

Semiannual Report to the Congress

October 1, 1999 through March 31, 2000



Treasury Inspector General for Tax Administration

***TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION
VISION STATEMENT***

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.*
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INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 28, 2000

The Honorable Lawrence H. Summers
Secretary of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

I am forwarding to you the Treasury Inspector General for Tax Administration's (TIGTA) Semiannual Report to the Congress for the six-month period ending March 31, 2000. We have made significant strides in our programs as we marked our one year anniversary as an independent Inspector General organization. We have issued almost as many audit reports in this period, as we did for all of Fiscal Year 1999. Similarly, we closed two-thirds more investigations this semiannual period, as compared to the same period last year.

Our organization delivered audit reports and investigative services that promote economy, efficiency and integrity within the IRS organization. We issued 61 final audit reports that included \$77.2 million in financial accomplishments. We also closed over 2,100 investigations of alleged criminal wrongdoing and administrative misconduct. Investigative recoveries totaled over \$8.8 million.

In the Office of Audit, audit work focused on the major challenges facing the IRS, including modernization efforts, financial management, customer service, compliance activities and tax return processing activities. Audits to address our Fiscal Year 2000 annual requirements imposed by the IRS Restructuring and Reform Act of 1998 have been initiated and our results will be included in the next reporting period.

TIGTA continues to conduct investigative activities that support the protection of taxpayers and IRS employees. To heighten awareness and provide a deterrent effect against fraud and misconduct, TIGTA special agents conducted integrity awareness presentations to over 13,700 individuals. The vast majority of these individuals were IRS employees, but also included local law enforcement, tax practitioner and community groups. In addition, TIGTA received over 4,200 complaints of alleged criminal wrongdoing or administrative misconduct, 1,680 of which warranted further investigation.

I look forward to continuing our work overseeing the nation's tax administration system.

Sincerely,

David C. Williams
Inspector General

Enclosure

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Office of the Treasury Inspector General for Tax Administration

INFORMATION ABOUT THE TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

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 the Treasury, but is independent of the Department and all other Treasury offices. TIGTA's focus is devoted entirely to tax administration.

TIGTA's audit and investigative activities are designed to:

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

Other responsibilities include:

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

The functions that carry out these duties are the Offices of Audit, Investigations, Chief Counsel, Information Technology and Management Services.

AUTHORITIES

TIGTA has all the authorities granted under the Inspector General Act of 1978¹. TIGTA also has access to tax information in the performance of its responsibilities and the authority to report criminal violations directly to the Department of Justice. The Inspector General and the Commissioner of Internal Revenue have established policies and procedures delineating responsibilities to investigate offenses under the internal revenue laws.

In addition, the IRS Restructuring and Reform Act of 1998² (RRA 98) amended the Inspector General Act of 1978 to give TIGTA statutory authority to carry firearms and execute the provisions of I.R.C. Section 7608(b)(2). These provisions include the law enforcement authority to execute and serve search warrants, serve subpoenas and make arrests.

MAJOR ISSUES FACING THE IRS

As the nation's tax administrator, the IRS collects 95 percent of federal tax revenues. In Fiscal Year (FY) 1999, the IRS collected a record \$1.9 trillion. This task is carried out in an environment where providing customer service and fairly enforcing tax laws go hand in hand. IRS processes more than 200 million tax returns and provides assistance to more than 100 million taxpayers annually. IRS also

¹ Pub. L. No. 95-452, 92 Stat. 1101, as amended, at 5 U.S.C. app. 3 (1994 & Supp. II 1996)

² Pub. L. No. 105-206, 112 Stat. 685

implements tax law changes and manages over 700 office locations.

In December 1999, TIGTA advised Congress of the following major challenges facing the IRS in FY 2000:

- Processing returns and implementing tax law changes during the tax filing season.
- Providing customer service and ensuring tax compliance.
- Managing finances.
- Modernizing the IRS:
 - ▶ Organization restructuring.
 - ▶ Technology modernization.
 - ▶ Year 2000 compliance.
- Providing security over information systems.
- Protecting taxpayer rights.
- Implementing the Government Performance and Results Act of 1993³ (GPRA).
- Providing quality customer service operations.
- Protecting revenue and minimizing tax filing fraud.
- Addressing the impact of the global economy on tax administration.

These major challenges have been the focus of TIGTA's audit and investigative activities during this six-month reporting period. The following sections provide a summary of the issues and what TIGTA has done to address them. Details of audit and investigative activities, as well as information on statutory requirements, can be found on pages 7 through 17, 19 through 31, and in Appendix VI, respectively.

PROCESSING RETURNS AND IMPLEMENTING TAX LAW CHANGES DURING THE TAX FILING SEASON

The IRS' 1999 tax filing season was impacted by numerous legislative changes that went into effect for Tax Year 1998. The IRS also made changes to improve tax forms and publications for taxpayers who claim the Earned Income Tax Credit or the Child Tax Credit. In addition, tax packages included two labels for mailing returns back to the IRS, one for a refund and one for a payment. This effort will reduce mail sorting at the service centers and improve overall processing efficiency.

TIGTA conducted comprehensive reviews of the IRS' implementation of tax law changes that impacted returns processed during the 1999 filing season. Several recommendations were made to correct processing errors and improve implementation of legislative provisions. TIGTA also made recommendations to improve tax payment and processing activities for the 2000 tax filing season.

PROVIDING CUSTOMER SERVICE AND ENSURING TAX COMPLIANCE

As part of the modernization efforts, the IRS is reengineering its business processes and technology to focus on providing world class customer service to taxpayers. While doing this, the IRS must also enforce the tax laws and ensure that taxes owed the government are collected.

In recent years, the IRS has experienced a significant drop in traditional compliance activities, such as auditing returns and collecting delinquent taxes. The IRS Commissioner has advised Congress that part of the decline is due to a decreasing number of employees to conduct audits and an increasing number of tax returns. Congress was also advised that some IRS employees may be reluctant to take enforcement actions

³ Pub. L. No. 103-62, 107 Stat. 285

because of the mandatory termination provisions in Section 1203 of RRA 98⁴. In addition, implementing RRA 98 provisions have placed additional demands on the agency's resources.

Congress has recently emphasized that the intent of RRA 98 was not for the IRS to stop collecting revenue and enforcing the tax laws.

In March 2000, the Inspector General briefed all IRS collection managers on investigations related to Section 1203 violations. The briefing was intended to reduce employees' concerns about potential Section 1203 investigations.

TIGTA addressed the use of compliance resources to augment telephone service during an audit of the IRS' toll-free telephone service. TIGTA also addressed improving compliance with estate taxes and fuel tax credits and improving customer service to these taxpayers. TIGTA estimates potential increased revenue totaling \$354.7 million from estate taxes and \$15.8 million from fuel tax credits.

MANAGING FINANCES

Financial management continues to be a concern for the IRS. The General Accounting Office (GAO) was unable to render an opinion on five out of the IRS' six FY 1999 financial statements. GAO cited major concerns with unpaid taxes, improperly paid refunds, accountability for property and equipment and inadequate budget controls. Although IRS has taken some actions to improve financial management, long-term solutions must be implemented to achieve permanent results.

TIGTA's Office of Audit provided assistance to GAO on the financial statement review. In addition, TIGTA provided audit coverage in several other financial management areas

⁴ Provisions in Section 1203 of RRA 98 provide for the mandatory termination of IRS employees for specific categories of employee misconduct.

including a review of one of the IRS' main accounting systems and a review of accounting controls over deposit discrepancies. TIGTA also reviewed IRS' contract award practices and recommended improvements in planning for acquisitions and in managing contract close-outs.

MODERNIZING THE IRS

Creating a modernized IRS is a top priority of the Commissioner and will result in a more efficient and responsive agency. The ability to achieve the IRS' modernization concept is largely dependent on restructuring the organization to better meet taxpayer needs and developing new technology to correct deficient systems. Year 2000 compliance remains a modernization concern since it continues to pose risks until IRS completes its full production cycles.

Organization Restructuring

IRS' restructuring efforts continue to move forward. As mandated by RRA 98, the IRS' modernization concept incorporates changes to revamp business practices and restructure the organization to better serve taxpayers. The IRS is creating operating units that serve taxpayer segments and their specific needs. The operating divisions are: Wage and Investment, Small Business/Self-Employed, Large and Mid-Size Business and Tax Exempt and Government Entities. Organizational teams have been formed to refine implementation plans. The Tax Exempt and Government Entities Division is operational and the remaining divisions are expected to be operational by October 2000.

TIGTA continues to monitor IRS' restructuring efforts. During this reporting period, the Office of Audit issued a consolidated report of several audits that focused on improving service to business taxpayers. Business taxpayers filed approximately 47 million tax returns and paid an estimated \$1.3 trillion in taxes in FY 1996. TIGTA's reviews identified opportunities that

would result in improved processes within the IRS and reduced burden for approximately 18 million business taxpayers.

Technology Modernization

Achieving IRS' modernization concept requires replacing almost all of its current information technology systems. This has been a slow process that has been ongoing for more than a decade. The IRS has taken steps to improve management of the information technology effort including expanding the role of the Chief Information Officer and obtaining assistance from a consortium of technology and business providers.

There are still obstacles that IRS must overcome to be successful. One obstacle is the ability to oversee a project as large as the IRS modernization while effectively transitioning Information Systems employees and processes into a new organization. Also, relationships between contractors and vendors must be coordinated to assure useful products are delivered.

TIGTA provided significant coverage of IRS information technology efforts by evaluating the electronic filing system that allows small business taxpayers to file quarterly tax returns by telephone. TIGTA also reviewed the roll-out of the new computer system that processes millions of paper tax returns and payment documents.

Year 2000 Compliance

The IRS devoted significant resources and executive level attention to making its systems Year 2000 compliant. As a result, IRS has been successful with the century date change. The IRS is continuing to monitor its systems to assure potential production problems do not impair its ability to process tax information and compute tax liabilities, including interest and penalties.

Prior to December 31, 1999, TIGTA's Office of Audit conducted numerous audits of the Year 2000 compliance efforts and made valuable recommendations that helped IRS

have a successful conversion. (Appendix VII lists the significant Year 2000 compliance audit reports issued during this reporting period.) The Office of Audit will continue to monitor the Year 2000 issue through the 1999 tax filing season.

PROVIDING SECURITY OVER INFORMATION SYSTEMS

The IRS has made progress in addressing computer security issues, but significant risks still exist. The IRS is addressing these vulnerabilities through a risk-based approach, which was initially geared to identifying and correcting security weaknesses at its major computing and tax processing centers. Over the past two years, the IRS has expanded its computer security assessments to other IRS facilities. These efforts should help reduce the risk of unauthorized access to sensitive taxpayer information and/or destruction of major IRS systems and data.

TIGTA audits have identified weaknesses in physical security controls over the IRS' computer facilities, networks and systems. In addition, information systems recovery plans need improvement to ensure that business can be resumed in the event of a disaster. Until these weaknesses are resolved, IRS systems are vulnerable to unauthorized access or loss.

TIGTA's Office of Investigations continues to address security over IRS computer systems through the Unauthorized Access to Taxpayer Accounts (UNAX) Detection Project. This project detects potential unauthorized accesses to electronic taxpayer records on IRS systems. During this reporting period, TIGTA identified 268 potential leads of which 120 were referred to field offices for investigation. These alleged abuses continue to comprise the largest segment of investigations of IRS employees.

As required by RRA 98, TIGTA will provide its annual assessment of IRS' computer security in its next semiannual report.

PROTECTING TAXPAYER RIGHTS

RRA 98 established over 70 taxpayer rights provisions, which impose process changes or additional IRS procedures. TIGTA is required to review IRS' progress in implementing some of these provisions annually.

TIGTA's FY 1999 audit work indicated that IRS was making progress, however, the provisions had not yet been successfully implemented. TIGTA has initiated audits of key RRA 98 provisions as required by the Act. The findings and recommendations will be discussed in the next reporting period. Two audits that began in FY 1999 are presented in this report on pages 14 and 15.

TIGTA also protects taxpayers and their rights by addressing IRS employee misconduct. Provisions in Section 1203 of RRA 98 provide for the mandatory termination of IRS employees for specific categories of employee misconduct. Some of the misconduct includes: violation of Constitutional or civil rights of taxpayers or IRS employees; intentional misconduct involving a taxpayer matter; threatening taxpayers with an audit for personal gain; or willful understatement by an employee of his or her own federal tax liability. The misconduct identified in Section 1203 has always been subject to discipline by IRS; however, the mandatory penalty serves notice that a high standard of conduct is expected of IRS employees to ensure the trust and confidence of the public.

TIGTA's Office of Investigations continues to work with IRS to refine procedures regarding assessment, referral and investigation of allegations of misconduct that are covered by Section 1203. TIGTA also operates a toll-free hotline number, an e-mail address and a central post office box. Complaints and allegations can be made anonymously to the hotline or by letter. In addition, TIGTA is working with the IRS Commissioner's Complaint Processing and Analysis Group to

provide guidance on establishing an IRS complaint tracking system that is compatible with TIGTA's system.

IMPLEMENTING GPRA

GPRA was created to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and increase accountability for results. The overall goal of GPRA is to improve agency performance and to provide objective information to Congressional and executive branch decision-makers that assists them in appropriating and allocating federal funds.

The IRS is developing a balanced performance measurement system. The new approach to measurement is intended to shift the focus away from achieving specific targets or numbers to achieving the overall mission.

TIGTA completed a review of IRS' strategic planning process relative to the goals and requirements of GPRA. TIGTA recommended that IRS designate an executive office responsible for coordinating and ensuring GPRA requirements are met. TIGTA also reviewed IRS' development of the Annual Program Performance Report and recommended process improvements for timely and accurately gathering and validating performance data to ensure that the report contains the information intended by Congress.

PROVIDING QUALITY CUSTOMER SERVICE OPERATIONS

As stated earlier, providing top quality service to each taxpayer is part of IRS' modernization plans. Although IRS implemented numerous initiatives during the 1999 filing season that were intended to enhance customer service, the IRS was not able to handle the level of customer demand on its toll-free telephone lines satisfactorily. The cost to provide toll-free telephone service during the 1999 filing season increased while productivity

decreased. About 19.5 million calls received busy signals and the level of service declined from 73 percent for the 1998 filing season to 51 percent.

In March 2000, the IRS Commissioner advised Congress that the level of service had reached 65 percent during the current filing season. This shows improvement since TIGTA's last review; however, the area remains a concern as toll-free telephone service plays such a critical role in IRS' customer service initiative.

In addition, IRS' written communications, such as notices, are widely criticized for being difficult to understand. Clarity and tone of communications have been on the IRS Taxpayer Advocate's list of the top problems facing taxpayers for several years.

TIGTA completed an audit of IRS' walk-in services and recommended that IRS develop a national process to monitor the implementation and delivery of current and future key customer service initiatives.

PROTECTING REVENUE AND MINIMIZING TAX FILING FRAUD

Fraudulent refund claims, particularly related to the Earned Income Tax Credit (EITC), have been a concern to the IRS for many years. Massive EITC scams have been identified in the past and have included instances in which taxpayer Social Security Numbers were used by perpetrators of fraud. In addition, there are indications that fraudulent refund claims may be migrating to business returns. A refund scheme of over \$250 million involving fiduciary returns was identified in FY 1999. Fraud has also been identified with quarterly excise tax returns.

In FY 2000, the IRS launched a campaign to educate tax preparers on EITC requirements. IRS has also implemented processing changes to disallow EITC claims if secondary Social Security Numbers are invalid. Although IRS is making progress in this area, the risks are still great.

In a review of IRS' program to identify questionable refunds, TIGTA found that IRS can strengthen controls to ensure fraudulent returns are identified and refunds are stopped as appropriate. For example, personnel could better use information available on automated systems to identify fraudulent refund schemes. TIGTA also recommended that IRS re-emphasize the need to verify potentially fraudulent returns in a timely manner.

ADDRESSING THE IMPACT OF THE GLOBAL ECONOMY ON TAX ADMINISTRATION

The global economy is growing rapidly and has resulted in sophisticated business transactions. United States (U.S.) exports nearly tripled from 1985 to 1996, growing to more than \$1 trillion. In addition, imports more than doubled during the same period to more than \$1.1 trillion.

The GAO and TIGTA have previously reported serious internal control and systemic weaknesses in the IRS' administration of its international programs. The IRS continues to struggle to increase compliance in an ever-growing international economy. Significant improvements are needed in international compliance programs to focus on nonfiling, transfers of assets by U.S. citizens to foreign trusts, foreign tax credit claims and foreign-sourced income.

The IRS' new Large and Mid-Size Business Division will have a strong emphasis on international issues. The approved structure will attempt to integrate international expertise throughout the entire division. The rationale is that this will provide more consistent taxpayer treatment across industry lines. In addition, International Tax Examination Specialists will migrate to specific industries. The IRS has indicated that it has undertaken several international tax administration and compliance programs to address our concerns in areas such as transfer pricing, tax credits, foreign trust, non-filers and foreign-sourced income reporting issues.

Treasury Inspector General for Tax Administration Office of Audit

INTRODUCTION

The Office of Audit 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

To assist the IRS in meeting the challenges it faces in FY 2000 and other crucial tax administration initiatives, the Office of Audit has developed a comprehensive audit program. The program will help the IRS assure that tax administration programs are efficient and effective, and minimize fraud, waste and abuse.

The audit program is presented in the Annual Audit Plan which communicates audit priorities for the current fiscal year. Many of the activities described in the Plan address the fundamental goals related to the IRS' mission to administer its programs effectively and efficiently. Major management issues, as well as specific areas of concern to the Congress and the IRS Commissioner, are also addressed. As such, audit work is organized around the IRS' core business activities with emphasis on the statutory coverage imposed by RRA 98. Audit work also focuses on other statutory authorities and standards involving computer systems and financial management.

SIGNIFICANT AUDIT RESULTS

During this reporting period, the Office of Audit issued 61 audit reports which are listed in Appendix IV.

The results of the most significant reviews are discussed in the following sections.

Processing Returns and Implementing Tax Law Changes During the Filing Season

The Internal Revenue Service Could Enhance the Process for Implementing New Tax Legislation (Reference No. 2000-40-029)

Implementing legislative changes for the 1999 filing season required hundreds of actions by the IRS, including revising and developing forms and instructions, changing computer programs, training employees and revising procedures and regulations.

The process for developing tax forms, instructions and computer programs to implement new tax legislation was effective. However, the Office of Audit recommended that the implementation process include procedures to ensure IRS executives are made aware of critical actions that are overdue. Also, the IRS could improve its customer service by notifying taxpayers who may qualify for, but did not claim, the Child Tax Credit.

IRS management agreed that increased emphasis should be placed on highly significant legislative provisions. However, they did not agree to implement the recommendation to notify taxpayers who appeared to be eligible for the Child Tax Credit. Instead, IRS will communicate with taxpayers regarding this credit through

outreach programs. Based on an analysis of IRS computer files, the Office of Audit estimates there could be as many as 1.7 million taxpayers who qualified, but did not claim the credit in Tax Year 1998.

Taxpayers and the Internal Revenue Service Experienced Problems With Some New Tax Provisions (Reference No. 2000-40-045)

The Taxpayer Relief Act of 1997 contained nearly 300 new provisions and almost half were effective for Tax Year 1998. Many of the new legislative provisions received considerable political attention, indicating Congress' interest in ensuring the new tax law provisions were implemented by the IRS as intended.

The Office of Audit found that the IRS properly processed most tax returns affected by the provisions. However, taxpayers and the IRS did experience some problems related to preparing and processing tax returns. Specifically, the Office of Audit identified a problem with the IRS' computer programs to implement the tax law provisions for EITC Recertification. When IRS management was advised of this problem, they immediately revised their programs. This ensured 6,500 refunds were not unnecessarily delayed and prevented over 17,000 disqualified taxpayers from receiving EITCs of over \$30.6 million.

The Office of Audit made several other recommendations including initiating a post review of Error Resolution cases impacted by specific legislative provisions and ensuring that taxpayer notices are technically accurate, clearly address the taxpayers' errors and contain clear instructions to correct the error.

The IRS should also consider the feasibility and cost effectiveness of conducting limited computer research to correct inaccurate names and Taxpayer Identification Numbers entered on tax returns.

IRS management agreed to implement the recommendations to ensure that legislative changes are properly implemented. However, they did not implement the recommendation to correct inaccurate names and Taxpayer Identification Numbers. IRS management believes taxpayers would not benefit in the long run, since they would not be informed of the changes and would continue to use the wrong information. IRS management also indicated this would increase the workload for the Error Resolution function and unnecessarily delay the processing of all returns.

The Office of Audit disagreed with the IRS' response. The IRS could issue a notice explaining the taxpayer's mistake and encouraging the taxpayer to use the correct information in succeeding years.

Providing Customer Service and Ensuring Tax Compliance

Toll-Free Telephone Service Levels Declined in 1999 Despite Costly Efforts to Achieve World Class Performance (Reference No. 2000-30-062)

In 1999, the IRS implemented several new business initiatives and technological changes intended to provide a world class customer service operation. The IRS' toll-free telephone system is a cornerstone in this effort.

The Office of Audit found that the IRS was not able to handle the level of customer demand on its toll-free telephone lines satisfactorily during the 1999 filing season. The level of telephone service on the three main telephone lines declined from 73 percent in the prior filing season to 51 percent. Almost 16 million more taxpayers received busy signals. Also, during the first six months of FY 1999, the accuracy of answers to tax law questions declined from 79 percent to 72 percent. For the same period, total labor costs increased by over \$30 million from the

prior fiscal year yet 1.4 million fewer calls were answered.

To provide both effective and economical toll-free telephone service, the IRS needs different management approaches. For example, the IRS needs to employ a systems management approach throughout the entire Customer Service organization, to include eliminating reliance on compliance resources. IRS management should also: evaluate the number of call sites; more timely and accurately conduct resource planning; reduce hours of “live” assistance; and, provide managers with tools to monitor productivity of telephone assistors.

IRS management agreed that telephone performance during the 1999 filing season fell short of their goals and has taken action to implement some of the Office of Audit’s recommendations. However, management believed several recommendations might not be consistent with the integrated solutions and approaches that they are developing. Management did commit to consider fully these recommendations as they modernize the IRS. Management also declined to study the number of call sites and hours of live assistance, and stated Compliance resources will continue to be used to augment toll-free operations. The remaining recommendations with which management disagreed are detailed in the body of the report.

The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program (Reference No. 2000-10-047)

IRS management has not addressed all corrective actions reported in a prior audit report (Reference No. 062604 dated March 1996) to effectively manage the tax-exempt bond program.

Unless corrective actions are effectively implemented, the IRS cannot rely upon its automated or manual systems to: account for all incoming bond returns; ensure all

remittances are timely deposited; and, provide sufficient information to help ensure effective program management. The need to fully implement an automated processing system for tax-exempt bonds continues to represent a Federal Managers’ Financial Integrity Act⁵ (FMFIA) material weakness.

The Office of Audit recommended that IRS management: ensure that all Forms 8038-T, Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate, bond returns are input into the designated automated system; periodically monitor the bond return information systems to resolve promptly any concerns that may impact processing; and, follow all shipment procedures. Also, the IRS should revise its tax-exempt bond preparation instructions to include the correct address where bond returns should be filed, record late-filed bond returns, promptly resolve these late-filed returns with taxpayers and process all bond cases selected for audit on the appropriate management information system.

IRS management agreed with the recommendations. Management indicated that until the Masterfile⁶ is upgraded to process tax-exempt bond returns, the program will continue to be a FMFIA material weakness.

Opportunities Exist for Further Reducing Erroneous Fuel Tax Credits (Reference No. 2000-30-057)

During 1998, the IRS received nearly 450,000 individual income tax returns that claimed a total of \$106 million in tax credits for federal excise taxes paid on certain fuels. The Office of Audit initiated a review of corrective actions taken in response to a prior audit (Report No. 070804 dated

⁵ 31 U.S.C. §§ 1105-1106, 1113, and 3512 (1994)

⁶ The Masterfile is the IRS’ database that stores various types of taxpayer account information. This database includes individual, business, employee plans and exempt organization and bond data.

December 1996) which had identified the need for improved processing controls and additional taxpayer education to reduce erroneous fuel tax credits.

The Office of Audit reported that the actions taken by the IRS were only partially successful. For example, the changes to the returns processing procedures had helped to ensure that almost all returns claiming fuel tax credits were computer-identified, when appropriate, for manual screening by the Examination function. However, the actions taken have been ineffective for ensuring that prior year returns are checked when fuel tax credits are disallowed on the current year returns. Prior year returns were not checked for 79 percent of the returns where the fuel tax credit was disallowed. The potentially unallowable fuel tax credits claimed on the prior year returns totaled nearly \$794,000.

In addition, nearly 16,000 taxpayers improperly claimed a total of \$2.45 million in tax credits for undyed diesel fuel on their 1997 tax returns. Almost 80 percent of these returns were professionally prepared. Approximately 15,000 of these 16,000 taxpayers actually received tax credits totaling \$1.78 million.

Opportunities exist for the IRS to further reduce erroneous fuel tax credits by re-emphasizing certain procedures on the regulations prohibiting credits for undyed diesel fuel used in farming. The Office of Audit recommends of providing educational notices to taxpayers and professional return preparers, and re-emphasizing certain procedures for screening returns claiming fuel tax credits will assist the IRS in protecting a significant amount of tax revenue on an annual basis.

IRS management agreed with the findings and will implement all of the recommendations except for sending information notices to taxpayers who claimed credits for undyed diesel fuel that did not meet the criteria for Examination screening. Instead, the IRS will

change the Examination screening criteria to identify a greater number of returns claiming fuel tax credits for audits. The Office of Audit concurred with this corrective action.

The Internal Revenue Service Can Improve the Estate Tax Collection Process **(Reference No. 2000-30-059)**

As of September 1998, there were over 11,000 estate accounts with tax balances totaling \$3.2 billion dollars. The Office of Audit found that the IRS estate tax collection process was not effective in protecting the government's interest or in protecting taxpayers' rights. IRS employees did not take necessary actions when granting installment agreements and payment extensions. These actions included securing a bond or lien before granting installment agreements, properly evaluating payment extension requests, properly calculating and billing interest, and providing taxpayers the publication that explains their rights. IRS employees also did not properly record or release estate tax liens. For example, 1,270 estate accounts have tax liens against their assets even though the tax balances have been paid. In addition, the collection statute of limitations expiration was calculated incorrectly, causing tax amounts owed to be abated prematurely or late.

The Office of Audit made 11 specific recommendations to assist the IRS in applying the provisions of the law to help ensure estate taxes are collected timely; ensure records are accurate so that estates are treated equitably; and, provide employees the necessary guidance to evaluate estate tax documents and requests.

Additionally, guidance is needed to ensure executors requesting an estate tax installment agreement provide a bond or elect a lien that lasts the full term of the agreement. IRS management review is needed to help employees properly determine whether

requests for extensions of time to pay show adequate reasonable cause. A processing change for both types of requests is needed so that required notices with taxpayer rights information are sent to estates.

Finally, IRS management needs to: review the Collection Statute Expiration Date computer programming to ensure all calculations are accurate; reinstate tax on accounts that have been abated prematurely; and, abate the tax on accounts that are past the expiration date.

IRS' response indicated general agreement with the audit findings and recommendations. However, management only agreed to explore the feasibility of implementing two of the recommendations, identifying and releasing liens that have been paid in full and reversing erroneous estate tax abatement transactions.

The Internal Revenue Service Needs to Improve Its Coordinated Oversight of the Substitute for Return Process (Reference No. 2000-40-055)

The IRS uses the Substitute for Return (SFR) to establish a tax liability for nonfiling taxpayers based on available income and expense information. The SFR is a critical component of the IRS' strategy for dealing with taxpayers who fail to file required tax returns. The IRS reported the SFR Program contacts over one million taxpayers each year.

The Office of Audit recommended that the IRS establish uniform policies and procedures to ensure coordination among the functions processing the SFR accounts. The IRS also should develop a process to monitor the future filing compliance of taxpayers with SFR tax assessments while tracking and measuring SFR revenues, costs and account resolutions.

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

The Internal Revenue Service Can Further Reduce the Burden on Taxpayers Who Disagree with Proposed Assessments (Reference No. 2000-10-033)

Resolving unagreed tax examinations is a burdensome process for taxpayers and a costly one for the IRS. The Office of Audit determined if corrective actions in response to a previous audit report (Reference No. 980903 dated November 1997) were effective. The corrective actions focused on reducing the number of taxpayers who do not respond to the final notice of assessment and petition the U.S. Tax Court instead.

The Office of Audit found the number of taxpayers petitioning the U.S. Tax Court declined significantly since the prior review. As a result, taxpayers spent 225,000 fewer days dealing with the IRS and IRS costs were reduced by \$800,000 between FY 1997 and 1998. However, the IRS did not complete all corrective actions listed in the prior report.

The Office of Audit recommended that the IRS should ensure the most current address is available so letters are sent to the proper address. This would enable the IRS to locate more taxpayers and resolve issues with less correspondence and through less formal procedures than petitioning the U.S. Tax Court. Also, the IRS should ensure that audit groups adhere to its correspondence procedures to avoid taxpayers' perceptions that they are not treated properly.

IRS management generally agreed with the recommendations and will implement appropriate corrective actions. For the first recommendation, the Office of Audit accepted IRS' solution to use additional address research techniques to ensure letters are sent to the taxpayer's current address.

Managing Finances

Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract (Reference No. 2000-10-028)

The Treasury Communications System (TCS) contract is for the design, implementation, management, operation, maintenance and enhancement of a “worldwide” communications network for the Department of the Treasury and its bureaus. The TCS is the largest civilian, centrally managed and secure communications network in operation today. In January 1999, the TCS served over 6,000 locations with approximately 150,000 users. The IRS usage encompasses a significant portion of the contract.

Although progress has been made, the IRS needs to improve the monitoring and administering of the contract. The Office of Audit identified approximately \$701,000 in questionable or unnecessary contract costs that could total approximately \$6.3 million over the next five years. This is a result of not verifying invoices properly to ensure that all costs are appropriate.

The Office of Audit recommended that the IRS perform an in-depth analysis of TCS invoices to identify billings for circuits and equipment that no longer exist. Also, the IRS should implement a process to ensure that it is receiving the appropriate credits when billing issues arise. Additionally, the IRS should impose appropriate invoice credits when the contractor does not meet established completion dates.

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

Improvements Are Needed in Planning for the Acquisition of Goods and Services and in Managing Contract Closeouts (Reference No. 2000-10-044)

The Office of Audit reviewed pre- and post-contract award practices to determine whether the IRS is planning for and administering contracts effectively and efficiently. The IRS implemented an on-line processing system that has enhanced contract administration. Contracting officer’s technical representatives are ensuring goods and services received comply with contract terms. However, the IRS can further improve the planning for and administration of contracts. The Office of Audit identified approximately \$2 million of government funds that were unnecessarily expended or placed at risk because there was inadequate planning by program offices or excess funds were not deobligated on completed contracts.

The Office of Audit recommended that IRS management advise program offices to prepare acquisition plans and funding documents properly before contracting actions are taken and ensure all Procurement personnel properly update closeout and completion information. Both the Procurement function and program offices should ensure that sufficient quantities are ordered to satisfy guaranteed minimums, and that minimums are not set too high. Also, additional oversight of outstanding obligations is needed to ensure funds are expended properly or deobligated timely, and that contracts are closed out properly and excess funds deobligated timely.

IRS management concurred with the findings and agreed to take corrective action on most of the recommendations. IRS management concluded requiring the preparation of acquisition plans prior to issuing the solicitation and notifying program offices to provide timely requisitions are unnecessary because the appropriate mechanisms are already in place. IRS management will place

policy guidance on the IRS procurement Intranet site to allow broader access by IRS personnel. The Office of Audit believes that the presence of a requirement does not ensure its proper or timely implementation.

Modernizing the IRS

The modernization efforts include the organization restructuring, technology modernization and Year 2000 compliance.

Organization Restructuring

Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers (Report No. 2000-30-015)

The current IRS systems and procedures for business taxpayers were designed primarily to facilitate IRS operations, rather than address the individual needs of taxpayers. As a result, existing systems and procedures are often complex, confusing and burdensome.

The Office of Audit conducted reviews and analyses of five IRS processes which business taxpayers are involved with frequently: providing upfront education and assistance; establishing a new business entity; processing Federal Tax Deposits (FTD); monitoring FTD compliance; and, processing tax returns.

The Office of Audit recommended actions to reduce burden and improve service to business taxpayers. Adoption of these recommendations could result in eliminating approximately 219,000 notices to business taxpayers who have not yet hired employees, notifying taxpayers earlier when FTD payments have not been made and improving taxpayer educational opportunities.

IRS management agreed with the recommendations and has initiated corrective action.

Technology Modernization

The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program (Reference No. 2000-20-004)

The 941 TeleFile Program is an integral part of the IRS strategy to provide businesses with flexible and convenient ways to file returns. In 1998, TeleFile was expanded to allow small business taxpayers nationwide to file their Employer's Quarterly Federal Tax Returns (Form 941) by telephone.

The Office of Audit found that IRS established effective processes for ensuring the 941 TeleFile Program was successfully implemented, however, actions are needed to market the Program to eligible users and to improve customer service. Improvements in these two areas should enhance the IRS' ability to achieve its goal of 16 million electronic employment tax returns by the Year 2002.

The Office of Audit recommended that IRS management analyze previous customer feedback information to identify ways to increase participation. Also, the IRS should educate taxpayers on the requirements for using the 941 TeleFile System, as well as any program changes, and ensure quality customer service. In addition, the Office of Audit recommended enhancements to the system to prevent the processing of duplicate Form 941 TeleFile returns and to verify the filing history and electronic signatures of the taxpayers or taxpayer representatives.

IRS management agreed with the findings and recommendations and has initiated appropriate corrective action.

The Integrated Submission and Remittance Processing System Development Project Has Made Significant Progress, But Operating Risks Remain (Reference No. 2000-40-053)

The Integrated Submission and Remittance Processing (ISRP) System was first piloted during the 1998 filing season. It replaced the IRS' computer systems used to process approximately 170 million paper tax returns and 50 million payments each year. The ISRP System was necessary because the existing computers could not process data after December 31, 1999. The IRS began processing both paper tax returns and payment documents through ISRP in August 1999.

The ISRP System project made significant progress; however, risks continue to affect the integration of the system with other IRS operations. Specifically, the Office of Audit recommended that the IRS improve the ISRP System's control and accountability of all documents processed, update submission processing contingency plans and improve ISRP controls designed to safeguard taxpayer information.

IRS management has implemented all corrective actions.

Year 2000 Compliance

The Office of Audit issued 11 audit reports that assessed IRS' efforts to prepare its systems for the Year 2000. The overall audit objectives, recommendations and corrective actions for the most significant reports are included in Appendix VII.

Protecting Taxpayer Rights

The Internal Revenue Service Is Now Tracking Potential Fair Debt Collection Practices Act Violations, But May Not Always Be Properly Reporting Violations (Reference No. 2000-10-014)

RRA 98⁷ requires the IRS to comply with several restrictions on collection practices contained in the Fair Debt Collection Practices Act (FDCPA) of 1996⁸. For example, IRS employees are not to communicate with taxpayers in connection with the collection of any unpaid tax at unusual or inconvenient times. In addition, taxpayers whose FDCPA rights are violated can now file a civil action for damages against the government.

RRA 98 requires TIGTA to provide information to Congress regarding any administrative or civil actions related to FDCPA violations, including a summary of employee administrative actions or money paid as part of a civil action.

The Office of Audit did not identify any civil actions where money has been paid to taxpayers as a result of FDCPA violations for two reasons. First, IRS management information systems did not reflect FDCPA violations at the time of this review. Second, IRS management may not have always properly reported potential FDCPA violations.

During this limited review, the Office of Audit identified two areas needing IRS management attention: upgrading existing management information systems to track FDCPA violations and identify monetary settlements to taxpayers, and reporting potential FDCPA violations.

IRS management agreed with the issues presented in the report and has already taken corrective action on the first issue.

⁷ I.R.C. § 6304

⁸ 15 U.S.C. §§ 1601 and 1692

The Internal Revenue Service Needs to Improve Its Compliance With Procedures When Processing Requests for Information Under the Freedom of Information Act (Reference No. 2000-10-058)

The Office of Audit is required by RRA 98 to perform periodic audits of a statistically valid sample of requests for information which the IRS denied on the basis of the Freedom of Information Act⁹ (FOIA) exemption (b)(7) and I.R.C. § 6103. In addition, the Privacy Act of 1974¹⁰ requires federal government agencies to consider whether information that is exempt under the Privacy Act should be disclosed to the requester under the FOIA.

IRS records indicate that in FY 1998, the IRS either completely or partially denied information requested under FOIA, for about 3,700 of the nearly 31,000 requests received.

The Office of Audit reviewed a statistically valid sample of cases for the period, July 22, 1998 to December 31, 1998. Audit results indicated that the IRS improperly withheld information to the requester in 41 of 340 cases (12.1 percent) and denied or partially denied Privacy Act Requests for 13 of 171 cases (7.6 percent). For the vast majority of imperfect requests, the IRS correctly informed the requester that additional information was needed.

Also, the IRS did not always follow the FOIA and IRS procedural guidelines in processing FOIA and Privacy Act requests. As a result, timely and consistent responses were not always provided on fully and partially denied requests.

The Office of Audit recommended that the IRS improve its management practices and oversight to ensure FOIA requests are processed in accordance with the statute, as well as with IRS procedures.

⁹ 5 U.S.C. § 552 (1996)

¹⁰ 5 U.S.C. § 552a (1996)

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

The Internal Revenue Service Needs to Improve Telephone Authentication Practices to Better Prevent Unauthorized Tax Account Disclosures (Reference No. 2000-10-026)

The Office of Audit conducted a follow-up review of the effectiveness of corrective actions to strengthen controls for authenticating the identity of taxpayers who request account information over the phone. These control weaknesses had been identified in a previous audit report (Report No. 075202 dated September 1997) which highlighted a significant risk for unauthorized disclosure of taxpayer information.

The risk of unauthorized disclosure of taxpayer information remains because employees did not comply with revised procedures and were not required to use items of authentication that were confidential to the caller and the IRS. In 65 of 100 test calls, IRS employees requested only one or none of the additional verification items required for high-risk situations. Most of the identifying information asked for was available commercially from on-line Internet sources.

The Office of Audit recommended that IRS management strengthen authentication procedures by providing Customer Service Representatives with training on authenticating identities and revising national guidelines to include authentication verifiers that would be known only to the IRS and the taxpayer.

IRS management agreed with the first recommendation and will emphasize the need to comply with existing authentication requirements when high-risk situations are encountered. However, they stated adding probes to authenticate call-in taxpayers would be burdensome to the taxpayers and IRS employees.

Implementing GPRA

Letter Report: The Internal Revenue Service Should Improve Its Process to Ensure the Fiscal Year 1999 Performance Report Will Contain the Information Intended by the Congress (Reference No. 2000-10-061)

GPRA requires agencies to submit to the President and the Congress annual performance plans that set goals with measurable target levels of performance. Beginning in FY 2000, federal agencies are required to report on their successes in achieving the goals established in the prior year's performance plans in an Annual Program Performance Report (APPR). The Office of Audit reviewed IRS' development of the FY 1999 APPR.

The IRS' process for developing the APPR needs to be improved. Current practices do not provide adequate time for IRS management to: assemble data for the report; analyze the data to ensure that they clearly assess program goals; verify and validate the data to ensure that it is reliable and credible; and, timely submit the data to the Department of the Treasury.

The Office of Audit recommended that IRS management ensure that any data limitations are disclosed properly in the APPR. Further, if any of the expected performance data cannot be obtained, the IRS should specify the steps it will take to gather the data for the next APPR. Also, the IRS should develop a single set of authoritative instructions for timely gathering and verifying data needed for GPRA reporting.

IRS management agreed that it is crucial that data collected to measure performance is verified and validated before being included in the budget. The IRS is reorganizing its headquarters operations and will be establishing an office with the responsibility of overseeing the verification and validation of data.

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied (Reference No. 2000-10-016)

GPRA is intended to improve quality and delivery of service by holding federal agencies accountable, through the budget appropriation process, for program results by emphasizing goal setting and results measurement. The law requires executive agencies to prepare multi-year strategic plans and annual performance plans, and to report results in achieving planned goals. The Office of Audit reviewed the IRS' strategic planning process relative to the goals and requirements set forth by GPRA.

The Office of Audit recommended that the IRS designate an executive office responsible for coordinating and ensuring functions develop the performance measures and systems to capture and validate data needed to fully comply with GPRA. This will improve IRS' process for ensuring that all GPRA requirements are fully satisfied.

Without specific executive oversight, there is a high risk that much of the work done on the measures and plans could be lost during the IRS reorganization. This loss could further delay the IRS' ability to produce GPRA-compliant measures, plans and performance reports; and it would weaken the data needed to justify future budgets.

IRS management agreed with the recommendation and has taken corrective action.

TIGTA SUPPORTS THE IRS IN ASSISTING FOREIGN TAX ADMINISTRATIONS

A TIGTA Audit Director is on detail to the IRS' Office of Tax Administration Advisory Services (TAAS). At the request of foreign governments, TAAS provides a variety of tax

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advisory services under reimbursable agreements and has worked with the Greek Ministry of Finance for the last three years. The Audit Director is stationed in Athens, Greece, under the direction of a TAAS Project Manager and serves as the Internal Audit Team Advisor. The Team's advisory services include strategic planning, collection and examination management, management information systems development and internal audit processes.



The great Parthenon in Athens, Greece.

The Audit Director is assigned to a cross-functional team of Ministry of Finance staff members charged with the responsibility of developing, implementing and enhancing internal audit processes. This includes

developing internal auditing rules and procedures and a code of ethics for Ministry of Finance employees, based on international internal auditing standards.

The Audit Director and TAAS Project Manager meet regularly with the team and Ministry of Finance management, to present and answer inquiries on internal auditing theory and to offer advice on how the concepts and principles are practiced in the IRS and the U.S. Treasury Department. During the reporting period, the Audit Director and TAAS Project Manager worked closely with the Ministry of Finance's School of Education to develop a seminar on organizational integrity. The seminar was presented in an interactive mode, with participation of 32 senior level executives and managers from the Directorate of Inspection.

In addition, the Audit Director has established international contacts with Chapters of the Institute of Internal Auditors in the United States, Greece and France. This will foster a continuing relationship between the Directorate of Inspection's Internal Audit Department and other American and European Community internal auditing professionals.

Treasury Inspector General for Tax Administration Office of Investigations

INTRODUCTION

The Office of Investigations administers investigative programs that protect the integrity of the IRS and detect and prevent fraud within IRS programs. This includes investigating allegations of criminal wrongdoing and administrative misconduct by IRS employees, as well as protecting IRS employees from external threats.

Specific areas of responsibility include:

- Administering programs to protect IRS employees from violence.
- Operating a national complaint center, including a hotline, 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 in IRS programs and operations.

PROTECTION OF TAXPAYERS AND IRS EMPLOYEES

TIGTA is dedicated to ensuring taxpayers and IRS employees the highest degree of integrity, fairness and trust in our 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, the Office of Investigations conducted 403 presentations for 13,724 individuals. Approximately 90% of these individuals were IRS employees.

The Office of Investigations conducts investigations that protect taxpayers from IRS employees who commit criminal wrongdoing 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, the Office of Investigations completed 913 employee misconduct investigations.

When an investigation determines that a taxpayer has been financially or procedurally harmed by employee misconduct, TIGTA notifies the IRS so that appropriate action can be taken. TIGTA has notified the IRS on issues such as the unlawful inspection or disclosure of taxpayer returns or return information¹¹ and the embezzlement or theft of tax payments.

The Office of Investigations is also committed to protecting and supporting IRS employees as they carry out the mission of the IRS. TIGTA investigates individuals who attempt to interfere with or corrupt the administration of the federal income tax system, to include

¹¹ 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.

investigations of bribery, assault, threat, theft and embezzlements. During this reporting period, the Office of Investigations completed 1,254 investigations involving these types of allegations.

Complaint Management Division

The Complaint Management Division (CMD) acts as a national center to process and track allegations of fraud, waste, abuse and other forms of wrongdoing. CMD operates a toll-free telephone number, an e-mail address and a central post office box.

CMD's complaint tracking system provides a centralized accounting of all complaints and the status and final dispositions of those complaints. This system also has the capability to document and track complaints involving multiple subjects.

To assure all relevant information is evaluated, TIGTA personnel interview complainants to the extent possible. Also, complainants are provided with a Complaint Number that can be used to provide additional information about the allegation.

During the reporting period, TIGTA received 4,211 complaints. The status of these complaints is shown in Appendix II.

Section 1203 Violations

Section 1203 of RRA 98 provides for the mandatory termination of an IRS employee if the employee commits specific misconduct violations (see Appendix V for a summary of Section 1203 standards).

TIGTA is dedicated to protecting taxpayers against abuse and misconduct while also ensuring that IRS employees are not the subject of Section 1203 investigations that have no basis. During this reporting period, TIGTA received 369 allegations involving potential Section 1203 violations.

Investigations are opened on Section 1203 allegations where it has been determined, through preliminary analysis, that there is a basis for the allegation. The only exceptions are Section 1203(b)(8) and (b)(9) which relate to timely and full payment of taxes. In some situations, the IRS may resolve these issues fully and they will not require a TIGTA investigation.

TIGTA initiated 89 investigations related to alleged Section 1203 violations. Of these, 65 are currently ongoing and 24 are closed. Fourteen of the 24 closed investigations were referred to the IRS for administrative adjudication. The referred cases may consist of both substantiated and unfounded Section 1203 allegations.

The IRS terminated 11 employees under Section 1203 during this reporting period. One termination was the result of a TIGTA investigation.

Some Section 1203 violations, related to internal IRS procedures, require the IRS to provide TIGTA with a preliminary assessment of whether the internal procedures appear to have been violated. During the reporting period, TIGTA received 213 complaints that were referred to the IRS for this type of preliminary inquiry.

An example of a Section 1203 investigation follows.

IRS Employee Terminated for Threatening to Audit a Taxpayer

An IRS employee was terminated from employment in November 1999, for threatening to audit a police officer. Local police arrested the employee for driving under the influence of alcohol. While being processed, the employee informed the arresting officer that he worked for the IRS. The employee made further statements that the officer reasonably interpreted as a threat to audit or to take some type of retaliation.

The employee was subsequently removed for violating RRA 98 Section 1203(b)(10).

Strategic Enforcement Division

The Strategic Enforcement Division (SED) is responsible for developing and maintaining a program to execute proactive investigations for the detection of unauthorized accesses to IRS computer systems (UNAX), fraud in IRS operations and attempts to interfere with the security of IRS computers. The program focuses on attempted or actual breaches by both internal and external parties.

SED's operation is a collaborative effort of auditors, special agents and computer programmers who use computer technology and computer matching to identify criminal violations, secure evidence, and detect and prevent improper accesses.

SED also provides investigative and forensic data analysis support to special agents. SED has assisted agents with computer data analysis on investigations involving stolen IRS tax remittances, fraudulent tax adjustments and credit card/identity fraud.

Additionally, SED has computer investigative specialists who assist in seizing computers, analyzing computer-related evidence and conducting searches on the Internet.

SED maintains computer research and reference equipment, and assesses technical threats to the integrity of the IRS network. 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. Threat advisories are disseminated to the IRS, the Department of Treasury and a number of other federal agencies.

National Investigative Initiatives

A principal component of SED's operation involves the National Investigative Initiatives (formerly the National Integrity Program). Projects are initiated from information developed during successful investigations. The methodology of a crime is used to develop computer database applications that identify other individuals who may be perpetrating the same crime. Computer matching is used in proactive national projects. These projects are included in Computer Matching Act¹² agreements approved by the Treasury Department's Data Integrity Board and published in the Federal Register.

UNAX Detection Project

The UNAX Detection Project is a SED national investigative initiative. During this reporting period, SED identified and analyzed 268 leads of potential unauthorized accesses to tax information by IRS employees. This resulted in 120 referrals to field offices for investigation of violations of the Taxpayer Browsing Protection Act of 1997¹³.

As a result of this ongoing project, a number of UNAX cases have been further developed and other potential criminal violations have been identified for investigation. These include: filing fraudulent income tax returns; employees using their official position to harass taxpayers; and, unauthorized disclosure of tax information. Some examples of these types of cases are highlighted beginning on page 23.

During data analysis in UNAX investigations, SED also looks to identify systemic weaknesses in the security features of IRS computer audit trail records which track accesses to taxpayer account information. For example, an audit trail did not record the specific tax periods accessed or actions taken

¹² Pub. L. No. 101-56, 103 Stat. 149 (1989)

¹³ Pub. L. No. 105-34, 111 Stat. 1104 (1997)

by a system user. TIGTA and IRS are working toward system improvements to enhance SED's capability to research UNAX violations.

TECHNICAL AND FORENSIC SUPPORT DIVISION

The Technical and Forensic Support Division is responsible for directing 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. Technical Services provides audio and video investigative equipment and assists special agents in using these tools. It is also Technical Services' mission to enable agent safety, manage surveillance assets and maintain communications systems and equipment.

Some examples of the types of investigative support provided by Technical Services include:

- Successfully produced photographs from surveillance video that clearly showed a former IRS employee at the scene of a robbery. Enlarged photographs of the employee's weapon were also produced and used for court proceedings.
- A covert video system was used to record a meeting involving tax preparers and other individuals back-dating tax forms. These individuals had conspired with a

former IRS employee to eliminate the assessment of penalties and interest on tax estimates. This electronic monitoring was instrumental in developing an additional investigation, as well as clearing another IRS employee's alleged involvement in the scheme.

- A former IRS service center employee was captured stealing cash from IRS mail during a remittance test using a covert video.

Forensic Science Laboratory

Criminal investigations often depend upon the forensic analysis of evidence. Fingerprint and handwriting examination, photography and chemical analysis are a few of the laboratory tools that assist special agents in identifying subjects.

The FSL supports field investigations through timely processing of documentary, physical and chemical evidence. The FSL recently obtained upgraded analytical equipment that is used to evaluate document alterations and decipher erasures. The new equipment allows for the non-destructive analytical comparison of writing inks to detect evidence of alteration. TIGTA is the first U.S. forensic laboratory, government or private, to incorporate this particular unit into its forensic document arsenal.

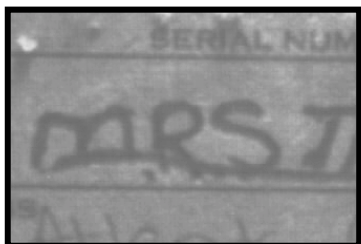
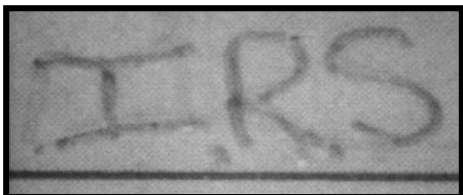
During this six-month period, the FSL received 100 case submissions, issued 107 reports of laboratory examination and evaluated 2,650 items of physical evidence.

The FSL examined evidence from a number of cases, including:

- A former IRS employee was suspected of signing an application for an Employer Identification Number to obtain credit and then amassed a debt of \$1,181. The FSL identified the employee's signature on the application for the Employer Identification Number. She was

convicted of misusing a Social Security Number.

- An IRS employee was suspected of using a government issued credit card to make personal purchases. The FSL identified the employee's signature on several original receipts and provided a qualified opinion on two receipts that were of poor facsimile quality. The employee resigned while under investigation and the investigation has been referred for prosecution for theft of public funds.
- A taxpayer remitted a money order to the IRS for \$391. A laboratory examination revealed that the money order was originally made payable to the "I.R.S" and was subsequently overwritten in an IRS employee's name. The FSL identified the employee as the author of the money order endorsement. The employee resigned prior to TIGTA's investigation. The employee pled guilty to forgery and was sentenced to two years probation and ordered to pay \$391 restitution.



- An IRS employee was suspected of depositing two counterfeit checks totaling over \$64,000 into a personal checking account. The FSL could not identify the endorsement signatures on the checks due to the lack of suitable contemporaneous known signatures for comparison.

However, the FSL did identify the employee's latent print on a withdrawal transaction form. The employee resigned her position and the investigation has been accepted by the U.S. Attorney's Office for prosecution for bank fraud.

SIGNIFICANT INVESTIGATIONS

Disclosure and Improper Computer Access Investigations

The following investigations resulted from national investigative initiatives, including the UNAX Detection Project, and investigative strategies involving abuse of IRS computer systems, unauthorized accesses and disclosure of confidential taxpayer records by IRS employees.

IRS Employee Pled Guilty to Unauthorized Access of an IRS Computer

This investigation was initiated after SED identified a potential unauthorized access of an IRS computer. The investigation documented 183 unauthorized accesses by an IRS employee. The accesses were restricted to browsing; no unauthorized adjustments were made to any of the accounts. Interviews of the taxpayers whose accounts had been accessed determined the accounts belonged to former high school friends, their spouses and former employers of the IRS employee. The employee also accessed the tax account of a professional athlete. The employee resigned from the IRS in December 1999 and subsequently pled guilty to one count of unauthorized inspection of returns or return information.

Two IRS Employees Charged in Refund Scheme

In November 1999, a federal grand jury returned a 50-count indictment charging two IRS employees with conspiracy, filing false

claims and assisting others in filing false federal income tax returns. Computer analysis determined that one of the employees made unauthorized accesses to obtain confidential tax information of deceased individuals and used this information to obtain tax refunds. This employee and a co-worker then conspired to cash a tax refund check obtained in the name of one of the deceased taxpayers. The employees then fraudulently filed their own federal income tax returns claiming fictitious child and dependent care credits for multiple years. Additionally, the employee who made the unauthorized accesses, assisted and counseled several other individuals in filing what the employee knew to be fraudulent income tax returns, claiming fictitious credits. Both employees resigned upon notification of their proposed termination from the IRS.

IRS Employee Utilizes Tax Account Information to Harass Taxpayers

In November 1999, an IRS employee was arrested and charged with using his official position to harass two taxpayers in relation to a personal dispute. The two taxpayers received fraudulent notices from the IRS, stating that they were being audited. Although fictitious, the correspondence was on IRS letterhead and was sent in official IRS envelopes. The fraudulent correspondence was metered in the mailroom of the IRS office where the employee worked. One of the notices contained specific taxpayer data from a prior year return.

In addition to the fraudulent notices, one taxpayer and the other taxpayer's spouse received several telephone calls from individuals claiming to be the IRS employees named in the fraudulent correspondence.

The investigation disclosed that the taxpayers were not under audit. The employee's group secretary, unwittingly at the request of the employee, made accesses to the tax accounts of both taxpayers. The timing of the accesses

corresponded to the mailing of the fraudulent notices. In addition, the investigation determined that the telephone calls were made from the employee's residence and corresponded with the approximate dates and times of several of the calls received by the taxpayers.

IRS Employee Sentenced for Unauthorized Access to Tax Accounts

In December 1999, an IRS employee was sentenced to three years probation and was fined \$2,500 after pleading guilty to one count of computer fraud. An investigation revealed that the employee made over 1,000 accesses to the tax accounts of relatives, friends and acquaintances without their permission or knowledge. The employee advised the accesses were made for personal reasons. The employee resigned after being notified of her proposed removal.

IRS Employee Sentenced Under the Taxpayer Browsing Protection Act

A federal grand jury returned an indictment charging two counts of unauthorized inspection of returns or return information by an IRS employee. In October 1999, the employee pled guilty and was sentenced to twelve months probation and eighty hours of community service. This was a result of SED identifying suspicious computer accesses by the employee. The employee resigned from IRS while under investigation.

IRS Employee Pled Guilty to Disclosing Confidential Information

A special agent with IRS Criminal Investigation (CI) reported to TIGTA that the name of an IRS employee surfaced while conducting an investigation of two individuals. When the employee was interviewed by the CI special agent, the employee denied having any relationship with the subjects of the investigation until she was shown documents that indicated a financial

relationship. The employee admitted she and her husband were good friends with the subjects. She also admitted that she had told her husband the subjects were under investigation.

The matter was referred to TIGTA and the information developed by IRS CI was corroborated. When interviewed by TIGTA special agents, the IRS employee admitted to disclosing the existence of the criminal investigation. The employee resigned from the IRS during the investigation. In December 1999, the employee pled guilty to one count of disclosure of confidential information and subsequently she was sentenced.

Bribery Investigations

As a result of frequent contact with taxpayers, IRS employees are potential targets for bribery. Their positions also provide opportunities to extort and solicit bribes from taxpayers and to conspire with individuals who could threaten the integrity of the tax administration process.

Bribery is often a focus of TIGTA's integrity awareness presentations. IRS employees are educated on how to recognize bribe overtures and their responsibilities in reporting bribe attempts. TIGTA also educates employees about their responsibility to maintain a high standard of integrity. TIGTA presentations have a deterrent effect and could dissuade employees from taking inappropriate advantage of their positions.

During this reporting period, the Office of Investigations completed 45 bribery investigations.

Two Individuals Pled Guilty to Bribery and Conspiracy Charges

In December 1999, a taxpayer and a taxpayer representative were sentenced after pleading guilty to five counts of bribery and conspiracy

charges. The investigation began after an IRS employee met with the taxpayer and the taxpayer's representative to discuss the approximately \$60,000 tax liability owed by the taxpayer. During the meeting, the taxpayer's representative made repeated bribe overtures to the employee.

During a subsequent meeting, the employee was discussing the taxpayer's delinquency when the taxpayer's representative slid an envelope under her case file. The taxpayer's representative and the taxpayer both said it was \$500 for her personal use and not for the delinquent taxes. The taxpayer's representative and the taxpayer paid a total of \$2,500 in bribes to eliminate the tax liability. The two were each sentenced to eight months confinement, three years supervised release and fined \$3,000.

Individual Charged with Bribery

In December 1999, an individual was indicted by a federal grand jury on three counts of bribery of a public official. TIGTA special agents subsequently arrested the individual. This individual made a bribe offer to an IRS employee regarding his tax debt. The individual had previously submitted an offer to pay \$15,000 on his tax deficiency of approximately \$79,000, but IRS had rejected it. The individual initially offered to pay the employee's airfare and admittance to the Olympics in Sydney, Australia, if the employee would accept his Offer-in-Compromise. The individual later made three payments on his final bribe of \$1,500. The individual was interviewed and confessed to the bribe offer and payments.

IRS Employee Indicted for Conspiracy

TIGTA initiated an undercover operation in response to a complaint that the owners of a tax preparation business had conspired with an unknown IRS employee to perform illegal actions on taxpayer accounts. During several meetings between the tax preparers and an

undercover agent posing as a taxpayer, the preparers admitted that they had a contact in the IRS.

During the undercover operation, the tax preparer submitted a payment offer of \$10,000 to IRS to resolve the undercover agent's tax liability. In an effort to get the offer accepted, the preparer advised the undercover agent how to hide assets until the tax matter was resolved. When the offer was rejected, the IRS returned the cashier's check to the tax preparer who converted the check for his own personal use.

The investigation revealed that the tax accounts of five taxpayers, represented by the tax preparation business, had been assigned to the same IRS employee and were eventually placed in uncollectible status. The uncollectible status was achieved using falsified documentation.

A federal grand jury indicted the employee and the two tax preparers on conspiracy charges. The employee was also charged with unlawful acts by an IRS employee. In October 1999, the IRS suspended the employee without pay pending the outcome of the criminal action.

Storeowner Arrested for Conspiracy, Gratuities, False Statements and Tax Evasion

In December 1999, TIGTA special agents arrested a storeowner after he was charged in a 30-count federal indictment on charges of paying gratuities to a public official, conspiring to defraud the government, making false statements and evading taxes. The storeowner and an IRS employee conspired to issue over 40 Employer Identification Numbers allowing self-employed individuals to avoid the payment of taxes. These individuals paid the storeowner up to \$600 per number. The storeowner, in turn, gave gratuities to the IRS employee worth several thousand dollars. Using two cooperating individuals, TIGTA special agents made two

separate purchases of these numbers from the storeowner. During these purchases, the storeowner stated that an IRS employee had provided him with the numbers for a fee. The IRS employee resigned prior to the storeowner's arrest and pled guilty to charges of conspiracy and accepting gratuities.

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 where individuals attempt to defraud taxpayers.

Accountant Indicted for Misuse of Treasury Names and Symbols and Wire Fraud

In October 1999, a federal grand jury returned a two-count indictment charging an accountant with misuse of Treasury names and symbols, and wire fraud. The accountant was denied credit to lease a new luxury automobile due to federal tax liens filed against him. The accountant altered a fax containing the official IRS seal and used it to indicate that the tax liens had been satisfied. The accountant then faxed the altered document to a car dealership which in turn faxed it to a bank. When interviewed, the accountant admitted to altering the document and faxing it to the dealership.

Individual Charged With Impersonating an IRS Employee

In October 1999, an individual was arrested by TIGTA special agents and charged with committing a crime while on conditions of release. IRS CI contacted TIGTA and reported that the individual had been convicted on federal charges of conspiracy and trafficking in counterfeit computer chips. While awaiting sentencing, the individual contacted three clients of his ex-wife's

daycare business. The individual advised the clients that he was from the IRS and was conducting an audit of the daycare business. TIGTA special agents interviewed the clients and determined that the individual asked about their method of payment for daycare services and if they reported this as a deduction. The three clients provided personal tax information because the individual stated that he was from the IRS. In November 1999, the individual was indicted and charged with six counts of impersonating an IRS employee.

Mail Courier Pled Guilty to Theft of IRS Tax Remittances

In November 1999, a mail courier pled guilty to theft of public money. Previously, the courier had been employed with an IRS contractor that transported tax remittances between the IRS and the Federal Reserve Bank.

TIGTA's investigation began after an audit of the teller function disclosed missing payments. It was determined that the courier was only depositing check tax remittances and he was stealing all cash tax remittances. A total of \$7,000 in tax remittances was identified as being stolen. As part of the courier's plea agreement, the \$7,000 must be repaid. He was also sentenced to four years probation, the first two months with electronically monitored home confinement.

Former IRS Employee Arrested on Federal Fugitive Warrant

In September 1991, a warrant was issued on an IRS employee for failing to appear for a federal court arraignment. Previously, this employee was indicted on nine counts of embezzlement, theft and false statements. This employee worked in an IRS office where she accepted tax payments from taxpayers. Rather than applying these payments to taxpayers' accounts, she allegedly altered the checks and made them payable to herself.

Approximately \$60,000 was identified as being embezzled.

During 1999, information was developed that the former employee had fled to Europe. A subsequent investigation revealed that she was to visit the U.S. TIGTA special agents arrested the former employee as she disembarked from an airplane in December 1999. She is being held in custody pending further prosecutorial action.

IRS Employee Pled Guilty to Wire Fraud

An investigation determined that over a two-year period, an IRS employee submitted 86 fraudulent time sheets and received approximately \$5,500 in salary that he was not entitled to receive. TIGTA's investigation disclosed that the employee also failed to timely deposit approximately \$208,000 in taxpayer remittances. While no taxpayer suffered a financial loss or harm, the government lost approximately \$1,500 in interest payments as a result of not depositing the remittances timely. This employee also was found to have accessed IRS computer records and disclosed confidential taxpayer information to unauthorized individuals. In January 2000, the IRS employee resigned his position in lieu of termination after entering into a plea agreement with the U.S. Attorney's office. The employee was charged in an 86-count indictment for wire fraud.

Individual Charged in Connection With Impersonation of an IRS Criminal Investigation Special Agent

In July 1999, an individual falsely assumed the identity of an IRS special agent when he allegedly faxed a threatening communication to a company. The faxed letter appeared to be on official IRS letterhead and identified the individual as a special agent. In the letter, the individual threatened to take legal action against the company due to a business dispute between himself and other parties. In

September 1999, a police officer stopped the individual on a routine traffic stop. The individual identified himself as an IRS special agent. The officer observed the individual wearing what appeared to be an official IRS special agent polo shirt. When unable to provide a valid driver's license or special agent credentials, the individual was arrested.



The police provided the individual's arrest information to TIGTA. TIGTA had been attempting to locate him for questioning regarding the fax he allegedly sent to the company. In October 1999, the individual was indicted by a federal grand jury for impersonation of an officer or employee of the U.S. Government. The individual pled guilty to one count in December 1999.

IRS Employee Was Charged With Theft

In October 1999, an IRS service center employee was charged with one count of theft of a tax remittance, which had been placed in the employee's work bin by TIGTA special agents. This was part of a TIGTA proactive initiative to detect thefts of taxpayer remittances.

The employee failed to process the tax remittance properly. The money order was later negotiated by an acquaintance of the employee. The acquaintance indicated the employee provided the money order as repayment on a personal debt. The IRS

subsequently terminated the employee. An agreement was reached in court requiring the employee to pay restitution in exchange for deferment of the criminal charge.

Federal Charges Filed on an Individual for Impersonation

After being issued a parking ticket, an individual went to the police station to complain about the ticket. When the officers refused to void the ticket, the individual became belligerent and stated that he worked for the IRS and he would obtain the Social Security Number of the officer who issued the ticket and would "make sure he is audited for the rest of his life." The incident was both audio and video recorded as a matter of practice by the police department. When confronted by TIGTA special agents, the man admitted he impersonated an IRS employee because he was angry with the IRS for having been audited seven years in a row. This statement proved to be false. In February 2000, the individual was charged with impersonating an officer or employee of the U.S. Government. He was sentenced to pre-trial diversion in March 2000.

Individual Sentenced for Participation in Tax Refund Scheme With an IRS Employee

An individual conspired with an IRS employee who had designed and implemented an extensive fraudulent electronic tax return refund scheme. The employee obtained the names, Social Security Numbers and addresses of individuals who had no prior tax filing history. For a \$500 fee, the employee used this information to prepare fraudulent tax returns that resulted in the maximum EITC refund of between \$2,000 and \$3,000. The individual conspired with the employee to file a fraudulent return. As a result of the investigation, the employee was convicted and resigned from the IRS. The individual pled guilty to charges of conspiracy, theft of public monies, bank fraud, conspiracy-false

claims, false claims and firearms violations. In January 2000, the individual was sentenced to one year and nine months incarceration, three years supervised probation and a \$550 special assessment fine. The investigation was conducted with a task force formed by the U.S. Attorney's Office that included TIGTA, the U.S. Secret Service, the Postal Inspection Service, the Social Security Administration Office of Inspector General, IRS CI and the New York City Department of Investigations.

Tax Practitioner Pled Guilty to Making False Statements to the IRS

TIGTA investigated a complaint from an IRS employee who alleged that a tax practitioner was falsely claiming to be a certified public accountant (CPA), and was filing false IRS power-of-attorney forms to gain access to taxpayer records in the course of his business. TIGTA's investigation revealed that on at least 17 occasions, the accountant submitted false power-of-attorney forms to the IRS, claiming to be a CPA. He had previously lost his CPA license. In October 1999, the tax practitioner pled guilty to one count of making false statements. He was sentenced to three years supervised release.

IRS and Lockbox Employees and a Third Individual Charged With Embezzlement

Between October 1999 and January 2000, an IRS employee and a lockbox facility employee, who received checks in the course of their routine duties at the IRS and the lockbox facility, pled guilty to charges of embezzlement. A third individual, who conspired with the lockbox employee, also pled guilty to embezzlement. Lockbox facilities receive and process tax payments and credit the payments to a depository clearing account for subsequent transfer to the U.S. Treasury.

The amounts embezzled varied from \$380 to more than \$6,000. The common scheme was for the employees to steal the checks that had been sent to the IRS for payment of taxes, have the checks pass through several hands and ultimately have someone other than the employee cash the check. The proceeds were then divided among the employees and the persons handling and cashing the checks. These investigations were the result of TIGTA's proactive efforts, as well as a taxpayer reporting the theft of a tax payment. The IRS employee was fired immediately and sentenced to a two-year suspended sentence. The lockbox employee also was terminated immediately and sentenced to six months probation. The third individual was sentenced to 1 day of incarceration, 3 years supervised release and 30 hours community service.

Return Preparer Sentenced

A return preparer, who is a convicted felon, fraudulently advised taxpayers that he was a CPA authorized to represent taxpayers before the IRS. The return preparer also committed identity fraud by using the Social Security Number of a taxpayer to obtain credit and file a fraudulent tax return in an attempt to secure a tax refund. The return preparer did not want to file a return under his own name since he owed the IRS over \$400,000 in back taxes. In January 2000, the preparer was sentenced to prison and supervised probation after he pled guilty to charges of misuse of a Social Security Number. In addition, the judge barred him from engaging in any activity of a financial or accounting nature after his release.

Narcotics Investigations

TIGTA investigates incidents involving the illegal sale or purchase of controlled substances by IRS employees. IRS employees who abuse narcotics often are involved in additional criminal activity that

undermines the integrity of the IRS. During this reporting period, the Office of Investigations completed 37 investigations of allegations of employee misconduct involving narcotics abuse or trafficking.

IRS Employee Pled Guilty to Sale of Controlled Substances

In October 1999, an IRS employee pled guilty to one count of selling controlled substances. She was sentenced to 3 years probation, 180 days of work furlough and \$400 in fines and restitution. She was initially suspended and then subsequently terminated.

Information was developed by TIGTA, in conjunction with a multi-agency Drug Enforcement Administration Narcotics Task Force, that an IRS employee was selling controlled substances. A confidential informant provided information that he had met the IRS employee and her ex-husband approximately 20 years ago. The informant had purchased drugs from the ex-husband until the ex-husband's death. Upon the ex-husband's death, the IRS employee took over the drug business and began to deliver crystal methamphetamine to the informant's residence. The informant and an undercover officer each made a drug purchase from the employee.

Threat, Assault, and Harassment Investigations

While serving the taxpayers, IRS employees face a difficult and challenging mission. While incidents and threats of violence and harassment are extremely rare when compared to the millions of taxpayer contacts made yearly by IRS employees, sometimes individuals do resort to violent acts. The Office of Investigations is committed to providing the highest priority in terms of responsiveness and investigative emphasis to threats and assaults against IRS employees. This Office also investigates incidents of

harassment by individuals who attempt to undermine IRS employees as they carry out their duties. During this six-month period, the Office of Investigations completed 391 threat, assault or harassment investigations.

Individual Arrested After Making Bomb Threat to IRS

In November 1999, TIGTA special agents arrested an individual charging him with making a telephonic bomb threat to the IRS. The threat was made to an unpublished IRS office telephone number located inside a federal building. TIGTA initially focused on the individual after he failed to appear for his scheduled appointment with the IRS just prior to the threat being received. Further investigative leads identified the location of the pay telephone used to make the threatening call. Interviews of persons using the pay telephone before and after the call identified the same suspect. Further, the IRS employee who received the threat subsequently spoke to the suspect over the telephone and confirmed the voice to be that of the caller of the threat. The individual pled guilty to one count of corrupt or forcible interference in February 2000.

Foreign Nationals Pled Guilty to Kidnapping IRS Employee

Through the effort of a multi-agency task force consisting of investigators and special agents from TIGTA, the Federal Bureau of Investigation, and the U.S. Immigration and Naturalization Service, three individuals were identified in the kidnapping of an IRS employee. The three individuals had apparently kidnapped the employee under the mistaken belief that the employee was part of an international criminal organization. After kidnapping the IRS employee, the individuals demanded a \$100,000 ransom from the employee's immediate supervisor, who they also mistakenly believed was part of the same criminal organization. After the IRS

employee freed himself, he was able to provide a limited description of his captors.

After an intensive investigation, the three individuals were arrested. In January 2000, they pled guilty to a six-count federal indictment charging them with hostage-taking, conspiracy, use of a firearm in the commission of a crime and possession of false identification documents. Two other foreign nationals, who were subsequently identified as also having been involved in the kidnapping, were indicted for misprision of a felony. These two individuals subsequently pled guilty.

Individual Pled Guilty to Corrupt Interference With Administration of Internal Revenue Laws and Bankruptcy Fraud

In January 2000, an individual pled guilty to interfering with internal revenue laws and bankruptcy fraud for corrupt purposes. The individual sent threatening correspondence and legal pleadings from fictitious lawsuits to IRS employees in an effort to prevent the collection of taxes. The individual also falsely declared income on a bankruptcy petition. The individual was sentenced in March 2000, to three years probation and a \$100 special assessment.

Individual Makes Bomb Threats to Federal Agencies

In November 1999, TIGTA special agents were notified that a written bomb threat was found in an IRS office. Local police conducted a search of the building but found no bombs.

TIGTA's investigation of the threatening note revealed that the Federal Bureau of Investigation and the U.S. Immigration and Naturalization Service Offices had received similar notes. Several days later, the individual surrendered to the U.S. Marshal Service, admitting that he submitted the threatening notes to the government agencies. He gave no details of why he made the threats. The individual was charged with threatening to use weapons of mass destruction and remains incarcerated.

Individual Arrested for Unlawful Entry Into an IRS Office

During the course of an investigation involving an IRS employee, information was reported to TIGTA that this same employee had been assaulted and removed forcibly from an IRS work site by a male companion. The alleged incident took place in a building with video surveillance cameras. TIGTA special agents secured the videotapes and, through the use of video/photographic enhancement techniques, isolated the incident on the tapes, and made a positive identification of the suspect. Subsequently, it was learned that this same individual had other unrelated assault charges pending against him. The Assistant U.S. Attorney's Office accepted the case for prosecution and issued a warrant for the individual's arrest.

In January 2000, the individual was allowed to plead guilty to an unrelated assault charge in exchange for the unlawful entry charge being dropped. The individual was sentenced to 120 days incarceration.

Semiannual Report to the Congress

Appendix I
Statistical Reports for the Office of Audit

Audit Reports With Questioned Costs

One audit report with questioned costs was issued during this semiannual reporting period.

The term “questioned cost” means 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 (“unsupported cost”); or (3) a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable. The term “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Reports With Questioned Costs (10/1/99-3/31/00)	Number of Reports¹	Questioned Costs² (In Thousands)	Unsupported Costs (In Thousands)
Report Category			
1. For which no management decision had been made by the beginning of the reporting period.	Not available	Not available	Not available
2. Which were issued during the reporting period.	1	\$5,508	0
3. Subtotals (Item 1 plus Item 2)	1	\$5,508	0
4. For which a management decision was made during the reporting period.	0	0	0
- Dollar value of disallowed costs	0	0	0
- 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)	1	\$5,508	0
6. For which no management decision was made within six months of report issuance.	0	0	0

¹ See Appendix IV for identification of audit reports involved.

² “Questioned Costs” include “Unsupported Costs.”

Appendix I
Statistical Reports for the Office of Audit

Audit Reports With Recommendations That Funds Be Put To Better Use

Seven reports with recommendations that funds be put to better use were issued during this semiannual reporting period.

The term “recommendation that funds be put to better use” means 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 or grant agreements; or (5) any other savings which are specifically identified. The term “management decision” means the evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions concluded to be necessary.

Reports With Recommendations That Funds Be Put to Better Use (10/1/99-3/31/00)	Number of Reports¹	Amount (In Thousands)
Report Category		
1. For which no management decision had been made by the beginning of the reporting period.	Not available	Not available
2. Which were issued during the reporting period.	7	\$71,655
3. Subtotals (Item 1 plus Item 2)	7	\$71,655
4. For which a management decision was made during the reporting period. ²	6	\$68,355
▪ Dollar value of recommendations that were agreed to by management	6	\$23,355
- Based on proposed management action	6	\$23,355
- Based on proposed legislative action	0	0
▪ Dollar value of recommendations that were not agreed to by management	1	\$ 45,000
5. For which no management decision had been made by the end of the reporting period. (Item 3 minus Item 4)	1	\$3,300
6. For which no management decision was made within six months of issuance.	0	0

¹ See Appendix IV for identification of audit reports involved.

² One report is shown in two categories. Management agreed with one recommendation (\$21 million) and disagreed with two recommendations (\$45 million).

Audit Reports With Additional Quantifiable Impact on Tax Administration

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

Definitions of these additional measures are:

1. **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 to overpayments of tax.
2. **Reduction of Burden on Taxpayers** The decreased 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 by individuals or businesses.
3. **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).
4. **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).
5. **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.
6. **Reliability of Management Information**: Ensuring the accuracy, validity, relevance, and integrity of data (including the sources, applications and processing of data) 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.

Appendix I
Statistical Reports for the Office of Audit

Audit Reports With Additional Quantifiable Impact on Tax Administration

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 multiple issues pertaining to a single outcome and issues that impact more than one outcome measure category.

Reports With Additional Quantifiable Impact on Tax Administration (10/1/99-3/31/00)	Number of Reports in Category¹	Number of Taxpayer Accounts	Number of Hours	Dollar Value (In Thousands)	Other³
Outcome Measure Category					
1. Taxpayer Rights and Entitlements at Risk	5	1,710,664		\$5,450	1,854 ⁴
2. Reduction of Burden on Taxpayers	7	6,106,982			5
3. Increased Revenue or Revenue Protected	6			\$997,856 ²	
4. Taxpayer Privacy and Security	0				
5. Protection of Resources	0				
6. Reliability of Management Information	7	4,787		\$61,936	6

¹ See Appendix IV for identification of audit reports involved.

² For four reports (2000-30-059, 2000-30-062, 2000-40-045, 2000-40-029), IRS management did not concur with TIGTA's quantification of revenue projections totaling \$947.3 million.

³ 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.

⁴ Freedom of Information Act and Privacy Act requests improperly withheld or not timely processed.

⁵ Other measures of burden reduction consists of: 33,500 tax returns (number of individual taxpayers not determined); 129 Freedom of Information Act and Privacy Act requests in which additional information could have been furnished to the taxpayers; reduction of 225,000 calendar days to resolve disagreements; and, 11.4 million additional telephone calls that could have been answered.

⁶ Other reliability of management information measures consists of: three potential Fair Debt Collection Practices Act violations that were not identified; 664 Freedom of Information Act request files that were not documented adequately; and, 7,800 tax returns were not controlled properly.

Appendix II
Statistical Reports for the Office of Investigations

Investigative Results
October 1, 1999 – March 31, 2000

Investigations Opened and Closed

Total Investigations Opened	1,948
Total Investigations Closed	2,167

Financial Accomplishments

Embezzlement/Theft Funds Recovered	\$208,671
Court Ordered Fines, Penalties and Restitution	\$8,597,256
Out-of-Court Settlements	\$0

Semiannual Report to the Congress

Appendix II
Statistical Reports for the Office of Investigations

Status of Closed Criminal Investigations

	Employee	Non-Employee	TOTAL¹
Referred – Accepted for Prosecution	18	105	123
Referred – Declined for Prosecution	222	232	454
No Referral ²	718	644	1,362
Referred - Pending Prosecution Decision	25	102	127

Criminal Dispositions³

	Employee	Non-Employee	TOTAL¹
Guilty	17	62	79
Nolo-Contendere	1	2	3
Pre-trial Diversion	3	13	16
Not Guilty	0	0	0
Dismissed	2	6	8

¹ The above statistics include both federal and state dispositions.

² Includes investigations in which the allegation was disproved and/or insufficient evidence was obtained.

³ Due to the time involved in criminal adjudication, there is most often no correlation between the data reflected as "Referred-Accepted for Prosecution" in the Status of Closed Criminal Investigations chart and the data in the Criminal Dispositions chart.

Appendix II
Statistical Reports for the Office of Investigations

Administrative Status and Dispositions on Closed TIGTA Investigations¹

Removed, Terminated or Other	86
Suspended/Reduction in Grade	39
Oral or Written Reprimand/Admonishment	108
Closed – No Action Taken	157
Clearance Letter Issued	66
TOTAL DISPOSITIONS	456
Employee Resigned Prior to Adjudication	53

¹ Investigations which were referred and/or investigations on which action was taken by the IRS during this reporting period. Additionally, TIGTA referred 688 investigations during this 6-month period that remain pending administrative adjudication by the IRS.

Semiannual Report to the Congress

Appendix II Statistical Reports for the Office of Investigations

The following tables summarize the number of complaints received by TIGTA and various components within the IRS and the status and dispositions of the complaints.

Complaints/Allegations Received by TIGTA

Number of Complaints/Allegations Received by TIGTA	4,211
Complaints Against IRS Employees	2,086
Complaints Against Non-Employees	2,125

Status of Complaints/Allegations Received by TIGTA

Status of Complaints	
Warranted Further Investigation	1,680
In Process Within TIGTA	475
Referred to the IRS for Action	719
Referred to the IRS for Information Only	539
Referred to a Non-IRS Entity ¹	28
Closed With No Referral	770
TOTAL COMPLAINTS	4,211

¹ A non-IRS entity includes other law enforcement entities or federal agencies.

Appendix II
Statistical Reports for the Office of Investigations

Complaints/Allegations Received by IRS

	Number of Complaints ¹
Customer Feedback System (CFS) ²	1,351
Taxpayer Advocate Management Information System (TAMIS) ³	122,194
EEO Informal Complaints	577
EEO Formal Complaints ⁴	351
Other Employee Misconduct	216

¹ Number of complaints is not totaled because of significant differences in the nature of issues raised in each complaint system and the potential for duplication.

² This system contains data on allegations of employee misconduct as mandated by the Taxpayer Bill of Rights 2. The CFS does not contain data on allegations meeting Section 1203 criteria that have been referred to TIGTA for adjudication.

³ Formerly the Problem Resolution Program. TAMIS does not distinguish between a complaint (against a system, process, policy or employee), a problem (with a tax account) or an inquiry. Such classification is considered interpretive of the state of mind of the individual presenting the issue and is therefore considered impractical.

⁴ Formal complaints are unresolved pre-complaints (i.e., complaints that are not settled, withdrawn or otherwise dropped) that are filed by complainants with one of the four Department of Treasury Regional Complaint Centers.

Audit Reports With 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.

(F = Finding Number, R = Recommendation Number, P = Plan Number)

Reference Number	Issued	Report Title and Recommendation Summary
041403	January 1994	<i>Review of the Nonresident Alien Information Documents</i> <u>F-1, R-2, P-1.</u> Management should ensure that obvious noncompliance with applicable tax laws and regulations be identified during processing.
061610	January 1996	<i>IRS' Efforts in Monitoring Trust Fund Recovery Penalty Assessments Need Improvement</i> <u>F-2, R-3, P-1.</u> IRS should automate the processing of adjustments resulting from payments or credits on related Trust Fund Recovery accounts, as part of the IRS' modernization efforts.
060402	January 1996	<i>Review of the Early Intervention Contact Processing</i> <u>F-2, R-1, P-2.</u> Early Intervention should consider alternate methods to obtain the most current taxpayer locator information.
064102	May 1996	<i>Review of the Preparer Program</i> <u>F-1, R-1, P-1.</u> Associate the preparer Taxpayer Identification Number with each individual return in the audit stream.
064008	June 1996	<i>The Financial Accounting and Reporting of Collection's Seized Assets Could Be Improved</i> <u>F-2, R-1, P-4.</u> Management should incorporate a systemic interface between the Automated Work Control System seizure module and the general ledger as part of the Revenue Accounting Control System replacement.
065002	July 1996	<i>Review of the Validity of Assessments</i> <u>F-1, R-3, P-1.</u> The Service should continue pursuing the capability to access Social Security Administration data via computer to enable quick, economical processing of Combined Annual Wage Reporting and Social Security Administration penalty cases.

Semiannual Report to the Congress

Appendix III
Statistical Reports—Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
065503	August 1996	<p><i>Review of the Employment Tax Nonfiler Program</i></p> <p><u>F-2, R-1, P-1.</u> When Form W-3 information is received from the Social Security Administration, match the Employer Identification Number and name control to those on the Business Masterfile.</p> <p><u>F-2, R-3, P-1.</u> Establish a Form W-2/Business Masterfile cross-check of Employer Identification Numbers that appear on Forms W-2 attached to electronically filed Forms 1040. Establish employment tax filing requirements for those Employer Identification Numbers that match an existing Business Masterfile account if the account does not have a filing requirement and does not contain a subsidiary indicator.</p>
066401	September 1996	<p><i>Follow-up Review of Information Security Over Small Scale Computer Systems</i></p> <p><u>F-1, R-1, P-24.</u> Require Regional Commissioners to conduct another self-assessment and certification of systems, to be followed by a validation.</p>
071404	February 1997	<p><i>Productivity of the Underreporter Program</i></p> <p><u>F-1, R-1, P-1.</u> A Gross Assessment Method should be used to calculate the Underreporter Program productivity.</p> <p><u>F-2, R-1, P-1.</u> A Gross Assessment Method should be used to calculate yield to cost ratios, determine productivity rankings, and select inventory for the Underreporter Program.</p> <p><u>F-3, R-1, P-1.</u> Actual site costs should be used when calculating productivity to increase the accuracy of productivity rankings and obtain a more precise measurement of efficiency.</p>
071304	March 1997	<p><i>Quality of Information Document Processing</i></p> <p><u>F-1, R-1, P-3, P-4.</u> Review IRS reports (Martinsburg Computing Center Report 405-02-12) to determine whether large variances exist between processing years in the volume and dollars of information documents.</p>
072208	April 1997	<p><i>Review of Service Efforts to Ensure Compliance of Taxpayers Receiving Foreign-Sourced Income</i></p> <p><u>F-2, R-1, P-1.</u> The Service should commit to the development of a system to process foreign information records received magnetically in the standard Organization for Economic Cooperation and Development format.</p> <p><u>F-2, R-4, P-1, P-3.</u> The Assistant Commissioner (International) should coordinate efforts with the Executive Officer for Customer Service and the National Director, Submission Processing, to ensure that late filed and prior year Foreign Information Returns Program documents are processed and available for inclusion in the Information Returns Program initiative, when it becomes operational.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
072303	April 1997	<p><i>A Review of Cyberfile</i></p> <p><u>F-1, R-2, P-1.</u> To reduce the chance of a recurrence of the types of problems that impacted Cyberfile’s development, Internal Audit recommended that management ensure that IRS guidelines are strengthened to specify project management procedures regarding tracking funds paid to vendors for services and vendor purchases/leases of IRS-funded equipment.</p>
073804	July 1997	<p><i>Review of the Inventory Delivery System Development</i></p> <p><u>F-2, R-4, P-1.</u> The Service should review and update the sampling plan to ensure it includes criteria for the evaluation of each sampled account within a sub-group to ensure consistency.</p> <p><u>F-2, R-6, P-1.</u> The results of the Self-Monitoring Program should be included as one of the factors for determining whether and when Inventory Delivery System features should be scheduled for national implementation.</p>
075404	September 1997	<p><i>Review of the Office of Disclosure</i></p> <p><u>F-3, R-2, P-2.</u> The Office of Disclosure should ensure that all requests for tax checks, both internally and externally, are properly tracked and controlled.</p> <p><u>F-3, R-3, P-2.</u> The Office of Disclosure should take appropriate measures to ensure sensitive data maintained on the inventory control system is properly protected. The system should meet C-2 requirements and provide an adequate audit trail to monitor user activity on the database.</p>
080303	November 1997	<p><i>Implementation of the Taxpayer Bill of Rights 2</i></p> <p><u>F-1, R-1, P-1.</u> Alternative methods of obtaining feedback from taxpayers about how they were treated should be considered, rather than relying solely on employees and managers for input.</p> <p><u>F-1, R-2, P-1, P-2.</u> Form 1040 should be redesigned to capture more specific information that can be used for analysis to identify trends for corrective action.</p>
081004	December 1997	<p><i>Taxpayer Walk-In Program for the 1997 Filing Season</i></p> <p><u>F-2, R-1, P-2.</u> Develop a customer-based strategy and a related program with applicable goals and measures to evaluate performance of the Walk-In Program.</p>
082204	January 1998	<p><i>Review of the Initial System Development Activities on the Integrated Submission and Remittance Processing System</i></p> <p><u>F-3, R-5, P-1.</u> Assess the risks associated with not having the systems developer under contract during the Year 2000.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
083008	April 1998	<p><i>Review of the Service's Electronic Federal Tax Payment System Implementation and Enhancements</i></p> <p><u>F-4, R-2, P-1.</u> IRS management should provide a process for electronic submission of authorization data to eliminate manual transcription.</p> <p><u>F-4, R-5, P-1.</u> For the long-term, management should use the authority given by the Taxpayer Bill of Rights 2 for alternative forms of authorizations to re-engineer the enrollment and authorization processes in the Electronic Federal Tax Payment System and substantially reduce, and perhaps eliminate, paper enrollments and authorizations.</p>
083322	May 1998	<p><i>Math Error Processing for Revenue Protection Issues</i></p> <p><u>F-3, R-1, P-2.</u> Send notices to taxpayers who used invalid Taxpayer Identification Numbers on their previous returns for themselves and their spouses.</p> <p><u>F-5, R-1, P-1.</u> Develop programming to automate the research of prior year return data by Error Correction when dependent and Earned Income Tax Credit Taxpayer Identification Numbers are invalid or missing.</p> <p><u>F-10, R-1, P-1.</u> Include an informal checklist in the Revenue Protection Strategy math error notices listing the information taxpayers should provide when writing or calling the IRS.</p>
084407	July 1998	<p><i>Use of Seizure Authority in the Collection Field Function</i></p> <p><u>F-1, R-2, P-3.</u> Communicate new and enhanced procedures during upcoming Continuing Professional Education sessions and in appropriate training class modules for revenue officers, group managers, and the Special Procedures Function.</p> <p><u>F-7, R-1, P-2.</u> Develop a comprehensive certification/review checksheet that can be used by appropriate levels of management to attest that all legal and procedural requirements have been met.</p>
084803	July 1998	<p><i>Review of the Integration Support Contract</i></p> <p><u>F-1, R-1, P-2.</u> Procurement and Information Systems should ensure that in-depth analysis of contractor labor hours and costs is performed prior to payment of the invoices.</p> <p><u>F-3, R-1, P-1.</u> Information Systems should monitor the Government Furnished Equipment/Government Furnished Information by establishing a database to capture all the equipment and information provided to the vendor under the life of the contract.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
085812	September 1998	<p><i>Readiness for Service Center Mainframe Consolidation</i></p> <p><u>F-2, R-1, P-1.</u> Unless assurances can be made that experienced IRS personnel can be relocated when and where needed, IRS management should develop a contingency plan to provide the needed staffing for critical positions at all affected sites.</p> <p><u>F-5, R-1, P-1.</u> Management should ensure security and disaster recovery risks are mitigated through a proactive approach of determining the final disaster recovery strategy and funding security certification and accreditation activities.</p> <p><u>F-10, R-1, P-1.</u> The Project Management Office should ensure vendor site surveys are completed and issued within the 15-day requirement per the Service Center Support System Contract, and reviewed by Information Systems personnel for accuracy and completeness.</p> <p><u>F-11, R-1, P-4, P-5.</u> The Project Management Office should provide additional resources to adequately define and validate the delivery order requirements and to coordinate with Procurement until all requirements are definitized for price negotiations.</p>
091903	December 1998	<p><i>Executive Compilation and Interpretation of the 1998 Filing Season</i></p> <p><u>F-2, R-1, P-1.</u> To simplify return filing, the IRS should improve the process used to evaluate the burden placed upon taxpayers by the various tax laws and publications.</p>
091804	January 1999	<p><i>IRS Employee Outside Employment Requests</i></p> <p><u>F-1, R-1, P-2.</u> Update and clarify national guidelines on the processing, approval, and annual review of applications for outside employment. Clearly define the role and authority of both management and Labor Relations.</p>
092705	March 1999	<p><i>Review of the Internal Revenue Service's Year 2000 Contingency Planning Efforts</i></p> <p><u>F-5, R-1, P-2.</u> Assign responsibility for the IRS' overall contingency management strategy, including Year 2000 and the coordination of resources to one area.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
093602	April 1999	<p><i>The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits</i></p> <p><u>F-1, R-3, P-2.</u> Require a separation of duties among auditors who identify Midwest Automated Compliance System returns with potential tax changes, auditors who select Midwest Automated Compliance System returns to be audited, and auditors who conduct the examinations.</p> <p><u>F-1, R-4, P-2.</u> Ensure that all Midwest Automated Compliance System data discs forwarded from the Midwest Automated Compliance System Development Center to district offices are properly accounted for and secured.</p> <p><u>F-2, R-3, P-2.</u> Ensure examiners, including managers, are better informed and educated about IRS procedures that are designed to ensure taxpayers are treated properly during audits.</p> <p><u>F-2, R-4, P-1.</u> Clarify the Internal Revenue Manual to provide specific guidance for conducting correspondence audits in district office settings.</p>
094206	May 1999	<p><i>The Examination Returns Control and Integrated Data Retrieval Systems Can Be Improved to Protect Taxpayer Rights During the Audit Process</i></p> <p><u>F-3, R-1, P-1, P-2.</u> The Assistant Commissioner (Examination), with input from the Chief Information Officer, should ensure the following issues are addressed to enable the Examination Returns Control System audit trail to be used to its fullest extent.</p> <p><u>F-4, R-1, P-4.</u> The Assistant Commissioner (Examination), with input from the Chief Information Officer, should develop and submit a Request for Information Services to eliminate acting managers from having the ability to approve any changes to their inventory.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
093009	June 1999	<p><i>Review of the Electronic Fraud Detection System</i></p> <p><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.</p> <p><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.</p> <p><u>F-1, R-4, P-2.</u> Password change information should be part of the EFDS application audit trail.</p> <p><u>F-2, R-1, P-2.</u> Program the EFDS application trail to record all accesses to taxpayer data.</p> <p><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.</p> <p><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.</p> <p><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.</p> <p><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 the IRS as a Federal Managers' Financial Integrity Act material weakness.</p> <p><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.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
199920063	August 1999	<p><i>The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved</i></p> <p><u>F-1, R-1, P-1.</u> The Chief Information Officer should ensure that the ten files identified by TIGTA with taxpayer information are immediately secured to prevent system users from casually reviewing the taxpayer data contained in the files without such access being reported to management.</p> <p><u>F-2, R-1, P-1.</u> The Chief Information Officer should standardize control settings for files common to the Unisys 2200 production mainframes.</p> <p><u>F-3, R-1, P-1.</u> The Chief Information Officer should 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> <p><u>F-3, R-2, P-1, P-2, P-3, P-4, P-5, P-6.</u> The Chief Information Officer should 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.</p> <p><u>F-4, R-1, P-1.</u> The Chief Information Officer should 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.</p> <p><u>F-6, R-1, P-1.</u> The Chief Information Officer should ensure that all required C-2 documentation is prepared for the Unisys 4800.</p> <p><u>F-6, R-2, P-1.</u> The Chief Information Officer should develop and maintain a security policy for the Unisys 4800.</p> <p><u>F-6, R-3, P-1.</u> The Chief Information Officer should conduct and document an assessment of the risk factors for the Unisys 4800.</p>
199910074	September 1999	<p><i>Internal Revenue Service Should Improve Its Federal Tax Lien Procedures</i></p> <p><u>F-1, R-2, P-1.</u> Change the IRS systems to automatically send the IRS Restructuring and Reform Act of 1998 lien notice to all responsible spouses and all appropriate business partners.</p> <p><u>F-1, R-3, P-1.</u> Revise procedures to ensure that the IRS Restructuring and Reform Act of 1998 lien notice is sent to a taxpayer's representative.</p> <p><u>F-1, R-5, P-1.</u> Revise procedures to ensure that envelopes for requests for hearings (Forms 12153) are retained if they are received after the 30 calendar-day period for requesting a hearing has lapsed.</p> <p><u>F-1, R-6, P-1.</u> Revise procedures to ensure that the Notice of Federal Tax Lien (Form 668Y) is printed shortly after being input on the IRS' lien system and mailed the same day.</p> <p><u>F-1, R-7, P-1.</u> Revise procedures to ensure that case files are researched for a different address when an IRS Restructuring and Reform Act of 1998 lien notice is returned to the IRS because it could not be delivered to the taxpayer.</p> <p><u>F-1, R-8, P-1.</u> Revise procedures to ensure that existing management information systems measure compliance with the new IRS Restructuring and Reform Act of 1998 federal tax lien notification requirements.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
199910072	September 1999	<p><i>The Internal Revenue Service Needs to Improve Compliance With Legal and Internal Guidelines When Taking Taxpayers' Property for Unpaid Taxes</i></p> <p><u>F-2, R-1, P-1.</u> Complete the seizure and post-seizure checklists that are being developed and ensure that pertinent 26 U.S.C. § 6331 through § 6344 and Internal Revenue Manual requirements are included.</p> <p><u>F-2, R-2, P-1.</u> Use memoranda, training sessions, group meetings, etc., to emphasize that IRS employees use the appropriate checklists for all seizures conducted.</p> <p><u>F-2, R-3, P-1, P-2, P-3, P-4.</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.</p> <p><u>F-2, R-4, P-1, P-2, P-3.</u> Determine from a legal standpoint what steps should be taken regarding any money received as a direct result of conducting seizures without following the provisions in 26 U.S.C. § 6331 through § 6344.</p>
199910071	September 1999	<p><i>The Internal Revenue Service Has Not Fully Implemented Procedures to Notify Taxpayers Before Taking Their Funds for Payment of Tax</i></p> <p><u>F-1, R-2, P-1.</u> Develop safeguards, such as a quality review system, to prevent notices from being mailed to taxpayers unless issuing a levy is the next planned action on a case.</p>
199920068	September 1999	<p><i>The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain</i></p> <p><u>F-1, R-1, P-1, P-3.</u> Ensure all critical operational and technical aspects of consolidation at computing centers and service centers (including Kansas City Service Center) are: 1) standardized; 2) thoroughly tested; 3) documented appropriately; and, 4) included in employee training.</p> <p><u>F-2, R-1, P-1.</u> IRS management should ensure that all delivery orders are definitized by June 1999. The Service Center Mainframe Consolidation Project Office should validate the inventory of goods and services ordered (including validating accuracy, quantity, and delivery schedule and sites).</p> <p><u>F-2, R-2, P-1.</u> IRS management should ensure that all delivery orders are definitized by June 1999. The Procurement Division should validate the goods and services ordered for pricing accuracy.</p> <p><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.</p> <p><u>F-3, R-1, P-1, P-2, P-3.</u> The Chief Information Officer should ensure that all consolidation costs, whether incurred at the Project Office or field levels, are accurately budgeted, captured, and reported.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
093103	September 1999	<p><i>Limitations of the Automated Non-Masterfile and the Impact on the Internal Revenue Service</i></p> <p><u>F-3, R-2, P-2.</u> Using the existing computer listings of Non-Masterfile Accounts Receivable and Transaction Code 130s generated the 39th week of the year, conduct an annual match to identify accounts without a “freeze.”</p>
199940065	September 1999	<p><i>Improvements Can Be Made in Providing Assistance to Taxpayers</i></p> <p><u>F-1, R-1, P-1.</u> Require each call site to identify assistors who have not been sufficiently trained on the Taxpayer Relief Act of 1997, and require employees, without proof of training, to complete the 1998 Continuing Professional Education course, or some other type of comparable training.</p> <p><u>F-1, R-2, P-1.</u> Coordinate with Corporate Education to mandate all telephone assistor training be captured on the Administrative Corporate Education System and establish a monitoring system to ensure all assistors have been properly trained.</p>
094505	September 1999	<p><i>The Internal Revenue Service’s Individual Taxpayer Identification Number Program Was Not Implemented in Accordance With Internal Revenue Code Regulations</i></p> <p><u>F-1, R-2, P-1.</u> The IRS needs to include a Privacy Act statement on the Form W-7 application form.</p>
199940057	September 1999	<p><i>Controls Should Be Strengthened Over Business Taxpayer Accounts With Frozen Million Dollar Refunds</i></p> <p><u>F-1, R-1, P-1.</u> Modify the “Million Dollar Refund Freeze” indicator program in the IRS’ computer system to provide the option to release business taxpayer account credit balances plus computed interest that total less than \$1 million (i.e., when the refund due drops below \$1 million at any point in time).</p> <p><u>F-4, R-1, P-1.</u> Enhance current Internal Revenue Manual procedures to identify and expedite the resolution of a “Million Dollar Refund Freeze.”</p>

Access to Information

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

Audit Reports Issued in Prior Reporting Period With No Management Response

The Inspector General Act of 1978 requires 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. There are no prior reports where management's response was not received.

Revised Management Decisions

The Inspector General Act of 1978 requires Inspectors General to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. There were no such decisions during this six-month reporting period.

Disputed Audit Recommendations

The Inspector General Act of 1978 requires Inspectors General to provide information on significant management decisions in response to audit recommendations, with which the Inspectors General disagree. As of March 31, 2000, there were no significant recommendations that were disputed.

Review of Legislation and Regulations

The Inspector General Act of 1978 requires Inspectors General 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 162 proposed legislation and regulations during the six-month reporting period.

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October 1, 1999 – March 31, 2000

Report Number	Issued	Report Title
2000-1C-001	October 1999	Audit of Fiscal Years 1997 and 1998 Incurred Costs for Subcontractor Under TIRNO-95-D-00067
2000-1C-002	October 1999	Audit of Fiscal Year 1997 Incurred Costs for TIR-92-0014
2000-1C-003	October 1999	Audit of Fiscal Years 1996 and 1997 Incurred Costs for TIRNO-94-D-00089
2000-20-004	October 1999	The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program <i>Taxpayer Burden:</i> 758,294 taxpayer accounts at risk 33,500 tax returns at risk 460,000 Form 941 filers whose inquiries may not be effectively resolved <i>Reliability of Information:</i> 23,000 Form 941 signatures not validated 17 taxpayer accounts filing multiple returns
2000-20-007	October 1999	The Internal Revenue Service's Oversight of the Year 2000 Conversion Can Be Strengthened
2000-40-010	October 1999	Management Advisory Report: Percentage of Rejected Electronically Filed Returns
2000-10-005	November 1999	The Internal Revenue Service May Not Achieve Its 100 Percent Analysis and Validation Objectives for Year 2000 Readiness
2000-20-008	November 1999	The Internal Revenue Service Can Improve Management Controls Over the Year 2000 End-to-End Systems Integration Test
2000-20-009	November 1999	The Internal Revenue Service Can Increase Storage Capacity on Several IBM Mainframe Systems Through Improved Maintenance
2000-40-006	November 1999	The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently
2000-40-011	November 1999	The Internal Revenue Service Improved Its Process for Screening Prospective Preparers and Transmitters of Electronic Returns for 1999 Electronic Filing
2000-1C-020	December 1999	Agreed Upon Procedures for TIRNO-99-D-00001
2000-10-012	December 1999	The Interim Revenue Accounting Control System Is Reliable

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Report Number	Issued	Report Title
2000-10-014	December 1999	The Internal Revenue Service Is Now Tracking Potential Fair Debt Collection Practices Act Violations, But May Not Always Be Properly Reporting Violations <i>Taxpayer Rights and Entitlements:</i> 2.5 million taxpayers at risk <i>Reliability of Information:</i> 3 potential violations not identified
2000-10-016	December 1999	The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied <i>Protection of Resources:</i> \$1.66 billion budgeted for key programs that had no performance goals or measures
2000-10-017	December 1999	Improvements Are Needed in Planning and Awarding Internal Revenue Service Contracts to 8(a) Businesses
2000-20-019	December 1999	Management Advisory Report: The Internal Revenue Service Took Actions to Correct Concerns Raised in Our Report on Computer Component Retirement Decisions for the Year 2000
2000-20-021	December 1999	The Internal Revenue Service Needs to Significantly Improve the Inventory Used to Monitor Its Year 2000 Conversion Efforts
2000-20-022	December 1999	Improved Project Management Is Needed to Ready Personal Computers for the Year 2000
2000-20-023	December 1999	Management Advisory Report: Various Risks Remain in the Year 2000 Conversion Effort for Personal Computer Systems
2000-20-024	December 1999	Management Advisory Report: The Internal Revenue Service Has Made Significant Progress in Converting Minicomputer Systems for the Year 2000, But Risks Remain
2000-20-025	December 1999	The Internal Revenue Service Can Take Further Action to Ensure a Successful Year 2000 Rollover Period
2000-30-015	December 1999	Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers <i>Taxpayer Burden:</i> 18 million business filers filed 47 million returns
2000-40-018	December 1999	The Internal Revenue Service Can Improve the Effectiveness of Questionable Refund Detection Team Activities <i>Revenue Protected:</i> \$3,100,000 <i>Taxpayer Rights and Entitlements:</i> 63 taxpayer accounts at risk
2000-10-013	January 2000	The Internal Revenue Service Has Enhanced Controls Over High Intensity Drug Trafficking Area Funds <i>Protection of Resources:</i> \$1.3 million of funds protected by an improved control environment
2000-10-027	January 2000	The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies
2000-1C-034	February 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)

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2000-1C-035	February 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)
2000-1C-040	February 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)
2000-1C-041	February 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)
2000-1C-042	February 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)
2000-1C-043	February 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)
2000-1C-048	February 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)
2000-10-026	February 2000	The Internal Revenue Service Needs to Improve Telephone Authentication Practices to Better Prevent Unauthorized Tax Account Disclosures
2000-10-028	February 2000	Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract <i>Questioned Costs:</i> \$5,508,000 ¹ <i>Funds Put to Better Use:</i> \$ 775,000 ¹
2000-10-033	February 2000	The Internal Revenue Service Can Further Reduce the Burden on Taxpayers Who Disagree With Proposed Assessments <i>Funds Put to Better Use:</i> \$ 800,000 <i>Taxpayer Burden:</i> 225,000 fewer calendar days to resolve cases
2000-20-030	February 2000	The Internal Revenue Service Needs to Strengthen the Controls Over the Year 2000 Conversion of Its Telecommunications Equipment
2000-20-039	February 2000	The Internal Revenue Service Can Improve Information Systems Physical Security
2000-40-032	February 2000	Walk-In Initiatives for the 1999 Filing Season Improved Customer Service to Taxpayers <i>Taxpayer Burden:</i> 6 million taxpayer contacts
2000-40-036	February 2000	Management Advisory Report: The Internal Revenue Service Should Improve Controls Over Photocopy User Fees at the Fresno Service Center
2000-40-037	February 2000	Management Advisory Report: The Internal Revenue Service Should Improve Controls Over Photocopy User Fees at the Memphis Service Center
2000-40-038	February 2000	Management Advisory Report: The Internal Revenue Service Should Improve Controls Over Photocopy User Fees at the Kansas City Service Center
2000-1C-046	March 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)
2000-1C-049	March 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)

¹ Monetary benefits projected over a five-year period.

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2000-1C-050	March 2000	Agreed Upon Procedures for (TIRNO-99-R-00009)
2000-1C-056	March 2000	Agreed Upon Procedures for (TIRNO-99-D-00001)
2000-10-044	March 2000	Improvements Are Needed in Planning for the Acquisition of Goods and Services and in Managing Contract Closeouts <i>Funds Put to Better Use:</i> \$ 669,000 <i>Reliability of Information:</i> \$1,335,834 in funds wasted or placed at risk of waste
2000-10-047	March 2000	The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program <i>Reliability of Information:</i> 95,223 returns processed
2000-10-058	March 2000	The Internal Revenue Service Needs to Improve Its Compliance with Procedures When Processing Requests for Information Under the Freedom of Information Act <i>Taxpayer Rights and Entitlements:</i> 1,854 Freedom of Information Act (FOIA) and Privacy Act (PA) requests not properly handled <i>Taxpayer Burden:</i> 129 FOIA and PA requests not properly handled <i>Reliability of Information:</i> 664 FOIA and PA requests not adequately documented
2000-10-061	March 2000	Letter Report: The Internal Revenue Service Should Improve Its Process to Ensure the Fiscal Year 1999 Performance Report Will Contain the Information Intended by the Congress
2000-20-031	March 2000	The Internal Revenue Service Needs to Complete Disaster Recovery and Business Resumption Plans <i>Protection of Resources:</i> 30 IRS locations and 106 computer data files at risk
2000-20-052	March 2000	The Internal Revenue Service Needs to Assure That All Mission Critical Systems Are Subject to a Full Year 2000 End-to-End Systems Integration Test
2000-30-057	March 2000	Opportunities Exist for Further Reducing Erroneous Fuel Tax Credits <i>Increased Revenue:</i> \$15,870,000 ¹

¹ Monetary benefits projected over a five-year period.

TIGTA Audit Report Listing

Report Number	Issued	Report Title
2000-30-059	March 2000	<p>The Internal Revenue Service Can Improve the Estate Tax Collection Process</p> <p><i>Funds Put to Better Use:</i> \$ 10,700</p> <p><i>Increased Revenue:</i> \$354,741,000</p> <p><i>Taxpayer Rights and Entitlements:</i> 10,601 taxpayer accounts at risk \$ 580,000 credited to taxpayer accounts as part of IRS corrective action</p> <p><i>Reliability of Information:</i> 4,770 taxpayer accounts at risk</p>
2000-30-062	March 2000	<p>Toll-Free Telephone Service Levels Declined in 1999 Despite Costly Efforts to Achieve World Class Performance</p> <p><i>Funds Put to Better Use:</i> \$ 66,000,000</p> <p><i>Increased Revenue:</i> \$314,000,000</p> <p><i>Taxpayer Burden:</i> 11,400,000 additional phone calls that can be answered</p>
2000-40-029	March 2000	<p>The Internal Revenue Service Could Enhance the Process for Implementing New Tax Legislation</p> <p><i>Increased Revenue:</i> \$238,800,000</p> <p><i>Taxpayer Burden:</i> 2,267,591 taxpayer accounts at risk</p> <p><i>Taxpayer Rights and Entitlements:</i> 1,700,000 taxpayer accounts at risk</p>
2000-40-045	March 2000	<p>Taxpayers and the Internal Revenue Service Experienced Problems With Some New Tax Provisions</p> <p><i>Increased Revenue:</i> \$71,345,000</p> <p><i>Taxpayer Burden:</i> 1,180,867 taxpayer accounts at risk</p> <p><i>Taxpayer Rights and Entitlements:</i> \$ 4,870,000 in denied credits and deductions</p>
2000-40-053	March 2000	<p>The Integrated Submission and Remittance Processing System Development Project Has Made Significant Progress, But Operating Risks Remain</p> <p><i>Funds Put to Better Use:</i> \$ 100,000</p> <p><i>Taxpayer Burden:</i> 1,900,230 taxpayer accounts at risk</p> <p><i>Taxpayer Burden/Taxpayer Privacy and Security:</i> 100,000,000 taxpayer accounts at risk of processing problems and unauthorized access and misuse of tax return data</p> <p><i>Reliability of Information:</i> 7,800 taxpayer accounts at risk \$9,000,000 in underfunding of critical submission processing programs</p>
2000-40-054	March 2000	<p>The Internal Revenue Service's Planning Process Needs Improving to Fully Resolve All Issues Affecting Tax Return Processing Activities</p> <p><i>Funds Put to Better Use:</i> \$ 3,300,000</p> <p><i>Reliability of Information:</i> \$51,600,000 needed to fund 1,000 staff years not budgeted</p>

TIGTA Audit Report Listing

Report Number	Issued	Report Title
2000-40-055	March 2000	The Internal Revenue Service Needs to Improve Its Coordinated Oversight of the Substitute for Return Process <i>Taxpayer Rights and Entitlements/ Taxpayer Burden: 1,000,000 taxpayer accounts at risk</i>
2000-40-060	March 2000	The Process of Developing Tax Forms for Individual Taxpayers Should Be Further Improved

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

Section 1203 Standards

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

Acts or omissions are:

- (1) willful failure to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;
- (2) providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;
- (3) with respect to a taxpayer, taxpayer representative, or other employee of the IRS, the violation of –
 - any right under the Constitution of the United States, or
 - any civil right established under –
 - (i) Title VI or VII of the Civil Rights Act of 1964¹,
 - (ii) Title IX of the Education Amendments of 1972²,
 - (iii) The Age Discrimination in Employment Act of 1967³,
 - (iv) The Age Discrimination Act of 1975⁴,
 - (v) Section 501 or 504 of the Rehabilitation Act of 1973⁵, or
 - (vi) Title I of the Americans with Disabilities Act of 1990⁶;
- (4) falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;
- (5) assault or battery on a taxpayer, taxpayer representative, or other employee of the IRS, but only if there is a criminal conviction, or a final judgment by a court in a civil case, with respect to the assault or battery;
- (6) violations of the Internal Revenue Code, Department of Treasury regulation, or policies of the IRS (including the Internal Revenue Manual) for the purpose of retaliating against, or harassing a taxpayer, taxpayer representative, or other employee of the IRS;
- (7) willful misuse of the provisions of Section 6103 of the Internal Revenue Code for the purpose of concealing information from a Congressional inquiry;

¹ 42 U.S.C. § 2000e

² 20 U.S.C. §§ 1681-1688

³ 29 U.S.C. §§ 621-634

⁴ 42 U.S.C. §§ 6101-6107

⁵ 29 U.S.C. §§ 701 & 794

⁶ 42 U.S.C. §§ 12111 *et seq.*

Section 1203 Standards

- (8) willful failure 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;
- (9) willful understatement of federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect; and,
- (10) 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 an act or omission 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 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.

Statutory TIGTA Reporting Requirements

In FY 1999, TIGTA completed the statutory reviews required annually by RRA 98. Most of the results were included in TIGTA's September 1999 Semiannual Report to the Congress with the exception of two audit reports, highlighted in this report on pages 14 and 15. The table below reflects the status of the RRA 98 statutory reviews that have been initiated for FY 2000. Eight¹ statutory audit reports were issued in this reporting period that dealt with taxpayer protection and rights, and the adequacy and security of IRS technology.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Restrictions on the Use of Enforcement Statistics I.R.C. § 7803(d)(1)(A)(i)	An evaluation of the compliance of the IRS with restrictions under § 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	Audit fieldwork in process.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	An evaluation of the compliance of the IRS with restrictions under § 7521 of RRA 98 on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.	Follow-up audit planned on the initial corrective actions taken by the IRS in response to the prior report.
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	An evaluation of the compliance of the IRS with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	Audit fieldwork in process.
Levies I.R.C. § 7803 (d)(1)(A)(iv)	An evaluation of the compliance of the IRS with required procedures under I.R.C § 6330 regarding levies.	Audit fieldwork in process.
Seizures I.R.C. § 7803(d)(1)(A)(iv)	An evaluation of the compliance of the IRS with required procedures under Subchapter D of Chapter 64 for seizure of property for collection of taxes.	Audit fieldwork in process.

¹ This includes: two taxpayer protection and rights audits that began in FY 1999, but the reports were issued in FY 2000; two audit reports on the security of IRS technology; and, four audit reports on IRS information technology. All information technology program reviews are considered mandatory because of the RRA 98 requirement to report annually on the adequacy and security of IRS technology.

Statutory TIGTA Reporting Requirements

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the compliance of the IRS with restrictions under § 3707 of RRA 98 on designation of taxpayers.</p>	<p>Audit fieldwork in process.</p>
<p>Disclosure of Collection Activities with Respect to Joint Returns</p> <p>I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)</p>	<p>Review and certify whether or not the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Follow-up audit planned on the initial corrective actions taken by the IRS in response to the prior report.</p>
<p>Complaints and Allegations of Employee Misconduct and Terminations and Mitigation for Certain Proven Violations Committed by IRS Employees</p> <p>I.R.C. § 7803(d)(1)(E) I.R.C. § 7803(d)(2)(A)</p>	<p>List any terminations or mitigation under § 1203 of RRA 98, § 1102(a).</p>	<p>Audit planning has been initiated to evaluate IRS management’s actions to improve its complaint processing procedures and systems.</p>
<p>Administrative or Civil Actions with Respect to the Fair Debt Collection Practices Act of 1996</p> <p>I.R.C. § 7803(d)(1)(G)(i)(ii) I.R.C. § 6304 § 3466 of RRA 98</p>	<p>Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Audit planning has been initiated.</p>

Statutory TIGTA Reporting Requirements

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Denial of Requests for Information</p> <p>I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)</p>	<p>Include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p>Audit fieldwork in process.</p>
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>An evaluation of the adequacy and security of the technology of the IRS.</p>	<p>TIGTA’s annual assessment of the adequacy and security of IRS technology will be provided in the next Semiannual Report to the Congress. For highlights of recent information technology audits, see pages 13 and 14.</p>
<p>Extensions of the Statute of Limitations for Assessment of Tax</p> <p>I.R.C. § 7803(d)(1)(C) I.R.C. § 6501</p>	<p>Include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Audit fieldwork in process.</p>

Year 2000 Compliance Audits

Reference Number	Report Title and Recommendation Summary	Management Response
2000-10-005	<p><i>The Internal Revenue Service May Not Achieve Its 100 Percent Analysis and Validation Objectives for Year 2000 Readiness</i></p> <p><u>Objectives:</u> Determine whether the IRS timely implemented corrective actions to previous TIGTA audit recommendations related to Year 2000 (Y2K) compliance testing and to assess the effectiveness of the IRS' efforts to analyze and validate Y2K compliance of application code and tax processing commercial off-the-shelf products.</p> <p><u>Recommendations:</u> The Office of Audit recommended that IRS management ensure those organizations that have not certified their respective Information Technology inventories do so immediately. In addition, management should ensure timely responses are provided to the contractor's requests for information and responses. Further, in the event that the 100 percent analysis and validation will not be completed, management should prioritize application code and commercial off-the-shelf products, to ensure critical applications are Y2K compliant.</p>	<p>IRS management agreed with the recommendations concerning the need for improvements in the corporate Information Technology inventory system and responsiveness to the contractor.</p>
2000-20-007	<p><i>The Internal Revenue Service's Oversight of the Year 2000 Conversion Can Be Strengthened</i></p> <p><u>Objective:</u> Assess the IRS' Century Date Change (CDC) Project Office's effectiveness in providing management oversight to ensure that the goals and objectives of the Y2K conversion efforts will be met.</p> <p><u>Recommendations:</u> To strengthen management oversight of the Y2K conversion effort, the CDC Project Office should: ensure the accuracy and reliability of information used to manage the conversion effort; identify interdependencies among events, activities, and schedule slippage to manage delays within the overall Y2K project better; and, continue to use contractor support to evaluate the impact of requests to delay conversion of certain components. In addition, the CDC Project Office should prioritize non-compliant systems and focus resources on the highest priority projects requiring contingency planning.</p>	<p>IRS management generally agreed with the facts cited in the report and they are taking appropriate action.</p>

Year 2000 Compliance Audits

Reference Number	Report Title and Recommendation Summary	Management Response
2000-20-008	<p><i>The Internal Revenue Service Can Improve Management Controls Over the Year 2000 End-to-End Systems Integration Test</i></p> <p><u>Objective:</u> To assess the IRS' planning efforts for the End-to-End (E2E) Testing System Integration Test II and Test III, and the execution of Test II.</p> <p><u>Recommendations:</u> Oversight control for the Year 2000 E2E Systems Integration Test could be improved through quality checks of contractors' deliverables to assure they meet their intended objectives. Additionally, configuration management controls over the E2E Systems Integration Test platform should be improved to facilitate a smooth transition from the testing environment to production in December 1999.</p>	<p>IRS management agreed with the findings and recommendations and initiated corrective actions.</p>
2000-20-021	<p><i>The Internal Revenue Service Needs to Significantly Improve the Inventory Used to Monitor Its Year 2000 Conversion Efforts</i></p> <p><u>Objectives:</u> The objectives of this review were to assess whether the IRS' telecommunications equipment has been inventoried completely and accurately, preliminary risk assessment of this equipment has been appropriately factored in the IRS' overall Y2K conversion plans, and the Y2K initiatives for inventorying tax processing commercial off-the-shelf and network operating systems products are progressing as planned and are being completed effectively and timely.</p> <p><u>Recommendations:</u> To minimize the Y2K-related risks associated with inaccurate or incomplete inventories, the Office of Audit recommended that IRS management develop and implement specific inventory processes and procedures to be followed by system managers and administrators at the field offices to ensure a comprehensive inventory. Also, IRS management should conduct independent assessments of the inventory at critical IRS installations to ensure inventory accuracy and completeness for Y2K efforts. Over the longer term, the Office of Audit recommended that the IRS evaluate and implement automated inventory and network management tools.</p>	<p>IRS management agreed with the recommendations presented in this report and they are taking corrective action.</p>

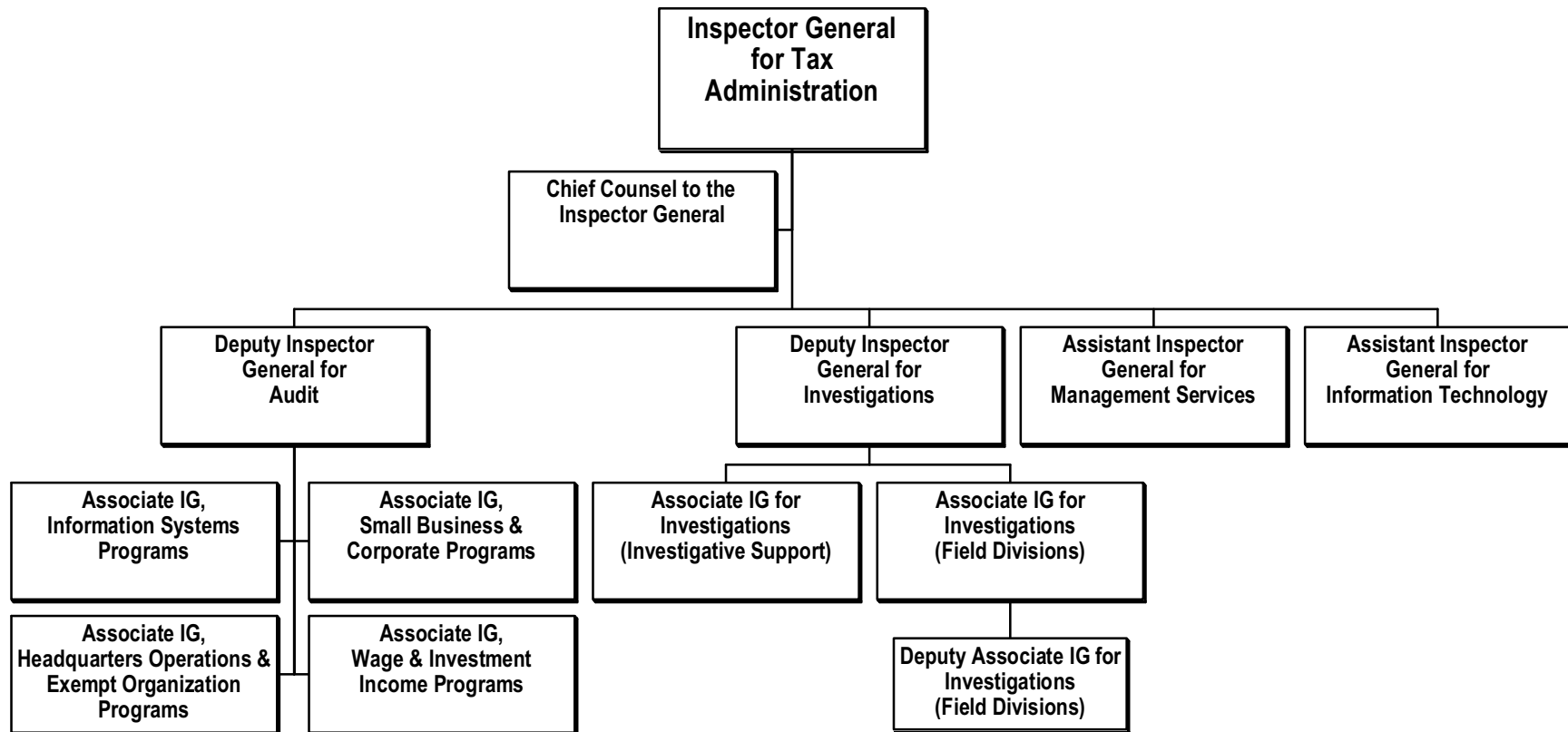
Year 2000 Compliance Audits

Reference Number	Report Title and Recommendation Summary	Management Response
2000-20-030	<p><i>The Internal Revenue Service Needs to Strengthen the Controls Over the Year 2000 Conversion of Its Telecommunications Equipment</i></p> <p><u>Objective:</u> The overall objective of this review was to assess the effectiveness of the IRS' Y2K telecommunications products implementation processes, particularly management's progress in providing oversight and in ensuring goals and objectives are being met.</p> <p><u>Recommendations:</u> The Office of Audit recommended that IRS management ensure the final Y2K planning efforts include strategies to mitigate the risk of telecommunications failures at local IRS sites with unvalidated inventories. IRS management should also assure that the Y2K assessment is complete for the items where the compliance status could not be determined, and that the assessment process is completed for all other telecommunications equipment. Also, the IRS should develop and implement an interim configuration management process for assuring the Y2K readiness of the IRS telecommunications environment. If this is not possible, the IRS should ensure the final Y2K planning efforts mitigate the risk that non-Y2K compliant equipment is in production.</p>	<p>As of the issuance date of this final report, IRS management was in the process of developing a response outlining the actions it has taken or will take to address the issues presented in this report.</p>
2000-20-052	<p><i>The Internal Revenue Service Needs to Assure That All Mission Critical Systems Are Subject to a Full Year 2000 End-to-End Systems Integration Test</i></p> <p><u>Objective:</u> The overall objective of this review was to assess the effectiveness of the preparation for and execution of the last segment, Test 3, of the IRS' Y2K E2E Systems Integration Test.</p> <p><u>Recommendations:</u> The Office of Audit recommended that IRS management assess whether all risks were adequately addressed. In addition, IRS management should assure that the strategy to deal with Y2K issues after January 1, 2000, includes any E2E Systems Integration Test issues that could not be adequately addressed before December 31, 1999. Although January 1, 2000, has past without any significant glitches in the IRS' systems, it is still prudent to address the issues in this report because the 2000 filing season for tax returns has not yet reached its peak.</p>	<p>As of the date this final report was issued, IRS management was in the process of developing a response outlining the actions it has taken, or will take, to address the issues in this report.</p>

Acronyms

APPR	Annual Program Performance Report	I.R.C.	Internal Revenue Code
CDC	Century Date Change	IRS	Internal Revenue Service
CFS	Customer Feedback System	ISRP	Integrated Submission and Remittance Processing System
CI	IRS Criminal Investigation	RRA 98	IRS Restructuring and Reform Act of 1998
CMD	Complaints Management Division	SED	Strategic Enforcement Division
CPA	Certified Public Accountant	SFR	Substitute for Return
E2E	End-to-End	TAAS	Tax Administration Advisory Services
EFDS	Electronic Fraud Detection System	TAMIS	Taxpayer Advocate Management Information System
EITC	Earned Income Tax Credit	TCS	Treasury Communication System
FDCPA	Fair Debt Collection Practices Act of 1996	TIGTA	Treasury Inspector General for Tax Administration
FMFIA	Federal Managers' Financial Integrity Act	UNAX	Unauthorized Access to Taxpayer Accounts
FOIA	Freedom of Information Act	U.S.	United States
FSL	Forensic Science Laboratory	U.S.C.	United States Code
FTD	Federal Tax Deposit	Y2K	Year 2000
FY	Fiscal Year		
GAO	General Accounting Office		
GPRA	Government Performance and Results Act of 1993		

Organization Chart



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or write to:

Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

Information is confidential and you may remain anonymous

**For Tax Problem Assistance
Call the IRS Taxpayer Advocate at:
1-877-777-4778**

DEPARTMENT OF THE TREASURY

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