

*Treasury Inspector General for Tax Administration*  
**SEMIANNUAL REPORT TO CONGRESS**

OCTOBER 1, 2013 – MARCH 31, 2014



# 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.





## Inspector General's Message to Congress

It gives me great pleasure to submit this Semiannual Report to Congress, summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of October 1, 2013 to March 31, 2014. TIGTA's achievements in promoting its mission to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of Federal tax administration are showcased through the various audits, investigations, and inspections and evaluations summarized in this report.



This reporting period marked the 15<sup>th</sup> anniversary of the date when TIGTA officially stood up, on January 19, 1999, following a reorganization of the IRS pursuant to the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). During this reporting period, TIGTA's combined audit and investigative efforts have resulted in the recovery, protection, and identification of monetary benefits totaling \$2.3 billion. During this same period, TIGTA's Office of Audit has completed 20 audits, and its Office of Investigations has completed 1,418 investigations.

Increasing voluntary taxpayer compliance and reducing the Tax Gap remain the focus of many IRS initiatives and, consequently, much of TIGTA's oversight activities. For instance, one audit report completed during this reporting period determined that the IRS has not developed processes to address the majority of discrepancies between deductions claimed and income reported for alimony payments. Our analysis of 567,887 returns from Tax Year (TY) 2010 determined that the amount of deductions claimed for alimony exceeded the amount of income reported by more than \$2.3 billion.

Our audit work for the reporting period included a number of other reports that focused on tax compliance. One such report concluded that a number of tax-exempt organizations have substantial delinquent payroll taxes, and that approximately 1,200 such organizations owed more than \$100,000 each. In another report, TIGTA determined that the IRS's amended tax return filing and processing procedures need to be modernized and improved to reduce erroneous refunds, processing costs, and taxpayer burden. In yet another report, we found that during TY 2011, taxpayers potentially made approximately \$53 million in improper claims for contributions to qualifying retirement accounts.

Examining the Awards Program of the IRS, TIGTA's auditors found that the program complied with Federal regulations, but that some IRS employees with tax compliance



issues received awards. While IRS policies do not specifically prohibit the practice, TIGTA concluded that providing awards to those employees appears to run counter to the intent of the awards system and the IRS's charge to ensure the integrity of the Federal system of tax administration.

IRS executive travel has also been an area of inquiry for TIGTA during the reporting period. Our Office of Inspections and Evaluations reviewed the travel records for 31 IRS executives to determine whether their travel appeared to be properly classified as taxable or nontaxable. TIGTA found that the tax classification of travel for nine executives appeared to be incorrect based on their travel patterns and the IRS's validation, and that for three executives the classification was not made in a timely manner.

TIGTA's Office of Investigations (OI) is tackling a sharp rise in threats to the Federal system of tax administration, in particular a steep increase in scams involving identity theft and telephone fraud. During this reporting period, TIGTA received reports of tens of thousands of contacts and has become aware of thousands of victims who have collectively paid over \$2 million as a result of a single scam, in which individuals fraudulently claiming to be IRS officials make unsolicited calls to taxpayers and demand money.

Unfortunately, the ease of committing identity theft also tempts IRS employees. OI is continuing its efforts to protect taxpayers from the few IRS employees who choose to violate the trust placed in them by taxpayers. For example, TIGTA's investigative efforts resulted in convictions against, or guilty pleas by, corrupt IRS employees who separately conducted or participated in the conduct of criminal tax identity theft schemes in Kentucky, Georgia, Missouri, Pennsylvania, and California.

At the same time, OI also continued to carry out its statutory mandate to protect the employees and facilities of the IRS against threats of violence or other means of intimidation. One investigation led to the indictment of a taxpayer in Rhode Island for retaliating against an IRS agent by threatening to assault and murder the agent and the agent's family member. Another investigation led to a guilty plea by a Florida resident for using threats of force to intimidate and impede an IRS Revenue Officer.

Now in its sixteenth year, TIGTA continues the steadfast pursuit of its mission to provide effective and efficient oversight of the Nation's tax administration system. I am proud of our employees and of their relentless commitment to this mission.

Sincerely,

A handwritten signature in cursive script that reads "J. Russell George".

J. Russell George  
Inspector General



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## TIGTA's Profile

**T**he Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of the Department of the Treasury's matters involving Internal Revenue Service (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 and bureaus within the Department.

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).

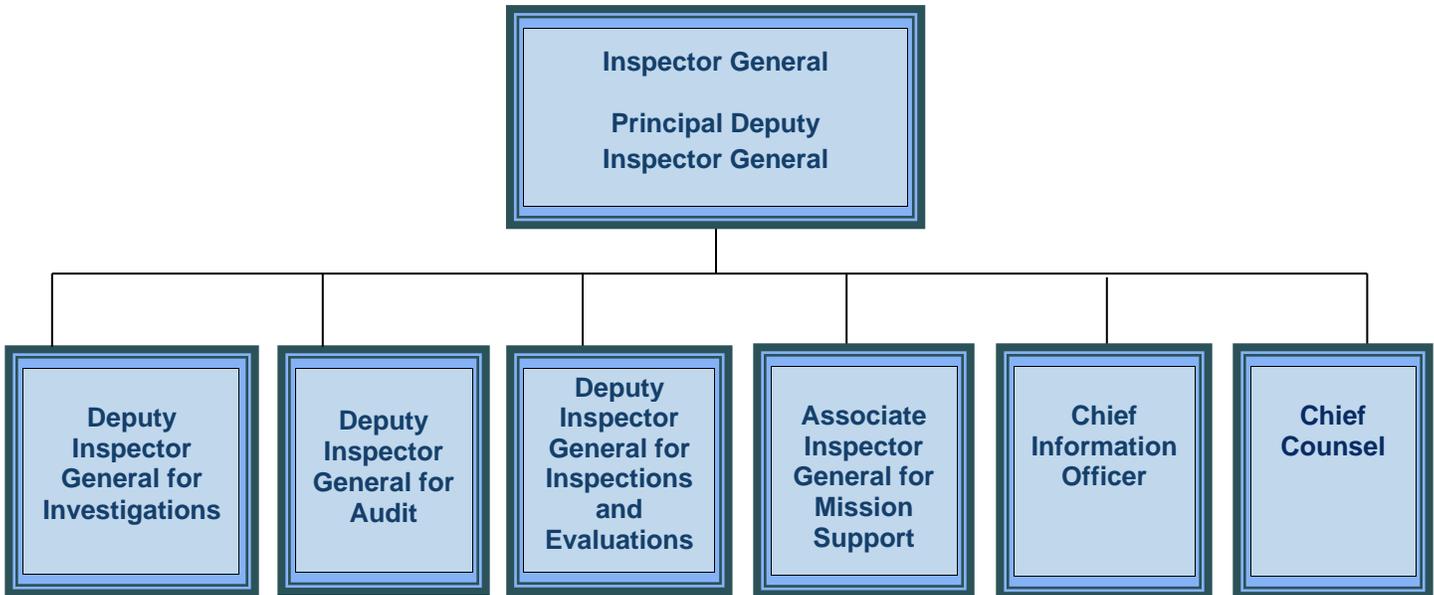
TIGTA provides audit, investigative, and inspection and evaluation services that promote economy, efficiency, and integrity in the administration of the Internal Revenue laws.

### 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** 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 derives its authority from the Inspector General Act of 1978, as amended.<sup>1</sup> TIGTA has access to tax returns and return information in the performance of its tax administration responsibilities. TIGTA must also report potential Federal criminal violations directly to the U.S. Attorney General. TIGTA and the Commissioner of the IRS 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)<sup>2</sup> 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.) § 7608(b)(2).

<sup>1</sup> 5 U.S.C. app. 3 (amended 2008).

<sup>2</sup> 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:

#### Former IRS Employee Sentenced in Identity Theft Scheme

On January 23, 2014, in the Eastern District of Kentucky, former IRS employee Joy Fox was sentenced for her role in an identity theft scheme.<sup>3</sup> Fox pled guilty on September 12, 2013<sup>4</sup> to aiding and abetting aggravated identity theft and aiding and abetting mail fraud. According to court documents, on dates between January 2013 and March 2013, Fox and a coconspirator, Patrick Sharpe, carried out a scheme to defraud and obtain money by means of false pretense.<sup>5</sup> Sharpe pled guilty on October 3, 2013.<sup>6</sup>

Fox was employed as a financial technician with the IRS in Florence, Kentucky. As part of her duties, Fox had access to an IRS computer system which maintains taxpayer information, including names, Social Security Numbers (SSN), and dates of birth. Fox's authorized access to the IRS system was limited to official business only.<sup>7</sup> As part of the scheme, Fox agreed to access the IRS computer system without authority, obtain the identifying information of numerous taxpayers, and provide the information to Sharpe. Sharpe requested that Fox provide identifying information on individuals 65 years of age or older who were entitled to receive Social Security benefits. His plan was to apply online for AccountNow® debit cards using the stolen identities and fund the cards with the individuals' Social Security benefits.<sup>8</sup>

In addition to fraudulently obtaining debit cards, Fox and Sharpe agreed to defraud the IRS by submitting a false tax return in the name of an individual whose identity Fox unlawfully obtained. Fox and Sharpe had agreed to share the refund if they were successful.<sup>9</sup> Fox was sentenced to 28 months in prison, to begin on February 24, 2014, followed by one year of supervised probation.<sup>10</sup>

#### California Man Sentenced in Connection With Identity Theft Tax Scheme

On January 22, 2014, in the Central District of California, Jerry Gregoire, Jr. was sentenced for making false claims against the United States and theft of Government

<sup>3</sup> E.D. Ky. Judgment filed Jan. 23, 2014.

<sup>4</sup> E.D. Ky. Plea Agreement for Joy Fox filed Sep. 12, 2013.

<sup>5</sup> E.D. Ky. Indictment filed July 18, 2013.

<sup>6</sup> E.D. Ky. Plea Agreement for Patrick Sharpe filed Oct. 3, 2013.

<sup>7</sup> E.D. Ky. Plea Agreement for Joy Fox filed Sep. 12, 2013.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> E.D. Ky. Judgment filed Jan. 23, 2014.



funds.<sup>11</sup> Gregoire was found guilty by a jury on 13 counts of the October 1, 2013 substitute indictment.<sup>12</sup>

According to court documents, as part of a stolen identity refund scheme, Gregoire submitted tax returns to the IRS using the true names and SSNs of other individuals without their knowledge or consent. The returns included false income, expenses, and deductions, thus inducing refunds to be issued. The refunds were directed to bank accounts that Gregoire controlled.<sup>13</sup>

When Gregoire attempted to cash refund checks in the names of three victims, Money Mart (a check cashing business) notified TIGTA. Gregoire had claimed the individuals' names on the checks were actually names of his businesses and his new clothing lines. He provided fabricated business documents and IRS Forms SS-4, purporting that the IRS had issued Employer Identification Numbers (EIN) in these business names.<sup>14</sup>

The investigation of Gregoire was conducted jointly by agents from IRS Criminal Investigation and TIGTA. A search warrant at Gregoire's residence identified multiple fraudulent documents in the name of one of the victims, including a false IRS Form SS-4 and a fabricated Form W-2, along with a document containing the real name, SSN, date of birth, and occupation of the victim.<sup>15</sup>

Gregoire was sentenced to a total of 65 months of incarceration and ordered to make restitution in the amount of \$140,205 to the victim, the IRS.<sup>16</sup> He is appealing his conviction.<sup>17</sup>

### **Individual Indicted for Threatening IRS Employee and Family Member**

On January 15, 2014, Andrew Calcione was indicted in the District of Rhode Island on two counts of retaliating against a Federal official by threatening or injuring a family member.<sup>18</sup> According to court documents, Calcione knowingly and intentionally threatened to assault and murder an IRS Revenue Agent, as well as the Revenue Agent's immediate family member. Calcione made such threats with the intent to impede, intimidate, and interfere with the official duties of the IRS employee, and to retaliate against the employee on account of the employee's performance of official IRS business.<sup>19</sup>

<sup>11</sup> C.D. Cal. Judgment filed Jan. 22, 2014.

<sup>12</sup> C.D. Cal. Verdict filed Oct. 4, 2013; C.D. Cal. Substitute Indict. filed Oct. 1, 2013.

<sup>13</sup> C.D. Cal. First Superseding Indict. filed May 8, 2013.

<sup>14</sup> C.D. Cal. Crim. Compl. filed April 16, 2013.

<sup>15</sup> *Id.*

<sup>16</sup> C.D. Cal. Judgment filed Jan. 22, 2014.

<sup>17</sup> C.D. Cal. Notice of Appeal filed Jan. 22, 2014.

<sup>18</sup> D. R.I. Indictment filed Jan. 15, 2014.

<sup>19</sup> *Id.*



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

### **Significant Discrepancies Exist Between Alimony Deductions Claimed by Payers and Income Reported by Recipients**

The IRS has not developed processes to address the majority of discrepancies between deductions claimed and income reported for alimony. Our analysis of 567,887 Tax Year (TY) 2010 returns with an alimony deduction claim identified 266,190 (47 percent) tax returns in which it appears that individuals claimed alimony deductions for which income was not reported on a corresponding recipient's tax return, or in which the amount of alimony income reported did not agree with the amount of the deduction taken. There is a discrepancy of more than \$2.3 billion in deductions claimed versus corresponding income reported.

Apart from examining a small number of tax returns, the IRS generally has no processes or procedures to address this substantial compliance gap.

IRS processes also do not ensure that individuals provide a valid recipient Taxpayer Identification Number (TIN) when claiming an alimony deduction, as required by the I.R.C. TIGTA's analysis of the 567,887 TY 2010 returns that claimed an alimony deduction identified an estimated 6,500 tax returns for which the IRS failed to identify that the recipient TIN was missing or invalid. In addition, because of errors in IRS processing instructions, the IRS did not assess penalties totaling \$324,900 on individuals who did not provide a valid recipient TIN as required.

TIGTA recommended that the IRS:

- Evaluate current examination filters in order to ensure that potentially high-risk tax returns are not inappropriately excluded from examination;
- Develop a strategy to address the significant alimony compliance gap;
- Revise processes and procedures to verify that all tax returns include a valid recipient TIN when claiming an alimony deduction; and
- Correct errors in IRS processing instructions to ensure that the penalty is accurately assessed on all tax returns in which a valid recipient TIN is not provided.

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

**Reference No. 2014-40-022**



## **The IRS Awards Program Complied With Federal Regulations, but Some Employees With Conduct Issues Received Awards**

The IRS Awards Program complied with Federal requirements to limit awards expenditures and saved additional funds by keeping aggregate incentive payments, individual employee compensation, and aggregate awards below the Federal limits. According to the IRS, it took further actions in Fiscal Year (FY) 2013 to limit awards to the extent allowable by law.

However, between October 1, 2010 and December 31, 2012, more than 2,800 employees with recent substantiated conduct issues resulting in disciplinary action received more than \$2.8 million in monetary awards, more than 27,000 hours in time-off awards, and 175 quality step increases. Among these, more than 1,100 IRS employees with substantiated Federal tax compliance problems received more than \$1 million in cash awards, more than 10,000 hours in time-off awards, and 69 quality step increases within one year after the IRS substantiated their tax compliance problem.

With few exceptions, the IRS does not consider tax compliance or other misconduct when issuing performance awards or most other types of awards. Governmentwide policies do not provide guidance on providing awards to employees with conduct issues. RRA 98 does not specifically mention awards, but does make mandatory the removal of IRS employees who are found to have intentionally committed certain acts of misconduct, including willful failure to pay Federal taxes. Thus, while not specifically prohibited, providing awards to employees with conduct issues, especially those who fail to pay Federal taxes, appears to create a conflict with the IRS's charge of ensuring the integrity of the system of tax administration.

TIGTA recommended that the IRS determine the feasibility of implementing a policy requiring management to consider conduct issues resulting in disciplinary actions, especially the nonpayment of taxes, prior to awarding all types of performance and discretionary awards.

The IRS agreed with TIGTA's recommendation. The Human Capital Officer plans to conduct a feasibility study by June 30, 2014 for the implementation of a policy requiring management to consider conduct issues resulting in disciplinary actions prior to awarding all types of performance and discretionary awards.

**Reference No. 2014-10-007**



## Promote the Economy, Efficiency, and Effectiveness of Tax Administration

**T**IGTA's Office of Audit (OA) strives to promote the economy, efficiency, and effectiveness of tax administration. TIGTA provides recommendations to improve IRS systems and operations and to ensure the fair and equitable treatment of taxpayers. TIGTA's comprehensive and independent performance and financial audits of IRS programs and operations primarily address statutorily mandated reviews and high-risk challenges faced by the IRS.

The IRS's implementation of TIGTA 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 its emphasis on statutory audits 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 October 2013 through March 2014

- Security for Taxpayer Data and Employees
- Tax Compliance Initiatives
- 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 area of emphasis during this six-month reporting period:

### Security for Taxpayer Data and Employees

The IRS faces the daunting task of securing its 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 protected against disruption or compromise.

### **Planning Is Underway for the Enterprise-Wide Transition to Internet Protocol Version 6, but Further Actions Are Needed**

The IRS established a project team to manage its network conversion from the current version, Internet Protocol version 4 (IPv4), to the next generation, Internet Protocol version 6 (IPv6), which has greater address space. The project team has adequately planned for security risks during the conversion, but has not completed some elements of the transition plan. For example, the IRS has not established an IPv6 Advisory Board or prepared a resource plan to ensure proper guidance and coordination within and outside of the agency on its IPv6 efforts.

Also, the Procurement function did not establish controls to ensure that all new information technology purchases were IPv6 capable in accordance with the Federal Acquisition Regulation. Lastly, TIGTA found that the project team received inadequate oversight from the Infrastructure Executive Steering Committee and did not adhere to the IRS's Enterprise Life Cycle policy. Given the geographic dispersion of the IRS network, and its size and complexity, the enterprise-wide network conversion will have a far-reaching impact on many IRS functions.

TIGTA recommended that the IRS:

- Direct the project team to establish an advisory board;
- Develop an Information Resources Management Strategic Plan;
- Coordinate with the IRS Enterprise Life Cycle Office to better manage project documentation and schedules;
- Update the IRS Procurement Office policy to align with the Federal Acquisition Regulation;
- Establish a control to prevent the purchase of IPv6 incapable products;
- Coordinate with IRS business units to ensure that complete responses to the project team's applications data call are received, so that they can begin extensive planning for each application that will require upgrading;
- Assess the merits of transferring project oversight to another governance board that regularly monitors and provides oversight of information technology projects; and
- Direct the Infrastructure Executive Steering Committee to update its charter in order to properly reflect the current roles and responsibilities of the committee.

The IRS agreed with our recommendations to develop an Information Resources Management Strategic Plan, better manage IPv6 project documentation, update the Infrastructure Executive Steering Committee charter, and coordinate between offices to achieve procurement policy alignment with Federal regulations and an exchange of



information necessary for a successful transition to IPv6. The IRS updated the IPv6 Transition Plan so that existing oversight groups fulfill the purpose of an advisory board. IRS management prefers to continue with its current governance board structure for this project since it provides oversight for the entire Information Technology infrastructure portfolio.

#### **Reference No. 2014-20-016**

### **Tax Compliance Initiatives**

Tax compliance initiatives include the administration of tax regulations, the collection of the correct amount of tax from businesses and individuals, and the oversight of tax-exempt and government entities. Increasing voluntary taxpayer compliance and reducing the Tax Gap<sup>20</sup> 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 differentiate 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.

#### **Millions of Dollars in Potentially Improper Self-Employed Retirement Plan Deductions Are Allowed**

TIGTA sought to determine whether the IRS's controls and third-party data are adequate to identify improper deductions for contributions made by self-employed taxpayers to their own Simplified Employee Pension (SEP) planned retirement account. An SEP is a retirement plan that allows self-employed taxpayers to make contributions toward their own and their employees' retirement without getting involved in a more complex qualified plan. Improper deductions could be verified using information provided by taxpayers when individual tax returns are filed. If the IRS improves controls, it could prevent improper deductions and potentially protect \$71 million in revenue over five years.

In addition, TIGTA found that the IRS could better use third-party data to detect potentially improper SEP deductions. For example, to be able to claim an SEP deduction on line 28 of Form 1040, self-employed taxpayers must show net earnings on a self-employed business. If the IRS improves controls, it could detect improper deductions and potentially realize \$29 million in revenue over five years.

TIGTA recommended that the IRS enhance controls to prevent and detect improper claims and assess the need for additional third-party data to verify deductions.

In its response, IRS management disagreed with TIGTA's conclusion that controls are not in place to detect improper self-employed retirement plan deductions, but agreed that certain actions can be taken to improve existing processes.

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<sup>20</sup> The IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year.



TIGTA does not believe that the IRS's corrective actions are sufficient. This audit identified millions of dollars in potentially improper or fraudulent claims, and TIGTA continues to believe that the IRS should consider additional controls to prevent or detect potentially improper retirement plan deductions.

### **Reference No. 2014-10-008**

#### **Millions of Dollars in Potentially Improper Claims for the Qualified Retirement Savings Contributions Credit Are Not Pursued**

Since TY 2002, the Federal Government has provided a Qualified Retirement Savings Contributions Credit (saver's credit) to reduce income taxes of certain low-to-moderate-income workers who contribute to a qualified retirement plan. The IRS has developed and implemented controls for submission processing of tax returns that generally prevent a taxpayer from receiving the saver's credit if the taxpayer is under 18 years of age, has an income level that exceeds eligibility limits, or is claiming a credit that exceeds the statutory limit.

For TY 2011, TIGTA determined that taxpayers potentially submitted approximately \$53 million in improper claims for contributions made to a qualifying retirement account. Based on a comparison with third-party data, these claims appear to be potentially either false or overstated. In the future, if the IRS identifies and addresses taxpayers who are potentially ineligible to receive the saver's credit, it could recover approximately \$264 million over five years.

TIGTA recommended that the IRS develop a cost-effective strategy for improving compliance with requirements for claiming the saver's credit.

In their response to the report, IRS officials agreed that improvements could be made to increase compliance with saver's credit requirements. However, IRS officials did not agree with the recommendation because they do not believe that there are cost-effective compliance alternatives available.

Given the significant number of taxpayers identified as claiming potentially improper saver's credits, as well as the potential for continued noncompliance in the future, TIGTA continues to believe that the IRS should follow through with this recommendation.

### **Reference No. 2014-10-017**



## 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 tax returns.

The Affordable Care Act<sup>21</sup> (ACA) contains an extensive array of tax law changes that will present a continuing source of challenge for the IRS in the coming years. While the Department of Health and Human Services (HHS) will have the lead role in managing the policy provisions of the ACA, the IRS will administer the law's numerous tax provisions. The IRS estimates that at least 42 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.

### **Affordable Care Act: The Customer Service Strategy Sufficiently Addresses Tax Provisions; However, Changes in Implementation Will Create Challenges**

The IRS's customer service strategy is a collaborative and coordinated effort between the IRS and multiple Federal and State agencies. The strategy includes sufficient plans to:

- Conduct outreach and education;
- Update or develop tax forms, instructions, and publications; and
- Provide employee training to assist individuals in understanding the requirement to maintain the minimum essential coverage<sup>22</sup> and the tax implications of obtaining the tax credit to offset the cost of health care insurance.

In a May 2012 Memorandum of Understanding, the IRS and HHS agreed that HHS would be the lead agency and serve as the "public face" for customer service at the Marketplaces<sup>23</sup> until Calendar Year (CY) 2015. Individuals who contact the IRS for

<sup>21</sup> 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.

<sup>22</sup> Provisions in the ACA require individuals either to have minimum essential coverage for each month beginning January 2014, qualify for an exemption, or pay a penalty to the IRS when filing their Federal income tax return. These provisions apply to individuals of all ages, including children.

<sup>23</sup> The ACA seeks to provide more Americans with access to affordable health care by creating new Health Insurance Marketplaces (Marketplaces), enforcing patient/consumer protections, and providing Government subsidies for people who cannot afford insurance. The Marketplaces simplify an applicant's search for health coverage by providing multiple options in one place and comparing plans based on price, benefits, quality, and other important features that help consumers make a choice.



ACA assistance will be referred to HHS's public website (Healthcare.gov) and toll-free telephone assistance lines. The IRS will also refer individuals to its own recorded telephone messages and self-assistance tools.

In CY 2015, the IRS will take the lead in providing customer service when individuals begin filing their 2014 tax returns and are required to include the amount of any Advance Premium Tax Credit payments on their tax returns and reconcile them to the allowable amounts. The IRS's customer service will include providing face-to-face assistance at its 390 Taxpayer Assistance Centers located throughout the United States.

However, changes in ACA implementation will create challenges. Any changes made to ACA tax provisions could affect the IRS's strategy and plans to provide customer service, outreach, education, and employee training. Changes to the provisions could also affect the IRS's plans to update its tax forms, instructions, and publications.

TIGTA did not make recommendations in this report. A draft of the report was provided to IRS management for review. The IRS did not provide any comments on the report.

## **Reference No. 2014-43-006**

### **Interim Results of the 2014 Filing Season**

As a result of the closure of the Government, the IRS delayed the start of the filing season from January 21, 2014 to January 31, 2014. As of March 7, 2014, the IRS had received more than 67.1 million tax returns – more than 62.2 million (92.6 percent) were filed electronically and nearly five million (7.4 percent) were filed on paper. The IRS has issued more than 55.4 million refunds totaling more than \$164 billion.

The IRS continues to expand identity theft filters to identify fraudulent tax returns. As of February 28, 2014, the IRS reports that it had identified and confirmed 28,076 fraudulent tax returns involving identity theft. In addition, the IRS identified 57,316 tax returns with \$385 million claimed in fraudulent refunds and prevented the issuance of \$336 million (87.3 percent) of the fraudulent refunds it identified. The IRS also identified 36,801 prisoner tax returns for screening.

The use of the split-refund option to direct deposit a refund into multiple bank accounts continues to grow. Through March 6, 2014, a total of 585,331 individuals chose to split refunds totaling more than \$2.6 billion into multiple accounts. However, we continue to find that some taxpayers and return preparers misuse this option to direct a portion of a tax refund to a preparer for payment of services.



TIGTA also found that some paid tax return preparers continue to be noncompliant with Earned Income Tax Credit (EITC) due diligence requirements, but the number has decreased substantially when compared to the same period last filing season.

Finally, the IRS plans to assist 5.6 million taxpayers through face-to-face contact at the Taxpayer Assistance Centers during FY 2014, which is one million fewer taxpayers than it assisted during FY 2013. As of March 8, 2014, approximately 46.3 million taxpayers had contacted the IRS by calling one of the various toll-free Customer Account Services lines. The IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week, including its IRS2Go app; YouTube channels; interactive self-help tools on IRS.gov; and Twitter, Tumblr, and Facebook accounts. However, the IRS did not always ensure that the self-help tools were updated with the most current tax information before the start of the filing season.

This report was prepared to provide interim information only. Therefore, no recommendations were made in the report.

#### **Reference No. 2014-40-029**

### **Fraudulent Claims and Improper Payments**

Improper payments include those payments that should not have been made or those 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.

#### **Processes for Ensuring Compliance With Qualifying Advanced Energy Project Credit Requirements Can Be Strengthened**

The American Recovery and Reinvestment Act of 2009 established the Qualifying Advanced Energy Project Credit (Advanced Energy Credit) to encourage development of a manufacturing base to support renewable energy industries. Manufacturers must meet specific requirements to claim the credit on their income tax returns.

The I.R.C. identifies requirements for verification of manufacturers' compliance, such as, description of the plan, proof of conformity (e.g., construction permits), and project readiness. For those projects that did not meet the agreement and/or certification requirements, the IRS appropriately considered the credits that had been allocated to the projects as forfeited, issued the manufacturers forfeit letters, and accounted for the \$150 million in Advanced Energy Credits allocated to these projects. However, TIGTA found that the IRS did not consistently evaluate project location changes to determine if the change should result in credit forfeiture. Further, although the IRS has processes to ensure manufacturer compliance with agreement, certification, and placed-in-service requirements, similar processes were not established to verify compliance with the provision to notify the IRS of significant changes in project plans.



Finally, while the IRS developed a Compliance Initiative Project that identifies *business* taxpayers erroneously claiming the credit, it does not have a similar process to identify *individual* taxpayers erroneously claiming the credit. Our review identified 1,149 individual taxpayers who electronically filed Forms 1040, collectively reporting more than \$3 million in Advanced Energy Credits for TY 2011, but who do not appear to have a business relationship with any manufacturer that was awarded the credit.

TIGTA recommended that the IRS:

- Develop processes to ensure that changes in projects are fully evaluated and all projects are placed into service at the locations specified in the manufacturer's agreement; and
- Create a process to verify that taxpayers who claim the Advanced Energy Credit are entitled to receive it.

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

**Reference No. 2014-40-011**

## **Achieving Program Efficiencies and Cost Savings**

Given the current economic environment and the increased focus by the Administration, Congress, and the American people on Government accountability and the efficient use of resources, the American people must be able to trust that their Government is taking action to stop wasteful practices and to spend every tax dollar wisely. While the IRS has made progress in using its data to improve program effectiveness and reduce costs, this area continues to be a major challenge.

### **The IRS Should Improve Mainframe Software Asset Management and Reduce Costs**

The IRS runs approximately 200 different software products in its mainframe environment. A critical part of software asset management is mainframe software license management. The objective of mainframe software license management is to manage, control, and protect an organization's software assets, including management of the risks that arise from the use of those software assets. The IRS is not adequately performing mainframe software license management and is not adhering to Federal requirements and recommended industry best practices. The IRS does not have enterprise-wide or local policies, procedures, and requirements for mainframe software license management, nor does it have a centralized, enterprise-wide organizational structure for managing mainframe software licenses.

The IRS also does not use asset discovery, network scanning, license management, or license metering tools to identify current usage, deployment, and inventory of



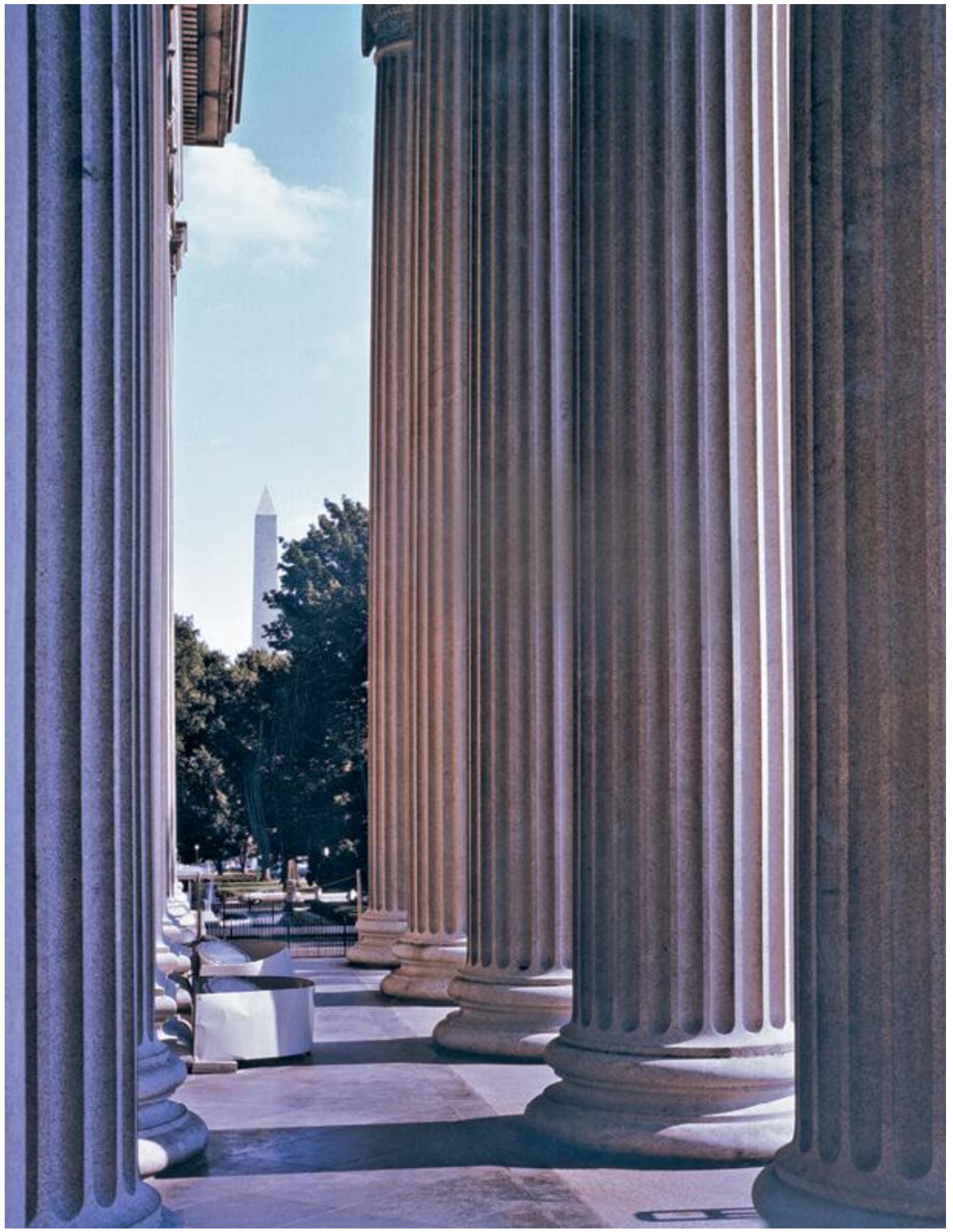
mainframe software and related licenses. This inadequate software license management has resulted in an estimated waste of \$11.6 million and overutilization of \$1.5 million in license and software subscription support fees.

TIGTA recommended that the IRS:

- Develop policies and guidance to manage mainframe software assets and licenses;
- Create an enterprise-wide organizational structure to manage software assets and licenses;
- Develop detailed standard operating procedures for using mainframe licensing tools to manage software licenses;
- Implement a specialized mainframe software license tool(s) designed to deliver, track, and manage mainframe software license deployment and usage;
- Establish an enterprise-wide inventory of mainframe software licensing data and maintain the inventory with a specialized mainframe software license tool;
- Maintain data in the inventory system that the IRS can use to more effectively manage mainframe software spending; and
- Develop roles and responsibilities for all organizational entities responsible for mainframe software asset and license management.

In its response to the report, IRS management agreed with all seven recommendations, with slight modifications to three of them.

**Reference No. 2014-20-002**





# Protect the Integrity of Tax Administration

**T**IGTA is statutorily mandated to protect the integrity of Federal tax administration. TIGTA accomplishes its mission through the investigative work conducted by the Office of Investigations (OI). Through its investigative programs, OI protects 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 Performance Model

OI accomplishes its mission objectives through the hard work of its employees and 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 has adopted performance measures intended to identify the percentage of results derived from investigative activities which most accurately align with the strategic goals of the organization and which provide the greatest impact on the protection of the integrity of Federal tax administration.

Employee misconduct undermines the IRS's ability to deliver taxpayer service, to enforce tax laws effectively, and to collect taxes owed to the Federal Government. External threats against the IRS impede its ability to fairly and efficiently carry out its role as the Nation's revenue collector. Individuals who attempt to corrupt or otherwise interfere with tax administration impact the IRS's ability to collect revenue.

TIGTA investigates these serious offenses and refers its investigations to the Department of Justice for prosecution when warranted.

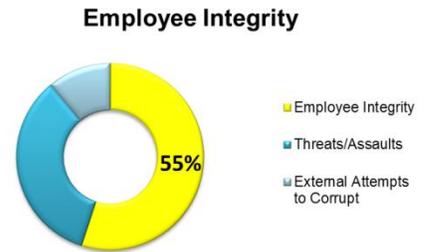
## Performance Area: Employee Integrity

Taxpayers must have confidence in the fair and impartial administration of the Federal tax system. IRS employee misconduct, whether real or perceived, can erode the public's trust and impede the IRS's ability to effectively enforce tax laws. Employee misconduct can take many forms, such as the misuse of IRS resources or authority, theft, fraud,



extortion, taxpayer abuses, unauthorized access to, and disclosure of, tax return information, and identity theft.

During this reporting period, employee integrity investigations accounted for 55 percent of OI’s work. The following cases represent OI’s efforts to ensure employee integrity during this six-month reporting period:



### IRS Employee Pleads Guilty to Hiding and Destroying Tax Returns

On February 10, 2014, in the Eastern District of Kentucky, IRS employee Brady James pled guilty to one count of destruction of tax returns for estates and trusts.<sup>24</sup> James was indicted for the offense in May 2013.<sup>25</sup> According to court documents, between April 2, 2013 and April 30, 2013, James, an IRS tax examining technician, knowingly concealed and destroyed records and documents with the intent to impede the proper administration of matters within the jurisdiction of the IRS. Specifically, James concealed over 800 Forms 1041, *U.S. Income Tax Return for Estates and Trusts*, which had been submitted to the IRS in Covington, Kentucky for processing.<sup>26</sup>

On April 23, 2013, approximately 383 Forms 1041 were found discarded in the men’s restroom at the IRS Service Center. This prompted the IRS Code and Edit Manager to conduct an unannounced search of all the employees’ desks. When the search began, James grabbed a personal bag from his work area. The bag ripped and numerous original, unprocessed Forms 1041 fell onto the ground. The forms had been stamped as received by the IRS five to six days earlier, but had not been processed.<sup>27</sup>

James admitted that he initially devised a system to withhold numerous documents temporarily until he could re-introduce them (unprocessed) into the completed work area. James later admitted he had been destroying numerous Forms 1041 nightly for several weeks by discarding them in multiple recycling bins in the work area or taking them home, where he would dump them in his apartment complex trash compactor. He indicated he had done so because he was struggling to maintain his required production.<sup>28</sup>

Searches of James’s personal possessions at work, several IRS recycling bins and trash containers near his work area, James’s home, and his apartment complex dumpster, identified a total of approximately 842 unprocessed tax returns that had been discarded.<sup>29</sup>

James could face up to 20 years of imprisonment and a fine up to \$250,000.<sup>30</sup>

<sup>24</sup> E.D. Ky. Plea Agr. filed Feb. 10, 2014.

<sup>25</sup> E.D. Ky. Indict. filed May 9, 2013.

<sup>26</sup> *Id.*

<sup>27</sup> E.D. Ky. Plea Agr. filed Feb. 10, 2014.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*



## IRS Employee Sentenced for Structuring Drug Proceeds

On October 15, 2013, in the Eastern District of California, Catatea James was sentenced for aiding and abetting in the structuring of funds.<sup>31</sup> James pled guilty to the offense on July 16, 2013.<sup>32</sup> According to court documents, James knowingly and intentionally aided and abetted in the structuring of approximately \$113,088 in drug proceeds at the direction of her half-brother and co-defendant, Joseph Gable. James allowed Gable to deposit and withdraw structured funds through her bank account, even though she suspected the money represented drug proceeds. On one occasion, James provided her bank account number to one of Gable's drug customers in Alabama via text message.<sup>33</sup> Gable would send James a text with the amount of funds he wanted withdrawn and James would give the money to him.<sup>34</sup> James made a number of cash withdrawals from her Bank of America account in amounts of \$10,000 or less<sup>35</sup> for the purpose of evading the reporting requirements for cash transactions.<sup>36</sup> James was sentenced to five months of imprisonment and three years of supervised release, including five months of electronic monitoring.<sup>37</sup>

## Former IRS Employee Ordered to Pay Restitution for Theft of National Treasury Employees Union Funds

On October 2, 2013, in the District of Utah, Northern Division, Sheila Brown was ordered to pay \$24,582 in restitution to Chapter 67 of the National Treasury Employees Union (NTEU).<sup>38</sup> Brown was indicted for theft from a program receiving Federal funds in January 2013.<sup>39</sup> She pled guilty and was sentenced for the offense in June 2013.<sup>40</sup>

According to court documents, from approximately June 2005 until April 2010, Brown served as the Treasurer for NTEU Chapter 67 (NTEU-67). Brown was employed by the IRS in Ogden, Utah at all times relative to the charges. NTEU-67 is an independent Federal sector union representing employees of the Treasury Department, and receives Federal funding and subsidies from the IRS. IRS employees complete NTEU-67 duties while on official IRS work time and are paid with IRS funds.<sup>41</sup>

Brown's responsibilities as the Treasurer for NTEU-67 included overseeing union dues and funds, balancing accounts, submitting and writing checks, and paying for authorized travel, all on behalf of NTEU-67. By virtue of her position as Treasurer, Brown had

<sup>31</sup> E.D. Cal. Judgment filed Oct. 24, 2013.

<sup>32</sup> E.D. Cal. Plea Agr. filed July 16, 2013.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

<sup>36</sup> E.D. Cal. Superseding Info. filed July 22, 2013.

<sup>37</sup> E.D. Cal. Judgment filed Oct. 24, 2013.

<sup>38</sup> D. Utah Stipulated Motion to Amend Judgment for Order of Restitution filed Oct. 2, 2013.

<sup>39</sup> D. Utah Indict. filed Jan. 9, 2013.

<sup>40</sup> D. Utah Statement by Defendant in Advance of Guilty Plea filed June 24, 2013; D. Utah Judgment filed June 27, 2013.

<sup>41</sup> D. Utah Indict. filed Jan. 9, 2013.



access to two NTEU bank accounts that were to be used solely for NTEU expenses and purposes. Brown embezzled money from NTEU-67 by using its banking accounts, as well as check and debit cards she obtained from the NTEU-67 accounts, for her personal use and benefit. From approximately January 2009 through April 2010, Brown made unauthorized cash withdrawals from the accounts, issued unauthorized checks, and made personal purchases with debit cards.<sup>42</sup> In addition to the \$24,582 in restitution,<sup>43</sup> Brown was sentenced to 12 months of probation and ordered to participate in a mental health treatment program.<sup>44</sup>

### Spotlight on Integrity

The Federal tax system is based on voluntary compliance and, as such, it is critical that taxpayers have confidence not only in the security of the sensitive personal and financial information furnished 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 and the Insider Threat*

It is particularly troubling when IRS employees, who are entrusted with the sensitive personal and financial information of millions of taxpayers, misuse their positions in furtherance of identity theft and other fraud schemes. This breach of trust negatively impacts our Nation's voluntary tax system and erodes confidence in the IRS. TIGTA proactively reviews the activities of IRS employees who access taxpayer accounts for any indication of unauthorized accesses that may be part of a larger fraud scheme. The following cases represent OI's efforts to investigate identity theft committed by IRS employees during this six-month reporting period:

#### **IRS Data Entry Clerk Pleads Guilty to Filing False Tax Returns Using Stolen Identities and Falsified IRS Documents**

On January 21, 2014,<sup>45</sup> in the Eastern District of California, IRS employee Monica Hernandez pled guilty to making and subscribing a false income tax return, wire fraud, and aggravated identity theft.<sup>46</sup> Hernandez was indicted for the offenses in April 2011.<sup>47</sup>

According to court documents, at all times relevant to the offenses, Hernandez was employed as a part-time data entry clerk at the IRS Fresno Service Center in Fresno, California. As part of her duties, Hernandez regularly handled and processed tax returns on behalf of the IRS by entering taxpayers' tax information into the IRS computer system.

<sup>42</sup> D. Utah Indict. filed Jan. 9, 2013.

<sup>43</sup> D. Utah Stipulated Motion to Amend Judgment for Order of Restitution filed Oct. 2, 2013.

<sup>44</sup> D. Utah Judgment filed June 27, 2013.

<sup>45</sup> E.D. Cal. Crim. Docket filed Apr. 14, 2011.

<sup>46</sup> E.D. Cal. Plea Agr. filed Jan. 3, 2014.

<sup>47</sup> E.D. Cal. Indict. filed Apr. 14, 2011.



During the course of her IRS employment, Hernandez stole tax information in order to file fraudulent tax returns and claim large tax refunds.

Specifically, Hernandez stole taxpayers' Forms 1099-B, which list income received and moneys withheld from interest and dividend earnings. Hernandez then falsified and forged the Forms 1099 to reflect her personal information and filed her own tax returns claiming the information from the forged 1099s in the form of excessive withholdings.<sup>48</sup> Between 2007 and 2009, Hernandez filed three false tax returns for herself using this method and obtained refunds from the IRS in the amount of \$175,144.<sup>49</sup>

Starting on or around February 2010, Hernandez began to file a new series of fraudulent tax returns, falsely claiming excessive withholdings. However, this time she used personal information belonging to individuals other than herself to obtain the large refunds. Hernandez initially acquired the identifying information of some of these individuals, including deceased persons, from sites on the Internet. She also used the identity of a relative to file one false return and subsequently opened a bank account in the relative's name in order to deposit the fraudulently obtained refund check.<sup>50</sup>

In continuance of her scheme, Hernandez illegally acquired and removed 68 separate tax returns from the IRS Service Center in Fresno, California. These returns had been received by the IRS, but had not yet been entered into the IRS computer system. The stolen tax returns contained the names, SSNs, addresses, and other pertinent data associated with the taxpayers. Hernandez then proceeded to file fraudulent tax returns electronically for her own benefit using the identification of some of these taxpayers, and claimed excessive withholdings from dividends and interest income in order to increase the amount of the refunds. Hernandez filed approximately 10 tax returns in which she attempted to claim refunds totaling \$1,745,013.<sup>51</sup>

As part of the plea agreement, Hernandez agreed to pay restitution to the United States in the amount of approximately \$200,000, plus restitution to all of the affected victims in an amount to be determined by the court at sentencing.<sup>52</sup> She could face up to 20 years of imprisonment.<sup>53</sup>

### **IRS Employee Orchestrated Identity Theft Refund Scheme Using Taxpayer Records**

On December 10, 2013, in the Northern District of Georgia, IRS Tax Examining Technician Missy Sledge was indicted for aggravated identity theft and mail fraud.<sup>54</sup> According to court documents, as part of her official IRS duties Sledge had access to taxpayers' personal identifiers, including names, SSNs, dates of birth, and addresses, and information about tax professionals. Sledge used this access in furtherance of an

<sup>48</sup> E.D. Cal. Plea Agr. filed Jan. 3, 2014.

<sup>49</sup> E.D. Cal. Indict. filed Apr. 14, 2011.

<sup>50</sup> E.D. Cal. Plea Agr. filed Jan. 3, 2014.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*

<sup>54</sup> N.D. Ga. Indictment filed Dec. 10, 2013; N.D. Ga. Criminal Complaint filed Nov. 25, 2013.



identity theft scheme which included the filing of fraudulent tax returns and the subsequent theft of refunds.<sup>55</sup> With information from IRS computer systems, Sledge provided taxpayers' personal information to her coconspirators.<sup>56</sup>

It was part of the scheme that others would file fraudulent tax returns with the IRS using the stolen identities of various taxpayers. Sledge used her IRS computer to review the fraudulent returns submitted to determine if she could release fraudulent tax refunds based on those returns. When identified, Sledge would release the fraudulent refund for payment. Sledge further assisted those involved in the scheme in impersonating either the taxpayers or their authorized representatives, so the taxpayers' addresses of record could be changed to a fictitious address accessible to Sledge or others involved in the scheme. Sledge then caused the IRS to mail refunds in the taxpayers' names to the fictitious address, to be intercepted or stolen.<sup>57</sup>

On May 21, 2013, an individual was arrested in Texas and was found to be in possession of an IRS refund check in the amount of \$595,901.97, along with three pages of internal IRS documents containing tax information for one of the identity theft victims. A review of IRS systems revealed Sledge made accesses to this taxpayer's account, as well as to information of the taxpayer's accountant, on seven dates between February 2013 and May 2013. The victim was due a large refund because she had overpaid her estimated taxes. One of the perpetrators used the accountant's information and Government-issued representative number to impersonate the tax practitioner in a telephone communication with the IRS on March 5, 2013, in order to change the address on record from a North Carolina address to an address in Atlanta, Georgia. Sledge then released the \$595,901.97 refund to the fictitious address.<sup>58</sup>

On May 23, 2013, an e-mail was sent from Sledge's IRS e-mail account containing the personal information for two other taxpayers, a married couple. The e-mail included the taxpayers' names, SSNs, dates of birth, address, and tax preparer's information. A subsequent telephonic address change was made, changing the address of record from the taxpayers' Massachusetts address to a Georgia address, and a refund in the amount of \$961,779.33 was paid on or about May 31, 2013. Review of the IRS systems identified accesses to the taxpayers' accounts by Sledge on May 23, 2013 and again in June 2013.<sup>59</sup>

Multiple communications were identified to and from Sledge's IRS e-mail account on dates between May 2013 and September 2013, relaying taxpayer information and/or internal IRS documents for up to as many as 56 taxpayers to Sledge's coconspirators. Text messages containing taxpayer information and discussing the theft of Government funds were also identified. In one message she sent to an individual she was trying to recruit as a coconspirator, Sledge told the recipient she had a business proposition for

<sup>55</sup> N.D. Ga. Indictment filed Dec. 10, 2013.

<sup>56</sup> N.D. Ga. Criminal Complaint filed Nov. 25, 2013.

<sup>57</sup> N.D. Ga. Indictment filed Dec. 10, 2013.

<sup>58</sup> N.D. Ga. Criminal Complaint filed Nov. 25, 2013.

<sup>59</sup> *Id.*



him and indicated that she had a plan to change the addresses so checks would come to him. Sledge offered to split the scheme proceeds three or four ways, depending on the number of people involved. Sledge said she would give him all the information needed to get the address changed without any problems or questions and said, "All of this money is just sitting here for the taking."<sup>60</sup> TIGTA special agents arrested Sledge in Chamblee, Georgia on November 26, 2013.<sup>61</sup> She entered a not-guilty plea at her arraignment, held on December 19, 2013.<sup>62</sup> Additional legal action is pending.

### **Former IRS Employee Indicted in Stolen Identity Refund Scheme**

On October 2, 2013, in the Western District of Missouri, Central Division, Demetria Brown was indicted for wire fraud and aggravated identity theft. According to the 22-count indictment, Brown worked for the IRS in St. Louis, Missouri, at all times relevant to the charges. From at least 2008 through March 2011, Brown knowingly devised a scheme to defraud and obtain money from the IRS and the Missouri Department of Revenue (MDOR) by means of materially fraudulent representations.<sup>63</sup>

Brown obtained the personal identifiers of individuals (including names, SSNs, and dates of birth) without their consent or knowledge and completed U.S. individual tax returns and Missouri State tax returns with the information. She also added other false information such as addresses, places of employment, wages earned, taxes withheld, and refunds due, to the returns.<sup>64</sup> Using a false identity, Brown established an account with an Internet service provider and an e-mail address in order to submit the false returns to the IRS and the MDOR and generate fraudulent refunds. She opened nominee bank accounts with at least six financial institutions in five different States. She used the routing number, account number, and debit card number on the fraudulent returns to direct payment or credit to accounts she controlled. Through her scheme, Brown unlawfully acquired approximately \$326,260 (\$211,474 from the IRS and \$114,786 from the MDOR).<sup>65</sup> Additional legal action is pending.

### **IRS Employee Arrested for Identity Theft, Theft of Government Funds, and False Tax Returns**

On February 11, 2014, in the Eastern District of Pennsylvania, a nine-count indictment charged IRS employee Sherelle Pratt with filing false Federal income tax returns, assisting in the preparation of false returns, theft of Government funds, and aggravated identity theft.<sup>66</sup>

According to court documents, Pratt worked as an IRS contact representative beginning in January 2008. After an individual reported Pratt had prepared a tax return for his son

<sup>60</sup> N.D. Ga. Criminal Complaint filed Nov. 25, 2013.

<sup>61</sup> N.D. Ga. Arrest Warrant Return filed Dec. 5, 2013.

<sup>62</sup> N.D. Ga. Docket filed Dec. 10, 2013.

<sup>63</sup> W.D. Mo. C.D. Indictment filed Oct. 2, 2013.

<sup>64</sup> *Id.*

<sup>65</sup> *Id.*

<sup>66</sup> E.D. Pa. Indict. filed Feb. 11, 2014.



and the anticipated refund was not received, TIGTA discovered that Pratt had deposited the taxpayer's refund and stimulus checks into her personal bank account. Subsequent investigation identified eight more individuals for whom Pratt had prepared tax returns and then deposited their refund and/or stimulus checks into her personal checking account.<sup>67</sup> Pratt also knowingly used the identification of another person in relation to the theft of Government funds. Specifically, Pratt used the name and SSN of one individual, without that individual's knowledge or authorization, to file a fraudulent return, which resulted in a tax refund check in the amount of \$3,524. Pratt had the illegally obtained refund electronically deposited into her own personal checking account. Moreover, for TYs 2007, 2008, and 2009, Pratt failed to report approximately \$28,767 in stolen funds as income.<sup>68</sup>

Furthermore, Pratt knowingly and willfully assisted in the preparation and filing of tax returns, which she knew to be false, for others. The returns included information such as false dependent care expenses, Schedule C income from a business not owned by the return filer, and deductions for dependents with whom the filer was not even acquainted and whom the filer did not support.<sup>69</sup> Additional legal action is pending.

### ***Employee Integrity Projects***

TIGTA ensures IRS employee integrity by conducting proactive investigative initiatives to detect misconduct in the administration of IRS programs. During this reporting period, TIGTA initiated 13 proactive investigations to detect systemic weaknesses or potential IRS program vulnerabilities.

### **Ten Former Seasonal IRS Employees Arrested for Missouri Unemployment Benefits Fraud**

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 10 former IRS employees in the Kansas City, Missouri area between December 11, 2013 and December 16, 2013, on charges stemming from a Federal indictment for benefits fraud.<sup>70</sup> The employees were indicted on December 10, 2013, in the Western District of Missouri, for theft of Government property and bank fraud related to an unemployment benefits scheme.<sup>71</sup>

According to the indictment, the Missouri Division of Employment Security (MODES) administered the unemployment benefits in Missouri on behalf of the Federal Government, and the approved benefit funds for the individuals were then transferred to Central Bank. Between January 2008 and February 2013, the defendants knowingly and willfully stole money belonging to the United States and executed a scheme to defraud

<sup>67</sup> E.D. Pa. Indict. filed Feb. 11, 2014.

<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

<sup>70</sup> W.D. Mo. Crim. Docket filed Dec. 10, 2013; W.D. Mo. Indict. filed Dec. 10, 2013.

<sup>71</sup> W.D. Mo. Indict. filed Dec. 10, 2013.



Central Bank by fraudulently obtaining unemployment benefits.<sup>72</sup> The individuals were required to certify weekly, via the Internet or telephone, any work and earnings in order for MODES to determine the validity of continued benefits. All 10 of the defendants were employed at the IRS while claiming unemployment benefits through MODES, resulting in the fraudulent payment of benefits in amounts ranging from \$6,127 to \$21,348, with an aggregate total of \$112,609. The false representations in connection with their weekly unemployment claims were further extended to obtain debit cards and/or financial deposits and negotiable instruments of funds transferred from MODES to Central Bank.<sup>73</sup> Additional legal action is pending.

### **Nine IRS Employees Sentenced for Tennessee Unemployment Benefits Fraud**

OI reported in TIGTA's Fall 2013 Semiannual Report to Congress that a proactive initiative identified IRS employees who received unemployment benefits when employed by the IRS. This initiative resulted in the arrests of 13 current and former IRS employees in the Western District of Tennessee<sup>74</sup> during the prior semiannual reporting period. The employees 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.<sup>75</sup>

During this six-month reporting period, nine of those employees received sentences ranging from two to four years of probation for making false statements to the Tennessee Department of Labor and Workforce Development in connection with their applications for unemployment benefits. They were also ordered to make restitution totaling \$77,303 to the Tennessee Department of Labor and Workforce Development.<sup>76</sup>

### ***Integrity Awareness Initiative***

As part of an ongoing effort to promote employee integrity, OI partnered with the IRS to produce *Back-to-Basics* training for all IRS executives, managers and employees. This mandatory training served as a refresher course to all employees on the core elements of the IRS mission statement, IRS values, and overall employee responsibilities. The training focused on ethics, risk management, communication, and inclusion.

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<sup>72</sup> *Id.*

<sup>73</sup> W.D. Mo. Indict. filed Dec. 10, 2013.

<sup>74</sup> 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 April 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 March 27, 2013.

<sup>75</sup> 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 March 27, 2013.

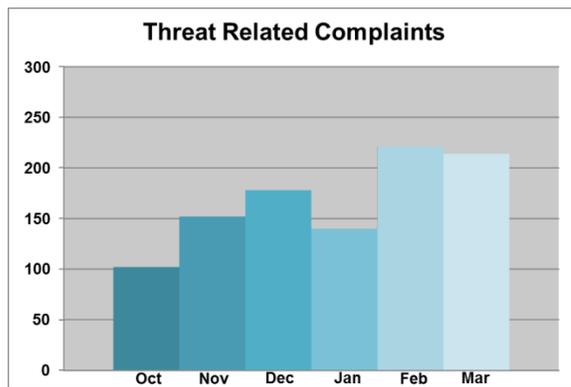
<sup>76</sup> W.D. Tenn. Judgment filed Oct. 31, 2013, Nov. 7, 2013, Dec. 5, 2013, Dec. 19, 2013, Jan. 14, 2014, Jan. 27, 2014, and Jan. 31, 2014.



## Performance Area: Employee and Infrastructure Security

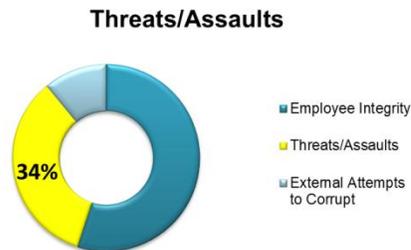
Collecting taxes is a critical function of the Federal Government. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective administration of the Federal tax system and the IRS’s ability to collect tax revenue. All reports of threats, assaults, and forcible interference against IRS employees performing their official duties are referred to OI. During this six-month reporting period, OI responded to 1,007 threat-related incidents.

Contact with the IRS can be stressful and emotional for taxpayers. While the majority of taxpayer contacts are routine, some may become confrontational and even violent. TIGTA’s special agents are statutorily mandated to provide physical security, known as “armed escorts,” to IRS employees who have face-to-face contact with a taxpayer who may pose a danger to the employee, to ensure that IRS employees have a secure environment in which they can perform their critical tax administration functions. During this six-month reporting period, OI conducted 27 armed escorts for IRS employees.



OI undertakes investigative initiatives to identify individuals who could commit violence against IRS employees, or who could otherwise pose a threat to IRS employees, facilities, or infrastructure. OI provides crucial intelligence to IRS officials to assist them in making proactive operational decisions about potential violence or other activities that could pose a threat to IRS systems, operations, and employees.

OI’s investigative information sharing with the IRS Office of Employee Protection (OEP) to identify potentially dangerous taxpayers is one example of TIGTA’s commitment to protecting IRS employees. Taxpayers meeting OEP criteria are designated as potentially dangerous. Five years after this designation has been made, TIGTA conducts a follow-up assessment of the taxpayer so that OEP can determine if the taxpayer still poses a danger to IRS employees.



During this six-month reporting period, threat and assault investigations accounted for 34 percent of OI’s work. The following cases represent OI’s efforts to ensure the safety of IRS employees during the reporting period:

### Taxpayer Pleads Guilty for Threatening to Kill an IRS Employee

On December 4, 2013, a plea agreement regarding Gary McDevitt was accepted and filed in the Middle District of Florida. McDevitt pled guilty to one count of using threats of force



to intimidate and impede a Revenue Officer of the IRS.<sup>77</sup> He was indicted for the offense in June 2013.<sup>78</sup> According to the plea agreement, McDevitt used threats of force to try to impede an IRS Revenue Officer who was acting in an official capacity. After having his bank account garnished by the IRS, McDevitt, during a recorded telephone contact with a Community Tax Relief representative, made multiple statements indicating something bad was going to happen if his money was not released. McDevitt said, in part, "...you might be reading about me on the news because if this doesn't get solved, that (expletive) ain't going to be on this earth." At least eight more times during the conversation McDevitt said, referring to the Revenue Officer, he was going to be "a dead man," "going to die," or something similarly threatening. McDevitt indicated he was serious and knew where the Revenue Officer was located.<sup>79</sup> McDevitt admitted he threatened to kill the IRS Revenue Officer because of the levy on his bank account.<sup>80</sup>

### **Louisiana Man Pleads Guilty to Threatening a Witness in a Federal Criminal Trial**

On October 30, 2013, in the Middle District of Louisiana, Anthony Williams, a resident of Baton Rouge, Louisiana, pled guilty to one count of threatening to retaliate against a witness in a Federal criminal trial.<sup>81</sup> According to court documents, Williams threatened to cause bodily injury to a witness who testified in the Federal trial of *United States v. Angela Myers*.<sup>82</sup> Myers was convicted by a jury on 21 Federal felonies<sup>83</sup> involving false, fictitious, or fraudulent claims, wire fraud, and aggravated identity theft. She was sentenced to a total term of 132 months in prison.<sup>84</sup> Williams, who is Myers's son, made a threat via Instagram (a social media platform through which users can post photographs and other users can comment on photographs) with the intent to retaliate against the witness for his testimony.<sup>85</sup> Williams was indicted along with his coconspirator, Bobby Riley, by a Federal grand jury on July 25, 2013, for conspiracy, threatening to retaliate against a witness, and making false statements to Federal agents.<sup>86</sup>

### **Performance Area: External Attempts to Corrupt Tax Administration**

TIGTA also investigates external attempts to corrupt or impede tax administration. Taxpayers may interfere with the IRS's ability to collect revenue for the United States in many ways, for instance by: filing false or frivolous documents against IRS employees; impersonating IRS employees or misusing IRS seals; using fraudulent IRS documentation to perpetrate criminal activity; offering bribes to IRS employees to influence their tax cases; or committing fraud in contracts awarded by the IRS to contractors. These attempts to corrupt or otherwise interfere with tax administration not only inhibit the IRS's

<sup>77</sup> M.D. Fla. Plea Agr. filed Dec. 4, 2013.

<sup>78</sup> M.D. Fla. Indict. filed June 12, 2013.

<sup>79</sup> M.D. Fla. Plea Agr. filed Dec. 4, 2013.

<sup>80</sup> *Id.*

<sup>81</sup> M.D. La. Minute Entry filed Oct. 30, 2013; M.D. La. Williams and Riley Indict. filed July 25, 2013.

<sup>82</sup> M.D. La. Williams and Riley Indict. filed July 25, 2013.

<sup>83</sup> M.D. La. Angela Myers Indict. filed July 25, 2013.

<sup>84</sup> M.D. La. Angela Myers Judgment filed July 25, 2013.

<sup>85</sup> M.D. La. Williams and Riley Indict. filed July 25, 2013.

<sup>86</sup> *Id.*

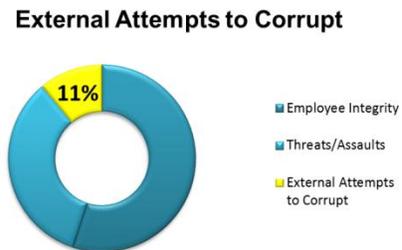


ability to collect revenue, but they also undermine the public's confidence in fair and effective tax administration.

For example, IRS employees who have contact with the public frequently receive frivolous correspondence and threatening letters. Individuals with personal vendettas against the IRS sometimes file false liens or other financial encumbrances against IRS employees in retaliation. The filing of an invalid lien in retaliation against a Government employee not only creates personal financial troubles for the targeted employee but is also a criminal act. TIGTA special agents investigate these acts of retaliation and work with the Department of Justice to prosecute such acts that interfere with or impede Federal tax administration.

Individuals may also impersonate the IRS or its employees to obtain Personally Identifiable Information (PII) from unsuspecting taxpayers or to defraud them out of their money. These individuals may claim to be IRS employees on the telephone or may misuse IRS logos, seals, or symbols to create official-looking letters and e-mails they send to taxpayers. The taxpayers are often told they owe money to the IRS that must be paid through a pre-loaded debit card or wire transfer. Sometimes taxpayers are tricked into providing their PII, which the impersonator uses to commit identity theft. TIGTA aggressively investigates these criminal activities to ensure that taxpayers maintain confidence in the integrity of Federal tax administration.

During this reporting period, investigations into attempts to corrupt or impede tax administration accounted for 11 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:



### Individual Sentenced for Interference With Tax Administration

On October 4, 2013, in the Eastern District of Arkansas, Fred Neal, Jr. was sentenced for corruptly interfering with the Internal Revenue laws and filing false liens against Government employees and officials.<sup>87</sup> Neal pled guilty to the offenses on June 18, 2013.<sup>88</sup> According to court documents, Neal corruptly endeavored to obstruct or impede the due administration of the I.R.C. by attempting to intimidate, harass, and attack the financial integrity of Government officials believed to be party to legal actions brought against him by the IRS.<sup>89</sup> He acknowledged that he did so with the intent to secure an unlawful advantage or benefit to himself by attempting to keep the United States from

<sup>87</sup> E.D. Ark. Judg. filed October 7, 2013.  
<sup>88</sup> E.D. Ark. Plea Agr. filed June 18, 2013.  
<sup>89</sup> E.D. Ark. Indict. filed Feb. 2, 2011.



foreclosing on his property.<sup>90</sup> Neal and his spouse had outstanding Federal income tax assessments of approximately \$1.3 million.<sup>91</sup>

Neal engaged in open defiance of the liability after legal action and collection proceedings were initiated.<sup>92</sup> He 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 U.S. Court personnel, and a U.S. Attorney.<sup>93</sup>

Neal's filings of fictitious forms misrepresented that these Government employees and officials had paid and received personal income reportable to the IRS totaling more than one billion dollars.<sup>94</sup> 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.<sup>95</sup> He acknowledged that he knew the liens or encumbrances were false or contained materially false statements.<sup>96</sup>

Neal was sentenced to one-year and one-day imprisonment, followed by a year of supervised probation. He was further ordered to participate in a mental health program.<sup>97</sup>

### **Nigerian Citizen Sentenced to 10 Years for Wire Fraud Scheme**

On October 21, 2013, in the Central District of California, Claudio Uche Dibe was sentenced on 15 counts of wire fraud in a scheme that targeted the elderly.<sup>98</sup> Dibe pled guilty to his role in the scheme on July 31, 2012.<sup>99</sup> According to court documents, Dibe, a Nigerian citizen who used the alias "John Brown," and his coconspirators defrauded victims and obtained money by means of false representations and promises.<sup>100</sup>

As part of the scheme, a coconspirator would send e-mails to victims representing that the coconspirator was an attorney or foreign government official who was responsible for distributing an inheritance.<sup>101</sup> The e-mails sent to unsuspecting victims falsely informed them that they owed additional taxes to the IRS, or had inherited millions of dollars but needed to pay processing fees to release the funds.<sup>102</sup>

<sup>90</sup> E.D. Ark. Plea Agr. filed June 18, 2013.

<sup>91</sup> *Id.*

<sup>92</sup> E.D. Ark. Indict. filed Feb. 2, 2011.

<sup>93</sup> E.D. Ark. Indict. filed Feb. 2, 2011 and E.D. Ark. Plea Agr. filed June 18, 2013.

<sup>94</sup> E.D. Ark. Indict. filed Feb. 2, 2011.

<sup>95</sup> E.D. Ark. Indict. filed Feb. 2, 2011 and E.D. Ark. Plea Agr. filed June 18, 2013.

<sup>96</sup> *Id.*

<sup>97</sup> E.D. Ark. Judg. filed October 7, 2013.

<sup>98</sup> C.D. Cal. Judgment filed Oct. 21, 2013; C.D. Cal. Opposition to Defendant's Ex Parte Application to Continuance of Trial Date filed June 6, 2012.

<sup>99</sup> C.D. Cal. Crim. Minutes-Change of Plea filed July 31, 2012.

<sup>100</sup> C.D. Cal. Indict. filed Oct. 21, 2009.

<sup>101</sup> *Id.*

<sup>102</sup> C.D. Cal. Crim. Compl. filed Aug. 3, 2009.



When a victim responded to a solicitation e-mail, Dibe and his coconspirators continued contact with the victim by telephone and e-mail using fictitious identities, pretending to be attorneys, bankers, diplomats, and other government officials, to persuade the victims that they were legitimate professionals who could assist in obtaining the promised inheritance, thus inducing victims to send money. Victims were instructed to wire money via Western Union® and MoneyGram® to pay the purported fees. Contrary to the representations made to the victims, the funds received were not used to pay any fees, nor were inheritance payments issued to the victims. Dibe and his coconspirators kept the funds for their own benefit.<sup>103</sup>

Dibe was sentenced to 120-months imprisonment, followed by three years of supervised probation. He was ordered to pay restitution in the amount of \$1,079,445 and a \$1,500 special assessment. Additionally, the court ordered all monies received by Dibe for income tax refunds, lottery winnings, inheritances, judgments, and other financial gains to be applied to the outstanding court-ordered financial obligations.<sup>104</sup>

### **Tax Preparer Indicted for Extortion by Use of Threats and Impersonation**

On November 6, 2013, in the Middle District of Pennsylvania, Maria Colvard was charged in a superseding indictment with extortion by a person representing herself to be an officer of the United States, impersonating an employee of the United States, and interference with commerce by threats.<sup>105</sup> Colvard and co-defendant Merarys Paulino were initially indicted on June 5, 2013.<sup>106</sup> On October 8, 2013, Paulino entered a guilty plea to extortion by a person representing herself as an officer of the United States.<sup>107</sup>

According to the November superseding indictment, Colvard obstructed and affected the commerce of Cristina's Tax Service by extortion with the wrongful use of fear and threats, including the fear of economic loss. As part of the extortion scheme against her business competitor, Colvard aided, counseled, and induced Paulino in representing herself 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, Paulino demanded the client list of Cristina's Tax Service, sums of money, and the closure of the business.<sup>108</sup> Extortion through the wrongful use of threats or under the color of an official act carries a potential sentence of up to 20-years imprisonment.<sup>109</sup>

### **Pennsylvania Couple Sentenced for Bribery of a Public Official and Tax Evasion**

On January 21, 2014, in the Middle District of Pennsylvania, Ivan and Mayra Garces were sentenced for bribery of a public official and tax evasion.<sup>110</sup> Both pled guilty to the

<sup>103</sup> C.D. Cal. Indict. filed Oct. 21, 2009.

<sup>104</sup> C.D. Cal. Judgment filed Oct. 21, 2013.

<sup>105</sup> M.D. Pa. Superseding Indictment filed Nov. 6, 2013.

<sup>106</sup> M.D. Pa. Indictment filed June 5, 2013.

<sup>107</sup> M.D. Pa. Criminal Docket filed June 5, 2013.

<sup>108</sup> M.D. Pa. Superseding Indictment filed Nov. 6, 2013.

<sup>109</sup> 18 U.S.C. § 1951.

<sup>110</sup> M.D. Pa. Judgment Ivan Garces filed Jan. 22, 2014; M.D. Pa. Judgment Mayra Garces filed Jan. 22, 2014.



offenses in May 2013.<sup>111</sup> According to the November 2011 indictment charging the Garces with bribery of a public official, Ivan and Mayra Garces corruptly offered to pay an IRS agent \$50,000 to aid in committing fraud against the United States. Specifically, the Garces offered to pay the \$50,000 bribe in exchange for the IRS agent's filing a false examination report reflecting an amount due that was substantially less than what the Garces owed in taxes.<sup>112</sup>

Subsequently, a superseding information was filed in May 2013 against each of the Garces, adding the charge of tax evasion. According to court documents, between 2008 and 2010, the Etters, Pennsylvania residents willfully attempted to evade and defeat a large portion of their income tax due and owed. The Garces filed three fraudulent tax returns, significantly understating their joint taxable income and tax due. Collectively for the three tax years, the Garces understated their income by over \$1 million,<sup>113</sup> resulting in a tax loss of \$391,595.<sup>114</sup>

Ivan Garces was sentenced to 18 months in prison and fined \$7,700.<sup>115</sup> Mayra Garces was sentenced to 12-months and one-day imprisonment and was also fined \$7,700.<sup>116</sup> Both will be required to complete one year of supervised release following their imprisonment.<sup>117</sup> The Garces will forfeit the \$50,000 bribe.<sup>118</sup>

### **Taxpayer Sentenced for Impeding Tax Administration**

On November 13, 2013, in the District of Hawaii, Miguel Rivera was sentenced for attempting to interfere with the due administration of the Internal Revenue laws.<sup>119</sup> According to court documents, Rivera knowingly and intentionally devised a scheme to defraud United Healthcare Services and the IRS to obtain money and property by means of false and fraudulent representations.<sup>120</sup> Rivera pled guilty on June 14, 2013 to two counts of attempts to interfere with the IRS.<sup>121</sup>

Rivera was married to an individual who was employed by United Healthcare Services and owed the IRS money for unpaid Federal income taxes. Rivera and his spouse had a joint bank account at First Hawaiian Bank. When the IRS imposed a tax lien on the wages of Rivera's spouse, United Healthcare Services deducted \$2,397.08 from her salary. Rivera submitted false information to United Healthcare Services, making it

<sup>111</sup> M.D. Pa. Plea Agr. Ivan Garces filed May 22, 2013; M.D. Pa. Plea Agr. Mayra Garces filed May 22, 2013.

<sup>112</sup> M.D. Pa. Indict. filed Nov. 16, 2011.

<sup>113</sup> M.D. Pa. Superseding Info. Ivan Garces filed May 22, 2013; M.D. Pa. Superseding Info. Mayra Garces filed May 22, 2013.

<sup>114</sup> M.D. Pa. Plea Agr. Ivan Garces filed May 22, 2013; M.D. Pa. Plea Agr. Mayra Garces filed May 22, 2013.

<sup>115</sup> M.D. Pa. Judgment Ivan Garces filed Jan. 22, 2014.

<sup>116</sup> M.D. Pa. Judgment Mayra Garces filed Jan. 22, 2014.

<sup>117</sup> M.D. Pa. Judgment Ivan Garces filed Jan. 22, 2014; M.D. Pa. Judgment Mayra Garces filed Jan. 22, 2014.

<sup>118</sup> *Id.*

<sup>119</sup> D. HI Judgment filed Nov. 18, 2013.

<sup>120</sup> D. HI Indictment filed Feb. 28, 2013.

<sup>121</sup> D. HI Plea Agreement filed June 14, 2013.



appear that the IRS had released the lien and Rivera’s spouse could resume receiving her wages, salary, and other income. United Healthcare Services subsequently returned \$2,397.08 to Rivera’s spouse.<sup>122</sup>

Additionally, as the IRS’s collection efforts continued, an IRS Revenue Officer notified First Hawaiian Bank of an IRS-imposed tax lien on Rivera’s spouse’s property under the bank’s control. Three days after notification to the bank, Rivera submitted a false and fraudulent release of levy to First Hawaiian Bank. Rivera did so with the intent that the false levy release would be treated as if it were real and to regain access to the money in his joint bank account.<sup>123</sup>

Rivera was sentenced to three months in prison, followed by one year of supervised release. Rivera was also ordered to pay restitution to the IRS in the amount of \$2,397.<sup>124</sup>

## Investigative Support

### *The Strategic Data Services Division*



#### TIGTA’s Strategic Data Services (SDS)

Division encompasses five interrelated programs that support TIGTA’s audit, inspection, evaluation, and investigation activities. Many of these programs function to detect and identify insider threats, that is, employees who are engaged in fraudulent activities or who make unauthorized accesses to taxpayer information maintained in IRS computer systems.

SDS develops risk assessment models using various scenarios to identify high-risk areas in IRS operations to detect asset misappropriation, corruption, such as bribery and identity theft, and other offenses involving IRS personnel and activities. In addition to these proactive efforts, SDS also provides data extracts from IRS systems and audit trails to support TIGTA’s investigations and audits. During this six-month reporting period, SDS referred for investigation 80 IRS employees who potentially misused IRS computer systems to make unauthorized accesses to tax information.

The early detection and identification of IRS employees who make unauthorized accesses to information or otherwise misuse IRS data and computer systems is critical to OI’s success in investigating these employees and stopping them before further damage is done. SDS uses data analysis techniques for the proactive detection of IRS employees potentially engaged in unauthorized accesses, identity theft, theft of taxpayer refunds, and preferential treatment of taxpayers. IRS employees who make unauthorized computer accesses face criminal prosecution, civil sanctions, and the loss of their jobs. Under Section 7213A of the I.R.C., the willful unauthorized access or inspection of taxpayer records by an IRS employee is a misdemeanor crime. If convicted, violators can be fined up to \$1,000 and face up to one year in prison. In addition to criminal penalties, civil

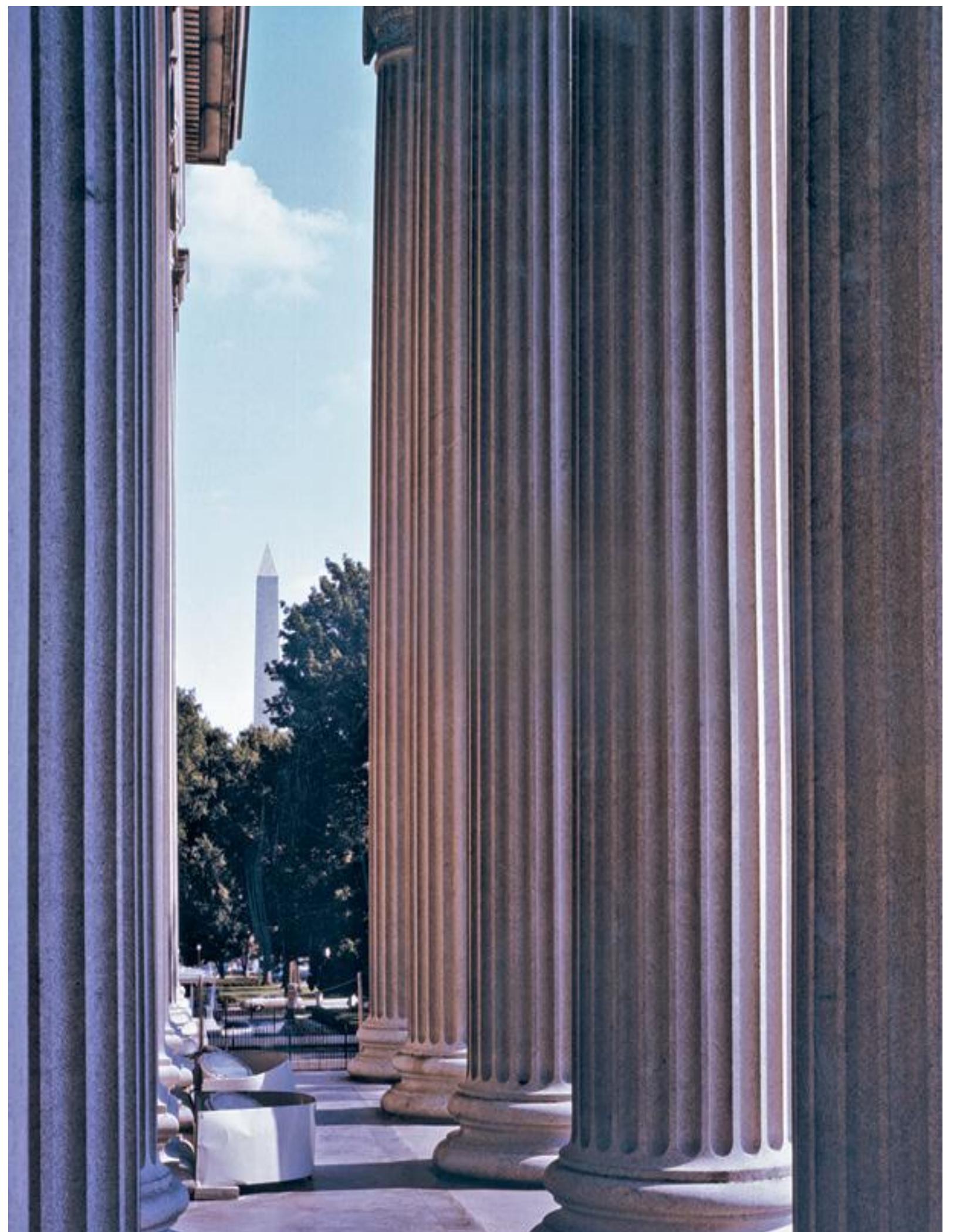
<sup>122</sup> D. HI Indictment filed Feb. 28, 2013; D. HI Plea Agreement filed June 14, 2013.

<sup>123</sup> *Id.*

<sup>124</sup> D. HI Judgment filed Nov. 18, 2013.



remedies may also be pursued by any taxpayer whose return or return information has been knowingly or negligently inspected or disclosed. Taxpayers may receive damages of \$1,000 for each occurrence of unauthorized access or disclosure or the actual damages sustained, if greater.





# Advancing Oversight of America's Tax System

**T**IGTA'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.

This function 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:

## **Internal Controls Are in Place to Ensure That Deposits Are Safely Delivered by Submission Processing Site Employees, but Some Documentation Could Be Improved**

This report presented the results of I&E's inspection to determine whether internal controls are in place to ensure that deposits that are required to be delivered by Submission Processing site employees are safely delivered to depositories.

IRS Submission Processing site employees delivered to depositories more than 1.6 million payments totaling almost \$5 billion from October 2011 through May 2013. During its inspection, TIGTA identified no problems with the delivery of the deposits;



however, TIGTA found that one deposit was delivered by an employee who was not listed as authorized in the Courier Contingency Plan at the time of the delivery, and that one site was not using the current Courier Daily Checklist (Checklist) and capturing all the necessary information.

TIGTA recommended that the Director, Submission Processing, Wage and Investment Division, require the employees who prepare the Checklist to ensure that the Submission Processing site employees delivering the deposit are listed in the Courier Contingency Plan, just as they would check that the contract couriers are on the Courier Deposit Access List. In addition, the Director should ensure that employees use the current version of the Checklist, properly record all required information on the Checklist, and provide explanations for untimely deposits on the Courier Incident Log.

IRS management agreed with these recommendations.

### **Reference No. 2014-IE-R002**

#### **Inspection of the Submission Processing Centers' Mailroom Screening Procedures for Hazardous Material**

I&E initiated this project to determine whether current IRS policies and procedures for detecting and minimizing the effects of explosives, hazardous material, and other suspicious mail submitted to IRS Submission Processing centers are sufficient and effective.

TIGTA inspected two IRS Submission Processing centers and found that the centers have controls in place to detect and minimize the effects of explosive and hazardous material submitted via mailrooms; however, additional controls should be considered to improve procedures and ensure that effective screening measures are available throughout the year. I&E found that procedures were generally consistent and effective in identifying, reporting, and responding to suspicious packages and unknown substances.

For the facilities included in the inspection, the IRS followed proper procedures for reporting suspicious packages or unknown substances to IRS Physical Security and Emergency Preparedness personnel, and local enforcement and emergency authorities were notified and responded accordingly. Additionally, IRS personnel receive annual safety training, which includes identifying and responding to potential hazardous material and suspicious mail and packages.

However, the centers were inconsistent with regard to the manner in which they displayed signs in and around loading docks and mailrooms to increase hazardous material awareness and remind employees of incident reporting procedures. I&E also found that one location received its mail directly from the U.S. Postal Service and small package carriers, which directly contradicted findings in the facility's security risk



assessment. This facility does not have an Explosive Detection Dog Program or an x-ray machine available to screen parcels. Additionally, the mailroom within the facility shares the facility's heating, ventilation, and air conditioning system, which would further complicate response and containment efforts if an actual hazardous material incident were to occur.

TIGTA recommended that the Chief, Agency-Wide Shared Services, implement regulations for minimum mail screening requirements, to ensure that policies and supplemental screening procedures are available throughout the entire year. TIGTA also recommended hanging posters and other signs in and around IRS mail receiving and processing areas, reminding personnel of hazardous material threats and known identifiers. Lastly, TIGTA recommended that the Chief, Agency-Wide Shared Services, verify whether IRS posts of duty receive mail directly from the U.S. Postal Service and small package carriers, and ensure that those posts of duty have procedures in place to detect and minimize the effects of explosives and hazardous material received through the mail.

IRS officials agreed with these recommendations.

#### **Reference No. 2014-IE-R004**

#### **The IRS's Executive Long-Term Taxable Travel**

This report presented the results of an I&E inspection to determine whether the IRS has established guidance and procedures so that senior executives and their managers know when overnight long-term travel is subject to taxation.<sup>125</sup>

In FY 2011 and FY 2012, the IRS had 351 and 373 executives, respectively.<sup>126</sup> In FY 2011, IRS executives received approximately \$4.8 million in travel reimbursements. In FY 2012, executive travel reimbursements decreased to about \$4.7 million.<sup>127</sup> TIGTA analyzed travel information regarding IRS executives from GovTrip<sup>128</sup> and the Integrated Financial System<sup>129</sup> for IRS executives to determine whether executive travel appeared to be long-term and met the criteria of long-term taxable travel (LTTT) status. In general, employees who perform temporary duty travel assignments exceeding one year at a single or principal location are subject to income taxation of their travel expense reimbursements.

<sup>125</sup> The criteria used to determine the taxability for long-term local travel are different from the criteria used for overnight travel. We did not include local travel in the scope of this review.

<sup>126</sup> The number of executives for each fiscal year was calculated based on the number of executives on roll as of the end of the fiscal year and the number of executives who worked during the fiscal year but separated before the end of the fiscal year.

<sup>127</sup> Because some executives were not executives for the entire fiscal year, travel expenses may include travel for trips made as nonexecutives.

<sup>128</sup> 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 voucher capabilities.

<sup>129</sup> The Integrated Financial System contains the IRS's core financial systems, including expenditure controls, accounts payable, accounts receivable, general ledger, and budget formulation.



Overall, TIGTA found that the IRS has policies in place to inform senior executives and their managers when overnight long-term travel reimbursements are subject to employment taxes. At the beginning of CY 2012, the IRS instituted a quarterly review process to identify potential LTTT. In April 2013, the IRS instituted a new interim travel policy that reminds executives to comply with the LTTT requirements.

TIGTA reviewed the travel records for 31 executives, less than 10 percent of all employed IRS executives, to determine whether their travel appeared to be properly classified as taxable or nontaxable. TIGTA found that the tax classification of travel for nine executives appeared to be incorrect based on their travel patterns and the IRS's validation, and for three executives the classification was not made in a timely manner. Consequently, not all executives who were in an LTTT status were correctly and/or timely classified as such; therefore, the IRS did not withhold the appropriate amount of taxes on the travel reimbursements paid to some executives.

TIGTA recommended that the Chief Financial Officer modify and document procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel. Furthermore, the Chief Financial Officer should annually inform or remind IRS employees of the policies and procedures related to LTTT and of travelers' and managers' responsibility to accurately determine whether travel may be taxable.

IRS management agreed with the recommendations.

## **Reference No. 2014-IE-R005**

### **Special Tax Matters**

In January of 2014, I&E changed its organizational structure and design. The International group was dissolved, and a new group, Special Tax Matters, was created. The Special Tax Matters group specializes in performing inspections and evaluations across the entire spectrum of tax administration. The topics could sometimes bridge tax administration and affect tax policy decisions, and are often the direct concerns of TIGTA.

The following reports highlight some of the Special Tax Matters group's significant activities for this six-month reporting period:

### **Compendium of Unimplemented Recommendations**

The Compendium of Unimplemented Recommendations lists open unimplemented corrective actions from TIGTA's September 30, 2013 Semiannual Report and reflects any changes in the interim through January 31, 2014. The Compendium highlights for IRS management those significant recommendations that were unimplemented past the date agreed upon by the IRS and TIGTA. Corrective actions are reported as past due if they have not been completed within one year of the original due date established by



September 30, 2012. When implemented, recommendations have the potential to result in cost savings and improve program efficiency and effectiveness.

It is part of TIGTA's strategy to promote a strong internal control environment in the IRS. Toward this end, TIGTA collaborated with IRS managers and executives responsible for audit follow-up. The goal is to assist IRS management in monitoring the agency's internal controls and to promptly correct agreed-to deficiencies. Implementing corrective actions will correct control weaknesses, thereby increasing effectiveness and efficiency, reducing vulnerabilities, and mitigating risks.

Department and agency management have the responsibility for establishing and maintaining adequate systems of management controls. The Federal Managers' Financial Integrity Act of 1982<sup>130</sup> amended the Accounting and Budget Procedures Act of 1950 by requiring the Comptroller General to include standards to ensure the prompt resolution of all audit findings.

The Office of Management and Budget (OMB) Circular A-50<sup>131</sup> states that audit follow-up is an integral part of good management and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Likewise, Treasury Directive 40-03<sup>132</sup> establishes the departmental policies for audit resolution, follow-up, and closure.

The IRS policies and procedures for audit follow-up and closure are found in the Internal Revenue Manual (IRM).<sup>133</sup> The IRS is responsible for implementing corrective actions and determining whether the actions are effective in correcting a deficiency.

For context, the IRS expends significant agency resources to improve management controls by implementing planned corrective actions. More specifically, for the three-year period of FY 2011 through FY 2013, TIGTA issued 377 reports and the Government Accountability Office (GAO) issued 66 reports with a combined total of 1,255 recommendations. Altogether, there were 1,546 planned corrective actions due during the time period; over 90 percent of the planned corrective actions were completed on time within the period.

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<sup>130</sup> 31 U.S.C. §§ 1105, 1113, and 3512. The Federal Managers' Financial Integrity Act (FMFIA) requires that agency management establish and maintain effective internal controls to achieve the objectives of: 1) effective and efficient operations, 2) reliable financial reporting, and 3) compliance with applicable laws and regulations. The FMFIA also requires the head of each executive agency to report annually to the President and Congress on the effectiveness of the internal controls and to identify any material weaknesses in those controls. Reporting material weaknesses under the FMFIA is not limited to weaknesses in financial reporting.

<sup>131</sup> OMB, OMB Circular No. A-50 Revised, *Audit Followup* (Sept. 1982).

<sup>132</sup> Department of the Treasury, TD 40-03, *Treasury Audit Resolution, Follow-Up, and Closure*.

<sup>133</sup> The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities. The Resource Guide for Managers: Monitoring and Improving Internal Control is found in IRM 1.4.2. The Audit Process for GAO and TIGTA is found in IRM 11.5.1.



The Compendium is organized in accordance with the TIGTA-identified Major Management Challenges (MMC),<sup>134</sup> in the priority order as determined by the Inspector General. Each MMC Section has an overview of the challenge followed by the specific significant unimplemented corrective actions. This includes a summary of the report, the recommendations, and the scheduled completion date of the unimplemented corrective actions.

## Evaluation Number IE-13-012

### American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>135</sup> 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 posed especially significant challenges to the IRS, as the Nation's tax collection agency and administrator of the tax laws.

Funding for Recovery Act-related activities expired September 30, 2013. TIGTA completed audits/inspections/evaluations initiated prior to the funding expiration and issued the following significant reports related to the IRS's efforts to implement Recovery Act tax provisions during this six-month reporting period:

#### Review of the IRS's American Recovery and Reinvestment Act Fund Expenditures for FY 2012

This report presented the results of I&E's inspection to verify the accuracy, timeliness, and reporting of the payment of invoices by the IRS for Recovery Act expenditures during the period October 1, 2011 through September 30, 2012. This was the fifth in a series of inspections regarding compliance with the OMB<sup>136</sup> guidance<sup>137</sup> for implementation of the Recovery Act.

<sup>134</sup> The MMCs as identified by TIGTA ranked in order are: Security for Taxpayer Data and IRS Employees; Implementing the Affordable Care Act and Other Tax Law Changes; Tax Compliance Initiatives; Modernization; Fraudulent Claims and Improper Payments; Providing Quality Taxpayer Service Operations; Human Capital (no unimplemented corrective actions outstanding); Globalization (no unimplemented corrective actions outstanding); Taxpayer Protection and Rights; and Achieving Program Efficiencies and Cost Savings.

<sup>135</sup> Pub. L. No. 111-5, 123 Stat. 115.

<sup>136</sup> 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 use of funds is transparent to the public, and that steps are taken to mitigate fraud, waste, and abuse.

<sup>137</sup> 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 Reinvestment Act of 2009* (April 3, 2009); and M-10-34, *Updated Guidance on the American Recovery and Reinvestment Act* (Sept. 24, 2010).



The inspection showed that the IRS was in compliance with the OMB's Recovery Act implementation guidance for Recovery Act expenditures from October 1, 2011 through September 30, 2012. The IRS generally executed adequate internal controls to ensure timely and accurate reporting. During the period of the inspection, the IRS paid approximately \$212,000<sup>138</sup> to seven vendors for Recovery Act expenses, including an interest fee in excess of \$3,100<sup>139</sup> for one invoice. Discounts were offered for the prompt payment of invoices, and the IRS obtained approximately \$2,400 of the approximately \$4,300<sup>140</sup> available.

IRS management agreed to the observations in the draft report.

## Reference No. 2014-IE-R001

### Review of Section 1603 Grants in Lieu of Energy Investment Tax Credit

This report presented the results of an I&E inspection to determine if the IRS has established a permanent process to identify taxpayers that have received Recovery Act Section 1603 grants.<sup>141</sup>

The IRS has not developed a permanent process to identify taxpayers that have received Section 1603 grants and that may have erroneously claimed one of two investment tax credits, the Energy Production Tax Credit<sup>142</sup> or the Energy Investment Tax Credit,<sup>143</sup> on the same property. In addition to other restrictions, taxpayers, upon accepting the Section 1603 grant, elect not to claim an investment tax credit for qualifying facilities placed into service on or after January 1, 2009.<sup>144</sup> As of May 10, 2013, the Department of the Treasury has awarded 9,016 grants totaling \$18.5 billion.

The IRS is currently conducting a Compliance Initiative Project (CIP)<sup>145</sup> on taxpayers that received Section 1603 grants, primarily during 2009.<sup>146</sup> During our review, an extension of the time period for the CIP to June 30, 2015 was requested and approved. Although the CIP was in process during our review, only tentative results were available. The Large Business and International (LB&I) Division<sup>147</sup> selected and examined 16 taxpayers

<sup>138</sup> The exact amount of payment for these invoices was \$212,412.24.

<sup>139</sup> The exact amount of the interest fee was \$3,186.37.

<sup>140</sup> The exact amount of available discounts was \$4,289.28. The IRS took \$2,411.57 (56.2 percent) of the available discounts.

<sup>141</sup> Taxpayers upon accepting the Section 1603 grants elect not to claim the energy tax credits under I.R.C. § 48 of the renewable electricity production tax credit under I.R.C. § 45 with respect to otherwise qualifying facilities placed into service on or after January 1, 2009.

<sup>142</sup> I.R.C. § 45.

<sup>143</sup> I.R.C. § 48.

<sup>144</sup> There are other adjustments to computing future taxability that the taxpayer agrees to when receiving the Section 1603 grant.

<sup>145</sup> A CIP is any activity involving contact with specific taxpayers and collection of taxpayer data within a group, using either internal or external data to identify potential areas of noncompliance within the group, for the purpose of correcting the noncompliance. A CIP Part 2 authorizes examinations of 50 or more taxpayers.

<sup>146</sup> The CIP has been expanded to include TYs 2010 and 2011.

<sup>147</sup> The LB&I Division is an operating division within the IRS that serves corporations, subchapter S corporations, and partnerships with assets greater than \$10 million. These businesses typically employ



and reportedly identified significant issues in eight. Similarly, the Small Business/Self-Employed (SB/SE) Division<sup>148</sup> selected 83 taxpayers for examination and identified changes for 51. Although the results are not final and cannot be predicted, the IRS's recent justification for extending the CIP stated, "Anecdotes from the Service [IRS] staff attending industry and practitioners' discussions suggest that some practitioners are encouraging the use of leasing transactions because that allows fair market value to be overstated to increase the grant amount." This statement and the apparent noncompliance issues identified in the CIP may indicate the need for further oversight of the \$18.5 billion distributed through this grant program.

TIGTA recommended that the Commissioners for the LB&I Division and the SB/SE Division evaluate the feasibility of establishing an indicator on taxpayer accounts that received Recovery Act Section 1603 grants. This indicator would provide permanent notice on the IRS files as to which taxpayers had received a Section 1603 grant, and therefore that caution should be taken in processing any amended returns that claim an investment tax credit.

IRS management agreed with the recommendation and plans to evaluate the feasibility of establishing an indicator on the accounts of taxpayers who received Recovery Act Section 1603 grants. If management determines that establishing the proposed indicator is not feasible or practical, it will consider other effective alternatives.

**Reference No. 2014-IE-R006**

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large numbers of employees, deal with complicated issues involving tax law and accounting principles, and conduct business in an expanding global environment.

<sup>148</sup> The SB/SE Division is an operating division within the IRS that serves small business and self-employed taxpayers by helping them to understand and meet their tax obligations.



## An Organization That Values Its People

### **TIGTA's 2013 Inspector General Award**

On January 10, 2014, Inspector General J. Russell George recognized the exemplary achievements of TIGTA's employees who had demonstrated their commitment to excellence in public service on behalf of the organization. Their accomplishments resulted in high mission impact, major contributions to customers and stakeholders, integrity and efficiency, and significant quantifiable results.

Individual award recipients included Lynne Brzezinski of I&E for the Program Support Category and an additional four individual award recipients for the Program Execution Category: Michael Bell, Jacqueline Siegel, Cheryl Tinkham, and Erik Wood, all from the Office of Investigations.

Group award recipients included the Congressional Disclosure Team, consisting of Amy Jones, Carroll Field, Lori Creswell, and Brady Kiehm, all members of the Office of Chief Counsel, and Matthew Sutphen, a member of the Office of the Inspector General.

The OI Strategic Data Services group award recipients included James Allen, Joseph Butler, Amy Coleman, Michele Cove, Donald Meyer, Kevin O'Gallagher, Christine Orcutt, Damon Plumber, Steven Vandigriff, and Jeffrey Williams.

The OA group award recipients for the Data Center Consolidation Team included John Ledford, Joan M. Bonomi, and Myron Gulley.

The Office of Information Technology group award recipients for the Lync Engineering Team included Buddy Rapczynski, Carolyn Bounds, and Ed McDonald.

Congratulations to the 2013 Inspector General Award recipients for their distinguished service and commitment to excellence in public service and to the TIGTA organization. Their dedication enables TIGTA to maintain its distinction as a performance-driven organization and keeps us at the forefront of the Inspector General community.

### **U.S. Department of the Treasury Procurement Award**

The 2013 Department of the Treasury's Procurement Award Ceremony was held at the Main Treasury Building on December 17, 2013. TIGTA's Procurement Team received an astounding total of five awards in recognition of its exceptional procurement achievements. Secretary Lew and other Treasury officials presented the awards to Jeff Stephenson, who accepted them on behalf of the Procurement Team, which consisted of Ben Trapp, Yvette Taylor, Matthew Chabak, and Tom Roberts. Here is a breakdown of the awards that the team received:



- 2013 Gold Medal;
- 2013 HUBZone Small Business Champion Award;
- 2013 Service Disabled Veteran Owned Small Business Champion Award;
- 2013 Women Owned Business Champion Award; and
- 2013 Bureau of the Year Award.

Jeff Stephenson, an experienced Contracting Officer who earned the distinguished honor of Treasury's "Contracting Officer Representative of the Year" in 2012, actively used his knowledge and leadership to promote small business-sourcing of all applicable TIGTA acquisitions.

### **Council of the Inspectors General on Integrity and Efficiency Award**

On Thursday, October 15, 2013, the 16th Annual Council of the Inspectors General on Integrity and Efficiency Awards Ceremony was held at the Constitution Center Auditorium, Federal Housing Finance Agency, in Washington, D.C. Members of the Inspectors General community who exemplify distinguished service and demonstrate leadership, dedication, and excellence were recognized for outstanding accomplishments in public service. Several employees of TIGTA were recognized for their accomplishments.

John Miller, Senior Correspondent, CBS News, provided the keynote address at the ceremony, hosted by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE is composed of Inspectors General and Government ethics and law enforcement officials. Below are employees recognized at the ceremony.

#### *Individual Award Recipient*

Special Agent Jacqueline D. Siegel was recognized for her personal commitment and dedication to the TIGTA mission. Her exemplary investigative skills helped prevent potentially violent offenders from carrying out a plan to murder an Internal Revenue Service employee and a Federal district court judge.

#### *Group Award Recipients*

The Noncash Charitable Contributions Audit Team was recognized for its efforts to improve the IRS's detection and prevention of erroneous claims for noncash charitable contributions. The TIGTA Audit Team award recipients included: Deann L. Baiza, Director; Edward Gorman, Audit Manager (Retired); Stephen A. Elix, Auditor; Sandra L. Hinton, Senior Auditor; Denise M. Gladson, Auditor; Marcus D. Sloan, Auditor; and Lawrence Smith, Senior Auditor (Retired).

Crystal Hamling, a TIGTA OA employee detailed to the CIGIE Training Institute, was also recognized with a special acknowledgement for her assistance with preparations for the 16th Annual Awards Ceremony.



## Congressional Testimony

During this reporting period, Inspector General J. Russell George testified before Congress on two occasions. The following are summaries of his testimony.

On January 14, 2014, Mr. George testified before the Senate Committee on Homeland Security and Government Affairs about the subject of conference spending by the IRS.<sup>149</sup> His testimony summarized a report<sup>150</sup> that focused on the August 2010 IRS SB/SE Division conference held in Anaheim, California.

According to information obtained from the IRS, 2,609 of its employees attended the Anaheim conference at an estimated cost of approximately \$4.1 million. We focused our audit work on this conference specifically because of an allegation received by TIGTA about excessive spending at the conference and because it was the most expensive conference held by the IRS during FYs 2010 through 2012.

TIGTA identified several areas of concern associated with questionable accounting practices and expenses related to the conference and made nine recommendations to ensure taxpayer funds are expended more efficiently in the future. IRS management agreed with all of TIGTA's recommendations. Since the issuance of our report, the IRS has addressed many of our recommendations with interim guidance that it plans to formalize through an update to the IRM.

We determined that the IRS did not adequately track and monitor the costs for the Anaheim conference. While IRS management provided documentation showing total final costs of \$4.1 million, we could not obtain reasonable assurance that this amount represented a full and accurate accounting of the conference costs. For instance, the conference included numerous expenses beyond basic travel costs, including the costs of videos produced for the event and outside speaker costs.

Another area of concern was that the IRS did not follow established guidelines when selecting the location of the conference, 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 paid for by the IRS. Because the event planners were directly compensated based on the room rate, there was no incentive for the IRS to negotiate for a lower room rate and thus save money.

<sup>149</sup> For this audit, we defined a conference as an IRS-sponsored meeting, retreat, seminar, symposium, training, or other event that involved travel for 50 or more attendees. In addition, a conference is defined in the Federal Travel Regulations as "[a] meeting, retreat, seminar, symposium or event that involves attendee travel. The term 'conference' also applies to training activities that are considered to be conferences under 5 CFR 410.404." See 41 CFR 300-3.1.

<sup>150</sup> TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California* (May 2013).



On February 26, 2014, Mr. George testified before the House Committee on Appropriations, Subcommittee on Financial Services and General Government, at its “Oversight Hearing – Internal Revenue Service.” The Inspector General’s testimony highlighted TIGTA’s recent work related to the most significant challenges currently facing the IRS.

Providing effective taxpayer services while operating with a reduced budget is a significant challenge facing the IRS. As demand for taxpayer services continues to increase, resources have decreased, thereby affecting the quality of customer service that the IRS is able to provide. For example, the IRS continues to struggle in providing high quality customer service over the telephone.<sup>151</sup> In addition, the IRS’s ability to process taxpayer correspondence in a timely manner has also declined. Assistors who answer the toll-free telephone lines also handle taxpayer correspondence (which includes processing amended tax returns and working identity theft cases). As call volumes have increased and assistors have been moved to answer telephone calls, the backlog of paper correspondence inventories has substantially increased.

Another challenge the IRS faces is reducing the amount of improper payments made each year. The Improper Payments Information Act of 2002<sup>152</sup> requires Federal agencies, including the IRS, to estimate the amount of improper payments made each year. The Improper Payments Elimination and Recovery Act of 2010<sup>153</sup> amended the Improper Payments Information Act of 2002 by revising the definition of improper payments and strengthening agency reporting requirements.

The only program the IRS has designated as high-risk is the EITC Program. The IRS continues to report that more than 20 percent of EITC payments are issued improperly each year. In FY 2013, the IRS estimates that it issued between \$13 and \$15 billion in improper EITC payments. Although the IRS reported that its efforts prevented significant amounts in erroneous EITC payments, it has made little improvement in reducing improper EITC payments as a whole since it has been required to report estimates of these payments to Congress. The IRS acknowledged in its FY 2012 Improper Payment report to TIGTA<sup>154</sup> that further reductions in the EITC improper payment rate will be difficult to achieve. However, we have conducted a number of audits that have identified specific actions that the IRS could take to reduce improper EITC payments.<sup>155</sup>

<sup>151</sup> See TIGTA, Ref. No. 2013-40-124, *Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season* (Sep. 2013).

<sup>152</sup> Pub. L. No. 107-300, 116 Stat. 2350.

<sup>153</sup> Pub. L. No. 111-2014, 124 Stat. 2224.

<sup>154</sup> IRS, *Report on Earned Income Tax Credit (EITC) Improper Payments Executive Order 13520: Reducing Improper Payments* (March 14, 2013).

<sup>155</sup> TIGTA, Ref. No. 2005-40-133, *Administration of the Earned Income Tax Credit Program Has Improved, but Challenges Continue* (Aug. 2005); TIGTA, Ref. No. 2006-40-103, *Controls Can Be Improved to Ensure Advance Earned Income Credit Reported on Individual Income Tax Returns Is Accurate* (July 2006); TIGTA, Ref. No. 2009-40-024, *The Earned Income Tax Credit Program Has Made Advances; However, Alternatives to Traditional Compliance Methods Are Needed to Stop Billions of Dollars in Erroneous Payments* (Dec. 2008); TIGTA, Ref. No. 2010-41-116, *Actions Can Be Taken to Improve the Identification of Tax Return Preparers Who Submit Improper Earned Income Tax Credit Claims* (Sep. 2010).



In addition to the EITC, the IRS administers numerous other tax credits. We believe the IRS's identification of the EITC as the only high-risk category of improper payments may significantly underestimate the risk of other categories of improper payments. For example, we reported in September 2011<sup>156</sup> that the IRS lacked effective processes to identify taxpayers who claim erroneous education credits. As a result, 2.1 million taxpayers received a total of \$3.2 billion in education credits (\$1.6 billion in refundable credits and \$1.6 billion in nonrefundable credits) that appeared to be erroneous.

The IRS is also challenged by the rapidly growing problem of identity theft tax refund fraud, including the use of SSNs of and by prisoners to file false tax returns, and tax fraud related to the use of stolen EINs. The IRS has made this issue one of its top priorities and has made some progress; however, significant improvements are still needed. For example, in September 2013, TIGTA reported that the impact of identity theft on tax administration continues to be significantly greater than the amount the IRS detects and prevents.<sup>157</sup>

Once the IRS identifies a potential identity theft tax return, it must verify the identity of the individual filing the return. However, verifying whether the returns are fraudulent will require additional resources. Without the necessary resources, it is unlikely that the IRS will be able to work the entire inventory of potentially fraudulent tax returns that it identifies, thus resulting in the issuance of refunds for those returns. The net cost of failing to provide the necessary resources is substantial, given that the potential revenue loss to the Federal Government of these tax fraud-related identity theft cases is billions of dollars annually.

Implementing the ACA, which represents the largest set of tax law changes in more than 20 years, will present many challenges for the IRS in the coming years. For example, the information technology and security challenges for the ACA are considerable and include implementation of interdependent projects in a short span of time, evolving requirements, coordination with internal and external stakeholders, cross-agency system integration, and testing.

The Health Insurance Exchanges (Exchanges)<sup>158</sup> will request income and family size information for all applicants and their family members who are qualified to apply for health insurance and will forward the requests to the IRS. The IRS, using Federal tax data, will determine the applicant's historical household income, family size, filing status, adjusted gross income, taxable Social Security benefits, and other requested information. The IRS will then transmit the Federal tax data to the HHS Data Services Hub for delivery to the appropriate Exchange. The Exchanges will compare the IRS information with the information provided by the applicant and other available data to make the determination

<sup>156</sup> TIGTA, Ref. No. 2011-41-083, *Billions of Dollars in Education Credits Appear to Be Erroneous* (Sep. 2011).

<sup>157</sup> TIGTA, Ref. No. 2013-40-122, *Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds* (Sep. 2013).

<sup>158</sup> The Exchanges are intended to allow eligible individuals to obtain health insurance, and all Exchanges, whether State-based or established and operated by the Federal Government, will be required to perform certain functions.



as to eligibility. TIGTA remains concerned about the protection of confidential taxpayer data that will be provided to the Exchanges.

TIGTA is currently evaluating the accuracy of the data that the IRS provides to HHS for use in enrolling individuals and calculating the Advanced Premium Tax Credit, and plans to issue a report this year.<sup>159</sup> We also plan to assess the protection of Federal tax data provided by the IRS's Safeguard Review Program in the future.<sup>160</sup> TIGTA is concerned that the potential for refund fraud and related schemes could increase as a result of processing ACA Premium Tax Credits unless the IRS builds, implements, updates, and embeds ACA predictive analytical fraud models into its tax-filing process.

Another serious challenge confronting the IRS is the Tax Gap. The most recent gross Tax Gap estimate developed by the IRS was \$450 billion for TY 2006, which represents an increase from the prior estimate of \$345 billion for TY 2001. The largest component (approximately 84 percent) of the Tax Gap is based on taxpayers' underreporting the amount of taxes due. The IRS addresses this gap by attempting to identify questionable tax returns when they are received and processed and by conducting examinations of tax returns filed, to determine if there are any adjustments needed to the information reported on the tax returns. To deter the underreporting of taxes, the IRS assessed over 500,000 accuracy-related penalties, involving over \$1 billion, against individuals during FY 2011.

The scope, complexity, and magnitude of the international financial system also present significant enforcement challenges for the IRS. The numbers of taxpayers conducting international business transactions continues to grow as technological advances provide opportunities for offshore investments that were once only possible for large corporations and wealthy individuals. As this global economic activity increases, so do concerns regarding the International Tax Gap.<sup>161</sup> While the IRS has not developed an accurate and reliable estimate of the International Tax Gap, non-IRS sources estimate it to be between \$40 billion and \$133 billion annually.

The IRS also currently faces the challenge of implementing the Foreign Account Tax Compliance Act (FATCA),<sup>162</sup> which was enacted to combat tax evasion by U.S. persons holding investments in offshore accounts. TIGTA reviewed the IRS's new system that was developed to support the requirements of FATCA and reported that the program management control processes did not timely identify or communicate system design changes to ensure its successful deployment.<sup>163</sup>

<sup>159</sup> TIGTA, Audit No. 201340335, *Affordable Care Act: Accuracy of the Income and Family Size Verification and Advanced Premium Tax Credit Calculation*, report planned for May 2014.

<sup>160</sup> TIGTA, Audit No. 201420302, *Security Over Federal Tax Data at Health Insurance Exchanges*, report planned for August 2014.

<sup>161</sup> Taxes owed but not collected on time from a U.S. person or foreign person whose cross-border transactions are subject to U.S. taxation.

<sup>162</sup> Pub. L. No. 111-147, Subtitle A, 124 Stat 71, \*96-116 (2010) (codified in scattered sections of 26 U.S.C.).

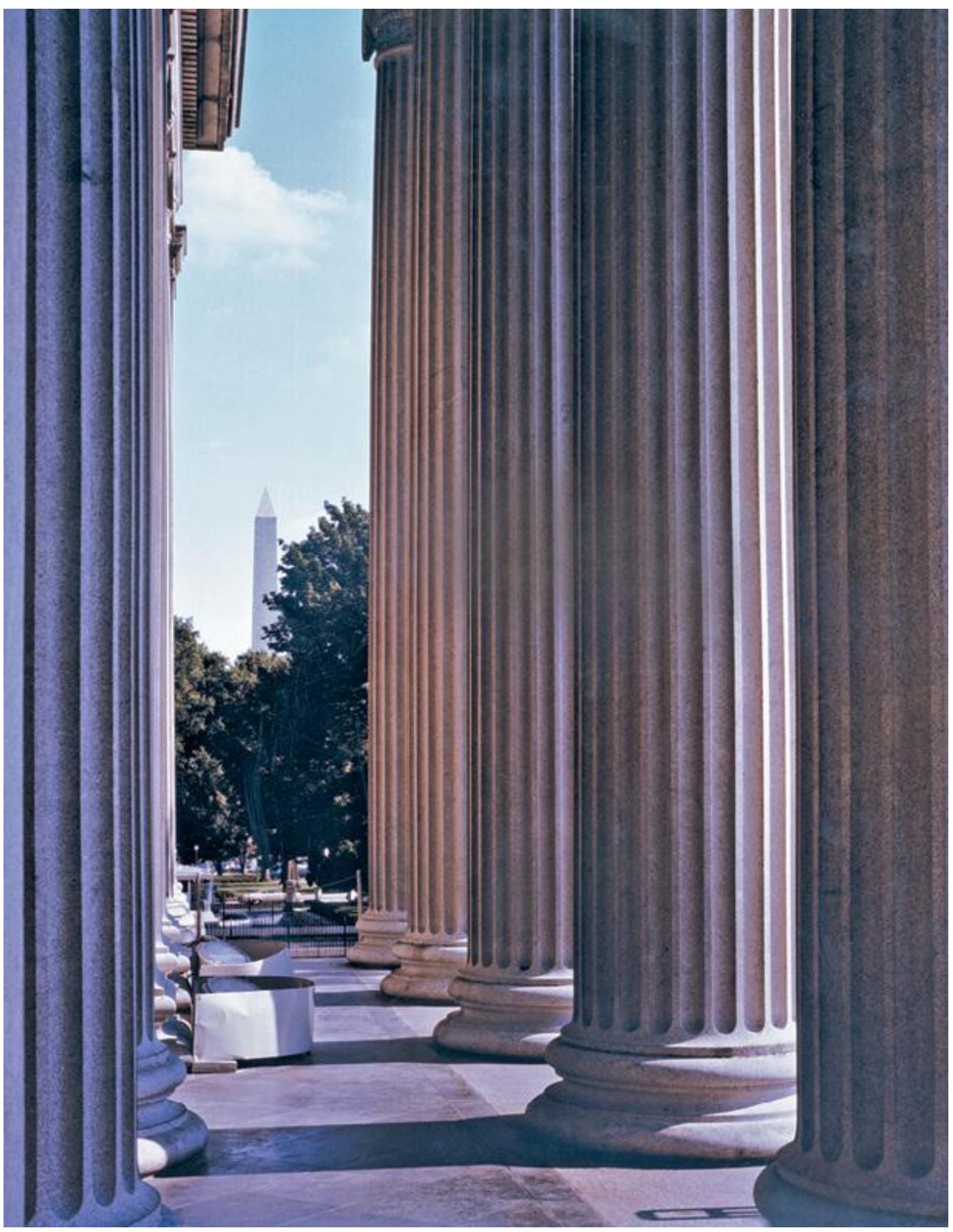
<sup>163</sup> TIGTA Ref. No. 2013-20-118, *Foreign Account Tax Compliance Act: Improvements Are Needed to Strengthen Systems Development for the Foreign Financial Institution Registration System* (Sept. 2013).



The IRS Whistleblower Program also plays an important role in reducing the Tax Gap and maintaining the integrity of a voluntary tax compliance system. However, TIGTA reported that the program continues to have internal control weaknesses when processing claims. Without adequate oversight of the Whistleblower Program, the IRS is not as effective as it could be in responding timely to tax noncompliance issues.<sup>164</sup>

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<sup>164</sup> TIGTA, Ref. No. 2012-30-045, *Improved Oversight Is Needed to Effectively Process Whistleblower Claims* (Apr. 2012).





## 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. 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 with taxable U.S. income.

The tax law for cross-border transactions and investments can be highly complex and specialized. Both businesses and individuals 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 Act (FACTA)<sup>165</sup> to help prevent U.S. taxpayers from hiding assets offshore.

### 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, Sri Lanka, Colombia, Iraq, and Zambia. 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 Sim Eang, Director General of the General Department of Taxation. Eang met with representatives from OI, OA, and I&E to enhance his understanding of the mission and role of TIGTA, and of how internal audits are conducted within the Department of the Treasury. The audit-centric

<sup>165</sup> Pub. L. No. 111-147, Subtitle A, 124 Stat 71, 96-116 (2010) (codified in scattered sections of 26 U.S.C.).



discussion provided the visiting delegation a better understanding of TIGTA's role in our Nation's system of tax administration and its relationship with the IRS.

In September 2013, TIGTA hosted a delegation from Sri Lanka led by Ahmed Ali of the Maldives Inland Revenue Authority. This delegation met with OI and OA to gain insight with respect to how the United States oversees Federal tax administration, with the goal of adopting best U.S. practices in the nation of Sri Lanka.

In November, the Secretary General of the Ministry of Finance and Public Credit from the country of Colombia visited TIGTA to discuss better techniques to combat fraud, waste, and abuse. After recently standing up the IG for Tax, Revenue and Contributions, the Secretary General wanted to explore TIGTA's Office of Investigations policies and procedures for combating tax fraud.

In January, former Iraqi Inspector General Salem Ibrahim Poles met with Inspector General George at TIGTA's Headquarters location. Mr. Poles was a part of an Iraqi study group sponsored by CIGIE. This group visited TIGTA in the latter part of January, hoping to gather insight on how to strengthen Inspectors General positions in Iraq that specifically deal with waste, fraud, and abuse.

In March, the Revenue Authority from the African country of Zambia visited TIGTA to receive in-depth information from the Offices of Audit and Investigations on how to combat corruption within the government.



## Audit Statistical Reports

### Reports With Questioned Costs

TIGTA issued three audit reports with questioned costs during this semiannual reporting period.<sup>166</sup> 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 Costs <sup>167</sup> (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	3	\$6,492	\$0
<b>3. Subtotals (Item 1 plus Item 2)</b>	<b>10</b>	<b>\$45,314</b>	<b>\$928</b>
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	1	\$21	\$0
b. Value of costs not disallowed	0	\$0	\$0
<b>5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)</b>	<b>9</b>	<b>\$45,293</b>	<b>\$928</b>
6. Reports with no management decision within six months of issuance	7	\$38,822	\$928

<sup>166</sup> See Appendix II for identification of audit reports involved.

<sup>167</sup> “Questioned costs” includes “unsupported costs.”



## Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued three audit reports during this semiannual reporting period with the recommendation that funds be put to better use.<sup>168</sup> 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	3	\$1,528
<b>3. Subtotals (Item 1 plus Item 2)</b>	<b>3</b>	<b>\$1,528</b>
4. Reports for which a management decision was made during the reporting period		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	2	\$1,412
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	1	\$117
<b>5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)<sup>169</sup></b>	<b>0</b>	<b>\$0</b>
6. Reports with no management decision within six months of issuance	0	\$0

<sup>168</sup> See Appendix II for identification of audit reports involved.

<sup>169</sup> Difference in amount due to rounding.



## 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 executives at the IRS and the Department of the Treasury, Members of 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.

*Definitions of these additional measures are:*

**Increased Revenue:** Assessment or collection of additional taxes.

**Revenue Protection:** Ensuring the accuracy of the total tax, penalties, and interest paid to the Federal Government.

**Reduction of Burden on Taxpayers:** Decreases by individuals or businesses in the need for, frequency of, or time spent on, communication, 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 cost 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 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.

<b>Reports With Additional Quantifiable Impact on Tax Administration</b>			
<b>Outcome Measure Category</b>	<b>Number of Reports<sup>170</sup></b>	<b>Number of Taxpayer Accounts</b>	<b>Dollar Value (in thousands)</b>
Increased Revenue	3	261,773	\$295,429
Revenue Protection	3	249,948	\$1,970,370
Reduction of Burden on Taxpayers	0	0	\$0
Taxpayer Rights and Entitlements at Risk	0	0	\$0
Taxpayer Privacy and Security	0	0	\$0
Inefficient Use of Resources	1	0	\$11,649
Reliability of Management Information	1	9,057	\$0
Protection of Resources	0	0	\$0

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

- Increased Revenue: Reference Numbers 2014-10-008 and 2014-10-017;
- Revenue Protection: Reference Numbers 2014-10-008 and 2014-40-022; and
- Inefficient Use of Resources: Reference Number 2014-20-002.

<sup>170</sup> See Appendix II for identification of audit reports involved.



## Investigations Statistical Reports

<b>Significant Investigative Achievements</b>	
<b>October 1, 2013 – March 31, 2014</b>	
<b>Complaints/Allegations Received by TIGTA</b>	
Complaints against IRS Employees	2,096
Complaints against Non-Employees	2,250
<b>Total Complaints/Allegations</b>	<b>4,346</b>
<b>Status of Complaints/Allegations Received by TIGTA</b>	
Investigations Initiated	1,028
In Process within TIGTA <sup>171</sup>	420
Referred to IRS for Action	541
Referred to IRS for Information Only	750
Referred to a Non-IRS Entity <sup>172</sup>	1
Closed with No Referral	896
Closed Associated with Prior Investigation	598
Closed with All Actions Completed	112
<b>Total Complaints</b>	<b>4,346</b>
<b>Investigations Opened and Closed</b>	
Total Investigations Opened	1,468
Total Investigations Closed	1,418
<b>Financial Accomplishments</b>	
Embezzlement/Theft Funds Recovered	\$510
Contract Fraud and Overpayments Recovered	\$0
Court Ordered Fines, Penalties and Restitution	\$3,331,450
Out-of-Court Settlements	\$0
<b>Total Financial Accomplishments</b>	<b>\$3,331,960</b>

<sup>171</sup> Complaints for which final determination had not been made at the end of the reporting period.

<sup>172</sup> A non-IRS entity includes other law enforcement entities or Federal agencies.



<b>Status of Closed Criminal Investigations</b>			
<b>Criminal Referral</b>	<b>Employee</b>	<b>Non-Employee</b>	<b>Total</b>
Referred – Accepted for Prosecution	46	32	<b>78</b>
Referred – Declined for Prosecution	277	140	<b>417</b>
Referred – Pending Prosecutorial Decision	45	26	<b>71</b>
<b>Total Criminal Referrals<sup>173</sup></b>	<b>368</b>	<b>198</b>	<b>566</b>
<b>No Referral</b>	<b>421</b>	<b>458</b>	<b>879</b>
<b>Criminal Dispositions<sup>174</sup></b>			
<b>Criminal Disposition</b>	<b>Employee</b>	<b>Non-Employee</b>	<b>Total</b>
Guilty	21	28	<b>49</b>
Nolo Contendere (no contest)	3	1	<b>4</b>
Pre-trial Diversion	3	1	<b>4</b>
Deferred Prosecution <sup>175</sup>	0	0	<b>0</b>
Not Guilty	0	0	<b>0</b>
Dismissed	3	5	<b>8</b>
<b>Total Criminal Dispositions</b>	<b>30</b>	<b>35</b>	<b>65</b>
<b>Administrative Dispositions on Closed Investigations<sup>176</sup></b>			
<b>Administrative Disposition</b>	<b>Total</b>		
Removed / Terminated	<b>27</b>		
Suspended / Reduction in Grade	<b>83</b>		
Resigned / Retired / Separated Prior to Adjudication	<b>94</b>		
Oral or Written Reprimand / Admonishment	<b>116</b>		
Clearance Letter / Closed, No Action Taken	<b>96</b>		
Alternative Discipline / Letter with Cautionary Statement / Other	<b>125</b>		
Non-Employee Actions <sup>177</sup>	<b>328</b>		
<b>Total Administrative Dispositions</b>	<b>869</b>		

<sup>173</sup> Criminal referrals include both Federal and State dispositions.

<sup>174</sup> 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.

<sup>175</sup> 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.

<sup>176</sup> 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. These data, as reported, reflect a change in the way administrative dispositions were previously categorized.

<sup>177</sup> Administrative actions taken by the IRS against non-IRS employees.



# Inspections and Evaluations Statistical Reports

## Reports With Questioned Costs

TIGTA issued no inspection reports 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	Unsupported Costs
1. Reports with no management decision at the beginning of the reporting period	1	\$197,416	\$7,163
2. Reports issued during the reporting period	0	\$0	\$0
<b>3. Subtotals (Item 1 plus Item 2)</b>	<b>1</b>	<b>\$197,416</b>	<b>\$7,163</b>
4. Reports for which a management decision was made during the reporting period <sup>178</sup>			
c. Value of disallowed costs	1	\$0	\$6,897
d. Value of costs not disallowed	1	\$197,416	\$266
<b>5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)</b>	<b>0</b>	<b>\$0</b>	<b>\$0</b>
6. Reports with no management decision within six months of issuance	0	0	0

<sup>178</sup> TIGTA, Reference No. 2013-IE-R005, *Inspection of the Internal Revenue Service’s Travel Gainsharing Program* (May 2013).



# Appendix I

## Statistical Reports – Other

### Audit 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>
2009-10-121	Improving Performance and Financial Data for Program and Budget Decisions	September 2009	09/30/14	<b><i>The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel</i></b>  F-2, R-1, P-1. Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.
2009-40-130	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	09/15/14	<b><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></b>  F-1, R-2, P-1. 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.
2010-20-027	Taxpayer Protection and Rights	March 2010	10/15/15 10/15/15 09/15/14 09/15/14	<b><i>Additional Security Is Needed For Access to the Registered User Portal</i></b>  F-1, R-1, P-1. 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. F-1, R-3, P-1. 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. F-1, R-5, P-1. Make passwords more difficult to guess by unauthorized individuals and decrease the use of SSNs as usernames. F-1, R-6, P-1. Implement a control to allow users to answer a series of challenge questions to unlock their accounts.
2010-40-045	Security of the IRS	March 2010	07/15/14	<b><i>Telephone Authentication Practices Need Improvement to Better Prevent Unauthorized Disclosures</i></b>  F-3, R-1, P-1. Incorporate available technology to authenticate callers in the queue as part of the development of the Authentication Retention Project.



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	<b><i>Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program</i></b>  F-1, R-2, P-1. Ensure 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 energy audits are performed at the data centers.
2010-30-061	Taxpayer Compliance Initiatives	June 2010	06/30/14 06/30/14	<b><i>Plans Exist to Engage the Tax Preparer Community in Reducing the Tax Gap; However, Enhancements Are Needed</i></b>  F-1, R-1, P-1. Update the existing IRS Strategic Plan and ensure 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	<b><i>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</i></b>  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	<b><i>Access Controls for the Automated Insolvency System Need Improvement</i></b>  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	<b><i>Taxpayers Do Not Always Receive Quality Responses When Corresponding About Tax Issues</i></b>  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.
2012-40-010	Tax Compliance Initiatives	December 2011	07/15/14	<b><i>More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed to Ensure All Are Complying With the New Preparer Regulations</i></b>  F-3, R-1, P-1. Implement a process to identify a tax return that is submitted with a Preparer TIN 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	07/31/14	<b>Affordable Care Act: While Much Has Been Accomplished, the Extent of Additional Controls Needed to Implement Tax-Exempt Hospital Provisions Is Uncertain</b>  F-1, R-1, P-1. Establish a Memorandum of Understanding with HHS that takes into consideration when information for the annual report to Congress should be received and the proper format of the data to ensure it will be timely and usable for the report to Congress.
2012-30-094	Tax Compliance Initiatives	September 2012	04/15/14 04/15/14	<b>A Concerted Effort Should Be Taken to Improve Federal Government Agency Tax Compliance</b>  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	05/15/14 05/15/14	<b>Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts</b>  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	<b>Deficiencies Continue to Exist in Verifying Contractor Labor Charges Prior to Payment</b>  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.
2013-40-009	Fraudulent Claims and Improper Payments	December 2012	11/15/14	<b>Many Taxpayers Are Still Not Complying With Noncash Charitable Contribution Reporting Requirements</b>  F-1, R-2, P-1. 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.
2013-40-011	Fraudulent Claims and Improper Payments	December 2012	04/15/14	<b>Further Efforts Are Needed to Ensure the Internal Revenue Service Prisoner File is Accurate and Complete</b>  F-1, R-1, P-1. Ensure the validation and verification of future IRS prisoner files to include a check for prisoners using deceased individual's identity information.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2013-40-022	Fraudulent Claims and Improper Payments	February 2013	01/15/15	<b><i>Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved</i></b>  F-1, R-5, P-1. 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.
2013-20-023	Security for Taxpayer Data and Employees	February 2013	07/15/14 07/15/14	<b><i>Improvements Are Needed to Ensure the Effectiveness of the Privacy Impact Assessment Process</i></b>  F-1, R-1, P-1. Investigate all 184 information systems and collections of information identified and coordinate with system owners to complete the required Privacy Impact Assessments (PIA). F-1, R-2, P-1. 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 and coordinate with system owners to review and updated these PIAs as required.
2013-30-021	Tax Compliance Initiatives	February 2013	07/15/14	<b><i>The Compliance Assurance Process Has Received Favorable Feedback, but Additional Analysis of Its Costs and Benefits Is Needed</i></b>  F-1, R-1, P-1. 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.
2013-30-020	Tax Compliance Initiatives	March 2013	09/15/14	<b><i>Actions Can Be Taken to Reinforce the Importance of Recognizing and Investigating Fraud Indicators During Office Audits</i></b>  F-1, R-1, P-1. 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.
2013-30-021	Tax Compliance Initiatives	March 2013	04/15/14 04/15/14	<b><i>The Compliance Assurance Process Has Received Favorable Feedback, but Additional Analysis of Its Costs and Benefits Is Needed</i></b>  F-1, R-1, P-1. Ensure that an evaluation plan is developed and implemented to thoroughly assess the 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. F-2, R-1, P-1. Ensure that the guidelines are used to evaluate the CAP as a potential new user fee source.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2013-30-040	Tax Compliance Initiatives	May 2013	6/15/2014	<b>Controls Over Partial Payment Installment Agreements Can Be Improved</b> <u>F-2, R-1, P-1.</u> Ensure that managers provide their employees with Integrated Data Retrieval System profiles that contain the command codes required to perform their duties and ensure that managers are knowledgeable of the command codes and how they can be used to enhance the financial analyses performed by employees establishing Partial Payment Installment Agreements.
2013-20-013	Achieving Program Efficiencies and Cost Savings	June 2013	4/25/2015 5/25/2014	<b>The Data Center Consolidation Initiative Has Made Significant Progress, but Program Management Should Be Improved to Ensure Goals Are Achieved</b> <u>F-1, R-3, P-1.</u> Ensure that the Detroit Enterprise Computer Center is consolidated into the Martinsburg and Memphis Enterprise Computer Centers. <u>F-2, R-2, P-1.</u> Formalize plans to develop and apply a baseline footprint to the IRS's small data centers.
2013-10-056	Fraudulent Claims and Improper Payments	June 2013	4/15/2014	<b>Purchase Card Program Lacks Consistent Oversight to Identify and Address Inappropriate Use</b> <u>F-4, R-3, P-1.</u> Develop and implement a plan to replace the use of convenience checks for emergency salary payments, travel advances, Public Transportation Subsidy Program payments, and other employee reimbursements prior to the 2014 expiration of the waiver allowing the use of convenience checks.
2013-30-077	Tax Compliance Initiatives	August 2013	9/15/2014	<b>The Correspondence Audit Selection Process Could Be Strengthened</b> <u>F-1, R-1, P-1.</u> Develop and implement procedures in the Internal Revenue Manual 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.
2013-10-082	Tax Compliance Initiatives	August 2013	8/01/2014 7/15/2014 7/15/2014	<b>Contractor Employees Have Millions of Dollars of Federal Tax Debts</b> <u>F-1, R-1, P-1.</u> Establish and implement policies and procedures to ensure that contractor employee tax compliance is continuously monitored, similar to the way IRS Federal employee tax compliance is monitored. <u>F-1, R-2, P-1.</u> Establish and implement policies and procedures to require that contractor employee background investigation revalidations, which occur when a contractor employee has had two-years or more break in service, requires a tax compliance component. <u>F-1, R-3, P-1.</u> Ensure that any contractor employee we identified as potentially non-compliant is further evaluated and that any contractor employee who is not tax compliant is promptly brought into compliance or removed from IRS contracts.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2013-20-108	Security for Taxpayer Data and Employees	September 2013	11/25/2014  2/25/2015  2/25/2015	<b>Better Cost-Benefit Analysis and Security Measures Are Needed for the Bring Your Own Device Pilot</b>  F-2, R-1, P-1. Ensure Bring Your Own Device users are allowed access only to e-mail functions in most cases, and ensure that users provided additional access to IRS network resources demonstrate a compelling business need for that increased access, especially considering that laptops already have full functionality on the IRS network.  F-2, R-3, P-1. Ensure that the existing IRS policy related to audit trails is followed, including retaining the audit trails daily to identify anomalies that could indicate unauthorized access attempts or security breaches.  F-2, R-4, P-1. Provide periodic refresher training for Bring Your Own Device participants that clearly explain the risks associated with personal mobile devices.
2013-23-119	Implementing Major Tax Law Changes	September 2013	9/25/2014	<b>Affordable Care Act: Improvements Are Needed to Strengthen Systems Development Controls for the Premium Tax Credit Project</b>  F-4, R-1, P-1. Ensure that the Internal Revenue Manual is updated to provide specific guidance on how IRS management is to effectively manage, monitor, and mitigate fraud risk for information technology systems.
2013-30-121	Tax Compliance Initiatives	September 2013	5/15/2015  5/15/2015	<b>The Online Payment Agreement Program Benefits Taxpayers and the Internal Revenue Service, But More Could Be Done to Expand Its Use</b>  F-1, R-1, P-1. Measure Online Payment Agreement (OPA) program performance results against OPA program goals and manage the program to achieve those goals.  F-2, R-2, P-1. Perform an evaluation of installment agreement programs, including the OPA program, to identify barriers to using the OPA program and determine the reasons taxpayers used the methods they did to establish their payment agreements.
2013-40-122	Fraudulent Claims and Improper Payments	September 2013	6/15/2017  10/15/2014	<b>Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds</b>  F-1, R-1, P-1. Implement a process to deactivate Individual TINs assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement.  F-2, R-1, P-1. Continue to analyze characteristics of fraudulent tax returns resulting from identity theft to refine and expand identity theft filters used to detect and prevent the issuance of fraudulent tax refunds resulting from identity theft.
2013-40-123	Fraudulent Claims and Improper Payments	September 2013	10/15/2014	<b>The Law Which Penalizes Erroneous Refund and Credit Claims Was not Properly Implemented</b>  F-1, R-1, P-1. 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.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2013-40-124	Tax Compliance Initiatives	September 2013	<p>5/15/2014</p> <p>1/15/2015</p> <p>10/15/2014</p> <p>2/15/2016</p> <p>3/15/2015</p>	<p><b>Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season</b></p> <p><u>F-1, R-1, P-1.</u> Ensure that the EITC due diligence penalty is assessed against tax return preparers who did not comply with the requirement to attach a Paid Preparer's EITC Checklist (Form 8867) to tax returns with a claim for the EITC.</p> <p><u>F-2, R-2, P-1.</u> Initiate a program to recover the more than \$58 million from the 42,961 taxpayers who received education credits for students who were of an unlikely age to be eligible for the credits.</p> <p><u>F-3, R-3, P-1.</u> Initiate a program to correct the 239 taxpayer accounts where the IRS incorrectly recorded the transfer of the net Homebuyer Credit repayment obligation in the case of a divorce.</p> <p><u>F-4, R-1, P-1.</u> Establish procedures to ensure that the Vehicle Identification Numbers (VIN) provided for each vehicle is 17 characters long and, using the characteristics of the VIN, ensure that the vehicle is eligible before allowing the Plug-In Motor Vehicle Motor Credit.</p> <p><u>F-4, R-2, P-1.</u> Initiate a program to recover the erroneous Plug-In Motor Vehicle Credits the IRS allowed on the 574 tax returns we identified.</p>
2013-40-129	Providing Quality Taxpayer Services	September 2013	3/15/2015	<p><b>Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft</b></p> <p><u>F-2, R-1, P-1.</u> Develop a standard format for information provided for inclusion in the Global Report to ensure consistency.</p>



## Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	Result for TIGTA
<p><b>Access to Information</b></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 March 31, 2014, there were no instances where information or assistance requested by the Office of Audit was refused.</p>
<p><b>Disputed Audit Recommendations</b></p> <p>Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of March 31, 2014, there were no instances where significant recommendations were disputed.</p>
<p><b>Revised Management Decisions</b></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 March 31, 2014, no significant management decisions were revised.</p>
<p><b>Audit Reports Issued in the Prior Reporting Period With No Management Response</b></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 March 31, 2014, there were no prior reports where management's response was not received.</p>
<p><b>Review of Legislation and Regulations</b></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 114 proposed regulations and legislative requests during this reporting period.</p>



## 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><b>Follow-up Review of Controls Over Religious Compensatory Time</b></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-R005		May 2013	7/15/2014  7/15/2014 7/15/2014 7/15/2014	<p><b>Inspection of the Internal Revenue Service's Travel Gainsharing Program</b></p> <p><u>F-1, R-1, P-1.</u> The CFO should amend the IRM to better define document retention standards for gainsharing program awards and supporting documentation to match that of other travel documents. The IRM should also 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 generated Service-wide.</p> <p><u>F-2, R-1, P-1.</u> The CFO should revise Form 13631-A to include a space for the first-level manager's initials.</p> <p><u>F-2, R-1, P-2.</u> The CFO should revise Form 13631-A to include a space for the first-level manager's initials.</p> <p><u>F-2, R-2, P-1.</u> The CFO should clarify in the IRM that only one award can be given to employees per fiscal year.</p>
2013-IE-R006		July 2013	10/15/2014  10/15/2014	<p><b>Review of the Implementation of the Telework Enhancement Act of 2010</b></p> <p><u>F-1, R-1, P-1.</u> The IRS Human Capital Officer should 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.</p> <p><u>F-1, R-2, P-1.</u> The IRS Human Capital Officer should require that telework agreements include specific language on whether the employee is expected to telework when the office is closed due to an emergency.</p>



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>
2013-IE-R008		August 2013	<p>1/15/2015</p> <p>1/15/2017</p> <p>1/15/2016</p> <p>1/15/2015</p> <p>1/15/2015</p>	<p><b>The Internal Revenue Service Needs to Improve the Comprehensiveness, Accuracy, Reliability, and Timeliness of the Tax Gap Estimate</b></p> <p><u>F-1, R-1, P-1.</u> The Director, Office of RAS, should conduct a study to determine the feasibility of providing interim updates to Tax Gap estimates. More frequent updates would facilitate tax system decision making and assist the Department of the Treasury in monitoring the Agency Priority Goal for increasing voluntary compliance.</p> <p><u>F-2, R-1, P-1.</u> The Director, Office of RAS, should develop processes and procedures to ensure compliance with applicable OMB standards to improve the overall confidence that can be placed in the accuracy and reliability of the Tax Gap estimate. This includes developing a method to estimate the total costs for performing each Tax Gap estimate and study. This information will assist decision makers in determining the methods and frequency of future studies.</p> <p><u>F-2, R-2, P-1.</u> The Director, Office of RAS, should issue a published report to explain the methods, assumptions, and premises used to develop the estimates. Furthermore, the report should also include comments about the confidence of the reliability and accuracy of the estimate and comparisons with previous estimates. The report should specifically state instances where no estimates have been developed and whether the absence of an estimate could affect the final estimate and the VCR. Finally, the report should be subject to peer review.</p> <p><u>F-3, R-1, P-1.</u> The Director, Office of RAS, should develop the capability to estimate the Tax Gap for the informal economy. The information developed can then be used by tax policy decision makers and tax administration officials to develop strategies to improve voluntary compliance.</p> <p><u>F-3, R-2, P-1.</u> The Director, Office of RAS, should perform a study to determine the feasibility to estimate the Tax Gap for offshore tax evasion. The information developed can then be used by tax policy decision makers and tax administration officials to develop strategies to improve voluntary compliance.</p>



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>
			1/15/2015  1/15/2016	<p>F-4, R-1, P-1. The Director, Office of RAS, should consider changing the estimation model for large corporations from using recommended tax to using tax assessments from operational examinations to more clearly reflect the noncompliance found and ultimately sustained on large corporate examinations.</p> <p>F-4, R-2, P-1. The Director, Office of RAS, should consider conducting an NRP review on small corporations filing Form 1120, U.S. Corporate Income Tax Return, with total assets of less than \$10 million. This will allow the IRS to more accurately model the small corporate Tax Gap by using a random sample results partnered with the DCE method. Subsequently, the IRS could use the results of the NRP to better calibrate the yield curve analysis results used to estimate the small corporate Tax Gap in future years. A small corporation NRP can also deliver other benefits, such as: Updating small corporation discriminant function selection formulas so that they reflect how small corporations operate in the 21st Century rather than the latter half of the 20th Century. Such updated discriminant function formulas should impact the selection of returns by reducing the no-change rate, which will increase the yield per return. This will allow the IRS Examination function to operate more efficiently and effectively. Developing information, specifically on total gross receipts, to allow the IRS to differentiate and target small corporations that act similar to noncompliant sole proprietorships from other small corporations. Such information would allow the IRS to identify and concentrate resources on the small corporations that act in a similar manner to sole proprietorships and seek to evade taxes through understating income or overstating expenses. Identifying the characteristics (asset levels, gross receipts, number of employees, public/private ownership, etc.) at which small C corporations cease to behave like sole proprietorships and start to behave more like large and mid-size corporations. This will allow the IRS to implement more sophisticated examinations techniques and to match appropriate examiner skill levels to corporations under examination.</p>



## Appendix II

### Audit Products

#### October 1, 2013 – March 31, 2014

<b>Audit Products</b>	
Reference Number	Report Title
<b>October 2013</b>	
	N/A
<b>November 2013</b>	
2014-1C-001	Incurring Costs Audit for Fiscal Year 2006 (Questioned Costs: \$20,936)
<b>December 2013</b>	
2014-1C-003	Fiscal Year 2006 Incurred Cost Submission (Questioned Costs: \$1,052)
2014-43-006	Affordable Care Act: The Customer Service Strategy Sufficiently Addresses Tax Provisions; However, Changes in Implementation Will Create Challenges
<b>January 2014</b>	
2014-13-005	Potentially Improper Health Care Credit Claims by Tax-Exempt Organizations Are Generally Being Identified for Review, but Improvements Are Needed (Funds Put to Better Use: \$116,595; Reliability of Information: 9,057 taxpayer accounts impacted)
2014-10-014	Review of the Internal Revenue Service's Purchase Card Violations Report and the Status of Government Charge Card Recommendations
2014-10-015	Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2013 Annual Accounting of Drug Control Funds and Related Performance
<b>February 2014</b>	
2014-40-011	Processes for Ensuring Compliance With Qualifying Advanced Energy Project Credit Requirements Can Be Strengthened (Revenue Protection: \$2,399,846)
2014-20-002	The Internal Revenue Service Should Improve Mainframe Software Asset Management and Reduce Costs (Inefficient Use of Resources: \$11,649,342; Funds Put to Better Use: \$50,000)
2014-20-016	Planning Is Underway for the Enterprise-wide Transition to Internet Protocol Version 6, but Further Actions Are Needed
<b>March 2014</b>	
2014-1C-004	Independent Audit of the Contractor's Civil Home Office Fiscal Year 2007 Incurred Cost (Revised)
2014-30-013	Bankruptcy Procedures Designed to Protect Taxpayer Rights and the Government's Interest Were Not Always Followed
2014-40-020	Improvement Is Needed to Better Enable Frontline Employee Identification of Potentially Dangerous and Caution Upon Contact Designations
2014-10-008	Millions of Dollars in Potentially Improper Self-Employed Retirement Plan Deductions Are Allowed (Revenue Protection: \$71,409,000)
2014-1C-009	Independent Audit of the Contractor's Fiscal Year 2006 Incurred Cost Submission
2014-1C-018	Independent Audit of the Contractor's Incurred Cost Proposal for Fiscal Year Ending March 30, 2007 (Questioned Costs: \$6,470,339)



2014-10-007	The Awards Program Complied With Federal Regulations, but Some Employees With Tax and Conduct Issues Received Awards (Funds Put to Better Use: \$1,361,805)
2014-10-017	Millions of Dollars in Potentially Improper Claims for the Qualified Retirement Savings Contributions Credit Are Not Pursued (Increased Revenue: \$264,400,745 and 260,461 taxpayer accounts impacted)
2014-40-029	Interim Results of the 2014 Filing Season
2014-40-027	The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply With the Improper Payments Elimination and Recovery Act
2014-40-022	Significant Discrepancies Exist Between Alimony Deductions Claimed by Payers and Income Reported by Recipients (Increased Revenue: \$1,624,500; Revenue Protection: \$1,896,560,915 and 236,708 taxpayer accounts impacted)



## Appendix III

### TIGTA's Statutory Reporting Requirements

TIGTA issued two audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2014, TIGTA will complete its 16<sup>th</sup> round of statutory reviews that are required annually by 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 2014 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Enforcement Statistics</b> I.R.C. § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.	In fieldwork phase.
<b>Restrictions on Directly Contacting Taxpayers</b> I.R.C. § 7803(d)(1)(A)(ii)	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.	In fieldwork phase.
<b>Filing of a Notice of Lien</b> I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	In fieldwork phase.
<b>Extensions of the Statute of Limitations for Assessment of Tax</b> I.R.C. § 7803(d)(1)(C) I.R.C. § 6501(c)(4)(B)	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.	In fieldwork phase.



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Levies</b> I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.	In fieldwork phase.
<b>Collection Due Process</b> I.R.C. §§ 7803(d)(1)(A)(iii) and (iv)	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.	In fieldwork phase.
<b>Seizures</b> I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.	In fieldwork phase.
<b>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</b> I.R.C. § 7803(d)(1)(A)(v)	An evaluation of the IRS's compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.	In fieldwork phase.
<b>Disclosure of Collection Activities With Respect to Joint Returns</b> I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)	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.	In fieldwork phase.
<b>Taxpayer Complaints</b> I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each of its Semiannual Reports to Congress 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.	In fieldwork phase.



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996</b></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>In fieldwork phase.</p>
<p><b>Denial of Requests for Information</b></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>In fieldwork phase.</p>
<p><b>Adequacy and Security of the Technology of the IRS</b></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><b>Information Technology Reviews:</b>            Ref. No. 2014-20-002, February 2014            Ref. No. 2014-20-016, February 2014</p>
<p><b>Federal Financial Management Improvement Act of 1996 (FFMIA)</b></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>In fieldwork phase.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions</b></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><b>Ref. No. 2014-10-015, January 2014</b> Nothing came to TIGTA's attention that caused TIGTA to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report are not fairly presented in all material respects in accordance with ONDCP-established criteria.</p>
<p><b>Government Charge Card Abuse Prevention Act of 2012</b></p> <p>Pub. L. No. 112-194 (October 2012).</p>	<p>Requires TIGTA to report on IRS progress in implementing purchase and travel card audit recommendations.</p>	<p><b>Ref. No. 2014-10-014, January 2014</b> TIGTA found that the IRS properly reported four instances of identified purchase card misuse. TIGTA's independent review identified one confirmed violation of purchase card fraud during the reporting period that resulted in the resignation of the responsible card holder. In addition, TIGTA identified two potential purchase card violations pending final agency action and one potential purchase card violation pending investigation.</p> <p>Six TIGTA recommendations remain open and are scheduled for implementation by the IRS in Fiscal Year 2014. Once implemented, these recommendations will further enhance the IRS's internal controls for its charge card programs. Finally, an additional 14 prior TIGTA recommendations related to purchase or travel cards were implemented and closed during Fiscal Year 2013.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Improper Payments Elimination and Recovery Act of 2010 (IPERA)</b></p> <p>31 U.S.C. § 3321</p>	<p>Requires TIGTA to assess the IRS's compliance with improper payment requirements.</p>	<p><b>Ref. No. 2014-40-027, March 2014</b></p> <p>The IRS continues not to provide all required IPERA information to the Department of the Treasury for inclusion in the <i>Department of the Treasury Agency Financial Report Fiscal Year 2013</i>. For the third consecutive year, the IRS did not publish annual reduction targets or report an improper payment rate of less than 10 percent of the EITC. Additionally, although risk assessments were performed for each of the programs that the Department of the Treasury required the IRS to assess, the risk assessment process still does not provide a valid assessment of improper payments in tax administration. As such, the EITC remains the only revenue program fund to be considered at high-risk for improper payments.</p> <p>IRS management has indicated that the IRS and the Department of the Treasury are in continued discussions with the Office of Management and Budget to obtain its approval to develop supplemental measures that are appropriate to gauge the impact of EITC compliance and outreach efforts in lieu of developing error reduction targets.</p>
<p><b>Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs</b></p>	<p>Requires TIGTA to assess the IRS's compliance with the Order on an annual basis.</p>	<p>In fieldwork phase.</p>



## Appendix IV

### Section 1203 Standards

In general, the Commissioner of Internal Revenue shall terminate 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 IRM) 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

# Implementing Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act

## Inspector General Peer Review Activity October 1, 2013 through March 31, 2014

### **No Peer Review Conducted of TIGTA Office of Investigations:**

No peer reviews were conducted of the TIGTA Office of Investigations during this reporting period. In accordance with the three-year cycle, no external peer review was required during this reporting period.

### **Last Peer Review Conducted by TIGTA Office of Investigations:**

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

### **Last Peer Review Conducted of TIGTA Office of Inspections and Evaluations**

No peer reviews were conducted of the TIGTA Office of Inspections and Evaluations during this reporting period.

### **No Peer Review Conducted of TIGTA Office of Audit:**

No peer reviews were conducted on the TIGTA Office of Audit during this reporting period. In accordance with the three-year cycle, no external peer review was required during this reporting period.



## Appendix VI

### 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 October 1, 2013 through March 31, 2014. 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>DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D.C. 20224</p> <p>HUMAN CAPITAL OFFICE</p> <p>April 7, 2014</p> <p>MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p>FROM: Lia Colbert  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 on February 7, 2014, to the Commissioner, 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 October 1, 2013, to March 31, 2014.</p> <ul style="list-style-type: none"><li>• Report of Employee Misconduct by Disposition Groups;</li><li>• Report of Employee Misconduct – National Summary; and,</li><li>• Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS).</li></ul> <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 March 31, 2014. 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 67 §1203 allegations and removed 12 employees. Four employees retired or resigned prior to a final administrative action by management. In one of the removals IRS managers considered information forwarded in a TIGTA investigation. The Commissioner mitigated proposed removals in 14 cases.</p>	<p>2</p> <p>If you have any questions, please contact me, or a member of your staff may contact Julia Caldwell at 202-317-6289.</p> <p>Attachments (3)</p> <p>cc: Commissioner Deputy Commissioner for Services and Enforcement Deputy Commissioner for Operations Support National Taxpayer Advocate Executive Director, Equity, Diversity and Inclusion Chief, Communications &amp; Liaison Associate Chief Counsel (GLS)</p>
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## Reports of Employee Misconduct for the Period October 1, 2013 through March 31, 2014 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)	28	36	8	0	72
REMOVAL AT OPM DIRECTION	0	0	0	7	7
PROBATION/SEPARATION	1	31	0	3	36
SEPARATION OF TEMP	0	0	0	0	0
RESIGN.,RET., ETC. (SF50 NOTED)	5	8	5	1	19
RESIGN. RET., ETC. (SF50 NOT NOTED)	41	40	18	2	101
SUSP., 14 DAYS OR LESS	57	114	59	2	232
SUSP., MORE THAN 14 DAYS	35	32	10	0	77
INDEFINITE SUSPENSION	0	8	0	0	8
REPRIMAND	43	126	97	7	273
ADMONISHMENT	34	119	179	1	333
WRITTEN COUNSELING	48	140	105	0	293
ORAL COUNSELING	0	45	9	0	54
A D: IN LIEU OF REPRIMAND	2	17	10	0	29
A D: IN LIEU OF SUSPENSION	12	21	11	1	45
CLEARANCE LETTER	76	66	7	0	149
CWA CAUTIONARY LTR	83	139	76	31	329
CWA LETTER	24	77	24	5	130
TERMINATION FOR ABANDONMENT OF POSITION	0	7	0	0	7
CASE SUSPENDED PENDING EMPLOYEE RTD	0	0	0	0	0
CLOSED – SUPPLEMENTAL REQUESTED	0	0	0	0	0
FORWARDED TO TIGTA	0	11	0	0	11
<b>Total</b>	<b>489</b>	<b>1037</b>	<b>619</b>	<b>60</b>	<b>2205</b>



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

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

A D is an abbreviation for “Alternative Discipline.”

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

Extract Date: Wednesday, April 2, 2014



# Reports of Employee Misconduct for the Period October 1, 2013 through March 31, 2014 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	480	1428	1372	24	54	458
EMPLOYEE CHARACTER INVESTIGATION	40	48	71	0	0	17
EMPLOYEE TAX COMPLIANCE CASE	544	1168	922	223	0	567
TIGTA REPORT OF INVESTIGATION	515	711	602	10	0	614
<b>Total</b>	<b>1579</b>	<b>3355</b>	<b>2967</b>	<b>257</b>	<b>54</b>	<b>1656</b>

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

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

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

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

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

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

Extract Date: Wednesday, April 2, 2014



## Summary of Substantiated I.R.C. Section 1203 Allegations Recorded in ALERTS for the Period October 1, 2013 through March 31, 2014 (Tables Provided by the IRS)

§ 1203 Violation	Removals	Resigned /Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated	In Personnel Process	Total
§ 1203(b)(10) Threat of Audit/Personal	0	0	0	0	0	0	0
§ 1203(b)(1) Willfull Unauth Seiz TP	0	0	0	0	0	0	0
§ 1203(b)(2) False Statement Under Oath	0	0	0	0	0	0	0
§ 1203(b)(3) Civ Rights/Const Viol	0	0	0	0	0	1	1
§ 1203(b)(4) Concealed Work Error	0	0	0	3	1	1	5
§ 1203(b)(5) Conviction Assault Batt	0	0	0	0	0	0	0
§ 1203(b)(6) IRC/IRM/Reg Viol-Retal	0	0	0	1	0	0	1
§ 1203(b)(8) Willful Untimely Return	6	0	0	0	6	18	31
§ 1203(b)(9) Willful Understated Tax	0	3	0	0	7	17	29
<b>Total</b>	<b>8</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>14</b>	<b>37</b>	<b>67</b>

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

The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third-party appeal.

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

Extract Date: Wednesday, April 3, 2013



## Glossary of Acronyms

ACA	Affordable Care Act
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIP	Compliance Initiative Project
CY	Calendar Year
EIN	Employer Identification Numbers
EITC	Earned Income Tax Credit
FATCA	Foreign Account Tax Compliance Act
FFMIA	Federal Financial Management Improvement Act of 1996
FY	Fiscal Year
HHS	Health and Human Services
I&E	Inspections and Evaluations
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
LB&I	Large Business and International
LTTT	Long-term Taxable Travel
MMC	Major Management Challenges
MDOR	Missouri Department of Revenue
MODES	Missouri Division of Employment Security
NTEU	National Treasury Employees Union
OA	Office of Audit
OEP	Office of Employee Protection
OI	Office of Investigations



OMB	Office of Management and Budget
PII	Personally Identifiable Information
RRA 98	IRS Restructuring and Reform Act of 1998
SB/SE	Small Business/Self-Employed
SDS	Strategic Data Services
SEP	Simplified Employee Pension
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
TY	Tax Year
U.S.	United States
<b>ACRONYMS USED EXCLUSIVELY IN APPENDICES</b>	
CFO	Chief Financial Officer
DCE	Detection Controlled Estimation
NRP	National Research Project
RAS	Research, Analysis and Statistics
RCT	Religious Compensatory Time

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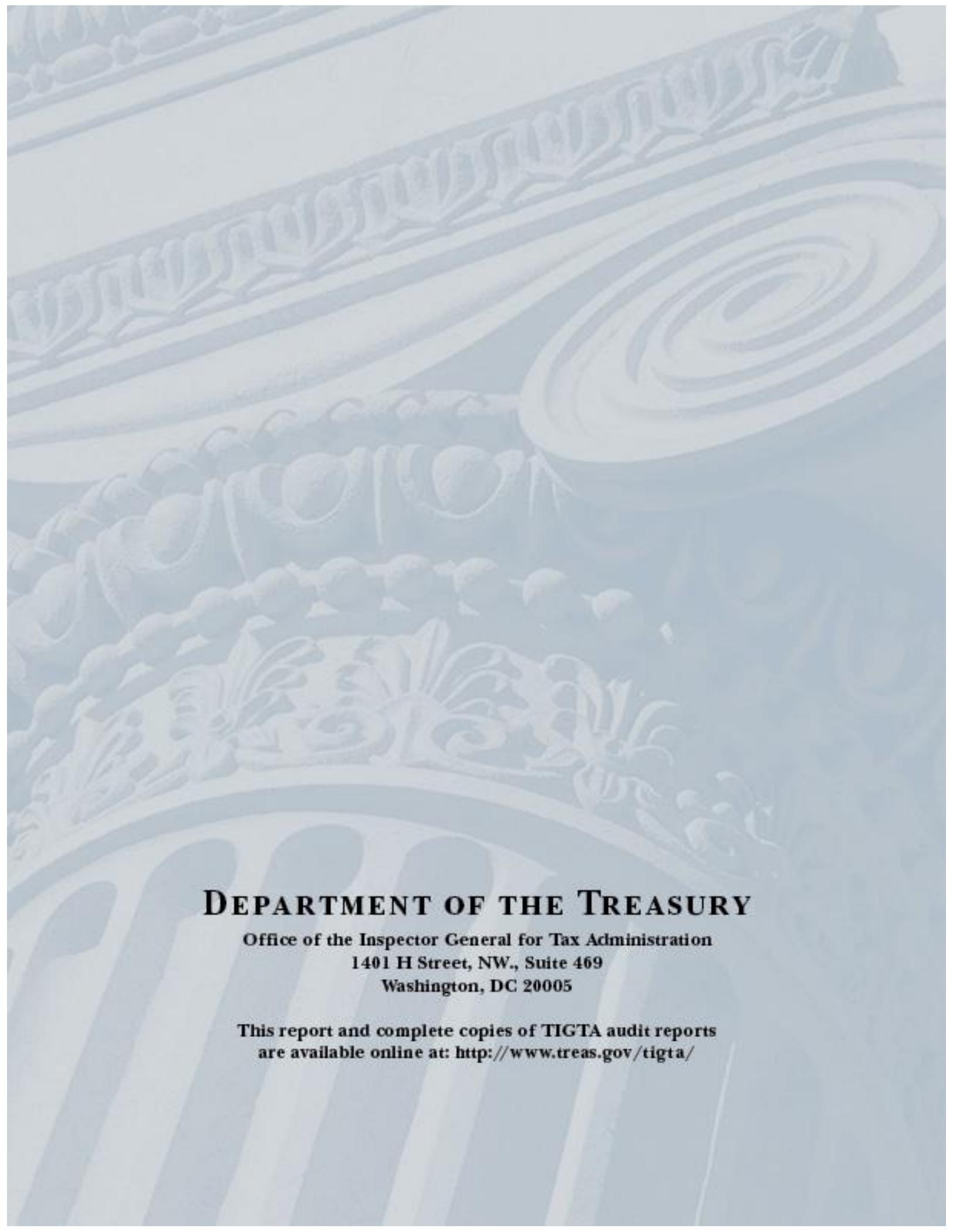
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**Office of the Inspector General for Tax Administration  
1401 H Street, NW., Suite 469  
Washington, DC 20005**

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