

# The Treasury Inspector General for Tax Administration

## Mission:

To provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws.

## Program Summary by Appropriations Account

(Dollars in Thousands)

Appropriation	FY 2005	FY 2006	FY 2007		
	Enacted	Enacted	President's Budget	Change	% Change
Salaries and Expenses	\$128,093	\$131,953	\$136,469	\$4,516	3.4%
Audits	48,392	49,761	51,521	1,760	3.5%
Investigations	79,701	82,192	84,948	2,756	3.4%
Subtotal, Treasury Inspector General for Tax Administration	\$128,093	\$131,953	\$136,469	\$4,516	3.4%
Offsetting Collections - Reimbursables	2,876	1,200	1,200	0	0.0%
<b>Total Program Operating Level</b>	<b>\$130,969</b>	<b>\$133,153</b>	<b>\$137,669</b>	<b>\$4,516</b>	<b>3.4%</b>

## Overview

The Treasury Inspector General for Tax Administration (TIGTA) was created by Congress to provide independent oversight of the Internal Revenue Service. TIGTA's audits and investigative services protect and promote the fair administration of the American tax system. It ensures that the IRS is accountable for more than \$2 trillion in tax revenue received each year. TIGTA conducts audits that keep Congress, the Secretary of the Treasury and IRS management informed on issues, problems and deficiencies related to the administration of IRS programs and operations. Audit recommendations improve IRS systems and operations, while ensuring fair and equitable treatment of taxpayers. TIGTA's investigations ensure the integrity of IRS employees, contractors and other tax professionals; employee and infrastructure security; and protect the IRS against external attempts to corrupt tax administration. TIGTA serves taxpayers by ensuring that the tax system is overseen by an independent audit and investigative organization.

In FY 2005, TIGTA:

- Produced 180 audit reports that identified \$46.7

million in potential cost savings and \$83.3 billion in potential revenue enhancements,

- Developed significant audit results that refuted allegations against the IRS of political motivation in the conduct of charitable organizations during the Presidential election; identified shortcomings in the IRS' process to identify and investigate improper tax refunds to prisoners; and reported project failings in the execution of the HR Connect System,
- Addressed 8,012 complaints of alleged criminal wrongdoing or administrative misconduct, and
- Conducted investigations that led to significant prosecutions such as the indictment of six former employees of Mellon Financial Service for destroying approximately 80,000 tax return documents; and another lockbox employee who stole tax remittance checks totaling more than \$2.7 million from an IRS lockbox facility.

TIGTA's FY 2007 requested funding will be used to continue to provide critical audit and investigative services, ensuring the integrity of tax administration on behalf of the nation's taxpayers. While there are a number of critical areas where TIGTA will provide oversight, highlights of four priority areas include:

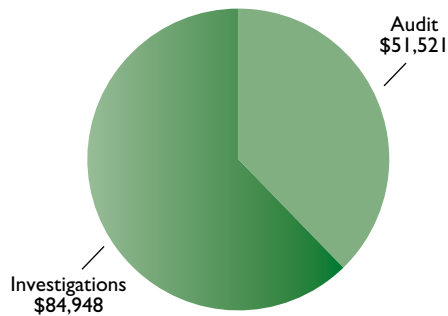
1. Monitoring IRS efforts to modernize technology. The IRS must demonstrate that it can effectively manage the Business Systems Modernization program, a multi-billion dollar investment to overhaul the IRS' computer systems. TIGTA will continue to assess the IRS' efforts at managing the risks involved in this significant area.
2. Protecting tax administration from corruption. TIGTA will concentrate on promoting IRS employee integrity, protecting IRS employees and infrastructure, and defending against external attempts to corrupt tax administration.
3. Monitoring IRS efforts to improve tax compliance. IRS reports that the amount of taxes owed but not collected each year may be in excess of \$300 billion. Audit and investigative work will address vulnerabilities at the IRS that contribute to this tax gap and identify opportunities for improvement.
4. Monitoring IRS' use of private debt collection agencies. IRS estimates that \$2.7 billion will be collected from this program in the next 10 years. The benefits for the IRS and the federal government are great, but the potential for contractors to abuse their authority is high. TIGTA will provide oversight to ensure that the IRS uses this authority effectively and that taxpayer rights are protected.

Total resources required in FY 2007 to support TIGTA's mission are \$137,669,000, including \$136,469,000 and 850 FTE from direct appropriations and approximately \$1,200,000 from reimbursable agreements.

This request includes a funding transfer from the IRS to support shared services costs and funding to cover normal program cost increases and will be used to conduct audits and investigations that focus on IRS' high risk areas.

## TIGTA Funding by Budget Activity

(Dollars in Thousands)



## Performance Highlights

In FY 2007, TIGTA's audit program will strike a balance between statutory audit coverage and discretionary audit work. The statutory coverage will include audits mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98), as well as reviews that address computer security, taxpayer privacy and rights and financial matters. In addition, TIGTA will continue to monitor the IRS' modernization efforts to identify problems that the IRS may encounter as it implements new programs and information systems. Discretionary audit coverage will focus on the major management challenges facing the IRS, the IRS' response to the President's Management Agenda initiatives and the IRS' progress in achieving strategic goals and eliminating identified material weaknesses. TIGTA will also audit the IRS' evolving private debt collection initiative. In spite of the increasing complexity in audit reports, it is anticipated that auditing efforts will produce performance results at the same level or better than in FY 2005 when TIGTA issued 180 final reports, averaged 358 calendar days for report issuance, and potentially impacted 2.8 million taxpayer accounts.

TIGTA protects the ability of the IRS to collect revenue for the federal government and will continue to investigate complaints of wrongdoing that could potentially impact the integrity of tax administration. Investigations will concentrate on three core areas: (1) employee integrity; (2) employee

## TIGTA Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
		Actual	Actual	Actual	Target Met	Target
Audit	Average calendar days to issue final audit report (Ot)	317	338	358	✗	325
	Increase in total taxpayer accounts potentially impacted as a result of audit activities. (in Millions)(Ot)	47M	49.7M	2.8M	✗	14.5M
Investigations	Percentage increase in positive results from investigative activities (%) (Oe)	n/a	64	82	✓	70

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

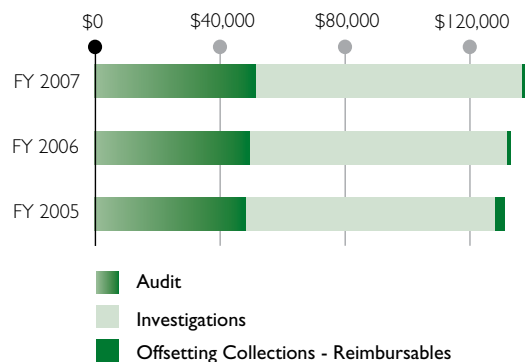
and infrastructure security; and (3) external attempts to corrupt tax administration. In FY 2005 TIGTA opened 3,513 investigations and closed 3,468, with 82 percent of its final closed cases having a positive outcome (investigative reports resulting in criminal, civil or administrative adjudication or the identification of matters of security or investigative interest). TIGTA also delivered approximately 1,400 integrity awareness presentations to approximately 46,000 attendees composed of IRS employees, tax practitioners, community groups, and others.

### Source of Funds

TIGTA requests \$136,469,000 from direct appropriations. TIGTA's budget also includes \$1,200,000 from reimbursable agreements.

### TIGTA Funding History

(Dollars in Thousands)



### Budget Activities

#### Salaries and Expenses

**Office of Audit (\$51,521,000 from direct appropriations and \$725,000 from reimbursements)** TIGTA's Office of Audit promotes the sound administration of the nation's tax laws through comprehensive, independent performance and financial audits of IRS programs and operations. Audit emphasis is placed on the mandatory coverage imposed by the IRS Restructuring and Reform Act of 1998 (RRA 98) and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits. The balance of TIGTA's audit work will focus on the IRS' progress in achieving its strategic goals, the IRS' response to the President's Management Agenda initiatives and the major management issues facing the IRS including tax compliance initiatives; use of performance and financial management information; taxpayer protection and rights; processing returns and implementing tax law changes; providing quality taxpayer service operations, and complexity of the tax law.

**Office of Investigations (\$84,948,000 from direct appropriations and \$475,000 from reimbursements)** TIGTA has the statutory responsibility to protect the integrity of tax administration and to protect the ability of the IRS to collect revenue for the Federal Government. To accomplish this, TIGTA's Office of Investigations (OI) investigates allegations of

criminal violations and administrative misconduct by IRS employees, ensures IRS employee and infrastructure security and protects the IRS against external attempts to corrupt tax administration. OI accomplishes its mission by conducting professional criminal and administrative investigations that lead to criminal prosecutions for both employee and non-employee perpetrators, and administrative disciplinary actions for IRS employees. These investigations are supported by TIGTA's Forensic Laboratory that processes physical evidence for fingerprints, indications of forged or fraudulent documents, digital imaging, document chemistry, etc., and prepares presentational material for the courtroom. The Technical and Firearms Support Division supports investigations with state-of-the-art electronic equipment. The Strategic Enforcement Division administers a program to detect unauthorized invasion of taxpayers' privacy by IRS employees and it combats external attempts of computer intrusion that threaten to compromise the integrity of the IRS data infrastructure. The Criminal Intelligence Program coordinates with the FBI, CIA, DOJ and other government agencies to protect IRS personnel and facilities from external threats. OI maintains a Procurement Fraud Group that oversees the \$1.6 billion Business Systems Modernization (BSM) contract and identifies fraud and procurement irregularities among the approximately 655 IRS contracts with a combined value of approximately \$21.9 billion.

## TIGTA FY 2007 Budget Highlights

(Dollars in Thousands)

	Amount
<b>FY 2005 Enacted</b>	<b>\$128,093</b>
FY 2006 Appropriation (P.L. 109-115)	133,286
Rescission (P.L. 109-148)	(1,333)
<b>FY 2006 Enacted</b>	<b>\$131,953</b>
<b>Current Services</b>	
<b>Adjustments to Maintain Current Levels</b>	\$3,575
Pay Annualization	845
Proposed Pay Raise	2,120
Non-Pay Inflation Adjustment	610
<b>Transfers from IRS</b>	\$941
<b>Current Services Level</b>	<b>\$136,469</b>
<b>Program Adjustments</b>	
Program Increases	\$0
<b>FY 2007 President's Budget Request</b>	<b>\$136,469</b>

## FY 2007 Budget Adjustments

### FY 2006 Enacted

In FY 2006 TIGTA was appropriated \$131,953,000.

### Current Services

*Adjustments to Maintain Current Levels +\$4,516,000/0 FTE* Funds are requested for the FY 2007 cost of the January 2006 pay increase of \$845,000, the proposed January 2007 pay raise of \$2,120,000; other labor related benefits; and non-labor related items such as contracts, travel, supplies and equipment of \$610,000. Also included is a \$941,000 transfer from the IRS to fund TIGTA's Working Capital Fund operating costs.