



Treasury Inspector General for Tax Administration

Semiannual Report to Congress

October 1, 2005 through March 31, 2006





TIGTA: Promoting integrity in America's tax system

What We Do:

- ✓ **Oversee the IRS**
- ✓ **Investigate threats to the Federal tax system**
- ✓ **Audit the IRS**
- ✓ **Inform the Treasury Secretary, Congress, and the public**

What We Do Not Do:

- ✗ **Direct the IRS**
- ✗ **Investigate tax fraud**
- ✗ **Audit taxpayers**
- ✗ **Take direction from the IRS Commissioner**



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The expenses of government, having for their object the interest of all, should be borne by everyone, and the more a man enjoys the advantages of society, the more he ought to hold himself honored in contributing to those expenses.

~Anne Robert Jacques Turgot



Inspector General's Message to Congress

Our nation's government depends on a tax collection system that is effective, efficient and fair. To maintain the integrity of this system, American citizens must have faith that the tax dollars they pay are fairly assessed and that tax laws are effectively enforced. The Treasury Inspector General for Tax Administration (TIGTA) is charged with ensuring that these responsibilities are met. Throughout my 17 months as Inspector General, I have remained dedicated to upholding this important mission upon which our government relies.

I am proud of our accomplishments and pleased to submit TIGTA's Semiannual Report to Congress, which presents the highlights of our work from October 1, 2005, through March 31, 2006. This report highlights some of our most notable audits and investigations, and summarizes the statistical results of our work. Over the last six months, TIGTA has completed 53 audits that have identified more than \$18.8 million in total cost savings and \$157.8 million in increased or protected revenue.

The Internal Revenue Service (IRS) faces many management challenges. I have identified my primary priorities for TIGTA, which relate to those challenges. They include: overseeing the IRS' efforts to modernize technology; enhancing TIGTA's ability to protect tax administration from corruption; and monitoring the IRS' efforts to improve tax compliance, including its use of private debt-collection agencies.

In addition to these priorities, other events influenced TIGTA's work during this reporting period. Congressional concern over IRS plans to reduce some taxpayer services resulted in legislation passed late last year that requires TIGTA to examine the IRS proposals before implementation. TIGTA's audits included examinations of plans to reduce toll-free telephone service hours and close 68 Taxpayer Assistance Centers.

Hurricanes Katrina, Rita and Wilma and their devastating aftermath also affected the focus of our work during this period. TIGTA is participating in the Inspectors General's

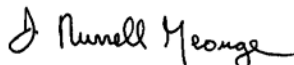
coordinated oversight of the government's multi-billion dollar hurricane relief efforts. As part of this oversight, TIGTA is conducting a series of audits to evaluate the performance of the IRS' relief efforts on behalf of taxpayers who were affected by the hurricanes. TIGTA's work to date is included in this report.

Protecting tax administration from corruption has always been one of TIGTA's highest priorities. Over the last six months, we have opened 1,639 new investigations and closed 1,701 involving the unauthorized access to or disclosure of confidential taxpayer information, bribery of government officials, theft of government funds, bank fraud, and bomb threats. In addition, our Office of Chief Counsel has reviewed 189 proposed regulations and legislative requests.

In our effort to enhance TIGTA's high standards, we have identified opportunities to further our organization's success. TIGTA recently established a pilot Inspection and Evaluation Unit, which we anticipate will allow us to respond more quickly to requests for reviews of tax administration programs or activities from Congress and other stakeholders. Also, TIGTA expanded its authorized uses of certain investigative data. This enhanced authority allows us to share the results of investigations with victims and/or complainants and their representatives. I believe that these initiatives will strengthen our organization and our ability to fulfill our mission on behalf of taxpayers.

Despite challenges that may lie ahead, TIGTA remains firmly committed to carrying out its mission: To ensure the integrity, effectiveness, and accountability of America's tax administration system.

Sincerely,



J. Russell George
Inspector General



TIGTA's Profile

The Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of Treasury Department matters involving IRS activities, the IRS Oversight Board, the National Taxpayer Advocate, and the IRS Office of Chief Counsel. Although we are placed organizationally in the Treasury Departmental Offices and report to the Secretary of the Treasury and to Congress, we function independently from the Departmental Offices and all other offices and bureaus within the Department.

Our work is devoted to all aspects of activity related to the Federal tax system as administered by the IRS. By identifying and addressing the IRS' management challenges, implementing the *President's Management Agenda* and the priorities of the Department of the Treasury, and overseeing the IRS as it strives to achieve its strategic goals, we protect the public's confidence in the tax system.

Our primary functional offices are the Office of Audit (OA) and the Office of Investigations (OI). Our Offices of Chief Counsel, Information Technology, and Management Services support OA and OI efforts. (See organizational chart, next page.)

TIGTA conducts audits and investigations designed to:

- promote the economy, efficiency, and effectiveness of tax administration; and
- 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.

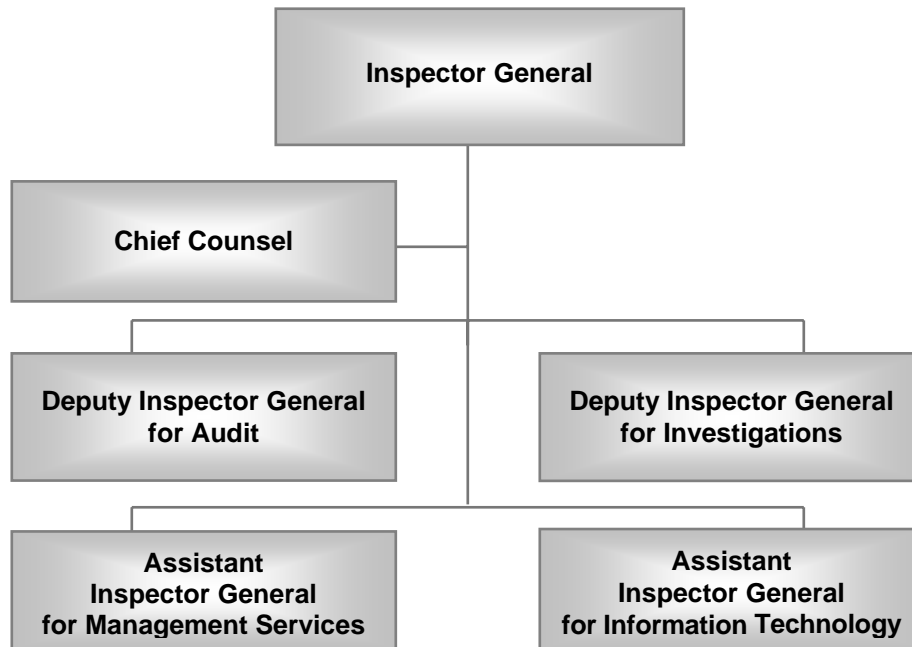
Review existing and proposed legislation and regulations related to IRS programs and operations and make recommendations concerning the impact of such legislation or regulations.

Promote economy and efficiency in the administration of 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.

TIGTA's Organizational Structure



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. TIGTA 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 summonses, 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. 2005)

² Public Law 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

(in this section of report, click on audit report reference to go to report location on the internet)

TIGTA's Office of Audit strives to promote the economy, efficiency, and effectiveness of tax administration. TIGTA provides recommendations to improve IRS systems and operations, while ensuring fair and equitable treatment of taxpayers. Our comprehensive, independent performance and financial audits of IRS programs and operations focus on mandated reviews and high-risk challenges facing the IRS.

The IRS' implementation of audit recommendations has resulted 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.

Each year, TIGTA identifies and addresses the major management challenges facing the IRS. Audit emphasis is placed on statutory coverage required by RRA 98, as well as on areas of concern to Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders. The challenge areas for Fiscal Year (FY) 2006 are outlined in the following chart:

IRS' Major Management Challenges

- Modernization of the IRS
- Tax Compliance Initiatives
- Security of the IRS
- Complexity of the Tax Law
- Using Performance and Financial Information for Program and Budget Decisions
- Providing Quality Taxpayer Service Operations
- Erroneous and Improper Payments
- Taxpayer Protection and Rights
- Processing Returns and Implementing Tax Law Changes
- Human Capital

The following audit summaries highlight significant audits completed during this six-month reporting period and fall into the IRS' Major Management Challenges categories.

Systems Modernization of the Internal Revenue Service

Modernization of the IRS includes both computer systems and business structure (reorganization) modernization. Although both issues have their own sets of challenges, they must both succeed to fully modernize the IRS. Business Systems Modernization (BSM) involves integrating thousands of hardware

and software components over 15 years. The program is in its 7th year and has allocated approximately \$1.9 billion for contractor and integrator activities. The IRS and its contractors have deployed projects that provide value to taxpayers and have built infrastructure needed to support these projects. However, since the start of the modernization effort, the BSM Program has experienced cost overruns and schedule delays in its project development and deployment.

Excise Taxes Computer Systems

The IRS estimates that taxpayer avoidance of motor fuel excise taxes costs the Highway Trust Fund nearly \$1 billion in annual revenue. However, despite receiving approximately \$59 million since 1999 for enhanced program monitoring and data analysis, the IRS has not effectively implemented either its Excise Files Information Retrieval System (ExFIRS)³ or the Excise Summary Terminal Activity Reporting System (ExSTARS)⁴ to identify potential tax compliance issues. The IRS has worked with information document filers for several years to improve the filers' reporting accuracy. As of October 2005, indications were that the data perfection issue would continue to pose a significant problem when mandated electronic filing became effective on January 1, 2006.

TIGTA's audit found that a lack of sufficient executive oversight and project management

documentation contributed to the ExFIRS experiencing cost overruns and schedule delays. In addition, cost-plus-fixed-fee and time and materials contracts awarded for the ExFIRS are generally not appropriate once it is determined that the development of a system is achievable and the duration and extent of work and anticipated costs can be accurately estimated. TIGTA also found that a capacity study and stress test to ensure that system capacity would be sufficient prior to the electronic filing mandate had not been completed for the ExSTARS.

Overall, TIGTA found that performance standards and acceptable quality levels were not consistently documented and measurable for the contract statements of work, the acceptance criteria section defined requirements for the deliverables in nonmeasurable terms, and the due dates were generally not specific.

TIGTA made several recommendations to enhance the ExFIRS and ExSTARS. For example, the IRS should develop a plan and schedule for initiating an examination program based on identified discrepancies and clarify ExSTARS objectives. The IRS should update appropriate project management documents, conduct a stress test to ensure sufficient system capacity, complete a transition plan for moving the project to operations and maintenance status, and schedule a post-implementation review.

In addition, Federal Highway Administration representatives should be involved with program management and executive oversight when the ExFIRS moves from development to operations and maintenance status. Finally, the ExFIRS should be elevated to a major information technology investment.

³ The Excise Files Information Retrieval System (ExFIRS) is an umbrella system made up of nine subsystems that support the collection of motor fuel industry information, automated analysis of this information, and identification of areas with the highest risk for nonpayment of excise taxes.

⁴ The most critical ExFIRS subsystem, designed to track the movement of motor fuel to and from approved terminals by requiring the monthly submission of information documents to the IRS reflecting fuel quantity and type.

IRS management agreed with most of TIGTA's recommendations and is taking corrective action. However, the IRS did not specifically comment on the recommendations to complete a transition plan, conduct a stress test, or schedule a post-implementation review. TIGTA believes these actions are needed to assure an effective transition to the Modernization and Information Technology Services organization and to verify that the ExFIRS is working properly.

Report Reference No. 2006-20-001

BSM Contract Cost Estimation

TIGTA determined that active and deployed IRS BSM projects under PRIME⁵ contractor management varied from original cost estimates by over \$480 million. While the BSM Office has made progress in implementing cost and schedule estimation recommendations included in a prior TIGTA report,⁶ additional actions are necessary. TIGTA determined that:

- estimate documentation did not explain the results of using a second cost and schedule estimation method;
- the PRIME Estimation Guidebook did not clearly present the requirements to use a second cost and schedule estimation method;
- cost and schedule estimate proposals submitted for review did not contain the required supporting documentation; and

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

⁶ *The Cost and Schedule Estimation Process for the Business Systems Modernization Program Has Been Improved, but Additional Actions Should Be Taken* (Reference Number 2003-20-219, dated September 2003).

- issues identified during estimation activities were not input to the Item Tracking Reporting and Control System.

Although cost variances were generally trending downward, the trend was not consistent. Active and deployed BSM projects have varied from original schedule estimates by an average of 18 months.

The IRS has recently taken steps to limit cost increases and schedule delays. The IRS is establishing a Requirements Management Office to help avoid recurring issues that have contributed to additional project costs and delays.

In addition, IRS executives stated that they were concerned that the prevailing variance computation methodology did not accurately depict variances within the BSM Program and had begun discussions to revise the methodology.

TIGTA recommended that the IRS ensure that:

- all modernization systems development contractors provide consistent cost and schedule estimation data;
- clear guidance be issued requiring the results of using multiple estimation methods; and
- remaining issues from the IRS PRIME Validation Report that are relevant to the new environment be documented and tracked.

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

Report Reference No. 2006-20-002

Cell Phone Cost Savings

TIGTA followed up on its September 2004 recommendation to determine the effectiveness of the IRS' corrective actions to establish a complete and accurate cellular telephone inventory. When the IRS validated the accuracy of its cellular telephone inventory, it resulted in cost savings of approximately \$1.4 million annually. In September 2004, TIGTA recommended that the IRS establish a complete and accurate inventory of its cellular telephones and ensure that service is immediately discontinued for unregistered cellular telephones. At the time that report was issued, the IRS was unable to provide information identifying the total inventory of cellular telephones, the approximate number of unregistered cellular telephones, or total costs for services.

IRS management responded that service for unregistered cellular telephones would be terminated as of December 31, 2004, and cellular telephones would be validated annually. At the conclusion of the 2004 annual validation process, the IRS terminated service for 2,908 invalidated cellular telephone numbers.

On October 17, 2005, the IRS announced the 2005 annual validation of cellular telephones. This validation process is to be conducted annually to maintain a complete and accurate inventory and ensure the efficient use of resources. TIGTA made no recommendations for this review. However, IRS management agreed with the report and outcome measure.

Report Reference No. 2006-20-025

Support for New System Control Benefits

The Filing and Payment Compliance (FP&C) project is a multi-year effort that was initiated in 2001.⁷ TIGTA found that the IRS does not have support for more than \$16.1 billion of costs and benefits used to justify the project. Since the passage of the American Jobs Creation Act of 2004,⁸ the IRS has made strides to reactivate the F&PC project and implement the first release. The IRS decided that the best solution for the project was to purchase commercially available software. While the information contained in the draft Exhibit 300⁹ supports the IRS' decision, TIGTA could not verify the decision because documentation was not always accurate, complete, and timely. Specifically, spreadsheets detailing cost and benefit calculations for each of the three alternatives contained several errors, and the cost and benefit information used to prepare the draft Exhibit 300 could not be supported. In total, spreadsheet errors understated the net present value for one alternative by \$1.3 billion and overstated another alternative by \$8 million. In July 2005, TIGTA reported this issue to BSM officials, who agreed with the conclusion and revised the spreadsheets. In its December 2005 review of the F&PC, TIGTA determined that the documentation provided as support for 87 percent of the costs and benefits reviewed (\$16.1 billion of \$18.5 billion) did not provide enough detail to

⁷ The IRS initiated the Filing and Payment Compliance (F&PC) project to address its shortcomings of insufficient staff, collection processes, and systems, and increase delinquent tax collections. By implementing the F&PC project, the IRS expects to increase collections by \$15.4 billion over 10 years and reduce the inactive delinquent tax case inventory.

⁸ Pub. L. No. 108-357, 118 Stat. 1418 (2004).

⁹ Twice a year, the Office of Management and Budget requires Federal Government agencies to complete a Capital Asset Plan and Business Case (Exhibit 300) for each major information technology investment.

verify the reliability of the information in the draft Exhibit 300.

TIGTA recommended that the IRS revalidate the Alternatives Analysis,¹⁰ a key component of the Exhibit 300; develop and maintain adequate documentation to support its decision to purchase commercially available software; and revise the Exhibit 300, if warranted. As part of the revalidation process, TIGTA recommended that the IRS perform a quality review of all supporting documentation for the Exhibit 300 to ensure the reliability of the documentation. IRS management agreed with the recommendations and stated that an outside contractor would perform a revalidation of the Alternatives Analysis and a quality review of supporting documentation.

Report Reference No. 2006-20-026

Tax Compliance Initiatives

The completion of the initial phases of the National Research Project (NRP) allowed the IRS recently to release an updated estimate of the tax gap. As a result of the NRP, the IRS now estimates that taxpayers with self-employment income underreport between \$51 billion and \$56 billion in unemployment tax.

The IRS recently received authority and will begin testing the use of contract staff to work some collection cases. It is too early to tell if the contract resources will be able to resolve a significant number of cases or whether they will remain unresolved.

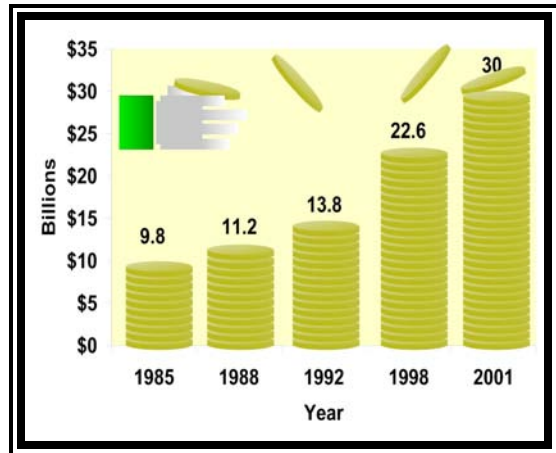
¹⁰ The Alternatives Analysis provides estimated cost and benefit information on viable alternatives to assist management in determining the most effective approach for a project.

During the last few years, the IRS has been implementing reengineering suggestions aimed at increasing the effectiveness of enforcement efforts. TIGTA has conducted several reviews of these initiatives; however, it is too early to evaluate the full impact.

Individual Non-Filer Tax Gap

In March 2005, the IRS reported that individual non-filers accounted for an estimated \$30 billion of the total tax gap¹¹ for Fiscal Year (FY) 2001. Studies indicate that the tax gap for individual non-filers has tripled from \$9.8 billion in Tax Year (TY) 1985 to over \$30 billion in TY 2001.

Tax Gap Amounts Attributable to Individual Non-filers



Source: IRS Tax Gap Estimated Statistics for Tax Years 1985-2001.

The rate of growth accelerated from TY 1998 to TY 2001 as the individual non-filer tax gap increased 33 percent over these three years. None of these reported figures takes into account the amount of money owed by the cash or underground economy.

Since FY 2001, each of the IRS' business divisions has independently directed its own

¹¹ The non-filer tax gap is the dollar amount of taxes not paid timely on delinquent and non-filed returns.

non-filer activities. Currently, the IRS does not have a comprehensive, national non-filer strategy or an executive who is charged with overseeing each business division's non-filer efforts.

TIGTA recommended that the IRS establish a Non-filer Program Office with a position for a Non-filer Executive or a permanent multi-divisional group with responsibilities for developing a strategy, implementing management control systems, and providing accountability for all the IRS non-filer efforts.

Each business division should develop measurable program goals to determine the success of its non-filer efforts and create a decision support system for aggregating data concerning the effectiveness of non-filer programs to improve the voluntary compliance levels of non-filers. Consideration should be given to the development of an organization-wide tracking system to monitor the progress of each business division's non-filer strategy action items.

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

Report Reference No. 2006-30-006

Abusive Tax Shelters

The IRS considers identifying and combating abusive tax shelters a high priority. This was reflected in the emphasis given to the settlement initiative for investors in a variety of Bond and Option Sales Strategies, commonly referred to as the "Son of Boss" abusive tax shelter.

Announced publicly in May 2004, the settlement initiative was closely coordinated by IRS management at all levels to ensure its

success. As of March 16, 2005, IRS interim reports indicated that 1,039 participating investors had settled their cases by paying or agreeing to pay more than \$2.7 billion in taxes, interest, and penalties.

Despite the IRS' successful achievements in the settlement initiative, much work remains to resolve the tax accounts of the investors who declined or were ineligible to participate in the settlement initiative.

As of July 2005, IRS officials reported that they were continuing to work on nonparticipating investor cases by ensuring that all related flow-through entities were included in examinations, so that all tax benefits from the "Son of Boss" abusive tax shelter could be disallowed.

In its March 2006 report, TIGTA made two observations that the IRS may find useful in its efforts to curtail abusive tax shelters. First, experience has demonstrated that the general three-year statutory assessment period was insufficient for tax administrators to examine and assess all identified participants in the "Son of Boss" abusive tax shelter. At the Federal level, where the loss from abusive tax shelters has been estimated at \$85 billion, a provision in the American Jobs Creation Act of 2004 (AJCA) provided the IRS with up to an additional year to assess taxes related to a "listed" transaction if it is not properly disclosed on the return. However, TIGTA found that this additional limitation did not accurately reflect the time needed to complete the examination and assessment process. As a result, the one-year limitation in the AJCA could prove overly restrictive to realize intended benefits from the extended assessment period.

The second observation was that the IRS could plan for and conduct an evaluation that captures the overall successes achieved and lessons learned in resolving the “Son of Boss” abusive tax shelter. Such an evaluation could provide an important tool for managers to use if faced with a challenge of this magnitude in the future. It would also be consistent with the Government Performance and Results Act¹² and IRS guidance for analyzing performance and identifying improvement options.

To curtail abusive tax shelters, TIGTA recommended that the IRS, in conjunction with the Department of the Treasury’s Office of Tax Policy, determine whether the AJCA provision extending the statutory assessment period is adequate to protect tax revenues and deter participation in abusive tax shelters. If the determination shows the AJCA provision is likely to be ineffective, a proposal should be prepared for Congress to increase the one-year limitation under the AJCA provision.

TIGTA also recommended that the IRS designate a study group to evaluate and document its overall performance in resolving the “Son of Boss” abusive tax shelter.

IRS management agreed with one of the two recommendations and has convened a study group to evaluate the overall performance in resolving the “Son of Boss” abusive tax shelter. The study group’s report is expected by June 30, 2006.

The IRS did not agree to take action and determine whether the AJCA provision extending the statutory assessment period is

adequate for protecting tax revenues and deterring participation in abusive tax shelters.
Report Reference No. 2006-30-065

Security of the Internal Revenue Service

The IRS relies upon critical computer systems to account for more than \$2 trillion in revenue annually. However, significant disaster recovery program weaknesses continue to be unresolved. These recurring weaknesses include: modernization systems being placed in production without a disaster recovery capability; insufficient disaster recovery capacity; roles and responsibilities not being assigned and employees not being trained; and annual tests not being conducted or not being effective. In addition, control weaknesses, such as failure to close user accounts when employees leave the IRS, inadequate documentation of user access authorizations, and insufficient documentation that employees have acknowledged their security responsibilities continue to exist, even with the implementation of a new automated system to authorize system access.

These weaknesses continue to occur because managers and system administrators have not adhered to system procedures.

Federal Information Systems Management Act Compliance

The Federal Information Security Management Act (FISMA)¹³ requires each Federal agency to report annually to the Office of Management and Budget (OMB) on the effectiveness of its security programs. In addition, the FISMA requires that each agency

¹² Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.)

¹³ The FISMA is part of the E Government Act of 2002, Pub. L. No. 107-347, Title III, Section 301, 2002.

shall have performed an annual independent evaluation of the information security program and practices of that agency. In compliance with the FISMA requirements, TIGTA performs the annual independent evaluation of the security program and practices of the Internal Revenue Service.

During FY 2005, the IRS made strides toward improving security. Most significantly, the IRS developed a corporate approach to the FISMA by elevating its processes and procedures into an enterprise-wide program.

A cross-organizational FISMA working group was created, reporting to an Executive Steering Committee for the development and effective coordination of FISMA activities. Executive position descriptions now reflect security responsibilities. Additionally, a Security Program Management Office was established within each business division to provide guidance and consistency across IRS business divisions in implementing FISMA requirements.

Recognizing that it will take time to achieve long-term improvements, TIGTA found that the process changes taken by the IRS have not yet had a positive effect on some measurements requested by OMB.

Specifically, TIGTA noted concerns with the IRS' system inventory categorization, certification and accreditation, continuous monitoring, tracking corrective actions, training employees with key security responsibilities, contractor oversight, and security configuration policies. As a result, TIGTA believes that sufficient attention is not yet being given to the security of all sensitive systems and to contractor activities.

The IRS continues to use a large number of systems containing sensitive taxpayer data that have been ranked as low risk, most of which have not been certified and accredited, and have not been adequately tested on an annual basis.

Report Reference No. 2006-20-071

Common Operating Environment Security

The IRS developed the master Common Operating Environment (COE) image¹⁴ with secure computer configurations and installed this image on 95 percent of all employee computers as of January 2005. However, once the COE was installed, security settings were not maintained consistently.

TIGTA found 60 of 102 sampled computers with the COE installed complied with less than 90 percent of the recommended computer settings prescribed by the IRS, or contained at least one item of high-risk vulnerability that could be exploited either to take control of the computer or render it unusable.

The IRS also did not ensure that all new vulnerabilities on employee computers were being addressed. TIGTA found 29 of the 102 sampled computers did not have the latest COE update version. COE updates contain the latest available security patches to address new vulnerabilities.

The weak security settings and the lack of updated COE versions can be attributed to system administrators since they are generally the only persons authorized to change security settings or install software on employee computers.

¹⁴ The COE is a standardized set of commercial off-the shelf and internally developed applications to support the needs of more than 100,000 IRS employees using Microsoft Windows.

In addition, software licensing can be controlled more effectively on COE computers. TIGTA determined that six COE software packages¹⁵ should not be included in the COE baseline version because of their costs and limited usage.

One of these software packages is the full version of Adobe[®] Acrobat,[®] which contains advanced features that employees are probably either unaware of or rarely use. Although the IRS paid approximately \$2.3 million for full versions of Adobe[®] Acrobat,[®] most IRS employees need only the free Adobe[®] Reader.

The IRS recommends that periodic configuration audits be performed on the program hardware, software, and documentation to ensure that products evolve properly with recorded traceability and meet program needs. As of February 2006, TIGTA was not aware that any such software configuration reviews were being conducted.

TIGTA recommended that the IRS hold system administrators accountable for maintaining adequate security settings on computers after the COE has been deployed. System administrators should be required to run the IRS' configuration-checking program on a sample of workstations on a periodic basis and follow up on workstations where the COE updates were not successfully installed.

All computers without the COE image should be identified and actions taken to either install the COE image, replace the computers, or manually bring the computers into compliance with prescribed security configurations.

¹⁵ In addition to the full version of Adobe[®] Acrobat[®], other applications included InfoConnect, Inso Quick View Plus, Winzip, Avery Wizard, and Roxio Easy CD Creator.

TIGTA also recommended that the IRS use available tools to identify possible unauthorized software installed on computers, consider purchasing software metering tools, and assign responsibility for monitoring software with significant license agreement costs. IRS management agreed with most of the recommendations and is taking corrective action.

Report Reference No. 2006-20-031

Updating Security on Employees' Computers

The Tivoli^{®16} applications provide the IRS with the ability to systemically deliver the most current versions of software and updated security patches to employees' computers and to scan the network to help maintain accurate computer inventory records. Because the IRS has over 100,000 employees, these tasks, although very important, can be daunting. Unsuccessful software distributions can lead to missing patches on computers, which in turn, could expose the computers to exploitation by hackers, disgruntled employees, and/or malicious programs.

In addition, maintaining an accurate computer inventory is crucial for the accuracy of the IRS' financial statements. The IRS has shown significant progress in using Tivoli[®] applications for distributing software updates to computers.

Much of that progress can be attributed to the IRS' efforts to improve Tivoli's[®] ability to connect to more computers. While these improvements are commendable, the IRS can take further actions to improve its software distribution success rate, better use Tivoli[®] data for inventory reconciliation and software license management, and increase its overall ability to connect to computers.

¹⁶ Tivoli[®] is a registered trademark owned by IBM.

To improve software distributions, TIGTA recommended that the IRS develop procedures that provide formal guidance and standardization in preparing the distributions. To improve the use of Tivoli[®] software inventory application data, TIGTA recommended that the IRS resolve mismatches between Tivoli[®] data and the Information Technology Asset Management System (ITAMS) and ensure that all desktops, laptops, and servers comply with the IRS' computer naming standards. In addition, the IRS should ensure that software management policies and procedures are provided and responsibility for software management is specified.

To improve Tivoli[®] computer connectivity, TIGTA recommended that the IRS notify all employees of the need for computers to remain online whenever possible, provide that employees assigned Tivoli[®] responsibilities have adequate access to computers, separately account for Tivoli[®] computers that are taken out of service for backup or emergency purposes, and assign formal responsibility for incorporating computers without the Tivoli[®] client software into Tivoli.[®]

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

Report Reference No. 2006-20-021

Hurricanes Katrina and Rita

Hurricane Katrina made landfall on the Central Gulf Coast of the United States on August 29, 2005. It caused unprecedented damage to New Orleans, Louisiana, as well as the coastal areas of Mississippi and Alabama, and became the most destructive and costliest natural disaster in U.S. history. Hurricane Rita followed less than one month later and

further damaged New Orleans and the Gulf Coast area of Texas.

The IRS had 25 offices affected by the hurricanes, many of which were closed for short durations because of sustained power outages. Five offices, however, received significant damage, which forced closure for longer periods of time.

The IRS adequately prepared for Hurricanes Katrina and Rita. The IRS had sufficiently updated both its Occupant Emergency Plans¹⁷ in May 2005 and Incident Management Plans¹⁸ in March 2004 for the offices affected by the hurricanes and conducted training sessions for its designated Incident Commanders.¹⁹ It also took action immediately prior to the hurricanes to enhance post-hurricane employee communications, ensure continued salary payments, and minimize computer damage in its offices affected by the hurricanes.

After the hurricanes made landfall, the IRS expeditiously located all employees and restored computer operations in affected offices. Emergency Operations Command Centers were established in Nashville, Tennessee, and Dallas, Texas, immediately after Hurricanes Katrina and Rita, respectively.

¹⁷ An Occupant Emergency Plan contains the procedures for employees to follow during an emergency situation.

¹⁸ An Incident Management Plan describes the overall coordinated actions to be taken by the Incident Management team to ensure recovery and restoration of a facility when an incident occurs.

¹⁹ An Incident Commander is directly responsible for frontline management of an incident. The Incident Commander, in conjunction with other onsite business team managers, will develop and implement response strategies and use existing disaster preparedness documents for the recovery of business operations.

The IRS focused primary attention on finding all employees in affected offices. All 517 employees in those offices were accounted for within 13 days after Hurricane Katrina, and all 35 employees were accounted for within five days after Hurricane Rita.

As for its computer operations in the offices affected by the hurricanes, the IRS restored system access to its Integrated Collection System²⁰ application from the five affected offices to the Atlanta, Georgia, office within five workdays.

Personnel from the IRS' Modernization and Information Technology Services organization²¹ also transferred employees' work files to another network so that employees in affected offices could continue to work. However, TIGTA was unable to definitively state that taxpayer data were protected in the wake of Hurricanes Katrina and Rita because seven computers from two offices affected by the hurricanes could not be located.

TIGTA confirmed that none of the missing computers were used to access the IRS computer network after the hurricanes, so any loss of data would have been limited to the data on the missing computers.

TIGTA recommended that the IRS establish procedures to require a team of employees or government entities to visit an office as soon as possible, but no later than 72 hours after a major disaster, to evaluate the security of the

office's perimeter and, if necessary, to take appropriate action either to secure the perimeter or implement measures to prevent unauthorized access.

TIGTA also recommended that the IRS establish procedures to conduct an inventory reconciliation of all computes at IRS facilities that suffer extensive damage after a major disaster to identify possible loss or theft of computers.

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

Report Reference No. 2006-20-068

Providing Quality Taxpayer Service Operations

Each year, millions of taxpayers contact the IRS seeking assistance in understanding the tax law and in meeting their tax obligations by either calling the various toll-free telephone assistance lines, accessing the IRS Internet site or visiting an IRS Taxpayer Assistance Center (TAC). Walk-in assistance has proved to be particularly helpful for lower-income taxpayers and those with limited or no English language proficiency.

The IRS discontinued its TeleFile Service, used by nearly 4 million taxpayers, in August 2005. Earlier in 2005, the IRS stated that it planned to close 68 TACs, to reduce costs and create efficiencies while maintaining a commitment to taxpayer service. Currently, the IRS has suspended this plan, pending further study.

²⁰ The Integrated Collection System is a case processing application that supports IRS employees who work delinquent taxpayer cases (i.e., taxpayers who have not filed tax returns or paid tax obligations).

²¹ The Modernization and Information Technology Services organization is responsible for supporting the IRS on Information Technology issues, which includes protecting and restoring computer operations and locating all computers after a disaster.

Assessment of TAC Closure Model

One of the IRS' key strategic goals is to improve taxpayer service. To achieve this goal, the IRS is continually working to improve service options and quality, facilitate participation in the tax system, and simplify the tax process. Helping people understand their tax obligations and making it easier to participate in the tax system is the first step toward improving voluntary compliance.

Taxpayers have several options from which to choose both to fulfill their tax obligations and to obtain assistance from the IRS. Taxpayers are able to file their tax returns either traditionally (on paper) or electronically. When needing IRS assistance, taxpayers have several options, including face-to-face service at the TACs, telephone service through the toll-free telephone numbers, and Internet access through the IRS Internet site, www.irs.gov. The quality of each of these services influences a taxpayer's ability and desire to voluntarily comply with tax laws.

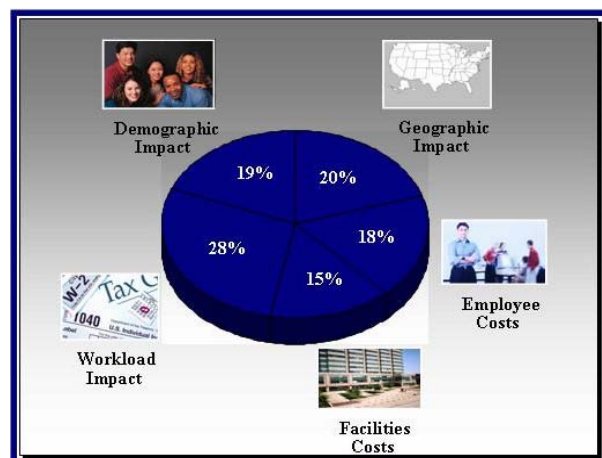
In May 2005, the IRS announced plans to close 68 of its 400 TACs nationwide. Closing the 68 TACs was expected to yield staffing and facilities cost savings of \$45 million to \$55 million. However, after the IRS' announcement, a law was passed delaying the closure of any TACs.²²

The new law, enacted in November 2005, requires the IRS to consult with stakeholder organizations regarding any proposed or planned efforts to terminate or reduce significantly any taxpayer service activity.

²² The Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, Pub. L. No. 109-115, 119 Stat. 2396 (2006).

To determine which TACs to close, the IRS and an independent contractor used an industry-standard software package and developed the TAC Closure Model (the Model).

The Model, which is criteria-based and data-driven, ranked each of the IRS' 400 TACs using five criteria: geography; employee costs; facilities costs; workload; and demographics. Each criterion was assigned a "weight," with more than two-thirds of the weighting focused on customer considerations, including demographics, geography, and workload. The remaining one-third focused on facilities and labor costs.



The five criteria were further subdivided into 51 subcomponents. The Model then ranked the TACs from highest to lowest score. The higher the score, the higher the probability a TAC was selected for closure.

To further refine the identification of TACs to be closed, the IRS applied three business rules, ensuring: 1) that a significant office presence would remain in the top 35 metropolitan areas; 2) that no state would lose more than one-half of its TACs; and, 3) that no TACs in Alaska and Hawaii would be closed.

TIGTA found that, although the structure of the Model was sound, not all data used were accurate or the most current available, and that some of the data were based on estimates and projections instead of actual data currently available.

TIGTA's testing raised the possibility that some TACs had been incorrectly identified to be closed or remain open. Results showed sufficient discrepancies and raised concerns about using the Model results to select which TACs to close.

In addition, data discrepancies affected the IRS' ability to accurately determine cost savings. The IRS might have overselected or underselected the number of TACs that needed to be closed to reach the targeted savings of \$45 million to \$55 million.

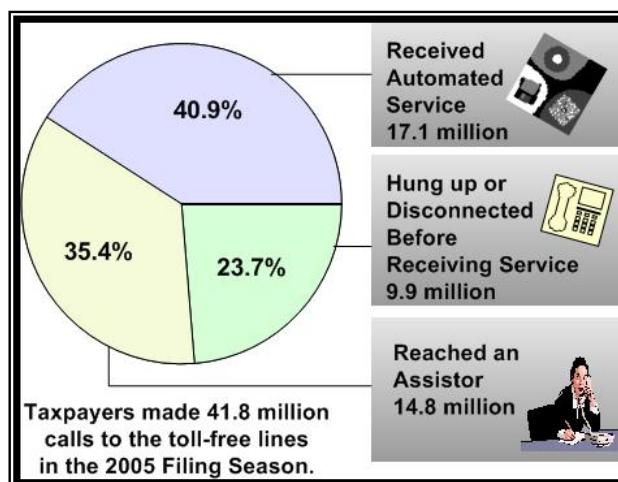
TIGTA recommended that the IRS ensure that data used in the Model or any decision-making tool be accurate and reliable and have been validated. In addition, the Model or any decision-making tool should include data to identify customer characteristics and capture customer input to effectively measure the impact any results might have on taxpayer service and compliance.

IRS management agreed that data reliability is an issue that must be addressed. Management also agreed in principle with the recommendations and is taking corrective action. However, IRS management expressed concern that measuring the effect of taxpayer services on compliance is a difficult task that it has been unable to accomplish reliably since the inception of taxpayer service programs in the 1940s.

Report Reference No. 2006-40-061

Toll-Free Preparations for the 2006 Filing Season

In addition to the November 2005 law, Congress further defined a reduction of taxpayer service to include limiting available hours of telephone taxpayer assistance below the levels in existence during the month of October 2005.²³ For the 2005 Filing Season, the IRS devoted 8,200 Full-Time Equivalents²⁴ to answer the various Customer Account Services function toll-free telephone lines. Taxpayers called these lines approximately 41.8 million times during that time period. Of these, 16.8 million were made to the toll-free telephone number (used for tax law or account-related questions).



The Customer Account Services function appeared to have had an effective planning process for the 2006 Filing Season, which, if properly implemented, would help ensure that

²³ Department of Defense Appropriations Act, Pub. L. No. 109-148, 119 Stat. 2680 (2006).

²⁴ A Full-Time Equivalent is a measure of labor hours in which 1 Full-Time Equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. This usually equates to 1 person working 1 year, but can equate to 2 people working 1/2 of a year each, 2 people working part time for a full year, 3 people working 1/3 of a year each, etc. For FY 2006, 1 Full-Time Equivalent is equal to 2,080 staff hours.

taxpayers calling for assistance would receive effective customer service.

Nevertheless, the 2006 Filing Season could present unique challenges. TIGTA believes more taxpayers than the IRS estimated could call the Special Services Applications (used for disaster-related issues). In addition, the IRS had planned to reduce toll-free telephone hours of operation in FY 2006. However, as of the time of this review, the IRS was still determining whether it would make this reduction and when the new hours would take effect.

Although TIGTA made no recommendations as a result of this review, due to the concerns expressed by Congress about the IRS reducing operating hours for the toll-free telephone lines, TIGTA is continuing to evaluate the IRS' plans to reduce these operating hours.

Report Reference No. 2006-40-053

Erroneous and Improper Payments

An improper payment is any payment that should not have been made or that was made in an incorrect amount under a statutory, contractual, administrative, or other legally applicable requirement.

According to the OMB, Federal agencies make more than \$2 trillion in payments to individuals and a variety of other entities each year. By strengthening financial management controls so that Federal agencies can better detect and prevent improper payments, the Federal Government can better ensure that taxpayer dollars are spent wisely and efficiently.

For the IRS, improper and erroneous payments are generally associated with erroneous refunds and filing fraud issues as well as vendor or contractor payments. Some tax credits, such as the Earned Income Tax Credit (EITC) provide opportunities for abuse in income tax claims.

In Tax Year (TY) 2003, the IRS reported that approximately 21.7 million taxpayers received EITC totaling \$38.1 billion. The IRS estimated that between 27 percent and 32 percent of the \$31 billion in EITC claimed on TY 1999 returns should not have been paid.

Multiple Uses of Taxpayer Identification Numbers

When a taxpayer identification number is used more than once per year, it creates the opportunity for taxpayers to receive tax benefits to which they are not entitled. To determine whether the IRS has an effective process to detect and deter multiple uses of taxpayer identification numbers to obtain improper tax benefits, TIGTA analyzed two types of cases on the Duplicate Taxpayer Identification Number Use (DUPTIN) database. This database is used to determine the total number of identification numbers that were used more than once in a given year, the number of times each identification number was used, and how each identification number was used.

While the IRS has implemented strong controls on electronically filed tax returns to prevent taxpayers from receiving improper benefits, it can improve its processes when dealing with paper tax returns. Specifically, the IRS can capitalize on existing paper return processes to prevent additional taxpayers who improperly use an identification number from receiving tax benefits to which they are not entitled.

Expansion of some current programs will increase the IRS' opportunities to educate taxpayers and tax preparers on the correct way to use an identification number and to reduce the amount of improper tax benefits received by taxpayers. The IRS can also improve the reliability of the information in the DUPTIN database.

In its November 2005 audit, TIGTA recommended that the IRS lead a collaborative effort to identify a workable solution to resolve cases of multiple use of identification numbers and evaluate the IRS' education strategy for taxpayers and tax preparers on the proper use of an identification number.

TIGTA also recommended that the IRS re-emphasize procedures to remove all invalid and incorrect identification numbers from the DUPTIN database once they have been corrected. IRS management agreed with the recommendations and is taking corrective action.

Report Reference No. 2006-40-007 (Limited Official Use)

Contractor Billing

Contract expenditures represent a significant outlay of IRS funds. As of October 2005, the IRS was responsible for administering 553 contracts with a total systems life value of \$28.2 billion. In an effort to monitor IRS contracts for erroneous payments, TIGTA performs reviews of select vendor invoices and has an arrangement with the Defense Contract Audit Agency (DCAA) for additional audit support. During this six-month period, TIGTA, with the assistance of the DCAA, issued 19 contract-related audit reports that identified approximately \$11.8 million in questionable costs.

In one audit report, the DCAA questioned \$11.8 million in labor costs directly related to IRS contracts. The DCAA reported that the contractor's consulting costs do not provide the Federal Government with the labor rates provided to the contractor's best customers.

The issue is continuing to be evaluated. However, until it is resolved, the contractor's consulting labor costs will be questioned, per the provisions of the Federal Acquisition Regulation.

Report Reference No. 2006-1C-003

(Weblink not available for this audit report)

In another report, TIGTA analyzed 39 DCAA reports issued between September 2000 and January 2005, relating to one systems modernization contractor, and identified 25 reports with issues that affected (e.g., questionable costs) or could affect (e.g., accounting system deficiencies) the contractor's billing accuracy, thereby increasing the IRS' risk of making improper payments.

The contractor's system deficiencies cited by the DCAA included the potential for overstated and unsupported direct labor, indirect, and other direct costs, and ineffective control over the accumulation, allocation, and recording of costs incurred in the performance of Federal Government contracts.

Recent DCAA reports indicate that the contractor is making progress in addressing previously reported system inadequacies. However, despite these recent results, TIGTA believes that significant risk still remains for the IRS on this contract. As a result, TIGTA will continue to conduct voucher audits of the contractor in an effort to substantiate reported contract costs and ensure that the vouchers are accurate,

supported, and allowable. TIGTA believes that the IRS should continue to participate and fund DCAA planned audit activities of the contractor to ensure that system deficiencies are identified and corrected.

Report Reference No. 2006-10-008 (Limited Official Use)

TIGTA also issued two audit reports involving its analysis of invoices related to time-and-materials contracts. In one instance, TIGTA reported that the IRS' voucher verification process was incomplete due to the lack of review of contractor-provided detailed support for labor hour charges or travel and other direct costs.

TIGTA's review of a contractor that provided the IRS with support services on a project to reduce taxpayer burden resulted in the identification of possible questionable charges of \$1,937.61. This amount included unallowable and unsupported travel charges of \$1,256.36, and unsupported other direct costs of \$681.25.

IRS management agreed with the findings and, working with the contractor, was able to identify adequate supporting documentation in the amount of \$1,433.29. The contractor agreed to reimburse the Federal Government the remaining balance of \$504.32.

Report Reference Nos. 2006-10-027 and 2006-10-060

Office of Professional Responsibility

TIGTA estimated that 22,500 of the 407,000 licensed tax practitioners eligible to practice before the IRS were not compliant with their own tax obligations. In addition, 516 eligible practitioners had a revoked, disbarred, resigned, or surrendered State license during Calendar Years (CY) 2002-2004. Furthermore, TIGTA identified

55 eligible practitioners who had been convicted of serious criminal offenses, including income tax evasion, conspiracy to obstruct or defraud the IRS, or preparation of fraudulent tax returns during CYs 2002-2004.

The IRS has an oversight role to ensure that licensed tax practitioners who practice before the IRS adhere to standards of conduct and professionalism.²⁵ Although the IRS has increased its efforts by enforcing 320 disciplinary actions during FY 2005, there are still a significant number of licensed tax practitioners eligible to practice before the IRS whose conduct appears to warrant disciplinary action. Licensed tax practitioners who engage in misconduct may not be well equipped to provide tax advice and services to taxpayers and they could undermine public confidence in these professionals.

In January 2001, TIGTA reported that the IRS lacked the necessary information to assess or manage the resources used for the licensed tax practitioner disciplinary program.²⁶ TIGTA's March 2006 audit found that these problems still exist.

In addition, TIGTA was not able to reconcile the information on the case management system with source documents because the IRS does not account for all case referrals

²⁵ Department of the Treasury Circular No. 230, *Regulations Governing the Practice of Attorneys, Certified Public Accountants, Enrolled Agents, Enrolled Actuaries, and Appraisers before the Internal Revenue Service*, contains the standards of conduct and professionalism for licensed tax practitioners and authorizes the Department of the Treasury to institute disciplinary proceedings against tax practitioners whose conduct violates these regulations. The Office of Professional Responsibility within the IRS conducts this oversight role.

²⁶ *Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program* (Reference Number 2001-10-027, dated January 2001).

received, does not maintain source documentation for some case referrals, and does not have written procedures to ensure consistent processing of case referrals.

To further complicate matters, some case referrals were inappropriately destroyed in October 2004. As such, the IRS' ability to perform analyses to identify potential areas for emphasis or improvement is very limited.

TIGTA recommended that the IRS develop a systematic method to identify licensed tax practitioners who are eligible to practice but are not compliant with their own tax obligations. In addition, the IRS should work with other law enforcement agencies and State licensing authorities to improve the exchange of information for possible IRS disciplinary action.

Furthermore, the IRS should implement the recommendations of the prior TIGTA review and obtain approval for any needed changes to its record retention requirements, develop procedures to better define what cases will be recorded on the case management system, and establish controls and analytical procedures to increase the reliability of the system.

In general, IRS management agreed with the recommendations. However, IRS management believes that it is doing all that can reasonably be done to collect comprehensive conviction information from law enforcement agencies, and it must rely on law enforcement agencies to identify these cases.

The IRS also stated that it will not implement the recommendations from TIGTA's prior report because it does not agree that annual workload and staffing analysis is productive,

given the size and maturity of the practitioner disciplinary program.

TIGTA is elevating its disagreement related to these two recommendations to the Department of the Treasury for resolution.

Report Reference No. 2006-10-066

Convenience Check Program

The IRS' Convenience Check Processing Guide requires Lien Imprest Fund cashiers to reconcile their Citibank statements with their check register on a monthly basis. The cashier is to submit the reconciliation statement for review. However, the Guide does not require the submission of any supporting source documentation with the monthly statement reconciliation. TIGTA's November 2005 audit report found that the IRS may more readily identify suspect checks if the cashier is required to submit supporting source documentation. Requiring supporting documentation may also deter dishonest employees from preparing unauthorized checks.

TIGTA has recommended that the IRS revise the Convenience Check Program procedures to require that Approving Officials receive and review supporting source documentation during the monthly bank statement reconciliations. IRS management agreed with this recommendation.

The success of another IRS program, the Volunteer Return Preparation Program (VRPP), is dependent upon the reputation it creates in the public forum. Taxpayer confidence in the program will decrease if volunteer misdeeds are brought to light in the media.

As the IRS moves away from return preparation, it needs to take action to ensure that VRPP participants are adequately cautioned about misusing government computers and accepting

payment for volunteer activities. Current VRPP training materials provide minimal warnings on accepting payment for volunteer activities, but do not adequately address the misuse of government computers.

TIGTA has recommended that the IRS enhance training materials and information provided to VRPP participants, reminding them that government computers should not be used for personal business and that payments should not be accepted for preparing tax returns. IRS management agreed with this recommendation.

Report Reference No. 2006-40-005 (Limited Official Use)

Taxpayer Protection and Rights

The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of RRA 98.

Failure to Pay Penalty Grace Period

A provision of the Taxpayer Bill of Rights²⁷ increased the period of time that taxpayers are given to pay an additional tax assessment before the IRS could assess the Failure to Pay (FTP) tax penalty. The law allows taxpayers 21 calendar days from the date of a notice to pay additional tax assessments of less than \$100,000, and 10 business days from the date of a notice to pay additional tax assessments of \$100,000 or more, without incurring any penalty. In contrast, IRS computers are programmed to use the total amount of tax, penalty, and interest the taxpayer owes on their tax module to compute the grace period rather than only the additional tax assessment amount.

²⁷ Pub. L. No. 104-168, 110 Stat. 1452 (1996) (codified as amended in scattered sections of 26 U.S.C.)

In its March 2006 audit report, TIGTA recommended that the IRS request an opinion from its Office of Chief Counsel regarding whether the length of the grace period should be determined by the additional tax assessment amount or the total tax module balance amount, and change computer programming, if warranted.

IRS management agreed with the recommendation and will take corrective action. However, to date, a formal opinion from the IRS' Office of Chief Counsel regarding this issue has not been requested.

Report Reference No. 2006-30-057

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

Overall, the IRS had a successful 2005 Filing Season.²⁸ It completed processing of returns on schedule and timely issued refunds within the required 45 days of the April 15, 2005, due date. Through May 27, 2005, the IRS had processed over 117.5 million individual income tax returns, which included 66.6 million returns processed electronically. This was an increase of nearly 11 percent over the same time last year, and it was the first year in which more than one-half of all taxpayers filed an electronic return.

For the 2005 Filing Season, most of the key tax law changes were correctly implemented. The IRS had also effectively implemented recommendations to address conditions reported during TIGTA's 2004 Filing Season review. However, some tax law changes were

²⁸ The 2005 Filing Season represents the period during which tax returns were filed for the calendar year ending December 31, 2004.

not effectively implemented during the 2005 Filing Season. Specifically:

- The election to include nontaxable combat pay as earned income reduces the Earned Income Tax Credit for some military taxpayers;
- The new sales tax deduction is not benefiting all eligible taxpayers;
- Questionable large-dollar amounts on tax returns are causing erroneous credits and understatements of tax liabilities;
- Some taxpayers are receiving erroneous education credits; and
- Single taxpayers continue to claim a questionable dual benefit by taking both the tuition and fees deduction and the education credit.

TIGTA has recommended several actions to address these issues, including changes to error correction procedures, implementation of a computer check to identify questionable large-dollar entries, and various changes to tax forms, instructions, and publications to assist taxpayers in applying the tax law correctly and in a manner most beneficial to them. IRS management agreed with the recommendations and is taking corrective actions.

Report Reference No. 2006-40-024



As I went about with my father when he collected taxes, I knew that when taxes were laid some one had to work to earn the money to pay them.

~Calvin Coolidge



Protect the Integrity of Tax Administration

The Office of Investigations (OI) administers investigative programs that protect the integrity of the IRS and detect and prevent fraud and other misconduct within IRS programs, the IRS Oversight Board, and IRS Office of Chief Counsel. OI's mission is completed through proactive and reactive investigative programs. OI investigates allegations in three core functional areas: employee integrity, external attempts to corrupt tax administration, and employee and infrastructure security. OI's performance model (see page 26) emphasizes high-quality investigations relative to these

three areas. TIGTA's statutory responsibility includes not only the detection of fraud, waste, and abuse within the IRS, but also the protection of the integrity of tax administration. OI ensures that the nation's tax administration system operates with the highest standards of fairness and trustworthiness.

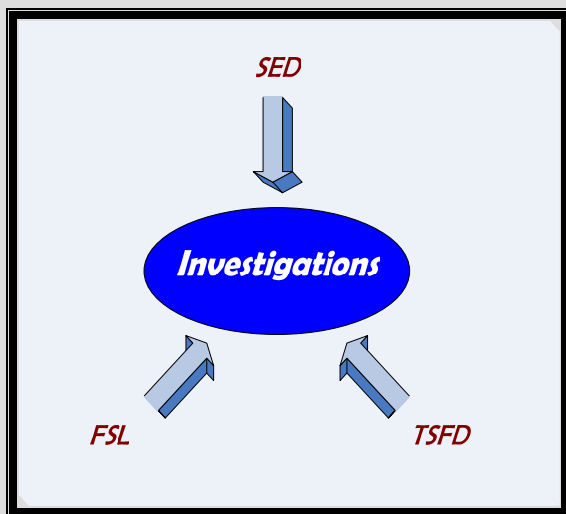
OI operates a Complaint Management Team (CMT) that receives complaints through a toll-free hotline, a central post office box, and an e-mail address. CMT processes allegations of fraud, waste, abuse, and misconduct involving IRS employees and programs. It is a centralized clearinghouse for processing and tracking allegations of wrongdoing.

TIGTA's Special Inquiries and Intelligence Division (SIID) is responsible for conducting sensitive investigations involving allegations of misconduct by TIGTA personnel and senior IRS management officials. Other SIID components include:

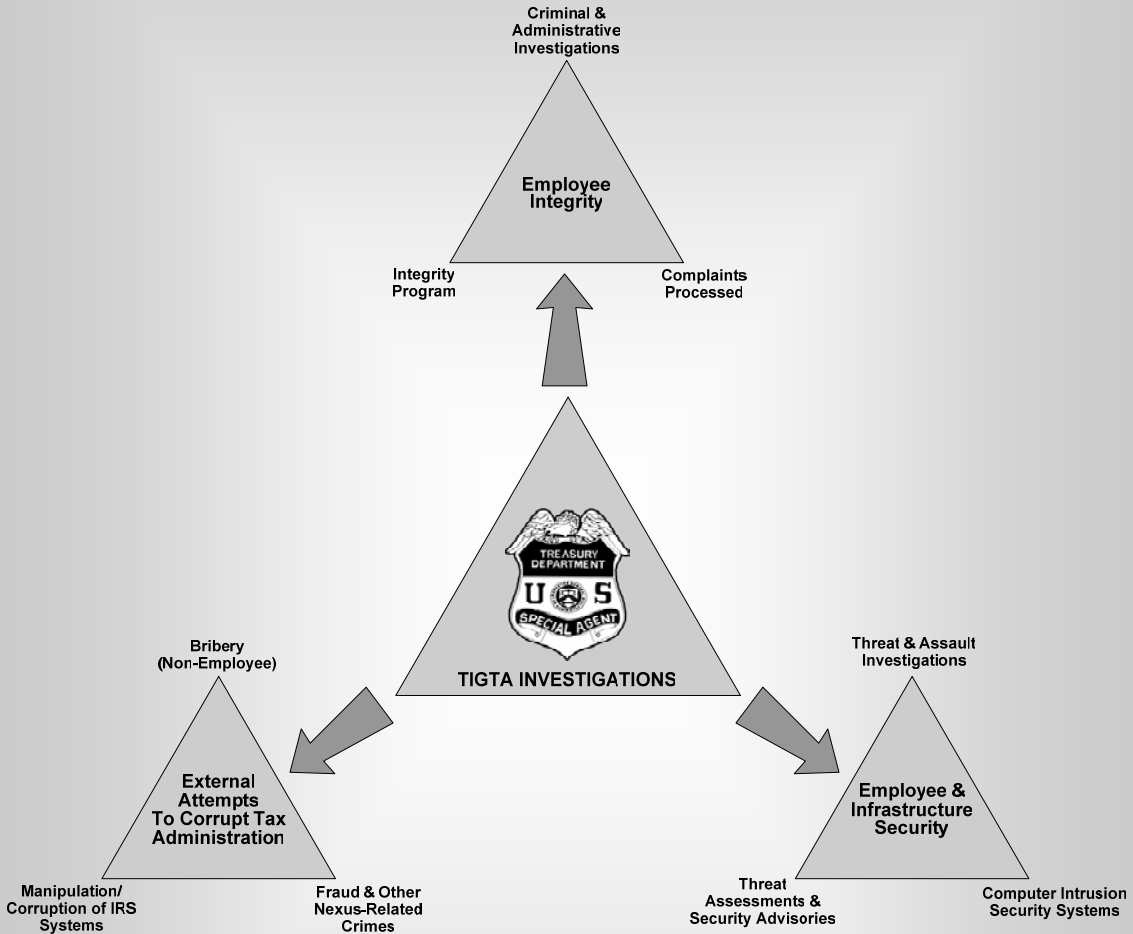
- the procurement fraud investigative section, which has heightened activity as a result of IRS' increasing use of contractors in support of IRS programs; and
- a Criminal Intelligence Program (CIP), which protects the IRS from external threats by individuals, anti-government groups, and domestic terrorists.

TIGTA'S TECHNICAL SUPPORT DIVISIONS

OI's proactive and reactive investigative challenges enlist the support and services of TIGTA's technical support divisions. The three divisions are: Strategic Enforcement Division (SED), Forensic Science Laboratory (FSL), and Technical and Firearms Support Division (TFSD).



TIGTA INVESTIGATIVE PERFORMANCE MODEL



TIGTA's Office of Investigations bases its performance measures on three primary areas of investigation: employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration. Each of these three areas is divided into three subcategories, all designed to support the agency's law enforcement goals.

Employee Integrity

Misconduct by IRS employees and contractors weakens the public's trust in the IRS and undermines the ability of the IRS to implement and enforce tax laws. TIGTA promotes employee integrity by conducting proactive and reactive investigations, and by administering an Integrity/Fraud Awareness Program to IRS employees, the tax practitioner community, and the general public. Employee conduct investigations include:

- unauthorized access (UNAX) to and disclosure of confidential taxpayer information;
- bribery;
- solicitation;
- theft;
- taxpayer abuse;
- financial fraud; and
- misuse of IRS computer systems.

In addition to TIGTA's mandate to investigate allegations of employee misconduct, OI conducts proactive integrity initiatives designed to detect fraud and to identify internal control weaknesses that may permit fraud to go undetected or unreported. UNAX and disclosure of confidential taxpayer information continue to make proactive integrity initiatives necessary. See page 28 for detailed information about TIGTA's UNAX Program.

During the reporting period, TIGTA completed 942 employee integrity investigations.

The following cases are examples of IRS employee integrity investigations conducted during this reporting period.

Former IRS Disclosure Officer Pleads Guilty to Unauthorized Access on More Than 150 Occasions

A former IRS disclosure officer pled guilty in January 2006 to exceeding her authorized access to IRS computers. She unlawfully accessed IRS computers on more than 150 occasions, obtaining confidential taxpayer information for private financial gain. Sentencing is pending.

Former IRS Employee Sentenced for Unauthorized Access of Taxpayer Records

A former IRS employee was sentenced in January 2006 for unauthorized computer access. The former employee accessed private taxpayer information for no legitimate business reason, knowing the access was not permitted. The former employee was sentenced to 12 months probation, 75 hours of community service, and fined \$1,000.

Former IRS Employee Sentenced for Unauthorized Inspection of Return Information

A former IRS employee was sentenced in December 2005 for unauthorized inspection of return information. The IRS employee willfully inspected a taxpayer's return information without authorization. She was sentenced to two years probation and fined \$1,000.

Investigative Support Provided by TIGTA's Strategic Enforcement Division

The Strategic Enforcement Division (SED) is the component of the Office of Investigations that leverages computer experience and expertise to identify electronic vulnerabilities and gather computer evidence to enhance TIGTA investigations. Identifying unauthorized access to taxpayer information by IRS employees (UNAX) continues to be one of the significant accomplishments of this group. As the IRS continues its modernization efforts, the potential for increased UNAX violations by IRS employees and others exists. SED will be challenged to maintain pace with this potential increase.

SED-UNAX Program

What is UNAX? – UNAX is the term that refers to the **Unauthorized Access** to taxpayer information by IRS employees, as well as other Federal and State employees and private contractors.

What Is TIGTA's Role? – TIGTA is responsible for the detection and investigation of UNAX violations in accordance with the Taxpayer Browsing Protection Act of 1997. Pursuant to Title 26, it is a criminal offense to willfully inspect or disclose Federal tax information without proper approval. The provisions of Title 18 prohibit the intentional, unauthorized or exceeding authorized access to any information stored on a government-owned computer.

Why Investigate UNAX? – UNAX can lead to identity theft and undermines the trust that taxpayers have in the Federal tax system to safeguard confidential tax information in its custody.

How Are UNAX Violations Found? – TIGTA uses a computer-based detection program that analyzes access to tax accounts, and identifies those with potential UNAX issues. Cases with confirmed UNAX issues or any other potential criminal violations are forwarded to TIGTA special agents in the field for further investigation. Employees found to have committed UNAX violations are subject to Federal prosecution, termination of employment, or other disciplinary action.

Is the TIGTA UNAX Program Successful? – Yes. In the last eight years, TIGTA Agents have investigated more than 3,700 cases of potential UNAX violations, resulting in more than 1,600 adverse personnel actions taken by the IRS. In addition, 126 employees have been criminally prosecuted for UNAX violations.

Have UNAX Violations Decreased? – No. There has not been a noticeable decrease in the number of violations. Each year, TIGTA agents initiate approximately 450 UNAX investigations.

During this six-month reporting period, the UNAX Program has:

- identified and analyzed 247 leads of potential unauthorized access;
- referred 152 criminal cases to TIGTA agents for final investigation; and
- resulted in 9 criminal prosecutions and 79 adverse administrative actions against IRS employees.

IRS Employee Charged with Unauthorized Computer Access for Commercial Advantage and Private Gain

An IRS employee was charged in October 2005 with intentionally accessing an IRS computer without authorization and exceeding her authorized access for commercial advantage and private financial gain. Allegedly employed by a company that provides tax preparation services, she accessed accounts on an IRS computer database of 21 taxpayers whose returns were prepared by the company.

Former IRS Employee Sentenced to Five Years Probation and Ordered to Pay Restitution of More Than \$153,000

In January 2006, an IRS employee was sentenced to five years probation, the first year in home detention, and was ordered to pay restitution of more than \$153,000 for theft of government funds. While working for the IRS, the employee received approximately \$153,000 in Social Security disability benefits to which he was not entitled. He falsely reported to the Social Security Administration that he had not worked since becoming disabled. Through its proactive work, TIGTA's Strategic Enforcement Division identified the integrity breach.

Individual Sentenced to Two Years in Prison for Bank Fraud Involving IRS Employee

An individual was sentenced in December 2005 to two years in prison, five years

supervised release, and ordered to pay more than \$34,000 in restitution for bank fraud. The individual provided an IRS employee with counterfeit checks and fraudulent identification to negotiate the checks. At the individual's direction, the IRS employee negotiated or attempted to negotiate checks totaling approximately \$42,250 at different banks. After cashing the counterfeit checks, the employee returned the money to the individual, who then divided it among the participants in the scheme. TIGTA's Forensic Science Laboratory was instrumental in the investigation, identifying the individual's fingerprint on a check and providing expert testimony at his trial.

Former IRS Manager Charged with Stealing More Than \$22,000 in Treasury Refund Checks

A former IRS manager was charged in December 2005 with theft of Federal funds, unauthorized access of a government computer, and theft in connection with health care. According to the indictment, while working in the Refund Inquiry Unit, the individual allegedly stole seven Treasury refund checks totaling more than \$22,000 and gave them to a co-conspirator. She also allegedly made nine unauthorized accesses of taxpayer information on an IRS computer system. Additionally, she requested that her Federal Employees Health Benefits Program insurance carrier add the co-conspirator as her spouse, when in fact he was not her spouse.

**TIGTA's Technical Support Division
Manages U.S. Treasury-wide Land
Mobile Radio Program**

The selection of TIGTA as the manager of the Department of the Treasury's Land Mobile Radio Program was the result of our communication technologies, our favorable reputation in the law enforcement community, and our longstanding expertise with the Integrated Wireless Network (IWN).

The IWN is a government-wide initiative for interoperability among the Departments of the Treasury, Justice, and Homeland Security. The activity includes continuation of "Sector" support with U.S. Immigration and Customs Enforcement.

TIGTA's responsibilities include:

- Managing the tactical wireless communications of the Treasury's Wireless Programs Office;
- Representing the Treasury at IWN meetings;
- Representing the Treasury at the Interdepartmental Radio Advisory Committee as a permanent member for Federal radio spectrum allocation;
- Representing the Treasury in Project SafeCom, a program designed to promote interoperability among Federal, State, and local government safety forces; and
- Coordinating Treasury resources and conducting strategic planning for the Continuity of Operations Plan.

**Individual Sentenced for Theft of
Government Checks and Money Orders**

An individual was sentenced in February 2006 for receiving and converting, for his own use, checks and money orders originally payable to the IRS. The individual received the checks and money orders, totaling approximately \$7,363, from an IRS employee and deposited them into his bank account. The individual knew the checks and money orders were stolen and that neither he nor the IRS employee was entitled to the proceeds. He was sentenced to three years probation, three months home detention, and was ordered to pay restitution of more than \$7,000 to the IRS.

**IRS Employee Guilty of Filing False
Claim for Hurricane Katrina Disaster
Assistance**

In February 2006, an IRS Revenue Officer pleaded guilty to filing a false claim with the Federal Emergency Management Agency. The IRS employee filed an application for Hurricane Katrina disaster assistance benefits stating that his primary residence was in New Orleans when he knew it was not. Based on his application, he received \$2,000 in expedited disaster assistance.

Employee and Infrastructure Security

TIGTA's statutory responsibilities include investigating activities involving threats to IRS personnel and facilities.

TIGTA's Criminal Intelligence Program (CIP) protects the IRS from external threats that come from a variety of sources, including domestic terrorists and anti-government groups. The CIP is designed to identify and neutralize threats, assaults, and violent acts targeted against IRS facilities, employees, and operations. TIGTA works with other Federal, State, and local law enforcement agencies that have similar goals. For example, TIGTA participates in the FBI Joint Terrorism Task Forces throughout the country, and assists the IRS in developing and enhancing its employee safety and infrastructure security programs.

During this reporting period, TIGTA completed 138 investigations of threats and assaults directed at the IRS and its employees, and issued 274 advisories notifying IRS management of potential threats.

The following cases are examples of IRS employee and infrastructure security investigations conducted during this reporting period.

Individual Sentenced for Assaulting IRS Employee

An individual was sentenced in February 2006 for assaulting a Federal officer, resulting in the infliction of bodily injury. The individual used force to assault and interfere with the IRS employee while she

TIGTA's Forensic Science Laboratory Provides Expert Forensic Analysis of Evidence

The Forensic Science Laboratory (FSL) provides timely crime laboratory services in direct support of TIGTA investigations and ensures that OI receives responsive and quality crime laboratory services.

FSL's services include:

- Handwriting/hand printing analysis;
- Document identification and analysis;
- Printing and paper analysis;
- Latent print processing;
- Fingerprint database searches;
- Digital image processing/visual information; and
- Expert witness testimony.

FSL provides:

- Guidance on proper evidence collection and handling methods;
- Forensic science training;
- Assistance in crime scene processing;
- Informational bulletins related to the forensic sciences; and
- Liaison with other forensic science labs.

During this reporting period, the FSL accomplished:

- 59 forensic examinations involving investigations of thefts of IRS refunds and tax remittances, theft of government property, and threats/harassment against IRS employees;
- Examined cases involving fraud, counterfeit documents, stolen checks, and government property in excess of \$3.8 million; and
- Examined more than 1,600 items of evidence for latent prints, digital images, and/or questioned document analysis.

was engaged in the performance of her official duties. He was sentenced to 12 months and one day incarceration, three years supervised release, 300 hours of community service, and fined \$4,000.

Individual Sentenced for Threatening to Bomb Federal Building

In October 2005, an individual was sentenced to four months incarceration, three years supervised release, no more than four months in a community corrections center, and fined \$2,000 for using the mail to threaten and convey false information. The individual prepared and mailed a letter to the U.S. Immigration Service that falsely claimed three bombs were scheduled to explode, one of them at the Federal building to which the letter was sent.

Individual Arrested for Making Harassing and Threatening Telephone Calls to IRS

An individual was arrested in December 2005 for threatening communications and

harassing telephone calls. According to the criminal complaint, the individual allegedly made more than 30 harassing and threatening telephone calls to an IRS office. During one call, the individual allegedly apologized for attempting to assassinate IRS employees.

Individual Sentenced for Making Threatening Telephone Calls to IRS

An individual was sentenced in March 2006 for making threatening interstate communications. The individual made 772 telephone calls to the IRS, 111 of which were made on one day. The calls and voice messages left by the individual were harassing and threatening to the IRS employees who received them and caused serious disruption of Federal Government business. The individual was sentenced to 54 months in prison, three years supervised release, and was ordered to participate in substance abuse and mental health treatment programs as special conditions of his supervised release.

External Attempts to Corrupt Tax Administration

External attempts to corrupt tax administration inhibit the ability of the IRS to collect revenue and undermine the public's confidence in fair and effective tax administration. TIGTA is committed to investigating external attempts to corrupt or interfere with the administration of Internal Revenue laws. External efforts to impede these laws include:

- impersonation of IRS officials;
- fraud by tax preparers;
- theft of IRS refunds;
- bribery; and
- other criminal activities.

During this reporting period, TIGTA conducted 77 investigations of attempts to manipulate or corrupt IRS systems and 252 investigations into fraud and other IRS-related criminal activities.

The following cases are examples of investigations of external attempts to corrupt tax administration conducted during this reporting period.

Individual Sentenced for Embezzling More Than \$44,000 in Tax Payments

An individual was sentenced in December 2005 to 30 months in prison, three years supervised release and was ordered to pay more than \$44,000 in restitution for mail fraud. As the majority owner of a tax service business, the individual prepared tax deposit checks and IRS coupons for a corporation. He forwarded the checks to the corporation for signature and the

corporation mailed the signed checks back to his business. Instead of paying the IRS by depositing them into a United States trust account, he defrauded the corporation of approximately \$44,246 by depositing 13 of the tax checks into his business bank account.

Individual Sentenced to Five Years Probation for Impersonating IRS Agent

An individual was sentenced in January 2006 for false personation. The individual was sentenced to five years probation with six months in a community corrections facility, and was ordered to pay \$10,000 in restitution. The individual had obtained approximately \$10,000 on behalf of the United States by pretending to be an IRS agent.

Individual Arrested for Attempting to Interfere with Administration of Internal Revenue Laws

In February 2006, an individual was arrested for fraud and false statements, and attempting to interfere with the administration of Internal Revenue laws. According to the indictment, the individual allegedly filed 29 fraudulent Forms 8300 (Report of Cash Payments Over \$10,000 Received in a Trade or Business) with the IRS. On the forms, the individual allegedly claimed to have engaged in suspicious cash transactions more than \$1 million with various individuals, including public officials and others with whom she was involved in disputes or litigation. She allegedly filed the false Forms 8300 to harass, intimidate, and create legal problems for the individuals.

Tax Practitioner Sentenced for Falsifying IRS Form 2848

A tax practitioner was sentenced for false statements in January 2006. The individual submitted a Form 2848 (Power of Attorney and Declaration of Representative) to the IRS. He represented that he was a Certified Public Accountant (CPA), which entitled him to represent taxpayers before the IRS, when he knew that he was not a licensed CPA. He was sentenced to two years probation with the conditions that he complete one day per month of community service and provide his clients with a form stating that he is unable to serve as a representative before the IRS. He was also fined \$1,500.

Individual Found Guilty of Submitting False IRS Forms

In December 2005, an individual was found guilty of making false statements on IRS forms, preparing and submitting false income tax returns, and making false claims against the United States. The individual submitted four Forms 2848 (Power of Attorney and Declaration of Representative) to the IRS, falsely claiming

to be an attorney and a member in good standing of the New York State bar. The individual also aided and assisted in the preparation of 11 false income tax returns and made five false claims against the United States.

Individual Sentenced for Impersonating IRS Employee to Obtain Personal Information

In October 2005, an individual was sentenced to five years probation, was ordered to pay restitution of over \$2,000, and participate in substance abuse treatment and mental health counseling programs. The individual falsely stated that she was an IRS employee conducting a survey and fraudulently obtained the names and dates of birth of other persons.

Individual Indicted for Bribing IRS Employee

An individual was indicted in March 2006 for bribery of a public official. According to the indictment, the individual allegedly gave an IRS employee \$1,500 for a “no change” letter concerning her sister’s 2002 individual income tax return.



Awards and Special Achievements

TIGTA Special Agent Receives Award from United States Attorney's Office

On December 1, 2005, TIGTA Special Agent Keith Caplan was recognized by the United States Attorney's office, Eastern District of Pennsylvania, for his dedication and investigative skills in a bank fraud case involving an IRS employee.



Special Agent Keith Caplan (center)

Former IRS Revenue Officer Receives Accolades from TIGTA

On March 6, 2006, former IRS Revenue Officer Larry E. Hassard received a Letter of Commendation from TIGTA for his unselfish actions and hard work in the successful prosecution of a taxpayer and co-conspirator in a bribery investigation.



Larry E. Hassard with bribe money

TIGTA's Hoteling Program Receives Honorable Mention



From left to right: Steven Perry, GSA Administrator; J Russell George, TIGTA IG; Jennifer Donnan, Assistant Director, Client Services; Donna Leach, HR Specialist; and Stan Kaczmarczyk, GSA Deputy Associate Administrator for Real Property Management. Other TIGTA team members (not pictured) include Nancy Nakamura, Emma Price, Tom Hawkins, Troy Patterson and Jim O'Hara (Office of Audit); Tim Dobbs and Tom Black (Office of Information Technology); and Corinne O'Connor, retired Real Estate Specialist.

TIGTA's Hoteling program received Honorable Mention in the GSA 2005 Achievement Award for Real Property Innovation. Twelve Federal Agencies submitted entries for the award recognizing ideas and methods of improving asset management within the Federal Government. Inspector General J. Russell George accepted the award for TIGTA.



Congressional Testimony

On October 26, 2005, TIGTA's Inspector General, J. Russell George, provided testimony before the Senate Homeland Security and Governmental Affairs' Subcommittee on Federal Financial Management, Government Information, and International Security for its hearing entitled, "Uncollected Taxes: Can We Reduce the \$300 Billion Tax Gap?" Mr. George's testimony included recommendations on the need to simplify the tax code in order to help close the tax gap. In addition, he recommended that the IRS work with Congress to develop legislation requiring withholding on non-employee compensation, and that the IRS continue to address the cost increases and schedule delays that have been incurred as it seeks to modernize IRS computer systems.

On March 29, 2006, Inspector General George appeared before the House Committee on Appropriations, Subcommittee on Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies. This hearing addressed the IRS' Fiscal Year 2007 Budget Request. Mr. George spoke about the major challenges facing the IRS. He stated that maximizing compliance and taxpayer services with finite resources is perhaps the most difficult challenge facing the IRS. He also stated that the IRS faces challenges in meeting several taxpayer service goals and expectations, as well as in determining and providing taxpayers the levels and types of service they want or need.

"Providing quality customer service to the taxpayer is not only a primary goal of the IRS, but it is also one of its major management challenges. The Commissioner has frequently stated that service combined with enforcement will result in compliance. Quality taxpayer service includes helping the taxpaying public understand their tax obligations while making it easier to participate in the tax system."

J. Russell George, March 29, 2006



*Taxes, after all, are dues that we pay
for the privileges of membership in an
organized society.*

~Franklin D. Roosevelt



Audit Statistical Reports

Reports with Questioned Costs

TIGTA issued two audit reports with questioned costs during this semiannual reporting period.¹ The phrase “questioned cost” means a cost that is questioned because of:

- an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds;
- a finding, at the time of the audit, that such cost is not supported by adequate documentation (an unsupported cost); or
- a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable.

The phrase “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Reports With Questioned Costs			
Report Category	Number	Questioned Costs (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	7	\$3,782	\$3,280
2. Reports issued during the reporting period	2	\$11,839	\$2
3. Subtotals (Item 1 plus Item 2)	9	\$15,621	\$3,282
4. Reports for which a management decision was made during the reporting period ²			
a. Value of disallowed costs	1	\$1	\$1
b. Value of costs not disallowed	1	\$1	\$1
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	8	\$15,619	\$3,280
6. Reports with no management decision within 6 months of issuance	7	\$3,782	\$3,280

¹ See Appendix II for identification of audit reports involved.

² Includes one report in which IRS management disallowed part of the questioned cost.

Reports with Recommendations That Funds Be Put to Better Use

TIGTA issued one report with recommendations that funds be put to better use during this semiannual reporting period.¹ The phrase “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:

- reductions in outlays;
- deobligations of funds from programs or operations;
- costs not incurred by implementing recommended improvements related to operations;
- avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements;
- preventing erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; and
- any other savings that are specifically identified.

The phrase “management decision” means the evaluation by management of the findings and recommendations included in an audit report, and the issuance of a final decision concerning its response to such findings and recommendations, including actions concluded to be necessary.

Reports With Recommendations That Funds Be Put To Better Use		
Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	1	\$42,100
2. Reports issued during the reporting period	1	\$6,979
3. Subtotals (Item 1 plus Item 2)	2	\$49,079
4. Reports for which a management decision was made during the reporting period ²		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	2	\$13,934
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	1	\$35,145
5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)	0	\$0
6. Reports with no management decision within 6 months of issuance	0	\$0

¹ See Appendix II for identification of audit reports involved.

² Includes one report in which IRS management agreed to a portion of the value of the recommendation.

Reports with Additional Quantifiable Impact on Tax Administration

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

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

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

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.

Taxpayer Rights and Entitlements at Risk: The protection of due process rights granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise when filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds

(entitlements) are also included in this category, such as when taxpayers legitimately assert that they overpaid their taxes.

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

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

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

Protection of Resources: Safeguarding human and capital assets, used by or in the custody of the organization, from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation.

The number of taxpayer accounts and dollar values shown in the following chart were derived from analyses of historical data, and are thus considered potential barometers of the impact of audit recommendations. Actual results will vary depending on the timing and extent of management’s implementation of the corresponding corrective actions, and the number of accounts or subsequent business activities 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			
Outcome Measure Category	Number of Reports¹	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	0	0	\$0
Revenue Protection	2	19,103	\$157,817
Reduction of Burden on Taxpayers	1	7,124	\$0
Taxpayer Rights and Entitlements at Risk	1	467,844	\$1,900
Taxpayer Privacy and Security	0	0	\$0
Inefficient Use of Resources	1	0	\$311
Reliability of Management Information	3	8,185	\$17,446,000
Protection of Resources	0	0	\$0

¹ See Appendix II for identification of audit reports involved.

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

- Revenue Protection: Reference Number 2006-40-007.
- Taxpayer Burden: Reference Numbers 2006-10-066.

The following reports contained quantifiable impacts in addition to the number of taxpayer accounts, number of hours, and dollar value:

- Taxpayer Burden: Reference Number 2006-10-066.
- Reliability of Management Information: Reference Number 2006-40-022.



Investigations Statistical Reports

Significant Investigative Achievements	
October 1, 2005 – March 31, 2006	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,173
Complaints against Non-Employees	2,250
Total Complaints/Allegations	4,423
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,701
In Process within TIGTA ¹	327
Referred to IRS for Action	401
Referred to IRS for Information Only	769
Referred to a Non-IRS Entity ²	14
Closed with No Referral	1,047
Closed with All Actions Completed	164
Total Complaints	4,423
Investigations Opened and Closed	
Total Investigations Opened	1,639
Total Investigations Closed	1,701
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$689,755
Court Ordered Fines, Penalties and Restitution	\$12,142,325
Out-of-Court Settlements	0
Total Financial Accomplishments	\$12,832,080

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 36 referrals to TIGTA that would more appropriately be handled by the IRS, and therefore were returned to the IRS. These are not included in the total complaints/allegations shown above.

Status of Closed Criminal Investigations			
Criminal Referrals ¹	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	26	60	86
Referred – Declined for Prosecution	311	203	514
Referred – Pending Prosecutorial Decision	28	56	84
Total Criminal Referrals	365	319	684
No Referral	451	434	885

¹ Criminal referrals include both Federal and State dispositions.

Criminal Dispositions ²			
	Employee	Non-Employee	Total
Guilty	24	68	92
Nolo Contendere (no contest)	1	2	3
Pre-trial Diversion	0	7	7
Deferred Prosecution ³	0	0	0
Not Guilty	0	2	2
Dismissed ⁴	4	7	11
Total Criminal Dispositions	29	86	115

² This chart includes statistics on 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 above.

³ 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.

⁴ Court dismissed charges.

Administrative Dispositions on Closed TIGTA Investigations ⁵	
	Total
Removed, Terminated or Other	241
Suspended/Reduction in Grade	61
Oral or Written Reprimand/Admonishment	92
Closed – No Action Taken	122
Clearance Letter Issued	129
Employee Resigned Prior to Adjudication	106
Total Administrative Dispositions	751

⁵ This chart includes statistics on 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 statistics on page 43.



Appendix I 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 for 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	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2000-30-059	Tax Compliance Initiatives	March 2000	05/15/06 05/15/06	<i>The Internal Revenue Service Can Improve the Estate Tax Collection Process</i> 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 that all estate tax liens should be recorded on the ALS.
2001-30-052	Tax Compliance Initiatives	March 2001	06/15/06 01/01/07	<i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i> 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.
2002-30-156	Tax Compliance Initiatives	September 2002	08/15/06	<i>The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers</i> F-1, R-1, P-1. Ensure that the IRS initiate, as proposed in its response to our memorandum dated February 1, 2002, a regularly scheduled program for proposing penalties for Forms W-2 with inaccurate name/SSN combinations.

TIGTA Semiannual Report to Congress

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2003-20-049	Security of the IRS	February 2003	06/30/06	<i>Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement</i> F-2, R-5, P-2. Ensure that 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.
2003-10-054	Using Performance and Financial Information for Program and Budget Decisions	March 2003	10/01/07	<i>The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses</i> F-1, R-3, P-1. Ensure that the ability to record and report trust fund administrative expenses, as currently envisioned in the IFS development plans, is properly implemented.
2003-10-094	Erroneous and Improper Payments	March 2003	05/15/06	<i>Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected</i> F-1, R-2, P-1. Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that 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.
2003-40-139	Tax Compliance Initiatives	June 2003	09/30/06	<i>Opportunities Exist to Improve the Administration of the Earned Income Tax Credit</i> F-1, R-2, P-1. Establish a consistent method to measure progress toward the EITC Program's long-term goals.
2003-20-118	Security of the IRS	July 2003	01/15/08	<i>Security Over Computers Used in Telecommuting Needs to Be Strengthened</i> F-1, R-6, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure that sensitive data are being stored and encrypted properly.
2003-30-162	Tax Compliance Initiatives	August 2003	07/15/06	<i>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</i> F-1, R-1, P-1. Revise the tax regulations applicable to individual taxpayers.
2003-30-176	Tax Compliance Initiatives	August 2003	12/15/07	<i>Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure</i> F-1, R-2, P-1. Gather pertinent information concerning the affected proposed procedure to reduce the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.

TIGTA Semiannual Report to Congress

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2003-10-212	Human Capital	September 2003	P-2, P-4: 10/01/07 P-3: 01/30/07	<i>Information on Employee Training Is Not Adequate to Determine Training Cost or Effectiveness</i> F-3, R-2, P-2, P-3, P-4. Ensure that IRS training and financial systems can provide information needed for the IRS to assess its own training efforts.
2004-20-001	Systems Modernization of the IRS	October 2003	12/31/10	<i>Risks Are Mounting As the Integrated Financial System Project Team Strives to Meet An Aggressive Implementation Date</i> F-2, R-1, P-1. Ensure the disaster recovery environment is completely built out and tested.
2004-40-013	Providing Quality Taxpayer Service Operations	November 2003	01/01/07	<i>Improvements Are Needed in the Screening and Monitoring of E-File Providers to Protect Against Filing Fraud</i> F-1, R-2, P-1. Enhance the screening procedures for E-File providers to include sending scanned fingerprints to the FBI electronically.
2004-30-038	Tax Compliance Initiatives	January 2004	01/15/07	<i>Access to the Toll-Free Telephone System Was Significantly Improved in 2003, but Additional Enhancements Are Needed</i> F-3, R-1, P-1. Develop an activity-based costing system that reliably captures and reports both the total cost and the cost-per-call of providing services on each toll-free product line.
2004-30-068	Tax Compliance Initiatives	March 2004	02/15/06 04/15/06	<i>Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program</i> F-2, R-1, P-1. Develop standard risk-based case selection criteria that would provide minimum requirements and parameters for case selection. F-2, R-2, P-1. Reinforce the importance of case documentation with specific instructions or case models and implement a centralized quality review process.
2004-40-098	Erroneous and Improper Payments	May 2004	09/30/06	<i>Better Use of the National Account Profile During Returns Processing Can Eliminate Erroneous Payments</i> F-2, R-1, P-1. Conduct studies on the accuracy of EITC claims on tax returns for individuals that have been claimed for EITC purposes that are 20 or more years older than the primary taxpayer, or are listed as children that are up to 19 years older than the primary taxpayer.
2004-30-127	Tax Compliance Initiatives	August 2004	01/15/07	<i>The Return Delinquency Notice Program Could Be Used More Effectively to Promote Filing Compliance and Reduce the Tax Gap</i> F-2, R-1, P-1. Reevaluate the administrative dollar tolerance for freezing refunds to determine if it can be reset at a lower level.
2004-20-129	Security of the IRS	August 2004	09/15/06	<i>The Certification and Accreditation of Computer Systems Should Remain in the Computer Security Material Weakness</i> F-1, R-1, P-2. Keep the certification and accreditation of computer systems as part of the computer security material weakness until a sufficient number of systems have been certified and accredited.

TIGTA Semiannual Report to Congress

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2004-20-135	Security of the IRS	August 2004	04/01/06 06/15/06	<i>The Audit Trail System for Detecting Improper Activities on Modernized Systems Is Not Functioning</i> F-1, R-1, P-1. Ensure that SAAS performance and functionality requirements are adequately tested and implemented so that the IRS and TIGTA can perform queries and generate audit trail reports. F-2, R-1, P-1. Ensure that SAAS operating procedures are fully developed and finalized so that business units can conduct effective and efficient audit trail reviews of modernized applications.
2004-20-131	Security of the IRS	September 2004	11/01/06	<i>The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness</i> F-2, R-4, P-1. Develop and implement a reasonable approach for reviewing audit trails over major applications.
2004-30-133	Tax Compliance Initiatives	September 2004	06/15/06	<i>The Controls for Examination Processes for Industry Cases With International Transfer Pricing Issues Can Be Improved</i> F-1, R-1, P-1. Reemphasize the Transfer Pricing Compliance Directive and incorporate it into the IRM.
2004-20-155	Security of the IRS	September 2004	09/15/06 10/15/06	<i>Computer Security Roles and Responsibilities and Training Should Remain Part of the Computer Security Material Weakness</i> F-3, R-2, P-1. Establish a process to identify employees with key security responsibilities, monitor their participation in training courses, and follow up with managers, if necessary. F-3, R-3, P-1. Ensure that employees with key security responsibilities are adequately trained to perform security duties and tasks.
2004-10-182	Using Performance and Financial Information for Program and Budget Decisions	September 2004	10/01/06 10/15/06	<i>The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually</i> F-2, R-3, P-1. Consider allocating rent funds to the operating divisions to help ensure more efficient use of space and more communication between the facility managers and the local operating divisions; consider incentives and consequences to ensure better cooperation. F-3, R-1, P-1. Require facility managers to report vacancies based on division requirements for telecommuting employees.
2005-40-026	Providing Quality Taxpayer Service Operations	February 2005	P-2: 10/01/06 P-4: 12/31/10 P-1, P-2: 12/31/10	<i>Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement</i> F-1, R-1, P-2, P-4. Develop a process to ensure that only authorized personnel have access to IRS.gov content. F-1, R-2, P-1, P-2. Enhance the IRS' content management software application to provide the ability to identify specific content accessed or revised by individual users.
2005-20-024	Security of the IRS	March 2005	12/31/10	<i>The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses</i> F-1, R-1, P-1, P-5. Report a disaster recovery program material weakness to the Department of the Treasury as part of the IRS' Federal Managers' Financial Integrity Act of 1982 annual evaluation of controls and include any new or currently underway activities in the corrective action plan.

TIGTA Semiannual Report to Congress

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2005-30-048	Tax Compliance Initiatives	March 2005	02/15/07	<i>Stronger Sanctions Are Needed to Encourage Timely Filing of Pass Through Returns and Ensure Fairness in the Tax System</i> F-1, R-3, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6698 to increase the penalty for late-filed partnership returns from \$50 per partner per month to \$200 per partner per month.
			02/15/07	F-1, R-4, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6698 to remove the five-month limitation on the number of months of delinquency that the late-filing penalty is assessed on partnership returns.
			02/15/07	F-1, R-5, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6698 to make all requirements of the law applicable to S corporations as well as partnerships.
			02/15/07	F-1, R-6, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6721 to require the assessment of a \$200 penalty per Schedule K-1 for the failure to timely provide Schedules K-1 to the IRS when a partnership or S corporation return is filed late.
			02/15/07	F-1, R-7, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6722 to require the assessment of a \$200 penalty per Schedule K-1 for the failure to timely provide Schedules K-1 to payees when a partnership or S corporation return is filed more than seven days beyond the return due date.
			02/15/07	F-1, R-8, P-1. Conduct a study to determine whether fixed-dollar penalties set at a \$200 level in I.R.C. § 6698, 6721, and 6722 will be effective in ensuring future compliance or whether other penalty types and/or higher amounts would be more effective.
2005-30-052	Tax Compliance Initiatives	March 2005	07/15/06	<i>Procedures Regarding the Failure to Pay Tax Penalty Result in Inconsistent Treatment of Taxpayers and Hundreds of Millions of Dollars in Lost Revenue</i> F-1, R-1, P-1. Request programming changes that would cause accrued FTP tax penalties to be assessed on a periodic basis.
			07/15/06	F-1, R-3, P-1. Ensure that notices containing FTP tax penalty assessments include information informing taxpayers that interest is being charged on the FTP tax penalties until they are fully paid.
2005-30-053	Tax Compliance Initiatives	March 2005	06/15/06	<i>Opportunities Exist to Improve the Effectiveness and Efficiency of the Automated 6020(b) Program</i> F-2, R-1, P-1. Raise the dollar level of the risk-based criteria for stand-alone TDI cases as a means of increasing the workload coming into the Automated 6020(b) Program with cases that would otherwise remain unworked in the Queue.
			06/15/06	F-2, R-2, P-1. Modify the programming to add TDIs involving excise tax returns to the Automated 6020(b) Program.
2005-10-070	Human Capital	March 2005	04/15/06	<i>The Human Resources Investment Fund is Not a Cost-Effective Method of Providing Tuition Assistance</i> F-2, R-1, P-1. Consider eliminating the HRIF Program and provide tuition assistance through alternative means such as the Individual Development Plan process and the Career Transition Assistance Program.

TIGTA Semiannual Report to Congress

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2005-20-074	Systems Modernization of the IRS	April 2005	05/01/06	<i>Business Cases for Information Technology Projects Need Improvement</i> F-4, R-1, P-1. Project Managers of operational systems should document the results of E-Government reviews in the projects' business cases.
2005-40-077	Processing Returns and Implementing Tax Law Changes during the Tax Filing Season	April 2005	05/15/06	<i>Taxpayers Identified as Serving in Combat Zones Were Properly Afforded Tax Benefits but Account Identification and Maintenance Processes Need Improvement</i> F-1, R-2, P-2. To ensure Combat Zone indicators are accurate, develop a quality review program to review a sample of the accounts that are closed automatically using the new program to ensure the reversal of the active Combat Zone indicator is correct. Also, include a sample review of the remaining active accounts to verify the program is not missing any accounts that should be reversed.
2005-10-107	Human Capital	July 2005	07/15/06 07/15/06 07/15/06 07/15/06 07/15/06 07/15/06	<i>Improved Policies and Guidance Are Needed for the Telework Program</i> F-1, R-1, P-1. Ensure an IRS-wide Flexiplace Program policy is developed and implemented that addresses all the elements recommended by the OPM. F-1, R-2, P-1. Take steps to implement the Flexiplace Program tracking system. F-2, R-1, P-1. Implement guidelines to assist managers in evaluating employees' abilities to participate in the Flexiplace Program without a loss in productivity. F-2, R-2, P-1. Ensure Flexiplace Program training is provided as needed to help address productivity concerns. F-2, R-3, P-1. Assess the logistical support and equipment needs of Flexiplace Program participants to help ensure there is no loss in productivity. F-3, R-1, P-1. Work with the OPM to develop appropriate policies and procedures related to official duty station designations for employees who participate in the Flexiplace Program.
2005-20-108	Security of the IRS	July 2005	04/15/06 11/30/06	<i>More Management Attention Is Needed to Protect Critical Assets</i> F-1, R-1, P-1. Coordinate with all business units to complete the process of identifying a current list of critical assets to comply with HSPD-7 and ensure the protection of those assets. F-1, R-2, P-1. Coordinate with all business units at least annually to confirm the IRS' list of critical assets is accurate and complete.
2005-40-110	Providing Quality Taxpayer Service Operations	July 2005	10/15/07 10/15/06 10/15/06	<i>The Effectiveness of the Taxpayer Assistance Center Program Cannot Be Measured</i> F-1, R-1, P-1. Enhance the management information system to capture the number of taxpayers served, the numbers and types of services provided, and the related resources. F-1, R-2, P-1. Develop a Service Delivery Plan for the short-term and long-term direction of the TAC Program based on business cases and customer input. F-1, R-3, P-1. Develop a process that includes routine assessments of TAC operations to ensure the TACs are optimally located and the services provided at the TACs are the most effective and cost efficient.

TIGTA Semiannual Report to Congress

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2005-30-126	Tax Compliance Initiatives	August 2005	10/15/06	<p><i>Additional Work Is Needed to Determine the Extent of Employment Tax Underreporting</i></p> <p>F-1, R-1, P-1. Develop methodologies designed to evaluate the extent of underreporting by employers.</p>
2005-20-128	Systems Modernization of the IRS	August 2005	07/15/06	<p><i>Security Controls Were Not Adequately Considered in the Development and Integration Phases of Modernization Systems</i></p> <p>F-2, R-1, P-1. Enhance the Security Test and Evaluation process to include the use of additional off-the-shelf security testing tools to identify security vulnerabilities.</p>
2005-40-133	Erroneous and Improper Payments	August 2005	05/15/06	<p><i>Administration of the Earned Income Tax Credit Program Has Improved, but Challenges Continue</i></p> <p>F-1, R-1, P-1. Analyze the results of the SLA currently in operation to ensure all functions are working within the agreements reached.</p>
2005-10-129	Providing Quality Taxpayer Service Operations	September 2005	05/15/07 05/15/06 05/15/06 04/15/06 06/15/06 01/15/07	<p><i>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program</i></p> <p>F-1, R-1, P-2. Establish goals and performance measures for the LITC program to assist the Congress and IRS in evaluating the success of the program.</p> <p>F-2, R-2, P-3. Provide guidance in Publication 3319 to indicate whether a clinic may receive funding solely for making referrals to other clinics.</p> <p>F-2, R-3, P-2. Provide guidance in Publication 3319 as to the types of media broadcasts and articles that will qualify under the LITC program.</p> <p>F-3, R-2, P-1. Develop a method to obtain information necessary to verify clinics are following all LITC program requirements.</p> <p>F-3, R-4, P-1. Develop a sampling methodology that prioritizes clinics based on indicators in clinics' applications and in their interim and final reports.</p> <p>F-4, R-1, P-4. Establish procedures to check for tax compliance before awarding LITC program grants and consider periodic tax compliance checks during the grant period.</p>
2005-30-140	Tax Compliance Initiatives	September 2005	P-1: 07/15/06 P-2, P-3, P-4: 04/15/06 P-1: 07/15/06 P-2, P-3, P-4: 04/15/06	<p><i>Improved IRS Coordination Is Needed to Resolve Large Volumes of Fraudulent Schedule C Refund Returns</i></p> <p>F-1, R-1, P-1, P-2, P-3, P-4. Develop an overall compliance strategy for Schedules C with fraudulent refunds, especially when large volumes of returns are involved.</p> <p>F-1, R-2, P-1, P-2, P-3, P-4. Identify potential computerized methods incorporating possible math error authority to temporarily stop refunds for cases meeting the characteristics of those in this scheme or other large Schedule C refund schemes.</p>

TIGTA Semiannual Report to Congress

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2005-10-149	Human Capital	September 2005	04/15/06 10/15/06 04/15/06	<i>The Internal Revenue Service Does Not Adequately Assess the Effectiveness of Its Training</i> F-1, R-1, P-1, P-2. Require all business units to follow the training assessment and develop requirements and properly document this process. F-2, R-1, P-1, P-2. Ensure all IRS components follow established procedures to evaluate training in order for the IRS to comply with the training assessment requirement of the Federal Workforce Flexibility Act of 2004. F-3, R-1, P-1. Use the numerical scores from the Employee Satisfaction Survey training question in addition to narrative comments.
2005-30-154	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2005	P-1: 04/15/07 P-2: 12/15/06 P-1: 04/15/07 P-2: 11/15/06 01/15/07	<i>The Clarity of Math Error Notices Has Been Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices</i> F-1, R-2, P-1, P-2. Revise tax statement tables contained on notices to include specific amounts from at least some line items on which taxpayers made errors on their tax returns. F-1, R-3, P-1, P-2. Revise CP16 to present information in a manner consistent with the other notices sent to individual taxpayers including the location of the error explanation and tax statement, and the wording of the taxpayers' rights to appeal with the math error adjustment. F-1, R-5, P-1. Ensure employees perform research and suppress notices from going to taxpayers who paid the proper amounts.
2005-30-165	Does Not Apply to a Management Challenge Area	September 2005	04/15/06 04/15/06 09/15/06	<i>Information From States' Tax Amnesty Programs Could Bolster Compliance Efforts and Ensure Federal Tax Obligations Are Also Met</i> F-1, R-1, P-1. Analyze the current exchange programs to determine whether the state tax amnesty information will be obtained through the Reverse Filing Match, or any other current program. F-1, R-2, P-1. Seek agreements with the States to separately obtain all State tax amnesty information. F-1, R-3, P-1. Supplement IRS compliance information with that from State tax amnesty programs.

Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	Result for TIGTA
<p>Access to Information Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	<p>As of March 31, 2006, there were no instances in which information or assistance requested by the Office of Audit was refused.</p>
<p>Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of March 31, 2006, one report was issued in which significant recommendations were disputed: <i>The Office of Professional Responsibility Can Do More to Effectively Identify and Act Against Incompetent and Disreputable Tax Practitioners</i>, Report Reference No. 2006-10-066.</p>
<p>Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	<p>As of March 31, 2006, no significant management decisions were revised.</p>
<p>Audit Reports Issued in the Prior Reporting Period With No Management Response 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.</p>	<p>As of March 31, 2006, there were no prior reports for which management's response was not received.</p>
<p>Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 189 proposed regulations and legislative requests during this reporting period.</p>



*Death and taxes and childbirth!
There's never any convenient
time for any of them!*

~Margaret Mitchell



Appendix II Audit Products

October 1, 2005 – March 31, 2006

Inspector General Congressional Testimony	
Reference Number	Hearing Title
October 2005	
2006-OT-083	Uncollected Taxes: Can We Reduce the \$300 Billion Tax Gap?
March 2006	
2006-TO1-072	Internal Revenue Service's Fiscal Year 2007 Budget

Audit Products	
Reference Number	Report Title
October 2005	
2006-20-001	The Excise Files Information Retrieval System Has Not Been Effectively Implemented
2006-20-002	While Improvements Have Been Made, Business Systems Modernization Cost and Schedule Estimation Processes Have Not Always Been Followed and Major Changes Are Planned
November 2005	
2006-40-005	Enhancements Could Be Made to Minimize Internal Revenue Service Employee and Volunteer Return Preparation Program Participant Integrity Issues
2006-40-004	Significant Improvements Have Been Made in the Oversight of the Volunteer Income Tax Assistance Program, but Continued Effort Is Needed to Ensure the Accuracy of Services Provided
2006-40-007	Efforts to Prevent Improper Tax Benefits Resulting From Multiple Uses of Taxpayer Identification Numbers Can Be Improved (Revenue Protected: \$153,436,940; Reliability of Information: 8,185 taxpayer identification numbers incorrectly shown as having been used more than once) Note: monetary benefit projected over a five-year period
2006-10-008	Continued Monitoring of the PRIME Contractor Is Needed to Ensure Proper Billing
2006-20-003	The Business Systems Modernization Program Has Achieved Mixed Success in Addressing Weaknesses Identified in Internal and External Studies
2006-30-006	The Internal Revenue Service Needs a Coordinated National Strategy to Better Address an Estimated \$30 Billion Tax Gap Due to Non-filers

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Audit Products	
Reference Number	Report Title
December 2005	
2006-40-022	Improved Internal Controls and Contact Recording Are Needed to Ensure the Accuracy and Reliability of the Taxpayer Assistance Centers Quality Measurement System (Reliability of Information: 623 assistants with missing or extra observations; 14,225 Data Collection Instruments contained errors)
2006-20-009	Instilling More Discipline to Business Rules Management Will Help the Modernization Program Succeed
2006-20-021	Progress Has Been Made in Using the Tivoli Software Suite, Although Enhancements Are Needed to Better Distribute Software Updates and Reconcile Computer Inventories
2006-20-025	Improved Cellular Telephone Inventory Controls Resulted in Significant Savings (Funds Put to Better Use: \$6,979,200) Note: monetary benefit projected over a five-year period.
2006-20-026	The Alternatives for Designing and Developing the Filing and Payment Compliance Project Should Be Revalidated (Reliability of Information: \$17,446 billion in inaccurate or incomplete information used to support business decisions)
2006-1C-010	Report on Audit of Accounting System and Related Internal Controls
2006-1C-011	Report on Audit of Cost Impact Statement
2006-1C-012	Incurred Cost Audit for Fiscal Year 2001
2006-1C-013	Incurred Cost Audit for the Period July 1, 2000, through September 30, 2001
2006-1C-014	TIRNO-95-D-00061 and TIRNO-00-D-00013, Incurred Costs Audit for Fiscal Year 2003
2006-40-023	The Wage and Investment Division Compliance Function Should Link Annual Performance to Long-Term Goals and Improve Data Collection
2006-40-024	Individual Income Tax Returns Were Timely Processed in 2005; However, Implementation of Tax Law Changes Could Be Improved (Revenue Protection: \$4,380,521 impacting 19,103 taxpayers; Taxpayer Rights and Entitlements: 2,749 taxpayers understated their Earned Income Tax Credit by \$1.9 million because earned income included nontaxable combat pay. Also, 465,095 taxpayers may have overlooked the state sales tax deduction)
2006-10-027	Voucher Audit of the Federal Financial System Software Technical Support Services Contract – TIRNO-04-T-00116
2006-10-029	The Custodial Detail Database Should Help Improve Accountability; However, Significant Financial Management Issues Still Need to Be Addressed
January 2006	
2006-10-028	The Criminal Investigation Function Should Consider Changes to Its Custody of Original Tax Returns and Controls for Accessing Tax Information Electronically
2006-1C-015	TIRNO-95-D-00066, TIRNO-00-D-00020, and TIRNO-99-D-00001, Incurred Costs Audit for Fiscal Year Ended June 30, 2003
2006-1C-017	Preaward Survey of Prospective Contractor's Accounting System
2006-1C-018	Report on Audit of Purchasing System and Related Internal Controls
2006-1C-019	Billing System Review
2006-1C-016	Report on Audit of Contractor's Budget and Planning System
February 2006	
2006-30-030	High-Risk Work Is Selected From the Unassigned Delinquent Account Inventory, but Some Unassigned Accounts Need Management's Attention
2006-1C-020	Compensation System Audit
2006-40-052	Taxpayer Service Is Improving, but Challenges Continue in Meeting Expectations
2006-20-031	Secure Configurations Are Initially Established on Employee Computers, but Enhancements Could Ensure Security Is Strengthened After Implementation
2006-1C-032	Civil Group Fiscal Year 2006 Forward Pricing Indirect Rates

Audit Products	
Reference Number	Report Title
2006-1C-036	Report on Audit of Indirect and Other Direct Costs System and Related Internal Controls
2006-1C-033	Civil Division Incurred Cost Audit for Fiscal Year 2001 (Questioned Costs: \$11,837,225)
2006-1C-035	Incurred Cost Audit for Fiscal Year Ending September 30, 2003, TIRNO-00-D-00025
2006-40-053	Planning for the 2006 Filing Season Is on Course, but Challenges Exist for the Toll-Free Telephone Operations
March 2006	
2006-30-057	Actions Are Planned to Extend the Grace Period Before Assessing the Failure to Pay Tax Penalty; However, Computer Programming Needs to Be Corrected
2006-20-051	Further Enhancements to the Guidance for Testing Practices Will Help Ensure the Quality of Modernization Projects
2006-1C-034	Report on Agreed-Upon Procedures Evaluation – Verify Time-Charging and Personal Computer Allocation Costs
2006-10-060	Invoice Audit of the Taxpayer Burden Simulation Models Contract – TIRNO-03-D-00001 (Questioned Costs: \$1,938)
2006-40-061	The Taxpayer Assistance Center Closure Plan Was Based on Inaccurate Data
2006-10-062	The Administration of the Public Transportation Subsidy Program Can Be Improved
2006-30-055	Trends in Compliance Activities Through Fiscal Year 2005
2006-10-069	The Internal Revenue Service’s Federal Financial Management Improvement Act Remediation Plan As of December 31, 2005
2006-20-063	Strengthened Management Processes Are Needed to Assure the Usefulness of Products and Services Received Through the Infrastructure Shared Services Task Order (Inefficient Use of Resources: \$310,863)
2006-30-058	The Internal Revenue Service Provided Interim Guidance and Plans to Take Additional Actions to Implement New Tax Shelter Penalty Provisions
2006-20-068	The Internal Revenue Service Successfully Accounted for Employees and Restored Computer Operations After Hurricanes Katrina and Rita
2006-10-066	The Office of Professional Responsibility Can Do More to Effectively Identify and Act Against Incompetent and Disreputable Tax Practitioners (Taxpayer Burden: 7,124 taxpayers represented by practitioners whose conduct warrants IRS disciplinary action; 22,500 practitioners are not complying with tax law)
2006-20-059	The Business Systems Development Organization Effectively Managed Its Contractors and Related Costs
2006-30-065	The Settlement Initiative for Investors in a Variety of Bond and Option Sales Strategies Was Successful and Surfaced Possible Next Steps for Curtailing Abusive Tax Shelters
2006-40-067	The Field Assistance Office Has Taken Appropriate Actions to Plan for the 2006 Filing Season, but Challenges Remain for the Taxpayer Assistance Center Program
2006-20-071	Federal Information Security Management Act Report for Fiscal Year 2005



*Indoors or out, no one relaxes
In March, that month of wind
and taxes,
The wind will presently
disappear,
The taxes last us all the year.*

~Ogden Nash



Appendix III TIGTA's Statutory Reporting Requirements

TIGTA issued 11 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2006, TIGTA completed its eighth round of statutory reviews that are required annually by the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). TIGTA also completed an annual review of the Federal Financial Management Improvement Act of 1996 (FFMIA). The following table reflects the status of the FY 2006 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS' compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	Audit fieldwork in progress.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	Requires TIGTA to evaluate the IRS' compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.	Audit in planning phase.
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	Audit fieldwork in progress.

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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.R.C. § 7803(d)(1)(C)</p> <p>I.R.C. § 6501(c)(4)(B)</p>	<p>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Audit fieldwork in progress.</p>
<p>Levies</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Audit fieldwork in progress.</p>
<p>Collection Due Process</p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p>Audit fieldwork in progress.</p>
<p>Seizures</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.</p>	<p>Audit fieldwork in progress.</p>
<p>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of IRS' compliance with restrictions under section 3707 of RRA 98 on designation of taxpayers.</p>	<p>Audit fieldwork in progress.</p>
<p>Disclosure of Collection Activities With Respect to Joint Returns</p> <p>I.R.C. § 7803(d)(1)(B)</p> <p>I.R.C. § 6103(e)(8)</p>	<p>Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Audit in planning phase.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Taxpayer Complaints</p> <p>I.R.C. § 7803(d)(2)(A)</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 are shown on page 43.</p>
<p>Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996</p> <p>I.R.C. § 7803(d)(1)(G)</p> <p>I.R.C. § 6304</p> <p>Section 3466 of RRA 98</p>	<p>Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Discussion draft audit report issued to IRS management.</p>
<p>Denial of Requests for Information</p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p>Audit fieldwork in progress.</p>
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS' adequacy and security of its technology.</p>	<p>Information Technology Reviews: Reference Number 2006-20-001, October 2005 Reference Number 2006-20-002, October 2005 Reference Number 2006-20-003, November 2005 Reference Number 2006-20-009, December 2005 Reference Number 2006-20-026, December 2005 Reference Number 2006-20-051, March 2006 Reference Number 2006-20-059, March 2006 Reference Number 2006-20-063, March 2006</p> <p>Security Reviews: Reference Number 2006-20-021, December 2005 Reference Number 2006-20-031, February 2006 Reference Number 2006-20-068, March 2006</p>

TIGTA Semiannual Report to Congress

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Federal Financial Management Improvement Act of 1996</p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements, or establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Reference No. 2006-10-069, March 2006</p> <p>TIGTA determined that no intermediate target dates were missed on the 38 open remedial actions; however, 23 dates were extended. The IRS has reasonable explanations for these extensions, and properly obtained concurrence from the Office of Management and Budget on corrective actions that extend beyond 3 years.</p> <p>The timely completion of up to 25 open remedial actions is in jeopardy due to significant funding shortfalls, including resources needed to further develop the Custodial Detail Data Base and the Integrated Financial System, two key financial management systems that address longstanding financial management weaknesses.</p> <p>These delays and funding shortfalls could further hinder the IRS' ability to timely resolve the issues that cause its noncompliance with the FFMIA.</p>



Appendix IV

Section 1203 Standards

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

Misconduct violations include:

- Willfully failing to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;
- Providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;
- Violating, with respect to a taxpayer, taxpayer representative, or other employee of the IRS, any right under the Constitution of the United States, or any civil right established under Title VI or VII of the Civil Rights Act of 1964; Title IX of the Education Amendments of 1972; Age Discrimination in Employment Act of 1967; Age Discrimination Act of 1975; 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; and
- Threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

The Commissioner of Internal Revenue may mitigate the penalty of removal for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner, in his/her sole discretion, may establish a procedure that will be used to determine whether an individual should be referred to the Commissioner for determination. Any mitigation determination by the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.




In other words, a democratic government is the only one in which those who vote for a tax can escape the obligation to pay it.

~Alexis de Tocqueville



Appendix V Data Tables Provided by the IRS

The memorandum copied below is the IRS transmittal to TIGTA. The tables that follow the memorandum 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 I.R.C. § 1203 allegations are included. IRS management conducted inquiries into the cases reflected in these tables.

 **DEPARTMENT OF THE TREASURY**
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224
April 7, 2006

HUMAN CAPITAL OFFICE

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: Barbara B. Pabotay
Director, Workforce Relations Division

SUBJECT: Input for the Treasury Inspector General for Tax
Administration (TIGTA) Semiannual Report to Congress

In response to your memorandum of February 15, 2006, to the Commissioner, I am providing the following information to you to meet your reporting requirements as defined in 26 U.S.C. §7803(c)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period October 1, 2005 to March 31, 2006.

- Report of Employee Misconduct by Disposition Groups
- Report of Employee Misconduct – National Summary
- Summary of Substantiated Section 1203 Inquiries Record in ALERTS

The attached tables contain information concerning alleged misconduct reported to IRS managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of March 31, 2006. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations System (ALERTS).

The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 252 §1203 allegations and removed 41 employees. In four of the removals IRS managers acted based on a TIGTA investigation. Twenty-four employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 64 cases. There are an additional eight cases to be reviewed by the Commissioner for mitigation.

If you have any questions or need additional information, please call me at (202) 622-6300, or a member of your staff may contact Christine Adams at (202) 622-9363.

Attachments (3)

cc: Commissioner
Deputy Commissioner Services and Enforcement
Deputy Commissioner Operations Support
National Taxpayer Advocate
Chief, EEO & Diversity
Chief, Communications & Liaison
Associate Chief Counsel (GLS)

**Report of Employee Misconduct for the Period
October 01, 2005 through March 31, 2006
Summary by Disposition Groups
(Table provided by the IRS)**

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	37	136	29	1	203
Separation of Probationary Employees	5	77	4	12	98
Separation of Temporary Employees	1	7		3	11
Resignation/Retirement	63	128	80	30	301
Suspensions	73	208	85	1	367
Reprimands	99	490	534	19	1,142
Counseling		451	760	52	1,263
Alternative Discipline	28	89	38	3	158
Clearance	136	148	9		293
Closed Without Action	242	392	199	135	968
Closed Without Action (Caution Statement)	151	119	134	82	486
Forwarded to TIGTA		10			10
Suspended – Waiting Supplemental	7	1			8
Total	842	2,256	1,872	338	5,308

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

This report is being produced in accordance with 26 USC § 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999

Extract Date: Sunday, April 02, 2006 Report ID = T1R3a

**Report of Employee Misconduct for the Period
October 01, 2005 through March 31, 2006
National Summary
(Table provided by the IRS)**

Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Cases	
TIGTA Investigations ROI ¹	627	814	(842)	(11)	(0)	588
Administrative Case ²	1,202	2,186	(2,256)	(55)	(3)	1,074
Employee Tax Compliance Case ³	1,228	1,331	(1,872)	(72)	(0)	615
Background Investigations ⁴	162	330	(338)	(3)	(0)	151
Total	3,219	4,661	(5,308)	(141)	(3)	2,428

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

This report is being produced in accordance with 26 USC § 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999

Extract Date: Sunday, April 02, 2006 Report ID = T1R1

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 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 which becomes a matter of official interest.

⁴ Background Investigations - Any matter involving an NBIC investigation into an employee's background that is referred to management for appropriate action.

**Summary of Substantiated I.R.C. § 1203 Allegations
Recorded in ALERTS for the Period
October 01, 2005 through March 31, 2006
(Table provided by the IRS)**

§ 1203 Violation	Removals¹	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	1	0	0	0	0	1
Constitutional & Civil Rights Issues	0	0	0	0	0	0	0
Falsifying or Destroying Records	1	0	0	0	0	1	2
Assault or Battery	0	0	0	0	0	0	0
Retaliate or Harass	0	1	0	0	0	0	1
Misuse of §6103	0	0	0	0	0	0	0
Failure to File Federal Tax Return	9	10	2	3	31	60	115
Understatement of Federal Tax Liability	30	12	0	9	33	48	132
Threat to Audit for Personal Gain	1	0	0	0	0	0	1
Totals	41	24	2	12	64	109	252

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

Extract Date: Thursday, April 06, 2006

¹ The cases reported as "Removals" and "Penalty Mitigated" (see columns above) do not reflect the results of any third party appeal.



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

1-800-366-4484

by Web:

www.treas.gov/tigta/

or Write:

**Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, DC 20044-0589**

Information is confidential and you may remain anonymous



DEPARTMENT OF THE TREASURY

Office of the Inspector General for Tax Administration

1125 15th Street, NW., Room 700A

Washington, DC 20005

*This report, as well as complete copies of our audit reports,
are available online at: <http://www.treas.gov/tigta/>*