



Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2019 – MARCH 31, 2020

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

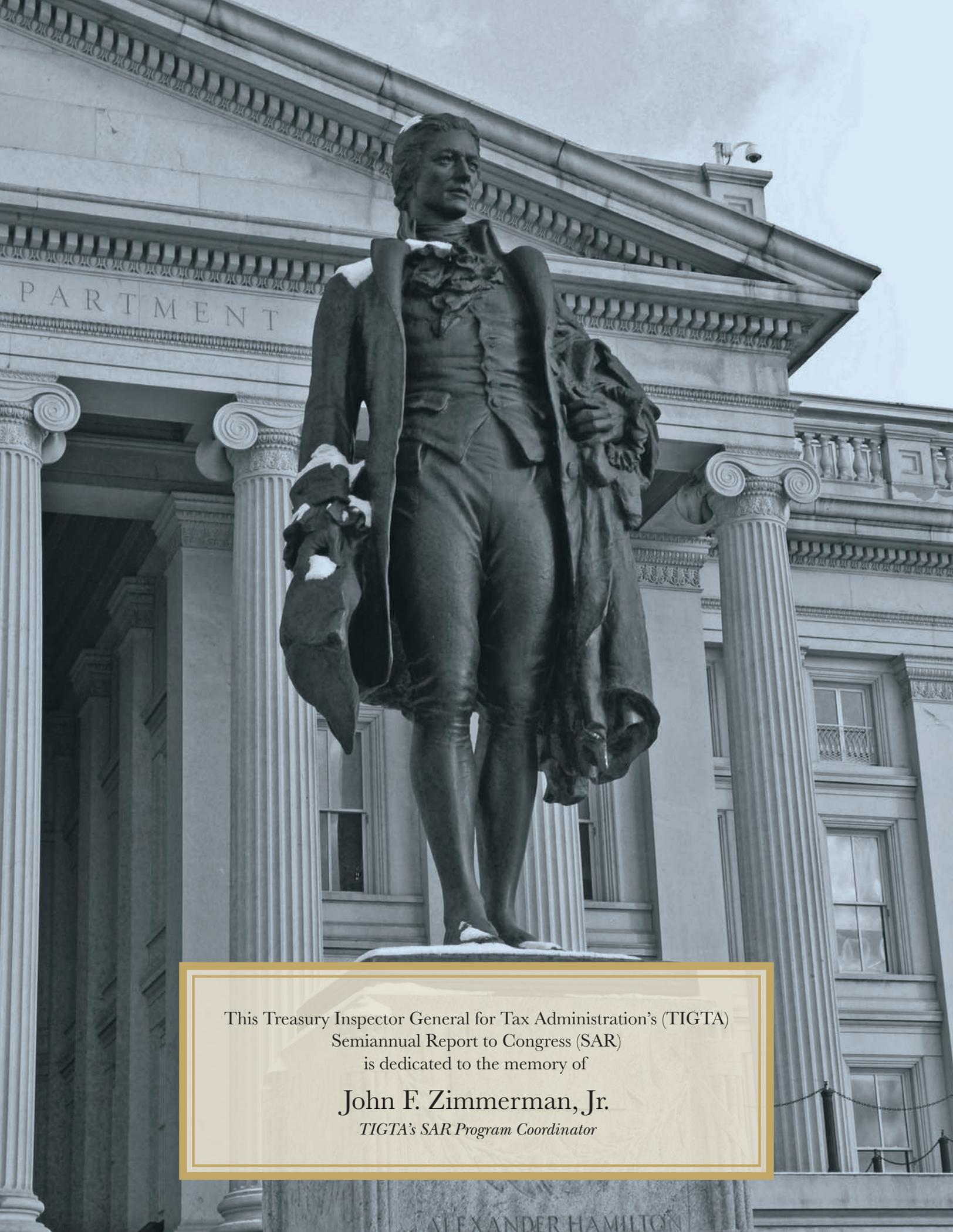
Communication – Achieve effective organizational approaches and solutions by encouraging open, honest, and respectful communication among TIGTA's executives, employees, offices, and functions, as well as between TIGTA and its external stakeholders.

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.

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This Treasury Inspector General for Tax Administration's (TIGTA)
Semiannual Report to Congress (SAR)
is dedicated to the memory of

John F. Zimmerman, Jr.

TIGTA's SAR Program Coordinator

ALEXANDER HAMILTON



Inspector General's Message to Congress

I am pleased to present this Semiannual Report to Congress, summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) during the period October 1, 2019 through March 31, 2020. This report summarizes some of TIGTA's more noteworthy audits, investigations, and inspections and evaluations conducted during this reporting period in the pursuit of our steadfast commitment to providing oversight of the Internal Revenue Service (IRS) and protecting the integrity of Federal tax administration.

During this reporting period, TIGTA's Office of Audit has completed 18 audits, and its Office of Investigations has completed 1,257 investigations. In addition, TIGTA's combined audit and investigative efforts have resulted in the recovery, protection, and identification of monetary benefits totaling more than \$2.25 billion.



On July 1, 2019, the Taxpayer First Act of 2019 was signed into law. This legislation aims to expand and strengthen taxpayer rights and to reform the IRS into a more taxpayer-friendly agency by requiring it to develop a comprehensive customer service strategy, modernize its technology, and enhance its cybersecurity systems and programs. One of TIGTA's main areas of current emphasis, as reflected by an audit report described in these pages, is oversight of the IRS's efforts to improve security over taxpayer data and to protect IRS resources. TIGTA is working with the IRS to identify, investigate, and combat threats to its cyberinfrastructure, focusing especially on how the IRS ensures that only authorized taxpayers can access their information on public-facing applications.

Similarly, TIGTA continues to investigate and deter high-profile attacks against online IRS applications, as part of its responsibility for investigating and deterring tax-related cybercrime and disrupting cyber-based schemes by illicit actors who seek to steal identifiers and impersonate taxpayers and IRS employees.

Like other Federal agencies, the IRS is being dramatically impacted by the novel coronavirus disease (COVID-19). TIGTA will review the actions IRS is taking to protect the health and safety of its employees and the taxpaying public. TIGTA will also assess the impact of the extension of deadlines for payments of taxes and the IRS's ability to provide customer service, conduct examinations, and collect revenue. TIGTA's Office of Investigations continues to work with the IRS to prevent and detect any scams involving the COVID-19 stimulus payments made under the Coronavirus Aid, Relief, and Economic Security Act of 2020. As always, we stand ready to continue to perform our responsibility of serving the American people by protecting the integrity of Federal tax administration.

Sincerely,

A handwritten signature in black ink that reads "J. Russell George".

J. Russell George
Inspector General

Table of Contents

Inspector General’s Message to Congress	3
TIGTA’s Profile	6
Statutory Mandate	6
Organizational Structure	7
Authorities.....	7
Promote the Economy, Efficiency, and Effectiveness of Tax Administration	8
Security Over Taxpayer Data and Protection of IRS Resources	8
Implementing Tax Law Changes.....	12
Supporting an Enhanced Taxpayer Experience	13
Improving Tax Reporting and Payment Compliance	15
Protect the Integrity of Tax Administration	18
The Performance Model	18
Performance Area: Employee Integrity	18
Identity Theft and Insider Threats.....	19
Employee Integrity	20
Employee Integrity Projects	21
Performance Area: Employee and Infrastructure Security.....	21
Performance Area: External Attempts to Corrupt Tax Administration	23
Corrupt Interference.....	23
Scams and Schemes	26
Impersonation Scams	26
Tax Preparer Outreach	30
Advancing Oversight of America’s Tax System	32
Audit Statistical Reports	34
Reports With Questioned Costs.....	34
Reports With Recommendations That Funds be Put to Better Use.....	35
Reports With Additional Quantifiable Impact on Tax Administration	36
Investigations Statistical Reports	38
Significant Investigative Achievements	38
Status of Closed Criminal Investigations.....	39
Criminal Dispositions	39
Administrative Dispositions on Closed Investigations.....	39
Summary of Investigative Reports and Criminal Referrals	40
Interference	40
Instances of Whistleblower Retaliation.....	40
Closed Investigations Involving Internal Revenue Service Senior Government Employees	40
Inspections and Evaluations Statistical Reports	42
Reports With Significant Unimplemented Corrective Actions	42

Appendices

Appendix I – Statistical Reports – Other	44
Reports With Significant Unimplemented Corrective Actions	44
Other Statistical Reports	57
Appendix II – Audit Products	58
Appendix III – TIGTA’s Statutory Reporting Requirements	60
Appendix IV – Section 1203 Standards	63
Appendix V – Inspector General Peer Review Activity	64
Appendix VI – Data Tables Provided by the Internal Revenue Service	65
Internal Revenue Service Memorandum	65
Report of Employee Misconduct Summary by Disposition Groups	66
Report of Employee Misconduct National Summary	67
Summary of Substantiated I.R.C. § 1203 Inquiries Recorded in ALERTS	68
Glossary of Acronyms	69

TIGTA's Profile

The Treasury Inspector General for Tax Administration (TIGTA) provides audit, investigative, and inspection and evaluation services that promote economy, efficiency, and integrity in the administration of the Internal Revenue laws. TIGTA also provides independent oversight of matters of the Department of the Treasury (Department or Treasury Department) involving activities of the Internal Revenue Service (IRS), the IRS Oversight Board, and the IRS Office of Chief Counsel. Although TIGTA is placed organizationally within the Treasury Department and reports to the Secretary of the Treasury and to Congress, it functions independently from all other offices and bureaus within the Department.

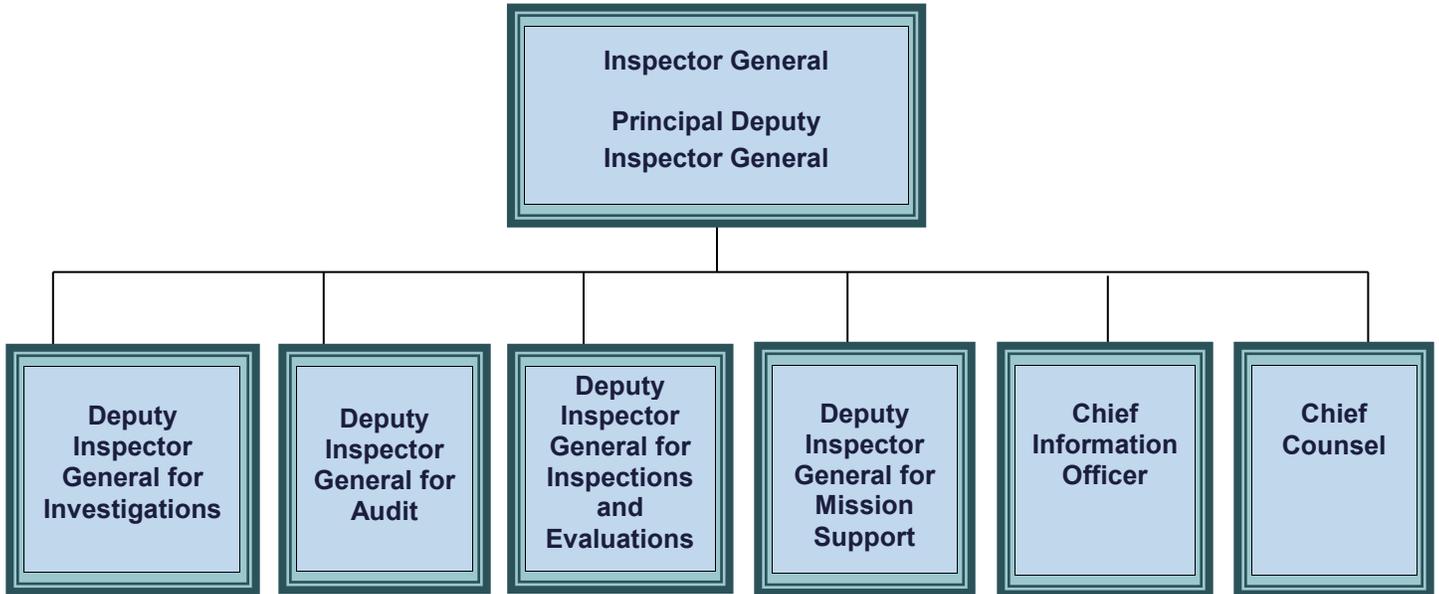
TIGTA oversees all aspects of activity related to the Federal tax system as administered by the IRS. TIGTA protects the public's confidence in the tax system by identifying and recommending strategies for addressing the IRS's management challenges and implementing the priorities of the Treasury Department.

TIGTA's organizational structure (see following page) 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.

Statutory Mandate

- **Protect** against IRS employee improprieties and 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 has all of the authorities granted under the Inspector General Act of 1978, as amended (Inspector General Act).¹ In addition to the standard authorities granted to Inspectors General, TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA also reports potential criminal violations directly to the Department of Justice (DOJ) when TIGTA deems that it is appropriate to do so. TIGTA and the Commissioner of Internal Revenue (Commissioner or IRS Commissioner) have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the Internal Revenue laws. In addition, the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)² amended the Inspector General Act to give TIGTA the statutory authority to carry firearms, execute search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Internal Revenue Code (I.R.C.) Section (§) 7608(b)(2).

¹ 5 U.S.C. app. (2012 & Supp. IV 2017).

² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 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. (2012)).

Promote the Economy, Efficiency, and Effectiveness of Tax Administration

TIGTA's Office of Audit 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 the IRS's programs and operations primarily address statutorily mandated reviews and high-risk challenges the IRS faces.

The IRS's implementation of audit recommendations results in:

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

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

Audit Emphasis Areas for October 2019 Through March 2020

- **Security Over Taxpayer Data and Protection of IRS Resources**
- **Implementing Tax Law Changes**
- **Supporting an Enhanced Taxpayer Experience**
- **Improving Tax Reporting and Payment Compliance**

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

Security Over Taxpayer Data and Protection of IRS Resources

Active Directory Oversight Needs Improvement

Microsoft® Active Directory is a Windows domain service that blends authentication, authorization, and directory technologies to create enterprise security boundaries that are highly scalable. Security weaknesses in the Active Directory could allow unauthorized access to critical IRS servers, applications, and account management. Without adequately protecting Active Directory domain controllers, the IRS is unable to ensure that it can protect sensitive taxpayer information.

This audit was initiated to review the Active Directory Technical Advisory Board's effectiveness in implementing TIGTA's previous recommendations and to evaluate the effectiveness and efficiency of the Integrated Submission and Remittance Processing (ISRP) Active Directory implementation.

TIGTA has previously recommended that the IRS review the scope of the Active Directory Technical Advisory Board's defined oversight responsibilities and update the existing charter to ensure that all individual forest owners (*i.e.*, system owners) are appropriately represented on the Active Directory Technical Advisory Board. The IRS has implemented these recommendations.

This review of the ISRP's implementation of the Active Directory found that computer rooms containing ISRP domain controllers lacked physical security and environmental controls. TIGTA identified 15 physical security violations related to Limited Areas,³ multifactor authentication, fire safety and suppression, and emergency power shutoff.

TIGTA also found that the ISRP Active Directory architecture lacked necessary logical security controls. For example, the IRS did not previously use credentials while performing vulnerability scans on ISRP domain controllers. When the IRS performed vulnerability scans using credentials at TIGTA's request, it identified a 312 percent increase in vulnerabilities. The IRS was also using an outdated application to perform security compliance checks.

Further, the IRS improperly configured ISRP service and business role accounts. As a result, TIGTA found more than 16,000 policy violations. Finally, the IRS inappropriately assigned business role accounts to an administrator group, resulting in those accounts having unnecessary elevated privileges.

TIGTA recommended that the IRS ensure that:

- Computer rooms are immediately updated to comply with agency and Federal requirements;
- Credentialed scans are regularly completed;
- ISRP domain controllers with critical and high vulnerabilities are properly remediated;
- Compliance checker applications use up-to-date guidelines;
- All ISRP business role accounts and service accounts comply with agency requirements; and
- System administrators have only one privileged account with domain administrator privileges.

TIGTA also recommended that the IRS:

- Physically separate the submission processing equipment from the ISRP domain controllers;

³ An area in a building where access is limited to authorized personnel only. All who access a Limited Area must have a verified official business need to enter.

- Prioritize computer room upgrades to ensure access via multifactor authentication; and
- Establish a process to review monthly vulnerability scan reports for credentialed scans.

IRS management agreed with all of TIGTA's recommendations.

Reference No. 2020-20-006

While Progress Is Being Made on Digital Identity Requirements, Completion Dates to Achieve Compliance With Identity Proofing Standards Have Not Been Established

Advances in technology have provided the IRS an opportunity to be more responsive to the taxpayer's need for its services. However, a new set of challenges has emerged because information about individuals has become more widely available through social media and breaches of Personally Identifiable Information (PII). As a result, the IRS needs to work toward improving its public-facing applications to ensure that taxpayers who want access to IRS online services have verified their identities and can access IRS resources in a secure manner.

This audit was initiated to evaluate the IRS's identity proofing capabilities for secure electronic authentication to online applications. Identity proofing is ensuring that users who interact with an entity over open networks, *i.e.*, the Internet, are who they claim to be.

In June 2017, the National Institute of Standards and Technology issued updated guidance on identity proofing in Special Publication 800-63-3, *Digital Identity Guidelines*. The IRS is making progress toward compliance with those guidelines on identity proofing by developing and using a five-step process to determine the required assurance level for each application and by creating a solution to ensure that the applicant is who they claim to be within a stated level of confidence.

However, the IRS may not complete its processes on all applications as scheduled, and it is using compensating controls that include identity proofing and authentication level of assurances based on superseded guidelines for certain applications that require either remote or physical presence for identity proofing. While these compensating controls did not fully meet the requirements, the IRS stated that they are the most secure methods to remotely identity proof and authenticate taxpayers until its new digital identity platform is implemented, which is expected to be piloted beginning in June 2020.

The IRS has 63 public-facing applications that taxpayers can access from the Internet. As of July 2019, eight (13 percent) of these applications have completed all five steps of the digital identity risk assessment process, while 17 (27 percent) applications have completed four of the steps. The remaining 38 applications were not expected to complete all five steps until January 2020. However, TIGTA was concerned as to whether the IRS could achieve that date given that it took an average of 217 calendar days to complete the eight applications through step five.

TIGTA recommended that the IRS:

- Ensure that the remaining public-facing applications complete all five steps in the digital identity risk assessment process;
- Ensure that all testing for the digital identity solution is completed and all public-facing applications are migrated to the implemented solution; and
- Coordinate with the Department of the Treasury on legislative proposals or policy changes needed to obtain additional assistance from States, territories, and Federal agencies that issue identifications in identity proofing users.

IRS management agreed with two recommendations and partially agreed with the third recommendation on the identity proofing issue.

Reference No. 2020-20-012

Actions Are Needed to Improve the Safeguarding of Taxpayer Information at Volunteer Program Sites

The Volunteer Program plays an important role in helping the IRS improve taxpayer service and increase participation in the tax system. The program provides no-cost Federal tax return preparation and electronic filing to underserved segments of individual taxpayers, including low-income to moderate-income, elderly, disabled, and limited English proficient taxpayers. Because taxpayers who use return preparation services at volunteer sites disclose their PII, and identity thieves covet this information, the sites must safeguard taxpayer information.

Security over taxpayer data and protection of resources is a top IRS management challenge. This audit was initiated to assess the adequacy of, and adherence to, the IRS's volunteer site requirements to safeguard and protect sensitive taxpayer information.

TIGTA found that the Stakeholder Partnerships, Education, and Communication (SPEC) function worked with its partners to heighten awareness of data security at volunteer sites. However, improvements were needed in some areas to strengthen the data security processes. For example, the IRS's partners participating in the Volunteer Program did not develop a written Information Security Plan (ISP) for each site. In addition, TIGTA's unannounced visits to 20 volunteer sites identified multiple security weaknesses at each site. Finally, TIGTA found that procedures should be improved to reduce the risk of potential identity theft.

TIGTA recommended that the IRS:

- Issue guidance to its partners requiring them to develop an ISP for each site;
- Require site coordinators to use the security feature included in the tax preparation software to restrict volunteers' access to prepared returns;
- Develop procedures to confirm that site coordinators are aware of security requirements;
- Ensure that site reviews include an assessment of compliance with security controls;
- Update procedures for partners to validate volunteers' identity, using only Government-issued identification prior to participating in the Volunteer Program;

- Reinforce training for SPEC function reviewers and site coordinators on how to report volunteers who are caught violating the standards of conduct;
- Develop procedures to evaluate security incidents at Volunteer Program sites to identify affected taxpayers whose information is at risk; and
- Emphasize to all volunteer program sites and partners their responsibilities to evaluate and report to the IRS all partner-owned and IRS-loaned lost or stolen computers.

IRS management agreed with all of the recommendations.

Reference No. 2020-40-004

Implementing Tax Law Changes

Many Organizations Are Not Notifying the Internal Revenue Service of Their Intent to Operate Under Internal Revenue Code Section 501(c)(4) as Required by Law

On December 18, 2015, the President signed into law the Protecting Americans from Tax Hikes Act of 2015 (PATH Act),⁴ requiring I.R.C. § 501(c)(4) organizations to notify the IRS of their existence within 60 days of their establishment. The PATH Act also includes the assessment of penalties on late filers and nonfilers and, in some cases, on the officials responsible for filing the notification. Implementation of the new notification requirement included the development of new forms and changes to information technology systems as well as new guidance to help taxpayers comply with the notification requirement.

This audit was initiated to assess the IRS's efforts to implement the PATH Act provision imposing a new notification requirement for certain I.R.C. § 501(c)(4) tax-exempt organizations.

TIGTA found that the IRS has not taken sufficient actions to identify noncompliant I.R.C. § 501(c)(4) organizations despite having various sources of information that would allow it to do so. Once an organization notifies the IRS of its existence, the IRS can use this information to enforce compliance with the filing requirements for the annual return.

TIGTA identified 9,774 organizations that were potentially required to file a notification under I.R.C. § 501(c)(4) but did not. These organizations and their responsible officials were potentially subject to the assessment of more than \$48.4 million and \$47.5 million, respectively, in delinquency penalties. However, many of these organizations may not have understood or even been aware of the notification requirement because many of them filed other documents that informed the IRS of their existence.

The IRS recently began assessing delinquency penalties on organizations that file their notifications untimely; however, it did not assess penalties on organizations that filed untimely prior to February 2019. TIGTA identified 1,719 organizations that filed untimely notifications before the IRS started assessing the penalty. These organizations and their responsible officials were potentially subject to more than \$4.8 million and \$3.1 million,

⁴ Pub. L. No. 114-113, 129 Stat. 2242.

respectively, in delinquency penalties. However, some of these organizations may have had reasonable cause for filing untimely notifications and may not be subject to the penalty.

TIGTA recommended that the IRS:

- Determine the feasibility of working with State governments to identify new organizations required to file a notification with the IRS;
- Conduct research on organizations identified by TIGTA and determine if any compliance actions are necessary;
- Use available information to enforce compliance with notification requirements;
- Determine if untimely filers had reasonable cause for filing untimely or if assessing delinquency penalties is warranted; and
- Update notices and procedures to fully implement the law.

IRS management agreed to use available information to enforce compliance and update notices and procedures. The IRS did not agree to work with State governments, take actions to bring organizations identified by TIGTA into compliance, or determine the applicability of penalties for untimely filers.

Notwithstanding the IRS's disagreement with certain recommendations, TIGTA believes that the recommended actions would improve the detection of noncompliant activity and ensure more consistency in how the IRS enforces the law with respect to similarly situated organizations.

Reference No. 2020-10-001

Supporting an Enhanced Taxpayer Experience

Complexity and Insufficient Oversight of the Free File Program Result in Low Taxpayer Participation

The Free File Program is a private-public partnership between the IRS and Free File Inc., intended to provide online Federal tax preparation and electronic filing to economically disadvantaged and underserved populations at no cost to the individual or the Government. This program was first available in Calendar Year (CY) 2003 to help eligible taxpayers find a reliable tax software product that would not charge a fee.

This audit was initiated in response to concerns raised by Congress and other stakeholders. These concerns relate to whether the Free File Program is operating as intended and whether eligible taxpayers attempting to prepare and e-file their returns at no cost are diverted to tax return preparation services that are not free. The objective was to assess the IRS's oversight of the Free File Program.

The complexity, confusion, and lack of taxpayer awareness about the operation and requirements of the Free File Program are contributing reasons why many eligible taxpayers do not participate in the program. During Processing Year (PY) 2019, only 2.5 million of the 104 million (2.4 percent) eligible taxpayers obtained a free return filing

through the program. In contrast, more than 34.5 million taxpayers who met Free File Inc. members' Free File Program criteria used the members' commercial software to file their tax return.

TIGTA called a statistically valid sample of 200 taxpayers who met the Free File Program criteria but used a Free File Inc. members' commercial software and was informed by 87 of the 200 (43 percent) taxpayers sampled that they were charged a fee to prepare and e-file their Federal tax return. Based on these results, TIGTA estimated that more than 14 million taxpayers met the Free File Program criteria but may have nevertheless paid a fee to e-file their Federal tax return in the 2019 Filing Season.

Sufficient actions have not been taken to educate taxpayers that the only way to participate in the Free File Program is through the IRS website. IRS and Free File Inc. management informed TIGTA that, to participate in the program, taxpayers must access the IRS.gov Free File web page and select a link on that web page directing them to a Free File Inc. member's website. However, this provision is not in the Memorandum of Understanding (MOU) between the IRS and Free File Inc., and most taxpayers are unaware of this requirement.

In addition, IRS oversight has been insufficient to ensure that the Free File Program is operating as intended and in alignment with the MOU. Moreover, taxpayers are not being made aware of protections in the MOU and are not provided a process for reporting their concerns.

TIGTA made nine recommendations, among them that the IRS:

- Develop and implement a comprehensive outreach and advertising plan to inform eligible taxpayers about the Free File Program and how to participate;
- Ensure that management performs quality reviews of MOU adherence testing conducted by Free File Program analysts on Free File Inc. members' websites and software;
- Clearly inform taxpayers of their rights and protections in the Free File Program; and
- Develop a process for taxpayers to provide feedback or concerns on their experience using Free File.

IRS management agreed with six of TIGTA's recommendations and partially agreed with three others. The IRS plans to take incremental steps to implement corrective actions on these three recommendations, to evaluate these actions, and to determine the next steps.

Reference No. 2020-40-009

Improving Tax Reporting and Payment Compliance

Millions of Dollars in Discrepancies in Tax Withholding Required by the Foreign Investment in Real Property Tax Act Are Not Being Identified or Addressed

The Foreign Investment in Real Property Tax Act (FIRPTA) of 1980⁵ imposes an income tax on foreign persons selling U.S. real property interests. Buyers are required to withhold a percentage of the anticipated taxes due on the amount realized from the sale. The withholding requirement serves as an incentive for foreign sellers to file the appropriate U.S. tax return (*i.e.*, Form 1040NR, *U.S. Nonresident Alien Income Tax Return*, or Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*) to report income from the sale and claim a credit for the withheld funds.

During PY 2017, buyers reported more than \$1.6 billion in FIRPTA withholding. The objective of this review was to assess the IRS's efforts to verify the accuracy of withholding credits reported on Forms 1040NR and Forms 1120-F.

Reconciliation processes did not effectively identify and address FIRPTA reporting and payment noncompliance. TIGTA identified 2,988 buyers with discrepancies of more than \$688 million between the withholding reported on Forms 8288-A, *Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests*, filed during PY 2017, and the withholding assessed to the buyer's tax account. Extensive data inaccuracies in the FIRPTA database, incorrect and unclear guidelines, and employee errors contributed to these discrepancies.

In addition, some FIRPTA withholding assessments were incorrect because the IRS does not have sufficient procedures to ensure that Withholding Certificates are properly applied when determining the amount of withholding that should be assessed to buyers' tax accounts. TIGTA identified 3,184 Forms 8288, *U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests*, for which the IRS did not assess more than \$264 million in FIRPTA withholding tax.

The IRS also has not established processes to use Form 1099-S, *Proceeds From Real Estate Transactions*, to identify buyers that do not report and pay FIRPTA withholdings. TIGTA's analysis of Forms 1099-S for Tax Year (TY) 2017 identified approximately \$22 million in FIRPTA withholding that was not reported and paid to the IRS. Finally, employee errors resulted in 1,835 foreign individuals potentially receiving more than \$60 million in additional FIRPTA withholding credits than they were entitled to receive.

TIGTA made 12 recommendations to the IRS to improve the processing of Forms 8288 and Forms 8288-A and the verification of withholding credits claimed by foreign sellers. In addition, TIGTA recommended that the IRS initiate actions to address the accuracy of information in the FIRPTA database.

IRS management agreed with all of TIGTA's recommendations and plans to take appropriate corrective actions, including implementing a strategy to improve the quality of

⁵ Pub. L. No. 96-499, 94 Stat. 2599, 2682-2691 (codified at 26 U.S.C. §§ 861, 897, and 6039C).

data entered into the FIRPTA database, providing additional training to tax examiners, and improving internal guidance.

Reference No. 2020-40-014

The Growth of the Marijuana Industry Warrants Increased Tax Compliance Efforts and Additional Guidance

Marijuana is classified as a Schedule I controlled substance under the Controlled Substances Act.⁶ Businesses in this industry have limited banking access and are subject to I.R.C. § 280E, which prohibits the deduction of expenses incurred in trafficking Schedule I controlled substances. The IRS risks diminished taxpayer compliance when marijuana businesses fail to report all income, regardless of source, as required under I.R.C. § 61, and deduct expenses not allowed under I.R.C. § 280E.

This audit was initiated to evaluate the IRS's examination and education approach to certain cash-based industries with an emphasis on legal marijuana operations.

TIGTA reviewed statistical random samples of marijuana businesses in three States and determined that 140 of 237 (59 percent) tax return filings for TY 2016 had likely I.R.C. § 280E adjustments that, when projected over the population, totaled \$48.5 million in unassessed taxes for TY 2016, or \$242.6 million when the results are forecast over five years.

TIGTA also estimated the tax impact to comply with I.R.C. § 280E for the same sampled marijuana business taxpayers. When projected over the population, TIGTA estimated a \$95 million Federal income tax impact to these taxpayers from the application of I.R.C. § 280E on their TY 2016, or \$475.1 million when forecast over five years.

In addition, TIGTA selected a statistically random sample of 90 marijuana businesses that filed State returns for TY 2016 in Washington State, to determine whether these taxpayers were reporting all of their income in compliance with I.R.C. § 61. TIGTA found that 23 of 90 (26 percent) returns likely had I.R.C. § 61 adjustments involving either underreported income or nonfiling of tax returns. When projected over the population for Washington State, the IRS missed the opportunity to address \$3.9 million of potential assessments for TY 2016, or \$19.3 million when forecast over five years.

The IRS also lacked guidance to provide to taxpayers and tax professionals in the marijuana industry. Such guidance would improve awareness of tax filing requirements for taxpayers in this industry, such as the correct application of I.R.C. §§ 280E and 471(c), which would reduce the burden of tracking inventory for certain small businesses.

TIGTA made several recommendations, including that the IRS:

- Develop a comprehensive compliance approach for the marijuana industry, including a method to identify businesses in this industry and track examination results;

⁶ Controlled Substances Act § 202, 21 U.S.C. § 812.

- Develop and publicize guidance specific to the marijuana industry, such as guidance on the application of I.R.C. § 471(c) in conjunction with I.R.C. § 280E;
- Leverage publically available information at the State level and expand the use of existing Federal/State agreements to identify nonfilers and unreported income in the marijuana industry; and
- Increase educational outreach towards unbanked taxpayers making cash deposits regarding the unbanked relief policies available.

IRS management agreed with all of the recommendations, with the exception of the recommendation to develop and provide guidance on I.R.C. § 471(c), citing other priorities. However, the IRS added that once the 2019-2020 Priority Guidance Plan is resolved, developing guidance to ensure coordination between I.R.C. §§ 280E and 471(c) will be considered.

Reference No. 2020-30-017

Protect the Integrity of Tax Administration

TIGTA is statutorily mandated to protect the integrity of Federal tax administration. TIGTA accomplishes this 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, both of which undermine the integrity of the Nation's voluntary tax system.

The Performance Model

The Office of Investigations accomplishes its mission through the hard work of its employees, whose efforts are guided by a performance model that focuses on three primary areas of investigative responsibility:

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

These performance measures align OI's investigative activities with the strategic goals of the organization and protect the integrity of Federal tax administration.

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

TIGTA investigates these serious offenses and refers them to IRS management when they involve IRS employee misconduct. When appropriate, TIGTA also refers its investigations to the DOJ or to State authorities for prosecution.

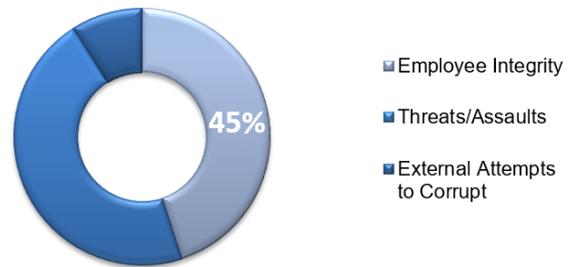
Performance Area: Employee Integrity

In order for the country's tax system to operate successfully, taxpayers must have confidence in the fair and impartial administration of Federal tax laws and regulations. IRS employee misconduct 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 abuse; unauthorized access to, and disclosure of, tax returns or return information; and identity theft.

During this reporting period, employee integrity investigations accounted for 45 percent of OI's work. OI conducted 459 employee misconduct investigations that were referred to the IRS for action. The IRS took action on 419 and closed 40 investigations without action.⁷

Employee Integrity



Identity Theft and Insider Threats

It is particularly troubling when IRS employees, who are entrusted with the sensitive personal and financial information of taxpayers, misuse their positions to commit identity theft and other fraud. This breach of trust negatively impacts our Nation's voluntary tax system and erodes confidence in the IRS. TIGTA proactively reviews the activities of those IRS employees who access taxpayer accounts for any indication of unauthorized accesses that may be part of a fraud scheme.

The following case represents OI's efforts to investigate identity theft committed by IRS employees during this six-month reporting period:⁸

IRS Employee Indicted For Access Device Fraud and Aggravated Identity Theft

On November 26, 2019, in the Eastern District of Virginia, Kwashie Senam Zilevu was indicted on charges of access device fraud and aggravated identity theft. Zilevu was previously charged via criminal complaint with access device fraud on October 2, 2019, and subsequently arrested by TIGTA special agents on October 3, 2019.

According to the court documents, Zilevu was employed as an Information Technology Specialist with the IRS. Zilevu also owned several businesses, including MacroTele, LLC, which he claimed sold telephone calling cards that he created. Between January 2016 and March 2018, Zilevu knowingly, and without authorization, used the names, addresses, dates of birth, and Social Security Numbers (SSN) of at least three victims to obtain fraudulent credit cards. Once Zilevu obtained the credit cards in the victims' names, he used them to make several thousand dollars' worth of purchases at retail stores and other companies. An American Express® (AmEx®) application was submitted using a victim's PII, and approximately \$49,000 was charged to the AmEx card. Among these purchases were an airline ticket for travel from Washington, D.C., to Miami, Florida, and a hotel reservation for Zilevu.

Another credit card application was submitted to U.S. Bank and Trust using PII of a second victim. Bank statements revealed that a total of \$10,273.39 in completed transactions and \$2,651.62 in attempted transactions were made using this card, including an airline ticket from Dulles, Virginia, to Montego Bay, Jamaica, for Zilevu. Another credit card application was submitted to U.S. Bank and Trust using a third victim's PII. A total of \$9,641.69 in

⁷ These data may pertain to investigations referred administratively in prior reporting periods and do not necessarily relate to the total number of misconduct investigations that were referred to the IRS for action during this reporting period.

⁸ The facts in the summarized case narrative come from court documents of the jurisdiction named.

fraudulent charges were made using this card. A review of Zilevu's IRS e-mail account revealed that Zilevu had received an e-mail message from PayPal® congratulating the third victim for setting up his or her account and instructing the victim to click a link in order to confirm the accuracy of his or her e-mail address. Zilevu had received a subsequent e-mail message from PayPal to his IRS e-mail account, advising the third victim that he or she was officially a PayPal member. When interviewed, each of the victims confirmed that the fraudulent credit cards had been taken out in their names, and that Zilevu did not have permission or authority to use their information to apply for the cards.

This investigation was worked jointly by special agents from TIGTA and the U.S. Postal Inspection Service. If convicted, Zilevu could face a fine and up to 15 years' imprisonment.

Employee Integrity

The following case represents OI's efforts to address employee integrity during this six-month reporting period:⁹

IRS Employee Sentenced for the Unauthorized Disclosure of Suspicious Activity Reports

On January 15, 2020, in the Northern District of California, IRS employee John C. Fry was sentenced for the unauthorized disclosure of Suspicious Activity Reports (SAR). Fry previously pled guilty to the offense in August 2019.

According to the court documents, Fry was an investigative analyst for IRS Criminal Investigation (IRS-CI) in San Francisco, California, and had worked for the IRS since 2008. In this position, he had access to various law enforcement databases, including the Financial Crimes Enforcement Network (FinCEN) and Palantir, which is an analytic software application used by IRS-CI. FinCEN manages the collection and maintenance of SARs, which financial institutions are required to generate under the Bank Secrecy Act to report potentially suspicious financial transactions. The disclosure of a SAR or its contents is unlawful, and employees or agents of Government authorities are prohibited from disclosing a SAR, or any information that would reveal even the existence of a SAR, except as necessary to fulfill official duties.

Fry admitted that on May 4, 2018, he logged on to the Palantir database from his work computer and downloaded five SARs related to Michael Cohen and his company, Essential Consultants. Fry then called Michael Avenatti, an attorney based in Newport Beach, California, twice from his personal cell phone. During those conversations, Fry verbally provided information contained in the five SARs to Avenatti. Fry also used one of his personal e-mail accounts to e-mail screenshots of the SARs to Avenatti. Fry admitted that on May 7, 2018, he logged on to the FinCEN database from his work computer and conducted additional searches related to Cohen and Essential Consultants. He then called Avenatti from his personal cell phone and verbally provided information contained in the searches. Fry admitted that he had no official reason, in his capacity as an IRS

⁹ The facts in the summarized case narrative come from court documents of the jurisdiction named.

investigative analyst, to disclose SAR records related to Cohen or the various companies listed in the SARs.

On May 8, 2018, Avenatti circulated a dossier on his public Twitter account releasing the confidential banking information related to Cohen and Essential Consultants. On May 8, 2018, *The Washington Post* published an article that discussed in detail claims about Cohen's banking history made public in Avenatti's dossier. On May 12, 2018, Fry placed an outgoing call to a number later identified as being associated with a reporter. On May 16, 2018, *The New Yorker* published an article written by this reporter titled, "Missing Files Motivated the Leak of Michael Cohen's Financial Records." The article reported that the source, identified only as a law enforcement officer, grew alarmed after being unable to find two important SARs regarding Cohen's financial activity. In fact, access to the two SARs in question had been restricted, and they were not available to all FinCEN users.

Fry was sentenced to five years' probation, including six months of electronic monitoring, for the unauthorized disclosure of SARs. Fry was also ordered to pay a fine in the amount of \$5,000.

Employee Integrity Projects

As part of its employee integrity focus, TIGTA also conducts proactive investigative initiatives to detect misconduct in the administration of IRS programs. During this reporting period, TIGTA initiated 24 proactive projects to detect systemic weaknesses or potential IRS program vulnerabilities. TIGTA's most successful integrity project involves the detection of IRS employees who abuse their access to taxpayer information to commit identity theft and other crimes.

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 and safe administration of the Federal tax system and the IRS's ability to collect tax revenue. In addition to traditional direct threat vectors, TIGTA also actively pursues, investigates, and mitigates emerging threats to the IRS's ability to conduct Federal tax administration in cyberspace.

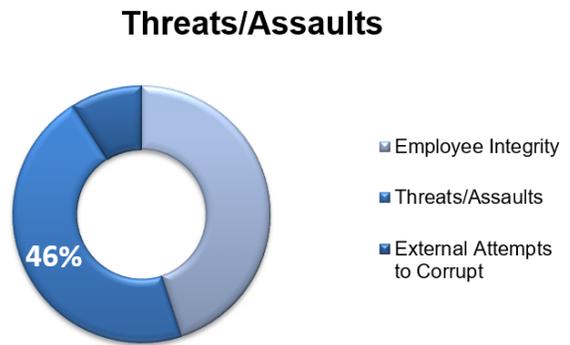
All reports of threats, assaults, and forcible interference against IRS employees in the course of performing their official duties are referred to OI.

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 taxpayers who may pose a danger to the employee, and to ensure that IRS employees have a secure environment in which to perform their critical tax administration functions. During this six-month reporting period, OI provided 15 armed escorts for IRS employees.

The Office of Investigations undertakes investigative initiatives to identify individuals who could commit violence against, or otherwise pose a threat to, IRS employees, facilities, or

infrastructure. It also provides 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. The investigative information sharing between OI and the IRS’s Office of Employee Protection (OEP) to identify “potentially dangerous” taxpayers is one example of TIGTA’s commitment to protecting IRS employees. Taxpayers who meet 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 potential danger to IRS employees.

During this six-month reporting period, employee and infrastructure security investigations accounted for 46 percent of OI’s work.



The following case represents OI’s efforts to ensure the safety of IRS employees during the reporting period:¹⁰

Massachusetts Man Arrested for Threatening to Bomb the IRS

On November 4, 2019, in the District of Massachusetts, Shawn Richardson was arrested in connection with making a telephonic threat to injure by means of an explosive. He was previously charged with the offense on October 30, 2019.

According to the criminal complaint, on October 29, 2019, Richardson called the IRS to inquire about a tax question and his call was routed to the IRS Brookhaven Service Center in Holtsville, New York. During the call, Richardson became extremely agitated due to his financial situation and made various violent threats towards the IRS, its employees, and law enforcement. He specifically stated that he would bomb the IRS office. He stated, “I have not made it yet, I have to go to Home Depot and get some nitro and get a few other things. And then deposit it myself and then blow myself up with the bomb because it doesn’t really matter.”

Richardson then called TIGTA. During the phone call, Richardson quickly became enraged regarding his financial situation and blamed the Government for ruining his life. Richardson acknowledged that he made the threatening phone call to the IRS that morning and reiterated that he did not currently have a bomb, but that he would make one and blow up the IRS. Richardson stated the IRS needed to be destroyed, as it was ruining people’s lives, and that he would destroy it.

At his residence, in a conversation with agents, Richardson stated that the IRS was ruining his life and that he would do whatever he could to destroy the IRS and the U.S. Government. Richardson stated that the only way to achieve this would be through violent means. When informed that threatening the IRS was a crime, Richardson replied that he would continue to seek retribution through violence, as his only option.

¹⁰ The facts in the summarized case narrative come from court documents of the jurisdiction named.

On November 4, 2019, Richardson made his initial appearance and was remanded into the custody of the U.S. Marshals Service. If convicted, Richardson could face a maximum statutory sentence of 10 years' imprisonment.

Performance Area: External Attempts to Corrupt Tax Administration

TIGTA also investigates external attempts to corrupt or impede tax administration. Individuals may interfere with the IRS's ability to collect revenue for the United States in many ways. For instance, they may impersonate IRS employees or misuse IRS seals and symbols; file false or frivolous documents against IRS employees; use fraudulent IRS documentation to perpetrate criminal activity; offer bribes to IRS employees to influence their tax cases; commit fraud in contracts awarded by the IRS to contractors; or commit cybercrimes.

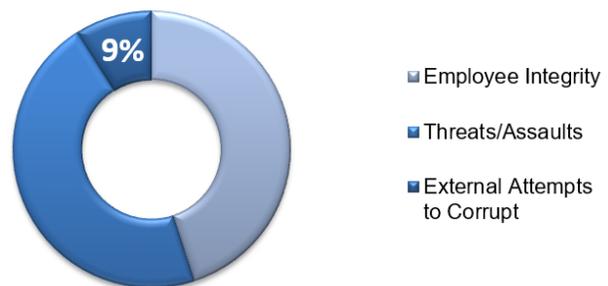
Cybercrime

Attacks against online IRS applications can cause wide-ranging negative implications. This was clearly demonstrated in recent years through high-profile attacks against the IRS eAuthentication web portal and the IRS Data Retrieval Tool within the Department of Education Free Application for Federal Student Aid (FAFSA) website. Those attacks caused both of those applications to be taken off line. The unavailability of these resources impacted taxpayers' ability to file timely annual tax returns and, in the case of the latter, negatively impacted the spring college enrollment process nationwide.

These attempts to corrupt or otherwise interfere with tax administration not only inhibit the IRS's ability to collect revenue, but also undermine the public's confidence in fair and effective tax administration.

During this reporting period, investigations into attempts to corrupt or impede tax administration accounted for 9 percent of OI's work.

External Attempts to Corrupt



Corrupt Interference

The following cases represent OI's efforts to address and deter external attempts to corrupt tax administration during this six-month period:¹¹

Man Sentenced in Scheme to Defraud the Internal Revenue Service

On October 2, 2019, in the Western District of New York, Emmanuel Guobadia was sentenced in a scheme he devised to defraud the IRS. Guobadia had previously been

¹¹ The facts in the summarized case narratives come from court documents of the respective jurisdictions named and other publically available documents.

indicted in April 2016 and was found guilty in June 2019 on four counts of wire fraud and four counts of aggravated identity theft.

According to the court documents, between about May 2012 and July 2012, Guobadia electronically filed fraudulent Federal income tax returns using the names and SSNs of others and claimed tax refunds to which he was not entitled. As part of the scheme, 628 fraudulent tax returns claiming a total of \$1,252,524 in fraudulent tax refunds were filed with the IRS for TY 2011. Of those attempted refund claims, the IRS electronically deposited \$178,658 in tax refunds into bank accounts owned by an individual, as directed on the returns.

On four occasions, Guobadia also directed an individual, who was located in New York, to wire transfer fraudulently obtained funds into his bank account located in the State of Georgia.

In October 2013, Guobadia was arrested, and several laptop computers were seized. Search warrants obtained for the contents of the computers resulted in the identification of approximately 2,000 unique names with associated PII, bank account information, and electronic return originator (ERO) passwords. When a tax return is filed online through an ERO, the return preparer must provide a unique password for that return.

Guobadia was sentenced to 120 months' imprisonment and three years of supervised release. Guobadia was also ordered to pay \$414,439 in restitution to the IRS.

Man Sentenced for Accessing IRS System and Obtaining Taxpayer Information

On January 13, 2020, in the Northern District of West Virginia, Clinton Jean-Pierre of Miami, Florida, was sentenced for aggravated identity theft and accessing a computer and obtaining information from the IRS eAuthentication online taxpayer system. Jean-Pierre was charged with the offenses in July 2019 and pled guilty in August 2019.

According to a DOJ press release, Jean-Pierre admitted to fraudulently accessing the IRS eAuthentication online taxpayer system in December 2017. Jean-Pierre admitted that in order to pass IRS security protocols, he had fraudulently "ported" an unknowing person's cellular telephone number to his own phone in order to obtain the security code necessary to create an unauthorized taxpayer account. Jean-Pierre further admitted that, once in the IRS eAuthentication system, he gained access to a taxpayer's tax return information, which included the taxpayer's PII.

Jean-Pierre was sentenced to a mandatory 24 months' imprisonment for aggravated identity theft and 46 months' imprisonment for computer fraud, to be served consecutively, for a total of 70 months' imprisonment, followed by three years of supervised release. In addition, Jean-Pierre was ordered to pay a special assessment fee of \$200.

Coconspirators Sentenced in Scheme Using Stolen Tax Refund Checks

On November 26, 2019, in the Western District of Missouri, Frances Wright was sentenced for her role in a scheme involving the theft of U.S. Treasury tax refund checks. On January

22, 2020, in the Western District of Missouri, Dante Chestnut was sentenced for his role in the same scheme. Wright and Chestnut had previously pled guilty in July 2019.

According to the court documents, eight individuals were charged in a scheme involving the theft of U.S. Treasury tax refund checks. Branden Belvin, Mistie Smith, Chestnut, Susannah Lesaisaea, Cassandra Franklin, Sharieff Sylvester, Joseph Hooks, and Wright were indicted on May 2, 2018, for conspiracy, bank fraud, and aggravated identity theft.

Belvin and Smith, both residents of California, obtained approximately 99 U.S. Treasury tax refund checks that had been stolen from the U.S. Postal Service mail stream. Belvin and Smith recruited the coconspirators to participate in the scheme by negotiating the stolen checks. They created or obtained fraudulent identification documents, such as driver's licenses, in order to deposit the stolen refund checks.

Between March 2016 and May 2016, the coconspirators traveled through Arizona, Colorado, Kansas, and Missouri negotiating the stolen refund checks at various branches of Academy Bank. The coconspirators used false identification documents in order to open bank accounts in the names depicted on the checks. They then deposited the checks into the newly created accounts and subsequently withdrew the majority of the money.

In April 2016, Denver, Colorado, police officers responded to an incident involving Belvin and Smith at a hotel. Officers recovered an envelope containing 19 counterfeit California driver's licenses. The names on the counterfeit driver's licenses matched the names of victims whose tax refund checks had been stolen and cashed, but most of the licenses pictured the same six individuals, coconspirators Chestnut, Sylvester, Franklin, Lesaisaea, Wright, and another individual. The scheme resulted in the fraudulent negotiation of approximately 99 checks representing a total financial loss of approximately \$447,517. The aggregate amount of stolen checks presented by Wright totaled \$24,970.

Wright was sentenced to five years' probation for committing bank fraud and ordered to pay restitution in the amount of \$24,970. Chestnut was sentenced to 62 months' imprisonment followed by three years' supervised release. Chestnut was also ordered to pay \$441,056.27 in restitution and a special assessment fee of \$300.

Individuals Sentenced for Attempting to Obtain the President's Tax Returns

On December 16, 2019, in the Eastern District of Pennsylvania, Justin Hiemstra and codefendant Andrew Harris were sentenced after pleading guilty to two counts arising from using someone else's username to access a school computer and attempting to obtain the tax returns of President Donald Trump without permission.

Hiemstra and codefendant Andrew Harris were charged with the offenses on July 17, 2019, and pled guilty on August 6, 2019.

According to the court documents, Hiemstra and Harris, two students at Haverford College, located in Haverford, Pennsylvania, went to the school's computer lab and attempted to obtain President Trump's tax returns via the FAFSA website. Hiemstra and Harris opened a false FAFSA application in the name of a member of the Trump family and found that

someone else had already obtained a Federal Student Aid ID (FSA-ID) for President Trump and an identification password. In general, before beginning an individual's first FAFSA application, the individual registers with the Office of Federal Student Aid. Once registered, the individual obtains a unique identifier, known as a FSA-ID, which is essentially the equivalent of a username. Once the individual has activated the FSA-ID, the individual can complete the first FAFSA application, and any subsequent applications through the FAFSA website.

In order to reset the identification password, Hiemstra and Harris were required to answer challenge questions that the other person had originally created when first setting up the FSA-ID and password. They were able to do so and reset the password. Using President Trump's personal identifiers, including his SSN and date of birth, Hiemstra and Harris unsuccessfully attempted to import President Trump's Federal tax information into the false FAFSA application that they had initiated in the name of a Trump family member.

When questioned by law enforcement, Hiemstra stated that credentials from two other Haverford College students were used to access the two computers that he and Harris used.

Hiemstra and codefendant Harris were each sentenced to two years' probation on each count and 200 hours of community service.

Scams and Schemes

Individuals may corrupt tax administration by impersonating IRS employees in an effort to obtain PII from unsuspecting taxpayers or to steal their money. Such impersonators 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 often tell their victims that they owe money to the IRS and must pay through a preloaded debit card, wire transfer, or gift card from Apple iTunes®, Walmart®, or Target®. Sometimes they trick taxpayers into providing their PII, which the impersonator then uses to commit identity theft.

TIGTA aggressively investigates these criminal activities to ensure that taxpayers maintain confidence in the integrity of Federal tax administration.

Impersonation Scams

For more than 10 years, the IRS has compiled an annual list of commonly encountered scams, called the "Dirty Dozen" list of tax scams. Many of these scams peak during the filing season, as people prepare their returns or utilize the services of paid preparers.

Between October 2013 and March 2020, TIGTA logged more than 2.5 million contacts from taxpayers who reported that they had received telephone calls from individuals who claimed to be IRS employees.

The impersonators told the victims that they owed additional tax and that if they did not immediately pay, they would be arrested or face other adverse consequences.

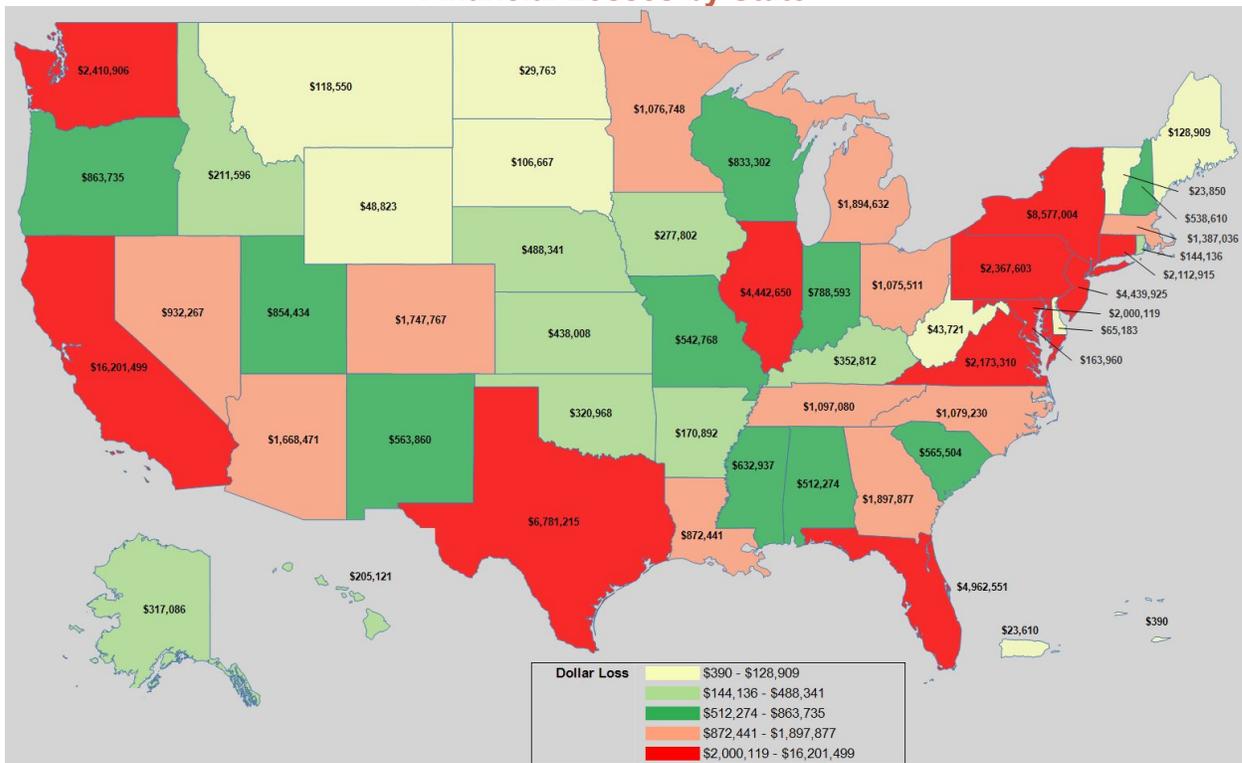
As of March 31, 2020, 15,848 victims have reported to TIGTA that they have lost more than \$80 million, collectively, to the scam's perpetrators.

“As we are in the midst of the tax filing season, it is critical that all taxpayers remember to be wary of unsolicited telephone calls and e-mails from individuals claiming to be IRS and Treasury employees. Despite excellent progress we have made in our investigation of this matter, the callers are aggressive and relentless. Once they have your attention, they will say anything to con you out of your hard-earned cash. TIGTA has worked over the last seven years to pursue those perpetrating this fraud, and we ask you to remain vigilant and report any calls you receive to our website.”

*J. Russell George
Treasury Inspector General
for Tax Administration
March 5, 2020*

Because of their complexity, scams such as these are not typically resolved quickly. This wide-ranging scam has claimed victims in every State. The top five States by number of victims who have suffered financial losses are, listed from highest number of victims to lowest, California, New York, Texas, Florida, and Illinois.

Financial Losses by State



Source: TIGTA's Office of Investigations

In addition to its investigative efforts, TIGTA has taken numerous other steps to proactively combat the IRS impersonation scam and protect taxpayers from being victimized. Specifically, OI created a three-pronged Advise and Disrupt strategy. The first part of this strategy involves analyzing the telephone numbers reported to TIGTA. If a number is confirmed to be part of the scam, OI identifies the telephone carrier and requests that the carrier deactivate the number.

The second part of the strategy is to post scam-related telephone numbers on the Internet, which allows potential victims to determine if the call they receive is a part of the scam.

The final part of the strategy is to deploy a TIGTA auto-dialer to call the impersonators with a pre-recorded message ordering them to cease and desist their criminal activity, a procedure which also occupies the impersonators' time and telephone lines.

The following cases are representative of OI's efforts to investigate IRS impersonation scams during this six-month reporting period:¹²

¹² The facts in the summarized case narratives come from court documents of the jurisdictions named and other publically available documents.

Indian National Pleads Guilty to Charges in Connection With Operating India-Based Call Centers That Scammed U.S. Victims Out of Millions of Dollars

On January 9, 2020, in the Southern District of Texas, Hitesh Madhubhai Patel, also known as Hitesh Hinglaj, pled guilty to wire fraud conspiracy and conspiracy in connection with his operation of a multimillion-dollar India-based call center scam which targeted U.S. victims.

According to the court documents, Patel was identified as an operator of the India-based call center HGlobal. From about 2013 until about October 2016, Patel and his coconspirators participated in a complex scheme to defraud U.S. victims by misleading them into sending money in connection with several different scams. In one of the scams, the coconspirators impersonated IRS officers to defraud U.S. residents by misleading them into believing that they owed money to the IRS, and that they would be arrested and fined if they did not pay the alleged back taxes immediately.

As part of the scheme, Patel corresponded by e-mail with his coconspirators to send credit card numbers, telephone scam scripts, deposit slips, payment information, call center operations information, and bank account information. The scripts included IRS impersonation, payday loan fraud, U.S. Government grant fraud, and debt collection fraud. Patel admitted that a reasonably foreseeable loss of more than \$25 million but less than \$65 million was attributable to him.

Patel was prosecuted in the United States after being extradited from Singapore in April 2019. Authorities in Singapore had apprehended Patel at the request of the United States.

Patel faces a maximum statutory penalty of 20 years' imprisonment for the wire fraud conspiracy and five years for conspiracy. Both counts carry the possibility of a fine of up to \$250,000, or twice the gross gain or loss from the offense. Sentencing in this matter is scheduled for April 3, 2020.

Man Pleads Guilty in Connection With an International Impersonation Scheme Targeting U.S. Victims

On December 12, 2019, in the Eastern District of New York, Armughanul Asar pled guilty to one count of conspiracy to commit wire fraud in connection with an impersonation and Internet retail scheme directed at thousands of individuals across the United States.

According to the court documents, telemarketing call centers in India placed calls to U.S. victims seeking to defraud them of money by various fraudulent scenarios. Among these was a scam wherein callers contacted the victims and falsely claimed to be agents of U.S. Government agencies, including the IRS. The callers falsely claimed that they were contacting the victims to inform them that they owed the U.S. Government a specified amount of money, and if the victims did not immediately remit payment to the individuals or entities identified by the callers, they would be arrested.

Between January 2018 and September 2018, Asar and others opened bank accounts in the names of various inactive and shell corporations for the purpose of receiving fraud

proceeds. Shortly after receiving the wire transfer payments that the victims sent, the defendants and others withdrew, and directed shell company owners to withdraw, the fraudulently obtained victims' funds and then distributed the money via cashier's checks and wire transfers to other bank accounts. The defendant, together with others, received approximately \$2.3 million from the victims as a result of the fraud scheme.

Asar could face criminal forfeiture and a maximum penalty of 20 years' imprisonment. Sentencing in this matter is scheduled for July 7, 2020.

Tax Preparer Outreach

In addition to promoting employee integrity, TIGTA is also committed to tax preparers' education on integrity. Tax preparers play an important role to ensure the integrity of tax administration because of their frequent contact with the IRS and their influence on tax compliance or noncompliance. Tax preparers can either assist in the enforcement of tax administration to ensure that taxpayers comply with Internal Revenue laws, or they can impede it.

During this semiannual reporting period, TIGTA special agents provided 17 integrity presentations to tax preparers at various locations nationwide. The presentations detailed TIGTA's role in protecting the integrity of Federal tax administration; the differences between the respective jurisdictions of TIGTA and the IRS; how to identify various forms of preparer misconduct; and common IRS impersonation scams.

The following cases represent OI's efforts to protect tax administration from unscrupulous tax preparers during this six-month reporting period:¹³

Florida Tax Preparer Sentenced in Scheme Involving Wire Fraud

On December 5, 2019, in the Southern District of Florida, Fort Lauderdale tax preparer Deborah Thomas was sentenced after previously pleading guilty to three counts of wire fraud in connection with a scheme to misappropriate her clients' money, which had been intended to satisfy taxes owed to the IRS. Thomas was indicted for the offenses in May 2019 and pled guilty in August 2019.

According to the indictment, from April 2015 through May 2018, Thomas worked as a tax preparer at a public accounting firm. In an effort to unjustly enrich herself, she registered Global Business Concepts, LLC (operating as U.S. Treasures). She subsequently opened a bank account in the name of that business, in which she deposited fraudulently obtained checks.

Thomas instructed some of her clients who owed money to the IRS to write checks payable to "U.S. Treasury." She then had the checks stamped or altered, making it difficult to see the last letters of the payee. Thomas instructed other clients, whose primary language was not English, to make checks payable to "U.S. Treasures" or "U.S. Treasure." Thomas did

¹³ The facts in the summarized case narratives come from court documents of the jurisdictions named.

not give those client checks to the IRS, but instead deposited them into her U.S. Treasures account through automated teller machines in Fort Lauderdale, Florida. Images of the deposited checks were then transmitted via wire communication to servers located in Richardson, Texas, allowing them to be credited to Thomas's own business bank account. The fraudulent proceeds obtained by Thomas totaled more than \$654,779.

Thomas was sentenced to 108 months' imprisonment followed by three years of supervised release. Thomas was further ordered to pay more than \$5.1 million in restitution and a special assessment fee of \$300.

Business Owner Sentenced for Aiding and Assisting in the Preparation of Materially False Income Tax Returns and Obstructing the Due Administration of the IRS

On February 14, 2020, in the Eastern District of Pennsylvania, Myles Hannigan was sentenced for obstructing the due administration of the IRS and aiding and assisting in the preparation of materially false income tax returns. Hannigan was charged for the offenses in July 2019.

According to the court documents, Hannigan owned and operated Payroll Professionals, Incorporated (PPI), located in Media, Pennsylvania. PPI is a third-party payroll processor that assists its clients by handling certain payroll services, including issuing payroll checks for its taxpayers/clients and forwarding tax payments to the Federal, State, and local authorities.

On over 100 of the Forms 941, *Employer's Quarterly Federal Tax Return*, that Hannigan prepared and filed for taxpayers/clients for TYs 2011, 2012, 2013, 2014, and 2015, he followed a practice of falsely overstating deposits that he made to pay taxes owed by his taxpayers/clients to the IRS. Specifically, on Form 941, Line 11, Hannigan reported depositing more money to pay tax debt than he actually sent to the IRS, causing victims collectively to underpay the IRS approximately \$3,270,566.89 for those tax years. Additionally, Hannigan concealed from his taxpayers/clients that their taxes had not been paid by preparing and presenting bogus documents to some PPI clients to falsely report that their taxes were paid to the IRS. Hannigan impeded the efforts of the IRS to contact his taxpayers/clients about tax delinquencies by re-routing IRS notices from his clients' business address to PPI's business address.

Hannigan was sentenced to 52 months' imprisonment followed by one year of supervised release. He was further ordered to pay \$3,270,566.89 in restitution and a special assessment of \$1,800.

Advancing Oversight of America's Tax System

TIGTA's Office of Inspections and Evaluations (I&E) identifies opportunities for improvement in IRS and TIGTA programs by performing inspections and evaluations that report timely, useful, and reliable information to decisionmakers and stakeholders.

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 report highlights one of I&E's most significant activities during this six-month reporting period:

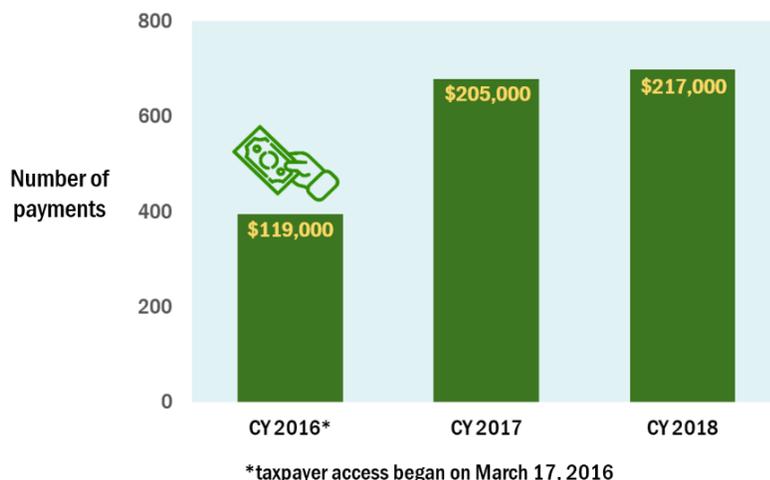
The IRS Has Effectively Expanded Options for Taxpayers to Pay With Cash, but Participation Remains Low

The IRS looks for new ways to partner with external stakeholders and deliver services that are both convenient for taxpayers and cost-effective for the agency. In March 2016, the IRS introduced a new payment option that allows taxpayers to pay taxes with cash at non-IRS facilities. Through an external partnership established by the IRS, individual and business taxpayers can make a payment at more than 9,200 retail stores in 44 States. There is no cost to the IRS to provide this option, but taxpayers are charged a fee of \$3.99 per payment.

TIGTA employees made cash payments at participating retailers and found that for the locations visited, the payment option was user-friendly and efficient. The online application is straightforward and requires information readily available to the taxpayer, such as an address and date of birth. TIGTA simulated the taxpayer experience by making 19 payments at 18 locations among three participating retailers. Correspondence needed to make each payment was provided to the taxpayer in a timely manner, and all payments posted to online tax accounts timely.

However, very few tax payments have been made with cash at participating retail stores. For example, less than 700 payments were made annually in the three years after the service was implemented.

Tax Payments and Dollars Collected at Participating Retailers, Calendar Years 2016-2018



Although the number of taxpayers that would prefer to use this service is unknown, TIGTA found a number of reasons that could contribute to the low participation. First, the payment process requires taxpayers to scan a barcode at a participating retail store within seven calendar days of issuance. If not scanned within these seven days, the barcode expires and a new barcode needs to be issued before a payment can be made. In CY 2018, more than 80 percent of the barcodes issued by the IRS expired. Second, the IRS does not routinely advertise or promote this payment option. Therefore, many taxpayers are likely unaware that this option exists. Lastly, while the external partnership increased the number of locations where taxpayers can pay with cash, geographic coverage could be improved. For example, Mississippi has the highest percentage of unbanked households, but has no participating retailer that accepts cash for tax payments.

TIGTA recommended that the IRS consider:

- Extending or eliminating the barcode expiration time frame to reduce taxpayer burden;
- Conducting public outreach to increase taxpayer awareness of the payment option and update internal guidance; and
- Working with the external partners to add retailers in underserved areas.

IRS management agreed with two of these recommendations and disagreed with the third, stating there is not enough evidence to suggest that taxpayers are harmed under the current barcode expiration policy.

Reference No. 2019-IE-R003

Audit Statistical Reports

Reports With Questioned Costs

TIGTA issued no audit 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 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 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.¹⁴ 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., Earned Income Tax Credit; 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	\$372,966
3. Subtotals (Item 1 plus Item 2)	3	\$372,966
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	3	\$372,966
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	0	\$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	0	\$0
6. Reports with no management decision within six months of issuance	0	\$0

¹⁴ See Appendix II for identification of audit reports involved.

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 accidental or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation.

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

Reports With Additional Quantifiable Impact on Tax Administration			
Outcome Measure Category	Number of Reports¹⁵	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	3	552,909	\$840,087
Revenue Protection	3	15,926	\$824,841
Reduction of Burden on Taxpayers	2	6,792	\$475,132
Taxpayer Rights and Entitlements at Risk	3	14,804,837	\$214,273
Taxpayer Privacy and Security	1	0	\$0
Inefficient Use of Resources	1	0	\$1,096
Reliability of Management Information	3	2,644	\$0
Protection of Resources	1	0	\$0

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

- Increased Revenue: Reference Numbers 2020-44-007 and 2020-30-017;
- Revenue Protection: Reference Number 2020-40-014;
- Taxpayer Burden: Reference Number 2020-30-017; and
- Taxpayer Rights and Entitlements: Reference Number 2020-40-014.

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

- Protection of Resources: Reference Number 2020-20-006;
- Taxpayer Privacy and Security: Reference Number 2020-20-012; and
- Reliability of Information: Reference Numbers 2020-10-003 and 2020-10-016.

¹⁵ See Appendix II for identification of audit reports involved.

Investigations Statistical Reports¹⁶

Significant Investigative Achievements	
(October 1, 2019— March 31, 2020)	
Complaints/Allegations Received by TIGTA	
Complaints Against IRS Employees	1,994
Complaints Against Non-Employees	1,447
Total Complaints/Allegations	3,441
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	891
In Process Within TIGTA ¹⁷	288
Referred to IRS for Action	562
Referred to IRS for Information Only	995
Referred to a Non-IRS Entity ¹⁸	0
Closed With No Referral	346
Closed Associated With Prior Investigation	127
Closed With All Actions Completed	232
Total Complaints	3,441
Investigations Opened and Closed	
Total Investigations Opened	1,283
Total Investigations Closed	1,257
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$775,347
Contract Fraud and Overpayments Recovered	0
Court Ordered Fines, Penalties, and Restitution	\$22,963,137
Out-of-Court Settlements	0
Potentially Compromised by Bribery	0
Tax Liability of Taxpayers Who Threaten and/or Assault IRS Employees	\$1,317,847
IRS Assets and Resources Protected Against Malicious Loss	\$9,686
Total Financial Accomplishments	\$25,066,017

¹⁶ Includes the reporting requirements under the Inspector General Empowerment Act (IGEA) of 2016, Pub. L. No. 114-317, 130 Stat. 1595.

¹⁷ Complaints for which final determination had not been made at the end of the reporting period.

¹⁸ A non-IRS entity includes other law enforcement entities or Federal agencies.

Status of Closed Criminal Investigations			
Criminal Referral	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	9	73	82
Referred – Declined for Prosecution	169	152	321
Referred – Pending Prosecutorial Decision	11	31	42
Total Criminal Referrals¹⁹	189	256	445
No Referral	279	446	725
Criminal Dispositions²⁰			
Criminal Disposition	Employee	Non-Employee	Total
Guilty	12	34	46
Nolo Contendere (no contest)	0	0	0
Pretrial Diversion	1	0	1
Deferred Prosecution ²¹	0	0	0
Not Guilty	0	0	0
Dismissed	4	1	5
Total Criminal Dispositions	17	35	52
Administrative Dispositions on Closed Investigations²²			
Administrative Disposition	Total		
Removed / Terminated	26		
Suspended / Reduction in Grade	50		
Resigned / Retired / Separated Prior to Adjudication	103		
Oral or Written Reprimand / Admonishment	75		
Clearance Letter / Closed, No Action Taken	77		
Alternative Discipline / Letter With Cautionary Statement / Other	115		
Non-Employee Actions ²³	409		
Total Administrative Dispositions	855		

¹⁹ Criminal referrals include both Federal and State dispositions.

²⁰ 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.

²¹ 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.

²² 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.

²³ Administrative actions taken by the IRS against non-IRS employees (e.g., contractors).

Summary of Investigative Reports and Criminal Referrals

Criminal Referral Breakdown (October 1, 2019 – March 31, 2020)	
Number of Investigative Reports Issued	403
Referred to DOJ for Criminal Prosecution	390
Referred to State/Local Prosecuting Authorities	13
Number of Indictments and Criminal Informations	63
Indictments	53
Criminal Informations	10

The above statistical table was generated as a result of a query of TIGTA OI's case tracking system, Criminal Results Management System.

Interference

During the reporting period, there were no attempts by the IRS to interfere with the independence of TIGTA. Additionally, the IRS did not resist, object to oversight activities, or significantly delay access to information.

Instances of Whistleblower Retaliation

During the reporting period, there were two investigations regarding whistleblower retaliation, which were unfounded.

Closed²⁴ Investigations Involving IRS Senior Government Employees²⁵

Detailed Description of the Facts and Circumstances of the Investigation:	Disposition:	Criminal Status:	Date Referred:	If Declined, Date of Declination:
A senior Government employee was reported to have been arrested for assault.	Closed without Action Letter	No referral made	N/A	N/A
A senior Government employee was reported to have been arrested for driving while intoxicated.	Closed without Action Letter with Cautionary Statement	No referral made	N/A	N/A
A senior Government employee was alleged to have retaliated against a whistleblower for reporting employee misconduct.	Clearance Letter	No referral made	N/A	N/A
A senior Government employee was alleged to have been involved in credit card fraud.	Separated During Investigation	Declined	07/10/19	01/17/20
A senior Government employee was alleged to have created a hostile work environment.	Closed without Action Letter	No referral made	N/A	N/A
A senior Government employee was alleged to have been negligent in safeguarding the employee's Government laptop and PII from theft.	Oral/Written Counseling	No referral made	N/A	N/A

²⁴ When TIGTA refers an IRS employee investigation to the IRS, the investigation remains open until all actions are completed, including any penalty imposed upon the employee by the IRS. TIGTA closes an employee investigation after receiving notice from the IRS of the administrative action taken in response to that investigation.

²⁵ For this report, a "senior Government employee" refers to an officer or employee in the Executive branch who occupies a position classified at or above GS-15 of the General Schedule. 5 U.S.C. app § 5(f)(7).

Detailed Description of the Facts and Circumstances of the Investigation:	Disposition:	Criminal Status:	Date Referred:	If Declined, Date of Declination:
A senior Government employee was alleged to have misused the employee's position to intimidate contractors and influence the performance of a contract.	Closed without Action Letter	N/A	N/A	N/A
A senior Government employee was alleged to have made threatening statements to a subordinate employee.	Other	N/A	N/A	N/A
A senior Government employee was alleged to have solicited a prostitute while on official travel.	Separated During Investigation	N/A	N/A	N/A
A senior Government employee was alleged to have retaliated against a whistleblower.	Clearance Letter	N/A	N/A	N/A
A senior Government employee was alleged to have made an unauthorized disclosure of sensitive financial information.	Admonished/Reprimand	N/A	N/A	N/A
A senior Government employee was alleged to have hired an individual with whom the employee had a personal relationship.	Clearance Letter	N/A	N/A	N/A
A senior Government employee was alleged to have fraudulently received public transportation subsidy benefits.	Oral/Written Counseling	Declined	06/13/19	06/13/19
A senior Government employee was alleged to have sexually harassed the employee's subordinates.	Closed without Action Letter with Cautionary Statement	N/A	N/A	N/A
A senior Government employee was alleged to have suspended an employee in retaliation for the employee's reporting misconduct of another employee.	Clearance Letter	N/A	N/A	N/A
A senior Government employee was reported for associations with disreputable persons.	Other	N/A	N/A	N/A

Inspections and Evaluations Statistical Reports

Reports With Significant Unimplemented Corrective Actions²⁶

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 Department of the Treasury’s Joint Audit Management Enterprise System (JAMES).

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-IE-R002	February 2018	09/15/20	<p>Additional Actions Are Needed to Make the Worker Misclassification Initiative With the Department of Labor a Success</p> <p><u>F-1, R-1</u>: The Commissioner, Small Business/Self-Employed Division, should evaluate whether provisions of the MOU require amendment, revision, or termination and ensure that the duties and responsibilities of the IRS, as outlined in the MOU, are executed as required.</p>
2018-IE-R005	August 2018	05/15/20	<p>Controls Over Pocket Commissions Must Be Improved</p> <p><u>F-1, R-3</u>: Subsequent to the establishment of a complete and accurate record of non-enforcement commissions in Personal Identity Verification Data Synchronization (PDS), the Chief, Facilities Management and Security Services, should reinstate the requirement for an annual reconciliation to account for issued commissions to ensure that PDS records remain complete and accurate.</p>
2019-IE-R002	November 2018	06/15/20	<p>Although Virtual Face-to-Face Service Shows Promise, Few Taxpayers Use It</p> <p><u>F-1, R-1</u>: The Commissioner, Wage and Investment (W&I) Division, and the National Taxpayer Advocate (NTA) should formally develop and document a vision and specific goals for their Virtual Service Delivery (VSD) programs and develop performance measures to monitor and evaluate the performance of the individual programs.</p>
2019-IE-R002	November 2018	06/15/20	<p>Although Virtual Face-to-Face Service Shows Promise, Few Taxpayers Use It</p> <p><u>F-2, R-2</u>: The Commissioner, W&I Division, and the NTA should both conduct public awareness activities to increase taxpayers' knowledge of the VSD program.</p>

²⁶ The Office of Inspections and Evaluations has previously designated one report with unimplemented recommendations as “Sensitive But Unclassified (SBU).” The SBU report concerns the physical security of IRS facilities or subject matter that might create a risk of circumvention of the law if publicly released. There are no potential cost savings associated with any unimplemented recommendations from the report.



DEPARTMENT

ALEXANDER HAMILTON

Appendix I

Statistical Reports – Other

Reports With Significant Unimplemented Corrective Actions

The Inspector General Act, as amended, requires the identification of any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations described in previous semiannual reports for which corrective actions have not been completed. The following list is based on information obtained from the Department of the Treasury’s JAMES.^{27,28}

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2007-10-068	May 2007	12/15/20	<p>INEFFICIENCIES IN PROCESSING OPERATIONS ASSISTANCE REQUESTS CAUSED TAXPAYERS UNNECESSARY DELAYS</p> <p><u>F-3, R-1</u>: Revise Form 12412, <i>Operations Assistance Request</i>, to allow requests to be closed as completed or as misrouted only if they had been sent to the wrong operations liaison.</p>
2008-20-176	September 2008	09/30/20	<p>THE OFFICE OF RESEARCH, ANALYSIS, AND STATISTICS NEEDS TO ADDRESS COMPUTER SECURITY WEAKNESSES</p> <p><u>F-1, R-5</u>: Ensure that audit and accountability controls are sufficient by requiring audit logs to be maintained a minimum of six years and to be periodically reviewed by the security officer.</p>
2011-20-111	September 2011	06/15/20 06/15/20	<p>CONTINUED CENTRALIZATION OF THE WINDOWS ENVIRONMENT WOULD IMPROVE ADMINISTRATION AND SECURITY EFFICIENCIES</p> <p><u>F-2, R-1</u>: Ensure that standards and processes are developed and implemented enterprise-wide to prevent servers and workstations from being connected to the network without the proper authorization and required compliance documentation.</p> <p><u>F-2, R-2</u>: Ensure that scanning tools, such as the <i>Business DNA</i> software, are utilized to locate unauthorized servers, workstations, and domains on the IRS network, and adequate procedures are developed and implemented to ensure they are removed.</p>

²⁷ This summary data does not include reports that are specifically prohibited from disclosure by any provision of law, such as 26 U.S.C. § 6103, protecting tax returns and return information, or that are specifically required by Executive Order to be protected from disclosure in the interest of national defense or national security or in the conduct of foreign affairs.

²⁸ The Office of Audit has previously designated two reports with unimplemented recommendations as “Sensitive But Unclassified (SBU).” These SBU reports include subject matter that might create a risk of circumvention of the law if publicly released. There are no potential cost savings associated with any unimplemented recommendations from these reports.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2012-20-112	September 2012	06/15/20	AN ENTERPRISE APPROACH IS NEEDED TO ADDRESS THE SECURITY RISK OF UNPATCHED COMPUTERS F-1, R-1: Ensure that the IRS completes the deployment of an automated asset discovery tool (or tools if needed) and builds an accurate and complete inventory of information technology assets (including hardware and software) that reside on the IRS network.
2012-20-122	September 2012	04/15/21	CUSTOMER ACCOUNT DATA ENGINE 2 (CADE 2): SYSTEM REQUIREMENTS AND TESTING PROCESSES NEED IMPROVEMENTS F-3, R-2: Ensure all database issues identified are resolved or an action plan is developed with specific corrective actions and time periods.
2014-40-084	September 2014	12/15/20	A SERVICE-WIDE STRATEGY IS NEEDED TO INCREASE BUSINESS TAX RETURN ELECTRONIC FILING F-2, R-1: Develop a less burdensome electronic signature process for businesses e-filing employment tax returns using the Modernized e-File system.
2014-23-072	September 2014	04/15/21	AFFORDABLE CARE ACT: IMPROVEMENTS ARE NEEDED TO STRENGTHEN SECURITY AND TESTING CONTROLS FOR THE AFFORDABLE CARE ACT INFORMATION RETURNS PROJECT F-1, R-1: Ensure that processes and procedures are developed to provide direction on how to review and mitigate weaknesses.
2016-40-028	March 2016	On Hold ²⁹ On Hold 3/15/23	REVISING TAX DEBT IDENTIFICATION PROGRAMMING AND CORRECTING PROCEDURAL ERRORS COULD IMPROVE THE TAX REFUND OFFSET PROGRAM F-1, R-1: Revise identification processes to include sole proprietor information from Form SS-4, <i>Application for Employer Identification Number</i> , to identify individual tax refunds to offset to business tax debt. F-2, R-4: Revise computer programming to ensure that credit elects are offset to any associated tax debt on the Non-Master File. F-3, R-1: Revise computer programming to use the Limited Liability Companies (LLC) indicator on the business tax account to ensure that individual tax refunds are not offset to the associated LLC's business tax debt.
2017-30-010	October 2016	10/15/20	EMPLOYEES SOMETIMES DID NOT ADHERE TO E-MAIL POLICIES WHICH INCREASED THE RISK OF IMPROPER DISCLOSURE OF TAXPAYER INFORMATION F-3, R-1: Update the Enterprise Electronic Fax (EEFax) system to allow encrypted messages to be sent to the EEFax system server.
2017-40-037	May 2017	On Hold On Hold	IMPROVEMENTS ARE NEEDED TO ENSURE THAT TAX ACCOUNTS ON THE AUTOMATED NON-MASTER FILE ARE ACCURATELY PROCESSED F-1, R-1: Correct Automated Non-Master File (ANMF) programming to compute and assess the Failure to File penalty on Form 1040NR, <i>U.S. Nonresident Alien Income Tax Return</i> , accounts in which the Taxpayer Identification Number (TIN) is an Employer Identification Number (EIN). F-1, R-2: Correct ANMF programming to use the correct date when computing the Failure to File penalty. In addition, programming should be corrected to ensure that the proper penalty rate is used to compute the penalty amount. Potential Increased Revenue: \$354,153

²⁹ Except for one report, recommendations designated as "On Hold" were agreed to by the IRS, but action was deferred pending the availability of funds. The recommendation for report 2017-40-085 was agreed to by the IRS, but was placed "On Hold" because the IRS is awaiting input from another agency.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2017-20-024	June 2017	07/15/20	INFORMATION TECHNOLOGY: IMPROVEMENTS ARE NEEDED IN ENTERPRISE-WIDE DISASTER RECOVERY PLANNING AND TESTING F-2, R-1: Reach consensus regarding the maximum tolerable downtime or recovery time objective for each mission essential function.
2017-40-038	July 2017	On Hold	CASE SELECTION PROCESSES RESULT IN BILLIONS OF DOLLARS IN POTENTIAL EMPLOYER UNDERREPORTED TAX NOT BEING ADDRESSED F-3, R-1: Establish a systemic process to match data fields to perfect unpostable Forms W-3, <i>Transmittal of Wage and Tax Statements</i> .
2017-30-048	August 2017	On Hold	ADDITIONAL CONTROLS ARE NEEDED TO HELP ENSURE THAT NONRESIDENT ALIEN INDIVIDUAL PROPERTY OWNERS COMPLY WITH TAX LAWS F-1, R-1: Request that a revision be made to Form 1040NR to enable nonresident aliens to make an election under I.R.C. § 871(d) and revise processing procedures to ensure that the IRS records the election.
2017-40-085	September 2017	On Hold	FURTHER ACTIONS ARE NEEDED TO REDUCE THE RISK OF EMPLOYMENT TAX FRAUD TO BUSINESSES THAT USE THE SERVICES OF PROFESSIONAL EMPLOYER ORGANIZATIONS F-3, R-1: Establish processes and procedures to reduce unnecessary resources expended notifying employers of an address change when programming incorrectly identifies an address change resulting from minor formatting revisions.
2017-20-062	September 2017	09/15/20	THE INTERNAL REVENUE SERVICE IS NOT IN COMPLIANCE WITH FEDERAL REQUIREMENTS FOR SOFTWARE ASSET MANAGEMENT F-1, R-1: Establish executive governance for Software Asset Management within the IRS which acts as a centralized group to ensure that effective and knowledgeable decisions are being made timely by authorized personnel.
2017-30-084	September 2017	06/15/20	IMPROVEMENT IS NEEDED IN COMPLIANCE EFFORTS TO IDENTIFY UNSUPPORTED CLAIMS FOR FOREIGN TAX CREDITS F-4, R-1: Evaluate the Functional Specification Packages to identify programming changes needed to calculate the amount of the Foreign Tax Credit limitation and account for mixed-component returns.
2018-40-010	January 2018	On Hold On Hold 05/15/20 05/15/20	PROCESSES NEED TO BE IMPROVED TO IDENTIFY INCOMPLETE AND FRAUDULENT APPLICATIONS FOR INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS F-3, R-1: Modify the Real-Time System (RTS) consistency and validity checks to identify all duplicate uses of supporting documents. F-3, R-2: Ensure that programming changes are made to require mandatory review when the RTS alerts tax examiners that an applicant is using duplicate supporting documents as has previously been used to obtain an Individual Taxpayer Identification Number (ITIN). F-3, R-5: Review the 44,532 ITINs TIGTA identified and the 10,924 ITINs TIGTA identified that were issued to individuals who used duplicate supporting documents to determine the validity of the ITINs and take the actions necessary to revoke those ITINs that are determined to be invalid. F-4, R-1: Review the 8,110 ITINs identified with a revoked status in the RTS but still valid on the Individual Master File and take necessary action to change the ITINs to invalid.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-40-013	February 2018	On Hold On Hold On Hold	ACTIONS ARE NEEDED TO REDUCE THE RISK OF FRAUDULENT USE OF EMPLOYER IDENTIFICATION NUMBERS AND TO IMPROVE THE EFFECTIVENESS OF THE APPLICATION PROCESS F-3, R-1: Perform an assessment to determine how an additional field could be added to the Business Master File so that both the decedent SSN and a responsible party TIN can be captured for estates and trusts. F-3, R-2: Revise internal procedures, application instructions, etc., to require that estate and trust applicants applying on paper provide a responsible party. F-3, R-5: Develop programming to reject estate applications if the decedent TIN is not that of a deceased individual.
2018-40-031	April 2018	On Hold	PROACTIVE PROCESSES TO IDENTIFY AND MITIGATE POTENTIAL MISUSE OF ELECTRONIC PAYMENT SYSTEMS ARE NEEDED F-1, R-1: Ensure that expanded authentication requirements are implemented without further delays to reduce the risk of misuse of the system.
2018-20-029	May 2018	10/15/21	SECURITY OVER HIGH VALUE ASSETS SHOULD BE STRENGTHENED F-1, R-1: Implement the Office of Management and Budget Cybersecurity Strategy and Implementation Plan actions to identify and document current system hardware components for all IRS High Value Assets.
2018-40-035	May 2018	05/15/20	PROGRAMMING ERRORS AND DEFICIENCIES IN TAX EXAMINER SCREENING RESULTED IN SOME HEALTH COVERAGE TAX CREDIT CLAIMS BEING ERRONEOUSLY PROCESSED F-2, R-4: Implement Error Resolution Unit screening procedures to identify individuals who filed a Form W-2, indicating that they obtained a new job.
2018-20-034	June 2018	On Hold	ACTIVE DIRECTORY OVERSIGHT NEEDS IMPROVEMENT AND CRIMINAL INVESTIGATION COMPUTER ROOMS LACK MINIMUM SECURITY CONTROLS F-2, R-1: Complete a cost analysis to: 1) determine the efficacy of relocating Criminal Investigation (CI) assets in each of the field offices to existing IRS computer rooms versus upgrading the CI computer rooms to ensure that assets are protected in accordance with Federal and Internal Revenue Manual (IRM) security requirements, and 2) implement the most cost effective solution.
2018-30-042	July 2018	10/15/20 09/15/20	THE INTERNAL REVENUE SERVICE LACKS A COORDINATED STRATEGY TO ADDRESS UNREGULATED RETURN PREPARER MISCONDUCT F-1, R-1: Develop a preparer misconduct strategy that encourages programs with the authority to address preparer misconduct to coordinate with one another to establish program goals and track progress towards those goals. F-1, R-2: Establish goals that support the Service-wide Return Preparer Strategy being developed by the Deputy Commissioner for Services and Enforcement and monitor progress towards those goals.
2018-40-062	August 2018	06/15/20	IMPROVED PROCEDURES ARE NEEDED TO PREVENT THE FRAUDULENT USE OF THIRD-PARTY AUTHORIZATION FORMS TO OBTAIN TAXPAYER INFORMATION F-4, R-2: Correspond with representatives and designees assigned multiple Centralized Authorization File (CAF) numbers to inform them that they are permitted to have one CAF number per location. The correspondence should request a response from each representative and designee specifying the CAF number that the IRS should retain. Excess numbers should then be removed from the CAF.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2018-20-063	September 2018	07/15/20 07/15/20 07/15/20	<p>IMPROVED CONTROLS ARE NEEDED TO ENSURE THAT CORRECTIVE ACTIONS FOR REPORTED INFORMATION TECHNOLOGY WEAKNESSES ARE DOCUMENTED AND FULLY IMPLEMENTED PRIOR TO CLOSURE</p> <p><u>F-1, R-1</u>: Ensure that complete descriptions of the specific actions taken to close proposed corrective actions are documented in Form 13872, <i>Planned Corrective Action Status Update</i>.</p> <p><u>F-1, R-2</u>: Ensure that sufficient supporting documentation is uploaded to the JAMES to support proposed corrective action closure.</p> <p><u>F-1, R-3</u>: Ensure that the IRM and instructions for Form 13872 are updated so that both the manager responsible for implementing the proposed corrective action and the executive responsible for the proposed corrective action are required to approve Form 13872 supporting the proposed corrective action's closure.</p>
2018-20-066	September 2018	07/15/20 07/15/20	<p>CONTROLS CONTINUE TO NEED IMPROVEMENT TO ENSURE THAT ALL PLANNED CORRECTIVE ACTIONS FOR SECURITY WEAKNESSES ARE FULLY IMPLEMENTED AND SUPPORTED</p> <p><u>F-1, R-3</u>: Update the IRM to broaden the Audit Coordination and Outreach, Assessment and Reporting offices auditing to include reviewing management's corrective actions to ensure that the proposed corrective actions are fully and appropriately implemented.</p> <p><u>F-2, R-3</u>: Update the retention period in the IRM for maintaining documentation with the JAMES Audit Coordinators to align with the Department of the Treasury's retention period for maintaining supporting documentation in the JAMES.</p>
2018-30-072	September 2018	08/15/20 On Hold	<p>IMPROVEMENTS ARE NEEDED IN THE WITHHOLDING COMPLIANCE PROGRAM</p> <p><u>F-2, R-2</u>: Work with Federal Government agencies that are not complying with the lock-in letters to advise them of the requirement to change withholding based on the letters they receive.</p> <p>Potential Increased Revenue: \$1,154,182,935</p> <p><u>F-3, R-2</u>: Analyze the current selection criteria used by the Withholding Compliance System to determine if the taxpayers identified for systemic lock-in letter issuance are the best use of limited resources. This would include potentially identifying taxpayers with multiple years of under withholding and the percentage of inventory that includes nonfilers.</p>
2018-30-074	September 2018	09/15/20	<p>FORMS, INSTRUCTIONS, PUBLICATIONS, AND PROCEDURES NEED TO BE IMPROVED FOR SOME NONRESIDENT ALIENS ELIGIBLE FOR TREATY- BASED INCOME EXEMPTIONS</p> <p><u>F-1, R-1</u>: Consider updating the appropriate forms, instructions, and publications to clarify how nonresident aliens who do not file a Form 8233, <i>Exemption From Withholding on Compensation for Independence (and Certain Dependent) Personal Services of a Nonresident Alien</i>, with their employer are still able to claim the treaty exemption.</p>
2018-30-077	September 2018	06/15/20 06/15/20	<p>IMPROVEMENTS TO THE SS-8 PROGRAM ARE NEEDED TO HELP WORKERS AND IMPROVE EMPLOYMENT TAX COMPLIANCE</p> <p><u>F-1, R-1</u>: Create guidance and training for the responsible functions to ensure the accurate processing and determinations of worker classification requests, including gig economy worker classification requests.</p> <p><u>F-3, R-1</u>: Evaluate the process used in making worker classification determinations and opinions in the SS-8 Program and make necessary changes to improve processing.</p>
2019-10-002	October 2018	10/15/20	<p>TAXPAYERS GENERALLY COMPLY WITH ANNUAL CONTRIBUTION LIMITS FOR 401(K) PLANS; HOWEVER, ADDITIONAL EFFORTS COULD FURTHER IMPROVE COMPLIANCE</p> <p><u>F-1, R-2</u>: Take actions to bring taxpayers who contribute more than the annual limit to multiple 401(k) plans into compliance with the law.</p> <p>Potential Increased Revenue: \$203,627,585</p>

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2019-10-009	October 2018	06/15/20 06/15/20 07/15/20 07/15/20	<p>THE TAXPAYER ADVOCATE SERVICE CENTRALIZED CASE INTAKE PROGRAM NEEDS IMPROVEMENT TO PROVIDE BETTER CUSTOMER SERVICE</p> <p><u>F-1, R-1</u>: Develop and implement a staffing plan that will reduce the call wait times that taxpayers experience during peak call volume periods.</p> <p><u>F-1, R-2</u>: Develop and implement a process to prevent callers from being disconnected from the Centralized Case Intake (CCI) program at the end of the day.</p> <p><u>F-1, R-4</u>: Update IRM 13.3 and provide up-to-date guidance to W&I Division contact representatives who staff the National Taxpayer Advocate toll-free line pertaining to current procedures for the CCI program.</p> <p><u>F-1, R-6</u>: Develop and measure progress toward specific and quantifiable program goals for the CCI program that measure benefits to taxpayers, the TAS, and the IRS, such as increased customer satisfaction, reduced direct case time or other measures of program impact.</p>
2019-20-008	December 2018	03/15/21	<p>THE SOLARIS TO LINUX MIGRATION PROJECT WAS DELAYED AND NEEDS IMPROVED GOVERNANCE</p> <p><u>F-1, R-2</u>: Ensure that procurement of hardware, service, and support includes a well-developed plan, process for utilization, and reasonable timelines.</p>
2019-40-013	December 2018	On Hold	<p>RESULTS OF THE 2018 FILING SEASON</p> <p><u>F-3, R-1</u>: Expand the Identity Protection Personal Identification Number (IP PIN) opt-in program to allow ITIN holders who are not automatically issued an IP PIN the option to obtain an IP PIN. The IRS should notify these individuals of the option to obtain an IP PIN and provide instructions on how to do so.</p>
2019-40-014	December 2018	11/15/20 11/15/20	<p>PROCESSES ARE NEEDED TO IDENTIFY SMALL BUSINESSES ERRONEOUSLY CLAIMING THE RESEARCH TAX CREDIT PAYROLL TAX OFFSET</p> <p><u>F-1, R-1</u>: Review the 81 businesses that TIGTA identified that did not meet the eligibility requirements for claiming the Research Credit and recover any erroneously claimed Research Credits.</p> <p><u>F-1, R-2</u>: Review the businesses that TIGTA identified and recover any erroneously claimed Research Credits.</p>
2019-30-016	February 2019	04/15/20 05/15/20	<p>EXPANSION OF THE GIG ECONOMY WARRANTS FOCUS ON IMPROVING SELF-EMPLOYMENT TAX COMPLIANCE</p> <p><u>F-1, R-1</u>: Develop a strategic plan to address tax administration for the gig economy, including the assessment and collection of self-employment tax, and consider developing initiatives such as pilots or soft notice programs geared towards gig economy workers with repeated noncompliance.</p> <p><u>F-2, R-3</u>: Consider programming changes in the Automated Underreporter system to automatically populate the self-employment tax window (including situations in which taxpayers have negative numbers on their return) for electronically filed returns as well as add additional prompts and reminders concerning Form 1040 line 21 and the need to fill out the income identity code.</p>
2019-40-026	March 2019	8/15/20 10/15/20 10/15/20	<p>MILLIONS OF DOLLARS IN POTENTIALLY ERRONEOUS EXCESS SOCIAL SECURITY TAX CREDIT CLAIMS ARE NOT ADDRESSED</p> <p><u>F-1, R-1</u>: Develop processes and procedures to ensure that tax examiners accurately review Excess Social Security Tax Credit claims. Potential Funds Put to Better Use: \$68,006,288</p> <p><u>F-3, R-1</u>: Establish a process to send and measure the success associated with soft notices that alert individuals to potential errors on their tax return related to Excess Social Security Tax Credit claims. Potential Increased Revenue: \$28,327,843</p> <p><u>F-3, R-2</u>: Evaluate current resources expended on the issuance of soft notices to ensure that notices are sent to those taxpayers with the highest tax assessment potential to maximize the use of limited resources.</p>

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2019-20-017	April 2019	02/15/23	ELECTRONIC AUTHENTICATION SECURITY CONTROLS HAVE IMPROVED, BUT CONTINUED PROGRESS IS NEEDED TO ENSURE THE PROTECTION OF PUBLIC-FACING APPLICATIONS F-1, R-1: Ensure that public-facing legacy applications are complying with NIST SP 800-63-3 and that an implementation plan includes specific timelines for accomplishing full compliance of legacy applications.
2019-44-027	April 2019	On Hold	TAX CUTS AND JOBS ACT: ASSESSMENT OF IMPLEMENTATION EFFORTS F-1, R-1: Revise the TY 2019 Form 1040, Schedule 1, to add the date of divorce or separation agreements and create controls to prevent taxpayers from claiming the alimony deduction that originated after January 1, 2019.
2019-34-033	May 2019	On Hold	IMPLEMENTATION OF THE TAX CUTS AND JOBS ACT DEEMED REPATRIATION TAX PRESENTED SIGNIFICANT CHALLENGES F-2, R-1: Take steps to ensure that I.R.C. § 965 payments are recorded with the correct designated payment code.
2019-30-036	May 2019	05/15/20 05/15/20 06/15/20	FEW ACCURACY-RELATED PENALTIES ARE PROPOSED IN LARGE BUSINESS EXAMINATIONS, AND THEY ARE GENERALLY NOT SUSTAINED ON APPEAL F-2, R-2: Revise IRM 4.46 guidelines to: 1) clearly indicate which examiners are ultimately responsible for penalty development and documentation, and 2) provide more specificity on the requirements of supervisory involvement in penalty development when proposing and not proposing penalties. F-2, R-3: Ensure that quality review systems are adequate and can accurately determine whether examiners are properly considering civil penalties, adequately supporting penalty decisions, consistently involving management, and obtaining required approvals. F-3, R-1: Evaluate the procedure for closing, shipping, and storing paper examination case files and take corrective action to improve the process.
2019-40-039	May 2019	09/15/20	SOME REFUNDABLE CREDITS ARE STILL NOT CLASSIFIED AND REPORTED CORRECTLY AS A HIGH RISK FOR IMPROPER PAYMENTS BY THE INTERNAL REVENUE SERVICE F-1, R-1: Implement a process to systemically identify and evaluate tax returns filed by individuals who have nonwork SSNs to prevent erroneous refunds of Earned Income Tax Credits and Additional Child Tax Credits.
2019-20-031	June 2019	05/15/20 07/15/20 10/15/20 10/15/20 10/15/20	SOFTWARE VERSION CONTROL MANAGEMENT NEEDS IMPROVEMENT F-1, R-1: Create an enterprise-wide, integrated structure to centralize commercial off-the-shelf software version tracking, currency, and management to include documenting roles and responsibilities. F-1, R-2: Update policies and procedure to manage mainframe, server, and workstation software assets using industry best practices, including identifying, prioritizing, and removing outdated software when newer versions are installed. F-1, R-3: Create and execute a plan to periodically monitor and compare software running on the enterprise against the Enterprise Architecture Enterprise Standards Profile (ESP) Product Catalog for accuracy. F-1, R-4: Remove unauthorized software or update the ESP Product Catalog to reflect the correct information, if warranted. F-1, R-5: Document and approve risk acceptance to continue using older versions of software (i.e., sunset, archived/retired).

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2019-40-042	July 2019	10/15/20 On Hold 10/15/20 10/15/20 On Hold	<p>ACTIONS HAVE NOT BEEN TAKEN TO IMPROVE AMENDED TAX RETURN REVIEW PROCEDURES TO REDUCE ERRONEOUS AND FRAUDULENT REFUNDS</p> <p><u>F-1, R-2</u>: Implement adequate processes and procedures to identify and correct employee errors to reduce erroneous refunds issued.</p> <p><u>F-1, R-3</u>: Complete a business case and request funding for expansion of e-filing to amended returns in the 2020 Filing Season in an effort to reduce unnecessary processing costs and erroneous refunds resulting from amended returns.</p> <p>Potential Funds Put to Better Use: \$79,413,315</p> <p><u>F-2, R-1</u>: Update tax examiner and Customer Service Representative review guidelines to incorporate additional verification steps to be taken similar to those systemically performed when verifying a refundable claim on an original tax return.</p> <p><u>F-3, R-1</u>: Modify the Form 1040X. Once modified, update processing procedures to verify accuracy, and if accurate continue processing the amended return.</p> <p><u>F-3, R-3</u>: Establish processes to evaluate amended tax returns.</p>
2019-40-043	July 2019	08/15/20 08/15/20	<p>UNMET NEEDS FOR INFORMATION TECHNOLOGY SUPPORT RESULT IN INEFFICIENCIES AND HIGHER TAX ADMINISTRATION COSTS</p> <p><u>F-1, R-2</u>: Revise the information technology service request process to require the Business Operating Divisions to submit key requests via the Work Request Management System. Develop procedures to notate and retain the reason the requests were denied during precoordination.</p> <p><u>F-2, R-4</u>: Establish a process to track estimated and actual resources needed to complete each work request by system or application.</p>
2019-40-044	August 2019	10/15/21 12/15/21 05/15/20	<p>BILLIONS OF DOLLARS OF POTENTIALLY ERRONEOUS CARRYFORWARD CLAIMS ARE STILL NOT BEING ADDRESSED</p> <p><u>F-1, R-1</u>: Ensure that criteria is added to the Research Credit selection risk tool to identify high-risk carryforward Research Credit discrepancy claims on returns selected for examination and determine if the carryforward claims taken by the taxpayers are accurate.</p> <p><u>F-1, R-2</u>: Identify and examine returns with discrepancies of General Business Credit carryforward claims.</p> <p><u>F-2, R-1</u>: Develop a strategy to evaluate possible revisions to tax forms to capture carryforward claim information similar to what is currently required for the corporate Foreign Tax Credit.</p>
2019-30-047	August 2019	10/15/20 05/15/20	<p>CRIMINAL INVESTIGATION SHOULD INCREASE ITS ROLE IN ENFORCEMENT EFFORTS AGAINST IDENTITY THEFT</p> <p><u>F-1, R-1</u>: Develop a process for transferring taxpayer-initiated cases to Scheme Tracking and Referral System (STARS) for scheme development and Criminal Investigation consideration.</p> <p><u>F-2, R-2</u>: Finalize and disseminate to employees guidance on routing identity theft referrals to Criminal Investigation.</p>
2019-40-048	August 2019	On Hold On Hold	<p>ADDITIONAL ACTIONS ARE NEEDED TO REDUCE ALIMONY REPORTING DISCREPANCIES ON INCOME TAX RETURNS</p> <p><u>F-2, R-1</u>: Include the validation of the alimony recipient TIN as part of the IRS's tax return processing systemic TIN validation process.</p> <p><u>F-2, R-2</u>: Modify Error Resolution System programming to send both e-filed and paper tax returns that contain an invalid recipient TIN to the Error Resolution function for review and correspondence with the taxpayer.</p> <p>Potential Increased Revenue: \$525,500</p>

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2019-20-049	August 2019	06/15/21 10/15/21	THE FIRST PHASE OF THE DATA LOSS PREVENTION SOLUTION IS WORKING AS INTENDED, BUT THE REMAINING PHASES CONTINUE TO EXPERIENCE DELAYS F-1, R-1: Deploy the Data-at-Rest and Data-in-Use components of the Data Loss Prevention (DLP) solution. F-1, R-2: Ensure that project documents are prepared and maintained as required for effective project management, which should help ensure the successful delivery of the final two components of the DLP solution.
2019-20-052	August 2019	06/15/20 06/15/20 06/15/20	INFORMATION TECHNOLOGY RISKS ARE IDENTIFIED, ASSESSED, AND REPORTED, BUT MITIGATION DOCUMENTATION AND OVERSIGHT NEED IMPROVEMENT F-1, R-1: Require all Information Technology organization functions (except the Cybersecurity function) to record information technology risks in the Item Tracking Reporting and Control (ITRAC) system. F-1, R-2: Require detailed descriptions of the risk mitigation plans, mitigation activities, and closure rationale be captured and closure documentation be uploaded into the ITRAC system for the Information Technology organization function and program risks, as applicable. F-1, R-3: Require periodic review of the risk descriptions and documentation uploaded into the ITRAC system to ensure that the information is appropriate, current, complete, and accurate.
2019-20-046	September 2019	10/15/21 10/15/21 11/15/20	THE BRING YOUR OWN DEVICE PROGRAM'S SECURITY CONTROLS NEED IMPROVEMENT F-3, R-1: Ensure the retention of Bring Your Own Device (BYOD) program application audit logs for the appropriate period and periodic review of the application audit logs by an independent source. F-4, R-1: Update BYOD program procedures and guidelines to include: 1) providing malware prevention training to users; 2) updating the documentation for device operating system and technical baseline configurations; 3) maintaining and reviewing application audit logs, specifically time frames for each; 4) clarifying the Computer Security Incident Response Center reporting procedures for a lost or stolen device; 5) informing the BYOD program when a device is lost or stolen so that the application data are remotely wiped; and 6) tracking the manual and systemic application data wipes by the BYOD program on a periodic basis. F-5, R-1: Ensure that BYOD program participants complete the security risk awareness training annually and that the authorizing official certifies employee training compliance.
2019-20-055	September 2019	02/15/21 04/15/21 09/15/21	CONTROLS SHOULD BE STRENGTHENED TO ENSURE TIMELY RESOLUTION OF INFORMATION TECHNOLOGY INCIDENT TICKETS F-1, R-1: Update incident management performance goals and renegotiate specific levels of service to better reflect current resource allocations. F-2, R-1: Update incident management performance metrics to better align with overall program objectives and expanded use in daily operations. F-3, R-1: Ensure that all incident assessments and actions performed are documented in incident tickets to provide a complete historical record of all activities.
2019-30-059	September 2019	10/15/20	FISCAL YEAR 2019 STATUTORY REVIEW OF DISCLOSURE OF COLLECTION ACTIVITIES ON JOINT RETURNS F-1, R-2: Require I.R.C. § 6103(e)(7) and (e)(8) training for all employees with taxpayer contact regarding balance due or collection issues to remind them of the requirements to disclose tax return and collection activity on jointly filed returns when requested from individuals who are no longer married or no longer reside in the same household.

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2019-20-060	September 2019	09/15/20 09/15/20	E-MAIL RECORDS MANAGEMENT IS GENERALLY IN COMPLIANCE WITH THE MANAGING GOVERNMENT RECORDS DIRECTIVE F-1, R-1: Develop clear and detailed enterprise-wide definitions for software development and infrastructure projects. F-1, R-2: Ensure that the appropriate Enterprise Life Cycle criteria and methodology are consistently applied.
2019-20-061	September 2019	11/15/20 09/15/20 11/15/20 08/15/20	FIREWALL ADMINISTRATION NEEDS IMPROVEMENT F-1, R-1: Conduct annual reviews of all firewall rulesets in accordance with agency policies and procedures. F-1, R-2: Assign expiration dates not to exceed 365 days to firewall policies. F-1, R-3: Conduct periodic firewall administrator account audits in accordance with agency policies and procedures. F-2, R-2: Ensure that IRS Firewall Support personnel responsible for managing the firewall systems obtain write access to key data fields to improve the efficiency and accuracy of firewall inventory key data fields.
2019-20-062	September 2019	07/15/21 08/15/20 11/15/20 11/15/20	SOME COMPONENTS OF THE PRIVACY PROGRAM ARE EFFECTIVE; HOWEVER, IMPROVEMENTS ARE NEEDED F-2, R-1: Implement a fully integrated information security continuous monitoring process that includes privacy risks. F-4, R-1: Ensure that the Privacy, Governmental Liaison, and Disclosure (PGLD) office coordinates with the business operating divisions to ensure that all employees take the annual privacy awareness training as required. F-4, R-2: Ensure that the PGLD office updates and maintains Privacy Impact Assessment Management System (PIAMS) training courses to capture PIAMS enhancements. F-4, R-3: Ensure that the PGLD office makes completion of PIAMS training courses mandatory for preparers of rejected Privacy and Civil Liberties Impact Assessments.
2019-30-067	September 2019	06/15/20	THE INTERNAL REVENUE SERVICE SHOULD REVISE THE APPROACH USED TO IDENTIFY FOREIGN CORPORATIONS THAT DO NOT FILE REQUIRED U.S. INCOME TAX RETURNS F-1, R-1: Assess the success of the campaign based on the 22 examinations referrals from the first 50 soft letters issued and consider whether limited examination resources warrant campaign continuation or whether a significant change in the methods to identify nonfilers is warranted.
2019-30-068	September 2019	05/15/20	IMPLEMENTATION OF THE PASSPORT PROVISIONS OF THE FAST ACT WAS GENERALLY SUCCESSFUL, AND THE INTERNAL REVENUE SERVICE IS WORKING ON OBJECTIVE CRITERIA FOR PASSPORT REVOCATIONS F-2, R-1: Continue developing objective criteria based on the IRS's traditional approach to enforcement which takes into consideration an individual taxpayer's facts and circumstances when selecting cases to refer to the State Department for passport revocation.

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2019-30-069	September 2019	11/15/20 11/15/20 11/15/20 11/15/20	<p>BILLIONS OF DOLLARS OF NONFILER EMPLOYMENT TAXES WENT UNASSESSED IN THE AUTOMATED 6020(b) PROGRAM DUE PRIMARILY TO RESOURCE LIMITATIONS</p> <p><u>F-1, R-1</u>: Consider allocating additional resources to the Automated 6020(b) (A6020(b)) program, beginning with the five Full-Time Equivalents (FTE) planned for in FY 2020, in conjunction with the Small Business/Self Employed Division's Nonfiler Strategic Plan and in consultation with the Nonfiler Executive Steering Committee.</p> <p><u>F-2, R-1</u>: Consider revising the A6020(b) systemic case selection criteria to remove the upper dollar threshold limit, revise the case assignment routing order, and update the prioritization to focus on the highest dollar cases. Potential Increased Revenue: \$16,704,598,855</p> <p><u>F-2, R-2</u>: Consider revising the A6020(b) manual case selection criteria to remove the upper dollar threshold limit.</p> <p><u>F-2, R-3</u>: Consider transferring the highest dollar standalone Taxpayer Delinquent Investigation (TDI) inventory from the Automated Collection System (ACS), the Collection queue, and Field Collection to be worked by the planned five FTEs in the A6020(b) program and continue to transfer higher dollar standalone TDI inventory manually to the A6020(b) program until the systemic criteria are revised.</p>
2019-30-070	September 2019	10/15/20 05/15/20 01/15/21 03/15/21	<p>FISCAL YEAR 2019 STATUTORY REVIEW OF COMPLIANCE WITH LEGAL GUIDELINES WHEN ISSUING LEVIES</p> <p><u>F-1, R-2</u>: Ensure that corrective programming is implemented so that Collection Due Process (CDP) notices are issued for Federal contractor levies that are full paid after the levy issuance.</p> <p><u>F-1, R-4</u>: Analyze the causes of delays between the time a CDP hearing request is received at the campus and the input of the CDP hearing transaction code to the Integrated Data Retrieval System, and create an action plan to minimize those delays.</p> <p><u>F-2, R-1</u>: Determine the cause and take the appropriate corrective action(s) to ensure that the ACS does not issue levies on taxpayers without a CDP notice.</p> <p><u>F-3, R-1</u>: Ensure that corrective programming changes are implemented to effectively prevent employees from incorrectly identifying disqualified employment tax levies.</p>
2019-40-071	September 2019	10/15/21 06/15/20 02/15/21 04/15/21	<p>STRENGTHENED VALIDATION CONTROLS ARE NEEDED TO PROTECT AGAINST UNAUTHORIZED FILING AND INPUT OF FRAUDULENT INFORMATION RETURNS</p> <p><u>F-1, R-1</u>: Ensure that the required Digital Identity Risk Assessment is completed for the Filing Information Returns Electronically (FIRE) system and an implementation plan for identity proofing the FIRE system's users is developed.</p> <p><u>F-2, R-1</u>: Conduct outreach to affected industry groups to ensure that payers submit accurate information returns. Based on this outreach, determine if publications and materials need to be updated to provide better guidance on information filing practices.</p> <p><u>F-2, R-2</u>: Evaluate potential business rules and filters that could be implemented to identify questionable information return submissions.</p> <p><u>F-2, R-3</u>: Develop processes to ensure that entities confirmed as suspicious, and that received the account lock, are not allowed access to the FIRE system and to prevent paper returns from posting to the Information Returns Master File.</p>

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2019-30-072	September 2019	11/15/20 02/15/21 11/15/20	<p>MILLIONS OF DOLLARS IN POTENTIALLY ERRONEOUS QUALIFIED PLUG-IN ELECTRIC DRIVE MOTOR VEHICLE CREDITS CONTINUE TO BE CLAIMED USING INELIGIBLE VEHICLES</p> <p><u>F-1, R-1</u>: Use Vehicle Identification Numbers (VIN) provided by taxpayers on their tax returns and readily available third party VIN information to identify taxpayers who are claiming the credit for nonqualifying vehicles, using the same VIN to obtain the credit more than once, using invalid VINs, and using VINs associated to previously leased vehicles.</p> <p><u>F-1, R-2</u>: Develop a compliance program to address the taxpayers who appear to have erroneously received the Plug-In Credit by using a VIN associated to a nonqualifying vehicle, using the same VIN more than once, using an invalid VIN, using VINs associated with previously leased vehicles, or claiming a credit above allowable thresholds (including the 68 taxpayers that TIGTA identified). Potential Increased Revenue: \$82,761,403</p> <p><u>F-2, R-1</u>: Update Examiner Lead Sheets to provide guidance to examiners to review the Plug-In Credit along with information on VIN characteristics, including available resources to check and determine the validity of a VIN.</p>
2019-40-074	September 2019	On Hold On Hold	<p>ADDITIONAL ACTIONS ARE NEEDED TO FURTHER REDUCE UNDELIVERABLE MAIL</p> <p><u>F-1, R-1</u>: Develop Service-wide processes and procedures to ensure that all operating divisions suppress the issuance of nonstatutory notices to taxpayers that have an undelivered mail indicator on their account; suppress the issuance of correspondence when a taxpayer's address of record is an IRS campus; and research and update taxpayer addresses for which the U.S. Postal Service returns undeliverable mail with a yellow label that provides a more current address.</p> <p><u>F-2, R-1</u>: Install and use hygiene software to perfect taxpayer addresses on the ITIN RTS.</p>
2019-30-075	September 2019	05/15/20	<p>FISCAL YEAR 2019 REVIEW OF COMPLIANCE WITH LEGAL GUIDELINES WHEN CONDUCTING SEIZURES OF TAXPAYERS' PROPERTY</p> <p><u>F-1, R-2</u>: Update the IRM to provide guidance to revenue officers and the Property Appraisal and Liquidation Specialists employees on the appropriate practice of accepting keys prior to seizure, including what is required to properly secure the keys when they are accepted.</p>
2019-30-076	September 2019	10/15/20 10/15/20 10/15/20	<p>FISCAL YEAR 2019 STATUTORY REVIEW OF RESTRICTIONS ON DIRECTLY CONTACTING TAXPAYERS</p> <p><u>F-1, R-2</u>: Reemphasize the importance of examiners following established guidelines and procedures on taxpayer representation rights, including enclosure of Publication 1 in correspondence and discussing rights during the initial taxpayer interview process.</p> <p><u>F-1, R-3</u>: Develop procedures for case advocates so that they consistently document how taxpayer rights should be discussed, whether via related publications such as Publication 1 or through other means, and to confirm a taxpayer's understanding of their rights.</p> <p><u>F-2, R-1</u>: Update guidance for employees that clarifies the applicability of I.R.C. §§ 7521(b)(2) and (c), and 6304(a)(2), develop training materials, specific to their casework, to emphasize the importance of protecting taxpayers' rights to representation, and designate to whom group managers should report cases with potential violations.</p>

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No.)
2019-30-078	September 2019	11/15/20 07/15/20 11/15/21 11/15/20 11/15/20 On Hold On Hold	<p>THE USE OF SCHEDULE K-1 DATA TO ADDRESS TAXPAYER NONCOMPLIANCE CAN BE IMPROVED</p> <p><u>F-1, R-1</u>: Conduct periodic outreach to encourage submission of reliable Schedule K-1 data to the IRS.</p> <p><u>F-1, R-2</u>: Conduct a review to determine the process changes needed to increase the consistency of Schedule K-1 penalty application, especially for missing or inaccurate e-filed Schedules K-1.</p> <p><u>F-1, R-3</u>: Establish a process to use more e-filed Schedule K-1 data for noncompliance identification and determine the feasibility of transcribing more data from paper Schedule K-1.</p> <p><u>F-2, R-2</u>: Update flow-through form instructions to explain how a flow-through entity should address reporting a deceased recipient and the steps a flow-through entity could take to ensure that accurate recipient information is entered on Schedules K-1 when ownership changes from a deceased recipient.</p> <p><u>F-3, R-1</u>: Conduct periodic outreach to reinforce how Schedule K-1 amounts should be reported on tax returns to prevent underreporter discrepancies.</p> <p><u>F-3, R-3</u>: Ensure that the computer problem that caused amended Schedules K-1 not to be marked as amended on the Information Returns Master File has been corrected.</p> <p><u>F-3, R-4</u>: Establish a process to record Schedules K-1 as amended when submitted with an amended flow-through return regardless of whether the Schedule K-1 itself is marked as amended.</p>
2019-40-079	September 2019	10/15/20 06/15/20 06/15/20	<p>EXCISE TAX REGISTRATIONS ARE NOT ALWAYS TIMELY OR ACCURATELY PROCESSED</p> <p><u>F-1, R-1</u>: Develop processes and procedures to ensure that compliance reviews are conducted within the required 60 days and Letter 3681 is mailed within the five days of case assignment.</p> <p><u>F-1, R-2</u>: Develop processes and procedures to ensure that tax accounts of currently approved businesses and newly approved businesses include the required Form 637 indicator.</p> <p><u>F-1, R-3</u>: Develop processes and procedures to ensure that Letter 3696 is sent when required or case files are notated as to the reason why a letter is not being sent.</p>
2019-10-080	September 2019	06/15/20 05/15/20 09/15/20 09/15/21	<p>PROCESSES DO NOT ADEQUATELY REDUCE THE RISK THAT OUTSIDE EMPLOYMENT ACTIVITIES WILL CONFLICT WITH EMPLOYEES' OFFICIAL DUTIES</p> <p><u>F-1, R-1</u>: Review the 2,196 employees who hold IRS positions that have responsibility for tax matters and the 167 employees who are potentially engaged in prohibited activity, who earned income in TY 2016 but did not have an approved outside employment request, and ensure that appropriate action is taken to address any prohibited activities or conflicts of interest.</p> <p><u>F-1, R-3</u>: Evaluate whether a legislative proposal is needed to amend I.R.C. § 6103 to enable the IRS to use tax data to perform analyses and identify employees engaged in outside employment activities that involve potentially prohibited activities.</p> <p><u>F-2, R-3</u>: Revise internal outside employment guidelines to require employees to resubmit their outside employment requests at least annually and modify the Outside Employment System (OES) to allow for the systemic closure of all requests for which a renewal was not timely received.</p> <p><u>F-2, R-4</u>: Create a plan for housing the OES or create a new database to ensure that outside employment requests are tracked after the Totally Automated Personnel System is shut down.</p>
2019-10-081	September 2019	01/15/21	<p>PROCESSES AND PROCEDURES FOR REHIRING EMPLOYEES WITH PRIOR CONDUCT OR PERFORMANCE ISSUES WERE IMPLEMENTED BUT NOT ALWAYS FOLLOWED</p> <p><u>F-1, R-1</u>: Update the IRM to require Employment Talent and Security staff to review all ALERTS issues in the hiring tool, not just those within the past six years.</p>

Other Statistical Reports

The Inspector General Empowerment Act of 2016 requires Inspectors General to address the following issues for the Offices of Audit and Inspections and Evaluations: ³⁰	
Issue	Result for TIGTA
<p>Interference/Access to Information Report any attempt to interfere with the independence of TIGTA, including: budget constraints designed to limit the capabilities of TIGTA; and incidents of resistance or objection to oversight activities of TIGTA.</p> <p>Report restricted or significantly delayed access to information, including the justification of the establishment for such action.</p>	As of March 31, 2020, there was no attempt to interfere with the independence of TIGTA or any instances of restricted or significantly delayed access to information.
<p>Disputed Recommendations Provide information on significant management decisions in response to recommendations with which the Inspector General disagrees.</p>	As of March 31, 2020, there was no instance in which significant recommendations were disputed.
<p>Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	As of March 31, 2020, there was no significant revised management decision.
<p>Reports Issued in the Prior Reporting Period With No Management Response Provide a summary of each report issued before the beginning of the current reporting period for which no management response was received within 60 days of the report issuance date.</p>	As of March 31, 2020, there was no prior report for which management's response was not received within 60 days of issuance.
<p>Disclosure Provide detailed descriptions of the circumstances of each inspection, evaluation, and audit that was closed by the agency and was not disclosed to the public.</p>	As of March 31, 2020, there was no report that had been closed and were not disclosed to the public.
<p>Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	TIGTA's Office of Chief Counsel reviewed 225 proposed regulations and legislative requests during this reporting period.

³⁰ Results listed are for this reporting period only.

Appendix II

Audit Products

October 1, 2019 - March 31, 2020

Audit Products		
Reference Number	Report Title	Outcome Measure(s)
October 2019		
No Reports Issued		
November 2019		
2020-10-002	Employee Conduct Issues Are Not Considered When Prioritizing Overdue Background Reinvestigations	
2020-10-003	Fiscal Year 2019 Digital Accountability and Transparency Act Reporting Compliance	Reliability of Information: 440 data elements impacted
2020-40-004	Actions Are Needed to Improve the Safeguarding of Taxpayer Information at Volunteer Program Sites	
2020-40-005	Improvements Are Needed to Ensure That Consistent Suitability Checks Are Performed for Participation in Internal Revenue Service Programs	
December 2019		
No Reports Issued		
January 2020		
2020-10-001	Many Organizations Are Not Notifying the Internal Revenue Service of Their Intent to Operate Under Internal Revenue Code Section 501(c)(4) As Required by Law	
2020-44-007	Results of the 2019 Filing Season	Funds Put to Better Use: \$915,921; Increased Revenue: \$43,491,953 impacting 52,834 taxpayer accounts; Revenue Protection: \$2,126,388 impacting 3,874 taxpayer accounts; Taxpayer Burden: 1,427 taxpayer accounts impacted; Taxpayer Rights and Entitlements: \$51,171,393 impacting 476,291 taxpayer accounts
2020-10-011	Review of the Internal Revenue Service's Purchase Card Violations Report and the Status of Recommendations	
February 2020		
2020-40-009	Complexity and Insufficient Oversight of the Free File Program Result in Low Taxpayer Participation	Taxpayer Rights and Entitlements: 14,326,938 taxpayer accounts impacted
2020-20-006	Active Directory Oversight Needs Improvement	Protection of Resources: Six IRS computer rooms impacted

2020-40-008	Authorities Provided by the Internal Revenue Code Are Not Effectively Used to Address Erroneous Refundable Credit and Withholding Credit Claims	Funds Put to Better Use: \$371,958,300; Increased Revenue: \$534,674,880 impacting 494,555 taxpayer accounts; Revenue Protection: \$10,045,989 impacting 7,132 taxpayer accounts; Inefficient Use of Resources: \$1,096,007
March 2020		
2020-10-016	Bond Promoter Misconduct Procedures Should Be Improved	Reliability of Information: 184 bond examinations
2020-40-014	Millions of Dollars in Discrepancies in Tax Withholding Required by the Foreign Investment in Real Property Tax Act Are Not Being Identified or Addressed	Revenue Protection: \$812,669,048 impacting 4,920 taxpayer accounts; Taxpayer Rights and Entitlements: \$163,101,850 impacting 1,608 taxpayer accounts; Reliability of Information: 2,644 taxpayer accounts impacted
2020-20-010	The Enterprise Cloud Program Developed a Strategy, but Work Remains to Achieve Cloud-Based Modernization Goals	
2020-40-019	A Strategy Is Needed to Address Hiring Shortages As Efforts Continue to Close Tax Processing Centers	
2020-20-013	The Continuous Diagnostics and Mitigation Project Effectiveness Would Be Improved by Better Performance Metrics and Tools Data	
2020-20-012	While Progress Is Being Made on Digital Identity Requirements, Completion Dates to Achieve Compliance With Identity Proofing Standards Have Not Been Established	Taxpayer Privacy and Security ³¹
2020-40-020	Actions Can Be Taken to Proactively Reduce Unpostable Transactions	Funds Put to Better Use: \$91,900
2020-30-017	The Growth of the Marijuana Industry Warrants Increased Tax Compliance Efforts and Additional Guidance	Increased Revenue: \$261,920,110 impacting 5,520 taxpayer accounts; Taxpayer Burden: \$475,131,755 impacting 5,365 taxpayer accounts

³¹ Taxpayer information is redacted because TIGTA has determined that it is tax return information related to taxpayer privacy.

Appendix III

TIGTA's Statutory Reporting Requirements

The following table reflects the FY 2020 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics I.R.C. § 7803(d)(1)(A)	Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.	Fieldwork currently in process.
Restrictions on Directly Contacting Taxpayers 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.	Fieldwork currently in process.
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320(a) upon the filing of a notice of lien.	Fieldwork currently in process.
Extensions of the Statute of Limitations for Assessment of Tax 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 of particular issues or a particular period of time.	Fieldwork currently in process.
Levies 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.	Fieldwork currently in process.
Collection Due Process 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.	Fieldwork currently in process.
Seizures 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.	Fieldwork currently in process.
Taxpayer Designations – Illegal Tax Protester Designation and Similar Designations 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.	Fieldwork currently in process.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Disclosure of Collection Activity With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) (TIGTA requirement) I.R.C. § 6103(e)(8) (IRS requirement)	Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8), which requires the IRS to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	Fieldwork currently in process.
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each <i>Semiannual Report to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by the IRS or TIGTA from taxpayers, IRS employees, and other sources.	Statistical results on the number of received are shown on page 38.
Administrative or Civil Actions With Respect to the Tax Collection Practices Act of 1996 I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 RRA 98 § 3466	Requires TIGTA to include information regarding any administrative or civil actions with respect to violation of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions and any resulting judgments or awards granted.	Fieldwork currently in process.
Denials of Requests for Information I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)	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).	Fieldwork currently in process.
Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)	Requires TIGTA to evaluate the IRS's adequacy and security of its technology.	<u>Security Reviews:</u> Ref. No. 2020-20-006; Feb. 2020 Ref. No. 2020-20-013; Mar. 2020 Ref. No. 2020-20-012; Mar. 2020 <u>Information Technology Reviews:</u> Ref. No. 2020-20-010; Mar. 2020
Government Charge Card Abuse Prevention Act of 2012 Pub. L. No. 112-194, 126 Stat. 1445	Requires TIGTA to report on the IRS progress in implementing purchase and travel card audit recommendations.	Ref. No. 2020-10-011; Jan. 2020 TIGTA's review of the IRS's purchase card program found that controls are generally effective, and the number of purchase card violations identified by the IRS Credit Card Services Branch were minimal and generally for nominal amounts.
Improper Payments Elimination and Recovery Act of 2010 (IPERA) 31 U.S.C. § 3321	Requires TIGTA to assess the IRS's compliance with improper payment requirements.	Fieldwork currently in process.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Digital Accountability and Transparency Act of 2014 (DATA Act)</p> <p>Pub. L. No. 113-101, 128 Stat. 1124</p>	<p>Requires TIGTA to assess the completeness, timeliness, quality, and accuracy of data that the IRS submits to comply with the DATA Act.</p>	<p>Ref. No. 2020-10-003; Nov. 2019</p> <p>The IRS submitted its FY 2019 first quarter spending data by March 2019, as required, for publication on USAspending.gov. Based on a standardized methodology used across Offices of Inspectors General, the IRS received the highest of three possible ratings for overall data quality. However, TIGTA determined that the quality of the spending data, specifically the award (procurement) attribute data, continues to need improvement.</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; § 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 another 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 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 I.R.C. § 6103 for the purpose of concealing information from a congressional inquiry;
- Willfully failing to file any return of tax required under the I.R.C. 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 or 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

Inspector General Peer Review Activity October 1, 2019 – March 31, 2020

This appendix implements § 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act.³²

Peer Reviews Conducted of TIGTA by Another Office of Inspector General

There was no review conducted of TIGTA by another Office of Inspector General during the reporting period.

Outstanding Recommendations from Peer Reviews of TIGTA

There is no outstanding recommendation from peer reviews of TIGTA.

Peer Reviews Conducted by TIGTA

There was no review of another Office of Inspector General conducted by TIGTA during the reporting period.

Outstanding Recommendations from Peer Reviews Conducted by TIGTA

There is no outstanding recommendation from peer reviews conducted by TIGTA.

³² Pub. L. No. 111-203, 124 Stat. 1376 (2010)(codified at 5 U.S.C. app §5(a)(14)-(16)).

Appendix VI

Data Tables Provided by the Internal Revenue Service

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 of October 1, 2019 through March 31, 2020. 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>MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p>FROM: Julia Caldwell Julia W. Caldwell Director, Workforce Relations Division <small>Digitally signed by Julia W. Caldwell DN: cn=Julia W. Caldwell, o=IRS</small></p> <p>SUBJECT: Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress</p> <p>In response to your memorandum dated February 3, 2020, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. section 7803(d)(1)(E) and 26 U.S.C. section 7803(d)(2)(A)(i) for October 1, 2019, through March 31, 2020.</p> <ul style="list-style-type: none">• Report of Employee Misconduct by Disposition Groups• Report of Employee Misconduct – National Summary• Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS) <p>The attached tables contain information about:</p> <ul style="list-style-type: none">• Alleged misconduct reported to IRS managers• Disposition of the allegations resolved during the period• Status of the inventory as of March 31, 2020 <p>The tables contain information about alleged misconduct that both TIGTA and IRS management investigated. The IRS received these allegations from taxpayers, IRS employees, and other sources, and recorded them in ALERTS.</p> <p>The Summary of Substantiated Section 1203 Allegations contains information on the disposition of these cases. During this period, IRS managers substantiated 264 Section 1203 allegations and removed 27 employees as a result. 14 employees retired or resigned before a final administrative action by management. In five (5) of the removals, IRS management considered information in a TIGTA investigation. The Commissioner mitigated proposed removals in 13 cases. The remaining 210 substantiated allegations are still in the adjudication process.</p>	<p>2</p> <p>If you have any questions, please contact Brian Sherry, Acting Associate Director, LRIER Field Operations at (202) 317-5516.</p> <p>Attachments (3)</p> <p>cc: Charles P. Rettig, Commissioner of Internal Revenue Sunita Lough, Deputy Commissioner for Services and Enforcement Jeffrey Tribiano, Deputy Commissioner for Operations Support Terry Lemons, Chief, Communications & Liaison Mark Kaizen, Associate Chief Counsel (GLS) Robin D. Bailey, Jr., Chief Human Capital Officer</p>
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The Tables That Follow Are Provided by the IRS.

Report of Employee Misconduct Summary by Disposition Groups

Period Covering October 1, 2019 - March 31, 2020

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Totals
REMOVAL (PROBATION PERIOD COMPLETE)	24	35	24	—	83
REMOVAL AT OPM DIRECTION	—	—	—	7	7
PROBATION/SEPARATION	3	113	0	—	118
SEPARATION OF TEMP	3	7	—	1	11
RESIGNATION, RETIREMENT, ETC. (SF50 NOTED)	13	25	16	1	55
RESIGNATION, RETIREMENT, ETC. (SF50 NOT NOTED)	19	54	44	2	119
SUSPENSION, 14 DAYS OR LESS	41	73	135	2	251
SUSPENSION, MORE THAN 14 DAYS	10	15	22	—	47
INDEFINITE SUSPENSION	1	3	—	—	4
REPRIMAND	31	119	154	10	314
ADMONISHMENT	20	115	240	4	379
WRITTEN COUNSELING	36	138	193	11	378
ORAL COUNSELING	—	14	11	—	25
A D: IN LIEU OF REPRIMAND	1	4	6	—	11
A D: IN LIEU OF SUSPENSION	5	13	26	—	44
CLEARANCE LETTER	37	87	11	—	135
CWA CAUTIONARY LTR	83	170	132	42	427
CWA LETTER	41	81	32	10	164
TERMINATION FOR ABANDONMENT OF POSITION	—	5	—	—	5
CASE SUSPENDED PENDING EMPLOYEE RTD	—	—	0	—	1
PROSECUTION PENDING FOR TIGTA'S ROI	—	—	—	—	—
CLOSED	—	—	—	—	—
FORWARDED TO TIGTA	—	1	—	—	1
TOTAL	368	1,072	1,049	90	2,579

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

Note: Columns containing numbers of two or less and protected by I.R.C. § 6103 are notated with a zero and are not reflected in the column and row totals.

Extract Date: April 1, 2020

Report of Employee Misconduct National Summary

Period Covering October 1, 2019 - March 31, 2020

Inventory Case Type	Open Inventory	Conduct Cases Received	Cases Closed			Ending Inventory
			Conduct Issues	Cases Merged with Other Cases	Non-Conduct Issues	
ADMINISTRATIVE CASE	598	1,656	1,371	40	46	797
EMPLOYEE CHARACTER INVESTIGATION	82	188	106	4	—	160
EMPLOYEE TAX COMPLIANCE CASE	1,805	424	1,131	43	—	1,055
TIGTA REPORT OF INVESTIGATION	547	480	471	10	—	546
Total	3,032	2,748	3,079	97	46	2,558

Source: ALERTS

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

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

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

TIGTA Investigations - 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.

Extract Date: April 1, 2020

Summary of Substantiated I.R.C. § 1203 Inquiries Recorded in ALERTS

Period Covering October 1, 2019 - March 31, 2020

§ 1203 Violation	Removals	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated	In Personnel Process	Total
1203(b)(2): FALSE STTMNT UNDER OATH	—	—	—	—	—	1	1
1203(b)(4): CONCEALED WORK ERROR	1	—	—	—	—	—	1
1203(b)(8): WILLFUL UNTIMELY RETURN	8	7	—	4	8	104	131
1203(b)(9): WILLFUL UNDERSTATED TAX	13	7	—	0	5	105	131
Total	22	14	—	5	13	210	264

Source: ALERTS

Note: Columns containing numbers of two or less and protected by I.R.C. § 6103 are annotated with a zero and are not reflected in the column and row totals.

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

Extract Date: April 1, 2020

Glossary of Acronyms

ACS	Automated Collection System
ALERTS	Automated Labor and Employee Relations Tracking System
ANMF	Automated Non-Master File
BYOD	Bring Your Own Device
CAF	Centralized Authorization File
CCI	Centralized Case Intake
CDP	Collection Due Process
DATA Act	Digital Accountability and Transparency Act of 2014
DLP	Data Loss Prevention
DOJ	Department of Justice
EEFax	Enterprise Electronic Fax
EIN	Employer Identification Number
ERO	Electronic Return Originator
ESP	Enterprise Standards Profile
FAFSA	Free Application for Federal Student Aid
FinCEN	Financial Crimes Enforcement Network
FIRE	Filing Information Returns Electronically
FIRPTA	Foreign Investment in Real Property Tax Act
FMSS	Facilities Management and Security Services
FSA-ID	Federal Student Aid ID
FTE	Full-Time Equivalent
I&E	Office of Inspections and Evaluations
I.R.C.	Internal Revenue Code

IP PIN	Identity Protection Personal Identification Number
IPERA	Improper Payments Elimination and Recovery Act of 2010
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigation
ISP	Information Security Plan
ISRP	Integrated Submission and Remittance Processing
ITIN	Individual Taxpayer Identification Number
ITRAC	Item Tracking Reporting and Control
JAMES	Joint Audit Management Enterprise System
LLC	Limited Liability Company
MOU	Memorandum of Understanding
OEP	Office of Employee Protection
OES	Outside Employment System
OI	Office of Investigations
PATH Act	Protecting Americans from Tax Hikes Act of 2015
PGLD	Privacy, Governmental Liaison, and Disclosure
PIAMS	Privacy Impact Assessment Management System
PII	Personally Identifiable Information
PPI	Payroll Professionals, Incorporated
PTIN	Preparer Tax Identification Numbers
PY	Processing Year
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998

RTS	Real-Time System
SAR	Suspicious Activity Reports
SBU	Sensitive But Unclassified
SPEC	Stakeholder Partnerships, Education, and Communication
SSN	Social Security Number
STARS	Scheme Tracking and Referral System
TAS	Taxpayer Advocate Service
TDI	Taxpayer Delinquent Investigation
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
TY	Tax Year
UD	Undelivered
UTS	Universal Tax Services
VIN	Vehicle Identification Number
VSD	Virtual Service Delivery



DEPARTMENT

ALEXANDER HAMILTON

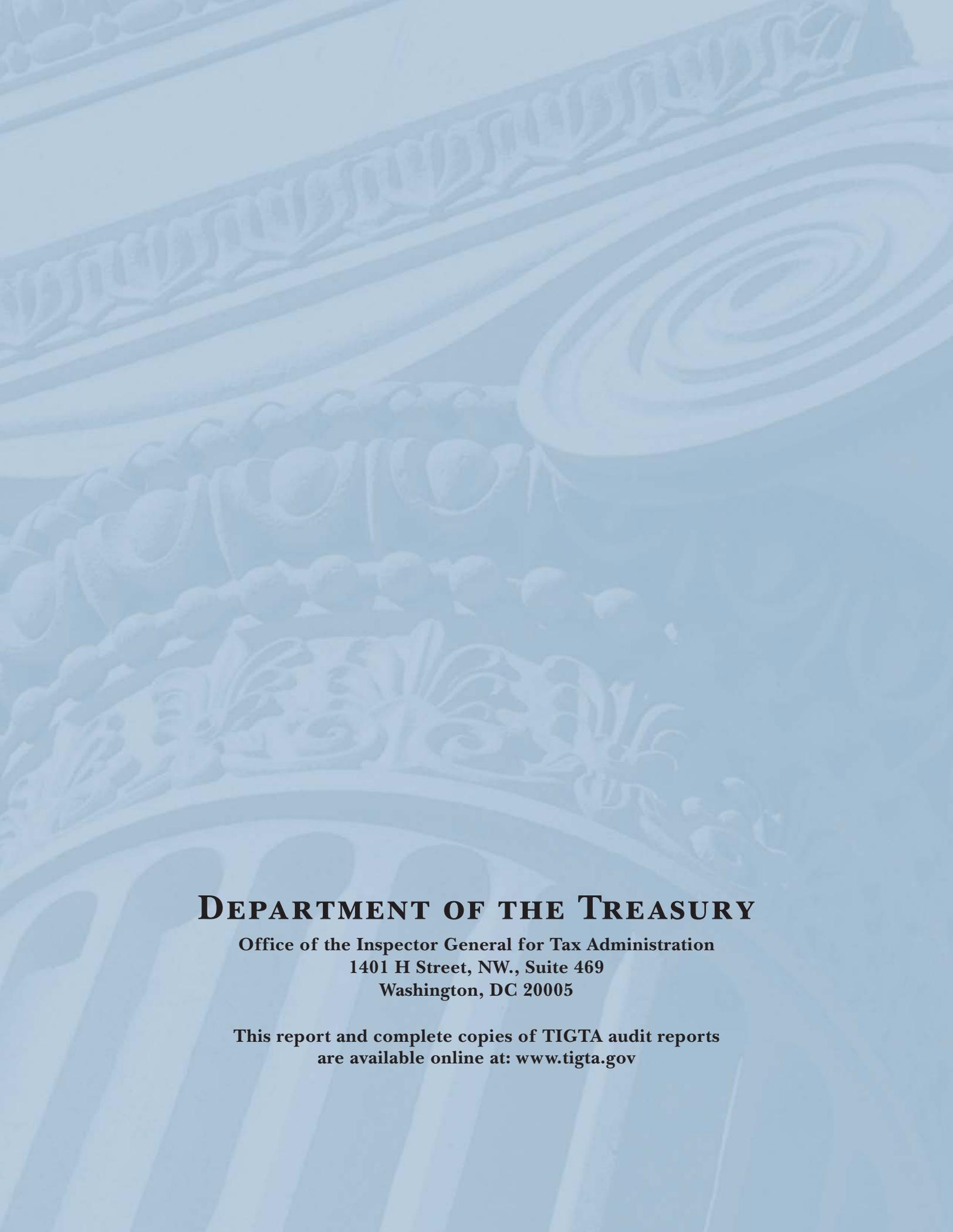
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DEPARTMENT OF THE TREASURY

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