



Treasury Inspector General for Tax Administration



*"Taxes are what we pay for a
civilized society"*

– Oliver Wendell Holmes

Semiannual Report to the Congress

April 1, 1999 – September 30, 1999

...the 105th Congress created a statutory Inspector General, specifically for oversight of the Internal Revenue Service

“The Treasury Inspector General for Tax Administration shall exercise all duties and responsibilities of an Inspector General of an establishment with respect to the Department of the Treasury and the Secretary of the Treasury on all matters relating to the Internal Revenue Service. The Treasury Inspector General for Tax Administration shall have sole authority under this Act to conduct an audit or investigation of the Internal Revenue Service Oversight Board and the Chief Counsel for the Internal Revenue Service.”

...Section 1103 of Public Law 105-206, The Internal Revenue Service Restructuring and Reform Act of 1998, enacted July 22, 1998...



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 29, 1999

The Honorable Lawrence H. Summers
Secretary of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

I am forwarding to you the Treasury Inspector General for Tax Administration's (TIGTA) Semiannual Report to the Congress for the six-month period ending September 30, 1999. I am pleased to report that we have successfully completed our transition period and our new processes have stabilized. We are well positioned to devote our full attention and focus to the complex issues that face the Internal Revenue Service (IRS).

During this period, our organization delivered audit reports and investigative services that promote economy, efficiency and the highest level of integrity within the IRS organization. We issued 47 final audit reports that included \$169 million in financial accomplishments. We also closed over 1,600 investigations of alleged criminal wrongdoing and administrative misconduct. Court ordered fines and restitution totaled almost \$13 million.

In the Office of Audit, significant resources were devoted to fulfilling the requirements imposed by the IRS Restructuring and Reform Act of 1998 (RRA 98). We issued 16 audit reports to meet our RRA 98 statutory requirements, including reports on IRS' compliance with new seizure, lien and levy procedures, prohibitions on the use of enforcement statistics and the adequacy and security of information technology. Audits were also completed on other taxpayer protection and rights issues, such as treatment of taxpayers during office audits and selecting returns for examination, and on IRS' Year 2000 compliance efforts.

TIGTA's investigative activities also focused on RRA 98 requirements including developing procedures to process Section 1203 misconduct allegations, implementing a new system to track complaints and referrals, and providing guidance to IRS on establishing a compatible IRS complaint tracking system. Investigative efforts also included significant work with the Unauthorized Access to Taxpayer Accounts (UNAX) Detection Project which identified 478 leads of potential illegal access of taxpayer accounts.

I look forward to working with you in addressing the many challenges of overseeing the nation's tax administration system.

Sincerely,

David C. Williams
Inspector General

Enclosure

This Page Left Intentionally Blank

Table of Contents

Office of the Inspector General for Tax Administration	1
Authorities.....	1
Major Issues Facing the IRS.....	2
Office of Audit	7
Office of Investigations	23
Appendix I	
<i>Statistical Reports for the Office of Audit.....</i>	<i>37</i>
<i>Questioned Costs, Funds Put to Better Use, Additional Quantifiable Impact on Tax Administration</i>	
Appendix II	
<i>Statistical Reports for the Office of Investigations</i>	<i>41</i>
<i>Investigative Results, Complaints/Allegations Received by TIGTA and IRS, Administrative Status and Dispositions on Closed TIGTA Investigations</i>	
Appendix III	
<i>Statistical Reports—Other.....</i>	<i>45</i>
<i>Audit Reports With Unimplemented Corrective Actions, Access to Information, Audit Reports Issued in Prior Reporting Period With No Management Response, Revised Management Decisions, Disputed Audit Recommendations, Review of Legislation and Regulations</i>	
Appendix IV	
<i>TIGTA Audit Report Listing</i>	<i>53</i>
Appendix V	
<i>Section 1203 Standards.....</i>	<i>57</i>
Appendix VI	
<i>Statutory TIGTA Reporting Requirements.....</i>	<i>59</i>
Appendix VII	
<i>Acronyms.....</i>	<i>65</i>
Appendix VIII	
<i>Organization Chart.....</i>	<i>67</i>

This Page Left Intentionally Blank

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

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

The Office of the Treasury Inspector General for Tax Administration (TIGTA) was established in January 1999, in accordance with the Internal Revenue Service Restructuring and Reform Act of 1998¹ (RRA 98). TIGTA provides independent oversight of Internal Revenue Service (IRS) activities, the IRS Oversight Board and the IRS Office of Chief Counsel. As mandated by RRA 98, TIGTA assumed most of the responsibilities of the IRS' former Inspection Service, with the exception of performing background checks and providing physical security to IRS employees.

TIGTA is organizationally placed within the Department of the Treasury, but is independent of the Department and all other Treasury offices, including the Treasury Office of the Inspector General. TIGTA's focus is devoted entirely to tax administration. TIGTA includes the Office of Audit, Office of Investigations, Office of Chief Counsel and a Management Services function. There are approximately 960 auditors, special agents, attorneys and support staff nationwide.

TIGTA's audit and investigative activities are designed to:

- Promote economy, efficiency, and effectiveness in the administration of the internal revenue laws.
- Prevent and detect fraud and abuse in the programs and operations of the IRS and related entities.

TIGTA is responsible for:

- Conducting and supervising independent and objective audits and investigations relating to IRS programs and operations.
- Protecting the IRS against external attempts to corrupt or threaten its employees.
- Reviewing and making recommendations regarding existing and proposed legislation and regulations relating to the programs and operations of the IRS and TIGTA.
- Recommending actions to resolve fraud, abuses and deficiencies in the programs and operations of the IRS.
- Informing the Secretary of the Treasury and the Congress of problems and the progress made in resolving them.

TIGTA's programs emphasize deterrence and detection approaches to assist IRS in ensuring the highest degree of integrity and ethics in its workforce. TIGTA also has responsibility for investigating allegations of misconduct by IRS employees.

AUTHORITIES

TIGTA has all the authorities granted under the Inspector General Act of 1978². TIGTA also has access to tax information in the performance of its responsibilities and the authority to report criminal violations directly to the Department of Justice. The Inspector

¹ Pub. L. No. 105-206, 112 Stat. 685

² Pub. L. No. 95-452, 92 Stat. 1101, as amended, at 5 U.S.C. app. 3 (1994 & Supp. II 1996)

General and the Commissioner of IRS have established policies and procedures delineating responsibilities to investigate offenses under the internal revenue laws.

In addition, RRA 98 amended the Inspector General Act of 1978 to give TIGTA statutory authority to carry firearms and execute the provisions of I.R.C. Section 7608(b)(2). These provisions include the law enforcement authority to execute and serve search warrants, serve subpoenas and make arrests.

MAJOR ISSUES FACING THE IRS

The IRS collects over \$1.7 trillion annually to fund the nation's government. This requires the processing of over 200 million tax returns, issuing over 90 million refunds, distributing over 1 billion tax forms and publications, and assisting over 130 million taxpayers. The IRS must continually strive to achieve these tasks while maintaining the highest level of integrity and assuring taxpayer privacy. IRS implements a continuous influx of tax law changes and must enforce tax laws to ensure that all parts of the taxpaying public pay the proper amount of tax.

In executing its daily responsibilities, IRS faces many management issues. In January 1999, TIGTA advised the House Committee on Ways and Means of the following serious management issues facing the IRS:

- Implementing taxpayer protection and rights provisions of RRA 98.
- Implementing technology investment management.
- Progressing in its Year 2000 (Y2K) compliance efforts.
- Managing finances.
- Implementing the Government Performance and Results Act of 1993¹ (GPRA).

- Processing returns and implementing tax law changes during the tax filing season.
- Implementing quality telephone and walk-in customer service.
- Minimizing tax filing fraud and protecting revenue.
- Selecting and controlling tax returns for examination.

TIGTA reported on some of these issues in the March 1999 Semiannual Report to the Congress. TIGTA continued to provide audit coverage and investigative support on these issues during the remainder of Fiscal Year (FY) 1999.

Most of the management issues reported in January 1999 will continue to pose risks for the IRS in FY 2000. In addition, two other areas will present challenges for the IRS. First, the IRS must address equally important issues, providing first rate customer service and ensuring compliance with the tax laws. The challenge for IRS is to execute both of these activities within the constraints of existing resources. For example, a significant number of Examination and Collection resources have been reassigned to Customer Service and implementing RRA 98. As a result, the inventory of delinquent cases in the collection process is increasing and the amount of tax assessments is decreasing.

Secondly, the global economy is growing rapidly and is generating increasingly sophisticated and massive business transactions. IRS must develop effective compliance programs for this expanding segment of taxpayers.

All of these areas will be the focus of TIGTA's audit and investigative activities during FY 2000.

The following sections provide a summary of the major issues in the IRS and what TIGTA has done to address them during this reporting period.

¹ Pub. L. No. 103-62, 107 Stat. 285

Implementing RRA 98

IRS continues to confront the challenges of implementing RRA 98. RRA 98 mandates significant changes to the way IRS does business. In part, RRA 98 was passed due to Congressional hearings which focused on the misuse of enforcement statistics and abusive treatment of taxpayers. Several taxpayers testified to unfair and unreasonable treatment by IRS employees. Implementation of the legislative provisions imposed on IRS will result in enhanced taxpayer protection and rights, as well as organizational changes intended to achieve a more efficient and responsive organization.

TIGTA placed significant emphasis on the implementation of RRA 98. Although IRS is making progress, TIGTA's audit work indicates that IRS is not in full compliance with all RRA 98 provisions. For example, TIGTA reported that IRS was not in compliance with the taxpayer rights provisions as they relate to seizures, liens, levies, use of enforcement statistics and Freedom of Information Act¹ (FOIA) requests.

TIGTA also conducted reviews of other taxpayer rights issues, such as treatment of taxpayers during office audits and selecting returns for examination. TIGTA's Office of Audit concluded that because of weaknesses in controls and inappropriate actions on cases, the IRS did not always provide fair and equitable treatment to taxpayers.

A significant number of the RRA 98 provisions deal with improving treatment of taxpayers and preventing abuse by IRS employees. Section 1203 of RRA 98 provides for the mandatory termination of IRS employees for specific categories of employee misconduct, including: violation of Constitutional or civil rights of taxpayers or IRS employees; intentional misconduct involving a taxpayer matter; threatening

audits for personal gain; or willful understatement by an employee of his or her own federal tax liability. The misconduct identified in Section 1203 has always been subject to discipline by IRS; however, the mandatory penalties imposed by RRA 98 served notice that a high standard of conduct is expected of IRS employees to ensure the trust and confidence of the public.

To address employee misconduct issues, TIGTA's Office of Investigations worked with IRS to develop procedures regarding assessment, referral and investigation of allegations of misconduct that are covered by Section 1203. TIGTA also operates a toll-free hotline number, an e-mail account and a central post office box to receive complaints of alleged wrongdoing by IRS employees. Information on how to report misconduct has been published in IRS Publication 1, *Your Rights as a Taxpayer*, which is provided to taxpayers that are likely to have direct contact with IRS employees. The toll-free number, e-mail account and address have also been published on TIGTA's public Internet site.

Calls and complaints are received by TIGTA's Complaint Management Division. This Division manages the complaints tracking system which became operational on July 19, 1999. This system provides a central accounting of all complaints received and the disposition of those complaints. In addition, TIGTA is working with IRS' Complaint Processing and Analysis Office to provide guidance on establishing an IRS complaint tracking system that is compatible with TIGTA's system.

Providing Information Technology and Computer Security

Modernization of the IRS' computer systems and security of taxpayer information have been major concerns for the past several years. For more than a decade, at a cost of \$4 billion, the IRS has been attempting to modernize its antiquated tax systems. These

¹ 5 U.S.C. § 552 (1996)

efforts have fallen far short of what is required to prepare IRS for the next century. Modernization of IRS technology is crucial to implementing the new business vision of providing world-class service to taxpayers. Key goals, such as 80 percent of tax returns being filed electronically by the Year 2007 and significantly improving levels of service in answering taxpayers' questions, are contingent on the development of new technology.

IRS' computer security continues to need attention. The IRS Commissioner has stated that, "protecting taxpayer information and the systems used to deliver services to taxpayers are key to the success of a customer-focused IRS."¹ In the past, the security of taxpayer data has been an Achilles' heel for the IRS, particularly in the area of unauthorized access of taxpayer records.

TIGTA's Office of Investigations continues to operate an aggressive unauthorized access detection program. The Unauthorized Access to Taxpayer Accounts (UNAX) Detection Project detects potential unauthorized accesses to electronic taxpayer records on IRS systems. During this reporting period, TIGTA identified 478 potential leads of which 175 were referred to TIGTA field offices for investigation.

Despite increased publicity about unauthorized access and more stringent sanctions, these abuses comprised the largest segment of investigations of IRS employees initiated by TIGTA in this reporting period.

In addition, TIGTA's Office of Audit conducted several reviews of IRS' information systems. These reviews indicate the IRS is still vulnerable in the area of system security. In addition, computer applications need to be enhanced to ensure functional needs are met effectively and efficiently.

¹ General Accounting Office Report on IRS Systems Security, GAO/AIMD-99-38, pg. 17, December 1998.

Implementing the Century Date Change

Further complicating IRS' tax administration duties is the upcoming century date change and how it will affect IRS computer systems. Every aspect of tax administration could be affected by the century date change since all IRS functions rely, to some degree, on automated computer processes. In February 1999, the IRS Commissioner testified before the House Committee on Ways and Means, stating that the project life cycle costs for Y2K conversion could total \$1.3 billion.² In addition, the IRS has 1,400 minicomputers, over 100,000 desktop computers, over 80 mainframe computers, and data communications networks comprising more than 100,000 individual product components that are affected by Y2K.

TIGTA's Office of Audit conducted numerous audits of the IRS' efforts to ensure systems, applications and infrastructure are compliant with Y2K requirements. These audits found that IRS' executive management is aggressively managing the Y2K issue and significant progress has been made. However, the Office of Audit identified two fundamental weaknesses that increase the risk of Y2K problems after December 31, 1999. First, inaccurate inventories hamper IRS' ability to identify, track and monitor all components that need to be made Y2K compliant. Second, several aspects of the Y2K conversion effort are behind schedule and the time to make the needed changes and to deal with unexpected problems is growing shorter.

TIGTA is currently conducting follow-up reviews to determine if the IRS has taken appropriate actions to correct the problems noted above, including progress in developing contingency plans if Y2K problems do occur.

² Statement of Charles O. Rossotti, Commissioner of the Internal Revenue Service, Before the House Committee on Ways and Means (Y2K), February 24, 1999.

Improving Financial Management

Financial management continues to be a concern for the IRS. The General Accounting Office (GAO) could not issue an opinion on most of IRS' administrative financial statements for FY 1998. In addition, the IRS' Senior Council for Management Controls' 1999 Annual Assurance Review included financial accounting of revenue as an open material weakness, an issue which has been outstanding since 1995.

TIGTA's Office of Audit continues to perform audit tests in support of GAO's audit of the IRS' FY 1999 financial statements. This assignment is part of a training effort that will position TIGTA to assume responsibility for auditing the IRS' financial statements. In addition, TIGTA conducted a limited review of IRS' proposed actions to resolve long-standing concerns around its financial statements. The auditors concluded that the actions are an improvement over prior efforts to address administrative accounting problems; however, IRS can further improve its ability to address systemic deficiencies. The Office of Audit will continue closely monitoring IRS actions that relate to improving long-standing financial management concerns.

Implementing GPRA

The IRS has made significant strides in implementing GPRA. IRS is developing a new balanced performance measurement system that will focus on accomplishments in three major areas: business results, customer satisfaction and employee satisfaction. The IRS Commissioner has indicated that it will take several years to achieve a fully acceptable set of balanced measures that can be used at all levels of the organization.

TIGTA's Office of Audit initiated a series of reviews around the IRS' GPRA efforts. The audit work indicates a need to evaluate the IRS' customer service survey process and to

assess the reliability of the data IRS uses to evaluate the customer satisfaction measures. TIGTA will complete ongoing reviews and conduct data validation and customer survey process reviews in FY 2000.

Processing Tax Returns and Implementing Tax Law Changes

The IRS' 1999 filing season was impacted by numerous organizational and legislative changes. Delivering a successful filing season is always a high priority and challenge for the IRS. It is particularly challenging at this time because of the computer programming changes and testing surrounding Y2K compliance. The IRS' limited programming resources must be effectively managed to ensure a well planned and executed filing season that appropriately includes tax law changes on computer systems that are Y2K compliant.

In a review of IRS' quality assurance efforts over key tax law changes for the 1999 filing season, the Office of Audit reported that the IRS needs to develop and improve processes to ensure that the status of programming changes for the 2000 filing season is adequately monitored and accurately reported. In addition, the Office of Audit has identified several smaller segments of tax processing that can be further enhanced by programming changes. For instance, the Office of Audit indicated that some computer programs could more effectively identify and resolve incorrect and missing taxpayer identification numbers on tax returns.

The Office of Audit will continue to conduct reviews before and during the upcoming filing season to assess IRS' ability to effectively and efficiently process tax returns and implement tax law changes.

Providing Quality Customer Service

The IRS has heavily invested in technology but has not improved telephone service to

taxpayers. Recent IRS statistics indicate that only 53 percent of taxpayers using IRS' various telephone services receive the level of service they need. Providing better service to taxpayers is the key concept behind the Commissioner's plans to modernize the IRS. In addition, RRA 98 requires IRS to place greater emphasis on serving the public and meeting taxpayer needs.

In an audit that evaluated assistance provided to taxpayers, the Office of Audit concluded that taxpayers were generally provided accurate tax information. However, telephone assistors could have been better prepared to answer taxpayers' questions and responses to e-mail questions could have been more complete, concise and clear. The Office of Audit also completed reviews of IRS' walk-in services and the strategy to increase taxpayer access to toll-free telephone services.

Protecting Revenue and Minimizing Tax Filing Fraud

The IRS has significantly increased its efforts to guard against tax filing fraud over the past several years. However, fraudulent refund schemes, especially related to the Earned Income Tax Credit, are still of concern. For example, TIGTA recently investigated a

scheme involving a former IRS employee who prepared fraudulent tax returns claiming the Earned Income Tax Credit. Fraudulent schemes are not just limited to those with inside knowledge of tax processing and the IRS must remain diligent in its efforts to prevent and identify these unscrupulous activities.

The Office of Audit continues its efforts in reviewing the IRS' revenue protection strategy. TIGTA performed reviews of the IRS' controls over selected components of the electronic filing program. These reviews focused on the process and standards for admitting preparers to the electronic return preparer program and on procedures to identify and remove dishonest preparers. Overall, the Office of Audit concluded that management needs to ensure that procedures are consistently followed, controls are improved over removal of preparers, computer enhancements are made, and additional emphasis is placed on return preparer fraud activities.

Details of the specific audit and investigative activities, as well as information on statutory requirements, can be found on pages 7 through 21, 23 through 36, and in Appendix VI, respectively.

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

INTRODUCTION

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

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

THE AUDIT PROGRAM

To accomplish its mission, the Office of Audit published an Annual Audit Plan for FY 1999 that described its audit focus and direction. The audit plan included both statutory and discretionary reviews. Statutory reviews are governed by legislation, while discretionary reviews are identified through the Office of Audit's risk assessment process, and input from the IRS Commissioner, IRS executives, and the Congress.

As part of implementing RRA 98, IRS is reorganizing into four organizational units focused on specific groups of taxpayers. The Office of Audit has reorganized from an organization based on geographic location to a functional structure which reflects the new IRS organization. The Office of Audit is now organized by the following areas: Information Systems Programs, Headquarters Operations and Exempt Organizations Programs, Wage and Investment Income Programs, and Small Business and Corporate Programs.

SIGNIFICANT AUDIT RESULTS

During this reporting period, the Office of Audit issued 47 reports. Appendix IV provides a complete listing of the reports issued.

The results of the most significant reviews are discussed in the following sections and represent the major issues and concerns identified during this reporting period.

RRA 98

TIGTA is required to report on IRS' compliance with various provisions of RRA 98. This semiannual report contains the results of the Office of Audit's reviews to determine whether the IRS is complying with these provisions and protecting taxpayer rights while it carries out tax administration activities. RRA 98 also requires TIGTA to assess the adequacy and security of IRS' information technology systems.

The Office of Audit focused significant audit resources in this area during FY 1999. Sixteen audit reports related to the RRA 98 provisions were issued during the reporting period. This includes eight reports on IRS' information technology systems. Two additional reports will be issued in the next reporting period and one of the provisions will not be reviewed until its effective date in January 2000. In addition, nine audit reports were issued regarding other taxpayer protection and rights issues. Appendix VI provides an explanation of the specific RRA 98 provisions and a list of the reviews conducted in these areas.

Statutory Requirements

Highlighted final audit reports for the RRA 98 statutory provisions include:

The Internal Revenue Service Should Continue Its Efforts to Achieve Full Compliance with Restrictions on the Use of Enforcement Statistics (Report No. 199910073)

In September 1997, the Senate Finance Committee ascertained that in certain IRS offices, employee performance was evaluated in a manner resulting in a work environment driven by statistical accomplishments. This placed both taxpayer rights and the employee evaluation system at risk. As a result, Section 1204, *Basis for Evaluation of Internal Revenue Service Employees*, was included in RRA 98. This Section prohibits IRS management from using records of tax enforcement results to evaluate employees, or to impose or suggest production quotas or goals for such employees. Instead, one of the standards for evaluating employee performance must be the fair and equitable treatment of taxpayers.

The IRS adopted certification procedures to identify violations of Section 1204. The certification is performed quarterly by first-line managers, and then cross-functional management teams perform an annual independent review. These reviews must include an assessment of the employee performance files and employee evaluations. They may also review documents such as award narratives, minutes of meetings, case reviews, or local memoranda.

The auditors determined the IRS is currently not in full compliance with Section 1204 and some employees still believe IRS managers use records of tax enforcement results inappropriately. The auditors noted the following:

- In 28 IRS offices reviewed, 96 Section 1204 violations were identified.

- Based on questionnaires, 124 (27 percent) of 456 managers and employees perceived records of tax enforcement results had been considered when their last performance evaluations were prepared and communicated to them, or were used as performance expectations or goals.
- During its quarterly certifications and independent reviews, IRS management identified approximately 525 violations.

The Office of Audit did not present recommendations for corrective action beyond IRS management's proposed regulations for a balanced system of business measures. This system appears to be an appropriate first step in resolving these problems.

In FY 2000, the Office of Audit will assess the effectiveness of the progress and implementation of the balanced system of business measures as it relates to the use of enforcement statistics. In addition, the auditors will evaluate the results of IRS management's review of the violations identified in this report.

In response to the audit report, IRS management generally agreed with the conditions identified, and stated that they will take whatever steps are necessary to eliminate violations.

The Internal Revenue Service Should Improve Its Federal Tax Lien Procedures (Report No. 199910074)

A federal tax lien (FTL) protects the government's interest by attaching a claim to the taxpayer's assets for the amount of unpaid tax liabilities. RRA 98 and I.R.C. Section 6320 require the IRS to notify taxpayers that a FTL has been filed. Taxpayers may request a hearing with the IRS if they believe the FTL is not appropriate. These new requirements became effective for liens filed after January 18, 1999.

During the initial implementation period, IRS management was not consistently implementing the FTL provisions of RRA 98. Taxpayers and their representatives were not always informed of the taxpayers' right to a hearing once a FTL was filed.

The auditors reviewed 473 cases, of which 157 cases (33 percent) involved 176 potential violations of legislative or procedural requirements (some cases had multiple violations). The auditors' sample was not statistically valid; therefore, the results may not be representative of cases nationwide. The following are examples of the apparent noncompliance with the provisions of RRA 98 or IRS' procedures contained in the Internal Revenue Manual:

- Taxpayer representatives (e.g., attorney, accountant, etc.) were not sent a lien notice.
- Lien notices were not mailed to taxpayers within five business days of the FTL filing.
- Taxpayers were not given a full 30 calendar days to request a hearing.
- Undelivered lien notices were not re-sent when another address was available.
- Sufficient documentation was not retained to prove that lien notices were sent to taxpayers or were sent timely.
- Responsible spouses or individual partners in a partnership were not sent a copy of the lien notice.

The Office of Audit recommended that the IRS:

- Change systems to automate the mailing and re-issuance of undeliverable lien notices to all responsible taxpayers.
- Revise procedures to ensure that: (1) the government's interest is protected, (2) returned mail is researched completely and processed efficiently, (3) adequate documentation is maintained, and (4) management information systems

measure compliance with the new FTL notification requirements.

IRS management agreed with the findings and recommendations and will take corrective action.

The Internal Revenue Service Needs to Improve Compliance with Legal and Internal Guidelines When Taking Taxpayers' Property for Unpaid Taxes (Report No. 199910072)

IRS procedures and provisions in I.R.C. Sections 6331 through 6344 (1986) are specific as to how to seize taxpayer property. If seizure procedures are followed correctly, taxpayers' rights and the government's interest will be protected. RRA 98 places particular emphasis on taxpayer rights and it contains several new provisions for conducting seizures (e.g., approval levels for seizing business assets, exemption of personal residences from seizures if the tax liability is \$5,000 or less, etc.).

The Office of Audit evaluated whether the IRS conducted seizures according to legal and internal guidelines. The auditors reviewed all 124 seizures (involving 92 taxpayers) conducted by the IRS during a six-month period beginning July 22, 1998, the date RRA 98 became law.

The IRS did not follow all legal and internal guidelines when conducting seizures in 33 (36 percent) of the 92 taxpayer cases reviewed and 32 of those cases potentially impacted the rights of the taxpayer. The auditors concluded further action is needed to ensure that all guidelines are consistently followed.

Legal seizure provisions were not followed in 19 (21 percent) of the 92 cases. Examples included:

- The IRS did not thoroughly investigate the status of the property before seizing property with little or no value, or did not consider alternatives to the seizure.

Semiannual Report to the Congress

- Business property was seized without obtaining the required approvals.
- A notice advising the taxpayer of enforcement action was not provided on all tax periods before the IRS seized the taxpayer's property.

IRS procedures were not followed in 21 (23 percent) of the 92 cases. Examples included:

- Case histories were not documented to indicate Publication 1, *Your Rights As A Taxpayer*, was provided to the taxpayer.
- Taxpayers were not personally warned before the seizure action occurred.
- Expenses of the seizures were not added to the taxpayers' tax liabilities when the property was released.

The Office of Audit recommended that IRS management should:

- Emphasize the need to use the appropriate checklists for all seizures conducted.
- Request an opinion from the IRS Office of Chief Counsel on those seizures that did not follow legal guidelines to determine if the IRS should make restitution to those taxpayers.

IRS management agreed to complete the checklists and to review the applicable seizure cases to determine if any monies should be returned to the taxpayer as a result of an inappropriate seizure.

The Internal Revenue Service Has Not Fully Implemented Procedures to Notify Taxpayers Before Taking Their Funds for Payment of Tax (Report No. 199910071)

Effective in January 1999, the I.R.C. Section 6330 (1986) requires the IRS to advise taxpayers of their right to have their case heard by the Appeals Office, and potentially a court, prior to the IRS taking money from taxpayers' bank accounts, employers or other parties to pay delinquent

taxes. The IRS must wait at least 30 calendar days from the date the taxpayer is notified of the intent to levy and of the taxpayer's appeal rights before issuing a levy.

The auditors reviewed 284 taxpayer accounts, involving 291 levies requested between mid-January and mid-April 1999, to determine if the IRS was in compliance with the new levy provisions, as well as its own internal levy procedures. In the nine offices tested, the auditors reported that the new procedures have not been effectively implemented. The IRS did not consistently notify taxpayers of the intent to levy and of their appeal rights. As a result, the rights of 204 taxpayers were impacted which could result in the IRS having to make restitution to some of the taxpayers.

Legal provisions were not followed in 92 (32 percent) of the 284 taxpayer accounts reviewed. Internal procedures were not followed in 88 (31 percent) of the taxpayer accounts reviewed. Examples of the provisions and procedures not followed included:

- Taxpayers were not notified of the IRS' intent to levy and of their appeal rights before levies were issued.
- Taxpayers were notified of the IRS' intent to levy and of their appeal rights after the levies were issued.
- Taxpayers were notified of the IRS' intent to levy and of their appeal rights, but levies were issued by the IRS during the 30-day waiting period.
- Taxpayers did not have appropriate information added to their computer account history to show the taxpayer had been notified of the IRS' plans to levy.
- Taxpayers did not have appropriate information added to their computer account history to show the initially requested levy had been destroyed.

The Office of Audit recommended that IRS management:

- Develop methods to ensure taxpayers are notified of the IRS' intent to levy and of their right to a hearing before a levy is issued.
- Develop safeguards, such as a quality review system, to prevent notices from being mailed to taxpayers unless issuing a levy is the next planned case action.
- Identify all levies that were issued without properly notifying the taxpayer. Determine, with advice from the IRS Office of Chief Counsel, what steps should be taken regarding any money received as a result of improper levies.

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

Other Taxpayer Protection and Rights Issues

Other reviews on taxpayer protection and rights issues involved: selecting tax returns for audit; protecting tax return data in IRS systems; conducting employment tax examinations; and, making adjustments to taxpayers' accounts.

Highlighted final audit reports include:

The Internal Revenue Service Needs to Improve Treatment of Taxpayers During Office Audits (Report No. 093602)

Historically, the Discriminant Function (DIF) methodology has been the primary workload identification system used by the IRS to select individual tax returns for office audit examinations.

In the last several years, the IRS has migrated from using the DIF and has begun identifying innovative ways of doing business, such as using the Midwest Automated Compliance System (MACS). The MACS provides IRS

district office employees the ability to use locally derived, and possibly subjective, criteria to identify and select returns for audit.

The auditors identified weaknesses in the MACS control environment and in actions taken by examiners and managers during the initiation and closing of non-DIF audits. The audit showed that IRS employees accessed over 3,600 accounts over a two-month period and the accesses were not supported by a valid business purpose. Given the extent of control breakdowns identified, the auditors could not give assurance that IRS employees selected returns for examination fairly, or that taxpayers' personal and financial data was protected from unauthorized and improper disclosure.

The auditors also noted inappropriate actions taken by examiners and managers during the initiation and closing of audits that may have led to improper taxpayer treatment. For example, the auditors could not always find evidence that the IRS had properly informed taxpayers of their rights at the initiation of the audits. In other cases, IRS procedures were not always followed. In two districts, the IRS used discretionary enforcement powers in a way that appeared to create an unnecessary hardship and burden on taxpayers. The two districts mailed a six-page questionnaire requesting more than 80 items of information to 3,500 low-income taxpayers who claimed the Earned Income Tax Credit.

The Office of Audit recommended that the IRS:

- Improve separation of duties by locating MACS in offices other than where the audits will be worked. IRS employees that are responsible for identifying potential MACS returns for audit should not be responsible for working the audits.
- Strengthen specific controls and procedures for initiating and closing audits.

With the exception of centralizing MACS sites, the IRS management agreed to take corrective actions that are consistent with all Office of Audit recommendations. IRS management believes that the management of MACS should be centralized rather than centralizing the MACS sites. In addition, Examination personnel will review alternative approaches to separating case selection and case assignment practices.

The New Jersey District Needs to Execute Levy Actions Consistent With Sound Tax Administration and Concern for Taxpayer Treatment (Report No. 199930069)

The IRS has a legitimate need to use levy action as an administrative means to enforce the collection of taxes. However, when levying taxpayers, the IRS must ensure that appropriate legal and procedural requirements are followed and taxpayers are treated properly.

The Office of Audit conducted a review of levy actions initiated by the New Jersey Collection Division. The review was a follow-up review of two FY 1998 audits which showed significant problems in the district's use of performance measures and statistics, and in the use of seizure authority.

The Office of Audit reported that the New Jersey District violated IRS policy and procedural requirements in its use of levy authority. These procedures are designed to assess a taxpayer's ability to pay, and ensure both that the levy is the proper course of action and that taxpayers are notified prior to levy action.

The auditors noted that procedures were not followed in 92 percent of the 264 levies reviewed. Also, taxpayers were not afforded their right to legal notification prior to the levy issuance for five percent of the levies.

The auditors also reviewed the levy case files and noted that 35 levies were issued to taxpayers who were deceased, experiencing

medical or financial hardships, not liable for the tax or under audit in the Examination Division.

The district's practice of levying, as the first action on a taxpayer case without attempting to contact taxpayers, conducting initial analyses, or researching case histories was prevalent in most cases reviewed. This practice was most prevalent in the Department of Labor (DOL) Project, where levies were generally issued as the first action in an effort to close taxpayer cases quickly and help meet statistical goals. The auditors concluded that about 56,000 taxpayers were potentially at risk for improper levy actions.

Although the district's "Best Practice" documentation indicated that the basis for the DOL initiative was to identify "uncooperative" and delinquent taxpayers for enforcement action, there was virtually no attempt to assess taxpayers' willingness to cooperate and/or their ability to pay prior to the levy actions.

The Office of Audit recommended that:

- Emphasis be placed on policy and procedural requirements regarding the use of levy authority.
- The district review levy actions taken during the past nine months to identify instances that meet criteria requiring remedies to taxpayers.

IRS management agreed with the auditors' findings and recommendations and implemented corrective actions to ensure at least one attempt to contact the taxpayer is made prior to the levy action.

The Examination Returns Control and Integrated Data Retrieval Systems Can Be Improved to Protect Taxpayer Rights During the Audit Process (Report No. 094206)

The Office of Audit initiated a follow-up review of its October 1996 report (Report No. 070106), which identified control

weaknesses in the Examination Returns Control System (ERCS) and the Integrated Data Retrieval System (IDRS). The Examination Division uses these systems to select cases for audit, and to control and dispose of each case. These control weaknesses could adversely impact the public's confidence in IRS' ability to protect the privacy and security of taxpayers' personal and financial information.

While IRS management had made improvements to enhance ERCS and IDRS controls since the prior audit, the auditors noted that the IRS needed to take additional actions to enhance the effectiveness of Examination controls and to provide further protection of taxpayer rights and tax return information.

The Office of Audit recommended that IRS management:

- Improve ERCS audit trail functionality to include a process for reviewing user activities and providing data to users of the audit trail.
- Improve ERCS controls to eliminate acting managers from having the ability to approve any changes to their inventory.
- Provide more effective oversight over examiners' capabilities to order tax returns and establish, update, and close Examination records.
- Report the results of Examination management's analyses of case closures due to errors or unlocatable returns.

IRS management agreed with the facts and recommendations and has agreed to take corrective action.

Internal Revenue Service Procedures Were Not Consistently Followed When North Florida District Revenue Officers Attempted to Improve Tax Compliance in the Construction Trades Industry (Report No. 190303)

The IRS Southeast Regional Commissioner requested that the Office of Audit evaluate complaints made by a former employee regarding the treatment of taxpayers during a Regional Compliance Program (RCP). Revenue officers were alleged to have used unauthorized techniques to work RCP leads on employment tax issues in the construction trades industry project.

In responding to members of the Congress about these complaints, IRS Collection management stated the revenue officers in the RCP group had acted in accordance with IRS policies and procedures. However, the opinions and conclusions of the auditors differed from those offered by Collection management.

The auditors reviewed case files and concluded that taxpayers were treated inconsistently because of how RCP employment tax leads were worked. This occurred because management did not ensure revenue officers working the RCP cases received adequate training, followed appropriate procedures when expanding the leads into examinations and followed Internal Revenue Manual procedures when conducting audits.

IRS management agreed that insufficient training was provided to the revenue officers assigned to the project and that different procedures were used. IRS management also agreed to conduct an independent review of the cases the auditors questioned to determine if Examination audits were conducted instead of the less intrusive compliance checks. IRS management will ask its Chief Counsel to determine any remedial actions that must take place for affected taxpayers.

Information Technology

The Office of Audit evaluates the adequacy and security of IRS technology on an ongoing basis. Reviews focused on assessing the IRS' progress in implementing its modernization initiatives and the security and adequacy of selected IRS tax processing systems.

Highlighted final audit reports include:

The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain (Report No. 199920068)

The Service Center Mainframe Consolidation (SCMC) Project's goal of consolidating the mainframe processing at ten service centers into two computing centers is a very complex task and requires extensive coordination and effort by several contractors and IRS functions.

While the Project is making significant progress toward its goal, the IRS needs to ensure that future service center consolidations, technical contract administration, and budget accounting are improved. The auditors noted that the IRS had taken actions to define delivery orders that resulted in cost savings of \$19 million. However, several procurements, estimated at \$7 million, were made without following proper procurement procedures. In addition, the complete cost of the consolidation was not being effectively budgeted, captured and reported by the SCMC Project Office. The auditors estimated that there were approximately \$1.07 million in unreported staffing costs in FY 1998 for the three sites tested.

The Office of Audit recommended that IRS management ensure:

- All critical operational and technical aspects of consolidation at computing centers and service centers are standardized, thoroughly tested,

appropriately documented and included in employee training.

- Computing centers are adequately staffed.
- Contract requirements were defined by June 1999 and proper procurement procedures were followed to obtain goods and services.
- All consolidation costs were accurately budgeted and reported.

IRS management provided an adequate, detailed response to the first summarized recommendation which was included in a memorandum issued during the audit. However, IRS management did not provide an official response to the draft report that included the remaining recommendations.

The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved (Report No. 199920063)

The Unisys 2200 mainframe computers are an integral part of IRS' tax processing system. Virtually all transactions affecting a taxpayer's account are processed through these systems. They house databases for on-line retrieval of taxpayer information; therefore, it is critical for the systems to have an effective general controls environment.

The Office of Audit reviewed the general controls over IRS' Unisys 2200 Operating System Environment and concluded that the general controls are adequate to protect sensitive data. However, there are several areas in which controls could be adhered to more uniformly, and where procedures should be established to provide improved system control, security, and standardization.

The auditors recommended several ways to improve controls over taxpayer data files and the common system and database files. In addition, the auditors recommended:

- Modification of the control settings for files that may potentially complicate the mainframe consolidation process.

- Development of a process that will improve the accountability of individuals using the system security user identification.
- Re-issuance of the policy for accounting for deviations of user access profiles from IRS standards.
- Development of C2-level security documentation, security policies, and documentation of risk factors for the Unisys consolidated mainframe environment.

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

Review of the Electronic Fraud Detection System (Report No. 093009)

The number of electronically filed tax returns claiming fraudulent refunds has risen dramatically since electronic filing began in 1986. As a result, the Electronic Fraud Detection System (EFDS) was developed to automate the screening process and identify and review returns with the highest potential for fraud. EFDS improves the detection of fraud by increasing data sources and enhancing scheme development for referral to the districts for criminal prosecution.

The auditors concluded that while EFDS is a significant improvement over the manual procedures previously used, there are still changes that can be made to further improve and manage EFDS. The auditors also found discrepancies in the accounting records that amounted to \$22.3 million in understated total costs. The Office of Audit recommended IRS management should:

- Strengthen existing security controls.
- Develop all EFDS applications and ensure the applications are properly functioning.
- Implement controls to maintain accurate and complete cost data for EFDS.

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

Limitations of the Automated Non-Masterfile and the Impact on the Internal Revenue Service (Report No. 093103)

The IRS uses the Automated Non-Masterfile (ANMF) computer system to process tax returns and transactions that cannot be processed on its primary Masterfile computer system. Each of the ten IRS service centers has a separate ANMF database that is not connected with any other ANMF system, or other IRS computer system.

As of September 30, 1997, the ANMF contained 101,216 balance due accounts totaling over \$14 billion. The auditors concluded that, overall, the transactions were accurately input to the ANMF and to the accounting system. However, inherent processing problems resulted in the IRS not mailing annual reminder notices of balance due accounts to taxpayers in violation of the Taxpayer Bill of Rights 2 (TBOR2). The accounts also contained incorrect interest and penalty computations. The processing inefficiencies and errors resulted in undue taxpayer burden, increased operating costs, and lost revenue.

The auditors also reported:

- The ANMF contained many old accounts. Over 6,700 accounts were over 10 years old and 220 were over 20 years old. The 6,700 balance due accounts exceeded \$750 million in tax, penalty and interest.
- The IRS did not establish the required “freeze” code (used to prevent the issuance of refunds) on the related Masterfile accounts on 21,700 (34 percent) of the 64,000 individual accounts on the ANMF.
- The IRS did not issue a Statement for Recipients of Interest Income,

Form 1099-INT, as required by law, to report interest paid to taxpayers in 27 percent of the 142 cases reviewed. During the first nine months of FY 1997, the IRS issued approximately 1,500 refunds in which a Form 1099-INT should have been issued.

The Office of Audit recommended that the IRS:

- Expedite changes to allow the processing of ANMF accounts on the Masterfile.
- Consolidate the existing ANMFs.

IRS management agreed with the findings and recommendations and prepared requests for computer programs. These include programs to: correct programming errors in penalty and interest computations; identify address changes; and, freeze the refund on Masterfile accounts where there is a related liability on the ANMF. In addition, the IRS plans to conduct a massive cleanup of old accounts on the ANMF to determine if the accounts are valid. The IRS also will generate annual reminder notices in Calendar Year 1999.

With these changes, the IRS will be in compliance with the law by issuing TBOR2 notices and Forms 1099-INT. In addition, receiving these notices will reduce taxpayer burden and could increase taxpayer compliance in reporting interest income.

Century Date Change

The Office of Audit has conducted several reviews to assess IRS' efforts in ensuring all systems and programs are Y2K compliant. Reviews focused on project management and oversight, testing efforts and exchanging data with outside parties.

Highlighted final audit reports include:

Increased Validation and Oversight of Year 2000 Minicomputer Conversion Efforts Are Needed to Strengthen Testing and to Avoid Further Delays (Report No. 199920054)

The Office of Audit assessed IRS' efforts to prepare its minicomputer systems for the century date change (CDC) and concluded that the IRS has improved its management of the minicomputer conversion effort. Increased involvement by the CDC Project Office has resulted in assignment of monitoring responsibility, identifying sites where systems are located, issuance of guidance for converting systems, and development of conversion schedules.

However, initial monitoring of the conversion progress was based on self-reporting of critical conversion data, with minimal on-line validation. As a result, the Office of Audit identified weaknesses in systems testing and unmet target dates.

The Office of Audit recommended that:

- The IRS properly classify the risk level for minicomputer systems that did not meet the January 1999 target conversion date.
- The CDC Project Office representatives should independently validate:
(1) conversion dates for systems that did not meet the target, (2) testing performed on each mission critical minicomputer system, and (3) contingency procedures for all systems that were not compliant by March 31, 1999.

The audit resulted in increased oversight of the minicomputer conversion effort. In addition, the audit identified weaknesses that management is addressing to ensure that minicomputer systems that process electronically filed tax returns, answer incoming taxpayer telephone calls, and

process employee payroll will run in the next century.

IRS management has agreed to all recommendations and will initiate corrective actions.

Review of the Internal Revenue Service's Year 2000 End-to-End System Integration Test Efforts – Overall Planning and Execution of Test 1 (Report No. 094002)

IRS created an off-line test environment to replicate its tax processing environment. The purpose of this test environment is to serve as a final phase for assessing Y2K compliance of IRS' tax processing software, hardware and communications capabilities. The Information Systems' Product Assurance function controls this test along with significant levels of contractor support.

Despite initial delays in planning and conducting the End-to-End System Integration Test activities, IRS' Information Systems Division made significant progress in preparing an overall approach to conducting the test. The auditors noted that the End-to-End System Integration Test Team met their limited objectives for executing Test 1. However, the Office of Audit identified the need for the IRS to prepare a systematic risk analysis of its systems and provide improved oversight over key support

systems that will not be included in the nationwide End-to-End test. They also identified the need for the IRS to better coordinate its planning efforts for the End-to-End System Integration Test.

To improve the End-to-End testing, auditors recommended that IRS management:

- Perform a detailed analysis of the IRS systems inventory to assess the business value and potential risk exposure of all its major systems and establish a priority ranking.
- Identify all key operations support systems not selected for the nationally coordinated End-to-End System Integration Test.
- Establish centralized oversight and control over the testing of key support systems within the operations functions.
- Mandate that key operations systems owners use the Product Assurance test bed to perform their Y2K compliance testing.

IRS management agreed to two of the recommendations and has taken corrective action. However, IRS management did not agree to perform a detailed analysis of the business value and potential risk exposure of all major systems because all IRS systems will be end-to-end tested. They also did not agree that the use of the Product Assurance



TIGTA Audit Manager Vincent Dell'Orto was recognized at the May 1999 Department of the Treasury Annual Awards Ceremony for his leadership and assistance in identifying critical issues relating to the IRS' Year 2000 efforts. Shown here is Treasury Secretary Lawrence Summers offering his congratulations to Mr. Dell'Orto.

test bed should be mandated.

Opportunities Remain for the Internal Revenue Service to Further Minimize the Risks Associated With Implementing Year 2000 Compliance for External Trading Partners (Report No. 095202)

In 1996, IRS established the CDC Project Office with an objective to ensure that all systems are Y2K compliant by January 1, 2000. This requires close coordination with many External Trading Partners (ETPs). ETPs are organizations that exchange data with IRS, such as: state, local, and foreign governments, banks, and other federal agencies.

This review was a follow-up audit to a report issued in November 1998 (Report No. 091303). During the current audit, the auditors noted that the CDC Project Office has made considerable progress in identifying ETPs and communicating the IRS' Y2K standards to them. The Office of Audit recommended continued emphasis in the following areas:

- Implementation of an oversight process to ensure accurate ETP information. One audit test showed that 22 percent of exchange files sampled contained inaccurate dates.
- Delayed project milestones should be completed prior to the final phase of the End-to-End system testing. One audit test showed that approximately 12 percent of the files remain untested.

Reliable management information is needed to assure that IRS' tax systems will accurately and timely process returns and collect revenue after December 31, 1999. Taxpayer burden will increase if the IRS' tax systems are not timely prepared to process returns and collect revenue.

IRS management concurred with the facts in the report and has agreed to take corrective action.

Processing Tax Returns and Implementing Tax Law Changes

The Office of Audit initiated various reviews to evaluate IRS' progress in effectively preparing for filing season activities.

A highlighted final report includes:

The Internal Revenue Service Needs to Improve Information Systems Quality Assurance Efforts Over Key Tax Law Changes for the 2000 Filing Season (Report No. 199920066)

The Taxpayer Relief Act of 1997¹ (TRA 97) contained over 800 I.R.C. amendments and nearly 300 new provisions, most of which went into effect prior to the 1999 filing season. As a result, the IRS was required to prepare its systems and programs to properly process tax return information mandated by the new legislation for the 1999 filing season. At the same time, IRS had other initiatives for which its limited programming resources were needed. These initiatives included consolidating the computer operations of ten service centers into two computing centers and preparing all IRS systems for Y2K compliance.

The Office of Audit reported that the IRS incorporated key legislative changes into programs and ensured programs were tested and implemented. However, for the 2000 filing season, the IRS faces even tighter time and resource constraints due to the Y2K conversions and End-to-End testing. Therefore, the Office of Audit recommended that:

- Information Systems management ensure the Filing Season Project Office has

¹ Pub. L. No. 105-34, 111 Stat. 788

controls in place to monitor and oversee the progress of all filing season changes.

- Product Assurance Division management ensure that the progress of testing for the 2000 filing season is consistently monitored and reported.
- Any testing delays need to be timely reported and discussed at Executive Steering Committee (ESC) and weekly filing season meetings.

IRS management agreed with the findings and has initiated corrective actions. However, Product Assurance Division management did not believe it would be appropriate to raise all program testing delays to the ESC.

Customer Service

The Office of Audit conducted reviews to evaluate whether the IRS is improving operations and providing taxpayers with quality customer service in accordance with Congressional and administrative direction.

A highlighted final report includes:

Improvements Can Be Made in Providing Assistance to Taxpayers (Report No. 199940065)

This review was initiated as part of the Office of Audit's coverage of the implementation of key legislation and National Performance Review recommendations affecting the 1999 filing season. The auditors evaluated the effectiveness of the IRS Customer Service Division's efforts to ensure employees were prepared to assist taxpayers with TRA 97 tax law questions. The auditors also assessed the IRS' TeleTax, Internet web site, toll-free telephone number, and e-mail activities.

The review showed that the IRS' toll-free automated telephone tax and refund information system (i.e., TeleTax) and Internet web site provided accurate information on key TRA 97 provisions. However, the IRS Customer Service

telephone assistors were not adequately prepared to answer current year tax planning questions. In addition, IRS' answers to 130,000 e-mail questions were not always complete, concise, or clear.

The Office of Audit recommended that the IRS could further its goal of improving customer service to taxpayers by:

- Ensuring prompt distribution of new tax law materials to telephone assistors.
- Establishing a process that ensures all telephone assistors are adequately trained.
- Establishing uniform program policies and procedures that will ensure quality responses to taxpayers' e-mail questions.

IRS management agreed to the recommendations and has initiated corrective actions.

Protecting Revenue and Minimizing Tax Filing Fraud

The Office of Audit conducted reviews to assess the IRS' efforts to properly protect revenue and minimize tax filing fraud.

Highlighted final audit reports include:

Weak Internal Controls Exposed Taxpayer Payments to Embezzlement in the Delaware-Maryland District (Report No. 190103)

The Office of Audit conducted this review in conjunction with the Office of Investigations' inquiry involving the embezzlement of delinquent taxes collected by a revenue officer. Approximately \$77,000 was embezzled by a revenue officer as a result of improper and undetected adjustments to taxpayer accounts. The review did not identify any similar instances of embezzlement by other revenue officers in the district.

IRS district management agreed that their procedures lacked proper separation of duties.

New procedures have been implemented to address these weaknesses. IRS district management has taken corrective action. Training was conducted for all persons involved in the processing of taxpayer account adjustments. IRS management also conducted quarterly post reviews to assure that proper guidelines were followed.

The Internal Revenue Service's Individual Taxpayer Identification Number Program Was Not Implemented in Accordance with Internal Revenue Code Regulations (Report No. 094505)

The IRS issues Individual Taxpayer Identification Numbers (ITINs) to undocumented aliens to improve nonresident alien compliance with tax laws. This IRS practice seems counter-productive to the Immigration and Naturalization Service's (INS) mission to identify undocumented aliens and prevent unlawful alien entry.

The Office of Audit reviewed the ITIN Program for conflicts with laws and regulations, its impact on other IRS programs, and operational effectiveness. The review indicated that the ITIN Program will adversely affect tax administration. The program raises several concerns, from tax policy to operational implementation.

The auditors reported:

- The ITIN Program conflicts with a general statute, The Illegal Immigration Reform and Immigrant Responsibility Act of 1996¹.
- The IRS disregarded its own procedures and did not verify both the identity and foreign status of the applicant. This action resulted in over 834,000 applicants receiving an ITIN without providing documentation establishing foreign status. Of these, over 340,000 applicants identified themselves as illegal aliens.

To address tax policy and operational issues, the Office of Audit recommended that IRS management:

- Bring legal issues to the attention of the Joint Committee on Taxation for the Confidentiality of Tax Information Study.
- Bring to the attention of the IRS Commissioner the taxation of illegal aliens.
- Implement revenue protection actions.
- Correct operational conditions.

IRS management generally agreed with the report recommendations. However, the revenue protection actions are seen as requiring legislative remedy. The Office of Audit disagreed that IRS management should not take any action on this recommendation.

Controls Should Be Strengthened Over Business Taxpayer Accounts with Frozen Million Dollar Refunds (Report No. 199940057)

The Office of Audit performed a limited review to determine whether the IRS was properly releasing the automatic hold placed on business taxpayer accounts when a credit balance reaches an amount that would cause a refund of \$1 million or more. Limited analysis showed that the IRS could provide better customer service and reduce interest expense by ensuring the holds are properly and timely released. The IRS incurred additional interest expense of approximately \$17.5 million on 44 business taxpayer accounts that had a "Million Dollar Refund Freeze."

The auditors advised IRS management of these conditions in an April 1998 memorandum. The memorandum included a list of 411 business taxpayer accounts with this freeze condition.

The Office of Audit also recommended that service center management:

¹ Pub. L. No. 104-208, 110 Stat. 3009-546

Semiannual Report to the Congress

- Modify the “Million Dollar Refund Freeze” indicator program in the IRS computer system.
- Generate follow-up transcripts for business taxpayer accounts with a “Million Dollar Refund Freeze” periodically.
- Ensure that the “Million Dollar Refund Freeze” is shown on critical IRS computer display screens.

- Enhance current IRS procedures to identify and expedite the resolution of a “Million Dollar Refund Freeze.”

The IRS Executive Officer for Service Center Operations responded to the interim memorandum and began immediate corrective action to resolve the noted “freeze” conditions. However, IRS management did not respond to the draft report which contained the four highlighted recommendations.

This Page Left Intentionally Blank

Treasury Inspector General for Tax Administration Office of Investigations

INTRODUCTION

The Office of Investigations is responsible for the development and execution of the nationwide investigative programs relating to oversight of IRS activities and operations.

The Office of Investigations is responsible for protecting the integrity of the IRS and for protecting employees of the IRS and related entities against external attempts to corrupt or threaten them when carrying out their responsibilities. This includes investigating allegations of criminal wrongdoing and administrative misconduct by IRS employees.

Other areas of responsibility include:

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

INVESTIGATIVE ACTIVITIES

The Office of Investigations focuses on investigating allegations of administrative or criminal misconduct that may involve IRS employees, such as unauthorized access and disclosure of confidential taxpayer information, bribery, financial fraud, false statements, and abuse of taxpayer rights.

During this six-month reporting period, the Office of Investigations completed 603 employee misconduct investigations.

The Office of Investigations also investigates individuals who attempt to interfere with or corrupt the administration of the federal income tax system, to include investigations of bribery, assault, threat, theft and embezzlements. During this reporting period, the Office of Investigations completed 1,039 investigations involving these types of allegations.

TIGTA special agents routinely conduct integrity awareness presentations for IRS employees and various professional organizations. These presentations are designed to heighten awareness of integrity and to provide a deterrent effect against fraud and abuse involving IRS programs and operations. During this reporting period, the Office of Investigations conducted 368 presentations for 17,178 individuals.

PROTECTION OF TAXPAYERS AND IRS EMPLOYEES

When Congress passed RRA 98, it created essential taxpayer rights and protections against IRS employee misconduct and abuses. The Office of Investigations is dedicated to serving the public by conducting investigations that protect the taxpayers from employees who commit criminal and administrative violations.

The Office of Investigations is also committed to protecting and supporting IRS employees as they carry out the mission of the IRS. IRS employees have the right to work in a safe and trustworthy environment. TIGTA is dedicated to ensuring taxpayers and IRS employees the highest degree of integrity,

fairness and trust in our tax administration system.

Complaint Management Division

During the 1998 Senate Finance Committee hearings involving IRS activities, including the activities of the former Inspection Service, the IRS was criticized for its inability to track the receipt and disposition of taxpayer complaints, including any subsequent action taken on those complaints. Accordingly, TIGTA developed a new complaint tracking system that provides a centralized accounting of all complaints received by TIGTA and the dispositions of those complaints. This system, the Investigations Management Information System Complaint Management Screen, became operational on July 19, 1999. This system has the capability to document and track complaints where there are multiple subjects.

To receive complaints of wrongdoing by IRS employees, TIGTA operates a toll-free telephone number, an e-mail account and a central post office box. Allegations are received at TIGTA's Complaint Management Division, which acts as a national center to process and track allegations of fraud, waste, abuse and other forms of wrongdoing.

To assure TIGTA has all the relevant information available to evaluate a complaint, complainants are interviewed, to the extent possible, by TIGTA personnel. Complainants are also provided with a Complaint Number which can be used to track the complaint's disposition.

During this reporting period, TIGTA received 5,092 complaints. Of these complaints, 2,071 (41 percent) warranted further investigation (see Appendix II).

Section 1203 Violations

Section 1203 of RRA 98 addresses a Congressional objective to ensure the protection of taxpayers and IRS employees from intentional, willful misconduct by IRS employees. RRA 98 provides for the termination of employees who commit specific categories of misconduct (see Appendix V for a summary of Section 1203 standards). During this reporting period, TIGTA initiated 122 investigations relating to alleged 1203 violations. Of these, 101 are currently ongoing, 4 were closed to file and 17 have been closed and referred to the IRS for administrative adjudication. The IRS terminated three employees under Section 1203 during this reporting period.

In addition, TIGTA received 365 information items relating to Section 1203 that were provided to IRS managers for action, as they deemed appropriate. These information items are complaints or allegations where TIGTA determined that an investigation was not warranted.

IRS Employee Found Guilty of Battery and Resigns Position Based on a 1203 Violation

On May 6, 1999, an IRS employee was found guilty of a charge of battery. The employee also resigned from her IRS position prior to administrative action based on a 1203 violation related to this incident. TIGTA initiated an investigation after several police officers reported that an IRS employee had threatened them during a traffic stop. During the traffic stop, the employee identified herself as an IRS employee, displayed her IRS credentials, threatened the officers with IRS audits and used abusive language. After scribbling her name on the traffic citation, the IRS employee threw the ticket book and pen at an officer, striking the officer. TIGTA special agents worked with the local authorities on the investigation. The IRS employee was sentenced to six months

probation and ordered to pay court costs in the amount of \$263 and attend an anger management program.

Strategic Enforcement Division

The Strategic Enforcement Division (SED), formerly called the Centralized Case Development Center, executes an aggressive proactive effort to detect fraud and misuse in IRS computer systems and operations. The program uses advanced computer technology and computer matching to identify criminal violations modeled from criteria identified in prior investigations.

SED's operation is an intense, collaborative effort between auditors, special agents and computer programmers. SED has been successful in identifying possible fraudulent activities and control weaknesses in IRS operations.

National Integrity Projects

The principal component of SED's operation is the national integrity project. Projects are initiated from information developed during a successful investigation. The methodology of a crime becomes the basis for developing proactive computer database applications that will identify other individuals who may be perpetrating the same crime. These proactive national integrity projects are included in Computer Matching Act¹ agreements approved by the Treasury Department's Data Integrity Board and published in the Federal Register.

UNAX Detection Project

The UNAX Detection Project is SED's most aggressive national integrity project. The Audit Trail Lead Analysis System (ATLAS) is designed to detect potential unauthorized accesses to electronic taxpayer records on IRS computer systems. ATLAS became

operational in March 1999, and replaced the antiquated IRS Electronic Audit Research Log that was in operation in the ten IRS service centers.

The UNAX Detection Project continues to identify solid leads. During the reporting period, TIGTA primarily used ATLAS to identify 478 leads of potential unauthorized access to tax information by IRS employees. Analysis of these leads has resulted in 175 referrals to TIGTA field offices for investigation of violations of the Taxpayer Browsing Protection Act of 1997².

As a result of this ongoing project, several UNAX cases have been further developed and identified fraud issues in addition to the unauthorized access issues. These issues involved potentially fraudulent returns and adjustments, and unauthorized disclosure of tax information. Some examples of these cases are highlighted on page 28.

TECHNICAL AND FORENSIC SUPPORT DIVISION

To support its operations, the Office of Investigations maintains the Technical and Forensic Support Division (TFSD). TFSD is responsible for directing programs concerning Technical Services, the Forensic Computer Laboratory (FCL) and Forensic Science Laboratory (FSL). Each TFSD program provides technical expertise throughout the development and the adjudication process of investigations.

Technical Services

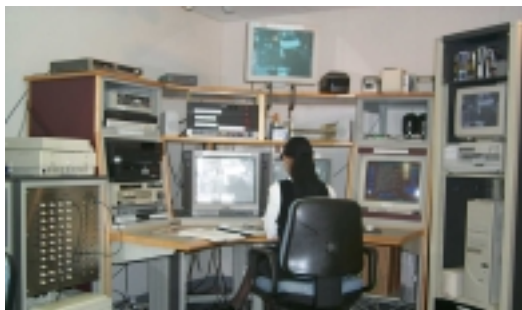
Technical Services is responsible for providing technical and investigative assistance, equipment, training, and other specialized services to enhance TIGTA's investigative activities. Technical Services' personnel provides crucial support in the

¹ Pub. L. No. 101-56, 103 Stat. 149

² I.R.C. § 7213A

collection and enhancement of evidence. Technical Services provides audio and video investigative equipment and support in collecting evidence. Some examples of significant investigative support provided by Technical Services include:

- An individual was captured on videotape, through the use of covert video equipment, offering a “silent” bribe to an IRS employee by passing notes and without talking.
- A covert video was utilized to collect evidence of an IRS employee making \$13,000 in telephone calls to sexually oriented “900” numbers from a government office.
- A covert video was instrumental in capturing an IRS service center employee stealing cash from IRS mail during a remittance test.
- A former IRS employee was observed, through the use of covert video, committing Worker's Compensation fraud.
- An IRS employee was observed, through the use of covert video and audio equipment, preparing and falsifying taxpayer documents.
- Covert video and audio equipment was instrumental in monitoring a tax preparer soliciting bribes from an individual in return for preparing and submitting false IRS tax documents.



Forensic Computer Laboratory

The FCL provides TIGTA special agents with on-site expertise and assistance during the search and seizure of computers and computer data. The FCL directs investigations involving external "hacking" or intrusion into IRS computer systems. The FCL maintains an investigative computer research and reference facility to enhance technical skills in the investigative use of computers. Furthermore, the FCL formulates and conducts computer investigative training for TIGTA employees and performs tests of the security of automated information systems nationwide. Examples of FCL support include investigating threats against IRS employees and other government officials made through the Internet. Support also includes safeguarding and inspecting IRS computer systems against outside intrusions through electronic means.

The following is a significant case developed with support from the FCL.

Joint Procurement Fraud Task Force Investigation Results in IRS Employee and Co-Conspirators Entering Guilty Pleas for Bribery

A procurement fraud task force comprised of personnel from TIGTA's Office of Investigations and Office of Audit, IRS' Criminal Investigation Division, and IRS' Examination Division determined that an IRS employee accepted bribe payments in exchange for directing IRS contracts to two companies. As a Contracting Officer's Technical Representative, the employee had a role in awarding contracts to perform computer maintenance. The bribe payments were made to the employee by two intermediaries, as well as the president of one of the companies. One of the intermediaries was the employee's former father-in-law. The scheme called for the employee and intermediaries to receive a percentage of the

gross billings from the contracts. The intermediaries received payments from the two companies, and in turn, paid the employee his share. Between 1991 and 1996, the companies received approximately \$57 million in contracts from IRS. The FCL conducted analysis of computer data secured as a result of a search and seizure.

As of August 30, 1999, the now former IRS employee has pled guilty to bribery and filing a false income tax return and was sentenced to 37 months imprisonment, followed by 3 years supervised release. The employee's former father-in-law pled guilty to conspiracy and paying bribes and gratuities and was sentenced to 46 months imprisonment. The other intermediary pled guilty and is currently serving a 67-month sentence. One of the company presidents pled guilty to paying unlawful kickbacks in conjunction with a contract with the Federal Aviation Administration (FAA), and is awaiting sentencing. Investigation of the FAA contract was also a result of the task force.

Forensic Science Laboratory

Criminal investigations often depend upon the forensic analysis of evidence. Fingerprint and handwriting examination, photography and chemical analysis are just a few of the laboratory tools that assist special agents in identifying subjects.

The FSL supports field investigations through timely processing of documentary, physical and chemical evidence. Additional high-tech equipment moves the FSL toward accreditation and provides expanded services to special agents. The FSL recently added a new digital camera to its laboratory. The digital camera provides state-of-the-art investigative support for the examination of physical evidence, from documents to fingerprints. This camera is a stationary unit capable of capturing top quality images of

evidence to accurately record the results of examination and to create courtroom demonstration charts.

During this six-month period, the FSL received 80 case submissions, issued 57 reports of laboratory examination, and evaluated 3,200 items of physical evidence. Included in the evidence analyzed was \$14.4 million in tax payments, tax refunds and other financial documents.

During the reporting period, the FSL examined a number of cases that resulted in confessions and court rulings in favor of the government. Some examples include:

- Handwriting examinations identified a suspect as the probable author of letters sent to a news publisher describing threats to kill IRS employees and federal judges. A latent print examination identified the suspect's fingerprints on the pages of the threats. The case went to trial and the defendant was found guilty. The defendant was sentenced to 37 months imprisonment, followed by 3 years of supervised release.



Developed latent print on threat letters.

- On June 28, 1999, two former IRS employees were arraigned on charges involving the theft and destruction of IRS tax returns, records, and other government property. The shredded documents were painstakingly reassembled by the FSL and were found to include original tax returns, as well as other IRS documents and files. Both IRS employees' fingerprints were identified on the reconstructed documents. As part of a negotiated plea agreement, one employee pled guilty to one count of destruction of government property. The other IRS employee pled guilty to one felony count of theft of government property. As part of their plea agreements, the United States Attorney's

Office agreed not to file additional charges involving theft, destruction of records, failing to perform official duties, and making false statements to investigators.

- The FSL examined evidence in a homicide case and was able to link the suspects to the evidence. Attempts to decipher illegible entries on an ATM receipt were made by a State Crime Lab and the Federal Bureau of Investigation, with little success. The FSL, using a sensitive infrared camera and imaging software, examined the receipt and was able to decipher additional entries. The FSL examiner testified for 3 1/2 hours



ATM receipt evaluated by the FSL using digital imaging.

in a pretrial hearing where the defendant motioned to suppress the FSL analysis in this death penalty murder case. The judge denied the defendant's motion. When the defendant was again confronted with the TIGTA laboratory report, he admitted to his involvement in the crime, and implicated the second defendant, the victim's nephew, as the one who committed the murder. The defendant pled guilty to third degree murder and the nephew pled guilty to first degree murder.

- A joint investigation by TIGTA and IRS' Criminal Investigation Division involved a kickback scheme related to a FAA contract. Due to the varied content of the investigative documents, the FSL provided guidance to investigators in

obtaining handwriting exemplars from the suspected writers. Upon its comparison with the investigative documents, the FSL identified two of the three principals as authors of the questioned material. The defendants pled guilty in July 1999.

- An individual claimed that he gave an IRS revenue officer, now deceased, cash in the amount of \$22,000 as full payment for his tax liability. IRS records reflected no such payment. The individual contended that he owed no taxes and as proof, produced photocopies of two IRS notices, each with a handwritten notation indicating taxes paid in full. An investigation, including forensic analysis of handwriting on purported receipts, found no evidence supporting the individual's claim that the revenue officer had made the handwritten notations. A TIGTA FSL examiner provided expert testimony in United States District Court. The government was pursuing a civil collection suit against the individual. The Petit Jury ruled in favor of the government.

SIGNIFICANT INVESTIGATIONS

Disclosure and Improper Computer Access Investigations

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

IRS Employee Indicted for Unauthorized Access of a Federal Computer in Furtherance of a Criminal Act

An IRS service center employee was indicted on August 3, 1999, for unauthorized access of

a federal computer in furtherance of a criminal act. Based on that charge, the employee's related criminal acts, solicitation for murder, intimidation of a witness, and armed robbery, were also charged federally.

TIGTA's investigation began after local police arrested two individuals for an attempted bank robbery. Following the arrest, one of the individuals admitted attempting to rob the bank at the direction of an unidentified IRS employee. The individual also admitted that the IRS employee asked him to kill a witness against the employee in a criminal matter, but that the individual refused. TIGTA was contacted by the local police and advised of the unidentified IRS employee's involvement.

After TIGTA determined the identity of the IRS employee, it was further determined that the employee had been charged with the gunpoint robbery of a taxpayer making a bank deposit of business receipts. The employee then used IRS computer systems to improperly access the taxpayer's account. The employee used the information to further his attempts to intimidate and silence her. Due to the severity surrounding the improper use of IRS computer systems, the United States Attorney's Office assumed jurisdiction of all of the employee's criminal acts. The employee was terminated from IRS employment.

IRS Employee Pled Guilty to False Statement Charges

On April 7, 1999, an IRS employee was charged in a three-count indictment for false statements and was subsequently arrested by TIGTA special agents. An investigation was initiated after TIGTA identified an improper computer access by an IRS employee to the account of a relative. The investigation revealed that the IRS employee made 170 unauthorized computer accesses to the tax accounts of 20 individuals identified as friends, relatives and neighbors of the

employee. During the investigation, TIGTA developed information that the IRS employee also submitted false statements to maintain a residence that was subsidized by the federal government. During a joint investigation with the Department of Housing and Urban Development Office of Inspector General, it was determined the IRS employee defrauded the federal government of approximately \$15,000 in rent subsidies during 1994, 1995 and 1996. The employee resigned from the IRS during the investigation. The employee entered a guilty plea to the charges on August 3, 1999.

IRS Employee Sentenced for Disclosing Confidential Information

On June 3, 1999, an IRS employee was sentenced to two years probation and ordered to pay a \$1,000 fine and a \$100 special assessment after pleading guilty to disclosing confidential information. TIGTA's investigation revealed that an IRS employee was recommending an accountant to taxpayers under collection activity by the employee. TIGTA identified 12 taxpayers who were clients of the accountant and whose tax records were accessed on multiple occasions in an unauthorized manner by the employee. With the accountant's cooperation, it was determined that for the last several years the accountant prepared federal and state tax returns for friends and relatives of the employee at no cost. The accountant did this in exchange for tax information and records on his clients. The accountant confirmed that the employee had recommended several clients to the accountant's practice. One taxpayer told TIGTA special agents that he retained the accountant based on the employee's recommendation thinking that it would be beneficial in resolving his tax matters. The IRS employee retired during the investigation.

IRS Employee Pled Guilty to Disclosing Confidential Information

On June 22, 1999, an IRS employee pled guilty to one count of disclosing confidential information and was subsequently sentenced to one year probation. This investigation was initiated after the United States Attorney's Office reported that an IRS employee may have disclosed confidential information regarding an IRS criminal investigation and federal grand jury investigation to the subject of the investigation and to a third party. Both persons were alleged to be personal friends of the subject.

The investigation determined the employee contacted the third party and disclosed that their mutual friend was the subject of a criminal investigation and that they discussed how best to inform their friend. The employee and the third party then met with the subject of the investigation and had a "hypothetical" discussion during which the subject was informed he was in fact the subject of a criminal investigation. It was also determined that the employee contacted the third party again and informed him of scheduled investigative activity regarding the subject. The IRS employee retired while under investigation.

IRS Employee Indicted for Unauthorized Access to IRS Computer System

In June 1999, an IRS employee was indicted by a federal grand jury on eight counts of unauthorized accesses to tax return information. The investigation confirmed that the employee had no authorized reason to access the accounts. On August 11, 1999, the employee pled guilty to unauthorized access.

An IRS Employee Entered Pretrial Agreement for Unauthorized Access to a Federal Computer

On May 13, 1999, an IRS employee entered into a 12-month pretrial agreement that

required him to resign from his position with the IRS and not seek re-employment. The employee was indicted by a federal grand jury on two counts of exceeding his authorized access to a federal interest computer. TIGTA's investigation disclosed that the employee made unauthorized computer accesses of the Treasury Enforcement Communications System (TECS). TECS is a computer system designed to identify individuals involved or suspected of involvement in violation of the laws of the United States. The employee utilized TECS on multiple occasions to research confidential information regarding a taxpayer and his business.

Bribery Investigations

As a result of the frequent contacts IRS employees have with taxpayers, their positions and responsibilities make them potential targets for bribery attempts. Their positions also provide opportunities to extort and solicit bribes from taxpayers and to conspire with individuals who would threaten the integrity of the tax administration process.

Bribery is often a focus of TIGTA's integrity awareness presentations. IRS employees are educated on how to recognize bribe overtures and their responsibilities in reporting bribe attempts. TIGTA also educates employees about their responsibility to maintain a high standard of integrity. TIGTA presentations have a deterrent effect and could dissuade employees from taking inappropriate advantage of their positions.

During this reporting period, the Office of Investigations completed 49 bribery investigations.

IRS Employee Assisted Car Broker in \$20,000 Bribe Pay-Off to Cooperating Revenue Agent

On June 9, 1999, an IRS employee and a car broker were indicted by a federal grand jury

for bribery and conspiracy. The investigation began when TIGTA agents received information alleging that an IRS employee, behind in rent payments, had threatened her landlady with an IRS audit if further attempts to collect the rent and/or eviction procedures were undertaken. It was alleged that the employee had accessed the IRS computer system for tax account information of the landlady and property owner. The investigation confirmed the employee's threats of IRS retaliation against the landlady and improper access to the tax accounts.

Subsequently, the employee initiated contacts with a revenue agent and suggested that if the revenue agent could possibly help the car broker, the revenue agent could receive a car. The revenue agent contacted TIGTA and cooperated in the investigation.

The IRS employee introduced the revenue agent to the car broker who offered \$20,000 to secure his IRS audits and prepare fraudulent reports, and another \$10,000 to initiate an audit on a former business partner. The IRS employee insisted to the revenue agent that she deserved half of every bribe payment as a finder's fee. The car broker paid \$20,000 to the revenue agent in return for fraudulent audit reports. TIGTA special agents arrested the IRS employee and the car broker on June 10, 1999.

Four Individuals Pled Guilty to Bribery

On July 26, 1999, the last of four individuals entered a guilty plea to federal bribery charges. The four individuals paid a cooperating IRS employee bribes totaling \$68,080 for negating approximately \$675,000 in delinquent tax liabilities. One individual offered to pay the IRS employee a bribe for negating his delinquent tax liabilities. The bribe was subsequently paid to the cooperating employee. This individual then introduced three additional individuals to the cooperating IRS employee. These individuals also offered and paid the cooperating IRS

employee bribes for negating their delinquent tax liabilities. Three of the four individuals were sentenced to a total of 31 months imprisonment, 8 years supervised release and \$22,000 in fines. The fourth individual is awaiting sentencing.

Five Individuals Pled Guilty to Bribery Charges

In July and August 1999, four individuals and an enrolled agent were sentenced after pleading guilty to bribery charges. The investigation began after an IRS employee reported a possible bribery overture. The enrolled agent and his client paid a total of \$15,000 to the IRS employee for a fictitious tax examination report. The enrolled agent told the IRS employee that he had other clients that would need help if they were audited. A review of tax returns prepared by the enrolled agent was conducted to identify other questionable returns. Audits of two returns resulted in bribes being paid to a second cooperating IRS employee. To eliminate any taxes owed, one individual and his wife paid \$1,300 and the other individual paid \$2,250 in bribes to the IRS employee.

The enrolled agent received six months jail time, two years supervised release and a \$2,000 fine. The initial client received eight months jail time, two years supervised release and a \$2,000 fine. The individual and his wife each received two years probation, including five months home detention. The last individual received two years probation and a \$1,000 fine.

Theft, Embezzlement and Fraud Investigations

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

Major Tobacco Company Pled Guilty to Illegal Smuggling, Forfeited \$10 Million and Fined \$5 Million

On July 9, 1999, a major tobacco company forfeited \$10 million to federal and state governments, over half of which was deposited into the United States Treasury Asset Forfeiture Fund, after the company pled guilty to charges of illegal smuggling. The company fraudulently transported and sold cigarettes within the United States that had been intended for exporting. The company was fined \$5 million. There have been more than 20 individual felony convictions of participants in the operation. TIGTA participated in the multi-agency task force investigating the smuggling operation because of allegations regarding an IRS employee. It was alleged that an employee was misusing IRS computers in connection with the operation; however, the employee was cleared of these allegations.

Two IRS Employees Pled Guilty to Theft of IRS Tax Remittances

Two IRS service center employees entered guilty pleas after being indicted on federal charges of theft of public money and theft of mail. A proactive initiative to detect thefts of taxpayer remittances identified the two employees that inappropriately handled controlled tax remittance items. On April 1, 1999, TIGTA special agents confronted the employees immediately after they failed to properly process the tax payments during separate incidents. Both employees confessed to the thefts and turned over the stolen money. IRS immediately terminated the employees.

Nine Individuals Indicted in Scheme That Included Thefts of Taxpayer Remittances

On May 18, 1999, nine individuals were indicted for conspiracy in a scheme that included the thefts of taxpayer remittances,

bank fraud and credit card fraud. The investigation was initiated from information developed from investigations of thefts of tax remittances from a lockbox facility. Lockbox facilities receive and process tax payments and credit the payments to a depository clearing account for subsequent transfer to the IRS. The investigation revealed that the individuals purchased the stolen checks from a variety of sources and deposited the checks in bank accounts that were established in fictitious or assumed identities. The individuals depleted the funds before the taxpayers or IRS knew that the checks were stolen. The investigation revealed that the individuals were responsible for over \$1.2 million of fraudulent activities. Two of the individuals were in the process of preparing false identity documents to aid them in the fraudulent use of credit cards that were in their possession when they were arrested. Six of the individuals pled guilty to the charges and three individuals are fugitives.

IRS Employee Charged With Wire Fraud, Money Laundering and Filing False Tax Returns

On July 22, 1999, a federal grand jury indicted an IRS employee on 48 counts for violations of wire fraud, money laundering and filing false tax returns. The employee's wife, a night manager at a local grocery store, defrauded her employers of over \$400,000 through various means, including stolen and converted money orders and wire transfers. The United States Secret Service notified TIGTA after receiving a report concerning the wife's theft. An investigation of the wife by the Secret Service and IRS' Criminal Investigation Division resulted in the wife being charged with eight counts of stealing money orders and filing false tax returns. A subsequent investigation by TIGTA and IRS' Criminal Investigation Division of the IRS employee determined that he used the embezzled money to fund numerous gambling trips and pay gambling debts. The income

derived from this scheme was not reported on the employee and his wife's jointly filed federal income tax returns for tax years 1992-1996.

IRS Employee Found Guilty of Theft of \$31,150 in Tax Remittance Checks and Destruction of a Tax Return

On April 20, 1999, a federal grand jury indicted an IRS employee on three counts of theft of public money and destruction of a tax return. The investigation began when a taxpayer reported that her \$8,000 tax remittance check, made payable to the IRS, was altered to be payable to an individual. Review of IRS records identified the individual as an IRS employee. Bank records confirmed that the \$8,000 check was deposited into the employee's bank account. Bank employees later notified TIGTA agents that the employee had deposited a second check for \$23,150 into her account. A review of that check revealed that it was also altered to the name of the employee. The employee was arrested and admitted that she threw away the tax return that was attached to the \$23,150 check. On July 28, 1999, the employee was found guilty of all three counts. The employee was terminated from IRS.

Former IRS Employee Charged in Refund Scheme

A former IRS employee, while employed by the IRS, agreed and colluded with an individual to release or cause the release of a total of 219 Earned Income Tax Credit refunds without the proper justification. The former IRS employee accepted between \$150 and \$200 from a co-conspirator in exchange for releasing each refund. The refund would typically be claimed in the name of migrant farm workers who failed to present the necessary documentation to claim the refund, and in some cases, failed to file a tax return altogether. The former employee accepted a total of \$14,000 in payments for illegally releasing Earned Income Tax Credit refunds.

The former employee entered into a plea agreement that charged felony violations of conspiracy by an employee of the United States Government.

Lockbox Manager Arrested for Embezzlement of Tax Payments

As the result of a taxpayer complaint that a tax payment had not been credited to the taxpayer's federal income tax liability, a manager at a lockbox facility was arrested on embezzlement charges. When interviewed, the lockbox manager admitted to the theft and negotiation of five tax payments. An inventory of the contents of the employee's desk revealed 426 personal checks and money orders from taxpayers, totaling in excess of \$1.3 million. A federal magistrate ordered that the employee be held without bond based on the discovery that he was an illegal alien using a social security number not officially assigned to him by the Social Security Administration. The INS subsequently placed a detainer on the employee.

Fugitive Sentenced in Multi-Defendant Telemarketing Scheme

On May 28, 1999, an individual, after remaining a fugitive for approximately three years, was sentenced to 30 months imprisonment and three years supervised probation, and ordered to pay \$7,573 in restitution to victims for operating a telemarketing scheme. On March 27, 1996, the telemarketer had failed to appear for his sentencing hearing after his conviction on fraud charges, and a fugitive warrant was issued for the individual for violating the conditions of pretrial release. This individual and six conspirators defrauded taxpayers of \$141,556 by contacting victims and telling them that they won an automobile, a \$5,000 shopping spree or a \$2,500 cashier's check. The victims were told that the company was authorized to collect federal taxes on behalf of the IRS and that the taxes needed to be paid before their "prize" could be awarded.

Individual Arrested for Impersonating an IRS Employee and Mail Fraud

On June 21, 1999, an individual was arrested for a scheme to defraud a taxpayer, his elderly cousin. The individual arranged a telephone call to the taxpayer from a fictitious IRS employee who claimed that the taxpayer owed \$11,000 to the IRS. The individual, who prepared the taxpayer's returns, told the taxpayer to withdraw \$10,000 from the bank in cash and he would settle the tax deficiency. The elderly taxpayer provided the individual with \$10,000 for the IRS and \$500 for his handling of the matter. During conversations recorded by TIGTA special agents, the individual admitted to another relative of the taxpayer that he extorted the funds. The individual was charged with two counts of mail fraud and one count of impersonating a federal officer.

Inmate Indicted for Submitting False Request for Information

On April 13, 1999, a federal grand jury returned an indictment charging an inmate with forgery and false statements. The investigation began after an inmate falsely submitted a tax authorization form to the IRS requesting employer information on a third party. The investigation determined that the inmate had forged the form in an attempt to obtain an address on a taxpayer who the inmate had a history of stalking and harassing. The local IRS disclosure office suspected the form to be forged and forwarded it to TIGTA before any records were released to the inmate. The inmate was identified by his return address that was a corrections facility.

Threat, Assault, and Harassment Investigations

While serving the taxpayers, IRS employees face a difficult and challenging mission. While incidents and threats of violence and harassment are extremely rare when

compared to the millions of taxpayer contacts made yearly by IRS employees, sometimes individuals do resort to violent acts. The Office of Investigations is committed to providing the highest priority in terms of responsiveness and investigative emphasis to threats and assaults against IRS employees. This Office also investigates incidents of harassment by individuals who attempt to undermine IRS employees as they carry out their duties. During this six-month period, the Office of Investigations completed 271 threat and assault investigations.

Individual Threatens to Bomb World Trade Center Building and Other IRS Offices

On May 21, 1999, after receiving notice that his recent appeal in an United States Tax Court had been rejected, a New York resident made threatening telephone calls to IRS District Counsel attorneys. In two separate phone calls, he threatened to bomb the World Trade Center building and several other IRS locations in the New York area. He also threatened to kill several IRS employees and their families and claimed that he had taken a contract out on everyone in the World Trade Center building. An Assistant United States Attorney immediately authorized TIGTA special agents to arrest the individual.

Individual Charged With Threatening to Blow Up IRS Building

On May 26, 1999, an individual who had been charged with attempting to interfere with the administration of internal revenue laws using corrupt or forcible interference pled guilty and subsequently received a three-year suspended sentence. The individual telephoned an IRS service center regarding a notice she received and stated she did not owe taxes to the IRS. She then said she wanted to "bomb the IRS building without anyone in the building." The individual had been the subject of a 1991 investigation where she threatened to kill several IRS employees. That investigation

led to her arrest and conviction on the same charge.

Individual Arrested After Making Telephonic Threat to IRS Employee

On May 7, 1999, an IRS employee reported that an individual made a telephonic threat during a call concerning his tax liability. The individual stated he knew about ammonium nitrate and that it was used in the bombing of the Oklahoma City building. Based on the severity of his statements, an Assistant United States Attorney agreed to the issuance of an arrest warrant. TIGTA special agents effected the arrest after successfully negotiating with the individual who was armed with knives. After relinquishing his weapons, the individual admitted to making the threatening call to the IRS.

Individual Arrested for Making Threatening Statements

On July 12, 1999, an individual, in a conversation with her accountant, made threatening comments regarding IRS employees. The woman stated to the accountant that she was going down to the IRS office and blow it up. She further indicated she would shoot anybody she saw at the IRS and that she did not care if she went to jail. The accountant reported the comments to TIGTA. When interviewed by TIGTA special agents, she stated she could say anything she wanted. Shortly after this interview, the woman called the accountant's office and stated she would blow up his office first if he had reported her. The United States Attorney authorized the arrest of the woman.

Individual Pleads Guilty to Threatening Communications

On June 2, 1999, an individual pled guilty to making threatening communications and received two years probation after making hundreds of telephone calls to a local radio station. The individual harassed and

threatened employees of the station and an IRS employee who had recently appeared on the station to provide taxpayer education. The subject was arrested and confessed to placing the threatening calls because he was angry with the IRS employee for being on the show and was also angry with the radio station employees for putting the IRS employee on the air.

Individual Injures IRS Employee During an Assault in IRS Office

On June 30, 1999, an individual entered a guilty plea and was sentenced to one year probation, was fined \$250, and ordered to pay restitution of \$2,058 for medical expenses for assaulting and causing injury to an IRS employee who was on official duty. TIGTA special agents responded to a call for help from an IRS employee who had been assaulted by an unknown man upset over the inconvenient hours for the IRS Customer Service Lobby. The employee had to be taken to the emergency room for treatment. The individual was identified and arrested by TIGTA special agents.

Individual Pleads Guilty to Threatening to Blow Up a Federal Building

On May 28, 1999, an individual entered a guilty plea on charges of attempting to interfere with the administration of internal revenue laws by threats of force. A TIGTA investigation was initiated after an IRS employee reported that the individual called the IRS and threatened to blow up a federal building where IRS employees were located. Earlier that day, the individual had to be removed from the federal building by security guards after causing a disturbance in the IRS office. TIGTA's investigation disclosed that the individual made numerous telephone calls to various IRS call sites located throughout the country, making additional threatening remarks and referencing the Oklahoma City bombing. On August 13, 1999, the individual

Semiannual Report to the Congress

was sentenced to 2 years probation and 50 hours of community service.

Individual Found Guilty of Interfering with the Administration of Internal Revenue Laws

On July 8, 1999, after a three-day trial, an individual was found guilty of attempting to interfere with the administration of internal revenue laws and bankruptcy fraud. This individual filed fraudulent court documents to

illegally encumber the personal property of two IRS employees. This action caused difficulties for one of the employees who was attempting to re-finance his personal residence prior to his retirement. Also, in an attempt to avoid payment of taxes, the subject filed bankruptcy, appointed himself as trustee and transferred \$40,000 to overseas accounts, beyond the reach of the government.

Semiannual Report to the Congress

Appendix I Statistical Reports for the Office of Audit

Audit Reports With Questioned Costs

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

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

Audit Reports With Questioned Costs (4/1/99 – 9/30/99) Report Category:	Number of Reports¹	Questioned Costs² (In Thousands)	Unsupported Costs (In Thousands)
1. For which no management decision had been made by the beginning of the reporting period.	0	0	0
2. Which were issued during the reporting period.	3	\$325	0
3. Subtotals (Item 1 plus Item 2)	3	\$325	0
4. For which a management decision was made during the reporting period.	0	0	0
- Dollar value of disallowed costs	0	0	0
- Dollar value of costs not disallowed	0	0	0
5. For which no management decision had been made by the end of the reporting period. (Item 3 minus Item 4)	3	\$325	0
6. For which no management decision was made within six months of report issuance.	0	0	0

¹ See Appendix IV for identification of audit reports involved.

² “Questioned Costs” include “Unsupported Costs.”

Appendix I
Statistical Reports for the Office of Audit

Audit Reports With Recommendations That Funds Be Put To Better Use

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

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

Reports With Recommendations That Funds Be Put to Better Use (4/1/99 – 9/30/99)	Number of Reports¹	Amount (In Thousands)
Report Category		
1. For which no management decision had been made by the beginning of the reporting period.	0	0
2. Which were issued during the reporting period.	3	\$169,175 ²
3. Subtotals (Item 1 plus Item 2)	3	\$169,175
4. For which a management decision was made during the reporting period.	3	\$169,175
<ul style="list-style-type: none"> ▪ Dollar value of recommendations that were agreed to by management <ul style="list-style-type: none"> - Based on proposed management action - Based on proposed legislative action ▪ Dollar value of recommendations that were not agreed to by management 	3	\$169,175
	0	0
	0	0
5. For which no management decision had been made by the end of the reporting period. (Item 3 minus Item 4)	0	0
6. For which no management decision was made within six months of issuance.	0	0

¹ See Appendix IV for identification of audit reports involved.

² \$150 million of the total represents the annual reduction of interest costs, as estimated by the IRS in their response to the report, that would result from the accelerated processing of individual and business paper check refunds (see Report No. 093309).

Audit Reports With Additional Quantifiable Impact on Tax Administration

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

Definitions of these additional measures are:

1. **Taxpayer Rights and Entitlements at Risk:** The protection of due process (rights) that is granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise in the performance of filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds (entitlements) are also included in this category, relating to instances when taxpayers have a legitimate assertion to overpayments of tax.
2. **Reduction of Burden on Taxpayers:** Decreases by individuals or businesses in the need for, frequency of, or time spent on contacts, record keeping, preparation, or costs to comply with tax laws, regulations, and IRS policies and procedures.
3. **Increased Revenue or Revenue Protected:** Assessment or collection of additional taxes (increased revenue), or proper denial of claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system (revenue protection).
4. **Taxpayer Privacy and Security:** Protection of taxpayer financial and account information (privacy). Processes and programs that provide protection of tax administration, account information and organizational assets (security).
5. **Protection of Resources:** Safeguarding human and capital assets, used by or in the custody of the organization, from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation. This measure will often be expressed as a value of the entity or program affected by the issue(s) described in the audit report.
6. **Reliability of Management Information:** Ensuring the accuracy, validity, relevance, and integrity of data, including the sources of data and the applications and processing thereof, used by the organization to plan, monitor, and report on its financial and operational activities. This measure will often be expressed as an absolute value (i.e., without regard to whether a number is positive or negative) of overstatements or understatements of amounts recorded on the organization's documents or systems.

Appendix I
Statistical Reports for the Office of Audit

Audit Reports With Additional Quantifiable Impact on Tax Administration

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

Reports With Additional Quantifiable Impact on Tax Administration (4/1/99 – 9/30/99)	Number of Reports in Category¹	Number of Taxpayer Accounts	Number of Hours	Dollar Value (In Thousands)	Other
Outcome Measure Category					
1. Taxpayer Rights and Entitlements at Risk	8	1,758,385 ²		\$16	
2. Reduction of Burden on Taxpayers	2	3,500			130,000 ⁵
3. Increased Revenue or Revenue Protected	2			\$430	
4. Taxpayer Privacy and Security	3	122,703,600 ^{2,3}			
5. Protection of Resources	4			\$39,040	
6. Reliability of Management Information	5			\$101,384 ⁴	See Note ⁶

¹ See Appendix IV for identification of audit reports involved.

² Controls in the Examination Returns Control System are not adequate to protect both taxpayer rights and privacy for the 1.7 million examinations conducted annually.

³ Taxpayer accounts on the Electronic Fraud Detection System are at risk of unauthorized access unless security controls that protect taxpayer data are strengthened. In FY 1998, the Electronic Fraud Detection System contained 121 million accounts.

⁴ Dollar value represents incorrect information contained in reports and information systems designed to assist management in making business decisions concerning reimbursable agreements with other agencies (\$77.5 million); cost of an information system project (\$22.3 million); and, labor costs applied to a customer service program (\$514,000) and development of a tax processing system (\$1.07 million).

⁵ Consists of 130,000 electronic mail inquiries from taxpayers seeking assistance who may receive answers that are not always complete, concise or clear.

⁶ Consists of the following measure: 22% of the 125 files exchanged with external trading partners that were not correctly displayed on the Integrated Network and Operations Management System (INOMS).

Semiannual Report to the Congress

Appendix II
Statistical Reports for the Office of Investigations

Investigative Results
April 1, 1999 – September 30, 1999

Investigations Opened and Closed

Total Investigations Opened	2,071
Total Investigations Closed	1,642

Financial Accomplishments

Bribe Payments (Seized/Recovered)	\$3,000
Embezzlement/Theft Funds (Recovered)	\$48,030
Fines Ordered by the Courts	\$129,629
Restitution Ordered by the Courts	\$12,822,199

Semiannual Report to the Congress

Appendix II
Statistical Reports for the Office of Investigations

Status of Closed Criminal Investigations

	Employee Subject	Non-Employee Subject	TOTAL ¹
Referred – Accepted for Prosecution	43	104	147
Referred – Declined for Prosecution	214	323	537
No Referral ²	491	437	928
Referred - Pending Prosecution Decision	13	90	103

Criminal Dispositions³

	Employee Subject	Non-Employee Subject	TOTAL ¹
Guilty	24	89	113
Nolo-Contendere	1	1	2
Pretrial Diversion	5	6	11
Not Guilty	0	1	1
Dismissed	1	1	2

¹ The above statistics include both federal and state dispositions.

² Includes investigations in which the allegation was disproved and/or insufficient evidence was obtained.

³ Due to the time involved in criminal adjudication, there is most often no correlation between the data reflected as "Referred-Accepted for Prosecution" in the Status of Closed Criminal Investigations chart and the data in the Criminal Dispositions chart.

Semiannual Report to the Congress

Appendix II
Statistical Reports for the Office of Investigations

The following tables summarize the number of complaints received by TIGTA and various components within the IRS and the status and dispositions of serious allegations against IRS employees. [I.R.C. 7803(d)(2)(A)(i – iv)]

Complaints/Allegations Received by TIGTA

	TIGTA Cases	TIGTA Information Items	TOTAL
Number of Complaints Received by TIGTA	2,071	3,021	5,092
Complaints Against IRS Employees	833	2,227	3,060
TIGTA Proactive Cases on IRS Employees	210		210
Complaints Against Non-Employees	959	794	1,753
Other Proactive TIGTA Initiatives	69		69

Complaints/Allegations Received by IRS

	TOTAL
Number of Complaints Received by IRS¹	
Customer Feedback System (CFS) ²	2,110
Problem Resolution Program (PRP) ³	152,073
EEO Informal Complaints ⁴	1,158
EEO Formal Complaints ⁴	437
Other Employee Misconduct ⁵	235

¹ Number of complaints are not totaled because of significant differences in the nature of issues raised in each complaint system and the potential for duplication.

² CFS data reflects complaints made by taxpayers regarding IRS employee conduct, as required by the Taxpayer Bill of Rights 2.

³ PRP data reflects efforts to solve individual taxpayer problems, using criteria established by the National Taxpayer Advocate. Since the management information system does not specifically identify complaints, it is not possible to separate complaints from other taxpayer communications involving inquiries and problems.

⁴ EEO data on formal and informal complaints includes duplication. The EEO process includes attempts at informal resolution before the case goes into the formal complaint process. Cases in which the informal complaint process was initiated and completed during the reporting period could be counted as received in both categories during the reporting period.

⁵ Other employee misconduct includes misconduct allegations addressed through management inquiries, as reflected in two information systems, the Executive Control Management System and the Automated Labor and Employee Relations Tracking System. The IRS believes that an unknown but possibly significant percentage of the allegations are reported in both systems.

Appendix II
Statistical Reports for the Office of Investigations

Administrative Status and Dispositions on Closed TIGTA Investigations¹

Removed, Terminated, or Other	108
Suspended/Reduction in Grade	67
Oral or Written Reprimand/Admonishment	84
Closed – No Action Taken	196
Clearance Letter Issued	45
TOTAL DISPOSITIONS	500
Employee Resigned Prior to Adjudication	85

¹ Cases which were referred and/or cases on which action was taken by the IRS during this reporting period. Additionally, TIGTA referred 451 cases during this 6-month period that remain pending administrative adjudication by the IRS.

Audit Reports With Unimplemented Corrective Actions

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

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

Report Number	Issued	Report Title and Recommendation Summary
041403	January 1994	<i>Review of the Nonresident Alien Information Documents</i> <u>F-1, R-2, P-1.</u> Management should ensure that obvious noncompliance with applicable tax laws and regulations be identified during processing.
061610	January 1996	<i>IRS' Efforts in Monitoring Trust Fund Recovery Penalty Assessments Need Improvement</i> <u>F-2, R-3, P-1.</u> IRS should automate the processing of adjustments resulting from payments or credits on related Trust Fund Recovery accounts, as part of the Service's modernization efforts. <u>F-4, R-1, P-1.</u> The Chief Financial Officer and Assistant Commissioner (Collection) need to define accounts receivable as it relates to Trust Fund Recovery (TFR) assessments. Management should re-evaluate the definition of accounts receivable related to TFR assessments and make the necessary changes to ensure TFR assessments are accurately represented.
060402	January 1996	<i>Review of the Early Intervention Contact Processing</i> <u>F-2, R-1, P-2.</u> Early Intervention should consider alternate methods to obtain the most current taxpayer locator information.
064102	May 1996	<i>Review of the Preparer Program</i> <u>F-1, R-1, P-1.</u> Associate the preparer Taxpayer Identification Number with each individual return in the audit stream.
064008	June 1996	<i>The Financial Accounting and Reporting of Collection's Seized Assets Could Be Improved</i> <u>F-2, R-1, P-4.</u> Management should incorporate a systemic interface between the Automated Work Control System seizure module and the general ledger as part of Revenue Accounting Control System replacement.
065002	July 1996	<i>Review of the Validity of Assessments</i> <u>F-1, R-1, P-1.</u> The Service should review a sample of "No Change" and abated Combined Annual Wage Reporting and Social Security Administration penalty cases after the processing season to evaluate causes of unproductive cases and identify where additional program improvements can be made. <u>F-1, R-3, P-1.</u> The Service should continue pursuing the capability to access Social Security Administration (SSA) data via computer to enable quick, economical processing of Combined Annual Wage Reporting and SSA penalty cases.

Semiannual Report to the Congress

Appendix III
Statistical Reports—Other

Audit Reports With Unimplemented Corrective Actions

Report Number	Issued	Report Title and Recommendation Summary
065503	August 1996	<p><i>Review of The Employment Tax Nonfiler Program</i></p> <p><u>F-2, R-1, P-1.</u> When Form W-3 information is received from the Social Security Administration match the employer identification number and name control to those on the Business Masterfile.</p> <p><u>F-2, R-2, P-1.</u> When the Service Center Unpostable function cannot perfect an Employer Identification Number (EIN)/name from the Form W-3, initiate Collection contact with the employer to secure any delinquent returns rather than terminating processing of those Form W-3 with unperfected EINs.</p> <p><u>F-2, R-3, P-1.</u> Establish a Form W-2/Business Masterfile (BMF) check of Employer Identification Numbers (EINs) that appear on Forms W-2 attached to electronically filed Forms 1040. Establish employment tax filing requirements for those EINs that match an existing BMF account if the account does not have a filing requirement and does not contain a subsidiary indicator.</p>
066401	September 1996	<p><i>Follow-up Review of Information Security Over Small Scale Computer Systems</i></p> <p><u>F-1, R-1, P-24.</u> Require Regional Commissioners to conduct another self-assessment and certification of systems, to be followed by a validation.</p>
071404	February 1997	<p><i>Productivity of the Underreporter Program</i></p> <p><u>F-1, R-1, P-1.</u> A Gross Assessment Method should be used to calculate the Underreporter Program productivity.</p> <p><u>F-2, R-1, P-1.</u> A Gross Assessment Method should be used to calculate yield to cost ratios, determine productivity rankings, and select inventory for the Underreporter Program.</p> <p><u>F-3, R-1, P-1.</u> Actual site costs should be used when calculating productivity to increase the accuracy of productivity rankings and obtain a more precise measurement of efficiency.</p>
071304	March 1997	<p><i>Quality of Information Document Processing</i></p> <p><u>F-1, R-1, P-3, P-4.</u> Review IRS reports (Martinsburg Computing Center Report 405-02-12) to determine whether large variances exist between processing years in the volume and dollars of information documents.</p>

Semiannual Report to the Congress

Appendix III
Statistical Reports—Other

Audit Reports With Unimplemented Corrective Actions

Report Number	Issued	Report Title and Recommendation Summary
072208	April 1997	<p><i>Review of Service Efforts to Ensure Compliance of Taxpayers Receiving Foreign Sourced Income</i></p> <p><u>F-1, R-1, P-1, P-2.</u> The Assistant Commissioner (International) should work in coordination with the Executive Officer for Customer Service to measure the overall impact of Foreign Information Returns Program (FIRP) documents and the role FIRP should play in relation to overall compliance efforts.</p> <p><u>F-2, R-1, P-1.</u> The Service should commit to the development of a system to process foreign information records received magnetically in the standard Organization for Economic Cooperation and Development format.</p> <p><u>F-2, R-4, P-1, P-2, P-3.</u> The Assistant Commissioner (International) should coordinate efforts with the Executive Officer for Customer Service and the National Director, Submission Processing, to ensure that late filed and prior year Foreign Information Returns Program documents are processed and available for inclusion in the Information Returns Program initiative, when it becomes operational.</p>
072303	April 1997	<p><i>A Review of Cyberfile</i></p> <p><u>F-1, R-2, P-1.</u> To reduce the chance of a recurrence of the types of problems that impacted Cyberfile's development, management should ensure that IRS guidelines are strengthened to specify project management procedures regarding tracking funds paid to vendors for services and vendor purchases/leases of IRS-funded equipment.</p>
073804	July 1997	<p><i>Review of the Inventory Delivery System Development</i></p> <p><u>F-2, R-4, P-1.</u> The Service should review and update the sampling plan to ensure it includes criteria for the evaluation of each sampled account within a sub-group to ensure consistency.</p> <p><u>F-2, R-6, P-1.</u> The results of the Self-Monitoring Program should be included as one of the factors for determining whether and when Inventory Delivery System features should be scheduled for national implementation.</p>
075404	September 1997	<p><i>Review of the Office of Disclosure</i></p> <p><u>F-3, R-2, P-2.</u> The Office of Disclosure should ensure that all requests for tax checks, both internally and externally, are properly tracked and controlled.</p> <p><u>F-3, R-3, P-2.</u> The Office of Disclosure should take appropriate measures to ensure sensitive data maintained on the inventory control system is properly protected. The system should meet C-2 requirements and provide an adequate audit trail to monitor users' activity on the database.</p>
080303	November 1997	<p><i>Implementation of the Taxpayer Bill of Rights 2</i></p> <p><u>F-1, R-1, P-1.</u> Alternative methods of obtaining feedback from taxpayers about how they were treated should be considered, rather than relying solely on employees and managers for input.</p> <p><u>F-1, R-2, P-1, P-2.</u> Form 1040 should be redesigned to capture more specific information that can be used for analysis to identify trends for corrective action.</p>

Audit Reports With Unimplemented Corrective Actions

Report Number	Issued	Report Title and Recommendation Summary
081004	December 1997	<p><i>Taxpayer Walk-in Program for the 1997 Filing Season</i></p> <p><u>F-2, R-1, P-2.</u> Develop a customer-based strategy and a related program with applicable goals and measures to evaluate performance of the Walk-In Program.</p>
082204	January 1998	<p><i>Review of the Initial System Development Activities on the Integrated Submission and Remittance Processing System</i></p> <p><u>F-3, R-1, P-1.</u> Ensure that the pilot's evaluation plan contains sufficient measures and data capture to develop quantitative support for projected productivity increases if labor savings are claimed as a cost benefit.</p> <p><u>F-3, R-5, P-1.</u> Assess the risks associated with not having the systems developer under contract during the Year 2000.</p>
083008	April 1998	<p><i>Review of the Service's Electronic Federal Tax Payment System Implementation and Enhancements</i></p> <p><u>F-4, R-2, P-1.</u> IRS management should provide a process for electronic submission of authorization data to eliminate manual transcription.</p> <p><u>F-4, R-5, P-1.</u> For the long-term, management should use the authority given by the Taxpayer Bill of Rights 2 for alternative forms of authorizations to re-engineer the enrollment and authorization processes in the Electronic Federal Tax Payment System and substantially reduce, and perhaps eliminate, paper enrollments and authorizations.</p>

Audit Reports With Unimplemented Corrective Actions

Report Number	Issued	Report Title and Recommendation Summary
083322	May 1998	<p><i>Math Error Processing for Revenue Protection Issues</i></p> <p><u>F-1, R-1, P-2.</u> Implement the remaining provisions of new laws designed to combat filing fraud by budgeting the resources needed to work invalid primary and secondary Taxpayer Identification Number cases.</p> <p><u>F-2, R-2, P-1.</u> Change math error notices and Integrated Data Retrieval System correspondence dealing with invalid Taxpayer Identification Numbers for dependent and Earned Income Tax Credit qualifying children to alert taxpayers that the problems may be the result of incomplete or inaccurate name information.</p> <p><u>F-3, R-1, P-2.</u> Send notices to taxpayers who used invalid Taxpayer Identification Numbers on their previous returns for themselves and their spouses.</p> <p><u>F-5, R-1, P-1.</u> Develop programming to automate the research of prior year return data by Error Correction when dependent and Earned Income Credit Taxpayer Identification Numbers are invalid or missing.</p> <p><u>F-6, R-1, P-3.</u> Develop a job aid or guide for Code & Edit function.</p> <p><u>F-6, R-2, P-1.</u> Develop an error code for returns without dependents but claiming Child and Dependent Care Credit.</p> <p><u>F-6, R-3, P-1.</u> Develop an error code for missing provider Taxpayer Identification Numbers.</p> <p><u>F-9, R-1, P-2.</u> Provide more training for Error Correction function.</p> <p><u>F-9, R-2, P-1.</u> Develop an error code to identify returns claiming Head-of-Household filing status when no valid dependent Taxpayer Identification Number is present.</p> <p><u>F-10, R-1, P-1.</u> Include an informal checklist in Revenue Protection Strategy math error notices listing the information taxpayers should provide when writing or calling the IRS.</p>
083605	June 1998	<p><i>Review of the Service's Year 2000 Conversion and Testing for Phase III</i></p> <p><u>F-4, R-1, P-3.</u> Information Systems management needs to develop a process to trace components from the Application Program Registry to executable elements on production libraries.</p>
084407	July 1998	<p><i>Use of Seizure Authority in the Collection Field Function</i></p> <p><u>F-1, R-2, P-3, P-6.</u> Communicate new and enhanced procedures during upcoming Continuing Professional Education sessions and in appropriate training class modules for revenue officers, group managers, and the Special Procedures Function.</p> <p><u>F-7, R-1, P-2.</u> Develop a comprehensive certification/review checksheet that can be used by appropriate levels of management to attest that all legal and procedural requirements have been met.</p>

Semiannual Report to the Congress

Appendix III
Statistical Reports—Other

Audit Reports With Unimplemented Corrective Actions

Report Number	Issued	Report Title and Recommendation Summary
084803	July 1998	<p><i>Review of the Integration Support Contract</i></p> <p><u>F-1, R-1, P-2.</u> Procurement and Information Systems should ensure that in-depth analysis of contractor labor hours and costs is performed prior to payment of the invoices.</p> <p><u>F-3, R-1, P-1.</u> Information Systems should monitor the Government Furnished Equipment/Government Furnished Information by establishing a database to capture all the equipment and information provided to the vendor under the life of the contract.</p>
085812	September 1998	<p><i>Readiness for Service Center Mainframe Consolidation</i></p> <p><u>F-2, R-1, P-1.</u> Unless assurances can be made that experienced Service personnel can be relocated when and where needed, Service management should develop a contingency plan to provide the needed staffing for critical positions at all affected sites.</p> <p><u>F-5, R-1, P-1.</u> Management should ensure security and disaster recovery risks are mitigated through a proactive approach of determining the final disaster recovery strategy and funding security certification and accreditation activities.</p> <p><u>F-10, R-1, P-1.</u> The Project Management Office should ensure vendor site surveys are completed and issued within the 15-day requirement per the Service Center Support System contract, and reviewed by Information Systems personnel for accuracy and completeness.</p> <p><u>F-11, R-1, P-4, P-5.</u> The Project Management Office should provide additional resources to adequately define and validate the delivery order requirements and to coordinate with Procurement until all requirements are definitized for price negotiations.</p>
090403	October 1998	<p><i>Review of Phase IV Year 2000 Conversion and Testing</i></p> <p><u>F-1, R-1, P-1.</u> The Century Date Change Project Office should ensure that the Assistant Commissioner (Product Assurance) monitors organizational efforts to re-certify the data on the Application Program Registry (APR), ensuring also that components tracked and reported on the APR are linked with the correct phase and status.</p>
091502	November 1998	<p><i>Evaluation of the Service's Efforts to Acquire a New Federally Funded Research and Development Center Contractor</i></p> <p><u>F-1, R-2, P-1.</u> Information Systems personnel should ensure tasks issued to each contractor are sufficiently defined to assure the work of the various contractors will not overlap.</p>
091903	December 1998	<p><i>Executive Compilation and Interpretation of the 1998 Filing Season</i></p> <p><u>F-1, R-2, P-1.</u> Establishing a taxpayer profile database to allow for quicker verification of taxpayer account information.</p> <p><u>F-1, R-4, P-3.</u> Eliminating the extra burden placed on taxpayers with balance due returns who file electronically.</p> <p><u>F-2, R-1, P-1.</u> To simplify return filing, the Service should improve the process used to evaluate the burden placed upon taxpayers by the various tax laws and publications.</p>

Audit Reports With Unimplemented Corrective Actions

Report Number	Issued	Report Title and Recommendation Summary
091804	January 1999	<p><i>IRS Employee Outside Employment Requests</i></p> <p><u>F-1, R-1, P-2.</u> Update and clarify national guidelines on the processing, approval, and annual review of applications for outside employment. Clearly define the role and authority of both management and Labor Relations.</p> <p><u>F-3, R-1, P-1.</u> Require a one-time re-submission of all outside employment requests (using Form 7995 revised 1993 or after, which provide for the Social Security Numbers), to enable a national cleanup of Labor Relations' and managers' records.</p>
092402	February 1999	<p><i>Review of the Internal Revenue Service's Year 2000 Efforts to Inventory Telecommunications and Commercial Off-the-Shelf Products</i></p> <p><u>F-2, R-3, P-1.</u> The Century Date Change Project Office should independently verify that the Integrated Network and Operations Management System (INOMS) inventory of Commercial Off-the Shelf (COTS) products is complete for all Tier I systems. This verification could be accomplished by sampling COTS products present on several machines and comparing them to the INOMS inventory.</p>
092705	March 1999	<p><i>Review of the Internal Revenue Service's Year 2000 Contingency Planning Efforts</i></p> <p><u>F-1, R-1, P-1.</u> Review and correct Year 2000 inventory files on a recurring basis to ensure information used to identify the need for contingency plans is accurate and complete.</p> <p><u>F-1, R-2, P-1.</u> Establish validity checks for the Year 2000 inventory files.</p> <p><u>F-5, R-1, P-2.</u> Assign responsibility for the IRS' overall contingency management strategy, including Year 2000, and the coordination of resources to one area.</p>

Access to Information

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

Audit Reports Issued in Prior Reporting Period With No Management Response

The Inspector General Act of 1978 requires 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. There are no prior reports where management's response was not received.

Revised Management Decisions

The Inspector General Act of 1978 requires Inspectors General to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. There were no such decisions during this six-month reporting period.

Disputed Audit Recommendations

The Inspector General Act of 1978 requires Inspectors General to provide information on significant management decisions in response to audit recommendations, with which the Inspectors General disagree. As of September 30, 1999, there were no significant recommendations that were disputed.

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 158 proposed legislation and regulations during the six-month reporting period.

Semiannual Report to the Congress

Appendix IV

TIGTA Audit Report Listing

April 1, 1999 - September 30, 1999

Report Number	Issued	Report Title
093207	April 1999	The Internal Revenue Service Can Improve Its Reimbursable Program <i>Funds Put to Better Use:</i> \$ 175,000 ¹ <i>Protection of Resources:</i> \$ 3,840,000 at risk <i>Reliability of Management Information:</i> \$ 77,500,000
093602	April 1999	The Internal Revenue Service Needs to Improve Treatment of Taxpayers During Office Audits <i>Taxpayer Burden:</i> 3,500 taxpayer accounts at risk <i>Taxpayer Privacy and Security:</i> 3,600 taxpayer accounts at risk <i>Taxpayer Rights and Entitlements:</i> 1,328 taxpayer accounts at risk
093802	April 1999	Internal Revenue Service's Invoice Processing for AT&T Toll-Free Telephone Service
094002	April 1999	Review of the Internal Revenue Service's Year 2000 End-to-End System Integration Test Efforts – Overall Planning and Execution of Test 1
094106	May 1999	Improving Internal Revenue Service Processes for Evaluating and Publicizing Walk-In Services
094206	May 1999	The Examination Returns Control and Integrated Data Retrieval Systems Can Be Improved to Protect Taxpayer Rights During the Audit Process <i>Taxpayer Privacy and Security and</i> <i>Taxpayer Rights and Entitlements:</i> 1,700,000 taxpayer accounts at risk
C94800	May 1999	Cost Verification on Contract TIRNO-94-0028, Modifications 164 and 184
092903	June 1999	The Cost Effectiveness and Security of Taxpayer Data in the Electronic Transcript Delivery System
093009	June 1999	Review of the Electronic Fraud Detection System <i>Taxpayer Privacy and Security:</i> 121,000,000 taxpayer accounts at risk <i>Reliability of Management Information:</i> \$ 22,300,000 understated costs
095001	June 1999	The Internal Revenue Service Has Improved Controls Over the Use of Interagency Agreements
190103	June 1999	Weak Internal Controls Exposed Taxpayer Payments to Embezzlement in the Delaware-Maryland District <i>Revenue Protected:</i> \$ 77,000 <i>Protection of Resources:</i> \$ 10,700,000 at risk
C95100	June 1999	Contract Audit Closing Statement TIRNO-94-C-00084 <i>Questioned Costs:</i> \$ 98,158
091104	July 1999	The Internal Revenue Service Should Improve Procedures to Identify and Resolve Incorrect and Missing Taxpayer Identification Numbers <i>Revenue Protected:</i> \$ 352,622 <i>Taxpayer Rights and Entitlements:</i> \$ 15,617

¹ This figure represents a five-year projection.

Semiannual Report to the Congress

Appendix IV

TIGTA Audit Report Listing

Report Number	Issued	Report Title
190303	July 1999	Internal Revenue Service Procedures Were Not Consistently Followed When North Florida District Revenue Officers Attempted to Improve Tax Compliance in the Construction Trades Industry <i>Taxpayer Rights and Entitlements: 664 taxpayer accounts at risk</i>
1999-1C-055	July 1999	Report on Audit of Public Vouchers Numbered 1 through 18 TIRNO-98-C-00041 <i>Questioned Costs: \$ 119,517</i>
095202	August 1999	Opportunities Remain for the Internal Revenue Service to Further Minimize the Risks Associated With Implementing Year 2000 Compliance for External Trading Partners <i>Reliability of Management Information: 22% files with incorrect dates</i>
093402	August 1999	The Internal Revenue Service Could Reduce the Burden Placed on Business Taxpayers When Resolving Account Overpayments
093903	August 1999	The Internal Revenue Service Can Improve Customer Service by Accelerating Refund Payments <i>Funds Put to Better Use: \$ 150,000,000</i>
1999-1C-056	August 1999	Audit of Firm Fixed Price Proposal for Contract Modification Number 240 TIRNO-94-D-00028 <i>Questioned Costs: \$ 107,400</i>
092303	August 1999	The Internal Revenue Service Needs to Increase the Capacity, Follow Up on Reported Problems, and Encourage Voluntary Use of the Electronic Federal Tax Payment System
1999-1C-059	August 1999	Audit of Fiscal Year 1996 Incurred Costs For TIR-95-0062
199920054	August 1999	Increased Validation and Oversight of Year 2000 Minicomputer Conversion Efforts Are Needed To Strengthen Testing and To Avoid Further Delays
093708	August 1999	The Internal Revenue Service's Efforts to Increase the Telephone Level of Access Can Be Improved
199920063	August 1999	The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved
199910064	August 1999	The Internal Revenue Service Can Improve Its Process for Accurately and Timely Reporting Revenue Accounting Activities
093103	September 1999	Limitations of the Automated Non-Masterfile and the Impact on the Internal Revenue Service
094602	September 1999	Effectiveness of the Internal Revenue Service's Management of the Customer Service Call Router Pilot
199940060	September 1999	The Problem Solving Day Program in the Ohio District Has Been Generally Successful <i>Reliability of Management Information: \$ 514,000 incorrectly classified</i>
199940062	September 1999	The Internal Revenue Service Can Improve Its Electronic Return Preparer Fraud Activities
093506	September 1999	The Internal Revenue Service Needs Additional Emphasis On Computer Component Retirement Decisions to Be Ready for the Year 2000

Semiannual Report to the Congress

Appendix IV

TIGTA Audit Report Listing

Report Number	Issued	Report Title
094900	September 1999	An Evaluation of the Impact of Raising the Threshold Requirements for Making Estimated Tax Payments
199940065	September 1999	Improvements Can Be Made in Providing Assistance to Taxpayers <i>Taxpayer Burden: 130,000 electronic mail inquiries</i>
199910061	September 1999	Opportunities to Improve the Effectiveness of Internal Revenue Service Advocacy Efforts
199910072	September 1999	The Internal Revenue Service Needs to Improve Compliance with Legal and Internal Guidelines When Taking Taxpayers' Property for Unpaid Taxes <i>Taxpayer Rights and Entitlements: 32 taxpayer accounts</i>
199940057	September 1999	Controls Should Be Strengthened Over Business Taxpayer Accounts with Frozen Million Dollar Refunds <i>Protection of Resources: \$ 17,500,000 at risk</i>
199930069	September 1999	The New Jersey District Needs to Execute Levy Actions Consistent with Sound Tax Administration and Concern for Taxpayer Treatment <i>Taxpayer Rights and Entitlements: 56,000 taxpayer accounts at risk</i>
094505	September 1999	The Internal Revenue Service's Individual Taxpayer Identification Number Program Was Not Implemented in Accordance with Internal Revenue Code Regulations
199920068	September 1999	The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain <i>Funds Put to Better Use: \$ 19,000,000</i> <i>Protection of Resources: \$ 7,000,000</i> <i>Reliability of Management Information: \$ 1,070,000</i>
199910074	September 1999	The Internal Revenue Service Should Improve Its Federal Tax Lien Procedures <i>Taxpayer Rights and Entitlements: 157 taxpayer accounts at risk</i>
199910070	September 1999	The Internal Revenue Service Can Further Improve Its Complaint Processing Procedures and Systems
199920066	September 1999	The Internal Revenue Service Needs to Improve Information Systems Quality Assurance Efforts over Key Tax Law Changes for the 2000 Filing Season
199910073	September 1999	The Internal Revenue Service Should Continue Its Efforts to Achieve Full Compliance with Restrictions on the Use of Enforcement Statistics
199910071	September 1999	The Internal Revenue Service Has Not Fully Implemented Procedures to Notify Taxpayers Before Taking Their Funds for Payment of Tax <i>Taxpayer Rights and Entitlements: 204 taxpayer accounts at risk</i>
199910077	September 1999	The Internal Revenue Service's Procedures for Responding to Written Requests for Collection Activity From Joint Return Filers Vary From Statutory Requirements
199910076	September 1999	The Internal Revenue Service Needs to Enhance Guidance on and Monitoring of Compliance with Procedures for Directly Contacting Taxpayers and Their Representatives
199910080	September 1999	The Internal Revenue Service Is Addressing the Use of the Illegal Tax Protestor and Nonfiler Designations

Semiannual Report to the Congress

Appendix IV

TIGTA Audit Report Listing

Report Number	Issued	Report Title
092104	September 1999	Further Improvements Are Needed to the Internal Revenue Service's Process for Admitting Preparers and Transmitters Into Its Electronic Filing Program

Section 1203 Standards

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

Acts or omissions are:

- (1) willful failure to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;
- (2) providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;
- (3) with respect to a taxpayer, taxpayer representative, or other employee of the IRS, the violation of –
 - any right under the Constitution of the United States, or
 - any civil right established under –
 - (i) Title VI or VII of the Civil Rights Act of 1964¹,
 - (ii) Title IX of the Education Amendments of 1972²,
 - (iii) The Age Discrimination in Employment Act of 1967³,
 - (iv) The Age Discrimination Act of 1975⁴,
 - (v) Section 501 or 504 of the Rehabilitation Act of 1973⁵, or
 - (vi) Title I of the Americans with Disabilities Act of 1990⁶;
- (4) falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;
- (5) assault or battery on a taxpayer, taxpayer representative, or other employee of the IRS, but only if there is a criminal conviction, or a final judgment by a court in a civil case, with respect to the assault or battery;
- (6) violations of the Internal Revenue Code, Department of Treasury regulation, or policies of the IRS (including the Internal Revenue Manual) for the purpose of retaliating against, or harassing a taxpayer, taxpayer representative, or other employee of the IRS;
- (7) willful misuse of the provisions of Section 6103 of the Internal Revenue Code for the purpose of concealing information from a Congressional inquiry;

¹ 42 U.S.C. § 2000e

² 20 U.S.C. §§ 1681-1688

³ 29 U.S.C. §§ 621-634

⁴ 42 U.S.C. §§ 6101-6107

⁵ 29 U.S.C. §§ 701 & 794

⁶ 42 U.S.C. §§ 12111 *et seq.*

Section 1203 Standards

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

In general, the Commissioner of Internal Revenue may take a personnel action other than terminate for an act or omission above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner in his sole discretion may establish a procedure which will be used to determine whether an individual should be referred to the Commissioner for a determination by the Commissioner. Any determination of the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.

Statutory TIGTA Reporting Requirements

Shortly after the July 22, 1998, passage of the legislation that created TIGTA, the former IRS Internal Audit staff began planning the audit work around the 11 statutory provisions. Sixteen final audit reports were issued in September 1999 that dealt with taxpayer protection and rights, and the adequacy and security of the technology of the IRS. Final reports for two statutory audits of taxpayer protection and rights were not issued as of September 30, 1999, but will be issued during the next reporting period.

Reference to Mandated Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Restrictions on the Use of Enforcement Statistics I.R.C. § 7803(d)(1)(A)(i)	An evaluation of the compliance of the IRS with restrictions under § 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	<i>Final report issued, Report No. 199910073</i> This report has been highlighted in this semiannual report and a synopsis of the report is listed in the Statutory Requirements section.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	An evaluation of the compliance of the IRS with restrictions under § 7521 of RRA 98 on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.	<i>Final report issued, Report No. 199910076</i> The IRS has procedures that should enable it to protect taxpayers' rights during an interview with the taxpayer or when IRS employees appropriately bypass a representative and contact a taxpayer directly. However, the auditors could not determine whether IRS employees complied with the procedures or protected taxpayers' rights because the auditors could not identify or review cases. Current IRS management information systems do not separately record or monitor cases where taxpayers requested representation during an interview, and there is no requirement for the IRS to maintain separate records for these situations.
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	An evaluation of the compliance of the IRS with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	<i>Final report issued, Report No. 199910074</i> This report has been highlighted in this semiannual report and a synopsis of the report is listed in the Statutory Requirements section.

Statutory TIGTA Reporting Requirements

Reference to Mandated Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Seizures and Levies</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>An evaluation of the compliance of the IRS with required procedures under Subchapter D of Chapter 64 for seizure of property for collection of taxes, including required procedures under I.R.C. § 6330 regarding levies.</p>	<p><i>Final report issued, Report No. 199910072 (Seizure) and Final Report No. 199910071 (Levy)</i></p> <p>These reports have been highlighted in this semiannual report and a synopsis of each report is listed in the Statutory Requirements section.</p>
<p>Taxpayer Designations – Illegal Taxpayer Designation and Nonfiler Designation</p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the compliance of the IRS with restrictions under § 3707 of RRA 98 on designation of taxpayers.</p>	<p><i>Final report issued, Report No. 199910080</i></p> <p>The IRS has taken actions and is substantially in compliance with RRA 98 as it relates to no longer designating taxpayers as Illegal Tax Protestors (ITP), removing the ITP designation from the Individual Masterfile, and disregarding the ITP designation made on or before July 22, 1998, on other IRS computer and paper files.</p>
<p>Disclosure of Collection Activities with Respect to Joint Returns</p> <p>I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)</p>	<p>Review and certify whether or not the IRS is complying with I.R.C. 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p><i>Final report issued, Report No. 199910077</i></p> <p>To comply with statutory requirements, the IRS developed procedures for responding to taxpayers who file jointly and submit written requests for information on the IRS' collection activity. However, these procedures allow IRS employees to provide both oral and written responses to taxpayers. This is different from the statutory requirements, which require the IRS to provide written responses if taxpayers or their representatives send in a written request. The IRS controls general correspondence from taxpayers but is not required to maintain separate records of the joint filer requests. The IRS also does not have a process to ensure that employees are following procedures for responding to the joint filer requests. Therefore, the auditors could not determine if the IRS is complying with the statutory requirements and protecting taxpayer rights, because they could not readily identify any joint filer requests from taxpayers in the IRS' records or verify whether the IRS properly answered the joint filer requests.</p>

Statutory TIGTA Reporting Requirements

Reference to Mandated Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Complaints and Allegations of Employee Misconduct and Terminations and Mitigation for Certain Proven Violations Committed by IRS Employees</p> <p>I.R.C. § 7803(d)(1)(E) I.R.C. § 7803(d)(2)(A)</p>	<p>List any terminations or mitigation under § 1203 of RRA 98, § 1102(a).</p>	<p><i>Final report issued, Report No. 199910070</i></p> <p>The IRS currently does not have an integrated complaint processing system for identifying and reporting taxpayer complaints and allegations of employee misconduct. Instead, it uses various existing systems and procedures that were implemented prior to RRA 98. However, the IRS is taking significant actions to improve its complaint processing procedures and systems.</p>
<p>Administrative or Civil Actions with Respect to the Fair Debt Collection Practices Act of 1996¹</p> <p>I.R.C. § 7803(d)(1)(G)(i)(ii) I.R.C. § 6304 § 3466 of RRA 98</p>	<p>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>A draft report was issued to IRS management and the final report will be issued during the next reporting period.</p> <p>Information provided by the Department of Justice's Tax Division showed that during the period July 22, 1998, to March 31, 1999, there were no civil actions resulting in money paid out to taxpayers as a result of Fair Debt Collection Practices Act (FDCPA) violations by IRS employees. However, through a review of the IRS' various management information systems, the auditors identified two FDCPA violations that resulted in employee administrative action for the period July 22, 1998, through March 18, 1999.</p>

¹ 15 U.S.C §§ 1601 & 1692 (1994)

Statutory TIGTA Reporting Requirements

Reference to Mandated Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Denial of Requests for Information</p> <p>I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)</p>	<p>Include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or § 552(b)(7) of Title 5, U.S.C.</p>	<p>Audit work has been completed and a final report will be issued during the next reporting period.</p> <p>This first audit was broadened to include a review of all denied FOIA requests. In addition, we did not review I.R.C. § 6103 requests because we could not identify denied requests on IRS' computer systems.</p> <p>The auditors found that the IRS improperly withheld information that should have been provided to the requester for:</p> <ul style="list-style-type: none"> • 12.4 percent of the denied or partially denied FOIA requests. • 8.8 percent of the denied or partially denied Privacy Act¹ requests that were processed as FOIA requests.
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>An evaluation of the adequacy and security of the technology of the IRS.</p>	<p>During this reporting period, the Office of Audit issued eight reports in this area.</p> <p><i>Final Reports Issued:</i></p> <p><i>Report No. 199920068</i> <i>Report No. 199920063</i> <i>Report No. 199940062</i> <i>Report No. 094602</i> <i>Report No. 093103</i> <i>Report No. 093009</i> <i>Report No. 092903</i> <i>Report No. 092303</i></p>

¹ 5 U.S.C. § 552a (1994)

Statutory TIGTA Reporting Requirements

Reference to Mandated Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Extensions of the Statute of Limitations for Assessment and Collection of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501	Include information regarding extensions of the statute of limitations for assessment and collection of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding requests for such extension.	The effective date for this provision is January 1, 2000. Therefore, the audit is scheduled to start in FY 2000.

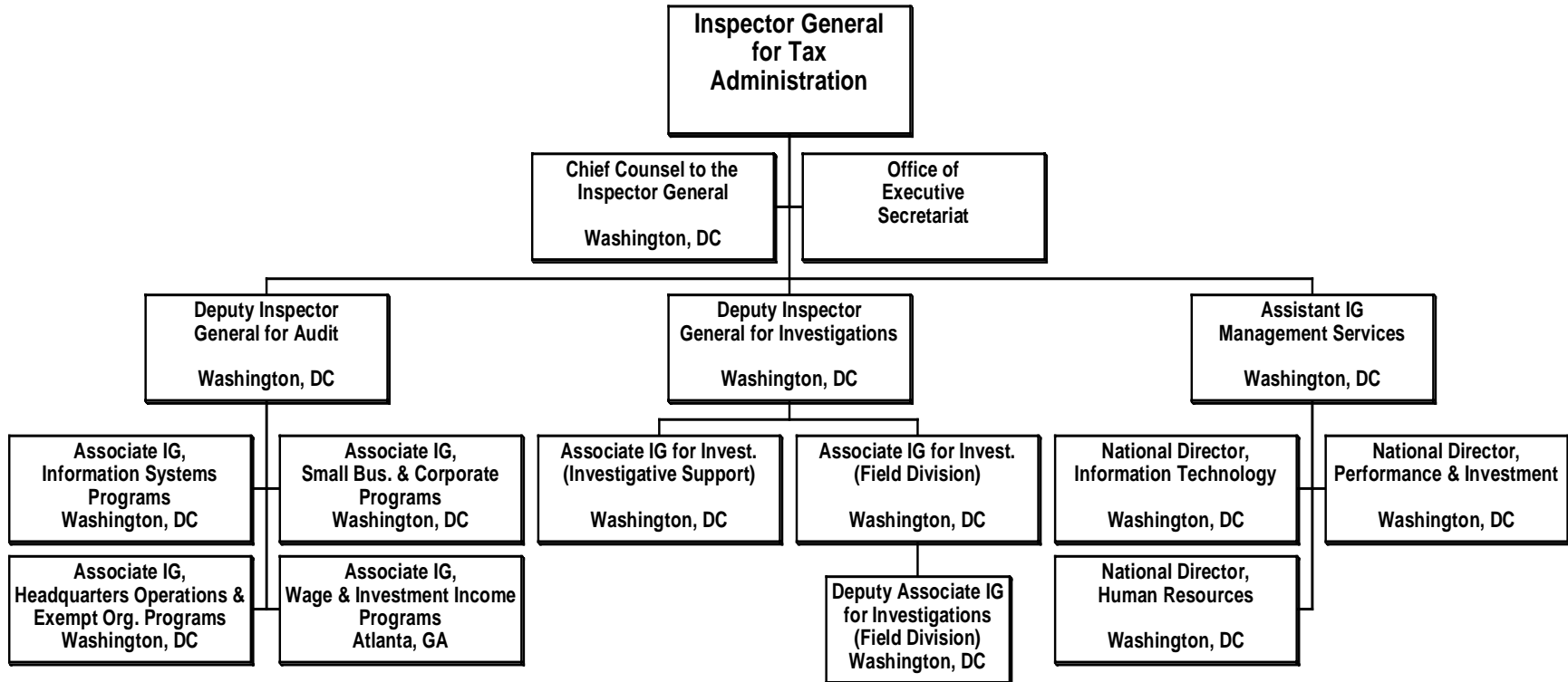
This Page Left Intentionally Blank

Acronyms

ANMF	Automated Non-Masterfile	I.R.C.	Internal Revenue Code
APR	Applications Program Registry	IRS	Internal Revenue Service
ATLAS	Audit Trail Lead Analysis System	ISC	Integration Support Contract
CDC	Century Date Change	ITIN	Individual Taxpayer Identification Number
CFS	Customer Feedback System		
COTS	Commercial-Off-The-Shelf	ITP	Illegal Tax Protestor
DIF	Discriminant Function	MACS	Midwest Automated Compliance System
DOL	Department of Labor		
EFDS	Electronic Fraud Detection System	PMO	Project Management Office
		PRP	Problem Resolution Program
ERCS	Examination Returns Control System	RCP	Regional Compliance Program
		RRA 98	Restructuring and Reform Act of 1998
ESC	Executive Steering Committee		
ETP	External Trading Partner	SED	Strategic Enforcement Division
FAA	Federal Aviation Administration	SSA	Social Security Administration
FCL	Federal Computer Laboratory	TBOR2	Taxpayer Bill of Rights 2
FDCPA	Fair Debt Collection Practices Act	TECS	Treasury Enforcement Communications System
FIRP	Foreign Information Returns Program		
		TFR	Trust Fund Recovery
FOIA	Freedom of Information Act	TFSD	Technical and Forensic Support Division
FSL	Forensic Science Laboratory		
FTL	Federal Tax Lien	TIGTA	Treasury Inspector General for Tax Administration
FY	Fiscal Year		
GAO	General Accounting Office	TIPSS	Treasury Information Processing Support Services
GPRA	Government Performance and Results Act of 1993		
		TRA 97	Taxpayer Relief Act of 1997
IG	Inspector General	UNAX	Unauthorized Access to Taxpayer Accounts
IDRS	Integrated Data Retrieval System		
INOMS	Integrated Network and Operations Management System	U.S.C.	United States Code
		Y2K	Year 2000
INS	Immigration and Naturalization Service		

This Page Left Intentionally Blank

Organization Chart



This Page Left Intentionally Blank



Treasury Inspector General for Tax Administration

call our

Hotline

1-800-366-4484

To Report

Fraud, Waste, Abuse!

in the Internal Revenue Service

Information is confidential
and caller may remain anonymous

or write to: TIGTA
P.O. Box 589, Ben Franklin Station
Washington, D.C. 20044-0589

For Tax Problem Assistance
Call the IRS Taxpayer Advocate at:
1-877-777-4778



DEPARTMENT OF THE TREASURY

**OFFICE OF THE INSPECTOR GENERAL FOR TAX ADMINISTRATION
1111 CONSTITUTION AVENUE, NW, SUITE 3031
WASHINGTON, D.C. 20224**