

*Treasury Inspector General for Tax Administration*



*Semiannual Report to the Congress*

October 1, 2000 through March 31, 2001



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 30, 2001

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

Dear Mr. Secretary:

I am forwarding to you the Treasury Inspector General for Tax Administration's (TIGTA) Semiannual Report to the Congress for the six-month period ending March 31, 2001. We issued 60 audit reports that identified over \$410 million in financial accomplishments. Most of the financial accomplishments involved issues that would increase tax assessments and collections, or protect revenue from erroneous claims or refunds.

TIGTA closed over 2,250 investigations and investigative recoveries totaled just over \$8.3 million during this reporting period. The Office of Investigations has focused on the emerging problem of domestic terrorism, as well as threats and assaults against Internal Revenue Service (IRS) employees as they carry out their tax administration responsibilities.

The Office of Audit dedicates resources to helping the IRS address its major challenges, i.e., technology modernization, customer service, filing season, and tax compliance, to include the challenges presented by a global economy. The annual audit requirements involving taxpayer rights imposed by the IRS Restructuring and Reform Act of 1998 are underway and will be reported in our next semiannual report.

TIGTA special agents conducted integrity awareness presentations for over 15,500 individuals, of which 89 percent were IRS employees. Our goal is to reach one third of IRS employees with our integrity briefings by the end of the fiscal year. We believe these presentations heighten integrity awareness and have a potential deterrent effect on fraud and misconduct.

I look forward to working with you in helping the IRS become a highly effective and respected government agency for the American public.

Sincerely,

David C. Williams  
Inspector General

Enclosure



Semiannual Report to the Congress

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## Office of Treasury Inspector General for Tax Administration

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### INFORMATION ABOUT THE TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

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

TIGTA's audit and investigative activities are designed to:

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

Other responsibilities include:

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

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

### AUTHORITIES

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

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

### MAJOR ISSUES FACING THE IRS

As the nation's tax administrator, the IRS collects 95 percent of federal tax revenues. For Fiscal Year (FY) 2001, the IRS is projected to collect \$2.1 trillion. The IRS processes approximately 233 million tax returns and provides assistance to more than 128 million taxpayers annually. The IRS also

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

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

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implements tax law changes and manages over 700 office locations. This formidable task is carried out in an environment where providing quality customer service and enforcing tax laws go hand in hand.

In December 2000, TIGTA advised Congress of the following major challenges facing the IRS in FY 2001:

- Modernizing the IRS:
  - Organizational Restructuring
  - Technology Modernization
- Providing Security Over Information Systems
- Processing Returns and Implementing Tax Law Changes
- Providing Customer Service and Ensuring Tax Compliance
- Providing Quality Customer Service Operations
- Protecting Revenue and Minimizing Tax Filing Fraud
- Protecting Taxpayer Rights
- Implementing the Government Performance and Results Act of 1993 (GPRA)<sup>3</sup>
- Managing Finances
- Addressing the Impact of the Global Economy on Tax Administration

These major challenges have been the focus of TIGTA's audit and investigative activities during this six-month reporting period. The following sections provide a summary of the issues and TIGTA's activities to help the IRS address these issues. Details of some of the more significant audit and investigative activities, as well as information on statutory requirements, can be found on pages

9 through 27, 29 through 42, and in Appendix VI, respectively.

### **MODERNIZING THE IRS**

Creating a modernized IRS is a top priority of the Commissioner, as well as a principal focus of Congressional oversight. Modernization is the most significant challenge the IRS faces over the next few years. Modernization includes both organizational restructuring and implementation of new computer systems and technology. The ability to achieve the IRS' modernization concept is largely dependent on restructuring to better meet taxpayer needs and developing new technology to replace deficient and obsolete systems.

#### **Organizational Restructuring**

On October 1, 2000, the IRS achieved its first milestone toward modernization by implementing its new organizational structure. The four major components of the new IRS are the Wage and Investment Income (W&I), Small Business/Self-Employed (SB/SE), Large and Mid-Size Business (LMSB), and Tax Exempt and Government Entities (TE/GE) Divisions.

The stand up of the new business unit structure was an important first step in the IRS' restructuring, though far from the last of this long-term endeavor.

TIGTA audits found that the four new business units had substantially completed the critical elements needed for standing up. Specifically, most key management positions were filled, most employees had been realigned, finance offices and budgets were established, many delegations of authority were revised, and detailed plans of workarounds<sup>4</sup> were developed. However,

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<sup>4</sup> A "workaround" is a temporary solution to a problem that allows a new organization to be operational until a final solution can be developed and implemented.

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<sup>3</sup> Pub. L. No. 103-62, 107 Stat. 285

additional actions were needed in the area of staffing unfilled positions in the W&I Division and minimizing the risks of implementing the TE/GE Division's modernization vision.

With the new business structure in place, the IRS must focus on important issues such as taxpayer access to "walk-in" and "toll-free" services; defining new customer bases and determining customer needs; accuracy of responses to taxpayers; the ability to hire and train a qualified workforce; and, reversing the decline in enforcement results.

### **Technology Modernization**

Almost \$400 million has been spent on technology modernization in the past two years. While significant progress has been made, including development of the modernization blueprint and establishment of program management processes, most of the ongoing systems modernization projects have taken longer and cost more than originally planned. This is attributed, in part, to the IRS learning to manage its complex systems modernization effort, and the roles and responsibilities of the IRS and the PRIME contractor being inadequately defined during the early phases of the modernization.

While growing pains are not uncommon for major systems development projects, the reality is that a restructured IRS may take longer to realize than initially anticipated.

Assessing the IRS' modernization efforts continues to be a top priority for TIGTA. TIGTA has identified the following areas that could seriously impact the success of technology modernization:

- Delays and cost overruns in delivering tangible benefits to taxpayers.
- Potential funding problems.
- Inconsistencies in implementing key systems development processes.

- Business needs not always being well defined.

In addition, the Office of Audit recently reported that while the IRS has established a framework for meeting its electronic filing goals, it is questionable whether these goals can be met. The ability to achieve 80 percent electronically filed returns by 2007 will require aggressive and sustained efforts. For example, 23 percent of all individual returns were filed electronically in FY 1999. While the percentage of individual returns filed electronically increased five percent in FY 2000, even more substantial increases are needed to achieve the goal of 80 percent by 2007.

### **PROVIDING SECURITY OVER INFORMATION SYSTEMS**

The IRS maintains large volumes of sensitive taxpayer information. The Commissioner has stated that protecting this information and the systems used to deliver taxpayer services is key to a customer-focused IRS.

As the primary revenue collector for the United States (U.S.), the IRS is a potential target of external terrorists and hackers. Additionally, disgruntled employees pose a threat, particularly during the IRS reorganization process. Whether external or internal threats, the IRS is increasingly more vulnerable as its systems become more interconnected.

Recent TIGTA audits have identified significant security weaknesses in the following areas:

- Intrusion detection.
- Disaster recovery.
- Physical security of facilities and systems.
- Certification of security controls for sensitive systems.



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TIGTA is working closely with the IRS to develop a group of dedicated computer specialists and special agents who can rapidly respond to computer intrusions, investigate IRS network problems when indicators of intentional disruption are present, and conduct recurring systems penetration tests to detect new vulnerabilities.

Unauthorized accesses (UNAX) to taxpayer information by IRS employees remain a concern. The IRS conducts annual awareness programs to reinforce its policy of “zero tolerance” for unauthorized access of taxpayer records. All employees are required to acknowledge in writing that they attended and understood these presentations, yet abuses continue.

The Office of Investigations uses detection criteria to search the IRS’ tax files to identify potential unauthorized accesses. During this reporting period, 358 potential leads were identified and 163 were referred to field offices for investigation. In addition, the Office of Audit has recommended improved computer controls to better protect confidential taxpayer information from unauthorized accesses.

### **PROCESSING RETURNS AND IMPLEMENTING TAX LAW CHANGES**

The filing season impacts every American taxpayer and is, therefore, always a highly critical program for the IRS. Programs, activities, and resources have to be planned and managed effectively each filing season. For example, more than 250 computer programming changes were required for the 2000 filing season. This is further complicated by the modernization efforts that are updating and replacing the very core tax processing systems needed to deliver a successful filing season. In addition, the IRS must ensure telecommunications and system capacity will accommodate the new electronic

filing requirements and the accuracy and utility of information received and processed.

The Office of Audit reported the IRS needs procedural and organizational changes to further simplify tax forms, and thereby reduce taxpayer burden. For example, the IRS does not have a toll-free telephone number for taxpayers to conveniently provide comments on improving tax forms. In addition, the IRS needs to ensure the tax form development process complies with federal internal control standards.

### **PROVIDING CUSTOMER SERVICE AND ENSURING TAX COMPLIANCE**

The IRS has begun to re-engineer its business processes and technology to focus on providing vastly improved service to taxpayers. The belief is that voluntary compliance with the tax laws will increase if the IRS provides the right mix of education and support to taxpayers. The task is a daunting one.

Revenue receipts processed by the IRS increased from \$1.5 trillion in FY 1996 to \$1.9 trillion in FY 2000. However, revenue collected as a result of compliance activity decreased by \$5 billion and gross accounts receivable increased by \$41 billion during the same period. IRS management and stakeholders have concerns about the reduced resources allocated to compliance activities and the related decrease in business results. In February 2001, Congress approved approximately \$140 million for IRS to hire over 2,800 employees to improve both customer service and compliance coverage.

Decreased enforcement has also been attributed to IRS employees’ concerns over the mandatory employment termination provision in Section 1203 of RRA 98. To help address these concerns, TIGTA has briefed the IRS staff on Section 1203 investigations. In addition, TIGTA

participates in an IRS task force focusing on Section 1203 processes.

### **PROVIDING QUALITY CUSTOMER SERVICE OPERATIONS**

Providing top quality service to every taxpayer in every transaction is integral to the IRS' modernization plans. There are many ways in which the IRS provides customer service; the most direct include toll-free telephone service, electronic customer service, written communications to taxpayers, walk-in service, and accurate and timely tax refunds. Each of these services affects a taxpayer's ability and desire to voluntarily comply with the tax laws.

Telephone and Internet technology afford the IRS many opportunities to dramatically improve customer service. The IRS has made strides in using these technologies. However, inadequate systems design and planning has hindered some of these efforts, and put them at risk of not being completed timely.

For example, planning for an Internet-based refund status application began in 1996. This application is currently scheduled to be available by the 2002 filing season. While general planning and analysis work has been accomplished, detailed design and development are still needed. To be postured for the 2002 filing season, the IRS must define and complete critical design requirements and development work, to include: analyzing and defining the business and functional requirements of the refund application; ensuring the application meets security and privacy requirements; and, integrating/interfacing the web application with the appropriate computer systems.

In addition, the IRS has developed a web site that provides taxpayers with convenient access to tax forms and information. This filing season alone, the web site received over one billion accesses.

The accuracy of responses at call sites and Taxpayer Assistance Centers needs to be increased. Improvements are heavily dependent on the success of the IRS' systems modernization initiative. The Customer Communications Project is to be the IRS' first major modernization effort. This Project is designed to route taxpayer calls to a customer service representative, anywhere in the U.S., who is best qualified to answer the question. It will also provide expanded self-service telephone and Internet services.

### **PROTECTING REVENUE AND MINIMIZING TAX FILING FRAUD**

The IRS must continually seek opportunities to protect revenue and minimize tax filing fraud in its programs and operations. The Earned Income Credit (EIC) Program continues to be a highly visible area of potential fraud. An August 2000 IRS EIC compliance study reported that the amount of overclaims submitted was approximately \$9.3 billion, or 31 percent of the amount claimed.

To combat potential EIC fraud, the IRS launched promising new compliance initiatives. For example, partnerships with the Department of Health and Human Services and the Social Security Administration will permit the IRS to cross-check information regarding how the child is related to the taxpayer, the age of the child, and whether the taxpayer is the child's custodial parent. For the 2000 filing season, the IRS began checking all secondary Social Security Numbers (S-SSNs) in addition to primary and qualifying child SSNs on EIC returns. The IRS rejects returns if the names and numbers do not match Social Security records.

Despite the IRS programs and efforts to detect and stop fraudulent EIC claims, relatively little effort has been made to systemically identify refund schemes involving business returns and associated credits. A few business

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schemes have been identified but generally, it has required labor-intensive manual procedures. The IRS is concerned that fraudulent refund claims may be expanding to include business returns and that scheme perpetrators continue to develop new methods to defraud the system.

### **PROTECTING TAXPAYER RIGHTS**

The IRS has made progress in implementing some RRA 98 taxpayer rights provisions. For example, the IRS was fully or substantially compliant with the provisions involving seizures and notification requirements for levies. The IRS is continuing to take corrective actions to increase compliance with the following RRA 98 provisions:

- Providing innocent spouse relief.
- Notifying taxpayers of third party contacts and summonses.
- Not designating taxpayers as illegal tax protesters.
- Providing proper and timely notice that a federal tax lien has been filed.
- Not withholding information in response to taxpayers' written requests for information under the Freedom of Information Act of 1998<sup>5</sup> (FOIA) or the Privacy Act of 1974<sup>6</sup>.

RRA 98 also placed restrictions on the IRS' use of enforcement statistics to evaluate employees or suggest production quotas and goals. In September 2000, TIGTA reported that most employee evaluations and management documents did not contain tax enforcement results and did not impose production quotas or goals; however, there were some instances in which these types of enforcement statistics were used.

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<sup>5</sup> U.S.C. § 552 (1996)

<sup>6</sup> U.S.C. § 552a (1996)

The IRS should continue to monitor compliance with these taxpayer rights provisions, particularly since enforcement activities are likely to increase. The IRS has restructured and placed increased emphasis on the importance of appropriate enforcement action to ensure compliance with tax laws.

The Office of Investigations protects taxpayers and their rights by investigating allegations of misconduct by IRS employees. Since the passage of RRA 98, over 1,150 complaints alleging Section 1203 violations have been received by TIGTA. TIGTA is noticing a decline in the number of complaints it receives. From a high of 95 allegations in October 1999, TIGTA has received 55 or fewer allegations per month since January 2000. TIGTA received only 19 allegations of Section 1203 violations in March 2001.

The vast majority of these Section 1203 complaints have alleged an IRS employee violated a provision of the IRS Manual or I.R.C. to retaliate against or harass someone. The second largest category concerns constitutional and civil rights/Equal Employment Opportunity violations.

During this reporting period, TIGTA initiated 108 investigations, of which 40 were closed.

### **IMPLEMENTING GPRA**

GPRA requires government agencies to set goals, measure performance, and report on accomplishments. During the past two years, the IRS developed its Strategic Plan and provided budget justifications that included Annual Performance Plans. Collectively, these documents satisfy major GPRA requirements by identifying the IRS' mission, strategic objectives, goals, and strategies. The documents also describe the IRS' priorities for a six-year period and the key performance measures used in assessing achievement of its goals.

The Commissioner has indicated that it will take years to develop a complete set of balanced measures that can be used at all levels of the IRS. As the new operating divisions concentrate on implementing its new organizational structures, performance measures may not receive high priority. TIGTA believes the IRS can improve its measures, the quality of the performance data, and reporting of annual accomplishments.

### **MANAGING FINANCES**

The IRS received an unqualified or clean opinion on its FY 2000 financial statements. However, the General Accounting Office (GAO) reported internal controls are not effective, and financial management systems lack substantial compliance with the Federal Financial Management Improvement Act<sup>7</sup>.

Obtaining the unqualified opinion required compensating processes to work around IRS' systems and control weaknesses to derive year-end balances. IRS' approach relied heavily on costly, time-consuming processes; statistical projections; external contractors; substantial adjustments; and, extensive human effort. The level of effort behind these processes cannot be sustained to produce timely financial information for decision making on a regular basis.

### **ADDRESSING THE IMPACT OF THE GLOBAL ECONOMY ON TAX ADMINISTRATION**

TIGTA and the GAO have previously reported serious internal control and systemic weaknesses in IRS' administration of international programs. A recent TIGTA audit concluded that the IRS is in no better position today to determine taxpayers' compliance levels in reporting foreign sourced income than it was in 1997. Despite the foreign sourced income information provided by tax treaty partners, IRS is unable to measure compliance or identify non-compliance effectively. While the IRS has indicated that it has undertaken several international compliance programs, increased focus on nonfiling, transfers of assets by U.S. citizens to foreign trusts, foreign tax credit claims, and foreign sourced income is needed.

TIGTA is in the process of reviewing three areas of foreign-related transactions. These areas include withholding on partnerships by foreign partners; compliance programs for U.S. residents with foreign sourced income; and, compliance programs for non-resident aliens.

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<sup>7</sup> Pub. L. No. 104-208, 110 Stat. 3008-314, 3009-389 (1996)



**Treasury Inspector General for Tax Administration  
Office of Audit**

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**INTRODUCTION**

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

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

**THE AUDIT PROGRAM**

To assist the IRS in meeting the challenges it faces in FY 2001, the Office of Audit developed a comprehensive audit program. The program helps the IRS assure that tax administration programs are efficient and effective, and minimize fraud, waste, and abuse.

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

**SIGNIFICANT AUDIT RESULTS**

During this reporting period, the Office of Audit issued 60 audit reports, which are listed in Appendix IV.

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

**Modernizing the IRS**

***Additional Management Actions Are Needed to Ensure the Timely and Successful Modernization of the Tax Exempt and Government Entities Division (Reference No. 2001-10-026)***

The mission of the new TE/GE Division is to focus on providing customers top quality service and protecting the public interest by applying the tax laws with integrity and fairness to all. The IRS has taken positive steps toward ensuring the successful migration to the new TE/GE Division. Nonetheless, additional actions are needed to minimize the inherent risks associated with such a major endeavor. Timely addressing these risks is critical to ensure the successful implementation of the TE/GE Division's modernization initiatives.

The Office of Audit determined that the TE/GE Division has not incorporated the concept of a single executive or senior-level person with end-to-end accountability into its implementation governance structure to manage its modernization initiatives. Also, additional actions should be taken to better control, evaluate, and report internal and external stakeholder concerns and comments. TE/GE Division management would then be in a better position to readily identify and resolve critical issues facing transition from the old to the new organization.



The TE/GE Division does not have an effective process to identify and monitor the status of workarounds. The inability to adequately capture and monitor workarounds may prevent the TE/GE Division from effectively tracking its efforts to timely replace vital processes with permanent solutions. Workarounds that are not timely replaced with permanent solutions could result in work stoppages and prevent the TE/GE Division from achieving its modernization vision.

Now that the TE/GE Division has become an independent entity within the IRS, it must rely on other business units to assist its managers in meeting the modernization vision. Without establishing effective working relationships with these other business units, the TE/GE Division could be at risk of not accomplishing its mission, goals, and objectives.

The Office of Audit recommended that a senior-level official be selected to oversee future modernization activities and establish ownership and oversight responsibility for addressing stakeholder concerns and comments. Also, management should establish formal agreements and processes to better plan, control and oversee the work performed by internal and external support organizations. In addition, the risks that core processes could result in disruptions to customer service should be identified and monitored.

IRS management agreed with the audit recommendations.

***Controls Over the Development of the Practitioner Secure Messaging System Prototype Should Be Improved (Reference No. 2001-20-022)***

The IRS' Electronic Tax Administration (ETA) management developed the Practitioner Secure Messaging System (PSMS) Prototype to support the design of a full-scale system that will provide a secure Internet environment for tax practitioners and

the IRS to exchange tax information. The purpose of the Prototype is to provide information (such as lessons learned) to the related Business Systems Modernization Program project that is building the full-scale secure messaging system.

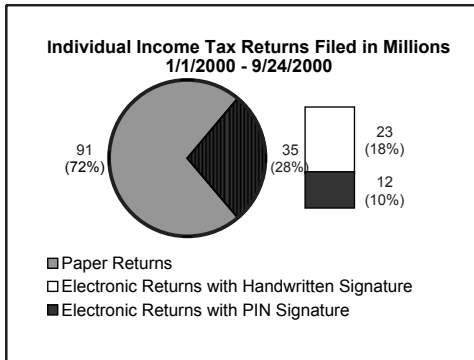
The PSMS Prototype is the IRS' first system that uses the Internet to directly interact with the public to exchange taxpayer information. The Prototype identified significant lessons concerning the implementation of an Internet-based messaging process. However, IRS management should move the PSMS Prototype and similar ETA systems development initiatives to the Chief Information Officer's (CIO) organization to be consistent with the IRS' response to prior audit recommendations as well as the *IRS Organization Blueprint 2000*, which consolidates all systems development activities under the CIO. Also, the IRS should strengthen the PSMS Prototype project management and spending controls.

IRS management agreed with the project management and spending control issues and has initiated corrective actions. However, IRS management did not agree with the recommendation to move the PSMS Prototype and similar ETA systems development initiatives to the CIO organization. The Office of Audit continues to believe that managing systems development initiatives outside the CIO organization increases the risk of inconsistent and ineffective project management processes and of fragmented systems modernization initiatives, which could lead to delays, cost overruns and rework.

***Electronic Signature Initiatives Could Be Better Defined and Evaluated (Reference No. 2001-20-043)***

The IRS' goal is to have at least 80 percent of all tax returns filed electronically by 2007. To increase the number of electronically filed returns, the IRS has implemented Personal Identification Numbers (PIN) as an alternative

to handwritten signatures. As of September 24, 2000, the IRS had electronically received approximately 35 million (28 percent) of the 126 million individual income tax returns filed. Of the 35 million electronically filed individual returns, nearly 12 million were signed with a PIN.



Source: IRS Service Center Processing and Production Reports

The Office of Audit reported that the IRS has not finalized requirements defining the minimum acceptable controls for the use of PINs as alternative signatures. In addition, the IRS lacks detailed cost benefit analyses for the operational alternative signature initiatives and comprehensive assessments of program performance. Therefore, the cost effectiveness of decisions to expand or terminate specific alternative signature initiatives, and the anticipated effect on the number of electronic returns filed by taxpayers, are not readily available.

The Office of Audit recommended that the IRS finalize requirements for the use of PINs and ensure that all operational alternative signature initiatives comply with the requirements. In addition, the IRS should prepare detailed program evaluations for operational PIN alternative signature initiatives and conduct comprehensive cost benefit analyses for future initiatives.

IRS management agreed to finalize the signature authentication requirements and

review the operational alternative signature initiatives for compliance. However, IRS management did not agree to revise the program evaluation process. Instead, the IRS believes that existing program evaluation measures and cost related documents are sufficient to evaluate the program, identify areas for improvement, and select the most feasible approach.

The Office of Audit continues to believe that improvements are needed to ensure that the cost effectiveness of decisions to expand or terminate specific alternative signature initiatives, and the anticipated effect on the number of electronic returns filed by taxpayers, are readily available. Although management indicated program evaluations were done for each alternative, the Office of Audit was unable to obtain documentation of the evaluations for several of the alternatives.

**Management Advisory Report: The Probability of Meeting Electronic Tax Administration Goals Remains Questionable (Reference No. 2001-40-047)**

The IRS processes over 200 million returns while collecting tax revenues totaling \$1.7 trillion each year. However, efforts to modernize its processing systems remain constrained since most tax returns are filed on paper rather than electronically. Increasing electronic filing improves tax return processing by significantly reducing errors and labor costs and is essential for modernization to be effective.

The IRS has established a framework for accomplishing its electronic filing goals in the ETA Strategic Plan, but the probability of meeting these goals remains questionable. From 1998 to 1999, the IRS increased the number of electronically filed returns by over 19 percent for individual returns and 56 percent for information returns. During 2000, it also experienced an increase in electronic filing. For example, electronically



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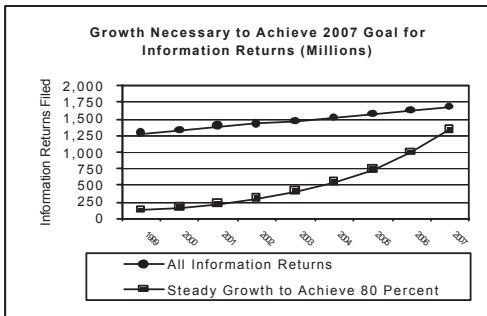
filed individual returns increased from 23.4 percent in 1999 to 28 percent in 2000.

While the IRS increased the number of electronically filed returns in both 1999 and 2000, achieving the 2003 interim goal of having all computer-prepared paper returns filed electronically is not probable. It is also questionable whether the IRS can accomplish the 2007 goal of having 80 percent of all federal tax and information returns filed electronically. Success will require a sustained and substantial effort by the IRS to increase the number of electronically filed returns over the next seven years.

**Percentage of 1999 Returns Filed Electronically  
(In Millions)**

	Total	E-File	Percent of Total
<b>Individual Returns</b>	125.1	29.3	23.4
<b>Business Returns</b>	69.8	5.7	8.2
<b>Information Returns</b>	1,240.0	121.5	9.8
<b>Total</b>	1,434.9	156.5	10.9

*Source: ETA Strategy for Growth, Information Return Volumes for 1999 from the Executive Officer of Service Center Operations, and Statistics of Income Projections for Returns to be Filed*



*Source: 1999 A Strategy for Growth and the Electronic Tax Administration Advisory Committee Report to Congress dated June 30, 2000*



*Source: Statistics of Income Projections of Information and Withholding Documents in the United States for Paper and Non-Paper Totals for Filing Seasons 2000-2008 and Combined Total of Electronically Transmitted Magnetic Tape and Paper*

The Office of Audit recommended that the IRS improve its strategic planning process to include incremental project milestones or sufficient performance measures to evaluate each initiative's progress and its ultimate impact on electronic filing. The ETA Strategic Plan should also clearly define the impact of information returns filed on magnetic media. These returns will significantly affect the IRS' ability to achieve its electronic filing goals because banks and employers will need to convert over one billion returns from magnetic tape to electronic filing within the next seven years. The plan did not adequately distinguish between those returns filed electronically versus those received on magnetic tape.

In January 2000, the IRS reviewed the ETA strategy and identified the need to focus its efforts on the most critical issues. In addition, an outside advisory council emphasized that the past increases in the electronic filing rate must be sustained and suggested establishing new initiatives to help achieve the necessary growth rate. By addressing these concerns and implementing enhancements in the strategic planning process, the IRS should increase the likelihood that its vision for electronic filing becomes a reality.

This report was issued for information use only and did not require a response.

**Management Advisory Report:  
Additional Management Actions Are  
Needed for Placing Small  
Business/Self Employed Division  
Transition Employees  
(Reference No. 2001-30-054)**

The Office of Audit determined that management of the new SB/SE Division generally took effective steps to ensure transition employees were placed in temporary assignments after the stand up of the division. However, information provided to transition employees regarding their temporary assignments was sometimes incomplete. In addition, a long-term coordinated strategy is needed for placing the remaining transition employees in permanent positions.

IRS records indicate that, of the over 800 transition employees located in the SB/SE Division at stand-up, there were 394 transition employees still remaining as of February 10, 2001. Approximately 28 percent of these 394 employees are IRS analysts (job series 343), and 38 percent of the remaining employees are grade 13 or higher. Based upon the current transition process, it could be several months or even years before all transition employees have resigned, retired, or been placed in permanent positions.

This report was issued for information use only and did not require a management response.

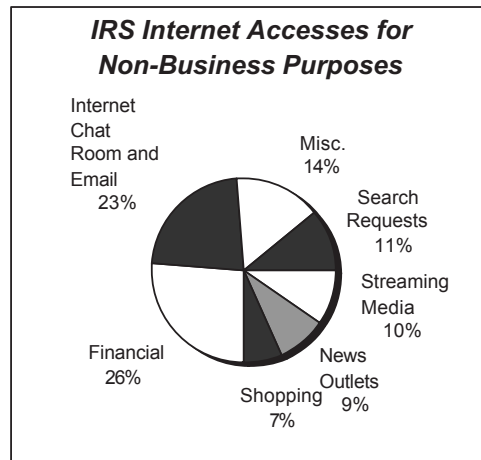
**Providing Security Over  
Information Systems**

**Employees' Extensive Personal Use of  
the Internet Should Be Controlled  
(Reference No. 2001-20-016)**

Use of the Internet offers tremendous research capabilities to IRS employees. About 16,000 IRS employees currently use the Internet, and use could expand to the remaining 97,800 employees. One risk associated with providing Internet access is that employees

may browse web sites for personal reasons. Treasury guidelines require employees to use the Internet for official duties only.

The Office of Audit reported that over half of the time spent on the Internet by IRS employees was for personal reasons. The following chart presents the percentage breakdown of the types of non-business web sites accessed by IRS employees.



The Non-Business Miscellaneous category consists of accesses to all other web sites that appeared to be for non-business purposes, including sports, sexually explicit, and gambling sites.

While Internet accesses to sexually explicit web sites were relatively low (0.4 percent) in the seven-day sample, they are significant because the web site contents may be offensive and could foster a hostile work environment. The Office of Audit referred the most egregious instances of misuse to TIGTA's Office of Investigations. These referrals were evaluated for potential legal violations. The IRS also lost productivity and its telecommunications lines were impacted.

The Office of Audit recommended that IRS management use software to block the use of inappropriate sites and begin monitoring the use of the Internet.

IRS management generally agreed with the findings. IRS management agreed to focus on using commercially available blocking software, educating employees and managers on employee productivity issues, and performing random checks on usage. However, IRS management's response was incomplete because it did not identify the specific corrective actions to be taken, the responsible officials, and the implementation dates. The Office of Audit is continuing to follow up to obtain this information.

### **Processing Returns and Implementing Tax Law Changes**

#### ***Letter Report: More Small Corporate Taxpayers Can Benefit from the Alternative Minimum Tax Exemption Provision (Reference No. 2001-30-019)***

The Taxpayer Relief Act of 1997<sup>8</sup> provided an exemption from the alternative minimum tax for qualified small business corporations for tax years beginning after December 31, 1997. Once a corporation qualifies as a small corporation, it will not be liable for the alternative minimum tax so long as it remains a small corporation.

The Office of Audit identified over 2,000 businesses that paid the alternative minimum tax as part of their calendar year 1998 taxes, yet appeared to meet the gross receipts criteria to qualify as small corporations. In a statistical sample of these businesses, 93 percent qualified for the exemption but had self-assessed an average of \$11,638 in alternative minimum tax. The Office of Audit estimated that these corporations paid over \$25 million in alternative minimum tax that the Act specifically exempted.

The Office of Audit concluded that many taxpayers and their tax professionals may have overlooked their qualification for the

small corporation exemption from the alternative minimum tax. Without significant manual effort, the IRS could not identify these errors. As a result, these taxpayers were not informed of their errors and, accordingly, are likely to repeat them.

The Office of Audit recommended that the IRS publicize the alternative minimum tax exemption by issuing a public announcement to taxpayers and by enhancing taxpayer education materials.

By the beginning of the 2001 filing season, the IRS agreed to incorporate the alternative minimum tax issue into various outreach programs, workshops, and practitioner institutes. The IRS also plans to design a strategy to identify the taxpayers affected by this issue and determine corrective actions for these taxpayers. Finally, the IRS plans to explore ways to enhance taxpayer instructions in publications and on tax forms to emphasize the alternative minimum tax exemption for qualifying small corporations.

#### ***The Internal Revenue Service Had a Successful 2000 Filing Season; However, Opportunities Exist to More Effectively Implement Tax Law Changes (Reference No. 2001-40-041)***

The IRS effectively processed individual paper tax returns filed during the 2000 filing season. As of April 28, 2000, the IRS had processed over 54 million paper individual tax returns. Although there were some isolated problems, opportunities do exist for the IRS to more effectively implement three tax law changes that were in effect during the 2000 filing season. These laws related to the Child Tax Credit (CTC), the Additional Child Tax Credit (ACTC), and to S-SSNs.

The IRS postponed programming changes designed to validate the date of birth related to the CTC and the ACTC. As a result, it did not identify potentially unqualified or erroneous CTC and ACTC claims. The

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<sup>8</sup> Pub. L. No. 105-34, 111 Stat. 788

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Office of Audit identified over 750,000 1998 and 1999 tax returns with over \$339 million of potentially unqualified CTCs that could not be supported by IRS date of birth information. The Office of Audit also identified 33,000 tax returns that had over \$12 million in potentially unqualified ACTC claims.

The IRS Assistant Chief Counsel (Income Tax and Accounting) concluded in 1999 that the IRS may not recover through assessment an erroneous ACTC refund due to legal limitations. However, collection actions can be initiated on the potentially erroneous refunds resulting from the unqualified CTC claims.

In addition, during the 2000 filing season, the IRS modified its computer programming designed to verify S-SSNs. This action was taken due to storage limitations on the computer systems it uses to correct errors on tax returns. As a result, the IRS could not ensure that taxpayers were compliant with these tax laws. According to the IRS' own estimates, approximately 2.7 to 3 million taxpayers have invalid S-SSNs.

The Office of Audit recommended that the IRS should implement computer programming changes to ensure that taxpayers comply with tax laws relating to the CTC, the ACTC, and S-SSNs and initiate actions to recover the potential lost revenue due to the postponed programming for these issues. The IRS should also ensure that its computer system has the capacity to correctly process tax returns and should send notices to taxpayers with invalid S-SSNs in sufficient time to allow for corrections.

IRS management agreed with three of the five recommendations. IRS management believes that the current capacity of the computer system used to store errors found on returns is sufficient. They also stated that additional legal guidance would be needed to attempt recovery of the CTC mentioned in the report, and that the collection costs would likely exceed the amount of overpayments.

The Office of Audit plans to address the issue of system capacity during the audit of the FY 2001 filing season. The Office of Audit continues to encourage the IRS to focus on recovering the refunds resulting from the unqualified CTC claims.

### ***Electronic Returns Were Processed Effectively*** **(Reference No. 2001-40-008)**

E-filed returns improve service for taxpayers and boost production by reducing errors, speeding refunds, and reducing labor costs. As of June 15, 2000, the IRS had processed 35.2 million individual electronic returns, 105 percent of the 33.6 million projected for the 2000 filing season.

Overall, the IRS' system for accepting and processing individual electronic returns was effective. For example, the controls for ensuring that individual electronic returns are accepted only from Authorized IRS E-file Providers were working properly, and the IRS properly notified unauthorized E-file Providers when their transmissions were rejected. While some problems occurred early in the filing season, they were quickly identified and corrected. In addition, the IRS effectively implemented the enhancements added to the individual E-file Program for the 2000 filing season.

The Office of Audit identified an opportunity for the IRS to improve the service it provides to Authorized Providers through its Help Desk. The Office of Audit reviewed the Help Desk operations at three of the five processing sites. One site servicing over 37,000 Authorized Providers delivered ineffective customer service.

When Authorized Providers do not receive timely help in resolving their processing problems, the IRS is at risk of damaging relations with, and increasing the burden on both the Authorized Providers and the taxpayers they represent. In addition, the Providers may have to make additional

contacts with the IRS to resolve inquiries, and may ultimately call another processing site's Help Desk, causing workload imbalances among the processing sites.

The auditors recommended the IRS carry out its plans to develop and implement National Headquarters standards and guidance to correct the operational weaknesses identified.

IRS management acknowledged the need to improve the customer service provided to Authorized IRS E-file Providers and identified several steps to address this need.

### **Providing Customer Service and Ensuring Tax Compliance**

#### ***Progress in Developing the Customer Communications Project Has Been Made, But Risks to Timely Deployment in 2001 Still Exist (Reference No. 2001-20-055)***

The Customer Communications Project (CCP) is intended to increase telephone and communication service levels to taxpayers comparable to those of similar customer service operations in the private sector.

While the IRS has demonstrated progress in developing project management capabilities, it acknowledged that it would not be able to provide taxpayers all of the enhancements and benefits that it originally proposed for the 2001 filing season. For example, the telephone and Internet self-service applications were postponed until 2002, and the remaining capabilities were rescheduled for deployment during the latter part of the 2001 filing season.

The Office of Audit reported that the CCP fell behind schedule, in part, because some key Enterprise Life Cycle (ELC) work products were not timely completed and identified barriers to project deployment had not yet been overcome. Delays in delivering CCP benefits will hamper the IRS' expectations of answering an additional 9.6 million taxpayer

calls in 2001, and postpones plans to free up telephone assistors for other work.

The Office of Audit recommended that project managers timely complete all ELC recommended work products and not allow projects to exit ELC milestone requirements when significant work products are incomplete. Further, project managers need to develop and communicate realistic project schedules, timely incorporate necessary security considerations, and ensure that risk tracking and reporting are timely, complete and accurate.

IRS management agreed with some of the recommendations and has either taken or initiated corrective actions for these recommendations. However, they did not agree that all critical work products be completed before moving to the next ELC milestone. The Office of Audit believes that failure to do so increases the risk of unexpected project glitches, delays, and cost overruns. Since the IRS is in the early stages of its systems modernization effort, the Office of Audit believes it is important to completely follow the ELC methodology in order to apply lessons learned to other projects. As the IRS matures, more flexible program management can and should be considered.

#### ***The Internal Revenue Service Does Not Effectively Use the Trust Fund Recovery Penalty as a Collection Enforcement Tool (Reference No. 2001-30-014)***

The Trust Fund Recovery Penalty (TFRP) is an IRS enforcement tool established both to encourage the prompt payment of taxes that employers withhold or otherwise collect, and to provide the IRS with a secondary source of collection in the event these taxes are not paid. When assessments are not made timely against responsible company officers, the financial ability of the officers could deteriorate, thereby decreasing the IRS' chances to collect taxes due.



Based on a sample review of 82 trust fund cases, the Office of Audit reported that the Collection Field function (CFf) did not properly use the TFRP to enforce collection of trust fund taxes and, when utilized, it was used ineffectively, incorrectly or too late in the collection process.

In 58 instances, the CFf did not properly complete the investigative process or assess the penalty when appropriate. In 17 other cases, the CFf assessed the penalty but did not make the decision within the required time frame.

The CFf also accepted installment agreements on repeater taxpayers and delayed the TFRP process. A “repeater” is defined as a taxpayer who owes taxes for multiple periods, over a specified amount. IRS guidelines state that installment agreements are not to be granted to a “repeater” except under the most stringent conditions.

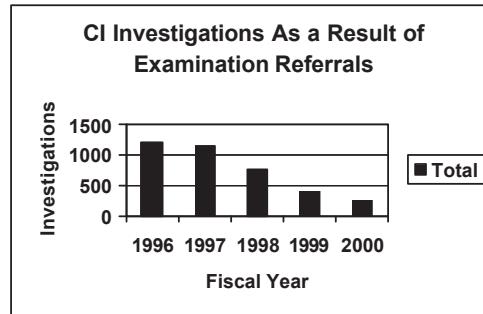
Finally, the CFf did not always assess the TFRP against all responsible company officers. All individuals identified as responsible officers are to be assessed the TFRP, when it is applicable. The CFf did not always consider unfiled returns when determining whether to assess the TFRP. The TFRP is to be assessed when the total amount of tax liability exceeds a specific dollar amount. Part of the CFf’s compliance check is to secure delinquent returns or prepare substitutes when originals are not filed.

The Office of Audit recommended that management reassess the time frames for making the TFRP decision and provide clear instructions on using the TFRP and installment agreement procedures on repeater trust fund cases. Use of the TFRP as an effective collection tool needs to be emphasized at all management levels, and management reviews need to be conducted on these priority cases.

IRS management agreed to implement all audit recommendations.

**More Consideration Is Needed During Examinations to Identify Potential Fraud Issues and Refer Cases to Criminal Investigation (Reference No. 2001-30-063)**

When Examination function employees identify potential fraudulent issues, such as significant amounts of unreported income, they are to refer the cases to the Criminal Investigation (CI) Office to determine whether taxpayers criminally violated federal tax laws. Over the past few years, IRS executives have attempted to identify ways to increase the number of quality fraud referrals. Despite these efforts, the number of investigations has declined from a high of 1,223 in FY 1996 to only 256 in FY 2000, as shown in the following chart:



Source: Criminal Investigation

Examination function managers and employees were not always recognizing and developing potential fraud issues and, therefore, were not referring cases to CI when appropriate. The Office of Audit’s review of 100 closed Examination cases identified 11 cases that met the criteria for a criminal fraud referral; however, they were not referred to CI. In addition, in 82 of the 100 cases, the examiners did not document in the case file, as required, whether potential fraud was recognized and considered. The majority of these cases involved understated income.

Finally, required management involvement in the cases related to documenting whether fraud was considered was not sufficient in 64 of the 80 cases in which the return had understated income over \$10,000.

Based on the sample results, the Office of Audit estimated that 381 additional cases nationwide may have had potential fraud issues for referral to CI during the 16-month sample period. Also, the Office of Audit estimated approximately \$21.8 million additional revenue from civil fraud could have been assessed during the sample period.

Examination employees gave three overall reasons for not making referrals: RRA 98 has made employees reluctant to refer cases; CI rejects a high percentage of cases referred; and, they are no longer working the types of cases that yield referrals.

The Office of Audit recommended that IRS management enhance the processes that identify open cases with potential fraud issues through various methods including, for example, requiring certain cases be discussed with fraud specialists. IRS management should also adjust the mix of cases being examined to include more returns that have historically yielded fraud potential. In addition, IRS management should show front-line employees their commitment to the fraud referral program by regularly emphasizing its priority and setting clearer guidelines on what constitutes a successful fraud referral.

SB/SE Division management agreed with the findings and recommendations and is initiating corrective actions. However, they did not concur fully with the financial accomplishment discussed in the report.

### **Providing Quality Customer Service Operations**

#### ***Management Advisory Report: Strategic Planning for Toll-Free Telephone Operations Has Made Significant Progress, But Further Improvements Are Needed (Reference No. 2001-30-006)***

The toll-free telephone system is a cornerstone of IRS' customer service operations. During FY 1999, taxpayers attempted nearly 108 million calls to the IRS' three main toll-free telephone lines. The GPRA requires all federal agencies to prepare strategic plans for how they will deliver high quality products and services to the American public.

Past efforts by IRS management to strategically plan and implement improvements to the toll-free telephone operations, while extensive, have not resulted in the delivery of a high level of quality service to taxpayers. Although the level of service provided to taxpayers on the three main toll-free lines increased from 50 percent in FY 1999 to 59 percent in FY 2000 (through July 1, 2000), it remained well below the 68 percent level achieved in FY 1998.

The IRS is in the process of implementing an agency-wide strategic planning process that provides a more structured approach than its prior planning efforts. The effectiveness of this process can be enhanced by implementing a "customer-driven" planning system to better understand customer needs and by developing a monitoring system that enables management to respond more quickly to problems.

IRS management agreed with the facts and recommendations. However, their response did not provide specific details on planned corrective actions.

**Protecting Revenue and  
Minimizing Tax Filing Fraud**

***The Program for Ensuring Compliance  
With Anti-Money Laundering Reporting  
Requirements Should Be Improved  
(Reference No. 2001-40-024)***

Since 1970, the Treasury Department has delegated to the IRS Commissioner the responsibility for assuring that businesses which routinely exchange or handle money, but are not banks, comply with Title 31 of the Bank Secrecy Act (BSA)<sup>9</sup>. This section requires that certain financial institutions keep records of, and provide reports to the government, about large dollar and suspicious financial transactions.

A 1997 study by Coopers & Lybrand LLP estimated there were about 158,000 of these non-banks, such as money remitters and check cashers, handling financial transactions totaling \$200 billion annually. The IRS' Examination function is responsible for assuring that these non-banks comply with the BSA financial transaction reporting and record-keeping requirements, as part of the Examination Anti-Money Laundering (AML) Program.

The Office of Audit reported that the IRS needs to improve its program for ensuring compliance with AML reporting requirements and to improve controls over the program to reasonably ensure objectives are achieved. Without changes there is a significant risk of undetected noncompliance and increasingly inconsistent program delivery nationwide. There is also increased risk of not being able to evaluate the success of the program as provided by GPRA. In addition, the absence of effective controls makes it difficult for the IRS to identify and correct program weaknesses or deficiencies.

The Office of Audit recommended that the IRS: 1) establish oversight responsibility for

the AML Program in the new IRS business units and strengthen that oversight capability; 2) develop and deliver an educational/information package to a much larger number of covered businesses; 3) improve field manager accountability for AML Program objectives; 4) establish measurable performance indicators; 5) improve the tracking of results; 6) ensure more full-time employees are assigned in local offices; and, 7) ensure AML Program examiners nationwide receive sufficient training. The Treasury Department's Financial Crimes Enforcement Network (FinCEN) managers advised us that they are already in the process of working with the IRS to strengthen the program.

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

***Improvements Are Needed in the  
Earned Income Credit Recertification  
Program (Reference No. 2001-40-030)***

Historically, the EIC has been subject to abuse by taxpayers claiming credits they are not entitled to receive. As a result, Congress passed legislation in 1997 requiring taxpayers whose EIC was denied during audits to prove their eligibility for the credit before they can receive the EIC again. In response to this legislation, the IRS implemented the EIC Recertification Program in January 1999.

The EIC Recertification Program should reduce the amount of incorrect EIC allowed by the IRS. The Office of Audit estimates that, as of September 30, 1999, the IRS properly placed recertification indicators on 336,000 taxpayer accounts while denying, during audits, an estimated \$620 million in EIC claims.

The Office of Audit identified the following conditions that adversely affected the IRS' ability to safeguard revenue and ensure taxpayer rights with the least amount of burden to taxpayers: recertification indicators

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<sup>9</sup> Pub. L. No. 91-508, 31 U.S.C. Chapter 53



were not always removed accurately; some suspended refunds were not released timely; recertification audits were not always timely processed; not all recertification determinations were accurate; and, taxpayer correspondence could be improved.

The Office of Audit recommended that IRS management should ensure that employees process recertification cases accurately and timely. In addition, IRS management should ensure its quality review process accurately assesses the Program's performance and should consider modifying the Program to ensure that taxpayers are recertified for the reasons for which their EIC was originally denied.

IRS management agreed with 10 of 12 recommendations. It did not agree with the recommendation to improve its quality review process, and IRS Counsel will address the recommendation to increase revenue protection in a separate report.

***Duplicate Dependent and Qualifying Child Overclaims Result in Substantial Losses of Tax Revenue Each Year (Reference No. 2001-40-059)***

Each year the IRS identifies an average of 1.6 million taxpayers who incorrectly claim dependents that are also claimed on someone else's tax return (commonly called "duplicate dependent overclaims"). Approximately \$700 million in tax revenue is lost each year due to these overclaims. However, the IRS does not identify these duplicate dependent overclaims until several months after the erroneous refunds are issued.

For Tax Years 1995 through 1998, taxes owed were reduced and erroneous refunds were processed totaling approximately \$2.8 billion relating to 4.4 million overclaims. The IRS has attempted to recover (through correspondence examinations and voluntary amended tax return filings) only \$630 million (23 percent) of the tax benefits erroneously provided to individuals. The funds actually

recovered, though, fall significantly short of the \$630 million because the vast majority of attempts to recover overclaims come several months after the taxpayers have received the related tax benefits. Many of the assessments, including most associated with the EIC, may never be recovered. Conversely, the current process causes some entitled taxpayers to receive notices and have their tax returns and personal records examined unnecessarily.

The Office of Audit recommended that the IRS needs to improve its process for the detection and deterrence of duplicate dependent overclaims to ensure the protection of tax revenue. Specifically, the IRS needs to ensure complete data are used in its duplicate dependent detection process, improve its efforts to deter noncompliance, and strengthen its oversight and strategy for the detection and deterrence of duplicate dependent overclaims.

IRS management generally agreed with the recommendations and has initiated corrective actions.

***Additional Efforts Are Needed for Improving Revenue Protection (Reference No. 2001-40-021)***

In 1993, the IRS acknowledged the problem of filing fraud and estimated tax fraud and abuse to be in the millions of dollars. To combat tax filing fraud and abuse, the IRS implemented the Revenue Protection Strategy (RPS), comprised of individual initiatives to improve taxpayer compliance and, in April 1994, established the Office of Refund Fraud (ORF) to lead those efforts.

In 1997, the Congress appropriated over \$700 million during a five-year period to fund initiatives to improve EIC compliance. In 1998, the IRS established the EIC Program Office to oversee and coordinate the IRS' EIC Program. The establishment of this appropriation and office caused a major shift in focus from the ORF to the new EIC Program Office; however, the ORF continued to address filing fraud and abuse issues,

including the EIC. As a result of the RPS, the IRS implemented additional checks in its return processing procedures to improve taxpayer compliance. These processing checks resulted in increased revenue protection by detecting tax filing schemes and abuse and by preventing the IRS from issuing many erroneous refunds.

In January 2001, the GAO identified "Noncompliance with the Earned Income Credit" as a high-risk area for the IRS. The GAO reported that noncompliance with the EIC exposes the federal government to billions of dollars of risk.

The Office of Audit agrees with GAO's assessment that noncompliance with the EIC is a high risk for the IRS. However, the Office of Audit believes the high risk to the IRS is in its overall efforts to protect revenue, and that noncompliance with the EIC is just one piece in improving revenue protection.

The Office of Audit noted that the establishment of the EIC funding and creation of the EIC Program Office caused a shift in IRS' focus; from revenue protection to noncompliance with the EIC. Management of RPS initiatives has been fragmented. Each functional area has its own results measure, and there is no overall goal and performance measure to gauge the impact of these initiatives on reducing noncompliance. The individual initiatives alone are not enough to ensure the IRS is effectively addressing filing fraud and abuse.

The Office of Audit recommended that the IRS develop a comprehensive RPS with established measurable goals and objectives to evaluate the effectiveness of the Strategy. Until the RPS is developed and implemented, the IRS should develop a process to measure the effectiveness of individual initiatives on reducing noncompliance. Once developed, the RPS should also contain provisions for measuring the effect of its components on reducing noncompliance.

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

### Protecting Taxpayer Rights

#### ***Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program (Reference No. 2001-10-027)***

The success of the disciplinary proceedings program is dependent on the IRS timely identifying and initiating corrective action against incompetent or disreputable tax practitioners to protect the public from further harm. A lack of adequate staffing in the Director of Practice's Office resulted in delays in assigning and processing tax practitioner complaints.

To help relieve the backlog of work, the Deputy Commissioner Operations assigned five additional attorneys to the Director of Practice in April 2000. It will be difficult to determine whether the additional resources will reduce the processing times because the Office does not maintain information necessary for monitoring case activity and tracking resource expenditures.

Although the current automated case tracking system has the capacity to generate reports to assist in monitoring cases and resources, the needed programming has not been completed. Also, the system was not always updated or accurate, and an inventory reconciliation had not been conducted since the system was established in 1998.

Additionally, information was not readily available to the taxpaying public regarding how to report violations by tax practitioners. The IRS web site, publications, and forms did not provide information on how to report allegations of tax practitioner violations. Customer Service and National Taxpayer Advocate employees assisting taxpayers on

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the telephone did not have information on how to report allegations of tax practitioner violations.

The Office of Audit recommended that the automated case tracking system should be upgraded to provide reliable data to monitor case activities and resource requirements. Also, the IRS web site and publications should include information on how to report practitioner violations.

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

***The National Taxpayer Advocate Can Improve the Service Provided to Taxpayers***  
***(Reference No. 2001-10-001)***

In the cases reviewed by the Office of Audit, National Taxpayer Advocate caseworkers did not always address taxpayers' problems accurately and timely, or effectively communicate with taxpayers. The Taxpayer Advocate offices also experienced delays in working cases, sometimes in excess of 30 calendar days. Moreover, caseworkers did not always ensure that other IRS employees stopped contacting taxpayers or that the IRS stopped issuing collection notices while the taxpayers' problems were being resolved. In addition, there were several instances where caseworkers had communicated with third parties, but the case files and the IRS records did not document the taxpayers' authorizations to do so. The Taxpayer Advocate's Centralized Quality Review staffs had also outlined trends in caseworkers not meeting quality standards.

The Office of Audit further reported that caseworkers had complied with some of the quality standards for accuracy, timeliness and communication. For example, caseworkers had given taxpayers reasonable due dates for providing case information and provided the necessary caseworker identification on correspondence. When caseworkers needed to

request the taxpayer's information a second time, they made the request for information in writing and provided the taxpayer an explanation of the consequences of not providing the needed information.

In almost half of the cases, problems were not resolved to taxpayers' satisfaction. In a majority of these cases, the IRS was not able to accommodate the taxpayer because of I.R.C. requirements or because the taxpayers did not respond to the caseworkers' requests for additional information or documents.

The Office of Audit recommended that the National Taxpayer Advocate use quality review results to identify national training needs and emphasis areas, and require local Advocates to report quarterly on actions taken to address areas warranting improvement. The Office of Audit also recommended that the National Taxpayer Advocate reinstate, as a quality review standard, the authorized disclosure of taxpayer information, and require front-line managers to evaluate compliance with this standard.

The IRS Commissioner responded that the report findings were based on cases completed by Problem Resolution Program caseworkers who were assigned to functional divisions prior to the stand up of the Taxpayer Advocate Service on March 12, 2000. While corrective actions stated in the management response addressed most audit findings, the IRS Commissioner stated that Local Taxpayer Advocates would not be required to report quarterly on actions to address quality standards. Also, rather than reinstating the quality review standard, group managers would evaluate, during case reviews, adherence to the requirements for disclosure of taxpayer information to third parties.

***The Treasury Inspector General for Tax Administration Can Rely Upon Data on the Electronic Disclosure Information Management System for Its Statutory Review (Reference No. 2001-10-051)***

FOIA and I.R.C. Section 6103 are used by taxpayers to request information from the IRS. FOIA requires that records of the federal government generally be available to the public upon request, unless specifically exempted. Section 6103 regulates the release of tax returns and tax return information to taxpayers or their designees. The IRS uses the Electronic Disclosure Information Management System (E-DIMS) to track written requests for information.

RRA 98 requires the Office of Audit to perform periodic reviews of the appropriateness of the IRS' denials of taxpayers' written requests for information on the basis of I.R.C. Section 6103 or the FOIA exemption (b)(7)<sup>10</sup>. The Office of Audit concluded that it can rely on information contained in the E-DIMS when performing its statutory audit. The limited audit tests provided reasonable assurance that selected information on the E-DIMS was accurate and complete. For example, the system was 95 percent accurate for the information the Office of Audit will use when performing its review of denied requests and 100 percent complete for the cases reviewed.

However, corrective action is needed to ensure that revised response dates are accurately input to the E-DIMS. Inaccurate revised response dates could result in the IRS not responding to a requester within the time period allowed by law. For the audit period, the Office of Audit estimated that as many as 1,265 cases with voluntary extensions could have inaccurate revised response dates on the E-DIMS. While this issue does not affect the Office of Audit's reliance on the system, clear guidance on establishing revised response

dates could better protect a taxpayer's right to a timely response.

The Office of Audit recommended that IRS Disclosure management change their current procedures to require Disclosure personnel to state the actual response date in voluntary extension letters, instead of the number of additional calendar days they are requesting. The exact response date cited in the voluntary extension letter could then be input to the E-DIMS as the revised response date.

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

***The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Compliance Project Examination Activities (Reference No. 2001-10-028)***

The examination selection process for the TE/GE Division has been the subject of a number of news reports. Many of the reports raised questions on whether the process fairly selected exempt organizations for examination. The TE/GE Division primarily uses compliance projects to identify and select cases for examination through a process that researches information on the Returns Inventory Classification System (RICS).

The Office of Audit concluded that the TE/GE Division had controls in place to effectively administer the process of identifying and selecting exempt organization returns for examination. However, the TE/GE Division needs to improve compliance with its operating procedures that require justification for initiating a project and management approval for examinations. IRS managers should also ensure that projects are consistent with the strategies in the annual work plan. In addition, procedures are needed to ensure that the managers in the Review and Classification function approve non-examined closures and that the reasons for these actions are documented in the case files.

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<sup>10</sup> 5 U.S.C. Section 552(b)(7) (1996)

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

### **Implementing GPRA**

#### ***The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information (Reference No. 2001-10-009)***

The IRS' first Annual Program Performance Report (APPR), issued for FY 1999, met many of the requests contained in various guidance documents and Congressional letters. However, the APPR could have provided more information to ensure that Congressional and executive branch decision-makers have all of the objective information needed to assist them in appropriating and allocating federal funds.

Specifically, the IRS should present quantitative performance measures for all major management challenges and high-risk areas, and more complete information on the summaries of findings and recommendations from program evaluations conducted during the fiscal year. Also, the IRS did not provide a complete assessment of actual performance and its impact on expected future performance on almost 80 percent of its performance measures.

IRS management agreed in general with the first two recommendations. In response to the third recommendation, management stated the measures that were baselined, had no targets, or were classified as "to be determined," and did not need an explanation.

#### ***Federal Tax Information Used by Customer Satisfaction Survey Contractors Needs to Be Better Protected (Reference No. 2001-10-012)***

The IRS uses customer satisfaction surveys as the measurement of taxpayers' opinions on

services provided. The IRS has contracted with a vendor to survey taxpayers who have had contact with the IRS. As part of the survey process, the IRS provides sensitive but unclassified Federal Tax Information (FTI), such as taxpayers' names and addresses, to the vendor. In calendar year 1999, the vendor received slightly less than one million taxpayer records from the IRS for the surveys.

To evaluate the integrity, confidentiality, and security of FTI in possession of the vendor and its subcontractors, the Office of Audit reviewed security processes that covered physical and logical accesses, hiring and termination procedures, security awareness, and contingency planning.

While the audit found no evidence of improper disclosure of FTI, three security weaknesses were identified: the vendor and subcontractors did not maintain documentation on the security mechanisms within their computer systems and did not have control measures to determine who accessed protected information; physical controls in handling and accounting for computer diskettes and tapes with FTI needed to be improved; and, a security awareness program was needed to ensure vendor employees understood FTI security procedures. Also, the IRS had not performed required evaluations of the safeguard measures employed by the vendor and its subcontractors, and had conducted reviews on only five percent of all open IRS contracts involving FTI or other disclosure issues.

The Office of Audit recommended that the IRS develop a process to ensure that on-site security reviews are conducted, and that safeguards are in place and functioning as stated in the contract. Also, the IRS should evaluate its Office of Safeguards staffing and workload to determine if enough focus is being given to private industry vendors to ensure that sensitive FTI is properly safeguarded. IRS management agreed with the recommendations.



## Managing Finances

### ***Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened*** ***(Reference No. 2001-10-040)***

The Office of Audit reviewed four selected CI Imprest Funds and determined that, in general, the funds were accurately accounted for and adequately safeguarded, and related fund transactions were authorized, approved, and accurately recorded.

However, the Office of Audit reported that unannounced, independent quarterly account verifications were not consistently and properly performed. In addition, the authorized dollar amounts for the funds, totaling \$960,000, exceeded actual needs by almost \$750,000, which resulted in a potential interest lost of approximately \$49,000 per year. Also, 61 percent of the monthly accountability reports were not timely prepared and submitted.

The Office of Audit recommended that IRS management ensure that required quarterly imprest fund verifications are performed consistently and in accordance with IRS requirements. IRS management should also establish procedures requiring the authorized dollar amounts of imprest funds be periodically monitored to determine actual needs, and that oversight reviews be conducted to ensure the timely submission of accountability reports.

IRS management agreed with the recommendations.

### ***Letter Report: Attestation Review of the Internal Revenue Service's Fiscal Years 1999 and 2000 Office of National Drug Control Policy Accounting Submissions*** ***(Reference No. 2001-10-044)***

National Drug Control Program agencies are required to submit to the Director of the Office of National Drug Control Policy (ONDCP) a detailed accounting of all funds expended during the previous fiscal year on program activities. Further, agency IGs are required to authenticate such accounting prior to its submission.

The IRS is one of the agencies participating in this program. The Office of Audit reviewed the IRS Detailed Accounting Submissions for FY 1999 and 2000. These submissions, including the assertions that the methodology used is reasonable and accurate, and the obligations presented are associated with a financial plan, are the responsibility of the IRS.

For FY 1999, the IRS could not provide original documentation supporting total CI obligations that are extracted from the Automated Financial System/Budget Formulation System. The Office of Audit was able, however, to obtain other documentation used in the IRS methodology.

With the exception of the item described above, the auditors did not identify any other item that would cause the Office of Audit to believe that the IRS' FY 1999 and 2000 Detailed Accounting Submission assertions are not presented, in all material respects, in accordance with ONDCP-established criteria.

IRS management agreed with the results of this attestation review.

**Letter Report: Improvements at the Lockbox Bank in Atlanta Are Needed to Better Protect Taxpayer Payments and Minimize Processing Costs (Reference No. 2001-40-048)**

The IRS lockbox program consists of commercial banks that have contracted to process tax payments. This program was designed to accelerate the deposit of tax payments by having taxpayers send their payments to the banks rather than to the IRS. From January through April 2000, the Atlanta lockbox bank processed over 3.4 million tax payments totaling over \$17 billion and received over 1 million tax returns.

The bank timely deposited all 150 tax payments reviewed by the Office of Audit. Ninety-nine percent of those payments also posted correctly to taxpayers' accounts. While these are significant accomplishments, opportunities exist to improve bank security and accurate sorting of tax returns.

The Office of Audit identified several security risks at the bank, including: the untimely deposit of 14 checks from 12 taxpayers totaling over \$5.6 million found by a bank manager conducting an unannounced desk check; terminated employees who had continued access to the bank computer system for extended periods of time after termination; two individuals allowed in restricted areas without an identification badge and unchallenged by security personnel or bank managers; checks not made payable to or stamped with "United States Treasury" (two previous thefts from the bank both involved money orders that were not stamped); and, a bank manager giving a deposit to a bank courier who did not have proper identification. Inadequate security over personnel, tax returns, and tax payments can lead to embezzlement and/or unauthorized disclosure of taxpayer information.

In addition, bank employees did not correctly sort 38 percent of the tax returns sampled. When returns are not properly sorted, the IRS

must spend additional resources to correctly sort them, which could result in processing delays. From January through April 2000, this bank was paid \$842,000 to sort over one million tax returns.

The Office of Audit recommended that the IRS ensure all required security measures are implemented and enforced and tax returns are sorted correctly.

IRS agreed with the recommendations and has initiated corrective actions.

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

**Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income (Reference No. 2001-30-052)**

U.S. residents are taxed on their worldwide income. U.S. residents' investments abroad have grown significantly in recent years, from \$1.3 trillion in 1995 to \$2.6 trillion in 1999. To assist in identifying income paid to their respective residents, the U.S. and foreign governments routinely exchange information under tax treaties. As part of this program, the IRS receives paper documents and magnetic tapes listing foreign sourced income paid to U.S. residents. From 1996 through 1998, foreign countries reported over \$260 billion paid to U.S. residents.

Although management has taken some actions to address the recommendations in a prior audit report, the IRS is in no better position today to determine taxpayers' compliance levels in reporting foreign sourced income than it was in 1997. Despite the foreign sourced income information provided by tax treaty partners, the IRS' processes to measure compliance and identify non-compliance are inadequate.

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The IRS could make more effective use of the information it receives. For example, some documents contain incorrect or insufficient information and are not corrected, preventing the identification of the recipients.

Additionally, systemic and resource constraints hamper the IRS from using all identifiable documents it receives. Both of these conditions inhibit compliance efforts on this increasingly important globalization issue.

The Office of Audit recommended that the IRS enhance its program and measure the overall effect of foreign sourced income on compliance. As part of this effort, the IRS should increase coordination with tax treaty partners to better identify recipients of foreign sourced income. Additionally, the IRS should improve its internal systems to make full use of the information it receives.

IRS management has agreed with the facts and recommendations and has developed a plan to implement corrective actions.

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## Treasury Inspector General for Tax Administration Office of Investigations

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### INTRODUCTION

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

Specifically, these areas of responsibility include:

- Administering programs to protect IRS employees from violence.
- Operating a national complaint center, including a hotline, to receive and process allegations of fraud, waste, or abuse.
- Providing forensic examination of documentary evidence.
- Providing technical and investigative assistance, equipment, training, and other specialized services to enhance investigative operations.
- Administering a proactive program to detect and deter fraud in IRS programs and operations.

### PROTECTION OF TAXPAYERS AND IRS EMPLOYEES

TIGTA is dedicated to ensuring taxpayers and IRS employees the highest degree of integrity, fairness, and trust in the nation's tax administration system. To heighten awareness and provide a deterrent effect against fraud and misconduct, TIGTA special

agents routinely conduct integrity awareness presentations for IRS employees and various professional organizations, including local law enforcement agencies, tax practitioners, and community groups. During this reporting period, the Office of Investigations conducted 514 presentations for 15,568 individuals. Approximately 89 percent of these individuals were IRS employees.

The Office of Investigations conducts investigations that protect taxpayers from IRS employees who commit criminal violations and administrative misconduct. These investigations may involve allegations of unauthorized access to and disclosure of confidential taxpayer information, bribery, financial fraud, false statements, and abuse of taxpayer rights. During this six-month reporting period, the Office of Investigations completed 793 employee investigations.

The Office of Investigations is also committed to protecting and supporting IRS employees as they carry out the mission of the IRS. TIGTA investigates individuals who attempt to interfere with or corrupt the administration of the federal income tax system, to include investigations of bribery, assault, threat, theft, and embezzlements. During this reporting period, the Office of Investigations completed 1,458 investigations involving these types of allegations.

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

information<sup>11</sup> and the embezzlement or theft of tax payments.

### Complaint Management Division

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

During the reporting period, TIGTA received 3,761 complaints. The status of these complaints is shown in Appendix II.

### Section 1203 Violations

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

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<sup>11</sup> A provision of the Taxpayer Browsing Protection Act of 1997, I.R.C. § 7431(e), provides for notification to taxpayers of the unlawful inspection or disclosure of their returns and return information in cases where an IRS employee is charged criminally for violations of unauthorized access of disclosure of returns or return information.

TIGTA is dedicated to protecting taxpayers against abuse and misconduct while also ensuring that IRS employees are not subjected to unwarranted Section 1203 investigations.

Investigations are opened on Section 1203 allegations where it has been determined, through preliminary analysis, that there is a basis for the allegation. The only exceptions are Sections 1203(b)(8) and (b)(9) which relate to timely and full payment of taxes. In most situations the IRS resolves these issues fully without a TIGTA investigation.

During this reporting period, TIGTA received 215 allegations involving potential Section 1203 violations, and initiated 108 investigations. Of these investigations, 68 are currently ongoing and 40 are closed. Twenty-four of the 40 closed investigations were referred to the IRS for administrative adjudication. The referred cases consist of both substantiated and unfounded Section 1203 allegations. IRS issues clearance letters to employees where the allegations are unfounded.

Under Section 1203, the IRS terminated 10 employees and mitigated 47 other cases during this reporting period. Two terminations were the result of TIGTA investigations.

Internal IRS procedures require the IRS to provide TIGTA with a preliminary assessment of whether internal procedures appear to have been violated in some 1203 violations. During the reporting period, TIGTA received 102 complaints that were referred to the IRS for this type of preliminary inquiry.

### Strategic Enforcement Division

The Strategic Enforcement Division (SED) is responsible for executing a proactive program to detect fraud in IRS operations,

unauthorized accesses to IRS computer systems by internal users, and attempts to interfere with the security of IRS computers by external sources. SED combines the talents of auditors, special agents, and computer programmers into an investigative team to accomplish its mission. Recommendations to improve system security weaknesses identified during the course of SED analyses related to internal fraud and UNAX violations are forwarded to the IRS. SED also provides extensive investigative and forensic data analyses to field special agents for their investigations. Additionally, SED's computer investigative specialists assist special agents in seizing computers, analyzing computer-related evidence, and conducting searches on the Internet.

#### National Investigative Initiatives

A principal component of SED's operation involves national investigative initiatives. These initiatives start with information developed during successful investigations. The methodology of the crime is used to develop computer database applications that will identify other individuals who may be perpetrating the same crime. Computer matching is used in proactive initiatives. These initiatives are included in Computer Matching Act<sup>12</sup> agreements approved by the Department of the Treasury's Data Integrity Board and published in the Federal Register. There are 7 ongoing initiatives which have resulted in 15 criminal referrals to field special agents for investigation.

#### UNAX Detection Project

The IRS Audit Trail Lead Analysis System (ATLAS) identifies potential unauthorized accesses to electronic taxpayer information on

computer systems by IRS employees. During this reporting period, SED identified and analyzed 358 leads of potential unauthorized accesses using ATLAS and other sources. This resulted in 163 referrals to field special agents for investigation of violations of the Taxpayer Browsing Protection Act of 1997<sup>13</sup>.

In addition, investigations of other violations identify unauthorized accesses to tax information. During this reporting period, there have been a total of 9 successful prosecutions and 95 adverse administrative actions against IRS employees involved in unauthorized access to taxpayer information. An additional 18 IRS employees resigned during TIGTA's investigation.

SED provided assistance in a number of cases, including:

- A former IRS employee was arrested after the return of an 11-count indictment of unauthorized accesses and disclosure of tax information. In September 2000, the employee pled guilty to 2 counts of the 11-count indictment. SED identified questionable computer accesses to 16 taxpayer accounts. The employee was also the treasurer of an association that raised money to support residents of a foreign country. The employee allegedly gathered and recorded income and personal information on alien taxpayers and publicly bragged about the illegal accesses.

The employee had been terminated based on a previous TIGTA investigation. In December 2000, the employee was remanded back to the county jail to serve one year for violation of parole. Following release, the employee is to serve 3 months under house arrest,

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<sup>12</sup> Pub. L. No. 101-56, 103 Stat. 149 (1989)

<sup>13</sup> Pub. L. No. 105-34, 111 Stat. 1104 (1997)

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3 years probation, and in lieu of a fine, was ordered to perform 100 hours of community service.

- In January 2001, a couple pled guilty to a 21-count indictment of conspiracy, wire fraud, and money laundering for operating a credit repair scheme. The scheme involved the use of IRS Employer Identification Numbers (EIN) to create new credit files. Analysis of seized business records disclosed that the couple also operated an illegal credit card scheme.

The credit repair scheme generated at least \$81,684 from 2,939 clients. The couple charged a fee for information on establishing a new credit history. The illegal credit card scheme generated at least \$89,257 in fees from 2,641 clients who thought they were obtaining unsecured major credit cards. Instead, clients were mailed a list of financial institutions that offered unsecured credit cards.

### Technical and Forensic Support Division

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

#### Technical Services

Technical Services is responsible for providing technical and investigative assistance, equipment, training, and other specialized services to enhance TIGTA's investigative activities. Technical Services provides crucial support in the collection,

preservation, and enhancement of evidence. Technical Services provides audio and video investigative equipment, and assists special agents in using these tools.

#### Forensic Science Laboratory

Criminal investigations often rely on the forensic analysis of evidence. The FSL supports field investigations by processing physical evidence using various techniques and best practices to identify investigative subjects. These techniques include chemical processing and comparison for latent prints, handwriting identification, and digital image enhancement.

During this reporting period, the FSL received 114 case submissions and issued 95 reports of laboratory examination. The FSL examined evidence from a number of cases, including:

- In June 2000, two IRS employees were charged with embezzling a taxpayer's remittance check. The funds were diverted into one of the employee's personal bank accounts. The two employees split the proceeds equally. TIGTA FSL identified the employee as the author of the check endorsement. In September 2000, one of the employees pled guilty to the charge of embezzlement and was sentenced to three months probation and ordered to pay restitution of \$466. In November 2000, the second employee was found guilty and is awaiting sentencing.
- In October 2000, a former IRS employee pled guilty to four counts of altering money orders. The IRS employee stole taxpayers' remittances, altered, and negotiated the money orders. TIGTA FSL identified the IRS employee's fingerprints on two of the money orders. In January 2001, the employee was sentenced to 4 months confinement. The

employee will then be placed on 5 years probation. The employee was ordered to pay restitution of \$2,300 to the IRS, pay a \$400 special assessment, and perform 120 hours of community service.

## **SIGNIFICANT INVESTIGATIONS**

### **Disclosure and Improper Computer Access Investigations**

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

#### ***Former IRS Employee Indicted for Unauthorized Computer Accesses***

In October 2000, a federal grand jury returned an eight count indictment charging a former IRS employee with unauthorized computer accesses. The investigation was initiated after a parent alleged that the employee might have used confidential IRS records to stalk the parent's teenager. The employee was previously prosecuted and convicted of stalking the teenager. TIGTA's investigation disclosed that the employee accessed the tax accounts of the parents during the time frame that the teenager was stalked. The investigation also disclosed that the employee accessed the tax account of the employee's attorney. The employee accessed the attorney's tax account two days after being notified that the attorney had been granted a civil judgement against the employee for failing to pay attorney fees.

#### ***IRS Employee Pled Guilty to Illegally Accessing Taxpayer Accounts***

SED identified numerous unauthorized accesses made to taxpayer accounts by an IRS employee. The investigation further revealed

that each of the accounts accessed involved taxpayers that had some personal or business involvement with the employee. When interviewed by TIGTA special agents, the IRS employee admitted knowing the taxpayers and illegally accessing the accounts to obtain personal information about the individuals. The employee subsequently resigned. In January 2001, the IRS employee pled guilty to fraud and related activity in connection with computers.

#### ***IRS Employee Pled Guilty to Unauthorized Inspection of Tax Return Information***

In December 2000, a former IRS employee entered a guilty plea to 2 counts of a 12-count indictment charging unauthorized inspection of tax return information. The investigation disclosed accesses to the computerized tax accounts of the employee's neighbor, in-law, and an employment reference. These accesses were not in conjunction with the employee's official duties. The employee resigned in lieu of termination. In March 2001, the employee received 3 years probation for each count to run concurrently, 200 hours of community service, and was ordered to pay a special assessment.

#### ***IRS Employee and Spouse Arrested in Credit Card Scheme***

In January 2001, TIGTA special agents arrested an IRS employee and spouse on federal charges for misusing a government computer in connection with a credit card fraud scheme. From 1992 to 1997, the spouse requested the employee use the IRS' computer system to obtain SSN and dates of birth for specific individuals. The employee obtained the confidential information for the spouse, who provided the information to third parties.



The information was used to activate stolen credit cards or apply for new credit cards in the individuals' names. Subsequently, the credit cards were used fraudulently. In February 2001, the IRS employee and spouse were indicted for fraud and related activity in connection with computers.

***Former IRS Employee Pled Guilty to False Statements***

In October 2000, a former IRS employee was sentenced to two years probation after having pled guilty to one count of a false statement. The TIGTA investigation was based on information that the employee disclosed confidential taxpayer information to an unauthorized third party. TIGTA determined that the employee mailed a copy of a taxpayer's offer-in-compromise letter as a means of advertising the employee's ability to work with the IRS. The employee admitted to the disclosure, but claimed it was not intentional. Additional information was developed that the employee also falsely claimed to be an enrolled agent, a certified public accountant (CPA), and an attorney on official documents filed with the IRS.

***IRS Employee Pled Guilty to Misusing the IRS Computer and Preparing False Tax Returns***

It was reported that an IRS employee illegally accessed the tax account of a dependent listed on the employee's federal income tax return. TIGTA determined that the dependent, whose account was accessed, was deceased and that the employee illegally claimed dependents on the employee's tax returns. The employee admitted to illegally using the IRS computer files to determine whether a death indicator appeared on the system for the dependent and to illegally claiming dependents on the employee's income tax returns. The employee resigned from the IRS, and in January 2001, pled guilty to unlawful

computer access and preparation of false tax returns.

**Bribery Investigations**

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

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

During this reporting period, the Office of Investigations completed 40 bribery investigations.

***Former IRS Employee Pled Guilty to Accepting Illegal Gratuity***

In November 2000, a former IRS employee was indicted on one count of accepting an illegal gratuity and two counts of extortion. The indictment charged that the employee's official position was used to coerce a taxpayer into selling a vehicle at below market value, purchasing another vehicle from the employee at above market value, and demanding a \$500 service fee. In February 2001, the employee pled guilty to one count of accepting an illegal gratuity and was ordered to pay \$4,500 in restitution.

***Three Individuals Sentenced for Conspiracy and Payment of a Gratuity***

In November 2000, two individuals each pled guilty to one count of conspiracy to defraud

the U.S. government and a third individual pled guilty to one count of payment of a gratuity to a public official. All three individuals were charged in relation with a bribery investigation involving a former IRS employee. The three individuals received refunds generated from fraudulent income tax returns and paid a portion of the refunds as a cash gratuity to the employee. The employee was sentenced to incarceration and restitution.

In February 2001, the third individual was sentenced to three years probation and ordered to pay a special assessment. In March 2001, the remaining two individuals each were sentenced to three years probation, four months home detention, and were ordered to pay a special assessment. All three individuals were ordered to cooperate with the IRS regarding the computation and payment of their correct tax liabilities.

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

TIGTA investigates incidents of theft, embezzlement, and fraud committed by both internal and external sources. TIGTA also investigates incidents of impersonation where individuals attempt to defraud taxpayers.

### **Four Indicted in Money Laundering Conspiracy**

In February 2001, 4 individuals were indicted on 39 counts of money laundering. The indictment charged the individuals with facilitating the concealment of illegal funds sent by victims of a telemarketing network. The victims were elderly persons living throughout the U.S. who were contacted by telephone and convinced they had won large cash prizes and/or recoveries. The prizes were payable upon the victims' prepayment of various fees and alleged taxes, ranging from \$2,000 to \$20,000. The leader of the

telemarketing network is currently serving a six-year federal prison sentence.

### **Two Individuals Convicted for Conspiring to Impede and Obstruct an IRS Audit**

An IRS employee reported that an individual had mailed fictitious IRS "Summons Termination" forms terminating valid IRS summonses issued to third party witnesses. There are no "Summons Termination" forms; however, the notice bore the IRS seal and contained information which would lead people to believe it came from the IRS. The notices were mailed in counterfeit IRS envelopes. In addition, threatening letters were sent to summons recipients and to IRS employees, warning them to "cease and desist" their conduct in connection with the IRS audit, as well as other threatening statements.

A search warrant was executed at the individual's business that resulted in evidence of a co-conspirator. A search warrant was executed on the co-conspirator's business and a computer file of the fictitious IRS forms and counterfeit envelopes were seized.

The individual and co-conspirator were indicted for conspiring to impede and obstruct an IRS audit and for counterfeiting the IRS seal. In addition, the co-conspirator was indicted for obstruction of grand jury proceedings.

In May 2000, the co-conspirator pled guilty and was subsequently sentenced to 15 months imprisonment, 3 years supervised release, and ordered to pay a \$4,000 fine. In June 2000, the individual went to trial and was convicted on 1 count of conspiring to impede and obstruct an IRS audit and 3 counts of counterfeiting the IRS seal. In November 2000, the individual was sentenced to 15 months imprisonment, 3 years supervised



release, and ordered to pay a \$30,000 fine. This matter was investigated jointly by TIGTA and IRS CI special agents.

***Four Individuals Convicted for Conspiring to Negotiate a Stolen Check Intended for the IRS***

A taxpayer reported that a check for \$240,000 mailed to an IRS lockbox had been stolen and counterfeited. An individual admitted depositing the check in a bank account and withdrawing \$240,000 in cash. After failing polygraph examinations, two additional individuals confessed to their involvement and cooperated with the investigation. A seizure warrant was executed and \$28,100 in cash was seized. An additional \$24,000 was recovered from one of the individuals. During the investigation, three additional stolen IRS remittance checks totaling \$98,000 were identified, and a fourth individual was implicated in the conspiracy.

A federal grand jury indicted the four individuals for bank fraud, conspiracy to launder money, and engaging in monetary transactions in property derived from specified unlawful activity. In addition, one of the individuals was indicted for laundering of monetary instruments-concealment. All four individuals pled guilty. In December 2000 and January 2001, the 4 individuals were sentenced to imprisonment ranging from 8 to 57 months. Each of the four individuals was ordered to pay \$240,000 in restitution and court costs ranging from \$100 to \$200.

***Former IRS Employees Pled Guilty to Conspiracy and Tax Fraud***

An investigation determined that a tax preparer who was a former IRS employee, in collaboration with a co-conspirator, prepared fraudulent tax returns in support of 35 mortgage applications. Two of the mortgages were for the former employee.

After substantiating the mortgage fraud, a joint investigation with IRS CI was initiated to pursue a tax investigation against the former employee. The tax investigation determined that the former employee understated income on tax returns and several tax returns were delinquent.

During an interview, the former employee admitting preparing false tax returns in support of approximately 40 mortgage applications in collaboration with the co-conspirator. The former employee also admitted submitting two fraudulent personal mortgage applications and filing five false personal tax returns. In November 2000, the former employee pled guilty to one count of conspiracy to commit bank fraud and one count of a false income tax return.

***Four IRS Employees Indicted for Conspiracy and Theft***

In January 2001, an IRS employee pled guilty in a plea agreement to one count of conspiracy to defraud the U.S. government and was ordered to make restitution for the thefts of taxpayer remittances. In April 2000, local police reported to TIGTA that the employee had been arrested on an unrelated incident. During the arrest, an altered check and money order originally made payable to the IRS were found in the employee's possession.

The TIGTA investigation found 12 additional remittances totaling \$16,155. The employee stole checks and altered the payee line to the name of three co-conspirators, who then negotiated the check or money order. The IRS employee was terminated in April 2000 and arrested in November 2000. The three co-conspirators were also IRS employees.

In June 2000, the U.S. Attorney filed a complaint against the first co-conspirator who was arrested, terminated, indicted, and pled not guilty. In March 2001, in a plea

agreement, the first co-conspirator pled guilty to three counts of theft and was ordered to pay restitution.

In November 2000, the second and third co-conspirators pled not guilty. In March 2001, in a plea agreement, the second co-conspirator entered a guilty plea of misdemeanor theft, was ordered to pay restitution, and was terminated in July 2000. The third co-conspirator resigned in April 2000 and is awaiting trial.

In November 2000, all four conspirators were indicted in a superceding indictment for conspiracy, theft, and aiding and abetting.

***Individual Indicted After Submitting Fraudulent Offer in Compromise***

In January 2001, an individual was indicted on three counts of bank fraud and one count of false statements. A TIGTA investigation confirmed the individual had submitted a fraudulent offer in compromise acceptance letter to a financial institution. The document, which was allegedly falsified by the individual, purported to clear the individual from a \$51,000 IRS liability and contained a forged signature of an IRS official.

***IRS Employee Terminated and Charged Along with Friend for Larceny of Tax Remittance***

In January 2001, TIGTA special agents filed a state criminal complaint charging a former IRS employee and a friend with two counts of larceny each. The employee stole tax remittances from the employee's workflow. The employee was terminated. In March 2001 the former IRS employee was sentenced to pretrial diversion and ordered to pay \$640 in restitution.

***Individual Arrested for Stealing Tax Remittance from Lockbox***

A taxpayer reported that a tax remittance submitted to a lockbox had been stolen and the check negotiated. An investigation disclosed the \$450 tax remittance had been endorsed and cashed by an individual. In January 2001, the individual was arrested on felony forgery charges and was indicted a month later.

***Former IRS Employee Arrested***

In January 2001, a former IRS employee was arrested after being indicted on 12 counts of submitting false statements, 2 counts of mail fraud, and 1 count of interference with the functioning of the IRS. The investigation began when the IRS reported that the former employee's CPA license had been revoked. Despite losing the CPA license and IRS privileges, the employee continued representing clients before the IRS by posing as another CPA.

***Individual Changes Plea to Guilty At Trial***

In March 2000, an individual was indicted and pled not guilty to 26 counts of mail fraud. The individual advised clients that a portion of the money collected had been paid as payroll tax deposits to the IRS. Instead, the individual stole approximately \$95,700 paid by the clients. After the testimony of 8 of the government's 20 witnesses, the individual entered a plea of guilty. In November 2000, the individual was sentenced to 24 months incarceration, 3 years supervised release, and a \$2,350 special assessment. In a February 2001 hearing, the individual was ordered to pay restitution in the amount of \$64,040. The individual's former business partner had previously repaid some of the clients.

***Individual Pled Guilty to an Identity Theft Scheme to Defraud the Government***

In October 1999, an individual used a fictitious state driver's license and fictitious IRS identification to open a private mailbox address. The investigation revealed that the individual was involved in numerous schemes to defraud the government, which led to a joint investigation involving TIGTA, IRS CI, the Postal Service, and the Secret Service. In October 2000, a federal grand jury indicted the individual on 33 counts of identity theft and fraud activities. In February 2001, the individual pled guilty to fraud in connection with identification documents and access devices, false claims, forgery, theft of stolen mail, and laundering of monetary devices. The individual is incarcerated on a prior indictment and awaits sentencing.

***IRS Employee Convicted of Grand Theft for Misuse of Government Credit Cards***

In October 1999, it was reported that an IRS employee embezzled \$1,192 by misusing government-issued credit cards. When interviewed by TIGTA special agents, the employee provided a written confession and resigned in lieu of removal. In February 2001, the employee pled guilty to 1 count of grand theft from the IRS, and was sentenced to 2 years probation, ordered to perform 45 days of work for the state Department of Transportation, pay \$1,192 in restitution to the U.S. Department of the Treasury, and pay a \$100 fine to the court.

***Four Individuals Pled Guilty to Identity Theft***

An individual purporting to be an IRS employee fraudulently obtained a sports utility vehicle. The investigation identified the individual who completed the lease

application and four other individuals who were using false identities to illegally obtain products.

Four of the individuals were indicted for fraud and related activity in connection with documents and information and official certificates or writings. In August 2000, two of the four pled guilty to identity theft. In January 2001, both were sentenced to four months house arrest, three years probation, and \$100 in court costs. One individual was ordered to pay \$4,500 in restitution, and the other individual was ordered to pay \$48,000 in restitution.

In September 2000 and January 2001, the third and fourth individuals pled guilty to identity theft. In February 2001, the fifth individual was indicted and arrested for identity theft.

***Individual Pled Guilty To Mail Fraud***

In November 2000, an individual pled guilty to one count of mail fraud for providing the IRS with several fraudulent forms. TIGTA investigated this matter concurrently with the Defense Criminal Investigative Service. The individual fraudulently obtained money from several victims by falsely claiming to be a CPA who was authorized to appear before the IRS. Fees paid to this individual ranged from \$750 to over \$2,600.

***Individual Pled Guilty to Submitting A False Levy Release***

In December 2000, an individual was sentenced to one year imprisonment, one year supervised release, and a special assessment fine following a guilty plea regarding the misuse of Department of the Treasury names and symbols. A falsified notice of levy was sent to the individual's employer to satisfy a tax liability. The employer, suspicious of the levy release, contacted TIGTA. Review of the levy release determined it was a

fraudulent document. When interviewed, the individual admitted to falsifying the levy notice and providing it to the employer.

***Lockbox Bank Employee Pled Guilty to Theft and Mail Fraud***

In November 2000, a lockbox bank employee pled guilty to one count of mail fraud and one count of aiding and abetting the theft and embezzlement of an IRS remittance check. In February 2001, the bank employee was sentenced to six months home confinement with electronic monitoring, five years supervised probation, a \$2,000 fine, and a \$100 special assessment.

The investigation disclosed that the bank employee manipulated the payment process to falsely credit the accounts of friends. The bank employee prepared and processed false posting documents and remittances to credit \$22,339 to these accounts. These payments satisfied a friend's tax liabilities and generated tax refunds totaling \$8,233. The bank employee received approximately \$3,500 of the fraudulent refund proceeds. Approximately six months later, the IRS reversed the false payments and initiated collection actions against the individuals.

***Nine Individuals and a Business Indicted in a Scheme to Defraud Banks Out of \$58.3 Million***

In December 2000, a federal grand jury charged 9 individuals and a business in a 116-count indictment with conspiracy, mortgage fraud, mail fraud, and operation of a criminal business. TIGTA joined the multi-agency investigation when information was developed that EINs and tax documents were fraudulently used on numerous mortgage applications.

From July 1994 through January 2000, individuals conspired to defraud federally insured banks and private lenders in excess of

\$58.3 million in mortgage loan proceeds in connection with the sale and resale of over 170 properties. The object of the conspiracy was to obtain mortgages by submitting false documents that deceived the lenders into providing moneys to unqualified purchasers at inflated amounts, which substantially exceeded the true value of the homes. The mortgage files relating to these transactions revealed numerous false items on applications and false documents provided to substantiate down payments and the ability to pay.

In January 2001, one of the individuals pled guilty to 14 felony counts including conspiracy, mortgage fraud, mail fraud, and tax evasion. In March 2001, another individual pled guilty to conspiracy to commit mortgage fraud and mail fraud.

***Two Arrested in Stolen Treasury Check Scheme***

In February 2001, arrest warrants were issued for three individuals involved in a scheme to cash \$180,000 of stolen IRS tax refund checks. These cases originated when an individual fraudulently reported that a 1998 refund check had not been received 14 months after issuance of the original refund. Another individual solicited the assistance of a third individual to negotiate the stolen checks. All three individuals received compensation for their roles in the scheme. TIGTA and Secret Service special agents and postal inspectors arrested two of the individuals. The third suspect has not been located.

***Individual Arrested for Theft of IRS Refund Checks***

In November 2000, an individual was arrested by TIGTA for bank fraud in connection with the negotiation of over \$450,000 in stolen checks. Twenty-one of the stolen checks were IRS tax refund checks totaling \$56,087.

The individual admitted negotiating the checks. While released on bail under a cooperation agreement with the U.S. Attorney's Office, the individual fled and remains a fugitive.

***Individual Jailed for Impersonating IRS Agent to Locate Ex-Spouse***

An individual impersonating an IRS agent made a telephone call to a taxpayer demanding the address and other information about the taxpayer's sibling. The taxpayer requested the caller's IRS identification number. When the individual refused to provide the information, the taxpayer declined to provide any information about the sibling. The individual threatened to have the taxpayer jailed if the information was not provided.

TIGTA was notified and the investigation determined the individual to be the former spouse of the sibling. In November 2000, the individual was indicted by a federal grand jury for impersonation. TIGTA special agents arrested the individual. In January 2001, pursuant to a plea agreement, the individual pled guilty to one count of misuse of the Department of the Treasury name or symbol. The individual was sentenced to one year of probation, mental counseling, and no contact with the victim. The individual also was fined \$1,000 and ordered to pay a court fee.

***IRS Employee Pled Guilty to Theft of Government Property***

In October 2000, an IRS employee pled guilty to falsely claiming overtime and holiday pay over a three-year period. The false claims totaled \$32,547 in payments to the employee. It was reported that a review of the employee's time sheets showed a discrepancy between what was reported and what was actually worked. An investigation determined that the employee forged authorizing signatures on payroll and overtime documents

and that the employee subsequently altered the documents to conceal the unauthorized payments. The employee was removed from the IRS. In January 2001, the employee was sentenced to one year incarceration, suspended to six months of electronic home detention, and five years probation. Additionally, the employee was ordered to make full restitution, and to pay for the electronic detention and court costs.

**Narcotics Investigations**

TIGTA investigates incidents involving the illegal sale or purchase of controlled substances by IRS employees. IRS employees who abuse narcotics often are involved in additional criminal activity that undermines the integrity of the IRS. During this reporting period, the Office of Investigations completed 39 investigations of allegations of employee misconduct involving narcotics abuse or trafficking.

***IRS Employee and Spouse Arrested for the Manufacture of a Controlled Substance***

On five occasions, an IRS employee sold approximately one pound of marijuana on IRS property. In January 2001, TIGTA and Drug Enforcement Agency special agents, accompanied by a local police officer, executed two federal search warrants on the employee's residence and personal vehicle. During the search, approximately 26 marijuana plants were seized along with one pound of marijuana and the equipment used to grow it. The employee and the employee's spouse were subsequently arrested on state charges of the manufacture of a controlled substance.



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

IRS employees face a difficult and challenging mission in serving taxpayers. While incidents and threats of violence and harassment are rare, sometimes individuals do resort to violent acts. The Office of Investigations considers responding to and investigating threats and assaults against IRS employees one of its highest priorities. This Office also investigates incidents of harassment by individuals who attempt to undermine IRS employees as they carry out their duties. During this six-month period, the Office of Investigations completed 271 threat, assault or harassment investigations. The Office of Investigations also investigates alleged misconduct by IRS employees involving sexual battery and inappropriate behavior.

#### ***Individual Charged After Attempting to Harass and Intimidate IRS Employees***

In January 2001, a federal grand jury returned a multi-count indictment charging an individual with fraudulent financial instruments, bankruptcy fraud, fraud and false statements, and felon in possession of a firearm. TIGTA initiated an investigation after an IRS employee reported receiving a copy of a fraudulent CTR in the employee's name.

The investigation determined that the individual filed 105 fraudulent CTRs in the names of current and former IRS employees, U.S. federal judges, U.S. attorneys, local law enforcement officials, and private citizens. The forms alleged multi-million dollar cash transactions with these individuals. The investigation also revealed that the individual presented several fraudulent Bills of Exchange to various government agencies to satisfy outstanding debts.

The investigation determined that the individual is an active member of two anti-government extremist groups that advocate non-compliance with all state and federal authorities and promoted the fraudulent redemption scheme. This case expanded into a multi-agency investigation that included IRS CI, Bureau of Alcohol, Tobacco and Firearms, the Park Service, and a state police agency.

#### ***Workplace Violence Averted***

An IRS employee was convicted of possessing a firearm in a federal facility. TIGTA initiated an investigation based on an allegation that a possible violent workplace situation existed when a furloughed IRS employee returned to work. It was reported that the employee purchased a gun for protection from the furloughed co-worker. Initially, the employee denied having the weapon and stated the relationship with the furloughed co-worker was good.

During a consent search of the employee's workspace, a loaded automatic handgun was found. The employee subsequently admitted to being fearful of the furloughed co-worker.

In October 2000, the employee resigned. In February 2001, the employee pled guilty to possessing a firearm in a federal facility and was fined \$400 and ordered to pay a special assessment.

#### ***Individual Convicted of Threatening TIGTA Special Agent***

In February 2001, an individual was found guilty of threatening to assault a TIGTA special agent in the performance of the agent's duties. There was a history of contacting various IRS officials to discuss perceived problems with the individual's taxes or the taxes of others. The individual called IRS offices up to 10 times a day harassing and threatening lawsuits. Because



## Semiannual Report to the Congress

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of the extensive and harassing nature of the calls, they were eventually diverted to TIGTA. When this occurred, the individual threatened to assault the special agent assigned to answer the calls.

### ***Inmate Indicted for Assaulting TIGTA Special Agent and IRS General Investigator***

In December 2000, a federal grand jury indicted a county detention facility inmate on three counts of assaulting federal officers. The indictment charged that the inmate, while attempting to escape custody of a county sheriff's deputy, assaulted a TIGTA special

agent and IRS general investigator, who came to the assistance of the deputy. The inmate entered a TIGTA office and engaged in a violent struggle with the deputy. The TIGTA special agent heard the struggle and came to the assistance of the deputy. While assisting the deputy, the inmate bit the special agent and sprayed the special agent in the eyes with oleoresin capsicum spray that the inmate wrestled from the deputy. The inmate also sprayed the general investigator who assisted in the apprehension. The inmate had been in a local detention facility awaiting trial for other alleged crimes.

**Semiannual Report to the Congress**

**Appendix I**  
**Statistical Reports for the Office of Audit**

**Audit Reports With Questioned Costs**

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

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

<b>Reports With Questioned Costs (10/1/00 - 3/31/01)</b>	<b>Number of Reports<sup>1</sup></b>	<b>Questioned Costs<sup>2</sup> (In Thousands)</b>	<b>Unsupported Costs (In Thousands)</b>
<b>Report Category</b>			
1. For which no management decision had been made by the beginning of the reporting period.	0	0	0
2. Which were issued during the reporting period.	1	\$28	\$27
3. Subtotals (Item 1 plus Item 2)	1	\$28	\$27
4. For which a management decision was made during the reporting period.	0	0	0
- Dollar value of disallowed costs	0	0	0
- Dollar value of costs not disallowed	0	0	0
5. For which no management decision had been made by the end of the reporting period. (Item 3 minus Item 4)	1	\$28	\$27
6. For which no management decision was made within six months of report issuance.	0	0	0

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

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

**Semiannual Report to the Congress**

**Appendix I**  
**Statistical Reports for the Office of Audit**

**Audit Reports With Additional Quantifiable Impact on Tax Administration**

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

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

<b>Reports With Recommendations That Funds Be Put to Better Use (10/1/00 - 3/31/01)</b>	<b>Number of Reports<sup>1</sup></b>	<b>Amount (In Thousands)</b>
<b>Report Category</b>		
1. For which no management decision has been made by the beginning of the reporting period.	2	\$9,186
2. Which were issued during the reporting period.	2	\$158
<b>3. Subtotals (Item 1 plus Item 2)</b>	<b>4</b>	<b>\$9,344</b>
4. For which a management decision was made during the reporting period.	3	\$9,235
▪ Dollar value of recommendations that were agreed to by management	2	\$8,376
- Based on proposed management action	2	\$8,376
- Based on proposed legislative action	0	\$0
▪ Dollar value of recommendations that were not agreed to by management	1	\$859
5. For which no management decision has been made by the end of the reporting period. (Item 3 minus Item 4)	1	\$109
6. For which no management decision was made within six months of issuance.	0	0

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

### **Audit Reports With Additional Quantifiable Impact on Tax Administration**

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

Definitions of these additional measures are:

1. **Taxpayer Rights and Entitlements at Risk:** The protection of due process (rights) that is granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise in the performance of filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds (entitlements) are also included in this category, relating to instances when taxpayers have a legitimate assertion to overpayments of tax.
2. **Reduction of Burden on Taxpayers:** 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.
3. **Increased Revenue or Revenue Protected:** Assessment or collection of additional taxes (increased revenue), or proper denial of claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system (revenue protection).
4. **Taxpayer Privacy and Security:** Protection of taxpayer financial and account information (privacy). Processes and programs that provide protection of tax administration, account information, and organizational assets (security).
5. **Protection of Resources:** Safeguarding human and capital assets, used by or in the custody of the organization, from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation. This measure will often be expressed as a value of the entity or program affected by the issue(s) described in the audit report.
6. **Reliability of Management Information:** Ensuring the accuracy, validity, relevance, and integrity of data, including the sources 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.

Semiannual Report to the Congress

Appendix I  
Statistical Reports for the Office of Audit

**Audit Reports With Additional Quantifiable Impact on Tax Administration**

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

Reports With Additional Quantifiable Impact on Tax Administration (10/1/00 - 3/31/01)	Number of Reports in Category <sup>1</sup>	Number of Taxpayer Accounts	Number of Hours	Dollar Value (In Thousands)	Other <sup>2</sup>
Outcome Measure Category					
1. Taxpayer Rights and Entitlements at Risk	3	13,684 <sup>3</sup>		\$25,000	
2. Reduction of Burden on Taxpayers	2	59			4
3. Increased Revenue or Revenue Protected	4	515,427		\$409,832 <sup>5</sup>	
4. Taxpayer Privacy and Security	0				
5. Protection of Resources	0				
6. Reliability of Management Information	1				6

Explanatory Notes

- <sup>1</sup> See Appendix IV for identification of audit reports involved.
- <sup>2</sup> Some reports contained "Other" quantifiable impacts besides the number of taxpayer accounts, number of hours, and dollar value. These outcome measures are described in the footnotes, below.
- <sup>3</sup> For one report (2001-40-030), IRS management did not agree with the number of taxpayers affected by not properly reversing the recertification indicator. IRS identified 1,646 such instances, while TIGTA identified 11,400 instances.
- <sup>4</sup> Another measure of burden reduction consisted of 9.6 million taxpayer calls to Customer Service that were not answered.
- <sup>5</sup> For one report (2001-30-063), IRS management agreed with the finding, but disagreed with TIGTA's revenue projection of \$21.8 million.
- <sup>6</sup> Other reliability of management information measures consist of an overstatement of 1,015 Earned Income Credit cases and 155,000 notices on reports provided to the Congress.

**Semiannual Report to the Congress**

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**Appendix II**  
**Statistical Reports for the Office of Investigations**

**Investigative Results**  
**October 1, 2000 - March 31, 2001**

**Investigations Opened and Closed**

Total Investigations Opened	2440
Total Investigations Closed	2251

**Financial Accomplishments**

Embezzlement/Theft Funds Recovered	\$609,386
Court Ordered Fines, Penalties and Restitution	\$7,717,394
Out-of-Court Settlements	\$0



## Semiannual Report to the Congress

### Appendix II Statistical Reports for the Office of Investigations

#### Status of Closed Criminal Investigations

	Employee	Non-Employee	TOTAL
Criminal Referrals <sup>1</sup>			
Referred – Accepted for Prosecution	28	122	150
Referred – Declined for Prosecution	294	364	658
Referred - Pending Prosecution Decision	44	117	161
Total Criminal Referrals	366	603	969
No Referrals	709	613	1322

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

	Employee	Non-Employee	TOTAL
Guilty	19	58	77
Nolo-Contendere	0	0	0
Pre-trial Diversion	2	13	15
Deferred Prosecution <sup>3</sup>	0	1	1
Not Guilty	1	1	2
Dismissed <sup>4</sup>	1	14	15
<b>TOTAL CRIMINAL DISPOSITIONS</b>	<b>23</b>	<b>87</b>	<b>110</b>

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

<sup>2</sup> Final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table.

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

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

Semiannual Report to the Congress

**Appendix II**  
**Statistical Reports for the Office of Investigations**

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

Removed, Terminated or Other	137
Suspended/Reduction in Grade	44
Oral or Written Reprimand/Admonishment	129
Closed – No Action Taken	194
Clearance Letter Issued	100
Employee Resigned Prior to Adjudication	39
<b>TOTAL ADMINISTRATIVE DISPOSITIONS</b>	<b>643</b>

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

## Semiannual Report to the Congress

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### Appendix II Statistical Reports for the Office of Investigations

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

#### Complaints/Allegations Received by TIGTA

<b>Number of Complaints/Allegations</b>	<b>3,761</b>
Complaints Against IRS Employees	1,521
Complaints Against Non-Employees	2,240

#### Status of Complaints/Allegations Received by TIGTA

<b>Status of Complaints</b>	
Investigation Initiated	1,829
In Process Within TIGTA <sup>1</sup>	232
Referred to the IRS for Action	316
Referred to the IRS for Information Only	607
Referred to a Non-IRS Entity <sup>2</sup>	30
Closed With No Referral	747
<b>TOTAL COMPLAINTS</b>	<b>3,761</b>

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

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

NOTE: IRS made 91 referrals to TIGTA that would more appropriately be handled by the IRS and, therefore, were returned to the IRS and are not included in the Total Complaints shown above.

## Semiannual Report to the Congress

### Appendix II Statistical Reports for the Office of Investigations

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

#### Allegations of Employee Misconduct Investigated by IRS Management

	Case Type		
	Administrative <sup>1</sup>	Employee Tax Matter <sup>2</sup>	Total
Inventory on October 1, 2000	1,323	1,240	2,563
Add: Cases Received	3,064	1,607	4,671
Less: Cases Closed	(2,929)	(1,539)	(4,468)
Duplicates	(39)	(146)	(185)
Not Misconduct	(57)	0	(57)
Total Closures	(3,025)	(1,685)	(4,710)
Inventory on March 31, 2001	1,362	1,162	2,524

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

<sup>2</sup> Employee Tax Matter - Any matter involving an employee's tax compliance which becomes a matter of official interest.

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

Disposition	Administrative	Employee Tax Matter	Total
Removal	64	9	73
Separation of Probationary Employees	482	14	496
Separation of Temporary Employees	32	19	51
Resignation/Retirement	208	115	323
Suspensions	97	80	177
Reprimands	171	216	387
Counseling	789	772	1,561
Alternative Discipline	40	29	69
Clearance	116	14	130
Closed Without Action	809	227	1,036
Forwarded to TIGTA	23	0	23
Not Otherwise Coded	98	44	142
Total	2,929	1,539	4,468

Treasury Inspector General for Tax Administration  
March 31, 2001



## Semiannual Report to the Congress

### Appendix III Statistical Reports – Other

### Audit Reports With Significant Unimplemented Corrective Actions

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

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

Reference Number	Issued	Report Title and Recommendation Summary
041403	January 1994	<i>Review of the Nonresident Alien Information Documents</i> <u>F-1, R-2, P-1.</u> Management should ensure that obvious noncompliance with applicable tax laws and regulations be identified during processing.
061610	January 1996	<i>IRS' Efforts in Monitoring Trust Fund Recovery Penalty Assessments Need Improvement</i> <u>F-2, R-3, P-1.</u> IRS should automate the processing of adjustments resulting from payments or credits on related Trust Fund Recovery accounts, as part of the IRS' modernization efforts.
060402	January 1996	<i>Review of the Early Intervention Contact Processing</i> <u>F-2, R-1, P-2.</u> Early Intervention should consider alternate methods to obtain the most current taxpayer locator information.
064008	June 1996	<i>The Financial Accounting and Reporting of Collection's Seized Assets Could Be Improved</i> <u>F-2, R-1, P-4.</u> Management should incorporate a systemic interface between the Automated Work Control System seizure module and the general ledger as part of the Revenue Accounting Control System replacement.
065503	August 1996	<i>Review of the Employment Tax Nonfiler Program</i> <u>F-2, R-3, P-1.</u> Establish a Form W-2/Business Masterfile cross-check of Employer Identification Numbers that appear on Forms W-2 attached to electronically filed Forms 1040. Establish employment tax filing requirements for those Employer Identification Numbers that match an existing Business Masterfile account if the account does not have a filing requirement and does not contain a subsidiary indicator.
066401	September 1996	<i>Follow-up Review of Information Security Over Small Scale Computer Systems</i> <u>F-1, R-1, P-24.</u> Require Regional Commissioners to conduct another self-assessment and certification of systems, to be followed by a validation.
071304	March 1997	<i>Quality of Information Document Processing</i> <u>F-1, R-1, P-3.</u> Review IRS reports (Martinsburg Computing Center Report 405-02-12) to determine whether large variances exist between processing years in the volume and dollars of information documents.
072208	April 1997	<i>Review of Service Efforts to Ensure Compliance of Taxpayers Receiving Foreign Sourced Income</i> <u>F-2, R-1, P-1.</u> The Service should commit to the development of a system to process foreign information records received magnetically in the standard Organization for Economic Cooperation and Development format.
072303	April 1997	<i>A Review of Cyberfile</i> <u>F-1, R-2, P-1.</u> To reduce the chance of a recurrence of the types of problems that impacted Cyberfile's development, management should ensure that IRS guidelines are strengthened to specify project management procedures regarding tracking funds paid to vendors for services and vendor purchases/leases of IRS-funded equipment.



Semiannual Report to the Congress

Appendix III  
Statistical Reports – Other

**Audit Reports With Significant Unimplemented Corrective Actions**

Reference Number	Issued	Report Title and Recommendation Summary
073804	July 1997	<i>Review of the Inventory Delivery System Development</i> F-2, R-4, P-1. The Service should review and update the sampling plan to ensure it includes criteria for the evaluation of each sampled account within a sub-group to ensure consistency. F-2, R-6, P-1. The results of the Self-Monitoring Program should be included as one of the factors for determining whether and when Inventory Delivery System features should be scheduled for national implementation.
075404	September 1997	<i>Review of the Office of Disclosure</i> F-3, R-3, P-2. The Office of Disclosure should take appropriate measures to ensure sensitive data maintained on the inventory control system is properly protected. The system should meet C-2 requirements and provide an adequate audit trail to monitor user activity on the database.
081004	December 1997	<i>Taxpayer Walk-In Program for the 1997 Filing Season</i> F-2, R-1, P-2. Develop a customer-based strategy and a related program with applicable goals and measures to evaluate performance of the Walk-In Program.
083008	April 1998	<i>Review of the Service's Electronic Federal Tax Payment System Implementation and Enhancements</i> F-4, R-2, P-1. IRS management should provide a process for electronic submission of authorization data to eliminate manual transcription.
083322	May 1998	<i>Math Error Processing for Revenue Protection Issues</i> F-10, R-1, P-1. Include an informal checklist in the Revenue Protection Strategy math error notices listing the information taxpayers should provide when writing or calling the IRS.
085812	September 1998	<i>Readiness for Service Center Mainframe Consolidation</i> F-2, R-1, P-1. Unless assurances can be made that experienced IRS personnel can be relocated when and where needed, IRS management should develop a contingency plan to provide the needed staffing for critical positions at all affected sites.
091903	December 1998	<i>Executive Compilation and Interpretation of the 1998 Filing Season</i> F-2, R-1, P-1. To simplify return filing, the IRS should improve the process used to evaluate the burden placed upon taxpayers by the various tax laws and publications.
093602	April 1999	<i>The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits</i> F-1, R-3, P-2. Require a separation of duties among auditors who identify Midwest Automated Compliance System (MACS) returns with potential tax changes, auditors who select MACS returns to be audited, and auditors who conduct the examinations. F-1, R-4, P-2. Ensure that all MACS data discs forwarded from the MACS Development Center to district offices are properly accounted for and secured. F-2, R-4, P-1. Clarify the Internal Revenue Manual to provide specific guidance for conducting correspondence audits in district office settings.
094206	May 1999	<i>The Examination Returns Control and Integrated Data Retrieval Systems Can Be Improved to Protect Taxpayer Rights During the Audit Process</i> F-3, R-1, P-2. The Assistant Commissioner (Examination), with input from the Chief Information Officer (CIO), should ensure the issues are addressed to enable the Examination Returns Control System audit trail to be used to its fullest extent.

Semiannual Report to the Congress

Appendix III  
Statistical Reports – Other

**Audit Reports With Significant Unimplemented Corrective Actions**

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

Semiannual Report to the Congress

Appendix III  
Statistical Reports – Other

**Audit Reports With Significant Unimplemented Corrective Actions**

Reference Number	Issued	Report Title and Recommendation Summary
199920063	August 1999	<p><i>The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved</i>  <u>F-2, R-1, P-1.</u> The Chief Information Officer (CIO) should standardize control settings for files common to the Unisys 2200 production mainframes.  <u>F-3, R-1, P-1.</u> The CIO should ensure all improperly owned files are identified and assigned an owner present on the Unisys 2200 system at each service center, with the exception of files required to be unowned, prior to movement of that service center's mainframe to the consolidated Unisys 4800 environment.  <u>F-3, R-2, P-2, P-3, P-5, P-6.</u> The CIO should institute a policy requiring that all files owned by users being removed from the Unisys 2200 and Unisys 4800 systems either be deleted or assigned to a user present on the system.  <u>F-4, R-1, P-1.</u> The CIO should examine the possibility of tracking individual user actions while using the MASTER user-id on the Unisys 4800 system and, if possible, implement this feature as soon as feasible.  <u>F-6, R-1, P-1.</u> The CIO should ensure that all required C-2 documentation is prepared for the Unisys 4800.  <u>F-6, R-2, P-1.</u> The CIO should develop and maintain a security policy for the Unisys 4800.  <u>F-6, R-3, P-1.</u> The CIO should conduct and document an assessment of the risk factors for the Unisys 4800.</p>
199910072	September 1999	<p><i>The Internal Revenue Service Needs to Improve Compliance With Legal and Internal Guidelines When Taking Taxpayers' Property for Unpaid Taxes</i>  <u>F-2, R-3, P-1, P-2, P-3.</u> Ensure that Collection management and other appropriate management officials verify that all applicable items on the pre-seizure checklist are completed prior to approving the seizure and that all applicable items on the seizure and post-seizure checklists under development are completed.</p>
199920068	September 1999	<p><i>The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain</i>  <u>F-2, R-3, P-1.</u> IRS management should ensure that proper procedures are followed. The Service Center Mainframe Consolidation Project Office should establish full-time Government Task Managers and support staff on-site to monitor and verify deliveries, hours worked by the contractor, and travel taken by the contractor.</p>
199940057	September 1999	<p><i>Controls Should Be Strengthened Over Business Taxpayer Accounts With Frozen Million Dollar Refunds</i>  <u>F-1, R-1, P-1.</u> Modify the "Million Dollar Refund Freeze" indicator program in the IRS' computer system to provide the option to release business taxpayer account credit balances plus computed interest that total less than \$1 million (i.e., when the refund due drops below \$1 million at any point in time).  <u>F-4, R-1, P-1.</u> Enhance current Internal Revenue Manual procedures to identify and expedite the resolution of a "Million Dollar Refund Freeze."</p>

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Reference Number	Issued	Report Title and Recommendation Summary
2000-20-004	October 1999	<p><i>The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program</i></p> <p><u>F-2, R-2, P-1.</u> The IRS should provide additional wording to the CP-136 notice to advise taxpayers they are no longer eligible to use the 941 TeleFile Program and to advise them of other electronic alternatives for filing their returns, such as Electronic Filing.</p> <p><u>F-3, R-2, P-1.</u> The IRS should require taxpayers to be in business for the entire look-back period to be eligible to participate in the 941 TeleFile Program.</p>
2000-30-015	December 1999	<p><i>Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers</i></p> <p><u>F-2, R-1, P-1.</u> Expand the current Federal Tax Deposits alert reengineering effort to re-evaluate the cost effectiveness of the Program.</p> <p><u>F-3, R-1, P-1.</u> Move toward centralized processing of business returns in two locations.</p>
2000-10-028	February 2000	<p><i>Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract</i></p> <p><u>F-1, R-2, P-1.</u> To facilitate the review process, Procurement and Information Systems management should request that the Treasury Communications System Program Management Office work with the contractor to create an invoice that is easier to verify.</p> <p><u>F-2, R-1, P-1.</u> Information Systems management should work with the contractor to determine realistic estimates on future service requests.</p>
2000-10-033	February 2000	<p><i>The Internal Revenue Service Can Further Reduce the Burden on Taxpayers Who Disagree With Proposed Assessments</i></p> <p><u>F-1, R-1, P-1.</u> Send letters of proposed changes (30-Day Report) via certified mail, with return receipt requested, when taxpayers do not respond to the initial contact letter.</p> <p><u>F-2, R-1, P-3.</u> Ensure future management and quality reviews include evaluating whether office audit groups are adhering to correspondence procedures.</p>
2000-10-047	March 2000	<p><i>The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program</i></p> <p><u>F-1, R-1, P-1.</u> The IRS should ensure that Forms 8038-T, Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate, are recorded on the Return Inventory Classification System and that responsible personnel consistently monitor the processing of tax-exempt bond returns to promptly address any concerns that would inhibit the IRS from accomplishing its desired program objectives.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
2000-10-058	March 2000	<p><i>The Internal Revenue Service Needs to Improve Its Compliance With Procedures When Processing Requests for Information Under the Freedom of Information Act</i></p> <p><u>F-1, R-1, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should improve its case management practices and oversight to ensure compliance with the provisions of the Freedom of Information Act (FOIA), the Privacy Act (PA), and the IRS' own guidelines and policy when reviewing FOIA and PA requests that are denied.</p> <p><u>F-2, R-1, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should establish controls to minimize extended periods of inactivity while processing requests for information.</p> <p><u>F-2, R-2, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should modify procedures to allow the transfer of PA cases to the office that has jurisdiction over the requested records.</p> <p><u>F-2, R-3, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should improve controls to ensure appropriate research is performed to determine whether the requested records can be provided by the office receiving the request or transferred to the office maintaining the records.</p> <p><u>F-2, R-4, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should ensure that planned enhancements to the Disclosure Information Management System include providing system users with instant access to nationwide disclosure information.</p> <p><u>F-3, R-1, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should consider expanding procedures to have disclosure employees provide information from similar files or sources when the information is not available in the exact format specified by the requester.</p> <p><u>F-3, R-2, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should obtain controlled access to the IRS' tax account information in the National Office of Governmental Liaison and Disclosure to research the availability of the requested records.</p> <p><u>F-3, R-3, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should modify the disclosure organization structure to enable the National Office to have more national direction and oversight over disclosure offices.</p> <p><u>F-3, R-4, P-1.</u> The IRS Office of Governmental Liaison and Disclosure should develop and implement minimum standards for documenting case actions.</p>
2000-10-061	March 2000	<p><i>Letter Report: The Internal Revenue Service Should Improve Its Process to Ensure the Fiscal Year 1999 Performance Report Will Contain the Information Intended by the Congress</i></p> <p><u>F-1, R-1, P-1.</u> The IRS should ensure that any data limitations are properly disclosed in the Annual Program Performance Report.</p> <p><u>F-2, R-1, P-1.</u> The Office of Strategic Planning and Budgeting should ensure the development of a single set of authoritative instructions for timely gathering and verifying data needed for Government Performance and Results Act of 1993 reporting.</p>

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2000-30-057	March 2000	<p><i>Opportunities Exist for Further Reducing Erroneous Fuel Tax Credits</i>  <u>F-1, R-1, P-1.</u> The IRS needs to emphasize the importance of checking prior year returns for fuel tax credits, when closing current year fuel tax cases with an adjustment, and to establish management controls to ensure that the requirement is followed.  <u>F-2, R-1, P-1.</u> The Assistant Commissioner (Customer Service) needs to provide professional preparer organizations with appropriate educational materials on the tax regulations relating to tax credits for undyed diesel fuel used by farmers.  <u>F-2, R-2, P-1.</u> The IRS should send information (i.e., educational) notices to taxpayers who file returns claiming diesel fuel tax credits that are under the minimum dollar amount for examination screening.</p>
2000-30-059	March 2000	<p><i>The Internal Revenue Service Can Improve the Estate Tax Collection Process</i>  <u>F-1, R-1, P-1.</u> Collection and service center management should assign the responsibility for determining whether a bond or tax lien should be secured to the service center employees who process the installment agreements, instead of to the district offices.  <u>F-1, R-2, P-2.</u> Service center management should review and approve all requests for payment extensions. The review should ensure the estate has demonstrated reasonable cause before granting the payment extension.  <u>F-2, R-1, P-1.</u> Collection management should instruct managers and employees to conduct a 100 percent review of all current estate cases to ensure active tax liens are input to the Automated Lien System (ALS), tax liens and lien fees are properly reflected on the taxpayer accounts, and all tax liens are released on accounts that have no tax obligation.  <u>F-2, R-2, P-1.</u> Collection and Information Systems management should develop procedures to periodically reconcile tax liens on the ALS with information shown on the taxpayer accounts.  <u>F-2, R-3, P-1.</u> Collection management should clarify procedures to employees that all estate tax liens should be recorded on the ALS.  <u>F-3, R-1, P-1.</u> Collection and Information Systems management should coordinate to review the collection statute abatement programming for accurate Collection Statute Expiration Date (CSED) calculations.  <u>F-3, R-3, P-1.</u> Collection and service center management should ensure all estate tax accounts with collection statute abatements are manually reviewed to verify or correct CSED calculations.  <u>F-3, R-4, P-1.</u> Collection and Information Systems management should coordinate to develop a procedure to identify accounts with multiple assessments and collection statute dates to ensure partial abatements occur when the earliest CSED is reached.</p>



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Reference Number	Issued	Report Title and Recommendation Summary
2000-30-062	March 2000	<p><i>Toll-Free Telephone Service Levels Declined in 1999 Despite Costly Efforts to Achieve World Class Performance</i></p> <p><u>F-1, R-2, P-1.</u> To improve Customer Service operations, the IRS needs to manage the toll-free business components as an integrated system.</p> <p><u>F-1, R-4, P-1.</u> Customer Service management needs to establish national owners to manage the various interdependent systems (e.g., hiring, training, labor relations, work planning, forecasting, and scheduling) that affect telephone operations.</p> <p><u>F-1, R-6, P-1.</u> Customer Service national systems owners need to address the serious shortage of trained Customer Service Representatives (CSRs) by coordinating their actions to identify “best practices” at the call sites with successful recruiting/hiring and intermediary skill training experiences and share them with management at all sites.</p> <p><u>F-1, R-7, P-1.</u> Customer Service national systems owners need to address the serious shortage of trained CSRs by coordinating their actions to reallocate resources, resulting from attrition, from those sites with hiring difficulties to other sites where qualified labor pools are more plentiful.</p> <p><u>F-1, R-8, P-1.</u> Customer Service national systems owners need to address the serious shortage of trained CSRs by coordinating their actions to allocate seasonal resources to those sites where qualified labor pools are more plentiful.</p> <p><u>F-1, R-12, P-1.</u> Customer Service national systems owners need to address the serious shortage of trained CSRs by coordinating their actions to offer incentives such as signing bonuses, subsidized transportation costs, and extended-hour day care facilities.</p> <p><u>F-1, R-14, P-1.</u> Customer Service national systems owners need to address the serious shortage of trained CSRs by coordinating their actions to explore alternatives (e.g., out-sourcing to the private sector) for dealing with the seasonal customer demands for answers to filing questions and tax law issues.</p> <p><u>F-2, R-5, P-1.</u> To increase the productivity and efficiency of the IRS’ toll-free telephone operations, Customer Service management needs to renegotiate with the National Treasury Employees Union to allow the use of “Idle with Reason Codes” to determine employee abuses of lunches, breaks, etc.</p> <p><u>F-3, R-1, P-1.</u> To attain a reliable corporate measure of the quality of toll-free telephone service provided to taxpayers, Customer Service management needs to take actions to ensure that there is an adequately-sized centralized Quality Review System staff in place to meet the requirements of the sampling plan or find ways to increase the volume of calls monitored by each reviewer.</p>
2000-40-029	March 2000	<p><i>The Internal Revenue Service Could Enhance the Process for Implementing New Tax Legislation</i></p> <p><u>F-1, R-1, P-1.</u> The IRS should develop a process which ensures that actions necessary to implement a legislative act are completed timely.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
2000-40-045	March 2000	<p><i>Taxpayers and the Internal Revenue Service Experienced Problems With Some New Tax Provisions</i></p> <p><u>F-2, R-1, P-1.</u> The Chief Operations Officer (COO) should ensure that computer programming necessary to identify taxpayer errors related to two tax law provisions are completed by the 2001 filing season.</p> <p><u>F-3, R-1, P-1.</u> The COO should ensure that reviews of notices issued to taxpayers are effective in ensuring the notices are technically accurate, clearly address the taxpayers' errors, and clearly inform taxpayers what steps they need to take.</p>
2000-40-055	March 2000	<p><i>The Internal Revenue Service Needs to Improve Its Coordinated Oversight of the Substitute for Return Process</i></p> <p><u>F-1, R-1, P-1.</u> The Chief Operations Officer (COO) should establish uniform policies and procedures to ensure coordination of IRS efforts among the functions processing Substitute for Return (SFR) accounts.</p> <p><u>F-2, R-1, P-1.</u> The COO should coordinate the development of a process to monitor the future filing compliance of taxpayers with SFR tax assessments regardless of which function processed the account.</p> <p><u>F-2, R-2, P-1.</u> The COO should coordinate the design of a process to profile SFR tax assessments and their resolution regardless of processing function.</p>
2000-40-063	May 2000	<p><i>Increased Attention Is Needed to Ensure Timely, Accurate Determinations on Innocent Spouse Claims for Relief</i></p> <p><u>F-1, R-1, P-3.</u> The IRS should set goals and standards for the Innocent Spouse Program.</p> <p><u>F-2, R-1, P-2.</u> The IRS should design and implement a system of internal controls that addresses the quantity, cost, and timeliness of the Innocent Spouse Program to complement the existing internal controls over the quality of the Program.</p>
2000-40-069	May 2000	<p><i>Internal Revenue Service's Process for Controlling Filing Season Computer Programming Changes Does Not Ensure Critical Changes Are Effectively Implemented</i></p> <p><u>F-2, R-1, P-3.</u> Develop written criteria for prioritizing Requests for Information Services (RIS) to ensure the RIS inventory is prioritized correctly for the filing season.</p>
2000-30-088	June 2000	<p><i>Millions of Dollars in Internal Revenue Service Excess Collections Accounts Could Be Credited to Taxpayers</i></p> <p><u>F-1, R-1, P-2.</u> The Customer Service function should use TIGTA developed computer-matching techniques to identify and, where appropriate, transfer payments from the Excess Collections Accounts to the taxpayers' Masterfile accounts.</p> <p><u>F-2, R-1, P-1, P-2, P-3, P-4.</u> The Chief Operations Officer (COO) needs to coordinate education efforts for employees handling these accounts and develop strategies for increasing taxpayer and practitioner awareness of the law on the statute of limitations for refunding and crediting payments related to overdue tax returns.</p> <p><u>F-2, R-2, P-1, P-2.</u> Customer Service and Submission Processing management should develop procedures for contacting taxpayers one last time prior to the statute of expiration date of payments in the Excess Collections Accounts and advise them of the possible forfeiture of payments if the necessary tax returns are not filed.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
2000-20-092	June 2000	<p><i>Certifying the Security of Internal Revenue Service Computer Systems Is Still a Material Weakness</i></p> <p><u>F-1, R-1, P-1.</u> Information Systems management should place more emphasis on building security controls into new information systems. To ensure this happens, IRS management should not authorize the implementation of any new system until controls are sufficient and the system has the required security certification and accreditation.</p> <p><u>F-1, R-2, P-1.</u> For systems that have already been implemented, Information Systems management needs to place additional emphasis on timely certification and accreditation. Information Systems management should ensure that funds continue to be allocated for contractor support during the certification process and consideration should be given to increasing this allocation in order to get systems certified as soon as possible.</p> <p><u>F-1, R-3, P-1.</u> Information Systems management should consider increasing the human resources within the IRS devoted to certifying and accrediting the security features of information systems.</p> <p><u>F-1, R-4, P-1.</u> Information Systems management should ensure that IRS' certification process includes follow-ups with the accrediting executives prior to the expiration of their systems security certification to ensure that they are aware that a new certification and accreditation is required.</p> <p><u>F-1, R-5, P-1.</u> Information Systems management should ensure that all functional executives for individual systems are fully aware of the overall certification and accreditation process.</p> <p><u>F-1, R-6, P-1.</u> Information Systems management should centralize the process for identifying and tracking all information systems requiring certification and accreditation.</p> <p><u>F-2, R-1, P-1.</u> Information Systems management should ensure that IRS' certification process includes follow-ups with the accrediting executives to ensure that necessary information relevant to the official accreditation is provided and to educate them on the importance of providing this information.</p>
2000-20-094	June 2000	<p><i>A Comprehensive Program for Preventing and Detecting Computer Viruses Is Needed</i></p> <p><u>F-2, R-1, P-1.</u> The official responsible for the virus program should develop and implement IRS-wide procedures detailing the frequency and steps to be followed for reliably updating anti-virus software on both networked and portable notebook computers.</p> <p><u>F-2, R-2, P-1.</u> The official responsible for the virus program should establish controls for ensuring all updates have been successfully accomplished.</p> <p><u>F-3, R-1, P-1.</u> The official responsible for the virus program should develop a system for gathering information to help analyze and monitor the effectiveness of the program's virus detection and prevention activities.</p> <p><u>F-4, R-1, P-1.</u> The official responsible for the virus program should strengthen procedures for ensuring that employees comply with the Internal Revenue Manual requirements for preparing Virus Incident Reports.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
2000-20-095	June 2000	<p><i>The Security and Performance of Electronic Tax Return Processing Should Be Improved to Meet Future Goals</i>  <u>F-2, R-1, P-1.</u> The Chief Information Officer (CIO) should develop and implement improved security standards and procedures for all tax return transmissions.  <u>F-2, R-2, P-1.</u> The CIO should integrate the improved procedures for the electronic transmission of tax returns from trading partners into the future IRS modernization architecture.  <u>F-5, R-1, P-1.</u> The CIO should ensure that the Electronic Management System disaster plan is completed and periodic recovery plan exercises are conducted.</p>
2000-20-097	June 2000	<p><i>The Internal Revenue Service Should Improve Actions to Protect Its Critical Infrastructure</i>  <u>F-1, R-2, P-1.</u> The Chief Infrastructure Assurance Officer (CIAO) should ensure that vulnerabilities to all mission essential assets, including facilities, systems, applications, personnel, and data, are assessed during future security reviews. In addition, the CIAO should evaluate the interdependencies inherent in the IRS' mission essential activities.</p>
2000-20-099	June 2000	<p><i>Significant Risks Need to Be Addressed to Ensure Adequate Oversight of the Systems Modernization Effort</i>  <u>F-1, R-3, P-1.</u> Finalize and fully implement Quality Assurance policies and procedures throughout the organization.  <u>F-2, R-1, P-1.</u> Develop a staffing plan for the Program Management Office (PMO) to ensure that the PMO is adequately staffed and the personnel have proper training.  <u>F-2, R-4, P-1.</u> Develop a back-up plan for key personnel to ensure that the PMO is adequately staffed and the personnel have proper training.  <u>F-2, R-5, P-1.</u> Develop policies and procedures to regularly update the staffing plan, skills analysis, training plan, and back-up plan for key personnel.  <u>F-3, R-1, P-1.</u> Ensure that the approved PMO includes a single office responsible for developing policies and procedures to create a formal performance monitoring framework.  <u>F-3, R-3, P-1.</u> Assess the PRIME contractor's processes to ensure that performance monitoring data being provided to the IRS are complete and accurate.</p>
2000-30-111	August 2000	<p><i>Improvements Are Needed in Resolving In-Business Trust Fund Delinquencies to Prevent Tax Liabilities From Pyramiding</i>  <u>F-2, R-1, P-1.</u> Use all collection tools, including enforcement tools and require the filing of monthly, rather than quarterly, returns.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
2000-30-120	August 2000	<p><i>Expanding the Electronic Tax Law Assistance Program</i>  <u>F-1, R-1, P-1.</u> To meet its Electronic Tax Administration goals, the IRS needs to redesign the Electronic Tax Law Assistance (ETLA) program to leverage technology that will provide enhanced access to tax information, maximize efficiency, and improve electronic customer service.  <u>F-2, R-1, P-1.</u> To effectively administer the rapid growth of taxpayer demand, economically use resources, and design future enhancements of the program, the IRS needs to fully commit to the ETLA program by converting it from a long-term research project to a fully supported independent function.  <u>F-3, R-1, P-1.</u> Until there are technological changes and an organizational commitment, the IRS needs to delay the marketing of the ETLA program. In the interim, the IRS should expand the ETLA program to additional call sites to process the ever-increasing taxpayer demand for this electronic service while reducing the need to use more expensive Compliance function personnel.</p>
2000-30-130	September 2000	<p><i>Opportunities Exist to Enhance the International Field Assistance Specialization Program</i>  <u>F-2, R-1, P-1.</u> The Commissioner, Large and Mid-Size Business (LMSB) Division, should improve the management information system by linking the International Field Assistance Specialization Program (IFASP) indicator to specific issues listed in the International Case Management System.  <u>F-2, R-2, P-2.</u> The Commissioner, LMSB Division, should ensure international examiners gain greater access to the IRS' Intranet so that the IFASP can accumulate and disseminate more information electronically, including an electronic referral form for IFASP assistance.</p>
2000-10-145	September 2000	<p><i>Improvements Are Needed to Ensure Control and Accountability Over Automated Data Processing Assets</i>  <u>F-1, R-1, P-1.</u> The Director, Enterprise Operations, should take appropriate action on the recommendation made by the Chief, Transmittal and Control Branch, to conduct quality reviews prior to forwarding the Automated Data Processing Property Certifications to the Chief Information Officer (CIO) for final approval and certification to the Commissioner.  <u>F-2, R-1, P-1.</u> The CIO, together with senior executives from other affected IRS organizational components, should re-evaluate resource commitments needed to successfully implement the Single Point Inventory Function and elevate to the Deputy Commissioner Operations for resolution any staffing shortages that imperil successful implementation.  <u>F-3, R-1, P-2.</u> The Asset Management Modernization Project Office Manager should ensure the Single Point Inventory Function Standard Operating Procedures are updated to include accountability and identification of internal use software and documentation for annual physical inventories.</p>
2000-30-146	September 2000	<p><i>Opportunities Exist to Identify Unreported Taxes from Employer's Quarterly Federal Tax Returns</i>  <u>F-1, R-1, P-2, P-3, P-4.</u> TIGTA recommended that the Commissioners of the Small Business/Self-Employed (SB/SE) Division, and Large and Mid-Size Business (LMSB) Division, and the Chief, Criminal Investigation, increase Employer's Quarterly Tax Return (Form 941) compliance efforts.</p>

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Reference Number	Issued	Report Title and Recommendation Summary
2000-30-154	September 2000	<p><i>Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File</i></p> <p><u>F-1, R-1, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should require that all balance due notices generated for gift tax accounts be reviewed. Tax examiners should be instructed to review the taxpayers' corresponding individual income tax and gift tax accounts to determine if the taxpayers' gift tax payments and extensions were correctly processed.</p> <p><u>F-1, R-2, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should revise the current IRS center instructions for the processing of Applications for Automatic Extension of Time To File U.S. Individual Income Tax Return (Form 4868) to ensure that gift tax payments and extensions are processed to the proper taxpayer accounts.</p> <p><u>F-1, R-3, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should explore the possibility of updating the Integrated Submission and Remittance Processing System to permit the posting of extensions to both the individual and gift tax accounts.</p> <p><u>F-1, R-4, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should ensure that current lockbox guidelines for the processing of Forms 4868 with payments for both the individual income tax and gift tax accounts are followed.</p> <p><u>F-1, R-5, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should expand and clarify the current lockbox guidelines for the processing of Forms 4868 sent by taxpayers requesting extensions for both their individual income and gift tax accounts but with payments for only one of the accounts.</p> <p><u>F-1, R-6, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should clarify the current lockbox guidelines for the processing of payments and extensions submitted by taxpayers "for gift tax only."</p> <p><u>F-1, R-8, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should ensure that Service Center Monthly Lockbox Performance Reports, prepared by the lockbox coordinators, conform to the exhibit in Internal Revenue Manual 3.0.230-1 (01-01-2000).</p> <p><u>F-1, R-9, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should instruct the lockbox coordinators and the quality reviewers, assigned to review lockbox processing, to determine whether payments and extensions were applied to the correct taxpayers' accounts (individual income and gift tax accounts) during their reviews of Forms 4868 involving gift tax extensions and/or gift tax payments.</p> <p><u>F-1, R-11, P-1.</u> The Assistant Commissioner (Forms and Submission Processing) should instruct the lockbox depository to perform a review of the Forms 4868 during the 2001 filing season.</p>
2000-20-158	September 2000	<p><i>Additional Actions Are Needed to Strengthen the Development and Enforcement of the Enterprise Architecture</i></p> <p><u>F-5, R-1, P-1.</u> The Chief Information Officer (CIO) should establish an enforcement process to ensure compliance with the enterprise architecture.</p> <p><u>F-5, R-2, P-1.</u> The CIO should establish a waiver process to approve minor deviations from the established architecture standards.</p>

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**Audit Reports With Significant Unimplemented Corrective Actions**

Reference Number	Issued	Report Title and Recommendation Summary
2000-30-162	September 2000	<p><i>The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations</i></p> <p><u>F-1, R-1, P-1, P-2.</u> The Assistant Commissioner (Collection) should ensure bankruptcy examiners are properly resolving violations of the automatic stay by reviewing litigation transcripts on a timely basis.</p> <p><u>F-1, R-2, P-1.</u> The Assistant Commissioner (Collection) should provide additional computer programming enhancements to improve the value of litigation transcripts.</p> <p><u>F-1, R-3, P-1.</u> The Assistant Commissioner (Collection) should provide additional guidance to Special Procedures function (SPf) employees on specific conditions that may be considered violations of the automatic stay.</p> <p><u>F-1, R-4, P-1.</u> The Assistant Commissioner (Collection) should provide specific guidance in the Internal Revenue Manual so the field offices know when and how to refund payments received after the bankruptcy petition date.</p> <p><u>F-1, R-5, P-1.</u> The Assistant Commissioner (Collection) should provide consistent guidelines to the SPf units on how to notify the Examination function that the taxpayer is in bankruptcy.</p> <p><u>F-2, R-1, P-1, P-2.</u> The Assistant Commissioner (Collection) should request that the Automated Insolvency System be reprogrammed so that the actual receipt date of the case can be input into the system to provide management with more accurate data on timeliness of input of new case information.</p> <p><u>F-2, R-2, P-1, P-2.</u> The Assistant Commissioner (Collection) should ensure that all employees review the Potentially Invalid Taxpayer report and resolve all cases promptly to ensure timely posting of the bankruptcy to the taxpayer's account.</p>



### **Access to Information**

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

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

The Inspector General Act of 1978 requires Inspectors General to provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period. As of March 31, 2001, there were no prior reports where management's response was not received.

### **Revised Management Decisions**

The Inspector General Act of 1978 requires Inspectors General to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. As of March 31, 2001, no significant management decisions were revised.

### **Disputed Audit Recommendations**

The Inspector General Act of 1978 requires Inspectors General to provide information on significant management decisions in response to audit recommendations, with which the Inspectors General disagree. As of March 31, 2001, there was one report where a significant recommendation was disputed.

The Internal Revenue Service Should Take Additional Actions to Protect Taxpayer Remittances, Reference No. 2000-30-153

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

The Inspector General Act of 1978 requires Inspectors General to review existing and proposed legislation and regulations and to make recommendations concerning the impact of such legislation or regulations. TIGTA's Office of Chief Counsel reviewed 152 proposed legislation and regulations during the six-month reporting period.



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**TIGTA Audit Report Listing**

**October 1, 2000 - March 31, 2001**

Reference Number	Issued	Report Title
2001-1C-007	October 2000	<b>Incurred Cost Audit TIRNO-95-C-00044</b>
2001-10-001	October 2000	<b>The National Taxpayer Advocate Can Improve the Service Provided to Taxpayers</b>
2001-10-002	October 2000	<b>Letter Report: The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Referrals and Information Items</b>
2001-10-005	October 2000	<b>The Foundation Information for Real Property Management System Can Be an Effective Tool to Manage Space Inventory</b>
2001-10-010	October 2000	<b>Management Advisory Report: Review of Alleged Regulatory Violation in Administering the Accounting Support Services Contract</b>
2001-20-004	October 2000	<p><b>Efforts to Consolidate Information Systems Staff Need Additional Attention</b></p> <p><i>Reliability of Information:</i> \$189 million in labor and position support costs that were not under the Chief Information Officer's control in FY 2000 and 2001</p> <p><i>Protection of Resources:</i> \$58 million of savings by reaching industry ratios for desktop computers and printers and controlling purchases and distribution of new equipment \$16 million of savings in labor costs by consolidating desktop support staff</p>
2001-30-006	October 2000	<b>Management Advisory Report: Strategic Planning for Toll-Free Telephone Operations Has Made Significant Progress, But Further Improvements Are Needed</b>
2001-40-003	November 2000	<b>The Internal Revenue Service Faces the Challenge of Increased Demands for Tax Return Preparation Assistance in the Future</b>
2001-30-014	November 2000	<b>The Internal Revenue Service Does Not Effectively Use the Trust Fund Recovery Penalty as a Collection Enforcement Tool</b>
2001-20-015	November 2000	<b>Implementation of the New Methodology for Systems Modernization Needs Increased Focus and Support</b>
2001-10-011	November 2000	<b>Letter Report: Chief Counsel Properly Administered Fees Paid for Internal Revenue Service Guidance</b>
2001-40-013	November 2000	<b>Letter Report: The Taxpayer Repeater Indicator Should Be Reprogrammed or Eliminated</b>
2001-20-016	November 2000	<b>Employees' Extensive Personal Use of the Internet Should Be Controlled</b>
2001-20-017	November 2000	<b>Management Should Take Action to Address Employees' Personal Use of E-Mail</b>

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**TIGTA Audit Report Listing**

Reference Number	Issued	Report Title
2001-10-018	November 2000	<b>The Asset Management Program Can Be Successful Through Active Executive Monitoring and Oversight</b>
2001-10-009	November 2000	<b>The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information</b>
2001-30-019	November 2000	<b>Letter Report: More Small Corporate Taxpayers Can Benefit from the Alternative Minimum Tax Exemption Provision</b> <i>Taxpayer Rights and Entitlements: 2,178 small business corporate taxpayers unaware of the exemption from the alternative minimum tax \$25 million in erroneously paid alternative minimum tax</i>
2001-10-012	November 2000	<b>Federal Tax Information Used by Customer Satisfaction Survey Contractors Needs to Be Better Protected</b> <i>Taxpayer Privacy and Security: 999,353 taxpayer accounts at risk of unauthorized disclosure</i>
2001-40-008	November 2000	<b>Electronic Returns Were Processed Effectively</b> <i>Taxpayer Burden: 37,000 electronic filing providers that may not receive adequate customer service</i>
2001-20-020	November 2000	<b>Computer Security Controls Should Be Strengthened in the Former Brooklyn District</b> <i>Taxpayer Privacy and Security: 1 million taxpayer accounts at risk of unauthorized disclosure</i>
2001-10-028	December 2000	<b>The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Compliance Project Examination Activities</b>
2001-10-023	December 2000	<b>The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved</b>
2001-30-031	December 2000	<b>Management Advisory Report: Substantial Work Remains If the Internal Revenue Service Is to Provide Refund Status Information on the Internet by the Beginning of the 2002 Filing Season</b>
2001-10-026	December 2000	<b>Additional Management Actions Are Needed to Ensure the Timely and Successful Modernization of the Tax Exempt and Government Entities Division</b>
2001-1C-029	December 2000	<b>Incurred Cost Audit TIRNO-95-D-00062 FY 98</b>
2001-20-022	December 2000	<b>Controls Over the Development of the Practitioner Secure Messaging System Prototype Should Be Improved</b> <i>Protection of Resources: \$755,000 in contract costs</i>

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**TIGTA Audit Report Listing**

Reference Number	Issued	Report Title
2001-20-034	December 2000	<p><b>The Control Environment Over the Consolidated Computer System for Collection Activities Needs to Be Strengthened</b></p> <p><i>Taxpayer Burden:</i> Strengthened computer system controls ensure 4.4 million delinquent taxpayers receive applicable notices</p> <p><i>Taxpayer Privacy and Security:</i> 4.4 million taxpayer delinquent accounts at risk</p>
2001-40-024	December 2000	<p><b>The Program for Ensuring Compliance With Anti-Money Laundering Reporting Requirements Should Be Improved</b></p> <p><i>Reliability of Information:</i> Over 94,000 entities not on IRS non-banks inventory</p>
2001-40-030	December 2000	<p><b>Improvements Are Needed in the Earned Income Credit Recertification Program</b></p> <p><i>Revenue Protection:</i> \$82,000 from 40 taxpayers 4,100 taxpayers with recertification determination indicators incorrectly removed 5,200 taxpayers could receive child-related earned income credit (EIC) based on being recertified after receiving income-only EIC</p> <p><i>Taxpayer Burden:</i> 336,000 taxpayers received one or more unclear letters 59 taxpayers had unnecessary processing delays</p> <p><i>Taxpayer Rights and Entitlements:</i> 11,400 taxpayers did not have the recertification indicator removed Over 6,000 taxpayers did not receive a letter informing them that they may be eligible for income-only EIC 86 taxpayers with unnecessary delays in releasing tax refunds</p>
2001-40-035	December 2000	<b>Letter Report: Allegation of Taxpayer Abuse Involving the Earned Income and Child/Dependent Care Tax Credits</b>
2001-1C-032	December 2000	<b>Incurred Cost Audit TIRNO-95-D-00062 FY 97</b>
2001-40-025	January 2001	<p><b>Letter Report: Revised Questionable Refund Program Procedures Were Not Consistently Implemented</b></p> <p><i>Taxpayer Rights and Entitlements:</i> 20 taxpayers not notified of revisions</p>
2001-10-027	January 2001	<b>Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program</b>

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Reference Number	Issued	Report Title
2001-40-021	January 2001	<b>Additional Efforts Are Needed for Improving Revenue Protection</b>
2001-20-036	January 2001	<b>Computer Security Controls Should Be Strengthened in the Former Northern California District</b> <i>Taxpayer Privacy and Security:</i> 130 million taxpayers accessible through the local area network connection
2001-1C-038	January 2001	<b>Audit of Selected Final Vouchers for TIRNO-95-D-00065</b>
2001-10-040	January 2001	<b>Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened</b> <i>Funds Put to Better Use:</i> \$49,000
2001-10-044	January 2001	<b>Letter Report: Attestation Review of the Internal Revenue Service's Fiscal Years 1999 and 2000 Office of National Drug Control Policy Accounting Submissions</b>
2001-40-041	January 2001	<b>The Internal Revenue Service Had a Successful 2000 Filing Season; However, Opportunities Exist to More Effectively Implement Tax Law Changes</b> <i>Increased Revenue:</i> \$211 million for 505,706 taxpayers 2.7 million taxpayers with invalid secondary social security numbers
2001-40-042	January 2001	<b>Letter Report: Oversight of the Philadelphia Lockbox Bank Should Be Improved</b> <i>Funds Put to Better Use:</i> \$109,056
2001-20-039	February 2001	<b>The Business Systems Modernization Office Has Made Solid Progress and Can Take Additional Actions to Enhance the Chances of Long-Term Success</b>
2001-40-033	February 2001	<b>Management Advisory Report: The Wage and Investment Division Substantially Completed the Five Stand-Up Elements</b>
2001-20-043	February 2001	<b>Electronic Signature Initiatives Could Be Better Defined and Evaluated</b> <i>Reliability of Information:</i> 6 operational alternative signature initiatives without cost/benefit analysis <i>Taxpayer Privacy and Security:</i> Approximately 12 million individual tax returns signed with a Personal Identification Number during the 2000 filing season
2001-20-045	February 2001	<b>Information Systems Needs to Improve the Clarity of Responses to Audit Reports and Ensure Corrective Actions Are Timely Resolved</b>
2001-20-046	February 2001	<b>The Internal Revenue Service Can Improve Its Capacity and Performance Program to Better Manage the Availability of Its Computer Systems</b> <i>Protection of Resources:</i> \$65.5 million spent or budgeted during calendar years 2000 – 2002 for mid-range computer system consolidation

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Reference Number	Issued	Report Title
2001-40-047	February 2001	<b>Management Advisory Report: The Probability of Meeting Electronic Tax Administration Goals Remains Questionable</b>
2001-40-048	February 2001	<b>Letter Report: Improvements at the Lockbox Bank in Atlanta Are Needed to Better Protect Taxpayer Payments and Minimize Processing Costs</b> <i>Protection of Resources:</i> 3,415,175 remittances totaling \$17,581,662,104 <i>Taxpayer Privacy and Security:</i> 1,106,311 returns handled by the bank
2001-40-049	February 2001	<b>Management Advisory Report: Risks Should Be Weighed When Using Electronic Services as Incentives</b> <i>Taxpayer Burden:</i> 21 million individual tax returns that were filed electronically by Electronic Return Originators
2001-10-051	March 2001	<b>The Treasury Inspector General for Tax Administration Can Rely Upon Data on the Electronic Disclosure Information Management System for Its Statutory Review</b> <i>Taxpayer Rights and Entitlements:</i> 1,265 Freedom of Information Act and Privacy Act cases with inaccurate revised response dates
2001-30-052	March 2001	<b>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</b>
2001-40-053	March 2001	<b>Audit Reconsideration Cases Create Unnecessary Burden on Taxpayers and the Internal Revenue Service</b> <i>Taxpayer Burden:</i> 106,584 taxpayers with audit reconsideration cases which resulted in full or partial tax abatements
2001-20-055	March 2001	<b>Progress in Developing the Customer Communications Project Has Been Made, But Risks to Timely Deployment in 2001 Still Exist</b> <i>Taxpayer Burden:</i> 9.6 million fewer taxpayer calls will be completed for the 2001 filing season. <i>Protection of Resources:</i> \$5.67 million in proposed FY 2001 benefits will not be realized.
2001-1C-050	March 2001	<b>Audit of Selected Travel Costs TIRNO-99-D-00001</b> <i>Questioned Costs:</i> \$28,343
2001-30-060	March 2001	<b>Letter Report: Centralizing the Processing of Business Tax Returns – The Internal Revenue Service Considered Pertinent Risk Factors, but Needs to Update and Test Business Recovery Plans</b>
2001-40-059	March 2001	<b>Duplicate Dependent and Qualifying Child Overclaims Result in Substantial Losses of Tax Revenue Each Year</b> <i>Increased Revenue:</i> \$176,898,921

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#### TIGTA Audit Report Listing

Reference Number	Issued	Report Title
201-20-062	March 2001	<b>The Information Systems Organization Can Improve Processes to Manage Its Budget Appropriation</b>
2001-40-064	March 2001	<b>Management Advisory Report: Improvements Are Needed to Assess the Use and Impact of the Earned Income Credit Appropriation</b> <i>Reliability of Information: Report to the Congress was overstated by 1,015 Earned Income Credit cases and 155,000 notices</i>
2001-30-063	March 2001	<b>More Consideration Is Needed During Examinations to Identify Potential Fraud Issues and Refer Cases to Criminal Investigation</b> <i>Increased Revenue: \$21.8 million for 381 taxpayer accounts \$51,183 additional tax assessment</i>
2001-30-054	March 2001	<b>Management Advisory Report: Additional Management Actions Are Needed for Placing Small Business/Self-Employed Division Transition Employees</b>
2001-0T-074	March 2001	<b>Inspector General Testimony: Hearing Before the Subcommittee on Treasury, Postal Service and General Government Committee on Appropriations, U.S. House of Representatives</b>

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

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

**Section 1203 Standards**

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

Misconduct violations include:

- (1) willful failure to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;
- (2) providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;
- (3) with respect to a taxpayer, taxpayer representative, or other employee of the IRS, the violation of –
  - any right under the Constitution of the United States, or
  - any civil right established under –
    - (i) Title VI or VII of the Civil Rights Act of 1964<sup>1</sup>,
    - (ii) Title IX of the Education Amendments of 1972<sup>2</sup>,
    - (iii) The Age Discrimination in Employment Act of 1967<sup>3</sup>,
    - (iv) The Age Discrimination Act of 1975<sup>4</sup>,
    - (v) Section 501 or 504 of the Rehabilitation Act of 1973<sup>5</sup>, or
    - (vi) Title I of the Americans with Disabilities Act of 1990<sup>6</sup>;
- (4) falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;
- (5) assault or battery on a taxpayer, taxpayer representative, or other employee of the IRS, but only if there is a criminal conviction, or a final judgment by a court in a civil case, with respect to the assault or battery;
- (6) violations of the Internal Revenue Code, Department of Treasury regulation, or policies of the IRS (including the Internal Revenue Manual) for the purpose of retaliating against, or harassing a taxpayer, taxpayer representative, or other employee of the IRS;

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<sup>1</sup> 42 U.S.C. § 2000e

<sup>2</sup> 20 U.S.C. §§ 1681-1688

<sup>3</sup> 29 U.S.C. §§ 621-634

<sup>4</sup> 42 U.S.C. §§ 6101-6107

<sup>5</sup> 29 U.S.C. §§ 701 & 794

<sup>6</sup> 42 U.S.C. §§ 12111 *et seq.*

**Section 1203 Standards**

- (7) willful misuse of the provisions of Section 6103 of the Internal Revenue Code for the purpose of concealing information from a Congressional inquiry;
- (8) willful failure to file any return of tax required under the Internal Revenue Code of 1986 on or before the date prescribed therefor (including any extensions), unless such failure is due to reasonable cause and not to willful neglect;
- (9) willful understatement of federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect, and,
- (10) threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

In general, the Commissioner of Internal Revenue may take a personnel action other than employment termination for 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 sole discretion may establish a procedure which will be used to determine whether an individual should be referred to the Commissioner for a determination by the Commissioner. Any determination of the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.

## Semiannual Report to the Congress

### Appendix VI

### Statutory TIGTA Reporting Requirements

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

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Restrictions on the Use of Enforcement Statistics</b> I.R.C. § 7803(d)(1)(A)(i)	An evaluation of the compliance of the IRS with restrictions under § 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	Audit fieldwork in process.
<b>Restrictions on Directly Contacting Taxpayers</b> I.R.C. § 7803(d)(1)(A)(ii)	An evaluation of the compliance of the IRS with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.	Audit fieldwork in process.
<b>Filing of a Notice of Lien</b> I.R.C. § 7803(d)(1)(A)(iii)	An evaluation of the compliance of the IRS with required procedures under I.R.C. § 6320 (Supp. IV 1998) upon the filing of a notice of lien.	Audit fieldwork in process.
<b>Levies</b> I.R.C. § 7803 (d)(1)(A)(iv)	An evaluation of the compliance of the IRS with required procedures under I.R.C § 6330 (Supp. IV 1998) regarding levies.	Audit fieldwork in process.
<b>Collection Due Process</b> I.R.C. § 7803 (d)(1)(A)(iii) and (iv)	An evaluation of the compliance of the IRS with required procedures under I.R.C. §§ 6320 and 6330 (Supp. IV 1998) regarding the taxpayers' rights to appeal lien or levy actions.	Audit fieldwork in process.
<b>Seizures</b> I.R.C. § 7803(d)(1)(A)(iv)	An evaluation of the compliance of the IRS with required procedures under Subchapter D of Chapter 64 for seizure of property for collection of taxes.	Audit fieldwork in process.

<sup>1</sup> This includes: 5 audit reports were issued on the security of IRS technology; and, 9 audit reports were issued on IRS information technology. All information technology program reviews are considered statutory based on the RRA 98 requirement to report annually on the adequacy and security of IRS technology.

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**Appendix VI**

**Statutory TIGTA Reporting Requirements**

<b>Reference to Statutory Coverage</b>	<b>Explanation of the Provision</b>	<b>Comments/TIGTA Audit Status</b>
<b>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</b>  I.R.C. § 7803(d)(1)(A)(v)	An evaluation of the compliance of the IRS with restrictions under § 3707 of RRA 98 on designation of taxpayers.	Audit fieldwork in process.
<b>Disclosure of Collection Activities With Respect to Joint Returns</b>  I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)	Review and certify whether or not the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	Audit fieldwork in process.
<b>Complaints and Allegations of Employee Misconduct and Terminations and Mitigation for Certain Proven Violations Committed by IRS Employees</b>  I.R.C. § 7803(d)(1)(E) I.R.C. § 7803(d)(2)(A)	List any terminations or mitigation under § 1203 of RRA 98, § 1102(a).	Audit fieldwork in process.
<b>Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996</b>  I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 § 3466 of RRA 98	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.	Audit fieldwork in process.
<b>Denial of Requests for Information</b>  I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)	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).	Audit fieldwork in process.

**Statutory TIGTA Reporting Requirements**

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Adequacy and Security of the Technology of the IRS</b></p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Evaluation of the adequacy and security of the technology of the IRS.</p>	<p>TIGTA’s annual assessment of the adequacy and security of IRS technology will be provided in the next Semiannual Report to the Congress. For highlights of recent information technology audits, see pages 10, 11 and 12.</p> <p>On October 30, 2000, the President signed into law the FY 2001 Defense Authorization Act (P.L. 106-398) including Title X, subtitle G, “Government Information Security Reform.” It amends the Paperwork Reduction Act of 1995 by enacting a new subchapter on “Information Security.” The Act requires annual Inspector General evaluations of agencies’ security programs and practices. Agencies are required to submit copies of the Inspector General evaluations with their annual budget submissions to the Office of Management and Budget.</p>
<p><b>Extensions of the Statute of Limitations for Assessment of Tax</b></p> <p>I.R.C. § 7803(d)(1)(C) I.R.C. § 6501</p>	<p>Include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Audit fieldwork in process.</p>





## Semiannual Report to the Congress

### Appendix VII

### Government Performance and Results Act Audits

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

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

Reference Number	Report Title and Recommendation Summary	Management Response
2001-10-009	<p><b><i>The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information</i></b></p> <p><u>Objective:</u> Assess the adequacy and completeness of the FY 1999 Annual Program Performance Report as it relates to the Government Performance and Results Act of 1993.</p> <p><u>Recommendations:</u> IRS management should ensure that the APPRs more fully expand on the information requested by the Office of Management and Budget, the Department of the Treasury, and the Congress. Special attention should be given to including quantitative performance measures for all management challenges and high-risk areas, providing complete summaries of all findings and recommendations of program evaluations completed during the fiscal year, and providing more complete assessments of actual performance and its impact on expected future performance.</p>	<p>IRS management generally agreed with our recommendations but stated the measures that were baselined, had no targets, or were classified as "to be determined," did not need an explanation.</p> <p>This report is highlighted on page 24</p>
2001-10-012	<p><b><i>Federal Tax Information Used by Customer Satisfaction Survey Contractors Needs to Be Better Protected</i></b></p> <p><u>Objective:</u> Evaluate the integrity, confidentiality, and security of the taxpayer data in possession of the vendor and its subcontractors who conduct the surveys used to judge customer satisfaction.</p> <p><u>Recommendations:</u> IRS management should coordinate with the Office of Safeguards to develop a process to ensure that on-site security reviews of the vendor's and its subcontractors' facilities are conducted. In addition, IRS management should evaluate the Office of Safeguards staffing and workload to ensure that proper oversight is given to private industry vendors.</p>	<p>IRS management agreed with the recommendations.</p> <p>This report is highlighted on page 24.</p>



## Semiannual Report to the Congress

### Appendix VIII

#### Acronyms

ACTC	Additional Child Tax Credit	IFASP	International Field Assistance
ALERTS	IRS Automated Labor and Employee Relations Tracking System	IG	Specialization Program
ALS	Automated Lien System	I.R.C.	Inspector General
AML	Anti-Money Laundering	IRS	Internal Revenue Code
APPR	Annual Program Performance Report	LMSB	Internal Revenue Service
ATLAS	Audit Trail Lead Analysis System	ONDCP	IRS Large and Mid-Size Business Division
CCP	Customer Communications Project	ORF	Office of National Drug Control Policy
CFF	Collection Field Function	PA	Office of Refund Fraud
CI	IRS Criminal Investigation	PIN	Privacy Act
CIO	IRS Chief Information Officer	PMO	Personal Identification Number
CMD	Complaint Management Division	PSMS	Program Management Office
COO	IRS Chief Operations Officer	RICS	Practitioner Security Messaging System
CPA	Certified Public Accountant	RIS	Returns Inventory Classification System
CSED	Collection Statute Expiration Date	RPS	Request for Information Services
CSR	Customer Service Representative	RRA 98	Revenue Protection Strategy
CTC	Child Tax Credit	SB/SE	IRS Restructuring and Reform Act of 1998
CTR	Currency Transaction Report	SED	IRS Small Business/Self-Employed Division
E-DIMS	Electronic Disclosure Information Management System	SSA	Strategic Enforcement Division
EFDS	Electronic Fraud Detection System	S-SSN	Social Security Administration
EIC	Earned Income Credit	TE/GE	Secondary Social Security Number
EIN	Employer Identification Number	TFRP	IRS Tax Exempt and Government Entities Division
ELC	Enterprise Life Cycle	TIGTA	Trust Fund Recovery Program
ETA	Electronic Tax Administration	UNAX	Treasury Inspector General for Tax Administration
ETLA	Electronic Tax Law Assistance	U.S.	Unauthorized Access to Taxpayer Accounts
FinCEN	Treasury Department's Financial Crimes Enforcement Network	U.S.C.	United States
FOIA	Freedom of Information Act of 1988	W&I	United States Code
FSL	Forensic Science Laboratory		IRS Wage and Investment Income Division
FTI	Federal Tax Information		
FY	Fiscal Year		
GAO	General Accounting Office		
GPRA	Government Performance and Results Act of 1993		



Organization Chart

