

Treasury Inspector General
for Tax Administration

25TH ANNIVERSARY
OF THE IG ACT

Semiannual Report to Congress

April 1, 2003
through
September 30, 2003



MESSAGE FROM TIGTA'S SENIOR EXECUTIVE TEAM



TIGTA's Senior Executives

Left to Right: Steve Jones, Gordon Milbourn, Marty Greiner, Joe Hungate, and Pam Gardiner.
(Not shown: Mary Anne Curtin)

The Treasury Inspector General for Tax Administration (TIGTA) has experienced significant changes over this reporting period that will shape our future. Most notably, we welcomed the arrival of Mark Everson, the new Commissioner of Internal Revenue. Upon Mr. Everson's arrival, he outlined three major management challenges for the Internal Revenue Service (IRS). In his May 20, 2003, testimony before the Congressional Joint Review¹, he identified these three areas as improving customer service; continuing the information technology modernization program; and enhancing enforcement activities. In addition to these three, TIGTA identified the following IRS management challenges for Fiscal Year (FY) 2003: IRS security; complexity of the tax law; human capital; and integrating performance and financial management. This report highlights our significant accomplishments during the past six months that contribute to addressing these management challenges.

While welcoming the new Commissioner, we also bade a fond farewell to former IRS Deputy Commissioner Bob Wenzel, as he retired. Mr. Wenzel joined the IRS in 1963 as a Revenue Officer in Chicago. He served as the Deputy Commissioner of Internal Revenue beginning in 1998. On October 15, 2002, then Treasury Secretary Paul O'Neill announced that Mr. Wenzel would serve as the Acting Commissioner, upon Commissioner Rossotti's departure on November 6, 2002. We thank Mr. Wenzel for all of his support over the years and wish him all the best in his retirement.

Another significant event was the proposal in the President's fiscal year 2004 budget to consolidate the two Inspectors General within Treasury. The passage of this legislative proposal is uncertain at this time. This uncertainty has contributed to the

¹ The Congressional Joint Review includes two Members of the majority and one Member of the minority from each of the House Committees on Ways and Means, Appropriations, and Government Reform and the Senate Committees on Finance, Appropriations, and Governmental Affairs.

extended vacancy in our Inspector General (IG) position since the retirement of David C. Williams in August 2002.

Despite these major changes, TIGTA has been very productive during the past year. Many of our accomplishments during FY 2003 helped improve tax administration and subsequently aided taxpayers nationwide. Specifically, with the issuance of 212* audit reports, we identified more than \$1.9 billion in cost savings and an additional \$7.2 billion in increased revenue or revenue protected. During this six-month reporting period (April 1 through September 30, 2003), we received 4,034 complaints of alleged criminal wrongdoing or administrative misconduct, opened 2,249 investigations and closed 2,595. Additionally, the Office of Chief Counsel reviewed 158 proposed regulations and legislative requests during the past six months.

Finally, 2003 marks the 25th anniversary of the *Inspector General Act*, and so we join the Offices of Inspectors General throughout the Federal Government in celebrating this significant milestone. As we embark on our journey into the next quarter century as an IG community, it is TIGTA's sincere wish that the future will prove to be just as successful as the previous 25 years.

* The figure representing total audit reports for the fiscal year (212) is a correction of the amount (123) shown in the previously published printed version of this report. We have also clarified references to the reporting period in this paragraph.



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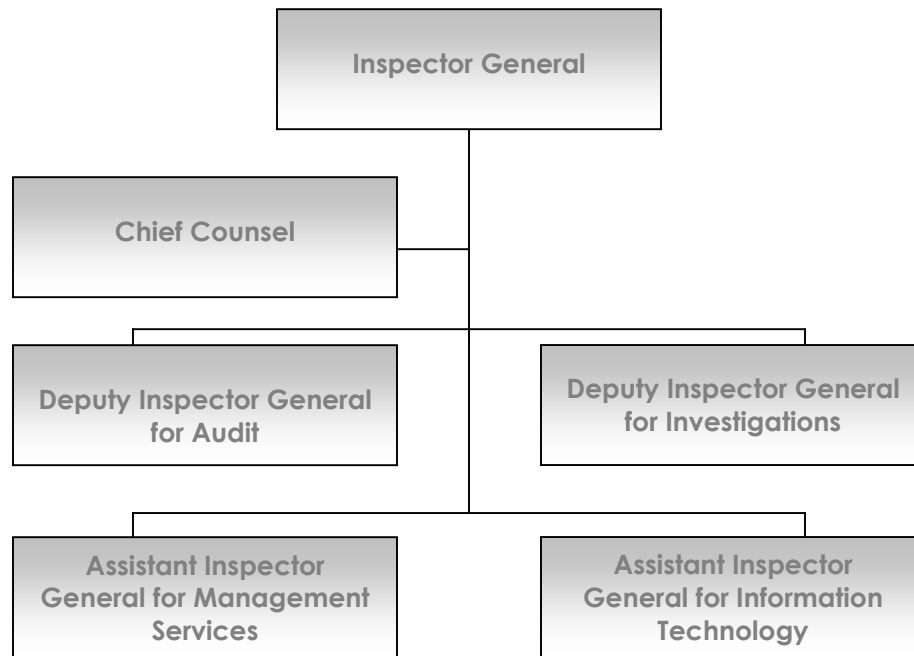
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TIGTA'S ORGANIZATIONAL STRUCTURE AND MISSION



TIGTA provides independent oversight of IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. Although TIGTA is organizationally placed in the Departmental Offices and reports to the Secretary of the Treasury, it functions independently from the Departmental Offices and all other offices and bureaus within the Department. TIGTA's focus is devoted to all aspects of work related to tax administration.

TIGTA's primary organizational functions are the Office of Audit (OA) and the Office of Investigations (OI). TIGTA's Offices of Chief Counsel, Information Technology, and Management Services support OA's and OI's efforts.

TIGTA's goal is to conduct audits and investigations designed to:

- Promote economy, efficiency, and effectiveness in administering the nation's tax system.
- Detect and deter waste, fraud and abuse in IRS programs and operations.



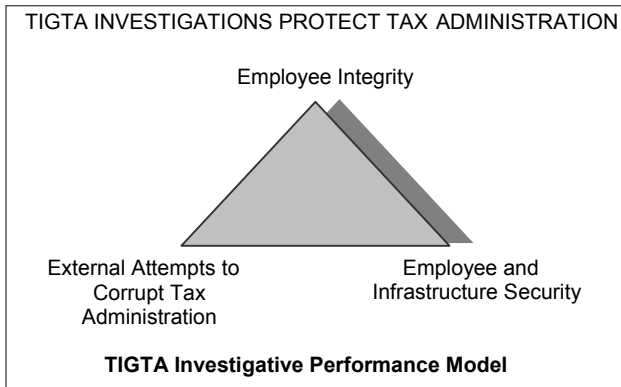
TIGTA protects the public's confidence in the tax system by supporting the IRS in achieving its strategic goals, identifying and addressing IRS' material weaknesses, and implementing the *President's Management Agenda* and the Department of Treasury's priorities.

TIGTA's comprehensive, independent performance and financial audits of IRS programs and operations focus on mandated reviews and on high-risk challenges facing the IRS. The audits address a variety of issues, including information technology; computer and employee security; tax compliance initiatives; performance and financial management; taxpayer protection and rights; tax return processing; customer service; and tax fraud. TIGTA also performs audits to determine if the IRS adequately ensures fair and equitable treatment of taxpayers.

Audit recommendations result in cost savings, such as protection of revenue and increased revenue. Other quantifiable impacts include the reduction of taxpayer burden; protection of taxpayer rights and entitlements; taxpayer privacy and security; and protection of IRS resources.

TIGTA's investigative program, pursuant to its statutory responsibility to prevent and detect fraud, waste and abuse in the programs and operations of the IRS, includes:

- Investigating allegations of criminal violations that impact tax administration, and administrative misconduct by IRS employees and contractors.
- Conducting integrity/fraud awareness presentations for IRS employees and others, such as tax practitioners and community groups.
- Operating a hotline to receive and process complaints of fraud, waste, abuse and misconduct involving IRS employees and programs.
- Conducting proactive investigative initiatives that ferret out criminal and administrative misconduct in the administration of IRS programs.
- Operating a Criminal Intelligence Program (CIP) that manages threat information that could impact IRS employees and functions.
- Investigating fraud, waste, and abuse involving IRS procurements.
- Conducting forensic examinations of physical and electronic evidence to support investigations.
- Using technical and investigative support, equipment, training, and other specialized services to enhance investigative operations.



TIGTA protects the Department of Treasury's ability to collect revenue owed to the Federal Government. TIGTA accomplishes this goal by providing comprehensive investigative services focused on three programs: IRS employee integrity; IRS employee and infrastructure security; and external attempts to corrupt federal tax administration. In order to focus investigative

resources on its primary program areas, TIGTA developed and implemented a performance model to help it achieve the most return on investment for the IRS, the Treasury Department, and the American taxpayer.

TIGTA's Statutory Mission

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

AUTHORITIES

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

In addition, the *IRS Restructuring and Reform Act of 1998 (RRA 98)* 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.) §7608(b)(2)*. These provisions include law enforcement authority to execute and serve search warrants and subpoenas, and make arrests.

IMPROVING THE ECONOMY, EFFICIENCY, AND EFFECTIVENESS OF TAX ADMINISTRATION

PROVIDING QUALITY CUSTOMER SERVICE OPERATIONS

Providing top quality service to every taxpayer in every transaction is integral to the IRS' modernization plans. The IRS provides customer service through walk-in services, toll-free telephone services, access through the IRS' Internet (*Digital Daily*), written communications to taxpayers, and accurate and timely tax refunds. Each of these services affects a taxpayer's ability and desire to comply voluntarily with the tax laws.

In response to Congressional concerns throughout 2003, TIGTA has been determining if IRS employees in Taxpayer Assistance Centers (TACs) provide accurate and timely responses to taxpayers' tax law questions. From January through June 2003, TIGTA auditors asked 411 tax law questions in 104 TACs and found that IRS employees incorrectly answered 25 percent of the questions. However, TIGTA recognizes that the IRS continues to improve the quality of service at the TACs and commends the IRS for taking immediate actions on issues identified in TIGTA's previous audit reports. IRS executives have been actively engaged in the development and implementation of these actions. TIGTA believes the increase in accuracy rates compared to the same period in Calendar Year 2002 can be directly attributed to these actions.

During the 2003 Filing Season², IRS Customer Service Representatives (CSR) handled 24 million calls concerning tax law questions. TIGTA auditors measured the quality of the IRS toll-free assistance program while monitoring live taxpayer phone calls. The results indicated a need for the CSRs to ask taxpayers additional questions related to the taxpayer's situation, in order to collect all necessary information to give a correct and complete response. Management agreed with the recommendations and is taking corrective action.

Report Reference Nos. 2003-40-120, 2003-40-157, 2003-40-158, and 2003-40-216

The Office of the Taxpayer Advocate (OTA) conducts systemic advocacy projects to resolve and prevent recurring problems faced by taxpayers. However, competing OTA priorities, combined with the absence of timeliness standards and

² The "filing season" is the period from January through mid-April when most individual income tax returns are filed.

complete management information systems, have delayed systemic advocacy projects, thereby adversely affecting a substantial number of taxpayers. TIGTA determined that potentially 16.7 million taxpayers are continuing to be affected by the problems identified in the projects TIGTA auditors sampled. Work on these projects stops for up to eight months each year when advocacy analysts are re-assigned to work on the National Taxpayer Advocate's (NTA) Annual Report to Congress.

TIGTA recommended the NTA formalize the policy of and implement a process for managing concurrently working on systemic advocacy projects and assignments in support of the NTA's Annual Report to Congress. TIGTA also recommended that the NTA establish timeliness and staff resource standards for conducting systemic advocacy projects, and upgrade its management information system to provide data on systemic advocacy project activities and staff resources to assist managers in monitoring and budgeting for project resources.

The NTA concurred with the premise of the recommendations; however, the NTA believes that substantial improvements have already been implemented. TIGTA attempted to evaluate the actions taken to date by the NTA to improve systemic advocacy projects; however, no measurable benefits could be determined because several actions had not been developed or implemented at the time of our review. The NTA also disagreed that TIGTA's recommendations would reduce the burden to potentially 16.7 million taxpayers. However, TIGTA believes that the NTA did not consider all types of taxpayer burden and therefore TIGTA stands by its initial projection.

Report Reference No. 2003-10-187

INFORMATION TECHNOLOGY MODERNIZATION PROGRAM

The Business Systems Modernization (BSM) program is in the fifth year of its efforts to upgrade and modernize the IRS' information technology and business systems. The BSM program is an extremely complex effort. During FY 2003, the BSM program made progress in defining necessary management processes and capabilities for effectively acquiring and implementing information technology systems. Deployed projects include the first release of the infrastructure system for future BSM applications and an upgraded Internet Refund application accessed over 15 million times during the filing season.

The Business Systems Modernization Office (BSMO) and the PRIME³ contractor have made significant progress in revising and refining testing processes and practices from lessons learned during the early testing of BSM projects. However, the BSM

³ The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies assisting the IRS with modernizing its computer systems and related technology.

project teams have not implemented fully these processes and practices. In all eight BSM projects analyzed, TIGTA identified concerns with the project testing practices followed, such as insufficient test plans, incomplete testing activities, and inadequate actions to resolve failed tests.

TIGTA reported that the inadequate testing practices are the result of the BSM project teams attempting to meet overly optimistic project schedules. Several factors contributed to the schedule pressures, including budget constraints, inadequate resources, and changing business requirements. All of the BSM testing projects reviewed were either delivered late or are significantly behind planned delivery dates.

Implementing and following defined testing processes will reduce the possibility of undetected errors, allow identified errors to be fixed before project deployment, and increase the extent to which a system can be relied upon to provide accurate information and safeguard taxpayer data. Following and improving defined testing processes is equally important since it will improve project team maturity and significantly improve the chances of BSM program success. Since the purpose of this review was to present issues and trends in BSM testing processes, TIGTA did not make any recommendations. Management generally agreed with TIGTA's assessment.

Report Reference Nos. 2003-20-178 and 2003-20-127

Until recently, the PRIME contractor's cost and schedule estimation process was decentralized at the project level, and the IRS had not independently reviewed these estimates or the PRIME contractor's estimation system. In response to criticism and the need to improve processes, the IRS has tasked the PRIME contractor to build a program-wide cost and schedule estimation system. In addition, the IRS has created a process for independently reviewing and validating these estimates. While some progress has been made in establishing a program-wide estimation system, it has not yet been completed, validated or implemented, so TIGTA could not determine if it would produce reliable estimates.

TIGTA recommended the BSMO ensure all BSM contractors follow estimation guidance, ensure the cost and schedule model calibration process is documented, ensure an independent assessment of the cost and schedule system is made once improvements are implemented, and improve system validation and estimate review processes. Management's response was not received prior to the issuance of the audit report.

Report Reference No. 2003-20-219

ENHANCED ENFORCEMENT ACTIVITIES - TAX COMPLIANCE

The mission of the IRS Criminal Investigation (CI) function is to investigate potential criminal violations of the Internal Revenue Code (I.R.C.) and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law⁴. A 1999 independent review, led by Judge William Webster⁵, concluded that CI's focus had drifted from its primary mission of investigating potential violations of the I.R.C. concerning legal sources of income⁶. The CI function established Lead Development Centers (LDC) to assist in identifying and developing legal income source tax investigations, as opposed to other CI investigations that target illegal income derived from activities such as drug dealing⁷. CI also receives allegations of potential tax fraud through the IRS' toll-free Tax Fraud Hotline.

TIGTA's reviews of the LDC and hotline programs determined that CI needs to improve its processes and make more effective use of LDC and hotline resources and information. CI offices did not communicate project objectives clearly or provide sufficient information on allegations, LDC research did not always address the allegations adequately, and the LDCs may have conducted unnecessary research based on the CI field offices' subsequent closing actions and time expended. Further, TIGTA auditors determined that CI gave only limited scrutiny to hotline leads and rarely assigned hotline allegations to CI field agents for investigation. Finally, the CI function did not provide specific guidance to ensure that allegations of refund fraud or questionable return preparer activity reported to the hotline were used to prevent the issuance of potentially fraudulent refunds.

TIGTA recommended that management include applicable research projects in the LDC inventory and return the fraud referral process to the CI field offices; establish procedures to improve the research guidance for the LDCs; emphasize the need for effective communication between the LDCs and CI field offices; and implement a review process to evaluate the impact on LDC resources when CI field offices close cases with little additional investigative time.

To improve the Tax Fraud Hotline process, TIGTA recommended that procedures be revised to specify that LDC managers prioritize research of informant allegations based on their relative potential, without giving routine preference to field office requests, and assess the adequacy of the preparation of forms that refer hotline information to the LDCs proactively. TIGTA also recommended that procedures be

⁴ This statement is CI's mission statement. The following website is CI's home page and contains its mission statement: <http://www.hq.irs.gov/ci/about/mission.htm>.

⁵ The following website contains the Webster Report: <http://www.hq.irs.gov/ci/documents/websterreport.pdf>. The cover sheet and Judge Webster's letter dated April 9, 1999, support this statement.

⁶ This statement is supported in the first paragraph, second sentence, of the Executive Summary and the second paragraph, second sentence of website : <http://www.hq.irs.gov/ci/documents/websterreport.pdf>.

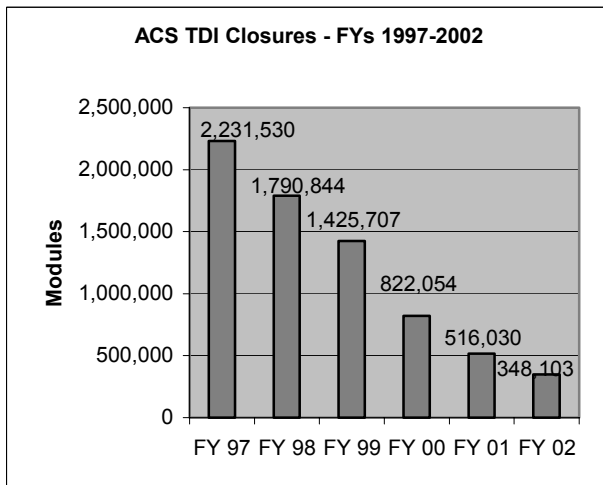
⁷ The support for this statement is listed in the following website, under the section entitled "Legal Source Tax Crimes Program," first paragraph: <http://www.treas.gov/irs/ci/compliancestrategy.htm>.



developed that establish specific criteria for, and guide the referral of appropriate hotline information to, the Fraud Detection Centers on allegations of refund or return preparer fraud. To evaluate the benefits of the hotline, the number and results of investigations should be tracked. Although CI management generally agreed with TIGTA's recommendations, they did not always propose sufficient corrective actions to address the issues.

Report Reference No. 2003-10-201 and 2003-10-210

IRS' goal of providing world-class service to taxpayers hinges on the theory that if the IRS provides the right mix of education, support, and up-front problem solving to taxpayers, the overall rate of voluntary compliance with the tax laws will increase. The challenge to IRS management is to establish a tax compliance program (examining tax returns and collecting tax liabilities) that identifies those who do not meet their tax obligations either by not paying the correct amount of tax or not filing proper tax returns, and that effectively brings them into compliance. As part of its 2000 reorganization, IRS has begun to revamp its business processes to stabilize traditional compliance activities.



The Automated Collection System (ACS) function's business results significantly decreased from FY 1997 to FY 1999 and continued to decline for the two full fiscal years the Small Business/Self-Employed (SB/SE) Division was in operation (FYs 2001 and 2002).

The ACS function is a critical Collection operation, collecting nearly \$1 million per Full-Time Equivalent in FY 2002. However, it was far more effective in the mid-1990s than in FY 2001 and 2002. The ACS function's

results showed some improvement during the first seven months of FY 2003, but a relatively low priority assigned to Taxpayer Delinquency Investigations (TDI) may have long-term consequences for filing compliance. Also, the numbers of both TDIs and Taxpayer Delinquent Accounts (TDA) in the queue⁸ and shelved⁹ continued to grow significantly. The SB/SE Division is taking steps to improve Collection operations. In January 2003, the IRS implemented a method to identify probable collectible TDAs and filter out probable non-collectible cases. A team has recommended several approaches for optimizing the ACS function's performance, and several additional projects are expected to improve the ACS function's results.

⁸ The queue is an automated holding file for unassigned inventory of lower-priority delinquent cases that the Collection function does not have enough resources to immediately assign for contact.

⁹ Shelved accounts are delinquent unpaid accounts, or investigations of non-filed returns, that have been taken out of Collection inventory because they are lower priority.

TIGTA recommended that the IRS continue to monitor and evaluate the results of the initiatives and reevaluate resources for the TDI program, to reinforce a balanced program ensuring that filing compliance does not erode. Management agreed with the recommendation and has initiated corrective action.

Report Reference No. 2003-30-186

An offer in compromise (OIC) is an agreement between a taxpayer and the Federal Government that settles a tax liability for payment of less than the full amount owed. Concerns relating to the administration of the OIC Program have existed for some time. The enactment of RRA 98 made the OIC Program accessible to more taxpayers; as a result, the year-end inventory increased from approximately 32,000 offers at the end of FY 1997 to approximately 95,000 at the end of FY 2001, and the percentage of inventory older than the IRS' six-month goal increased from 21 to 46 percent. The IRS initiated the Centralized Offer in Compromise (COIC) Program in August 2001 as a strategy to close more offers within six months in order to reduce the growing backlog of offers being received. TIGTA reported that the COIC Program is making progress toward achieving these goals. However, the reduction primarily resulted from significantly more offers being returned to taxpayers, and not because more offers were fully evaluated and then accepted or rejected. Taxpayers and their representatives contributed to the increase in returned offers by submitting offers that were not eligible or by not staying current in filing tax returns and making estimated tax payments while their offers were being evaluated. COIC sites also contributed to the higher number of returned offers by inappropriately returning 15 percent of the returned offers in the sample that could have been processed. Determinations of offers that could be processed were not done timely and requests for additional information from taxpayers occasionally included unnecessary items. However, the overall requests were reasonable and necessary to evaluate the offers.

TIGTA recommended that an automated system be used periodically to track trends in reasons why offers are returned to taxpayers and then modify or highlight forms, instructions, and outreach information for those issues. TIGTA also recommended that the IRS develop a method to identify the primary sources of offers that cannot be processed and a strategy to address the issues of these offers, as well as those for unrealistic or frivolous offers. Also, management needs to use reports to help ensure that determinations that offers cannot be processed are being made timely; analyze the staffing mix at both COIC sites for the current volume of offers to be processed; and establish monthly reports to monitor the age of open offers in the various assignments. In addition, management needs to monitor continually the backlog of cases awaiting assignment to offer examiners and adjust the acknowledgement letter sent to taxpayers to reflect more accurately the estimated time before contact should be expected. Management agreed with the recommendations and has initiated corrective action.

Report Reference No. 2003-30-182

During examinations, large corporate taxpayers sometimes file claims for additional deductions, credits, and/or other adjustments to taxable income that were not included on the original return. Filing these claims during examinations has been identified as a risk that could hamper efforts to meet the Large and Mid-Size Business (LMSB) Division's performance goals. The LMSB Division believed these claims are a significant factor in extending the length of and time spent on examinations. The LMSB Division is considering issuing a new revenue procedure that would provide special treatment for those taxpayers who file claims during examinations. Examiners would be allowed to delay the claim evaluation process until after the ongoing examination is completed. However, TIGTA found that claims had relatively little effect on the length of these examinations and that the proposed new revenue procedure could increase the interest the IRS must pay on claims by approximately \$1.84 billion over five years.

TIGTA recommended the IRS direct that the design team's study no longer be represented as the basis for changing the process for managing claims that are filed in large corporate examinations. In addition, TIGTA recommended the IRS conduct a pilot program to gather pertinent information concerning the effect the proposed procedure will have on the length of examinations and interest costs. In addition, survey results from the second study, now nearing completion, should not be represented as being statistically valid in determining the characteristics of formal claims filed in examinations or the amount of revenue protected from examining claims. Management agreed with the recommendations and is implementing corrective action.

Report Reference No. 2003-30-176

IRS SECURITY

INFORMATION SYSTEMS

Security of the IRS' information systems has been considered a material weakness for several years. Security will continue to be a major challenge for the IRS because of the interconnectivity of computer systems via the Internet and the risk of terrorism in the United States.

Sensitive information is still unnecessarily vulnerable to attack by hackers, terrorists, disgruntled employees, and contractors. TIGTA recognizes that complete security can never be achieved and that there must be trade-offs between security and operational needs. However, to provide reasonable security, controls must exist at the perimeter, in the infrastructure, and in the applications that process sensitive data. TIGTA's audits continue to identify significant weaknesses in each of these areas that could allow unauthorized access, destruction of data, and disruption of service. During the past six months, the IRS responded to these issues and has taken or plans to take adequate corrective actions.



The IRS initiated two significant efforts this year to improve computer security. First, it is investing considerable resources into addressing known computer security weaknesses. Specifically, it has revised its reporting of material weaknesses from a facility-based approach, which did not adequately describe the weaknesses, to an approach based on addressing root causes. The second significant effort is that the IRS is requiring business unit managers to review the security of the systems that support their operations, as required by the *Federal Information Security Management Act*¹⁰.

TIGTA believes that both of these actions could help the IRS change the perception held by many of its managers that security is solely the responsibility of the Chief Information Officer (CIO). While the CIO is still responsible for the perimeter and infrastructure technical controls, the security of applications is clearly the responsibility of the business unit managers who use them. Business unit manager involvement is critical because most of the security weaknesses TIGTA identified can be corrected by improved management and operational controls. By themselves, technical controls provided by the CIO cannot afford the necessary security.

The IRS relies on its information systems to collect, process, store, and disseminate vast amounts of sensitive financial information for millions of taxpayers. The amount and sensitivity of this information makes the IRS a highly visible target for hackers, and, particularly, disgruntled employees and contractors who have ready access to IRS systems.

During this reporting period, TIGTA identified that the IRS has moved toward allowing more and more of its employees to work away from the traditional office. This is, in part, because of the Congressional Federal Telework Mandate 2001¹¹, which required executive agencies to establish policies for employee telecommuting. While telecommuting provides benefits to both the Federal Government and its employees, there are related security risks that must be addressed.

Working away from the office is not a new concept at the IRS. However, the number of employees who may telecommute continues to grow, and the IRS now has over 43,000 laptop computers in use. Laptop computers pose a significant risk because they enable employees to take vast amounts of information outside the traditional office space and these computers can be lost or stolen. There is another security risk with employees working away from the office. With the creation of home offices and the continuing use of permanent offices at taxpayer locations, the IRS has to provide its employees with the means to connect to its network from the outside while maintaining security over these connections.

¹⁰ *Federal Information Security Management Act, Pub. L. No. 107-347, Title III, 116 Stat. 2946 (2002).*

¹¹ *Department of Transportation and Related Agencies Appropriation Act, 2001, Pub. L. No. 106-346, Section 359, 114 Stat. 1356 (2000).*



The IRS provided a secure infrastructure for its employees to connect to the network. However, the IRS could enhance the security of the architecture. Recommendations were made to correct the specific weaknesses identified, with the IRS agreeing to most.

Report Reference No. 2003-20-118

TIGTA also operates a Strategic Enforcement Division (SED) that consists of data analysts, computer specialists, and criminal investigators who monitor, probe, and investigate the evolving electronic environment. SED responds to computer intrusion incidents, investigates IRS network vulnerabilities, conducts system penetration tests, and provides forensic processing of computers and other media in support of TIGTA investigations.

During the reporting period, SED conducted proactive initiatives to evaluate IRS network vulnerabilities, including an initiative that assessed the integrity of IRS servers. Another initiative was launched to identify and remove unauthorized deployment of wireless technology within IRS facilities. Results of these proactive initiatives were provided to IRS management. In the past six months, TIGTA has conducted eight computer security reviews/tests and completed eleven investigations involving potential computer security breaches.

EMPLOYEE AND INFRASTRUCTURE SECURITY

As part of its statutory mission, TIGTA investigates threats and attacks against IRS personnel, property, and data infrastructure. The President has designated the IRS a "critical infrastructure," further highlighting TIGTA's need to protect the Treasury Department's ability to collect tax revenue by ensuring IRS employee safety and infrastructure security.

In response to heightened security concerns and TIGTA's responsibility for investigating threats against the IRS and its employees, TIGTA created a Criminal Intelligence Program (CIP), which proactively attempts to identify threats against IRS personnel and facilities. In an effort to improve the overall security of the IRS, the CIP provides information that enables the IRS to enhance its security measures. During this reporting period, TIGTA issued 46 advisories notifying IRS management of potential threats and completed 602 investigations of threats and assaults directed at IRS facilities and employees.

The following are examples of IRS Employee and Infrastructure Security investigations conducted during this reporting period.

Individual Arrested for Physically Assaulting an IRS Revenue Officer

On April 4, 2003, an individual was arrested in the Western District of Michigan for physically assaulting a federal officer while that officer was engaged in official duties. The Revenue Officer was making a second attempt to serve a summons as part of a tax collection action. The individual grabbed the Revenue Officer's arm with both hands and pulled him toward a building. The Revenue Officer was later released and he fled from the property.

Individual Charged for Threatening to Kill an IRS Taxpayer Advocate

On June 11, 2003, an individual was charged in the Southern District of Illinois for threatening to kill an IRS Taxpayer Advocate. The individual sent a threatening letter to the IRS in Missouri and subsequently left a telephone message threatening to kill an IRS Taxpayer Advocate.

Individual Sentenced to 27 Years and Ordered to Pay \$2,252,000 Restitution for Burning an IRS Office and Destroying Taxpayer Files

On July 21, 2003, an individual was sentenced in the District of Colorado to 27 years incarceration and five years supervised release for destruction of Federal Government property by means of fire and three years incarceration and one year supervised release for forcible interference with IRS employees and administration. The individual is also required to pay over \$2,252,000 restitution and was ordered to pay a \$200 special assessment fee. The individual endeavored to intimidate and impede IRS employees acting in their official capacities by damaging and destroying taxpayer files, records, government equipment, and personal property by participating in the arson of the IRS' Colorado Springs offices.

Individual Convicted for Burning an IRS Office and Destroying Federal Government Property

On August 4, 2003, a Federal jury convicted a second individual in the District of Colorado for destruction of Federal Government property by means of fire, forcible interference with IRS employees and administration, subornation of perjury, and tampering with a witness for the individual's involvement in the arson of the IRS' Colorado Springs offices.

COMPLEXITY OF THE TAX LAW

Tax law complexity is the highest-ranking problem individual and business taxpayers had with the IRS, according to the FY 2000 *Taxpayer Advocate's Annual Report to Congress*. One example of this complexity is in the area of granting extensions of time to file individual tax returns, where IRS regulations and practices treat taxpayers differently for the same payment noncompliance, create unnecessary taxpayer burden, increase IRS operating costs, and reduce current year tax receipts. Current IRS extension regulations prevent the IRS from assessing Delinquency Penalties for this noncompliance, and require compliant taxpayers to file extension forms needlessly. IRS management has been unwilling to change the extension regulations.

TIGTA recommended that the IRS change the regulations to provide clear, quantifiable guidelines for the level of payment compliance needed to obtain extensions to file; establish October 15 as the sole extended due date; provide equitable safeguards, commonly called "safe harbors," to ensure that Delinquency Penalties are not assessed for inadvertent or minor underpayments; and require assessment of the Delinquency Penalty starting on April 16 for any delinquent tax amounts in excess of safe harbor allowances. The IRS agreed to establish October 15 as the sole extended due date for individual taxpayers, and plans to form a study team to examine the other recommendations in depth.

Report Reference No. 2003-30-162

HUMAN CAPITAL

The IRS faces a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with the IRS's recent reorganization and modernization efforts. TIGTA's reviews in this area include a review of training information that the IRS provided to the IRS Oversight Board to assess IRS training efforts. TIGTA determined that the data provided was not adequate or reliable enough for the Board to perform an assessment or establish baselines. In addition, the costs of training courses and the allocation of training resources cannot be determined from either the Administrative Corporate Education System (ACES) or the IRS' financial accounting system. While the IRS plans to implement a new Learning Management System with enhanced capabilities, plans are not adequate to demonstrate that the limitations of the data in the ACES and the IRS financial system will be corrected by implementing the new system. Management generally agreed with the recommendations.

Reference Report No. 2003-10-212

TIGTA also reviewed the IRS' use of streamlined critical pay authority. This authority allows the IRS to designate up to 40 key positions for which compensation may be set at a higher rate than the pay of most Federal Government executives. The IRS was not always successful in recruiting qualified outside candidates using critical pay authority. In nine cases, the IRS designated positions as critical pay positions but



subsequently filled them as Senior Executive Service positions. In addition, candidates were often identified for positions before they were approved as critical pay positions, contrary to IRS procedures. Fifteen critical pay employees were identified by name in the memoranda sent to the Commissioner requesting that he approve critical pay for the positions. TIGTA recommended additional scrutiny by the Secretary of the Treasury, as well as the IRS Oversight Board, to help ensure that the authority is used appropriately. IRS disagreed with the recommendation to obtain the IRS Oversight Board's approval on the justification, candidate selection, and compensation for all streamlined critical pay positions before they are filled. Because the designation of certain positions as critical indicates a high level of importance to the success of IRS' mission, TIGTA continues to believe that the IRS Oversight Board should be a part of the approval process for all streamlined critical pay positions.

Report Reference No. 2003-10-116

INTEGRATING PERFORMANCE AND FINANCIAL MANAGEMENT

A clean financial audit is a basic prescription for any well-managed organization. Without accurate and timely financial information, it is not possible to accomplish the *President's Management Agenda* to secure the best performance and highest measure of accountability for the American people.

Two IRS Wage and Investment (W&I) Division enforcement programs are the document matching and the examination programs. The document-matching program, called the Automated Underreporter (AUR) Program, identifies unreported income using information returns filed by third parties such as banks and employers. The W&I Division's examination program, including the Earned Income Tax Credit (EITC) examinations¹², checks compliance in reporting income, deductions, and credits on tax returns through correspondence between the taxpayer and the IRS.

TIGTA conducted reviews focusing on whether the purpose, strategies and plans, and management policies are effectively designed to ensure the programs are meeting the IRS' goals of service to all taxpayers through the fair and uniform application of the law and improving voluntary compliance. The reviews also determined if the programs established long-term outcome goals and measures that reflect the programs' goals.

The W&I Division has a comprehensive strategic planning process to help ensure it manages resources and meets its annual goals and performance levels for the Automated Underreporter, Discretionary Examination, and EITC Programs. However, there are no established long-term outcome goals and measures that assess the

¹² The EITC is a major Federal effort to assist the working poor. The IRS has responsibility for administering the EITC, which is a refundable credit available to taxpayers who file returns with certain earned income.



Programs' effects or impact on IRS goals. Without long-term performance measures and goals, the IRS cannot be assured that the activities on which these funds were spent helped it achieve the Programs' purpose.

In addition, neither the AUR nor the EITC Program has sufficient data available to establish baselines and long-term goals and measures. The IRS will not be able to measure the success of its efforts because the IRS has been unable to provide meaningful outcome data necessary to establish long-term performance measures and goals. In FY 2003, the IRS was appropriated \$32 million for the AUR Program, \$38 million for Discretionary Examination, and \$146 million for the administration of the EITC Program. These appropriations were not limited to conducting examinations in these programs but for administering each program.

TIGTA recommended that IRS management finalize long-term goals and related measures currently being developed and establish a consistent method to measure progress toward long-term goals. Management agreed with the recommendations and is taking corrective action.

Report Reference Nos. 2003-40-139, 2003-40-180, and 2003-40-185

DETECTING AND DETERRING FRAUD IN IRS PROGRAMS AND OPERATIONS

EMPLOYEE INTEGRITY

IRS employee misconduct undermines the IRS' ability to improve customer service and effectively enforce tax laws and collect taxes owed. TIGTA investigates employee misconduct allegations including extortion, bribery, theft, taxpayer abuses, false statements, and financial fraud, as well as contractor misconduct and fraud. During the reporting period, TIGTA completed 1,058 employee integrity investigations.

As an integral part of its employee integrity program, TIGTA conducts proactive integrity initiatives to uncover fraud in IRS operations and to identify internal control weaknesses that permitted the fraud to go undetected or unreported. TIGTA's most aggressive proactive initiative is its Unauthorized Access (UNAX) Program designed to detect IRS employees who may have improperly accessed and/or disclosed confidential taxpayer information. During this reporting period, TIGTA initiated 233 investigations involving unauthorized access of IRS computer systems.

The following are examples of Employee Integrity investigations conducted during this reporting period.

IRS Revenue Agent Indicted for Accepting a \$250,000 Bribe

On September 3, 2003, an IRS Revenue Agent was indicted in the Southern District of Texas for bribery. The Revenue Agent allegedly solicited a \$500,000 bribe from an individual in exchange for ensuring that a civil audit the agent was conducting would not reach the individual or be converted into a criminal investigation. Further, the Revenue Agent allegedly agreed to accept \$250,000, with an additional \$100,000 to be paid at a later date. The Revenue Agent was arrested by TIGTA Special Agents following a pre-planned meeting where the Revenue Agent received the \$250,000 bribe.

Former IRS Special Agent Sentenced for Covering Up Association with Prostitutes and Theft of His Law Enforcement Vehicle

On September 8, 2003, a former IRS Special Agent was sentenced in the Central District of California for concealing and covering up his association with prostitutes, the theft of his law enforcement vehicle, and production of sexually explicit depictions of a minor. The former IRS Special Agent filed a false Security Incident Report with both TIGTA and the IRS concealing the true facts surrounding the theft of his law enforcement vehicle. The former IRS Special Agent also lied under oath on numerous occasions to TIGTA investigators about the theft of his law enforcement vehicle, his involvement with prostitutes, and his prior misrepresentation of himself as a Federal Bureau of Investigation agent. The former IRS Special Agent was sentenced to 63 months in federal prison and three years supervised release and ordered to pay a \$200 special assessment, to undergo sex offender counseling, and to register as a sex offender upon release from prison.

Individual Sentenced for Providing Uncertified Bomb Detection Dogs to IRS

On September 8, 2003, an individual was sentenced in the Eastern District of Virginia for wire fraud and submitting false claims to get business from U.S. Government agencies. The individual provided bomb detection dogs that failed explosive detection tests on several occasions and made a series of false statements about the qualifications of the dogs and the handlers to get business from U.S. Government agencies. The individual was ordered to pay more than \$708,000 in restitution and was sentenced to 78 months imprisonment and three years supervised release upon completion of the individual's prison sentence.

IRS Contractor Pays \$95,000 to the United States Government in Settlement Agreement

On August 6, 2003, an IRS contractor who provided security services for IRS facilities reached a settlement agreement with the U.S. Government to pay \$95,000 to settle allegations of violations of the False Claims Act. The contractor presented claims for payment for security services when the contractor knew the corporation was in default under the contract and unable to provide the licensed security services required under the contract.

Former IRS Contract Employee Indicted for Stealing Approximately \$127,000 from an IRS Lockbox Facility

On September 17, 2003, a former IRS contract employee was indicted in the Northern District of Texas for stealing tax remittance checks from the IRS Dallas

Lockbox. The individual worked as a contract employee at the IRS Dallas Lockbox, where he allegedly stole more than \$127,000 in tax remittance funds sent to the IRS.

Former IRS Employee Sentenced for Preparing Fraudulent Income Tax Returns and Unauthorized Access of IRS Computer Records

On September 29, 2003, a former IRS employee was sentenced in the Eastern District of California for fraud and related activity in connection with computers, aiding and assisting in the preparation of fraudulent income tax returns, and making and subscribing a false income tax return. The former employee accessed, without authorization, electronically stored taxpayer records and prepared false income tax returns for her and other individuals for a fee. The tax returns were prepared in order for the former employee and others to defraud the IRS of monies by falsely claiming the Earned Income Tax Credit and receiving refunds. As a result, the U.S. Government incurred a loss of over \$40,000. The former employee was sentenced to four months imprisonment, one year supervised release, \$24,276 in restitution, and a \$450 special assessment fee.

Former IRS Employee Sentenced for Unauthorized Access and Altering Taxpayer Records

On July 21, 2003, a former IRS employee was sentenced in the District of Kansas with intent to enable another person to defraud the United States. The former employee accessed, without authority, taxpayer information and abated tax assessments due the U.S. in excess of \$55,000, thus causing the taxpayer to defraud the U.S. The former employee was sentenced to five months in federal prison, two years supervised release, and ordered to pay a special assessment of \$300.

Former IRS Employee Indicted for Threatening to Initiate an IRS Audit of Tax Returns and for Assaulting and Intimidating a Federal Officer

On July 17, 2003, a former IRS employee was indicted in the Southern District of New York for threatening to initiate an IRS audit of tax returns as a way to seek revenge and for leaving a threatening message on the voicemail of the IRS Officer who terminated the former employee's employment. The former IRS employee allegedly threatened two New York City Police Officers, who were affecting the former employee's arrest for other charges, that the former employee would initiate an IRS audit of their tax returns as a way to seek revenge. The former employee also allegedly left a threatening message on the voicemail of the IRS Officer who terminated the former employee's IRS employment and sought to have the IRS employee identification confiscated.

EXTERNAL ATTEMPTS TO CORRUPT TAX ADMINISTRATION

TIGTA also investigates external attempts to corrupt tax administration, including violations that impact the IRS, such as impersonation of IRS officials, theft of IRS refunds, bribery, and identity theft.

The following are examples of External Attempts to Corrupt Tax Administration investigations conducted during this reporting period.

Tax Practitioner Sentenced for Scheme to Defraud Taxpayers

On April 3, 2003, a tax practitioner was sentenced to 27 months incarceration, five years supervised release, over \$67,000 in restitution and an \$1,100 special assessment in the Northern District of Florida for obstruction of agency proceedings and mail fraud. The individual represented clients before the IRS regarding collection matters. The scheme involved the tax practitioner taking monies that clients had provided to pay their delinquent taxes, converting them to the practitioner's own use, and mailing altered IRS documents to clients.

Individual Arrested for Using the IRS as a Tool of Retaliation Against Public Officials

On April 7, 2003, an individual was arrested in Minnesota for using the IRS as a tool of retaliation against certain public officials. The individual allegedly filed false Suspicious Activity Reports and several false IRS Reports of Cash Payments Over \$10,000 Received in a Trade or Business (Form 8300) in retaliation against local public officials. Subsequently, IRS notices were sent to the victims, including circuit court and federal judges, directing them to provide additional information regarding the cash transactions.

Individual Arrested for Submitting False Claims and Declarations to the IRS

On April 30, 2003, an individual was arrested in New York State for submitting false claims and declarations to the IRS. The individual allegedly submitted false IRS Powers of Attorney and Declaration of Representative (Form 2848), claiming to be an attorney who was a member in good standing of the bar of the highest court of New York State, when he knew that he was not. The individual also prepared and filed false amended individual income tax returns claiming tax refunds.

Individual Pleads Guilty to Identity Theft

On July 15, 2003, an individual pleaded guilty in the District of Nevada to identity theft. After receiving notices from the IRS, a taxpayer complained to TIGTA that an unidentified individual allegedly unlawfully used his name, date of birth, and Social Security Number (SSN). An investigation disclosed that while seeking employment, the individual, purporting to be the taxpayer, submitted Employee's Withholding Allowance Certificates (Form W-4) to two Nevada businesses. Subsequently, approximately \$46,000 in earnings was reported to the IRS under the taxpayer's SSN, and a demand for payment notice in excess of \$11,000 was sent to the victim taxpayer from the IRS.

Individual Indicted for Altering and Transmitting Fictitious IRS Levy Release Documents

On July 23, 2003, an individual was indicted in the District of Delaware for faxing altered and fictitious IRS release of levy documents. The individual allegedly altered authentic IRS release of levy documents reflecting a partial release of levy on her husband's wages and faxed the fictitious documents to her husband's employer in order to reflect a full release of levy placed on her husband's earnings fraudulently.

CONGRESSIONAL TESTIMONY

In addition to TIGTA's audit and investigative work and as part of keeping key stakeholders informed of TIGTA's oversight of IRS, the Deputy Inspector General (IG) for Audit testified before Congress on four occasions during this reporting period.

On April 1, 2003, the Deputy IG for Audit testified before the United States Senate Finance Committee on "Tax Scams and Schemes." The purpose of the hearing was to discuss the efforts in assessing the IRS' monitoring of electronic return providers or originators and in investigating individuals who corruptly interfere with this aspect of the tax administration system.

On May 13, 2003, the Deputy IG for Audit testified before the United States House of Representatives Committee on Ways and Means, Subcommittee on Oversight. The topic of the hearing focused on "The Use of Private Collection Agencies to Improve IRS Debt Collection."

On May 20, 2003, the Deputy IG for Audit testified before the Committees of the United States Senate and United States House of Representatives on "The Strategic Plans and Budget of the IRS" as required by the IRS Restructuring and Reform Act of 1998. TIGTA concluded that it will continue its efforts to provide reliable and objective assessments of the IRS' progress in balancing compliance and customer service, and to investigate employee misconduct or external threats that jeopardize the integrity, efficiency, and effectiveness of the nation's tax administration system.

On July 9, 2003, the Deputy IG for Audit testified before the United States House of Representatives Committee on the Budget, regarding "Waste, Fraud and Abuse in IRS Programs". TIGTA shared significant problems and challenges that confront the new Commissioner and IRS senior management. TIGTA concluded that it will continue its efforts to provide reliable and objective reviews and assessments of IRS programs and operations. It is TIGTA's intent not only to identify waste, fraud, and abuse in IRS programs, but also to propose to IRS management solutions that address the underlying causes of the problems.



AWARDS AND SPECIAL ACHIEVEMENTS



Auditor John P. Ojeda Receives Special Community Recognition

John P. Ojeda, TIGTA Office of Audit, Wage and Investment Income Programs, had a new state-of-the-art Junior High School in Austin, Texas named in his honor. The school was named the John P. Ojeda Junior High School and opened on August 18, 2003. Mr. Ojeda was recognized for his service to the Austin community for nineteen years, nine of which were as a school board trustee on the local school board. Mr. Ojeda received this honor because of his exceptional contributions to public education, his model of excellence for the students of the district, his demonstrated leadership and service, and his interest in and meritorious contribution to education.

TIGTA Receives PCIE Awards

TIGTA was recognized at the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency (PCIE/ECIE) awards ceremony October 16, 2003 with two Awards for Excellence. One award went to Senior Auditor John L. Hawkins from Kansas City, Missouri, for his outstanding work in assessing the IRS' controls over the access to, disclosure of, and use of social security numbers by third parties. The second award went to the Technical and Forensic Support Division for outstanding achievement in technical and forensic investigative support during the investigation of telemarketers who posed as representatives from the IRS in order to obtain money fraudulently from elderly citizens across the country.

TIGTA Receives Telework Award

The TIGTA Office of Information Technology (OIT) completed the implementation of a new, state-of-the-art telecommunications network in May 2003. This network

underpins the Virtual Resource Solution (VRS) Telework program for which TIGTA was recently recognized with the 2003 Commuter Connections Employer Recognition Award (see photograph below). Over 90 percent of TIGTA employees currently participate in the VRS program. Over 35 percent of TIGTA employees work out of the office at least two days each week as part of the VRS program. Employees can access the TIGTA network via any Internet connection or dial up connection because of the technology investment made in the TIGTA telecommunications network.



2003 Commuter Connections Employer Recognition Award

Automated Clearance Verification System Developed

Over the past year, the Federal personnel security community has faced extraordinary challenges protecting homeland security. Many agencies are adding staff and/or reassessing security clearance requirements and, as a result, the demand for background investigations has risen dramatically. The Office of Personnel Management (OPM) Investigations Service is committed to providing quality investigations in a timely, cost effective manner. Because of the largely unpredicted workload increase, however, OPM's ability to meet the timeliness standards has declined. The Clearance Verification System is an e-Clearance initiative under the President's Management Agenda and provides all current Departmental requirements as they relate to the processes involving investigation posting, maintenance, and reporting.

In order to create an investigation tracking system for TIGTA that is compliant with regulations and can be readily integrated with the e-Clearance initiative, experts in all aspects are required. TIGTA's Security team represented the organization at the initial e-Clearance meeting and follow up meetings. They digested the requirements, translated them into computer terms, and then worked closely with Bureau of Public Debt programmers to integrate and implement the program successfully. After several efforts at clarification, testing, verification, and validation, TIGTA has produced a zero defect file to the Treasury Department before the due

date. As part of the Memorandum of Understanding with OPM, Treasury is required to revalidate its security clearance information every six months. This well-documented and highly automated e-Clearance system allows for a consistently repeatable process for TIGTA.

Electronic Reading Room Established for Public Access to Documents

The TIGTA Web Development Team created and introduced an electronic reading room providing public access to TIGTA documents pursuant to the Freedom of Information Act (FOIA), 5 U.S.C. § 552. The web developers worked closely with TIGTA's Chief Counsel staff to ensure that all requirements for posting documents to the public site were met and/or exceeded. TIGTA Electronic Freedom of Information Act (EFOIA) documents are on the Treasury Internet site at <http://www.treas.gov/tigta/foia/> and on a stand-alone computer available to the public in TIGTA's national headquarters in Washington, D.C. The Web Team created policies to ensure that this public site remains current and continues to meet all legal requirements for publicly accessible documents.

Assistance to Foreign Tax Administrators

On several occasions, TIGTA supported the Department of the Treasury in assisting foreign tax administrators with the development of their inspector general functions. This assistance included detailing individuals to Indonesia, Paraguay, Ecuador, Honduras, and Georgia.



In its continuing efforts to assist other countries in the implementation of Office of Inspectors General, TIGTA recently visited with officials from the government of Georgia. Shown above (left to right) are Pamela Gardiner, Deputy Inspector General for Audit, Eduard Shevardnadze, President of Georgia, and Robert Cortesi, Office of Tax Assistance.

APPENDIX I – AUDIT STATISTICAL REPORTS**AUDIT REPORTS WITH QUESTIONED COSTS**

Two audit reports with questioned costs were issued during this semiannual reporting period.¹ 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 (4/1/03 – 9/30/03) REPORT CATEGORY	NUMBER OF REPORTS	QUESTIONED COSTS² (IN THOUSANDS)	UNSUPPORTED COSTS (IN THOUSANDS)
1. For which no management decision had been made by the beginning of the reporting period	2	\$ 5,273	\$0
2. Which were issued during the reporting period	2	\$ 39	\$ 38
3. Subtotals (Item 1 plus Item 2)	4	\$ 5,312	\$ 38
4. For which a management decision was made during the reporting period			
- Dollar value of disallowed costs	2	\$ 5,311 ³	\$ 0
- Dollar value of costs not disallowed	2	\$ 4,643	\$ 38
5. For which no management decision had been made by the end of the reporting period (Item 3 minus Item 4)	1	\$ 1	\$ 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."

³ IRS management disallowed only part of the questioned cost for one report.

PRIOR PERIOD REPORTS

During this reporting period, the IRS did not provide TIGTA with the value of questioned costs for any reports issued before April 1, 2003, for which the amount of questioned costs could not be determined at the time the reports were issued.



REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

Nine reports with recommendations that funds be put to better use were issued during this semiannual reporting period.¹ The term "recommendation that funds be put to better use" means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements; preventing erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; 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.

¹ See Appendix IV for identification of audit reports involved.

REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (4/1/03 – 9/30/03) REPORT CATEGORY	NUMBER OF REPORTS	AMOUNT (IN THOUSANDS)
1. For which no management decision has been made by the beginning of the reporting period	1	\$ 2,240
2. Which were issued during the reporting period	9	\$ 1,912,309
3. Subtotals (Item 1 plus Item 2)	10	\$ 1,914,549
4. For which a management decision was made during the reporting period		
Dollar value of recommendations that were agreed to by management		
- Based on proposed management action	5	\$ 4,348
- Based on proposed legislative action	0	\$ 0
Dollar value of recommendations that were not agreed to by management	3	\$ 1,865,861
5. For which no management decision has been made by the end of the reporting period (Item 3 minus Item 4)	2	\$ 44,340
6. For which no management decision was made within six months of issuance	1	\$ 2,240



REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION

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

Definitions of these additional measures are:

Taxpayer Rights and Entitlements at Risk: The protection of due process (rights) 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.

Reduction of Burden on Taxpayers: Decreases by individuals or businesses in the need for, frequency of, or time spent on contacts, record keeping, preparation, or costs to comply with tax laws, regulations, and IRS policies and procedures.

Increased Revenue: Assessment or collection of additional taxes.

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

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

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

Protection of Resources: Safeguarding human and capital assets, used by or in the custody of the organization, from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation. This measure will often be expressed as a value of the entity or program affected by the issue(s) described in the audit report.

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

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



REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION (CONTINUED)

REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION (4/1/03 – 9/30/03) OUTCOME MEASURE CATEGORY	NUMBER OF REPORTS IN CATEGORY ¹	NUMBER OF TAXPAYER ACCOUNTS	NUMBER OF HOURS	DOLLAR VALUE (IN THOUSANDS)	OTHER ⁷
Taxpayer Rights and Entitlements at Risk	16	² 1,593,597		\$ 8,008,619	2, 8
Reduction of Burden on Taxpayers	11	³ 38,483,489		\$ 874,900	9
Increased Revenue	7	126		⁴ \$ 7,208,103	
Revenue Protection	2	4		\$ 1,275	
Taxpayer Privacy and Security	0				
Inefficient Use of Resources	7			⁵ \$ 47,160	10
Protection of Resources	3			⁶ \$ 3,523	
Reliability of Management Information	4	187			11

¹ See Appendix IV for identification of audit reports involved.

² There is a possibility of duplication of taxpayers in each of four reports (Reference Nos. 2003-10-156, 2003-40-193, 2003-10-218, 2003-10-164) because more than one finding may have been projected to the same population.

³ In one report (Reference No. 2003-10-187) IRS management did not agree that 16.7 million taxpayers would benefit from reduced burden, stating that their analysis would impact approximately 1.9 million, of which 1.7 million could only be addressed through a legislative change.

⁴ In one report (Reference No. 2003-30-195) IRS management did not agree that the prior year's tax liability was a conclusive predictor of the \$713,000 of increased revenue.

⁵ In two reports (Reference Nos. 2003-20-109 and 2003-10-170) IRS management did not agree with the criteria used to calculate the reported benefits of \$41.2 million.

⁶ In one report (Reference No. 2003-10-194) IRS management understood the methodology of assessing risk, but believes that the reported weakness of \$310,000 was overstated.

⁷ Some reports contained "Other" quantifiable impacts beside the number of taxpayer accounts, number of hours, and dollar value. These outcome measures are described in the footnotes, below.

⁸ Other measures of taxpayer rights and entitlements consist of 321 improper Illegal Tax Protestor designations in IRS files and 2,741 FOIA, PA and I.R.C. §6103 requests that were improperly withheld or not timely provided. In one report (Reference No. 2003-40-098) IRS management disagreed, stating that the case files notations are not improper designations within the meaning of the law.

⁹ Other measure of taxpayer burden consists of one publication not updated to reflect the new tuition and fee deduction included in the *Economic Growth and Tax Reconciliation Act*.

¹⁰ Other measures of inefficient use of resources consist of approximately 139 staff days that would be available for other priority work. In two reports (Reference Nos. 2003-10-201 and 2003-10-200) IRS management disagreed with the proposed benefits of 129 staff years.

¹¹ Other measure of reliability of information consists of 110 Internal Revenue Manual Sections with prohibited references to Illegal Tax Protestor designations.



**APPENDIX II – OFFICE OF INVESTIGATIONS -
STATISTICAL REPORTS**

INVESTIGATIVE RESULTS: APRIL 1, 2003 – SEPTEMBER 30, 2003

INVESTIGATIONS OPENED AND CLOSED	
Total Investigations Opened	2249
Total Investigations Closed	2595

FINANCIAL ACCOMPLISHMENTS	
Embezzlement/Theft Funds Recovered	\$3,153,794
Court Ordered Fines, Penalties and Restitution	\$14,492,545
Out-of-Court Settlements	\$0

STATUS OF CLOSED CRIMINAL INVESTIGATIONS			
	EMPLOYEE	NON-EMPLOYEE	TOTAL
Criminal Referrals ¹			
Referred – Accepted for Prosecution	31	198	229
Referred – Declined for Prosecution	416	486	902
Referred - Pending Prosecution Decision	20	89	109
Total Criminal Referrals	467	773	1240
No Referrals	589	787	1376

¹ Criminal referrals include both federal and state dispositions.



CRIMINAL DISPOSITIONS¹			
	EMPLOYEE	NON-EMPLOYEE	TOTAL
Guilty	23	158	181
Nolo-Contendere	1	1	2
Pre-trial Diversion	3	5	8
Deferred Prosecution ²	2	3	5
Not Guilty	0	2	2
Dismissed ³	1	20	21
TOTAL CRIMINAL DISPOSITIONS	30	189	219

¹ Final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table.

² Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.

³ Court dismissed charges.

ADMINISTRATIVE DISPOSITION ON CLOSED TIGTA INVESTIGATIONS¹	
Removed, Terminated or Other	145
Suspended/Reduction in Grade	91
Oral or Written Reprimand/Admonishment	143
Closed – No Action Taken	286
Clearance Letter Issued	181
Employee Resigned Prior to Adjudication	100
TOTAL ADMINISTRATIVE DISPOSITIONS	946

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



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

COMPLAINTS/ALLEGATIONS RECEIVED BY TIGTA	
Complaints Against IRS Employees	2352
Complaints Against Non-Employees	1682
Number of Complaints/Allegations	4034

STATUS OF COMPLAINTS/ALLEGATIONS RECEIVED BY TIGTA	
Investigations Initiated	1644
In Process Within TIGTA ¹	20
Referred to the IRS for Action	116
Referred to the IRS for Information Only	1185
Referred to a Non-IRS Entity ²	17
Closed With No Referral	747
Closed With All Actions Completed	305
TOTAL COMPLAINTS	4034

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

² A non-IRS entity includes other law enforcement entities or federal agencies.

Note: IRS made 71 referrals to TIGTA that would more appropriately be handled by IRS and, therefore, were returned to IRS. These are not included in the total complaints shown above.



ALLEGATIONS OF MISCONDUCT AGAINST IRS EMPLOYEES

The following tables contain information **exactly as provided by the IRS to TIGTA** and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS). Also, data concerning substantiated § 1203 allegations are included. IRS management conducted the inquiries into the cases reflected in these tables.

REPORT OF EMPLOYEE MISCONDUCT FOR THE PERIOD 4/01/03 – 9/30/03					
SUMMARY BY DISPOSITION GROUPS					
DISPOSITION	TIGTA INVESTIGATIONS	ADMINISTRATIVE CASES¹	EMPLOYEE TAX MATTER CASES²	BACKGROUND INVESTIGATIONS³	TOTAL
Removal	54	121	8	1	184
Separation of Probationary Employees	6	386	16	37	445
Separation of Temporary Employees	0	10	2	15	27
Resignation/Retirement	84	141	57	37	319
Suspensions	85	172	45	9	311
Reprimands	88	303	350	26	767
Counseling	45	314	1044	170	1573
Alternative Discipline	12	71	19	2	104
Clearance	162	109	8	9	288
Closed Without Action	352	347	301	299	1299
Forwarded to TIGTA	0	23	0	0	23
TOTAL	888	1997	1850	605	5340

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

² Employee Tax Matter - Any conduct matter that becomes a matter of official interest involving an employee's tax compliance.

³ This category has not been reported in previous TIGTA Semiannual Reports and represents any matter involving a National Background Investigation Center (NBIC) investigation into an IRS employee's background that is referred to IRS management for appropriate action.

REPORT OF EMPLOYEE MISCONDUCT FOR THE PERIOD 4/1/03 – 9/30/03						
NATIONAL SUMMARY						
CASE TYPE	OPENING INVENTORY	CONDUCT CASES RECEIVED	CASES CLOSED			CLOSING INVENTORY
			CONDUCT ISSUES	DUPLICATES	NON-CONDUCT CASES	
TIGTA Investigations – ROI (I) ¹	763	799	(888)	(6)	(1)	667
Administrative Case (A) ²	721	1992	(1997)	(13)	(7)	696
Employee Tax Compliance Case (C) ³	808	2650	(1850)	(125)	(0)	1483
Background Investigations (E) ⁴	286	593	(605)	(7)	(0)	267
TOTAL	2578	6034	(5340)	(151)	(8)	3113

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

² Administrative Case – Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

³ Employee Tax Compliance Case – Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.

⁴ This category has not been reported in previous TIGTA Semiannual Reports and represents any matter involving a National Background Investigation Center (NBIC) investigation into an IRS employee's background that is referred to IRS management for appropriate action.

IRS SUMMARY OF SUBSTANTIATED § 1203 INQUIRIES RECORDED IN ALERTS FOR THE PERIOD 4/1/03 – 9/30/03							
§ 1203 VIOLATION	REMOVALS	RESIGNED/ RETIRED	PROBATION/ SEPARATION	REMOVED ON OTHER GROUNDS	PENALTY MITIGATED	IN PERSONNEL PROCESS	TOTAL
Seizure Without Approval	0	1	0	0	0	0	1
False Statement Under Oath	0	0	0	0	0	0	0
Constitutional & Civil Rights Issues	0	0	0	0	0	0	0
Falsifying or Destroying Records	0	0	0	0	0	3	3
Assault or Battery	0	0	0	0	0	0	0
Retaliate or Harass	0	0	0	0	0	0	0
Misuse of 6103	0	0	0	0	0	0	0
Failure to File Federal Tax Return	2	6	4	1	15	53	81
Understatement of Federal Tax Liability	7	4	0	1	2	31	45
Threat to Audit for Personal Gain	0	0	0	0	0	0	0
TOTAL	9	11	4	2	17	87	130

Note: The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third party appeal.



APPENDIX III – STATISTICAL REPORTS – OTHERS

AUDIT REPORTS WITH SIGNIFICANT UNIMPLEMENTED CORRECTIVE ACTIONS

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

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
093602	April 1999	11/15/03 10/01/05 10/15/03	<i>The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits</i> F-1, R-3, P-2. Require a separation of duties among auditors who identify Midwest Automated Compliance System (MACS) returns with potential tax changes, auditors who select MACS returns to be audited, and auditors who conduct the examinations. F-1, R-4, P-2. Ensure that all MACS data discs forwarded from the MACS Development Center to district offices are properly accounted for and secured. F-2, R-4, P-1. Clarify the Internal Revenue Manual to provide specific guidance for conducting correspondence audits in district office settings.
1999-20-063	August 1999	02/15/04	<i>The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved</i> F-2, R-1, P-1. Standardize control settings for files common to the Unisys 2200 production mainframes.
2000-30-015	December 1999	01/01/04	<i>Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers</i> F-2, R-1, P-1. Expand the current Federal Tax Deposits alert reengineering effort to re-evaluate the cost effectiveness of the Program.
2000-30-059	March 2000	01/15/05 01/15/05 03/15/04	<i>The Internal Revenue Service Can Improve the Estate Tax Collection Process</i> F-2, R-2, P-1. Develop procedures to periodically reconcile tax liens on the Automated Lien System (ALS) with information shown on the taxpayer accounts. F-2, R-3, P-1. Clarify procedures to employees that all estate tax liens should be recorded on the ALS. F-3, R-4, P-1. Coordinate to develop a procedure to identify accounts with multiple assessments and collection statute dates to ensure partial abatements occur when the earliest Collection Statute Expiration Date is reached.
2000-20-094	June 2000	01/15/04 01/02/04 01/01/04	<i>A Comprehensive Program for Preventing and Detecting Computer Viruses Is Needed</i> F-2, R-1, P-1. Develop and implement IRS-wide procedures detailing the frequency and steps to be followed for reliably updating anti-virus software on both networked and portable notebook computers. F-2, R-2, P-1. Establish controls for ensuring all updates have been successfully accomplished. F-3, R-1, P-1. Develop a system for gathering information to help analyze and monitor the effectiveness of the program's virus detection and prevention activities.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2000-30-120	August 2000	04/15/04	Expanding the Electronic Tax Law Assistance Program F-1, R-1, P-1. To meet its Electronic Tax Administration goals, the IRS needs to redesign the Electronic Tax Law Assistance program to leverage technology that will provide enhanced access to tax information, maximize efficiency, and improve electronic customer service.
2000-30-130	September 2000	04/15/04	Opportunities Exist to Enhance the International Field Assistance Specialization Program F-2, R-1, P-1. Improve the management information system by linking the International Field Assistance Specialization Program indicator to specific issues listed in the International Case Management System.
2000-30-154	September 2000	01/01/04	Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File F-1, R-1, P-1. Require that all balance due notices generated for gift tax accounts be reviewed. Tax examiners should be instructed to review the taxpayers' corresponding individual income tax and gift tax accounts to determine if the taxpayers' gift tax payments and extensions were correctly processed.
2000-30-162	September 2000	11/15/03 P-1: 11/15/03 P-2: 11/15/03 P-1: 11/15/03 P-2: 11/15/03	The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations F-1, R-2, P-1. Provide additional computer programming enhancements to improve the value of litigation transcripts. F-2, R-1, P-1, P-2. Request that the Automated Insolvency System be reprogrammed so that the actual receipt date of the case can be input into the system to provide management with more accurate data on timeliness of input of new case information. F-2, R-2, P-1, P-2. Ensure that all employees review the Potentially Invalid Taxpayer report and resolve all cases promptly to ensure timely posting of the bankruptcy to the taxpayer's account.
2001-30-014	November 2000	12/15/03	The Internal Revenue Service Does Not Effectively Use the Trust Fund Recovery Penalty as a Collection Enforcement Tool F-1, R-5, P-1. Make programming changes to the Automated Trust Fund Recovery System to ensure that delinquent tax returns are addressed when making trust fund recovery penalty calculations.
2001-10-027	January 2001	03/31/03	Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program F-1, R-1, P-1. Upgrade the automated case management system to provide more timely and accurate data on case activities and the use of program resources.
2001-20-043	February 2001	10/15/03 11/15/03	Electronic Signature Initiatives Could Be Better Defined and Evaluated F-1, R-1, P-1. Finalize IRS requirements for the use of Personal Identification Numbers as alternative signatures for electronically filed returns based on evolving guidance and the draft IRS authentication security policy and implementation guide. F-1, R-2, P-1. Ensure that all operational alternative signature initiatives comply with the requirements.



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2001-30-052	March 2001	01/01/04 01/01/04 P-1: 01/01/07 P-2: 01/01/07	Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income F-1, R-1, P-1. Ensure the prior recommendations are implemented. Establishing a formal program with goals, objectives, processes and measure could help ensure that sufficient management attention is devoted to improving the use of the Routine Exchange of Information Program for compliance. F-2, R-1, P-1. Identify the highest risk foreign sourced income documents and use them to coordinate with tax treaty partners to positively identify the U.S. taxpayers involved. F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2001-30-099	June 2001	P-2: 02/15/04 P-3: 02/15/04	Management Advisory Report: The Internal Revenue Service Could Reduce the Number of Business Tax Returns Destroyed Because of Missing Information F-1, R-1, P-2, P-3. Make necessary modifications to tax forms and instructions to ensure taxpayers understand that their names, addresses, and taxpayer identification numbers are required on both their tax forms and payment vouchers.
2001-20-146	August 2001	01/15/04	The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act F-1, R-1, P-1. Prepare an overall strategy, plan and schedule to bring the IRS in full compliance with the Clinger-Cohen Act.
2002-30-042	December 2001	10/15/03	The Internal Revenue Service Has Made Some Progress, but Significant Improvements Are Still Needed to Reduce Errors in Manual Interest Calculations F-1, R-2, P-1. Establish a national quality review process that includes all restricted interest cases.
2002-10-009	January 2002	10/01/03	GPR: Criminal Investigation Can Improve Its Performance Measures to Better Account for Its Results F-2, R-1, P-1. Establish a process by which the Criminal Investigation Management Information System data will be verified and validated.
2002-30-050	February 2002	03/15/04 01/15/04 10/01/03	Significant Efforts Have Been Made to Combat Abusive Trusts, but Additional Improvements Are Needed to Ensure Fairness and Compliance Objectives Are Achieved F-2, R-1, P-1. Ensure the Abusive Trust Program consistently applies the accuracy-related penalty in accordance with IRS policy, in order to help ensure fair and equitable taxpayer treatment. F-2, R-2, P-1. Provide examiners with formal guidance on the appropriate application of the accuracy-related penalty, in order to help ensure its consistent application. F-4, R-1, P-1. Develop a system to capture the results of U.S. Income Tax Returns for Estates and Trusts (Form 1041) examinations that would provide management with information on emerging abusive trust issues, further noncompliance and allocate resources to maximize audit results.
2002-30-062	March 2002	01/01/04	The Internal Revenue Service Continues to Owe Millions of Dollars in Interest to Taxpayers with Frozen Refunds F-1, R-1, P-1. Modify the IRS' computer system to systemically release the newly established Million Dollar Freeze for credit balances that fall below the \$10 million threshold.



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2002-30-062	March 2002	P-1: 01/01/04 P-2: 01/01/04 P-1: 03/01/04 P-2: 03/15/04	<i>The Internal Revenue Service Continues to Owe Millions of Dollars in Interest to Taxpayers with Frozen Refunds</i> F-1, R-2, P-1, P-2. Establish indicators on key computer screens and generate periodic notices as alerts for employees to review accounts with Million Dollar Freeze and take appropriate resolution actions. F-2, R-1, P-1, P-2. Coordinate efforts to provide updated training for employees that manually initiate refunds.
2002-10-078	March 2002	12/15/03 12/15/03 12/15/03	<i>The Internal Revenue Service's Levy Process Can Be Improved to Ensure Compliance With the Internal Revenue Code</i> F-1, R-2, P-1. Ensure that revenue officers review available information to properly identify levies issued by Automated Collection System personnel and ensure the levies are appropriately released prior to closing a case Currently Not Collectible (CNC) (Hardship). F-1, R-3, P-2. Before approving a CNC (Hardship) case closure, the case files should be reviewed to ensure levies are released, if appropriate, in compliance with the Internal Revenue Code. The revenue officer should document in the case history the reason why a levy was closed rather than released. F-2, R-2, P-1. Ensure that a hardship determination is made before approving cases closed CNC.
2002-30-125	July 2002	06/15/03 02/01/04 05/15/04 02/01/04	<i>The Internal Revenue Service Does Not Always Address Subchapter S Corporation Officer Compensation During Examinations</i> F-1, R-1, P-1. Provide technical guidance and resources (such as software) to field personnel to aid in determining reasonable officer compensation. F-2, R-1, P-1. Submit a Request for Information Services (RIS) that would require the corporate distributions on the Schedule M-2 to be input to the IRS' computer system during returns processing, and therefore available to the IRS Midwest Automated Compliance System (MACS) database. F-3, R-1, P-1. Submit a RIS to existing (and/or future) information systems (such as Examination Operational Database) to identify officer compensation-related adjustment assessments made to S Corporation employment tax accounts. F-4, R-1, P-1. Establish consistent materials for educating and informing taxpayers and representatives of their S Corporation officer compensation tax obligations.
2002-30-141	July 2002	10/01/03	<i>The Internal Revenue Service Successfully Processed Schedules K-1 for Its Matching Program. However, Tax Form Changes Would Reduce Unnecessary Notices to Taxpayers</i> F-3, R-1, P-1. Make changes to the U.S. Individual Income Tax Return, Supplemental Income and Loss (Form 1040, Schedule E) as recommended in the District Office Research and Analysis study. Consideration should be given to classifying and reporting pass through income to facilitate easier comparisons to Schedules K-1 and to make the matching program more effective and less subject to extensive manual screening.
2002-40-144	August 2002	03/15/04	<i>Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For</i> F-1, R-1, P-1. Perform a physical inventory of all computers included in the IRS' Volunteer Income Tax Assistance/Tax Counseling for the Elderly (VITA/TCE) Program. This inventory should include verification of computers presently recorded on the Information Technology Asset Management System (ITAMS) as well as identification of computers in the VITA/TCE Program that are not yet recorded on ITAMS.



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2002-40-144	August 2002	12/31/04	<p>Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For</p> <p><u>F-1, R-6, P-1</u>. In the long term, pursue legislative changes that would allow IRS to transfer ownership of the computers to the VITA/TCE organizations.</p>
2002-30-156	September 2002	07/01/04	<p>The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers</p> <p><u>F-1, R-1, P-1</u>. Ensure that the IRS initiate, as proposed in their response to our memorandum dated February 1, 2002, a regularly scheduled program for proposing penalties for Wage and Tax Statements (Forms W-2) with inaccurate name/Social Security Number combinations.</p>
2002-30-186	September 2002	<p>P-1: 01/15/04 P-2: 01/15/04</p> <p>P-1: 01/15/04 P-2: 01/15/04</p> <p>01/15/04</p> <p>01/15/04</p>	<p>The Internal Revenue Service Needs to Simplify Filing Requirements and Clarify Processing Procedures for Small Business Corporate Returns</p> <p><u>F-1, R-1, P-1, P-2</u>. Simplify the process of filing election forms and U.S. Income Tax Returns for an S Corporation (Form 1120S) for new filers by determining if there are alternatives to make it easier for first-time filers to be granted elections and file their Forms 1120S, and by considering implementing alternatives and seeking modification of the legal requirements, as necessary.</p> <p><u>F-1, R-2, P-1, P-2</u>. Develop procedures that would improve and simplify the process for approving, recording, and controlling elections and the related notification process to make it easier for taxpayers to file their Forms 1120S.</p> <p><u>F-2, R-1, P-1</u>. Establish procedures for ensuring that IRS records accurately reflect the filing of Forms 1120S once the IRS subsequently verifies that an election was granted. Specific procedures should be developed for converting the Forms 1120 back to the originally intended Forms 1120S.</p> <p><u>F-2, R-2, P-1</u>. Clarify Internal Revenue Manual procedures and assign responsibility for determining and assessing the correct taxes and issuing statutory notices of deficiency for small business corporate returns that could not be processed because the IRS could not verify that valid elections were filed.</p>
2002-10-187	September 2002	<p>02/15/04</p> <p>02/15/04</p> <p>01/15/05</p> <p>01/15/05</p> <p>01/01/04</p> <p>01/01/04</p>	<p>The New Suspension of Interest Provision Is Not Always Calculated Correctly</p> <p><u>F-1, R-1, P-1</u>. Create a systemic reminder when tax audits are completed that would prompt employees and managers to consider whether the suspension of interest provision applies.</p> <p><u>F-1, R-2, P-1</u>. Incorporate review requirements for the suspension of interest provision in the Examination Quality Review Process system.</p> <p><u>F-2, R-1, P-1</u>. Identify all taxpayers with under assessed interest caused by the original Master File computer programming, regardless of whether or not the interest had been reestablished on the accounts, and zero out any under assessed amounts to prevent burden on future disaster relief taxpayers or other taxpayers in special military conditions.</p> <p><u>F-2, R-2, P-1</u>. Identify disaster relief taxpayers and refund the amounts that were automatically collected on the under assessed interest.</p> <p><u>F-3, R-1, P-1</u>. Submit a request for information services that will change the Master File computer programming for this 1-day discrepancy when calculating suspension of interest.</p> <p><u>F-3, R-2, P-1</u>. Determine the feasibility of an earlier anticipated operational date of the Master File computer programming modification involving weekend and holidays when calculating suspension of interest.</p>



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2002-10-187	September 2002	01/01/04	The New Suspension of Interest Provision Is Not Always Calculated Correctly F-3, R-3, P-1. Identify taxpayers' accounts for Tax Years 1998 and 1999 with disallowed Earned Income Tax Credit amounts that qualified for suspension of interest and reduce the amount of over assessed interest on these accounts.
2003-40-023	November 2002	10/01/05	Trends in Customer Service in the Taxpayer Assistance Centers Show Procedural and Training Causes for Inaccurate Answers to Tax Law Questions F-5, R-2, P-1. Explore other options such as the planned remote monitoring by Taxpayer Assistance Centers (TAC) managers, for conducting quality reviews of TAC employees on a regular basis.
2003-20-035	December 2002	03/15/04 03/15/05 01/15/04 10/01/03 01/15/04	Additional Cost Savings and Increased Productivity in the Print Operation and Computer Support Function Can Be Achieved at the Campus Locations F-1, R-1, P-1. Increased coordination should be required with users to discontinue printing reports that are currently available in both printed and electronic format and convert additional reports to the Electronic On-Line/Output Network System (EONS). F-1, R-2, P-1. Establish a process for migrating identified efficient report distribution processes to all campuses. F-1, R-4, P-1. Defer any upgrades of the new printers until the print requirements are re-evaluated based on additional reports being available or on the EONS and the transfer of notice printing to the consolidated print sites. F-2, R-2, P-1. Ensure that performance management reports are created for the print operation and computer support function based on the performance measures established in Recommendation 3. F-2, R-3, P-1. Ensure that managers compare results against performance measure goals and take actions to improve operational efficiency.
2003-40-022	December 2002	10/15/03 09/15/03 10/15/04	Improvements Are Needed to Prevent the Potential Disclosure of Confidential Taxpayer Information F-1, R-2, P-3. Evaluate the safeguard procedures to ensure the procedures address the content as well as the security of information shared under I.R.C. § 6103. F-3, R-1, P-2. IRS safeguard procedures should be revised to provide specific criteria on which contractors should have their facilities inspected and to ensure that these inspections are made. F-3, R-2, P-1. Internal safeguard and contract procedures should be revised to ensure they are in agreement and are in compliance with the appropriate laws concerning private contractors.
2003-30-039	January 2003	10/15/03 10/15/03 10/15/03 10/15/03	Improvements to the Electronic Return Originator Monitoring Program Are Needed F-1, R-2, P-1. Ensure that historical case documentation is maintained and re-enforce that the purpose of follow-up visits is to measure the impact of the Electronic Returns Originator (ERO) Monitoring Program compliance. F-4, R-1, P-1. Develop a process to determine the proper mix of random and mandatory ERO monitoring visits that also provides for broad geographic coverage. F-4, R-2, P-1. Develop uniform risk-based selection criteria that take advantage of available information and data for selecting EROs for random monitoring visits. F-7, R-1, P-1. Issue a memorandum reinforcing the importance of complete case documentation of ERO monitoring visits.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-20-049	February 2003	<p>09/12/03</p> <p>10/15/03</p> <p>09/12/03</p> <p>P-2: 10/15/03 P-3: 10/15/03</p> <p>07/15/04</p> <p>10/15/05</p> <p>10/15/05</p> <p>10/15/03</p>	<p>Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement</p> <p><u>F-2, R-1, P-1.</u> Ensure that policies and procedures are developed to ensure that contractor employee background investigations conducted by other government agencies (e.g. General Services Administration) are provided to the National Background Investigation Center.</p> <p><u>F-2, R-2, P-1.</u> Ensure that a Contracting Officer's Technical Representative (COTR) training supplement is developed to emphasize the IRS-specific background investigations requirements and COTR roles, responsibilities and procedures.</p> <p><u>F-2, R-3, P-1.</u> Ensure that all contractor employees have properly paid their tax obligations.</p> <p><u>F-2, R-4, P-2, P-3.</u> Ensure that background investigations are completed for active contractor employees that obtained identification badges without a background investigation.</p> <p><u>F-2, R-5, P-2.</u> Ensure that personnel in the Real Estate and Facilities area of the Agency-Wide Shared Services are adequately trained regarding the requirements for issuing a contractor employee an IRS identification badge.</p> <p><u>F-3, R-1, P-1.</u> Ensure that a consolidated or integrated system is implemented to effectively manage all background investigations and identification badges, incorporating the needs of all stakeholders and eliminating the use of stand-alone systems such as the Security Entry Tracking System and the Procurement Background Investigation Program.</p> <p><u>F-3, R-2, P-1.</u> Ensure that until a single system is implemented, all COTRs are required to use the Procurement Background Investigation Program regardless of their organizational placement, and complete periodic reconciliations between the contractor employee background investigation information and the identification badge information at each IRS facility are conducted to detect the issuance of contractor employee identification badges without completion of required background investigations.</p> <p><u>F-4, R-1, P-1.</u> Until a consolidated or integrated system is implemented, the systems application controls should be improved to ensure that all identification badge systems contain complete and accurate contractor employee information.</p>
2003-10-054	March 2003	<p>02/15/04</p> <p>02/15/04</p> <p>02/15/04</p>	<p>The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses</p> <p><u>F-1, R-1, P-1.</u> Develop written procedures documenting a methodology, including the identification of all systems and sources of information, that would ensure the most reasonable and timely means of identifying and reporting all expenses associated with the IRS' administration of all trust fund taxes.</p> <p><u>F-1, R-2, P-1.</u> Establish controls to ensure that any amounts reported to the Bureau of the Public Debt are reviewed and approved by a senior level IRS executive.</p> <p><u>F-1, R-3, P-1.</u> Ensure that the ability to record and report trust fund administrative expenses, as currently envisioned in the Integrated Financial System development plans is properly implemented.</p>



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2003-10-076	March 2003	P-1: 10/15/03 P-2: 10/15/03 P-1: 02/18/05 P-2: 02/18/05	<p>Improved Oversight of the Guard Services Contract Is Needed to Ensure Compliance With Contract Terms and Conditions</p> <p><u>F-1, R-2, P-1, P-2.</u> Consider changing the award fee plan to make compliance with all contract terms and conditions a prerequisite for the contractor's award fee eligibility.</p> <p><u>F-1, R-3, P-1, P-2.</u> Coordinate all remedies with the United States Attorney's Office and the Office of Investigations regarding all appropriate legal actions.</p>
2003-10-094	March 2003	10/15/03 10/15/03	<p>Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected</p> <p><u>F-1, R-1, P-1.</u> Consider providing future report listings to the Fraud Detection Center (FDC) in an electronic media format and consider changing the frequency of the report from quarterly to twice a year, during non-peak processing periods, to allow the FDC to focus their resources on taking necessary actions to resolve accounts.</p> <p><u>F-1, R-2, P-1.</u> Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that feedback is provided regarding program effectiveness. Also, analyses of the FDCs control listing data should be analyzed to ensure reviews are done and accounts are resolved.</p>
2003-20-082	March 2003	P-1: 10/15/03 P-2: 10/15/03 P-3: 10/15/03 P-4: 10/15/03 P-1: 10/15/03 P-2: 10/15/03 P-1: 10/15/03 P-2: 10/15/03 P-1: 10/15/03 P-2: 10/15/03	<p>Penetration Test of Internal Revenue Service Computer Systems</p> <p><u>F-2, R-1, P-1, P-2, P-3, P-4.</u> Assign strong passwords to all accounts, remove unnecessary accounts from all NT Domains, and set all passwords to expire on a regular interval.</p> <p><u>F-3, R-1, P-1, P-2.</u> Assign strong passwords or use Windows only authentication instead of mixed-mode authentication.</p> <p><u>F-4, R-1, P-1, P-2.</u> Enforce a lockout threshold in all NT Domains and maintain a consistent password policy for all NT Domains.</p> <p><u>F-5, R-1, P-1, P, 2.</u> Apply proper security patches and/or registry settings.</p>
2003-20-089	March 2003	01/15/04 01/15/04 01/15/04 06/15/03	<p>Adhering to Established Development Guidelines Will Help to Ensure the Customer Account Data Engine Meets Expectations</p> <p><u>F-1, R-1, P-1.</u> The Business Systems Modernization Office (BSMO) should require the PRIME contractor to complete the remaining work on the balancing, control, and reconciliation process and fully test these processes to ensure they meet the design requirements.</p> <p><u>F-1, R-3, P-1.</u> The BSMO should monitor the completion of the remaining work contained in the detailed schedule to assess the progress in completing the balancing, control, and reconciliation process development.</p> <p><u>F-2, R-1, P-1.</u> The BSMO should work with the PRIME contractor to incorporate minimum documentation standards and the Documentation Task Force's findings into the Customer Account Data Engine (CADE) Release 1 and future releases. (The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies assisting the IRS with modernizing its computer systems and related technology.)</p> <p><u>F-2, R-2, P-1.</u> The BSMO should work with the PRIME contractor to incorporate these documentation standards into the Enterprise I Cycle (ELC).</p>



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-20-089	March 2003	10/15/03	<p>Adhering to Established Development Guidelines Will Help to Ensure the Customer Account Data Engine Meets Expectations</p> <p>F-3, R-1, P-1. Ensure that development of job and file naming standards is expeditiously completed by the IRS' Enterprise Operations Services organization. The BSMO needs to work with the PRIME contractor to ensure that these naming standards are used in the development of future CADE releases and all other IRS modernization projects.</p>

STATISTICAL REPORTS - OTHERS

Access to Information

The *Inspector General Act of 1978* requires IGs to report on unreasonable refusals of information available to the agency that relate to programs and operations for which the IG has responsibilities. As of September 30, 2003, there were no instances where information or assistance requested by Office of Audit was refused.

Disputed Audit Recommendations

The *Inspector General Act of 1978* requires IGs to provide information on significant management decisions in response to audit recommendations with which the IG disagrees. As of September 30, 2003, one report was issued where a significant recommendation was disputed. *Fiscal Year 2003 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations*, Report Reference No. 2003-40-098.

Revised Management Decisions

The *Inspector General Act of 1978* requires IGs to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. As of September 30, 2003, no significant management decisions were revised.

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

The *Inspector General Act of 1978* requires IGs to provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period. As of September 30, 2003, there were no prior reports where management's response was not received.

Review of Legislation and Regulations

The *Inspector General Act of 1978* requires IGs to review existing and proposed legislation and regulations and to make recommendations concerning the impact of such legislation or regulations. TIGTA's Office of Chief Counsel reviewed 158 proposed regulations and legislative requests during this reporting period.



APPENDIX IV – AUDIT PRODUCTS**APRIL 1, 2003 – SEPTEMBER 30, 2003**

INSPECTOR GENERAL CONGRESSIONAL TESTIMONY	
REFERENCE NUMBER	HEARING TITLE
APRIL 2003	
2003-OT-106	<i>Hearing Before the Senate Finance Committee United States Senate on Tax Scams and Schemes</i>
MAY 2003	
2003-OT-107	<i>Hearing Before the U.S. House of Representatives Committee on Ways and Means Subcommittee on Oversight</i>
2003-OT-128	<i>Joint Hearing Before the Committees of the United States Senate and United States House of Representatives, The Strategic Plans and Budget of the IRS</i>
JULY 2003	
2003-OT-153	<i>Hearing Before the U.S. House of Representatives, Committee on the Budget</i>

AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
APRIL 2003	
2003-20-095	<i>Operating System Controls on the Consolidated Mid-Range Computer Systems Can Be Improved</i>
2003-40-098	<i>Fiscal Year 2003 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights & Entitlements: 321 taxpayers improperly identified; Reliability of Information: 110 IRM subsections prohibited references to Illegal Tax Protester designations.)</i>
2003-1C-086	<i>Assist Audit Report of Fiscal Years 1998 Through 2001 Incurred Costs on Subcontract Number 862067A</i>
2003-1C-087	<i>Estimating System Deficiencies Found During Audit of Proposed Fiscal Year 2003 Forward Pricing Labor Rates</i>
2003-1C-100	<i>Audit of Final Voucher TIRNO-95-D-00058, Delivery Order Number IR-96-TREA-090530</i>
2003-20-084	<i>Improvements Are Needed to Effectively Implement the Disaster Recovery Strategy for Consolidated Mid-Range Computer Systems</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
2003-10-099	<i>The Internal Revenue Service Should Closely Monitor the Small Purchase Card Program to Ensure Compliance With Established Rules and Regulations (Protection of Resources: \$2.4 million in items purchased from restricted purchase list or that were split purchases.)</i>
2003-40-105	<i>Forms and Publications for the New Education and Retirement Tax Provisions Were Addressed for the 2003 Filing Season (Taxpayer Burden: one publication was not updated to reflect the new tuition and fees deduction included in the Economic Growth and Tax Reconciliation Act.)</i>
2003-1C-085	<i>Report on Forward Pricing Direct Labor Rates Effective July 6, 2002, Through June 30, 2003</i>
MAY 2003	
2003-1C-101	<i>Audit of Final Voucher TIRNO-95-D-00058, Delivery Order Number 0-7-TR-DO-TC-A23</i>
2003-1C-102	<i>TIRNO-00-D-00020 and TIRNO-95-D-00066 Cumulative Allowable Cost Worksheet Fiscal Years Ended June 30, 2000 and 2001</i>
2003-40-110	<i>Fiscal Year 2003 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns</i>
2003-40-108	<i>Controls Need to Be Improved to Ensure Accurate Direct Deposit of Tax Refunds (Revenue Protection - 56 million paper filed returns with \$100 billion in refunds at risk of fraud.)</i>
2003-10-103	<i>Project Management Techniques Need to Be Followed to Effectively Develop the Tax Exempt Determination System</i>
2003-30-097	<i>Many Taxpayers Are Paying Self-Employment Tax for Which They Receive No Social Security Credit [Taxpayer Burden: \$68 million reflecting the value of time for over 560,000 taxpayers to prepare the Self-Employment Tax (Schedule SE) form.]</i>
2003-30-104	<i>Small Business/Self-Employed Division Management Needs to Increase Staffing Commitments to Meet Its Electronic Filing Mission</i>
2003-40-115	<i>Fiscal Year 2003 Statutory Audit of Compliance With Seizure Procedures</i>
2003-30-114	<i>Significant Actions Were Taken to Address Small Corporations Erroneously Paying the Alternative Minimum Tax, but Additional Actions Are Still Needed</i>
2003-20-117	<i>Mainframe Computer Operations Efficiency and Effectiveness Should Be Improved (Funds Put to Better Use: \$18.9 million.) Note: monetary benefit projected over a three-year period.</i>
2003-40-120	<i>Progress Was Made to Provide Taxpayers With Correct Answers to Tax Law Questions, but Improvements Are Needed to Ensure Referral Procedures Are Followed</i>
2003-40-112	<i>Computer Programming Requests for the 2003 Filing Season Were Timely Prepared and Generally Accurate</i>
2003-20-119	<i>The Security of the Integrated Collection System Needs to Be Strengthened</i>
2003-20-109	<i>End User Equipment and Services Enterprise Service Desk Efficiency and Effectiveness Can Be Improved (Inefficient Use of Resources: \$23.6 million spent for staff that could be available for other tasks.)</i>
2003-10-122	<i>The Effectiveness of Management and Union Partnering Could Be Improved</i>
2003-1C-121	<i>Follow-Up Audit on Information Technology System General Internal Controls</i>
2003-40-125	<i>Improvements Are Needed in the Oversight and Administration of the Low-Income Taxpayer Clinic Program (Taxpayer Burden: over 62 million taxpayers may not be aware of the Low-Income Taxpayer Clinic Program.)</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
2003-30-111	<i>The Internal Revenue Service Has Opportunities to Provide Hearing-and Speech-Impaired Taxpayers With Easier Access to Toll-Free Telephone Services</i>
2003-30-123	<i>New Regulations Are Needed to Take Full Advantage of the Opportunities Offered by Filing Large Corporate Income Tax Returns Electronically (Funds Put to Better Use: \$1 million; Increased Revenue: \$182.8 million; Taxpayer Burden: 5.5 million taxpayers that would benefit from electronic filing.) Note: monetary benefit computed over a five-year period.</i>
2003-40-124	<i>Additional Effort Is Needed to Prevent Taxpayers' Personal Exemptions and Tax Credits From Being Erroneously Denied (Taxpayer Rights and Entitlements: \$34.8 million for 52,841 taxpayers denied spouses' personal exemptions and Earned Income Tax Credits.)</i>
JUNE 2003	
2003-30-113	<i>The Collection Inventory Replacement Initiative Was Generally Effective; However, Additional Attention Is Needed (Increased Revenue: \$116.1 million for 40 accounts; Taxpayer Rights and Entitlements: 1,739 taxpayers requiring assistance.)</i>
2003-1C-130	<i>Follow-Up Audit on Estimating System and Internal Controls</i>
2003-40-135	<i>Not All Available Information Was Considered When Self-Employment Income Was Examined During the Fiscal Year 2000 Earned Income Tax Credit Initiative (Increased Revenue: \$8.3 million; Taxpayer Rights and Entitlements: 3,457 taxpayers that lost Social Security credits; Inefficient Use of Resources: \$460,000 for staff that would be available for other tasks.)</i>
2003-20-133	<i>Inappropriate Personal Use of the Internet Jeopardizes the Security and Privacy of Taxpayer Data</i>
2003-40-131	<i>Fiscal Year 2003 Statutory Review of Restrictions on Directly Contacting Taxpayers</i>
2003-40-126	<i>Taxpayers Were Assessed Additional Tax for Advance Earned Income Credit Payments Not Received (Taxpayer Burden: 106 taxpayers with tax abatements; Taxpayer Rights and Entitlements: \$267,000 in taxes, for 35 taxpayers, should have been abated and 65,000 taxpayers that may have been incorrectly assessed approximately \$26 million in tax for Advance Earned Income Credit Payments they did not receive.)</i>
2003-10-134	<i>The Structures of the Internal Revenue Service and the National Treasury Employees Union Are Not Effectively Aligned</i>
2003-10-116	<i>Oversight of Streamlined Critical Pay Authority Could Be Improved</i>
2003-30-132	<i>Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers</i>
2003-10-137	<i>Imminent Assessment Statute Expiration Cases For Exempt Organizations Are Adequately Monitored, but Management Can Better Adhere To Controls At The Group Level</i>
2003-40-129	<i>The Internal Revenue Service Does Not Have Controls Over Manual Levies to Protect the Rights of Taxpayers (Taxpayer Rights and Entitlements: 8 taxpayers whose appeal rights are not protected)</i>
2003-40-136	<i>Improvements Are Needed to Ensure Innocent Spouse Claims Are Accurately and Timely Processed (Increased Revenue: \$219,000 for 32 taxpayers; Taxpayer Rights and Entitlements: 107,723 taxpayer claims may have been subjected to inaccurate processing; Taxpayer Burden: 10,732 taxpayer claims were not timely processed.)</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
2003-40-139	<i>Opportunities Exist to Improve the Administration of the Earned Income Tax Credit (Reliability of Information: the IRS budget includes \$437 million used to administer the Earned Income Tax Credit program. Without long-term goals and measures, IRS cannot determine if its efforts to improve the administration of the EITC program are effective.)</i>
2003-20-127	<i>Security Testing and Certification of the Modernized Infrastructure Needs to Be Strengthened</i>
JULY 2003	
2003-10-140	<i>Systems Acceptability Testing for the Tax Exempt Determination System Was Planned and Executed As Intended</i>
2003-20-118	<i>Security Over Computers Used in Telecommuting Needs to Be Strengthened</i>
2003-1C-144	<i>Audit of Adequacy and Compliance of Disclosure Statement Revision 13, Dated April 2, 2003; Effective January 1, 2003</i>
2003-30-142	<i>The Internal Revenue Service Acted on Recommendations to Help Farmers Receive the Intended Benefit of the Farm Income Averaging Provision (Taxpayer Rights and Entitlements: \$4.4 million for 4,266 taxpayers that did not receive the full intended benefit.)</i>
2003-30-143	<i>The Practitioner Priority Service Was Successful in Its First Year of Operation, but Action to Reduce Caller Wait Time Is Needed</i>
2003-10-138	<i>Three Violations of the Fair Debt Collection Practices Act Resulted in Administrative Actions</i>
2003-30-146	<i>Tax Returns With the Potential for Unreported Income Are Being Identified, but Some Challenges Still Exist With the Program</i>
2003-30-147	<i>Controls Over the Employer Abatement Program Cases Can Be Improved (Reliability of Information: 165 taxpayer accounts not identified on the management information system.)</i>
2003-1C-145	<i>Budget System and Financial Control Audit</i>
2003-1C-148	<i>Report on Audit of Compliance With Cost Accounting Standard 408, Accounting for Costs of Compensated Personal Absence</i>
2003-1C-149	<i>Report on Audit of Compliance With Cost Accounting Standard 404, Capitalization of Tangible Assets</i>
2003-1C-150	<i>Report on Compliance With Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance With the Office of Management and Budget Circular A-133, Fiscal Year 2002, TIRNO-99-D-0005 (Questioned Costs: \$1,069.)</i>
2003-10-154	<i>Despite Increased Accountability, Improved Control Is Needed Over Union Time</i>
2003-10-156	<i>Appeals Complied With the Legal Requirements for Collection Due Process and Equivalent Hearings (Taxpayer Rights and Entitlements: 4,777 taxpayers given equivalent hearings, not informed of the Appeals Officer's or Settlement Officer's involvement, and/or whose rights to judicial review were not disclosed.)</i>
2003-20-151	<i>The Implementation of Software Products to Manage and Control Computer Resources Needs Improvement (Inefficient Use of Resources: \$5.5 million in resource savings by improved program management.)</i>
2003-40-157	<i>Taxpayer Assistance Center Employees Improved the Accuracy of Answers to Tax Law Questions but Answered Some Questions Beyond Their Level of Training</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
AUGUST 2003	
2003-40-159	<i>The Internal Revenue Service Should Expand the Successful Automation of Payment Processing to Include Additional Documents (Inefficient Use of Resources: IRS issued 1,283,883 levies in FY 2002. Machine scanable posting vouchers supplied with levies would allow payments to be processed through IRS' automated systems.)</i>
2003-20-161	<i>Improvements to the Modernized Infrastructure Are Needed to Support the Deployment of Business Systems Modernization Projects (Reliability of Information: project cost increases of \$267.8 million may be controllable if cost information was timely coordinated and based on accurate and complete information.)</i>
2003-30-152	<i>The New Process for Managing Requests for Tax Records During Examinations of Large Businesses Can Reduce Taxpayer Burden if Implemented Consistently</i>
2003-30-162	<i>The Regulations for Granting Extensions of Time to File Are Delaying the Receipt of Billions of Tax Dollars and Creating Substantial Burden for Compliant Taxpayers (Funds Put to Better Use: \$42.1 million; Increased Revenue: \$6.9 billion; Taxpayer Burden: \$806.9 million for 15.1 million taxpayers from reduction in extension form submission time; Taxpayer Rights and Entitlements: \$7.7 billion in reduced penalties and interest.) Note: monetary benefit projected over a five-year period.</i>
2003-40-163	<i>Limited English Proficient Taxpayers Need Improved Written Products to Help Them Understand and Comply With Tax Laws (Taxpayer Burden: 21 million taxpayers with limited English proficiency do not have the benefit of translated tax documents.)</i>
2003-40-158	<i>Trends in Customer Service in the Taxpayer Assistance Centers Continue to Show Procedural Causes for Inaccurate Answers to Tax Law Questions (Taxpayer Burden: 93 questions not correctly answered; Reliability of Information: The IRS cannot rely upon its management information system to provide accurate, valid, and relevant financial and operational data for its taxpayer assistance program whose FY 2003 budget is \$132 million.)</i>
2003-1C-166	<i>Report on Audit of Direct and Indirect Costs for FY 2002</i>
2003-40-165	<i>Improvements Are Needed to Ensure Individual Taxpayers Have an Easy, No-Cost Option to e-file Their Tax Returns (Funds Put to Better Use: the IRS could save \$37.3 million by processing e-filed, rather than paper, returns; Taxpayer Burden: 126.6 million taxpayers would benefit from timely and accurate e-file participation information. Taxpayers would pay \$402.6 million if free e-file were not offered.)</i>
2003-30-160	<i>The Offshore Credit Card Project Shows Promise, but Improvements Are Needed to Ensure That Compliance Objectives Are Achieved</i>
2003-10-172	<i>Tax-Exempt Bond Examination Results Are Used to Focus Customer Education Programs</i>
2003-30-169	<i>Processing Changes Would Enhance Service to Taxpayers Filing Amended U.S. Corporation Income Tax Returns (Funds Put to Better Use: \$1.1 million; Increased Revenue: \$2,238 for 4 taxpayers; Revenue Protected: \$1.3 million for 7 taxpayers; Taxpayer Burden: 40 taxpayers with unnecessary contacts; Taxpayer Rights and Entitlements: 12 taxpayers with delayed refunds.)</i>
2003-10-177	<i>Procedures Established to Ensure Compliance With the Rural Development Act of 1972 Were Not Consistently Followed</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
2003-10-141	<i>The Tax Exempt and Government Entities Division Could Improve the Efficiency of Its Advance Ruling Follow-Up Process (Taxpayer Burden: 14,502 taxpayers that may not have to submit financial information; Inefficient Use of Resources: 10.73 staff years that could be reallocated if Form 990 information was used; Reliability of Information: 22 public charities whose accounts were not correctly updated.)</i>
2003-10-164	<i>Opportunity For Improvements Exists for Compliance With the Freedom of Information Act and Related Procedures (Taxpayer Rights and Entitlements: 2,741 FOIA, Privacy Act and I.R.C. Section 6103 requests were improperly withheld or not timely provided.)</i>
2003-10-170	<i>Inadequate Planning Leads to Costly Enterprise License Agreements for Software (Funds Put to Better Use: \$8 million; Inefficient Use of Resources: \$17.6 million.)</i>
2003-IC-167	<i>Incurred Costs Audit for Fiscal Year 2001</i>
2003-IC-168	<i>Agreed-Upon Procedures for Subcontract Number S800603, Prime Contract Number TIRNO-99-D-00001</i>
2003-1C-188	<i>Audit of Accounting System and Related Internal Controls</i>
2003-1C-189	<i>Audit of Final Vouchers, TIRNO-95-D-00063</i>
2003-10-181	<i>The Accuracy of the Federal Activities Inventory Can Be Improved</i>
2003-30-176	<i>Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure (Funds Put to Better Use: \$1.84 billion.) Note: monetary benefit projected over a five-year period.</i>
2003-40-185	<i>More Information Is Needed to Determine the Effect of the Discretionary Examination Program on Improving Service to All Taxpayers (Reliability of information: the Discretionary Examination Program, with a FY 2003 budget of \$38 million, does not have established goals needed by management and the Congress to make informed program decisions.)</i>
2003-10-171	<i>Taxpayers' Refund Claims Received Near the Refund Statute Expiration Date Were Appropriately Processed, but Enhancements Could Be Made (Funds Put to Better Use: \$461,000; Taxpayer Rights and Entitlements: \$3.4 million for 119,142 taxpayers with refund claims inappropriately disallowed or who were not informed about the financial disability provision.)</i>
2003-10-155	<i>Suspension of Interest and Failure-to-Pay Penalties Were Not Always Calculated Correctly for Tax Credits (Taxpayer Rights and Entitlements: \$16.7 million for 1.3 million taxpayers with interest and penalties not correctly calculated.)</i>
2003-10-179	<i>Requirements Definition of the Integrated Financial System</i>
2003-30-183	<i>Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely (Funds Put to Better Use: \$1.8 million; Taxpayer Rights and Entitlements: \$238.3 million for 8 taxpayers with manual refunds were not accurate.)</i>
2003-40-180	<i>More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance (Reliability of Information: the Automated Underreporter Program, with a FY 2003 budget of \$32 million, requires long-term goals and measures to determine the effectiveness of the program in improving voluntary compliance.)</i>
SEPTEMBER 2003	
2003-10-184	<i>Employee Misconduct Allegations Were Accurately Reported</i>
2003-30-173	<i>Improved Screening of Potentially Fraudulent Employment Tax Refunds Would Reduce Significant Processing Delays for Legitimate Refunds</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
2003-10-194	<i>Audit of Personnel Classification Support Services Contract (Questioned Costs: \$37,947; Protection of Resources: weaknesses in the contractor's controls over timekeeping put \$310,000 at an increased risk for error and manipulation.)</i>
2003-30-175	<i>A Reliable Management Information System Is Needed Before Making Funding Decisions to Address Underreporting of Taxes on Employer's Quarterly Tax Returns</i>
2003-30-182	<i>Continued Progress Is Needed to Improve the Centralized Offer in Compromise Program</i>
2003-40-198	<i>Taxpayer Assistance Center Employees Continued to Improve the Accuracy of Answers to Tax Law Questions During May and June 2003</i>
2003-10-191	<i>Substantial Efforts Were Made to Manage the Increased Telephone Call Demand, but Additional Actions Are Needed to Address Continued Increases</i>
2003-1C-192	<i>Labor Floor Checks for Fiscal Year 2003</i>
2003-30-186	<i>Some Automated Collection System Business Results Have Recently Improved, but More Emphasis on Nonfilers Is Needed</i>
2003-40-193	<i>Fiscal Year 2003 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 134 taxpayers that may not have been properly notified of their rights.)</i>
2003-10-190	<i>Additional Strategies Are Needed to Ensure the Employee Plans Compliance Resolution System Will Accomplish Its Intended Purposes</i>
2003-30-174	<i>Current Trends in the Administration of International Transfer Pricing by the Internal Revenue Service</i>
2003-1C-206	<i>Report on Audit of Cost Accounting Standard 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives</i>
2003-30-195	<i>Procedures for Granting Installment Agreements to Self-Employed Taxpayers Can Be Improved (Increased Revenue: \$713,000 that may be due from taxpayers not current with their estimated taxes and 47 cases that did not have a proper financial analysis and/or were not properly approved.)</i>
2003-30-199	<i>Preparations Were Successful for Implementation of Two New Business Tax Credits</i>
2003-1C-205	<i>Report on Audit of Direct and Indirect Costs for Contractor's Fiscal Year 2002</i>
2003-10-202	<i>Appeals Could Take Additional Actions to Improve the Timeliness of Collection Due Process Cases (Taxpayer Burden: 2,735 taxpayer accounts with delays in initial contacts.)</i>
2003-10-204	<i>Additional Emphasis Is Needed to Reduce the Burden for Tax Exempt and Government Entities Division Customers During Returns Processing</i>
2003-20-178	<i>Testing Practices for Business Systems Modernization Projects Need Improvement</i>
2003-20-209	<i>The Modernization, Information Technology and Security Services Organization Needs to Take Further Action to Complete Its Human Capital Strategy</i>
2003-1C-207	<i>Audit of the Contractor's General Services Administration Time and Materials Labor Practices</i>
2003-30-196	<i>More Effective Actions Can Be Taken When Collecting Accounts of Defunct Businesses</i>
2003-40-216	<i>Toll-Free Tax Law Assistance to Taxpayers Is Professional and Timely, but Improvement Is Needed in the Information Provided (Taxpayer Burden: 57 taxpayers that did not receive correct and complete answers to their tax law questions.)</i>



AUDIT PRODUCTS	
REFERENCE NUMBER	REPORT TITLE
2003-10-201	<i>Lead Development Centers Do Not Significantly Contribute to Increases in Legal Source Cases (Inefficient Use of Resources: 928 staff days available for other priority work.)</i>
2003-10-213	<i>Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims (Protection of Resources: \$798,000 in Worker's Compensation paid though there was no indication of actions to return the employees to work or to verify disability; Reliability of Information: \$2.4 million overstated cost avoidance performance measure.)</i>
2003-10-200	<i>Clarifying Goals and Refining Processes Would Improve the Employee Plans Risk Assessment Program (Inefficient Use of Resources: 32,678 staff days available for other priority work.)</i>
2003-10-210	<i>The Tax Fraud Hotline Has Not Been an Effective Source for Criminal Tax Investigations (Funds Put to Better Use: \$2,678; Revenue Protection: \$3,352.)</i>
2003-20-211	<i>Key Security Controls of the Currency and Banking Retrieval System Have Not Been Implemented</i>
2003-30-197	<i>The Process for Notifying Taxpayers Regarding Their Elections to File As Small Business Corporations Should Be Improved (Taxpayer Burden: 604,000 taxpayers that may not have been notified of the acceptance or denial of their Forms 1120S elections.)</i>
2003-1C-215	<i>Audit of Final Vouchers, TIRNO-95-D-00063</i>
2003-10-212	<i>Information on Employee Training Is Not Adequate to Determine Training Cost or Effectiveness (Reliability of Information: training costs budgeted at \$111 million, cannot be determined from the information provided.)</i>
2003-10-217	<i>The Tax Exempt and Government Entities Division Should Pursue Additional Methods to Identify Potential Fraudulent Activities</i>
2003-10-218	<i>Interest and Penalties for Taxpayers Affected by Natural Disasters Are Not Always Prevented or Abated (Taxpayer Rights and Entitlements: 79,288 taxpayers who were overassessed or accrued interest, Failure to File and Failure to Pay Penalties totaling \$10.7 million.)</i>
2003-20-208	<i>Annual Assessment of the Business Systems Modernization Program</i>
2003-20-219	<i>The Cost and Schedule Estimation Process for the Business Systems Modernization Program Has Been Improved, but Additional Actions Should Be Taken</i>
2003-10-187	<i>The National Taxpayer Advocate Could Enhance the Management of Systemic Advocacy Resources (Taxpayer Burden: 16.7 million taxpayers affected by delays in completion of systemic advocacy projects.)</i>
2003-20-220	<i>The Information Technology Services Organization Needs to Complete Its Business Resumption Planning</i>



APPENDIX V – STATUTORY TIGTA REPORTING REQUIREMENTS

Thirty-nine statutory audit reports that dealt with the adequacy and security of IRS technology were issued during this fiscal year. In FY 2003, TIGTA completed its fifth round of statutory reviews that are required annually by *Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)*. The following table reflects the status of the FY 2003 RRA 98 statutory reviews.

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Enforcement Statistics</p> <p><i>Internal Revenue Code (I.R.C.)</i> § 7803(d)(1)(A)(i)</p>	<p>An evaluation of IRS' compliance with restrictions under Section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.</p>	<p>Reference No. 2003-40-090, March 2003</p> <p>IRS is generally complying with the law. A review of 74 judgmentally sampled enforcement employees' performance and related supervisory documentation prepared between October 1, 2001, and August 31, 2002, revealed no instances of the use of records of tax enforcement results, production quotas, or goals to evaluate employee performance. There was also improvement over the previous year in documenting the evaluation of employees on the fair and equitable treatment of taxpayers. In addition, a review of 21 statistically sampled appropriate supervisors showed the IRS completed the required consolidated office certification memorandums on whether records of tax enforcement results were used in a prohibitive manner.</p>
<p>Restrictions on Directly Contacting Taxpayers</p> <p><i>I.R.C.</i> § 7803(d)(1)(A)(ii)</p>	<p>An evaluation of IRS' compliance with restrictions under <i>I.R.C.</i> § 7521 on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.</p>	<p>Reference No. 2003-40-131, June 2003</p> <p>As in the prior reviews, TIGTA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither IRS nor TIGTA could readily identify cases where the taxpayer requested a representative or the IRS contacted the taxpayer directly and bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and the Congress has not explicitly required IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Filing of a Notice of Lien</p> <p><i>I.R.C.</i> § 7803(d)(1)(A)(iii)</p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C.</i> § 6320 upon the filing of a notice of lien.</p>	<p>Reference No. 2003-40-066, February 2003</p> <p>IRS did not completely comply with the law. A review of 300 Notices of Federal Tax Liens (NFTLs) identified 12 NFTLs (4%) where IRS did not comply with all the provisions of <i>I.R.C.</i> § 6320. IRS correctly mailed the lien notices; however, it did not mail all of them timely. In addition, for another 16 NFTLs (5%), TIGTA could not determine if IRS complied with the law because it did not provide proof of timely mailing. In 59 (20%) of the 300 NFTLs, IRS did not follow its own internal guidelines when issuing lien notices, including its guidelines for notifying taxpayer representatives and receipting and maintaining certified mail registers.</p>
<p>Extensions of the Statute of Limitations for Assessment of Tax</p> <p><i>I.R.C.</i> § 7803(d)(1)(C)</p> <p><i>I.R.C.</i> § 6501(c)(4)(B)</p>	<p>Include information regarding extensions of the statute of limitations for assessment of tax under <i>I.R.C.</i> § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Reference No. 2003-40-193, September 2003</p> <p>Most related case files documented that taxpayers or their representatives were advised of their rights regarding assessment statute extensions. IRS employees properly advised taxpayers of their rights to refuse or restrict the scope of the statute extension in most of the related case files (113 of 153) reviewed. However, in some cases (40 of 153) employees did not document in the related case files whether or not taxpayers were advised of their rights. Also, employees did not always document that both taxpayers who jointly filed returns (37 of 59) were separately notified of their rights to extend the statute. In addition, where taxpayers made a declaration of representation, there was no documentation in the related case files (57 of 109) that the IRS had provided both the taxpayers and their representatives with the advice of rights.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Levies</p> <p><i>I.R.C. § 7803(d)(1)(A)(iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6330</i> regarding levies.</p>	<p>Reference No. 2003-40-129, June 2003</p> <p>IRS has systemic controls that effectively ensure taxpayers are informed of their appeal rights at least 30 days prior to receiving a systemically generated levy. This is due primarily to systemic controls in both the Automated Collection System (ACS) and the Integrated Collection System (ICS) that prevent a levy from being generated unless there were at least 30 days between the date taxpayers received the notice of their appeal rights and the date of the proposed levy.</p> <p>While IRS has done an effective job of implementing controls over levies generated by the ACS and ICS, additional controls are needed over manual levies issued by revenue officers. The ACS must issue manual levies in some circumstances. To protect the taxpayers' rights, all of these are reviewed and approved by managers prior to the levy being issued. Conversely, revenue officers are authorized to issue manual levies on any case. However, manual levies issued by revenue officers are not required to be reviewed and approved by a manager, which significantly increases the risk of taxpayers not having their appeal rights properly protected. As a result, TIGTA recommended that management review and approve all manual levies issued by revenue officers to ensure that taxpayers are properly advised of their rights.</p> <p>IRS management did not agree with the recommendation to have group managers approve all manual levies prepared by revenue officers. They stated this may delay enforcement action and expressed concern about the impact on field employees that further increasing the oversight of enforcement action could have. Alternatively, IRS indicated that it believes the errors evidence a training issue. To help address these concerns and reinforce the procedures, IRS will issue a memorandum reminding revenue officers that all notice requirements must be satisfied before issuing a manual levy. In addition, it will recommend the requirements be discussed during group meetings.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Collection Due Process</p> <p><i>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. §§ 6320 and 6330</i> regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p>Reference No. 2003-10-156, July 2003</p> <p>The Appeals Officers and Settlement Officers (hearing officers) were in compliance with the requirements of the law when conducting Collection Due Process (CDP) hearings and Equivalent Hearings (EH). The hearing officers appropriately verified that the IRS followed the applicable laws or administrative procedures during the lien and levy process. They considered the challenges the taxpayers raised and determined whether the proposed collection actions properly balanced the need for efficient collection of taxes with any legitimate taxpayer concerns. The hearing officers addressed these provisions in the CDP determination letters and the EH decision letters. In addition, the hearing officers followed guidelines from the Appeals manual by including information such as in which court the taxpayers must file their request for judicial review, as well as information about any agreements reached during the hearing, and any subsequent actions to be taken by the IRS or the taxpayer.</p>
<p>Seizures</p> <p><i>I.R.C. § 7803(d)(1)(A)(iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. §§ 6330 through 6344</i> when conducting seizures.</p>	<p>Reference No. 2003-40-115, May 2003</p> <p>Based on TIGTA's review of a sample of 102 seizures performed during October 2001 through June 2002, TIGTA determined that actions taken by the IRS when seizing taxpayers' property for payment of delinquent taxes were in accordance with the applicable legal provisions. In addition, IRS employees generally followed all internal guidelines. However, for two seizures, the IRS did not complete all internal procedural requirements timely. TIGTA does not believe that IRS' actions in these cases resulted in violations of the taxpayer's legal rights.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</p> <p><i>I.R.C.</i> § 7803(d)(1)(A)(v)</p>	<p>An evaluation of IRS' compliance with restrictions under Section 3707 of RRA 98 on designation of taxpayers.</p>	<p>Reference No. 2003-40-098, April 2003</p> <p>In general, IRS is in compliance with the prohibition on using Illegal Tax Protester (ITP) or similar designations. IRS has not reintroduced past ITP codes on the IRS' Master File and has not reassigned any similar ITP designations to formerly coded ITP taxpayer accounts. IRS has effectively updated or made obsolete any publications containing ITP references and is taking steps to remove references from the Internal Revenue Manual. IRS employees continue to label taxpayers as ITPs and other similar designations in case narratives. However, IRS has taken actions to discourage the use of these designations.</p> <p>In response to the report, IRS stated, based on an opinion by IRS Chief Counsel, that notations in case histories to taxpayers as "tax protesters" and other similar designations are not "designations" within the meaning of the law. According to IRS, to be a prohibited "designation," there must be an intent to set apart that person for a purpose, such as denying the taxpayer an administrative opportunity that is available to other taxpayers. Merely making references to taxpayers or their actions does not constitute a "designation" because those taxpayers continue to receive the same administrative remedies as all other taxpayers. Because TIGTA is required to annually evaluate IRS' compliance with this provision of the law, TIGTA elevated the disagreement about whether employees are labeling taxpayers as ITPs to the Department of the Treasury.</p>
<p>Disclosure of Collection Activities With Respect to Joint Returns</p> <p><i>I.R.C.</i> § 7803(d)(1)(B)</p> <p><i>I.R.C.</i> § 6103(e)(8)</p>	<p>Review and certify whether or not IRS is complying with <i>I.R.C.</i> § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Reference No. 2003-40-110, May 2003</p> <p>This is the fifth year that TIGTA could not determine whether IRS is complying with the statutory requirements for responding to written requests from joint filers because both TIGTA and IRS are still unable to readily identify joint filer requests received nationwide. IRS management has decided not to develop a new management control process to track joint filer requests. IRS management information systems do not separately record or monitor joint filer requests, and Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Taxpayer Complaints</p> <p><i>I.R.C.</i> § 7803(d)(2)(A)</p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Reference No. 2003-10-184, September 2003</p> <p>The process the IRS used to provide information on employee misconduct allegations for TIGTA's September 2002 Semiannual Report to Congress was effective. The information provided to TIGTA accurately reflected the employee misconduct allegation information contained on the Automated Labor and Employee Relations Tracking System (ALERTS).</p>
<p>Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996</p> <p><i>I.R.C.</i> § 7803(d)(1)(G)</p> <p><i>I.R.C.</i> § 6304 <i>Section 3466 of RRA 98</i></p>	<p>Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of <i>I.R.C.</i> § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Reference No. 2003-10-138, July 2003</p> <p>Based on a review of information recorded as potential <i>Fair Debt Collection Practices Act (FDCPA)</i> violations on the IRS computer systems, TIGTA identified three <i>FDCPA</i> violations that occurred after July 22, 1998, and resulted in administrative actions being taken against employees for the period January 1 through December 31, 2002. In addition, the IRS had no closed cases in which the IRS paid any money to taxpayers for civil actions resulting from <i>FDCPA</i> violations.</p>
<p>Denial of Requests for Information</p> <p><i>I.R.C.</i> § 7803(d)(1)(F)</p> <p><i>I.R.C.</i> § 7803(d)(3)(A)</p>	<p>Include information regarding improper denial of requests for information from IRS, based on a statistically valid sample of the total number of determinations made by IRS to deny written requests to disclose information to taxpayers on the basis of <i>I.R.C.</i> § 6103 or <i>5 U.S.C.</i> § 552(b)(7).</p>	<p>Reference No. 2003-10-164, August 2003</p> <p>The IRS improperly withheld information from requesters in 7.4% of the <i>Freedom of Information Act (FOIA)</i> and <i>Privacy Act (PA)</i> requests, and 9.3% of the <i>I.R.C.</i> § 6103 requests reviewed. Additionally, the IRS did not respond timely to requesters in 43.5% of the cases included in TIGTA's sample of information that was denied or where the IRS replied that responsive records were not available. TIGTA's statistically valid samples were taken from cases closed during the period January 1 through June 30, 2002. TIGTA estimated that information was improperly withheld from responses to 320 <i>FOIA</i> and <i>PA</i> requests and 540 <i>I.R.C.</i> § 6103 requests during the sample period. TIGTA also estimated that responses to 1,881 <i>FOIA</i> and <i>PA</i> requests were not processed timely during the same period.</p>

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Evaluation of IRS' adequacy and security of its technology.</p>	<p>Information Technology:</p> <p>Reference No. 2003-20-007, October 2002 Reference No. 2003-20-018, November 2002 Reference No. 2003-20-035, December 2002 Reference No. 2003-20-053, February 2003 Reference No. 2003-20-067, February 2003 Reference No. 2003-20-070, February 2003 Reference No. 2003-20-069, March 2003 Reference No. 2003-20-089, March 2003 Reference No. 2003-10-103, May 2003 Reference No. 2003-20-109, May 2003 Reference No. 2003-20-117, May 2003 Reference No. 2003-20-127, June 2003 Reference No. 2003-10-140, July 2003 Reference No. 2003-20-151, July 2003 Reference No. 2003-20-161, August 2003 Reference No. 2003-40-165, August 2003 Reference No. 2003-10-179, August 2003 Reference No. 2003-20-178, September 2003 Reference No. 2003-20-208, September 2003 Reference No. 2003-20-209, September 2003 Reference No. 2003-20-219, September 2003</p> <p>Security Reviews:</p> <p>Reference No. 2003-20-003, October 2002 Reference No. 2003-20-004, October 2002 Reference No. 2003-20-005, October 2002 Reference No. 2003-20-019, October 2002 Reference No. 2003-20-026, December 2002 Reference No. 2003-20-047, February 2003 Reference No. 2003-20-049, February 2003 Reference No. 2003-20-056, February 2003 Reference No. 2003-20-064, February 2003 Reference No. 2003-20-082, March 2003 Reference No. 2003-20-084, April 2003 Reference No. 2003-20-095, April 2003 Reference No. 2003-20-119, May 2003 Reference No. 2003-20-133, June 2003 Reference No. 2003-20-118, July 2003 Reference No. 2003-10-170, August 2003 Reference No. 2003-20-211, September 2003 Reference No. 2003-20-220, September 2003</p>



APPENDIX VI – SECTION 1203 STANDARDS

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

Misconduct violations include:

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



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