightful owner of the Social Security Number in all cases. However, taxpayers continued to face delays, with some cases showing significant inactivity during case processing. In addition, tax accounts were not always correctly resolved before the cases were closed.

For the 100 sample cases reviewed, case resolution averaged 312 days and cases showed significant periods of inactivity (*i.e.*, no work was being performed to resolve the case). Inactivity on these 100 identity theft cases averaged 277 days. In addition, the IRS did not correctly resolve tax accounts in 25 of the cases, which resulted in delayed refunds and/or incorrect refunds.

Finally, processes to ensure the accuracy of identity theft management information need to be developed. In the CY 2012 *Refund Fraud and Identity Theft Global Report*, (Global Report) the Accounts Management function's open case inventory was overstated by 95,429 cases. In addition, documentation was not maintained to support the inventory provided by the Accounts Management function.

The Global Report is the IRS's authoritative source for identity theft management information. It provides key statistics on the number of identity theft cases open and closed, incidents, affected taxpayers, and the amount of fraudulent refunds the IRS identified.



TIGTA recommended that the IRS:

- Ensure that assistors assigned to identity theft cases work these cases exclusively and are provided with ongoing training and the ability to perform actions to work these cases to conclusion;
- Develop clear and consistent processes and procedures to ensure that taxpayer accounts are correctly updated when cases are resolved;
- Create a standard format for information provided for inclusion in the Global Report;
- Establish validation processes and procedures to ensure the accuracy of the information included in the Global Report; and
- Create retention requirements for the documentation supporting information included in the Global Report.

The IRS agreed with the recommendations and plans to continue to ensure that there are sufficient resources assigned to identity theft inventory and phones and that processes and procedures are developed to ensure that all appropriate actions are taken on identity theft victims' accounts. The IRS also plans to develop a template for use when reporting inventory for the Global Report and plans to use a certification process for each function to verify the data it provided. Lastly, the IRS plans to ensure that each function maintains documentation in accordance with retention standards.

Reference No. 2013-40-129

The Purchase Card Program Lacks Consistent Oversight to Identify and Address Inappropriate Use

While some controls are working as intended, the IRS purchase card program lacks consistent oversight to identify and address inappropriate use. TIGTA determined that the IRS does not have a policy to timely cancel purchase cards prior to employee separation. Of the 387 cards associated with employees who separated during TIGTA's audit period, 98 percent were not closed prior to the employee's departure. TIGTA believes that this could leave such purchase cards vulnerable to misuse. In addition, the IRS did not have sufficient guidance to define "split purchases" for office supplies, which contributed to cardholders unwittingly dividing purchases. Further, current IRS controls do not include a review specifically designed to detect personal use.

Most IRS cardholders appear to use their purchase cards properly. However, TIGTA identified some instances of inappropriate use that include improper decorative and giveaway items for managers' meetings and Combined Federal Campaign fundraising events. In addition, IRS representatives who were entertaining foreign officials used purchase cards to pay for multiple lunches, dinners, and related alcohol purchases. For example, one dinner cost approximately \$140 per guest and a lunch cost \$100 per guest. TIGTA did not find any Department of the Treasury or IRS criteria to assess the reasonableness of these charges, but TIGTA considers the costs related to this entertainment to be high. Finally, the Credit Card Services Branch did not report for potential disciplinary action all instances of inappropriate purchase card use that it identified.



TIGTA recommended that the IRS:

- Update current purchase card guidance to require purchase card accounts to be closed prior to the date of a cardholder's separation;
- Analyze and review transactions to ensure compliance with procurement policies;
- Clearly define what constitutes a split purchase;
- Develop an oversight process to identify IRS employee personal use of purchase cards and other inappropriate transactions; and
- Require that the Credit Card Services Branch report all identified instances of potentially inappropriate use of purchase cards to the Labor and Employee Relations function for potential disciplinary action.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.

Reference No. 2013-10-056

Income and Withholding Verification Processes Are Resulting in the Issuance of Potentially Fraudulent Tax Refunds

IRS access to third-party income and withholding information is not available until well after the tax return filing season begins and tax returns are being processed.

In July 2012, TIGTA reported that its analysis of TY 2010 tax returns identified almost 1.5 million tax returns that were not detected by the IRS as potentially fraudulent despite having the same characteristics as other tax returns which had been confirmed by the IRS to be fraudulent. Analysis of the 1.5 million undetected fraudulent tax returns resulted in a determination that only 120,197 (8 percent) received a fraud score high enough to be sent for verification.

TIGTA's review of a random sample of 272 of those 120,197 tax returns found that in some of the cases fraudulent refundable credits were issued because the IRS does not have the authority to prevent the issuance of the credits. In FY 2012, the IRS requested expanded math error authority to deny the issuance of refundable credits.

In addition, some potentially fraudulent tax refunds were issued. In certain instances, the documentation was not sufficient to determine the actions taken by examiners performing the verifications.

TIGTA recommended that the IRS:

- Ensure that actions are taken to prevent the issuance of potentially fraudulent refunds when tax returns are not timely screened and verified;
- Verify that case actions are sufficiently documented;
- Revise procedures to safeguard that when tax returns are identified as potentially fraudulent they are re-assigned to another IRS function; and
- Retain the tax refund until the tax return is screened and verified.



IRS management agreed with these recommendations and stated that it has taken or plans to take corrective actions.

Reference No. 2013-40-083

The Law Which Penalizes Erroneous Refund and Credit Claims Was Not Properly Implemented

The IRS incorrectly interpreted the erroneous refund penalty law, which significantly limited the types of erroneous tax refund or credit claims to which the penalty would apply. The IRS assessed only 84 erroneous refund penalties, totaling \$1.9 million, between May 2007 and May 2012.

In response to concerns raised by various IRS functions, in an updated memorandum in May 2012, the IRS Office of Chief Counsel subsequently revised its interpretation of the law as to when the erroneous refund penalty could be assessed and issued.

Although the IRS revised its interpretation of the law, it has not developed processes or procedures to enable those functions (Campus Operations) that disallow the majority of individual tax credits to assess the erroneous refund penalties that are excessive and do not have a reasonable basis. For example, in the year after the IRS revised its interpretation of the law (June 3, 2012, through May 25, 2013), Campus Operations disallowed 709,123 individual tax credits for which the IRS could have potentially assessed erroneous refund penalties totaling more than \$1.5 billion.

IRS management raised concerns about the costs and benefits of establishing processes and procedures for the Campus Operations to assess penalties for erroneous refunds. However, the IRS has not provided any documentation and/or analysis to support the validity of these concerns. In view of the significant problem of erroneous claims for credits and refunds and the related costs to the Government, we believe the IRS should reexamine its decision and put appropriate procedures and processes in place to comply with this section of the law.

TIGTA recommended that the IRS develop processes and procedures to enable Campus Operations to assess the erroneous refund penalty for disallowed credit claims that are excessive and do not have a reasonable basis.

The IRS agreed with the recommendation and stated that a cross-functional team of affected stakeholders will determine the operational and procedural changes needed to integrate assessment of the erroneous refund penalty into the Campus Operations.

Reference No. 2013-40-123

Achieving Program Efficiencies and Cost Savings

Given the challenging economic environment and the increased focus by the Administration, Congress, and the American people on Government accountability and efficient use of resources, the American people must be able to trust that their Government is taking action to stop wasteful practices and to ensure that every tax dollar is spent wisely. While the IRS has made progress in using its data to improve



program effectiveness and reduce costs, this area continues to be a source of needed focus.

The Data Center Consolidation Initiative Has Made Significant Progress, but Program Management Should Be Improved to Ensure That Goals Are Achieved

While the IRS has exceeded its first two years' goals for reducing data center space and improving the energy efficiency of its data centers, management of the Data Center Consolidation Initiative (DCCI) needs to be improved to ensure that the IRS meets its future DCCI goals. Two years of the IRS's DCCI have elapsed without a clear plan for how to accomplish data center space reduction goals. The IRS's DCCI Program Management Office (PMO) has not formalized a project management plan that addresses challenges and details decisions, milestones, and time frames related to how the IRS will achieve its goals for data center consolidation.

In addition, the IRS has not identified the optimal footprint for its data centers. TIGTA observed a significant amount of empty space at the IRS's Enterprise Computing Center in Detroit, Michigan. TIGTA was informed by IRS management that the IRS's lease for this space will expire in April 2015 and that the systems at this location could be moved to other IRS data centers. During TIGTA's audit, the IRS announced plans to close the Enterprise Computing Center in Detroit, estimating that the closing will enable the IRS to save approximately \$15 million annually. Further, the IRS's DCCI does not include within its baseline inventory all of its data centers that meet the standard Federal definition of a data center. The IRS has an additional 115,343 square feet of data center space in 61 buildings.

TIGTA recommended that the IRS:

- Provide resources as appropriate to the DCCI PMO;
- Develop a project management plan that addresses challenges to accomplishing project goals and solutions;
- Consolidate the Enterprise Computing Center in Detroit in the Martinsburg and Memphis Enterprise Computing Centers;
- Correct the inventory when discrepancies are identified during local site visits;
- Formalize plans to develop and apply a baseline footprint to the IRS's small data centers;
- Update the annual inventory submitted to the Department of the Treasury to include all data centers;
- Identify and shut down computer room air conditioners no longer needed; and
- Adjust the set point temperatures as appropriate on the remaining computer room air conditioners in accordance with industry best practices.

IRS management agreed with seven of the eight report recommendations and partially agreed with one recommendation. The IRS stated that it has taken or plans to take appropriate corrective actions.

Reference No. 2013-20-013

Protect the Integrity of Tax Administration

TIGTA is mandated by law to protect the integrity of Federal tax administration. TIGTA accomplishes its mission, in part, through the investigative work conducted by the Office of Investigations (OI). Through its investigative programs, OI protects both the integrity of the IRS and its ability to collect revenue owed to the Federal Government by investigating violations of criminal and civil law that adversely impact Federal tax administration as well as administrative misconduct by IRS employees, all of which undermines the integrity of the Nation's voluntary tax system.

The Office of Investigations Performance Model

OI accomplishes its strategic mission objectives through its hardworking employees and the use of performance measures. These measures are defined as the percentage of results derived from investigative activities which most accurately align with the mission of the organization and which provide the greatest impact on the protection of the integrity of Federal tax administration. Investigations are based on a performance model that focuses on OI's three primary areas of investigative responsibility:

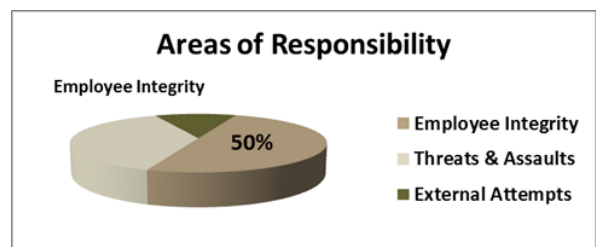
- Employee integrity;
- Employee and infrastructure security; and
- External attempts to corrupt tax administration.

OI investigates allegations of wrongdoing that fall within its area of responsibility.

Employee misconduct undermines the IRS's ability to deliver taxpayer service, to enforce tax laws effectively, and to collect taxes owed. Threats of physical violence, harassment, and intimidation of IRS employees are criminal violations and are aggressively investigated and referred for prosecution. As a result, employees feel more secure in their work environment and can focus on performing their critical jobs. With a continued focus on the expanding threat environment, OI balances its attention to this critical area with its other investigative programs to protect the integrity and effectiveness of the Federal tax system.

Employee Integrity

IRS employee misconduct, real or perceived, can erode public trust and impede the IRS's ability to effectively enforce tax laws. This misconduct manifests itself in a variety of ways, including misuse of IRS resources or authority, theft, fraud, extortion, taxpayer abuses, and unauthorized access to, and disclosure of, tax return information. During this reporting period, employee integrity investigations accounted for 50 percent of OI's work.





The following cases represent OI's efforts to ensure employee integrity during this six-month reporting period:

GS-15 Information Technology Specialist Sentenced for False Statements

IRS employee Antonio Willabus was sentenced in the District of Maryland for making false statements.²² Willabus was a GS-15 information technology specialist who worked a compressed schedule and was placed on a "flexiplace" work schedule that permitted him to work at his home on designated days. He entered his own time, attendance, and leave data into the IRS's time reporting database. His supervisor validated the time and attendance based upon approved leave requests.²³

From about January 13, 2012 to June 8, 2012, Willabus falsely certified in his database entries that he had worked designated hours when, in fact, he had not worked the hours and had taken personal time off without authorization. As a result, Willabus received approximately \$28,692 in salary for hours that he did not work.²⁴

On April 18, 2013, Willabus was sentenced to four months of imprisonment and one year of supervised release with the additional condition to perform 400 hours of community service. He was also ordered to pay \$24,427.45 in restitution and a \$100 assessment.²⁵ Willabus had previously pled guilty to the false statements charge on January 18, 2013.²⁶

IRS Revenue Agent Sentenced for Theft of Public Money

On May 21, 2013, IRS employee Becky L. Book²⁷ was sentenced in the District of Kansas for theft of public money, a felony.²⁸ Between March 2010, and April 2011, Book, an IRS Revenue Agent, fraudulently charged 744 hours to her cases which she did not actually work and prepared travel vouchers which claimed fraudulent mileage to appointments with taxpayers she never attended, resulting in a total loss to the IRS of \$26,449.65. When interviewed by TIGTA Special Agents, Book admitted to filing fraudulent travel vouchers and "pencil whipping" her Examining Officer's Activity Records to cover for her lack of work.²⁹

Book previously pled guilty to the charge of theft of public money on February 14, 2013, in the District of Kansas.³⁰ She was sentenced to two years of probation and ordered to make restitution in the amount of \$26,449.65.³¹

²² D. Md. Judgment filed Apr. 19, 2013.

²³ D. Md. Indict. filed July 16, 2012.

²⁴ *Id.*

²⁵ D. Md. Judgment filed Apr. 19, 2013.

²⁶ D. Md. Plea Agr. filed Jan. 18, 2013.

²⁷ D. Kan. Plea Agr. filed Feb. 14, 2013.

²⁸ D. Kan. Judgment filed May 22, 2013.

²⁹ D. Kan. Plea Agr. filed Feb. 14, 2013.

³⁰ D. Kan. Plea Agr. filed Feb. 14, 2013.

³¹ D. Kan. Judgment filed May 22, 2013.



Former Supervisory Internal Revenue Agent and Group Manager Sentenced for Exceeding Authorized Access to a Government Computer and Conflict of Interest

On September 12, 2013, in the Middle District of Louisiana, Jeanne Gavin was sentenced for exceeding her authorized access to a Government computer and engaging in a criminal conflict of interest.³² Gavin pled guilty to the violations on April 29, 2013.³³

Gavin, who was a Supervisory Internal Revenue Agent and Group Manager, was employed by the IRS starting in 1979. Her group was primarily responsible for auditing small businesses and self-employed taxpayers. As a manager, Gavin was involved in identifying taxpayers to be audited, assigning the auditor, and overseeing the audit.³⁴

While employed by the IRS, Gavin established a private tax and accounting business where she performed tax and accounting services for a fee, including representation of taxpayers before the IRS. Gavin made over \$70,000 in cash and other payments through her business. IRS employees are not permitted to engage in outside employment unless they obtain a written conflict of interest waiver from the IRS. Gavin did not seek or obtain a waiver for her business, as she knew the IRS would not have granted her a waiver to perform private tax services.³⁵

From 2005, through 2009, Gavin accessed and obtained taxpayer information contained in the IRS computer system over 2,000 times for the purpose of conducting her private tax and accounting business. She directed unsuspecting subordinate IRS employees, who believed that the information was being requested for official purposes, to access the information for her. IRS employees are only authorized to access this information to carry out their official duties, and not to conduct a private business.³⁶

Gavin was sentenced to 12-months imprisonment, followed by one year of supervised release, which includes three months in a residential community corrections center. Additionally, Gavin was fined \$20,000.³⁷

IRS Tax Examiner Pleads Guilty to Conspiracy to Commit Passport Fraud

On April 4, 2013, in the Southern District of Texas, Temi Russell, an IRS employee, pled guilty to conspiracy to commit passport fraud. From October 11, 2007 through September 2, 2010, Russell and a co-conspirator, Nyle Churchwell, worked at a Federal building in Houston, Texas.³⁸ Russell was an IRS Tax Examiner and Churchwell was an Adjudication Manager for the Houston Passport Agency.³⁹ Russell introduced another co-conspirator, Lorna Brown, to Churchwell.⁴⁰

³² M.D. La. Judgment filed Sept. 26, 2013.

³³ M.D. La. Minute Entry filed Apr. 29, 2013; M.D. La. Bill of Information filed Mar. 28, 2013.

³⁴ M.D. La. Bill of Information filed Mar. 28, 2013.

³⁵ *Id.*

³⁶ *Id.*

³⁷ M.D. La. Judgment filed Sept. 26, 2013.

³⁸ S.D. Tex. Plea Agr. filed Apr. 5, 2013; S.D. Tex. Superseding Indict. filed Sept. 5, 2012.

³⁹ S.D. Tex. Superseding Crim. Indict. filed Sept. 5, 2012.

⁴⁰ S.D. Tex. Plea Agr. filed Apr. 5, 2013.



As part of the scheme, Brown, who was found guilty of aiding and abetting in this matter,⁴¹ brought non-U.S. citizens to the passport office to get false U.S. passports. Churchwell approved the false passports knowing that the documents and witness information submitted was false. After the passports were issued, Russell would pick up and deliver them.⁴²

Spotlight on Integrity

The Federal tax system is based on voluntary compliance and, as such, it is critical that the American public has confidence, not only in the security of the sensitive personal and financial information supplied to the IRS, but also in the integrity of the IRS employees who access, use, and review the information for tax administration purposes.

Identity Theft by Employees

In the current fiscal environment, Federal policymakers are increasingly concerned with securing the economic health of the United States—which includes combating those crimes that threaten to further undermine the Nation’s financial stability. Identity theft is one such crime, and OI is committed to detecting and investigating identity theft that falls within its jurisdiction of protecting the integrity of tax administration.

TIGTA focuses its limited investigative resources on identity theft cases that include any type of IRS employee involvement, theft, or misuse of client information by tax preparers, or the impersonation of the IRS through phishing schemes⁴³ and other means.

The identity theft landscape is constantly changing as identity thieves continue to create new ways of stealing PII (e.g., name, address, Social Security Number, and date of birth) to use for their gain. PII is the lifeblood of identity theft schemes, and criminals have increasingly turned to the healthcare, financial, and insurance industries as well as government entities to obtain PII.

It is particularly troubling when IRS employees misuse their positions to facilitate or participate in identity theft schemes. TIGTA proactively reviews the activities of IRS

“Identity theft not only has a negative impact on the economy, but the damage it causes to its victims can be personally, professionally, and financially devastating.”

J. Russell George
Inspector General for Tax Administration, “Review of the President’s Fiscal Year 2014 Funding Request and Budget Justification for the Department of the Treasury” testimony on May 8, 2013

⁴¹ S.D. Tex. Order for Presentence Investigation and Disclosure & Sentencing Dates filed Sept. 5, 2012; S.D. Tex. Superseding Crim. Info. filed Aug. 23, 2012.

⁴² S.D. Tex. Plea Agr. filed Apr. 5, 2013.

⁴³ Phishing is an attempt by an individual or group to solicit personal and financial information from unsuspecting users in an electronic communication by masquerading as trustworthy entities such as government agencies, popular social websites, auction sites, online payment processors, or information technology administrators.



employees who access taxpayer accounts, to identify unauthorized accesses that may be part of a larger fraud scheme.

The following case represents OI's efforts to investigate employee identity theft during this six-month reporting period:

IRS Employee Indicted in Identity Theft Scheme

On July 18, 2013, in the Eastern District of Kentucky, IRS employee Joy Fox was indicted for fraud and related activity in connection with computers, aggravated identity theft, mail fraud, and conspiracy to file a false claim.⁴⁴ According to court documents, as part of her duties with the IRS, Fox had access to an IRS computer system which maintains taxpayer information, including names, Social Security Numbers, and dates of birth of taxpayers. On dates between January 2013 and March 2013, Fox and a co-conspirator, Patrick Sharpe, devised a scheme to defraud and obtain money by means of false pretenses. As part of the plan, Sharpe requested that Fox provide identifying information on individuals 65 years of age or older who were entitled to receive Social Security benefits. Fox exceeded her authorized access to the IRS computer system and improperly, without authority, obtained the personal identifying information of at least eight individuals. This information was provided to Sharpe for use in the scheme.⁴⁵

Employee Integrity Projects

TIGTA promotes employee integrity by conducting proactive investigative initiatives to detect misconduct in the administration of IRS programs. During this reporting period, TIGTA initiated 19 proactive investigations to detect systemic weaknesses or potential IRS program vulnerabilities.

A recent proactive initiative identified seasonal IRS employees who continued to receive unemployment benefits after being recalled to work from furlough status by the IRS. This initiative resulted in the arrests of 13 current and former IRS employees in the Western District of Tennessee on April 17, 2013.⁴⁶

According to indictments filed in March 2013, all 13 were individually charged in separate indictments and were alleged to have concealed material information and falsely stated that they were unemployed while applying for or recertifying to obtain unemployment payments. However, at all times relevant to the indictments, the

⁴⁴ E.D. Ky. Indictment, filed July 18, 2013.

⁴⁵ *Id.*

⁴⁶ W.D. Tenn. Arrest Warrants Returned Executed: Angela Allison, Dorothy Simmons, Teresa Jenkins, Angela Scales, Mary Weeks, Evonna Yarbrough, Lillian Hamilton, Jessica Davis, Shari House, Talari Mitchell, Serina Gaither, Joanne Johnson, and Gale Baker filed Apr. 17, 2013; W.D. Tenn. Indictments: Angela Allison, Dorothy Simmons, Teresa Jenkins, Angela Scales, Mary Weeks, Evonna Yarbrough, Lillian Hamilton, Jessica Davis, Shari House, Talari Mitchell, Serina Gaither, Joanne Johnson, and Gale Baker filed Mar. 27, 2013.



individuals were employed by the IRS.⁴⁷ Some individuals were also charged with concealing material information and making false statements to obtain food stamps,⁴⁸ welfare,⁴⁹ and housing vouchers.⁵⁰

In another case, Tracey Lewis, a former IRS employee, was sentenced on June 27, 2013, in the Southern District of Indiana for making fraudulent claims in connection with unemployment benefits.⁵¹ Lewis knowingly made a false claim for unemployment benefits by certifying she was not employed when she was employed by the IRS.⁵² Lewis was sentenced to three years of probation, 80 hours of community service, and ordered to pay restitution in the amount of \$4,493 to the Indiana Department of Workforce Development.⁵³

Bribery Awareness Initiative

As part of an ongoing effort to promote employee integrity, OI partnered with the IRS to produce a well-received bribery awareness training webinar titled, *Bribery: What You Should Know and How You Should Respond*. The training featured subject matter experts from OI and was presented to employees throughout IRS business units.

OI Provides Bribery Awareness Training to the IRS



Pictured from left: Michael A. Delgado, Assistant Inspector General for Investigations, and Robert O'Malley, Special Agent in Charge, New York Field Division

Employee and Infrastructure Security

All reports of threats, assaults, and forcible interference against IRS employees performing their official duties are referred to TIGTA's Office of Investigations. TIGTA special agents are committed to protecting Federal tax administration by identifying, investigating, and responding to threats of all types against the approximately 90,000 personnel and 670 facilities of the IRS. During this six-month reporting period, OI responded to 1,437 threat-related incidents.

TIGTA's partnership with the IRS Office of Employee Protection (OEP) to identify potentially dangerous taxpayers is one example of TIGTA's commitment to protecting IRS employees. If OEP designates a taxpayer as potentially dangerous, TIGTA conducts a follow-up assessment of the taxpayer after five years, so that OEP can determine if the taxpayer still poses a danger to IRS employees. TIGTA's special agents provide physical security, known as "armed escorts," to IRS employees who

⁴⁷ W.D. Tenn. Indictments: Angela Allison, Dorothy Simmons, Teresa Jenkins, Angela Scales, Mary Weeks, Evonna Yarbrough, Lillian Hamilton, Jessica Davis, Shari House, Talari Mitchell, Serina Gaither, Joanne Johnson, and Gale Baker, filed Mar. 27, 2013.

⁴⁸ W.D. Tenn. Indictments: Angela Allison, Dorothy Simmons, and Teresa Jenkins, filed Mar. 27, 2013.

⁴⁹ W.D. Tenn. Indictment: Dorothy Simmons, filed Mar. 27, 2013.

⁵⁰ W.D. Tenn. Indictment: Angela Allison, filed Mar. 27, 2013.

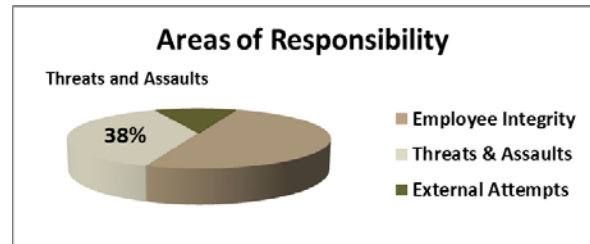
⁵¹ S.D. Ind. Judgment filed July 1, 2013; S.D. Ind. Info. filed Nov. 15, 2012.

⁵² S.D. Ind. Info. filed Nov. 15, 2012.

⁵³ S.D. Ind. Judgment filed July 1, 2013.

have face-to-face contact with a taxpayer who may pose a danger to the employee. Armed escorts are conducted to ensure a secure environment in which employees can perform their critical tax administration functions. During this six-month reporting period, OI conducted 31 armed escorts for IRS employees.

Collecting taxes is a critical function of the Federal Government. Threats and assaults directed at IRS employees, facilities, data, and computer systems impede the effective administration of the Federal tax system and the IRS's ability to collect tax revenue. Contact with the IRS can be stressful and emotional for taxpayers. Although the majority of taxpayer contacts are routine, some may become confrontational and even violent. During this six-month reporting period, threat and assault investigations accounted for 38 percent of OI's work.



The following cases represent OI's efforts to ensure the safety of IRS employees during this six-month reporting period:

Man Sentenced in Washington for Threatening to Shoot IRS Employees

Leroy Altona was sentenced, in the Western District of Washington, for interference with the administration of Internal Revenue laws.⁵⁴ Altona called the IRS in November 2012, to complain about a tax penalty that had been assessed in connection with his previous business. During the call, he threatened to shoot any IRS employees who entered his property by making such statements as, "How 'about if I tell 'em to come and get it and I'll wait here with my, uh, Mac 15, and pick 'em off as they come up the driveway?" and, "My attitude is like, Revenuers, you shoot 'em on sight."⁵⁵ Altona was sentenced to two-years of probation on April 30, 2013.⁵⁶ He previously pled guilty to the charge on January 29, 2013.⁵⁷

Man Indicted in Utah on Weapons Charges after Previously Threatening to Bomb IRS Office

On July 23, 2013, in the District of Utah, Central Division, Keith Pierce was indicted for failure to register as a dealer and manufacturer, illegal possession of machine guns, and possession of a firearm with an obliterated serial number.⁵⁸ Pierce was arrested on July 10, 2013, in Provo, Utah on Federal weapons charges.⁵⁹

According to court documents, an investigation was initiated on Pierce in November 2012 after he made statements to a confidential source about bombing the IRS office in Provo, Utah, the Provo Police Department, and a court building. Pierce also claimed to have access to automatic weapons, as well as the tools and knowledge to make fully

⁵⁴ W.D. Wash. Judgment filed Apr. 30, 2013.

⁵⁵ W.D. Wash. Plea Agr. filed Jan. 29, 2013.

⁵⁶ W.D. Wash. Judgment filed Apr. 30, 2013.

⁵⁷ W.D. Wash. Plea Agr. filed Jan. 29, 2013.

⁵⁸ D. Utah Indictment filed July 23, 2013.

⁵⁹ D. Utah Warrant for Arrest filed July 10, 2013.



automatic weapons. During the investigation, Pierce delivered a fully automatic firearm with an obliterated serial number to a Federal Bureau of Investigations (FBI) undercover employee. The Bureau of Alcohol, Tobacco, Firearms, and Explosives (BATF) review and testing of the weapon revealed its modified configuration and concluded it could be defined as a machine gun.⁶⁰ After his arrest, the court found that Pierce constitutes a risk of danger to the community and ordered he be detained pending trial.⁶¹

The investigation was worked by members of the Joint Terrorism Task Force. The arrest was conducted by agents of the FBI, BATF, and TIGTA.

Man Pleads Guilty in New York to Assaulting an IRS Employee

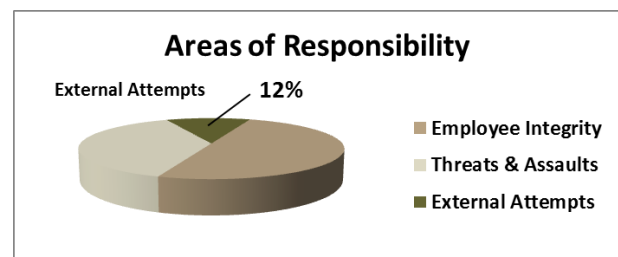
On June 19, 2013, in the Southern District of New York, Joseph P. Fienga pled guilty to Count One of an Information,⁶² charging him with assaulting an IRS employee in Middletown, New York.⁶³ According to court documents, on or about October 22, 2012, Fienga did forcibly assault, resist, oppose, impede, intimidate, interfere with, and commit simple assault on an IRS employee, who was engaged in the performance of his official duties, by throwing coffee on him.⁶⁴

External Attempts to Corrupt Tax Administration

TIGTA is statutorily mandated to investigate external attempts to corrupt or impede tax administration. There are many ways in which taxpayers may interfere with the IRS's ability to collect revenue for the United States, such as impersonating IRS employees or misusing IRS seals, filing false or frivolous documents against IRS employees, using fraudulent IRS documentation to perpetrate criminal activity, committing fraud in contracts awarded by the IRS, and offering bribes to IRS employees to influence their tax cases.

These attempts to corrupt or otherwise interfere with tax administration inhibit the IRS's ability to collect revenue and create personal financial troubles for the affected Government employees. They also undermine the American public's confidence in fair and effective tax administration. During this reporting period, investigations into attempts to corrupt or impede tax administration accounted for 12 percent of OI's work.

The following cases represent OI's efforts to address and deter external attempts to corrupt tax administration during this six-month reporting period:



⁶⁰ D. Utah Complaint filed July 9, 2013.

⁶¹ D. Utah Criminal Docket Minute Entry filed July 15, 2013.

⁶² S.D.N.Y. Criminal Docket filed June 19, 2013.

⁶³ S.D.N.Y. Information filed May 8, 2013.

⁶⁴ *Id.*



Woman Sentenced in Louisiana to 27 Months in Prison

On May 17, 2013, Veta Thompson was sentenced in the Western District of Louisiana for corruptly endeavoring to obstruct or impede the due administration of the Internal Revenue laws.⁶⁵ In 2008, Veta Thompson contacted the IRS to find out how they handled overpayments to taxpayers' accounts. She was told that if an overpayment was made to her account, the IRS would issue her a refund. From January 15, 2008, and continuing through April 29, 2010, Thompson submitted 386 payments to the IRS totaling \$12,825,992.33, knowing that she had no tax liability and that no money was owed to her by the IRS. All of the payments were rejected by the bank because the accounts were either closed or there were insufficient funds in the accounts.⁶⁶

After Thompson submitted these payments to the IRS, the IRS credited her tax account before they knew the payments were drawn on accounts that were either closed or that contained insufficient funds. Because her IRS account showed a credit balance, the IRS issued nine refund checks to her, totaling \$77,349.09. After the IRS realized what had happened, they placed a freeze on her account, preventing any additional erroneous refunds from being issued to her.⁶⁷ Thompson was sentenced to 27 months in prison and ordered to make restitution to the IRS in the amount of \$77,349.09.⁶⁸ She previously pled guilty to the charge on January 17, 2013.⁶⁹

Man Sentenced in New Hampshire for Bribery of a Public Official

On July 10, 2013, in the District of New Hampshire, Hoang O. Hoang was sentenced for bribery of a public official.⁷⁰ Beginning in December 2011, and continuing through January 2012, Hoang corruptly gave, offered, and promised United States currency to an IRS Revenue Agent with the intent to influence official acts. Specifically, Hoang intended to cause the Revenue Agent to falsely reduce the amount of tax due and owing by Hoang with respect to an audit of Hoang's business being conducted by the Revenue Agent.⁷¹ Hoang pled guilty to the violation on April 4, 2013.⁷² Hoang was sentenced to two years of probation and ordered to perform 100 hours of community service.⁷³

Man Pleads Guilty in New Jersey to Bribery of Public Officials

On June 21, 2013, in the District of New Jersey, Woodland Park resident⁷⁴ Michael Kazmark entered a guilty plea⁷⁵ for knowingly and corruptly giving something of value to

⁶⁵ W.D. La. Judgment filed May 22, 2013.

⁶⁶ W.D. La. Stipulated Factual Basis filed Jan. 17, 2013.

⁶⁷ *Id.*

⁶⁸ W.D. La. Judgment filed May 22, 2013.

⁶⁹ W.D. La. Plea Agr. filed Jan. 17, 2013.

⁷⁰ D. N.H. Judgment filed July 11, 2013.

⁷¹ D. N.H. Info. filed Oct. 2, 2012.

⁷² D. N.H. Crim. Docket filed Oct. 2, 2012.

⁷³ D. N.H. Judgment filed July 11, 2013.

⁷⁴ D. N.J. Info. filed June 21, 2013.

⁷⁵ D. N.J. Application for Permission to Enter Plea of Guilty filed June 21, 2013.



public officials with the intent to influence official acts.⁷⁶ Kazmark had an outstanding Federal tax liability of approximately \$98,046 and was seeking to reduce it.⁷⁷ Kazmark made two bribe payments totaling \$18,500 to public officials he understood to work for the IRS in exchange for their official assistance.⁷⁸ In addition to the payments, it was further a part of Kazmark's bribery scheme that the public officials agree to accept an offer in compromise for the amount of \$9,760 that he had already paid to the IRS, and place his Federal tax liability in a non-collectible status for two years.⁷⁹

Man Pleads Guilty in Arkansas to Interference with Tax Administration and Retaliation of Federal Officials

On June 18, 2013, in the Eastern District of Arkansas, Fred Neal, Jr. pled guilty to corruptly interfering with the Internal Revenue laws, and filing false liens against Government employees and officials.⁸⁰ A February 2, 2011 indictment charged that Neal corruptly endeavored to obstruct or impede the due administration of the Internal Revenue Code by attempting to intimidate, harass, and attack the financial integrity of Government officials believed to be party to legal actions brought against Neal by the IRS.⁸¹ Neal acknowledged he did so with the intent to secure an unlawful advantage or benefit to himself by attempting to keep the United States from foreclosing on his property.⁸² Neal and his spouse had outstanding Federal income tax assessments of approximately \$1.3 million.⁸³

Neal engaged in open defiance of the liability after legal action and collection proceedings were initiated.⁸⁴ Neal caused repeated filings of fictitious legal and tax documents attacking the personal financial integrity and well-being of officials and employees of the United States, including the Secretary of the Treasury, seven IRS employees, three Department of Justice Tax Division attorneys, at least three Federal judges and associated United States Court personnel, and a United States Attorney.⁸⁵

Neal's filings of fictitious forms misrepresented that the Government employees and officials had paid and received personal income reportable to the IRS totaling more than one billion dollars.⁸⁶ Additionally, Neal filed in public records false and fraudulent liens against the real and personal property of these officers and employees of the United States on account of the performance of their official duties.⁸⁷ Neal acknowledged he knew the liens or encumbrances were false or contained materially false statements.⁸⁸

⁷⁶ D. N.J. Plea Agr. filed June 21, 2013.

⁷⁷ D. N.J. Info. filed June 21, 2013.

⁷⁸ D. N.J. Info. filed June 21, 2013; D. N.J. Plea Agr. Filed June 21, 2013.

⁷⁹ D. N.J. Info. filed June 21, 2013.

⁸⁰ E.D. Ark. Plea Agr. filed June 18, 2013.

⁸¹ E.D. Ark. Indict. filed Feb. 2, 2011.

⁸² E.D. Ark. Plea Agr. filed June 18, 2013.

⁸³ *Id.*

⁸⁴ E.D. Ark. Indict. filed Feb. 2, 2011.

⁸⁵ E.D. Ark. Indict. filed Feb. 2, 2011 and E.D. Ark. Plea Agr. filed June 18, 2013.

⁸⁶ E.D. Ark. Indict. filed Feb. 2, 2011.

⁸⁷ E.D. Ark. Indict. filed Feb. 2, 2011 and E.D. Ark. Plea Agr. filed June 18, 2013.

⁸⁸ *Id.*

Woman Indicted in Pennsylvania for Extortion and False Personation of IRS Employee

On June 5, 2013, in the Middle District of Pennsylvania, Merarys Paulino was indicted for extortion and false personation of an employee of the United States.⁸⁹ Between February 2013, and May 2013, Paulino falsely pretended to be an employee of the United States, specifically, a criminal investigator with the IRS named “LaBella Williams.” Under the false pretense of her employment with the IRS and with the intent to defraud, Paulino and her co-conspirator, Maria Colvard, falsely demanded and obtained the client list, money, and closure of Cristina’s Tax Service, through the wrongful use of fear, including the fear of economic loss.⁹⁰

Tax Preparer Integrity

In addition to promoting employee integrity, TIGTA is also committed to educating tax preparers on integrity. During this semiannual reporting period, TIGTA special agents provided integrity presentations to tax preparers at IRS tax forums nationwide. The focus of these presentations was, “*Doing the Right Thing: Integrity, TIGTA, and You.*” The presentations provided tax preparers with an understanding of TIGTA’s role in investigations of alleged misconduct by tax preparers, how to recognize and report misconduct committed by IRS employees or paid preparers, and when to report potential risks to IRS employee safety.

Investigative Support

The Forensic Science Laboratory

TIGTA’s Forensic Science Laboratory’s (FSL) primary customers -- field agents, prosecutors, and the courts -- often rely upon forensic analysis of evidence to identify subjects and corroborate or contest subject testimony. TIGTA’s lab conducts examinations for OI and other Federal Office of Inspector General (OIG) agencies. During this six-month reporting period, the lab conducted 28,240 questioned document and latent print examinations for OI and 624 questioned document and latent print examinations for other OIGs.



Latent Print

FSL staff members are certified as expert witnesses and provide courtroom testimony regarding their forensic analyses. In a recent criminal investigation, FSL staff analyses and related courtroom testimony were instrumental in the successful prosecution of an IRS employee who was charged with defrauding the United States Government.

⁸⁹ M.D. Pa. Indictment filed June 5, 2013.

⁹⁰ *Id.*



Latent Print

FSL's forensic examiner successfully matched a footprint and toeprint found on fraudulent documents to those belonging to the IRS employee. The employee was subsequently convicted for conspiracy to defraud the United States and the IRS, false claims to the IRS, filing a false tax return, aiding and abetting the presentation of a false tax return, and Hobbs Act⁹¹ extortion.⁹²

TIGTA's lab is accredited and its staff individually certified by the American Society of Crime Laboratory Directors/Laboratory Accreditation Board (ASCLD/LAB).

⁹¹ The Hobbs Act, 18 U.S.C. § 1951, prohibits the actual or attempted robbery or extortion affecting interstate commerce. 18 U.S.C. § 1951 also proscribes conspiracy to commit robbery or extortion without reference to the conspiracy statute at 18 U.S.C. § 371.

⁹² E.D. PA Judgment, filed June 11, 2013.



Advancing Oversight of America's Tax System

TIGTA's Office of Inspections and Evaluations (I&E) provides responsive, timely, and cost-effective inspections and evaluations of challenging areas within the IRS, providing TIGTA with additional flexibility and capability to produce value-added products and services to improve tax administration. I&E's work is not a substitute for audits and investigations; in fact, its findings may result in subsequent audits and/or investigations.

The Office has two primary product lines: inspections and evaluations.

Inspections are intended to:

- Provide factual and analytical information;
- Monitor compliance;
- Measure performance;
- Assess the effectiveness and efficiency of programs and operations;
- Share best practices; and
- Inquire into allegations of waste, fraud, abuse, and mismanagement.

Evaluations are intended to:

- Provide in-depth reviews of specific management issues, policies, or programs;
- Address Governmentwide or multi-agency issues; and
- Develop recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective procedures.

The following reports highlight some of the significant activities that I&E engaged in during this six-month reporting period:

Inspection of the IRS's Travel Gainsharing Program

This report presented the results of I&E's inspection to determine the effectiveness of the controls established by the IRS over its Gainsharing Travel Savings Program (GTSP).

The IRS established the GTSP to allow its employees who save the Government money while traveling to receive as an award one-half of the amount of those savings. In FY 2008 through 2011, 2,122 IRS employees participated in the GTSP and received approximately \$1.9 million in awards. The IRS generally has adequate controls in place to ensure adherence with GTSP requirements. However, we could not verify the accuracy of most awards in our sample because the IRS could not locate adequate supporting documentation. Additionally, IRS employees did not follow some of the



GTSP requirements when applying for program awards, which resulted in inaccurate award amounts. Better managerial oversight may have prevented many of these errors. We recommended that the Chief Financial Officer (CFO) amend the IRM to better define document retention standards for Gainsharing Program awards and supporting documentation. Additionally, the CFO should either require that each business unit establish a centralized repository for Gainsharing Program award documentation or establish a centralized repository within the Office of the CFO for all Gainsharing Program award documentation that is generated Service-wide. We also recommended that the CFO revise Form 13631-A, *IRS Travel Savings*, to include a space for the first-level manager's initials, and that the CFO clarify in the IRM that an employee can only receive one Gainsharing Program award per fiscal year.

IRS management agreed with all of the recommendations in the report. The CFO plans to: better define document retention standards, require each business unit to establish a centralized repository for such documentation, revise Form 13631-A, and clarify the number of Gainsharing Program awards an employee may receive in a fiscal year.

Report Reference No. 2013-IE-R005

Review of the Implementation of the Telework Enhancement Act of 2010

This report presented the results of our inspection to determine whether the IRS has taken appropriate actions to comply with the Telework Enhancement Act of 2010 (the Act).⁹³ We did not evaluate the effectiveness of the IRS Telework Program in this review.

The President and Congress encourage increased participation in telework by Federal agencies in order to ensure continuity of operations during an emergency, reduce overhead, and improve employees' ability to manage their work-life obligations. The IRS has implemented most of the requirements of the Act, establishing a telework policy that includes requirements for eligibility, as well as employee and manager requirements for issues such as performance, training, and completing a written telework agreement. The IRS's Headquarters Continuity of Operations Plan recommends telework in appropriate situations.

One purpose of telework in the Government is to ensure that Federal agencies can continue to provide services when offices are closed due to inclement weather, a pandemic, or an emergency. However, IRS teleworkers are required to telework during an emergency only on their scheduled telework day(s). Management anticipates negotiating with the National Treasury Employees Union (NTEU) to require teleworkers to work from alternative locations on unscheduled telework days when the office is closed due to an emergency. However, the IRS could implement this policy for non-bargaining unit employees without negotiations.

Also, while the IRS captures and reports some telework data, it cannot provide the level of detail required by the Act due to some systems limitations. The time and attendance system captures *hours* worked under the Telework Program but not *days*. Also, it

⁹³ Pub. L. No. 111-292, 124 Stat. 3165 (2010).



captures those employees whose telework type code is selected in the time and attendance system, but not the total number of eligible employees. According to the Telework Program Manager,⁹⁴ the IRS is considering how to best meet the reporting requirements, but changes to the existing time reporting system may be cost prohibitive and must also be negotiated with the NTEU.

We recommended that the IRS Human Capital Officer revise the IRS's telework policy to indicate that a non-bargaining unit employee with an approved telework agreement can be expected to telework outside his or her normal telework schedule in the case of an emergency situation. Additionally, the Human Capital Officer should require that telework agreements include specific language indicating whether or not the employee is expected to telework when the office is closed due to an emergency.

Management partially agreed with our recommendations to require non-bargaining unit teleworkers to telework when the office is closed due to an emergency and to include emergency expectations for teleworkers in telework agreements. To ensure that all IRS employees are treated consistently, changes to telework requirements for bargaining unit employees will be addressed with the NTEU in upcoming term negotiations. Implementation for both bargaining and non-bargaining unit employees will be contingent on the outcome of these negotiations.

Report Reference No. 2013-IE-R006

Analysis of Executive Travel Within the IRS

This report presented the results of our inspection to assess the costs and frequency of IRS executives' temporary duty travel. Additionally, we determined whether the IRS considered alternatives to reduce travel expenses incurred by IRS executives.

The Federal Travel Regulation⁹⁵ requires that, in administering the authorization and payment of travel expenses, Federal agencies:

- Must limit the authorization and payment of travel expenses to travel that is necessary to accomplish the agency's mission in the most economical and effective manner,
- Should give consideration to budget constraints, adherence to travel policies, and reasonableness of expenses, and
- Should always consider alternatives, including teleconferencing, prior to authorizing travel. Other alternatives include reduced per diem⁹⁶ and a temporary change of station.⁹⁷

⁹⁴ The Telework Program is included in a division of the Human Capital Office.

⁹⁵ The Federal Travel Regulation is contained in 41 Code of Federal Regulations (C.F.R.) Chapters 300 through 304, which implements statutory requirements and Executive Branch policies for travel by Federal civilian employees and others authorized to travel at Government expense.

⁹⁶ A daily allowance for expenses; a specific amount of money that an organization gives an individual per day to cover living and travel expenses in connection with work done away from the individual's home or post of duty.

⁹⁷ The relocation to a new post of duty while performing a long-term assignment and subsequent return to the previous post of duty upon completion of that assignment.



Furthermore, Executive Order 13,589,⁹⁸ *Promoting Efficient Spending*, requires each agency to reduce administrative costs in FY 2013, including travel and conference-related activities, by not less than 20 percent below FY 2010 levels.

In FYs 2011 and 2012, there were 351 and 373 executives in the IRS, respectively.⁹⁹ In FY 2011, the IRS spent approximately \$4.8 million for executive travel. In FY 2012, spending for executive travel decreased to about \$4.7 million.¹⁰⁰ We analyzed travel information for IRS executives from GovTrip¹⁰¹ and the Integrated Financial System¹⁰² for IRS executives to determine whether executive travel appeared to be excessive based on travel expenses claimed and the number of days traveled.

Overall, executive travel does not appear to be excessive. However, we noted that a small number of executives had extremely high travel expenses compared to the rest of the executives, and that several executives frequently traveled to the Washington, D.C. area to conduct day-to-day operations. Moreover, 12 executives (seven in FY 2011 and five in FY 2012) were in travel status for over 200 days. In April 2013, the IRS instituted a new interim travel policy that generally restricts executives from being in travel status more than 75 nights in any fiscal year.

The cost and frequency of travel for some executives indicate that they may not live in the best location to economically accomplish their roles and responsibilities. While the Federal Travel Regulation does not set any total monetary or durational limits on temporary duty travel, the IRS should consider a temporary or permanent change of station as an alternative to long-term temporary duty travel. However, the IRS does not have a policy that requires decision makers to document whether a temporary or permanent change of station was considered as an alternative to long-term temporary duty travel.

We recommended that the CFO require an analysis that compares the costs and benefits of a long-term taxable travel situation¹⁰³ to those of a temporary or permanent change of station to demonstrate that the more favorable alternative was selected. The analysis should be in writing and prepared before placing the employee on long-term travel status or authorizing a temporary or permanent change of station.

⁹⁸ 76 Fed. Reg. 70,863, 70,864 (Nov. 15, 2011). Executive orders are official documents through which the President of the United States manages the operations of the Federal Government.

⁹⁹ The number of executives for each fiscal year was calculated based on the number of executives on-roll as of fiscal year end and the number of executives that worked during the fiscal year but separated before fiscal year end.

¹⁰⁰ Because some executives were not executives for the entire fiscal year, travel expenses may include travel for trips made as non-executives.

¹⁰¹ GovTrip is a computer application and database that provides IRS travelers with automated travel planning and reimbursement capabilities. The system also includes authorization, reservation, and vouchering capabilities.

¹⁰² The Integrated Financial System (IFS) contains the IRS's core financial systems, including expenditure controls, accounts payable, accounts receivable, general ledger, and budget formulation.

¹⁰³ The IRS city-to-city policy, IRM 1.32.11.9.1, provides for two situations that can be overnight long-term taxable travel: (1) travel to a single location that is expected to last more than one year; or (2) employee performs principal duties the majority of the time in a location away from the official station, and this arrangement is expected to last indefinitely or long enough that the new location becomes the main work location.



IRS management agreed with the recommendation. The CFO plans to develop and implement guidance to require a business case in each circumstance that would place an employee in a long-term taxable travel situation. The business case will be used to evaluate and document the costs and benefits of placing the employee on long-term taxable travel status, as compared to those of temporarily or permanently changing the employee's official station.

Additionally, in June 2013 the IRS issued interim guidance¹⁰⁴ that requires each executive position to have an identified position post of duty and the official station to be identified as either location-specific or location-neutral.¹⁰⁵ This policy is to be implemented in a manner that strikes the appropriate balance between reducing executive travel and maintaining operations.

Report Reference No. 2013-IE-R007

The IRS Needs to Improve the Comprehensiveness, Accuracy, Reliability, and Timeliness of the Tax Gap Estimate

The Tax Gap is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year. The IRS's most recent Tax Gap estimate was \$450 billion for TY 2006.¹⁰⁶ The Tax Gap estimate is a widely used measure in tax policy and administration. Some officials state that the absolute number is unimportant since the estimate is a significant amount. However, an important consideration regarding accuracy is the relationship between the different forms of noncompliance and the types of tax. Furthermore, as Congress considers tax reform, it is important that the Tax Gap estimate reflect as accurately as possible the many forms and areas of noncompliance so that tax policy options can be considered.

Several issues affect the comprehensiveness, accuracy, reliability, and timeliness of the Tax Gap estimate. First, the voluntary compliance rate computation derived from the Tax Gap estimate is now used by the IRS and the Department of the Treasury as the measure for achieving the Agency Priority Goal¹⁰⁷ of increasing voluntary compliance. This may require more frequent or interim updates to the estimates. Furthermore, in order to have a credible goal, the data should be verifiable and valid. However, the IRS develops the Tax Gap estimates in accordance with its own policies and procedures.

¹⁰⁴ IRS, *Memorandum for All Executives: Guidance on Executive Travel – Determining Position Post of Duty and Official Station for Executives* (June 26, 2013).

¹⁰⁵ In cases where the work activities can be performed in virtually any geographical location, the post of duty will be considered neutral.

¹⁰⁶ IRS, IRS News Release IR-2012-4, *IRS Releases New Tax Gap Estimate; Compliance Rates Remain Statistically Unchanged From Previous Study* (Jan. 6, 2012), available at <http://www.irs.gov/uac/IRS-Releases-New-Tax-Gap-Estimates;-Compliance-Rates-Remain-Statistically-Unchanged-From-Previous-Study>. IRS, *Tax Gap for Tax Year 2006 Overview* (Jan. 6, 2012), available at http://www.irs.gov/pub/newsroom/overview_tax_gap_2006.pdf.

¹⁰⁷ PERFORMANCE.GOV – DEPARTMENT OF THE TREASURY, http://goals.performance.gov/goal_detail/TREAS/333#Progress_and_Next_Steps (last visited Mar. 14, 2013).



While Federal agencies are generally required to follow Office of Management and Budget (OMB) *Standards and Guidelines for Statistical Surveys*¹⁰⁸ (OMB Standards), the IRS stated that these standards are not technically applicable to the conduct of the National Research Program. The IRS does adhere to several aspects of the OMB Standards through its own policies and procedures, including elements in the planning and design phases, but does not adhere completely to other aspects associated with developing cost estimates, the production of estimates and projections, and conducting a formal peer review process.

Second, the individual income tax underreporting gap estimate could be more comprehensive if it included estimates for the informal economy¹⁰⁹ and offshore tax evasion. While the estimation method does include a process to impute undetected income, separate quantified estimates would provide better information on the size of these compliance issues. These areas present significant challenges to tax administration, and the absence of a related estimate could hinder or delay possible solutions.

Third, the current method of estimating the corporate Tax Gap needs to be improved. TIGTA has two concerns about the accuracy and reliability of the TY 2006 corporate income tax underreporting gap estimate. Both concerns relate to using recommended tax from operational examinations as the basis for projecting the Tax Gap.

- ***The difficulty in deriving the actual tax liability of large corporations.*** While recommended tax assessments for individual and small corporate taxes are not frequently contested, large corporations often contest recommended taxes. The result is often an assessed amount that is substantially less than the recommended tax. Therefore, using recommended tax as a basis for projections of noncompliance may not provide reliable information.
- ***A significant portion of small corporations are substantially no more than incorporated sole proprietorships.*** In fact, in TY 2003, there were about 758,000 corporations with reported gross receipts of less than \$100,000. Consequently, it is extremely likely that many of the tax returns of small corporations exhibit the same pathologies as those of sole proprietorships. That is, a small percentage of these returns also account for a significant portion of the underreporting.

We recommended that the Director, Office of Research, Analysis, and Statistics, take the following actions: (1) conduct a study to determine the feasibility of providing interim updates of the Tax Gap estimate; (2) develop a process and procedures to ensure compliance with the applicable OMB Standards; (3) issue a published report to explain the methods, assumptions, and premises used to develop the estimates; (4) develop the capability to estimate the Tax Gap for the informal economy; (5) perform a study to

¹⁰⁸ OMB, *Standards and Guidelines for Statistical Surveys* (Sept. 2006), see

http://www.whitehouse.gov/sites/default/files/omb/inforeg/statpolicy/standards_stat_surveys.pdf.

¹⁰⁹ The informal economy is that part of the economy that involves the purchase and sale of legal goods and services in an unregulated environment, though the processes of production and distribution may be illegal; for example, selling goods without a necessary permit or evading taxes.



determine the feasibility of creating an estimate of the Tax Gap due to offshore tax evasion; (6) consider modifying the estimation model for large corporations from using recommended tax from operational examinations to tax assessments from operational examinations; and (7) consider conducting a National Research Program review on small corporations with total assets of less than \$10 million that file Form 1120, *U.S. Corporate Income Tax Return*.

The IRS agreed with our first three recommendations and substantially agreed with Recommendation Four by agreeing to perform a feasibility study to estimate the Tax Gap for the informal economy. The IRS also agreed with Recommendation Five and substantially agreed to Recommendation Six by studying the merits of alternative approaches to estimating noncompliance by large corporations. Finally, the IRS is conducting a National Research Program review of small corporations with less than \$250,000 in assets. However, because this review is based on a very small sample, the IRS will consider the feasibility of conducting more studies of small corporations.

The IRS response addressed the substantive issues identified in our evaluation. The corrective action to Recommendation Four, to perform a feasibility study for estimating the informal economy portion of the Tax Gap, addresses our concerns about that issue. Likewise, the corrective action to study the merits of alternative approaches to estimating large corporation noncompliance, and performing a limited study of small corporation noncompliance while considering the feasibility of conducting additional studies, addresses our sixth and seventh recommendations.

Report Reference No. 2013-IE-R008

Bicameral Request on Climate Change

TIGTA responded to a congressional request for information concerning the IRS's efforts to confront the growing threat of climate change. We gathered data about the IRS's relevant programs and operations related to climate change and coordinated our efforts with the Treasury Inspector General, who received a similar request and has the oversight responsibility for most other bureaus of the U.S. Department of the Treasury.

Based on our review of relevant documents and interviews, we found that, while much of the climate change policy and subsequent annual reporting is centralized at the departmental level, the IRS's size makes it a significant contributor to the Department of the Treasury's performance in reaching its energy and environmental goals, including those related to climate change. For example, 3,059 (86 percent) of the Department of the Treasury's 3,569 vehicles are owned or operated by the IRS. Furthermore, IRS facilities account for 15 (58 percent) of the 26 facilities for which the Department of the Treasury reports environmental and energy progress.¹¹⁰

¹¹⁰ The energy and environmental goals and accomplishments for properties leased by the IRS from the General Services Administration are reported by the General Services Administration.



The IRS reported the following recent accomplishments, among others, to the Department of the Treasury:

- A 22 percent reduction in energy intensity, defined as energy consumption per square foot of building space, in IRS facilities in FY 2012, exceeding the IRS's goal of 21 percent;
- The construction of a new facility in Martinsburg, West Virginia, for the replacement of all mechanical, electrical, and plumbing systems with energy-efficient upgrades for the major equipment associated with these systems; and
- Renovations at the IRS facility in Andover, Massachusetts, including energy-efficiency upgrades such as new lighting, a new geothermal system to heat and cool the entire facility, and right-sizing the facility's data center with best practices implemented as part of the construction effort.



TIGTA's International Programs

TIGTA is committed to providing comprehensive oversight of IRS international programs and operations by developing a strategy of international audit, inspection, and law enforcement liaison and outreach. This strategy will enhance TIGTA's capacity to execute its oversight model in the international environment.

The United States taxes U.S. individuals and businesses on their worldwide income and taxes foreign persons on their U.S. source income. The international tax administration can be divided into four general areas:

- U.S. business cross-border;
- Foreign business in the U.S.;
- Individual cross-border; and
- Foreign person in the U.S.

The tax law for cross-border transactions and investments can be highly complex and specialized. Both businesses and individuals can use partnerships and tiered structures for business purposes and to obscure the beneficial owner of the assets.

The President, the Secretary of the Treasury, and the IRS Commissioner have placed an emphasis on international tax compliance. Also, business tax reform discussions include potential substantive changes to intercompany transfer pricing policy. In addition, the IRS is implementing the Foreign Account Tax Compliance Act¹¹¹ to help prevent U.S. taxpayers from hiding assets offshore.

The International Tax Gap

The International Tax Gap – the amount the U.S. loses each year that is attributable to the abuse of offshore tax havens – is estimated to be approximately \$100 billion.¹¹²

The IRS has embraced a Service-wide approach to international tax administration that seeks to address more effectively the increased globalization of both individuals and businesses. This strategy is designed to improve voluntary compliance with international tax provisions and to reduce the portion of the Tax Gap that is attributable to international transactions.

The following reports highlight some of the significant activities that TIGTA has engaged in during this six-month reporting period:

¹¹¹ Pub. L. No. 111-147, Subtitle A, 124 Stat 71, 96-116 (2010) (codified in scattered sections of 26 U.S.C.).

¹¹² Staff of S. Comm. on Homeland Sec. and Governmental Affairs, Permanent Subcomm. on Investigations, 110th Cong., Tax Haven Banks and U.S. Tax Compliance (Comm. Print 2008), http://hsgac.senate.gov/public_files/071708PSIReport.pdf.



Systemic Penalties on Late-Filed Forms Related to Certain Foreign Corporations Were Properly Assessed, but the Abatement Process Needs Improvement

Overall, controls ensured that systemic penalties for late-filed Forms 5471 were properly assessed and compliance was improved for many taxpayers. While a standardized framework was not used to develop a pilot program for systemically assessing late-filed Form 5471 penalties, the IRS objectives to enhance revenue and improve taxpayer compliance were met.

However, controls are not in place to properly abate systemic penalties on late-filed Forms 5471. Specifically, in 40 (43 percent) of 93 sampled cases, the penalties were incorrectly abated. Total abatements for these cases amounted to \$1.75 million, resulting in approximately \$31 million in incorrect abatements when projected to the population. In addition, the IRS did not properly process eight filing extensions. This resulted in \$6.41 million in unnecessary late-filed Form 5471 penalty assessments that were ultimately abated, resulting in approximately \$11.6 million in incorrect assessments.

Further, in 80 (86 percent) of the 93 sampled cases, IRS employees did not adequately document their decisions to abate these penalties.

TIGTA recommended that the IRS:

- Conduct a study to determine if the automated late-filed Form 5471 penalty-setting process should be expanded;
- Provide refresher training to employees and their managers on the importance of documenting penalty abatement request decisions;
- Require managers to review all late-filed Form 5471 penalty abatements; and
- Ensure that filing extension requests received with a payment are properly coded and timely processed.

IRS officials agreed with all of the recommendations and have taken measures to implement the corrective actions.

Reference No. 2013-30-111

The Referral Process for Examinations of Tax Returns Claiming the Foreign Earned Income Exclusion Needs to Be Improved

Of the approximately 140 million TY 2009 individual income tax returns filed during Processing Years 2010 and 2011, 372,119 (0.27 percent) included a Form 2555/2555-EZ. The exclusions, credits, and deductions claimed were as follows:

- \$23.3 billion in Foreign Earned Income Exclusion (FEIE);
- \$5 billion in Foreign Tax Credits;
- \$2.7 billion in Foreign Housing Exclusions; and
- \$102.6 million in the Foreign Housing Deductions.

From a statistical sample of 150 tax returns from a population of 331,405 TY 2009 individual income tax returns filed during Processing Year 2010 and claiming the FEIE



and/or the Foreign Housing Exclusion/Deduction, we estimate that U.S. taxpayers living and working in foreign countries who claimed the FEIE reduced their Federal income taxes by \$562 million. Taxpayers claiming the Foreign Housing Exclusion/Deduction reduced their Federal income taxes by an additional \$174 million for TY 2009.

In addition, we found that from FYs 2009 through 2011, 2,851 (99 percent) of the 2,876 individual income tax returns claiming the FEIE and/or the Foreign Housing Exclusion/Deduction should have been referred to an international examiner under IRS procedures, but were not. We estimate that improving the audit referral process could result in approximately \$2.7 million in additional tax assessments, or about \$13.5 million over five years.

Moreover, 1,583 examinations that were not required by the IRS to be referred might warrant referral to international examiners. Referral of these tax returns could potentially result in approximately \$1.5 million in additional tax assessments, or about \$7.5 million over five years.

TIGTA recommended that the IRS ensure that:

- Domestic examiners and their managers are aware of the international referral criteria, and that a cross-reference to those criteria is incorporated into the Campus Reporting Compliance section of the IRM; and
- Evaluate the international referral criteria process to determine if it should be expanded to include the Wage and Investment Division.

IRS officials agreed with these recommendations and plan to take corrective action.
Reference No. 2013-30-112

The International Campus Compliance Unit Is Improving Individual Tax Compliance

The IRS successfully planned the International Campus Compliance Unit (CCU) and followed general Government guidelines and steps for implementing a new business process during the planning. The IRS is still developing inventory selection criteria for the CCU. However, from FY 2011 through March 13, 2013, the CCU conducted almost 18,000 audits and assessed approximately \$36 million. Furthermore, the no-change rate decreased from FY 2012 to FY 2013, while agreed assessments increased.

Despite its accomplishments, the CCU does not have specific performance measures for its operations. The current performance measures incorporate all tax examiner groups in the Individual International Compliance Program. However, tax examiner groups outside of the CCU work different issues and cases. Ideally, an agency should have measures for all its major processes to track costs, quality, and timeliness.

TIGTA recommended that the IRS enhance the performance measures for the CCU to more specifically reflect the work performed by CCU examiners. The IRS agreed with



this recommendation and plans to evaluate the current performance measures and CCU inventory results to determine how to enhance the measures and achieve them.
Reference No. 2013-30-113

International Visitors

TIGTA's international strategy includes engaging with foreign tax authorities in the sharing of mutually beneficial strategies for providing oversight of the IRS and foreign national revenue collection agencies.

During this six-month reporting period, TIGTA was very pleased to host delegations from Cambodia and Sri Lanka/Maldives. International visits with delegations from other countries, administered in association with the IRS International Visitors Program, serve to build working relationships and foster increased cooperation in the arena of international tax administration.

In June 2013, TIGTA hosted a delegation from Cambodia led by His Excellency Sim Eang, Director General of the General Department of Taxation. Eang met with representatives from OI, OA, and I&E to achieve an understanding of how the Inspector General system works, and how internal audits are conducted within the Department of the Treasury. The audit-centric discussion provided the visiting delegation a better understanding of TIGTA's role in our Nation's tax administration and its relationship with the IRS.



In September 2013, TIGTA hosted a joint delegation from the countries of Sri Lanka and the Maldives led by Ahmed Ali of the Maldives Inland Revenue Authority. The delegation met with OI and OA to gain a perspective of how the United States oversees Federal tax administration to better conduct the same services in Sri Lanka.



American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act)¹¹³ was enacted on February 17, 2009. The Recovery Act presented significant challenges to all Federal agencies as they moved to implement provisions quickly while attempting to minimize risk and meet increased standards for transparency and accountability. However, with its more than 50 tax provisions, the Recovery Act poses especially significant challenges to the IRS as the Nation's tax collection agency and administrator of the tax laws.

TIGTA has issued numerous reports related to the IRS's efforts to implement Recovery Act tax provisions. For this six-month reporting period, TIGTA issued the following significant report:

Review of the IRS's American Recovery and Reinvestment Act Fund Expenditures for FY 2011

This report presented the results of our inspection to verify the accuracy, timeliness, and reporting of the payment by the IRS of invoices for Recovery Act expenses. Our inspection included invoices paid during the period October 1, 2010, through September 30, 2011.

The IRS is responsible for administering more than 50¹¹⁴ tax law provisions contained in the Recovery Act. In April 2009, the IRS received \$202 million of its appropriation of Recovery Act funds.¹¹⁵ These funds were required to implement the necessary tax changes resulting from provisions of the Recovery Act. These changes included reprogramming the IRS computer systems, updating related tax forms and publications, and providing customer service to assist taxpayers in obtaining their Recovery Act benefits. As of September 30, 2011, the IRS had obligated more than \$201 million, with disbursements exceeding \$198 million.

One of the stated goals of the Recovery Act is to "foster unprecedented levels of accountability and transparency in Government spending." The Recovery Accountability and Transparency Board (Recovery Board)¹¹⁶ provides transparency to

¹¹³ Pub. L. No. 111-5, 123 Stat. 115.

¹¹⁴ This number could be as high as 56, depending on how the law is interpreted.

¹¹⁵ This appropriation included \$80 million for FY 2009 through FY 2010 to implement the Health Coverage Tax Credit program. The IRS also received \$123 million to support tax provision changes cited in the Recovery Act. The Department of the Treasury retained \$1 million for administrative oversight, resulting in the IRS receiving \$202 million.

¹¹⁶ The Recovery Board was created by the Recovery Act with two goals: to provide transparency of Recovery Act funds and to prevent and detect fraud, waste, and mismanagement. Twelve Inspectors General from various Federal agencies serve with the Chairman. The Recovery Board issues quarterly and annual reports to the President and Congress and, if necessary, "flash reports" on matters that require immediate attention.



the public concerning Recovery Act funds. One way the Recovery Board accomplishes this goal is by publishing Federal agencies' use of Recovery Act funds weekly.

The OMB¹¹⁷ issued guidance documents¹¹⁸ that outlined steps for implementing the Recovery Act and clarified the requirements for processing procurements. Federal agencies are required to report to the Recovery Board, on a weekly basis, all cumulative Recovery Act obligations and gross outlays (expenditures)¹¹⁹ in a standard reporting format. They also must use separate Treasury Appropriation Fund Symbols¹²⁰ to track and report Recovery Act obligations and disbursements.

The IRS generally executed adequate internal controls to ensure timely and accurate reporting for Recovery Act expenditures during the review period. The IRS has adequate, documented operating procedures for ensuring that Recovery Act procedures are properly and timely reported.

The IRS obtained approximately \$123,000 (57.5 percent) of the \$214,000 in total discounts offered by vendors. Even though the Prompt Payment Act does not require that Federal agencies take all available discounts that are offered, taking the discounts provides the IRS with the opportunity to make better use of these funds. Due to the limited scope of our inspection, we did not determine the IRS's ability or inability to obtain the offered discounts.

The IRS was in general compliance with OMB's guidance and Recovery Act requirements by:

- Submitting all 52 weekly reports of its cumulative Recovery Act obligations and gross outlays in the prescribed format;
- Using separate Treasury Appropriation Fund Symbols for its two Recovery Act funds; and
- Ensuring that Recovery Act expenditures were timely forwarded to the Department of the Treasury for posting to Recovery.gov.

TIGTA made no recommendations.

Report Reference No. 2013-IE-R009

¹¹⁷ The OMB has primary responsibility for developing Governmentwide rules and procedures to ensure that Recovery Act funds are awarded and distributed in a prompt and fair manner, that the use of funds is transparent to the public, and that steps are taken to mitigate fraud, waste, and abuse.

¹¹⁸ OMB, M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Feb. 18, 2009); M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (April 3, 2009); and M-10-34, *Updated Guidance on the American Recovery and Reinvestment Act* (Sept. 24, 2010).

¹¹⁹ Total obligations equal the sum of financial commitments and expenditures. Total outlays consist of expenditures only.

¹²⁰ The Treasury Appropriation Fund Symbol is an identification code assigned by the Department of the Treasury, in collaboration with the OMB and the owner agency, to an individual appropriation, receipt, or other fund account. It is used to describe a particular type of Treasury Fund Symbol that has budget authority. All financial transactions of the Federal Government are classified by a Treasury Fund Symbol for reporting to the Department of the Treasury and the OMB.



Congressional Testimony

During this reporting period, Inspector General J. Russell George testified before Congress on eight occasions. Out of his eight appearances before congressional committees, five were related to the TIGTA audit report entitled, "Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review."

On May 17, 2013, Mr. George first testified about the results of TIGTA's tax-exempt application report before the House Committee on Ways and Means. The following is a summary of his testimony.

During the 2012 election cycle, some Members of Congress raised concerns to the IRS about its selective enforcement efforts and reemphasized the IRS's duty to treat similarly situated organizations consistently. In addition, several organizations applying for I.R.C. § 501(c)(4) tax-exempt status made allegations that the IRS: (1) targeted specific groups applying for tax-exempt status, (2) delayed the processing of targeted groups' applications for tax-exempt status, and (3) requested unnecessary information from targeted organizations. Lastly, several Members of Congress requested that the IRS investigate whether existing social welfare organizations are improperly engaged in a substantial, or even predominant, amount of campaign activity.

An audit was initiated based on these concerns expressed by Congress and reported in the media regarding the IRS's treatment of organizations applying for tax-exempt status. It focused on the processing of applications for tax-exempt status and on determining whether there was any basis for the allegations made against the IRS.

In summary, the audit found that all three allegations were substantiated. The IRS used inappropriate criteria that identified for review Tea Party and other organizations applying for tax-exempt status based upon their names or policy positions instead of indications of potential political campaign intervention. Because of ineffective management by IRS officials: (1) inappropriate criteria were developed and stayed in place for a total of more than 18 months, (2) the processing of certain applications was substantially delayed, and (3) unnecessary information requests were issued to the organizations.

Developing and using criteria that focus on organizations' names and policy positions instead of the activities permitted under the Treasury Regulations erodes public confidence that tax-exempt laws are being applied impartially. The IRS's actions regarding the use of inappropriate criteria over such an extended period of time has brought into question whether the IRS has treated all taxpayers fairly, which is an essential part of its mission statement.¹²¹

¹²¹ The IRS's mission is to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.



On May 21, 2013, the Inspector General testified before the Senate Committee on Finance on the tax-exempt application matter. The following day, Mr. George appeared before the House Committee on Oversight and Government Reform. Then, on June 3, 2013, the Inspector General testified before the House Committee on Appropriations, Subcommittee on Financial Services and General Government. During these hearings, the Inspector General reemphasized the tax-exempt application report's scope and findings, reiterated his previous testimony, and addressed questions relating to the audit. For example, a common question throughout the hearings was whether TIGTA saw any evidence that IRS employees were politically motivated in their creation or use of the inappropriate screening criteria. The Inspector General consistently answered that TIGTA had not found any evidence to that effect.

The final hearing resulting from TIGTA's tax-exempt application report occurred on July 18, 2013, before the House Committee on Oversight and Government Reform. Mr. George was accompanied by Greg Kutz, Assistant Inspector General for Audit, Management Services and Exempt Operations, and Chief Counsel Michael McCarthy.

On April 10, 2013, Mr. George appeared before the Senate Special Committee on Aging to provide testimony on the subject of tax refund-related identity theft and the targeting of senior citizens for identity theft. TIGTA has provided ongoing oversight and testimony on the issue of tax fraud-related identity theft because of the rapidly growing nature of this tax crime and the need for further improvement in the IRS's handling of identity theft.

Identity theft and other fraud schemes targeting senior citizens are on the rise. The identities of senior citizens are targets for identity thieves because many are not required to file a tax return. These individuals are often unaware that their identities have been stolen and used to file fraudulent tax returns. Similarly, the IRS is often unaware that a tax return is fraudulent unless the legitimate taxpayer also files a tax return, resulting in a duplicate filing. If these fraudulent refunds are not recovered, taxpayer dollars will be lost.

The IRS has described identity theft as the leading tax scam for 2013.¹²² Incidents of identity theft that affect tax administration have continued to rise since CY 2011, when the IRS identified more than one million incidents of identity theft. As of December 31, 2012, the IRS identified almost 1.8 million incidents during CY 2012.

As we have previously reported, the total impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents,¹²³ and the IRS is not providing effective assistance to taxpayers who report that they have been victims of identity theft.¹²⁴ Although the IRS is continuing to make changes to its processes to increase its ability to detect, prevent, and track fraudulent tax returns and improve

¹²² IRS Press Release, IR-2013-33 (March 26, 2013), available at <http://www.irs.gov/uac/Newsroom/IRS-Releases-the-Dirty-Dozen-Tax-Scams-for-2013>.

¹²³ TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

¹²⁴ TIGTA, Ref. No. 2012-40-050, *Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service* (May 2012).



assistance to victims of identity theft, more work needs to be done. We remain concerned about the IRS's ability to address this matter and will continue to monitor this problem closely.

On May 8, 2013, the Inspector General testified before the Senate Committee on Appropriations, Subcommittee on Financial Services and General Government. Mr. George's testimony focused on the IRS's FY 2014 budget request, TIGTA's recent work related to the most significant challenges currently facing the IRS, and TIGTA's FY 2014 budget request.

The budget request for the IRS, the largest component of the Department of the Treasury, supports Treasury's goals to pursue comprehensive tax and fiscal reform and to manage the Government's finances in a fiscally responsible manner. The IRS's role is unique within the Federal Government in that it collects the revenue that funds the Government and administers the Nation's tax laws. It also is responsible for protecting Federal revenue by detecting and preventing the growing risk of fraudulent tax refunds and other improper payments.

To achieve these goals, the proposed FY 2014 IRS budget requests appropriated resources of approximately \$12.9 billion. The total appropriations amount is an increase of slightly more than \$1 billion, or approximately 9 percent more than the FY 2012 enacted level of approximately \$11.8 billion. The budget request includes a net staffing increase of 4,572 full-time equivalents (FTE)¹²⁵ for a total of approximately 96,200 appropriated FTEs.

TIGTA also examined several of the most significant challenges now facing the IRS as it administers the Nation's tax laws. One such challenge is the Tax Gap. TIGTA has identified several concerns both with estimating the Tax Gap and with efforts to reduce it. For example, while the IRS has not developed an estimate for the International Tax Gap, non-IRS estimates range from \$40 billion to \$123 billion.¹²⁶ Another concern about the IRS's methods of estimating the size of the Tax Gap is that the various sample sizes used in the employment tax study may be insufficient to determine compliance levels.¹²⁷

The growth of identity theft also presents considerable challenges to tax administration. Real-time access to third-party income and withholding information at the time tax returns are processed is the single most important tool the IRS could use to detect and prevent the kind of identity theft tax fraud that results from the reporting of false income and withholding. Another important tool that could immediately help the IRS prevent tax fraud-related identity theft is the National Directory of New Hires.¹²⁸

¹²⁵ A full-time employee working 40 hours per week for 52 weeks.

¹²⁶ TIGTA, Ref. No. 2009-IE-R001, *A Combination of Legislative Actions and Increased IRS Capability and Capacity Are Required to Reduce the Multi-Billion Dollar U.S. International Tax Gap* (Jan. 2009).

¹²⁷ TIGTA, Ref. No. 2011-10-034, *Limitations in the Sample Size for the Internal Revenue Service's Employment Tax Study May Impact Ability to Determine Compliance Levels* (May 2010).

¹²⁸ A Department of Health and Human Services national database of wage and employment information submitted by Federal agencies and State workforce agencies.



Another challenge facing the IRS involves the administration of refundable tax credits. For several years, TIGTA has reported significant concerns with the growth in noncompliance and fraud in refundable tax credits.¹²⁹ The EITC remains the largest refundable credit, based on the total claims paid, and it continues to be vulnerable to a high rate of noncompliance, including incorrect or erroneous claims caused by taxpayer error or resulting from fraud. The IRS has made little improvement in reducing improper EITC payments in the years since it was first required to report estimates of these payments to Congress in CY 2002. The rate of improper EITC payments has remained high, and there continues to be a risk that the IRS will make no significant improvement in reducing EITC improper payments.

On June 6, 2013, Mr. George appeared before the House Committee on Oversight and Government Reform to testify about the IRS's conference spending for Fiscal Years 2010 through 2012. Assistant Inspector General for Audit, Management Services and Exempt Operations Greg Kutz also appeared with the Inspector General. Mr. George's testimony summarized the findings of the TIGTA audit report entitled, "Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California." The audit focused on the Anaheim conference because TIGTA received an allegation of excessive spending concerning the conference and it was the most expensive conference held by the IRS during FYs 2010 through 2012.

TIGTA identified several areas of concern associated with the August 2010 SB/SE Anaheim conference. First, procedures at the time of the conference did not require IRS management to track and report actual conference costs. As a result, TIGTA could not validate the conference cost reported by the IRS. TIGTA also determined that the IRS did not use available internal personnel to assist in searching for the most cost-effective location as required. In addition, TIGTA identified concessions provided by the hotels and questionable expenses paid by the IRS.

The IRS did not follow established guidelines when selecting Anaheim, California for the conference location because it did not use available internal personnel to identify the most cost-effective location. Instead, IRS management approached two non-governmental event planners to identify an off-site location for the conference. These event planners were not under contract with the IRS but were instead each paid a five percent commission directly by the hotels based on the cost of rooms the IRS paid for the conference.

The Anaheim conference included numerous expenses beyond basic travel costs that TIGTA identified as questionable expenses. For example, the IRS paid \$135,350 for outside speakers. One keynote speaker was paid \$17,000 to create six paintings to reinforce the message of his presentation. More than \$64,000 in gifts and promotional items, including travel mugs, pens, clocks, and brief bags, were provided to attendees. This included approximately \$27,000 in promotional items distributed at the information corridor booths.

¹²⁹ TIGTA, Ref. No. 2012-40-105, *Expansion of Controls Over Refundable Credits Could Help Reduce the Billions of Dollars of Improperly Paid Claims* (Sep. 2012).



Over the last three fiscal years, the IRS has spent approximately \$49 million on at least 225 conferences. However the trend of spending has dropped from approximately \$38 million in FY 2010, to approximately \$6 million in FY 2011, to approximately \$5 million in FY 2012. The IRS attributes this reduction in spending in part to enhanced controls over conference spending. These procedures, issued since the Anaheim conference occurred, will help to ensure that some of the questionable expenses identified in TIGTA's report are not incurred in the future. However, notwithstanding these recent actions, TIGTA suggested that additional improvements be made and made nine recommendations to enhance controls, to which the IRS agreed. TIGTA believes that its recommendations will strengthen controls over conference spending and ensure that taxpayer funds are expended more responsibly in the future.

During this reporting period, two senior-level TIGTA officials also testified before Congress on two separate occasions.

On July 17, 2013, Assistant Inspector General for Audit, Security and Information Technology Services Alan Duncan testified at a joint Hearing before the House Committee on Oversight and Government Reform, Subcommittee on Energy Policy, Health Care and Entitlements and the House Committee on Homeland Security, Subcommittee on Cybersecurity, Infrastructure Protection, and Security Technologies. Mr. Duncan testified on the IRS's Information Technology systems for the Affordable Care Act, how information will be sent and exchanged, and the safeguards to protect taxpayer data.

Finally, on August 2, 2013, Deputy Inspector General for Audit Michael McKenney appeared before the House Committee on Oversight and Government Reform, Subcommittee on Government Operations to provide testimony on the subject of tax refund-related identity theft and its impact on the IRS and taxpayers. TIGTA has provided ongoing oversight and testimony on the issue of tax fraud-related identity theft because of the rapidly growing nature of this tax crime. The IRS has made this issue one of its top priorities and has made some progress; however, significant improvements are needed.



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Audit Statistical Reports

Reports With Questioned Costs

TIGTA issued no audit reports with questioned costs during this semiannual reporting period.¹³⁰ The phrase “questioned costs” means costs that are questioned because of:

- An alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds;
- A finding, at the time of the audit, that such cost is not supported by adequate documentation (an unsupported cost); or
- A finding that expenditure of funds for the intended purpose is unnecessary or unreasonable.

The phrase “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

Reports With Questioned Costs			
Report Category	Number	Questioned Costs¹³¹ (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	7	\$38,822	\$928
2. Reports issued during the reporting period	0	\$0	\$0
3. Subtotals (Item 1 plus Item 2)	7	\$38,822	\$928
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	0	\$0	\$0
b. Value of costs not disallowed	0	\$0	\$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	7	\$38,822	\$928
6. Reports with no management decision within six months of issuance	7	\$38,822	\$928

¹³⁰ See Appendix II for identification of audit reports involved.

¹³¹ “Questioned costs” includes “unsupported costs.”



Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued seven audit reports during this semiannual reporting period with the recommendation that funds be put to better use.¹³² The phrase “recommendation that funds be put to better use” means funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- Reductions in outlays;
- Deobligations of funds from programs or operations;
- Costs not incurred by implementing recommended improvements related to operations;
- Avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements;
- Prevention of erroneous payment of refundable credits, e.g., the EITC; or
- Any other savings that are specifically identified.

The phrase “management decision” means the evaluation by management of the findings and recommendations included in an audit report, and the issuance of a final decision concerning its response to such findings and recommendations, including actions deemed necessary.

Reports With Recommendations That Funds Be Put to Better Use		
Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	0	\$0
2. Reports issued during the reporting period	7	\$5,891,133
3. Subtotals (Item 1 plus Item 2)	7	\$5,891,133
4. Reports for which a management decision was made during the reporting period	7	\$5,891,133
a. Value of recommendations to which management agreed ¹³³		
i. Based on proposed management action	3	\$260,287
ii. Based on proposed legislative action	2	\$3,696,725
b. Value of recommendations to which management did not agree	3	\$1,934,121
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	0	\$0
6. Reports with no management decision within six months of issuance	0	\$0

¹³² See Appendix II for identification of audit reports involved.

¹³³ Includes one report that contained both management and legislative recommendations.



Reports With Additional Quantifiable Impact on Tax Administration

In addition to questioned costs and funds put to better use, the Office of Audit has identified measures that demonstrate the value of audit recommendations to tax administration and business operations. These issues are of interest to IRS and Treasury Department executives, Congress, and the taxpaying public, and are expressed in quantifiable terms to provide further insight into the value and potential impact of the Office of Audit's products and services. Including this information also promotes adherence to the intent and spirit of the Government Performance and Results Act of 1993 (GPRA).¹³⁴

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

Revenue Protection: Proper denial of claims for refunds, including recommendations that prevent erroneous refunds or efforts to defraud the tax system.

Reduction of Burden on Taxpayers: Decreases by individuals or businesses in the need for, frequency of, or time spent on contacts, record keeping, preparation, or costs to comply with tax laws, regulations, and IRS policies and procedures.

Taxpayer Rights and Entitlements at Risk: The protection of due process (rights) granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise when filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds (entitlements) are also included in this category, such as when taxpayers legitimately assert that they overpaid their taxes.

Taxpayer Privacy and Security: Protection of taxpayer financial and account information (privacy). Processes and programs that provide protection of tax administration, account information, and organizational assets (security).

Inefficient Use of Resources: Value of efficiencies gained from recommendations to reduce costs while maintaining or improving the effectiveness of specific programs; resources saved would be available for other IRS programs. Also, the value of internal control weaknesses that resulted in an unrecoverable expenditure of funds with no tangible or useful benefit in return.

Reliability of Management Information: Ensuring the accuracy, validity, relevance, and integrity of data, including the sources of data and the applications and processing thereof, used by the organization to plan, monitor, and report on its financial and operational activities. This measure will often be expressed as an absolute value, *i.e.*, without regard to whether a number is positive or negative, of

¹³⁴ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).



overstatements or understatements of amounts recorded on the organization's documents or systems.

Protection of Resources: Safeguarding human and capital assets used by or in the custody of the organization from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation.

The number of taxpayer accounts and dollar values shown in the following chart were derived from analyses of historical data and are thus considered potential barometers of the impact of audit recommendations. Actual results will vary depending on the timing and extent of management's implementation of the corresponding corrective actions and the number of accounts or subsequent business activities affected as of the dates of implementation. Also, a report may have issues that affect more than one outcome measure category.

Reports With Additional Quantifiable Impact on Tax Administration			
Outcome Measure Category	Number of Reports ¹³⁵	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	10	827,528	\$9,205,370
Revenue Protection	5	39,971	\$291,625
Reduction of Burden on Taxpayers	6	2,324,440	\$58,000
Taxpayer Rights and Entitlements at Risk	9	76,352	\$11,434
Taxpayer Privacy and Security	2	138,250	\$0
Inefficient Use of Resources	2	0	\$2,579
Reliability of Management Information	12	140,556	\$2,596
Protection of Resources	5	0	\$13,279

Management did not agree with the outcome measures in the following reports:

- Increased Revenue: Reference Numbers 2013-30-040, 2013-30-077, 2013-40-123, 2013-30-112, 2013-30-121, and 2013-40-124;
- Revenue Protection: Reference Numbers 2013-30-075, 2013-40-093, and 2013-40-124;
- Taxpayer Burden: Reference Number 2013-30-121;
- Taxpayer Privacy and Security: Reference Number 2013-40-122;
- Inefficient Use of Resources: Reference Number 2013-20-118; and
- Protection of Resources: Reference Number 2013-20-089.

¹³⁵ See Appendix II for identification of audit reports involved.



The following reports contained quantifiable impacts other than the number of taxpayer accounts and dollar value:

- Increased Revenue: Reference Number 2013-30-098;
- Taxpayer Burden: Reference Number 2013-10-053;
- Taxpayer Rights and Entitlements: Reference Numbers 2013-30-071, 2013-30-098, and 2013-30-109;
- Taxpayer Privacy and Security: Reference Number 2013-30-109;
- Reliability of Management Information: Reference Numbers 2013-10-053, 2013-30-051, 2013-10-074, 2013-20-089, 2013-30-098, 2013-13-115, 2013-10-116, and 2013-40-131; and
- Protection of Resources: Reference Number 2013-10-101.



Investigations Statistical Reports

Significant Investigative Achievements	
April 1, 2013 – September 30, 2013	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,930
Complaints against Non-Employees	2,254
Total Complaints/Allegations	5,184
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,503
In Process within TIGTA ¹³⁶	384
Referred to IRS for Action	663
Referred to IRS for Information Only	1,201
Referred to a Non-IRS Entity ¹³⁷	12
Closed with No Referral	1,109
Closed with All Actions Completed	312
Returned to IRS – No Action Taken	0
Total Complaints	5,184
Investigations Opened and Closed	
Total Investigations Opened	1,790
Total Investigations Closed	1,711
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$4,925
Court Ordered Fines, Penalties and Restitution	\$8,117,749
Out-of-Court Settlements	0
Total Financial Accomplishments	\$8,122,674

¹³⁶ Complaints for which final determination had not been made at the end of the reporting period.

¹³⁷ A non-IRS entity includes other law enforcement entities or Federal agencies.



Status of Closed Criminal Investigations			
Criminal Referral	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	41	52	93
Referred – Declined for Prosecution	285	208	493
Referred – Pending Prosecutorial Decision	51	43	94
Total Criminal Referrals¹³⁸	377	303	680
No Referral	408	580	988
5¹³⁹			
Criminal Disposition	Employee	Non-Employee	Total
Guilty	31	27	58
Nolo Contendere (no contest)	4	0	4
Pre-trial Diversion	12	0	12
Deferred Prosecution ¹⁴⁰	0	1	1
Not Guilty	0	1	1
Dismissed ¹⁴¹	2	6	8
Total Criminal Dispositions	49	35	84
Administrative Dispositions on Closed Investigations¹⁴²			
Administrative Disposition			Total
Removed or Terminated of Other			220
Suspended / Reduction in Grade			99
Resigned Prior to Adjudication			132
Oral or Written Reprimand / Admonishment			46
Clearance Letter			72
Closed - No Action Taken			91
Non-Employee Actions ¹⁴³			389
Total Administrative Dispositions			1,049

¹³⁸ Criminal referrals include both Federal and State dispositions.

¹³⁹ Final criminal dispositions during the reporting period. These data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.

¹⁴⁰ Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon the defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.

¹⁴¹ Court dismissed charges.

¹⁴² Final administrative dispositions during the reporting period. These data may pertain to investigations referred administratively in prior reporting periods and do not necessarily relate to the investigations closed in the Investigations Opened and Closed table.

¹⁴³ Administrative actions taken by the IRS against non-IRS employees.



Inspections and Evaluations Statistical Reports

Report With Questioned Costs

TIGTA issued one inspection report¹⁴⁴ with questioned costs during this semiannual reporting period. The phrase “questioned costs” means costs that are questioned because of:

- An alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds;
- A finding, at the time of the inspection, that such cost is not supported by adequate documentation (an unsupported cost); or
- A finding that expenditure of funds for the intended purpose is unnecessary or unreasonable.

The phrase “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

Report With Questioned Costs			
Report Category	Number	Questioned Costs ¹⁴⁵	Unsupported Costs
1. Reports with no management decision at the beginning of the reporting period	0	0	0
2. Reports issued during the reporting period	1	\$197,416	\$7,163
3. Subtotals (Item 1 plus Item 2)	1	\$197,416	\$7,163
4. Reports for which a management decision was made during the reporting period ¹⁴⁶			
c. Value of disallowed costs	0	0	0
d. Value of costs not disallowed	0	0	0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)¹⁴⁷	1	\$197,416	\$7,163
6. Reports with no management decision within six months of issuance	0	0	0

¹⁴⁴ TIGTA, Reference No. 2013-IE-R005, *Inspection of the Internal Revenue Service’s Travel Gainsharing Program* (May 2013).

¹⁴⁵ “Questioned costs” includes “unsupported costs.”

¹⁴⁶ Includes one report in which the IRS allowed part of the questioned costs.

¹⁴⁷ Difference due to rounding.



Appendix I

Statistical Reports – Other Audit Reports with Significant Unimplemented Corrective Actions

The Inspector General Act of 1978 requires identification of significant recommendations described in previous semiannual reports for which corrective actions have not been completed. The following list is based on information from the IRS Office of Management Control’s automated tracking system maintained by Treasury management officials.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary <i>(F = Finding No., R = Recommendation No., P = Plan No.)</i>
2007-10-082	Tax-Exempt Organizations	May 2007	01/15/14	<p><i>Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified</i></p> <p><u>F-1, R-1, P-1.</u> Develop and implement a long-term strategy to automate the matching of Forms 1023 and 990 information against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations.</p>
2009-10-121	Improving Performance and Financial Data for Program and Budget Decisions	September 2009	09/30/14	<p><i>The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel</i></p> <p><u>F-2, R-1, P-1.</u> Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.</p>
2009-40-130	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	02/15/14	<p><i>Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs</i></p> <p><u>F-1, R-2, P-1.</u> Refocus the Modernized Submission Processing Concept to include implementing a process to convert paper filed tax returns prepared by individuals using a tax preparation software package into an electronic format.</p>
2010-20-027	Taxpayer Protection and Rights	March 2010	10/15/13 10/15/13 09/15/14 09/15/14	<p><i>Additional Security Is Needed For Access to the Registered User Portal</i></p> <p><u>F-1, R-1, P-1.</u> Require suitability checks on delegated users who e-file tax returns or access the e-Services incentive products and disable the principal consent feature on e-Services that allows a user to propagate his or her privileges to other users.</p> <p><u>F-1, R-3, P-1.</u> Enhance the e-file application on the Third Party Data Store to post the complete results of the Automated Suitability Analysis Program’s spouse tax compliance check.</p> <p><u>F-1, R-5, P-1.</u> Make passwords more difficult to guess by unauthorized individuals and decrease the use of Social Security numbers as usernames.</p> <p><u>F-1, R-6, P-1.</u> Implement a control to allow users to answer a series of challenge questions to unlock their accounts.</p>
2010-40-045	Security of the IRS	March 2010	07/15/14	<p><i>Telephone Authentication Practices Need Improvement to Better Prevent Unauthorized Disclosures</i></p> <p><u>F-3, R-1, P-1.</u> Incorporate available technology to authenticate callers in the queue as part of the development of the Authentication Retention Project.</p>



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2010-20-044	Modernization of the IRS	May 2010	07/30/14 11/15/14	Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program F-1, R-2, P-1. Ensure that information technology equipment energy use is measured in order to determine the energy efficiency and savings from implementing energy improvements. F-1, R-5, P-1. Ensure that energy audits are performed at the data centers.
2010-30-061	Taxpayer Compliance Initiatives	June 2010	01/15/14 01/15/14	Plans Exist to Engage the Tax Preparer Community in Reducing the Tax Gap; However, Enhancements Are Needed F-1, R-1, P-1. Update the existing IRS Strategic Plan and ensure that strategic plans have all of the information in the plans as required by the Government Performance and Results Act of 1993 and Office of Management and Budget Circular A-11 (Preparation, Submission, and Execution of the Budget). F-2, R-1, P-1. Define and include in the IRS Strategic Plan sufficient measures that will provide data that can be used to monitor the IRS's efforts to achieve objectives aimed at strengthening partnerships with tax practitioners and paid preparers to ensure effective tax administration.
2011-40-023	Erroneous and Improper Payments and Credits	February 2011	09/15/14	Reduction Targets and Strategies Have Not Been Established to Prevent the Issuance of Billions of Dollars in Improper Earned Income Tax Credit Payments Each Year F-1, R-1, P-1. Establish quantifiable reduction targets and strategies to meet those targets.
2011-20-046	Security of the IRS	May 2011	11/15/16	Access Controls for the Automated Insolvency System Need Improvement F-1, R-1, P-1. Identify incompatible duties and implement policies to segregate those duties, issue a memorandum to program managers requiring them to adhere to the new policy when assigning duties and approving Automated Insolvency System access privileges, and designate a limited number of employees to perform the User Administrator duties.
2011-40-058	Providing Quality Taxpayer Service	July 2011	01/15/15	Taxpayers Do Not Always Receive Quality Responses When Corresponding About Tax Issues F-1, R-3, P-1. Complete the study of the interim letters to ensure that they are strategically timed, alert taxpayers of delays and provide taxpayers with an accurate status and time period for case resolution, provide taxpayers with sufficient information to deter them from using other channels to contact the IRS regarding their case, and are clear and concise.
2011-20-111	Security of the IRS	September 2011	02/01/14	Continued Centralization of the Windows Environment Would Improve Administration and Security Efficiencies F-2, R-1, P-1. Ensure that standards and processes are developed and implemented enterprise-wide to prevent servers and workstations from being connected to the network without the proper authorization and required compliance documentation.
2012-40-010	Tax Compliance Initiatives	December 2011	01/15/14	More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed to Ensure All Are Complying With the New Preparer Regulations F-3, R-1, P-1. Implement a process to identify a tax return that is submitted with a Preparer Taxpayer Identification Number that is being used by someone other than the authorized preparer.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2012-13-070	Implementing Major Tax Law Changes	June 2012	12/15/13	Affordable Care Act: While Much Has Been Accomplished, the Extent of Additional Controls Needed to Implement Tax-Exempt Hospital Provisions Is Uncertain F-1, R-1, P-1. Establish a Memorandum of Understanding with the Department of Health and Human Services that takes into consideration when information for the annual report to Congress should be received and the proper format of the data to ensure that it will be timely and usable for the report to Congress.
2012-42-080	Fraudulent Claims and Improper Payments	July 2012	10/15/13	There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft F-3, R-2, P-1. Limit the number of tax refunds issued via direct deposit to the same bank account or debit card account in an attempt to reduce the potential for fraud.
2012-30-094	Tax Compliance Initiatives	September 2012	04/15/14 04/15/14	A Concerted Effort Should Be Taken to Improve Federal Government Agency Tax Compliance F-1, R-4, P-1. Ensure that Federal Agency Delinquency (FAD) Program employees adhere to procedures when processing delinquent Federal agency cases. F-1, R-5, P-1. Establish timeliness standards for FAD Program employees to follow when processing Federal agency delinquency cases.
2012-30-097	Tax Compliance Initiatives	September 2012	01/15/14 12/15/13	Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts F-1, R-1, P-2. Develop and implement additional procedures to ensure that all audits entering the Campus Case Processing operation with short statute expiration dates and large dollar assessment amounts are timely and accurately assigned and processed in accordance with applicable procedures. F-1, R-2, P-1. Conduct a cost-benefit analysis to determine whether it would be beneficial to develop and implement systematic controls to ensure that the required quick assessments are performed on large dollar audits.
2012-11-101	Fraudulent Claims and Improper Payments	September 2012	07/15/14	Deficiencies Continue to Exist in Verifying Contractor Labor Charges Prior to Payment F-1, R-2, P-1. Ensure the validity of all labor charges for the procurement in which TIGTA identified as having a total of \$394,430 in unsupported labor charges. Actions should be initiated to recover any funds identified as being paid erroneously.
2012-20-112	Security for Taxpayer Data and Employees	September 2012	12/31/13	An Enterprise Approach Is Needed to Address the Security Risk of Unpatched Computers F-2, R-5, P-1. Correct the issues with Altiris patch management tool reporting capabilities.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2013-40-009	Fraudulent Claims and Improper Payments	December 2012	01/15/14 01/15/14 02/15/14	<p>Many Taxpayers Are Still Not Complying With Noncash Charitable Contribution Reporting Requirements</p> <p><u>F-1, R-1, P-1.</u> Expand current processes to identify all tax returns claiming noncash charitable contributions of more than \$500 that do not have a Noncash Charitable Contribution (Form 8283) attached to the tax return. The processes should identify all tax returns claiming noncash contributions more than \$500,000 for which a qualified appraisal has not been attached to the tax return.</p> <p><u>F-1, R-2, P-1.</u> Capture the contribution date, donee signature and/or acknowledgement date, and Declaration of Appraiser, and type of property donated from Forms 8283 and develop processes to use the information to ensure that taxpayers are meeting the requirements for claiming deductions for noncash charitable contributions.</p> <p><u>F-1, R-3, P-1.</u> Require taxpayers to include the contribution date in addition to the Donee Acknowledgement of Receipt for donations of noncash property more than \$5,000, clarify that taxpayers must group similar items and claim the aggregate value of the noncash contributions as deductions regardless of the number of different organizations to which the donations are made, and require taxpayers to include the number of shares donated when reporting contributions of securities.</p>
2013-40-011	Fraudulent Claims and Improper Payments	December 2012	04/15/14	<p>Further Efforts Are Needed to Ensure the Internal Revenue Service Prisoner File is Accurate and Complete</p> <p><u>F-1, R-1, P-1.</u> Ensure that the validation and verification of future IRS Prisoner Files to include a check for prisoners using deceased individual's identity information.</p>
2013-40-022	Fraudulent Claims and Improper Payments	February 2013	01/15/15	<p>Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved</p> <p><u>F-1, R-5, P-1.</u> Assess the value of the Information Referral (Form 3949-A) program once the IRS implements the corrective actions resulting from the previous TIGTA report, reassess the emphasis placed on the program, and prioritize it as needed.</p>
2013-20-023	Security for Taxpayer Data and Employees	February 2013	03/15/14 03/15/14 10/15/13 12/15/13	<p>Improvements Are Needed to Ensure the Effectiveness of the Privacy Impact Assessment Process</p> <p><u>F-1, R-1, P-1.</u> Investigate all 184 information systems and collections of information identified and coordinate with system owners to complete the required Privacy Impact Assessments (PIA).</p> <p><u>F-1, R-2, P-1.</u> Establish an annual reconciliation process in which the PIA inventory is reconciled with all information systems and collections of information in the current production environment, and the completion of the planned revisions to the Major Change Determination template, which will help facilitate the annual reconciliation process, and a process to identify all completed and approved PIAs that have not been updated within three years. Coordinate with system owners to review and update these PIAs as required.</p> <p><u>F-1, R-4, P-1.</u> Ensure that the 80 PIAs that TIGTA identified as well as any other PIAs currently not available to the public are redacted as necessary and posted to the IRS public website.</p> <p><u>F-1, R-9, P-1.</u> Ensure that current and complete standard operating procedures are established for all PIA processing procedures, including reviewing and approving PIAs, updating PIAs, and reconciling PIAs to other IRS system inventories.</p>



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2013-30-020	Tax Compliance Initiatives	March 2013	09/15/14 03/15/14	<p>Actions Can Be Taken to Reinforce the Importance of Recognizing and Investigating Fraud Indicators During Office Audits</p> <p><u>F-1, R-1, P-1.</u> Standardize the process for office audit examiners' documentation of fraud consideration by developing and implementing a specific job aid that requires examiners to acknowledge which indicators, if any, were considered during the audit.</p> <p><u>F-1, R-2, P-1.</u> Develop additional criteria and guidance for when a discussion should be held between the examiner and first-line manager about the potential fraudulent activity of the taxpayer to cover instances other than omissions of income.</p>
2013-30-021	Tax Compliance Initiatives	March 2013	04/15/14 04/15/14	<p>The Compliance Assurance Process Has Received Favorable Feedback, but Additional Analysis of Its Costs and Benefits Is Needed</p> <p><u>F-1, R-1, P-1.</u> Ensure that an evaluation plan is developed and implemented to thoroughly assess the Compliance Assurance Process (CAP). At a minimum, the evaluation plan should include clearly stated objectives that measure success against well-defined standards and detailed steps for verifying that sufficient benefits are being realized in relation to the costs being incurred.</p> <p><u>F-2, R-1, P-1.</u> Ensure that the guidelines are used to evaluate the CAP as a potential new user fee source.</p>
2013-30-028	Achieving Program Efficiencies and Cost Savings	March 2013	11/15/13 11/15/13	<p>Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program</p> <p><u>F-1, R-1, P-1.</u> Report performance measurement data for customer satisfaction and employee satisfaction on the Enterprise Collection Report to promote consistency and transparency throughout the Collection program.</p> <p><u>F-2, R-1, P-1.</u> Establish a Collection program performance measure and target for each operational objective.</p>



Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	Result for TIGTA
<p>Access to Information</p> <p>Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	<p>As of September 30, 2013, there were no instances where information or assistance requested by the Office of Audit was refused.</p>
<p>Disputed Audit Recommendations</p> <p>Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of September 30, 2013, there were no instances where significant recommendations were disputed.</p>
<p>Revised Management Decisions</p> <p>Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	<p>As of September 30, 2013, one significant management decision was revised, Reference Number 2010-40-121 Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States. TIGTA recommended that the IRS clarify instructions in Publications 519 (U.S. Tax Guide for Aliens) and 515 (Withholding of Tax on Nonresident Aliens and Foreign Entities). The IRS requested a change in its original corrective action because there is inconsistent guidance in the IRS Field Service Advice 1996 with guidance in the I.R.C. relating to compensation for the performance of service. Updates to the publications would lead to further confusion. Therefore, the IRS revised its corrective action to address the guidance in Field Service Advice 1996. When the advice has been completed, the publications will be updated.</p>
<p>Audit Reports Issued in the Prior Reporting Period With No Management Response</p> <p>Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.</p>	<p>As of September 30, 2013, there were no prior reports where management's response was not received.</p>
<p>Review of Legislation and Regulations</p> <p>Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 195 proposed regulations and legislative requests during this reporting period.</p>



Appendix II

Audit Products

April 1, 2013 – September 30, 2013

Audit Products	
Reference Number	Report Title
April 2013	
2013-1C-036	Application of Agreed-Upon Procedures
2013-1C-038	Fiscal Year 2006 Corporate Office Incurred Cost Audit
2013-10-032	Travel Card Controls Are Generally Effective, but More Aggressive Actions to Address Misuse Are Needed
2013-1C-042	Noncompliance With Cost Accounting Standard 405, Accounting for Unallowable Costs
2013-20-039	Enhancements Made to the Modernized e-File System in Release 8 Should Improve System Performance for the 2013 Filing Season
2013-1C-044	Independent Audit of the Contractor's Home Office Fiscal Year Ended December 31, 2005, Incurred Cost
2013-10-046	Cost-Reimbursement Contracts Did Not Fully Comply With Federal Acquisition Regulation Revisions (Protection of Resources: \$3,600,000; Reliability of Information: \$2,596,033 in contracts improperly coded)
May 2013	
2013-1C-041	Fiscal Year 2005 Intermediate Home Office Incurred Cost Claim
2013-40-052	Review and Verification of Individual Taxpayer Identification Number Applications Has Improved; However, Additional Processes and Procedures Are Still Needed
2013-30-040	Controls Over Partial Payment Installment Agreements Can Be Improved (Increased Revenue: \$345,878,705 and 230,178 taxpayer accounts impacted)
2013-30-043	Oversight of Revenue Officer Case Actions Can Be Improved (Taxpayer Burden: 96,417 taxpayer accounts impacted)
2013-10-053	Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review (Reliability of Information: nine case files that had incomplete documentation or could not be located and 185 organizations applying for tax-exempt status whose applications were not appropriately identified as having significant potential political campaign intervention; Taxpayer Burden: 256 organizations applying for tax-exempt status)
2013-1C-045	Preaward Accounting System Audit
2013-1C-047	Supplemental Audit of the Contractor's Corporate Office Fiscal Year 2005 Incurred Costs
2013-30-051	Actions Are Needed to Accurately Reflect Criminal Investigation's Fraud Referral Evaluation Period and Improve the Criminal Fraud Referral Process (Reliability of Information: 3,635 fraud referrals with discrepancies in the initiation or closing date)
2013-10-037	Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California
June 2013	
2013-40-059	Processes Ensure That Taxpayer Identification Numbers Used to Claim Dependent Exemptions Are Valid
2013-30-054	The Enterprise Collection Strategy Organization Has Centralized Management of the Collection Organization; However, Performance Measures and Key Roles Need to Be Developed



2013-20-013	The Data Center Consolidation Initiative Has Made Significant Progress, but Program Management Should Be Improved to Ensure That Goals Are Achieved (Funds Put to Better Use: \$60,000,000)
2013-30-061	Fiscal Year 2013 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 14 taxpayer accounts impacted)
2013-30-058	Employers Do Not Always Follow Internal Revenue Service Worker Determination Rulings (Increased Revenue: \$5,964,655)
2013-10-056	The Purchase Card Program Lacks Consistent Oversight to Identify and Address Inappropriate Use (Funds Put to Better Use: \$7,060; Protection of Resources: \$221,232)
2013-40-062	The Taxpayer Protection Program Improves Identity Theft Detection; However, Case Processing Controls Need to Be Improved (Reliability of Information: 37,882 taxpayer accounts impacted)
2013-20-025	Desktop and Laptop Software License Management Is Not Being Adequately Performed
2013-10-060	Vulnerabilities Exist for Improper or Fraudulent Claims for Bond Tax Credits
July 2013	
2013-10-074	Potential Fair Tax Collection Practices Violations Were Inaccurately Coded
2013-1C-057	Review of Costs Associated With the Contractor's Center for the Business of Government in Fiscal Years 2007, 2008, and 2009
2013-20-063	Improvements Are Needed to Ensure Successful Development and System Integration for the Return Review Program
2013-30-071	Fiscal Year 2013 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute
2013-30-079	Fiscal Year 2013 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns
2013-30-072	Fiscal Year 2013 Statutory Review of Compliance With Lien Due Process Procedures (Taxpayer Burden: 27,389 taxpayer accounts impacted)
2013-1C-048	Calendar Year 2007 Incurred Cost Rate Proposal
2013-1C-049	Follow-up Audit on the Travel Management System
August 2013	
2013-40-083	Income and Withholding Verification Processes Are Resulting in the Issuance of Potentially Fraudulent Tax Refunds (Funds Put to Better Use: \$2,900,000)
2013-1C-050	Purchasing System Determination
2013-1C-070	Fiscal Year 2013 Mandatory Annual Audit Requirement 6, Labor Floor Checks or Interviews
2013-30-073	Fiscal Year 2013 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2013-30-085	Fiscal Year 2013 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 54 taxpayer accounts impacted)
2013-30-092	Fiscal Year 2013 Statutory Review of Compliance With Legal Guidelines When Issuing Levies (Taxpayer Rights and Entitlements: Three taxpayer accounts impacted)
2013-30-078	Trends in Compliance Activities Through Fiscal Year 2012
2013-30-077	The Correspondence Audit Selection Process Could Be Strengthened (Increased Revenue: \$69,358,950 and 2,344 taxpayer accounts impacted)
2013-40-084	The Internal Revenue Service Is Not in Compliance With Executive Order 13520 to Reduce Improper Payments
2013-10-081	Chief Counsel Should Take Steps to Minimize the Risk of Outside Influence on Its Letter Rulings
2013-10-091	Significant Progress Was Made in Achieving Compliance With the Federal Financial Management Improvement Act, but Unpaid Assessments Remain a Material Weakness



2013-30-080	Fiscal Year 2013 Statutory Review of Restrictions on Directly Contacting Taxpayers (Taxpayer Rights and Entitlements: 8,277 taxpayer accounts impacted)
2013-10-082	Contractor Employees Have Millions of Dollars of Federal Tax Debts
September 2013	
2013-1C-088	Application of Agreed-Upon Procedures
2013-40-105	Correspondence Scan Errors and Image System Limitations Can Delay Resolution of Taxpayer Cases
2013-30-075	Improvements Are Needed in Assessing and Enforcing Internal Revenue Code Section 6694 Paid Preparer Penalties (Revenue Protection: \$454,643)
2013-1C-096	Fiscal Year 2011 Floor Check Audit
2013-20-089	Weaknesses in Asset Management Controls Leave Information Technology Assets Vulnerable to Loss (Protection of Resources: \$6,857,798; Reliability of Information: 60,548 information technology asset records with incorrect or invalid entries)
2013-40-093	Unsupported and Potentially Erroneous Claims for General Business Credits Are Not Always Identified When Tax Returns Are Processed (Revenue Protection: \$57,083,515 and 8,657 taxpayer accounts impacted; Inefficient Use of Resources: \$378,680)
2013-30-098	Recalculations of the Collection Statute Expiration Date Were Not Always Accurate (Increased Revenue: 7,977 tax modules where the collection statute was not correctly extended; Taxpayer Burden: Nine taxpayer accounts impacted; Taxpayer Rights and Entitlements: 261 tax modules where the collection statute was incorrectly extended; Reliability of Information: 116 tax modules where the collection statute date was unverifiable)
2013-10-101	The Physical Security Risk Assessment Program Needs Improvement (Protection of Resources: 248 IRS employees located at five facilities)
2013-40-110	Inconsistent Adherence to Quality Requirements Continues to Affect the Accuracy of Some Tax Returns Prepared at Volunteer Sites
2013-10-103	The Office of Appeals Continues to Experience Difficulties in the Handling of Collection Due Process Cases (Taxpayer Rights and Entitlements: 15,734 taxpayer accounts impacted; Increased Revenue: 4,350 taxpayer accounts impacted)
2013-20-107	Full Compliance With Trusted Internet Connection Requirements Is Progressing; However, Improvements Would Strengthen Security
2013-20-106	Automated Monitoring Is Needed for the Virtual Infrastructure to Ensure Secure Configurations
2013-13-115	Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved (Reliability of Information: 7,221 direct labor hours charged to the Health Insurance Reform Implementation Fund)
2013-30-113	The International Campus Compliance Unit Is Improving Individual Tax Compliance
2013-30-099	Actions Are Needed to Strengthen the National Quality Review System for Correspondence Audits
2013-30-109	Fiscal Year 2013 Statutory Review of Compliance With the Freedom of Information Act (Taxpayer Rights and Entitlements: 572 responses to information requests; Taxpayer Privacy and Security: 13 responses to information requests)
2013-40-122	Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds (Funds Put to Better Use: \$1,883,240,515; Taxpayer Privacy and Security: 138,250 taxpayer accounts impacted)
2013-10-104	The Use of Return on Investment Information in Managing Tax Enforcement Resources Could Be Improved
2013-30-114	The Parallel Investigations Process Needs Improvement
2013-40-120	Stolen and Falsely Obtained Employer Identification Numbers Are Used to Report False Income and Withholding (Funds Put to Better Use: \$3,894,104,665)
2013-20-125	Customer Account Data Engine 2 Database Deployment Is Experiencing Delays and Increased Costs



2013-22-094	Increased Oversight of Information Technology Hardware Maintenance Contracts Is Necessary to Ensure Against Paying for Unnecessary Services
2013-10-102	Improvements Are Needed to Ensure Timely Resumption of Critical Business Processes After an Emergency
2013-20-108	Better Cost-Benefit Analysis and Security Measures Are Needed for the Bring Your Own Device Pilot
2013-30-111	Systemic Penalties on Late-Filed Forms Related to Certain Foreign Corporations Were Properly Assessed, but the Abatement Process Needs Improvement (Revenue Protection: \$155,000,000 and 3,550 taxpayer accounts impacted; Taxpayer Burden: \$58,000,000 and 625 taxpayer accounts impacted; Reliability of Information: 7,100 taxpayer accounts impacted)
2013-10-116	Vendors Had Millions of Dollars of Federal Tax Debt (Reliability of Information: 7,461 records with unreliable, missing, or invalid data; Protection of Resources: \$2,600,000)
2013-20-127	While Efforts Are Ongoing to Deploy a Secure Mechanism to Verify Taxpayer Identities, the Public Still Cannot Access Their Tax Account Information Via the Internet
2013-40-123	The Law Which Penalizes Erroneous Refund and Credit Claims Was Not Properly Implemented (Increased Revenue: \$7,550,483,975 and 578,956 taxpayer accounts impacted)
2013-40-129	Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft (Reliability of Information: 95,429 taxpayers impacted)
2013-40-130	A Process Has Not Been Established to Ensure That Billions of Dollars in Taxes Withheld From Foreign Persons Are Remitted (Increased Revenue: \$542,893,391; Revenue Protection: \$58,375,259)
2013-30-112	The Referral Process for Examinations of Tax Returns Claiming the Foreign Earned Income Exclusion Needs to Be Improved (Increased Revenue: \$21,000,000)
2013-20-117	Improved Controls Are Needed to Ensure That All Planned Corrective Actions for Security Weaknesses Are Fully Implemented to Protect Taxpayer Data
2013-20-118	Foreign Account Tax Compliance Act: Improvements Are Needed to Strengthen Systems Development Controls for the Foreign Financial Institution Registration System (Inefficient Use of Resources: \$2,200,000)
2013-23-119	Affordable Care Act: Improvements Are Needed to Strengthen Systems Development Controls for the Premium Tax Credit Project
2013-30-121	The Online Payment Agreement Program Benefits Taxpayers and the Internal Revenue Service, but More Could Be Done to Expand Its Use (Funds Put to Better Use: \$13,100,000; Increased Revenue: \$314,200,000; Taxpayer Burden: 2,200,000 taxpayer accounts impacted)
2013-20-128	Treasury Inspector General for Tax Administration – Federal Information Security Management Act Report for Fiscal Year 2013
2013-40-131	All Individual Tax Returns Filed Electronically in the 2013 Filing Season Were Processed Using the Modernized e-File System (Increased Revenue: \$1,441,457 and 11,700 taxpayer accounts impacted; Reliability of Information: 23,108 prior year tax returns with an incorrect tax period recorded)
2013-40-124	Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season (Increased Revenue: \$354,149,000; Funds Put to Better Use: \$37,780,021; Revenue Protection: \$20,711,762 and 27,764 taxpayer accounts impacted; Taxpayer Rights and Entitlements: \$11,434,473 and 52,270 taxpayer accounts impacted)
2013-20-126	Annual Assessment of the IRS Information Technology Program



Appendix III

TIGTA's Statutory Reporting Requirements

TIGTA issued 20 audit reports required by statute dealing with the adequacy and security of IRS technology during Fiscal Year (FY) 2013. In FY 2013, TIGTA completed its 15th round of statutory reviews that are required annually by the IRS Restructuring and Reform Act of 1998 (RRA 98). It also completed its annual reviews of the Federal Financial Management Improvement Act (FFMIA) of 1996, the Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The following table reflects the FY 2013 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Enforcement Statistics</p> <p>Internal Revenue Code (I.R.C.) Section (§) 7803(d)(1)(A)(i)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.</p>	<p>Ref. No. 2013-30-073, August 2013</p> <p>The IRS did not achieve full compliance with RRA 98 Section 1204 requirements. TIGTA identified instances of noncompliance with each subsection of the law:</p> <ul style="list-style-type: none"> • Section 1204(a) – eight violations. • Section 1204(b) – 15 instances of documentation noncompliance. • Section 1204(c) - one instance of noncompliance. <p>TIGTA also identified five IRS policy violations. In these five instances, managers did not reject employee self-assessments containing record of tax enforcement results (ROTTER) information.</p> <p>The IRS is taking a proactive approach to Section 1204 training and has received approval to conduct the mandatory training in the form of a briefing every two years. However, once the mandatory biannual briefing period is over, the training is not scheduled to be given in the interim to any newly hired Section 1204 employee or manager. To address our concerns regarding Section 1204 new hires, IRS management stated that they plan to provide training each quarter for any recently hired Section 1204 employees and managers, instead of having them wait until the next biannual briefing.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Restrictions on Directly Contacting Taxpayers</p> <p>I.R.C. § 7803(d)(1)(A)(ii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</p>	<p>Ref. No 2013-30-080, August 2013</p> <p>The IRS has a number of policies and procedures in place to help ensure that taxpayers are afforded the right to designate a qualified representative to act on their behalf in dealing with IRS personnel in a variety of tax matters.</p> <p>Each year, TIGTA focuses on an office or function of the IRS that interacts with taxpayers and their representative to act on their behalf in dealing with IRS personnel in a variety of tax matters. For this review, TIGTA analyzed how well the Office of Appeals (Appeals) has ensured that its personnel are appropriately including taxpayers' representatives in its activities. A statistical sample of 96 of 72,239 cases closed by Appeals showed that Appeals personnel did not always involve representatives appropriately in some key actions.</p> <p>In 11 of 96 sampled cases, Appeals personnel deviated from procedures by attempting to contact the taxpayer directly by telephone or not ensuring that copies of taxpayer correspondence were sent to the taxpayer's authorized representative. In addition, no documentation was found in managerial reviews indicating that checks were made to ensure that Appeals personnel were involving representatives in all case actions and providing representatives copies of all original correspondence sent to the taxpayers.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Filing of a Notice of Lien</p> <p>I.R.C. § 7803(d)(1)(A)(iii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.</p>	<p>Ref. No 2013-30-072, July 2013</p> <p>TIGTA reviewed a statistically valid sample of 133 Notices of Federal Tax Liens filed for the 12-month period ending June 30, 2012. IRS regulations require that taxpayer representatives be given copies of all correspondence issued to the taxpayer. However, for five of the 47 cases in the statistically valid sample in which the taxpayer had an authorized representative, the IRS did not notify the taxpayers' representative of the Notice of Federal Tax Lien filings. TIGTA estimated that 27,389 taxpayers may have been adversely affected because the IRS did not follow requirements to notify the taxpayers' representatives of the taxpayers' rights related to liens.</p> <p>In addition, the IRS is not always following internal procedures for undelivered lien notices. IRS procedures require address verification and if applicable, resolution of undelivered lien notices within 14 calendar days of receipt. TIGTA selected a judgmental sample of 248 undelivered lien notices returned to the Cincinnati (113 lien notices) and Fresno (135 lien notices) Campuses in October 2012. For 102 of the 248 undelivered lien notices, employees did not perform the required research within 14 calendar days of receipt of the returned lien notice.</p>
<p>Extensions of the Statute of Limitations for Assessment of Tax</p> <p>I.R.C. § 7803(d)(1)(C)</p> <p>I.R.C. § 6501(c)(4)(B)</p>	<p>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Ref. No 2013-30-071, July 2013</p> <p>The IRS is required to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties. TIGTA's review of a statistical sample of 51 closed taxpayer audit files with statute extensions found that the IRS is in compliance with Internal Revenue Code 6501(c)(4)(B).</p> <p>TIGTA's review found instances in which there was no documentation to support that the IRS complied with IRS procedures related to notifying taxpayers' representatives when an authorization for third-party representation existed. Taxpayers might be adversely affected if the IRS does not follow requirements to notify both the taxpayers and their representatives of the taxpayers' rights related to statute extensions.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Levies</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Ref. No. 2013-30-092, August 2013</p> <p>The IRS is protecting most taxpayers' rights when issuing systemically generated and manually prepared levies. TIGTA reviewed 15 systemically generated and 30 manual levies identified through the Automated Collection System and determined that controls were effective to ensure that taxpayers were given notice of their appeal rights at least 30 calendar days prior to the issuance of the levies. In addition, TIGTA reviewed 27 systemically generated and 18 manual levies identified through the Integrated Collection System and determined that taxpayers were given notice of their appeal rights at least 30 calendar days prior to issuance of the levies. However, three systemic levies had additional tax assessments in which a new notice of intent to levy was not sent prior to issuing the levies, as required.</p>
<p>Collection Due Process</p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding taxpayers' rights to appeal lien or levy actions.</p>	<p>Ref. No. 2013-10-103, September 2013</p> <p>In this year's audit, TIGTA continued to identify the same deficiencies in the IRS's processing of Collection Due Process cases as previously reported. Specifically, the Office of Appeals did not always classify taxpayer requests properly and, as a result, some taxpayers received the wrong type of hearing; errors continued relating to the determination of the Collection Statute Expiration Date on taxpayer accounts; and Appeals personnel did not always document their impartiality statement in hearing notification letters issued to taxpayers.</p> <p>TIGTA also identified delays in the initial processing of requests for hearings prior to receipt by Office of Appeals personnel. Some taxpayer requests for a hearing took over 90 days to reach Office of Appeals personnel from the Compliance function, which could have affected the taxpayer's due process rights.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Seizures</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.</p>	<p>Ref. No. 2013-30-061, June 2013</p> <p>TIGTA reviewed a random sample of 50 of the 738 seizures conducted from July 1, 2011, through June 30, 2012, to determine whether the IRS is complying with legal and internal guidelines for conducting each seizure. In the majority of the seizures, the IRS followed all guidelines.</p> <p>However, in 15 seizures, TIGTA identified 17 instances in which the IRS did not comply with a particular I.R.C. requirement. Specifically, TIGTA found:</p> <ul style="list-style-type: none"> • The sale of the seized property was not properly advertised (I.R.C. § 6335(b)). • The amount of the liability for which the seizure was made was not correct on the notice of seizure provided to the taxpayer (I.R.C. § 6335(a)). • Proceeds resulting from the seizure of properties were not properly applied to the taxpayer's account or seizure and sale expenses were not properly charged (I.R.C. §§ 6341 and 6342(a)). • The balance-due letter sent to the taxpayer after sale proceeds were applied to the taxpayer's account did not show the correct remaining balance (I.R.C. § 6340(c)).
<p>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the IRS's compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.</p>	<p>Ref. No. 2013-30-085, August 2013</p> <p>The IRS has not reintroduced past Illegal Tax Protestor codes or similar designations on taxpayer accounts. However, TIGTA found that out of approximately 257 million records and cases, there were 54 instances in which 45 employees referred to taxpayers as "Tax Protester," "Constitutionally Challenged," or other similar designations in case narratives on the computer systems analyzed.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Disclosure of Collection Activities With Respect to Joint Returns</p> <p>I.R.C. § 7803(d)(1)(B)</p> <p>I.R.C. § 6103(e)(8)</p>	<p>Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e) (8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Ref. No. 2013-30-079, July 2013</p> <p>IRS procedures provide employees with sufficient guidance for handling joint filer collection activity information requests. However, TIGTA could not determine whether the IRS fully complies with I.R.C. § 6103(e)(8) requirements when responding to written collection activity information requests from joint filers. IRS management information systems do not separately record or monitor joint filer requests, and there is no legal requirement for the IRS to do so. Further, TIGTA does not recommend the creation of a separate tracking system.</p>
<p>Taxpayer Complaints</p> <p>I.R.C. § 7803(d)(2)(A)</p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received are shown on page 70.</p>
<p>Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996</p> <p>I.R.C. § 7803(d)(1)(G)</p> <p>I.R.C. § 6304</p> <p>RRA 98 § 3466</p>	<p>Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Ref. No. 2013-10-074, July 2013</p> <p>Although the IRS did not close any cases it classified as Fair Tax Compliance Practices violations in Fiscal Year 2012, TIGTA determined that 13 cases closed during Fiscal Year 2012 that were coded as “unprofessional conduct” cases should have been coded and worked as potential Fair Tax Compliance Practices violations. In addition, TIGTA identified eight open cases (as of September 30, 2012) that should also have been classified as Fair Tax Compliance Practice violations but were not. This occurred because the IRS’s system for tracking employee investigations incorrectly coded cases received electronically from TIGTA’s Office of Investigations as unprofessional conduct cases instead of potential Fair Tax Compliance Practices cases. In addition, there were no civil actions resulting in monetary awards for damages to taxpayers because of a Fair Tax Compliance Practices violation.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Denial of Requests for Information</p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p>Ref. No. 2013-30-109, September 2013</p> <p>TIGTA reviewed a statistically valid sample of 55 Freedom of Information Act/Privacy Act requests from a population of 3,415 requests and found nine (16.4 percent) in which taxpayer rights may have been violated because the IRS improperly withheld or failed to adequately search for and provide information to requestors. In addition, the IRS may have violated taxpayer rights by failing to adequately search for and provide information in three (5.6 percent) of 54 sampled I.R.C. § 6103 information requests. When the sample results are projected to their respective populations, approximately 559 Freedom of Information Act/Privacy Act and 13 I.R.C. § 6103 information requests may have had information erroneously withheld.</p> <p>All Freedom of Information Act/Privacy Act information requests sampled were responded to timely. There are no statutory time frames within which the IRS must respond to I.R.C. § 6103 information requests. However, for 15 (27.8 percent) of the 54 I.R.C. § 6103 information requests, the IRS took more than 30 calendar days to provide a response.</p> <p>Additionally, sensitive taxpayer information was inadvertently disclosed in response to nine (16.4 percent) of the Freedom of Information Act/Privacy Act and four (7.4 percent) of the I.R.C. § 6103 information requests reviewed.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS's adequacy and security of its technology.</p>	<p>Information Technology Reviews:</p> <p>Ref. No. 2013-20-030, March 2013 Ref. No. 2013-23-034, March 2013 Ref. No. 2013-20-039, April 2013 Ref. No. 2013-20-025, June 2013 Ref. No. 2013-20-013, June 2013 Ref. No. 2013-20-063, July 2013 Ref. No. 2013-20-089, September 2013 Ref. No. 2013-22-094, September 2013 Ref. No. 2013-20-118, September 2013 Ref. No. 2013-20-126, September 2013 Ref. No. 2013-20-125, September 2013 Ref. No. 2013-23-119, September 2013</p> <p>Security Reviews:</p> <p>Ref. No. 2013-20-016, January 2013 Ref. No. 2013-20-023, February 2013 Ref. No. 2013-20-127, September 2013 Ref. No. 2013-20-106, September 2013 Ref. No. 2013-20-107, September 2013 Ref. No. 2013-20-108, September 2013 Ref. No. 2013-20-117, September 2013 Ref. No. 2013-20-128, September 2013</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Federal Financial Management Improvement Act of 1996 (FFMIA)</p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements or the establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Ref. No. 2013-10-091, August 2013 The IRS made significant progress in addressing previously identified remediation plan material weaknesses. For example, the Government Accountability Office reported the downgrade of the information security material weakness to a significant deficiency during the Fiscal Year 2012 financial statement audit, and the IRS removed it from the December 31, 2012, remediation plan. This material weakness was initially identified in the June 1993 Government Accountability Office report. In addition, the IRS met all intermediate target dates established in its remediation plan.</p> <p>However, the material weaknesses related to unpaid assessments remain. In a previous report, TIGTA recommended that the IRS determine whether the planned November 2014 implementation of a key system, the Customer Account Data Engine 2, will fully address the unpaid assessments material weakness, and TIGTA recommended that the IRS update future remediation plans with a more accurate implementation date, if necessary. IRS management agreed with this recommendation and plans to reassess the November 2014 closing date for this material weakness once the scope for Customer Account Data Engine 2 is determined. As a result, TIGTA will continue to monitor the IRS's progress in achieving compliance with the FFMIA.</p>
<p>Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions</p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled <i>Drug Control Accounting</i>, dated May 1, 2007.</p>	<p>Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.</p>	<p>Ref. No. 2013-10-019, January 2013 Nothing came to TIGTA's attention that caused TIGTA to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report were not fairly presented in all material respects in accordance with ONDCP-established criteria.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Improper Payments Elimination and Recovery Act of 2010 (IPERA)</p> <p>31 U.S.C. § 3321</p>	<p>Requires TIGTA to assess the IRS's compliance with improper payment requirements.</p>	<p>Ref. No. 2013-40-015, January 2013</p> <p>The IRS used the Department of the Treasury's Improper Payment Risk Assessment Questionnaire (the Questionnaire) and guidance to complete the FY 2011 risk assessment for each designated administrative and revenue program fund. TIGTA determined that the risk assessment process adequately reflects the risk of improper payments in the IRS's administrative program funds.</p> <p>However, the process does not provide a reliable assessment of the risk of improper payments in the IRS's revenue program funds. The IRS's review process for revenue program fund risk assessments is informal and did not always adhere to required guidelines for performing the assessment. The design of the Questionnaire does not provide an adequate assessment of the risk associated with tax refunds. For example, not all of the questions apply to tax refund payments. Depending on the response to these questions, the program's risk score can be affected. In addition, questions pertaining to other areas of potential risk within tax administration are not included in the Questionnaire.</p> <p>Moreover, other issues, such as insufficient verification of identity or income, can pose a significant risk for improper payments. Prior TIGTA reports indicated that this risk could be significant. As a result of identity theft, the IRS may have paid \$5.2 billion in potentially fraudulent tax refunds. TIGTA also previously found that the verification process for Individual Taxpayer Identification Number applications was substantially deficient. More than 481,500 tax returns associated with these applications had claims for the Additional Child Tax Credit totaling more than \$916 million.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Improper Payments Elimination and Recovery Act of 2010 (IPERA)</p> <p>31 U.S.C. § 3321</p>	<p>Requires TIGTA to assess the IRS's compliance with improper payment requirements.</p>	<p>Ref. No. 2013-40-024, February 2013</p> <p>The Department of the Treasury identifies the programs for which the IRS must assess the risk of improper payments. The IRS compiles the required information and forwards it to the Department of the Treasury for inclusion in the Department's agency financial report.</p> <p>TIGTA's analysis of the information that the IRS provided to the Department of the Treasury showed that the IRS is not in compliance with all IPERA requirements. Specifically, the IRS has not established annual Earned Income Tax Credit (EITC) improper payment reduction targets and has not reported an improper payment rate of less than 10 percent. This is the second consecutive year that the IRS is not in compliance with the IPERA.</p> <p>Although the IRS has implemented a number of programs over the years to address EITC improper payments, the IRS faces significant challenges to becoming compliant with the IPERA. Specifically, the process the Department of the Treasury uses to assess the risk of improper payments within its bureaus does not effectively assess the risk of improper payments in tax administration. In addition, the ever-changing population of EITC claimants makes it difficult for the IRS to gain lasting improvements in EITC compliance through outreach, education, and enforcement.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Executive Order 13520, <i>Reducing Improper Payments and Eliminating Waste in Federal Programs</i></p>	<p>Requires TIGTA to assess the IRS's compliance with the Order on an annual basis.</p>	<p>Ref. No. 2013-40-084, August 2013 The IRS is still not in compliance with the requirements of Executive Order 13520. The IRS has not established annual improper payment reduction targets as required. The IRS cited the complexity of the Earned Income Tax Credit (EITC) program as well as the need to balance the reduction in improper payments while still encouraging individuals to use the credit as the two main reasons why reduction targets have not been established. IRS management stated that they recently met with the Office of Management and Budget and agreed to work together to develop supplemental measures and indicators in lieu of reduction targets. However, the IRS did not indicate when these measures would be in place.</p> <p>The IRS is also not in compliance with the quarterly reporting requirement for high-dollar improper EITC payments (payments totaling more than \$5,000). Based on our review, TIGTA estimates that more than 10,400 of the EITC claims totaling more than \$52.8 million in Tax Year 2009 met the criteria for the quarterly reporting to TIGTA as required by the Executive Order.</p> <p>Finally, although privacy laws limit the IRS's ability to fully comply with the high-dollar EITC quarterly reporting requirement to the Council of the Inspectors General on Integrity and Efficiency, there are actions that the IRS can take to comply with the intent of the Executive Order. For example, the IRS could provide the Council with an aggregated number of EITC high-dollar payments along with the other required information.</p>



Appendix IV

Section 1203 Standards

In general, the Commissioner of Internal Revenue shall terminate the employment of any IRS employee if there is a final administrative or judicial determination that, in the performance of official duties, such employee committed any misconduct violations outlined below. Such termination shall be a removal for cause on charges of misconduct.

Misconduct violations include:

- Willfully failing to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;
- Providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;
- Violating, with respect to a taxpayer, taxpayer representative, or other employee of the IRS, any right under the Constitution of the United States, or any civil right established under Title VI or VII of the Civil Rights Act of 1964; Title IX of the Education Amendments of 1972; Age Discrimination in Employment Act of 1967; Age Discrimination Act of 1975; Section 501 or 504 of the Rehabilitation Act of 1973; or Title I of the Americans with Disabilities Act of 1990;
- Falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;
- Committing assault or battery on a taxpayer, taxpayer representative, or other employee of the IRS, but only if there is a criminal conviction or a final judgment by a court in a civil case, with respect to the assault or battery;
- Violating the Internal Revenue Code of 1986, as amended (the Code), the Department of the Treasury regulations, or policies of the IRS (including the Internal Revenue Manual) for the purpose of retaliating against or harassing a taxpayer, taxpayer representative, or other employee of the IRS;
- Willfully misusing provisions of § 6103 of the Code for the purpose of concealing information from a congressional inquiry;
- Willfully failing to file any return of tax required under the Code on or before the date prescribed therefore (including any extensions), unless such failure is due to reasonable cause and not to willful neglect;
- Willfully understating Federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect; and
- Threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

The Commissioner of Internal Revenue may mitigate the penalty of removal for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner, in his/her sole discretion, may establish a procedure that will be used to decide whether an individual should be referred to the Commissioner for determination. Any mitigation determination by the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.



Appendix V

Statistical Reports - Other

Inspection Reports With Significant Unimplemented Corrective Actions

The Inspector General Act of 1978, as amended, requires identification of significant recommendations described in previous semiannual reports for which corrective actions have not been completed. The following list is based on information from the IRS Office of Management Control's automated tracking system maintained by Treasury management officials.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (<i>F = Finding No., R = Recommendation No., P = Plan No.</i>)
2011-IE-R004		June 2011	9/30/2014 9/30/2014	<p>Follow-up Review of Controls Over Religious Compensatory Time</p> <p><u>F-1, R-1, P-1.</u> The IRS Human Capital Officer should modify the IRS RCT procedures to require that all employees (bargaining unit and non-bargaining unit) repay advanced RCT before a manager can approve employees' voluntary requests to earn overtime, compensatory time, or credit hours.</p> <p><u>F-1, R-2, P-1.</u> The IRS Human Capital Officer should modify the IRS RCT procedures to require that all employees (bargaining unit and non-bargaining unit) submit written requests to earn or use RCT, and develop a standard form for requesting, authorizing, and documenting the use of RCT.</p>
2013-IE-R002		November 2012	11/15/13	<p>Review of Criminal Investigation's Relocation Incentives and Post-of-Duty Neutral Program</p> <p><u>F-1, R-1, P-1.</u> The Chief, CI, should evaluate the effectiveness of TCS and PCS assignments as part of CI's overall succession planning strategy.</p>



Appendix VI

Implementing Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act Inspector General Peer Review Activity April 1, 2013 through September 30, 2013

Last Peer Review Conducted on TIGTA Office on Investigations:

No peer reviews were conducted on the TIGTA Office of Investigations during this reporting period.

Last Peer Review Conducted by TIGTA Office of Investigations:

The TIGTA Office of Investigations conducted a peer review of the U.S. Department of Agriculture (USDA), Office of Inspector General (OIG), Office of Investigations. The on-site review was completed April 11, 2013. The draft peer review report was issued June 27, 2013. There were no deficiencies identified in the draft peer review report.

Our report stated:

“In our opinion, the system of internal safeguards and management procedures for the investigative function of the USDA OIG in effect for the period beginning March 1, 2012, and ending February 28, 2013, are in compliance with the quality standards established by the Council of the Inspectors General on Integrity and Efficiency and the applicable United States Attorney General’s Guidelines with statutory law enforcement authority, as applicable. These safeguards and procedures provide reasonable assurance of conforming to professional standards in the planning, execution, and reporting of its investigations.”

Last Peer Review Conducted on TIGTA Office of Inspections and Evaluations


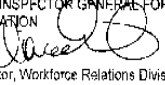
As part of the Council of the Inspectors General for Integrity and Efficiency (CIGIE) pilot peer reviews, during this six-month reporting period a review was conducted by the Department of Defense, Office of Inspector General. The Deputy Inspector General for Inspections and Evaluations agreed with review team’s review results and plans to implement corrective actions to address the single recommendation. Specifically, the Office of Inspections and Evaluations plans to develop and document procedures designed to ensure agency officials appropriately follow-up on recommendations contained in Inspection and Evaluation reports.



Appendix VII

Data Tables Provided by the IRS

The memorandum copied below is the IRS's transmittal to TIGTA. The tables that follow the memorandum contain information that the IRS provided to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period from April 1, 2013 through September 30, 2013. Also, data concerning substantiated RRA 98 §1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.

 <p style="text-align: center;">DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D.C. 20224</p> <p style="text-align: center;">October 28, 2013</p> <p>MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p>FROM: Lia Colben  Acting Director, Workforce Relations Division</p> <p>SUBJECT: Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress</p> <p>In response to your memorandum to the Principle Deputy Commissioner on July 23, 2013, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period April 1, 2013, to September 30, 2013.</p> <ul style="list-style-type: none"> • Report of Employee Misconduct by Disposition Groups; • Report of Employee Misconduct – National Summary; and, • Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS). <p>The attached tables contain information concerning alleged misconduct reported to Internal Revenue Service (IRS) managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of September 30, 2013. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).</p> <p>The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 70 §1203 allegations and removed eight employees. Four employees retired or resigned prior to a final administrative action by management. In two of the removals IRS managers considered information forwarded in a TIGTA investigation. The Commissioner mitigated proposed removals in 18 cases.</p>	<p style="text-align: center;">2</p> <p>If you have any questions, please contact me, or a member of your staff may contact Julia Caldwell at 202-622-6383.</p> <p>Attachments (3)</p> <p>cc: Acting, Commissioner Deputy Commissioner for Services and Enforcement Acting Deputy Commissioner for Operations Support National Taxpayer Advocate Executive Director, Equity, Diversity and Inclusion Chief, Communications & Liaison Associate Chief Counsel (GLS)</p>
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Reports of Employees Misconduct for the Period April 1, 2013 through September 30, 2013 Summary by Disposition Groups (Tables Provided by the IRS)

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Totals
REMOVAL (PROBATION PERIOD COMPLETE)	31	69	10	0	110
REMOVAL AT OPM DIRECTION	0	0	0	1	1
PROBATION/SEPARATION	3	91	0	4	98
SEPARATION OF TEMP	0	28	0	0	30
RESIGN.,RET., ETC. (SF50 NOTED)	13	14	0	1	30
RESIGN. RET., ETC. (SF50 NOT NOTED)	37	162	14	9	222
SUSP., 14 DAYS OR LESS	58	173	107	4	342
SUSP., MORE THAN 14 DAYS	42	49	23	0	114
INDEFINITE SUSPENSION	4	26	0	0	30
REPRIMAND	64	229	133	15	441
ADMONISHMENT	52	191	215	20	478
WRITTEN COUNSELING	39	161	128	0	328
ORAL COUNSELING	0	67	7	0	74
A D: IN LIEU OF REPRIMAND	7	24	7	3	41
A D: IN LIEU OF SUSPENSION	17	46	25	3	91
CLEARANCE LETTER	83	74	9	0	166
CLEARANCE, NO LTR ISS	0	24	0	0	25
CWA CAUTIONARY LTR	127	145	91	94	457
CWA LETTER	51	108	29	31	219
CWA NO LETTER	0	165	23	23	211
FORWARDED TO TIGTA	0	9	0	0	10
TERMINATION FOR ABANDONMENT OF POSITION	0	65	0	0	65
TERMINATION - OTH THAN JOB ABNDMNT	0	4	0	0	4
CASE SUSPENDED PENDING EMPLOYEE RTD	1	0	0	0	2
PROSECUTION PENDING FOR TIGTA ROI's	3	0	0	0	3
Total	632	1924	828	208	3592



Notes:

*Columns containing numbers of two or less and protected by I.R.C. Section 6103 are annotated with a 0.

Source: Automated Labor and Employee Relations Tracking System (ALERTS)

This report is being produced in accordance with 26 USC § 7803(d)(2) and §4(a)2 of Treasury Delegation Order 115-01, January 14, 1999.

Extract Date: Thursday, October 17, 2013



Reports of Employee Misconduct for the Period April 1, 2013 through September 30, 2013 National Summary (Tables Provided by the IRS)

Inventory Case Type	Open Inventory	Conduct Cases Received	Cases Closed			Ending Inventory
			Conduct Issues	Cases Merged with Other Cases	Non-Conduct Issues	
ADMINISTRATIVE CASE	665	2696	2800	48	22	491
EMPLOYEE BACKGROUND INVESTIGATION	91	188	233	7	0	39
EMPLOYEE TAX COMPLIANCE CASE	517	1566	1266	256	0	561
TIGTA REPORT OF INVESTIGATION	529	730	741	11	0	507
Total	1802	5180	5040	322	22	1598

Source: Automated Labor and Employee Relations Tracking System (ALERTS)

TIGTA Investigations - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred a Report of Investigation to IRS for appropriate action.

Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

Background Investigations - Any matter involving an NBIC investigation into an employee's background that is referred to management for appropriate action.

Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.

This report is being produced in accordance with 26 USC 7803(b)(2) and §4(a)2 of Treasury Delegation Order 115-01, January 14, 1999.

Extract Date: Thursday, October 17, 2013



Summary of Substantiated I.R.C. Section 1203 Allegations Recorded in ALERTS for the Periods April 1, 2013 through September 30, 2013 (Tables Provided by the IRS)

§ 1203 Violation	Removals	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated	In Personnel Process	Total
1203(b)(1): WILLFUL UNAUTH SEIZ TP	0	0	0	0	0	0	0
1203(b)(2): FALSE STTMNT UNDER OATH	0	0	0	0	0	0	0
1203(b)(4): CONCEALED WORK ERROR	0	0	0	0	0	2	2
1203(b)(5): CONVICTION- ASSAULT/BATT	0	0	0	0	0	0	0
1203(b)(6): IRC/IRM/REG VIOL- RETAIL	0	0	0	0	0	0	0
1203(b)(8): WILLFUL UNTIMELY RETURN	3	0	0	0	10	19	34
1203(b)(9): WILLFUL UNDERSTATED TAX	5	0	0	0	6	21	34
1203(b)(10): THREAT OF AUD/PERSONAL	0	0	0	0	0	0	0
Totals	8	4	0	0	16	42	70

Source: Automated Labor and Employee Relations Tracking System (ALERTS) and 1203 Review Board records.

Notes:

1. The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third party appeal.
2. Columns containing numbers of two or less and protected by I.R.C. Section 6103 are annotated with a zero.

This report is being produced in accordance with 26 USC 7803(b)(2) and §4(a)2 of Treasury Delegation Order 115-01, January 14, 1999.

Extract Date: Thursday, October 17, 2013



Glossary of Acronyms

ACA	Affordable Care Act
BYOD	Bring Your Own Device
BATF	Bureau of Alcohol, Tobacco, Firearms, and Explosives
CY	Calendar Year
CFO	Chief Financial Officer
DCCI	Data Center Consolidation Initiative
EITC	Earned Income Tax Credit
FBI	Federal Bureau of Investigations
FY	Fiscal Year
FEIE	Foreign Earned Income Exclusion
FSL	Forensic Science Laboratory
FTE	Full-time Equivalent
GTSP	Gainsharing Travel Savings Program
ITIN	Individual Taxpayer Identification Number
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
CCU	International Campus Compliance Unit
NTEU	National Treasury Employees Union
OA	Office of Audit
OEP	Office of Employee Protection
I&E	Office of Inspections and Evaluations



OIG	Office of Inspector General
OI	Office of Investigations
OMB	Office of Management and Budget
OPA	Online Payment Agreement
PPIA	Partial Payment Installment Agreement
PII	Personal Identifying Information
PTC-CE	Premium Tax Credit Computation Engine
PMO	Program Management Office
RRP	Return Review Program
SB/SE	Small Business/Self-Employed
TY	Tax Year
TIGTA	Treasury Inspector General for Tax Administration
U.S.	United States

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