



*Treasury  
Inspector General for  
Tax Administration*

# **Semiannual Report to Congress**

April 1, 2001 through September 30, 2001

**Treasury Inspector General  
for Tax Administration**

# **Vision Statement**

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We are a respected member of the government community:

- Independent, objective and professional in the conduct of our mission.
- Dedicated and innovative professionals who take pride in promoting fair tax administration and good government.
- Proud of our past and focused on our future.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

October 30, 2001

The Honorable Paul H. O'Neill  
Secretary of the Treasury  
Washington, D.C. 20220

Dear Mr. Secretary:

I am pleased to submit to you the Treasury Inspector General for Tax Administration's (TIGTA) *Semiannual Report to Congress* for the reporting period April 1, 2001 through September 30, 2001.

TIGTA would like to express its sympathy to those affected by the tragic events of September 11, 2001. While these are trying times for all of us, I am especially proud of the TIGTA staff who on the day of the attacks, immediately went into action to provide assistance to those in need. I would like to commend their dedication and hard work. We were also very thankful that all of our TIGTA employees who worked at the World Trade Center got home safely and without serious injury.

TIGTA's Office of Investigations is providing assistance to the law enforcement community in investigating the attacks at the World Trade Center and the Pentagon. Our efforts in this area include:

- Providing full-time coverage to both the Federal Bureau of Investigation's (FBI) central command post, and the FBI's Joint Terrorism Task Force.
- Providing various types of information available through Internal Revenue Services' (IRS) records. This information has been extremely useful in identifying hijackers and their associates, as well as tracking financial information related to the attacks.
- Supporting the Federal Aviation Administration's Federal Air Marshal Program.

Also, in conjunction with the Department of Housing and Urban Development, the Office of Investigations is actively coordinating a joint effort by the President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency to provide long-term support to this investigation.

We are proud to be participating in these efforts while continuing our work overseeing the nation's tax administration. Our audit and investigative accomplishments for this six-month period are highlighted in the *Executive Summary*.

I look forward to continuing to work together with you, Congress and IRS officials to help the Agency address the challenges it faces in Fiscal Year 2002.

Sincerely,

A handwritten signature in blue ink that reads "David C. Williams".

David C. Williams  
Inspector General

Enclosure

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# Executive Summary

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The Office of the Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of Internal Revenue Service (IRS) activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. TIGTA is organizationally placed within the Department of Treasury (Treasury), but is independent of the Department and all other Treasury offices. TIGTA's focus is devoted to all aspects of work related to tax administration.

TIGTA's audit and investigative activities are designed to:

- Promote economy, efficiency, and effectiveness in administering the Nation's tax system.
- Detect and deter fraud and abuse in IRS programs and operations.
- Protect IRS against external attempts to corrupt or threaten its employees.

Other responsibilities include:

- Investigating allegations of misconduct by IRS employees.
- Reviewing and making recommendations about existing and proposed legislation and regulations related to IRS and TIGTA programs and operations.
- Recommending actions to resolve fraud, abuses, and deficiencies in IRS programs and operations.
- Informing the Secretary of the Treasury and Congress of problems and progress made to resolve them.

The Offices of Audit (OA) and Investigations (OI) carry out these duties and are supported in their efforts by the Offices of Chief Counsel, Information Technology, and Management Services.

## Authorities

TIGTA has all the authorities granted under the *Inspector General Act of 1978*.<sup>1</sup> TIGTA also has access to tax information in the performance of its responsibilities and has the obligation to report potential criminal violations directly to the Department of Justice. The Inspector General (IG) and the Commissioner of IRS have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the internal revenue laws.

In addition, the *IRS Restructuring and Reform Act of 1998*<sup>2</sup> (RRA 98) amended the *Inspector General Act of 1978* to give TIGTA statutory authority to carry firearms and execute the provisions of the *Internal Revenue Code (I.R.C.) Section 7608(b)(2)*. These provisions include law enforcement authority to execute and serve search warrants, serve subpoenas, and make arrests.

## TIGTA's Accomplishments

TIGTA was highly productive during this six-month reporting period. Some of the highlights include:

- Issuing 126 audit reports with cost savings or funds put to better use totaling over \$13 billion,<sup>3</sup> with an additional \$13.3 billion in increased revenue and protected

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<sup>1</sup> *Pub. L. No. 95-452 Stat. 1101, as amended, at 5 U.S.C. App. 3 (1994 & Supp. II 1996).*

<sup>2</sup> *Pub. L. No. 105-206, 112 Stat. 685.*

<sup>3</sup> Audit report, Reference No. 2001-30-148, contains an estimated five-year benefit of \$13 billion that represents the amount of interest that could be avoided if all overpayments are timely refunded by IRS within 45 days. The actual interest savings would be reduced by an indeterminable amount for any refunds that are not timely processed (see Appendix I, page 31).

revenue.<sup>4</sup> Audit recommendations improved tax administration for almost 14.5 million taxpaying entities. These issues primarily involved taxpayer rights and entitlements, burden and privacy, and security.

- Receiving 3,902 complaints of alleged criminal wrongdoing and/or administrative misconduct, of which 1,600 warranted further investigation. In addition, 2,322 investigations were closed. The investigations included assault, bribery, theft, and fraud. Investigative recoveries totaled approximately \$8.1 million.
- Conducting integrity awareness presentations for over 23,000 individuals. IRS employees comprised 89 percent of these individuals. These presentations heighten integrity awareness and have a potential deterrent effect on fraud and misconduct.

## Investigative Highlights

In response to the tragic events of September 11, 2001, TIGTA's Office of Investigations in New York responded immediately, providing assistance to those injured in the aftermath of the destruction and chaos at the World Trade Center. Within a day, TIGTA had established equipment and supplies needed to reestablish our displaced New York office, which was one of the buildings that collapsed that day (see picture). TIGTA also established "linked communication" for the U.S. Secret Service and U.S. Customs Service, whose communication had been completely severed by the events. TIGTA subsequently provided other law enforcement equipment to those affected agencies.

OI continues to provide communications and direct investigative assistance in support of the World Trade Center terrorist investigation. For instance, in conjunction with the Department of Housing and Urban Development (HUD), OI is actively



*Photograph of the collapsed 6 World Trade Center building that TIGTA had occupied in New York City before the terrorist attack on September 11, 2001.*

coordinating a joint President's Council on Integrity and Efficiency/ Executive Council on Integrity and Efficiency effort to provide long-term investigative support to this investigation. TIGTA and HUD will oversee up to 80 special agents from multiple IG offices to augment investigative personnel currently supporting the investigation.

OI also continues with its primary mission of detecting and deterring fraud and other misconduct within IRS programs. Highlights of the most significant investigations during this six-month reporting period include:

- An individual engaged in the theft of mail, stalking, trespassing, and Internet searches for the purpose of identifying the addresses and vehicles belonging to Federal law enforcement agents who were involved in the individual's prosecution for previous Federal crimes.
- An individual was convicted of two counts of interstate stalking related to the stalking of a TIGTA special agent. This individual is the admitted author of *Assassination Politics*, an essay advocating the assassination of government employees.
- A joint investigation conducted by TIGTA, the U.S. Secret Service, and the Federal Bureau of Investigation (FBI) successfully

<sup>4</sup> See Appendix I, page 34.



identified the source of Internet threats directed at the President, a TIGTA special agent, and other law enforcement officials.

- A 30-year IRS employee was arrested by TIGTA and charged with receiving bribes totaling nearly \$19,000 from an individual on behalf of the individual's business entity in return for not collecting over one-half million dollars in delinquent tax. The case was initiated as a result of a FBI investigation during which evidence alleged the business individual had paid bribes to an unnamed IRS employee.
- An individual was sentenced to 46 months imprisonment, 3 years probation, ordered to pay nearly \$4 million in restitution and \$400 in special assessments for participation in an identity theft fraud ring. The individual provided identification documents, including Social Security numbers (SSN), to the ring that had established bank accounts to deposit stolen checks. The deposits included IRS refund checks and individuals' tax remittances.

Synopses of these and other significant investigative activities conducted during this reporting period can be located on pages 23 through 30.

## Audit Highlights

OA's work addresses both major management issues facing IRS, as well as areas of concern for Congress, the IRS Commissioner, and the IRS Oversight Board. Emphasis is also placed on the statutory coverage imposed by *RRA 98*. During this six-month reporting period, OA results focused on the following areas:

- *Providing Security Over Information Systems* - Highlights in this area include IRS making strides toward improving security over information systems, although, the level of security over these systems is not yet adequate.

- *Business Systems Modernization* - IRS has made notable progress in modernizing its technology systems. However, IRS is still struggling with developing and integrating the discipline and repeatable processes needed to effectively and efficiently modernize its technology.
- *Addressing the Impact of the Global Economy on Tax Administration* - As taxpayers' international transactions and operations increase, IRS is concerned about identifying and examining the issues presenting the greatest risks. OA conducted three reviews that addressed these issues and concluded that, overall, IRS needs to increase its focus on international compliance programs.
- *Criminal Investigation (CI)* - OA reported that the CI function was not making a shift to investigate tax crimes as envisioned by the June 2001 *Webster Report* (an independent review of the Criminal Investigation function).<sup>5</sup>

Details of these areas are included in the next section, *Major Issues Facing the IRS*, see pages 7 through 10. Synopses of additional significant audit activities conducted during this period can be found on pages 11 through 21.

## Assistance to Foreign Tax Administrations

On several occasions, TIGTA supported IRS in assisting foreign tax administrations. This assistance included detailing an individual to the Port of Spain, Trinidad and Tobago Ministry of Finance, making presentations to government officials for El Salvador, providing high-level technical support to Bulgaria's tax collection agency, and conducting a review for the Inspector General of the Tax Revenue Ministry in the country of Georgia.

<sup>5</sup> *Review of the Internal Revenue Service's Criminal Investigation Division, also known as the Webster Report (Reference No. 2001-10-100).*



# Major Issues Facing IRS

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During this six-month reporting period, TIGTA continued to focus its efforts on conducting audit work to address IRS' major management challenges. The following sections highlight TIGTA's activities in some of these areas. Additional details of other significant audit and other investigative activities can be found on pages 11 through 30, and in the Appendices starting on page 31. Information on statutory requirements can be found on page 69.

## ▣ **Providing Security Over Information Systems**

IRS is a highly visible target for hackers and disgruntled employees, considering the amount and sensitivity of the data IRS is charged with protecting, and the amount of revenue it collects. Access to the Internet and the linking of internal computer systems have greatly increased the risk of loss or theft.

IRS has made strides toward improving security over information systems. The overall security environment of the large processing centers has improved. Mainframe computer operating system controls are generally adequate and significant progress has been made in preparing adequate disaster recovery plans. IRS has also taken actions to protect its critical information systems. During the last year, IRS has identified the critical assets, assessed the vulnerability of those assets, and requested funds to improve the physical security of the assets.

Despite IRS' significant efforts and accomplishments over the past few years, OA found that the overall level of security over IRS' information systems is not yet adequate. Several audits have focused on

the adequacy of controls to prevent hackers from intruding into IRS systems or networks, and on controls to detect those who try. Other audits have focused on controls inside IRS.

At the Internet gateways, which control external access into the IRS network, firewalls and routers were not upgraded to protect against commonly known weaknesses; configurations were weak; changes to configurations were not documented; activity logs were not generated and reviewed; and sufficient and capable staffing was not assigned to administer the firewalls. IRS still does not have the capability to detect intrusions at all entry points from the Internet.

Internally, OA noted weaknesses with network operating system controls, physical security, and access privileges. Due to the interconnectivity of systems within IRS, these weaknesses are significant. Unauthorized persons gaining access to a computer in even the smallest post-of-duty can potentially access data in any of the computing centers. IRS still does not routinely run or review activity logs on network servers to detect potential internal security breaches.

Over the years, IRS has not routinely considered security when designing new systems. In an audit of the security certification process in June 2000,<sup>6</sup> OA noted that only 10 percent of IRS' sensitive systems had been certified and all but one of those had been certified after they had been implemented. IRS is addressing this issue, but progress has been slow. As of May 2001, only 15 percent of IRS' sensitive systems had been certified.

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<sup>6</sup> *Certifying the Security of Internal Revenue Service Computer Systems Is Still a Material Weakness*, (Reference No. 2000-20-092).

OA attributes many of the conditions identified to:

- A lack of clear accountability for security throughout IRS.
- Insufficient knowledge and skills.
- Insufficient security awareness among managers and employees.

In addition, OA has made recommendations to correct for the weaknesses identified and IRS has taken or planned actions to implement them. A list of issued reports is listed in Appendix VI, page 71.

## □ **Business Systems Modernization**

IRS has made notable progress in modernizing its technology systems. It installed an upgraded telephone communications system that improves its ability to receive, route and respond to the more than 150 million taxpayer telephone calls it receives each year. The improvements include voice-activated programs that recognize English or Spanish-speaking callers, and capabilities that more accurately route taxpayer calls to the most appropriate IRS resource. IRS also began installation of, and training for, a new software application that assists revenue agents in accurately computing some of the most complex corporate tax transactions.

However, IRS is still struggling with developing and integrating the discipline and repeatable processes needed to effectively and efficiently modernize its technology. OA continues to monitor and report on the following areas that, at this stage, pose potential barriers to the success of Business Systems Modernization:

- *Delays and cost overruns in delivering tangible benefits to taxpayers.* All of the modernization projects have taken

longer and cost more to develop than originally estimated. To date, IRS has spent or obligated over \$500 million in modernization funds. IRS plans to deliver several projects with direct taxpayer benefits in 2002; however, some of these projects will be installed later than planned. Other projects have been scaled back in order to install them.

- *Potential funding problems.* Because the projects have cost more than estimated, all modernization funds provided by Congress have been spent or obligated. While IRS expects Congress to provide additional funds in 2002, some ongoing or planned projects may need to be postponed or scaled back depending on the level of funding required.
- *Inconsistencies in implementing key systems development processes.* Project teams are having problems implementing and following key processes, such as risk, configuration and contract management.
- *Business needs not always being well defined.* Changing requirements during the development of projects have contributed to the delays and cost overruns.
- *Lack of clarity as to which systems development projects should be classified as modernization projects.* The intent of Congress is to closely oversee and control funding for systems modernization because IRS' previous attempts to modernize are viewed as having failed. However, IRS has not developed authoritative guidelines to determine which of its many systems development projects should be classified, managed, and separately funded as modernization projects. This could result in certain projects not receiving the oversight intended or funds being used for purposes not intended or approved by Congress.

OA recommended corrective actions to strengthen the controls over these identified conditions. IRS management generally agreed with the recommendations and has taken or planned actions to implement the recommendations.

## □ **Addressing the Impact of the Global Economy on Tax Administration**

One of the major strategies of IRS' Large and Mid-Size Business (LMSB) Division is to build a tax administration to effectively deal with globalization. As taxpayers' international transactions and operations increase, IRS is concerned about identifying and examining the issues presenting the greatest risks. OA conducted three reviews that addressed several of these issues and concluded, overall, that IRS needs to increase its focus on international compliance programs. In addition, data quality problems were identified in the system that processes returns showing foreign persons' income information. The problems can potentially result in providing inaccurate information to foreign treaty partners and/or for use in examinations. Some of the issues identified by OA include:

- Between 1995 and 1998, the estimated number of United States (U.S.) partnerships with foreign partners increased by over 63 percent. OA reported that IRS could more effectively monitor foreign partnerships that are required to withhold taxes for taxable income connected with the conduct of a trade or business in the United States.<sup>7</sup> Also, IRS management could better use the information from partners' tax returns and withholding information documents to identify their non-compliance. Over 50 percent of a small sample of

reviewed partnerships did not withhold about \$758 million that may have been required on approximately \$2.2 billion of effectively connected income.

- Foreign Controlled Corporations (FCC) comprise about 3 percent of the approximately 2.2 million corporation returns that were filed in the U.S. for Tax Year (TY) 1997. FCCs are incorporated in the U.S., but controlled by a foreign entity or entities, directly or indirectly.

OA reported that controls over the identification and selection of FCCs for examination need improvement.<sup>8</sup> The LMSB Division's referral control needs to ensure that all FCC returns selected for examination are timely referred by domestic revenue agents to the International Examination so significant issues involving hundreds of millions of dollars are not excluded from examination.

- Foreign persons are subject to a U.S. tax of 30 percent on U.S. source income unless an income tax treaty establishes a lower rate. This type of income has grown from \$79 billion in TY 1990 to over \$124 billion in TY 1998. OA reported that IRS could improve the quality and use of information received on income of foreign persons and better ensure their reporting compliance.<sup>9</sup>

OA recommended corrective actions to strengthen the controls over the conditions identified. IRS management generally agreed with all but one of the recommendations reported. IRS management did not agree to extract the data from partnership returns and match withholding information as an interim measure. IRS management requested further time to assess whether a

<sup>7</sup> *Stronger Actions Are Needed to Ensure Partnerships Withhold and Pay Millions of Dollars in Taxes on Foreign Partners' Income (Reference No. 2001-30-084).*

<sup>8</sup> *Controls Over the Identification and Selection of Foreign Controlled Corporations for Examination Need Improvement (Reference No. 2001-30-119).*

<sup>9</sup> *Significant Efforts Have Been Made to Improve Information Reporting for Foreign Persons, But Substantial Work Remains (Reference No. 2001-30-181).*

systemic crosscheck of withholding credits could be established.

## ▣ **Criminal Investigation**

In July 1998, the IRS Commissioner appointed Judge William Webster to direct an independent review of the CI function. Judge Webster assembled a task force to assess CI's effectiveness in accomplishing its mission as IRS' criminal law enforcement arm. The task force determined that CI had drifted from its primary mission of investigating tax crimes affecting tax compliance and emphasized the need to refocus CI resources to investigate tax-related crimes.

OA reported that CI was not making the shift to investigate tax crimes as envisioned by the June 2001 *Webster Report* and was not operating within the framework of a current functional compliance strategy.<sup>10</sup> In addition, CI's practices did not provide an effective means for measuring the success of shifting resources to legal source tax violations. Also, OA reported that the indicators used by CI management did not show conclusive evidence that resources were shifted to investigate more legal source tax violations. OA further concluded that CI did not conduct a workload analysis to determine the optimal number, placement, and size of field groups.

OA recommended that CI develop and communicate a detailed compliance strategy that will ensure resources are being allocated to investigate more legal source tax violations; establish an effective process to assess the progress of program initiatives; and develop a methodology to determine where resources should be allocated. IRS management agreed with the recommendations and is taking appropriate corrective action.

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<sup>10</sup> *Review of the Effectiveness of Criminal Investigation's Strategic Planning Process (Reference No. 2001-10-098).*

## ▣ **Government Performance and Results Act of 1993<sup>11</sup> (GPRA)**

During Fiscal Year (FY) 2000, OA conducted eight GPRA-related reviews that included evaluations of IRS' implementation of GPRA; 6 of the 11 IRS customer satisfaction surveys; and IRS' Annual Program Performance Report (APPR). In a consolidated report, OA found that IRS did not have a centralized process to ensure that all of the requirements of GPRA were achieved and maintained.<sup>12</sup>

Additionally, the individual operating units did not adequately administer the *Customer Satisfaction Survey* process, and the process for completing IRS' APPR did not provide management adequate time to assess performance. OA recommended that IRS management consider centralizing GPRA oversight; better administer the *Customer Satisfaction Surveys* and qualify the data as needed; and improve the APPR process.

IRS management generally agreed with the recommendations contained in the eight reports and has taken several steps to address these concerns. The IRS Commissioner designated the Deputy Commissioner and the Chief Financial Officer as responsible for the macro-level GPRA processes and the operating unit executives as responsible for implementing GPRA in their respective areas. IRS is planning to qualify some data and has made changes to its performance management process to help better define and report on measures.

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<sup>11</sup> *Pub. L. No. 103-62, 107 Stat. 285.*

<sup>12</sup> *Management Advisory Report: The Internal Revenue Service's Implementation of the GPRA During Fiscal Year 2000 (Reference No. 2001-10-085).*



## Introduction

OA identifies opportunities to improve administration of the Nation's tax laws by conducting comprehensive, independent performance and financial audits of IRS programs and operations to:

- Assess efficiency, economy, effectiveness, and program accomplishments.
- Ensure compliance with applicable laws and regulations.
- Prevent, detect, and deter fraud, waste, and abuse.

## The Audit Program

OA developed a comprehensive audit program to assist IRS in meeting its challenges faced in FY 2001. It helped IRS assure tax administration programs were efficient and effective, and minimized fraud, waste, and abuse. Major management issues, as well as specific areas of concern to Congress and the IRS Commissioner, were also addressed.

OA's audit work was organized around IRS' core business activities: Headquarters Operations and Exempt Organizations; Small Business and Corporate Programs; Wage and Investment Income; and Information Systems. Emphasis was also placed on the statutory coverage imposed by *RRA 98*, as well as on other statutory authorities and standards involving computer systems and financial management.

## Significant Audit Results

OA issued 126 audit reports during this reporting period (see Appendix IV, pages 61 - 68). Results of the most significant reviews are discussed in the following sections.

### ▣ *Headquarters Operations and Exempt Organizations*

The Headquarters Operations and Exempt Organizations Programs Unit has primary responsibility for the performance of statutory audits imposed by *RRA 98*. The Unit also covers the following IRS program areas: Tax Exempt and Government Entities (TE/GE), Criminal Investigations, Headquarters Operations, and Agency-Wide Shared Services. Audit highlights in this area include:

#### ***Improvements Can Be Made to the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan Process***

##### **(Reference No. 2001-10-093)**

IRS has made significant improvements with its remediation plan required by the *Federal Financial Management Improvement Act of 1996 (FFMIA)*.<sup>13</sup> An OA follow-up of previously reported findings showed that all weaknesses identified by the General Accounting Office during its financial statement audits through FY 2000 were included in IRS' remediation plan, including intermediate target dates for all remedial actions.

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<sup>13</sup> 31 U.S.C. §§ 1105-1106, 1113 and 3512 (1994).

However, IRS' remediation plan through September 30, 2000 continued to not fully comply with FFMIA requirements since resource commitments were not identified for all remedial actions. Also, IRS was not performing independent verifications of implemented remedial actions, and was not providing sufficient explanations for why there were revised remedial action intermediate target dates.

OA recommended that the Chief Financial Officer, in consultation with responsible IRS organizational officials, should take an active role in identifying resource needs for all remediation plan actions; independently verifying and testing completed remedial actions; and verifying the reasonableness of revised remedial action intermediate target dates, including accomplishment dates for remedial actions that have intermediate target dates in subsequent fiscal years.

IRS management agreed with the recommendations and is taking appropriate corrective action.

***The Exempt Organizations Function's Examination Workplan Can Be Improved to Increase Its Effectiveness***  
**(Reference No. 2001-10-177)**

The Exempt Organizations (EO) Function's field examination program identifies and corrects noncompliance among the 1.5 million exempt organizations that control assets of over \$2 trillion. OA reported that EO Examination management had not considered examination results, such as no change rates, when developing and monitoring the workplan. Additionally, the EO Examination's work planning practices did not ensure that the Casework category of examinations focused on areas with a known potential for noncompliance. IRS management noted that the report concerned a transition period during with EO was being reorganized and examination practice were atypical.

OA recommended that IRS management establish procedures to routinely extract and compile prior examination results to identify patterns of noncompliance and to use this data to develop and monitor the workplan. In addition, the staff should establish procedures to ensure coverage in Casework project codes where there is a higher potential for noncompliance.

IRS management agreed with the recommendations and is taking appropriate corrective action.

***Compliance With Certain Taxpayer Rights Provisions Contained in the Internal Revenue Service Restructuring and Reform Act of 1998 Could Be Improved***  
**(Reference No. 2001-10-147)**

OA reviewed 18 of 71 provisions that protect taxpayer rights contained in *RRA 98* to determine IRS' level of compliance with these provisions (see Table 1). IRS needed to improve its compliance with some of the *RRA 98* provisions — notice of lien; innocent spouse relief; prohibition on Illegal Tax Protester designations; and restrictions on the use of enforcement statistics.

**Table 1. Results of Audit Review of 18 RRA 98 Provisions**

<i>Status</i>	<i>Number of Provisions</i>
Full compliance .....	3
Additional corrective actions taken to increase compliance .....	7
Extension of implementation deadline .....	3
Non-compliance .....	2
Compliance could not be fully evaluated .....	3
<b>Total</b>	<b>18</b>

While IRS has made progress implementing the taxpayer rights provisions, there were certain factors that hindered the implementation efforts. The system used to track programming changes was not designed to track the changes through to completion. New procedures for complying with *RRA 98* were not always made available timely. In addition, programming changes need to be completed on all applicable systems so that certain notices and statements required by *RRA 98* can be sent to taxpayers.

OA recommended that IRS develop procedures to track programming changes through to completion; issue procedural guidance at one centralized site; and complete the necessary programming to ensure that certain statements and notices are sent to approximately 14.4 million taxpayers by the dates required.

IRS management agreed with the recommendations and is taking appropriate corrective action.

### ***Improvements Are Needed to Comply With Legal and Procedural Requirements for Collection Statute Extensions and Installment Agreements***

#### **(Reference No. 2001-10-103)**

IRS generally must collect a balance due within 10 years of the date the tax was assessed. *RRA 98 § 3461(a)* prohibits extensions to the 10-year collection statute of limitations except if the extension is in connection with an installment agreement or levy release. *RRA 98 § 3461(c)* requires IRS to change all collection statute extension dates to December 31, 2002, if the collection statute extension was not secured with an installment agreement prior to December 31, 1999.

IRS was not fully complying with these requirements. Collection statute

extensions were sometimes secured without also securing the related installment agreement or levy release. For those cases in which the case history was available, it appeared that IRS and the taxpayer intended to establish an installment agreement in most instances; however, the installment agreement was never processed or approved.

In cases where the extension was requested before January 1, 2000, IRS' actions may not allow the necessary time to accurately update collection statute expiration dates and to collect over \$289 million in tax liabilities. Also, IRS could not provide the signed documents needed to support some of the collection statute extensions recorded on its computer systems. Many of the reviewed collection statute extensions and installment agreements did not have a properly calculated payment date, thus causing a miscalculation of the collection statute date.

OA recommended that IRS:

- Clarify procedures to ensure that collection statute extensions are approved concurrently with a related installment agreement or levy release.
- Update procedures to reflect the new locations for storing signed collection statute forms per IRS' reorganization.
- Have IRS management review the taxpayer accounts identified as inaccurate or that may not have complied with the law, and take appropriate action to correct the collection statute expiration dates.
- Develop a comprehensive plan for implementing the provisions of *RRA 98 § 3461(c)* and for taking actions to collect the remaining tax liabilities before the statutes expire.

IRS management agreed with the recommendations and is taking appropriate corrective action.



## □ **Small Business and Corporate Programs**

The Small Business and Corporate Programs Unit assesses IRS' efforts in keeping self-employed taxpayers, small businesses, and large and mid-size corporations compliant with tax laws and regulations. The Unit's work focuses on compliance issues, IRS customer service efforts, returns processing issues, and other tax aspects that are unique to self-employed, small, mid-size and large business taxpayers.

### **Significant Tax Revenue May Be Lost Due to Inaccurate Reporting of Taxpayer Identification Numbers for Independent Contractors (Reference No. 2001-30-132)**

For TYs 1995 through 1998, IRS received about 9.6 million *Statements for Recipients of Miscellaneous Income (Form 1099-MISC)* that reported approximately \$204 billion in non-employee compensation. These forms neither contained a Taxpayer Identification Number (TIN) for the payee nor matched IRS' records of assigned TINs. As a consequence of the missing information, IRS could not use these documents in its computer-matching programs to determine whether the recipients of this compensation filed a tax return and/or reported all of the income.

OA reported that IRS' ability to encourage the filing of accurate information returns for non-employee compensation through its administration of the existing backup withholding and penalty provisions is extremely limited and largely ineffective. Between TYs 1995 and 1998, the number of *Forms 1099-MISC* submitted to IRS with missing or incorrect TINs increased by 36 percent. The amount of potentially lost revenue may be significant since IRS' data suggests that independent

contractors who receive non-employee compensation are far less compliant in reporting their income than wage earners.

OA recommended that IRS seek legislation requiring mandatory tax withholding on all non-employee compensation payments to encourage accurate information reporting and to protect the Treasury from the potential loss of significant tax revenue. As an alternative, OA recommended that IRS seek legislative changes that will enable it to more aggressively impose backup withholding requirements and civil penalties on payers who submit *Form 1099-MISC* with missing or invalid TINs.

IRS management responded that they have previously submitted proposals to Treasury that would require mandatory withholding of income taxes on non-employee compensation payments. In the past, Treasury has chosen not to forward these proposals to Congress. IRS will decide by December 31, 2001 whether it is feasible to submit a proposed legislative change.

### **Tax Law Changes Are Needed to Improve Fairness in Paying Interest on Tax Refunds (Reference No. 2001-30-148)**

On six occasions since 1965, Congress has taken significant steps to address the issues of when, why, and how much interest should be paid to taxpayers. In taking these steps, Congress has attempted to provide strong incentives for IRS to minimize interest payments by issuing fast refunds. At the same time, Congress has sought to ensure all taxpayers are fairly compensated for IRS refund delays and to ensure taxpayers are not rewarded with often generous government interest for intentionally delaying the refund process.

By quickly issuing refunds requested on original returns, IRS can avoid paying

interest on the refunds. Interest was paid on only 2 percent of original return refunds in FY 1999. However, the interest laws provide IRS with little opportunity to avoid substantial interest payments on refunds resulting from amended returns or from IRS' examinations of returns. Consequently, \$3.2 billion of the \$3.5 billion of interest paid by IRS in FY 1999 involved refunds resulting from amended returns or IRS' examinations of returns. The current interest laws limit IRS' ability to carry out its mission to provide top quality service and fairness to all taxpayers. In addition, the current interest laws create a government interest expense that averages \$2.6 billion annually, and prevents IRS from eliminating that expense through improved responsiveness to taxpayers.

Most of the interest paid by IRS is for time periods prior to IRS' knowledge that refundable overpayments existed. OA recommended that IRS seek legislation ensuring that refunds issued within 45 days of a taxpayer request are issued interest-free. If a refund is not made within 45 days, interest should be paid from the date of the taxpayer's request for refund to the date the overpayment is refunded. If such legislation were enacted, interest would only be paid on refunds that IRS has delayed.

IRS agreed to complete a review of the current interest rules by June 1, 2002. Treasury is responsible for the final determination of the need for legislation that stems from that review.

***The Internal Revenue Service Has an Opportunity to Relieve Considerable Taxpayer Burden Involving the Estimated Tax Penalty***  
**(Reference No. 2001-30-164)**

Taxpayers are spending almost 1.87 million hours unnecessarily to satisfy their tax

obligations in regards to the estimated tax penalty. Individuals who file *Underpayment of Estimated Tax by Individuals, Estates and Trusts (Form 2210)*, and use the short method option,<sup>14</sup> are submitting paperwork that is a duplication of normal IRS return processing procedures. OA estimated that for TY 1998, over 1.84 million taxpayers submitted a *Form 2210* and used the short method option to compute their penalty.

**Table 2. Estimated Breakdown of TY 1998 Self-Assessed Estimated Tax Penalties**

	<i>Number of Taxpayers</i>	<i>Percentage of Population</i>
No Form 2210 .....	1,533,872	36.0%
Elective Use: Short Method .....	1,842,516	43.2%
Elective Use: Long Method .....	888,523	20.8%
<b>Totals</b>	<b>4,264,911</b>	<b>100%</b>

*Source: Analysis of the audit sample projected to the universe of self-assessed ES penalty returns.*

This duplication of taxpayers' efforts makes a significant contribution to taxpayers' compliance burden through the loss of leisure time.

Using the Office of Management and Budget's figure of \$26.50 per burden hour for tax paperwork, OA estimated that the 1.87 million hours spent unnecessarily by taxpayers in 1999 had a projected monetary cost of almost \$49.6 million.

In addition, some of these taxpayers may incur out-of-pocket expenses, such as the costs of employing the services of a return preparer. *Form 2210* has not been changed since 1986, and it does not

<sup>14</sup> Only taxpayers who either made no ES payments or made four equal ES payments timely can use the short method to compute the penalty.

provide clear instructions to taxpayers regarding their option to allow IRS to compute the penalty.

OA recommended that IRS management evaluate the design and clarity of *Form 2210* and its instructions, and coordinate any redesign of *Form 2210* with both the practitioner and tax software communities.

IRS management agreed with the recommendation and is taking appropriate corrective action.

***Letter Report: Additional Controls Are Necessary to Ensure that All Businesses Are Classified by Their Principal Business Activity***  
**(Reference No. 2001-30-117)**

The Statistics of Income programs have historically relied upon Principal Business Activity (PBA) codes to classify businesses by type of activity. As of 1999, the four-digit Standard Industrial Classification (SIC) Index number was changed to a six-digit number based on the North American Industry Classification System (NAICS). The new LMSB and Small Business/Self-Employed (SB/SE) Divisions rely on the PBA codes to profile taxpayers by industry or “market segment.”

IRS successfully converted from the SIC Index to the NAICS. The NAICS codes adopted for IRS use were sufficient to allow the taxpayers to accurately code their tax returns by principal business activity. However, IRS has not taken advantage of the opportunity to immediately identify taxpayers’ PBA codes when they request Employer Identification Numbers (EINs) and their accounts are first established on IRS’ Masterfile.<sup>15</sup> Also,

IRS does not have sufficient controls to identify and correct all business-related tax returns filed with an invalid or missing PBA code.

As a result, IRS cannot identify business taxpayers by their principal business activity for approximately 2 million EINs issued annually. In addition, IRS could not identify approximately 2.8 million individuals with business interests and more than 700,000 corporations and partnerships by their principal business activity for tax returns filed in Calendar Year (CY) 2000.

OA recommended that management identify business taxpayers by their principal business activity from information provided by the taxpayer when an *Application for Employer Identification Number (Form SS-4)* is filed. IRS’ outreach and education efforts are impeded when business taxpayers are not identified by their PBA codes. In addition, management should implement processing controls to identify Individual Masterfile tax returns with invalid or missing PBA codes and Business Masterfile tax returns with invalid PBA codes for research and correction during processing.

IRS management agreed with the recommendations and is taking appropriate corrective action.

***Management Advisory Report: The Internal Revenue Service Could Reduce the Number of Business Tax Returns Destroyed Because of Missing Information***  
**(Reference No. 2001-30-099)**

OA conducted a limited scope review of business income tax returns sent by taxpayers to lockbox banks that were reportedly lost by IRS before the returns could be processed even though the payments associated with the tax returns were processed. The returns involved

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<sup>15</sup> The Masterfile is IRS’ main computer system containing taxpayer accounts. The Individual Masterfile is IRS’ database that maintains transactions or records of individual tax accounts.

were the *Employer's Quarterly Federal Tax Returns (Form 941)* as shown in Exhibit 1; and the *Employer's Annual Federal Unemployment Tax Returns (Forms 940 and 940-EZ)* and their associated *Payment Vouchers (Form 941-V)* as shown in Exhibit 2.

**Exhibit 1. Form 941**

**Exhibit 2. Form 941-V**

OA reported that during IRS' 2000 and 2001 returns processing seasons, it processed thousands of payments submitted with business tax returns for which the associated business tax returns were not processed. Many of these instances were the result of taxpayers omitting their names, addresses, and taxpayer identification numbers from their tax returns. Although this taxpayer identifying information was available on payment vouchers included with the tax returns, lockbox banks forwarded these tax returns to IRS centers for processing

without first supplying the missing information. Without this information, IRS centers declared the returns unprocessable and destroyed them. Subsequently, IRS corresponded with taxpayers telling them their tax returns were lost or were never received and asking them to provide copies of their tax returns.

OA recommended that IRS:

- Redesign *Form 941*, *Form 940*, and *Form 940-EZ*.
- Ensure that lockbox banks identify when taxpayer identifying information is missing from tax returns and either enter the information from the payment voucher or copy the voucher and send it to IRS with the tax return.
- Have employees contact state tax agencies to obtain missing taxpayer identifying information.

IRS management agreed with the recommendations and is taking appropriate corrective action.

***Some Individual Taxpayers are Inappropriately Receiving Tax Credits Intended for Businesses that Provide Access for Disabled Americans***  
**(Reference No. 2001-30-158)**

In CY 2000, IRS and TIGTA were made aware of taxpayers purchasing pay telephones with volume controls and claiming Disabled Access Credits on their individual income tax returns.

OA identified 391 *U.S. Individual Income Tax Returns (Form 1040)* for TY 1999 claiming \$1.09 million in Disabled Access Credits even though the tax returns indicated no business reasons for taking the credits.

OA recommended that IRS management warn taxpayers who may be the victims of these fraudulent promotions that such



investments most likely do not qualify for the Disabled Access Credit. Also, IRS management should work with their respective Compliance functions and the Criminal Investigation function to develop a compliance approach for taxpayers taking the Disabled Access Credit without qualifying businesses.

IRS management agreed with OA's overall finding, and agreed to analyze future tax data to identify potentially unallowable credits and take appropriate compliance actions when abusive schemes are identified. However, IRS management did not agree to issue a press release. IRS management stated that they would provide information on IRS' web site targeted at individuals who may improperly promote schemes associated with the Disabled Access Credit rather than focusing on the taxpayers who may invest in those schemes and inappropriately claim the credit on their tax returns.

OA disagreed with IRS' approach of narrowly focusing on the promoter while ignoring the victim. IRS subsequently agreed to take the approach that focuses on the taxpayers who may be the victims of these fraudulent promotions.

## □ **Wage and Investment Income**

The Wage and Investment Income Programs Unit assesses IRS' program for assisting and servicing approximately 90 million taxpayers filing simple tax returns. The Unit's work primarily focuses on IRS' efforts to help taxpayers comply with laws and regulations.

### ***Millions of Dollars in Erroneous Education Credits Continue to Be Allowed***

**(Reference No. 2001-40-183)**

During CY 2000, IRS did not have controls in place to effectively validate claim requirements before allowing \$4.4 billion in Education Credits given to 6.1 million taxpayers. OA reported that if IRS automated the process to validate claims for the Education Credit, it may prevent approximately \$20.56 million in potentially lost revenue each year.

In the 2 years since the inception of the Education Credit (TYs 1998 and 1999), IRS has been unable to provide a high degree of assurance that the \$7.9 billion given to 10.9 million taxpayers was appropriate. Although taxpayers provided information needed to ensure they met basic qualifications, most of this information was not effectively used to validate the Education Credits. Instead, IRS relied on voluntary taxpayer compliance to ensure that the 6.1 million taxpayers were qualified to claim the credit.

OA recommended that IRS management automate its process to validate claims for the Education Credit.

IRS management's response was not received prior to the issuance of the audit report.

### ***The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season***

**(Reference No. 2001-40-192)**

IRS successfully processed 109 million individual returns and issued \$148.2 billion in refunds as of June 1, 2001. OA's tests of selected returns showed that, in about 99 percent of the time, IRS achieved its

performance goal to issue refunds within 40 days. Also, IRS reported, as of June 1, 2001, that it had identified and resolved over 19 million taxpayer and IRS processing errors. This was an increase of about 9 percent from last year.

While significant progress was made in the implementation of tax law changes and related initiatives, IRS has the opportunity to continue to improve in the areas of clarity of taxpayer notices and consistency among processing procedures, taxpayer instructions, and legislative requirements. OA tests showed that, in some instances, IRS improperly denied the personal exemption and the earned income credit when the spouse's name and Social Security number (SSN) were accurate. If the results of this test are representative of the 2001 filing season, IRS may have erroneously disallowed exemptions and credits totaling about \$36.5 million for over 66,000 taxpayers. IRS was able to successfully process individual income tax returns while reacting to unexpected taxpayer filing patterns. However, additional steps can be taken to enhance its ability to plan for and react to those events as they occur during the filing season.

OA recommended that IRS management ensure that detailed, comprehensive plans are developed when implementing tax law changes and initiatives and that these plans include a process to ensure that action items are timely completed prior to the beginning of the filing season. IRS management also should timely analyze taxpayer filing patterns during the filing season as a tool to assist IRS in determining what additional actions should be taken as the current filing season progresses and to assist in planning for the following filing season. Finally, IRS management should enhance contingency planning tools to ensure that it will be able to timely react to unanticipated changes that occur during the filing season.

IRS management's response was not received prior to the issuance of the audit report.

***Management Advisory Report:  
The Notice Review Program  
Should Be Improved to Prevent  
Erroneous Notices From Being  
Sent to Taxpayers***  
**(Reference No: 2001-40-078)**

OA reported that IRS did not review all potentially erroneous notices; the Submission Processing Centers did not place priority on notices with the highest potential for error; and the national oversight of the Notice Review Program could be improved.

From January through September 2000, IRS reported that it did not review 539,852 (13 percent) of the 4.1 million notices identified as having a high potential for error. If the error rate for these notices is consistent with that found on notices that were reviewed, IRS may have incorrectly notified 80,702 taxpayers about an additional tax liability, an error on their return, or an adjustment to their account.

IRS guidelines required that all of the notices selected for review be reviewed. IRS executives advised that they did not have enough staff to work the entire inventory of potentially erroneous notices. Not reviewing the entire weekly notice inventory increased the probability that erroneous notices and refunds were mailed to taxpayers.

IRS procedures did not ensure that notices with the highest potential for error were worked first. From January through September 2000, IRS reviewed approximately 1.5 million notices with error rates of 10 percent or less, while it did not review approximately 77,000 notices with anticipated error rates of 30 percent or higher. Not establishing a priority to

review notices with the highest potential for error increased the risk that taxpayers received erroneous notices and refunds.

OA identified issues that indicated the national oversight of the Program could have been more effective. For example, the data compiled to monitor and evaluate the program were not reviewed.

Because IRS is in the process of moving the current Notice Review Program into its new business organization, OA did not make recommendations for program improvements and did not require a formal response.

### ***Spanish-Speaking Taxpayers Receive Expanded Access to Telephone Assistance*** **(Reference No. 2001-40-163)**

In *RRA 98*, Congress recognized the need to provide a growing Spanish-speaking population with improved access to income tax assistance and instructed IRS to provide the option for taxpayers to receive answers in Spanish to their questions over IRS telephone helplines. IRS began offering General Inquiry toll-free telephone assistance to Spanish-speaking taxpayers in 2000 by significantly expanding its toll-free service in 2001. It offers a Spanish language option on all three of IRS' major toll-free help lines. IRS has also established a new call site in Puerto Rico.

IRS has expanded service to Spanish-speaking taxpayers, but improvement is needed in the quality of responses being provided. OA determined in test calls that assistors provided appropriate responses for only 123 of 174 test calls conducted.

The primary reason for low quality performance was, as reported by IRS' Centralized Quality Review Staff, the non-use or incomplete use of the reference guide used to answer tax law questions



during Spanish language calls. To determine possible reasons why bilingual telephone assistors are not always using the guide, OA interviewed several newly hired bilingual assistors for their perspective on why the guide was not always being used. Concerns included having to translate the text from English to Spanish while on the telephone with taxpayers and needing supplemental information not readily available in some sections of the guide.

OA recommended that IRS evaluate the guide and consider changes to help improve the quality of responses provided to Spanish-speaking taxpayers. IRS management agreed with the recommendations and is taking appropriate corrective action.

### **□ *Information Systems***

The Information Systems Programs Unit conducts reviews to address *RRA 98* requirements that TIGTA annually report on the adequacy and security of IRS technology. OA's overall assessment is provided on pages 7 and 8. The individual reports are listed on page 71 in Appendix VI.



***The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act***

**(Reference No. 2001-20-146)**

The *Clinger-Cohen Act*<sup>16</sup> requires Federal agencies to make sound investment decisions before purchasing information technology systems. Because of changes to IRS' structure and modernization strategy that began in 1998, IRS is still developing and implementing the information technology investment processes envisioned in the *Clinger-Cohen Act*.

OA reported that IRS still needs to implement repeatable processes in order to be in full compliance with five key requirements of the *Clinger-Cohen Act*. These requirements include the selection, control, and evaluation of information technology investments; performance and results-based management; accountability and information technology asset management; the Chief Information Officer's role in the development of the IRS' information technology architecture and information resources management capability; and information systems security policies, procedures, and practices.

IRS has recently introduced a new strategic planning process and other related processes, e.g., the Investment Decision Management process, to better manage its information technology investments, but the use of these processes is still evolving. Therefore, IRS cannot yet fully assure that it is getting maximum value for its \$1.6 million annual Modernization and Information Technology Services budget.

OA recommended that the Deputy Commissioner for Modernization and the Chief Financial Officer prepare an overall strategy, a plan and a schedule to bring IRS into full compliance with the *Clinger-Cohen Act* requirements.

IRS management agreed with the audit recommendation and has initiated corrective actions.

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<sup>16</sup> *Clinger-Cohen Act, Pub. L. No. 104-106, Division E (1996), codified at 40 U.S.C. Chapter 25.*

# Office of Investigations

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## Introduction

OI administers investigative programs that protect the integrity of IRS and detect and prevent fraud and other misconduct within IRS programs. This includes investigating allegations of criminal violations and administrative misconduct by IRS employees, as well as protecting IRS against external attempts to corrupt or threaten its employees.

Specifically, these areas of responsibility include:

- Administering programs to investigate and prevent threats and/or acts of violence against IRS.
- Operating a national complaint center, including a hotline and web-site, to receive and process allegations of fraud, waste, or abuse.
- Providing forensic examination of documentary evidence.
- Providing technical and investigative assistance, equipment, training, and other specialized services to enhance investigative operations.
- Administering a proactive program to detect and deter fraud and corruption in IRS programs and operations.

## Protection of Taxpayers and IRS Employees

TIGTA is dedicated to ensuring individuals and IRS employees the highest degree of integrity, fairness, and trust in the Nation's tax administration system. To heighten awareness and provide a deterrent effect against fraud and misconduct, TIGTA special agents routinely conduct integrity awareness presentations for IRS employees and various professional organizations, including local law enforcement agencies, tax practitioners, and community groups. During this reporting period, OI conducted 639 presentations for 23,432 individuals. Approximately 89 percent of these individuals were IRS employees.

OI conducts investigations that protect individuals from IRS employees who commit criminal violations and administrative misconduct. These investigations may involve allegations of unauthorized access to and disclosure of confidential taxpayer information, bribery, financial fraud, false statements, and abuse of taxpayer rights. During this six-month reporting period, OI closed 1,260 IRS employee investigations.

OI is also committed to protecting and supporting IRS employees as they carry out the mission of IRS. TIGTA investigates individuals who attempt to interfere with or corrupt the administration of the Federal income tax system, to include investigations of bribery, assault, threat, theft, and embezzlements. During this reporting period, OI closed 1,045 investigations involving these and other types of allegations.

## Complaint Management Division

The Complaint Management Division (CMD) is a centralized clearinghouse for processing and tracking allegations of fraud, waste and abuse and other forms of wrongdoing. CMD operates a toll-free telephone number, which is advertised both inside and outside IRS. CMD also receives complaints through an e-mail address and a central post office box. CMD's complaint tracking system provides a centralized accounting of all complaints received by TIGTA and the status and final dispositions of those complaints. The system also has the capability to document and track complaints involving multiple subjects. To ensure that all complaints received by TIGTA are acknowledged, complainants are provided with a complaint number and a telephone number to contact TIGTA if they want to provide additional information regarding their complaint.

During the reporting period, TIGTA received 3,902 complaints. The status of these complaints is shown in Appendix II, page 38.

## Strategic Enforcement Division

The Strategic Enforcement Division (SED) is responsible for executing a proactive program to detect fraud in IRS operations, unauthorized accesses (UNAX) to IRS computer systems by internal users, and attempts to interfere with the security of IRS computers by external sources.

SED combines the expertise of auditors, special agents, and computer programmers to form a successful investigative team to accomplish its mission. Specifically, SED:

- Conducts proactive security testing to ensure that adequate safeguards are in place to defend against newly identified network vulnerabilities, as well as newly disseminated hacker tools found throughout the Internet.

- Makes recommendations to improve system security weaknesses identified during the course of analyses related to internal fraud, and UNAX violations are forwarded to IRS.
- Performs extensive investigative and forensic data analyses for field special agents, assists in seizing computers, analyzes computer-related evidence, and conducts searches on the Internet.

SED provided assistance in a number of cases. For example:

- ✓ As a result of the September 11, 2001 terrorist attacks against the United States, SED diverted most of its resources to assist the FBI in the investigation of international and domestic terrorism. In compliance with *26 U.S.C. § 6103, Confidentiality and Disclosure of Return and Return Information*, SED continues to secure Federal tax information and other electronic data from various computer systems, analyzing the data, and providing vital information to the FBI.
- ✓ SED's Systems Intrusion Network Attack Response Team was informed that a contractor, who had been dismissed, had the opportunity to expose IRS' network to various sorts of exploitation. SED agents, with the assistance of IRS contractors and administrators, identified a destructive code that was installed by this individual. SED agents were able to contain the damage and ensure a total recovery of the system. In July 2001, the former contractor pled guilty to intentionally causing damage to a protected IRS computer system.
- ✓ A joint investigation conducted by TIGTA, the U.S. Secret Service, and the FBI successfully identified the source of Internet threats directed at the President, a TIGTA special agent, and other law enforcement officials. TIGTA's SED assisted in the investigation by providing investigative computer information and support that ultimately led to the issuance of a Federal court order and the

identification of an Australian national who was responsible for the threats.

## **National Investigative Initiatives**

A principal component of SED's operation involves National Investigative Initiatives, which are established from information developed during successful investigations. The methodology of a crime is used to develop computer database applications that will identify other individuals who may be perpetrating the same crime. Computer matching is used nationwide in proactive initiatives. These initiatives are included in the *Computer Matching Act*<sup>17</sup> agreements approved by Treasury's Data Integrity Board and published in the *Federal Register*. During this reporting period, there were 7 ongoing initiatives and 34 criminal referrals to field special agents for investigation.

## **UNAX Detection Program**

UNAX detection is SED's most aggressive national investigative initiative. The Audit Trail Lead Analysis System identifies employees who have made potential unauthorized accesses to electronic taxpayer information on IRS computer systems. During this reporting period, SED:

- Identified and analyzed 293 leads of potential unauthorized accesses to tax information by IRS employees.
- Referred 139 leads to field special agents for investigation of violations of the *Taxpayer Browsing Protection Act of 1997*.<sup>18</sup>

<sup>17</sup> Pub. L. No. 101-56, 103 Stat. 149 (1989).

<sup>18</sup> A provision of the *Taxpayer Browsing Protection Act of 1997*, I.R.C. § 7431 (e) provides for notification to taxpayers of the unlawful inspection or disclosure of their returns and return information in cases where an IRS employee is charged criminally for violations of unauthorized access or disclosure of returns or return information.

During this reporting period, there has been one criminal prosecution and 63 adverse administrative actions against IRS employees involved in unauthorized access to taxpayer information.

## **Technical and Forensic Support Division**

The Technical and Forensic Support Division is responsible for implementing programs concerning Technical Services and the Forensic Science Laboratory (FSL). Each of these programs provides technical expertise throughout the development and the adjudication process of investigations.

## **Technical Services**

Technical Services is responsible for providing technical and investigative assistance, equipment, training, and other specialized services to enhance TIGTA's investigative activities. Technical Services provides crucial support in the collection, preservation, and enhancement of evidence through the use of sophisticated electronic surveillance equipment. Examples of such investigative support include:

- ✓ During the investigation of an interstate telemarketing fraud scheme, Technical Services installed numerous court-ordered intercepts on phone lines at two locations. These intercepts assisted in establishing probable cause for subsequent search warrants of the telemarketing businesses. Real-time data from one intercept established that an individual was actually on the telephone to a victim as agents entered to execute the search warrant. Six individuals were ultimately arrested as the result of the investigation.
- ✓ An individual who had previously been convicted of Federal crimes engaged in the theft of mail, stalking, trespassing, and

Internet searches for the purpose of identifying the addresses and vehicles belonging to Federal law enforcement agents who were involved in the individual's previous prosecution. During a joint TIGTA and Bureau of Alcohol, Tobacco and Firearms investigation, specialized tracking equipment was placed on the individual's vehicle as authorized by a sealed court order. This technology alerted special agents to the movement of the individual's vehicle toward the rural address of another Federal agent. Local sheriffs' deputies and TIGTA agents were successful in locating the individual in close proximity to the agent's home. The individual was tried and convicted on charges of interstate stalking.

## **Forensic Science Laboratory**

Criminal investigations often rely upon the forensic analysis of evidence. The TIGTA Forensic Science Laboratory (FSL) supports field investigations through timely processing of physical evidence using various techniques and best practices to identify investigative subjects, including chemical processing and comparison for latent prints, handwriting identification, and digital image enhancement.

During this six-month reporting period, FSL had 110 case submissions and issued 115 reports of laboratory examination. FSL examined evidence from a number of cases including:

- ✓ A Federal grand jury charged an individual with 34 felony counts including violations for impersonating an IRS special agent, identity theft, false possession of identification documents, possession of an altered SSN, mail fraud on a financial institution, wire fraud, credit card fraud and money laundering. A senior FSL document examiner identified the individual's handwriting and signatures on numerous fraudulent documents. The individual pled guilty to one charge of bank fraud and one charge of interrupting interstate commerce in exchange for a plea agreement with

Federal prosecutors. The individual was sentenced to 78 months in prison and required to pay \$240,000 in restitution.

- ✓ FSL's senior latent finger print specialist conducted analyses of various items of evidence, identified a defendant's prints on numerous documents and provided expert testimony in April 2001. As a result, the individual was sentenced in August 2001 to 10 years imprisonment, followed by 3 years probation and a \$10,000 fine.

## **Special Inquiries and Inspection Division**

The Special Inquiries and Inspection Division (SIID) is a Headquarters function under the Deputy Inspector General for Investigations. SIID is responsible for:

- Maintaining the TIGTA Domestic Terrorism Program, which develops and facilitates pertinent information regarding potential threats to TIGTA and IRS employees and operations. This program includes national participation in the FBI sponsored Joint Terrorism Task Force.
- Investigating allegations of misconduct and breaches of integrity by TIGTA employees, IRS Senior Executives (Grades 15 and above) and international employees located in Washington, DC and U.S. embassies.
- Investigating fraud, waste and abuse involving IRS procurements and promoting fraud awareness.
- Inspecting TIGTA Divisional Investigative Offices and related Headquarters functions. The inspection process ensures that investigations and operations are conducted in compliance with applicable



laws, rules, regulations and the *TIGTA Operations Manual*. It also ensures that OI's resources are being effectively and efficiently managed.

## Significant Investigations

### ▣ *Threat, Assault and Harassment Investigations*

IRS employees face a difficult and challenging mission in serving taxpayers. OI considers responding to and investigating threats and assaults against IRS employees one of its highest priorities. It also investigates incidents of harassment by individuals who attempt to undermine IRS employees as they carry out their duties. OI also investigates alleged misconduct by IRS employees involving sexual battery and inappropriate behavior. During this six-month period, OI closed 443 threat, assault or harassment investigations.

### *“Assassination Politics” Author Sentenced to 10 Years in Prison*

In August 2001, a Federal judge sentenced an individual to 10 years imprisonment, three years probation, and a \$10,000 fine in the conviction of two counts of interstate stalking of a TIGTA special agent. The individual is the acknowledged author of *Assassination Politics*, an essay published on the Internet that advocates the assassination or elimination of government employees.

### *Individual Sentenced for Threatening IRS Employees*

In August 2001, a Federal magistrate sentenced an individual to seven months in prison and a \$500 fine for one count of

forcible interference with tax administration. The individual entered an IRS Customer Service office, expressed dissatisfaction with the level of service received, and threatened to return to the office with a machine gun. The threat forced the closure of the IRS Taxpayer Services office for several hours.

### *TIGTA Provided Assistance in a Church Bombing Case*

In April 2001, a U.S. Attorney requested TIGTA assistance in the trial of an individual charged with the 1963 bombing of a church, which resulted in the deaths of four young girls. A TIGTA employee, known for expertise in transcribing recorded conversations, worked with the U.S. Attorney and FBI to review tape recordings made in the individual's home by the FBI during the original investigation. While reviewing the tape, the TIGTA employee was able to identify incriminating phrases not previously known to the prosecution. The individual was convicted in May 2001.

### ▣ *Bribery Investigations*

IRS employees can be targets for bribery due to their frequent contacts with taxpayers. Their positions also provide unscrupulous employees with opportunities to extort and solicit bribes from individuals and to conspire with individuals to threaten the integrity of the tax administration process.

Bribery is often a focus of TIGTA's integrity awareness presentations. These presentations are used as a deterrent to dissuade employees from taking inappropriate advantage of their positions. During the presentations, employees are shown how to recognize bribe overtures and their responsibilities in reporting bribe attempts.

During this reporting period, OI closed 61 bribery investigations.

### ***A 30-Year IRS Employee Charged with Bribery***

In September 2001, a 30-year employee of IRS was arrested on charges of bribery. The FBI furnished TIGTA with documents seized during the execution of a search warrant, indicating that a company owner had allegedly bribed an unnamed IRS employee.

An IRS employee was identified who was assigned to collect delinquent taxes owed by the company. During the time the employee was assigned the collection case, the company owner provided the IRS employee with a \$14,900 check, which was subsequently used by the IRS employee to purchase a vehicle. The IRS employee also negotiated an additional \$3,800 check from the company.

During the timeframe that the IRS employee was assigned to the company's tax case, the company's tax delinquency increased from \$450,000 to over \$600,000. The IRS employee admitted to receiving the aforementioned items of value from the company owner in exchange for not pursuing the company's outstanding delinquent tax liabilities.

### ***Certified Public Accountant Sentenced in Bribery Investigation***

In June 2001, a Federal judge sentenced a Certified Public Accountant (CPA) to three months imprisonment in connection with the attempted bribery of an IRS employee. According to the criminal complaint, the CPA allegedly offered bribes to an IRS employee in exchange for filing false audit reports to reduce the tax liability of clients of the CPA. The CPA pled guilty to one

count of bribery of public officials, and was sentenced to three months imprisonment, followed by two years of supervised release and a \$10,000 fine.

### ***Three Individuals Pled Guilty to Bribery Charges***

In June and July 2001, three individuals pled guilty to one count each of bribery. The three were charged with offering a cooperating employee \$1,000 in jewelry and a total of \$85,000 in cash to eliminate Federal tax liabilities.

## ***▣ Theft, Embezzlement and Fraud Investigations***

TIGTA investigates incidents of theft, embezzlement and fraud committed by both internal and external sources. TIGTA also investigates incidents of impersonation and where individuals attempt to defraud taxpayers, as well as incidents of identify theft. Identity theft occurs when a victim's SSN and/or other identifying documents (e.g., driver's license, passport, etc.) are stolen.

### ***Fifteen Indicted for Conspiracy to Defraud Government***

A Federal grand jury indicted 15 people on charges of conspiracy to defraud the U.S. Government; offering fictitious obligations; and making or counseling false declarations to IRS. According to the 79-count indictment, the individuals allegedly manufactured more than 3,000 "sight drafts" or financial instruments falsely purporting to be U.S. financial instruments. The sight drafts were used as checks totaling in excess of \$550 million payable to government agencies, creditors, and others, knowing that the drafts were worthless.



The indictment also alleged that the individuals knowingly sent IRS *Reports of Cash Payments Over \$10,000 Received in a Trade or Business (Form 8300)*, totaling more than \$490 million dollars. The forms were purportedly used to report to IRS cash transactions with judges, law enforcement officers, public officials, creditors and others in an effort to harass, intimidate, and create legal and financial problems for these individuals. *Form 8300* requires any person engaged in a trade or business to report to IRS any cash transactions in excess of \$10,000.

### ***CPA Pled Guilty to Conspiring with Two IRS Employees in a Small Business Administration Loan Fraud***

In May 2001, a CPA pled guilty to two counts of a 26-count indictment that addressed a Small Business Administration (SBA) loan fraud conspiracy among the CPA, two IRS employees and dozens of clients. TIGTA determined that the scheme involved the submission of SBA loan packages that contained false tax returns, IRS tax return verifications and other records. The two IRS employees used the IRS computer system to create the tax verifications. This case identified technical flaws in controls over the IRS' computer system, which allows employees to produce fraudulent documents. TIGTA reported these findings to IRS.

### ***Forty-Two Count Indictment in Fraud Investigation***

In June 2001, a grand jury indicted an individual on 42 counts of false statements, mail fraud, wire fraud and tampering with a witness in connection with an alleged scheme to defraud a couple out of money intended for the IRS. According to the indictment, the individual claimed to be a licensed CPA, even though the individual's

license to practice had been suspended since 1991.

Allegedly, the individual falsely represented to the couple that IRS had accepted their offer in compromise (OIC) and told the couple that the individual needed a check from IRS for partial payment of the OIC. The individual then deposited checks received from the couple into a personal account and did not pay IRS the money. The indictment further alleged that this individual created and sent to the couple a number of letters purporting to be from IRS, which falsely indicated that IRS was in the process of releasing the tax lien against the couple.

### ***Individual Sentenced for Bank Fraud Involving Stolen Treasury Checks***

In July 2001, an individual was sentenced to 15 months imprisonment after pleading guilty to one count of bank fraud involving the depositing of a stolen U.S. Treasury check. In the guilty plea, the individual stipulated that, along with others, they negotiated more than 60 stolen U.S. Treasury checks worth approximately \$500,000 through deposits in various bank accounts. The indictment alleged that the individual and others stole U.S. Treasury checks made payable to various corporations.

### ***Individual Pled Guilty to Conspiracy and Mail Fraud***

In July 2001, an individual pled guilty to one count of conspiracy to defraud IRS and one count of mail fraud. The individual attempted to pay off tax debts and to obtain money in refunds by presenting more than \$2.5 million in worthless checks to IRS. According to the indictment, the individual had income tax debts and conspired with another individual to obtain the bogus documents.

### ***Individual Indicted for Identity Fraud***

In August 2000, a TIGTA special agent received information from an individual (victim) alleging that someone was using the victim's SSN to earn income. The victim claimed that IRS withheld the two most recent income tax refunds, and that the victim's son's disability benefits were discontinued due to the extra income associated with the victim's SSN. The investigation disclosed that another individual located thousands of miles away was using the SSN for employment purposes.

The subject entered the U.S. illegally from Mexico during 1993 and purchased an identity package for \$2000 in the name of the victim. The subject earned approximately \$57,222 by using the name and SSN of the name and SSN of the victim. The subject also applied for and received a total of \$18,847 in fraudulent Aid to Family with Dependant Children benefits on behalf of the subject's daughter. In September 2001, the subject was indicted by a grand jury for misuse of a SSN. The referenced tax refunds were subsequently given to the victim as a result of TIGTA's involvement.

### ***Former IRS Employee Devised Fraudulent Investment Scheme***

In April 2001, an IRS employee pled guilty to mail fraud after embezzling \$74,000 from friends by promising to invest money in a non-existent investment plan. The IRS employee used the U.S. mail to send altered

IRS documents and to receive money in furtherance of the scheme.

In August 2001, the IRS employee was sentenced to four months confinement in a halfway house, four months home confinement and three years probation. The IRS employee subsequently made full restitution. Prior to sentencing, the IRS employee resigned from IRS in lieu of termination.

### ***Individual Sentenced for Role in Identity Theft Fraud Ring***

In September 2001, an individual was sentenced to 46 months imprisonment, 3 years probation, and ordered to pay \$3,852,086 in restitution and \$400 in special assessments for participation in an identity theft fraud ring. The individual provided identity information of individuals and false identification documents, including SSNs, to the theft fraud ring. The theft fraud ring used this information to activate stolen credit cards and establish bank accounts used to deposit stolen checks. Among these checks were IRS refund checks and tax remittances.

During the investigation, TIGTA Computer Investigative Specialists discovered computer evidence and images of false identifications used in the frauds. The individual obtained the biographical information under false pretenses from three Internet companies. Audit trails from the Internet companies indicated that over a four-year period, the subject accessed information concerning over 10,000 different individuals.

# Appendix I - Office of Audit's Statistical Reports

## Audit Reports With Questioned Costs

Three audit reports with questioned costs were issued during this semiannual reporting period.

The term “questioned cost” is defined as a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation, i.e., “unsupported cost” or (3) a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable. The term “disallowed cost” is defined as a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

Reports With Questioned Costs (4/1/01 - 9/30/01) Report Category	Number of Reports <sup>1</sup>	Questioned Costs <sup>2</sup> (In Thousands)	Unsupported Costs (In Thousands)
1. For which no management decision had been made by the beginning of the reporting period. ....	1	\$28	\$27
2. Which were issued during the reporting period. ....	3	\$140	\$4
3. Subtotals (Item 1 plus Item 2) .....	4	\$168	\$31
4. For which a management decision was made during the reporting period.			
- Dollar value of disallowed costs .....	2	\$33	\$31
- Dollar value of costs not disallowed .....	0	\$0	\$0
5. For which no management decision had been made by the end of the reporting period. (Item 3 minus Item 4) .....	2	\$136 <sup>3</sup>	\$0
6. For which no management decision was made within six months of report issuance. ....	0	\$0	\$0

<sup>1</sup> See Appendix IV for identification of audit reports involved.

<sup>2</sup> “Questioned Costs” include “Unsupported Costs.”

<sup>3</sup> Difference due to rounding.

## Report Recommendations That Funds Be Put to Better Use

Four reports with recommendations that funds be put to better use were issued during this six-months reporting period.

The term “recommendation that funds be put to better use” is defined as a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements; or (5) any other savings which are specifically identified. The term “management decision” is defined as 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 concluded to be necessary.

Reports With Recommendations That Funds Be Put to Better Use (4/1/01 - 9/30/01) Report Category	Number of Reports <sup>1</sup>	Amount (In Thousands)
1. For which no management decision has been made by the beginning of the reporting period. ....	1	\$109
2. Which were issued during the reporting period. ....	4	\$13,000,168
3. Subtotals (Item 1 plus Item 2) .....	5	\$13,000,277
4. For which a management decision was made during the reporting period.		
• Dollar value of recommendations that were agreed to by management		
- Based on proposed management action .....	2	\$70
- Based on proposed legislative action .....	1 <sup>2</sup>	\$13,000,000
• Dollar value of recommendations that were not agreed to by management .....	1	\$109
5. For which no management decision has been made by the end of the reporting period. (Item 3 minus Item 4) .....	1	\$98
6. For which no management decision was made within six months of issuance. ....	0	\$0

<sup>1</sup> See Appendix IV for identification of audit reports involved.

<sup>2</sup> One report (Reference No. 2001-30-148) contains an estimated five-year benefit of \$13 billion which represents the amount of interest that could be avoided if all overpayments are timely refunded by IRS within 45 days. Therefore, the actual interest savings would be reduced by an indeterminable amount for any refunds that are not timely processed.

## Reports With Additional Quantifiable Impact on Tax Administration

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In addition to questioned costs and funds put to better use, OA has identified additional measures that demonstrate the value of audit recommendations on tax administration and business operations. These issues are of interest to IRS and Treasury executives, Congress, and the taxpaying public, and are expressed in quantifiable terms to provide further insights to the value and potential impact of OA's products and services. Including this information also advances adherence to the intent and spirit of GPRA.

### Definitions of Additional Measures

- ✓ ***Taxpayer Rights and Entitlements at Risk:*** The protection of due process (rights) that is granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise in the performance of 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, relating to instances when taxpayers have a legitimate assertion of overpayments of tax.
  
- ✓ ***Reduction of Burden on Taxpayers:*** Decreases by individuals or businesses in the need for, frequency of, or time spent on contacts, record keeping, preparation, or costs to comply with tax laws, regulations, and IRS policies and procedures.
  
- ✓ ***Increased Revenue or Revenue Protected:*** Assessment or collection of additional taxes (increased revenue), or proper denial of claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system (revenue protection).
  
- ✓ ***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).
  
- ✓ ***Protection of Resources:*** Safeguarding human and capital assets, used by or in the custody of the organization, from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation. This measure will often be expressed as a value of the entity or program affected by the issue(s) described in the audit report.
  
- ✓ ***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.

## Reports With Additional Quantifiable Impact on Tax Administration (continued)

The number of taxpayer accounts, hours, and dollar values shown in this 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 applicable from the dates of implementation. Also, a report may have issues that impact more than one outcome measure category.

Reports With Additional Quantifiable Impact on Tax Administration (4/1/01 - 9/30/01)					
Outcome Measure Category	Number of Reports in Category <sup>1</sup>	Number of Taxpayer Accounts	Number of Hours	Dollar Value (In Thousands)	Other <sup>6</sup>
1. Taxpayer Rights and Entitlements at Risk .....	15	14,400,702 <sup>2</sup>		\$64,140	<sup>7</sup>
2. Reduction of Burden on Taxpayers .....	7	121,200 <sup>3</sup>		\$247,800	<sup>8</sup>
3. Increased Revenue or Revenue Protected .....	19	417,500		\$13,325,717 <sup>4</sup>	<sup>9</sup>
4. Taxpayer Privacy and Security .....	0				
5. Protection of Resources .....	0				
6. Reliability of Management Information .....	8	2,806,741 <sup>5</sup>		\$2,682	<sup>10</sup>

### Explanatory Notes

<sup>1</sup> See Appendix IV for identification of audit reports involved.

<sup>2</sup> One report (Reference No. 2001-10-147) consisted of 5,715,230 individuals (taxpayer, spouses and representatives) that did not receive required annual notices and 8,660,605 taxpayer accounts that did not receive required penalty and interest statements. For another report (Reference No. 2001-10-103) IRS management did not concur that the statute of limitations for 206 accounts with missing documentation could potentially be invalid. A third report (Reference No. 2001-40-161) included 2,465 taxpayers with misapplied payments as part of the understated inventory reported as a "Reliability of Management Information" outcome measure.

<sup>3</sup> In one report (Reference No. 2001-40-102) IRS management did not concur with TIGTA's calculation of the 8,000 taxpayers unnecessarily burdened.

<sup>4</sup> In one report (Reference No. 2001-10-103), IRS management stated that additional collection action on liabilities of \$289 million with reduced collection statute expiration dates may be limited because of the age of the accounts and the lack of collection options. For four reports (Reference Nos. 2001-40-102, 2001-40-185, 2001-40-150, and 2001-40-151), IRS management did not concur with TIGTA's calculation of the increased revenue of \$1.174 billion for 365,381 taxpayers. In another report (Reference No. 2001-30-132), an undeterminable amount of the \$2.2 billion collected through backup withholding may be refunded when tax returns are subsequently filed.

<sup>5</sup> In one report (Reference No. 2001-30-117) IRS management stated that the TIGTA overstated the number of accounts not identified by their principal business activity by 574,535 (of 2.8 million accounts reported).

<sup>6</sup> Some reports contained "Other" quantifiable impacts besides the number of taxpayer accounts, number of hours, and dollar value. These outcome measures are described in the footnotes below.

<sup>7</sup> Other measures of Taxpayer Rights and Entitlements consist of 3,623 enforcement employees whose evaluations or related supervisory documentation could contain violations concerning the use of enforcement statistics.

<sup>8</sup> Other measures of taxpayer burden consist of 1.3 million taxpayer calls not answered. IRS management did not agree that they could have answered these additional calls.

<sup>9</sup> Other measures of increased revenue or revenue protection consist of 417,000 information returns that did not include the payee's taxpayer identification number and 204,000 information returns that would be included in the IRS' matching program.

<sup>10</sup> Other measures of reliability of management information consist of 316 Offers in Compromise not correctly described on the management information system, 191 complaints and allegations that could not be located or the management information was not current or consistent, and 116,180 returns with inaccurate "Personal Service Corporation indicators."

## *Appendix II - Office of Investigation's Statistical Reports*

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### Investigative Results April 1, 2001 - September 30, 2001

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#### ***Investigations Opened and Closed***

Total Investigations Opened	2,181
Total Investigations Closed	2,322

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#### ***Financial Accomplishments***

Embezzlement/Theft Funds Recovered	\$1,260,218
Court Order Fines, Penalties and Restitution	\$6,910,528
Out-of-Court Settlements	\$0

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## Investigative Results

### April 1, 2001 - September 30, 2001 (continued)

#### Status of Closed Criminal Investigations

	Employee	Non-Employee	TOTAL
Criminal Referrals <sup>1</sup>			
Referred - Accepted for Prosecution .....	20	120	140
Referred - Declined for Prosecution .....	312	374	686
Referred - Pending Prosecution Decision .....	31	100	131
<b>TOTAL CRIMINAL REFERRALS</b>	<b>363</b>	<b>594</b>	<b>957</b>
No Referrals .....	785	579	1,364

<sup>1</sup> Criminal referrals include both Federal and state dispositions.

#### Criminal Dispositions<sup>2</sup>

	Employee	Non-Employee	TOTAL
Guilty .....	7	16	23
Nolo-Contendere .....	0	0	0
Pre-trial Diversion .....	9	25	34
Deferred Prosecution <sup>3</sup> .....	3	1	4
Not Guilty .....	0	1	1
Dismissed <sup>4</sup> .....	2	10	12
<b>TOTAL CRIMINAL DISPOSITIONS</b>	<b>21</b>	<b>53</b>	<b>74</b>

<sup>2</sup> Final criminal dispositions during the reporting period. This 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.

<sup>3</sup> Generally, in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.

<sup>4</sup> Court dismissed charges.

Investigative Results  
 April 1, 2001 - September 30, 2001  
 (continued)

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**Administrative Status and Disposition on Closed TIGTA Investigations<sup>1</sup>**

	<b>TOTAL</b>
Removed, Terminated or Other .....	115
Suspended/Reduction in Grade .....	40
Oral or Written Reprimand/Admonishment .....	103
Closed - No Action Taken .....	211
Clearance Letter Issued .....	79
Employee Resigned Prior to Adjudication.....	50
<b>TOTAL ADMINISTRATION DISPOSITIONS</b>	<b>598</b>

<sup>1</sup> Final administrative dispositions during the reporting period. This data may pertain to investigations referred administratively in prior reporting periods and does not necessarily relate to the investigations closed in the Investigations Open and Closed table.

## Investigative Results

### April 1, 2001 - September 30, 2001

(continued)

<b>Complaints/Allegations Received by TIGTA</b>	
	<b>TOTAL</b>
Complaints Against IRS Employees .....	1,737
Complaints Against Non-Employees .....	2,165
<b>NUMBER OF COMPLAINTS/ALLEGATIONS</b>	<b>3,902</b>

<b>Status of Complaints/Allegations Received by TIGTA</b>	
	<b>TOTAL</b>
Investigations Initiated .....	1,600
In Process Within TIGTA <sup>1</sup> .....	511
Referred to IRS for Action .....	294
Referred to IRS for Information Only .....	742
Referred to a Non-IRS Entity <sup>2</sup> .....	18
Closed with No Referral .....	705
Closed with All Actions Completed .....	32
<b>TOTAL COMPLAINTS</b>	<b>3,902</b>

<sup>1</sup> Complaints for which final determination had not been made at the end of the reporting period.

<sup>2</sup> A non-IRS entity includes other law enforcement entities or Federal agencies.

**Note:** IRS made 113 referrals to TIGTA that would more appropriately be handled by IRS and, therefore, were returned to IRS. These are not included in the total complaints shown above.

## Allegations of Misconduct Against IRS Employees

The following three tables consist of allegations of misconduct against individual IRS employees who were recorded in the IRS Automated Labor and Employee Relations Tracking System (ALERTS). Employee misconduct cases investigated by TIGTA have been extracted from the next two tables and were reported on the previous two pages. IRS management conducted the inquiries into the cases reflected in these tables.

### *Allegations of Employee Misconduct Investigated by IRS Management<sup>1</sup>*

	Case Type		
	Administrative <sup>2</sup>	Employee Tax Matter <sup>3</sup>	Total
Inventory on April 1, 2001 .....	1,222	1,173	2,395
Add: Cases Received .....	2,989	1,197	4,186
Less: Cases Closed .....	(3,266)	(1,501)	(4,767)
Duplicates .....	(36)	(142)	(178)
Not Misconduct .....	(6)	(0)	(6)
Total Closures .....	(3,308)	(1,643)	(4,951)
Inventory on Sept. 30, 2001 .....	903	727	1,630

<sup>1</sup> Because of potential duplication of taxpayer complaints tracked in IRS' various management information systems, IRS is unable to report on the total number of taxpayer complaints received.

<sup>2</sup> Administrative - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

<sup>3</sup> Employee Tax Matter - Any matter that becomes of official interest involving an employee's tax compliance.

## Allegations of Misconduct Against IRS Employees (continued)

### ***Disposition of Employee Misconduct Cases Investigated by IRS Management***

<b>Disposition</b>	<b>Administrative</b>	<b>Employee Tax Matter</b>	<b>Total</b>
Removal .....	93	10	103
Separation of Probationary Employees .....	589	7	596
Separation of Temporary Employees .....	7	1	8
Resignation/Retirement .....	238	59	297
Suspensions .....	99	57	156
Reprimands .....	236	287	523
Counseling .....	764	728	1,492
Alternative Discipline .....	52	27	79
Clearance .....	194	19	213
Closed Without Action .....	876	287	1,163
Forwarded to TIGTA .....	21	0	21
Not Otherwise Coded .....	97	19	116
<b>TOTAL</b>	<b>3,266</b>	<b>1,501</b>	<b>4,767</b>



## Allegations of Misconduct Against IRS Employees (continued)

### **IRS Summary of Substantiated § 1203 Allegations<sup>1</sup>**

<b>1203 Violation<sup>2</sup></b>	<b>Removals</b>	<b>Penalty Mitigated</b>
Seizure Without Approval .....	0	0
False Statement Under Oath. ....	0	0
Constitutional & Civil Rights Issues .....	0	0
Falsifying or Destroying Records .....	1	0
Assault or Battery .....	1	0
Retaliate or Harass .....	0	0
Misuse of 6103 .....	0	0
Failure to File Federal Tax Return .....	8	26
Understatement of Federal Tax Liability .....	0	0
Threat to Audit for Personal Gain .....	0	0
<b>TOTAL</b>	<b>10</b>	<b>26</b>

<sup>1</sup> This table reflects IRS management inquiries and TIGTA investigations.

<sup>2</sup> The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third party appeal.

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

## Appendix III - Statistical Reports - Others

### Audit Reports With Significant Unimplemented Corrective Actions

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

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number, R = Recommendation Number, P = Plan Number)
093602	April 1999		<i>The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits</i>
		10/01/02	<u>F-1, R-3, P-2.</u> Require a separation of duties among auditors who identify Midwest Automated Compliance System (MACS) returns with potential tax changes, auditors who select MACS returns to be audited, and auditors who conduct the examinations.
		12/01/01	<u>F-1, R-4, P-2.</u> Ensure that all MACS data discs forwarded from the MACS Development Center to district offices are properly accounted for and secured.
		01/01/02	<u>F-2, R-4, P-1.</u> Clarify the <i>Internal Revenue Manual</i> to provide specific guidance for conducting correspondence audits in district office settings.
094206	May 1999		<i>The Examination Returns Control and Integrated Data Retrieval Systems Can Be Improved to Protect Taxpayer Rights During the Audit Process</i>
		10/01/01	<u>F-3, R-1, P-2.</u> The Assistant Commissioner (Examination), with input from the Chief Information Officer, should ensure the issues are addressed to enable the Examination Returns Control System audit trail to be used to its fullest extent.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
			(F = Finding Number, R = Recommendation Number, P = Plan Number)
093009	June 1999		<i>Review of the Electronic Fraud Detection System</i>
		12/01/01	<u>F-1, R-2, P-2.</u> Initial and periodic password changes should be systemically enforced for the Electronic Fraud Detection System (EFDS) application program.
		12/01/01	<u>F-1, R-3, P-2.</u> Workstation terminals should be disabled after a selected number of failed login attempts to the EFDS application program.
		12/01/01	<u>F-1, R-4, P-2.</u> Password change information should be part of the EFDS application audit trail.
		01/01/03	<u>F-2, R-1, P-2.</u> Program the EFDS application trail to record all accesses to taxpayer data.
		01/01/03	<u>F-2, R-2, P-2.</u> Design an audit trail application to record accesses to taxpayer data through secondary sources such as the database administrator, system query tools, or contract vendors.
		01/01/03	<u>F-3, R-1, P-2.</u> The EFDS Project Office should work with EFDS developers to ensure that the following programming changes are made. The EFDS application audit reports should be changed to include a date range field and service center site field where applicable.
		07/01/03	<u>F-3, R-4, P-2.</u> The Chief Information Officer should complete this assessment, taking into consideration the audit trail issues referred to in this Memorandum of Understanding to improve the usefulness of the EFDS application audit trail.
		12/01/01	<u>F-3, R-5, P-2.</u> Because of the sensitivity of the data maintained on the EFDS, and the number of people who have access to the system (with more planned in the future), the audit trail problems referred to in the report should be included by IRS as a <i>Federal Managers' Financial Integrity Act</i> material weakness.
	11/01/01	<u>F-5, R-2, P-1.</u> EFDS will soon undergo a new security certification. Taking into account the audit trail and documentation issues discussed in this report, it is questionable whether EFDS should have received its prior security certification. In the upcoming certification process, Information Systems should ensure that the issues discussed in this report are corrected, and that all other controls necessary for a proper certification are in place and functioning.	

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number, R = Recommendation Number, P = Plan Number)
199920063	August 1999		<i>The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved</i>
		07/01/02	The Chief Information Officer should: <u>F-2, R-1, P-1.</u> Standardize control settings for files common to the Unisys 2200 production mainframes.
		07/01/02	<u>F-3, R-1, P-1.</u> Ensure all improperly owned files are identified and assigned an owner present on the Unisys 2200 system at each service center, with the exception of files required to be unowned, prior to movement of that service center's mainframe to the consolidated Unisys 4800 environment.
		P-2: 07/01/02 P-3: 01/01/03 P-5, 02/01/02 P-6, 02/01/02	<u>F-3, R-2, P-2, P-3, P-5, P-6.</u> Institute a policy requiring that all files owned by users being removed from the Unisys 2200 and Unisys 4800 systems either be deleted or assigned to a user present on the system.
		07/01/02	<u>F-4, R-1, P-1.</u> Examine the possibility of tracking individual user actions while using the MASTER user-id on the Unisys 4800 system and, if possible, implement this feature as soon as feasible.
		01/01/02	<u>F-6, R-1, P-1.</u> Ensure that all required C-2 documentation is prepared for the Unisys 4800.
		07/01/02	<u>F-6, R-2, P-1.</u> Develop and maintain a security policy for the Unisys 4800.
199910072	September 1999		<i>The Internal Revenue Service Needs to Improve Compliance With Legal and Internal Guidelines When Taking Taxpayers' Property for Unpaid Taxes</i>
		P-1: 10/01/01 P-2: 10/01/01 P-3: 10/01/01	<u>F-2, R-3, P-1, P-2, P-3.</u> Ensure that Collection management and other appropriate management officials verify that all applicable items on the pre-seizure checklist are completed prior to approving the seizure and that all applicable items on the seizure and post-seizure checklists under development are completed.
199920068	September 1999		<i>The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain</i>
		12/01/01	<u>F-2, R-3, P-1.</u> IRS management should ensure that proper procedures are followed. The Service Center Mainframe Consolidation Project Office should establish full-time Government Task Managers and support staff on-site to monitor and verify deliveries, hours worked by the contractor, and travel taken by the contractor.
2000-30-015	December 1999		<i>Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers</i>
		10/01/01	<u>F-2, R-1, P-1.</u> Expand the current Federal Tax Deposits alert reengineering effort to re-evaluate the cost effectiveness of the Program.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary
			(F = Finding Number, R = Recommendation Number, P = Plan Number)
2000-10-033	February 2000	10/01/02	<i>The Internal Revenue Service Can Further Reduce the Burden on Taxpayers Who Disagree With Proposed Assessments</i> <u>F-1, R-1, P-1.</u> Send letters of proposed changes (30-Day Report) via certified mail, with return receipt requested, when taxpayers do not respond to the initial contact letter.
2000-10-047	March 2000	12/31/01	<i>The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program</i> <u>F-2, R-2, P-2.</u> IRS should develop instructions for the processing of late filed tax-exempt bond returns.
2000-10-058	March 2000	11/01/02	<i>The Internal Revenue Service Needs to Improve Its Compliance With Procedures When Processing Requests for Information Under the Freedom of Information Act</i> <u>F-3, R-2, P-1.</u> IRS Office of Governmental Liaison and Disclosure should obtain controlled access to the IRS' tax account information in the National Office of Governmental Liaison and Disclosure to research the availability of the requested records.
2000-30-057	March 2000	10/01/01	<i>Opportunities Exist for Further Reducing Erroneous Fuel Tax Credits</i> <u>F-1, R-1, P-1.</u> IRS needs to emphasize the importance of checking prior year returns for fuel tax credits, when closing current year fuel tax cases with an adjustment, and to establish management controls to ensure that the requirement is followed.
		10/01/01	<u>F-2, R-1, P-1.</u> The Assistant Commissioner (Customer Service) needs to provide professional preparer organizations with appropriate educational materials on the tax regulations relating to tax credits for undyed diesel fuel used by farmers.



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2000-30-059	March 2000		<i>The Internal Revenue Service Can Improve the Estate Tax Collection Process</i>
		07/01/02	<u>F-1, R-1, P-1.</u> Collection and service center management should assign the responsibility for determining whether a bond or tax lien should be secured to the service center employees who process the installment agreements, instead of to the district offices.
		09/01/01	<u>F-1, R-2, P-2.</u> Service center management should review and approve all requests for payment extensions. The review should ensure the estate has demonstrated reasonable cause before granting the payment extension.
		11/01/02	<u>F-2, R-1, P-1.</u> Collection management should instruct managers and employees to conduct a 100 percent review of all current estate cases to ensure active tax liens are input to the Automated Lien System (ALS), tax liens and lien fees are properly reflected on the taxpayer accounts, and all tax liens are released on accounts that have no tax obligation.
		09/01/01	<u>F-2, R-2, P-1.</u> Collection and Information Systems management should develop procedures to periodically reconcile tax liens on the ALS with information shown on the taxpayer accounts.
		11/01/02	<u>F-2, R-3, P-1.</u> Collection management should clarify procedures to employees that all estate tax liens should be recorded on the ALS.
		02/01/02	<u>F-3, R-1, P-1.</u> Collection and Information Systems management should coordinate to review the collection statute abatement programming for accurate Collection Statute Expiration Date (CSED) calculations.
		07/01/02	<u>F-3, R-3, P-1.</u> Collection and service center management should ensure all estate tax accounts with collection statute abatements are manually reviewed to verify or correct CSED calculations.
		01/01/03	<u>F-3, R-4, P-1.</u> Collection and Information Systems management should coordinate to develop a procedure to identify accounts with multiple assessments and collection statute dates to ensure partial abatements occur when the earliest CSED is reached.
		2000-40-045	March 2000
01/01/02	<u>F-2, R-1, P-1.</u> The Chief Operations Officer should ensure that computer programming necessary to identify taxpayer errors related to two tax law provisions are completed by the 2001 filing season.		

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2000-40-055	March 2000		<i>The Internal Revenue Service Needs to Improve Its Coordinated Oversight of the Substitute for Return Process</i>
		10/01/01	The Chief Operations Officer should: <u>F-1, R-1, P-1.</u> Establish uniform policies and procedures to ensure coordination of IRS efforts among the functions processing Substitute for Return (SFR) accounts.
		10/01/02	<u>F-2, R-1, P-1.</u> Coordinate the development of a process to monitor the future filing compliance of taxpayers with SFR tax assessments regardless of which function processed the account.
		01/01/02	<u>F-2, R-2, P-1.</u> Coordinate the design of a process to profile SFR tax assessments and their resolution regardless of processing function.
2000-40-063	May 2000		<i>Increased Attention Is Needed to Ensure Timely, Accurate Determinations on Innocent Spouse Claims for Relief</i>
		01/01/02	IRS should: <u>F-1, R-1, P-3.</u> Set goals and standards for the Innocent Spouse Program.
		01/01/02	<u>F-2, R-1, P-2.</u> Design and implement a system of internal controls that addresses the quantity, cost, and timeliness of the Innocent Spouse Program to complement the existing internal controls over the quality of the Program.
2000-40-069	May 2000		<i>Internal Revenue Service's Process for Controlling Filing Season Computer Programming Changes Does Not Ensure Critical Changes Are Effectively Implemented</i>
		10/01/01	<u>F-2, R-1, P-3.</u> Develop written criteria for prioritizing Requests for Information Services (RIS) to ensure the RIS inventory is prioritized correctly for the filing season.
2000-30-088	June 2000		<i>Millions of Dollars in Internal Revenue Service Excess Collections Accounts Could Be Credited to Taxpayers</i>
		10/01/01	<u>F-1, R-1, P-2.</u> The Customer Service function should use TIGTA developed computer-matching techniques to identify and, where appropriate, transfer payments from the Excess Collections Accounts to the taxpayers' Masterfile accounts.
		P-2: 11/01/01	<u>F-2, R-1, P-2, P-3, P-4.</u> The Chief Operations Officer needs to coordinate education efforts for employees handling these accounts and develop strategies for increasing taxpayer and practitioner awareness of the law on the statute of limitations for refunding and crediting payments related to overdue tax returns.
		P-3: 11/01/01	
P-4: 01/01/02			

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2000-20-092	June 2000		<i>Certifying the Security of Internal Revenue Service Computer Systems Is Still a Material Weakness</i>
			Information Systems Management should:
		03/01/02	<u>F-1, R-1, P-1.</u> Place more emphasis on building security controls into new information systems. To ensure this happens, IRS management should not authorize the implementation of any new system until controls are sufficient and the system has the required security certification and accreditation.
		03/01/02	<u>F-1, R-2, P-1.</u> For systems that have already been implemented, additional emphasis should be placed on timely certification and accreditation. Also, ensure that funds continue to be allocated for contractor support during the certification process and consideration should be given to increasing this allocation in order to get systems certified as soon as possible.
		03/01/02	<u>F-1, R-3, P-1.</u> Consider increasing the human resources within IRS devoted to certifying and accrediting the security features of information systems.
		03/01/02	<u>F-1, R-4, P-1.</u> Ensure that IRS' certification process includes follow-ups with the accrediting executives' prior to the expiration of their systems security certification to ensure that they are aware that a new certification and accreditation is required.
		03/01/02	<u>F-1, R-5, P-1.</u> Ensure that all functional executives for individual systems are fully aware of the overall certification and accreditation process.
		03/01/02	<u>F-1, R-6, P-1.</u> Centralize the process for identifying and tracking all information systems requiring certification and accreditation.
		03/01/02	<u>F-2, R-1, P-1.</u> Ensure that IRS' certification process includes follow-ups with the accrediting executives to ensure that necessary information relevant to the official accreditation is provided and to educate them on the importance of providing this information.

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2000-20-094	June 2000		<i>A Comprehensive Program for Preventing and Detecting Computer Viruses Is Needed</i>
		10/01/01	The official responsible for the virus program should: <u>F-2, R-1, P-1.</u> Develop and implement IRS-wide procedures detailing the frequency and steps to be followed for reliably updating anti-virus software on both networked and portable notebook computers.
		11/01/01	<u>F-2, R-2, P-1.</u> Establish controls for ensuring all updates have been successfully accomplished.
		10/01/01	<u>F-3, R-1, P-1.</u> Develop a system for gathering information to help analyze and monitor the effectiveness of the program's virus detection and prevention activities.
		10/01/01	<u>F-4, R-1, P-1.</u> Strengthen procedures for ensuring that employees comply with the <i>Internal Revenue Manual</i> requirements for preparing <i>Virus Incident Reports</i> .
2000-20-097	June 2000	10/01/01	<i>The Internal Revenue Service Should Improve Actions to Protect Its Critical Infrastructure</i> <u>F-1, R-2, P-1.</u> The Chief Infrastructure Assurance Officer (CIAO) should ensure that vulnerabilities to all mission essential assets, including facilities, systems, applications, personnel, and data, are assessed during future security reviews. In addition, the CIAO should evaluate the interdependencies inherent in IRS' mission essential activities.
2000-20-099	June 2000		<i>Significant Risks Need to Be Addressed to Ensure Adequate Oversight of the Systems Modernization Effort</i>
		09/30/01	<u>F-1, R-3, P-1.</u> Finalize and fully implement Quality Assurance policies and procedures throughout the organization.
		09/01/01	<u>F-2, R-1, P-1.</u> Develop a staffing plan for the Program Management Office (PMO) to ensure that the PMO is adequately staffed and the personnel have proper training.
		12/31/01	<u>F-2, R-4, P-1.</u> Develop a back-up plan for key personnel to ensure that the PMO is adequately staffed and the personnel have proper training.
		12/31/01	<u>F-2, R-5, P-1.</u> Develop policies and procedures to regularly update the staffing plan, skills analysis, training plan, and back-up plan for key personnel.
		10/01/01	<u>F-3, R-3, P-1.</u> Assess the PRIME contractor's processes to ensure that performance monitoring data being provided to IRS are complete and accurate.
2000-30-111	August 2000	01/01/02	<i>Improvements Are Needed in Resolving In-Business Trust Fund Delinquencies to Prevent Tax Liabilities From Pyramiding</i> <u>F-2, R-1, P-1.</u> Use all collection tools, including enforcement tools and require the filing of monthly, rather than quarterly, returns.

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2000-30-120	August 2000	1/01/01	<i>Expanding the Electronic Tax Law Assistance Program</i> F-1, R-1, P-1. To meet its Electronic Tax Administration goals, IRS needs to redesign the Electronic Tax Law Assistance (ETLA) program to leverage technology that will provide enhanced access to tax information, maximize efficiency, and improve electronic customer service.
		09/01/02	F-2, R-1, P-1. To effectively administer the rapid growth of taxpayer demand, economically use resources, and design future enhancements of the program, IRS needs to fully commit to the ETLA program by converting it from a long-term research project to a fully supported independent function.
		12/31/02	F-3, R-1, P-1. Until there are technological changes and an organizational commitment, IRS needs to delay the marketing of the ETLA program. In the interim, IRS should expand the ETLA program to additional call sites to process the ever-increasing taxpayer demand for this electronic service while reducing the need to use more expensive Compliance function personnel.
2000-30-130	September 2000		<i>Opportunities Exist to Enhance the International Field Assistance Specialization Program</i> The Commissioner, Large and Mid-Size Business Division, should:
		04/30/02	F-2, R-1, P-1. Improve the management information system by linking the International Field Assistance Specialization Program (IFASP) indicator to specific issues listed in the International Case Management System.
		06/01/03	F-2, R-2, P-2. Ensure international examiners gain greater access to IRS' Intranet so that the IFASP can accumulate and disseminate more information electronically, including an electronic referral form for IFASP assistance.
2000-10-145	September 2000		<i>Improvements Are Needed to Ensure Control and Accountability Over Automated Data Processing Assets</i>
		10/01/01	F-1, R-1, P-1. The Director, Enterprise Operations, should take appropriate action on the recommendation made by the Chief, Transmittal and Control Branch, to conduct quality reviews prior to forwarding the Automated Data Processing Property Certifications to the Chief Information Officer (CIO) for final approval and certification to the Commissioner.
		05/01/02	F-2, R-1, P-1. The CIO, together with senior executives from other affected IRS organizational components, should re-evaluate resource commitments needed to successfully implement the Single Point Inventory Function and elevate to the Deputy Commissioner Operations for resolution any staffing shortages that imperil successful implementation.
		10/01/02	F-3, R-1, P-2. The Asset Management Modernization Project Office Manager should ensure the Single Point Inventory Function Standard Operating Procedures are updated to include accountability and identification of internal use software and documentation for annual physical inventories.



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2000-30-146	September 2000	P-3: 02/01/02 P-4: 10/01/01	<i>Opportunities Exist to Identify Unreported Taxes from Employer's Quarterly Federal Tax Returns</i> <u>F-1, R-1, P-3, P-4.</u> TIGTA recommended that the Commissioners of the Small Business/Self-Employed Division, and Large and Mid-Size Business Division, and the Chief, Criminal Investigation, increase <i>Employer's Quarterly Tax Return (Form 941)</i> compliance efforts.
2000-30-154	September 2000	01/01/02	<i>Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File</i> <u>F-1, R-1, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should require that all balance due notices generated for gift tax accounts be reviewed. Tax examiners should be instructed to review the taxpayers' corresponding individual income tax and gift tax accounts to determine if the taxpayers' gift tax payments and extensions were correctly processed.
2000-20-158	September 2000	10/01/01	<i>Additional Actions Are Needed to Strengthen the Development and Enforcement of the Enterprise Architecture</i> <u>F-5, R-2, P-1.</u> The Chief Information Officer should establish a waiver process to approve minor deviations from the established architecture standards.
2000-30-162	September 2000	2/01/02 04/01/02 P-1: 02/01/02 P-2: 02/01/02 P-1: 02/01/02 P-2: 02/01/02	<i>The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations</i> The Assistant Commissioner (Collection) should: <u>F-1, R-2, P-1.</u> Provide additional computer programming enhancements to improve the value of litigation transcripts. <u>F-1, R-5, P-1.</u> Provide consistent guidelines to the SPf units on how to notify the Examination function that the taxpayer is in bankruptcy. <u>F-2, R-1, P-1, P-2.</u> Request that the Automated Insolvency System be reprogrammed so that the actual receipt date of the case can be input into the system to provide management with more accurate data on timeliness of input of new case information. <u>F-2, R-2, P-1, P-2.</u> Ensure that all employees review the Potentially Invalid Taxpayer report and resolve all cases promptly to ensure timely posting of the bankruptcy to the taxpayer's account.

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2001-10-001	October 2000		<i>The National Taxpayer Advocate Can Improve the Service Provided to Taxpayers</i>
		10/01/01	The National Taxpayer Advocate should: <u>F-1, R-1, P-1.</u> Require that quality review results be used to identify national training needs and emphasis areas.
		10/01/01	<u>F-1, R-2, P-1.</u> Require Taxpayer Advocates in local offices and IRS Centers to report quarterly on the corrective actions taken to address quality standards that warrant improvement.
2001-30-006	October 2000	1/01/01	<i>Management Advisory Report: Strategic Planning for Toll-Free Telephone Operations Has Made Significant Progress, But Further Improvements Are Needed</i> <u>F-2, R-1, P-2.</u> To effectively manage their annual plans to help achieve strategic goals, the Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE) Divisions and the Joint Operations Center (JOC) need to develop tracking systems that set specific management accountability and clearly defined timetables, have the ability to track costs, and tie into a quality measurement process.
		01/01/01	<u>F-2, R-2, P-2.</u> The W&I and SB/SE Divisions and the JOC need to develop more detailed multi-year plans, as well as annual plans, that identify the specific impact that planned actions are expected to have on the stated strategic plan goals.
2001-30-014	November 2000		<i>The Internal Revenue Service Does Not Effectively Use the Trust Fund Recovery Penalty as a Collection Enforcement Tool</i>
		10/01/01	The Assistant Commissioner (Collection) should: <u>F-1, R-1, P-1.</u> Reassess the time frames for making the trust fund recovery penalty decision.
		12/01/01	<u>F-1, R-3, P-1.</u> Reinforce the need for group managers to review repeater trust fund cases and consider the timely use of the trust fund recovery penalty.
		12/01/01	<u>F-1, R-4, P-1.</u> Reinforce to group managers the need to assert the trust fund recovery penalty against all applicable responsible officers.
		12/01/01	<u>F-1, R-5, P-1.</u> Make programming changes to the Automated Trust Fund Recovery System to ensure that delinquent tax returns are addressed when making trust fund recovery penalty calculations.
2001-40-008	November 2000	12/01/01	<i>Electronic Returns Were Processed Effectively</i> <u>F-2, R-1, P-4.</u> Develop national standards, goals, and procedural guidance to ensure consistent and effective customer service is provided by all processing site Help Desks.

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2001-20-016	November 2000		<i>Employees' Extensive Personal Use of the Internet Should Be Controlled</i>
		11/01/01	The Chief Information Officer should: <u>F-1, R-2, P-1.</u> Mandate that all Internet-related activity logs from IRS firewall and proxy servers are retained and periodically reviewed to identify inappropriate accesses.
		0/01/01	<u>F-1, R-3, P-1.</u> Augment the vendor's blocking criteria list with other known inappropriate sites identified during monitoring efforts or from referrals.
		P-2: 11/01/01 P-3: 10/01/01 P-4: 11/01/01	<u>F-1, R-4, P-2, P-3, P-4.</u> Consider the impact on IRS resources prior to deciding to implement a "limited personal use" Internet policy.
2001-30-019	November 2000		<i>Letter Report: More Small Corporate Taxpayers Can Benefit from the Alternative Minimum Tax Exemption Provision</i>
		P-7: 11/01/01	<u>F-1, R-1, P-7, P-8.</u> The National Director, Education, Walk-In and Correspondence Improvement should issue a public announcement to taxpayers to emphasize the alternative minimum tax exemption for qualifying small corporations.
		P-8: 11/01/01	
2001-10-028	December 2000		<i>The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Compliance Project Examination Activities</i>
		05/31/01	The Tax Exempt and Government Entities Division should: <u>F-1, R-1, P-1.</u> Revise its operating procedures to require that compliance project files include clear justifications for initiating the projects to the Examination strategies outlined in the annual work plan.
		05/31/01	<u>F-1, R-2, P-1.</u> Remind its staff of the procedural requirements for obtaining approval on compliance projects from either the Area Manager or the Director, Exempt Organizations Examinations.
		05/31/01	<u>F-2, R-1, P-1.</u> Revise its procedures to ensure that classifiers record the reason for closing a case without examination in the case file.

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2001-10-026	December 2000		<i>Additional Management Actions Are Needed to Ensure the Timely and Successful Modernization of the Tax Exempt and Government Entities Division</i>
		P-1: 09/30/01 P-2: 10/01/02	<u>F-3, R-1, P-1, P-2.</u> Ensure that the Program Management function identifies and monitors the risks associated with Tax Exempt and Government Entities (TE/GE) Division core processes that could result in disruptions to customer service. Also, Program Management should closely monitor all other TE/GE Division workaround processes to ensure that permanent solutions are in place and working as intended.
		03/31/01	<u>F-4, R-2, P-2.</u> Ensure that revised procedures for the transfer of work to the new organizational elements are fully developed and applied by the field managers.
		12/31/01	<u>F-5, R-2, P-1.</u> Enhance the Service Level Agreement with the Information Systems organization to ensure the TE/GE Division receives sufficient support from the IS organization and establish a practice to resolve issues related to non-performance.
2001-40-024	December 2000		<i>The Program for Ensuring Compliance With Anti-Money Laundering Reporting Requirements Should Be Improved</i>
		11/01/01	IRS Small Business/Self Employed Division should: <u>F-1, R-2, P-1.</u> Expand significantly the information available to covered businesses on their <i>Bank Secrecy Act (BSA)</i> reporting responsibilities by developing and delivering, via creative methods (mailout, Internet, industry associations, etc.), a concise education/information package to all identified or potential <i>BSA</i> reporting entities.
		10/01/01	<u>F-2, R-2, P-1.</u> Improve tracking of productivity and achievement of performance indicators by ensuring reliable <i>Title 31</i> information is timely provided by field units.
		06/01/02	<u>F-1, R-7, P-1.</u> Ensure sufficient training is provided nationwide on a timely basis.

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2001-20-022	December 2000		<i>Controls Over the Development of the Practitioner Secure Messaging System Prototype Should Be Improved</i>
		P-1: 10/01/01 P-2: 10/01/01	<u>F-1, R-1, P-1, P-2.</u> The Core Business System Executive Steering Committee should merge the Practitioner Secure Messaging System (PSMS) and other Electronic Tax Administration managed systems development projects with related Business Systems Modernization projects.
		10/01/01	<u>F-2, R-1, P-1.</u> IRS should develop written instructions for operations personnel (e.g., Customer Service, Compliance, etc.) to ensure that they can research the stored PSMS Prototype messages and IRS responses, including accessing the records after the PSMS Prototype is shut down.
		06/01/02	<u>F-3, R-1, P-1.</u> The Commissioner, Wage and Investment Division, should require the contractor to break down the total hours worked by task on each status report, break down by individual project the labor hours and other costs billed on each payment voucher, report as "current" (not "cumulative") all costs that are included on the payment voucher with an appropriate comment when the costs apply to another accounting period, and report the amount billed for each person's current hours.
2001-40-021	January 2001		<i>Additional Efforts Are Needed for Improving Revenue Protection</i>
		P-1: 10/01/02 P-2: 10/01/02	The Chief, Criminal Investigation should: <u>F-1, R-1, P-1, P-2.</u> Ensure that the <i>Revenue Protection Strategy (RPS)</i> is a long-term strategic plan that is coordinated among functional areas. The <i>RPS</i> should recognize and take steps to defeat known fraud and abuse, as well as outline proactive measures for attempting to eliminate potential areas of fraud and abuse.
		P-1: 10/01/02 P-2: 10/01/02	<u>F-1, R-2, P-1, P-2.</u> Establish measurable goals and objectives to evaluate the effectiveness of the <i>RPS</i> . The goals and objectives should ensure that revenue is protected and taxpayer burden is reduced.
		P-1: 10/01/02 P-2: 10/01/02	<u>F-2, R-1, P-1, P-2.</u> Develop a process to measure the effectiveness of individual initiatives on reducing noncompliance, until the <i>RPS</i> is developed and implemented. Once developed, the <i>RPS</i> should also contain provisions for measuring the effect of its components on reducing noncompliance.

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2001-10-027	January 2001		<i>Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program</i>
		03/31/02	The Director of Practice should: <u>F-1, R-1, P-1.</u> Upgrade the automated case management system to provide more timely and accurate data on case activities and the use of program resources.
		03/31/02	<u>F-1, R-2, P-1.</u> Conduct an annual workload and staffing analysis to identify the staffing necessary to take prompt action on allegations of tax practitioner violations.
		03/31/02	<u>F-2, R-1, P-1.</u> Provide information to the public on IRS web site and in IRS publications on how to report violations by tax practitioners.
		03/31/02	<u>F-2, R-2, P-1.</u> Develop a comprehensive communications strategy to create an awareness of and expand outreach activities to taxpayers on the disciplinary proceedings program.
2001-10-040	January 2001		<i>Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened</i>
		01/31/02	<u>F-2, R-2, P-1.</u> The Chief, Criminal Investigation should work with IRS Chief Financial Officer to determine the propriety of and procedures for depositing investigative imprest funds in interest bearing checking accounts.
2001-20-043	February 2001		<i>Electronic Signature Initiatives Could Be Better Defined and Evaluated</i>
		12/01/01	The Commissioner, Wage and Investment Division should: <u>F-1, R-1, P-1.</u> Finalize IRS requirements for the use of Personal Identification Numbers as alternative signatures for electronically filed returns based on evolving guidance and the draft IRS authentication security policy and implementation guide.
		03/01/02	<u>F-1, R-2, P-1.</u> Ensure that all operational alternative signature initiatives comply with the requirements.
2001-40-048	February 2001		<i>Letter Report: Improvements at the Lockbox Bank in Atlanta Are Needed to Better Protect Taxpayer Payments and Minimize Processing Costs</i>
		01/01/02	<u>F-2, R-1, P-1.</u> The Commissioner, Wage and Investment Division should ensure that the bank correctly sorts tax returns.



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2001-30-052	March 2001		<i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i>
		01/01/02	<u>F-1, R-1, P-1.</u> The Commissioner, Large and Mid-Size Business (LMSB) Division should ensure the prior recommendations are implemented. Establishing a formal program with goals, objectives, processes and measure could help ensure that sufficient management attention is devoted to improving the use of the Routine Exchange of Information Program for compliance.
		01/01/02	<u>F-2, R-1, P-1.</u> The U.S. Competent Authority should identify the highest risk foreign source income documents and use them to coordinate with tax treaty partners to positively identify the U.S. taxpayers involved.
		P-1: 01/01/07 P-2: 01/01/07	<u>F-3, R-1, P-1, P-2.</u> The LMSB Division's Director of Business Systems Planning should improve systems that process data IRS receives on foreign sourced income.
2001-30-063	March 2001		<i>More Consideration Is Needed During Examinations to Identify Potential Fraud Issues and Refer Cases to Criminal Investigation</i>
		09/01/01	<u>F-1, R-1, P-4.</u> The Commissioner, Small Business/Self-Employed (SB/SE) Division needs to enhance Examination function processes to more readily identify cases with potential fraud issues.
		P-1: 10/01/01 P-2: 10/01/01	<u>F-1, R-2, P-1, P-2.</u> The Commissioner SB/SE Division, and the Chief, Criminal Investigation, need to continue demonstrating to front-line employees their commitment to the Fraud Referral Program and regularly emphasize the priority it has.
		10/01/01	<u>F-1, R-4, P-1.</u> As the SB/SE Division hires new examiners, the Commissioner, SB/SE Division, needs to adjust the mix of cases being examined, specifically by increasing the number of <i>Schedule C, F</i> , and other source returns that have historically yielded cases that have fraud potential.
2001-40-059	March 2001		<i>Duplicate Dependent and Qualifying Child Overclaims Result in Substantial Losses of Tax Revenue Each Year</i>
		01/01/02	<u>F-1, R-1, P-1.</u> IRS should ensure that its duplicate dependent detection process includes complete data.
		12/31/01	<u>F-1, R-3, P-1.</u> IRS should strengthen oversight and accountability for the program.

## Statistical Reports — Others

### ❑ ***Access to Information***

The *Inspector General Act of 1978* requires IGs to report on unreasonable refusals of information available to the agency which relate to programs and operations for which the IG has responsibilities. There were no instances where information or assistance requested by OA was refused.

### ❑ ***Audit Reports Issued in the Prior Reporting Period With No Management Response***

The *Inspector General Act of 1978* requires IGs to provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period. As of September 30, 2001, there were no prior reports where management's response was not received.

### ❑ ***Revised Management Decisions***

The *Inspector General Act of 1978* requires IGs to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. As of September 30, 2001, no significant management decisions were revised.

### ❑ ***Disputed Audit Recommendations***

The *Inspector General Act of 1978* requires IGs to provide information on significant management decisions in response to audit recommendations, with which the IG disagrees. As of September 30, 2001, there were no reports where a significant recommendation was disputed.

### ❑ ***Review of Legislation and Regulations***

The *Inspector General Act of 1978* requires IGs to review existing and proposed legislation and regulations and to make recommendations concerning the impact of such legislation or regulations. TIGTA's Office of Chief Counsel reviewed 116 proposed legislation and regulations during the six-month reporting period.

# Appendix IV - Audit Report Listing

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## Audit Reports

April 1, 2001 - September 30, 2001

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### April 2001

- 2001-OT-075 *Inspector General Testimony: Before the Subcommittee on Oversight, Committee on Ways and Means, U. S. House of Representatives*
- 2001-1C-058 *Report on Estimating System and Internal Controls The Taxpayer Advocate Service Effectively Responded to Taxpayers Requesting Relief from a Significant Hardship*
- 2001-30-056 *Management Advisory Report: The Small Business/Self-Employed Division Needs to Improve Taxpayer Correspondence and Availability of Management Information*
- 2001-20-071 *Letter Report: The Internal Revenue Service Complied with Federal Privacy Policies Regarding the Collection of Personal Information of Federal Web Sites*
- 2001-40-069 *Management Advisory Report: Ineffective Administration of the Individual Taxpayer Penalty Program Creates Inequity*
- 2001-20-065 *Security Over Data from the Department of Health and Human Services Should Be Improved*
- 2001-20-072 *Disaster Recovery Plans for Mainframe Systems at the Tennessee Computing Center Have Improved, But Mid-Range Systems Still Need Attention*
- 2001-10-067 *GPRA: Weaknesses in the Service Center Correspondence Examination Process Reduce the Reliability of the Customer Satisfaction Survey*
- 2001-10-073 *The Taxpayer Advocate Service Effectively Responded to Taxpayers Requesting Relief from a Significant Hardship*
- 2001-1C-070 *Audit of Selected Relocation Costs Fiscal Years 1999 and 2000 TIRNO-99-D-00001 (Questioned Costs: \$4,194.)*

### May 2001

- 2001-OT-086 *Inspector General Testimony: Implementation of the Internal Revenue Service Restructuring and Reform Act of 1998*
- 2001-40-077 *Letter Report: The Internal Revenue Service Continues to Give Incorrect Tax Law Information in Taxpayer Assistance Centers*
- 2001-40-078 *Management Advisory Report: The Notice Review Program Should Be Improved to Prevent Erroneous Notices From Being Sent to Taxpayers*
- 2001-1C-066 *Agreed Upon Procedures For Solicitation TIRNO-00-R-00033*
- 2001-10-068 *Taxpayer Service on Lien and Levy Appeals Could Be Further Improved (Taxpayer Rights and Entitlements: 238 determination letters that did not completely outline all provisions of the law.)*
- 2001-30-076 *Opportunities Exist to Improve the Tip Rate Determination and Education Program*
- 2001-30-057 *Management Advisory Report: Existing Compliance Function Processes Were Transferred Into the New Small Business/Self-Employed Division*
- 2001-10-061 *Letter Report: The Internal Revenue Service Complied With Legal and Internal Guidelines When Seizing Property for Payment of Tax*

## Audit Reports

### April 1, 2001 - September 30, 2001 (continued)

#### May 2001

- 2001-40-079 *The Performance of the Customer Service Toll-Free Telephone Program Needs Improvement to Better Handle Millions of Taxpayer Calls (Taxpayer Burden: 1,300,000 taxpayer calls not answered.)*
- 2001-10-087 *Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service*
- 2001-10-082 *Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information*
- 2001-1C-089 *Audit of Selected Final Vouchers TIRNO-95-D-00065*
- 2001-1C-090 *Agreed Upon Procedures for TIRNO-92-C-00014*
- 2001-10-091 *Additional Management Actions Are Needed to Enhance Data Security When Processing User Fee Payment Information*
- 2001-20-083 *Further Business Results Measure Development Can Improve Management of the Information Systems Organization*
- 2001-30-088 *Management Advisory Report: An Evaluation of Digital Analysis as a Potential Technique for Identifying Erroneous Fuel Tax Claims (Increased Revenue: \$246,833 for 15 taxpayers.)*
- 2001-1C-094 *Audit of Selected Final Voucher TIRNO-95-D-00068, Task Order 6*
- 2001-30-096 *The Internal Revenue Service Needs to Consistently Use Special Circumstances in the Offer in Compromise Program (Taxpayer Rights and Entitlements: 31 taxpayers rights not protected; Reliability of Information: 316 offers not correctly described on the management information system.)*
- 2001-10-085 *Management Advisory Report: The Internal Revenue Service's Implementation of the GPRA During Fiscal Year 2000*

#### June 2001

- 2001-10-097 *The Criminal Investigation Function Substantially Accomplished Organizational Stand-Up*
- 2001-10-098 *Review of the Effectiveness of Criminal Investigation's Strategic Planning Process*
- 2001-10-093 *Improvements Can Be Made to the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan Process*
- 2001-30-080 *Management Advisory Report: Concerns with the Processing of Small Business Corporation Returns at the Atlanta Processing Center in July 1999*
- 2001-20-092 *Controls Over the IRS' Masterfile System Are Generally Adequate, But Some Improvement Is Needed (Taxpayer Privacy and Security: 130 million returns processed in 1999 at risk.)*
- 2001-30-099 *Management Advisory Report: The Internal Revenue Service Could Reduce the Number of Business Tax Returns Destroyed Because of Missing Information*
- 2001-1C-104 *Rate Review of Proposal TIRNO-01-R-00004*
- 2001-1C-105 *Report on Audit of Specified Cost Elements for Time and Material Proposal TIRNO-01-R-00005*
- 2001-10-100 *The Criminal Investigation Function Needs to Improve Its Oversight During Implementation of the Webster Report Recommendations*

## Audit Reports

### April 1, 2001 - September 30, 2001 (continued)

#### June 2001

- 2001-20-101 *Controls Over the Internet Gateway Should Be Improved to Better Deter and Detect External Attacks*
- 2001-30-084 *Stronger Actions Are Needed to Ensure Partnerships Withhold and Pay Millions of Dollars in Taxes on Certain Income of Foreign Partners* (Increased Revenue: \$758,000,000 for 138 accounts.)
- 2001-40-106 *Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory*

#### July 2001

- 2001-1C-107 *Incurred Cost Audit for TIR-94-0028 Fiscal Year 1997*
- 2001-1C-110 *Incurred Cost Audit Fiscal Year 1998*
- 2001-10-095 *Management Advisory Report: Review of Alleged Billing Discrepancies on the Exam Year 2000 Replacement Project (Contract TIR-NO-99-Z-0004)*
- 2001-10-113 *The Internal Revenue Service Complied With Levy Requirements*
- 2001-10-116 *Letter Report: The Internal Revenue Service Has Not Implemented a Process to Monitor Compliance With Direct Contact Provisions*
- 2001-40-120 *Letter Report: Overall, the Internal Revenue Service Processed Child and Dependent Care Credits Correctly* (Increased Revenue: \$68,510 for 84 accounts.)
- 2001-10-081 *Management Advisory Report: No Violations of the Fair Debt Collection Practices Act Resulted in Administrative or Civil Actions (Fiscal Year 2001)*
- 2001-20-111 *Letter Report: Planning Efforts to Protect Critical Infrastructure Facilities Are Adequate*
- 2001-40-102 *Letter Report: The Implementation of a New Audit Selection Program for Earned Income Credit Filers Could Result in Significant Taxpayer Burden* (Increased Revenue: \$22,288,000; Taxpayer Burden: 8,000 taxpayers that would have undergone an unnecessary tax audit).
- 2001-40-121 *Letter Report: The Internal Revenue Service Did Not Thoroughly Validate the Accuracy of the Mortgage Interest Credits and the Related Mortgage Interest Deductions* (Increased Revenue: \$405,000 for 2,128 taxpayers; Taxpayer Rights and Entitlements: \$390,880 for 5,584 taxpayers that are not correctly computing the credit).
- 2001-40-122 *Management Advisory Report: Additional Options to Collect Tax Debts Need to Be Explored*
- 2001-10-112 *The Internal Revenue Service Should Continue Taking Action to Improve Compliance With the Freedom of Information Act and Related Procedures* (Taxpayer Rights and Entitlement: 2,501 FOIA, Privacy Act and I.R.C. § 6103 requests were improperly withheld or not timely provided.)
- 2001-30-123 *The Internal Revenue Service Protects the Government's Interests When Taxpayers File for Bankruptcy, but Some Controls Could Be Improved* (Increased Revenue: \$488,000 for 27 taxpayers; Taxpayer Rights and Entitlements: \$145,000 for 20 taxpayers in which the proof of claim was overstated.)
- 2001-20-109 *Management Advisory Report: Review of Longstanding Concerns with the Treasury Communications System Program*
- 2001-30-119 *Controls Over the Identification and Selection of Foreign Controlled Corporations for Examination Need Improvement*

## Audit Reports

April 1, 2001 - September 30, 2001 (continued)

### July 2001

- 2001-30-124 *Letter Report: Increased Oversight Is Needed to Ensure Taxpayers Receive Credit for Millions of Dollars in Excess Collections Accounts* (Taxpayer Rights and Entitlements: \$62,600,000 of credits in Excess Collection accounts that were not properly researched.)
- 2001-20-108 *Persistent Physical Security Vulnerabilities Should Be Corrected to Better Protect Facilities and Computer Resources*

### August 2001

- 2001-1C-115 *TIRNO-92-C-00014 Incurred Costs Audit Fiscal Year 1999*
- 2001-10-103 *Improvements Are Needed to Comply With Legal and Procedural Requirements for Collection Statute Extensions and Installment Agreements* (Revenue Protection: \$291,305,000 for 7,349 accounts; Taxpayer Burden: 154 accounts with collection statute dates extended longer than allowed; Taxpayer Rights and Entitlements: accounts with collection statute extensions that were prohibited or not documented 56,000 accounts that should be reviewed for potential statute of limitation changes.)
- 2001-10-126 *Letter Report: Full Compliance With Statutory Requirements for the Disclosure of Collection Information to Joint Filers Cannot Be Determined (Fiscal Year 2001)*
- 2001-30-117 *Letter Report: Additional Controls Are Necessary to Ensure that All Businesses Are Classified by Their Principal Business Activity* (Reliability of Information: 2,800,421 taxpayers not identified by their principal business activity.)
- 2001-30-118 *A Prototype to Help New Small Business Employers Appears Effective, But More Information Is Needed Before Expanding It Nationwide*
- 2001-1C-114 *TIRNO-92-C-00014 Incurred Costs Audit Fiscal Year 1998*
- 2001-10-127 *Full Compliance With Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved* (Taxpayer Rights and Entitlements: 11,507 taxpayers whose rights were potentially violated.)
- 2001-40-130 *Letter Report: Opportunities Exist to Improve the Performance Indicators Used to Convey Toll-Free Telephone Accuracy Accomplishments*
- 2001-40-138 *Letter Report: The Internal Revenue Service Adequately Handled Installment Agreements on Large Dollar Accounts*
- 2001-1C-128 *Review of Contractor's Accounting System*
- 2001-1C-133 *Report on Audit of Specified Cost Elements for Indefinite Delivery/Indefinite Quantity Proposal TIRNO-01-R-00005*
- 2001-30-125 *The Pre-filing Agreement Pilot Project Was Successful, But Faces Challenges in Converting to an Operational Program*
- 2001-30-131 *Better GPRA Quantity Indicators Are Needed for Toll-Free Telephone Service*
- 2001-30-137 *Management Advisory Report: Significant Efforts Have Been Made to Address the Large and Mid-Size Business Division's Human Capital Concerns, but a Formal Workforce Planning Model Has Not Been Developed*
- 2001-10-136 *Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments* (Funds Put to Better Use: \$6,493; Increased Revenue: \$4,050 for 9 accounts; Taxpayer Rights and Entitlements: \$2,675 for 31 accounts in which overpayments may have gone undetected.)



## Audit Reports

### April 1, 2001 - September 30, 2001 (continued)

#### August 2001

- 2001-20-140 *The Customer Relationship Management Examination Project Experienced Delays and Increased Costs, But Lessons Learned Should Improve Future Modernization Projects*
- 2001-30-139 *Management Advisory Report: The Estimated Cost of the Internal Revenue Service's Toll-Free Telephone Service Exceeds \$600 Million*
- 2001-1C-135 *Report on Audit of Termination for Convenience Proposal TOSNO-99-D-00006* (Questioned Costs: \$135,176.)
- 2001-40-142 *The Internal Revenue Service Needs to Ensure the Accuracy of Publications*
- 2001-30-132 *Significant Tax Revenue May Be Lost Due to Inaccurate Reporting of Taxpayer Identification Numbers for Independent Contractors* (Increased Revenue: \$11,000,000,000 for 417,000 information returns.) Note: Monetary benefits projected over a five-year period.
- 2001-20-143 *The Telecommunications Modernization Project Provided Some Benefits, But Process Improvements Are Needed for Future Projects*
- 2001-20-146 *The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act*
- 2001-40-149 *Controls Over Houston Receipts Left Taxpayer Cash Payments Vulnerable to Embezzlement* (Protection of Resources: 343 official receipts with errors.)
- 2001-40-151 *Letter Report: Write-off of Taxes Owed Resulted in Inequitable Treatment of Taxpayers* (Revenue Protection: \$500,000,000 for 57,343 accounts.)

#### September 2001

- 2001-40-163 *Spanish-Speaking Taxpayers Receive Expanded Access to Telephone Assistance*
- 2001-10-129 *Opportunities Exist to Reduce the Time to Respond to Taxpayers Who Protest Examiners' Findings and Request an Appeals Conference*
- 2001-10-147 *Compliance With Certain Taxpayer Rights Provisions Contained in the Internal Revenue Service Restructuring and Reform Act of 1998 Could Be Improved* (Taxpayer Rights and Entitlements: 14,375,835 taxpayers that did not receive required annual notices or penalty and interest statements.)
- 2001-30-148 *Tax Law Changes Are Needed to Improve Fairness in Paying Interest on Tax Refunds* (Funds Put to Better Use: \$13,000,000,000.) Note: Monetary benefits projected over a five-year period.
- 2001-30-159 *Management Advisory Report: The Strategy for Curbing Abusive Corporate Tax Shelter Growth Shows Promise but Could Be Enhanced by Performance Measures*
- 2001-40-150 *Letter Report: Some Taxpayers Are Being Incorrectly Included in the Federal Payment Levy Program* (Revenue Protection: 38,153 for 38 accounts; Taxpayer Burden: 35 taxpayers incorrectly included in the program.)
- 2001-40-161 *Letter Report: The Misclassification of Erroneous Refunds Has Caused Some Taxpayers to Be Treated Unfairly and Actual Inventories to Be Understated* (Taxpayer Rights and Entitlements: 2,465 taxpayers that may have been subjected to inappropriate collection action; Reliability of Information: 5,800 erroneous refunds understated in CY 2000 inventories.)
- 2001-20-144 *Improvements Are Needed in the Management of the e-Services Project to Enable Timely Progress Towards Future Goals* (Reliability of Information: \$1,600,000 in employee costs not accurately tracked.)

## Audit Reports

April 1, 2001 - September 30, 2001 (continued)

### September 2001

- 2001-20-152 *Letter Report: Authoritative Guidelines and Processes Are Needed for Classifying Information Technology Projects*
- 2001-30-154 *The Case Processing - Examination Support Processing Function Is Timely Performing Many of Its Responsibilities* (Funds Put to Better Use: \$63,064; Increased Revenue: \$1,113 for 4 accounts.)
- 2001-30-155 *Management Advisory Report: The Electronic Tax Law Assistance Program Outperformed Other Free Internet Web Sites in Answering Small Business and Self-Employment Tax Law Questions*
- 2001-40-160 *Letter Report: Controls During the Processing of the Adoption Credits Help Ensure Taxpayers Receive the Correct Benefit*
- 2001-30-158 *Some Individual Taxpayers Are Inappropriately Receiving Tax Credits Intended for Businesses That Provide Access for Disabled Americans* (Increased Revenue: \$2,180,000 for 782 accounts.) Note: Monetary benefits projected over a two-year period.
- 2001-30-164 *The Internal Revenue Service Has an Opportunity to Relieve Considerable Taxpayer Burden Involving the Estimated Tax Penalty* (Taxpayer Burden: \$247,800,000 value of time spent by taxpayers to prepare and submit a form not required.)
- 2001-30-167 *Initial Electronic Filing of Large Partnership Returns Was Successful, but Additional Checks Are Needed to Ensure the Accuracy of Information From These Returns Used in Matching Programs* (Increased Revenue: 204,000 information returns that would be included in the program.)
- 2001-1C-153 *Report on Adequacy and Compliance of Revised Disclosure Statement, Effective December 30, 2000*
- 2001-30-176 *The Examination Function Developed Many Necessary Controls for Its Electronic Classification System* (Taxpayer Privacy and Security: 25,500,000 returns on the Midwest Automated Classification System at risk.)
- 2001-40-183 *Millions of Dollars in Erroneous Education Credits Continue to Be Allowed* (Increased Revenue: \$20,560,000 for 31,043 accounts.)
- 2001-40-182 *Letter Report: Information on the Tax Return Is Not Used to Validate Many of the Requirements for the Credit for the Elderly or the Disabled Before It Is Allowed* (Increased Revenue: \$27,808 for 72 accounts.)
- 2001-30-175 *Management Advisory Report: Tax Return Filing and Examination Statistics*
- 2001-30-172 *Management Advisory Report: Message Paging Could Enhance the Communication of Time-Sensitive Information Throughout the Toll-Free Telephone Enterprise*
- 2001-10-157 *Most Taxpayers Are Advised of Their Rights Before Signing an Agreement to Extend the Assessment Statute of Limitations* (Taxpayer Rights and Entitlements: 460 taxpayers not advised of their rights.)
- 2001-10-170 *The National Taxpayer Advocate Provided Appropriate Training on the Associate Advocates' Role and Responsibilities*
- 2001-10-174 *Financial Review of Criminal Investigation's Group I Undercover Operations* (Questioned Costs: \$715; Reliability of Information: \$1,081,850 either misstated or not supported in financial reports.)

## Audit Reports

### April 1, 2001 - September 30, 2001 (continued)

#### September 2001

- 2001-10-180 *Continuing Oversight is Needed to Ensure the Success of the Exempt Organization Imaging Project*
- 2001-20-179 *Uncertainties Facing the Customer Communications 2002 Project May Jeopardize Its Timely Deployment*
- 2001-30-166 *Management Advisory Report: Comparing the Internal Revenue Service's Verification of Income for Wage Earners and Business Taxpayers*
- 2001-30-168 *Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail* (Funds Put to Better Use: \$98,409; Increased Revenue: \$4,508; Taxpayer Rights and Entitlements: \$5,508 in refunds mailed to undeliverable addresses 926,425 accounts with incorrect third party addresses.)
- 2001-30-169 *Automated Referral System Weaknesses Have Placed Customer Service Goal Accomplishment at Risk*
- 2001-40-184 *More Can Be Done to Help Taxpayers Comply With Alternative Minimum Tax Provisions*
- 2001-10-188 *Improvements Should Be Made to Better Control and Report Internal Revenue Service Restructuring and Reform Act of 1998 Section 1203 Information* (Reliability of Information: 191 complaints and allegations that could not be located or management information was not current or consistent.)
- 2001-30-145 *Management Advisory Report: Additional Analyses of Employer's Quarterly Federal Tax Returns Suggest Possible Tax Compliance Issues*
- 2001-10-178 *Compliance With the Internal Revenue Service Restructuring and Reform Act of 1998 Section 1204 Has Not Yet Been Achieved* (Taxpayer Rights and Entitlements: 3,623 enforcement employees evaluations with potential violations concerning the use of enforcement statistics.)
- 2001-30-165 *Opportunities Exist to More Effectively Process Personal Service Corporation Income Tax Returns* (Increased Revenue: \$78,100,000 for 10,468 accounts; Reliability of Information: 116,180 returns with inaccurate Personal Service Corporations' indicators.) Note: Monetary benefits projected over a five-year period.
- 2001-30-181 *Significant Efforts Have Been Made to Improve Information Reporting for Foreign Persons, But Substantial Work Remains*
- 2001-40-162 *Actions to Develop Goals and Standards and Upgrade the Management Information System for the Innocent Spouse Program Have Not Been Fully Implemented* (Taxpayer Burden: 66,741 taxpayer accounts affected by open Innocent Spouse claims.)
- 2001-20-191 *Management Advisory Report: Annual Assessment of the Internal Revenue Service's Information Security - Fiscal Year 2001*
- 2001-40-185 *Letter Report: Substantial Earned Income Credit Is Paid to Non-Entitled Individuals Who Use Not Valid for Work Social Security Numbers* (Revenue Protection: \$652,000,000 for 308,000 accounts.)
- 2001-10-177 *The Exempt Organizations Function's Examination Workplan Can Be Improved to Increase Its Effectiveness*
- 2001-10-141 *Improvements Have Been Made to Eliminate Illegal Tax Protester Designations*
- 2001-10-186 *Providing Incomplete Taxpayer Complaint Information Increases the Risk That Statutory Reporting Requirements Are Not Met*

## Audit Reports

April 1, 2001 - September 30, 2001 (continued)

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### September 2001

- 2001-20-171 *Monitoring of Long Distance and Cellular Telephone Costs Continues To Need Improvement* (Protection of Resources: \$1,092,200 in long distance telephone charges not reviewed.)
- 2001-40-192 *The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season* (Taxpayer Rights and Entitlements: 1,808 taxpayers incorrectly denied \$995,864; Taxpayer Burden: 6,096 taxpayers received notices that did not contain a proper explanation — 3,078,893 taxpayers that may not have received benefit of the third-party authorization program.)
- 2001-10-187 *The Internal Revenue Service Needs to Improve Controls Over Computer Codes Used to Accelerate Tax Enforcement Actions* (Taxpayer Burden: 106,915 taxpayers incorrectly identified as non-compliant; Reliability of Information: 520 taxpayer accounts contained incorrect codes.)

*Notes: Outcome measures are shown in non-italicized type. A taxpayer's account may be impacted by multiple recommendations.*

TIGTA audit reports are available on-line at: [http://www.treas.gov/tigta/audit\\_reports.htm](http://www.treas.gov/tigta/audit_reports.htm)

## Appendix V - Section 1203 Standards

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

Misconduct violations include:

- Willful failure 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 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*,<sup>1</sup> *Title IX* of the *Education Amendments of 1972*,<sup>2</sup> *Age Discrimination in Employment Act of 1967*,<sup>3</sup> *Age Discrimination Act of 1975*,<sup>4</sup> *Section 501* or *504* of the *Rehabilitation Act of 1973*,<sup>5</sup> or *Title I* of the *Americans with Disabilities Act of 1990*.<sup>6</sup>
- Falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative.
- Committing assault or battery on a taxpayer, taxpayer representative, or other employee of 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 of the *Internal Revenue Code of 1986*, Treasury regulations, or policies of IRS (including the *Internal Revenue Manual*) for the purpose of retaliating against, or harassing a taxpayer, taxpayer representative, or other employee of IRS.
- Willfully misusing provisions of Section 6103 of the *Internal Revenue Code of 1986* for the purpose of concealing information from a Congressional inquiry.
- Willfully failing to file any return of tax required under the *Internal Revenue Code of 1986* on or before the date prescribed therefor (including any extensions), unless such failure is due to reasonable cause and not to willful neglect.

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<sup>1</sup> Pub. L. No. 88-352, 78 Stat. 241 (codified as amended in 42 U.S.C. § 2000e).

<sup>2</sup> 20 U.S.C. §§ 1681-1688 (1994).

<sup>3</sup> 29 U.S.C. §§ 621-634 (1994 & Supp. IV 1998).

<sup>4</sup> 42 U.S.C. §§ 6101-6107 (1994 & Supp. IV 1998).

<sup>5</sup> Pub. L. No. 93-112, 87 Stat. 355 (codified as amended in 29 U.S.C. §§ 701 & 794).

<sup>6</sup> 42 U.S.C. §§ 12111 et seq. (1994 & Supp. IV 1998).

- 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.

In general, the Commissioner of Internal Revenue may take a personnel action other than employment termination for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner, in his/her sole discretion, may establish a procedure which will be used to determine whether an individual should be referred to the Commissioner for a determination by the Commissioner. Any determination of the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.



## Appendix VI - Statutory TIGTA Reporting Requirements

In FY 2001, TIGTA completed its third round of statutory reviews required annually by RRA 98. The table below reflects the status and results of the *FY 2001 RRA 98* statutory reviews. Thirty statutory audit reports that dealt with the adequacy and security of IRS technology were issued.<sup>1</sup>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Enforcement Statistics</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(i)</i></p>	<p>An evaluation of the compliance of IRS with restrictions under <i>Section 1204 of RRA 98</i> on the use of enforcement statistics to evaluate IRS employees.</p>	<p><i>Reference Number 2001-10-178, September 2001</i></p> <p>IRS has not yet achieved compliance with <i>RRA 98 § 1204 (a) and (b)</i>. Potential violations were identified in 16 of the 200 sampled enforcement employees' performance or related supervisory documentation. Tax enforcement results were identified in the performance documentation of 2 sampled employees and the managers of 14 sampled employees could not substantiate their use of the fair and equitable treatment of taxpayers as a performance standard. Projected across the estimated population of 45,288 enforcement employees in the continental United States as of October 7, 2000, OA estimated that similar potential violations could affect 3,623 enforcement employees (+ 5.9 percent).</p> <p>In addition, OA identified some procedural violations of a lack of documentation of IRS managers' certification of whether tax enforcement results were used in a prohibited manner.</p>
<p><b>Restrictions on Directly Contacting Taxpayers</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(ii)</i></p>	<p>An evaluation of IRS' compliance with restrictions under <i>I.R.C. § 7521</i> on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.</p>	<p><i>Reference Number 2001-10-116, July 2001</i></p> <p>As in the prior two reviews, OA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither IRS nor OA could readily identify cases where the taxpayer requested a representative or IRS contacted the taxpayer directly and bypassed the representative.</p>
<p><b>Filing of a Notice of Lien</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(iii)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6320 (Supp. IV 1998)</i> upon the filing of a notice of lien.</p>	<p><i>Reference Number 2001-10-127, August 2001</i></p> <p>IRS has not yet achieved full compliance with the law and its own internal guidelines. A review of 167 lien notices identified 14 cases (8 percent) with potential legal violations of taxpayers' rights. In 4 of the cases sampled, IRS did not comply with all provisions of the law. This occurred as a result of employee errors. For 10 cases, the notices were late because they were not printed timely or were not mailed timely. OA estimates that similar taxpayer rights could have been potentially affected in 11,507 lien notifications from January 1 to August 31, 2000.</p> <p>In addition, OA identified 58 cases (35 percent) in which IRS employees did not follow internal guidelines. Four cases involved both legal and internal guideline violations.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Levies</b>  <i>I.R.C. § 7803(d)(1)(A)(iv)</i>	An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6330 (Supp. IV 1998)</i> regarding levies.	<p><i>Reference Number 2001-10-113, July 2001</i></p> <p>IRS complied with the law by notifying taxpayers of its intent to levy, and of their appeal rights, at least 30 days before issuing levies. However, Revenue Officers did not always obtain proof they timely mailed the notices via certified mail, return receipt requested. In addition, they did not always follow internal guidelines requiring them to update taxpayer accounts on the primary IRS computer system.</p>
<b>Collection Due Process</b>  <i>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</i>	An evaluation of IRS' compliance with required procedures under <i>I.R.C. §§ 6320 and 6330 (Supp. IV 1998)</i> regarding the taxpayers' rights to appeal lien or levy actions.	<p><i>Reference Number 2001-10-068, May 2001</i></p> <p>IRS generally complied with the requirements of the law and ensured taxpayers' appeal rights were protected for the 66 collection due process cases reviewed during this audit.</p> <p>While IRS complied with the law when providing taxpayers with their appeal rights, in the 66 cases reviewed, approximately 14 percent (9 of 66) of the determination letters provided to taxpayers did not completely outline all provisions of the law considered in the decisions. The <i>Code of Federal Regulations (CFR), 26 CFR 301.6330-1T(e)(Q-E7)</i>, and Appeals procedures state that the letters must address all issues raised by the taxpayers and whether IRS followed all the applicable rules and regulations and balanced tax collection with the taxpayers' legitimate concerns. In addition, Appeals Officers did not always timely contact taxpayers after cases were assigned and case files had periods of unexplained inactivity.</p>
<b>Seizures</b>  <i>I.R.C. § 7803(d)(1)(A)(iv)</i>	An evaluation of IRS' compliance with required procedures under <i>Subchapter D of Chapter 64</i> for seizure of property for collection of taxes.	<p><i>Reference Number 2001-10-061, May 2001</i></p> <p>Based on TIGTA's review of all 31 seizures performed during January 1 through May 31, 2000, as identified from IRS records, OA determined that actions taken by IRS were in accordance with <i>26 U.S.C. §§ 6330 through 6344</i> and IRS' internal guidelines for all cases.</p> <p>IRS' total compliance with legal provisions and internal guidelines is attributed to management's continued emphasis on following the seizure guidelines, to management's involvement in the review and approval process, and to legal guidelines which have remained relatively unchanged since July 22, 1998.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Taxpayer Designations - Illegal Tax Protester Designation and Nonfiler Designation</b></p> <p><i>I.R.C.</i> § 7803(d)(1)(A)(v)</p>	<p>An evaluation of IRS' compliance with restrictions under § 3707 of RRA 98 on designation of taxpayers.</p>	<p><i>Reference Number 2001-10-141, September 2001</i></p> <p>In general, IRS is in compliance with the prohibition on using the Illegal Tax Protester (ITP) designation or a similar designation. Former ITP codes were not reintroduced on IRS' Masterfile after the effective date of the law and were not reassigned to a similar ITP designation. Employees made very few references to taxpayers as ITPs in taxpayer case files. IRS removed ITP codes and has systemic controls to prevent the use of these codes on one computer case inventory system but still needs to take similar action on two other computer case inventory systems. IRS also needs to continue its efforts to remove ITP references from the Internal Revenue Manual and other publications. IRS was in the process of taking corrective actions to address these issues at the time of the review, based on recommendations from a prior TIGTA report.</p>
<p><b>Disclosure of Collection Activities With Respect to Joint Returns</b></p> <p><i>I.R.C.</i> § 7803(d)(1)(B)</p> <p><i>I.R.C. § 6103(e)(8)</i></p>	<p>Review and certify whether or not IRS is complying with <i>I.R.C. § 6103(e)(8)</i> to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p><i>Reference Number 2001-10-126, August 2001</i></p> <p>This is the third year that OA could not determine whether IRS is complying with the statutory requirements for responding to written requests from joint filers because both OA and IRS are still unable to readily identify joint filer requests received nationwide. IRS management has decided not to develop a new management control process to track joint filer requests.</p>
<p><b>Taxpayer Complaints</b></p> <p><i>I.R.C.</i> § 7803(d)(2)(A)</p>	<p>Requires the TIGTA to include in each TIGTA Semiannual Report to the Congress the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p><i>Reference Number 2001-10-186, September 2001</i></p> <p>IRS management developed the Integrated Compliant Tracking and Reporting System (ICTRS) as an interim system to consolidate data from the Automated Labor and Employee Relations Tracking System (ALERTS) and from the Executive Correspondence Management System (ECMS). However, because the ALERTS and ECMS do not encompass all taxpayer complaints received by IRS, there is a risk that incomplete data will be provided for the <i>TIGTA Semiannual Report to the Congress</i>. Complaint information exists on computer systems that are not included in the ICTRS. Decisions to not include complaints from other systems were based on TIGTA and IRS management's interpretation of the reporting requirements, which do not specify what type of taxpayer complaints need to be reported.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996</b></p> <p><i>I.R.C. § 7803(d)(1)(G)</i></p> <p><i>I.R.C. § 6304</i></p> <p><i>§ 3466 of RRA 98</i></p>	<p>Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of <i>I.R.C. § 6304</i>, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p><i>Reference Number 2001-10-081, July 2001</i></p> <p>Based on a review of information recorded as potential Fair Debt Collection Practices Act (FDCPA) violations on IRS' computer systems, OA did not identify any violations that resulted in IRS taking an administrative action against an employee for the period April 1 through December 31, 2000. In addition, IRS did not have any closed civil actions involving FDCPA violations for this same period. Accordingly, IRS did not pay any money to taxpayers for civil actions resulting from FDCPA violations.</p>
<p><b>Denial of Requests for Information</b></p> <p><i>I.R.C. § 7803(d)(1)(F)</i></p> <p><i>I.R.C. § 7803(d)(3)(A)</i></p>	<p>Include information regarding improper denial of requests for information from IRS, based on a statistically valid sample of the total number of determinations made by IRS to deny written requests to disclose information to taxpayers on the basis of <i>I.R.C. § 6103</i> or <i>5 U.S.C. § 552(b)(7)</i>.</p>	<p><i>Reference Number 2001-10-112, July 2001</i></p> <p>IRS improperly withheld information from requesters in 10.7 percent of the FOIA and PA requests, and 7 percent of the <i>I.R.C. § 6103</i> requests reviewed. Additionally, IRS did not respond timely to requesters in 20.1 percent of the FOIA/PA cases included in OA's sample of requests that was denied or where IRS replied that responsive records was not available. OA's statistically valid samples were taken from cases closed during the period October 1, 1999, through July 31, 2000.</p> <p>OA estimated that information was improperly withheld from responses to 615 FOIA and PA requests and 733 <i>I.R.C. § 6103</i> requests during our sample period. OA also estimated that responses to 1,153 FOIA and PA requests were not processed timely during the same period.</p>
<p><b>Extensions of the Statute of Limitations for Assessment of Tax</b></p> <p><i>I.R.C. § 7803(d)(1)(C)</i></p> <p><i>I.R.C. § 6501</i></p>	<p>Include information regarding extensions of the statute of limitations for assessment of tax under <i>I.R.C. § 6501</i> and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p><i>Reference Number 2001-10-157, September 2001</i></p> <p>In most of the tax modules (169 of 180) reviewed, examiners properly advised taxpayers of their rights to refuse or restrict the scope of the statute extension. However, in the remaining 11 of 180 modules, the examination case files did not contain a record that taxpayers had been advised of their rights. An estimated 460 taxpayer accounts nationwide do not contain adequate documentation of advice of rights. Associating documentation of advisement of rights with the statute extension form in examination case files will help IRS management to confirm that taxpayers have been properly advised of their rights before IRS approves and processes statute extensions.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Adequacy and Security of the Technology of the IRS</b></p> <p><i>I.R.C.</i>  § 7803(d)(1)(D)</p>	<p>Evaluation of the adequacy and security of the technology of IRS.</p>	<p>The consolidated status of IRS' adequacy and security of its technology is highlighted on page 5.</p> <p><i>Security Reviews:</i></p> <p>Reference No. 2001-20-016, November 2000  Reference No. 2001-20-017, November 2000  Reference No. 2001-20-020, November 2000  Reference No. 2001-20-034, December 2000  Reference No. 2001-20-036, January 2001  Reference No. 2001-20-065, April 2001  Reference No. 2001-20-072, April 2001  Reference No. 2001-20-092, June 2001  Reference No. 2001-20-101, June 2001  Reference No. 2001-20-108, July 2001  Reference No. 2001-20-111, July 2001  Reference No. 2001-20-191, September 2001</p> <p><i>Information Technology:</i></p> <p>Reference No. 2001-20-004, October 2000  Reference No. 2001-20-015, November 2000  Reference No. 2001-20-022, December 2000  Reference No. 2001-20-039, February 2001  Reference No. 2001-20-043, February 2001  Reference No. 2001-20-045, February 2001  Reference No. 2001-20-046, February 2001  Reference No. 2001-20-055, March 2001  Reference No. 2001-20-062, March 2001  Reference No. 2001-20-083, May 2001  Reference No. 2001-20-109, July 2001  Reference No. 2001-20-140, August 2001  Reference No. 2001-20-143, August 2001  Reference No. 2001-20-146, August 2001  Reference No. 2001-20-144, September 2001  Reference No. 2001-20-152, September 2001  Reference No. 2001-20-171, September 2001  Reference No. 2001-20-179, September 2001</p>

## Appendix VII - Government Performance and Results Act Audits

The *Government Performance and Results Act of 1993* is intended to increase agency accountability and improve the quality and delivery of government services. *GPRA* holds Federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement. Federal agencies are required to prepare multi-year strategic plans, annual performance plans, and annual program performance reports. In FY 1999, Federal agencies were required to submit to the President and Congress annual performance plans that set annual goals with measurable target levels of performance. Beginning with FY 2000, Federal agencies were required to report on their successes in achieving the goals established in the prior year's performance plan in an annual program performance report.

The following reviews were performed as part of TIGTA's strategy to assess IRS' compliance with *GPRA*.

Reference Number	Report Title and Recommendation Summary	Management Response
2001-30-131	<p><b><i>Better GPRA Quantity Indicators Are Needed for Toll-Free Telephone Service</i></b></p> <p><b><i>Objective:</i></b> To evaluate the effectiveness of IRS' performance plans in communicating progress towards meeting strategic goals and objectives.</p> <p><b><i>Recommendations:</i></b> To better comply with the <i>GPRA</i>, IRS should develop <i>GPRA</i> quantity indicators for the toll-free telephone system that better reflect the taxpayer experience by including: a more realistic time standard for a government organization during which calls should be answered, separate statistics for automated calls and those answered by Customer Service Representatives, and a cost-per-call measure. In addition, these indicators should be confined to the three main toll-free telephone lines which taxpayers use for account information and tax law questions.</p>	<p>IRS agreed to make some changes to its <i>GPRA</i> quantity indicators. However, IRS neither designated a responsible management official for carrying out these actions, nor established target completion dates in its response to the draft report. While IRS agreed with Office of Audit's recommendation to establish a time standard for answering calls, it disagreed with the portion of that recommendation relating to making the standard more reflective of a government organization than private industry. IRS agreed to revise its indicators to include only the three main toll-free telephone lines. However, IRS did not address whether it would develop a <i>GPRA</i> service-level indicator for automated calls or a cost-per-call indicator.</p>



<i>Reference Number</i>	<i>Report Title and Recommendation Summary</i>	<i>Management Response</i>
2001-10-085	<p data-bbox="396 338 1003 392"><b><i>Management Advisory Report: The Internal Service's Implementation of the GPRRA during Fiscal Year 2000</i></b></p> <p data-bbox="396 415 1045 470"><i>Objective:</i> To consolidate the results of eight TIGTA audits of IRS' implementation of <i>GPRRA</i> during FY 2000.</p> <p data-bbox="396 493 1045 596"><i>Recommendations:</i> IRS management should consider centralizing <i>GPRRA</i> oversight, better administer the Customer Satisfaction Surveys and qualify the data as needed, and improve the Annual Program Performance Report process.</p>	<p data-bbox="1081 338 1409 449">IRS management generally agreed with the recommendations contained in the eight reports.</p> <p data-bbox="1081 472 1382 527">This report is highlighted on page 10.</p>

## Appendix VIII - Criminal Investigation Audits

<i>Reference Number</i>	<i>Report Title and Recommendation Summary</i>	<i>Management Response</i>
2001-10-100	<p><b><i>The Criminal Investigation Function Needs to Improve Its Oversight During Implementation of the Webster Report Recommendations</i></b></p> <p><i>Objective:</i> To determine if the CI function implemented the 25 basic recommendations contained in the “Executive Summary” of the <i>Webster Report</i>.</p> <p><i>Recommendations:</i> The Chief, CI, should ensure that appropriate processes are developed to effectively monitor the successful completion of the corrective actions initiated in response to the <i>Webster Report</i>. Also, require periodic reviews to ensure the consistent preparation of special agents’ search warrant and risk assessment documentation. These reviews should ensure that appropriate documentation is maintained in the investigative administrative files.</p>	Criminal Investigation management agreed with the recommendations and is taking appropriate corrective action.
2001-10-174	<p><b><i>Financial Review of Criminal Investigation’s Group I Undercover Operations</i></b></p> <p><i>Objective:</i> To determine whether the financial records fairly present the results of the operation.</p> <p><i>Recommendations:</i> The Chief, CI, should issue guidance regarding the handling of income and expenses for churning purposes and reporting expenditures of applicable operations to the Congress and ensure that guidance issued to account for funds used in undercover operations promotes accuracy, uniformity, and consistency in accounting for undercover operations.</p>	Criminal Investigation management agreed with the recommendations and is taking appropriate corrective action.
2001-10-098	<p><b><i>Review of the Effectiveness of Criminal Investigation’s Strategic Planning Process</i></b></p> <p><i>Objective:</i> Assess the CI function’s ability to properly refocus its resources into legal source tax-related areas.</p> <p><i>Recommendations:</i> The CI function should develop and communicate a detailed compliance strategy that will ensure resources are allocated to investigations involving legal source tax violations. The CI function should also establish an effective process to ensure that management adequately assess the progress of program initiatives, and develop a methodology to determine where resources should be allocated.</p>	Criminal Investigation management agreed with the recommendations and is taking appropriate corrective action.  This report is highlighted on page 10.

## Appendix IX — Acronyms

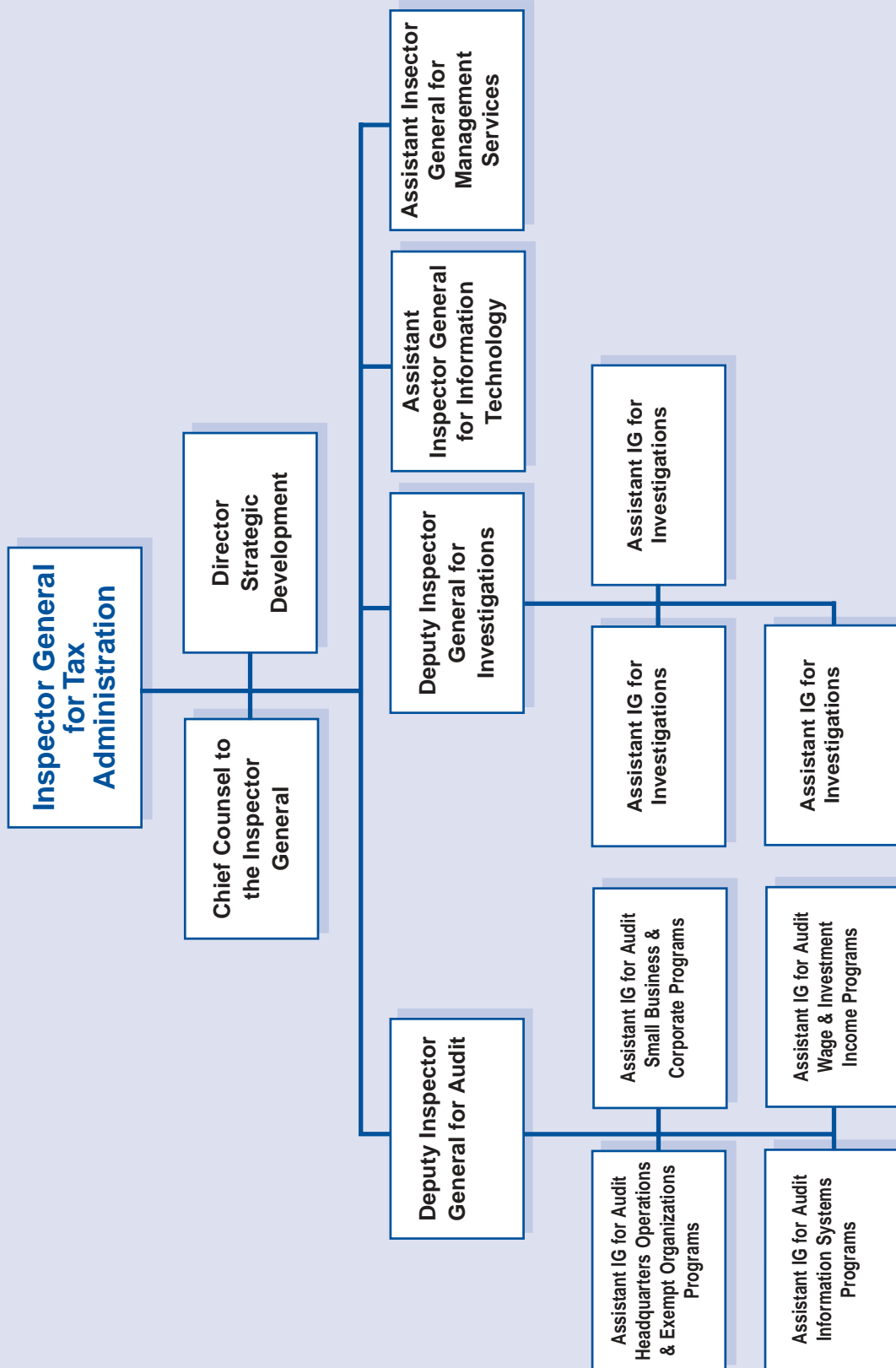
<b>ALERTS</b>	Automated Labor and Employee Relations
<b>ALS</b>	Automated Lien System
<b>APPR</b>	Annual Program Performance Report
<b>BSA</b>	<i>Bank Secrecy Act</i>
<b>CFR</b>	<i>Code of Federal Regulation</i>
<b>CI</b>	IRS Criminal Investigation
<b>CIAO</b>	Chief Infrastructure Assurance Officer
<b>CIO</b>	Chief Information Officer
<b>CMD</b>	Complaint Management Division
<b>CPA</b>	Certified Public Accountant
<b>CSED</b>	Collection Statue Expiration Date
<b>CY</b>	Calendar Year
<b>ECMS</b>	Executive Correspondence Management System
<b>EFDS</b>	Electronic Fraud Detection System
<b>EINS</b>	Employer Identification Number
<b>EO</b>	IRS Exempt Organization
<b>ETLA</b>	Electronic Tax Law Assistance Program
<b>FBI</b>	Federal Bureau of Investigation
<b>FDCPA</b>	<i>Fair Debt Collection Practices Act</i>
<b>FCC</b>	Foreign Controlled Corporations
<b>FFMIA</b>	<i>Federal Financial Management Improvement Act of 1996</i>
<b>FSL</b>	Forensic Science Laboratory
<b>FY</b>	Fiscal Year
<b>GPRA</b>	<i>Government Performance and Results Act of 1993</i>
<b>HUD</b>	Department of Housing and Urban Development
<b>IFASP</b>	International Field Assistance Specialization Program
<b>ICTRS</b>	Integrated Complaint Tracking and Reporting System
<b>IG</b>	Inspector General
<b>I.R.C.</b>	<i>Internal Revenue Code</i>

<b>IRS</b>	Internal Revenue Service
<b>ITP</b>	Illegal Tax Protestor
<b>JOC</b>	Joint Operations Center
<b>LMSB</b>	IRS Large and Mid-Size Business Division
<b>MACS</b>	Midwest Automated Compliance System
<b>MIS</b>	Management Information System

<b>OA</b>	Office of Audit
<b>OI</b>	Office of Investigations
<b>OIC</b>	Offer in Compromise
<b>PBA</b>	Principal Business Activity
<b>PMO</b>	Program Management Office
<b>PSMS</b>	Practitioner Secure Messaging System
<b>RPS</b>	Revenue Protection Strategy
<b><i>RRA 98</i></b>	<i>IRS Restructuring and Reform Act of 1998</i>
<b>SBA</b>	Small Business Administration
<b>SB/SE</b>	IRS Small Business/Self-Employed Division

<b>NAICS</b>	North American Industry Classification System
<b>SED</b>	Strategic Enforcement Division
<b>SFR</b>	Substitute for Return
<b>SIC</b>	Standard Industrial Classification
<b>SIID</b>	Special Inquiries and Inspection Division
<b>SSN</b>	Social Security number
<b>TE/GE</b>	IRS Tax Exempt and Government Entities Division
<b>TIGTA</b>	Treasury Inspector General for Tax Administration
<b>TIN</b>	Taxpayer Identification Number
<b>Treasury</b>	Department of Treasury
<b>TY</b>	Tax Year
<b>UNAX</b>	Unauthorized Access to Taxpayer Accounts
<b>U.S.</b>	United States
<b>U.S.C.</b>	United States Code

# Appendix X - Organizational Chart





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**P.O. Box 589**

**Ben Franklin Station**

**Washington, D.C. 20044-0589**

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