

# Semiannual Report to Congress

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Treasury Inspector General for Tax Administration

October 1, 2004 through March 31, 2005



## MEET TIGTA'S NEW INSPECTOR GENERAL



*J. Russell George being sworn in as the new Treasury Inspector General for Tax Administration*

Following his nomination by President George W. Bush, the United States Senate confirmed J. Russell George in November 2004, as the Treasury Inspector General for Tax Administration. Prior to assuming this role, Mr. George served as the Inspector General of the Corporation for National and Community Service, having been nominated to that position by President Bush and confirmed by the Senate in 2002.

A native of New York City, where he attended public schools, including Brooklyn Technical High School, Mr. George received his Bachelor of Arts degree from Howard University in Washington, DC, and his Doctorate of Jurisprudence from Harvard University's School of Law in Cambridge, MA. After receiving his law degree, he returned to New York and served as a prosecutor in the Queens County District Attorney's Office.

Following his work as a prosecutor, Mr. George joined the Counsel's Office in the White House Office of Management and Budget where he was Assistant General Counsel. In that capacity, he provided legal guidance on issues concerning presidential and executive branch authority. He was next invited to join the White House Staff as the Associate Director for Policy in the Office of National Service. It was there that he implemented the legislation establishing the Commission for National and Community Service, the precursor to the Corporation for National and Community Service. He then returned to New York and practiced law at Kramer, Levin, Naftalis, Nessen, Kamin & Frankel LLP.

In 1995, Mr. George returned to Washington and joined the staff of the Committee on Government Reform and Oversight and served as the Staff Director and Chief Counsel of the Government Management, Information and Technology subcommittee (later renamed the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations), chaired by Representative Stephen Horn. There he directed a staff that conducted over 200 hearings on legislative and oversight issues pertaining to Federal Government management practices, including procurement policies, the disposition of government-controlled information, the performance of chief financial officers and inspectors general, and the Government's use of technology. He continued in that position until his appointment by President Bush in 2002.

# Semiannual Report to Congress

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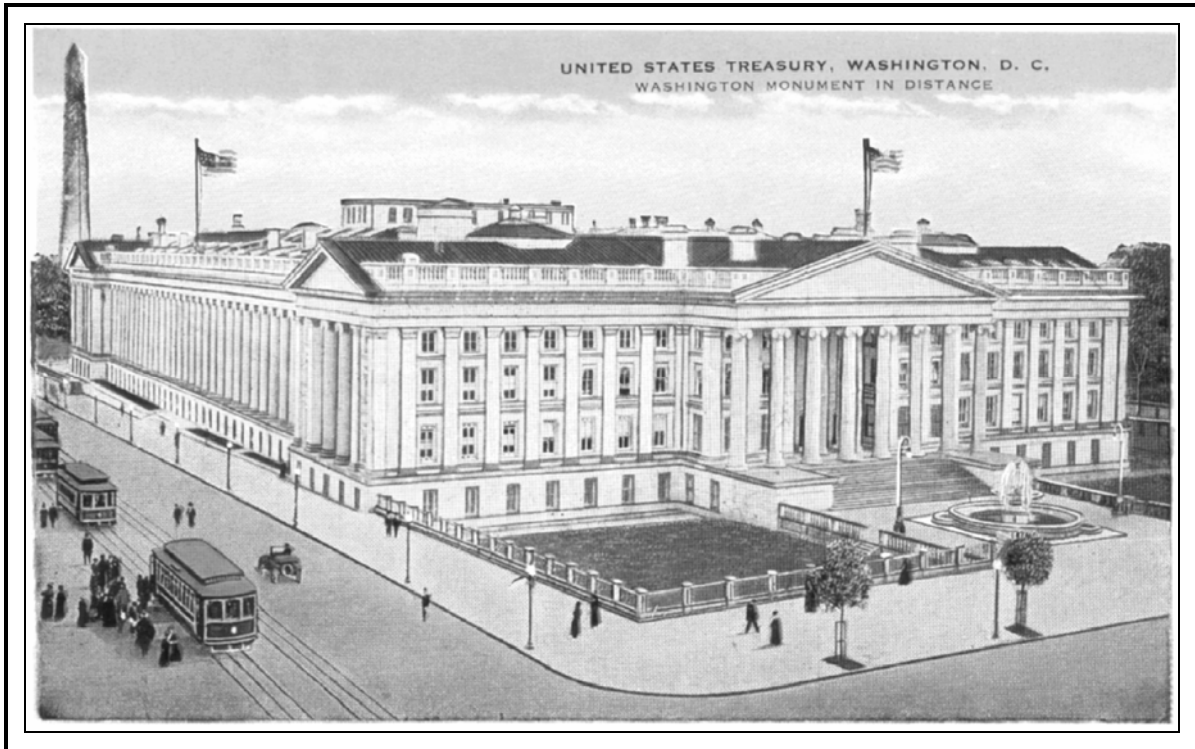


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NORTHEAST ELEVATION OF THE TREASURY BUILDING, CIRCA 1910

The photographs and artwork appearing in this Semiannual Report to Congress are from the Treasury Curator's "Postcard Collection" and date from 1900 to 1940.  
Cover photo: Department of the Treasury, Printing & Graphics Division.

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## MESSAGE FROM TIGTA'S INSPECTOR GENERAL

The operation of our nation's government depends on the collection of tax revenue. With the fiscal constraints presently facing the entire Federal Government, TIGTA's role of promoting the efficiency and effectiveness of tax administration, and safeguarding the collection of taxes is as important as ever.

I was confirmed by the Senate as TIGTA's new Inspector General during the first half of this semiannual reporting period. Since that time, I have identified several priorities for TIGTA:

- Maintain our focus on overseeing Internal Revenue Service (IRS) efforts to modernize its business systems;
- Enhance our ability to protect tax administration from corruption;
- Assist the IRS with improving tax compliance initiatives; and
- Monitor IRS usage of private debt collection agencies.

In addition to these priorities, TIGTA will continue its work in other areas, including issues related to the security of IRS employees, facilities, and information systems; the prevention of erroneous and improper payments by the IRS; the IRS' processing of tax returns and implementation of tax law changes; customer service; and the integration of performance and financial management at the IRS, to name a few. These are all important oversight activities that will continue to be pursued vigilantly.

I am proud to report that a TIGTA recommendation to require large companies and tax-exempt organizations to file their returns electronically became law during this reporting period. This will take effect in the 2005 Tax Year and will apply to businesses with assets exceeding \$50 million and tax-exempt organizations with assets exceeding \$100 million. The \$50 million and \$100 million thresholds will be lowered over time.

Also, between October 1, 2004, and March 31, 2005, we identified more than \$28.3 million in cost savings, and more than \$12 billion in increased or protected revenue by addressing IRS issues.

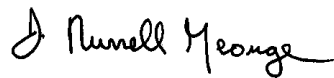
TIGTA's achievements in combating fraud and corruption have enhanced the integrity of tax administration. Several investigations related to IRS usage of contracted lockbox facilities to receive and process tax remittances have resulted in significant prosecutions. In one case, six former employees of Mellon Financial Services were indicted this year in Pennsylvania for

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initially hiding, and then destroying, approximately 80,000 unprocessed Federal tax returns, vouchers, and checks in an attempt to conceal their inability to fulfill their contractual requirements with the IRS. A second TIGTA investigation revealed that a former lockbox employee stole 30 taxpayer remittance checks that totaled more than \$2.7 million from an IRS lockbox facility located in Texas. Both investigations illustrate the importance of monitoring the IRS' use of private agencies to collect tax remittances or provide debt collection services.

TIGTA will continue working to protect and improve our nation's tax administration system. We are committed to helping the IRS overcome current and future challenges to ensure that the collection of tax revenue is done with efficiency, effectiveness, and integrity.

Sincerely,

A handwritten signature in black ink that reads "J. Russell George". The signature is written in a cursive, flowing style.

J. Russell George  
Inspector General



## TIGTA'S PROFILE

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

Our work is devoted to all aspects of activity related to the Federal tax system as administered by the IRS. We protect the public's confidence in the tax system by overseeing the IRS as it strives to achieve its strategic goals, by identifying and

addressing the IRS' management challenges, and by implementing the *President's Management Agenda* and the priorities of the Department of the Treasury.

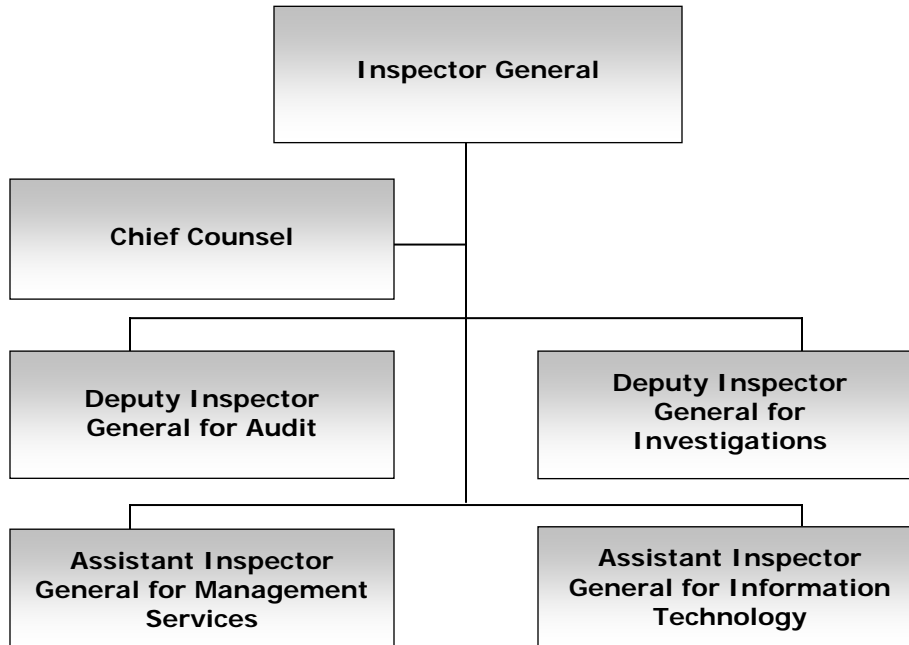
Our primary functional offices are the Office of Audit (OA) and the Office of Investigations (OI). Our Offices of Chief Counsel, Information Technology, and Management Services support OA and OI efforts (see organizational chart, next page). TIGTA conducts audits and investigations designed to:

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

### TIGTA's Statutory Mandate

**Protect** against external attempts to corrupt or threaten IRS employees.  
**Provide** policy direction and conduct, supervise, and coordinate audits and investigations related to IRS programs and operations.  
**Review** existing and proposed legislation and regulations related to IRS programs and operations and make recommendations concerning the impact of such legislation or regulations.  
**Promote** economy and efficiency in the administration of tax laws.  
**Prevent** and detect fraud and abuse in IRS programs and operations.  
**Inform** the Secretary of the Treasury and Congress of problems and deficiencies identified and of the progress made in resolving them.

## TIGTA's Organizational Structure



## Authorities

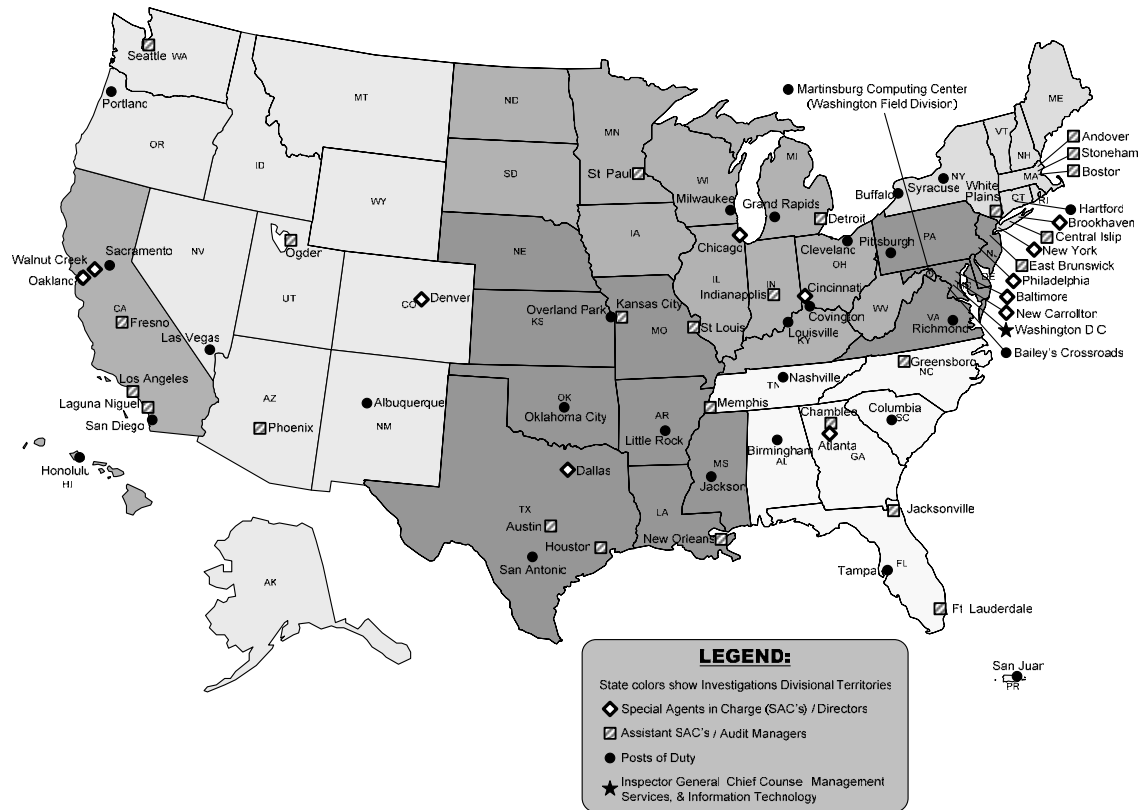
TIGTA has all the authorities granted under the Inspector General Act of 1978, as amended.<sup>1</sup> TIGTA also has access to tax information in the performance of its tax administration responsibilities and the obligation to report potential criminal violations directly to the Department of Justice.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

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

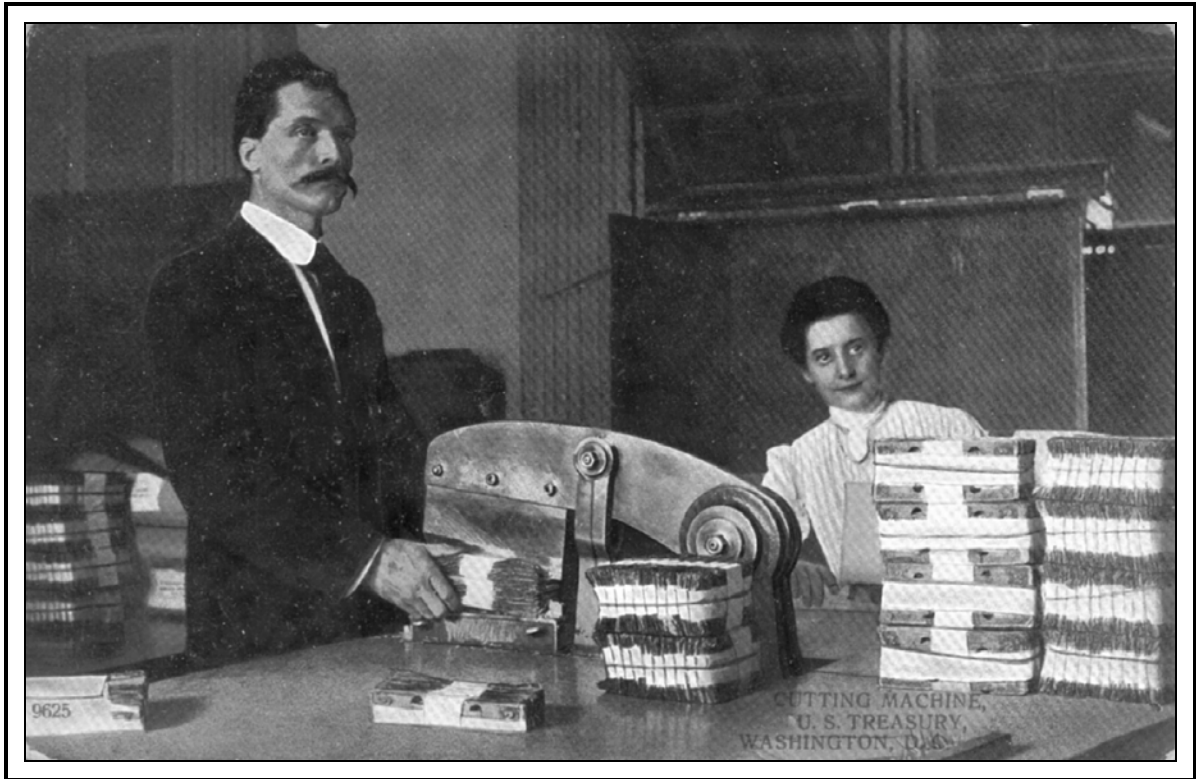
<sup>1</sup> 5 U.S.C.A. app. 3 (West Supp. 2004).

<sup>2</sup> Public Law No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

## TIGTA Office Locations Throughout The Nation



TIGTA employees include auditors, special agents and information technology support staff who are located throughout the nation.



MAN AND WOMAN "CUTTING" MONEY, 1910

# PROMOTE THE ECONOMY, EFFICIENCY, AND EFFECTIVENESS OF TAX ADMINISTRATION

**T** IGTA's Office of Audit strives to promote the economy, efficiency, and effectiveness of tax administration. We provide audit recommendations to improve IRS systems and operations, while ensuring fair and equitable treatment of taxpayers. Our comprehensive, independent performance and financial audits of IRS programs and operations focus on mandated reviews and high-risk challenges facing the IRS.

The IRS' implementation of audit recommendations results in cost savings and increased or protected revenue, reduction of taxpayer burden, and protection of: taxpayer rights and entitlements; taxpayer privacy and security; and IRS resources.

Each year, we identify and address the major management challenges facing the IRS. These challenge areas for Fiscal Year (FY) 2005 are outlined in the chart below:

## **IRS' Major Management Challenges**

- Systems Modernization
- Tax Compliance Initiatives
- Security of the IRS
- Integrating Performance and Financial Management
- Complexity of the Tax Law
- Providing Quality Customer Service Operations
- Erroneous and Improper Payments
- Processing Returns and Implementing Tax Law Changes
- Taxpayer Protection and Rights
- Human Capital

Audit emphasis is placed on statutory coverage required by the RRA 98, as well as on areas of concern to the Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders.

*The following audit summaries highlight significant audits completed during this 6-month reporting period that fall into the IRS' Major Management Challenges categories.*

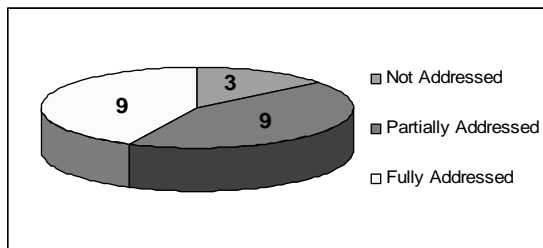
## **Systems Modernization**

The IRS is currently engaged in the Business Systems Modernization (BSM) Program to modernize its systems and associated processes. All of the BSM projects initiated to date have experienced cost overages and schedule delays. In mid-2003, the IRS and the PRIME contractor<sup>3</sup> initiated four studies to help identify the root causes of these problems and make recommendations to remedy them. Key IRS executives and stakeholders reviewed the results of these studies, acknowledged BSM shortcomings, and developed actions to address the studies' recommendations and resolve longstanding BSM issues. Collectively, these actions became known as the BSM Challenges Plan.

<sup>3</sup> The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology.

We determined that the majority of recommendations were not fully addressed by the BSM Challenges Plan. Also, the IRS did not create a measurement plan to determine whether actions taken resulted, or will result, in actual improvements in the BSM Program. Many BSM Challenges Plan actions were closed before all significant activities were completed.

**The BSM Challenges Plan Did Not Completely Address the 21 BSM-Related Study Recommendations**



We recommended the IRS reevaluate those recommendations that were not addressed by the BSM Challenges Plan to determine whether corrective actions should be taken and create an overall measurement plan to determine whether activities are leading to BSM Program improvements. The IRS should also ensure stakeholders understand that additional work is necessary to complete actions in the Plan, and new activities taken in furtherance of the Plan should be tracked. IRS management agreed with our recommendations and acknowledged there was significant work ahead in the BSM Program.

Report Reference No. 2005-20-014

During this reporting period, TIGTA analyzed the Custodial Accounting Project (CAP), which was designed to help correct longstanding weaknesses in IRS financial management systems. Our analysis of the CAP illustrates the continuing need for

improvement in the BSM Program. The BSM Office, the contractor, and the end user were making progress to deploy the CAP. However, the IRS and the CAP contractor did not adequately manage system testing of requirements during its first release. For example, system requirements were not tracked and, therefore, could not be tested successfully. In addition, the IRS approved changes without always knowing which system requirements were affected and accepted test results that could not be verified. IRS management agreed with our recommendations and modified its approach to requirements management for future CAP releases.

Report Reference No. 2005-20-019

## Tax Compliance Initiatives

The Limited Issue Focused Examination (LIFE)<sup>4</sup> process has merit for reducing the length of examinations. IRS' Large and Mid-Size Business Division statistics showed that LIFE cases, on average, were completed in 236 fewer days than non-LIFE cases. However, efforts to incorporate this process into the examinations of large businesses have made little progress. As of September 2004, only about 4.2 percent of the examinations initiated for large businesses involved the LIFE process.

TIGTA is concerned by the results from the LIFE process. Statistics show LIFE cases were generating significantly less additional recommended taxes than other large business examinations. Our analysis

<sup>4</sup> The LIFE was introduced publicly in December 2002 as a streamlined alternative to the traditional full-scope examination process.

indicated if the IRS allocated 5 percent of the available examinations of large businesses to the LIFE process over the next 5 years, the amount of recommended additional taxes could drop an average of \$349 million a year, or \$1.7 billion over 5 years.

We recommended the IRS develop and implement a plan for analyzing data on LIFE examinations that is reliable and can help correct problems identified, clarify the integration of the Currency and Cycle Time Improvement Initiative<sup>5</sup> with the LIFE process, and ensure mid-level managerial reviews include evaluating open cases and assessing whether the LIFE process is being used in examinations. IRS management generally agreed with our recommendations. Report Reference No. 2005-30-029

For Tax Year (TY) 2001, the IRS estimated the gross tax gap<sup>6</sup> attributable to the underreporting and underpaying of employment taxes was \$73.3 billion. However, the IRS has not used the Automated 6020(b) Program<sup>7</sup> to address business taxpayer filing noncompliance throughout most of the past decade due to various organizational changes,

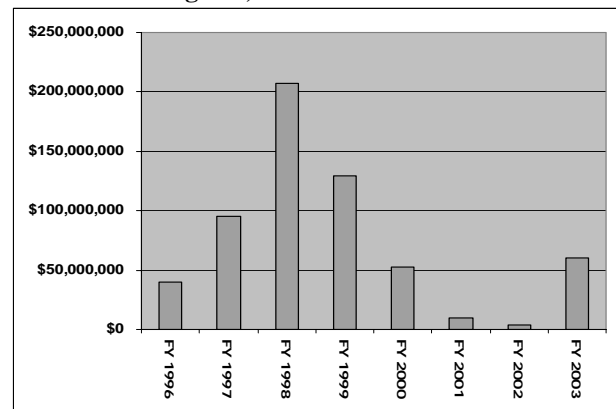
<sup>5</sup> This initiative was more aggressive than LIFE in holding examiners accountable for closing examinations. It directed examiners to meet specific dates by establishing time periods for requesting and submitting tax records and presenting and responding to examination results.

<sup>6</sup> The gross tax gap is the difference between the amount taxpayers owe the Federal Government and the amount they voluntarily and timely pay.

<sup>7</sup> IRC § 6020(b) (2004) provides the IRS with the authority to prepare and process certain returns for a nonfiling business taxpayer if the taxpayer appears to be liable for the return, the person required to file the return does not file it, and attempts to secure the return have failed.

programming problems, and funding issues. The number of direct hours the IRS applied to the Automated 6020(b) Program steadily declined from a high of 43,209 in FY 1993 to a low of 1,151 in FY 2001, before increasing to 6,542 in FY 2003 after the IRS centralized administration of the Program. The declining trends in resources applied to the Automated 6020(b) Program adversely affected the results. The amount of taxes assessed by the Program declined from \$206.8 million in FY 1998 to \$3.6 million in FY 2002, but then increased to \$60.6 million in FY 2003.

**Taxes Assessed by the Automated 6020(b) Program, FYs 1996-2003**



Source: Collection Activity Reports (FYs 1996-2003).

To improve the effectiveness and efficiency of the Automated 6020(b) Program for addressing business filing noncompliance, we recommended the IRS: replace the computer system supporting the Program with one that interfaces with its other systems; modify the dollar criterion to select additional cases that may otherwise remain unworked; modify the Program to add nonfiled excise tax returns; and evaluate the computation used for assessing proposed unemployment tax assessments. IRS management agreed with the recommendations.

Report Reference No. 2005-30-053

To improve IRS tax compliance initiatives, TIGTA reviewed pass-through businesses during this reporting period. Pass-through businesses, such as partnerships and S corporations, are not subject to income taxes, although they have a significant impact on tax administration. For TY 2001, \$276.3 billion passed through over 2.1 million partnerships to their individual partners. The incidence of late-filed returns, measured as a percentage of total returns filed, is nearly two times higher among partnerships and nearly four times higher among S corporations, than it is among individual taxpayers, and it is rapidly growing. Between Calendar Years (CY) 2000 and 2003, the number of late-filed partnership returns increased 22 percent (from 167,000 to 203,000). During the same period, the number of late-filed S corporation returns increased 28 percent (from about 450,000 to 577,000).

Late-filed partnership and S corporation returns can have an adverse effect on the filing and reporting compliance of the individual partners and shareholders. Our analysis of TY 2001 tax return data for more than 817,000 individual partners and shareholders indicated late filing of returns by pass-through businesses may have contributed to 49 percent of these taxpayers obtaining an extension of time to file their individual tax returns, 108,587 late-filed individual tax returns, and more than \$1 billion not being reported on individual income tax returns. We estimated more than \$354 million in individual income taxes was not paid on this unreported pass-through income.

We recommended the IRS amend the tax regulations and/or develop legislative proposals to address several key issues that would encourage greater voluntary

compliance with filing and reporting requirements for pass-through entities. IRS management disagreed with some of the recommendations presented in the report. The decision to implement the remaining recommendations requires input and concurrence from the Department of the Treasury. The IRS will consult with Treasury on these issues.

Report Reference No. 2005-30-048

Also in the area of tax compliance, TIGTA received requests from the IRS in November 2004 to evaluate a new process for reviewing allegations of potential political activity by tax-exempt organizations. There had been several media reports of allegations that the IRS Tax Exempt and Government Entities Division was examining this type of activity for politically motivated reasons just before the 2004 Presidential election. Based on the extent of our audit work, we did not identify any indications that inappropriate actions, such as political influence, may have been taken in handling these referrals. We reviewed samples of information items that were handled under the new process and determined the Exempt Organization (EO) Referral Committee followed a consistent process when it reviewed the items, regardless of the source of the allegation or the potential political activity. We did not identify any case in which the same criteria were used to select one information item for examination and to decline a similar item for examination.

However, the IRS experienced delays in expediting the classification and examination processes. As a result, management did not send contact letters to organizations until September 21, 2004,



6 weeks before the scheduled elections. We believe contacting organizations so close to the election and the late publicity about this project contributed to the allegations of improper motivation on the part of the IRS.

We recommended IRS management formalize guidelines for reviewing allegations of potential noncompliance, establish realistic time standards for classifying information items and forwarding them to an examination group, and initiate any future expedited review process earlier in the election year. Further, we recommended IRS management issue a press release in future election years outlining an expedited process to review allegations of potential political intervention. IRS management agreed with our recommendations and proposed corrective action.  
Report Reference No. 2005-10-035

## Security of the IRS

During FYs 2002 through 2004, IRS management initiated and/or completed several actions that demonstrated increased emphasis on emergency management and preparedness, including disaster recovery planning. However, significant disaster recovery program weaknesses continue to be unresolved. Our analysis of 11 prior TIGTA audit reports identified such weaknesses, including:

- Modernization systems being placed into production without a disaster recovery capability;
- Insufficient disaster recovery capacity;

- Roles and responsibilities not assigned and employees not trained; and
- Annual tests not conducted or ineffective.

Also, 27 of 44 corrective actions for prior recommendations were not completed and insufficient management oversight hampered the identification and resolution of program weaknesses. However, management's efforts to correct these problems have also been limited, in part, by shrinking budgets. IRS management agreed with the report recommendations and will declare the Disaster Recovery Program a material weakness.

Report Reference No. 2005-20-024

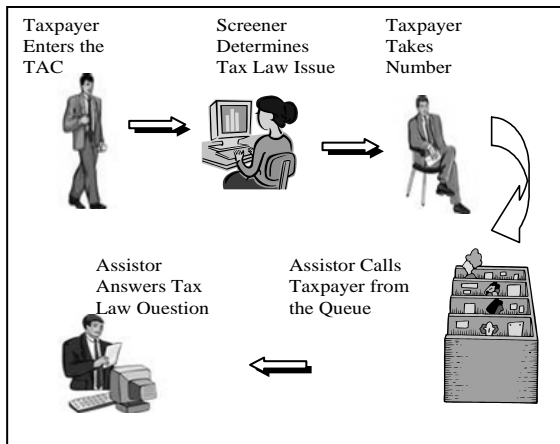
IRS employees have become more cognizant of security risks inherent in their daily activities. However, a hacker or disgruntled employee may still be able to obtain usernames and passwords to gain unauthorized access to IRS systems. We placed telephone calls to 100 managers and employees posing as Information Technology helpdesk personnel trying to correct a network problem. Under this scenario, we convinced 35 managers and employees to provide their user account names and passwords. While our results represent a 50 percent improvement over a similar test conducted in August 2001, additional security awareness and emphasis are needed to reinforce IRS employees' security responsibilities. IRS management agreed with our recommendations and proposed corrective actions.

Report Reference No. 2005-20-042

## Providing Quality Customer Service Operations

Helping people understand their tax obligations and making it easier for them to participate in the tax system is the first step toward compliance. Taxpayers have several options when they need IRS assistance, including face-to-face assistance at the Taxpayer Assistance Centers (TAC), toll-free telephone numbers, and Internet access through the IRS Web site (IRS.gov). The quality of each of these services influences a taxpayer's ability and desire to comply voluntarily with tax laws.

### Customer Service at TACs



The IRS is improving customer service for taxpayers that visit the TACs to ask tax law questions, but more improvement is needed for the IRS to provide top-quality customer service. Although the accuracy of responses to tax law questions increased by 24 percent, based on the audit work we completed from January 2002 through April 2004, the IRS did not meet its 80 percent accuracy goals for FYs 2003 and 2004, and it showed nominal improvement in decreasing the number of

incorrect responses. We believe the IRS will not achieve its accuracy goal if employees continue to answer tax law questions without using the tools provided by IRS management, and if the IRS does not implement an effective quality review program. Because we have issued similar recommendations in previous reports, we did not make recommendations in this report. Report Reference No. 2005-40-021

As for customer service provided via the Internet, the IRS redesigned its Web site in 2002. The IRS decentralized responsibility for current and future Web content to its various operating divisions and functions. In addition, the IRS developed and issued guidelines in this area on September 30, 2002, and implemented software to allow authorized users to directly manage Internet content.

A large portion of the content on the IRS Web site is relevant to approximately 121 million individual taxpayers whose income is derived from wages and investments yielding interest, dividends, or capital gains. The IRS Wage and Investment (W&I) Division serves these individual taxpayers and is responsible for ensuring all information pertaining to these taxpayers is accurate and current. The W&I Division proactively developed specific procedures for employees to follow in publishing content on IRS.gov. However, improvements are needed to ensure this content is current and accurate. Sufficient management controls are not in place to ensure only authorized individuals have access to IRS.gov content and all content is tracked and reviewed prior to posting. In addition, key quality assurance procedures are not always followed to ensure the IRS responds to taxpayers who

notify them of Web site errors, and employees follow procedures for reviewing content changes and documenting annual certifications. We recommended the IRS develop a process to ensure only authorized personnel have access to IRS.gov content and all procedures are followed. IRS management agreed with these recommendations.  
Report Reference No. 2005-40-026

Also in the area of customer service via the Internet, the IRS has made significant progress in attracting taxpayers to electronically file their tax returns (*e-file*).<sup>8</sup> In addition the number of taxpayers participating in *e-file* has increased from approximately 19 million in 1997 to 60.5 million in 2004.<sup>9</sup> However, opportunities exist to improve tax software packages used to prepare and process *e-filed* tax returns.

The IRS uses electronic file specifications to program its computers that prepare and process *e-filed* tax returns. The IRS appropriately updated these specifications with TY 2003 tax law provisions. However, inaccurate programming specifications used to program and process TYs 2001 and 2002 tax returns caused systemic errors in some software used to *e-file* certain tax returns. The IRS tests all tax return preparation software used to *e-file* individual tax returns, but the tests are not created to check for misapplication of the tax law. Four out of the five TY 2003 tax return preparation software packages tested incorrectly prepared tax returns based on facts we presented in the

tests. In addition, the tax software packages' own internal validity checks did not identify the errors.

We recommended the IRS develop procedures to ensure electronic file specifications are reviewed for accuracy and consistency, and conduct additional testing on any selected tax return preparation software before being used by its employees and volunteers to prepare tax returns. The IRS agreed with our recommendation on file specifications. However, the IRS believes it would not be feasible to perform additional software testing without impeding its availability to IRS employees and volunteers and delaying tax return processing. In addition, the IRS cannot contractually require software developers to place their products under the IRS' process for more stringent testing.

Report Reference No. 2005-40-025

## Erroneous Payments

The IRS has historically experienced problems by making erroneous payments involving the Earned Income Tax Credit (EITC). EITC is a refundable credit designed to help move low-income taxpayers above the poverty level. During 2003, over 21 million taxpayers received the EITC, totaling almost \$37 billion. The IRS estimated that 27 to 32 percent of the EITC claimed on TY 1999 returns should not have been paid.

The IRS has initiated several programs to attempt to improve compliance with the EITC. We reviewed one initiative, the EITC Recertification Program, to determine if actions taken in response to a prior TIGTA

<sup>8</sup> *E-file* is a way to electronically file a tax return with the IRS using an authorized *e-file* provider or personal computer.

<sup>9</sup> As of August 1, 2004.

report were effective. The IRS did take some corrective actions, such as solving a programming problem we identified. This corrective action allowed over 21,000 taxpayers to correctly receive more than \$4.7 million in EITC. However, many of the actions taken were ineffective, incomplete, or inaccurate. We still identified taxpayers not receiving the EITC, taxpayers not timely receiving refunds, taxpayers subjected to unnecessary examinations, unclear or confusing communications, and loss of Federal Government funds. For instance:

- Approximately 51,000 taxpayers received more than \$110 million of EITC without demonstrating entitlement;
- Over 10,000 taxpayers were improperly denied almost \$21 million;
- Over 3,200 taxpayer accounts had refunds totaling approximately \$4 million incorrectly suspended for an average of 1 year; and
- The IRS sent taxpayers approximately 850,000 letters or electronic messages that did not clearly or accurately communicate the EITC recertification requirements.

IRS management generally agreed with our recommendations to help improve the application and administration of the EITC Recertification Program.

**Report Reference Nos. 2005-40-015 and 2005-40-039**

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

Overall, the IRS had a successful 2004 Filing Season. Through May 2004, the IRS had processed over 117 million returns (including over 60 million processed electronically – an increase of nearly 16 percent over last year). Most of these returns were processed accurately and timely. In addition, the IRS reported that the number of free file and on-line filings from home computers increased by 25 percent (3.5 million) and 22 percent (14.4 million), respectively, compared to last year. The IRS correctly implemented key tax law changes that affected TY 2003 returns, and provided taxpayers serving in a combat zone the benefits and special treatment to which they are entitled. Such benefits include extensions of time to file tax returns or pay taxes and the suspension of any audit or collection activities. The IRS also accurately processed returns claiming the Health Coverage Tax Credit (HCTC), which was established to help certain displaced workers and retirees pay for their health insurance.

However, not all tax law changes have been effectively implemented, and these continuing issues could result in a loss of taxpayer entitlements or erroneous tax reductions. We estimated almost 5,000 taxpayers continued to receive more than \$3 million in erroneous deductions for student loan interest while over 286,000 taxpayers had potential unclaimed Additional Child Tax Credits (ACTC) amounting to approximately \$152 million.

Almost 17,000 single taxpayers were allowed questionable “dual benefits” of approximately \$30 million for the tuition and fees deduction and \$11 million for the Education Credit. We also identified some processing improvements needed to aid the administration of Combat Zone and HCTC provisions.

We recommended the IRS ensure computer programs accurately identify and correct errors on returns, ensure a computer change is made to continue to identify taxpayers that appear eligible for, but do not claim, the ACTC, and strengthen controls to identify and prevent erroneous tax reductions during initial tax return processing. We further recommended the IRS add a specific line for the HCTC to the Individual Income Tax Return (Form 1040), transcribe information from the Health Coverage Tax Credit (Form 8885) attachment to Form 1040, and implement pre-refund systemic validity and compliance checks. Lastly, we recommended the IRS ensure Combat Zone indicators on its Master File are accurate, updated timely, and verified annually.

**Report Reference Nos. 2005-40-016 and 2005-40-017**

In a separate audit report, related to processing returns, we addressed the inconsistent treatment of taxpayers who become subject to the Failure to Pay (FTP) tax penalty. IRS computers are programmed to charge interest on accrued FTP tax penalties only after they are assessed. This shortcoming applies to the automated administration of the FTP tax penalty for taxpayer accounts (the majority of FTP tax penalty cases). By not periodically assessing penalties, the IRS is forgoing interest charges of more than

\$4.5 billion for a 5-year period, of which we estimated more than \$1.8 billion could be collected.

In contrast, for accounts that are manually administered, some of which belong to taxpayers in disaster areas or military combat zones, interest is assessed on the FTP tax penalty. The FTP tax penalties on these accounts are computed manually because IRS computers are not programmed to handle their complex or varying tax issues. Because FTP tax penalties are periodically assessed on these accounts, interest is charged on the penalties from the time of their assessment. For CYs 2001 and 2002, we estimated over 126,000 of these accounts contained more than \$8.7 million in interest charges through December 31, 2003, even though taxpayers with accounts handled by computer never incur these interest charges.

To ensure all taxpayers are treated equitably and all monies owed the Federal Government are correctly assessed, we recommended the IRS make programming changes to assess accrued FTP tax penalties on a periodic basis. We also recommended the IRS work with the Department of the Treasury to request clarifying legislation regarding the need for separate notices to be issued to taxpayers in these cases. IRS management generally agreed with our recommendations and is taking steps to address this issue.

**Report Reference No. 2005-30-052**

## Human Capital

The Department of the Treasury implemented a human resources management system called HR Connect, based on promising capabilities and the belief that it offered a cost-effective solution for the Department and its bureaus' redundant, expensive, and inefficient human resources systems. However, some of the original program features and cost/benefits were changed or eliminated. The business case analyses submitted to the Office of Management and Budget (OMB) were not consistent and did not include complete information on systems that were to be replaced. The Department and the IRS incurred unexpected costs for maintaining software and systems that were to be replaced, incurred additional costs for modifying the HR Connect system, and scaled back expectations for system capabilities.

### Treasury HR Connect Log-In Screen

The HR Connect Program Office did not provide adequate oversight of the contractor and major portions of the system implementation. The costs to implement and operate similar software at other Federal Government agencies were significantly lower. The Department of the Treasury paid \$173 million to implement HR Connect, while similar human resource systems at the Coast Guard and the United States Department of Agriculture cost \$24 million and \$15 million, respectively. The project experienced significant delays, and the Program Office extended the system life cycle from 10 to 15 years to show a higher return on investment. The underlying analysis to support the \$899 million in projected savings was unsubstantiated, especially savings related to staff reassignments or reductions.

We recommended the Department of the Treasury ensure future business case analyses submitted to the OMB explain revisions and impact on the investment, and reevaluate the duties delegated to the contractor to ensure proper oversight. We also recommended the Department of the Treasury identify and monitor custom modifications made to the software, coordinate with other agencies to achieve a more cost-effective model for operating and maintaining the system, properly account for system costs, and assess the likelihood of projected benefits so future decisions are based on correct information. The Department of the Treasury's management agreed with our recommendations and proposed corrective actions to address these problems. Report Reference No. 2005-10-037

In 1999, the IRS and the National Treasury Employees Union agreed to establish the Human Resources Investment Fund (HRIF) to help employees obtain appropriate training to move into IRS critical occupations and improve the skills of the employees currently in these positions. The IRS was required to set aside at least 2 percent of its annual training budget for the HRIF. For FYs 2002 and 2003, the IRS approved more than \$6.1 million and 11,000 courses for 5,100 employees. However, only 46 percent of the \$6.1 million reported as “disbursed” was actually spent. Additionally, the IRS did not maintain adequate records to track participants, which prevented it from assessing this program. As a result, the IRS did not know whether employees passed or failed the courses or whether the IRS should seek reimbursement from employees for failed or uncompleted courses.

The program’s efficiency is also questionable since its administrative costs exceeded the actual tuition paid. For

FYs 2002 and 2003, the IRS paid approximately \$4.4 million to administer the program, but paid only \$2.8 million in employee tuition assistance. The IRS could use other existing processes to allocate tuition assistance more effectively and better accomplish the intended objectives of the HRIF. The IRS could use its new automated training system of record, the Enterprise Learning Management System, to track the success of these initiatives.

We recommended the IRS request reimbursement from employees who failed or did not complete approved courses, as appropriate. We also recommended the IRS consider eliminating the HRIF and redesign its approach to providing tuition assistance, which could save more than \$2 million in annual administrative costs. While they disagreed with the estimated annual savings, IRS management agreed with the recommendations and proposed corrective actions to address the problems identified in the report.

Report Reference No. 2005-10-070



THE "SEALING ROOM" OF THE TREASURY BUILDING - WHERE THE U.S. SEAL WAS IMPRINTED ON BANK NOTES, 1910



## PROTECT THE INTEGRITY OF TAX ADMINISTRATION

**T**IGTA's Office of Investigations (OI) helps protect the ability of the IRS to collect revenue for the Federal Government. To do this, we investigate allegations of criminal violations and serious administrative misconduct by IRS employees, protect the IRS against external attempts to corrupt tax administration, and ensure IRS employee and infrastructure security.

While most Offices of Inspector General focus primarily on fraud, waste and abuse, our mission is more extensive. TIGTA has the statutory responsibility to protect the integrity of tax administration. To achieve this broad mandate, we perform a variety of functions, including:

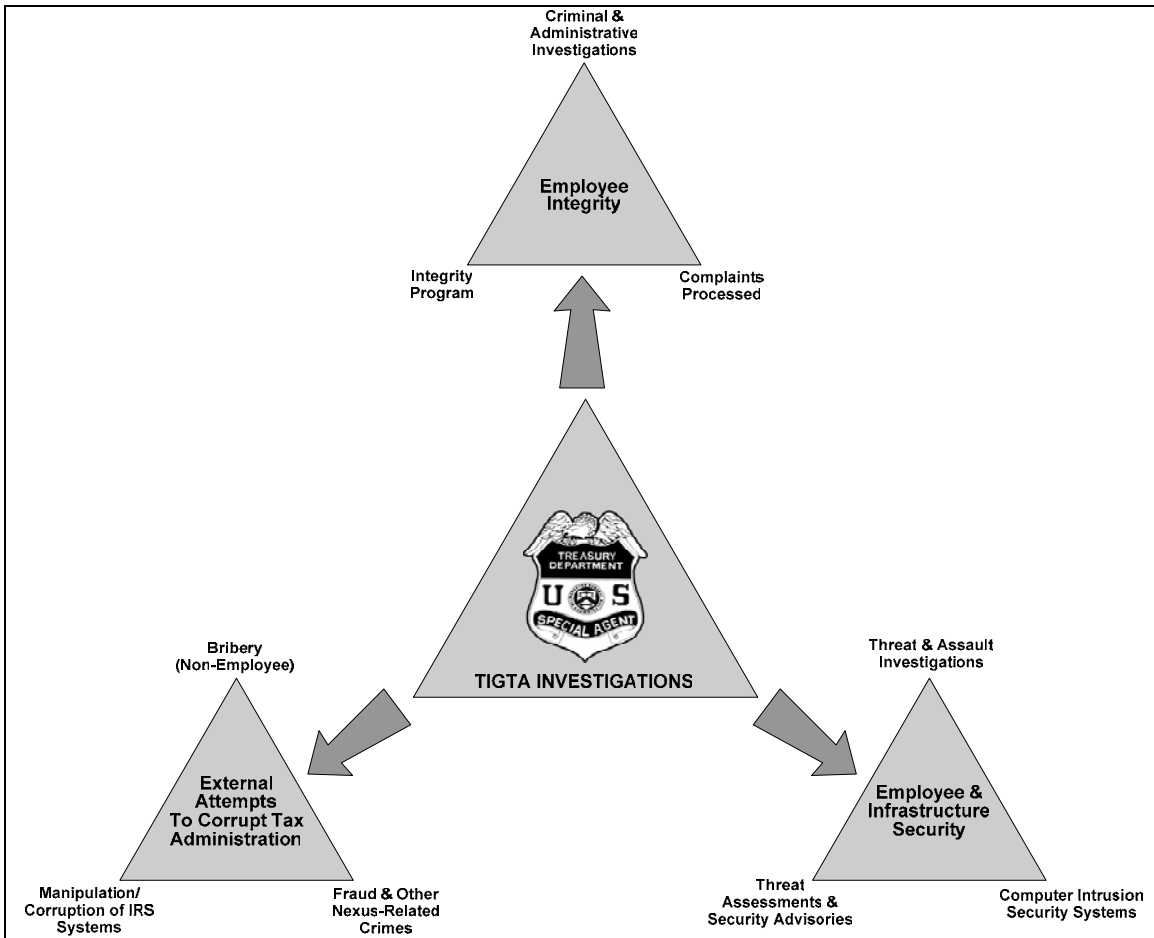
- Investigating allegations of criminal violations that impact Federal tax administration, and serious administrative misconduct by IRS employees;
- Conducting proactive investigative initiatives to detect criminal and administrative misconduct in the administration of IRS programs;
- Conducting integrity and fraud awareness presentations for IRS employees and others, such as tax practitioners and community groups;
- Investigating assaults and threats made against IRS employees, facilities, and information systems;
- Investigating fraud, waste, and abuse involving IRS procurements;

- Operating a national complaint center, including a hotline and Web site, to process complaints of fraud, waste, abuse and misconduct involving IRS employees and programs;
- Operating a Criminal Intelligence Program to manage and coordinate threat information that could impact the security of IRS employees and functions;
- Conducting forensic examinations of physical and electronic evidence to support investigations; and
- Using technical and investigative support equipment, training, and specialized services to enhance investigative operations.

*"...A strong vigorous inspection service will be established and will be made completely independent of the rest of the Bureau. Through a comprehensive system of audits and inspections, this service will keep operations and management of the Bureau under continual scrutiny and appraisal..."*

U.S. President Harry S. Truman  
January 2, 1952  
The White House, Washington, DC  
Announcing the reorganization of the Bureau of Internal Revenue, creating an Inspection Service within the Bureau

## TIGTA INVESTIGATIVE PERFORMANCE MODEL



TIGTA's Office of Investigations (OI) bases its performance measures on three functional areas of accomplishment: employee integrity, infrastructure protection, and external crime. Each of these three areas is subdivided into three categories, all designed to support the agency's law enforcement goals.

Our strategy for ensuring employee integrity, employee and infrastructure protection, and protecting the IRS against external attempts to corrupt tax administration is to focus TIGTA special agents on high impact investigations that protect the ability of the IRS to collect the nation's tax revenue.

## Employee Integrity

The IRS' ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes owed can be undermined by employee misconduct. We investigate employee misconduct allegations, including extortion, theft, taxpayer abuses, false statements, and financial fraud, as well as contractor misconduct and wrongdoing. During the reporting period, we completed 935 employee integrity investigations.

As an integral part of our employee integrity program, we conduct proactive integrity initiatives designed to uncover fraud in IRS operations and to identify internal control weaknesses that may have permitted the fraud to go undetected or unreported. A primary resource used in this effort is our Strategic Enforcement Division (SED). Through SED's data mining capacity, we proactively detect IRS employees who may have improperly accessed and/or disclosed confidential taxpayer information. During this reporting period, our Unauthorized Access (UNAX) Program led to the

initiation of 240 investigations involving apparent unauthorized access of IRS computer systems.

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

### **IRS Agent Arrested for Scheme to Defraud the United States**

In February 2005, an IRS employee was arrested in New Jersey for knowingly defrauding the United States. The employee allegedly managed and controlled the financial affairs of a real estate development and home construction company. Allegedly, the IRS employee diverted proceeds from the sale of real estate to various bank accounts and individuals. As a result, the company and its owner defrauded the United States of taxes owed on approximately \$600,000.

#### **Protecting Taxpayer Identification Information**

To protect the sanctity of taxpayer information, TIGTA conducts proactive initiatives to identify IRS employees who improperly access confidential information and records of taxpayers. Through the identification and prosecution of IRS employees responsible for wrongfully accessing confidential taxpayer information, TIGTA helps minimize opportunities for identity theft by IRS personnel.

### **IRS Tax Examining Assistant Pleads Guilty to Unauthorized Disclosure of Tax Information**

In January 2005, an IRS Tax Examining Assistant pled guilty in Wisconsin to unauthorized disclosure of tax return and return information. In a plea agreement, the IRS employee admitted to willfully disclosing tax information of individuals, including their names, addresses, and social security numbers. The employee disclosed the information to her daughter, who used this information for personal business purposes.

### **IRS Employee Charged with False Statements Involving Improper Accesses of Taxpayer Accounts**

In February 2005, an IRS employee was charged in Michigan with making false statements and witness tampering. Allegedly, the IRS employee improperly accessed 12 individuals' tax accounts and instructed one individual to lie to

investigators if ever questioned about the matter. The employee was also charged with falsely stating to investigators that she did not conduct the accesses and/or contact the individual.

### **Former IRS Contract Employee Sentenced for Stealing More Than \$231,000 from an IRS Lockbox Facility**

In February 2005, a former IRS contract employee was sentenced in Texas for embezzlement, and aiding and abetting. The former contract employee stole and converted more than \$231,000 in tax remittance checks from an IRS lockbox. The individual deposited the remittance checks into bank accounts in assumed names. The individual was sentenced to 71 months in prison, 3 years' supervised release, and was ordered to pay more than \$194,000 in restitution. Upon release from prison, he will be turned over to U.S. Immigration for deportation proceedings.

#### **TIGTA's Technical and Firearms Support Division and Forensic Science Laboratory**

TIGTA's investigative efforts are greatly enhanced by its Technical and Firearms Support Division and Forensic Science Laboratory. Each of these programs provides technical expertise throughout our investigations. During the reporting period, the Technical and Firearms Support Division provided electronic or surveillance support in 101 investigative requests, while the Forensic Science Laboratory conducted 60 forensic examinations.

### **Two Individuals Arrested for More Than \$1 Million in False Claims**

In January 2005, two individuals were arrested in Maryland for false claims, conspiring to defraud the United States with respect to claims, obstruction of a federal audit, and aiding and abetting. The individuals are alleged to have posed as the president and vice president of a corporation contracted to plan, manage, and coordinate the IRS' nationwide tax forums. Allegedly, the individuals created fictitious invoices and documents to support underreported income and overreported expenses to the IRS, resulting in the IRS' payment of more than \$1 million in management fees. The individuals are also alleged to have failed to provide records subpoenaed by TIGTA's Office of Audit.

### **Employee and Infrastructure Security**

The IRS collected \$2 trillion in revenue for the Federal Government in Calendar Year 2004. This revenue is used to fund Federal programs related to housing, health care, clean air, national defense, social security, highways, and more. Threats and assaults against IRS employees, facilities, and data infrastructure impede the IRS' efforts to collect tax revenue.

Recognizing the vital nature of the IRS' responsibility, the Congress directed TIGTA to protect the IRS from external threats. To meet this challenge, we operate a nationwide Criminal Intelligence Program (CIP) designed to identify and neutralize threats, assaults, and violent acts targeted against IRS facilities, employees, and operations. As part of the Program, TIGTA participates in FBI Joint Terrorism Task Forces throughout the country and assists the IRS in developing and enhancing its employee safety and infrastructure security programs. During this reporting period, we completed 162 investigations of threats and assaults directed at IRS employees and facilities, and issued 199 advisories notifying IRS management of potential threats.

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

### **Individual Convicted for Soliciting to Murder an IRS Employee**

In January 2005, an individual in Idaho was found guilty on three counts of solicitation to commit a crime of violence. The individual solicited another individual to murder an IRS Special Agent, an Assistant United States Attorney, and a Federal Judge who were assigned to the individual's Federal tax violations.

### **Individual Arrested for Threatening to Mail a Bomb to an IRS Revenue Officer**

In December 2004, an individual was arrested in Michigan for corruptly interfering with the due administration of internal revenue laws. The individual allegedly threatened to mail a bomb to an IRS Revenue Officer who was performing his official duties.

### **Criminal Complaint Filed Against an Individual Charging Him with Threats Against Public Officials and Others**

In February 2005, a criminal complaint was filed in Maine charging an individual with: knowingly and willfully making a threat to kill the President of the United States; knowingly making threats via electronic mail to injure members of a research institute; and knowingly making threats via electronic mail to injure agents of the IRS. The individual was also charged with knowingly depositing or causing to be deposited in the United States mail a written communication containing threats to injure a person, namely IRS agents; and knowingly making threats via electronic mail to injure an employee of a television station.

### **Individual Charged with Assaulting IRS Employees**

In March 2005, an individual was indicted in California for assaulting a Revenue Officer resulting in the infliction of bodily injury. Allegedly, the individual used

force to assault and interfere with two IRS employees while they were engaged in the performance of their official duties, resulting in the infliction of bodily injury to one IRS employee.

### **External Attempts to Corrupt Tax Administration**

TIGTA is dedicated to investigating external attempts to corrupt or interfere with the administration of internal revenue laws. Examples of these attempts include bribes offered by taxpayers to compromise IRS employees, the use of fraudulent IRS documentation to commit crimes, impersonation of IRS officials, and the corruption of IRS programs through procurement fraud. External attempts to corrupt tax administration impede the IRS' ability to collect revenue.

Bribery investigations are an important priority for us. With the IRS planning to increase revenue collection from delinquent taxpayers, more attempts by taxpayers to bribe IRS employees involved in those collection activities may occur. Since October 1, 2004, we have conducted 21 investigations into bribery allegations involving taxpayers. In addition, we conducted 60 investigations of attempts to manipulate or corrupt IRS systems and operations, and 233 investigations into fraud and other related activities.

### **Procurement Fraud Program**

The Procurement Fraud Section (PFS) within TIGTA's Special Inquiries and Intelligence Division (SIID) is dedicated to the identification and investigation of procurement fraud within the IRS. The PFS achieves its goals through proactive and reactive investigations, fraud awareness presentations, proactive investigative initiatives, data analyses, and liaisons. These activities, while labor intensive, relate directly to TIGTA's core mission of preventing external attempts to corrupt the IRS's ability to effectively administer the tax laws.

The IRS has also placed special emphasis on technology modernization and outsourcing. To accomplish its modernization program, the IRS will continue to rely heavily on contractor support. With IRS procurement expenditures and commitments in the billions of dollars over the life of current contracts, the opportunity for contract fraud is always present. We have established a Procurement Fraud Section (PFS) to identify procurement fraud, prosecute the responsible individuals, and recover monies owed to the Federal Government. During this reporting period, results of the PFS have been impressive, with more than \$1.5 million in recoveries and nine fraud awareness presentations made to 179 individuals.

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

### **Individuals Found Liable for More Than \$1.5 Million for False Claims Submitted to the IRS**

In Fall 2004, a husband and wife were held jointly liable in Maryland for violating the Civil False Claims Act. According to the Court, the husband owned and controlled two companies – one that acted as a subcontractor, the other as a middleman – on an IRS contract to repair laptop computers. The husband vastly inflated his company's costs, causing the prime contractor to submit overpriced invoices for services to the IRS. The wife sat on the Board of Directors of each company. The Court found treble damages in excess of \$1.2 million and assessed an additional \$220,000 in civil penalties, for a total award of more than \$1.5 million to the government.

### **Tax Accountant Sentenced for Wire Fraud Involving a Tax Liability**

In January 2005, a tax accountant was sentenced in Pennsylvania for wire fraud. The tax accountant negotiated an IRS

installment agreement on behalf of one of his clients. The tax accountant instructed his client to wire him payments so he could forward them to the IRS. He did not forward the payments to the IRS, but converted more than \$148,000 for his own use. The tax accountant was sentenced to 37 months in prison, 3 years' supervised release, and ordered to pay \$95,400 in restitution.

### **Individual Pleads Guilty to Impersonating an IRS Employee**

In February 2005, an individual pled guilty in New Jersey to impersonating an IRS employee. An IRS Revenue Officer issued a notice of levy of funds to a business where the individual was a subcontractor. The levy was for a tax liability of more than \$46,000 owed by the individual. The individual called the business owner, purporting to be the IRS Revenue Officer, and falsely advised the business owner that the levy had been released. To confirm the phone call, the individual faxed a false letter (again, purportedly from the IRS Revenue Officer) to the business owner.

### **Individual Sentenced for Bribing an IRS Employee**

In January 2005, an individual was sentenced in New York for bribery. The individual paid an IRS employee \$10,000 in cash to assess no additional taxes for her CY 2000 and 2002 tax returns. The individual also made a \$5,000 payment to the IRS employee to reduce her 2001 tax liability from \$37,000 to approximately \$5,000.

### **Individual Sentenced for Theft of IRS Grant Funds**

In January 2005, an individual was sentenced in Ohio for theft of government property. The individual, representing himself as the finance director of a nonprofit organization, falsely obtained more than \$16,800 in IRS grant funds under the Tax Counseling for the Elderly Program. The individual was sentenced to 4 months' home confinement, 3 years' probation, 100 hours of community service, and ordered to pay \$18,675 in restitution.

*“There is no crime more serious than bribery. Other offenses violate one law while corruption strikes at the foundation of all law.”*

U.S. President Theodore Roosevelt  
December 7, 1903  
The White House, Washington, DC



**Individual Pleads Guilty to Interfering  
with the Administration of Internal  
Revenue Laws**

In January 2005, an individual pled guilty in North Carolina to interfering with the administration of internal revenue laws, and aiding and abetting. The individual

fraudulently represented himself as an attorney and assisted others in filing fraudulent tax returns. The individual also filed fictitious arrest warrants against the IRS agents investigating the case, and advised three different witnesses not to appear before a Federal grand jury.



VIEW OF F STREET WITH TREASURY BUILDING IN BACKGROUND, 1920

## SPECIAL ACHIEVEMENTS

### TIGTA Receives Telework Award

TIGTA has once again received an award for its Telework program. We received the Leadership in Specialized Programs for Teleworkers Award for our Hoteling initiative from the Potomac Forum. The award presentation took place at Potomac Forum's Telework in the Federal Government Conference on October 13, 2004. Joseph Hungate, TIGTA's Assistant Inspector General for Information Technology, a featured speaker at the conference, discussed recommendations for success, best practices, and lessons learned.



### TIGTA Liaison Receives Recognition



Luis Garcia (left) receives gift plaque from Ambassador Hong

Luis D. Garcia, TIGTA's Congressional and Media Liaison, received an appreciation plaque on March 14, 2005, from the Korean Ambassador to the United States, the Honorable Seok-Hyun Hong. The plaque, signed by the Commissioner of the Korean National Tax Service, was given to Mr. Garcia for his work in helping to foster international cooperation and promote best practices in tax administration.

# AUDIT STATISTICAL REPORTS

## Audit Reports With Questioned Costs

One audit report with questioned costs was issued during this semiannual reporting period.<sup>1</sup> The phrase “questioned cost” means a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding, at the time of the audit, that such cost is not supported by

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

REPORTS WITH QUESTIONED COSTS			
REPORT CATEGORY	NUMBER	QUESTIONED COSTS (IN THOUSANDS)	UNSUPPORTED COSTS (IN THOUSANDS)
1. Reports with no management decision at the beginning of the reporting period	5	\$707	\$684
2. Reports issued during the reporting period	1	\$245	\$0
3. Subtotals (Item 1 plus Item 2)	6	\$953 <sup>2</sup>	\$684
4. Reports for which a management decision was made during the reporting period <sup>3</sup>			
a. Value of disallowed costs	2	\$14	\$0
b. Value of costs not disallowed	1	\$3	\$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	4	\$936	\$684
6. Reports with no management decision within 6 months of issuance	3	\$691	\$684

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

<sup>2</sup> Difference due to rounding.

<sup>3</sup> IRS management disallowed only part of the questioned costs for one report (Reference No. 2004-10-117).

## Audit Reports With Recommendations That Funds Be Put To Better Use

Four reports with recommendations that funds be put to better use were issued during this semiannual reporting period.<sup>1</sup> The phrase “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in

pre-award reviews of contract agreements; (5) preventing erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; or (6) any other savings which are specifically identified. The phrase “management decision” means the evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions concluded to be necessary.

<b>REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</b>		
<b>REPORT CATEGORY</b>	<b>NUMBER</b>	<b>AMOUNT (IN THOUSANDS)</b>
1. Reports with no management decision at the beginning of the reporting period	4	\$345,256
2. Reports issued during the reporting period	4	\$28,124
3. Subtotals (Item 1 plus Item 2)	8	\$373,379 <sup>2</sup>
4. Reports for which a management decision was made during the reporting period		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	6	\$68,910
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree <sup>3</sup>	1	\$9,770
5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)	2	\$294,700
6. Reports with no management decision within 6 months of issuance	2	\$294,700

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

<sup>2</sup> Difference due to rounding.

<sup>3</sup> In one report (Reference No. 2004-30-171) IRS management agreed to a portion of the value of the recommendations. TIGTA concurs with the revised figure.

## Reports With Additional Quantifiable Impact On Tax Administration

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

Definitions of these additional measures are:

### **Taxpayer Rights and Entitlements at Risk:**

The protection of due process rights granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise when filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds (entitlements) are also included in this category, such as when taxpayers legitimately assert that they overpaid their taxes.

### **Reduction of Burden on Taxpayers:**

Decreases by individuals or businesses in the need for, frequency of, or time spent on contacts, record keeping, preparation, or costs to comply with tax

laws, regulations, and IRS policies and procedures.

**Increased Revenue:** Assessment or collection of additional taxes.

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

### **Taxpayer Privacy and Security:**

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

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

### **Protection of Resources:**

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

**Reliability of Management**

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

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

REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION					
OUTCOME MEASURE CATEGORY	NUMBER OF REPORTS <sup>1</sup>	NUMBER OF TAXPAYER ACCOUNTS	NUMBER OF HOURS	DOLLAR VALUE (IN THOUSANDS)	OTHER <sup>2</sup>
Taxpayer Rights and Entitlements at Risk	5	323,411		\$1,112,426 <sup>3</sup>	
Reduction of Burden On Taxpayers	4	90,042	50,000		*
Increased Revenue	5	9,904,015		\$12,023,990 <sup>4</sup>	
Revenue Protection	1	21,929		\$3,310	
Taxpayer Privacy and Security	1	14			
Inefficient Use of Resources	3			\$54,349 <sup>5</sup>	
Protection of Resources	0				
Reliability of Management Information	3	14 <sup>6</sup>		\$681,408 <sup>7</sup>	

<sup>1</sup> See Appendix II 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 footnote marked \* below.

<sup>3</sup> In one report (Reference No. 2005-30-022), IRS management did not agree with the \$855 million in reported benefits to taxpayers because the IRS does not believe that they are obligated to file returns on the taxpayers’ behalf. In a second report (Reference No. 2005-40-039), IRS management did not agree with the methodology used to calculate the projected \$20.8 million of Earned Income Tax Credit improperly denied.

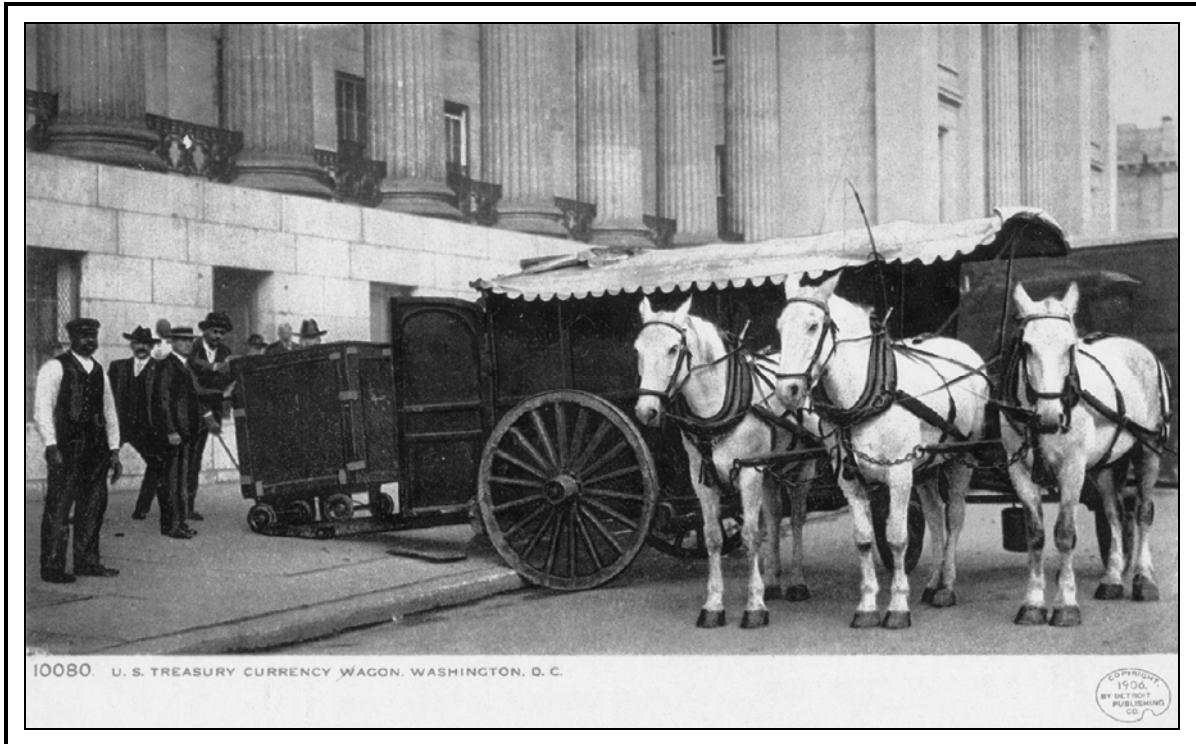
<sup>4</sup> In three reports (Reference Nos. 2005-30-029, 2005-30-048, and 2005-30-053), IRS management did not concur with TIGTA’s estimates of increased revenue totaling \$538.4 billion

<sup>5</sup> In three reports (Reference Nos. 2005-20-004, 2005-10-037, and 2005-10-070), IRS management did not agree with the \$54.3 million in inefficient use of resources.

<sup>6</sup> In one report (Reference No. 2005-40-018), IRS management believes that the Customer Accuracy measure should not include the 14 potential disclosure errors.

<sup>7</sup> In one report (Reference No. 2005-10-037), IRS management asserted that they established an adequate basis for the \$680 million in projected costs savings.

\*Other measures of taxpayer burden consist of 8,637 notices with unclear explanations (Reference No. 2005-40-015) and 480,000 communications to taxpayers which were incomplete, inaccurate, or unclear (Reference No. 2005-40-039).



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CURRENCY WAGON, EAST SIDE OF TREASURY BUILDING, 1904



## INVESTIGATIONS STATISTICAL REPORTS

### Complaints/Allegations Received By TIGTA

Against IRS Employees:	2,337
Against Non-Employees:	1,492

TOTAL COMPLAINTS/ ALLEGATIONS:	3,829
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### Investigations Opened And Closed

Total Opened:	1,700
Total Closed:	1,654

### Status Of Complaints/Allegations Received By TIGTA

Investigations Initiated:	1,275
In Process Within TIGTA: <sup>1</sup>	244
Referred to IRS for Action:	307
Referred to IRS for Information:	1,004
Referred to a Non-IRS Entity: <sup>2</sup>	6
Closed/No Referral:	804
Closed/All Actions Completed:	189

TOTAL COMPLAINTS/ ALLEGATIONS:	3,829
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### Financial Accomplishments

Embezzlement/Theft	
Funds Recovered:	\$ 11,416
Court Ordered Fines, Penalties and Restitution:	\$1,937,348
Out-of-Court Settlements:	\$ 0

TOTAL FINANCIAL ACCOMPLISHMENTS:	\$1,948,764
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<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: The IRS made 59 referrals to TIGTA that would more appropriately be handled by the IRS and, therefore, were returned to the IRS. These are not included in the total complaints/allegations shown above.

<b>STATUS OF CLOSED CRIMINAL INVESTIGATIONS</b>			
<b>CRIMINAL REFERRALS<sup>1</sup></b>	<b>EMPLOYEE</b>	<b>NON-EMPLOYEE</b>	<b>TOTAL</b>
Referred – Accepted for Prosecution	41	90	<b>131</b>
Referred – Declined for Prosecution	368	238	<b>606</b>
Referred – Pending Prosecutorial Decision	37	59	<b>96</b>
<b>TOTAL CRIMINAL REFERRALS</b>	<b>446</b>	<b>387</b>	<b>833</b>
No Referral	501	358	<b>859</b>

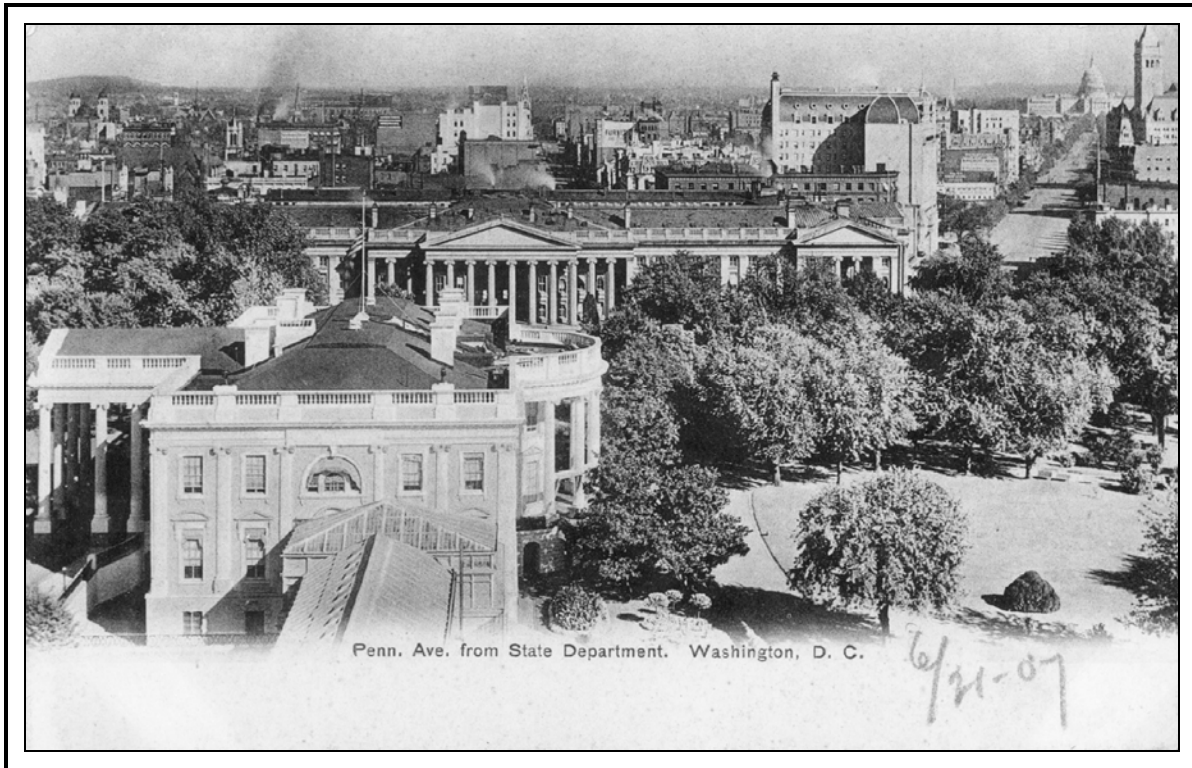
<sup>1</sup> Criminal referrals include both Federal and State dispositions.

<b>CRIMINAL DISPOSITIONS<sup>1</sup></b>			
	<b>EMPLOYEE</b>	<b>NON-EMPLOYEE</b>	<b>TOTAL</b>
Guilty	18	74	<b>92</b>
Nolo-Contendere (no contest)	1	0	<b>1</b>
Pre-trial Diversion	7	19	<b>26</b>
Deferred Prosecution	1	9	<b>10</b>
Not Guilty	0	1	<b>1</b>
Dismissed	1	10	<b>11</b>
<b>TOTAL CRIMINAL DISPOSITIONS</b>	<b>28</b>	<b>113</b>	<b>141</b>

<sup>1</sup> This chart includes statistics on final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.

<b>ADMINISTRATIVE DISPOSITION ON CLOSED TIGTA INVESTIGATIONS<sup>1</sup></b>	
Removed, Terminated or Other	204
Suspended/Reduction in Grade	65
Oral or Written Reprimand/Admonishment	71
Closed – No Action Taken	129
Clearance Letter Issued	112
Employee Resigned Prior to Adjudication	85
<b>TOTAL ADMINISTRATIVE DISPOSITIONS</b>	<b>666</b>

<sup>1</sup>This chart includes statistics on final administrative dispositions during the reporting period. This data may pertain to investigations referred administratively in prior reporting periods and does not necessarily relate to the investigations closed in the Investigations Opened and Closed statistics on page 35.



ROOFTOP VIEW OF WEST FAÇADE, TREASURY BUILDING,  
WHITE HOUSE IN FOREFRONT, 1907

## APPENDIX I - STATISTICAL REPORTS - OTHER

### Audit Reports With Significant Unimplemented Corrective Actions

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

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
093602	April 1999	10/01/05	<i>The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits</i>  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.
2000-30-059	March 2000	05/15/05 05/15/05	<i>The Internal Revenue Service Can Improve the Estate Tax Collection Process</i>  F-2, R-2, P-1. Develop procedures to periodically reconcile tax liens on the ALS with information shown on the taxpayer accounts. F-2, R-3, P-1. Clarify procedures to employees that all estate tax liens should be recorded on the ALS.
2000-30-130	September 2000	10/15/05	<i>Opportunities Exist to Enhance the International Field Assistance Specialization Program</i>  F-2, R-1, P-1. Improve the management information system by linking the International Field Assistance Specialization Program indicator to specific issues listed in the International Case Management System.
2000-30-162	September 2000	11/15/06	<i>The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations</i>  F-1, R-2, P-1. Provide additional computer programming enhancements to improve the value of litigation transcripts.
2001-10-027	January 2001	09/15/05	<i>Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program</i>  F-1, R-1, P-1. Upgrade the automated case management system to provide more timely and accurate data on case activities and the use of program resources.
2001-20-043	February 2001	06/01/06	<i>Electronic Signature Initiatives Could Be Better Defined and Evaluated</i>  F-1, R-2, P-1. Ensure that all operational alternative signature initiatives comply with the requirements.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2001-30-052	March 2001	05/15/05 05/15/05 01/01/07	<b><i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i></b>  F-1, R-1, P-1. Ensure the prior recommendations are implemented. Establishing a formal program with goals, objectives, processes and measures could help ensure that sufficient management attention is devoted to improving the use of the Routine Exchange of Information Program for compliance. F-2, R-1, P-1. Identify the highest risk foreign sourced income documents and use them to coordinate with tax treaty partners to positively identify the U.S. taxpayers involved. F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2002-30-156	September 2002	10/15/05	<b><i>The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers</i></b>  F-1, R-1, P-1. Ensure that the IRS initiate, as proposed in their response to our memorandum dated February 1, 2002, a regularly scheduled program for proposing penalties for Forms W-2 with inaccurate name/SSN combinations.
2002-10-187	September 2002	05/15/05	<b><i>The New Suspension of Interest Provision Is Not Always Calculated Correctly</i></b>  F-2, R-2, P-1. Identify disaster relief taxpayers and refund the amounts that were automatically collected on the under assessed interest.
2003-40-023	November 2002	10/01/05	<b><i>Trends in Customer Service in the Taxpayer Assistance Centers Show Procedural and Training Causes for Inaccurate Answers to Tax Law Questions</i></b>  F-5, R-2, P-1. Explore other options such as the planned remote monitoring by TAC managers, for conducting quality reviews of TAC employees on a regular basis.
2003-20-035	December 2002	06/15/05 06/01/05	<b><i>Additional Cost Savings and Increased Productivity in the Print Operation and Computer Support Function Can Be Achieved at the Campus Locations</i></b>  F-1, R-1, P-1. Increased coordination should be required with users to discontinue printing reports that are currently available in both printed and electronic format and convert additional reports to the EONS. F-2, R-3, P-1. Ensure that managers compare results against performance measure goals and take actions to improve operational efficiency.
2003-20-049	February 2003	06/15/05 12/15/05 10/15/05 10/15/05	<b><i>Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement</i></b>  F-2, R-3, P-1. Ensure that all contractor employees have properly paid their tax obligations. F-2, R-5, P-2. Ensure that personnel in the Real Estate and Facilities area of the Agency-Wide Shared Services are adequately trained regarding the requirements for issuing a contractor employee an IRS identification badge. F-3, R-1, P-1. Ensure that a consolidated or integrated system is implemented to effectively manage all background investigations and identification badges, incorporating the needs of all stakeholders and eliminating the use of stand-alone systems such as the Security Entry Tracking System and the Procurement Background Investigation Program. F-3, R-2, P-1. Ensure that until a single system is implemented, all COTRs are required to use the Procurement Background Investigation Program regardless of their organizational placement, and complete periodic reconciliations between the contractor employee background investigation information and the identification badge information at each IRS facility are conducted to detect the issuance of contractor employee identification badges without completion of required background investigations.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-10-054	March 2003	10/01/07	<i>The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses</i>  F-1, R-3, P-1. Ensure that the ability to record and report trust fund administrative expenses, as currently envisioned in the IFS development plans is properly implemented.
2003-10-094	March 2003	04/15/05	<i>Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected</i>  F-1, R-2, P-1. Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that feedback is provided regarding program effectiveness. Also, analyses of the FDCs' control listing data should be analyzed to ensure reviews are done and accounts are resolved.
2003-20-082	March 2003	02/01/05	<i>Penetration Test of Internal Revenue Service Computer Systems</i>  F-5, R-1, P-1. Apply proper security patches and/or registry settings.
2003-40-139	June 2003	08/15/05	<i>Opportunities Exist to Improve the Administration of the Earned Income Tax Credit</i>  F-1, R-2, P-1. Establish a consistent method to measure progress toward the EITC Program's long-term goals.
2003-20-118	July 2003	06/30/05  12/15/06	<i>Security Over Computers Used in Telecommuting Needs to Be Strengthened</i>  F-1, R-6, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure that sensitive data are being stored and encrypted properly. F-2, R-2, P-1, P-2. Consider installing personal firewall and IDS software on SDI laptop computers and require CSIRC to centrally monitor the generated logs.
2003-30-162	August 2003	P-1: 08/15/05 P-2: 07/15/05 08/15/05  08/15/05	<i>The Regulations for Granting Extensions of Time to File are Delaying the Receipt of Billions of Tax Dollars and Creating Substantial Burden for Compliant Taxpayers</i>  F-1, R-1, P-1, P-2. Revise the tax regulations applicable to individual taxpayers. F-1, R-2, P-1. Consider changing the regulations to eliminate the requirement for taxpayers to file an application with the IRS in order to receive extensions of time to file a tax return. F-1, R-3, P-1. Revise the tax package instructions.
2003-30-176	August 2003	11/15/05	<i>Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure</i>  F-1, R-2, P-1. Gather pertinent information concerning the effect the proposed procedure will have on reducing the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.
2003-40-180	August 2003	07/15/06	<i>More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance</i>  F-2, R-1, P-1. Improve the current management information system process to capture data sufficient to establish baselines and long-term measures and goals.
2003-10-201	September 2003	07/01/05	<i>Lead Development Centers Do Not Significantly Contribute to Increases in Legal Source Cases</i>  F-3, R-1, P-1. Ensure that the data in the LDC database are consistent and issue instructions on how to use the LDC database.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-10-212	September 2003	P-1, P-2: 07/15/05 P-3, P-4: 10/15/05	<b>Information on Employee Training Is Not Adequate to Determine Training Cost or Effectiveness</b>  F-3, R-2, P-1, P-2, P-3, P-4. Ensure the IRS training and financial systems can provide information needed for the IRS to assess its own training efforts.
2003-20-219	September 2003	04/01/05	<b>The Cost and Schedule Estimation Process for the Business Systems Modernization Program Has Been Improved, But Additional Actions Should Be Taken</b>  F-1, R-4, P-1. Ensure that the SEI is requested to conduct an independent review of the cost and schedule estimation system once the initial validation is complete and policies and procedures are fully implemented.
2004-20-001	October 2003	11/15/05	<b>Risks Are Mounting As the Integrated Financial System Project Team Strives to Meet An Aggressive Implementation Date</b>  F-2, R-1, P-1. Ensure the disaster recovery environment is completely built-out and tested.
2004-40-004	October 2003	02/15/06  02/15/06	<b>The Selection of Earned Income Tax Credit Returns for Examination can Be Improved to Further Prevent Payment of Erroneous Claims</b>  F-1, R-1, P-1. Complete an analysis of the historical Dependent Database examination data to determine if there is a relationship between the direct examination time, rules identified, and disposition of examinations. F-1, R-2, P-1. Incorporate a cost benefit analysis into the Dependent Database Risk-Based Scoring Model.
2004-40-013	November 2003	01/01/07  01/01/06	<b>Improvements Are Needed in the Screening and Monitoring of E-File Providers to Protect Against Filing Fraud</b>  F-1, R-2, P-1. Enhance the screening procedures for E-File Providers to include sending scanned fingerprints to the FBI electronically. F-1, R-3, P-1. Enhance the screening procedures for E-File Providers to include verifying that individuals who provide professional certifications in lieu of a fingerprint card are in current standing with the organization to which the professional certification relates.
2004-20-027	January 2004	09/30/05  09/30/05	<b>Inadequate Accountability and Training for Key Security Employees Contributed to Significant Computer Security Weaknesses</b>  F-1, R-1, P-2. Develop a methodology to evaluate system administrators' and security specialists' performance of their roles and responsibilities. F-1, R-2, P-4. Ensure the current effort to identify security training needs will result in appropriate security training for employees with key security duties.
2004-30-038	January 2004	12/15/05	<b>Access to the Toll-Free Telephone System Was Significantly Improved in 2003, But Additional Enhancements Are Needed</b>  F-3, R-1, P-1. Develop an Activity Based Costing system that reliably captures and reports both the total cost and the cost-per-call of providing services on each toll-free product line.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2004-20-063	March 2004	02/01/05 06/30/05	<b><i>Insufficient Contractor Oversight Put Data and Equipment at Risk</i></b>  F-1, R-1, P-3. Ensure the PRIME contractor's access privileges are limited to only those required to accomplish their responsibilities. F-2, R-1, P-1. Ensure COTRs and security administrators carry out their responsibilities to periodically review contractor compliance with established security standards and controls.
2004-30-068	March 2004	02/15/06 07/15/05	<b><i>Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program</i></b>  F-2, R-1, P-1. Develop standard risk-based case selection criteria that would provide minimum requirements and parameters for case selection. F-2, R-2, P-1. Reinforce the importance of case documentation with specific instructions or case models and implement a centralized quality review process.
2004-40-098	May 2004	01/15/06	<b><i>Better Use of the National Account Profile During Returns Processing Can eliminate Erroneous Payments</i></b>  F-2, R-1, P-1. Conduct studies on the accuracy of EITC claims on tax returns for individuals that have been claimed for EITC purposes that are 20 or more years older than the primary taxpayer, or are listed as children that are up to 19 years older than the primary taxpayer.
2004-30-106	June 2004	08/15/05 08/15/05 08/15/05 08/15/05 08/15/05 08/15/05	<b><i>Changes to the Regulations for Granting Extensions of Time to File Corporate Tax Returns Are Needed to Alleviate Significant Problems With Administering the Tax Laws</i></b>  F-1, R-1, P-1. Revise the tax regulations applicable to corporations to eliminate the requirement that corporations make tentative estimates of their tax liabilities to obtain an extension of time to file. F-1, R-2, P-1. Revise the tax regulations applicable to corporations to grant extensions of time to file only to payment-compliant corporations. F-1, R-4, P-1. Revise the tax regulations applicable to corporations to establish safeguards to protect reasonable compliant corporations from unwarranted assessments of the delinquency penalty. F-1, R-5, P-1. Revise the tax regulations applicable to corporations to provide for the assessment of the delinquency penalty on all taxes not paid by the normal tax return due date. F-1, R-7, P-1. Consider changing the regulations to eliminate the requirement that taxable corporations must apply to the IRS to receive extensions of time to file tax returns. F-1, R-8, P-1. Develop a legislative proposal for submission to the Treasury Department to change the Internal Revenue Code to require assessments of the higher interest and Failure to Pay penalties.
2004-30-127	August 2004	01/15/07 06/15/05	<b><i>The Return Delinquency Notice Program Could Be Used More Effectively to Promote Filing Compliance and Reduce the Tax Gap</i></b>  F-2, R-1, P-1, P-2. Reevaluate the administrative dollar tolerance for freezing refunds to determine if it can be reset at a lower level. F-2, R-2, P-1, P-2. Expand the management information reports to provide data for measuring program effectiveness and results and for setting workload selection tolerance levels.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2004-20-129	August 2004	12/31/05	<b><i>The Certification and Accreditation of Computer Systems Should Remain in the Computer Security Material Weakness</i></b>  F-1, R-1, P-2. Keep the certification and accreditation of computer systems as part of the computer security material weakness until a sufficient number of systems has been certified and accredited.
2004-20-135	August 2004	12/15/05 05/15/05 08/30/05	<b><i>The Audit Trail System for Detecting Improper Activities on Modernized Systems Is Not Functioning</i></b>  F-1, R-2, P-1. Ensure alternatives are developed for reviewing audit trails for modernized application in the event the SAAS deficiencies cannot be corrected. F-2, R-1, P-1. Ensure the SAAS operating procedures are fully developed and finalized so that business units can conduct effective and efficient audit trail reviews of modernized applications. F-2, R-2, P-1. Ensure periodic compliance reviews are conducted once the SAAS is functional to ensure the CSIRC and business unit managers carry out their roles and responsibilities to review audit trails.
2004-40-151	August 2004	08/15/05	<b><i>The Effectiveness of the Kiosk Program Cannot Be Determined</i></b>  F-1, R-1, P-1, P-2. Develop guidelines and strategies to enable the efficient and effective oversight of the Kiosk Program.
2004-20-131	September 2004	06/01/05 01/01/06 06/01/05	<b><i>The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness</i></b>  F-1, R-2, P-1, P-2. Continue updating and implementing the Tier 2 eTrust audit trail software on all applicable servers and ensure audit trails are being regularly generated and reviewed. F-2, R-2, P-1. Keep the audit trails area as part of the computer security material weakness until critical applications are removed from Tier 2 unconsolidated UNIX servers or consolidated into a more secure environment. F-2, R-4, P-1. Develop and implement a reasonable approach for reviewing audit trails over major applications.
2004-30-133	September 2004	08/15/05	<b><i>The Controls for Examination Processes for Industry Cases With International Transfer Pricing Issues Can Be Improved</i></b>  F-1, R-1, P-1. Reemphasize the Transfer Pricing Compliance Directive and incorporate it into the Internal Revenue Manual.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2004-20-155	September 2004	<p>10/15/05</p> <p>10/15/05</p> <p>10/15/05</p> <p>10/15/05</p> <p>P-1: 07/15/05 P-2: 11/01/05 P-3: 12/15/05</p>	<p><b><i>Computer Security Roles and Responsibilities and Training Should Remain Part of the Computer Security Material Weakness</i></b></p> <p><u>F-1, R-1, P-1.</u> Keep security roles and responsibilities as part of the computer security material weakness until corrective actions related to recommendations in a previous report have been addressed.</p> <p><u>F-2, R-1, P-1.</u> Complete actions to correct weaknesses regarding segregation of duties and remove this area from the computer security material weakness.</p> <p><u>F-3, R-1, P-1.</u> Keep the security training area as part of the computer security material weakness until all employees with key security responsibilities have been adequately trained.</p> <p><u>F-3, R-2, P-1.</u> Establish a process to identify employees with key security responsibilities, monitor their participation in training courses, and follow up with managers, if necessary.</p> <p><u>F-3, R-3, P-1, P-2, P-3.</u> Ensure employees with key security responsibilities are adequately trained to perform security duties and tasks.</p>
2004-20-158	September 2004	<p>10/15/05</p> <p>01/15/05</p> <p>10/15/05</p> <p>09/01/05</p> <p>10/15/05</p>	<p><b><i>Network Access, System Access, and Software Configuration Should Remain Part of the Computer Security Material Weakness</i></b></p> <p><u>F-1, R-1, P-1.</u> Keep the network access control area as part of the computer security material weakness until the IRS can demonstrate a repeatable process for ensuring router configurations are secure.</p> <p><u>F-1, R-2, P-1.</u> Periodically follow up to ensure the Enterprise Networks organization complies with router standards and has a change management system to document changes to routers.</p> <p><u>F-2, R-1, P-1.</u> Keep any applications and system access as part of the computer security material weakness until the IRS has demonstrated an effective, repeatable process for testing and correcting vulnerabilities.</p> <p><u>F-2, R-4, P-1, P-3.</u> Test operating system access controls on CI, Counsel, and Appeals function systems.</p> <p><u>F-3, R-1, P-1.</u> Keep system software configuration as part of the computer security material weakness until configuration management procedures are implemented and working as intended in the UNIX environment.</p>
2004-10-166	September 2004	<p>01/15/06</p> <p>09/15/05</p>	<p><b><i>The Taxpayer Advocate Service Needs to Improve Case Management to Ensure Taxpayer Problems Are Resolved Timely</i></b></p> <p><u>F-2, R-1, P-1.</u> Alert TAS managers that case advocates are not closing cases after all actions are completed.</p> <p><u>F-3, R-1, P-4.</u> Provide additional guidance to case advocates on communicating with IRS operating divisions to coordinate case resolution and set achievable deadlines for completing Operations Assistance Requests.</p>

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2004-10-182	September 2004	10/15/05 10/01/06 10/15/06	<i>The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually</i>  F-1, R-2, P-1. Justify the funding request for space for anticipated new hires by maximizing the use of existing space to house the new employees and determine the funding request based on anticipated needs. F-2, R-3, P-1. Consider allocating rent funds to the operating divisions to help ensure more efficient use of space and more communication between the facility managers and the local operating divisions; consider incentives and consequences to ensure better cooperation. F-3, R-1, P-1. Require facility managers to report vacancies based on division requirements for telecommuting employees.

## Statistical Reports - Other

### Access to Information

The Inspector General Act of 1978 requires Inspectors General to report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities. As of March 31, 2005, there were no instances where information or assistance requested by the Office of Audit was refused.

### 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 Inspector General disagrees. As of March 31, 2005, there were no reports issued where a significant recommendation was disputed.

### 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, 2005, no significant management decisions were revised.

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

The Inspector General Act of 1978 requires 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, 2005, there were no prior reports where management's response was not received.

### 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 131 proposed regulations and legislative requests during this reporting period.

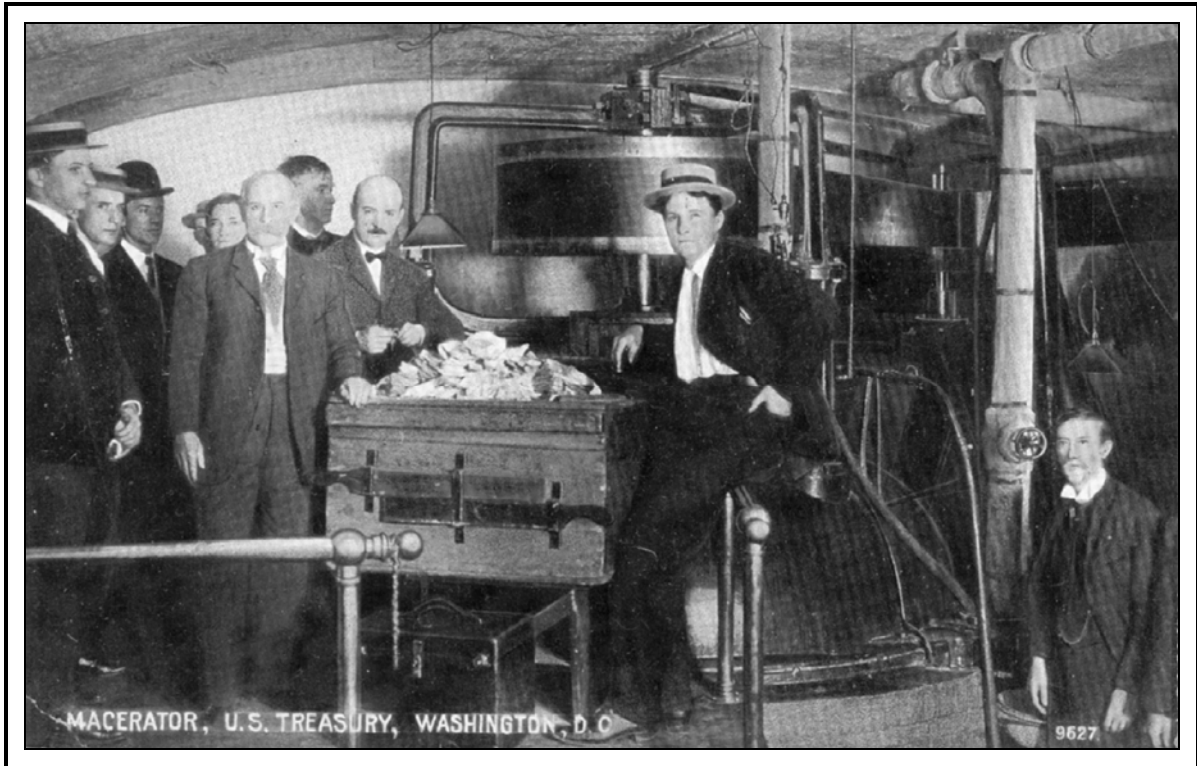
## APPENDIX II - AUDIT PRODUCTS

October 1, 2004 - March 31, 2005

<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
<b>OCTOBER 2004</b>	
2005-40-001	Injured Spouse Guidance Is Not Consistent
2005-1C-002	TIRNO-00-D-00020 and TIRNO-95-D-00066 Cumulative Allowance Cost Worksheet Fiscal Year Ended June 30, 2002
2005-1C-003	Final Vouchers Audit for TIRNO-95-D-00065
2005-10-009	Progress Has Been Made in Improving the Financial Management of Reimbursable Work Authorizations
2005-40-006	Initial Results of the Fiscal Year 2004 Earned Income Tax Credit Concept Tests Provide Insight on Ways Taxpayer Burden Can Be Reduced in Future Tests (Taxpayer Burden: 19,769 taxpayers receiving untimely replies from the IRS or that would not be subjected to the FY 2005 filing status test)
2005-40-008	The Wage and Investment Division's Automated Underreporter Program Effectively Monitored Performance Data to Meet Annual Program Goals
2005-20-004	The Business Systems Development Organization Can Improve Management of Information Services Requests (Funds Put to Better Use: \$20,000; Inefficient Use of Resources: \$3 million) Note: monetary benefit projected over a 5-year period.
2005-40-007	The Wage and Investment Division's Discretionary Examination Program Effectively Monitored Performance Data to Meet Annual Program Goals
<b>NOVEMBER 2004</b>	
2005-30-012	The High Income Taxpayer Strategy Was Effectively Implemented, Although Its Success Still Needs to Be Determined
2005-30-011	Implementation of the Collection Field Function Consultation Initiative Was Carefully Coordinated, but Some Aspects Could Be Enhanced
2005-20-005	To Ensure the Customer Account Data Engine's Success, Prescribed Management Practices Need to Be Followed
2005-30-010	The Internal Revenue Service Is Making Progress in Addressing Compliance Among Small Businesses Engaged in Electronic Commerce
<b>DECEMBER 2004</b>	
2005-30-013	Improvements Are Needed in the Timeliness and Accuracy of Offers in Compromise Processed by Field Offer Groups (Increased Revenue: \$135,000 for 11 taxpayers; Taxpayer Rights and Entitlements: \$5,000 for 1 taxpayer)
2005-20-014	The Internal Revenue Service Should Ensure the Root Causes of Business Systems Modernization Performance Problems Are Successfully Addressed
2005-40-015	Application of the Earned Income Credit Two-Year Ban Could Be More Consistent, Accurate, and Clear to Taxpayers (Taxpayer Burden: 8,637 notices with unclear explanations and 3,235 taxpayers that either may not have understood which years were banned or what was required to recertify; Taxpayer Rights and Entitlements: 384 taxpayers with Earned Income Tax Credit banned in error)

<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
2005-40-017	The Health Coverage Tax Credit Was Accurately Processed During the 2004 Filing Season
2005-40-018	Toll-Free Account Assistance to Taxpayers Is Professional and Timely, and the Quality of Information Provided Has Improved (Taxpayer Burden: 38 incorrect answers; Taxpayer Privacy and Security: 14 calls not authenticated; Reliability of Information: 14 non-authenticated calls not included in the Customer Accuracy measure)
2005-20-019	System Requirements Were Not Adequately Managed During the Testing of the Custodial Accounting Project
2005-10-020	The Exempt Organizations Function's Market Segment Approach Needs Further Development
2005-40-016	The 2004 Filing Season Was Completed Timely and Accurately, but Some Tax Law Changes Have Not Been Effectively Implemented (Revenue Protection: \$3.3 million for 21,929 taxpayers; Taxpayer Rights and Entitlements: \$151.6 million for 286,169 taxpayers)
2005-40-021	Customer Service at the Taxpayer Assistance Centers Is Improving but Is Still Not Meeting Expectations
<b>JANUARY 2005</b>	
2005-40-025	Opportunities Exist to Improve Tax Software Packages
2005-20-027	The Method of Tracking Corrective Actions for Known Security Weaknesses Has Not Been Adequately Developed
2005-20-023	The Modernization Program Is Establishing a Requirements Management Office to Address Requirements Development and Management Problems (Funds Put to Better Use: \$1.25 million)
2005-30-022	Enhancing Internal Controls for the Internal Revenue Service's Excess Collections File Could Improve Case Resolution (Taxpayer Rights and Entitlements: \$931 million for 57 taxpayers)
<b>FEBRUARY 2005</b>	
2005-40-026	Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.gov Need Improvement
2005-20-036	Security Controls for the Counsel Automated System Environment Management Information System Could Be Improved
2005-10-037	The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented (Inefficient Use of Resources: \$41 million; Reliability of Information; \$680 million of overstated benefits)
2005-20-028	The Internal Revenue Service Has Appropriate Processes to Accept Modernization Program Software From Developers
2005-1C-030	Compensation System Audit
2005-1C-031	Report on Follow-Up Audit of Labor Accounting System
2005-1C-032	Report on Application of Agreed-Upon Procedures – Quick Closeout for Contract Number TIRNO-95-D-00065, Delivery Order Number 0015
2005-10-035	Review of the Exempt Organizations Function Process for Reviewing Alleged Political Campaign Intervention by Tax Exempt Organizations
2005-30-029	The Limited Issue Focused Examination Process Has Merit, but Its Use and Productivity Are Concerns (Increased Revenue: \$1.7 billion) Note: monetary benefit projected over a 5-year period.
2005-40-041	Fiscal Year 2005 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns
2005-20-038	Sensitive Data Sent Via Email Is Adequately Protected, but Controls Could Be Streamlined
2005-40-040	Fiscal Year 2005 Statutory Review of Restrictions on Directly Contacting Taxpayers
<b>MARCH 2005</b>	
2005-20-024	The Disaster Recovery Program Has Improved, but It Should Be Reported As a Material Weakness Due to Limited Resources and Control Weaknesses

<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
2005-1C-034	Incurred Cost Audit for Fiscal Year 2000 (Questioned Costs: \$245,116)
2005-40-039	The Earned Income Credit Recertification Program Continues to Experience Problems (Funds Put to Better Use: \$26.5 million affecting 14,800 taxpayers; Taxpayer Rights and Entitlements: \$29.8 million for 36,800 taxpayers; Taxpayer Burden: 17,000 taxpayers unnecessarily audited, 50,000 taxpayers spending an average of 1 hour each to complete unnecessary tax forms, and 480,000 communications to taxpayers that were incomplete, inaccurate or unclear)
2005-20-042	While Progress Has Been Made, Managers and Employees Are Still Susceptible to Social Engineering Techniques
2005-10-051	There Were No Administrative or Civil Actions With Respect to Violations of Fair Tax Collection Practices in Calendar Year 2004
2005-1C-033	Accounting System Deficiencies Found During Incurred Cost Audit
2005-20-050	All Small-Scale Information Technology Projects Should Be Included in the Investment Inventory, and Related Procurement Requisitions Should Be Properly Reviewed and Approved (Reliability of Information: \$1.4 million in project costs not accurately recorded)
2005-30-052	Procedures Regarding the Failure to Pay Tax Penalty Result in Inconsistent Treatment of Taxpayers and Hundreds of Millions of Dollars in Lost Revenue (Increased Revenue: \$1.87 billion for 9.9 million taxpayers) Note: monetary benefit projected over a 5-year period.
2005-10-068	The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan As of December 31, 2004
2005-1C-043	Forward Pricing Indirect Rate Review for Fiscal Year 2003
2005-1C-044	Comprehensive Labor Audit for Fiscal Year 2004
2005-1C-045	Report on Noncompliance With Cost Accounting Standard 410, Allocation of Business Unit General Administrative Expenses to Final Cost Objectives
2005-1C-047	Report on Audit of Direct and Indirect Costs for Contractor's Fiscal Year 2003 – Company 1
2005-1C-057	TIRNO-00-D-00024 Supplemental Report on Audit of Contractor's Fiscal Year 2000 Incurred Costs
2005-1C-058	Report on Audit of Direct and Indirect Costs for Contractor's Fiscal Year 2003 – Company 6
2005-30-055	Trends in Compliance Activities Through Fiscal Year 2004
2005-1C-056	Report on Fiscal Year 2004 Labor Floor Checks
2005-20-069	Security Controls for the Appeals Centralized Database System Could Be Improved
2005-30-048	Stronger Sanctions Are Needed to Encourage Timely Filing of Pass-Through Returns and Ensure Fairness in the Tax System (Increased Revenue: \$7.9 billion) Note: monetary benefit projected over a 5-year period.
2005-10-070	The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance (Funds Put to Better Use: \$353,720; Inefficient Use of Resources: \$10.3 million) Note: monetary benefit projected over a 5-year period.
2005-30-053	Opportunities Exist to Improve the Effectiveness and Efficiency of the Automated 6020(b) Program (Increased Revenue: \$534.8 million) Note: monetary benefit projected over a 5-year period.
2005-10-054	The Criminal Investigation Function Has Made Progress in Investigating Criminal Tax Cases; However, Challenges Remain



DESTROYING OLD CURRENCY IN THE TREASURY MACERATOR, 1905



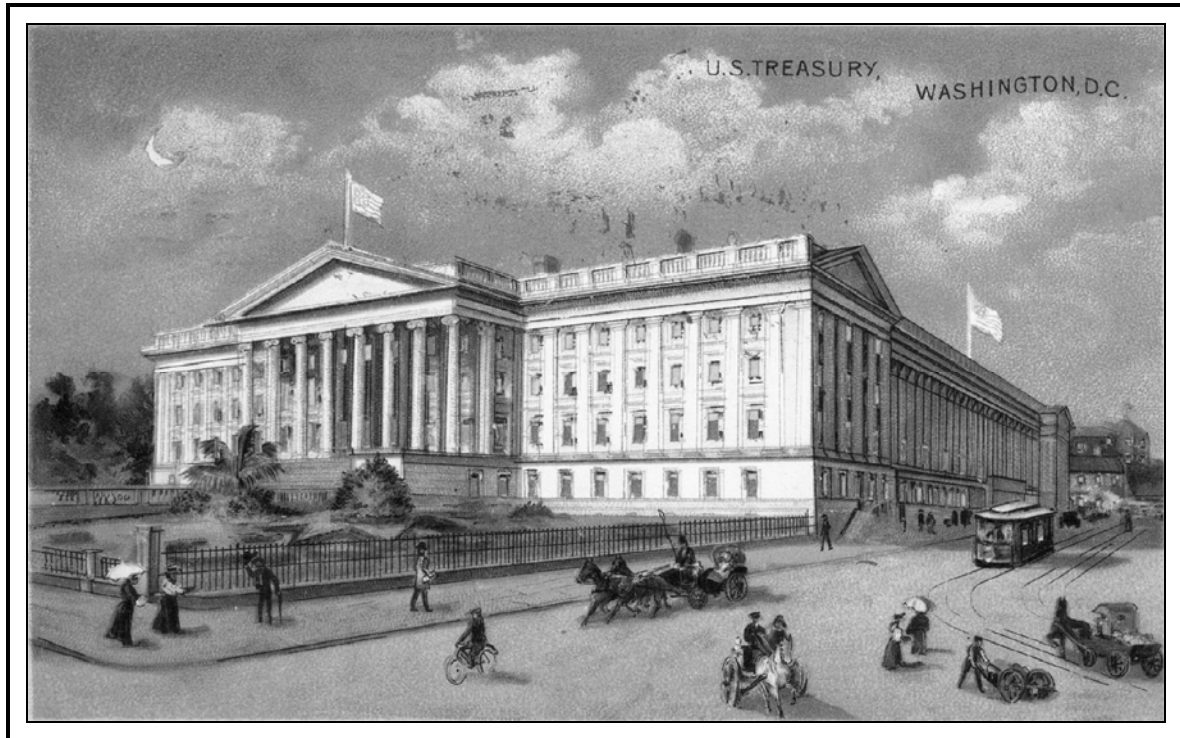
## APPENDIX III- TIGTA'S STATUTORY REPORTING REQUIREMENTS

TIGTA issued 13 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2005, TIGTA completed its seventh round of statutory reviews that are required annually by the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). The following table reflects the status of the FY 2005 RRA 98 statutory reviews.

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Enforcement Statistics</b></p> <p>Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.</p>	<p>Audit fieldwork in progress.</p>
<p><b>Restrictions on Directly Contacting Taxpayers</b></p> <p>I.R.C. § 7803(d)(1)(A)(ii)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</p>	<p><i>Reference No. 2005-40-040, February 2005</i>                      As in prior reviews, TIGTA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither TIGTA nor the IRS could readily identify cases where a taxpayer requested a representative or the IRS contacted the taxpayer directly and bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and the Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>
<p><b>Filing of a Notice of Lien</b></p> <p>I.R.C. § 7803(d)(1)(A)(iii)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.</p>	<p>Discussion draft audit report issued to IRS management.</p>
<p><b>Extensions of the Statute of Limitations for Assessment of Tax</b></p> <p>I.R.C. § 7803(d)(1)(C)</p> <p>I.R.C. § 6501(c)(4)(B)</p>	<p>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Audit fieldwork in progress.</p>

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Levies</b></p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Audit fieldwork in progress.</p>
<p><b>Collection Due Process</b></p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p>Audit fieldwork in progress.</p>
<p><b>Seizures</b></p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.</p>	<p>Discussion draft audit report issued to IRS management.</p>
<p><b>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</b></p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of IRS' compliance with restrictions under section 3707 of RRA 98 on designation of taxpayers.</p>	<p>Audit fieldwork in progress.</p>
<p><b>Disclosure of Collection Activities With Respect to Joint Returns</b></p> <p>I.R.C. § 7803(d)(1)(B)</p> <p>I.R.C. § 6103(e)(8)</p>	<p>Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p><b>Reference No. 2005-40-041, February 2005</b> This is the seventh year that TIGTA could not determine whether the IRS is complying with the statutory requirements for responding to written requests from joint filers, because both TIGTA and the IRS are still unable to readily identify joint filer requests received nationwide. IRS management has decided not to develop a new management control process to track joint filer requests. IRS management information systems do not separately record or monitor joint filer requests, and the Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>
<p><b>Taxpayer Complaints</b></p> <p>I.R.C. § 7803(d)(2)(A)</p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received are shown on page 35.</p>

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996</b></p> <p>I.R.C. § 7803(d)(1)(G)</p> <p>I.R.C. § 6304</p> <p>Section 3466 of RRA 98</p>	<p>Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p><b>Reference No. 2005-10-051, March 2005</b></p> <p>There were no administrative or civil actions with respect to violations of fair tax collection practices in Calendar Year 2004.</p>
<p><b>Denial of Requests for Information</b></p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>Requires TIGTA to include information regarding improper denial of requests for information from IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p>Audit fieldwork in progress.</p>
<p><b>Adequacy and Security of the Technology of the IRS</b></p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS' adequacy and security of its technology.</p>	<p><b>Information Technology Reviews:</b></p> <p>Reference Number 2005-20-004, October 2004</p> <p>Reference Number 2005-20-005, November 2004</p> <p>Reference Number 2005-20-014, December 2004</p> <p>Reference Number 2005-20-019, December 2004</p> <p>Reference Number 2005-20-023, January 2005</p> <p>Reference Number 2005-20-028, February 2005</p> <p>Reference Number 2005-20-050, March 2005</p> <p><b>Security Reviews:</b></p> <p>Reference Number 2005-20-027, January 2005</p> <p>Reference Number 2005-20-036, February 2005</p> <p>Reference Number 2005-20-038, February 2005</p> <p>Reference Number 2005-20-024, March 2005</p> <p>Reference Number 2005-20-042, March 2005</p> <p>Reference Number 2005-20-069, March 2005</p>



TREASURY BUILDING EVENING VIEW, 1907

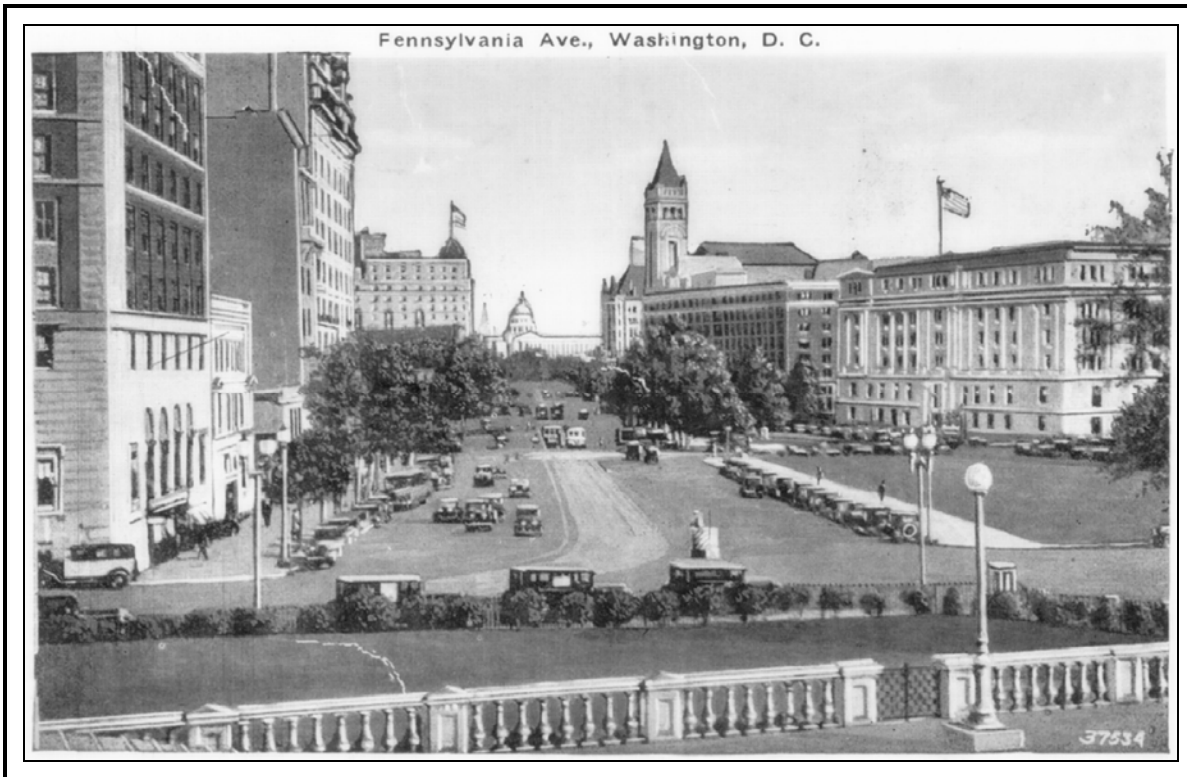
## APPENDIX IV - SECTION 1203 STANDARDS

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

Misconduct violations include:

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



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



VIEW OF PENNSYLVANIA AVENUE FROM THE SOUTH, FRONT TERRACE,  
TREASURY BUILDING, 1930s

## APPENDIX V - DATA TABLES PROVIDED BY THE IRS

The memorandum below is an IRS transmittal to TIGTA. The tables that follow contain information exactly as provided by the IRS to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS). Also, data concerning substantiated I.R.C. § 1203 allegations are included. IRS management conducted inquiries into the cases reflected in these tables.

 HUMAN CAPITAL OFFICE	DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D.C. 20224	
<b>APR 04 2005</b>		
MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION		
FROM:	Barbara B. Pabotoy Director, Workforce Relations Division 	
SUBJECT:	Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress	
<p>In response to your memorandum of February 15, 2005 to the Commissioner, I am providing the following information to you to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period October 1, 2004 to March 31, 2005.</p> <ul style="list-style-type: none"> <li>• Report of Employee Misconduct by Disposition Groups</li> <li>• Report of Employee Misconduct – National Summary</li> <li>• Summary of Substantiated Section 1203 Inquiries Record in ALERTS</li> </ul> <p>The attached tables contain information concerning alleged misconduct reported to IRS managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of March 31, 2005. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations System (ALERTS).</p> <p>The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During the period, IRS managers substantiated 257 §1203 allegations and removed 30 employees. In five of the removals IRS managers acted based on a TIGTA investigation. Fourteen employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 59 cases, including 1 case involving a TIGTA investigation. There are an additional 11 cases to be reviewed by the Commissioner for mitigation.</p> <p>If you have any questions or need additional information, please call me at (202) 622-6383, or a member of your staff may contact Christine Adams at (202) 622-9363.</p> <p>Attachments (3)</p> <p>cc: Commissioner                  Deputy Commissioner Services and Enforcement                  Deputy Commissioner Operations Support                  National Taxpayer Advocate                  Chief, EEO &amp; Diversity                  Chief, Communications &amp; Liaison                  Associate Chief Counsel (GLS)                  National President, NTEU</p>		

**Report of Employee Misconduct for the Period  
October 01, 2004 to March 31, 2005  
Summary by Disposition Groups**

<b>Disposition</b>	<b>TIGTA Investigations</b>	<b>Administrative Cases</b>	<b>Employee Tax Matter Cases</b>	<b>Background Investigations</b>	<b>Total</b>
Removal	50	72	26	1	<b>149</b>
Separation of Probationary Employees	5	118	25	32	<b>180</b>
Separation of Temporary Employees		4	10	10	<b>24</b>
Resignation/Retirement	69	104	91	30	<b>294</b>
Suspensions	77	205	63	7	<b>352</b>
Reprimands	77	330	427	16	<b>850</b>
Counseling		353	808	65	<b>1,226</b>
Alternative Discipline	20	92	33	3	<b>148</b>
Clearance	124	115	18		<b>257</b>
Closed Without Action	208	441	208	92	<b>949</b>
Closed Without Action (Caution Statement)	126	72	140	49	<b>387</b>
Forwarded to TIGTA		19			<b>19</b>
<b>Total</b>	<b>756</b>	<b>1,925</b>	<b>1,849</b>	<b>305</b>	<b>4,835</b>

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

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

Extract Date: Saturday, April 2, 2005 Report ID = T1R3a



**Report of Employee Misconduct for the Period  
October 01, 2004 to March 31, 2005  
National Summary**

Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Cases	
TIGTA Investigations ROI <sup>1</sup>	570	837	(756)	(8)	(0)	643
Administrative Case <sup>2</sup>	673	2,493	(1,925)	(11)	(7)	1,223
Employee Tax Compliance Case <sup>3</sup>	1,144	2,050	(1,849)	(52)	(0)	1,293
Background Investigations <sup>4</sup>	158	262	(305)	(1)	(0)	114
<b>Total</b>	<b>2,545</b>	<b>5,642</b>	<b>(4,835)</b>	<b>(72)</b>	<b>(7)</b>	<b>3,273</b>

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

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

Extract Date: Saturday, April 2, 2005 Report ID = T1R1

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

<sup>2</sup> Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

<sup>3</sup> Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.

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

**Summary of Substantiated I.R.C. § 1203 Allegations  
Recorded in ALERTS for the Period  
October 01, 2004 to March 31, 2005**

<b>§ 1203 Violation</b>	<b>Removals<sup>14</sup></b>	<b>Resigned/ Retired</b>	<b>Probation Separation</b>	<b>Removed On Other Grounds</b>	<b>Penalty Mitigated</b>	<b>In Personnel Process</b>	<b>Total</b>
Seizure Without Approval	0	0	0	0	0	1	<b>1</b>
False Statement Under Oath	0	0	0	0	0	0	<b>0</b>
Constitutional & Civil Rights Issues	0	0	0	0	0	1	<b>1</b>
Falsifying or Destroying Records	1	0	0	0	0	0	<b>1</b>
Assault or Battery	1	0	0	0	0	0	<b>1</b>
Retaliate or Harass	0	0	0	0	0	1	<b>1</b>
Misuse of §6103	0	0	0	0	0	0	<b>0</b>
Failure to File Federal Tax Return	20	5	9	11	42	69	<b>156</b>
Understatement of Federal Tax Liability	8	9	2	3	27	47	<b>96</b>
Threat to Audit for Personal Gain	0	0	0	0	0	0	<b>0</b>
<b>Totals</b>	<b>30</b>	<b>14</b>	<b>11</b>	<b>14</b>	<b>69</b>	<b>119</b>	<b>257</b>

Source: Automated Labor and Employee Relations Tracking System (ALERTS) and § 1203 Review Board records.  
Extract Date: Saturday, April 2, 2005

<sup>14</sup> The cases reported as "Removals" and "Penalty Mitigated" (see column above) do not reflect the results of any third party appeal.



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Tax Administration  
P.O. Box 589  
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Washington, D.C. 20044-0589**

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Office of the Inspector General for Tax Administration  
1125 15th Street, NW, Room 700A  
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