Semiannual Report to the Congress

April 1, 2000 through September 30, 2000

Treasury Inspector General for Tax Administration

Treasury Inspector General for Tax Administration
Vision Statement

We are a respected member of the government community:

- *Independent, objective and professional in the conduct of our mission.*
- *Dedicated and innovative professionals who take pride in promoting fair tax administration and good government.*
- *Proud of our past and focused on our future.*

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

October 30, 2000

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, 2000. Fiscal Year (FY) 2000 has been a highly productive year for TIGTA. We issued 162 audit reports during FY 2000; more than double the number of reports issued last fiscal year. Financial accomplishments resulting from our audit reports totaled $117.1 million, with an additional $1.4 billion in increased revenue and protected revenue. Our audit recommendations will improve tax administration for almost 11.4 million taxpaying entities.

TIGTA closed almost 4,200 investigations during FY 2000; a 43 percent increase over last fiscal year. Investigative recoveries totaled $12.9 million. During the year, our special agents focused on improving the timeliness of criminal and administrative referrals to help ensure the adjudication process is fair and the least intrusive.

The Office of Audit continues to dedicate its resources to supporting the major challenges that face the IRS including technology modernization, and providing customer service and ensuring tax compliance. In addition, the annual requirements imposed by the IRS Restructuring and Reform Act of 1998 (RRA 98), which deal with taxpayer rights and information systems security, have been completed and are included in this report.

During this reporting period, TIGTA special agents conducted integrity awareness presentations for over 30,100 individuals. IRS employees comprised 87 percent of these individuals. We believe these presentations heighten integrity awareness and have a potential deterrent effect on fraud and misconduct. In addition, TIGTA continues to operate a responsive complaints processing center. We received almost 4,800 complaints of alleged criminal wrongdoing or administrative misconduct, of which 2,053 warranted further investigation.

I look forward to helping the IRS address the challenges it faces in FY 2001.

Sincerely,

David C. Williams

David C. Williams
Inspector General

Enclosure

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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) provides independent oversight of Internal Revenue Service (IRS) activities, the IRS Oversight Board and the IRS Office of Chief Counsel. TIGTA is organizationally placed within the Department of the Treasury, but is independent of the Department and all other Treasury offices. TIGTA's focus is devoted to all aspects of work performed in connection with tax administration.

TIGTA's audit and investigative activities are designed to:

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

Other responsibilities include:

- Investigating allegations of misconduct by IRS employees.
- Reviewing and making recommendations regarding existing and proposed legislation and regulations relating to the programs and operations of the IRS and TIGTA.
- Recommending actions to resolve fraud, abuses and deficiencies in 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.

The functions that carry out these duties are the Offices of Audit, Investigations, Chief Counsel, Information Technology and Management Services.

AUTHORITIES

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

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

MAJOR ISSUES FACING THE IRS

As the nation's tax administrator, the IRS collects 95 percent of federal tax revenues. For Fiscal Year (FY) 2000, the IRS was projected to collect $1.8 trillion. The IRS processes approximately 230 million tax returns and provides assistance to more than 125 million taxpayers annually. The IRS also

[1] Pub. L. No. 95-452, 92 Stat. 1101, as amended, at 5 U.S.C. app. 3 (1994 & Supp. II 1996)
[2] Pub. L. No. 105-206, 112 Stat. 685

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

In December 1999, TIGTA advised Congress of the following major challenges facing the IRS in FY 2000:

- Modernizing the IRS:
  - Technology modernization.
  - Organization restructuring.
  - Year 2000 (Y2K) compliance.
- Providing security over information systems.
- Processing returns and implementing tax law changes during the tax filing season.
- Providing customer service and ensuring tax compliance.
- Protecting taxpayer rights.
- Protecting revenue and minimizing tax filing fraud.
- Providing quality customer service operations.
- Managing finances.
- Implementing the Government Performance and Results Act of 1993[3] (GPRA).
- Addressing the impact of the global economy on tax administration.

These major challenges have been the focus of TIGTA's audit and investigative activities during this six-month reporting period. The following sections provide a summary of the issues and TIGTA's activities to help IRS address these issues. Details of some of the more significant audit and investigative activities, as well as information on statutory requirements, can be found on pages 9 through 24, 25 through 37, and in Appendix VI, respectively.

MODERNIZING THE IRS

Creating a modernized IRS is a top priority of the Commissioner, as well as a principal goal of congressional oversight. The ability to achieve the IRS' modernization concept is largely dependent on restructuring the organization to better meet taxpayer needs and developing new technology to correct deficient and obsolete systems.

The General Accounting Office (GAO) has stated that three critically important challenges lie ahead for the IRS: revamping business practices, effectively modernizing systems, and completing a performance management system.

Further, the Congress has ordered the IRS to achieve 80 percent electronic tax return filing by the year 2007. For the 2000 filing season, 30 percent of tax returns were filed electronically, so significant challenges lie ahead for the IRS to meet the Congressional mandate. TIGTA's Office of Audit reported that the IRS must first establish a performance and management plan to determine whether its telecommunications systems can handle 80 percent of its transactions electronically.

Technology Modernization

The IRS is making progress toward implementing an effective systems modernization management approach. The IRS has established an organization and governance process to manage and oversee its systems modernization efforts. In addition, the IRS is working closely with its primary contractor to develop the Enterprise Architecture and Enterprise Life Cycle (ELC) processes that are needed to modernize its computer systems successfully.

[3] Pub. L. No. 103-62, 107 Stat. 285

However, various management and technical weaknesses that plagued prior systems modernization efforts still need to be addressed. For example, the IRS has not yet fully developed and implemented the architecture and ELC, which has caused difficulties in managing individual projects. As a result, the IRS has had to delay or scale back planned projects, including customer service enhancements.

Efforts are underway to improve the management and oversight of ongoing and planned modernization projects so that the improvements in customer service promised to the Congress and taxpayers can be realized.

Organization Restructuring

The IRS is at the end of the "stand up" phase of its organizational restructuring. The remaining divisions became operational in October 2000. However, significant work must be accomplished before all the divisions are fully staffed, functional, and operating productively. To transition to the new IRS successfully, significant changes in every area of the IRS must occur, i.e., its organizational structure, information systems, business practices, and performance management system. This transition occurs amidst the increasing fervor of IRS' stakeholders to maintain critical enforcement and customer service programs.

During this reporting period, TIGTA's Office of Audit evaluated the effectiveness of the "stand up" process for both the Large and Mid-Size Business and the Small Business/Self-Employed Divisions. Both functions accomplished their objectives; however, the Office of Audit noted that internal and external communications will require attention.

PROVIDING SECURITY OVER INFORMATION SYSTEMS

The IRS can be a major political and economic target for terrorists, computer hackers, and unscrupulous employees. The IRS has conducted comprehensive security reviews of its major facilities and has significantly reduced previously identified security weaknesses. While the IRS has made significant progress in bolstering computer security, further improvements are needed.

During FY 2000, TIGTA's Office of Audit identified weaknesses in key programs, such as security certification and accreditation of sensitive systems, virus protection, and mainframe operating system controls. Striking an appropriate balance between systems security and maintaining day-to-day operations is not simple. In some instances, adding security controls may slow systems down and result in less timely service to taxpayers. However, until these weaknesses are resolved, IRS systems and taxpayer data remain vulnerable to tampering, loss, or unauthorized disclosure.

TIGTA's Office of Investigations continues to address security issues relating to IRS computer systems through the Unauthorized Access to Taxpayer Accounts (UNAX) Detection Project. This Project detects potential unauthorized accesses to electronic taxpayer records in IRS systems. During this reporting period, TIGTA identified 296 potential leads of which 123 were referred to field offices for investigation. These alleged abuses continue to comprise the largest segment of investigations of IRS employees.

The Office of Investigations also assists the IRS in taking a proactive approach to protect tax data by: conducting periodic, random monitoring of IRS' internal and external connections to ensure the effectiveness of controls; identifying threats against the IRS through monitoring and intelligence gathering activities and dissemination of that information; recommending preventive, recovery, or mitigation strategies against internal or external vulnerabilities or actual attacks; and, providing advice for computer and network security issues and for proposed computer security procurements.

PROCESSING RETURNS AND IMPLEMENTING TAX LAW CHANGES DURING THE TAX FILING SEASON

The filing season impacts every American taxpayer and is, therefore, always a highly critical program for the IRS. Many programs, activities, and resources have to be planned and managed effectively for the filing season to be successful. For example, more than 250 computer programming changes were required for the 2000 filing season. This is further complicated by the IRS' modernization efforts to update and replace the core tax processing systems.

The IRS experienced no significant processing problems from either tax law changes or the Y2K conversion during the 2000 filing season. TIGTA's Office of Audit, however, reported that the IRS needs to ensure critical programming changes for the filing season receive priority over other programming requests.

Additionally, the Office of Audit reported the IRS processing procedures were not designed to identify and correct a credit when outdated estate tax returns were used by taxpayers. As a result, an estimated 1,250 estates of decedents may have overpaid $11.6 million.

PROVIDING CUSTOMER SERVICE AND ENSURING TAX COMPLIANCE

Revenue received by the IRS increased from $1.5 trillion in FY 1996 to $1.9 trillion in FY 1999. However, revenue collected as a result of compliance activity decreased by $5 billion and gross accounts receivable increased by $41 billion during this same period. IRS management and many stakeholders, including some members of Congress, are concerned about the reduction in resources allocated to compliance activities and the related decrease in business results. To help address this issue, Treasury's FY 2001 budget submission includes a request for 2,800 new positions over the next two fiscal years. These additional resources will be dedicated to enforcing tax laws and improving service to taxpayers.

The IRS' prior Taxpayer Compliance Measurement Program was considered too intrusive and was cancelled. Currently, the IRS has no reliable method to measure voluntary compliance or the impact that increased customer service and decreased enforcement are having on voluntary compliance. The IRS needs to strengthen its enforcement capacity before voluntary compliance is severely eroded.

Decreased enforcement also has been attributed to IRS employees' concerns over the mandatory termination provision in Section 1203 of RRA 98[4]. To help address these concerns, the IG has continued to brief IRS staff on investigations related to Section 1203 violations. During this reporting period, the IG briefed over 2,200 employees of the Tax Exempt and Government Entities, and Small Business/Self-Employed Divisions.

PROTECTING TAXPAYER RIGHTS

The legislative changes required by RRA 98 continue to have a profound impact on the IRS. Most of the RRA 98 provisions, including massive training programs for its

[4] Provisions in Section 1203 of RRA 98 provide for the mandatory termination of IRS employees for specific categories of employee misconduct.

thousands of employees, have been modified or implemented. The IRS plans to test these reforms over the next two years. During this time, significant management attention will be required to evaluate the effectiveness of the reforms.

TIGTA is required to review the IRS' compliance with some of the RRA 98 provisions annually. During this reporting period, the Office of Audit completed its second series of statutory reviews.

Overall, the Office of Audit reported some improvement in the IRS' compliance with many of the RRA 98 provisions. However, the degree of improvement often could not be quantified because strict comparisons between the two years could not be drawn. One area of improved compliance involved seizures. The Office of Audit reported that the IRS complied with the specific I.R.C. provisions and its own guidelines for all seizure cases reviewed. In addition, the IRS complied with the RRA 98 provisions for all district office levies issued, and for 99 percent of the Customer Service Automated Collection System (ACS) call site levies reviewed.

Other RRA 98 provisions need continued monitoring because the IRS is not yet in full compliance. These include restricting the use of enforcement statistics to evaluate IRS employees, not designating taxpayers as illegal tax protesters, providing proper and timely notice that a federal tax lien has been filed, and not withholding information in response to taxpayers' written requests for information under the Freedom of Information Act (FOIA) of 1988[5] or the Privacy Act (PA) of 1974[6].

TIGTA also protects taxpayers and their rights by investigating allegations of misconduct by IRS employees. As stated earlier, Section 1203 of RRA 98 provides for the mandatory termination of IRS employees for specific categories of employee misconduct. Some of the misconduct includes: violation of Constitutional or civil rights of taxpayers or IRS employees; intentional misconduct involving a taxpayer matter; threatening taxpayers with an audit for personal gain; or, willful understatement by an employee of his or her own federal tax liability. During this reporting period, TIGTA's Office of Investigations initiated 164 investigations involving alleged Section 1203 violations, of which 32 were closed.

PROTECTING REVENUE AND MINIMIZING TAX FILING FRAUD

The IRS must continually seek opportunities to protect revenue and minimize tax filing fraud in its programs and operations. In October 1999, the GAO reported the Earned Income Credit (EIC) as a high-risk area. The IRS then reported EIC filing fraud as a Federal Managers' Financial Integrity Act of 1982 (FMFIA)[7] material weakness. The IRS' weaknesses are in three primary areas: achieving full participation by eligible taxpayers; ensuring compliance through verification of taxpayers' eligibility; and, reducing inherent vulnerabilities (multiple use of dependent Social Security Numbers).

With respect to revenue protection, TIGTA's Office of Audit reported that the IRS should expand early intervention efforts nationwide to further reduce unreported estate executor commissions. This action could potentially result in an additional $2.6 million in taxes and interest over the next five years.

[5] 5 U.S.C. § 552 (1996)
[6] 5 U.S.C. § 552a (1996)
[7] 31 U.S.C. §§ 1105-1106, 1113, and 3512 (1994)

PROVIDING QUALITY CUSTOMER SERVICE OPERATIONS

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

During this reporting period, TIGTA's Office of Audit conducted reviews of the IRS' toll-free and walk-in assistance programs. Planning for these programs was adequate for the 2000 filing season; however, resource limitations prevented full implementation of customer service initiatives. Some Spanish-speaking callers will not have the option of having their questions answered in Spanish and some callers will not have the option of speaking to a customer service representative. Also, guidelines for measuring the quality and timeliness of services provided by the walk-in assistance program could be improved.

Additionally, the Office of Audit concluded that the IRS, through the Electronic Tax Law Assistance (ETLA) Program, needs to leverage technology to provide enhanced access to tax information, maximize efficiency, and improve electronic customer service. In addition, TIGTA reported that the IRS must ensure the Tax Exempt/Government Entities Division's centralized customer service site has the latest technology and resources to meet future growth, as well as a comprehensive business resumption plan.

MANAGING FINANCES

The Federal Financial Management Improvement Act of 1996 (FFMIA)[8] requires each agency to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States (U.S.) Government Standard General Ledger[9] at the transaction level.

The GAO and the Treasury Office of Inspector General have identified numerous internal control weaknesses in the IRS' financial operations during their audits of the annual financial statements. The GAO reported material weaknesses in the IRS' reporting of unpaid assessments, refunds, property and equipment, and accounting for liabilities and accrued expenses. Based on these material weaknesses, the IRS' financial systems did not substantially comply with the FFMIA requirements, and the IRS was required to prepare a remediation plan.

The Office of Audit's assessment of IRS' compliance with the FFMIA remediation plan requirements is highlighted on page 22.

IMPLEMENTING GPRA

The GAO has recognized IRS' progress in developing a balanced performance measures system. However, GAO still cites completing a performance management system as one of the three critical challenges the IRS faces. Developing a key business results measure for voluntary compliance is essential if the IRS is

[8] Pub. L. No. 104-208, 110 Stat. 3008-314, 3009-389 (1996)
[9] The United States Government Standard General Ledger provides a uniform Chart of Accounts to be used in standardizing federal agency accounting that supports the preparation of standard external reports.

to understand the problems of non-compliant taxpayers and improve its service to them.

TIGTA's Office of Audit reported the IRS' GPRA efforts could be improved in the following areas: designating an executive office responsible for coordinating and ensuring GPRA requirements are met; improving processes for timely and accurately gathering and validating performance data; and, properly qualifying customer satisfaction survey results.

ADDRESSING THE IMPACT OF THE GLOBAL ECONOMY ON TAX ADMINISTRATION

The IRS has indicated that it has undertaken several international tax administration and compliance programs to address the Office of Audit's concerns in the areas of transfer pricing, tax credits, foreign trust, non-filers, and foreign-sourced income reporting issues. The Office of Audit has two reviews in process that evaluate compliance by foreign investment partners and taxpayers receiving foreign-sourced income.

In FY 2001, the Office of Audit will address discrepancies between foreign controlled corporations and domestic corporations with regard to taxes paid on revenue. The Office of Audit will also conduct a follow-up review on the use of Form 1042S, Foreign Persons United States Source Income Subject to Withholding.

TIGTA EMPLOYEES RECOGNIZED AT TREASURY SECRETARY'S ANNUAL AWARD CEREMONY

In May 2000, TIGTA employees received top honors from Treasury Secretary Lawrence H. Summers. The entire staff of the Office of Investigations' Strategic Enforcement Division (SED), and the Office of Audit's Director of Management and Policy, were recognized for their significant contributions to the effective and efficient operation of the Treasury Department.

SED is a multidisciplinary team of auditors, special agents and computer specialists who use advanced computer technology and research skills to detect and investigate misuse of tax information and other crimes involving IRS computer systems. Since its inception, SED has made over 600 investigative referrals resulting in criminal and administrative sanctions. The Division's efforts have greatly enhanced the sanctity and security of federal tax information.

Strategic Enforcement Division Staff at DAR Constitution Hall in Washington, DC, following the awards ceremony.

During the transition from the prior IRS Inspection Service to TIGTA, Ms. Begg established and implemented new audit processes affecting every aspect of the audit program. Ms. Begg's efforts have resulted in higher quality audit reports and other critical products, such as Congressional testimony, the Annual Audit Plan, and the Semiannual Report to the Congress.

Margaret Begg, Director, Management and Policy, and Secretary Summers

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 assist the IRS in meeting the challenges it faced in FY 2000, the Office of Audit developed a comprehensive audit program. The program helped the IRS assure that tax administration programs were efficient and effective, and minimized fraud, waste, and abuse.

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

SIGNIFICANT AUDIT RESULTS

During this reporting period, the Office of Audit issued 101 audit reports which are listed in Appendix IV.

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

Modernizing the IRS

Significant Risks Need to Be Addressed to Ensure Adequate Oversight of the Systems Modernization Effort (Reference No. 2000-20-099)

For more than a decade, the IRS has been attempting to modernize its outdated, paper-intensive tax processing system. After spending over $3 billion with minimal improvement and under intense Congressional scrutiny, the IRS agreed to use a contractor to modernize its systems. The IRS is currently in the early phases of a new multi-billion dollar, 15-year systems modernization effort.

The IRS has made progress in correcting organizational weaknesses from past systems modernization efforts. Top level IRS executives are heavily involved in this effort. Also, the IRS now recognizes the need to develop program management capabilities, risk management processes, and quality assurance policies and procedures.

The Office of Audit reported, however, that current oversight of the systems modernization effort has been hampered by the lack of a stable Program Management Office (PMO). Program management staffing needs have not been determined; roles and responsibilities inside the IRS and between the IRS and the contractor have yet to be clearly defined; and, key processes such as risk management and performance monitoring need to be improved. These growing pains were a primary cause of the IRS' decision to scale back or delay delivery of some modernization initiatives.

The Office of Audit recommended that IRS management stabilize the PMO designed to oversee the systems modernization effort and develop plans to ensure the adequacy of PMO staffing. Also, the IRS should establish offices responsible for developing and enhancing performance monitoring and risk management capabilities. These recommendations should help IRS deliver systems that result in improved service to taxpayers through the implementation of quality modernization projects.

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

Additional Actions Are Needed to Strengthen the Development and Enforcement of the Enterprise Architecture (Reference No. 2000-20-158)

A critical component of the IRS' modernization effort is the establishment of an Enterprise Architecture that defines concepts such as the organization's mission, vision, and future business objectives. The IRS' Modernization Blueprint, which is being used to guide and control the modernization efforts, contains the IRS' initial steps toward defining the architecture.

The IRS is currently developing architecture work products that will become part of the planned September 2000 update of the Modernization Blueprint. These documents will explain the IRS' architecture standards, business requirements, and strategy for when and how the new computer systems will be implemented.

However, the Office of Audit reported that the IRS' approach may not include all the necessary processes, activities, and work products to fully develop the Enterprise Architecture; ensure that the blueprint architecture meets the IRS' needs; or, ensure that systems modernization projects follow architecture guidance.

The Office of Audit recommended that the IRS strengthen its controls and processes to ensure the architecture products meet the IRS' needs, and systems development projects follow this guidance.

IRS management's response was not received prior to the issuance of the audit report.

The Security and Performance of Electronic Tax Return Processing Should Be Improved to Meet Future Goals (Reference No. 2000-20-095)

The Electronic Management System (EMS) is IRS' primary system for receiving electronic tax returns from trading partners. Through April 17, 2000, the EMS received approximately 41 million individual federal and state income tax returns, about 28 percent more returns than in the 1999 filing season.

The Office of Audit identified that the EMS had sufficient telecommunications and processing capacity to receive and store expected tax return volumes during the 2000 filing season. However, IRS management should implement performance and capacity management planning and evaluate processing efficiency to determine if the EMS can handle the significant increases in electronic filing anticipated in the future. Also, IRS management should improve EMS security and project management controls, and complete and test the disaster recovery plan.

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

Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress Is Being Made (Reference No. 2000-20-140)

The IRS is in the process of consolidating the mainframe computer operations used to process tax data. The consolidation involves moving mainframe processing from the IRS' ten service centers to new mainframe computers located in two computing centers. As of March 2000, the five-year cost estimate for the consolidation project is nearly $480 million, which includes extensive contractor support.

The Office of Audit initiated this follow-up review of contract administration issues previously reported (Reference No. 199920068, dated September 1999), to determine whether IRS management effectively addressed those issues.

IRS management has begun work to address the contract administration issues. Although corrective actions have not been completed as planned, the IRS has already realized measurable outcomes. The prior audit report claimed $19 million in cost savings. This current report is claiming an additional $28.8 million in cost savings.

The Office of Audit reported that delivery order definitization has not been completed and invoices for services are not adequately verified. IRS management is continuing its work to complete the corrective actions; however, further delays increase the risks of incurring additional or inappropriate costs.

The Office of Audit recommended that IRS management ensure that the definitization of all delivery orders is completed for the Service Center Mainframe Consolidation Contract, and provide the resources needed to verify the invoices adequately.

IRS management agreed and will continue its efforts to complete the corrective actions.

Providing Security Over Information Systems

Certifying the Security of Internal Revenue Service Computer Systems Is Still a Material Weakness (Reference No. 2000-20-092)

The Office of Management and Budget and the Department of Treasury directives require all information systems that process sensitive but unclassified information, such as taxpayer data, be certified and accredited prior to being placed into operation. In 1995, the IRS began monitoring its sensitive systems certification process as a potential management control weakness, and in 1997, the IRS officially reported the process as a material weakness. This issue continues to be an open item on the IRS' FY 1999 assessment of management controls.

The Office of Audit reported that of the 258 sensitive systems listed on the January 2000 inventory, 232 (90 percent) systems were still not certified. In addition, the Certification Program Office does not have sufficient information to monitor whether accreditations are granted and/or granted timely for certified systems. The IRS is taking steps through contractor support to improve the certification process and alleviate the backlog of non-certified systems. However, more emphasis is needed to resolve this material control weakness in a timely manner.

The Office of Audit recommended that the IRS place more emphasis on building security controls into new information systems. To ensure this happens, IRS management should not authorize the implementation of any new system until controls are sufficient and the system has the required security certification and accreditation. The Office of Audit estimated that the IRS will pay contractors $26 million to develop security documentation for systems that were rolled out without the necessary security controls. Most of this cost could have been avoided if security controls had been built in and certification and accreditation had been accomplished during systems development.

IRS management generally agreed with the findings and recommendations. Management is developing a new process for certifying new systems within the systems development life cycle. Also, management anticipates that systems will be implemented without full certification only in special circumstances. Contractor support will continue to be used to reduce the backlog of uncertified systems.

The Office of Audit agrees with management's response, with one exception. Considering the sensitivity of the data processed by the IRS and the risks inherent in today's interconnected computer systems, the Office of Audit does not believe that any new system should be implemented without appropriate security controls.

A Comprehensive Program for Preventing and Detecting Computer Viruses Is Needed (Reference No. 2000-20-094)

Computer viruses pose a serious and rapidly increasing threat to computer systems. The cost of cleaning up viruses and the negative impact on productivity caused by computer down time is significant. Although the IRS did not have data on the extent and cost of viruses on its systems, industry data suggests that the cost to a business could be between $500,000 and $11.5 million annually.

The Office of Audit reported that the IRS did not have a comprehensive program for directing and overseeing the effectiveness of its computer virus prevention and detection activities. Accountability for a successful program had not been assigned to a senior manager or executive. As a result, viruses were not effectively eliminated and continued to spread. Anti-virus software was either not operating properly or did not have recent updates for 56 percent of the servers and workstations tested. In addition, the IRS did not have a formal response capability for resolving major viral outbreaks. Advance preparations outlining the procedures and mechanisms to be put in place when major outbreaks occur did not exist, and a team to manage and resolve outbreaks had not been formed.

The Office of Audit recommended that IRS management designate a senior official to be responsible for managing IRS' virus prevention program and overseeing its effective implementation.

IRS management agreed with the recommendation and plans to implement corrective actions. After the Office of Audit's report was issued, the IRS was infected by the "I Love You" virus and responded effectively and efficiently by communicating with employees, eliminating the virus, and keeping disruptions to a minimum.

The Internal Revenue Service Should Improve Actions to Protect Its Critical Infrastructure (Reference No. 2000-20-097)

The Clinton Administration's Policy on Critical Infrastructure Protection: Presidential Decision Directive (PDD) 63, dated May 1998, calls for a national effort to assure the security of the nation's critical infrastructure. The critical infrastructure consists of physical and computer-based systems essential to the minimum operations of the economy and government. This includes, but is not limited to, telecommunications, banking and finance, energy, transportation, and essential government services.

The Office of Audit reported that, during the last three years, the IRS has taken significant actions to identify and correct security weaknesses. However, due to other priorities, the IRS has not met PDD 63 documentation requirements. As a result, the IRS is in jeopardy of missing the first milestones required by the directive. The December 2000 milestones are critical for the IRS to ensure that the vulnerabilities of its critical infrastructure are known and that remedial plans can be developed. As a result, until mission essential assets are defined and adequately evaluated, IRS management will not have a complete accounting of its critical infrastructure vulnerabilities or a clear picture of the actions necessary to comply with PDD 63. The IRS, as well as other agencies and states that use IRS data, could be at undue risk of disrupted operations and processing delays.

To expedite efforts, the Office of Audit recommended that the IRS use the results of its ongoing security evaluation efforts, which are identifying and correcting security weaknesses, to comply with PDD 63. Additionally, IRS' Chief Infrastructure Assurance Officer should coordinate with senior Department of the Treasury and IRS officials to expedite the definition and identification of mission essential assets for critical infrastructure protection.

IRS management agreed with the recommendations and plans to implement corrective actions prior to the end of December 2000.

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

The Internal Revenue Service's Process for Controlling Filing Season Computer Programming Changes Does Not Ensure Critical Changes Are Effectively Implemented (Reference No. 2000-40-069)

IRS' Submission Processing functions need an effective process to control computer programming changes. This process is critical since the IRS has determined that over 250 computer programming changes were needed for the 2000 filing season.

The Office of Audit reported that the IRS does not have a comprehensive process for controlling computer programming changes. IRS' current process does not document all critical activities from the point the IRS identifies the need for a computer programming change until the program is implemented. In addition, the IRS needs to ensure critical programming changes receive priority and that all IRS offices use the same process to control requests for programming changes.

To ensure that all requests for computer programming changes are effectively controlled, the Office of Audit recommended that the IRS improve its process for managing computer programming changes and providing accurate management information. This process should include documenting all critical activities within the Request for Information Services (RIS) process, as well as validating information in the existing RIS databases before it is combined into a centralized database. Also, the IRS should develop written criteria for prioritizing RIS' and publish standardized procedures to assure that computer programming changes are effectively controlled for all offices.

The IRS agreed with the recommendations and is initiating corrective action.

The Internal Revenue Service Processed Most Estate and Gift Tax Returns Accurately, but Some Estates Did Not Receive the Maximum Tax Credit (Reference No. 2000-30-115)

The IRS processed most Tax Year (TY) 1999 estate and gift tax returns in accordance with the provisions of the Taxpayer Relief Act of 1997[10]. However, approximately one percent (197) of the 18,184 estate tax returns processed by the IRS from November 1999 through March 2000 were filed on outdated forms that showed a lower allowable unified credit. IRS processing procedures were not designed to identify and correct the understated credit and the resulting $1.8 million in miscalculated estate tax. IRS management took corrective actions based on the audit results provided to them during the course of this review. The Office of Audit estimated that one percent of approximately 125,000 TY 1999 estate tax return filers may have overpaid $11.6 million in tax.

The Office of Audit recommended that IRS management revise the processing instructions to correct the credit amount when an outdated estate tax return form is filed.

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

[10] Pub. L. No. 105-34, 111 Stat. 788

Providing Customer Service and Ensuring Tax Compliance

Improvements Are Needed in Resolving In-Business Trust Fund Delinquencies to Prevent Tax Liabilities From Pyramiding (Reference No. 2000-30-111)

The In-Business Trust Fund Taxpayer Program is among the highest FY 2000 priorities for cases in a revenue officer's inventory in IRS' Collection Field Function (CFf). The CFf is responsible for collecting delinquent accounts. Timely and effective collection is necessary because these taxpayers (employers) are still in business and can continue to pyramid liabilities every three months. Approximately 39 percent of the delinquent taxpayers reviewed had at least five delinquent accounts in the CFf inventory, demonstrating how quickly these liabilities can pyramid.

The Office of Audit reviewed 116 delinquent in-business trust fund taxpayer cases where liabilities had pyramided. Although revenue officers collected $4.9 million while working these cases, a greater amount in additional tax liabilities ($5 million) accrued while the cases were open in the CFf.

Revenue officers were effectively using certain collection tools, such as conducting timely and thorough initial contacts, informing taxpayers of their rights, giving clear instructions to taxpayers, setting deadlines, and informing taxpayers of the potential consequences of not paying. However, in many instances, actions on cases were not taken timely or additional tools could have been used more effectively to potentially prevent taxpayers from pyramiding liabilities; i.e., timely assignment of cases, taking additional enforcement actions, and monitoring of the Federal Tax Deposit (FTD) payments.

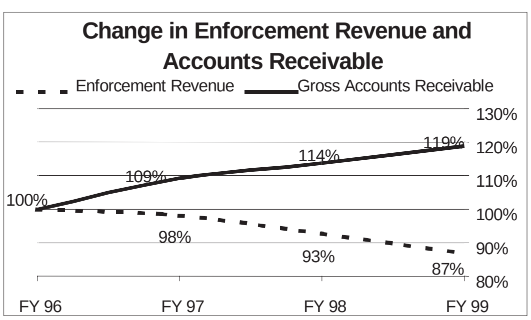
The Office of Audit recommended that IRS management adopt quicker time frames for assigning cases, re-emphasize the use of all available enforcement tools, identify a better way to monitor FTD payments, ensure taxpayers stay current with their payments, and gather trending information on taxpayers who do not comply.

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

Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities (Reference No. 2000-30-075)

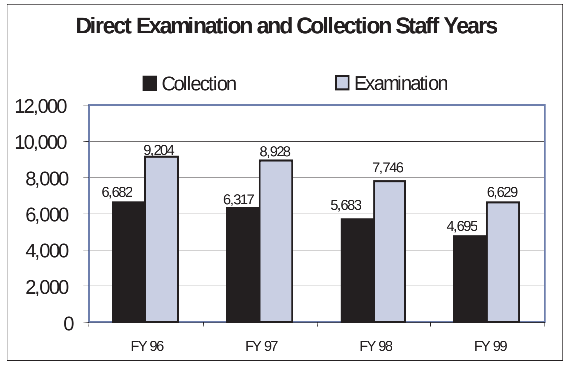
Over the past several years, the number of IRS employees has steadily decreased due to budget limitations. Correspondingly, the number of employees examining tax returns and collecting taxes also decreased. IRS management, members of the Congress, and others are concerned about this resource reduction and the related decrease in business results.

Revenue received by the IRS increased from $1.5 trillion in FY 1996, to $1.9 trillion in FY 1999. However, revenue collected as a result of compliance activity decreased 13 percent ($5 billion) from FY 1996 to FY 1999, while gross accounts receivable increased 19 percent ($41 billion).



Source: Enforcement Revenue Information System and Chief Financial Officer Financial Report

The Office of Audit's evaluation showed that during the past four years, Collection and Examination compliance efforts and results, in most areas, have decreased. Direct time spent by revenue officers collecting unpaid taxes and pursuing unfiled returns fell by 30 percent from FY 1996 to FY 1999. Direct time spent examining returns fell by 28 percent during this time.



Source: Collection Reports 5000-23 and Examination Tables 37

The reduction in hours available for return examination was caused by several factors, including: a decrease in staffing levels; diversion of resources to customer service activity; employee training; and, an increase in time to resolve cases due to ever-changing and increasing complexities of tax laws.

At this time, the IRS does not have a reliable method to measure voluntary compliance or to determine the impact that increased customer service has on voluntary compliance. Consequently, it is difficult to assess the benefits of using compliance resources for customer service, compared to the decrease in compliance results.

This audit report was advisory in nature and was issued to aid IRS management in making decisions regarding the allocation of resources and the development of new management information systems. This report did not include specific recommendations and no response was required.

Millions of Dollars in Internal Revenue Service Excess Collections Accounts Could Be Credited to Taxpayers (Reference No. 2000-30-088)

As of March 1999, an estimated one million taxpayers had payments totaling $2.3 billion in Excess Collections Accounts. When a payment cannot be associated with a taxpayer's account or a tax return is not filed, the IRS will, after meeting processing requirements, transfer the payment to its Excess Collections Accounts. These accounts include unidentified remittances (where the identities of taxpayers are unknown), miscellaneous fees, and voluntary contributions.

The Office of Audit reported that taxpayers do not always receive credit for certain tax payments due to computing system limitations and processing procedures, as well as the statutory provisions of the tax law.

To protect taxpayer rights and reduce the risk of inappropriate collection actions being taken, the Office of Audit recommended that the IRS immediately credit taxpayers' accounts, where appropriate. Also, the IRS needs to develop a coordinated, cross-functional strategy to minimize payments being transferred to Excess Collections Accounts. This strategy needs to include interim and long-term measures that address systems and procedural limitations. Finally, the IRS should use these audit results to support pending legislative suggestions by the National Taxpayer Advocate's Office regarding statutory requirements for refunding and crediting payments.

IRS management agreed with the recommendations and has taken steps to improve its process for managing Excess Collections Accounts.

The Internal Revenue Service Needs to Improve Control of Its Compliance Research Program (Reference No. 2000-40-068)[11]

As the IRS migrates to four operating divisions[12], its traditional approach to tax administration is changing to incorporate the needs of a diverse taxpayer population. With this new approach, it is important for the IRS to effectively develop and use compliance research data to guide its programs.

The Office of Audit reported that the IRS does not have effective controls over its research activities and cannot quantify its value to tax administration. Although the IRS recently implemented new procedures to better manage its compliance research program, it cannot accurately measure the cost-effectiveness or the impact of the information provided to its functional programs.

The Office of Audit recommended the IRS develop a process to identify and measure actual research outcomes and their related costs. Also, to ensure that research activities provide value to its customers, the IRS should report research results to functional customers timely and involve them more in the research process. The IRS should also maintain adequate project documentation to facilitate effective business decisions.

IRS management agreed with the recommendations and has taken steps to improve control over project costs. IRS management did not agree to document

[11] The Office of Audit also conducted a separate review of Compliance Research's security of taxpayer data, Reference No. 2000-20-159.
[12] The IRS is moving from a business structure based on functional processes to four operating divisions that will focus on the unique needs of particular taxpayer groups. Each operating division will be responsible for all processing and service provided to a specific group of taxpayers.

customer discussions, choosing instead to rely on current project prospectuses to ensure customer involvement.

Protecting Taxpayer Rights

Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File (Reference No. 2000-30-154)

IRS centers and lockbox processing sites misapplied most gift tax payments made by taxpayers who filed for an automatic extension of time to file Form 4868, U.S. Individual Income Tax Return. These misapplied payments were incorrectly processed to taxpayers' individual income tax accounts, and extensions were usually processed to individual income tax accounts instead of to both individual and gift tax accounts.

The Office of Audit estimated that $1.4 billion in gift tax payments were misapplied during the processing of TY 1996, 1997, and 1998 extensions. Because processing guidelines were either not followed, incomplete, or unclear, the IRS sent taxpayers an estimated $237 million in erroneous refunds and over 18,300 incorrect notices. In addition, the IRS charged taxpayers an estimated $3.2 million in penalties that they did not owe, and paid an estimated $8.1 million in interest to taxpayers for delayed refunds.

The Office of Audit recommended that IRS management require the review of all balance due notices for gift tax returns and instruct tax examiners to review the taxpayers' corresponding individual and gift tax accounts; revise the IRS center and lockbox guidelines to ensure that processing instructions for payments and extensions involving gift tax returns are complete, clear, and followed; explore the possibility of updating the Integrated Submission and Remittance Processing System to permit the posting of payments and extensions to both the individual income and gift tax accounts; improve the reviews of lockbox performance; and, enhance the lockbox performance reports.

IRS management generally agreed with the findings and recommendations and has initiated corrective action. IRS management did not agree with the following recommendations: determining whether gift tax payments and extensions could be completely processed at lockbox sites; directing the lockbox coordinators to review correspondence with taxpayers; and, instructing the lockbox depository to review the extension forms during the 2001 filing season. Instead, the IRS plans to rely on other improvements being made to help resolve some of these issues, and advised that the lockbox banks have agreed to focus on the processing of extension forms during its training for the 2001 filing season.

Increased Attention Is Needed to Ensure Timely, Accurate Determinations on Innocent Spouse Claims for Relief (Reference No. 2000-40-063)

The IRS considered the provisions for innocent spouse relief to be one of the ten most significant areas of RRA 98. Section 3201 of RRA 98 liberalized the factors that the IRS considers when evaluating requests for relief from income taxes under the innocent spouse provisions. This liberalization significantly increased the number of claims that the IRS received. Between July 22, 1998, and December 31, 1999, the IRS received approximately 64,000 innocent spouse claims.

The IRS was not prepared to effectively process the increased volume of innocent spouse claims for relief. IRS management was slow to react to predictions of increased innocent spouse claims and failed to adequately staff the program when the predictions materialized. Instead of setting up a fundamentally sound program with long-term solutions, IRS management initiated short-term solutions designed to reduce the inventory backlog. These steps were not successful and cases in open inventory reached a program high of 46,000 by December 31, 1999.

The IRS has taken several positive actions to address the problems of implementing the Innocent Spouse Program. These actions included changing the management structure, appointing a full-time national project manager with expanded authority, developing a job aid for making determinations, redesigning the application for relief to help taxpayers better understand eligibility requirements, and establishing a centralized quality review of innocent spouse case decisions. However, IRS management needs to take additional actions to implement an effective program to provide timely, accurate determinations on innocent spouse claims.

The Office of Audit recommended that the IRS take the following actions: set goals and standards for the Innocent Spouse Program; upgrade the current management information system and ensure that it provides complete, timely, accurate, and useful feedback; and, design and implement a system of internal controls that addresses the quantity, cost, and timeliness of the Innocent Spouse Program.

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

The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations (Reference No. 2000-30-162)

The Bankruptcy Code, 11 United States Code (U.S.C.) Section 362, prohibits creditors from taking certain actions against individuals after they have filed for bankruptcy, which is known as the "automatic stay." As long as the automatic stay is in effect, creditors generally cannot take actions, such as initiating or continuing lawsuits, garnishing wages, or even making telephone calls demanding payments.

For FY 1999, IRS data shows nearly half of the individuals and businesses filing bankruptcy had outstanding tax liabilities totaling $3.4 billion.

The IRS is not always accomplishing its objective of identifying violations of the bankruptcy automatic stay provisions. The Office of Audit reported that in its review of three IRS district offices, approximately 86,000 bankruptcies were input into the Automated Insolvency System during FY 1999. There was some indication that collection action (i.e., payments made and liens filed) may have been taken on 7,825 of the bankruptcy cases. A review of 420 of these cases identified 143 (34 percent) violations of the automatic stay provisions.

As of January 2000, the IRS indicated that only one taxpayer nationwide had filed an administrative claim because of a violation of the automatic stay provisions. However, taxpayers may not be aware of their right to file administrative claims, and should they become aware, the number could increase significantly. The RRA 98 allows taxpayers to sue when an IRS employee willfully violates the automatic stay provisions.

The Office of Audit recommended that IRS management ensure that litigation transcripts are monitored to identify any violations and that appropriate action is taken if violations have occurred. The Internal Revenue Manual should be updated to include procedures for refunding payments received after the bankruptcy petition is filed. In addition, employees should timely and effectively address internal reports to resolve cases and ensure posting of the bankruptcies to taxpayers' accounts.

IRS management's response was not received prior to the issuance of the audit report.

Opportunities Exist to Identify Unreported Taxes from Employer's Quarterly Federal Tax Returns (Reference No. 2000-30-146)

There are significant unresolved differences between the tax information reported by employers to the IRS and the information reported to the Social Security Administration (SSA). These discrepancies bring into question the accuracy of many Forms 941, Employer's Quarterly Federal Tax Return, including taxes employers are reporting and paying to the IRS, as well as refunds they are receiving. The IRS can increase compliance efforts and identify potential unreported taxes on Forms 941 by using data received from the SSA.

The Office of Audit reported that in TY 1998, employers might have underreported social security, Medicare, and withholding taxes on their Forms 941. By using IRS' data, the Office of Audit identified 491 employers that potentially reported $5.4 billion less in wages to the IRS on their Forms 941 than they reported to the SSA on the Forms W-2, Wage and Tax Statement.

In addition, employers nationwide potentially reported, on Forms 941, that they paid their employees $170 million in advanced EIC, but the amount individual taxpayers reported on their income tax returns was only $97 million. The 491 employers potentially claimed $300,000 more in advanced EIC on Forms 941 than on Forms W-2. Employers can deduct a dollar-for-dollar credit against their Form 941 taxes for advanced EIC payments. While only one percent of employers claimed advanced EIC, they received 19 percent of the Form 941 refund dollars issued by the IRS.

The IRS Criminal Investigation (CI) office investigates potential tax fraud, but until recently had not been able to identify Form 941 refund fraud. IRS CI has proposed expanding its involvement in employer-based refund fraud schemes.

The Office of Audit recommended that IRS management increase Form 941 compliance efforts. In addition, IRS CI should follow through with its plan to expand its involvement in employer-based refund fraud schemes.

IRS management's response was not received prior to the issuance of the audit report.

Protecting Revenue and Minimizing Tax Filing Fraud

Letter Report: Internal Revenue Service Efforts to Deal With Executor Commissions Show Promise (Reference No. 2000-30-096)

Executors are paid millions of dollars in commissions each year for administering estates and distributing the property of decedents. These commissions are deducted on estate tax returns, and the executors are to report the commissions on their individual income tax returns. As a result of a previous Office of Audit report (Reference No. 970803, dated March 1997), the IRS implemented a project that focused on early intervention by sending inquiry letters to executors who may not have reported their commissions.

This follow-up review reported that the IRS' early intervention project was successful. The project identified $1.7 million in unreported income which generated $527,000 of additional recommended taxes and interest liabilities, of which $515,000 (98 percent) has been collected.

The Office of Audit recommended that the IRS expand early intervention efforts nationwide. A nationwide effort could further reduce unreported commissions.

IRS management agreed with the recommendation and will initiate corrective action.

Management Advisory Report: Administration of the Earned Income Credit (Reference No. 2000-40-160)

The EIC is a refundable credit created by the Congress in 1975 to offset the impact of Social Security taxes on low-income families and to encourage low-income families to seek employment rather than welfare. Since inception of the EIC, the IRS has faced problems with a complex processing structure, implementation of legislative changes, and a lack of reliable, current data on participation levels and noncompliance. The administration of the EIC has been forced into the IRS' existing organizational structure, resulting in conflicting goals and approaches among functions that process approximately $30 billion in EIC claims from over 19 million taxpayers yearly.

The Office of Audit reported that despite a wide range of audit work and studies disclosing deficiencies and high-risk areas in the administration of the EIC, problems continue to exist. The results of some of these studies have not been reliable, are several years old, and have not been used by the IRS to establish baselines. Without studies that establish valid and reliable baselines, IRS management cannot accurately identify the population of all eligible EIC taxpayers, measure the extent of noncompliance, or determine if planned activities will achieve desired outcomes.

Each year, the IRS allocates resources and implements activities designed to administer the EIC. The Congress has become concerned with the IRS' ability to achieve full participation by qualified taxpayers and reduce EIC noncompliance. The IRS received $144 million in FY 2000 and will receive another $145 million in FY 2001 to fund its EIC activities. However, current activities and plans for the new IRS structure do not improve the way IRS processes EIC returns. As the IRS implements its new organizational structure, and works to implement GPRA, it should assess the EIC program to determine ways to improve compliance and identify EIC eligible taxpayers who do not claim the credit.

For this management advisory report, the primary purpose of the IRS' response was to present an overview of the current status of the EIC compliance program. IRS management responded that it will soon release to the public the most recent EIC study, Compliance Estimates for Earned Income Tax Credit Claimed on 1997 Tax Returns. This study will provide a starting point from which the IRS will be able to evaluate future efforts.

The response also stated that the IRS has recently launched new enforcement efforts to detect and prevent erroneous EIC claims before tax refunds are paid. The IRS has also implemented a program aimed at educating paid preparers, and is continuing other outreach programs for state and local governments, faith-based organizations, community groups, business leaders, and low income taxpayer advocates.

Procedures for Installment Agreements With In-Business Taxpayers Need to Be Strengthened (Reference No. 2000-30-123)

According to IRS records, businesses incurred more than $11 billion in tax liabilities in FY 1999. Almost $7 billion of these new delinquencies were for unpaid Form 941 liabilities. If the taxpayer cannot fully pay these liabilities, the IRS considers allowing the taxpayer to make periodic (installment) payments. Because in-business taxpayers may also potentially accrue additional Form 941 liabilities, while in an installment agreement, IRS procedures require close manual monitoring.

The Office of Audit identified a number of areas where procedures need to be improved. Specifically, improvement is needed with the evaluation of in-business taxpayers' suitability for installment agreements, the monitoring of active agreements, and the verification of basic financial information before granting installment agreements. In addition, 38 percent of the installment agreements reviewed by the Office of Audit showed that the agreements were not manually monitored consistently for compliance with their terms. The Office of Audit also reported that the IRS does not maintain basic management information regarding manually monitored installment agreements.

The Office of Audit recommended that IRS management develop additional guidance to ensure sufficient research is performed to accurately determine in-business taxpayers' suitability for installment agreements, and revise current agreement monitoring procedures to improve their effectiveness and efficiency. In addition, management should implement a uniform methodology for coding manually monitored installment agreements so essential management information can be easily obtained and evaluated.

IRS management agreed with the audit recommendations and has issued revised procedures.

Providing Quality Customer Service Operations

Expanding the Electronic Tax Law Assistance Program (Reference No. 2000-30-120)

The IRS' toll-free telephone system is the cornerstone of its customer service operations. For FY 2000 (as of April 22), taxpayers attempted over 62 million calls to the IRS' three main toll-free telephone lines to obtain answers to their questions. In addition, the IRS uses the ETLA Program to answer tax law and procedural questions submitted by taxpayers on the IRS' Internet web site known as the *Digital Daily*.

The ETLA Program offers an alternative to the telephone for taxpayers needing tax law assistance, while at the same time increasing accessibility and convenience. In FY 1999, IRS' ETLA answered over 264,000 tax law questions, with nearly 350,000 expected for FY 2000.

The Office of Audit reported that the IRS' ability to provide effective and efficient electronic tax law assistance is adversely affected by the current system design. The ETLA design is basically a manual correspondence system with the Internet used only to transmit the questions and answers. For the past six years, the ETLA Program has remained a research project and has not progressed beyond the original system design. Although the initial concept and design were innovative in 1994, the rapid growth of the Internet and technology has directly affected the program. The current system design will not significantly help achieve the IRS' goals of making electronic communication so simple, inexpensive, and trusted that taxpayers will prefer it to calling and mailing; and, substantially increasing taxpayer access to electronic communication products and services.

The Office of Audit recommended that the IRS leverage technology that will provide enhanced access to tax information, maximize efficiency, and improve electronic customer service. The IRS also needs to fully commit to the ETLA Program by converting it from a long-term research project to a fully supported independent function. Until there are technological changes and an organizational commitment, the IRS needs to delay the marketing of the ETLA Program. In the interim, the IRS should expand the ETLA Program to additional call sites.

IRS management agreed with all of the facts reported, however, they disagreed with most recommendations. The Office of Audit is drafting a response to the IRS Commissioner on the disagreed recommendations.

Management Advisory Report: Comparison of Responses to Small Business/Self-Employed Taxpayer Questions From the Electronic Tax Law Assistance Program and Other Internet Tax Law Services (Reference No. 2000-30-126)

The Office of Audit conducted this study to provide the Customer Service function with a qualitative comparison of the responses submitted by the ETLA Program and free commercial Internet web sites to Small Business/Self-Employed tax law questions.

To avoid having an adverse effect on the ETLA Program and commercial web sites during the filing season, the Office of Audit limited the number of questions it introduced into both systems to 50. Consequently, the results are not statistically valid. However, the sample is sufficient to provide insight into the service the IRS provided to Small Business/Self-Employed taxpayers.

The Office of Audit reported that the ETLA Program responded correctly to 54 percent of the questions, while the commercial web sites provided correct answers 47 percent of the time. All responses from both sites were received within four days. The IRS responded within two days for 90 percent of the questions. The commercial web sites provided quicker responses, either the same day or the following day for 81 percent of the questions. However, the customer satisfaction surveys show that over 90 percent of the taxpayers who used the ETLA Program were satisfied with the IRS' response times.

This review was a management advisory study and provided information to IRS management for their use; therefore, the Office of Audit did not provide recommendations and no management response was required.

Managing Finances

Letter Report: Improvements Are Needed in the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan (Reference No. 2000-10-105)

The Office of Audit assessed the IRS' compliance with the FFMIA and reported that the IRS' financial management systems do not comply with the federal financial management systems requirements, federal accounting standards, or the U.S. Government General Ledger. As required, the IRS prepared a remediation plan to bring its financial management systems into compliance.

The Office of Audit reported that, overall, the remediation plan is reasonable and is consistent with the Department of Treasury's standard financial management system template. The remedies included in the plan appear sound, directly address the reported weaknesses, and provide long-term solutions. However, the remediation plan does not fully comply with the FFMIA requirements. Specifically, the plan does not include or is not clear on all reported weaknesses; target dates were not always identified or exceeded the three-year time frame without the Office of Management and Budget concurrence; and, resource commitments were not always identified or clear. Without full compliance with FFMIA, the IRS cannot ensure that all financial management weaknesses are resolved adequately and timely.

The Office of Audit recommended that IRS management ensure that reported weaknesses are clearly included in the remediation plan, and target dates and resource commitments are clearly identified for each weakness. Also, IRS management should promptly notify the Department of Treasury of all target dates that exceed the three-year limit so that the Department can seek appropriate concurrence.

Overall, IRS management agreed with the recommendations. However, IRS management indicated that the lack of a standardized general ledger was adequately addressed in the plan. Nonetheless, the IRS took further action to clarify this issue, which satisfied the Office of Audit's recommendation.

Improvements Are Needed to Ensure Control and Accountability Over Automated Data Processing Assets (Reference No. 2000-10-145)

The IRS has had problems controlling and accounting for its Automated Data Processing (ADP) property, as reported by the GAO when it identified this area as material weaknesses in FY 1999. Recognizing that the lack of an organization solely dedicated to ADP property management was a significant factor contributing to the condition of its ADP property records, the IRS designated a responsible executive.

The IRS has made substantial progress to ensure control and accountability over its ADP property; however, additional actions are needed. The Office of Audit recommended that the IRS verify the results of its inventory reconciliation process prior to forwarding ADP certifications to the IRS Commissioner. Also, the IRS needs to fully implement the Single Point Inventory Function to ensure the accuracy of the inventory and to minimize the risk of continued criticism of its financial records.

IRS management agreed to the recommendations and has developed an implementation schedule for its corrective actions.

Implementing GPRA

The Office of Audit issued six reports that assessed IRS' efforts to implement customer satisfaction GPRA measures. The overall audit objectives, recommendations, and corrective actions for these reports are included in Appendix VII.

Addressing the Impact of the Global Economy on Tax Administration

Opportunities Exist to Enhance the International Field Assistance Specialization Program (Reference No. 2000-30-130)

The International Field Assistance Specialization Program (IFASP) was established to provide technical assistance in the examination of complex international tax issues. The expected benefits included increased revenue raising capabilities, fewer disputes due to better developed issues, and less time spent on examinations.

The Office of Audit reported that the IFASP is an important resource to the International Enforcement Program and is staffed with experienced international examiners who are trained in complex areas of international law. However, limitations of the management information system prevent the IRS from determining whether the IFASP was realizing the benefits expected.

Opportunities exist to enhance the ability of the IFASP to provide assistance to the International Enforcement Program, a program that recommends approximately $2.1 billion in additional taxes annually. The Office of Audit recommended that the IFASP indicator in the International Case Management System be linked to the specific international issues that the IFASP helped develop. Also, more information should be accumulated and disseminated electronically through the IRS' Intranet site.

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

TIGTA ASSISTS FOREIGN TAX ADMINISTRATION

In January 2000, TIGTA detailed an audit manager to the Treasury Department's Office of Technical Assistance for a two-year assignment as a resident advisor to Georgia (the former Soviet Union Republic of Georgia). As a direct result of this specialized tax policy and administration assistance, the President of Georgia established the first Office of the Inspector General (OIG) in June 2000. In July, the Georgian President appointed the first IG for the Tax Revenue Ministry of Georgia (TRMG).

The new OIG is responsible for oversight of the TRMG, which consists of the Tax and Customs Departments, Excise Stamp Service, and the Ministry. The OIG has two primary functions, audit and investigations. The TIGTA resident advisor continues to provide technical assistance on all matters concerning the OIG, such as legislative and organizational issues; audit and investigative standards, methodologies, policies, and procedures; and, audit and investigation planning and programs.

Treasury Inspector General for Tax Administration
Office of Investigations

INTRODUCTION

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

Specifically, these areas of responsibility include:

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

PROTECTION OF TAXPAYERS AND IRS EMPLOYEES

TIGTA is dedicated to ensuring taxpayers and IRS employees the highest degree of integrity, fairness, and trust in the nation's tax administration system. To heighten awareness and provide a deterrent effect against fraud and misconduct, TIGTA special agents routinely conduct integrity awareness presentations for IRS employees and various professional organizations, including local law enforcement agencies, tax practitioners, and community groups. During this reporting period, the Office of Investigations conducted 702 presentations for 30,137 individuals. Approximately 87 percent of these individuals were IRS employees.

The Office of Investigations conducts investigations that protect taxpayers from IRS employees who commit criminal violations, and administrative misconduct. These investigations may involve allegations of unauthorized access to and disclosure of confidential taxpayer information, bribery, financial fraud, false statements, and abuse of taxpayer rights. During this six-month reporting period, the Office of Investigations completed 824 employee investigations.

The Office of Investigations is also committed to protecting and supporting IRS employees as they carry out the mission of the IRS. TIGTA investigates individuals who attempt to interfere with or corrupt the administration of the federal income tax system, to include investigations of bribery, assault, threat, theft, and embezzlements. During this reporting period, the Office of Investigations completed 1,201 investigations involving these types of allegations.

When an investigation determines that a taxpayer has been financially or procedurally harmed by employee misconduct, TIGTA notifies the IRS so that appropriate action can be taken. TIGTA has notified the IRS on issues such as the unlawful inspection or disclosure of taxpayer returns or return information[13] and the embezzlement or theft of tax payments.

Complaint Management Division

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

During the reporting period, TIGTA received 4,763 complaints. The status of these complaints is shown in Appendix II.

Section 1203 Violations

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

TIGTA is dedicated to protecting taxpayers against abuse and misconduct while also ensuring that IRS employees are not the subject of Section 1203 investigations that have no basis. During this reporting period, TIGTA received 257 allegations involving potential Section 1203 violations.

Investigations are opened on Section 1203 allegations where it has been determined, through preliminary analysis, that there is a basis for the allegation. The only exceptions are Sections 1203(b)(8) and (b)(9) which relate to timely and full payment of taxes. In some situations, the IRS resolves these issues fully and a TIGTA investigation is not required.

TIGTA initiated 164 investigations during this reporting period related to alleged Section 1203 violations. Of these, 132 are currently ongoing and 32 are closed. Twenty-five of the 32 closed investigations were referred to the IRS for administrative adjudication. The referred cases consist of both substantiated and unfounded Section 1203 allegations. IRS issues clearance letters to IRS employees where the allegations are unfounded.

Under Section 1203, the IRS terminated 15 employees and mitigated one other case to a lesser administrative action during this reporting period. One termination was the result of a TIGTA investigation.

Some Section 1203 violations, related to internal IRS procedures, require the IRS to provide TIGTA with a preliminary assessment of whether the internal procedures appear to have been violated. During the reporting period, TIGTA received 108 complaints that were referred to the IRS for this type of preliminary inquiry.

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

Strategic Enforcement Division

The SED proactively identifies and initiates criminal investigations involving fraud and abuse of IRS computer systems and violations of the Taxpayer Browsing Protection Act of 1997.[14] SED combines the talents of auditors, special agents, and computer programmers into an investigative team to accomplish its mission.

SED has developed an aggressive program for detecting fraud in IRS operations and unauthorized accesses (i.e., UNAX) to confidential tax data on IRS computer systems.

SED also provides extensive investigative and forensic data analyses to the field special agents on their criminal investigations. SED's computer investigative specialists assist special agents in seizing computers, analyzing computer-related evidence, and conducting searches on the Internet.

SED maintains computer research and reference equipment and assesses technical threats to the integrity of IRS' network. SED conducts proactive security testing to ensure that adequate safeguards are in place to defend against newly identified network vulnerabilities, as well as newly disseminated hacker tools found throughout the Internet. Threat advisories are disseminated to IRS, Department of the Treasury, and a number of other federal agencies.

National Investigative Initiatives

Proactive investigative initiatives are a key part of SED's operation. Projects are initiated based on information developed during successful investigations. The methodology of the crime becomes the basis for developing computer database applications that will identify other individuals who may be perpetrating the same type of violation. Computer matching is used nationwide in proactive projects. These projects are included in Computer Matching Act[15] agreements approved by the Department of the Treasury's Data Integrity Board and published in the Federal Register.

UNAX Detection Project

The UNAX Detection Project is SED's most aggressive national investigative initiative. The Audit Trail Lead Analysis System (ATLAS) detects potential unauthorized accesses to electronic taxpayer records on IRS computer systems. During this six-month period, SED identified and analyzed 296 leads of potential unauthorized accesses to tax information by IRS employees. This resulted in 123 referrals to field special agents.

SED provided assistance in a number of cases, including:

- In January 2000, a federal grand jury returned an indictment charging an IRS employee with one count of mutilation of records and 20 counts of unauthorized access. In March 2000, the employee pled guilty to one count of mutilation of records and one count of unauthorized access. In June 2000, the IRS employee was sentenced to 120 days of home confinement, four years probation, and fined $1,125. The employee also was ordered to participate in a mental health treatment program and to have no contact with the taxpayers whose accounts were accessed.

  The investigation was initiated after four tax remittance checks were found on the street. When interviewed by TIGTA, the employee admitted to disposing of "40 to 60" tax remittances and numerous tax documents improperly. The investigation revealed the employee had also made

[14] Pub. L. No. 105-34, 111 Stat. 1104 (1997)

[15] Pub. L. No. 101-56, 103 Stat. 149 (1989)

unauthorized accesses to the tax accounts of six taxpayers. The employee resigned from the IRS.

- In August 1999, an IRS employee was charged by a grand jury with robbery, unauthorized access of a computer in furtherance of a criminal or tortuous act, solicitation to murder, attempted murder, and intimidation of a federal witness. The employee used confidential taxpayer information to locate, threaten, and plot to kill a night manager of a fast food restaurant. The IRS employee had allegedly robbed the manager and the employee knew the manager would identify and testify against the employee in court.

  The SED determined through an audit trail that the employee had searched IRS' computer system and obtained the victim's address and other personal information. The employee used the information to threaten and intimidate the witness from cooperating with law enforcement officials. The employee attempted to persuade an associate to kill the victim. In April 1999, the employee was terminated from the IRS on unrelated issues.

  In May 2000, the employee was tried and found guilty on one count of interference with interstate commerce by robbery; two counts of use of a firearm in a crime of violence; one count of unauthorized access of a computer in furtherance of a criminal or tortuous act; and, one count of solicitation to murder a federal witness. In August 2000, the IRS employee was sentenced to more than 40 years incarceration without chance for parole, five years supervised release, $1,900 restitution, and a $600 special assessment.

Technical and Forensic Support Division

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

Technical Services

Technical Services is responsible for providing technical and investigative assistance, equipment, training, and other specialized services to enhance TIGTA's investigative activities. Technical Services provides crucial support in the collection, preservation, and enhancement of evidence. Technical Services provides audio and video investigative equipment, and assists special agents in using these tools.

An example of the type of investigative support provided by Technical Services follows. An individual attempted to extort $190,000 by sending several fictitious IRS collection documents to a victim. Repeated visits by the individual to an express mailing center were captured on videotape. Technical Services produced composite video prints that positively identified the individual and the individual's vehicle. The video also showed the individual mailing the fictitious letters to the victim. The individual was arrested and indicted on three counts of misuse of official department or agency seals. In September 2000, the individual pled guilty to one count of the indictment.

Forensic Science Laboratory

Successful criminal investigations often rely on the forensic analysis of evidence. The FSL supports field investigations through the timely processing of physical evidence using forensic techniques to identify investigative subjects. These techniques include chemical processing and comparison for latent prints, handwriting identification, digital image enhancement, and document chemistry.

During this six-month period, the FSL received 129 case submissions, issued 108 reports of laboratory examination, and evaluated 3,310 items of physical evidence.

The FSL examined evidence from a number of cases, including:

- In August 2000, an inmate was found guilty of mailing a request for information to the IRS in an attempt to locate a former friend whom the inmate had been stalking and harassing since 1993. Handwriting analysis by the FSL determined that the taxpayer's signature was forged. The inmate is awaiting sentencing for this matter and is currently serving nine years on unrelated state charges.
- Individuals filed complaints regarding the receipt of fictitious audit letter notices and requests for specific documentation. Interviews with the individuals indicated that they suspected an IRS employee of sending the harassing notices in retaliation for their role in firing the employee's friend. The FSL processed the notices and forms for latent fingerprints and identified the prints of the IRS employee and the friend on numerous forms. In April 2000, the IRS employee was indicted on two counts of mailing fictitious correspondence.
- An individual altered and mailed a fraudulent lien release to the IRS to show that the individual's federal income tax liability had been satisfied. A FSL examination confirmed that this lien release was a forged photocopy. As a result of the FSL finding, the individual subsequently confessed to committing this crime. In August 2000, the individual was sentenced to a pre-trial diversion program for committing false impersonation and mail fraud. The individual is currently serving 18 months probation.
- An individual claimed to have visited the IRS and to have made a $2,500 cash payment. The individual stated a non-standard IRS receipt with an IRS date stamp indicating receipt of payment was provided. The individual accused an IRS employee of issuing the false receipt and personally retaining the cash payment. IRS records showed that a $2,500 payment was made and that the check was dishonored.

  The FSL determined that the date on the receipt had been altered and that differences in physical ink characteristics indicated the date and the dollar amount entries were not written contemporaneously with the original date, payee entry, comment, and receiver signature. The individual admitted to creating the questioned receipt. The Assistant United States Attorney declined prosecution. The individual's admission resulted in the IRS employee's exoneration.

SIGNIFICANT INVESTIGATIONS

Disclosure and Improper Computer Access Investigations

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

IRS Employee Pled Guilty to Unauthorized Access

In March 2000, an IRS employee pled guilty to one count of unauthorized inspection of tax return information. The employee accessed the account of a relative without authorization or for official business. The employee was sentenced to six months in jail, one year supervised release, and ordered to pay $630 in fines and court costs. The employee resigned upon hearing of the investigation.

IRS Employee Pled Guilty to Unauthorized Use

In June 2000, an IRS employee was sentenced to 12 months probation after pleading guilty to one count of unauthorized use of a government computer. A complaint was received alleging that the employee created and submitted a fraudulent IRS document to a financial institution. The investigation revealed that the employee accessed a tax account and subsequently used the name and Social Security Number on that tax account to obtain local cable service at the employee's residence. The employee was terminated from the IRS.

IRS Employee and an Individual Charged with Conspiracy, Unlawful Computer Access, and Unauthorized Disclosure

In February 1999, a friend of an IRS employee asked the employee for the address of the friend’s separated spouse. The employee accessed IRS computer records and obtained the address and other tax information concerning the spouse. The employee subsequently provided this information to the friend. In June 2000, the IRS employee and the friend were indicted on conspiracy to defraud the U.S. The employee was also charged with unlawful computer access and disclosure of tax information. In September 2000, the IRS employee and the friend pled guilty to conspiracy under a plea agreement.

IRS Employee Pled Guilty to Unauthorized Disclosure and Fraud

Based on an allegation, TIGTA initiated an investigation concerning misuse of an IRS employee’s position. The employee solicited a bank loan under preferential conditions and a vehicle repair from a taxpayer in exchange for delaying IRS collection efforts. In July 2000, the employee was indicted by a federal grand jury on nine counts of bribery, extortion, unlawful acts of revenue officers or agents, fraud, and related activity in connection with computers, and unauthorized disclosure of information. In August 2000, the individual pled guilty to one count of unauthorized inspection of return or return information, one count of fraud and related activity in connection with computers, and received a one-year suspended sentence. In August 2000, the employee resigned from the IRS.

Bribery Investigations

As a result of their responsibilities and frequent contact with taxpayers, many IRS employees can be targets for bribery. Their positions also provide unscrupulous employees opportunities to extort and solicit bribes from taxpayers and to conspire with individuals who could 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 37 bribery investigations.

Representative and Client Arrested for Bribery of IRS Employees

An IRS employee reported to TIGTA what the employee felt was a bribe offer by a taxpayer's representative during a meeting for a tax audit. At a subsequent meeting with the representative, which was monitored by TIGTA special agents, the client paid the IRS employee $2,000 for an $80,000 reduction of potential tax liability.

The representative later offered additional bribes affecting the accounts of other taxpayers. The representative paid the IRS employee and another cooperating IRS employee cash bribes totaling $3,500 for reducing three other taxpayers' liabilities of approximately $150,000. In March 2000, TIGTA special agents arrested the representative and the client. Upon interview, the representative admitted to paying bribes. Evidence did not indicate that the other three taxpayers had direct involvement in the bribe scheme.

IRS Employee and Dentist Indicted for Conspiracy and Bribery

A TIGTA investigation revealed that an IRS employee was receiving free dental treatment from a dentist in exchange for abating approximately $20,000 in tax penalties and interest, and lowering the dentist's monthly tax installment payment from $5,000 to $3,000 per month. A search warrant resulted in locating evidence that corroborated the bribes. The investigation substantiated that the employee received approximately $10,000 in free dental treatments. In April 2000, the employee and dentist were indicted for conspiracy, and offering and accepting a bribe. The employee was immediately terminated.

Individual Charged with Bribery

In February 2000, an individual was indicted by a federal grand jury for bribery of a public official. The investigation began after an IRS employee reported a bribe overture from a taxpayer. During a subsequent contact, the taxpayer provided $300 and advised the employee that it was for totally eliminating the taxpayer's $1,600 tax liability. In August 2000, the individual pled guilty to bribery and was sentenced to three years probation and fined $1,900.

Former IRS Employee Pled Guilty to Conspiracy

In May 2000, a former IRS employee and an individual were indicted for conspiring to defraud the U.S. government. The former IRS employee prepared and sent fraudulent release of IRS levy documents to three attorneys involved in the individual's pending lawsuit settlement. The individual admitted to agreeing to pay the former IRS employee a percentage of the levy amount, totaling approximately $2,000, in order to have the levy released. In July 2000, the former IRS employee and the individual pled guilty to conspiracy and false statements.

IRS Employee Charged with Bribery

A special agent with the IRS CI office reported discovering fraudulent federal income tax returns that were used in a tax preparer's bank fraud scheme. The preparer subsequently admitted to paying an IRS employee $200 to stamp the returns as though the returns had been received by the IRS, when in fact the returns were only used in the bank fraud scheme. TIGTA, with the assistance of IRS CI, prepared four fraudulent tax returns using the identity of a fictitious taxpayer. The IRS employee subsequently date-stamped those returns at the preparer's home during a meeting monitored by TIGTA special agents. In June 2000, the tax preparer pled guilty to charges of making false statements. In July 2000, the IRS employee was indicted on two counts of bribery and shortly thereafter resigned after being confronted by TIGTA special agents.

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.

Individual Convicted of Using a Fraudulent IRS Certification

In 1996, an individual filed for a $675,000 loan guaranteed by the Small Business Administration (SBA). To support the loan application, the individual submitted fictitious tax returns for 1993, 1994, and 1995 indicating the individual had earned over $3 million. The returns further identified the individual by an alias with someone else's Social Security Number. In addition, the individual sent the SBA an IRS Taxpayer Account Information Letter purported to have been issued by the Taxpayer Service Division.

Believing the letter to be authentic, the underwriting lending institution approved the loan. The individual spent the loan proceeds on houses, cars, and other personal items which were in violation of the terms of the loan agreement, and subsequently defaulted on the loan. The IRS Taxpayer Account Information Letter was determined to be false. In September 2000, the individual was convicted for making false statements and using someone else's Social Security Number.

Couple Indicted on Wire Fraud Charges

In May 2000, a federal grand jury returned an indictment against a couple, charging each with two counts of wire fraud. The indictment charged the couple with falsifying IRS documents to make it appear as though they had paid their tax debt of $66,000 in an effort to gain approval for two loans totaling over $350,000. The loans were used to purchase a new home and to refinance an existing home. The couple defaulted on the loans. During the foreclosure process, the lending institution contacted the IRS to verify the authenticity of the IRS documents. The IRS determined that no such documents had been issued and reported the incident to TIGTA.

Individual Pled Guilty to Altering and Forwarding Fraudulent IRS Levy Releases

A federal grand jury returned an indictment charging an individual with two counts of altering, and publishing as true, two IRS levy releases. In April 2000, the individual pled guilty and was sentenced to two years probation and ordered to repay the almost $8,000 that the IRS failed to recover as a result of the fraudulent levy releases. TIGTA initiated an investigation after receiving a suspicious IRS levy release in the name of the individual. The levy release contained a current date but was purportedly signed by an IRS employee who had been retired for some time. The investigation determined that the individual subsequently forwarded a second fraudulent IRS levy release. When interviewed, the individual admitted to preparing and forwarding both fraudulent IRS levy releases.

Four Individuals Pled Guilty to Impersonation

In March 2000, a taxpayer reported that two individuals, posing as IRS agents, arrived at the taxpayer's home demanding money to eliminate a $500,000 outstanding tax liability and threatening asset seizure and a prison term. After paying a total of $70,000, the taxpayer contacted TIGTA special agents. Four individuals were arrested after TIGTA special agents observed the taxpayer make delivery of what the imposters believed to be a final payment of $80,000. All of the defendants pled guilty to impersonating an officer or employee of the U.S. In July 2000, two individuals were sentenced to five and three years probation, respectively. Fines totaled $15,000 and restitution was $70,000. Sentencing is pending for the remaining two individuals.

Three Individuals Involved in a Tax Refund Scheme Pled Guilty

An individual, with the support of a spouse and sibling, managed a tax preparation and consulting business, which they used to defraud approximately $300,000 from taxpayers and the U.S. Government. This case was initiated when one of the clients provided a TIGTA special agent with a fraudulent IRS certified letter demanding payment. In June 2000, the sibling pled guilty to conspiracy and mail fraud and the spouse pled guilty to theft of identification.

In August 2000, the spouse was sentenced to six months home confinement, $5,000 restitution, and five years supervised probation. In September 2000, the individual and sibling were sentenced to 27 and 24 months confinement, respectively. In addition, each received three years supervised probation, a $300 special assessment fee, and both were ordered to pay a combined amount of $45,400 in restitution.

Individual Pled Guilty to Forgery

In April 2000, an individual pled guilty to state forgery charges for altering an IRS letter. In November 1997, the individual was issued an official IRS letter to refinance a home loan. In October 1999, the individual was issued a foreclosure deadline. The individual subsequently altered the official IRS letter and submitted it to a mortgage broker to secure a new loan and stop the foreclosure. An IRS employee received a copy of the altered document from a title company and noticed irregularities. The individual was sentenced to one year probation and ordered to pay court costs.

IRS Employee Arrested on Embezzlement Charges

In August 2000, TIGTA special agents arrested an IRS employee on federal embezzlement charges. In January 2000, the employee received $3,000 in U.S. Postal money orders as payment on a taxpayer's tax liability. The employee did not process the tax remittances. In late July 2000, the employee provided the money orders to the employee's landlord as partial payment on overdue rent. The money orders had been altered to reflect the landlord as payee and the employee as payer. The original payee and payer information was still visible on the money orders. In September 2000, the employee pled guilty to converting the property of another.

IRS Employee Pled Guilty to Making False Statements

In May 2000, an IRS employee pled guilty to two counts of making false statements to the government. TIGTA's investigation revealed that the employee had overlooked significant audit issues on a number of cases. The employee arranged for co-conspirators to represent individuals concerning IRS audits and returns. The co-conspirators received money from the individuals in the employee's case inventory. Falsified documents were submitted to the IRS to substantiate false deductions developed by the employee and co-conspirators. A subsequent audit of the returns prepared by the employee and co-conspirators resulted in additional assessments of approximately $1.07 million. In July 2000, the IRS employee received a one year suspended sentence, 150 hours of community service, and a $100 special assessment.

Two Individuals Charged with Grand Theft

An IRS employee reported paying their supervisor in exchange for advanced sick leave. Initially, the supervisor lied by stating that the payment represented a repayment of a loan. After failing a polygraph examination, the supervisor admitted taking a bribe in exchange for the paid leave. In April 1999, the employee resigned. In November 1999, the supervisor was terminated. The supervisor and the employee were prosecuted by the local district attorney's office for grand theft. Both individuals were sentenced in June 2000, and received three years probation and 120 hours of community service. In addition, both were ordered to pay restitution to the federal government in the amount of $1,500 and court costs.

IRS Employee Pled Guilty to Fraudulently Negotiating Stolen Refund

In July 2000, an employee pled guilty to stealing and fraudulently negotiating approximately $7,100 in stolen IRS refund checks to support a drug habit. The employee utilized IRS' computer system to determine when the refund checks were scheduled to be issued. A non-employee co-conspirator assisted the employee by stealing the checks from mailboxes. The employee resigned from the IRS while under investigation. During an interview by TIGTA special agents, the employee admitted to cashing the stolen checks. The employee later cooperated with TIGTA and provided information regarding drug use by other IRS employees. This information led to the arrest and prosecution of an IRS employee on local drug charges.

IRS Employee Convicted in Money Laundering Scheme

In May 2000, a federal jury convicted an IRS employee on 47 counts of wire fraud, money laundering, and filing false tax returns. The employee's spouse was a night manager at a local grocery store and defrauded the store in excess of $400,000 using several different money order and wire transfer fraud schemes. The U.S. Secret Service and IRS CI conducted the investigation on the spouse that resulted in eight federal counts of stealing money orders and filing false tax returns. In June 1999, the spouse pled guilty to those charges and cooperated in the case against the employee. A referral was made to TIGTA regarding the employee's role in the thefts. The IRS employee had a high limit account at a Reno casino, made numerous gambling trips to Nevada, and gambled with the embezzled funds. The gambling debts were paid with the money stolen from the spouse's place of employment. The employee was terminated in June 2000.

In September 2000, the employee was sentenced to serve 51 months in prison with five years probation. The employee was ordered to pay $38,000 in restitution and was fined $4,500 in special assessments.

IRS Employee Sentenced for Conspiracy, Tax Evasion, and Accepting Gratuities

In September 2000, an IRS employee was sentenced in federal court to two years probation for conspiring to defraud the U.S., using the employee's position to defeat the tax laws, and accepting gratuities while acting as a public official. The IRS employee unlawfully provided a co-conspirator with the IRS Employer Identification Numbers (EIN) that were later used by others to hide income and evade taxes. The employee illegally issued approximately 35 EINs to various entities. The employee received health counseling and holistic medicines in exchange for the EINs. The employee resigned and cooperated with TIGTA special agents in providing information that led to the conviction of the co-conspirator. In August 2000, the co-conspirator was sentenced to three years and seven months in prison, ordered to pay a $100,000 fine, and a $1,950 special assessment.

Threat, Assault, and Harassment Investigations

IRS employees face a difficult and challenging mission in serving taxpayers. While incidents and threats of violence and harassment are 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 considers responding to and investigating threats and assaults against IRS employees as one of its highest priorities. This Office also investigates incidents of harassment by individuals who attempt to undermine IRS employees as they carry out their duties. During this six-month period, the Office of Investigations completed 372 threat, assault or harassment investigations. In addition, this Office investigated alleged misconduct by IRS employees involving sexual battery and inappropriate behavior.

Individual Sentenced in Murder of IRS Special Agent

The final conspirator in the murder of an IRS CI special agent was sentenced to life imprisonment in August 2000, closing an investigation that was initiated in 1985. The first subject was arrested and tried in 1987 after the subject was identified through use of the Federal Bureau of Investigation's (FBI) Automated Fingerprint Identification System (AFIS). When that subject was convicted, investigative efforts continued to identify others involved in the murder. TIGTA special agents coordinated with the Georgia Bureau of Investigation (GBI) to include unidentified latent prints from the murder scene in its own AFIS. In 1994, GBI identified an additional suspect's latent print left at the crime scene. TIGTA agents re-interviewed the subject convicted in 1987, who for the first time admitted involvement in the incident. The convict confirmed the identity of the second conspirator, unaware that the second fingerprint had been identified by GBI.

Individual Sentenced to Imprisonment After Threatening to Kill IRS Employees

In August 2000, an individual was sentenced to 24 months imprisonment and three years supervised release for using interstate communications to threaten to injure IRS employees. The individual telephoned an IRS office on three occasions regarding the individual's income tax liability, each time becoming verbally irate. During two of the telephone calls, the taxpayer threatened to kill IRS employees and told one employee, "I feel like going back up there [to the federal building] with an automatic shotgun and blowing their heads off." All three calls were tape recorded. When interviewed by TIGTA special agents, the individual admitted to making the threatening statements and was arrested.

IRS Employee Convicted of Sexual Battery

In April 2000, an IRS employee was found guilty of sexual battery charges and was sentenced to 12 months supervised probation, and was required to register as a sex offender. The employee was subsequently removed from the IRS. A TIGTA investigation was initiated after an IRS employee reported sexual harassment by a co-worker. The investigation revealed that the employee was being harassed and had actually been sexually assaulted by the co-worker. The victim had originally been reluctant to report the assault.

Individual Arrested After Threatening to Kill IRS Official

In June 2000, the Office of the Commissioner of the Internal Revenue received a telephone call from an individual whose spouse was an IRS employee. The individual was upset because the individual's spouse had not been selected for promotion. It was stated that the individual would do whatever it took, even if that meant getting a gun and blowing the director's head off. The individual then terminated the call and a protection detail was immediately established for the director. In July 2000, the individual admitted to making the call to the Commissioner's Office to discuss the spouse's lack of promotion. In July 2000, a criminal complaint was issued charging the individual with a violation of making threatening statements. TIGTA special agents subsequently arrested the individual.

Individual Charged With Telephone Threat

In March 2000, an individual telephoned an employee threatening to confront IRS employees with a M-16 rifle and threatened the safety of any employees coming to the individual's home to collect taxes. TIGTA was able to secure a tape recording of the call, and telephone records showed the call originated from the individual's business. The TIGTA investigation disclosed that the individual had, since December 1999, purchased three rifles and a pistol, and had recently engaged in forcible confrontations with local residents, the individual's spouse, and local police. TIGTA special agents, with the assistance of the local police, arrested the individual. In April 2000, the individual was indicted for interfering with Internal Revenue laws by threats of force. In June 2000, the individual pled guilty to the charges.

Individual Arrested for Threatening to Blow-Up the IRS

During March 2000, an individual telephoned an IRS employee threatening to blow up the IRS and "hurt people." TIGTA, with the assistance of local police, arrested the individual and charged the individual with threatening to obstruct or impede the due administration of Internal Revenue laws. The individual made the threat because the IRS employee refused to disclose confidential tax information concerning a third party. In August 2000, the individual pled guilty and was sentenced to two years probation with the condition that the individual not contact any IRS employees.

Individual Convicted of Making Death Threats

In January 2000, an individual mailed a threatening letter to an IRS employee. The letter contained a coded threat that the individual indicated would appear in an advertisement in a local newspaper if the IRS' collection activity continued. When interviewed by TIGTA special agents, the individual deciphered the message as a code to murder the IRS employee. The message was allegedly a signal to two individuals residing in a neighboring state to kill the IRS employee. The individual acknowledged that the intent was to place the message in the newspaper to harm the IRS employee and the employee's immediate family; however, the individual never placed the advertisement.

In March 2000, a federal grand jury indicted the individual on one count of mailing threatening communications and one count of attempted interference with Internal Revenue laws. In May 2000, the individual pled guilty to the two counts and was sentenced to five years probation. The individual was ordered to participate in psychological evaluations, anger management, and ordered not to possess firearms.

Contract Employee Convicted of Carrying Firearm

In May 2000, TIGTA special agents arrested a contract employee for carrying a loaded semi-automatic firearm into a federal building occupied by IRS employees. The individual was employed with an engineering company contracted to provide services to the IRS. TIGTA was advised that the individual was carrying the firearm with the intention of shooting a manager who was also employed by the contractor. In July 2000, the individual was found guilty of carrying a firearm in a federal building.

Employee Disciplined for Off-Duty Misconduct

In June 2000, an IRS employee was suspended for conduct prejudicial to the government. A hotel employee indicated the IRS employee made multiple comments of a sexual nature while intimately touching the hotel employee. The incident was referred to the IRS Equal Employment Opportunity Office, and was subsequently reported to TIGTA. TIGTA conducted the investigation that revealed inappropriate conduct at a hotel during a temporary assignment. During an interview with TIGTA, the employee admitted to being too persistent in attempting to initiate a sexual liaison with the hotel employee. The employee also advised that a misleading statement was provided to the IRS Equal Employment Opportunity Office because of concerns about the employee’s job.

Appendix I
Statistical Reports for the Office of Audit

Audit Reports With Questioned Costs

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

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

Reports With Questioned Costs (4/1/00-9/30/00) Report Category	Number of Reports[1]	Questioned Costs[2] (In Thousands)	Unsupported Costs (In Thousands)
1. For which no management decision had been made by the beginning of the reporting period.	1	$5,508	0
2. Which were issued during the reporting period.	2	$116	0
3. Subtotals (Item 1 plus Item 2)	3	$5,624	0
4. For which a management decision was made during the reporting period.	3	$5,624	0
- Dollar value of disallowed costs	3	$5,624	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)	0	0	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

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

The term "recommendation that funds be put to better use" means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant 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 (4/1/00-9/30/00) Report Category	Number of Reports[1]	Amount (In Thousands)
1. For which no management decision had been made by the beginning of the reporting period.	1	$3,300
2. Which were issued during the reporting period.	6	$39,856
3. Subtotals (Item 1 plus Item 2)	7	$43,156
4. For which a management decision was made during the reporting period.	5	$33,970
▪ Dollar value of recommendations that were agreed to by management	4	$30,670
- Based on proposed management action	4	$30,670
- Based on proposed legislative action	0	0
▪ Dollar value of recommendations that were not agreed to by management	1	$3,300
5. For which no management decision had been made by the end of the reporting period. (Item 3 minus Item 4)	2	$9,186
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.*

Appendix I
Statistical Reports for the Office of Audit

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 other measures that demonstrate the value of audit recommendations on tax administration and IRS business operations. These issues are of interest to IRS and Treasury executives, the Congress, and the taxpaying public, and are expressed in quantifiable terms to provide further insights to the value and potential impact of the Office of Audit's products and services. Including this information also advances 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:** The decreased 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 by individuals or businesses.

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, applications and processing of data) 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 (4/1/00-9/30/00) Outcome Measure Category	Number of Reports in Category[1]	Number of Taxpayer Accounts	Number of Hours	Dollar Value (In Thousands)	Other[5]
1. Taxpayer Rights and Entitlements at Risk	13	3,534,210		$ 488,900[3]	[6]
2. Reduction of Burden on Taxpayers	7	32,858[2]			[7]
3. Increased Revenue or Revenue Protected	7	116,310		$ 399,528[4]	
4. Taxpayer Privacy and Security	0				
5. Protection of Resources	0				
6. Reliability of Management Information	4	5		$ 12,426	[8]

Explanatory Notes

1 See Appendix IV for identification of audit reports involved.
2 One report (2000-40-087), consisted of two recommendations that impacted 12,224 taxpayer accounts. However, 28 accounts may be duplicated between the two recommendations.
3 For one report (2000-30-115) IRS management agreed that the $11.6 million that would have been overpaid had the procedures not been corrected appeared to be based upon valid assumptions, but the amount could not be absolutely confirmed. For another report (2000-30-088), IRS management did not concur with $16.7 million of the $25 million that was estimated as needing to be credited to taxpayers' accounts.
4 For three reports (2000-30-121, 2000-30-127, 2000-30-151), IRS management did not concur with TIGTA's quantification of revenue projections totaling $124,239,000.
5 Some reports contained "Other" quantifiable impacts besides the number of taxpayer accounts, number of hours, and dollar value. These outcome measures are described in the footnotes below.
6 Other measures of taxpayer rights and entitlements consist of 124 certified mail notices to taxpayers not controlled; and 3,251 FOIA, PA, and I.R.C. Section 6103 requests that were improperly withheld or not timely provided.
7 Other measures of burden reduction consist of: 18,357 notices incorrectly sent to taxpayers and $3.192 million in penalties incorrectly charged to taxpayers; and, 818,000 taxpayer contacts for small dollar failure to deposit penalties.
8 Other reliability of management information measures consist of 1,208 unmailed levies (computer information was not updated to show the levies were cancelled) and 134 Internal Revenue Manual Sections and 15 IRS publications with prohibited references to Illegal Tax Protester (ITP) designations.

Appendix II
Statistical Reports for the Office of Investigations

Investigative Results
April 1, 2000 – September 30, 2000

Investigations Opened and Closed

Total Investigations Opened	**2020**
Total Investigations Closed	**2025**

Financial Accomplishments

Embezzlement/Theft Funds Recovered	**$531,637**
Court Ordered Fines, Penalties and Restitution	**$3,548,370**
Out-of-Court Settlements	**$0**

Appendix II
Statistical Reports for the Office of Investigations

Status of Closed Criminal Investigations

	Employee	Non-Employee	TOTAL[1]
Referred – Accepted for Prosecution	29	139	168
Referred – Declined for Prosecution	255	313	568
No Referral[2]	569	533	1102
Referred - Pending Prosecution Decision	38	75	113

Criminal Dispositions[3]

	Employee	Non-Employee	TOTAL[1]
Guilty	22	98	120
Nolo-Contendere	1	1	2
Pre-trial Diversion	3	6	9
Deferred Prosecution[4]	0	2	2
Not Guilty	0	0	0
Dismissed	3	6	9

[1] *The 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.*
[4] *A deferred prosecution occurs when a person pleads guilty before going to trial.*

Appendix II
Statistical Reports for the Office of Investigations

Administrative Status and Dispositions on Closed TIGTA Investigations[1]

Removed, Terminated or Other	**155**
Suspended/Reduction in Grade	**61**
Oral or Written Reprimand/Admonishment	**120**
Closed – No Action Taken	**265**
Clearance Letter Issued	**148**
TOTAL DISPOSITIONS	**749**
Employee Resigned Prior to Adjudication	**72**

[1] *Cases which were referred and/or cases on which action was taken by the IRS during this reporting period. Additionally, TIGTA referred 772 cases during this 6-month period that remain pending administrative adjudication.*

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 the complaints.

Complaints/Allegations Received by TIGTA

Number of Complaints/Allegations Received by TIGTA	**4,763**
Complaints Against IRS Employees	**1,977**
Complaints Against Non-Employees	**2,786**

Status of Complaints/Allegations Received by TIGTA

Status of Complaints	
Warranted Further Investigation	**2,053**
In Process Within TIGTA	**307**
Referred to the IRS for Action	**471**
Referred to the IRS for Information Only	**1,030**
Returned to IRS	**78**
Referred to a Non-IRS Entity[1]	**25**
Closed With No Referral	**799**
TOTAL COMPLAINTS	**4,763**

[1] *A non-IRS entity includes other law enforcement entities or federal agencies.*

Appendix II
Statistical Reports for the Office of Investigations

Complaints/Allegations Received by the IRS

	Number of Complaints[1]
Customer Feedback System (CFS)[2]	**701**
Taxpayer Advocate Management Information System (TAMIS)[3]	**156,407**
EEO Informal Complaints	**619**
EEO Formal Complaints[4]	**323**
Other Employee Misconduct[5]	**304**

[1] *Number of complaints is not totaled because of the potential for duplication between systems.*
[2] *This system contains data on allegations of employee misconduct as mandated by the Taxpayer Bill of Rights 2. The CFS does not contain data on allegations meeting Section 1203 criteria that have been referred to TIGTA for investigation.*
[3] *Formerly the Problem Resolution Program (PRP),TAMIS does not distinguish between a complaint (against a system, process, policy or employee), a problem (with a tax account) or an inquiry. These distinctions are considered interpretive of the state of mind of the individual presenting the issue and, as such, impractical.*
[4] *Formal EEO complaints are unresolved pre-complaints (i.e., complaints that are not settled, withdrawn or otherwise dropped) that are filed by complainants with one of the four Department of Treasury Regional Complaint Centers.*
[5] *This is the total number of employee misconduct allegations, including Section 1203 allegations, received by the IRS from any source (i.e., employee, former employee, taxpayer, representative, TIGTA or any other source). This does not represent the number of employees - just the number of allegations - one employee may have multiple allegations against him or her. The system does not distinguish frivolous from serious allegations. Previous reports consisted only of complaints from taxpayers.*

Appendix III
Statistical Reports – Other

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 IRS Office of Management Control's automated tracking system maintained by Treasury management officials.

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

Reference Number	Issued	Report Title and Recommendation Summary
041403	January 1994	*Review of the Nonresident Alien Information Documents* F-1, R-2, P-1. Management should ensure that obvious noncompliance with applicable tax laws and regulations be identified during processing.
061610	January 1996	*IRS' Efforts in Monitoring Trust Fund Recovery Penalty Assessments Need Improvement* F-2, R-3, P-1. IRS should automate the processing of adjustments resulting from payments or credits on related Trust Fund Recovery accounts, as part of the IRS' modernization efforts.
060402	January 1996	*Review of the Early Intervention Contact Processing* F-2, R-1, P-2. Early Intervention should consider alternate methods to obtain the most current taxpayer locator information.
064008	June 1996	*The Financial Accounting and Reporting of Collection's Seized Assets Could Be Improved* F-2, R-1, P-4. Management should incorporate a systemic interface between the Automated Work Control System seizure module and the general ledger as part of the Revenue Accounting Control System replacement.
065002	July 1996	*Review of the Validity of Assessments* F-1, R-3, P-1. The Service should continue pursuing the capability to access Social Security Administration data via computer to enable quick, economical processing of Combined Annual Wage Reporting and Social Security Administration penalty cases.
065503	August 1996	*Review of the Employment Tax Nonfiler Program* F-2, R-1, P-1. 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. F-2, R-3, P-1. Establish a Form W-2/Business Masterfile cross-check of Employer Identification Numbers that appear on Forms W-2 attached to electronically filed Forms 1040. Establish employment tax filing requirements for those Employer Identification Numbers that match an existing Business Masterfile account if the account does not have a filing requirement and does not contain a subsidiary indicator.

Appendix III
Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
066401	September 1996	*Follow-up Review of Information Security Over Small Scale Computer Systems* F-1, R-1, P-24. Require Regional Commissioners to conduct another self-assessment and certification of systems, to be followed by a validation.
071404	February 1997	*Productivity of the Underreporter Program* F-1, R-1, P-1. A Gross Assessment Method should be used to calculate the Underreporter Program productivity. F-2, R-1, P-1. A Gross Assessment Method should be used to calculate yield to cost ratios, determine productivity rankings, and select inventory for the Underreporter Program. F-3, R-1, P-1. Actual site costs should be used when calculating productivity to increase the accuracy of productivity rankings and obtain a more precise measurement of efficiency.
071304	March 1997	*Quality of Information Document Processing* F-1, R-1, P-3, P-4. Review IRS reports (Martinsburg Computing Center Report 405-02-12) to determine whether large variances exist between processing years in the volume and dollars of information documents.
072208	April 1997	*Review of Service Efforts to Ensure Compliance of Taxpayers Receiving Foreign-Sourced Income* F-2, R-1, P-1. The Service should commit to the development of a system to process foreign information records received magnetically in the standard Organization for Economic Cooperation and Development format.
072303	April 1997	*A Review of Cyberfile* F-1, R-2, P-1. 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.
073804	July 1997	*Review of the Inventory Delivery System Development* F-2, R-4, P-1. The Service should review and update the sampling plan to ensure it includes criteria for the evaluation of each sampled account within a sub-group to ensure consistency. F-2, R-6, P-1. The results of the Self-Monitoring Program should be included as one of the factors for determining whether and when Inventory Delivery System features should be scheduled for national implementation.
075404	September 1997	*Review of the Office of Disclosure* F-3, R-3, P-2. The Office of Disclosure should take appropriate measures to ensure sensitive data maintained on the inventory control system is properly protected. The system should meet C-2 requirements and provide an adequate audit trail to monitor user activity on the database.

Appendix III
Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
080303	November 1997	*Implementation of the Taxpayer Bill of Rights 2* F-1, R-1, P-1. 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. F-1, R-2, P-1, P-2. Form 10004, Customer Feedback Record, should be redesigned to capture more specific information that can be used for analysis to identify trends for corrective action.
081004	December 1997	*Taxpayer Walk-In Program for the 1997 Filing Season* F-2, R-1, P-2. Develop a customer-based strategy and a related program with applicable goals and measures to evaluate performance of the Walk-In Program.
083008	April 1998	*Review of the Service's Electronic Federal Tax Payment System Implementation and Enhancements* F-4, R-2, P-1. IRS management should provide a process for electronic submission of authorization data to eliminate manual transcription. F-4, R-5, P-1. 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.
083322	May 1998	*Math Error Processing for Revenue Protection Issues* F-3, R-1, P-2. Send notices to taxpayers who used invalid Taxpayer Identification Numbers on their previous returns for themselves and their spouses. F-10, R-1, P-1. Include an informal checklist in the Revenue Protection Strategy math error notices listing the information taxpayers should provide when writing or calling the IRS.
084407	July 1998	*Use of Seizure Authority in the Collection Field Function* F-7, R-1, P-2. 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.
084803	July 1998	*Review of the Integration Support Contract* F-1, R-1, P-2. Procurement and Information Systems should ensure that in-depth analysis of contractor labor hours and costs is performed prior to payment of the invoices. F-3, R-1, P-1. 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.

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Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
085812	September 1998	*Readiness for Service Center Mainframe Consolidation* F-2, R-1, P-1. Unless assurances can be made that experienced IRS personnel can be relocated when and where needed, IRS management should develop a contingency plan to provide the needed staffing for critical positions at all affected sites. F-5, R-1, P-1. 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. F-10, R-1, P-1. 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. F-11, R-1, P-4. 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.
091903	December 1998	*Executive Compilation and Interpretation of the 1998 Filing Season* F-2, R-1, P-1. To simplify return filing, the IRS should improve the process used to evaluate the burden placed upon taxpayers by the various tax laws and publications.
091804	January 1999	*IRS Employee Outside Employment Requests* F-1, R-1, P-2. 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.
093602	April 1999	*The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits* F-1, R-3, P-2. Require a separation of duties among auditors who identify Midwest Automated Compliance System returns with potential tax changes, auditors who select Midwest Automated Compliance System returns to be audited, and auditors who conduct the examinations. F-1, R-4, P-2. Ensure that all Midwest Automated Compliance System data discs forwarded from the Midwest Automated Compliance System Development Center to district offices are properly accounted for and secured. F-2, R-3, P-2. Ensure examiners, including managers, are better informed and educated about IRS procedures that are designed to ensure taxpayers are treated properly during audits. F-2, R-4, P-1. Clarify the Internal Revenue Manual to provide specific guidance for conducting correspondence audits in district office settings.

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Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
094206	May 1999	*The Examination Returns Control and Integrated Data Retrieval Systems Can Be Improved to Protect Taxpayer Rights During the Audit Process* F-3, R-1, P-1, P-2. The Assistant Commissioner (Examination), with input from the Chief Information Officer, should ensure the following issues are addressed to enable the Examination Returns Control System audit trail to be used to its fullest extent. F-4, R-1, P-4. The Assistant Commissioner (Examination), with input from the Chief Information Officer, should develop and submit a Request for Information Services to eliminate acting managers from having the ability to approve any changes to their inventory.
093009	June 1999	*Review of the Electronic Fraud Detection System* F-1, R-2, P-2. Initial and periodic password changes should be systemically enforced for the Electronic Fraud Detection System (EFDS) application program. F-1, R-3, P-2. Workstation terminals should be disabled after a selected number of failed login attempts to the EFDS application program. F-1, R-4, P-2. Password change information should be part of the EFDS application audit trail. F-2, R-1, P-2. Program the EFDS application trail to record all accesses to taxpayer data. F-2, R-2, P-2. Design an audit trail application to record accesses to taxpayer data through secondary sources such as the database administrator, system query tools, or contract vendors. F-3, R-1, P-2. The EFDS Project Office should work with EFDS developers to ensure that the following programming changes are made. The EFDS application audit reports should be changed to include a date range field and service center site field where applicable. F-3, R-4, P-2. The Chief Information Officer should complete this assessment, taking into consideration the audit trail issues referred to in this Memorandum of Understanding to improve the usefulness of the EFDS application audit trail. F-3, R-5, P-2. Because of the sensitivity of the data maintained on the EFDS, and the number of people who have access to the system (with more planned in the future), the audit trail problems referred to in the report should be included by the IRS as a Federal Managers' Financial Integrity Act material weakness. F-5, R-2, P-1. EFDS will soon undergo a new security certification. Taking into account the audit trail and documentation issues discussed in this report, it is questionable whether EFDS should have received its prior security certification. In the upcoming certification process, Information Systems should ensure that the issues discussed in this report are corrected, and that all other controls necessary for a proper certification are in place and functioning.

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Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
199920063	August 1999	*The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved* F-1, R-1, P-1. The Chief Information Officer should ensure that the ten files with taxpayer information identified by TIGTA are immediately secured to prevent system users from casually reviewing the taxpayer data contained in the files without such access being reported to management. F-2, R-1, P-1. The Chief Information Officer should standardize control settings for files common to the Unisys 2200 production mainframes. F-3, R-1, P-1. The Chief Information Officer should ensure all improperly owned files are identified and assigned an owner present on the Unisys 2200 system at each service center, with the exception of files required to be unowned, prior to movement of that service center's mainframe to the consolidated Unisys 4800 environment. F-3, R-2, P-1, P-2, P-3, P-4, P-5, P-6. The Chief Information Officer should institute a policy requiring that all files owned by users being removed from the Unisys 2200 and Unisys 4800 systems either be deleted or assigned to a user present on the system. F-4, R-1, P-1. The Chief Information Officer should examine the possibility of tracking individual user actions while using the MASTER user-id on the Unisys 4800 system and, if possible, implement this feature as soon as feasible. F-6, R-1, P-1. The Chief Information Officer should ensure that all required C-2 documentation is prepared for the Unisys 4800. F-6, R-2, P-1. The Chief Information Officer should develop and maintain a security policy for the Unisys 4800. F-6, R-3, P-1. The Chief Information Officer should conduct and document an assessment of the risk factors for the Unisys 4800.
199910072	September 1999	*The Internal Revenue Service Needs to Improve Compliance With Legal and Internal Guidelines When Taking Taxpayers' Property for Unpaid Taxes* F-2, R-1, P-1. Complete the seizure and post-seizure checklists that are being developed and ensure that pertinent 26 U.S.C. § 6331 through § 6344 provisions and Internal Revenue Manual requirements are included. F-2, R-2, P-1. Use memoranda, training sessions, group meetings, etc., to emphasize that IRS employees should use the appropriate checklists for all seizures conducted. F-2, R-3, P-1, P-2, P-3, P-4. Ensure that Collection management and other appropriate management officials verify that all applicable items on the pre-seizure checklist are completed prior to approving the seizure and that all applicable items on the seizure and post-seizure checklists under development are completed. F-2, R-4, P-2, P-3. Determine from a legal standpoint what steps should be taken regarding any money received as a direct result of conducting seizures without following the provisions in 26 U.S.C. § 6331 through § 6344.

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Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
199920068	September 1999	*The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain* F-1, R-1, P-1, P-3. Ensure all critical operational and technical aspects of consolidation at computing centers and service centers (including Kansas City Service Center) are: 1) standardized; 2) thoroughly tested; 3) documented appropriately; and, 4) included in employee training. F-2, R-2, P-1. IRS management should ensure that all delivery orders are definitized by June 1999. The Procurement Division should validate the goods and services ordered for pricing accuracy. F-2, R-3, P-1. IRS management should ensure that proper procedures are followed. The Service Center Mainframe Consolidation Project Office should establish full-time Government Task Managers and support staff on-site to monitor and verify deliveries, hours worked by the contractor, and travel taken by the contractor. F-3, R-1, P-1, P-2, P-3. The Chief Information Officer should ensure that all consolidation costs, whether incurred at the Project Office or field levels, are accurately budgeted, captured, and reported.
093103	September 1999	*Limitations of the Automated Non-Masterfile and the Impact on the Internal Revenue Service* F-3, R-2, P-2. Using the existing computer listings of Non-Masterfile Accounts Receivable and Transaction Code 130s generated the 39th week of the year, conduct an annual match to identify accounts without a "freeze."
199940057	September 1999	*Controls Should Be Strengthened Over Business Taxpayer Accounts With Frozen Million Dollar Refunds* F-1, R-1, P-1. Modify the "Million Dollar Refund Freeze" indicator program in the IRS' computer system to provide the option to release business taxpayer account credit balances plus computed interest that total less than $1 million (i.e., when the refund due drops below $1 million at any point in time). F-4, R-1, P-1. Enhance current Internal Revenue Manual procedures to identify and expedite the resolution of a "Million Dollar Refund Freeze."

Appendix III
Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
2000-20-004	October 1999	*The Internal Revenue Service Needs to Encourage Taxpayer Use, Improve Customer Service, and Enhance Computer Controls of the 941 TeleFile Program* F-1, R-1, P-1. The 1997 Evaluation Report identifies non-user responses regarding the best way to market 941 TeleFile. Approximately 85 percent of the businesses indicated the IRS should market 941 TeleFile using the 941 mailing packages that are sent to businesses on a quarterly basis. F-1, R-2, P-1. The IRS needs to improve its marketing towards eligible businesses to increase participation in the 941 TeleFile Program. F-2, R-2, P-1. The IRS should provide additional wording to the CP-136 notice to advise taxpayers they are no longer eligible to use the 941 TeleFile Program and to advise them of other electronic alternatives for filing their returns, such as Electronic Filing. F-3, R- 2, P-1. The IRS should require taxpayers to be in business for the entire look-back period to be eligible to participate in the 941 TeleFile Program.
2000-30-015	December 1999	*Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers* F-2, R-1, P-1. Expand the current Federal Tax Deposits alert reengineering effort to re-evaluate the cost effectiveness of the Program. F-3, R-1, P-1. Move toward centralized processing of business returns in two locations.
2000-10-028	February 2000	*Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract* F-1, R-2, P-1, P-2. To facilitate the review process, Procurement and Information Systems management should request that the Treasury Communications System Program Management Office work with the contractor to create an invoice that is easier to verify. F-2, R-1, P-1. Information Systems management should work with the contractor to determine realistic estimates on future service requests.
2000-10-033	February 2000	*The Internal Revenue Service Can Further Reduce the Burden on Taxpayers Who Disagree With Proposed Assessments* F-1, R-1, P-1. Send letters of proposed changes (30-Day Report) via certified mail, with return receipt requested, when taxpayers do not respond to the initial contact letter. F-2, R-1, P-3. Ensure future management and quality reviews include evaluating whether office audit groups are adhering to correspondence procedures.

Appendix III
Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
2000-10-044	March 2000	*Improvements Are Needed in Planning for the Acquisition of Goods and Services and in Managing Contract Closeouts* F-2, R-2, P-1. The Director, Procurement, should implement procedures for periodic reviews to ensure contracts are properly closed out and excess funds timely deobligated.
2000-10-047	March 2000	*The Internal Revenue Service Needs to Strengthen Its Operating Controls for the Tax-Exempt Bond Program* F-1, R-1, P-1. The IRS should ensure that Forms 8038-T, Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate, are recorded on the Return Inventory Classification System and that responsible personnel consistently monitor the processing of tax-exempt bond returns to promptly address any concerns that would inhibit the IRS from accomplishing its desired program objectives. F-2, R-2, P-2, P-3. The IRS should develop instructions for the processing of late filed tax-exempt bond returns. F-3, R-1, P-2. The IRS should ensure that all incoming bond cases selected for examination are entered on the Audit Information Management System before revenue agents start their audits.

Appendix III
Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

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

Appendix III
Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

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

Appendix III
Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
2000-30-062	March 2000	*Toll-Free Telephone Service Levels Declined in 1999 Despite Costly Efforts to Achieve World Class Performance* F-1, R-2, P-1. To improve Customer Service operations, the IRS needs to manage the toll-free business components as an integrated system. F-1, R-4, P-1. Customer Service management needs to establish national owners to manage the various interdependent systems (e.g., hiring, training, labor relations, work planning, forecasting, and scheduling) that affect telephone operations. F-1, R-6, P-1. Customer Service national systems owners need to address the serious shortage of trained Customer Service Representatives (CSRs) by coordinating their actions to identify "best practices" at the call sites with successful recruiting/hiring and intermediary skill training experiences and share them with management at all sites. F-1, R-7, P-1. Customer Service national systems owners need to address the serious shortage of trained CSRs by coordinating their actions to reallocate resources, resulting from attrition, from those sites with hiring difficulties to other sites where qualified labor pools are more plentiful. F-1, R-8, P-1. Customer Service national systems owners need to address the serious shortage of trained CSRs by coordinating their actions to allocate seasonal resources to those sites where qualified labor pools are more plentiful. F-1, R-12, P-1. Customer Service national systems owners need to address the serious shortage of trained CSRs by coordinating their actions to offer incentives such as signing bonuses, subsidized transportation costs, and extended-hour day care facilities. F-1, R-14, P-1. Customer Service national systems owners need to address the serious shortage of trained CSRs by coordinating their actions to explore alternatives (e.g., out-sourcing to the private sector) for dealing with the seasonal customer demands for answers to filing questions and tax law issues. F-2, R-5, P-1. To increase the productivity and efficiency of the IRS' toll-free telephone operations, Customer Service management needs to renegotiate with the National Treasury Employees Union to allow the use of "Idle with Reason Codes" to determine employee abuses of lunches, breaks, etc. F-3, R-1, P-1. To attain a reliable corporate measure of the quality of toll-free telephone service provided to taxpayers, Customer Service management needs to take actions to ensure that there is an adequately-sized centralized Quality Review System staff in place to meet the requirements of the sampling plan or find ways to increase the volume of calls monitored by each reviewer. F-3, R-8, P-1. To further improve the ability of Spanish-speaking taxpayers to use the IRS' toll-free telephone system, Customer Service management needs to develop a comprehensive strategy for recruiting and hiring more Spanish-speaking CSRs. F-3, R-10, P-1. To further improve the ability of Spanish-speaking taxpayers to use the IRS' toll-free telephone system, Customer Service management needs to determine the feasibility of routing calls from Spanish-speaking taxpayers to the Puerto Rico call site.

Appendix III
Statistical Reports – Other

Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
2000-40-029	March 2000	*The Internal Revenue Service Could Enhance the Process for Implementing New Tax Legislation* F-1, R-1, P-1. The IRS should develop a process which ensures that actions necessary to implement a legislative act are completed timely.
2000-40-045	March 2000	*Taxpayers and the Internal Revenue Service Experienced Problems With Some New Tax Provisions* F-2, R-1, P-1. The Chief Operations Officer should ensure that computer programming necessary to identify taxpayer errors related to two tax law provisions are completed by the 2001 filing season. F-3, R-1, P-1. The Chief Operations Officer should ensure that reviews of notices issued to taxpayers are effective in ensuring the notices are technically accurate, clearly address the taxpayers' errors, and clearly inform taxpayers what steps they need to take.
2000-40-055	March 2000	*The Internal Revenue Service Needs to Improve Its Coordinated Oversight of the Substitute for Return Process* F-1, R-1, P-1. The Chief Operations Officer should establish uniform policies and procedures to ensure coordination of IRS efforts among the functions processing Substitute for Return (SFR) accounts. F-2, R-1, P-1. The Chief Operations Officer should coordinate the development of a process to monitor the future filing compliance of taxpayers with SFR tax assessments regardless of which function processed the account. F-2, R-2, P-1. The Chief Operations Officer should coordinate the design of a process to profile SFR tax assessments and their resolution regardless of processing function.

Appendix III
Statistical Reports—Other

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 was one report issued during the prior reporting period where management's response has not been received.

> The IRS Needs to Strengthen the Controls Over the Y2K Conversion of Its Telecom Equipment, Reference No. 2000-20-030
>
> IRS management did not respond to the formal draft report issued on December 17, 1999, because corrective actions were taken during the on-line review and the criticality of the Y2K issues had passed.

Revised Management Decisions

The Inspector General Act of 1978 requires Inspectors General to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. As of September 30, 2000, no significant management decisions were revised.

Disputed Audit Recommendations

The Inspector General Act of 1978 requires Inspectors General to provide information on significant management decisions in response to audit recommendations, with which the Inspectors General disagree. As of September 30, 2000, there was one report where a significant recommendation is disputed.

> Math Error Processing for Revenue Protection Issues, Reference No. 083322

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

Appendix IV

TIGTA Audit Report Listing

April 1, 2000 – September 30, 2000

Reference Number	Issued	Report Title
2000-10-051	April 2000	**Former Employees Had Access to Internal Revenue Service Credit Cards and Computers**
2000-10-066	April 2000	**The Internal Revenue Service Can Improve the Treatment of Taxpayers During Service Center Audits** *Taxpayer Rights and Entitlements:* *77,000 individual taxpayer accounts at risk* *Taxpayer Privacy and Security:* *123 million individual and corporate accounts at risk*
2000-20-073	April 2000	**The Internal Revenue Service Can Improve Software Based Access Controls to Enhance Security for Local Area Networks**
2000-40-064	April 2000	**The Internal Revenue Service Should Enhance Processes and Controls To Protect Taxpayers' Rights When Issuing Third Party Summonses and Making Third Party Contacts**
2000-40-065	April 2000	**The Internal Revenue Service Needs to Strengthen Guidelines for Measuring the Quality and Timeliness of the Walk-In Assistance Program**
2000-1C-083	May 2000	**Incurred Cost Audit Fiscal Year 1998 TIRNO-95-D-00068**
2000-1C-084	May 2000	**Incurred Cost Audit Fiscal Year 1999 TIRNO-95-D-00068**
2000-10-078	May 2000	**Automated Collection System Customer Satisfaction Survey Results Should Be Qualified if Used for the GPRA**
2000-10-079	May 2000	**Walk-In Customer Satisfaction Survey Results Should Be Qualified if Used for the GPRA**
2000-10-082	May 2000	**GPRA: The Examination Division Should Ensure Proper Disclosure of the Sample Limitations Relating to Its Customer Satisfaction Measure**
2000-20-072	May 2000	**The General Controls Over a Critical Internal Revenue Service Tax Processing Computer System Can Be Strengthened** *Taxpayer Privacy and Security:* *7.7 million taxpayer accounts at risk*
2000-20-074	May 2000	**The Internal Revenue Service Needs to Develop Security Policies for Local Area Networks**
2000-30-075	May 2000	**Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities**
2000-30-076	May 2000	**Letter Report: The Internal Revenue Service Effectively Implemented a Tax Law That Disqualified Certain Taxpayers from the Earned Income Tax Credit** *Revenue Protection:* *$20.1 million from 21,471 taxpayer accounts*

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TIGTA Audit Report Listing

Reference Number	Issued	Report Title
2000-30-077	May 2000	**The Internal Revenue Service Can Improve Treatment of Taxpayers During Examinations** *Taxpayer Rights and Entitlements:* *75 taxpayer accounts without support for assertion of penalties* *Taxpayer Burden:* *5,600 taxpayers assessed without examiners taking sufficient steps to locate* *Reliability of Information:* *Risk of receiving unreliable data on the quality of 550,000 return examinations*
2000-40-063	May 2000	**Increased Attention Is Needed to Ensure Timely, Accurate Determinations on Innocent Spouse Claims for Relief**
2000-40-067	May 2000	**Management Advisory Report: Improved Project Management is Needed in Modernizing the Internal Revenue Service's Walk-In Program Management Information System**
2000-40-068	May 2000	**The Internal Revenue Service Needs to Improve Control of Its Compliance Research Program**
2000-40-069	May 2000	**The Internal Revenue Service's Process for Controlling Filing Season Computer Programming Changes Does Not Ensure Critical Changes Are Effectively Implemented** *Reliability of Information:* *Up to 128 million taxpayers at risk*
2000-40-070	May 2000	**Additional Validation and Increased Oversight Are Needed to Effectively Implement the Internal Revenue Service Restructuring and Reform Act of 1998** *Taxpayer Rights and Entitlements:* *Approximately 540,000 taxpayers received letters concerning potential penalty abatement rights*
2000-40-071	May 2000	**Improvements Are Needed in the Chief Counsel's Management Information System to Better Protect Taxpayer Privacy and Rights**
2000-40-080	May 2000	**The Toll-Free Telephone Filing Season Planning Process Is Adequate**
2000-1C-098	June 2000	**Pre-Award Accounting System Review TIRNO-99-R-00009**
2000-10-086	June 2000	**Incurred Cost Audit Reports Are Not Effectively Used to Settle Indirect Rates** *Funds Put to Better Use:* *$70,000*
2000-10-090	June 2000	**Letter Report: Privacy Rights Should Be Given Greater Consideration During Background Investigation Personal Subject Interviews**
2000-10-091	June 2000	**Improvements to the Tax Exempt and Government Entities Division's Telephone Operation Would Enhance Customer Service** *Taxpayer Burden:* *281,952 callers would benefit from improvements*
2000-10-100	June 2000	**GPRA: The Collection Division Should Ensure Proper Disclosure of the Sample Limitations Relating to Its Customer Satisfaction Measures**

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TIGTA Audit Report Listing

Reference Number	Issued	Report Title
2000-20-085	June 2000	**Significant Progress Has Been Made in Consolidating Mainframe Computer Operations, But Risks Remain** *Taxpayer Burden:* *Over 200 million returns would benefit from an improved processing system*
2000-20-089	June 2000	**Assessment of the Internal Revenue Service's Plans to Transition Software Development Centers to a Shared Services Model**
2000-20-092	June 2000	**Certifying the Security of Internal Revenue Service Computer Systems Is Still a Material Weakness** *Taxpayer Privacy and Security:* *Over 123 million taxpayers at risk*
2000-20-094	June 2000	**A Comprehensive Program for Preventing and Detecting Computer Viruses Is Needed**
2000-20-095	June 2000	**The Security and Performance of Electronic Tax Return Processing Should Be Improved to Meet Future Goals**
2000-20-097	June 2000	**The Internal Revenue Service Should Improve Actions to Protect Its Critical Infrastructure**
2000-20-099	June 2000	**Significant Risks Need to Be Addressed to Ensure Adequate Oversight of the Systems Modernization Effort**
2000-30-088	June 2000	**Millions of Dollars in Internal Revenue Service Excess Collections Accounts Could Be Credited to Taxpayers** *Funds Put to Better Use:* *$1.5 million*[1] *Taxpayer Rights and Entitlements:* *$360 million not credited to taxpayer accounts*
2000-30-096	June 2000	**Letter Report: Internal Revenue Service Efforts to Deal With Executor Commissions Show Promise** *Increased Revenue:* *$2.6 million from 161 taxpayer accounts*[2]
2000-40-081	June 2000	**Oversight of Private Vendors for the Credit Card Programs Should Be Strengthened** *Taxpayer Burden:* *1.6 million taxpayer transactions at risk if contractor performance is not verified*
2000-40-087	June 2000	**Improvements Are Needed to Promptly Resolve Missing Refund Checks** *Taxpayer Rights and Entitlements:* *497 taxpayers with $1.3 million in suspended replacement refunds* *Taxpayer Burden:* *12,224 taxpayers with untimely response to refund inquiries*
2000-40-093	June 2000	**More Taxpayers Can Benefit From the New Offer in Compromise Provisions**

[1] *Monetary benefits projected over a three-year period.*
[2] *Monetary benefits projected over a five-year period.*

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TIGTA Audit Report Listing

Reference Number	Issued	Report Title
2000-1C-102	July 2000	**Incurred Cost Audit Fiscal Year 1998 TIR-94-0090**
2000-1C-103	July 2000	**Incurred Cost Audit Fiscal Year 1999 TIRNO-99-D-00005** *Questioned Costs: $204*
2000-1C-108	July 2000	**Agreed Upon Procedures for TIRNO-96-D-00022**
2000-20-106	July 2000	**Computer Security Controls Should Be Strengthened in the Houston District**
2000-30-101	July 2000	**Management Advisory Report: Duplicate Income Tax Refund Checks Erroneously Mailed to Taxpayers by the Financial Management Service**
2000-30-107	July 2000	**Letter Report: The Internal Revenue Service Processed Corporation Income Tax Returns Accurately After Year 2000 Changes Were Made**
2000-1C-113	August 2000	**Agreed Upon Procedures for TIRNO-98-C-00041** *Questioned Costs: $115,593*
2000-1C-133	August 2000	**Audit of Final Voucher TIR-94-0042**
2000-1C-134	August 2000	**Incurred Cost Audit TIRNO-95-C-00099**
2000-10-104	August 2000	**Management Advisory Report: Violations of the Fair Debt Collection Practices Act Resulting in Administrative or Civil Actions (Fiscal Year 2000)**
2000-10-105	August 2000	**Letter Report: Improvements Are Needed in the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan**
2000-10-109	August 2000	**The Identification and Reporting of Potential Fair Debt Collection Practices Act Violations Can Be Improved**
2000-10-110	August 2000	**Letter Report: Documents Containing Official Use Only Material Were Available for Public Use Without Redaction**
2000-10-114	August 2000	**The Internal Revenue Service Has Significantly Improved Compliance With Legal and Internal Guidelines When Seizing Taxpayers' Property**
2000-10-116	August 2000	**Taxpayers Should Be Provided Timely Service When Appealing Denied Requests Under the Freedom of Information Act**
2000-10-125	August 2000	**Appeals Customer Satisfaction Survey Results Should Be Qualified if Used for the Government Performance and Results Act Requirements**
2000-10-129	August 2000	**Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations**
2000-20-117	August 2000	**Management Advisory Report: Lessons the Internal Revenue Service Can Apply From Its Year 2000 Efforts to Improve the Management of Its Systems**
2000-30-111	August 2000	**Improvements Are Needed in Resolving In-Business Trust Fund Delinquencies to Prevent Tax Liabilities From Pyramiding**

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TIGTA Audit Report Listing

Reference Number	Issued	Report Title
2000-30-112	August 2000	**Estimated Tax Penalty Assessment Processes Create Significant Taxpayer Inequity** *Taxpayer Rights and Entitlements:* *$116 million in penalties that 2.9 million taxpayers would not have paid if the IRS computed the tax*
2000-30-115	August 2000	**The Internal Revenue Service Processed Most Estate and Gift Tax Returns Accurately, but Some Estates Did Not Receive the Maximum Tax Credit** *Taxpayer Rights and Entitlements:* *$11.6 million in allowable tax credits for 1,250 returns*
2000-30-120	August 2000	**Expanding the Electronic Tax Law Assistance Program**
2000-30-121	August 2000	**Further Testing and Refinement Are Needed Before Expanding Case Resolution Authorities for Currently Not Collectible Accounts** *Increased Revenue:* *$12.739 million from 2,006 taxpayers*
2000-30-122	August 2000	**Management Advisory Report: Actions to Improve the Automated Collection System Should Be Taken Within a Sound Strategic Framework**
2000-30-123	August 2000	**Procedures for Installment Agreements With In-Business Taxpayers Need to Be Strengthened**
2000-30-127	August 2000	**Letter Report: Collection Was Suspended Indefinitely for Some Accounts Because of Control Weaknesses in Processing Taxpayer Claims** *Increased Revenue:* *$6.5 million from 1,172 taxpayers*
2000-30-128	August 2000	**The Internal Revenue Service Needs to Improve the Development and Management Oversight of the Collection Field Function Inventory Priorities**
2000-10-118	September 2000	**Further Improvements Are Needed in Processes That Control and Report Misuse of Enforcement Statistics**
2000-10-119	September 2000	**Additional Action Is Needed to Eliminate Illegal Tax Protester Designations** *Taxpayer Rights and Entitlements:* *546 cases and 259 accounts with prohibited references* *Reliability of Information:* *134 Internal Revenue Manual sections and 15 IRS publications with prohibited references*
2000-10-132	September 2000	**Letter Report: Improvements Have Been Implemented for Directly Contacting Taxpayers and Their Representatives**
2000-10-136	September 2000	**Management Advisory Report: Reporting Taxpayer Complaints and Allegations of Employee Misconduct**
2000-10-137	September 2000	**Toll-Free Customer Satisfaction Survey Results Should Be Qualified if Used for the Government Performance and Results Act**
2000-10-138	September 2000	**Administration of the PRIME Contract Can Be Improved**

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TIGTA Audit Report Listing

Reference Number	Issued	Report Title
2000-10-142	September 2000	**Information Provided to Taxpayers When Requesting Extensions of the Assessment Statute of Limitations Can Be Improved** *Taxpayer Rights and Entitlements:* *43 taxpayer accounts at risk*
2000-10-145	September 2000	**Improvements Are Needed to Ensure Control and Accountability Over Automated Data Processing Assets**
2000-10-147	September 2000	**Responses to Taxpayers' Requests for Information Did Not Always Comply With the Freedom of Information Act or Internal Revenue Service Procedures** *Taxpayer Rights and Entitlements:* *3,251 FOIA, PA, and I.R.C. § 6103 requests were improperly withheld or not timely provided*
2000-10-148	September 2000	**Letter Report: Compliance With Statutory Requirements for the Disclosure of Collection Information to Joint Filers Cannot Be Determined**
2000-10-150	September 2000	**The Internal Revenue Service Has Significantly Improved Its Compliance With Levy Requirements** *Taxpayer Rights and Entitlements:* *6 taxpayers at risk* *124 notices not properly controlled* *Taxpayer Burden:* *32 taxpayers at risk* *Reliability of Information:* *1,208 unmailed levies for which computer information not updated to show the levies were cancelled*
2000-10-152	September 2000	**Compliance With Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved** *Taxpayer Rights and Entitlements:* *14,391 potential violations of taxpayers' rights and IRS guidelines*
2000-20-140	September 2000	**Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress Is Being Made** *Funds Put to Better Use:* *$28,800,000*
2000-20-156	September 2000	**The Information Systems Organization Needs to Incorporate Transition Funding in Its Financial Plan** *Reliability of Information:* *$12,425,913 in transition-related initiatives and changes were not included in the FY 2000 and 2001 budgets*
2000-20-158	September 2000	**Additional Actions Are Needed to Strengthen the Development and Enforcement of the Enterprise Architecture**
2000-20-159	September 2000	**Security Over Taxpayer Data Used in Conducting Compliance Research Should Be Improved** *Taxpayer Privacy and Security:* *14,800,000 taxpayer records at risk of improper access*
2000-30-124	September 2000	**The Internal Revenue Service Should Strengthen System Controls and Reevaluate the Purpose of the Enforcement Revenue Information System**

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TIGTA Audit Report Listing

Reference Number	Issued	Report Title	
2000-30-126	September 2000	**Management Advisory Report: Comparison of Responses to Small Business/Self-Employed Taxpayer Questions From the Electronic Tax Law Assistance Program and Other Internet Tax Law Services**	
2000-30-130	September 2000	**Opportunities Exist to Enhance the International Field Assistance Specialization Program**	
2000-30-131	September 2000	**Opportunities Exist to Improve Large Corporate Examination Results**	
2000-30-135	September 2000	**Letter Report: Reliability Issues with the Coordinated Examination Management Information System**	
		Reliability of Information:	*Inaccurate information could hamper the IRS' ability to manage the program that costs $355 million and recommends $11.1 billion in additional taxes each year*
2000-30-143	September 2000	**Improvements in the Quality Review Program of Large Corporate Examinations Are Needed to Demonstrate Its Effectiveness**	
2000-30-144	September 2000	**Management Advisory Report: The Large and Mid-Size Business Division Substantially Accomplished Organizational Stand-Up**	
2000-30-146	September 2000	**Opportunities Exist to Identify Unreported Taxes from Employer's Quarterly Federal Tax Returns**	
2000-30-149	September 2000	**Management Advisory Report: The Small Business/Self-Employed Division Will Substantially Stand-Up on October 1, 2000**	
2000-30-151	September 2000	**The Internal Revenue Service Needs to Improve the Identification and Collection of Unreported Self-Employment Taxes**	
		Funds Put to Better Use:	*$300,000*[1]
		Increased Revenue:	*$112,000,000 from 91,500 taxpayers*[1]
		Taxpayer Burden:	*15,000 taxpayer accounts per year*
2000-30-153	September 2000	**The Internal Revenue Service Should Take Additional Actions to Protect Taxpayer Remittances**	
		Protection of Resources:	*Over $100 billion in remittances processed yearly remain at risk if controls are not further improved*
2000-30-154	September 2000	**Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File**	
		Funds Put to Better Use:	*$8,327,162*
		Revenue Protection:	*$237,489,033*
		Taxpayer Burden:	*18,357 incorrect notices sent to taxpayers*
			$3,192,251 in penalties incorrectly charged to taxpayers

[1] *Monetary benefits projected over a five-year period.*

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TIGTA Audit Report Listing

Reference Number	Issued	Report Title
2000-30-161	September 2000	**The Collection Quality Measurement System's Process Can Be Enhanced**
2000-30-162	September 2000	**The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations** *Taxpayer Rights and Entitlements:* *143 taxpayer accounts*
2000-30-163	September 2000	**The Internal Revenue Service Can Help Small Businesses Save Millions of Dollars in Failure to Deposit Penalties** *Funds Put to Better Use:* *$859,000* *Taxpayer Burden:* *818,000 contacts for small dollar penalties*
2000-30-164	September 2000	**Management Advisory Report: Enhancing the Electronic Tax Law Assistance Program**
2000-30-165	September 2000	**The Internal Revenue Service Can Better Use Collectibility Information During the Examination Process** *Increased Revenue:* *$8,100,000*
2000-40-141	September 2000	**Additional Emphasis Is Needed to Identify and Resolve Thefts of Taxpayer Payments** *Taxpayer Burden:* *2 taxpayer cases with unwarranted actions* *Reliability of Information:* *5 taxpayer cases not properly controlled*
2000-40-160	September 2000	**Management Advisory Report: Administration of the Earned Income Credit**

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

TIGTA audit reports are available on-line at http://www.treas.gov/tigta/audit_reports.htm

Appendix V

Section 1203 Standards

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

Misconduct violations include:

(1) willful failure to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;

(2) providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;

(3) with respect to a taxpayer, taxpayer representative, or other employee of the IRS, the violation of –

- any right under the Constitution of the United States, or
- any civil right established under –
  - (i) Title VI or VII of the Civil Rights Act of 1964[1],
  - (ii) Title IX of the Education Amendments of 1972[2],
  - (iii) The Age Discrimination in Employment Act of 1967[3],
  - (iv) The Age Discrimination Act of 1975[4],
  - (v) Section 501 or 504 of the Rehabilitation Act of 1973[5], or
  - (vi) Title I of the Americans with Disabilities Act of 1990[6];

(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;

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[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.*

Appendix V

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 employment termination for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner in his sole discretion may establish a procedure which will be used to determine whether an individual should be referred to the Commissioner for a determination by the Commissioner. Any determination of the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.

Appendix VI

Statutory TIGTA Reporting Requirements

In FY 2000, TIGTA completed its second round of statutory reviews required annually by the RRA 98, including one new audit for a provision that became effective on January 1, 2000. The table below reflects the status of the FY 2000 RRA 98 statutory reviews. Eleven statutory audit reports were issued in this reporting period that dealt with taxpayer protection and rights, and 16 reports that dealt with the adequacy and security of IRS technology.[1]

Reference to Statutory 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.	***Reference No. 2000-10-118, September 2000*** Most employee evaluations and management documents reviewed did not contain tax enforcement results and did not impose production quotas or goals. However, there were some instances when records of tax enforcement results were used to evaluate employees or to impose or suggest production quotas or goals. Neither the IRS managers' self-certification process nor the IRS internal review process identified all the violations. In addition, employees were not always evaluated on the performance standard requiring the fair and equitable treatment of taxpayers.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	An evaluation of the compliance of the IRS with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.	***Reference No. 2000-10-132, September 2000*** The Office of Audit could not determine whether the IRS is in compliance with 26 U.S.C. § 7521(b)(2) and (c) (1986), which require employees to stop an interview for taxpayers to consult with a representative or to obtain IRS management approval to contact the taxpayer instead of the representative. The IRS has not changed its process for handling these types of requests since the FY 1999 audit, and both the IRS and the Office of Audit were unable to readily identify cases for review. However, IRS management will work with a vendor to design a survey to determine the level of compliance by Examination and Collection Division employees with the legal requirements. This information will help IRS management ensure that employees are protecting the rights of taxpayers.

[1] *This includes: 11 taxpayer protection and rights audit reports; 8 audit reports on the security of IRS technology; and, 8 audit reports on IRS information technology. All information technology program reviews are considered statutory because of the RRA 98 requirement to report annually on the adequacy and security of IRS technology.*

Appendix VI

Statutory TIGTA Reporting Requirements

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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 (Supp. IV 1998) upon the filing of a notice of lien.	***Reference No. 2000-10-152, September 2000*** The IRS has not achieved full compliance with the legal requirements set forth in 26 U.S.C. § 6320 (Supp. IV 1998) and its own internal guidelines for the filing of federal tax liens. The Office of Audit's review of 473 manually and systemically filed liens identified 21 (4 percent) potential violations of taxpayers' rights and 66 (14 percent) violations of IRS guidelines. The Office of Audit projected that 14,391 of the taxpayers with liens filed by the IRS between April 1 and December 31, 1999, may have encountered similar potential legal violations and/or procedural violations. The mailing of due process notices is a manual process, and employee error allowed the potential legal violations of taxpayer rights to occur. At the time of this audit, the IRS' controls did not ensure notices were timely mailed, nor identify and prevent instances of non-compliance.
Levies I.R.C. § 7803 (d)(1)(A)(iv)	An evaluation of the compliance of the IRS with required procedures under I.R.C § 6330 (Supp. IV 1998) regarding levies.	***Reference No. 2000-10-150, September 2000*** The IRS' compliance with legal and internal guidelines for notifying taxpayers of their appeal rights before issuing levies has significantly improved. The Office of Audit reviewed statistically valid samples of 451 district office and ACS call site levies cases issued between May 1 and August 31, 1999, in two district offices and four ACS call sites. Only six cases (1 percent), in two call sites, were identified where the taxpayer was not notified 30 days prior to the levy being issued. Also, the Office of Audit identified three areas where internal records did not always accurately reflect levy activity for 1,364 taxpayer accounts. IRS computer records in a fifth ACS call site showed 1,208 systemically generated levies were issued, although manual records showed these levies were cancelled prior to issuance. In addition, the IRS could have violated the rights of 124 taxpayers if it denied requests for an Appeals hearing based on the notice date, and the certified mail listing showed a later date or the certified mail listing was not retained as proof that the notice was timely mailed. Also, 32 taxpayer accounts were not updated to show that taxpayers were notified of the IRS' intent to levy and of the taxpayers' right to an Appeals hearing.

Appendix VI

Statutory TIGTA Reporting Requirements

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Seizures I.R.C. § 7803(d)(1)(A)(iv)	An evaluation of the compliance of the IRS with required procedures under Subchapter D of Chapter 64 for seizure of property for collection of taxes.	***Reference No. 2000-10-114, August, 2000*** The IRS is in compliance with 26 U.S.C. §§ 6330 through 6344 (Supp. IV 1998) and its own guidelines for all seizure cases reviewed. The Office of Audit attributes these improvements to increased managerial involvement in the seizure approval process, the issuance of an updated seizure handbook, and additional mandatory RRA 98 training provided to revenue officers during FY 1999. Additionally, to comply with RRA 98 § 3443, the IRS implemented a new specialist position on July 22, 2000, which removes revenue officers from participating in the disposal of seized property. One weakness was identified in the IRS' procedures that could allow wrongful seizures to occur.
Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation I.R.C. § 7803(d)(1)(A)(v)	An evaluation of the compliance of the IRS with restrictions under § 3707 of RRA 98 on designation of taxpayers.	***Reference No. 2000-10-119, September 2000*** RRA 98 § 3707 prohibits the IRS from designating taxpayers as ITP or any similar designation and required the removal of any such designation from the IRS' main computer file. IRS management removed and prevented the use of the ITP designation on the IRS' main computer file and issued directives to employees to discontinue, remove, and disregard ITP references within computer systems, case files, manuals, training materials, and other publications. However, some of the actions required by these directives were not properly performed. There were 96 case files in various IRS functions with ITP references, and an estimated 450 computerized case histories used by ACS employees with ITP references, made after the effective date of the prohibition. Further, 176 records on the Taxpayer Advocate Management Information System and 83 records on the Audit Information Management System contained ITP codes input after the effective date of the prohibition. There were also approximately 134 references to ITPs in the Internal Revenue Manual and 15 publications with an ITP reference in the titles.

Appendix VI

Statutory TIGTA Reporting Requirements

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Disclosure of Collection Activities With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)	Review and certify whether or not the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	***Reference No. 2000-10-148, September 2000*** The Office of Audit could not determine whether the IRS is complying with the statutory requirements for responding to written requests from joint filers because both the Office of Audit and the IRS are still unable to readily identify joint filer requests received nationwide. There is no requirement for, and the IRS does not maintain, separate records of joint filer requests and responses nationwide. The IRS has not changed its process for handling these types of requests since our FY 1999 audit. Until IRS management conducts a complete analysis of the volume of written joint filer requests received, it will not be able to determine whether a centralized management control process is warranted.
Complaints and Allegations of Employee Misconduct and Terminations and Mitigation for Certain Proven Violations Committed by IRS Employees I.R.C. § 7803(d)(1)(E) I.R.C. § 7803(d)(2)(A)	List any terminations or mitigation under § 1203 of RRA 98, § 1102(a).	***Reference No. 2000-10-136, September 2000*** The three prior TIGTA Semiannual Reports included a footnote that the number of complaints reported by the IRS may contain duplicate information. Although the IRS has no manual or systemic process to identify duplicate complaint information, the IRS has initiated planning to reduce the potential for reporting duplicate complaint information from its systems. There are currently no plans to identify potential duplicate information between the IRS and the TIGTA systems.
Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996 I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 § 3466 of RRA 98	Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.	***Reference No. 2000-10-104, August 2000*** Based upon a review of the IRS' computer systems, the Office of Audit identified one violation of the Fair Debt Collection Practices Act (FDCPA) that resulted in the IRS taking an administrative action against an employee for the period March 19, 1999, through March 31, 2000. In addition, there were no civil actions that resulted in the IRS paying monetary settlements to taxpayers because of a FDCPA violation. The IRS did not have any closed civil actions on FDCPA violations for the period June 11, 1999, through March 31, 2000. As a result, the IRS did not pay any money to taxpayers for civil actions resulting from FDCPA violations.

Appendix VI

Statutory TIGTA Reporting Requirements

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Denial of Requests for Information I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)	Include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).	***Reference No. 2000-10-147, September 2000*** The IRS improperly withheld information from requestors in 8.8 percent of the FOIA and PA requests, and 6.3 percent of the I.R.C. § 6103 requests reviewed. Additionally, the IRS did not respond timely to FOIA and PA requestors in 33.8 percent of the cases included in Office of Audit's sample of information that was denied or where the IRS replied that responsive records were not available. The Office of Audit's statistical samples were taken from cases closed during the period January 1 through September 30, 1999. The Office of Audit estimated that information was improperly withheld from responses to 557 FOIA and PA requests and 556 I.R.C. § 6103 requests during our sample period. The Office of Audit also estimated that responses to 2,138 FOIA and PA requests were not processed timely during the same period.
Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)	Evaluation of the adequacy and security of the technology of the IRS.	During this reporting period, the Office of Audit issued 16 reports in this area: Security Reviews: Reference No. 2000-20-073, April 2000 Reference No. 2000-20-072, May 2000 Reference No. 2000-20-074, May 2000 Reference No. 2000-20-092, June 2000 Reference No. 2000-20-094, June 2000 Reference No. 2000-20-097, June 2000 Reference No. 2000-20-106, July 2000 Reference No. 2000-20-159, September 2000 Information Technology Reviews: Reference No. 2000-20-085, June 2000 Reference No. 2000-20-089, June 2000 Reference No. 2000-20-095, June 2000 Reference No. 2000-20-099, June 2000 Reference No. 2000-20-117, August 2000 Reference No. 2000-20-140, September 2000 Reference No. 2000-20-156, September 2000 Reference No. 2000-20-158, September 2000

Appendix VI

Statutory TIGTA Reporting Requirements

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Extensions of the Statute of Limitations for Assessment of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501	Include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.	***Reference No. 2000-10-142, September 2000*** In most of the cases (193 of 203) reviewed, with assessment statute extensions, examiners properly advised taxpayers of their right to refuse or restrict the scope of the statute extension. However, in 10 cases (5 percent of the sample) examiners did not indicate, in case files, whether taxpayers were advised of these rights. During the review, the IRS distributed guidance to its employees to make them aware of new procedures, which should help to ensure that the IRS complies with the law in the future. However, additional information should be provided to taxpayers to adequately explain the potential for additional issues to be audited and the process to limit extensions to specific issues.

Appendix VII

Government Performance and Results Act Audits

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

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

Reference Number	Report Title and Recommendation Summary	Management Response
2000-10-078	***Automated Collection System Customer Satisfaction Survey Results Should Be Qualified if Used for the GPRA*** Objective: Evaluate the accuracy, validity, and reliability of the information used to measure customer satisfaction with the ACS. Recommendations: IRS management should improve the process for overseeing the ACS Customer Satisfaction Survey to ensure the survey is properly administered and the results are accurate, valid, and reliable to ensure the IRS meets the GPRA requirements for measuring customer satisfaction with ACS program services.	IRS management agreed with the recommendations and has initiated corrective action.
2000-10-079	***Walk-In Customer Satisfaction Survey Results Should Be Qualified if Used for the GPRA*** Objective: Evaluate the reliability of the information used to measure customer satisfaction at the Walk-In offices. Recommendations: IRS management should improve the process for overseeing the Walk-In Customer Satisfaction Survey to ensure the survey is properly administered and the results are accurate, valid, and reliable.	IRS management agreed with the recommendations and has initiated corrective action.

Appendix VII

Government Performance and Results Act Audits

Reference Number	Report Title and Recommendation Summary	Management Response
2000-10-082	***GPRA: The Examination Division Should Ensure Proper Disclosure of the Sample Limitations Relating to Its Customer Satisfaction Measure*** Objective: Assess the validity of the information used to measure customer satisfaction for the Examination Division in the IRS. Recommendations: IRS management should clearly state the limitations of the sampling process and the resultant effect of Examination Division's ability to report customer satisfaction in the FY 1999 APPR. In addition, IRS management should also consider actions to increase the response rate to the surveys in order to decrease the risk associated with projecting to those taxpayers that do not respond to the survey.	IRS management agreed with the recommendations and has initiated corrective action.
2000-10-100	***GPRA: The Collection Division Should Ensure Proper Disclosure of the Sample Limitations Relating to Its Customer Satisfaction Measures*** Objective: Assess the validity of the information used to measure customer satisfaction in the IRS Collection Field function. Recommendations: IRS management should ensure that any survey data included in the FY 1999 APPR is adequately qualified and inform the Congress about ongoing actions to correct these limitations. IRS management also should report that additional time is needed to establish a baseline year using the Integrated Collection System data. In addition, IRS management should ensure that Collection explores ways to increase the response rate for the survey and ensure that Collection establishes procedures that will allow the measurement of customer satisfaction for each business unit.	Management's response has not been received.
2000-10-125	***Appeals Customer Satisfaction Survey Results Should Be Qualified if Used for the Government Performance and Results Act Requirements*** Objective: Evaluate the reliability of the information used to measure customer satisfaction with the Appeals process. Recommendations: IRS management should improve the process to oversee the Appeals Customer Satisfaction Survey by ensuring the data transmitted to the vendor is protected through encryption. In addition, IRS management should clearly disclose the limitations of the survey results until the survey response rate reaches a level acceptable for GPRA purposes.	IRS management agreed with the recommendations and has initiated corrective action.

Appendix VII

Government Performance and Results Act Audits

Reference Number	Report Title and Recommendation Summary	Management Response
2000-10-137	***Toll-Free Customer Satisfaction Survey Results Should Be Qualified if Used for the Government Performance and Results Act*** Objective: Evaluate the accuracy, validity, and reliability of the information used by the IRS to measure customer satisfaction with the Toll-Free Program. Recommendations: IRS management should consider establishing a process to ensure the Toll-Free Customer Satisfaction Survey is administered properly and that the data used to report survey results are reliable, valid, and verifiable. IRS management should revise the survey selection and expand surveyors' work hours to correspond with site operation hours to ensure all customers' interactions have an opportunity of being selected. Also, the GPRA reports should be appropriately qualified with any limitations of the survey's design and reliability of its data.	IRS management agreed with some of the recommendations and has initiated corrective action. The IRS did not agree with our assessment of its control process or sample selection methodology, but will reevaluate these issues when it hires a new vendor.

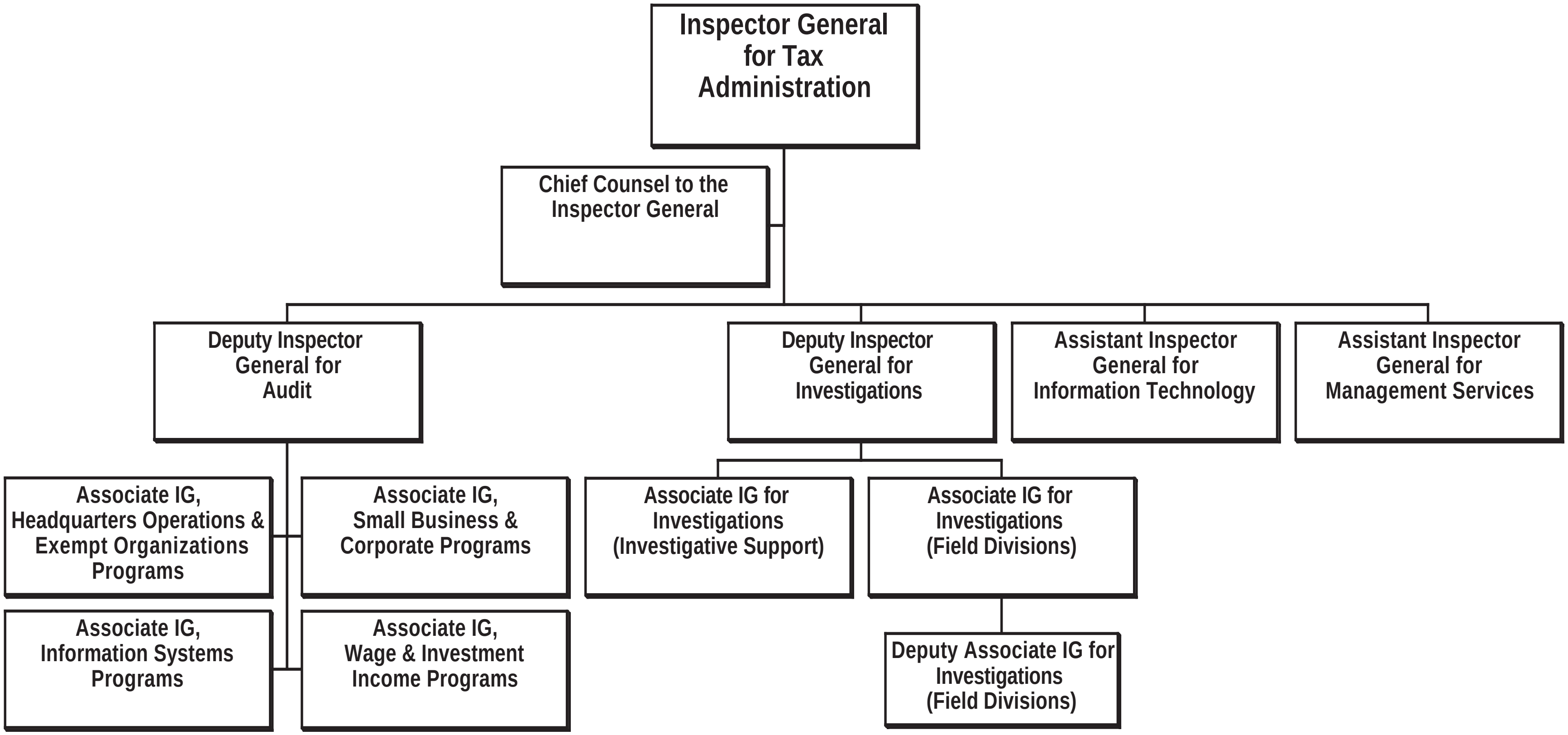
Appendix VIII

Acronyms

ACS	Automated Collection System
ADP	Automated Data Processing
AFIS	Automated Fingerprint Identification System
ALS	Automated Lien System
APPR	Annual Program Performance Report
ATLAS	Audit Trail Lead Analysis System
CFf	Collection Field Function
CFS	Customer Feedback System
CI	IRS Criminal Investigation
CMD	Complaint Management Division
CSED	Collection Statute Expiration Date
CSR	Customer Service Representative
EFDS	Electronic Fraud Detection System
EIC	Earned Income Credit
EIN	Employer Identification Number
ELC	Enterprise Life Cycle
EMS	Electronic Management System
ETLA	Electronic Tax Law Assistance Program
FDCPA	Fair Debt Collection Practices Act of 1996
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act of 1988
FSL	Forensic Science Laboratory
FTD	Federal Tax Deposit
FY	Fiscal Year
GAO	General Accounting Office
GBI	Georgia Bureau of Investigation
GPRA	Government Performance and Results Act of 1993
IFASP	International Field Assistance Specialization Program
IG	Inspector General
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
ITP	Illegal Tax Protester
OIG	Office of Inspector General
PA	Privacy Act of 1974
PDD	Presidential Decision Directive
PMO	Program Management Office
PRP	Problem Resolution Program
RIS	Request for Information Services
RRA 98	IRS Restructuring and Reform Act of 1998
SBA	Small Business Administration
SED	Strategic Enforcement Division
SFR	Substitute for Return
SSA	Social Security Administration
TAMIS	Taxpayer Advocate Management Information System
TIGTA	Treasury Inspector General for Tax Administration
TRMG	Tax Revenue Ministry of Georgia
TY	Tax Year
UNAX	Unauthorized Access to Taxpayer Accounts
U.S.	United States
U.S.C.	United States Code
Y2K	Year 2000

Appendix IX

Organization Chart



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