

Treasury Inspector General for Tax Administration



Semiannual Report to Congress

October 1, 2003 through March 31, 2004

MESSAGE FROM TIGTA'S ACTING INSPECTOR GENERAL



Acting Inspector General
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The Treasury Inspector General for Tax Administration (TIGTA) plays a vital role in the Federal Government by ensuring the nation's tax administration system is operating effectively and is protected internally and externally. This year marks our fifth year of operation as an Inspector General (IG) organization. The world has changed dramatically in the past 5 years, particularly since September 11, 2001. In these days of terrorist activity and economic challenge, it is more important than ever that we promote the efficiency and effectiveness of tax administration and safeguard the operation of this key national system.

The results of our work for the past 6 months, from October 1, 2003, through March 31, 2004, indicate that TIGTA has risen to the challenges it faces. Our accomplishments during this reporting period helped improve tax administration and consequently aided taxpayers nationwide. With the issuance of 81 audit reports, we identified more than \$732 million in cost savings, and an additional \$3.45 billion in increased or protected revenue. Our audits assessed such Internal Revenue Service (IRS) operational and programmatic issues as providing quality customer service, information technology modernization, information system security, tax compliance initiatives, and erroneous payments.

To combat fraud, waste, and abuse, our investigative work centered on IRS employee and infrastructure security, employee integrity, and external attempts to corrupt Federal tax administration. During this reporting period, we received 3,545 complaints of alleged criminal wrongdoing or administrative misconduct. We opened 1,877 investigations and closed 1,989. Additionally, TIGTA's Office of Chief Counsel reviewed 116 proposed regulations and legislative requests. Highlights of our work are included in this *Semiannual Report to Congress*.

We are proud of all of our accomplishments during the past 5 years. As we focus on our future, we look forward to continuing to work with IRS, Congressional, and Treasury officials to help the IRS address current and future challenges to improve our nation's tax administration system.



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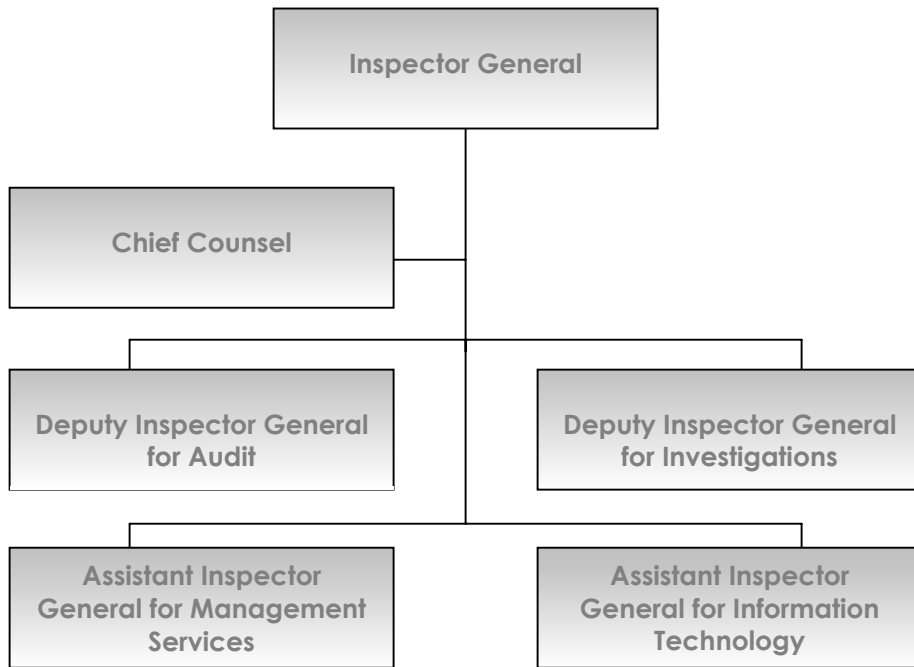
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TIGTA'S ORGANIZATIONAL STRUCTURE AND MISSION



TIGTA provides independent oversight of IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. Although TIGTA is organizationally placed in the Treasury Departmental Offices and reports to the Secretary of the Treasury and the Congress, it functions independently from the Departmental Offices and all other offices and bureaus within the Department. TIGTA's focus is devoted to all aspects of work related to Federal tax administration.

TIGTA protects the public's confidence in the tax system by overseeing the IRS as it strives to achieve its strategic goals, identifying and addressing the IRS' management challenges, and implementing the *President's Management Agenda* and the Department of the Treasury's priorities.

TIGTA's primary functional offices are the Office of Audit (OA) and the Office of Investigations (OI). TIGTA's Offices of Chief Counsel, Information Technology,



and Management Services support OA's and OI's efforts. TIGTA's goal is to conduct audits and investigations designed to:

- Promote the economy, efficiency, and effectiveness of tax administration.
- Protect the integrity of tax administration.

TIGTA's Statutory Mandate

Protect against external attempts to corrupt or threaten IRS employees.

Provide policy direction and conduct, supervise and coordinate audits and investigations related to IRS programs and operations.

Review existing and proposed legislation and regulations related to IRS programs and operations and make recommendations concerning the impact of such legislation or regulations.

Promote economy and efficiency in the administration of the tax laws.

Prevent and detect fraud and abuse in IRS programs and operations.

Inform the Secretary of the Treasury and Congress of problems and deficiencies identified and of the progress made in resolving them.

Office of Audit

TIGTA's comprehensive, independent performance and financial audits of IRS programs and operations focus on mandated reviews and high-risk challenges facing the IRS. The audits address a variety of issues, including:

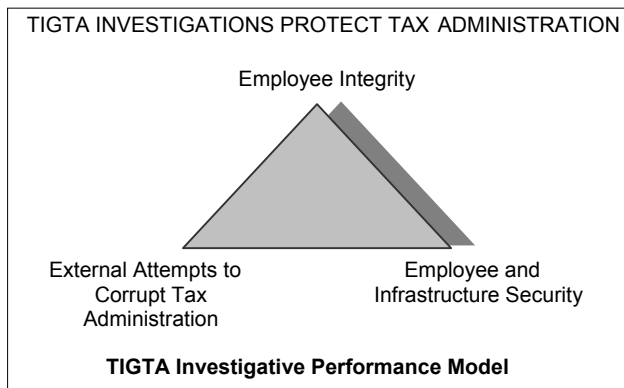
- Information technology
- Computer and employee security
- Tax compliance initiatives
- Performance and financial management
- Taxpayer protection and rights
- Tax return processing
- Customer service
- Tax fraud

TIGTA also performs audits to determine if the IRS adequately ensures fair and equitable treatment of taxpayers. Audit recommendations result in cost savings and increased or protected revenue, reduction of taxpayer burden, and protection of: taxpayer rights and entitlements; taxpayer privacy and security; and IRS resources.



Office of Investigations

TIGTA protects the Department of the Treasury's ability to collect revenue owed to the Federal Government. TIGTA accomplishes this goal by providing comprehensive investigative services focused on three programs: IRS employee integrity, IRS employee and infrastructure security, and external attempts to corrupt Federal tax administration.



In order to focus investigative resources on its primary program areas, TIGTA developed and implemented a performance model to help it achieve the most return on investment for the IRS, the Treasury Department, and the American taxpayer. TIGTA, through its investigative program, pursuant to its unique statutory charge, has

responsibility to prevent and detect fraud, waste, and abuse in IRS programs and operations, including:

- Investigating allegations of criminal violations that impact tax administration, and of serious administrative misconduct by IRS employees.
- Conducting proactive investigative initiatives that ferret out criminal and administrative misconduct in the administration of IRS programs.
- Operating a Criminal Intelligence Program that manages threat information that could impact IRS employees and functions.
- Investigating assaults and threats made against IRS employees, facilities, and data infrastructures.
- Investigating fraud, waste, and abuse involving IRS procurements.
- Conducting Integrity/Fraud Awareness Program presentations for IRS employees and others, such as tax practitioners and community groups.
- Operating a hotline to receive and process complaints of fraud, waste, abuse, and misconduct involving IRS employees and programs.
- Conducting forensic examinations of physical and electronic evidence to support investigations.
- Using technical and investigative support, equipment, training, and other specialized services to enhance investigative operations.



AUTHORITIES

TIGTA has all the authorities granted under the *Inspector General Act of 1978*, as amended.¹ TIGTA also has access to tax information in the performance of its tax administration responsibilities and the obligation to report potential criminal violations directly to the Department of Justice. The IG and the Commissioner of Internal Revenue have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the Internal Revenue laws.

In addition, the *IRS Restructuring and Reform Act of 1998 (RRA 98)*² amended the *Inspector General Act of 1978* to give TIGTA statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summons, and make arrests as set forth in *Section (§) 7608(b)(2)* of the *Internal Revenue Code (I.R.C.)*.

¹ 5 U.S.C.A. *app.* 3 (West Supp. 2003).

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



PROMOTE THE ECONOMY, EFFICIENCY, AND EFFECTIVENESS OF TAX ADMINISTRATION

PROVIDING QUALITY CUSTOMER SERVICE

The IRS' mission is to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities, and by applying the tax laws with integrity and fairness to all. Customer service is a major concern of the Congress and other stakeholders. The RRA 98 mandated the IRS be more responsive to customer needs. There are many ways in which the IRS provides customer service, such as walk-in and toll-free telephone assistance, electronic customer service, and written communications to taxpayers. The IRS must also implement tax law changes and plan for activities and resources to ensure accurate and timely tax return processing during the filing season.³ The effectiveness of each of these services influences a taxpayer's ability and desire to comply voluntarily with the tax laws.

Overall, the 2003 Filing Season went well and most of the 122 million individual income tax returns received through May 30, 2003, were processed timely and accurately with appropriate refunds issued timely. The IRS also implemented correctly most, but not all, key tax law changes. TIGTA reported issues with the retirement savings contribution credits and potential unclaimed Additional Child Tax Credits (ACTC) that could result in the loss of taxpayer entitlements. TIGTA also identified instances of taxpayers receiving "dual benefit" from the tuition and fees deduction and the education credit, and wrongfully taking deductions for student loan interest, both of which could result in erroneous tax reductions. TIGTA recommended the IRS continue to notify taxpayers who appear to be eligible for the ACTC and strengthen controls to prevent some taxpayers from receiving tax reductions by claiming the tuition and fees deduction when they have also claimed an education credit. IRS management agreed with our recommendations. TIGTA is following up on these conditions during its review of the 2004 Filing Season.

The Congress has given the IRS a goal of having at least 80 percent of all tax returns electronically filed (*e-file*) by Calendar Year (CY) 2007. At present, the majority of *e-filed* tax returns are processed by Authorized IRS *e-file* Providers,

³ The filing season is the period from January through mid-April when most individual income tax returns are filed.



called Electronic Return Originators (ERO). According to the IRS, over 154,000 EROs are authorized to participate in the IRS' e-file Program.

The IRS regulates EROs through an application screening process and a monitoring program. TIGTA reported the IRS continues to authorize individuals to participate in the e-file Program without ensuring they have met all required screening checks. In 2003, the IRS took steps to strengthen its ERO monitoring program by requesting computer programming that will monitor continuously the tax accounts of EROs for suspect transactions. However, weaknesses in the applicant screening and monitoring program have allowed filing fraud by EROs. TIGTA recommended strengthening the ERO screening and monitoring program and developing goals and measures to assess the effectiveness of the monitoring program. IRS management agreed to take action in this area.

In response to Congressional concerns throughout 2003, TIGTA evaluated whether IRS employees in Taxpayer Assistance Centers (TAC) provide accurate and timely responses to taxpayer questions. From January through October 2003, TIGTA auditors asked 679 tax law questions in 173 TACs and found IRS employees answered 70 percent of the questions correctly. The IRS continues to improve the quality of service at the TACs, and TIGTA commends the IRS for taking immediate action on issues identified in previous audit reports. The IRS has been actively implementing changes, which TIGTA believes have increased the accuracy rates compared to the same period in CY 2002.

Although accuracy rates are increasing, additional improvements are needed to provide taxpayers top-quality assistance. TIGTA recommended the IRS revise the Quality Assurance Program to include a systematic methodology to select scenarios and ensure the accuracy and sufficiency of captured information. IRS management agreed with the recommendation and has initiated corrective action. However, IRS management continues to disagree with TIGTA's method when computing the accuracy rate. They do not believe TIGTA's reported accuracy rates are a true measure of the quality of responses provided at TACs. Excluding the referrals to publications, service denied, and referrals to other employees, brings the accuracy rate to 75 percent, which IRS management recognizes is still inadequate.

Report Reference Nos. 2004-40-024, 2004-40-003, 2004-40-013, 2004-40-035, 2004-40-037, and 2004-40-065

Many aspects of the taxpayer experience in accessing the IRS' toll-free telephone system were improved significantly during the 2003 Filing Season. However, the IRS has opportunities to enhance further the taxpayer experience and reduce the costs of providing toll-free telephone services. A major improvement opportunity involves continuing difficulties with routing calls initially to the right Customer Service Representative (CSR). For the 2003 Filing Season, the IRS used call screeners to route tax law calls manually, at a cost of almost \$3.6 million. Another improvement opportunity involved reducing high Assistor



Availability⁴ levels. The IRS experienced an availability level of 11.2 percent versus a planned level of 5.5 percent, at an estimated additional cost of almost \$6.4 million. In addition, the IRS still does not have a financial system that will track its cost-per-call accurately.

To address call routing problems, TIGTA recommended the IRS develop a set of key numerical identifiers taxpayers would select to link their calls to the correct tax law application, revise the menu scripts for tax law lines and test them for usability prior to implementation, and establish separate toll-free numbers for general account and tax law calls. To address continued high Assistor Availability levels, TIGTA recommended the IRS reevaluate whether some applications would benefit by being combined into a more pooled environment, retrain the CSRs so they can be transferred as needed to those applications for which availability is lowest, and reduce either staffing or hours of operation during those times of day when call demand is extremely low. TIGTA also recommended the IRS develop an Activity-Based Costing system that captures and reports reliably both the total cost and the cost-per-call of providing services on each toll-free product line. With the exception of developing a reliable costing system, IRS management did not agree with our recommendations. In addition, IRS management did not agree with TIGTA's estimates of the costs of using screeners to route calls manually and those of Assistor Availability.

Report Reference No. 2004-30-038

INFORMATION TECHNOLOGY MODERNIZATION

The IRS currently is modernizing its computer systems and business processes and practices, in a program called Business Systems Modernization (BSM). Since the inception of the BSM Program, it has been designated as high risk, in part because of its size, complexity, and immense importance to improving IRS performance and accountability. As part of the BSM Program, the IRS and its modernization contractors have worked to implement projects intended to improve tax administration and internal management. To assist in this effort, TIGTA has reviewed several systems under development and provided recommendations for improvement.

The e-Services project will provide a set of Web-based business products as incentives to third parties to increase *e-filing*, in addition to providing electronic customer account management capabilities. Although the initial release of the e-Services system was deployed in late August 2003, the project has continued to experience delays and cost increases due to requirements changes and

⁴ Assistor Availability is the time CSRs are available to take calls, although no calls are coming in for their specific skills. The IRS defines Assistor Availability as "the percent of actual workload hours spent in an available state."



testing environment problems. TIGTA identified opportunities for improvement in business case development, requirements management, and testing oversight.

TIGTA recommended the Chief Information Officer (CIO) ensure system requirements be fully developed before project development begins and changes after that point meet stringent criteria. Additionally, future submissions of project information should include up-to-date cost and schedule information. To improve testing, the CIO should require the BSM Office (BSMO) develop incentives to increase PRIME contractor⁵ accountability in the areas of software quality and testing. A process should also be established to review and accept test plans before allowing the PRIME contractor to begin testing. The IRS agreed with most of the recommendations and is taking action to address the issues identified.

The Integrated Financial System (IFS) is intended to modernize the IRS' financial systems and processes. The first release of the IFS will include such modules as Accounts Payable, Accounts Receivable, and the General Ledger. The IRS and PRIME contractor have made progress toward delivering the first release of the IFS by beginning important testing activities and ensuring compatibility with key infrastructure components. In addition, the IFS testing team developed test cases that, for the most part, contained a set of conditions, data, and expected results for a particular test objective; a corresponding test script to provide instructions to carry out the test case; and a test folder to document the results. Further, the testing team prepared a matrix to map accounting requirements to the corresponding test cases.

While progress has been made, testing practices could be improved, project costs have increased, some functionality has been postponed, and disaster recovery may not be optimal or fully tested prior to implementation. In addition, some test cases and test scripts were incorrect or incomplete, and the requirements matrix did not always provide an accurate traceability of requirements to be tested.

To help ensure a high-quality system is delivered, TIGTA recommended the CIO ensure testing practices are strengthened in future tests, the business risks of untimely IFS implementation are tracked formally, and disaster recovery capabilities are implemented and tested as soon as possible. In addition, the Chief Financial Officer, in concert with IFS project management, should ensure subsequent test plans, cases, and scripts are complete and accurate, and all applicable financial system requirements can be readily accounted for during the testing process. IRS management agreed to most of these recommendations and is taking corrective action.

Report Reference Nos. 2004-20-036, 2004-20-001, and 2004-10-052

⁵ The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies assisting the IRS with modernizing its computer systems and related technology.



The *Federal Financial Management Improvement Act of 1996 (FFMIA)*⁶ requires agencies to maintain financial management systems that comply substantially with Federal requirements, or establish a remediation plan with resources, remedies, and intermediate target dates to bring the agency into substantial compliance. The *FFMIA* further mandates IGs report to the Congress instances and reasons when an agency has not met intermediate target dates.

TIGTA reviewed the IRS' remediation plan and identified certain intermediate target dates were missed, extended, or were not established. The analysis also showed remediation plan resources were not always listed or updated to reflect current cost information. Reasons provided by the IRS for these issues centered on the delays and revisions to the plans of the individual financial management projects that are listed in the remediation plan. TIGTA did not offer specific recommendations, but did comment the IRS needs to actively address and continue to communicate the challenges it faces concerning the establishment of accurate and consistent intermediate target dates and resource estimates in light of the implementation uncertainty of significant IRS financial management projects. IRS management agreed with the conditions identified in the report.

Report Reference No. 2004-10-080

INFORMATION SYSTEM SECURITY

System administrators and security specialists have day-to-day responsibility for ensuring IRS computer systems are set up and maintained in a secure manner. Previous audits identified security vulnerabilities indicating these duties have not always been performed effectively. Recent evaluations of servers and workstations at five locations again identified significant security vulnerabilities. Employees with key security responsibilities did not have sufficient training and were not clear about their responsibilities, and duties were not separated properly and, in some cases, were duplicated. TIGTA recommended the IRS train these employees and develop a methodology to evaluate their performance with respect to security requirements. The IRS agreed with the recommendations and is addressing the findings as part of its strategy for eliminating computer security as a material weakness under the *Federal Managers' Financial Integrity Act of 1982*.⁷

Report Reference No. 2004-20-027

The IRS has over 900 contracts with vendors and consultants to conduct many activities for tax administration. Contractors are involved extensively in the IRS' information systems projects, including supplying computer hardware and software and designing and developing sensitive computer systems. Because

⁶ 31 U.S.C. § 3512.

⁷ 31 U.S.C. §§ 1105, 1113, 3512 (2000).



these contractors commonly are given access to IRS computer systems and, in some cases, taxpayer data, they should be held to the same security standards as IRS employees.

Contractor personnel assigned to an IRS modernization project committed numerous security violations that placed IRS equipment and taxpayer data at risk. In some cases, contractors blatantly circumvented IRS policies and procedures even when security personnel identified inappropriate practices. IRS employees did not carry out their responsibilities for ensuring adequate security on contractor workstations and servers and for overseeing contractor activities. The IRS provided workstations to contractors that did not always comply with IRS policies and procedures, and contractors added unauthorized software to these computers. As a result, the likelihood of unauthorized disclosures of taxpayer information and the spread of virus infections was increased significantly. TIGTA recommended contractors' access privileges be limited and their activities monitored. In addition, all contractor employees' computer workstations should be updated to meet IRS standards. IRS management agreed with these recommendations and is taking corrective action.

Report Reference No. 2004-20-063 (Limited Official Use)

EMPLOYEE AND INFRASTRUCTURE SECURITY

Employee and infrastructure security is a critical element in protecting the Treasury Department's ability to administer the Federal tax laws. Threats and assaults against IRS employees, facilities, and data infrastructure impede the Treasury Department from effective tax administration. Historically, IRS buildings and operations have been targets of those who advocate violence against the Federal

Government. Since TIGTA has the statutory responsibility to investigate activities involving threats to IRS personnel and facilities, it dedicates significant attention to deterring, detecting, and investigating threats from both foreign and domestic sources.

TIGTA's Criminal Intelligence Program

TIGTA's commitment to protect the IRS against threats and assaults includes the operation of a nationwide Criminal Intelligence Program. This Headquarters-directed initiative is designed to coordinate the agency's field investigations of threats, assaults, and terrorist acts targeted against the IRS. TIGTA utilizes this program to coordinate TIGTA's participation in FBI Joint Terrorism Task Forces throughout the country and to assist IRS in developing and enhancing security protocol at all IRS facilities in an effort to deter and prevent terrorist attacks and ensure IRS employee safety and infrastructure security.



The following cases are examples of IRS Employee and Infrastructure Security investigations TIGTA conducted during this reporting period.

Individual Charged with Threatening to Blow Up Building

On February 3, 2004, an individual was charged in Texas with threatening to damage and destroy a building by use of an explosive. The individual called the IRS office about a tax refund and asked if it would be offset to pay delinquent child support. The caller allegedly expressed anger over the IRS allowing this and threatened to blow up the building.

Individual Charged with Threatening to Kill IRS Employees

On February 13, 2004, an individual was charged in Texas with making threats to IRS employees acting in their official capacities. In response to an IRS notice sent to another taxpayer, the individual claimed to have Power of Attorney (POA) to represent the taxpayer before the IRS, and stated intention to do so. When told the POA form permitting the individual to represent the taxpayer could not be located, the individual became angry and threatened to shoot and kill any IRS agents approaching the home.

Individual Charged with Mailing Threatening Letters to Public Officials

On November 19, 2003, an individual was indicted in South Dakota for mailing letters containing a threat. The individual allegedly mailed written communications to a Senator, an Assistant Attorney General, and a TIGTA Special Agent containing a threat to commit murder of another person.

Individual Arrested for Threatening to Kill TIGTA Special Agent

On March 12, 2004, an individual was arrested in California for threatening to kill a Federal law enforcement officer. The individual allegedly contacted the IRS toll-free telephone number and made statements about threatening to kill a TIGTA Special Agent. The individual was allegedly identified as a former IRS employee and blamed the TIGTA Special Agent for the loss of a job.

ENHANCED ENFORCEMENT ACTIVITIES – TAX COMPLIANCE

Correspondence examinations of taxpayer records are conducted through the mail and generally involve the IRS asking taxpayers for more support on one or two simple tax issues. TIGTA auditors determined correspondence examinations did not always address strategic noncompliance priorities, and the Small Business/Self-Employed (SB/SE) Division's Campus Correspondence Examination



Program could be used more effectively to reduce the tax gap and increase voluntary compliance. In addition, the IRS does not always use the most cost-effective method to examine tax returns, and the current Examination Workload Selection Process results in inequitable treatment of taxpayers.

TIGTA recommended the IRS expand the tax issues that can be selected for correspondence examination to ensure more of the inventory addresses strategic noncompliance priorities, initiate any necessary training programs, and select the most cost-effective examination techniques based on cost and yield data. IRS management agreed the Campus Correspondence Examination Program should work more cases dealing with strategic priorities and plans to expand the tax issues and types of tax returns selected for this Program's inventory, after a period of limited testing. In addition, IRS management agreed to initiate necessary training programs to ensure the tax examiners have the skills to examine additional types of SB/SE tax issues. However, SB/SE Division management stated the RRA 98 prevented them from using cost and yield information to measure program performance. SB/SE Division management also disagreed with TIGTA's assessment of their use of the most cost-effective examination technique and their fair and equitable treatment of taxpayers.

Report Reference No. 2004-30-005

In October 2002, the IRS initiated the return examination phase of the National Research Program (NRP) to gather the data it needs to measure taxpayer compliance and support its strategic planning process. The NRP is expected to provide essential information that will allow the IRS to identify the tax returns with the highest compliance risks and reduce the burden on compliant taxpayers. The IRS planned to complete the NRP cycle for 41,000 individual tax returns in time to update the return selection formulas for 2005. However, delays occurred in installing computer servers, upgrading computer software, and assigning cases. As a result, formulas for selecting tax returns for examination will not be updated until 2006.

The IRS' efforts to reduce the burden of NRP examinations have yielded some positive results. In the cases TIGTA reviewed, wages, interest, and dividends generally were validated before contact with taxpayers, where applicable. However, 85 percent of the Forms 1040 TIGTA reviewed had a Schedule A⁸ and/or a Schedule C⁹ attached, and the vast majority of the total line items on these schedules still had to be validated during the face-to-face contact portion of the examination process. Certain operational issues could also adversely affect the study results or the goal to minimize taxpayer burden.

TIGTA recommended the IRS perform a thorough post-evaluation of the 2002 NRP and ensure similar problems are minimized for the next NRP cycle. In

⁸ U.S. Individual Income Tax Return (Form 1040) Schedule A 2001 - Itemized Deductions.

⁹ U.S. Individual Income Tax Return (Form 1040) Schedule C 2001 - Profit or Loss From Business.



addition, TIGTA recommended the IRS revise classroom instruction regarding document request preparation, visit selected areas to help ensure examinations that were not started or were recently started are completed by the September 2004 deadline, incorporate random sampling in the NRP process, and develop interim milestones to help guide the next NRP cycle. IRS management agreed with most of the recommendations and is implementing corrective action.

Report Reference No. 2004-30-044

In response to the tragic events of September 11, 2001, the Congress passed, and the President signed into law, the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act)*.¹⁰ This new law made changes to the *Bank Secrecy Act (BSA)*,¹¹ effectively including financial institutions in the war on terrorism.¹² The IRS performs compliance checks of non-bank financial institutions as part of its BSA compliance check program. This program, however, does not have meaningful performance measures and the risk of undetected noncompliance still exists. In addition, management information system data are not analyzed fully, case selection is not risk-based, cases do not have the documentation necessary to assess civil penalties, examiners cannot access Suspicious Activity Reports (SAR) for better case development, and education and outreach should be coordinated better with the Financial Crimes Enforcement Network (FinCEN). If, during the performance of a BSA compliance check, IRS examiners encounter large and suspicious transactions¹³ between the businesses under review and their customer(s), the examiners are required to prepare an Anti-Money Laundering referral. These referrals are forwarded for consideration of an income tax examination of the individual involved with the transactions. Income tax examinations from these referrals declined 47 percent from June 2002 to June 2003. The IRS has now established these referrals as a high-priority item for Fiscal Year (FY) 2004.

TIGTA reported, however, the Anti-Money Laundering referrals were not always evaluated comprehensively and selected for examination. Currency transaction information reports from financial institutions, trades, and businesses could also be used more effectively in the identification of taxpayers for potential examinations. Although the IRS revised its priority examination areas to include these referrals for FY 2004, it still does not consider all currency

¹⁰ *Pub. L. No. 107-56, 115 Stat. 272 (2001)*.

¹¹ *Titles I and II of Pub. L. No. 91-508, 84 Stat. 1114, as amended, codified at 12 U.S.C. §1829b, 12 U.S.C. §§1951-1959, and 31 U.S.C. §§5311-5330. Regulations implementing Title II of the Bank Secrecy Act (codified at 31 U.S.C. §§5311-5330) appear at 31 C.F.R. part 103. The Secretary has delegated the authority to administer Title II of the Bank Secrecy Act to the Director of the Financial Crimes Enforcement Network.*

¹² The BSA requires the filing of information reports, by both banks and non-bank financial institutions such as check cashing businesses and casinos, regarding significant currency transactions.

¹³ Suspicious transactions include large cash deposits with inadequate records.



transaction information in the selection process. For example, the selection of non-filing taxpayers for examination is based on the amount of known potential income, such as wages and dividends, but does not consider specifically whether the taxpayer also has significant cash activity. The IRS estimates there were over 300,000 potential non-filers with \$22 billion in currency transaction activity in Tax Year (TY) 2002. While the filing of a currency transaction report does not equate to unreported income, the presence of large transactions indicates the individual deals in large amounts of cash and may be involved in some type of ongoing business activity.

For the BSA compliance check program, TIGTA recommended the IRS establish measurable performance-based indicators, ensure the management information system provides useful reports for monitoring program performance, develop standardized risk-based case selection criteria, implement a centralized quality review process, and coordinate with the FinCEN on education and outreach strategies and to secure access to SARs. In addition, the IRS should develop a review checklist or other similar methodology to assist in ensuring all relevant factors are considered in evaluating Anti-Money Laundering referrals, and begin using currency transaction information to aid in the selection of individuals and businesses for income tax examinations. IRS management agreed with the recommendations and is implementing some corrective action; however, TIGTA believes more needs to be done to use these reports better to identify non-filer cases.

Report Reference Nos. 2004-30-068 and 2004-30-074

Upon completing an investigation where criminal violations of the law have been documented, the Criminal Investigation (CI) function forwards the results of the investigation to the Department of Justice for prosecution. The prosecution process could result in a sentence being imposed on the subject, which may include conditions relating to the settlement of civil tax liabilities such as the filing of tax returns or payment of tax liabilities. The CI function should take whatever steps are necessary to initiate appropriate legal action in any instance where subjects have failed to comply with the conditions of their sentence relating to the settlement of civil tax liabilities.

TIGTA's review of the CI probation-monitoring program determined existing IRS procedures did not effectively ensure convicted criminals, who did not comply with the conditional terms of their sentences requiring the settlement of their IRS tax liabilities, were reported to the courts for additional legal action, if necessary. The IRS procedures were either unclear or did not assign specific responsibility for monitoring taxpayer accounts. In addition, the CI function's Management Information System (CIMIS) contained data errors that could impact analyses used for internal management decisions or results presented in ad hoc reports provided to stakeholders.



TIGTA recommended IRS management develop clear and concise guidelines to define responsibilities and procedures to ensure the IRS controls and monitors the accounts of criminal subjects whose court sentences require the settlement of civil tax liabilities. In addition, TIGTA recommended IRS management ensure court documents are verified, create a periodic system report for first-line managers, and seek the advice of IRS Chief Counsel regarding the disclosure of tax returns and tax return information to probation officers to improve monitoring, develop a process to verify and validate the data in the CIMIS, and assess the clarity of guidance for coding some data fields. CI management generally agreed with the recommendations and will take steps to enhance the process.

Report Reference No. 2004-10-060

The Tax Exempt and Government Entities (TE/GE) Division's Independent Review Process (IRP) was created to provide TE/GE Division management with an internal mechanism to ensure consistency, fairness, and accuracy related to processing of complex cases. The TE/GE Division's IRP was envisioned as early as 1999, as part of the original plan to create the TE/GE Division. While the stand-up¹⁴ of the TE/GE Division was completed in December 1999, the IRP did not become operational until March 2001 when the position of the Senior Technical Advisor was filled. TIGTA determined TE/GE Division management followed established procedures when referring cases to the IRP. However, press coverage related to TE/GE Division management's actions resulted in confusion and suspicion regarding the IRP. Effective August 25, 2003, the Commissioner, TE/GE Division, eliminated the IRP.

In addition, the extensive media coverage of the TE/GE Division management's actions related to the IRP, coupled with the IRS' limitations on discussing any details related to particular cases due to *I.R.C. Section 6103*, could result in a perception by external stakeholders the IRS has changed its position on allowable political activity by charitable organizations. TIGTA believes additional clarification on this issue is necessary. As a result, TIGTA recommended TE/GE Division management prepare and issue guidance to reemphasize the IRS' position on political activity and private benefit related to *I.R.C. Section 501(c)(3)* organizations. TE/GE Division management agreed with the recommendation.

Report Reference No. 2004-10-045 (Limited Official Use)

¹⁴ Stand-up is defined as the first day upon which a group or organization begins to operate under a new design.



ERRONEOUS PAYMENTS

Stewardship responsibility over public funds is a major challenge facing IRS management. Both the President and the Congress have expressed concern with the large amount of erroneous or improper payments made by Federal agencies. Two recent pieces of legislation – the *Improper Payments Information Act of 2002*¹⁵ and *Section 831 of the National Defense Authorization Act for FY 2002*¹⁶ – provide an impetus for all agencies to address systematically improper payment activity annually, and to identify and recover contract overpayments. Improper and erroneous payments include inadvertent errors, payments for unsupported or inadequately supported claims, payments for services not rendered, payments to ineligible beneficiaries, and payments resulting from outright fraud and abuse by program participants and/or Federal employees.

The Earned Income Tax Credit (EITC) Program, a major Federal effort to assist the working poor, is a refundable credit available to taxpayers who file returns with certain earned income. The EITC was established to offset the impact of Social Security taxes on low-income families and encourage them to seek employment rather than welfare. Historically, the EITC Program has been vulnerable to high rates of noncompliance (overclaims),¹⁷ which has led the IRS to declare it a material weakness. The IRS estimates that, of the \$31.3 billion in EITC claims made by taxpayers for TY 1999, \$8.5 to \$9.9 billion (27 to 32 percent) should not have been paid. The General Accounting Office has listed the IRS' administration of the EITC Program among the high-risk areas for the Federal Government.

IRS efforts to improve the administration of the EITC Program are ongoing. The IRS reports it has denied approximately \$2.25 billion in erroneous claims since September 2000, and it has implemented a number of initiatives targeting outreach, education, and compliance efforts. The IRS has initiated a significant change to the way it will address EITC noncompliance. This includes conducting an EITC Proof of Concept Test (Test) to validate EITC applicants who meet certain pre-certification criteria and require new information on EITC returns.

In preparing for the 2004 Filing Season, IRS EITC Program management designed the Test to focus on selecting taxpayers whose EITC claims based on qualifying children may be unsubstantiated. TIGTA auditors determined the IRS has a good process for evaluating the results of this selection process. However, the IRS cannot determine if the examination selection process ensures resources are being used to provide the greatest cost-benefit because it does not use cost

¹⁵ *Pub. L. No. 107-300, 116 Stat. 2350.*

¹⁶ *Pub. L. No. 107-107, 115 Stat. 1012, 1186.*

¹⁷ An EITC overclaim is the amount of the EITC claimed by taxpayers above the amount to which they are entitled.



data and yield in the evaluation of the selection process. Additionally, the IRS has an effective process to test the child residency requirements, and used an appropriate systemic sampling approach to select the sample for the Test and validate the data. But, controls over the Test need to be strengthened and the IRS needs to complete a cost-benefit analysis of closed case data in order for the IRS to be able to measure and analyze its success effectively. IRS management agreed with the recommendations.

Report Reference Nos. 2004-40-004 and 2004-40-032



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PROTECT THE INTEGRITY OF TAX ADMINISTRATION

EMPLOYEE INTEGRITY

IRS employee misconduct undermines the public's trust in the IRS and, as a result, impedes effective and efficient Federal tax administration. Many of TIGTA's criminal and administrative investigations are based on allegations or information indicating IRS employees have misused the public trust. This abuse by IRS employees manifests itself in a variety of ways, including: extortion, theft, unauthorized access to and disclosure of confidential taxpayer data, misuse of

TIGTA's Strategic Enforcement Division

TIGTA utilizes a variety of tools to expose breaches of employee integrity and other attacks against tax administration. A primary tool used in this effort is TIGTA's Strategic Enforcement Division (SED). This unit consists of data analysts, computer specialists, and criminal investigators who monitor, probe, and investigate the evolving electronic environment. SED responds to computer intrusion incidents, investigates IRS network vulnerabilities, conducts system penetration tests, and provides forensic processing of computers and other media in support of TIGTA investigations. SED also identifies employees who have made potential unauthorized accesses to electronic taxpayer information on IRS computer systems. Since October 1, 2003, there have been 7 criminal prosecutions and 51 adverse administrative actions against IRS employees involved in unauthorized access to tax information.

IRS computer systems, taxpayer abuses, and financial fraud. During the reporting period, TIGTA processed 2,165 complaints against IRS employees.

TIGTA's strategies to promote employee integrity include both proactive and reactive investigative programs designed to achieve high-impact, results-oriented, quality investigations. TIGTA administers a program of Integrity/Fraud Awareness presentations to IRS employees and the public. These presentations educate

IRS employees and taxpayers on the ways they can help prevent waste, fraud, and abuse in IRS operations and programs.

The following cases are examples of IRS Employee Integrity investigations TIGTA conducted during this reporting period.

Former IRS Revenue Agent to Serve Prison Term for \$500,000 Bribe

On March 5, 2004, a former IRS Revenue Agent was sentenced in Texas for bribery. The former Revenue Agent solicited a \$500,000 bribe from an individual in exchange for ensuring a civil audit being conducted on a corporation would



not reach the individual or be converted to a criminal investigation. The former IRS employee accepted an initial payment of \$250,000 and arranged to receive an additional \$100,000 before being arrested by TIGTA agents. The former Revenue Agent was sentenced to 3 years and 1 month in Federal prison, without parole, 3 years of supervised release, and was ordered to pay a \$5,000 fine. This prison term represents the top of the applicable guideline range for this crime.

Former IRS Contract Employee and Co-conspirator Indicted for Stealing over \$2.6 Million from IRS Lockbox Facility

On February 18, 2004, a former IRS contract employee and a co-conspirator were indicted in Texas for conspiracy, theft of Federal Government property, and embezzlement by a bank employee. The two individuals allegedly conspired to steal over \$2.6 million in tax remittance checks and money orders made payable to the IRS and/or the Treasury Department that were mailed to the IRS Dallas Lockbox for processing. They allegedly altered the stolen checks to change the payee information from the IRS or the Treasury Department to names of individuals and entities whose identities had been stolen or were fictitious or fraudulent. The co-conspirators deposited the stolen checks in bank accounts under their control and withdrew the proceeds. They also allegedly made templates and counterfeited checks, which were deposited in the same fraudulent bank accounts or sold on the black market.

IRS Employee Pleads Guilty to Improperly Accessing Accounts on IRS Computer

On February 11, 2004, an IRS employee pleaded guilty in New York to improperly accessing an IRS computer and obtaining tax return information for three taxpayers without authorization. The Federal court has scheduled a sentencing hearing for May 4, 2004, regarding this matter.

Former IRS Employee Sentenced in Theft of Taxpayer's Remittances

On February 24, 2004, a former IRS employee was sentenced in Maine for failing to deposit money. The former employee, a Revenue Officer responsible for collecting delinquent taxes from taxpayers, received \$2,070 in cash remittance payments from a taxpayer. The former employee was required to convert the cash to money orders and forward it for payment to the IRS Deposit Unit within one working day. However, the money was deposited into a personal account and was not sent to the IRS Deposit Unit until several weeks later. The former employee was sentenced to 2 years probation and ordered to pay a \$1,500 fine.



Former IRS Employee Sentenced for Possessing False Revenue Officer Credentials with Intent to Use Them Unlawfully

On December 1, 2003, a former IRS employee was sentenced in California for possessing false identification documents. The former employee admitted to possessing 115 fraudulent IRS Revenue Officer credentials. The credentials were produced using three transparencies of an original IRS Revenue Officer credential bearing the former employee's name, a credential number and issue date. The former employee possessed the identification documents with the intent to use or transfer them unlawfully. The former employee was sentenced to 2 years probation, including 6 months home detention with electronic monitoring, and ordered to pay a \$10,000 fine.

IRS Employee Sentenced for Distributing Controlled Substance

On December 1, 2003, an IRS employee agreed to plead guilty in West Virginia for distributing a controlled substance. The IRS employee unlawfully distributed approximately 170 pills consisting of a mixture or substance containing Diazepam, a controlled substance. The employee was sentenced to 3 years probation.

IRS Employee Arrested for Theft of Government Funds

On November 24, 2003, an IRS employee was arrested in Maryland for theft of United States (U.S.) Government property. The employee allegedly incurred \$6,000 worth of personal charges on an IRS-issued Citibank Purchase Card. Citibank Purchase Cards are issued to employees for authorized purchases of U.S. Government supplies and services. Once an official purchase is made using the Citibank Purchase Card, an approving official and not the cardholder must authorize it. The IRS employee attempted to conceal the theft by providing false signatures of IRS approving officials on Citibank purchase statements. The employee no longer works for the IRS.

Former IRS Employee Sentenced for Impersonating IRS Agent

On December 15, 2003, an individual was sentenced in Missouri for impersonating an IRS official. The individual, who no longer worked for the IRS as of 1999, improperly retained IRS credentials and falsely pretended to be an agent of the IRS and produced those credentials during an incident in 2003. The former IRS employee was sentenced to 6 months home confinement and 6 years probation, and ordered to pay a \$500 fine.



IRS Contractor Arrested for Possessing Child Pornography on IRS Computer

On October 30, 2003, an IRS contract employee was arrested in Maryland for possession of child pornography and transportation of obscene matters. The contract employee's IRS-issued computer allegedly had several computer graphic files containing images of child pornography. The contract employee allegedly took and received obscene pictures from an interactive computer service. The alleged child pornography files were identified by TIGTA System Intrusion Network Attack Response Team agents from IRS computer firewall logs, and through forensic examination of the contract employee's IRS-issued computer.

IRS Employee Charged with Conspiracy to Commit Identity Theft, Witness Tampering and Unauthorized Inspection of Tax Return Information

On January 8, 2004, an IRS employee was indicted in Maryland for conspiring to commit identity theft, witness tampering, and unauthorized inspection of tax return information. The employee is alleged to have fraudulently used a Social Security Number (SSN) issued to another person; and willfully inspected tax return information without authority. The employee was also charged with attempting to corruptly persuade another person with the intent to influence, delay, and prevent that person's testimony in an official U.S. Court proceeding.

IRS Employee Arrested for Receipt and Possession of Child Pornography on Government-Issued Computer

On November 21, 2003, an IRS employee was arrested in Texas for receipt and possession of child pornography on a Government-issued computer. The employee allegedly received child pornography that had been transported in interstate and foreign commerce by computer. In a building used by and under the control of the Government, the employee allegedly possessed a computer hard drive containing images of child pornography, which consisted of visual depictions of minors engaged in sexually explicit conduct.

IRS Employee Charged in Murder-for-Hire Plot

On October 7, 2003, an IRS employee was indicted in West Virginia in a murder-for-hire plot. The IRS employee allegedly used the IRS electronic mail system with the intent to engage in the plot, which included a payment of \$1,000.



EXTERNAL ATTEMPTS TO CORRUPT TAX ADMINISTRATION

TIGTA remains dedicated to providing quality, high-impact criminal investigations that protect the IRS from external attempts to corrupt tax administration. External efforts to interfere with administration of Internal Revenue laws include: bribery, theft of IRS refunds, fraud by tax preparers, and impersonation of IRS officials.

TIGTA's Technical Services and Forensic Science Laboratory

TIGTA's investigative efforts are greatly enhanced by its Technical and Forensic Support Division that includes a Technical Services Section and a Forensic Science Laboratory. Each of these programs provides technical expertise throughout the development and adjudication process of investigations. During the reporting period, the Forensic Science Laboratory conducted 115 forensic examinations while the Technical Services Section provided electronic or surveillance support in 142 investigative requests.

The following cases are examples of investigations of External Attempts to Corrupt Tax Administration TIGTA conducted during this reporting period.

Two Individuals Charged with Bribery

On October 30, 2003, an individual was arrested in Arizona for attempting to bribe an IRS employee. The individual allegedly offered an IRS employee \$20,000 to illegally eliminate approximately \$300,000 in delinquent payroll tax liabilities owed to the IRS by the individual's business. The individual made a \$2,000 payment to the IRS employee in exchange for making the tax liability "disappear off the books." The balance of the bribe was to be paid later. On November 25, 2003, a second individual, an employee of the individual's business, was charged after making a second \$2,000 payment toward the \$20,000 bribe offer on the business owner's behalf.

Individual Convicted of Filing False Forms with IRS in Effort to Retaliate Against Local Government Officials

On January 6, 2004, an individual was convicted in Wisconsin for obstructing and impeding the Internal Revenue laws. The individual filed false Reports of Cash Payments Over \$10,000 Received in a Trade or Business (Forms 8300) with the IRS, claiming certain public employees conducted large reportable cash transactions on the individual's behalf. The individual checked the box "suspicious transactions" on each Form 8300 and falsely claimed the public employees had conducted \$1.8 billion, \$200 million, and \$100 million in cash transactions on the individual's behalf. The false Forms 8300 were processed



by the IRS and penalty notices were sent to the public employees informing them they must supply additional information or face penalties. The individual also allegedly filed false Suspicious Activity Reports with the IRS. These reports claim 12 public employees engaged in criminal activity, including check fraud, counterfeit instruments, misuse of funds, embezzlement, and false statements.

Tax Preparer Charged with False Statements; Embezzlement; and Obstructing Internal Revenue Laws

On October 16, 2003, an individual was indicted in New Jersey for making false, fictitious, and fraudulent statements and representations to the IRS, and for obstructing and impeding the administration of the Internal Revenue laws. The individual, who was in the business of preparing tax returns and representing clients in their dealings with the IRS, signed and filed with the IRS more than 50 Power of Attorney and Declaration of Representative forms (Form 2848) which falsely stated the individual was a Certified Public Accountant or an attorney. The tax preparer allegedly filed on behalf of clients approximately 1,400 U.S. Individual Income Tax Returns (Form 1040) on which the individual misrepresented the individual's own SSN. Allegedly, the individual *e-filed* approximately 200 U.S. Electronic Individual Income Tax Returns using an Electronic Filing Identification Number that had been obtained in the names of two other individuals. The tax preparer also allegedly embezzled approximately \$392,000 in client's funds.

Co-conspirators Sentenced for Telemarketing Fraud

In October 2003 and December 2003, two individuals were sentenced in Florida for telemarketing fraud targeted at the elderly. The co-conspirators fraudulently induced victims to wire transfer money to pay advance Federal taxes allegedly due on non-existent lottery winnings, and mailed IRS forms to the victims in support of the fraud. One individual was sentenced to 3 years and 10 months imprisonment, and the other individual was sentenced to 6 years imprisonment. Additionally, both were placed on 3 years supervised probation and ordered to pay over \$400,000 restitution to victims.

Individual Charged with Impersonating IRS Employee

On November 5, 2003, an individual was indicted in Minnesota for bank fraud and impersonating an IRS employee. The individual allegedly contacted a victim by telephone and falsely stated the individual was an employee of the IRS and was engaged in clearing up an IRS matter that involved the victim. The IRS impersonator obtained personal identity information from the victim and used that information to withdraw \$9,700 from the victim's savings account.



Individual Sentenced for Filing Fictitious Documents with IRS

On December 16, 2003, an individual was sentenced in Minnesota for fraud, false statements, and issuing fictitious financial instruments with the intent to defraud. The individual presented fictitious financial instruments in the form of Sight Drafts¹⁸ purporting to be issued under the authority of the Department of the Treasury, to businesses, state and local agencies, and the IRS. After the recipients refused to accept the Sight Drafts as payment, the individual made an effort to harass, intimidate, and create legal problems for the businesses, the state and local agencies, and their employees. The individual was sentenced to 2 years and 7 months imprisonment and 3 years probation, and was ordered to pay \$250,000 restitution to the victims.

Tax Preparer Charged with Fraudulently Misrepresenting Taxpayers Before IRS

On December 16, 2003, an individual was indicted in California for mail fraud and making false statements and representations to the IRS. Allegedly, to induce victims, the individual falsely pretended to be a licensed attorney who could prepare their tax returns and/or handle their tax collection cases. The individual allegedly signed and filed with the IRS several Power of Attorney and Declaration of Representative Forms (Form 2848) on behalf of victim taxpayers in which the individual falsely claimed to be an attorney licensed in the State of California.

Individual Charged with Impersonating IRS Auditor

On January 29, 2004, an individual was indicted in California for impersonating an IRS Auditor. The individual falsely pretended to be an IRS Auditor and advised taxpayers the individual could assist them with their IRS audits. The individual obtained over \$83,000 from taxpayers allegedly as payments toward the taxpayer's fictitious tax liability.

Individual Sentenced for Impersonating IRS Official

On November 14, 2003, an individual was sentenced in Washington for mail fraud and impersonating a Federal employee or agent. The individual mailed letters to business owners claiming to be a "tax examiner specialist" affiliated with the IRS, stating the targeted businesses had "red flags" on the IRS computer system which indicated the businesses had engaged in fraudulent tax reporting. The impersonator demanded the business owners send blank money orders in amounts that varied between \$5,000 and \$10,000. The individual threatened if the business owners did not comply with the demand, the IRS would audit them. The impersonator was sentenced to 2 years imprisonment with 2 years supervised probation upon release.

¹⁸ Sight drafts are fraudulent, check-like instruments used in a complex process called redemption to pay off debts or purchase items.



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CONGRESSIONAL TESTIMONY

On March 10, 2004, Acting IG Pamela J. Gardiner testified before a joint hearing of the Oversight and Social Security Subcommittees of the Committee on Ways and Means of the U.S. House of Representatives. The purpose of the hearing was to focus on the respective responsibilities of the Social Security Administration, the IRS, and the Department of Homeland Security in ensuring accurate earnings reporting and tax payments. It also addressed the issue of the degree to which policies and procedures are coordinated among agencies to prevent misuse of Social Security Numbers and Individual Taxpayer Identification Numbers (ITIN). The hearing was designed to educate policy makers about the ITIN and was entitled, "*Social Security Number and Individual Taxpayer Identification Number Mismatches and Misuse.*" TIGTA has been following the issue of the use and misuse of the ITIN since its first audit report on the subject in 1999. The dramatic upsurge in ITIN use was the focus of a TIGTA audit report issued in January 2004 and was used as the primary document for the testimony.



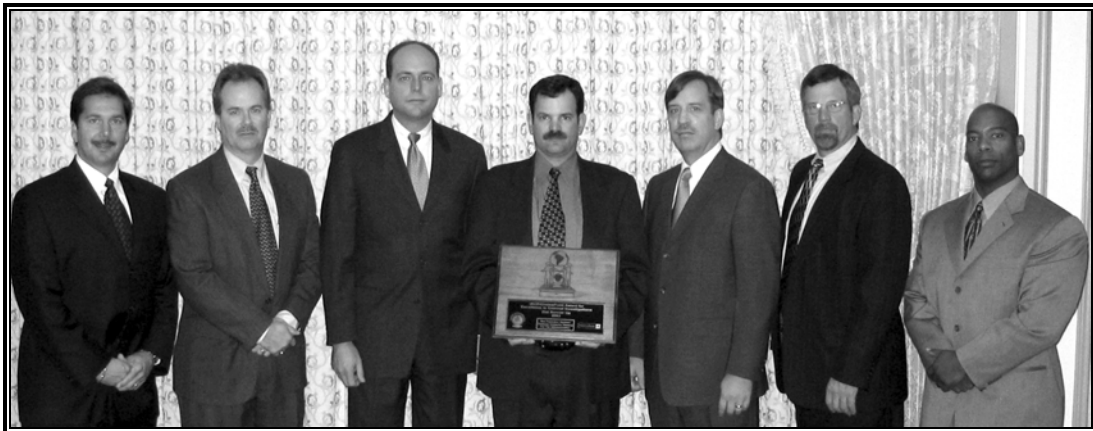
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AWARDS AND SPECIAL ACHIEVEMENTS

IACP RECOGNIZES TIGTA

On October 22, 2003, the International Association of Chiefs of Police (IACP) presented TIGTA's Office of Investigations, San Francisco Field Division, with the first annual IACP/ChoicePoint Award for Excellence in Criminal Investigations. The award recognizes quality achievements in managing and conducting criminal investigations and promotes the sharing of information on successful investigative programs and approaches.



TIGTA INVESTIGATIONS EMPLOYEES RECEIVE IACP AWARD

Left to Right: Tim Camus, Pat Guiton, David Buckley, Jeff Gordon, Steve Jones, Alan Hatcher, and Michael Delgado

The selection panel, comprised of Chiefs of Police, reviewed 230 applications from all over the nation. Nominations were evaluated on the significance of the contribution to the advancement of the art or science of criminal investigations, and innovation in the development or enhancement of investigative techniques.

Competition for the award was of the highest caliber, with the District of Columbia sniper case investigation receiving top honors, and that of the Illinois Homicide Taskforce selected as the first runner-up. The second runner-up award was presented to TIGTA in honor of the investigation of James D. Bell, his Assassination Politics plot, and threats involving government employees. TIGTA was the only Federal agency to meet the requirements of the selection panel.



TIGTA - ONE OF THE BEST PLACES TO WORK

TIGTA was recognized as one of the “Best Places to Work in the Federal Government,” according to the results of the 2002 Office of Personnel Management Federal Human Capital Survey. Some of the highlights of TIGTA’s results from the survey include:

- TIGTA ranked #22 overall out of 189 Federal subagencies surveyed.
- TIGTA ranked in the top 10 of these Federal subagencies in several categories:
 - Pay and Benefits (#1)
 - Work/Life Balance (#2)
 - Strategic Management (#8)
 - Family Culture and Benefits (#9)
 - Teamwork (#10)
- In 10 categories, TIGTA ranked better than the Federal Government (all other agencies surveyed).

Please visit the website www.customersurvey.gov/ for more details.



APPENDIX I – AUDIT STATISTICAL REPORTS

AUDIT REPORTS WITH QUESTIONED COSTS

One audit report with questioned costs was issued during this semiannual reporting period.¹ 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, 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 management, in a management decision, has sustained or agreed should not be charged to the government.

REPORTS WITH QUESTIONED COSTS (10/1/03 – 3/31/04) REPORT CATEGORY	NUMBER OF REPORTS	QUESTIONED COSTS² (IN THOUSANDS)	UNSUPPORTED COSTS (IN THOUSANDS)
1. For which no management decision had been made by the beginning of the reporting period	1	\$1	\$0
2. Which were issued during the reporting period	1	\$121	\$0
3. Subtotals (Item 1 plus Item 2)	2	\$122	\$0
4. For which a management decision was made during the reporting period - Dollar value of disallowed costs - Dollar value of costs not disallowed	1 1	\$121 \$1	\$0 \$0
5. For which no management decision had been made by the end of the reporting period (Item 3 minus Item 4)	0	\$0	\$0
6. For which no management decision was made within 6 months of report issuance	0	\$0	\$0

¹ See Appendix IV for identification of audit reports involved.

² “Questioned Costs” include “Unsupported Costs.”

PRIOR PERIOD REPORTS

During this reporting period, the IRS did not provide TIGTA with the value of questioned costs for any reports issued before October 1, 2003, for which the amount of questioned costs could not be determined at the time the reports were issued.



REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

Two reports with recommendations that funds be put to better use were issued during this semiannual reporting period.¹ 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 agreements; (5) preventing erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; or (6) 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.

¹ See Appendix IV for identification of audit reports involved.

REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (10/1/03 – 3/31/04) REPORT CATEGORY	NUMBER OF REPORTS	AMOUNT (IN THOUSANDS)
1. For which no management decision has been made by the beginning of the reporting period	2	\$44,340
2. Which were issued during the reporting period	2	\$732,180
3. Subtotals (Item 1 plus Item 2)	4	\$776,520
4. For which a management decision was made during the reporting period		
Dollar value of recommendations that were agreed to by management		
- Based on proposed management action	0	\$0
- Based on proposed legislative action	1	\$711,280
Dollar value of recommendations that were not agreed to by management	1	\$20,900
5. For which no management decision has been made by the end of the reporting period (Item 3 minus Item 4)	2	\$44,340
6. For which no management decision was made within 6 months of issuance	2	\$44,340



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 additional measures that demonstrate the value of audit recommendations on tax administration and 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 adherence to the intent and spirit of the *Government Performance and Results Act (GPRA)*.

Definitions of these additional measures are:

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.

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

Increased Revenue: Assessment or collection of additional taxes.

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

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

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

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.

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

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



REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION (CONTINUED)

REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION (10/1/03 – 3/31/04) OUTCOME MEASURE CATEGORY	NUMBER OF REPORTS IN CATEGORY ¹	NUMBER OF TAXPAYER ACCOUNTS	NUMBER OF HOURS	DOLLAR VALUE (IN THOUSANDS)	OTHER ⁸
Taxpayer Rights and Entitlements at Risk	6	362,814		\$2,264,891 ³	9
Reduction of Burden on Taxpayers	5	46,965,042 ²			10
Increased Revenue	3	26		\$29,546 ^{2,4}	
Revenue Protection	3	596,755		\$3,422,229 ^{2,5}	
Taxpayer Privacy and Security	2	8,191			
Inefficient Use of Resources	9			\$648,730 ⁶	
Protection of Resources	0				
Reliability of Management Information	5	20,237		\$6,110,315 ⁷	

¹ See Appendix IV for identification of audit reports involved.

² In one report (Reference No. 2004-30-023) IRS management did not agree the cost of implementing a new policy would outweigh the potential benefits to tax administration, involving reduction of burden for 265,000 taxpayers, revenue protection of \$2.35 billion and increased revenue of \$27.5 million.

³ In one report (Reference No 2004-30-040) IRS management did not agree penalties and interest could be reduced by \$2.1 billion over 5 years, stating that measure was not based on empirical data. In a second report (Reference No. 2004-30-085), IRS management did not agree the TIGTA's statistical method produced a valid estimate for the \$33 million of taxes overpaid.

⁴ In one report (Reference No. 2004-30-043) IRS management disagreed with the \$1.87 million in increased revenue because all the balance due amounts may not be collected.

⁵ In one report (Reference No. 2004-40-013) IRS management agrees the \$7 million of revenue protection represents a reasonable estimate; however, they do not agree it is feasible to perform periodic criminal background checks for all individuals authorized to participate in the e-file Program.

⁶ In 5 reports, (Reference Nos. 2004-20-041, 2004-30-038, 2004-40-042, 2004-30-040, 2004-30-039) IRS management did not agree with the \$110.6 million in inefficient use of resources.

⁷ In one report (Reference No. 2004-10-060) IRS management did not agree the \$6 billion overstatement in the management information system has a measurable impact on tax administration because the IRS does not report information from these data fields. In a second report (Reference No. 2004-40-057), IRS management does not agree the 12 potential disclosure errors should be included in the IRS' reported customer accuracy rate.

⁸ 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.

⁹ Other measures of taxpayer rights and entitlements consist of 1,477 FOIA, PA and I.R. C. §6103 requests that were improperly withheld (Reference No 2004-40-064).

¹⁰ Other measure of taxpayer burden consists of 33 test calls with errors (Reference No. 2004-40-029) and 103 incorrect responses to auditors' questions (Reference No. 2004-40-065).



APPENDIX II – INVESTIGATIONS - STATISTICAL REPORTS

INVESTIGATIONS OPENED AND CLOSED	
Total Investigations Opened	1,877
Total Investigations Closed	1,989

FINANCIAL ACCOMPLISHMENTS	
Embezzlement/Theft Funds Recovered	\$635,906
Court Ordered Fines, Penalties and Restitution	\$14,436,061
Out-of-Court Settlements	\$1,000

STATUS OF CLOSED CRIMINAL INVESTIGATIONS			
CRIMINAL REFERRALS¹	EMPLOYEE	NON-EMPLOYEE	TOTAL
Referred – Accepted for Prosecution	32	136	168
Referred – Declined for Prosecution	329	349	678
Referred - Pending Prosecution Decision	28	89	117
TOTAL CRIMINAL REFERRALS	389	574	963
No Referrals	457	575	1,032

¹ Criminal referrals include both Federal and state dispositions.



CRIMINAL DISPOSITIONS¹			
	EMPLOYEE	NON-EMPLOYEE	TOTAL
Guilty	21	92	113
Nolo-Contendere	0	0	0
Pre-trial Diversion	4	4	8
Deferred Prosecution ²	0	3	3
Not Guilty	0	1	1
Dismissed ³	1	29	30
TOTAL CRIMINAL DISPOSITIONS	26	129	155

¹ Final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table.

² Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.

³ Court dismissed charges.

ADMINISTRATIVE DISPOSITION ON CLOSED TIGTA INVESTIGATIONS¹	
Removed, Terminated or Other	135
Suspended/Reduction in Grade	61
Oral or Written Reprimand/Admonishment	93
Closed – No Action Taken	195
Clearance Letter Issued	94
Employee Resigned Prior to Adjudication	46
TOTAL ADMINISTRATIVE DISPOSITIONS	624

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



The following tables summarize the number of complaints received by TIGTA and the status of the complaints.

COMPLAINTS/ALLEGATIONS RECEIVED BY TIGTA	
Complaints Against IRS Employees	2,165
Complaints Against Non-Employees	1,380
TOTAL NUMBER OF COMPLAINTS/ALLEGATIONS	3,545

STATUS OF COMPLAINTS/ALLEGATIONS RECEIVED BY TIGTA	
Investigations Initiated	1,265
In Process Within TIGTA ¹	261
Referred to the IRS for Action	388
Referred to the IRS for Information Only	840
Referred to a Non-IRS Entity ²	15
Closed With No Referral	593
Closed With All Actions Completed	183
TOTAL COMPLAINTS	3,545

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

² A non-IRS entity includes other law enforcement entities or Federal agencies.

Note: The IRS made 63 referrals to TIGTA that TIGTA determined would more appropriately be handled by the IRS and, therefore, were returned to the IRS. These are not included in the total complaints shown above.



IRS DATA REGARDING ALLEGATIONS OF MISCONDUCT AGAINST IRS EMPLOYEES

The following tables contain information **exactly as provided by the IRS to TIGTA** and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS). Also, data concerning substantiated § 1203 allegations are included. IRS management conducted the inquiries into the cases reflected in these tables.

REPORT OF EMPLOYEE MISCONDUCT FOR THE PERIOD 10/01/03 – 3/31/04					
SUMMARY BY DISPOSITION GROUPS					
DISPOSITION	TIGTA INVESTIGATIONS	ADMINISTRATIVE CASES ¹	EMPLOYEE TAX MATTER CASES ²	BACKGROUND INVESTIGATIONS ³	TOTAL
Removal	53	81	22	4	160
Separation of Probationary Employees	4	199	15	58	276
Separation of Temporary Employees	0	2	4	5	11
Resignation/Retirement	68	92	70	25	255
Suspensions	75	208	79	5	367
Reprimands	89	286	530	20	925
Counseling	46	293	995	95	1,429
Alternative Discipline	23	72	36	4	135
Clearance	105	110	9	0	224
Closed Without Action	321	276	338	148	1,083
Forwarded to TIGTA	0	5	0	0	5
TOTAL	784	1,624	2,098	364	4,870

¹ Administrative - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

² Employee Tax Matter - Any conduct matter that becomes a matter of official interest involving an employee's tax compliance.

³ This category represents any matter involving a National Background Investigation Center (NBIC) investigation into an IRS employee's background that is referred to IRS management for appropriate action.

REPORT OF EMPLOYEE MISCONDUCT FOR THE PERIOD 10/1/03 – 3/31/04						
NATIONAL SUMMARY						
CASE TYPE	OPENING INVENTORY	CONDUCT CASES RECEIVED	CASES CLOSED			CLOSING INVENTORY
			CONDUCT ISSUES	DUPLICATES	NON-CONDUCT CASES	
TIGTA Investigations – ROI (I) ¹	671	765	(784)	(13)	(0)	639
Administrative Case (A) ²	717	1,672	(1,624)	(18)	(7)	740
Employee Tax Compliance Case (C) ³	1,488	2,251	(2,098)	(136)	(0)	1,505
Background Investigations (E) ⁴	269	207	(364)	(4)	(0)	108
TOTAL	3,145	4,895	(4,870)	(171)	(7)	2,992

¹ TIGTA Investigations (ROI) – Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred a Report of Investigation (ROI) to the IRS for appropriate action.

² Administrative Case – Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

³ Employee Tax Compliance Case – Any conduct matter that is identified by the Employee Tax Compliance Program and that becomes a matter of official interest.

⁴ This category represents any matter involving an NBIC investigation into an IRS employee's background that is referred to IRS management for appropriate action.



IRS SUMMARY OF SUBSTANTIATED § 1203 INQUIRIES RECORDED IN ALERTS FOR THE PERIOD 10/1/03 – 3/31/04							
§ 1203 VIOLATION	REMOVALS	RESIGNED/ RETIRED	PROBATION/ SEPARATION	REMOVED ON OTHER GROUNDS	PENALTY MITIGATED	IN PERSONNEL PROCESS	TOTAL
Seizure Without Approval	0	0	0	0	0	0	0
False Statement Under Oath	0	0	0	0	0	0	0
Constitutional & Civil Rights Issues	0	0	0	0	0	0	0
Falsifying or Destroying Records	1	0	0	0	1	2	4
Assault or Battery	0	0	0	0	0	0	0
Retaliate or Harass	0	0	0	0	0	1	1
Misuse of § 6103	0	0	0	0	0	0	0
Failure to File Federal Tax Return	16	7	3	3	19	75	123
Understatement of Federal Tax Liability	11	5	0	1	7	55	79
Threat to Audit for Personal Gain	0	0	0	0	0	0	0
TOTAL	28	12	3	4	27	133	207

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



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APPENDIX III – STATISTICAL REPORTS – OTHER

AUDIT REPORTS WITH SIGNIFICANT UNIMPLEMENTED CORRECTIVE ACTIONS

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

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
093602	April 1999	10/01/05	The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits F-1, R-4, P-2. Ensure all MACS data discs forwarded from the MACS Development Center to district offices are properly accounted for and secured.
2000-30-059	March 2000	01/15/05 01/15/05	The Internal Revenue Service Can Improve the Estate Tax Collection Process F-2, R-2, P-1. Develop procedures to periodically reconcile tax liens on the ALS with information shown on the taxpayer accounts. F-2, R-3, P-1. Clarify procedures to employees all estate tax liens should be recorded on the ALS.
2000-20-094	June 2000	07/01/04 07/01/04 07/01/04	A Comprehensive Program for Preventing and Detecting Computer Viruses Is Needed F-2, R-1, P-1. Develop and implement IRS-wide procedures detailing the frequency and steps to be followed for reliably updating anti-virus software on both networked and portable notebook computers. F-2, R-2, P-1. Establish controls for ensuring all updates have been successfully accomplished. F-3, R-1, P-1. Develop a system for gathering information to help analyze and monitor the effectiveness of the program's virus detection and prevention activities.
2000-30-130	September 2000	04/15/04	Opportunities Exist to Enhance the International Field Assistance Specialization Program F-2, R-1, P-1. Improve the management information system by linking the International Field Assistance Specialization Program indicator to specific issues listed in the International Case Management System.
2000-30-154	September 2000	07/15/04	Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File F-1, R-1, P-1. Require all balance due notices generated for gift tax accounts be reviewed. Tax examiners should be instructed to review the taxpayers' corresponding individual income tax and gift tax accounts to determine if the taxpayers' gift tax payments and extensions were correctly processed.
2000-30-162	September 2000	11/15/06	The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations F-1, R-2, P-1. Provide additional computer programming enhancements to improve the value of litigation transcripts.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2001-10-027	January 2001	12/15/04	Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program F-1, R-1, P-1. Upgrade the automated case management system to provide more timely and accurate data on case activities and the use of program resources.
2001-20-043	February 2001	11/01/04 01/01/05	Electronic Signature Initiatives Could Be Better Defined and Evaluated F-1, R-1, P-1. Finalize IRS requirements for the use of PINs as alternative signatures for electronically filed returns based on evolving guidance and the draft IRS authentication security policy and implementation guide. F-1, R-2, P-1. Ensure all operational alternative signature initiatives comply with the requirements.
2001-30-052	March 2001	01/01/05 01/01/05 P-1, P-2: 01/01/07	Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income F-1, R-1, P-1. Ensure the prior recommendations are implemented. Establishing a formal program with goals, objectives, processes, and measures could help ensure sufficient management attention is devoted to improving the use of the Routine Exchange of Information Program for compliance. F-2, R-1, P-1. Identify the highest risk foreign sourced income documents and use them to coordinate with tax treaty partners to positively identify the U.S. taxpayers involved. F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2001-30-099	June 2001	P-2, P-3: 04/15/04	Management Advisory Report: The Internal Revenue Service Could Reduce the Number of Business Tax Returns Destroyed Because of Missing Information F-1, R-1, P-2, P-3. Make necessary modifications to tax forms and instructions to ensure taxpayers understand their names, addresses, and TINs are required on both their tax forms and payment vouchers.
2001-20-146	August 2001	09/15/04	The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act F-1, R-1, P-1. Prepare an overall strategy, plan and schedule to bring the IRS in full compliance with the Clinger-Cohen Act.
2002-30-042	December 2001	01/15/05	The Internal Revenue Service Has Made Some Progress, but Significant Improvements Are Still Needed to Reduce Errors in Manual Interest Calculations F-1, R-2, P-1. Establish a national quality review process that includes all restricted interest cases.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2002-30-050	February 2002	05/15/04 07/15/04	Significant Efforts Have Been Made to Combat Abusive Trusts, but Additional Improvements Are Needed to Ensure Fairness and Compliance Objectives Are Achieved F-2, R-1, P-1. Ensure the Abusive Trust Program consistently applies the accuracy-related penalty in accordance with IRS policy, in order to help ensure fair and equitable taxpayer treatment. F-2, R-2, P-1. Provide examiners with formal guidance on the appropriate application of the accuracy-related penalty, in order to help ensure its consistent application.
2002-30-125	July 2002	05/15/04	The Internal Revenue Service Does Not Always Address Subchapter S Corporation Officer Compensation During Examinations F-3, R-1, P-1. Submit a RIS to existing (and/or future) information systems (such as Examination Operational Database) to identify officer compensation-related adjustment assessments made to S Corporation employment tax accounts.
2002-30-156	September 2002	07/01/04	The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers F-1, R-1, P-1. Ensure the IRS initiates, as proposed in its response to our memorandum dated February 1, 2002, a regularly scheduled program for proposing penalties for Wage and Tax Statements (Forms W-2) with inaccurate name/SSN combinations.
2002-30-186	September 2002	02/15/05 05/15/04 05/15/04 01/15/05	The Internal Revenue Service Needs to Simplify Filing Requirements and Clarify Processing Procedures for Small Business Corporate Returns F-1, R-1, P-1. Simplify the process of filing election forms and U.S. Income Tax Returns for an S Corporation (Form 1120S) for new filers by determining if there are alternatives to make it easier for first-time filers to be granted elections and file their Forms 1120S, and by considering implementing alternatives and seeking modification of the legal requirements, as necessary. F-1, R-2, P-1. Develop procedures that would improve and simplify the process for approving, recording, and controlling elections and the related notification process to make it easier for taxpayers to file their Forms 1120S. F-2, R-1, P-1. Establish procedures for ensuring IRS records accurately reflect the filing of Forms 1120S once the IRS subsequently verifies an election was granted. Specific procedures should be developed for converting the Forms 1120 back to the originally intended Forms 1120S. F-2, R-2, P-1. Clarify IRM procedures and assign responsibility for determining and assessing the correct taxes and issuing statutory notices of deficiency for small business corporate returns that could not be processed because the IRS could not verify valid elections were filed.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2002-10-187	September 2002	01/15/05 01/15/05	<i>The New Suspension of Interest Provision Is Not Always Calculated Correctly</i> F-2, R-1, P-1. Identify all taxpayers with under assessed interest caused by the original Master File computer programming, regardless of whether or not the interest had been reestablished on the accounts, and zero out any under assessed amounts to prevent burden on future disaster relief taxpayers or other taxpayers in special military conditions. F-2, R-2, P-1. Identify disaster relief taxpayers and refund the amounts that were automatically collected on the under assessed interest.
2003-40-023	November 2002	10/01/05	<i>Trends in Customer Service in the Taxpayer Assistance Centers Show Procedural and Training Causes for Inaccurate Answers to Tax Law Questions</i> F-5, R-2, P-1. Explore other options such as the planned remote monitoring by TAC managers, for conducting quality reviews of TAC employees on a regular basis.
2003-20-035	December 2002	06/15/05 03/15/05 07/01/04 01/15/05 06/15/05	<i>Additional Cost Savings and Increased Productivity in the Print Operation and Computer Support Function Can Be Achieved at the Campus Locations</i> F-1, R-1, P-1. Increased coordination should be required with users to discontinue printing reports that are currently available in both printed and electronic format and convert additional reports to the EONS. F-1, R-2, P-1. Establish a process for migrating identified efficient report distribution processes to all campuses. F-1, R-4, P-1. Defer any upgrades of the new printers until the print requirements are re-evaluated based on additional reports being available or on the EONS and the transfer of notice printing to the consolidated print sites. F-2, R-2, P-1. Ensure performance management reports are created for the print operation and computer support function based on the performance measures established in Recommendation 3. F-2, R-3, P-1. Ensure managers compare results against performance measure goals and take actions to improve operational efficiency.
2003-40-022	December 2002	05/15/04	<i>Improvements Are Needed to Prevent the Potential Disclosure of Confidential Taxpayer Information</i> F-1, R-2, P-3. Evaluate the safeguard procedures to ensure the procedures address the content as well as the security of information shared under I.R.C. § 6103.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-20-049	February 2003	<p>05/15/04</p> <p>05/15/04</p> <p>07/15/04</p> <p>10/15/05</p> <p>10/15/05</p>	<p>Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement</p> <p><u>F-2, R-3, P-1.</u> Ensure all contractor employees have properly paid their tax obligations.</p> <p><u>F-2, R-4, P-2.</u> Ensure background investigations are completed for active contractor employees that obtained identification badges without a background investigation.</p> <p><u>F-2, R-5, P-2.</u> Ensure personnel in the Real Estate and Facilities area of the Agency-Wide Shared Services are adequately trained regarding the requirements for issuing a contractor employee an IRS identification badge.</p> <p><u>F-3, R-1, P-1.</u> Ensure a consolidated or integrated system is implemented to effectively manage all background investigations and identification badges, incorporating the needs of all stakeholders and eliminating the use of stand-alone systems such as the Security Entry Tracking System and the Procurement Background Investigation Program.</p> <p><u>F-3, R-2, P-1.</u> Ensure until a single system is implemented, all COTRs are required to use the Procurement Background Investigation Program regardless of their organizational placement, and complete periodic reconciliations between the contractor employee background investigation information and the identification badge information at each IRS facility are conducted to detect the issuance of contractor employee identification badges without completion of required background investigations.</p>
2003-10-054	March 2003	<p>04/01/04</p> <p>04/01/04</p> <p>03/31/05</p>	<p>The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses</p> <p><u>F-1, R-1, P-1.</u> Develop written procedures documenting a methodology, including the identification of all systems and sources of information, that would ensure the most reasonable and timely means of identifying and reporting all expenses associated with the IRS' administration of all trust fund taxes.</p> <p><u>F-1, R-2, P-1.</u> Establish controls to ensure any amounts reported to the Bureau of the Public Debt are reviewed and approved by a senior level IRS executive.</p> <p><u>F-1, R-3, P-1.</u> Ensure the ability to record and report trust fund administrative expenses, as currently envisioned in the Integrated Financial System development plans is properly implemented.</p>



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-10-094	March 2003	10/15/04 10/15/04	Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected F-1, R-1, P-1. Consider providing future report listings to the FDC in an electronic media format and consider changing the frequency of the report from quarterly to twice a year, during non-peak processing periods, to allow the FDC to focus their resources on taking necessary actions to resolve accounts. F-1, R-2, P-1. Ensure regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and feedback is provided regarding program effectiveness. Also, analyses of the FDCs control listing data should be analyzed to ensure reviews are done and accounts are resolved.
2003-20-082	March 2003	08/15/04 07/01/04	Penetration Test of Internal Revenue Service Computer Systems F-5, R-1, P-1. Apply proper security patches and/or registry settings. F-6, R-1, P-1. Allow only network services that are specifically required and explicitly disable all other services.
2003-40-139	June 2003	08/15/04 08/15/04	Opportunities Exist to Improve the Administration of the Earned Income Tax Credit F-1, R-1, P-1. Establish long-term goals and related measures for the EITC Program that reflect the program's anticipated outcomes over time. F-1, R-2, P-1. Establish a consistent method to measure progress toward the EITC Program's long-term goals.
2003-20-118	July 2003	06/30/04 07/15/04 07/15/04 07/15/04	Security Over Computers Used in Telecommuting Needs to Be Strengthened F-1, R-1, P-1. Remind telecommuting employees periodically to store and encrypt sensitive information on secure locations of their laptop computers. F-1, R-2, P-1. Remind system administrators to reset security settings after servicing laptop computers. F-1, R-3, P-1. Develop guidance to assist functional managers in determining whether sensitive data are being stored in unencrypted areas on their employees' laptop computers. F-1, R-5, P-1. Consider purchasing commercial software to provide FIPS-compliant encryption scheme software for laptops used in telecommuting.
2003-20-118	July 2003	06/30/04 07/15/04 12/15/06	Security Over Computers Used in Telecommuting Needs to Be Strengthened (continued) F-1, R-6, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure sensitive data are being stored and encrypted properly. F-2, R-1, P-1. Standardize VPN firewall configurations and hold the CSIRC responsible for maintaining those configurations and installing patches timely. F-2, R-2, P-1, P-2, P-3. Consider installing personal firewall and IDS software on SDI laptop computers and require CSIRC to centrally monitor the generated logs.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-30-162	August 2003	P-1: 08/15/05 P-2: 07/15/05 08/15/05	The Regulations for Granting Extensions of Time to File are Delaying the Receipt of Billions of Tax Dollars and Creating Substantial Burden for Compliant Taxpayers F-1, R-1, P-1, P-2. Revise the tax regulations applicable to individual taxpayers. F-1, R-2, P-1. Consider changing the regulations to eliminate the requirement for taxpayer to file an application with the IRS in order to receive extensions of time to file a tax return. F-1, R-3, P-1. Revise the tax package instructions.
2003-30-176	August 2003	11/15/05	Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure F-1, R-2, P-1. Gather pertinent information concerning the effect the proposed procedure will have on reducing the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.
2003-40-180	August 2003	07/15/04 07/15/04 07/15/06	More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance F-1, R-1, P-1. Finalize the long-term goals and related measures for the AUR Program that reflect the Program's anticipated outcomes over time. F-1, R-2, P-1. Establish a consistent method to measure progress toward its long-term goals. F-2, R-1, P-1. Improve the current management information system process to capture data sufficient to establish baselines and long-term measures and goals.
2003-40-185	August 2003	07/15/04 07/15/04	More Information Is Needed to Determine the Effect of the Discretionary Examination Program on Improving Service to All Taxpayers F-1, R-1, P-1. Finalize the Concept of Operations that will establish long-term goals and related measures for the Discretionary Examination Program that reflect the Program's anticipated outcomes over time. F-1, R-2, P-1. Establish a consistent method to measure progress toward the long-term goals.
2003-10-187	September 2003	07/15/04 07/15/04 01/01/05	The National Taxpayer Advocate Could Enhance the Management of Systemic Advocacy Resources F-1, R-1, P-1. Formalize the policy of concurrently working systemic advocacy projects and assignments in support of its Annual Report to Congress, and implement a process to manage both operations simultaneously. F-1, R-2, P-1. Establish timeliness and staff resource standards for conducting systemic advocacy projects based on the experience to date. F-1, R-3, P-1. Upgrade the SAMS to provide data on systemic advocacy project activities and staff resources to assist managers in monitoring and budgeting systemic advocacy resources.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-10-201	September 2003	10/15/04 04/15/04 10/15/04 04/15/04 10/15/04	Lead Development Centers Do Not Significantly Contribute to Increases in Legal Source Cases F-1, R-1, P-1. Consider increasing the use of LDC resources on general research projects. F-2, R-1, P-1. Issue procedures for the CI field offices to follow when submitting leads or research projects to the LDCs. F-2, R-2, P-1. Issue procedures for the LDC analysts to follow when researching cases. F-2, R-3, P-1. Issue guidance to reemphasize the need for field offices to evaluate additional factors that affect the ability to fully investigate the lead before the lead is sent to the LDC. F-3, R-1, P-1. Ensure the data in the LDC database are consistent and issue instructions on how to use the LDC database.
2003-10-210	September 2003	08/15/04 06/15/04 06/15/04	The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigation F-1, R-3, P-1. Revise LDC procedures to specify LDC managers co-located with the call sites should be proactive in assessing the adequacy of the preparation of Forms 3949 by call site personnel and in providing specific feedback when necessary to improve trends in completing the forms. F-2, R-1, P-1. Develop national procedures that establish specific criteria for and guide the referral of appropriate QRP and RPP allegations from the hotline directly to the FDCs. F-2, R-2, P-1. Revise the FDC IRM guidance to specify FDC managers co-located with the call sites should be proactive in assessing the adequacy of the preparation and referral of Forms 3949 by call site personnel for QRP and RPP purposes and in providing feedback when necessary to improve trends in forms.
2003-10-212	September 2003	12/15/04 03/15/05 03/15/05 10/15/04 10/15/04 P-1, P-2: 07/15/05 P-3, P-4: 10/15/05	Information on Employee Training Is Not Adequate to Determine Training Cost or Effectiveness F-1, R-1, P-1. Require all business units to use the IRS training management information system as their official system of records. F-1, R-2, P-1. Ensure the new Learning Management System has the appropriate validity checks to ensure data on training courses, costs, and CPE hours are correct, to avoid input errors. F-1, R-3, P-1. Ensure periodic reviews of the ACES data are conducted to verify ACES data and make any needed corrections. F-2, R-1, P-1. Develop a method of properly allocating training costs to courses and employees/students. F-3, R-1, P-1. Ensure a better course numbering scheme is developed in the LMS to be used to identify the types of training provided and the skills addressed. F-3, R-2, P-1, P-2, P-3, P-4. Ensure the IRS training and financial systems can provide information needed for the IRS to assess its own training efforts.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-20-219	September 2003	10/15/04 10/15/04	<i>The Cost and Schedule Estimation Process for the Business Systems Modernization Program Has Been Improved, But Additional Actions Should Be Taken</i> F-1, R-1, P-1. Ensure all contractors working on BSM projects follow the PRIME contractor's policies and procedures for preparing cost and schedule estimates and provide data for inclusion in the historical database. F-1, R-4, P-1. Ensure the SEI is requested to conduct an independent review of the cost and schedule estimation system once the initial validation is complete and policies and procedures are fully implemented.
2003-30-182	September 2003	04/15/04	<i>Continued Progress Is Needed to Improve the Centralized Offer In Compromise Program</i> F-4, R-1, P-1. Reemphasize COIC employees should make a thorough analysis of the case files and AOIC history entries before returning offers.

STATISTICAL REPORTS – OTHER

Access to Information

The Inspector General Act of 1978 requires IGs to report on unreasonable refusals of information available to the agency that relate to programs and operations for which the IG has responsibilities. As of March 31, 2004, there were no instances where information or assistance requested by Office of Audit was refused.

Disputed Audit Recommendations

The Inspector General Act of 1978 requires IGs to provide information on significant management decisions in response to audit recommendations with which the IG disagrees. As of March 31, 2004, no reports were issued where a significant recommendation was disputed.

Revised Management Decisions

The Inspector General Act of 1978 requires IGs to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. As of March 31, 2004, no significant management decisions were revised.

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

The Inspector General Act of 1978 requires IGs to provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period. As of March 31, 2004, there were no prior reports where management's response was not received.

Review of Legislation and Regulations

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



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APPENDIX IV – AUDIT PRODUCTS**OCTOBER 1, 2003 – MARCH 31, 2004**

INSPECTOR GENERAL CONGRESSIONAL TESTIMONY	
REFERENCE NUMBER	HEARING TITLE
MARCH 2004	
2004-OT-084	<i>Social Security Number and Individual Taxpayer Identification Number Mismatches and Misuse</i>

AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
OCTOBER 2003	
2004-20-001	<i>Risks Are Mounting as the Integrated Financial System Project Team Strives to Meet an Aggressive Implementation Date</i>
2004-40-002	<i>Key Steps Have Been Initiated, but Additional Emphasis Is Needed on the Oversight of the Wage and Investment Fraud Program</i>
2004-40-003	<i>The 2003 Filing Season Was Completed Timely and Accurately, but Some New Tax Law Changes Were Not Effectively Implemented (Revenue Protection: \$12.2 million for 57,755 taxpayers; Taxpayer Rights and Entitlements: \$131.8 million for 297,916 taxpayers)</i>
2004-1C-006	<i>TIRNO-95-D-00062 and TIRNO-00-D-00011, Audit of Incurred Costs for Fiscal Year 2001</i>
2004-1C-007	<i>Audit of Adequacy and Compliance of Disclosure Statement Revision 13, Effective January 1, 2003</i>
2004-1C-009	<i>Audit of Incurred Costs for Fiscal Year 2002</i>
2004-40-004	<i>The Selection of Earned Income Tax Credit Returns for Examination Can Be Improved to Further Prevent Erroneous Payments</i>
2004-1C-008	<i>TIRNO-94-D-00090 and TIRNO-00-D-00019, Audit of Incurred Costs for Fiscal Year 2001</i>
2004-1C-010	<i>TIRNO-92-C-00014, TIRNO-00-D-00024, TIRNO-99-D-0001, TIRNO-95-D-00099, and TIRNO-99-R-0009, Audit of Incurred Costs for Fiscal Year 2001</i>
2004-1C-011	<i>Supplemental Report on Audit of Direct and Indirect Costs for Fiscal Year 2002</i>
2004-40-016	<i>Increased Taxpayer Awareness and Improved Guidance Are Needed to Ensure Accurate Direct Deposit of Tax Refunds Claimed on E-Filed Tax Returns</i>
NOVEMBER 2003	
2004-40-013	<i>Improvements Are Needed in the Screening and Monitoring of E-File Providers to Protect Against Filing Fraud</i>
2004-30-005	<i>Key Areas of Noncompliance Among Small Business and Self-Employed Taxpayers Could Be Addressed Through More Effective Use of Correspondence Examinations</i>
2004-1C-012	<i>Audit of the Adequacy and Compliance of Disclosure Statement, Revision Number 7</i>
2004-1C-015	<i>Agreed Upon Procedures for Fiscal Years 2003 through 2005</i>
2004-20-014	<i>Additional Travel Reimbursement and Accounting System Computer Program Controls Would Enhance Travel Voucher Processing and Program Administration (Questioned Costs: \$120,726; Increased Revenue: \$180,485; Inefficient Use of Resources: \$255,571)</i>
2004-1C-018	<i>Audit of the Adequacy of Disclosure Statement, Revision Number 8</i>
2004-20-017	<i>Reviews to Determine Architectural Compliance of Information Technology Acquisitions Need to Be Consistently Performed and Documented</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
DECEMBER 2003	
2004-1C-019	<i>Audit of Revised Budget for Fiscal Year 2004</i>
2004-1C-020	<i>Report on Examination of Direct and Indirect Costs and Rates for Fiscal Year Ended March 31, 1999</i>
2004-40-024	<i>Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During July and August 2003 Than Compared to One Year Ago</i>
2004-1C-021	<i>Report on Examination of Direct and Indirect Costs and Rates for Fiscal Year Ended March 31, 2000</i>
2004-1C-022	<i>Report on Examination of Direct and Indirect Costs and Rates for Fiscal Year Ended March 31, 2001</i>
2004-40-025	<i>Improvements Are Needed to Ensure Tax Returns Are Correctly Prepared at Taxpayer Assistance Centers</i>
2004-20-026	<i>Additional Actions Are Needed to Establish and Maintain Controls Over Computer Hardware and Software Changes (Inefficient Use of Resources: \$216,500)</i>
2004-40-029	<i>Improvement Is Needed in E-Mail Responses to Complex Tax Questions Submitted Through Toll-Free Telephone Help Lines (Taxpayer Burden: 33 of 70 test telephone calls did not receive expected quality service)</i>
2004-40-032	<i>Management Controls Over the Proof of Concept Test of Earned Income Tax Credit Certification Need to Be Improved</i>
2004-40-028	<i>The Wage and Investment Division Does Not Have a Reliable System for Identifying Trends Related to Automated Underreporter Reconsideration Cases (Reliability of Information: 20,225 reconsideration adjustments not captured in the FY 2001 Reconsideration Management Information System Report; Inefficient Use of Resources: \$670,872 in resources expended to process cases that could have been resolved during the original resolution process)</i>
JANUARY 2004	
2004-40-035	<i>Individual Income Tax Return Transactions Were Timely and Accurately Recorded to Taxpayer Accounts</i>
2004-1C-030	<i>Mandatory Annual Audit Requirement, Purchases Existence and Consumption Verification</i>
2004-1C-031	<i>Development and Implementation of an Enterprise Business System</i>
2004-30-023	<i>The Internal Revenue Service's Individual Taxpayer Identification Number Creates Significant Challenges for Tax Administration (Funds Put to Better Use: \$711.28 million; Increased Revenue: \$27.5 million; Revenue Protection: \$3.4 billion and 530,000 tax returns filed by unauthorized resident aliens; Taxpayer Burden: 265,000 taxpayers whose Social Security Numbers are misused on Forms W-2; Taxpayer Privacy and Security: 8,179 tax returns prepared by unauthorized resident aliens)</i>
2004-20-027	<i>Inadequate Accountability and Training for Key Security Employees Contributed to Significant Computer Security Weaknesses</i>
2004-30-033	<i>The Office Audit Redesign Pilot Was Effective in Meeting Its Goals, but Its Implementation Needs to Be Monitored</i>
2004-40-037	<i>Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During September and October 2003 Than Compared to One Year Ago</i>
2004-20-041	<i>The Reorganized Desktop Support Function Has Not Yet Achieved Planned Goals (Inefficient Use of Resources: \$5.6 million)</i>
2004-30-038	<i>Access to the Toll-Free Telephone System Was Significantly Improved in 2003, but Additional Enhancements Are Needed (Inefficient Use of Resources: \$49.9 million)</i>
2004-40-042	<i>The Child Tax Credit Advance Payment Was Effectively Planned and Implemented, but a Programming Discrepancy Caused Some Overpayments (Inefficient Use of Resources: \$39 million)</i>
2004-20-034	<i>Oversight of the Business Systems Modernization Contractor Needs Improvement</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
2004-30-043	<i>Monitoring of Accepted Offers in Compromise Is Generally Effective, but Some Improvement Is Needed</i> (Increased Revenue: \$1.9 million for 26 taxpayers; Taxpayer Rights and Entitlements: 46 taxpayers whose Federal liens were not released after the offer amount was fully paid)
2004-30-044	<i>Additional Efforts Could Further Improve the Execution of the National Research Program</i>
FEBRUARY 2004	
2004-1C-047	<i>TIRNO-00-D-00012, TIRNO-95-D-00063, and TIRNO-95-D-00064, Supplemental Report on Audit of Incurred Costs for Fiscal Year 2001</i>
2004-1C-048	<i>Report on Noncompliance With Cost Accounting Standard 418</i>
2004-1C-049	<i>TIRNO-95-D-00061, Audit of Final Vouchers, Delivery Order Numbers 0011, 3197, and 4669</i>
2004-30-040	<i>While Progress Toward Earlier Intervention With Delinquent Taxpayers Has Been Made, Action Is Needed to Prevent Noncompliance With Estimated Tax Payment Requirements</i> (Taxpayer Rights and Entitlements: \$2.1 billion reduction in penalties and interest and Inefficient Use of Resources: \$12.9 million reduction in collection costs achievable by improving compliance through development of a reminder notice)
2004-30-039	<i>The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist</i> (Inefficient Use of Resources: \$3.3 million savings by reducing cost associated with turnover of personnel)
2004-20-036	<i>Requirements Changes and Testing Delays Have Further Increased the Costs and Delayed the Benefits of the e-Services Project</i> (Reliability of Information: \$71.9 million in increased cost projections from the baseline business case projection)
2004-1C-050	<i>Report on Audit of Forward Pricing Indirect Rates and Facilities Capital Cost of Money Factors</i>
2004-1C-051	<i>Audit of Proposed Fiscal Year 2004 Direct Labor Rates</i>
2004-40-059	<i>Fiscal Year 2004 Statutory Review of Restrictions on Directly Contacting Taxpayers</i>
2004-10-045	<i>Review of the Tax Exempt and Government Entities Division's Independent Review Process</i>
2004-30-054	<i>Consistent and Effective Manager Involvement Is Needed in Examinations of Large Businesses</i>
2004-20-046	<i>Sensitive Technology Information Was Posted on the Internet</i>
2004-40-057	<i>Toll-Free Account Assistance to Taxpayers Is Professional and Timely, but Improvement Is Needed in the Information Provided</i> (Taxpayer Burden: 42 calls sampled in which the taxpayer did not receive the correct answer; Taxpayer Privacy and Security and Reliability of Information; 12 calls in which there were potential disclosure errors not included in the IRS' reported customer accuracy rate)
2004-40-065	<i>Accuracy Rates Have Increased at Taxpayer Assistance Centers, but Improvement Is Needed to Provide Taxpayers Top-Quality Customer Service</i>
MARCH 2004	
2004-10-052	<i>Improvements Are Needed for Subsequent Integrated Financial System Testing</i>
2004-20-061	<i>The Custodial Accounting Project Team Is Making Progress; However, Further Actions Should Be Taken to Increase the Likelihood of a Successful Implementation</i>
2004-30-055	<i>The Program to Determine Worker Status for Federal Tax Purposes Needs Expanded Goals and Increased Operational Oversight</i>
2004-40-069	<i>Forms and Publications for Tax Year 2003 Properly Explain Specific Tax Law Changes Affecting Individual Taxpayers</i>
2004-30-070	<i>The Detroit Computing Center Adequately Processed Paper Bank Secrecy Act Documents, but Quality Reviews Should Be Implemented to Ensure Compliance With Quality Standards</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
2004-30-062	<i>Preparations Were Successful for Implementation of New Business Provisions in the Jobs and Growth Tax Relief Reconciliation Act of 2003</i>
2004-10-060	<i>Courts Are Not Always Notified When Criminals Fail to Comply With Their Sentences to Settle Civil Tax Liabilities (Reliability of Information: \$6 billion in criminal deficiency and fines are overstated in the management information system)</i>
2004-30-068	<i>Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program</i>
2004-40-058	<i>Fiscal Year 2004 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns</i>
2004-1C-071	<i>Audit of Adequacy and Compliance of Disclosure Statement, Revision 14, Effective January 1, 2004</i>
2004-1C-056	<i>TIRNO-00-D-00012, TIRNO-95-D-00063, and TIRNO-95-D-00064, Supplemental Report on Audit of Incurred Costs for Fiscal Year 2001</i>
2004-20-053	<i>The Master File Disaster Recovery Exercise Was Completed, but Significant Vulnerabilities Should Be Addressed</i>
2004-40-066	<i>Fiscal Year 2004 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results</i>
2004-20-063	<i>Insufficient Contractor Oversight Put Data and Equipment at Risk</i>
2004-1C-077	<i>Accounting System Review</i>
2004-40-075	<i>More Could Be Done to Make It Easier for Taxpayers to Locate Taxpayer Assistance Centers</i>
2004-40-067	<i>Appeals Complied With the Provisions of the Law for the Collection Due Process (Taxpayer Rights and Entitlements: 537 cases in which hearing officers did not provide a taxpayer-requested levy hearing or did not document all issues raised by the taxpayer)</i>
2004-30-085	<i>Most Taxpayers That Could Benefit From the Farm Income Averaging Provision Are Not Using It (Taxpayer Rights and Entitlements: 64,315 taxpayers could save \$33,057,910)</i>
2004-40-064	<i>Improvements Are Needed to Ensure Compliance With the Freedom of Information Act (Taxpayer Rights and Entitlements: 1,477 incomplete IRS responses to FOIA, Privacy Act and I.R.C. Section 6103 requests)</i>
2004-1C-078	<i>Incurred Costs Audit for Fiscal Year Ended March 31, 2002</i>
2004-30-074	<i>The Use of Anti-Money Laundering Referrals and Currency Transaction Information in the Income Tax Examination Process Could Be Improved</i>
2004-10-082	<i>The Area Distribution Centers' Competitive Sourcing Submission Was Reasonable; However, Improvements Could Be Made to the Overall Competitive Sourcing Process (Reliability of Information: \$38.4 million is the absolute value of recommendations to improve the accuracy of the In-House Cost Estimate and Technical Performance Plan)</i>
2004-10-080	<i>The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan as of December 31, 2003</i>
2004-20-081	<i>Key Security Controls of the Criminal Investigation Management Information System Have Not Been Implemented</i>
2004-20-072	<i>Modernized e-File Project Integration Difficulties Have Delayed Its Deployment</i>
2004-40-076	<i>Opportunities Exist to Transition Taxpayers From Submitting Computer-Prepared Tax Returns on Paper to E-Filing (Inefficient Use of Resources: \$537 million reduction in costs to process paper returns; Taxpayer Burden: 46.7 million taxpayers that would benefit from filing e-file returns)</i>



APPENDIX V – STATUTORY TIGTA REPORTING REQUIREMENTS

Fourteen statutory audit reports that dealt with the adequacy and security of IRS technology were issued during this reporting period. In FY 2004, TIGTA completed five statutory reviews that are required annually by *Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)*. The following table reflects the status of the FY 2004 RRA 98 statutory reviews.

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Enforcement Statistics</p> <p><i>Internal Revenue Code (I.R.C.)</i> § 7803(d)(1)(A)(i)</p>	<p>An evaluation of IRS' compliance with restrictions under <i>Section 1204</i> of RRA 98 on the use of enforcement statistics to evaluate IRS employees.</p>	<p>Reference No. 2004-40-066, March 2004</p> <p>The IRS is complying with the law. A review of 75 judgmentally sampled enforcement employees' performance and related supervisory documentation, prepared between October 1, 2002, and August 31, 2003, revealed no instances of the use of records of tax enforcement results, production quotas, or goals to evaluate employee performance. In all of the 75 performance files reviewed, there was documentation the employees were being evaluated on the fair and equitable treatment of taxpayers. In addition, a review of 43 statistically sampled appropriate supervisors showed the IRS completed the required consolidated office certification memoranda on whether records of tax enforcement results were used in a prohibited manner.</p>
<p>Restrictions on Directly Contacting Taxpayers</p> <p><i>I.R.C.</i> § 7803(d)(1)(A)(ii)</p>	<p>An evaluation of IRS' compliance with restrictions under <i>I.R.C. § 7521</i> on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</p>	<p>Reference No. 2004-40-059, February 2004</p> <p>As in the prior reviews, TIGTA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither TIGTA nor the IRS could readily identify cases where a taxpayer requested a representative or the IRS contacted the taxpayer directly and bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and the Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>
<p>Filing of a Notice of Lien</p> <p><i>I.R.C.</i> § 7803(d)(1)(A)(iii)</p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6320</i> upon the filing of a notice of lien.</p>	<p>Draft audit report issued.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Extensions of the Statute of Limitations for Assessment of Tax</p> <p><i>I.R.C. § 7803(d)(1)(C)</i></p> <p><i>I.R.C. § 6501(c)(4)(B)</i></p>	<p>Include information regarding extensions of the statute of limitations for assessment of tax under <i>I.R.C. § 6501</i> and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Audit fieldwork in progress.</p>
<p>Levies</p> <p><i>I.R.C. § 7803(d)(1)(A)(iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6330</i> regarding levies.</p>	<p>Discussion draft audit report issued to IRS management.</p>
<p>Collection Due Process</p> <p><i>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. §§ 6320</i> and <i>6330</i> regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p>Reference Number 2004-40-067, March 2004</p> <p>The Appeals Officers and Settlement Officers (hearing officers) substantially complied with the requirements of the law when conducting Collection Due Process (CDP) hearings. In 98.5 percent of the CDP cases reviewed, the hearing officers adequately considered the following provisions of the law. The hearing officers obtained verification the IRS followed the applicable laws or administrative procedures during the lien and levy process. They considered the issues raised by the taxpayer. They considered if the proposed collection actions properly balanced the need for efficient collection of taxes with any legitimate concerns of the taxpayer about the intrusiveness of the liens or levies.</p> <p>While the hearing officers substantially complied with the requirements of the law when conducting CDP hearings, the hearing officers did not address all the issues raised by the taxpayers in the determination letters and the summary notice of determinations in approximately 11 percent of the cases reviewed.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Seizures</p> <p><i>I.R.C. § 7803(d)(1)(A)(iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. §§ 6330 through 6344</i> when conducting seizures.</p>	<p>Audit fieldwork in progress.</p>
<p>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</p> <p><i>I.R.C. § 7803(d)(1)(A)(v)</i></p>	<p>An evaluation of IRS' compliance with restrictions under <i>Section 3707 of RRA 98</i> on designation of taxpayers.</p>	<p>Audit fieldwork in progress.</p>
<p>Disclosure of Collection Activities With Respect to Joint Returns</p> <p><i>I.R.C. § 7803(d)(1)(B)</i></p> <p><i>I.R.C. § 6103(e)(8)</i></p>	<p>Review and certify whether or not IRS is complying with <i>I.R.C. § 6103(e)(8)</i> to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Reference No. 2004-40-058, March 2004</p> <p>This is the sixth year TIGTA could not determine whether the IRS is complying with the statutory requirements for responding to written requests from joint filers, because both TIGTA and the IRS are still unable to readily identify joint filer requests received nationwide. IRS management has decided not to develop a new management control process to track joint filer requests. IRS management information systems do not separately record or monitor joint filer requests, and the Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>
<p>Taxpayer Complaints</p> <p><i>I.R.C. § 7803(d)(2)(A)</i></p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received is prepared by TIGTA's Office of Investigations and is reflected in Appendix II.</p> <p>TIGTA's Office of Audit's annual review of IRS management's process for accumulating and reporting taxpayer complaint data is currently in the audit planning process.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996</p> <p><i>I.R.C. § 7803(d)(1)(G)</i></p> <p><i>I.R.C. § 6304</i> <i>Section 3466 of RRA 98</i></p>	<p>Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of <i>I.R.C. § 6304</i>, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Audit fieldwork in progress.</p>
<p>Denial of Requests for Information</p> <p><i>I.R.C. § 7803(d)(1)(F)</i></p> <p><i>I.R.C. § 7803(d)(3)(A)</i></p>	<p>Include information regarding improper denial of requests for information from IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of <i>I.R.C. § 6103</i> or <i>5 U.S.C. § 552(b)(7)</i>.</p>	<p>Reference Number 2004-40-064, March 2004</p> <p>The IRS improperly withheld information from requesters in 4.4 percent of the <i>Freedom of Information Act (FOIA)</i> and <i>Privacy Act (PA)</i> requests, and 14.6 percent of the <i>I.R.C. § 6103</i> requests reviewed. TIGTA's statistically valid samples were taken from cases closed during the period January 1 through June 30, 2003. TIGTA estimated information was improperly withheld from responses to 369 FOIA and PA requests and 1,108 <i>I.R.C. § 6103</i> requests during the sample period.</p>
<p>Adequacy and Security of the Technology of the IRS</p> <p><i>I.R.C. § 7803(d)(1)(D)</i></p>	<p>Evaluation of IRS' adequacy and security of its technology.</p>	<p>Information Technology:</p> <p>Reference No. 2004-20-001, October 2003 Reference No. 2004-20-014, November 2003 Reference No. 2004-20-017, November 2003 Reference No. 2004-20-026, December 2003 Reference No. 2004-20-034, January 2004 Reference No. 2004-20-041, January 2004 Reference No. 2004-20-036, February 2004 Reference No. 2004-20-061, March 2004 Reference No. 2004-20-072, March 2004</p> <p>Security Reviews:</p> <p>Reference No. 2004-20-027, January 2004 Reference No. 2004-20-046, February 2004 Reference No. 2004-20-063, March 2004 Reference No. 2004-20-081, March 2004 Reference No. 2004-20-053, March 2004</p>



APPENDIX VI – SECTION 1203 STANDARDS

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

Misconduct violations include:

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

In general, the Commissioner of Internal Revenue may take a personnel action other than employment termination for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner, in his/her sole discretion, may establish a procedure that 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.



HOTLINE INFORMATION

**Call our toll-free hotline to report
fraud, waste, or abuse:**

1-800-366-4484

or write:

**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**





DEPARTMENT OF THE TREASURY

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