



Treasury Inspector General for Tax Administration



# Semiannual Report to Congress

*April 1, 2007 through September 30, 2007*





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THE TREASURY DEPARTMENT

ALBERT GALLATIN  
SECRETARY OF THE TREASURY  
1791-1849

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# Inspector General's Message to Congress

**O**ur Nation's security relies on a government with sufficient resources to protect, defend, and serve its people. Each year, taxpayers send approximately \$2.3 trillion to the U.S. Treasury, trusting that their hard-earned money will be collected fairly, and processed efficiently and effectively. In 1998, Congress created the office of the Treasury Inspector General for Tax Administration (TIGTA) to assure the American public that their tax dollars are accurately assessed and that the Internal Revenue Service (IRS) is held to a high level of accountability. I am dedicated to upholding this vitally important mission.

I am proud of our accomplishments and pleased to present TIGTA's Semiannual Report to Congress. This report highlights notable audits and investigations conducted between April 1, 2007, and September 30, 2007, and summarizes the results of our work. Over the last six months, TIGTA has completed 119 audits that identified more than \$16.2 million in total cost savings and more than \$1.31 billion in increased or protected revenue. TIGTA's Office of Chief Counsel has reviewed and made recommendations on the impact of 183 proposed or existing regulations and laws affecting tax administration.

The IRS continues to face many challenges, both internal and external. Recent reports by TIGTA's Office of Audit have raised concerns about the IRS' Questionable Refund Program, its computer security risks, and its ability to match names and identification numbers on tax documents – all of which are costing the Federal Treasury and taxpayers in excess of \$1.5 billion. These and other concerns have reinforced my priorities for TIGTA, which include: overseeing IRS efforts to modernize technology; monitoring IRS initiatives to improve tax compliance; and enhancing TIGTA's ability to protect tax administration from corruption.

Helping to secure the sensitive financial and personal data entrusted to the IRS by taxpayers is of the utmost importance to TIGTA. The IRS processes and maintains personally identifiable information for more than 130 million taxpayers. While the IRS has taken several noteworthy actions to protect this information, TIGTA reviews have concluded that IRS employees are still not complying with basic computer security practices.

Unauthorized access to confidential tax information (UNAX) by IRS employees also continues to pose a serious threat to the security of taxpayer data. Over the last six months, TIGTA's Office of Investigations opened 279 new UNAX cases and closed 335 UNAX cases, 324

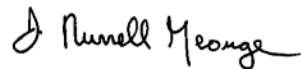
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of which resulted in disciplinary action against IRS employees. Our investigators have also provided fraud awareness presentations at training conferences and meetings to more than 28,000 tax practitioners and IRS employees. This outreach has enabled TIGTA to develop relationships with groups that have the potential to assist in identifying corruption within our tax administration system.

I commend the men and women of TIGTA for their dedication and outstanding service to the people of this great Nation.

Sincerely,



J. Russell George  
Inspector General



# TIGTA's Highlights

The following table shows TIGTA's statistical highlights for this semiannual reporting period as well as all of Fiscal Year 2007.

	Number of Audit Reports Completed	Cost Savings Identified	Increased/Protected Revenue	No. of Investigations Opened	No. of Investigations Closed	Regulations/Legislative Requests Reviewed
April 1, 2007 – Sept. 30, 2007	119	\$16.2 million	\$1.31 billion	1,910	2,068	183
FY 2007	180	\$22 million	\$1.82 billion	3,764	3,680	325

## Examples of high profile cases from the Office of Investigations:

In June 2007, the U.S. Department of Justice announced that Mellon Bank, N.A., agreed to pay \$16.5 million to settle claims related to the 2001 destruction of tens of thousands of individual tax returns and checks that the bank was supposed to process as an agent for the Treasury Department. This payment was to reimburse the Federal Government for the value of the interest lost on the destroyed checks and to cover the costs incurred by the Federal Government in obtaining replacement checks from the affected taxpayers.

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An individual was sentenced in the U.S. District Court, District of Oregon, to a term of 51 months of imprisonment, \$1,322,582 in restitution, and three years of supervision upon his release from prison after pleading guilty to mail fraud, attempting to defeat the payment of tax, and impersonation.

\*\*\*\*\*

The vice president of Public Affairs International, Inc. was sentenced to 30 months in prison to be followed by three years of supervised release and ordered to pay restitution of \$1,379,630 after pleading guilty to conspiracy to defraud the United States and obstruction of a Federal audit.

\*\*\*\*\*

## Examples of accomplishments from the Office of Audit:

### *Efforts to Match Names and Identification Numbers on Tax Documents are Insufficient*

TIGTA found that the IRS may be costing the U.S. Treasury billions of dollars in lost revenue. The IRS is not matching millions of income statements with incorrect or missing identification numbers to existing tax accounts. In Tax Year 2004 alone, the IRS received approximately 3.8 million miscellaneous income statements reporting about \$150 billion in earnings that it was not able to match

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to a tax account. In a review, TIGTA was able to match 50 percent of a sample of miscellaneous income statements with incorrect or missing numbers and wage statements from Tax Year 2004 to taxpayer accounts.

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***IRS' Questionable Refund Program***

The IRS relies on the Questionable Refund Program to identify and prevent fraudulent refund claims from being paid. Over the past several years, TIGTA has reported that the program was becoming increasingly unmanageable due to the growing number of fraudulent claims and the IRS' lack of resources to combat the fraud. TIGTA's most recent audit found that changes in the program along with a significant technological failure dramatically decreased the effectiveness of this vital program for the 2006 Filing Season. As a result, nearly \$15.9 million in potentially fraudulent refunds were allowed to be issued.

\*\*\*\*\*

***Many Taxpayers Still Not Using the IRS' Free File Program***

Fewer taxpayers took advantage of the IRS' free electronic tax-filing service in 2007 than in previous years. The Free File Program allows taxpayers who meet certain eligibility requirements to electronically prepare and file their income tax returns free of charge. As of April 14, 2007, TIGTA found that only 3.3 million taxpayers filed returns using the free service – a decline of 4.7 percent below the same period last year. The decline in the Free File Program comes at a time when the IRS is under pressure to increase electronic filing.

\*\*\*\*\*

***Computer Security Weakness***

Many IRS employees are not complying with the basic computer security practices of protecting their passwords and reporting potential security breaches. Posing as computer helpdesk representatives, TIGTA called 102 IRS employees and asked them to assist in correcting a network problem. This required the employees to temporarily change their passwords to a TIGTA-supplied password. Sixty percent complied with these requests, despite regulations against sharing their passwords with others. In addition, only eight employees notified TIGTA's Office of Investigations of the possible security threat.

\*\*\*\*\*

***Elimination of the IRS' TeleFile Program Increased Cost to Taxpayers***

The IRS' decision to shut down its free TeleFile Program has cost taxpayers millions of dollars in fees to file their tax returns. In 2005, approximately two million taxpayers filed their tax returns at no cost through the TeleFile Program in which simple tax returns could be filed by using a telephone keypad. Nonetheless, citing declining usage and increasing costs associated with the program, the IRS shut it down in August 2005. The result has been that most former TeleFile users now pay tax preparers or purchase tax preparation software to file their returns. TIGTA estimated that more than 541,000 taxpayers who used Telefile in 2005 paid \$23.6 million to file their taxes in 2006.

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# TIGTA's Profile

**T**IGTA provides independent oversight of Treasury Department matters involving IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. Although TIGTA is placed organizationally in the Treasury Departmental Offices and reports to the Secretary of the Treasury and to Congress, TIGTA functions independently from the Departmental Offices and all other offices and bureaus within the Department.

TIGTA's work is devoted to all aspects of activity related to the Federal tax system as administered by the IRS. By identifying and addressing the IRS' management challenges, implementing the *President's Management Agenda* and the priorities of the Department of the Treasury, TIGTA protects the public's confidence in the tax system.

TIGTA's organizational structure is comprised of four functional offices: the Office of Audit; the Office of Investigations; the Office of Chief Counsel; and the Office of Mission Support (see chart on page 6).

TIGTA conducts audits and investigations designed to:

- promote the economy, efficiency, and effectiveness of tax administration; and
- protect the integrity of tax administration.

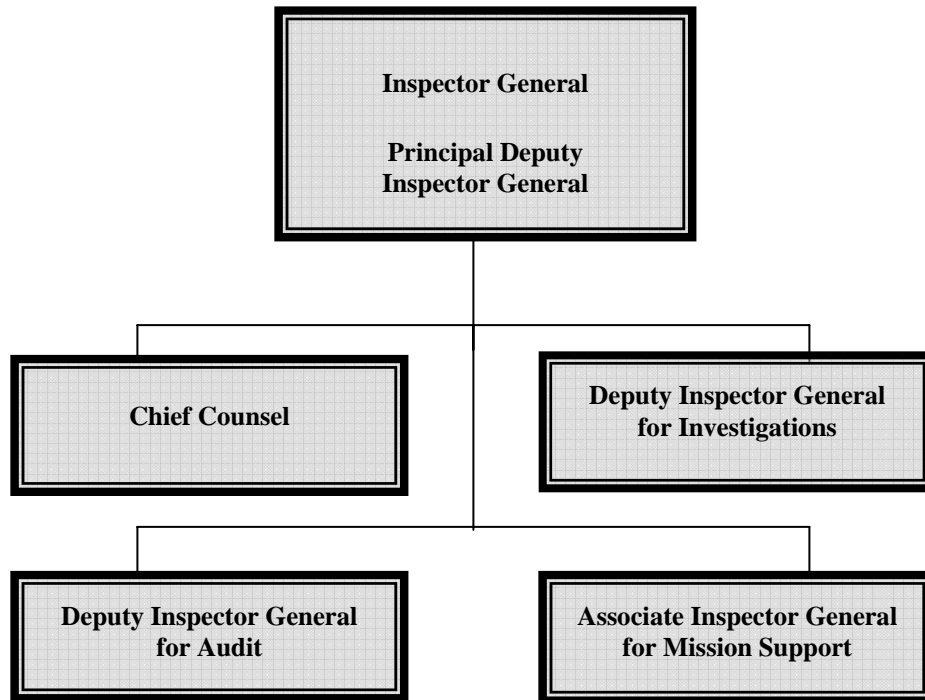
## Statutory Mandate

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

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## ORGANIZATIONAL STRUCTURE



## AUTHORITIES

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

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

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<sup>1</sup> 5 U.S.C.A. app. 3 (West Supp. 2007).

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

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# Promote the Economy, Efficiency and Effectiveness of Tax Administration

**T**IGTA's Office of Audit (OA) strives to promote the economy, efficiency, and effectiveness of tax administration.

TIGTA provides recommendations to improve IRS systems and operations while ensuring fair and equitable treatment of taxpayers. TIGTA's comprehensive, independent performance and financial audits of IRS programs and operations primarily involve mandated reviews and high-risk challenges facing the IRS.

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

Each year, OA identifies and addresses the major management challenges facing the IRS.

OA places audit emphasis on statutory coverage required by RRA 98, and areas of concern to Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders.

*The following summaries highlight significant audits completed in each of the above emphasis areas during this six-month reporting period.*

## Audit Emphasis Areas

- Systems Modernization of the Internal Revenue Service
- Tax Compliance Initiatives
- Tax-Exempt Organizations
- Security of the Internal Revenue Service
- Providing Quality Taxpayer Service Operations
- Complexity of Tax Law
- Using Performance and Financial Information for Program and Budget Decisions
- Erroneous and Improper Payments

## Systems Modernization of the Internal Revenue Service

The Business Systems Modernization (Modernization) Program is a complex effort to modernize IRS technology and related business processes. According to the IRS, this effort involves integrating thousands of hardware and software components. All of this must be done while replacing outdated technology and maintaining the current tax system.

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## ***Annual Assessment of the Business Systems Modernization Program***

The Modernization Program is in its ninth year and has received approximately \$2.3 billion for contractor services. Additionally, the IRS had spent \$220 million through Fiscal Year (FY) 2006 and planned to spend an additional \$45 million in FY 2007 to manage the Modernization Program.

According to the IRS' original plan, the Modernization Program would be near the halfway point by Calendar Year (CY) 2007. However, due to receiving less funding than initially anticipated and having difficulties in managing contractor work, the IRS has not completed as many modernization projects as planned.

Although the IRS has made advances in its modernization effort, it has not achieved anticipated progress. Inconsistent compliance with project development controls has contributed to delays in project deliveries, increased development costs, and reduced capabilities. Since FY 2002, TIGTA's annual assessments of the Modernization Program have cited that the IRS needs to: 1) improve key management processes and commit necessary resources to enable success; 2) manage the increasing complexity and risks of the Modernization Program; 3) maintain continuity and strategic direction with experienced leadership; and 4) ensure that contractor performance and accountability are effectively managed.

In FY 1995, the IRS identified its Modernization Program as a material weakness in accordance with the Federal Managers' Financial Integrity Act of 1982<sup>3</sup> reporting requirements. An October 25, 2006, memorandum from the IRS Commissioner stated that the IRS completed the actions identified in the modernization material weakness action plan that was developed in response to the initial identification of the material weakness in FY 1995. However, the modernization material weakness action plan has not been updated to include weaknesses reported since 2003 by TIGTA, the Government Accountability Office (GAO), and IRS studies.

TIGTA recommended that the IRS continue to address Modernization Program corrective actions from TIGTA and GAO reports through the *Highest Priority Initiatives* process. By focusing corrective action efforts through this process, the Modernization Program can begin to achieve resolution of the challenges identified in this report and subsequently address downgrading the modernization material weakness. The IRS agreed with the recommendation. **Report Reference No. 2007-20-121**

### ***Customer Account Data Engine Capabilities***

The Customer Account Data Engine (CADE) will provide the foundation for managing taxpayer accounts to achieve the IRS' modernization vision. It consists of databases and related applications that will replace the IRS' official repository of taxpayer information. The Information Technology Modernization Vision and Strategy plans for a phased replacement of

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<sup>3</sup> 31 U.S.C. Sections 1105, 1113, 3512 (2000).

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IRS computer systems to better support today's tax laws, policies, and taxpayer needs. The CADE is helping the IRS realize this strategy.

A pattern of deferring CADE project requirements to later releases and missing release deployment dates has continued since the project's beginning. Allowing this pattern to continue undermines the long-term success of the project. The IRS and the PRIME contractor<sup>4</sup> have deferred project requirements and missed target dates because they agreed to an unrealistic scope of work, did not follow the Enterprise Life Cycle Preliminary Design Phase guidelines, and did not assign adequate PRIME contractor staffing.

In addition, the approach taken to implement the CADE's architectural design will not support the project's long-term goals and objectives. Although the CADE is being phased in over multiple years and is processing increasingly more complex tax returns, the IRS has not completed addressing: 1) the need to include a database that stores historical account data; 2) essential processing requirements deferred since Release 1 (first planned for implementation in January 2002); and 3) a process to improve the efficiency of the daily processing cycle.

TIGTA recommended that the IRS negotiate a reasonable scope of work for future CADE release development that considers the amount and difficulty of the work and filing season time constraints. In planning future releases, the IRS should limit delivery to essential capabilities and filing season updates, and consider postponing new capabilities until key business decisions are made and previously deferred essential requirements have been implemented. Finally, TIGTA recommended that the IRS review alternative design solutions and identify process improvements for the project. The IRS agreed with the recommendations and has agreed to take corrective actions.

**Report Reference No. 2007-20-080**

### ***Contract Negotiation Methods and Management Practices***

The IRS awarded 21 Modernization Program task orders during FY 2005 and 2006 with a total contract funding amount of approximately \$115 million. TIGTA determined that the IRS needed to further refine contract negotiation and management practices for its modernization and non-modernization systems development task orders. The IRS has already achieved savings of nearly \$3.7 million from implementing one of TIGTA's prior recommendations. Further improvements in applying consistent contract negotiation and management practices would assist the IRS in assuring that taxpayer funds are being spent wisely.

TIGTA recommended that the IRS: 1) ensure that there is an appropriate balance of risk between itself and its contractors; 2) improve pre-award processes; 3) improve monitoring of contractor performance; and 4) improve consistency of contract negotiation and management

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<sup>4</sup> The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology.



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practices between modernization and non-modernization systems development task orders. The IRS agreed with the recommendations and agreed to take or has taken corrective actions.  
**Report Reference No. 2007-20-123**

## **Tax Compliance Initiatives**

Tax compliance initiatives include administering tax regulations, collecting the correct amount of tax for businesses and individuals, and overseeing tax-exempt and government entities for compliance. Increasing compliance with the tax code is at the heart of IRS enforcement programs. The IRS is focusing its casework and enforcement activities to deliver better results and is focusing on those corporations and high-income individual taxpayers who fail to report or pay what they owe.

### ***Mismatched Names and Identification Numbers and the Tax Gap***

TIGTA used the IRS' automated data systems to manually research statistically valid samples of miscellaneous income and wage statements from Tax Year (TY) 2004 with mismatched names and identification numbers reporting more than \$60,000 in earnings. TIGTA successfully validated 50 percent of the statements and matched them to taxpayer accounts in the IRS' records. When projected to the document populations, the sample results indicated that more than 6,000 individuals had not filed tax returns, although the statements reported that they had earned, on average, more than \$104,000.

TIGTA recommended that the IRS forward the observations in the report to the Department of the Treasury to use in assessing the need for tax law changes that would allow the IRS to verify employee identification numbers for employers and require employers to: 1) use the IRS identification number matching system to verify the accuracy of identification numbers for hired employees; and 2) withhold taxes at the maximum rates from those whose identification numbers do not match IRS records. TIGTA also recommended that IRS automated data systems be used to research, resolve, and investigate high-dollar miscellaneous income and wage statements with mismatched names and identification numbers.

IRS management agreed with the first recommendation but does not plan to take any action on the second recommendation. In deciding not to take action, IRS management noted that the additional cost of manually perfecting mismatched names and identification numbers on miscellaneous income and wage statements may exceed the monetary benefits. TIGTA found it puzzling that the IRS decided not to act on the recommendation based on a cost/benefit concern because the estimated benefit of more than \$233 million in additional revenue exceeds by a large margin the costs the IRS would incur.

**Report Reference No. 2007-30-159**



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### ***Contributions of Motor Vehicles***

In 2004, Congress passed legislation limiting the deductions and adding reporting requirements for taxpayers who make charitable contributions of motor vehicles. Individual taxpayers are now required to file a Contributions of Motor Vehicles, Boats, and Airplanes (Form 1098-C) or a written acknowledgement from the charity, in addition to Noncash Charitable Contributions (Form 8283) if their charitable deductions claimed for donated motor vehicles exceed \$500.

The IRS revised tax forms and publications, and provided training and information to employees to facilitate implementation of the new requirements for claiming deductions for charitable contributions of motor vehicles. However, taxpayers and tax practitioners still need to be better educated concerning requirements for claiming deductions for donated motor vehicles. Also, additional procedures need to be established to identify noncompliance with motor vehicle donation requirements during returns processing. TIGTA estimated that 104,846 taxpayers could have claimed unsubstantiated motor vehicle donations totaling approximately \$209 million for the tax year ending December 31, 2005.

TIGTA recommended that: 1) an outreach plan be developed concerning the reporting requirements for motor vehicle donations; and 2) the IRS threshold be lowered to ensure that most of the returns claiming unsubstantiated deductions are addressed and missing Forms 8283 and supporting documentation are obtained. IRS officials disagreed with the need for an outreach plan, stating that the timing of our review was a factor in the high-noncompliance rate. They also stated that they believed corrective actions from a prior report on noncash contributions would address unsubstantiated deductions. However, Congress specifically provided different substantiation levels for motor vehicles. Also, the IRS' planned corrective actions to address returns without required substantiation for contributions of motor vehicles will result in virtually no change. TIGTA plans to perform a follow-up audit to determine if the compliance rate significantly improves.

**Report Reference No. 2007-30-171**

### ***Taxpayers with Schedule C Losses and Tax Abuse***

I.R.C. Section (§) 183 (Activities not engaged in for profit), also referred to as the "hobby loss" provision, and related Treasury Regulation § 1.183-1 do not establish specific criteria for the IRS to use to determine whether or not a Profit or Loss from Business (Schedule C) loss is a legitimate business expense without conducting a full examination of an individual's books and records. The purpose of the hobby loss provision is to limit the ability of wealthy individuals with multiple sources of income to apply losses incurred in "side-line" diversions to reduce their overall tax liabilities. TIGTA's analysis showed that 332,615 high-income taxpayers received the greatest benefit by potentially avoiding approximately \$1.9 billion in taxes for TY 2005.

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The I.R.C. and Treasury Regulations do not require a taxpayer to have a reasonable expectation of profit; rather, the taxpayer needs just the “objective” of making a profit. As written, I.R.C. § 183 makes it difficult for the IRS to efficiently administer a tax law that ensures taxpayers are not deducting not-for-profit losses to reduce their taxes on other incomes year after year.

TIGTA recommended that the IRS provide a copy of this report to the Department of the Treasury, Office of the Assistant Secretary for Tax Policy, to consider proposing legislative changes to I.R.C. § 183. The proposal should include establishing a clearly defined standard or bright-line rule for determining whether an activity is a business or a not-for-profit activity. Due to the large number of these tax returns being prepared by tax practitioners, TIGTA also recommended that the IRS continue to coordinate with practitioner organizations to encourage compliance with existing provisions. IRS management agreed with the recommendations and plans to take appropriate corrective actions.

**Report Reference No. 2007-30-173**

### ***Delinquent Employment Taxes Owed by Government Entities***

Although the IRS has enhanced its efforts to address delinquent employment taxes owed by government entities in several areas, additional actions are still needed. Specifically, progress in identifying and addressing the causes of delinquent employment taxes owed by government entities has been limited. The IRS does not routinely track information regarding how these cases are resolved or gather data on the causes of the delinquencies.

TIGTA’s review found that management information regarding Federal Government entity cases was not sufficiently comprehensive to allow for effective oversight. It was difficult to readily determine from available management information the exact receipt/assignment date or current status of the Federal Government entity balance-due and delinquent-return cases. In general, the conditions identified were attributable to a lack of comprehensive guidelines and procedures for the assignment, control, and resolution of Federal Government entity cases. TIGTA’s review of the inventory of Federal Government entity delinquent tax cases located at one IRS campus indicated that as of December 2006, 99 entities owing \$5.8 million had been assigned for resolution for more than one year. The IRS lacked a viable methodology for addressing aged Federal Government entity delinquencies.

TIGTA made several recommendations including: 1) developing a methodology for reporting and sharing information regarding case resolution actions and causes of all Federal Government entity delinquencies; 2) ensuring that comprehensive guidelines and procedures are developed to guide the assignment, control, and resolution of Federal Government entity cases; and 3) continuing ongoing efforts to develop a process for resolving aged delinquent Federal entity accounts. IRS management agreed with the recommendations and is taking corrective actions.

**Report Reference No. 2007-10-166**

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## **Tax-Exempt Organizations**

The IRS continues to face challenges in administering programs focused on tax-exempt organizations to ensure that they comply with applicable laws and regulations to qualify for tax-exempt status. While the IRS has noted that the nonprofit community has not been immune to recent trends in bad corporate practices that have been highlighted in the for-profit area, it has only recently begun to concentrate on this area since suffering a decline in staffing during the late 1990s.

### ***Screening of Tax-Exempt Organizations' Filing Information***

The IRS does not systemically match filing data of tax-exempt organizations against a comprehensive list of potential terrorists to identify instances in which charitable and other nonprofit organizations may be linked to terrorist activities. Instead, IRS employees manually review all tax-exempt documents to compare information with a Department of the Treasury terrorist watch list. This list was incomplete compared to the more comprehensive terrorist watch list available for use by all Federal agencies. As a result of using a manual process and a limited terrorist watch list, the IRS provides only minimal assurance that tax-exempt organizations that are potentially involved in terrorist activities are identified.

TIGTA recommended that the IRS and its external stakeholders develop and implement a long-term strategy to automate the matching of filing data of tax-exempt organizations against a consolidated terrorist watch list to identify potential terrorist activities related to tax-exempt organizations. The IRS should also evaluate whether using more comprehensive terrorist watch lists, including any applicable Terrorist Screening Center information, in conjunction with the Department of the Treasury terrorist watch list during the screening of tax-exempt filing data, would improve its identification of organizations and/or individuals potentially involved in terrorist-related activities. The IRS agreed with the recommendations and is taking corrective actions.

**Report Reference No. 2007-10-082**

## **Security of the Internal Revenue Service**

Millions of taxpayers entrust the IRS with sensitive financial and personal data stored in and processed by IRS computer systems. Recent reports of identity theft from both the private and public sectors have heightened awareness of the need to protect this data. The risks that sensitive data or computer systems could be compromised and computer operations disrupted continue to increase. Both internal factors, such as increased connectivity of computer systems and increased use of portable laptop computers, and external factors, such as the volatile threat environment related to increased terrorist and hacker activity, cause these risks.

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### ***Homeland Security Presidential Directive-12 Requirements***

On August 27, 2004, President Bush signed the Homeland Security Presidential Directive-12 (HSPD-12), *Policy for a Common Identification Standard for Federal Employees and Contractors*. The directive established a new standard for issuing and processing Federal Government identification cards for entering Federal facilities and for accessing computer systems. In the first compliance phase of HSPD-12, Personal Identity Verification (PIV) I, the Office of Management and Budget (OMB) required agencies to develop procedures no later than October 2005 for registering employees, issuing cards, and maintaining the card system. In the second phase, PIV II, the OMB required agencies to demonstrate their ability to issue the identification cards and be capable of issuing new cards to all new employees and contractors no later than October 2006.

To satisfy the requirements of PIV I, the IRS completed its *PIV I Procedures Manual* on October 27, 2005. This manual contains step-by-step instructions that address PIV I requirements. However, the IRS has been experiencing delays in issuing new identification cards to employees and contractors that enhance security, reduce identity fraud, and protect their personal privacy.

Initially, the IRS attempted to produce its own identification cards but could not demonstrate the ability to issue them. Despite assigning 68 employees and contractors to this effort, the IRS had not yet purchased the hardware and software necessary to produce the identification cards and did not expect to complete the program until September 2010, two years after the OMB mandated deadline.

The IRS stated, however, that it met the PIV II milestone because it contracted with the General Services Administration (GSA) for 100 identification cards to meet the OMB deadline, even though it did not plan to use the GSA to issue additional identification cards after the PIV II milestone. The GSA is making its solution available to all Federal agencies, and, due to economies of scale, TIGTA believes that the GSA should be able to issue the cards less expensively than agencies that produce their own cards.

TIGTA recommended that the IRS consider the benefits of using shared solutions, such as that offered by the GSA for issuing identification cards to IRS employees and contractors. Rather than spending resources on developing its own system, TIGTA recommended that the IRS coordinate with the GSA to resolve concerns and customize the GSA solution to meet IRS needs. IRS management agreed with the recommendation, and its HSPD-12 Program Office discontinued development efforts for a Treasury Department-wide enterprise HSPD-12 solution. On May 18, 2007, a letter was issued to the GSA stating the IRS' intention to use its services to the extent possible.

**Report Reference No. 2007-20-110**

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### ***Noncompliance with Security Policies and Procedures***

Using social engineering tactics, TIGTA determined that IRS employees, including managers, are not complying with the rudimentary computer security practices for protecting their passwords. TIGTA made 102 telephone calls to IRS employees, including managers and a contractor, posing as a helpdesk representative seeking assistance to correct a network problem. TIGTA was able to convince 61 employees (60 percent) to comply with the request. As a result, the IRS is at risk of providing unauthorized individuals access to taxpayer data.

TIGTA reviews during FYs 2003 to 2007 have identified persistent computer security weaknesses that jeopardize the security of personally identifiable information, and TIGTA continues to find that employees are not aware of the security risks inherent in their positions. It is clear that some IRS executives are not holding managers and employees accountable for carrying out their responsibilities and for ensuring that managers and employees are aware of these serious security risks.

TIGTA recommended that the IRS: 1) continue security awareness activities to remind employees of the potential for social engineering attempts and the need to report these incidents to its computer security organization; 2) conduct internal social engineering tests on a periodic basis to increase employees' security awareness and the need to protect usernames and passwords; and 3) coordinate among business units to emphasize the need to discipline employees for security violations resulting from negligence or carelessness. The IRS agreed with these recommendations and has taken or agreed to take corrective actions.

**Report Reference Nos. 2007-20-107 and 2007-20-117**

## **Providing Quality Taxpayer Service Operations**

Since the 1990s, the IRS has been improving the quality of its customer service to taxpayers. In fact, in its current strategic plan, the IRS' first goal is to improve taxpayer service. The Senate Committee on Appropriations has noted that the IRS lacks a concrete plan to provide adequate alternative services to replace services proposed for reduction or elimination. In response, the IRS developed a five-year Taxpayer Assistance Blueprint (TAB) that will help it focus on providing appropriate types and amounts of service. TIGTA continues to identify the need for improvement in taxpayer services provided through toll-free, face-to-face, and electronic methods.

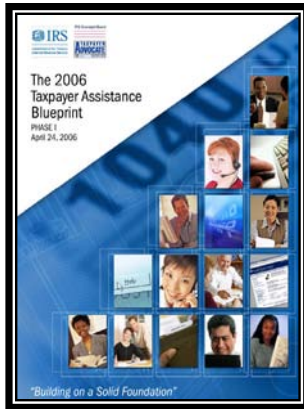
### ***Taxpayer Assistance Blueprint***

In July 2005, Congress requested that the IRS develop a five-year plan with an outline of which services the IRS should provide and how it will improve services for taxpayers. In response, the IRS developed the TAB to focus on services that support the needs of individual filers. The objective is to effectively and efficiently align service content, delivery, and resources with

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taxpayer and partner expectations. TIGTA reviewed the Phase I report and is conducting a review on the Phase II report to be issued in FY 2008.



The Phase I report identified strategic improvement themes by researching IRS service relative to taxpayers' needs and preferences. TIGTA found that the majority of the information reviewed in the Phase I report was accurate. Information found to be inaccurate and inconsistent did not affect the IRS' five strategic improvement themes, which are common to organizations that aspire to deliver successful customer service.

However, the types of problems found with the compilation of some of the data could adversely affect IRS management decisions. Management officials stated that they had taken actions to improve the process for validating information included in the Phase II report.

Therefore, TIGTA made no recommendations but is testing the quality review process in the review of the TAB Phase II report.

**Report Reference No. 2007-40-078**

### ***Electronic Filing***

Electronically filed tax returns increased in 2007. The largest increase came from taxpayers filing online from home computers (11 percent). However, use of the Free File Program declined, and the TeleFile Program has been discontinued.

The Free File Program allows taxpayers meeting certain income requirements to electronically prepare and file their individual income tax returns free of charge. The IRS administers the program as a partnership with a consortium of tax software companies. However, the usability and marketing of the Free File Program need to be improved.

The IRS has not collected data about taxpayers who: 1) attempted to use the program but did not or could not complete and file their tax returns; or 2) were eligible but did not use the program. Of the 93 million taxpayers eligible for the program in CY 2006, only 4.2 percent (3.9 million) used it. The IRS can also improve its administration of the program. The program software did not always accurately compute the taxes due, and the "Guide Me To a Company" feature that helps taxpayers select a program vendor was not always complete or accurate.

TIGTA made several recommendations including developing a comprehensive plan to evaluate and promote the Free File Program, and establishing a process to test the software used in the program before the filing season to ensure that common tax scenarios are handled accurately. The IRS agreed with most of the recommendations but did not agree to test the software used in the program before the filing season because it would create a substantial challenge.

**Report Reference No. 2007-40-105**



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The TeleFile Program had allowed taxpayers to file their individual income tax returns for free using the keypad on their telephone. The IRS discontinued TeleFile in 2005, citing increasing costs and declining participation. TIGTA found that the IRS' decision to discontinue TeleFile was premature and created unnecessary taxpayer burden. Of the 2 million taxpayers who would have remained eligible to TeleFile their income tax returns for free, TIGTA estimated more than 541,000 taxpayers (29 percent) paid approximately \$23.6 million to file their tax returns in 2006. In addition, almost 966,000 taxpayers (48 percent) reverted to filing paper tax returns, thus losing the benefits of faster refunds that electronic filing provides. These figures do not include those taxpayers who would have become eligible to use TeleFile for the first time in 2006.

TIGTA determined that the information the IRS used to support its decision to discontinue TeleFile contained errors and was incomplete. Whatever actual cost savings were gained by discontinuing the TeleFile Program, the result, in effect, was that the costs were shifted from the IRS to taxpayers.

**Report Reference No. 2007-40-116**

### ***Filing Season***

The filing season is critical because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. The 2007 Filing Season was especially demanding for the IRS due to high-profile administrative changes, such as the Telephone Excise Tax Refund (TETR). The TETR was the most wide-reaching tax refund in the history of the IRS, affecting an estimated 145 million to 165 million individual taxpayers, including many who normally would not file tax returns. TIGTA's audits of the 2007 Filing Season focused on two major areas: 1) the taxpayers' experience; and 2) the processing of individual income tax returns.

### ***2007 Filing Season Taxpayer Experience***

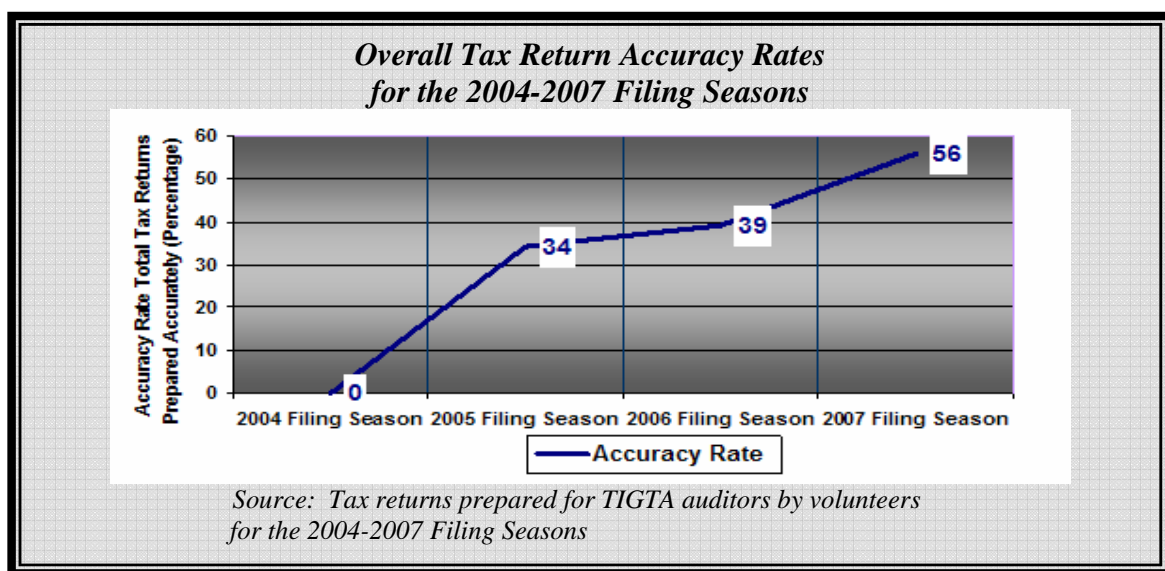
TIGTA auditors used five scenarios and posed as taxpayers to obtain answers to tax law questions and prepare tax returns using various IRS services. The auditors' overall experiences in obtaining answers to their tax law questions were positive, and they received good customer service. Using the IRS Taxpayer Assistance Centers (TAC), the Toll-Free Telephone Assistance Line, the TeleTax Line, and IRS.gov, auditors were generally able to find answers to tax law questions and obtained correct answers for 50 (94 percent) of 53 questions. Notwithstanding those examples, because of the complexity of the tax law, TAC assistants are only authorized to answer questions within the specific tax topics for which they are trained. These topics are not published on IRS.gov; therefore, taxpayers may unnecessarily need to travel to TACs to ask their questions.

Experiences were mixed for tax return preparation assistance at TACs. Auditors were able to prepare correct tax returns when using available tax forms, instructions, and publications, but were not always able to obtain or create correctly prepared returns when using TACs and the

Free File Program. Of the 36 tax returns prepared, only 24 (67 percent) were prepared correctly.

Additionally, the Volunteer Program plays an increasingly important role in the IRS' tax return preparation program. The IRS continues to move away from providing tax preparation assistance at its TACs and is relying more on the Volunteer Program. The strength of this program depends on partner organizations and their volunteers. TIGTA's reviews over the last four filing seasons have determined that the accuracy rates for tax returns prepared at Volunteer Program sites continue to increase. Nevertheless, volunteers continue to not follow procedures that assist in the accurate preparation of tax returns. To ensure the continued success of the Volunteer Program, the IRS must focus its oversight on holding volunteers accountable. Incorrectly prepared tax returns increase the risk of taxpayers receiving erroneous payments or not receiving credits to which they are entitled.

The IRS provided taxpayers with effective access to its toll-free telephone system during the 2007 Filing Season. The IRS planned and met the 2007 Filing Season toll-free performance measurement goals of 81.6 percent Level of Service and 258 seconds Average Speed of Answer and provided taxpayers with effective access to its toll-free telephone system.<sup>5</sup>



However, the quality and level of customer service for Spanish applications<sup>6</sup> were lower than those provided for English applications. The Average Speed of Answer was longer. Calls in the Spanish applications were abandoned at a rate of 21 percent compared to 13 percent for the

<sup>5</sup> Level of Service is the IRS' primary measure of providing taxpayers with access to an assistor. Average Speed of Answer is the average number of seconds taxpayers waited in the queue (on hold) before receiving services.

<sup>6</sup> The toll-free telephone assistance lines are subdivided into categories called applications, each of which is staffed with a group of assistors who have received specialized training to help taxpayers with specific tax issues.



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English applications. In addition, the accuracy of answers provided in the Spanish applications was lower than that in the English applications.

The IRS provided taxpayers who called to speak to an assistor the option of hearing an automated message about the TETR. However, after the recording ended, the call was ended. TIGTA believes that callers should have been given the option to return to the main menu, which is better taxpayer service and is common practice on customer service telephone lines.

TIGTA recommended several changes to improve taxpayers' experience. IRS management agreed with the recommendations and is taking corrective actions.

**Report Reference Nos. 2007-40-164, 2007-40-137, and 2007-40-160**

### ***Processing Individual Income Tax Returns***

The IRS generally had a successful 2007 Filing Season. Most key tax law changes were implemented correctly, and the IRS completed processing returns and issued refunds in a timely manner. Through June 1, 2007, the IRS had processed approximately 123.7 million individual income tax returns, and issued approximately \$223 billion in refunds to more than 99 million taxpayers. Of these refunds, 60 percent were directly deposited to taxpayer bank accounts, an increase of 8 percent compared to 2006.

With some exceptions, the IRS successfully planned and implemented the TETR Program. However, based on the refund claims processed through June 9, 2007, less than half of the \$8 billion telephone excise tax collected had been refunded. TIGTA believes that two important factors contributed to this condition: 1) the standard amounts developed by the IRS were used by more taxpayers than expected; and 2) despite the IRS' significant efforts to communicate the TETR Program, many taxpayers simply did not know they could claim the refund.

Many erroneous claims for TETR, such as taxpayers claiming the total amounts of their telephone bills rather than just the excise tax portion, were filed and were often unchallenged by the IRS. The IRS did scrutinize some claims but only if the amounts claimed exceeded a certain dollar threshold. The IRS' rationale for looking only at claims above this dollar threshold was its competing priorities for examination resources. TIGTA recommended that the IRS explore all options at its disposal to address more inappropriate TETR claims, including sending notices offering taxpayers the opportunity to self-correct their returns. If the IRS had sent these notices to the more than 52,000 taxpayers included in TIGTA's analysis before the refunds were issued and if 50 percent of these taxpayers amended their claims, the IRS could have avoided paying erroneous refunds totaling \$23,377,443.

Taxpayers made only limited use of the Split Refund option, which allowed taxpayers the option of electing to have their refunds split and electronically deposited into up to three accounts, such as checking, savings, or Individual Retirement Arrangements (IRA). The IRS had estimated that taxpayers would choose to split their refunds on approximately 3.8 million

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returns this year. However, as of June 4, 2007, only 80,673 refunds were split, 0.1 percent of all direct deposit refunds.

Taxpayers continued to claim improper IRA deductions. As of June 1, 2007, TIGTA had identified 1,693 taxpayers over the age of 70½ who had improperly claimed more than \$3.5 million in IRA deductions, resulting in estimated loss of tax revenue of over \$530,000.

Many eligible taxpayers missed the opportunity to claim the sales tax deduction. TIGTA also reported this issue for both the 2005 and 2006 Filing Seasons. Almost 2.1 million eligible taxpayers failed to claim the sales tax deduction, a 50 percent increase over TY 2005. For the three years that taxpayers could file amended tax returns, 4.6 million taxpayers may be entitled to as much as \$1.66 billion in tax refunds.

Taxpayers continued to claim a “dual benefit” of both the tuition and fees deduction and the Education Credit. Taxpayers may not receive a dual benefit by taking both the tuition and fees deduction and the Education Credit for the same student in the same year. During the 2007 Filing Season, TIGTA identified 8,493 single taxpayers claiming no dependents who had claimed both the Education Credit and the tuition and fees deduction, resulting in an estimated loss of tax revenue of more than \$2.9 million. This is the fifth year in which TIGTA has identified and reported this issue.

TIGTA made several recommendations, including: 1) identifying demographics that had relatively low rates of TETR claims and providing additional information to these taxpayers on how they might still claim the TETR; 2) revising the IRA worksheet and all related tax instructions; 3) developing a communication strategy to inform taxpayers about the sales tax deduction and clearly explain that taxpayers who were eligible to claim the sales tax deduction but did not file amended returns; and 4) ensure that the new Tuition and Fees Deduction Form is finalized prior to the start of the 2008 Filing Season and is required for all taxpayers claiming the deduction for TY 2007. IRS management agreed with the recommendations and has planned corrective actions.

**Report Reference Nos. 2007-30-178 and 2007-40-187**

## **Complexity of Tax Law**

Simplicity, transparency, and ease of administration are interrelated and desirable features of a tax system. Over the years, the Federal tax system, especially the Federal income tax, has become more complex, less transparent, and subject to frequent revision. Tax system complexity and frequent revisions to the Internal Revenue Code make it more difficult and costly for taxpayers who want to comply to do so and for the IRS to explain and enforce the tax laws. Tax law complexity results in higher costs for both tax administration and tax compliance.

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### ***Like-Kind Exchanges***

Under normal circumstances, when a taxpayer sells a business or investment property, tax must be paid on the gain. A like-kind exchange allows an exception to payment of the capital gains tax. As long as a property used for business or investment is replaced with a similar property, no gain or loss is recognized at that time; rather, it is deferred until the eventual sale of the replacement property. A taxpayer must report an exchange to the IRS on Like-Kind Exchanges (Form 8824), which is filed with his or her tax return for the year during which the exchange took place.

While the code is not explicit with respect to the requirement to file Form 8824 and there are usually no penalties imposed if a taxpayer does not file the form, other sections of the code give the IRS legal authority to require it. Some IRS forms, instructions, and publications do provide taxpayers proper guidance with respect to a like-kind exchange and the requirement to file a Form 8824. However, other IRS guidance needs revision to provide information regarding its use. The IRS regulations for like-kind exchanges of second and vacation homes are complex, and may be unclear to taxpayers. Although second and vacation homes used exclusively by owners are not eligible for like-kind exchanges, the rules for like-kind exchanges of these homes are complex, and the IRS has not published much guidance in this area. The absence of clarification leaves without rebuttal the sales pitch of like-kind exchange promoters who may encourage taxpayers to improperly claim deferral of capital gains through “tax-free” exchanges.

TIGTA recommended that the IRS conduct a study of issue-related returns selected by the National Research Program. TIGTA also recommended that the IRS update some current guidance regarding Form 8824 and provide additional guidance to taxpayers regarding the rules and regulations governing like-kind exchanges of second and vacation homes that were not used exclusively by owners. IRS management agreed with the recommendations and plans to take corrective actions.

**Report Reference No. 2007-30-172**

## **Using Performance and Financial Information for Program and Budget Decisions**

Reliable performance and financial information is critical to the IRS’ ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers. Although the IRS has made some progress in using performance and financial information for program and budget decisions, this area is still a major challenge. The IRS cannot produce timely, accurate, and useful information needed for day-to-day decisions, which inhibits its ability to address financial management and operational issues to fulfill its responsibilities.

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### ***Monitoring of Billings for Working Capital Fund Administrative Services***

TIGTA found weaknesses in two critical areas related to the IRS' monitoring of the administrative services it receives from the Department of the Treasury Working Capital Fund. First, the IRS did not subject its fund billings for actual costs incurred to any type of review for accuracy or compare them to current-year estimated program expenditures for reasonableness. Billings to the IRS for actual fund services totaled more than \$100 million during the period of October 2005 through June 2006. At the time of the review, the IRS had no procedures in place requiring the review and certification of fund billings as accurate before they are entered into its general ledger as valid expenses. Second, expense transactions relating to actual fund expenditures were not always accurately recorded.

TIGTA's review of a random sample of fund-related expenditures recorded in the IRS' general ledger during the period of October 2005 through June 2006 identified a number of instances in which material financial transactions were misclassified. Similarly, fund program expenditures were frequently allocated to obligations not directly related to the expenditures. In total, \$34 million of the \$97 million in charges TIGTA reviewed were misclassified. Inaccurate financial management information compromises the ability of the IRS to readily monitor costs and produce reliable accounting data.

Finally, the Department of the Treasury was unable to readily substantiate the need for more than \$60 million it accumulated from the IRS and held in the Working Capital Fund as of December 2006. TIGTA shared this information with the Treasury Office of Inspector General staff, which indicated that it will perform further detailed testing in this area.

TIGTA recommended that the IRS develop procedures requiring that Working Capital Fund billings be reviewed and certified as accurate before being entered into IRS records as valid expenses and request that the Department of the Treasury: 1) include additional information on the fund billing statements to better facilitate the review and accurate recording of fund-related transactions; 2) revise procedures to require that fund expenditures be allocated only to obligations directly related to the expenditures; and 3) periodically review expenditures related to the fund to ensure that the account classifications are consistent with the definitions of the fund services being received. IRS management agreed with all of the recommendations and has agreed to take adequate corrective actions.

**Report Reference No. 2007-10-074**

### ***Validation of Taxpayer Service Savings Estimates for Fiscal Years 2006 and 2007***

The IRS estimated that it would achieve more than \$160 million in taxpayer service savings from various reengineering and improvement projects and program efficiency initiatives to support the decrease in funding for taxpayer service in FYs 2006 and 2007. Neither the estimates nor the achievements could be validated.

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To support decreases in funding for FYs 2006 and 2007, the IRS' Wage and Investment Division estimated that it would achieve approximately \$122 million and \$47 million in taxpayer service savings, respectively. The savings estimates for more than \$146 million in taxpayer service reengineering and program efficiencies initiatives were generally not supported and could not be validated. The Wage and Investment Division had not adequately documented the methodologies used to calculate the savings; had not created or maintained source documentation (or ensured that all data provided were accurate or the most current available); and had based some data on estimates and projections instead of actual data currently available. In addition, the Wage and Investment Division Strategy and Finance Office relied on other divisional offices and functions to provide the documentation.

TIGTA recommended that the IRS: 1) develop a thorough process for compiling the data used for its budget requests to help ensure the accuracy of the estimates and to facilitate a better understanding of the impact of budget reductions on operations; and 2) evaluate the extent to which estimated savings are achieved and the impact on operations of savings that are not achieved in order to assist in formulating future budget submissions and allocations. The IRS agreed with the recommendations and has agreed to take corrective actions.

**Report Reference No. 2007-40-125**

## **Erroneous and Improper Payments**

An improper payment is any payment that should not have been made or that was made in an incorrect amount under a statutory, contractual, administrative, or other legally applicable requirement. For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.

### ***Questionable Refund Program***

The IRS estimates that fraudulent refund claims exceed \$500 million a year. The Questionable Refund Program (QRP), which was established to identify and prevent the issuance of fraudulent refunds, received harsh criticism from the National Taxpayer Advocate as a program that was inefficient and ineffective, and did not afford taxpayers their rights. The IRS re-evaluated its processes and procedures to address the Taxpayer Advocate's concerns. However, TIGTA believes that several of these changes may adversely affect the IRS' ability to prevent the issuance of millions of dollars in potentially fraudulent refunds. The IRS did not adequately respond to various warning signs that the QRP was facing problems and becoming unmanageable. For Processing Year (PY) 2006, the Criminal Investigation (CI) function discontinued freezing the subsequent year's return and started notifying taxpayers that their refunds had been delayed. TIGTA found that these freezes could be effective if they had been implemented correctly and reviewed in a timely manner. In PY 2005, these freezes could have prevented the issuance of over 20,000 fraudulent refunds totaling \$71.7 million.

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The IRS needs to be more aggressive in the criminal and civil pursuit of fraudulent refunds. During 2004, the CI function identified over 3,000 schemes involving nearly 118,000 returns claiming almost \$425 million in fraudulent refunds. However, as of March 2006, criminal investigations had been opened on only 172 schemes involving \$59 million in refunds. Furthermore, the IRS did not always take civil actions to adjust fraudulent refund accounts or recover fraudulent refunds that had been issued. Had the IRS taken civil action on earlier fraudulent returns, it could have collected \$27.5 million from future refunds.

TIGTA made several recommendations, including that the IRS: 1) reconsider placing a freeze on the subsequent year's returns identified as fraudulent; 2) revalidate the optimal time needed to release a freeze; 3) consider lowering the tolerance for sending cases to the Examination function; and 4) reconsider the decision to exclude certain types of returns from the screening process. The IRS agreed with most of the recommendations and agreed to take corrective actions.

**Report Reference No. 2007-10-076**

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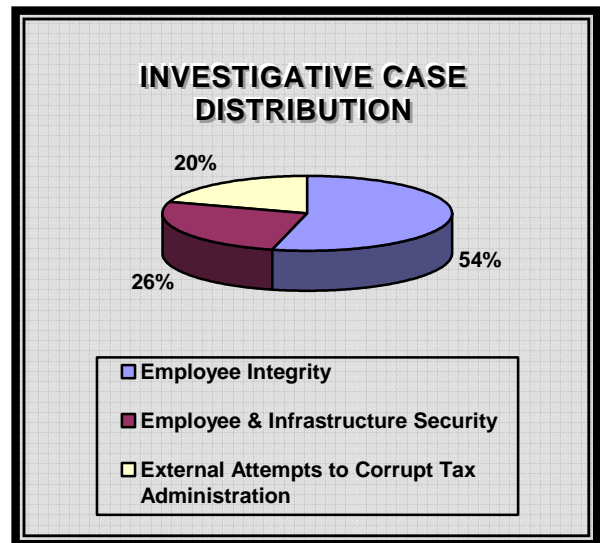
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# Protect the Integrity of Tax Administration

**T**IGTA's Office of Investigations (OI) helps protect the ability of the IRS to collect revenue for the Federal Government. To accomplish this mission, OI investigates allegations of criminal violations and serious administrative misconduct by IRS employees, threats and assaults against IRS employees and infrastructure, and external attempts to corrupt tax administration.

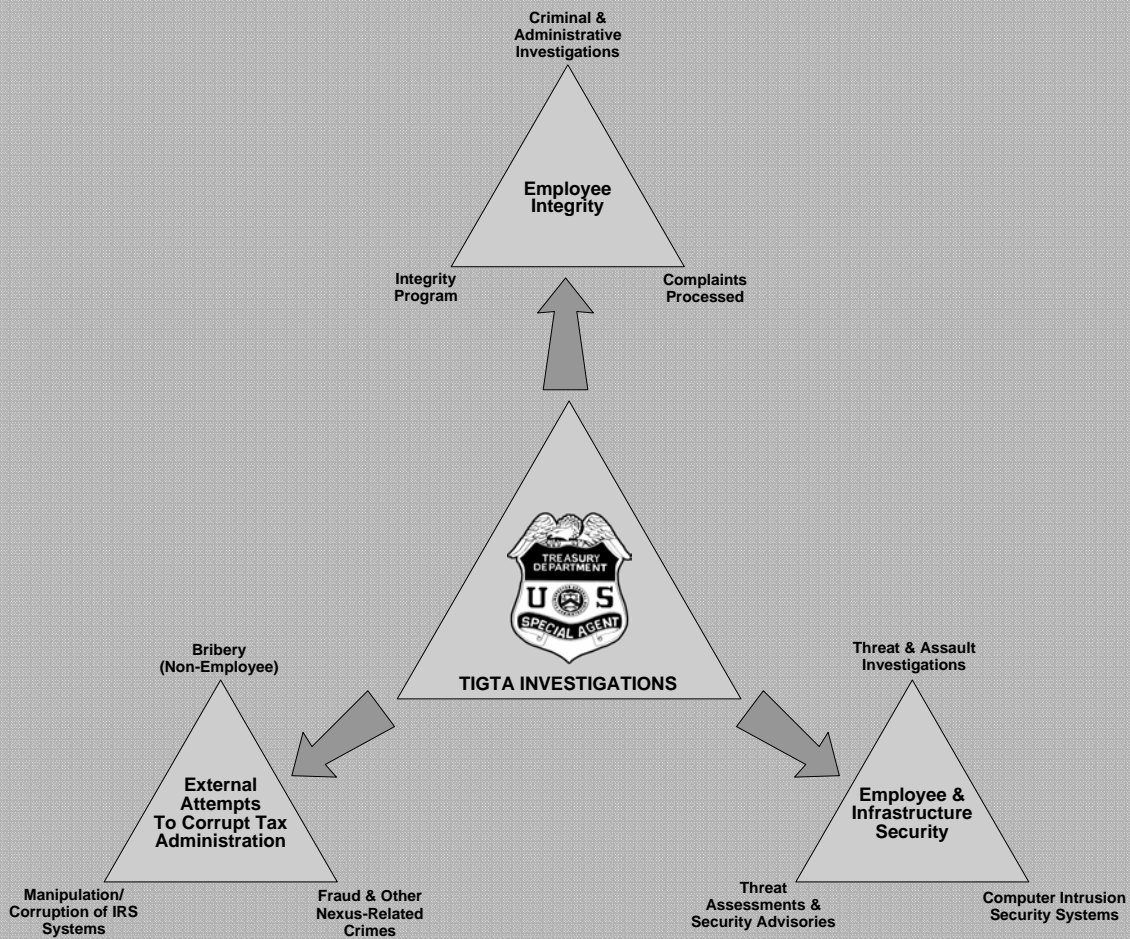
TIGTA's investigative mission goes far beyond that of most Offices of Inspector General. In addition to focusing on fraud, waste, and abuse within the IRS, TIGTA is statutorily responsible for protecting the integrity of tax administration. To achieve this broad mandate, OI performs a variety of functions, including:

- Investigating allegations of criminal violations that impact Federal tax administration and serious administrative misconduct by IRS employees;
- Conducting proactive investigative initiatives to detect criminal and administrative misconduct in the administration of IRS programs;
- Conducting integrity and fraud awareness presentations for IRS employees and others, such as tax practitioners and community groups;
- Investigating assaults and threats made against IRS employees, facilities, and information systems;
- Investigating fraud, waste, and abuse involving IRS procurements;
- Operating a national complaint center, including a hotline and Web site, to process complaints of fraud, waste, abuse, and misconduct involving IRS employees and programs;
- Operating a Criminal Intelligence Program to manage and coordinate threat information that could impact the security of IRS employees and functions;
- Conducting forensic examinations of physical and electronic evidence to support investigations;
- Operating the Treasury-wide land mobile radio program; and





## TIGTA'S INVESTIGATIVE PERFORMANCE MODEL



TIGTA's Office of Investigations bases its performance measures on three primary areas of investigation: employee integrity; employee and infrastructure security; and external attempts to corrupt tax administration. Each of these three areas is subdivided into three categories, all designed to support the agency's law enforcement goals.



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- Using technical and investigative support equipment, training, and specialized services to enhance operations.

OI's strategy for ensuring employee integrity, employee and infrastructure security, and protecting the IRS against external attempts to corrupt tax administration is to position TIGTA special agents throughout the United States who are focused on high-impact investigations that protect the ability of the IRS to collect the nation's tax revenue.

## **Employee Integrity**

IRS employee misconduct undermines the IRS' ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of 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 1,078 employee integrity investigations.

As an integral part of its employee integrity program, TIGTA's Strategic Enforcement Division (SED) conducts proactive integrity initiatives designed to uncover fraud in IRS operations and to identify internal control weaknesses that may have permitted the fraud to go undetected or unreported. SED uses a variety of audit trail and forensic data analysis tools to proactively identify potential unauthorized access to taxpayer information by IRS employees. Investigative leads that SED developed are currently substantiated as actual UNAX violations more than 81 percent of the time. In this reporting period, OI closed 335 UNAX investigations, of which 17 cases resulted in criminal prosecutions, and 324 cases resulted in adverse disciplinary action against IRS employees.

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

### ***Former IRS Employee Sentenced for Wire Fraud***

On July 24, 2007, the U.S. District Court for the District of Massachusetts sentenced Robert P. Dooley to a prison term of 60 months, 36 months of supervised release, restitution in the amount of \$335,665.75, and an assessment of \$1,200. Dooley was sentenced after pleading guilty on April 13, 2007, to 12 counts of wire fraud.

According to court documents, Dooley engaged in a scheme to defraud Home Depot, Inc., which operates a chain of retail home improvement stores throughout the United States. Dooley was employed as a clerk at the IRS Andover Campus in Andover, Massachusetts, from about February 25, 2001, to about September 13, 2002. In connection with Dooley's employment, he was issued an identification badge. As part of Dooley's scheme, he fraudulently obtained Home Depot store credit by taking items from a Home Depot store

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without purchasing them. Dooley would then take the items to the return desk at a Home Depot store and falsely claim that he had purchased the items but did not have a receipt. Dooley utilized his IRS identification badge as proof of his identity and, at times, made claims

#### **TIGTA'S OPERATIONS DIVISION**

The Operations Division of OI is responsible for program and policy development and oversight by delivering products and services to field and headquarters divisions, OI executives, and the Inspector General. Five distinct teams constitute the Operations Division: Complaint Management Team; Data Analysis Team; Inspection Team; Policy Team; and Training Team. Operations Division responsibilities include:

- Development of investigative policy and procedures;
- Preparation of reports and briefing documents for internal and external customers;
- Preparation of responses to congressional inquiries;
- Data and trend analysis;
- Preparation and oversight of OI's budget;
- Development and coordination of OI training;
- Complaints processing and records management; and
- Internal review of OI's field and headquarters operations.

that he was trustworthy because he worked for the IRS. Dooley would receive store credit in the amount of the "returned" items, and he would sell or barter the fraudulently obtained store credits at a reduced price to other individuals.

Between about May 2002 and October 2005, Dooley executed this scheme at Home Depot stores in Massachusetts, New Hampshire, Maine, Vermont, Rhode Island, Connecticut, New York, Texas, and Oklahoma. During the period of July 2004 through October 2005, Dooley defrauded Home Depot of an amount in excess of \$330,000.

#### ***Individual Sentenced for Unauthorized Access to Computer***

On April 2, 2007, Patricia Kraft was sentenced in the U.S. District Court, Eastern District of California, for tampering with a witness and unauthorized access to a computer. She was sentenced to 36 months of probation with the special conditions that she must complete 200 hours of unpaid community service and 180 consecutive days of home detention. She was also ordered to pay a \$750 fine and a \$125 assessment.

According to court documents, Kraft, who was employed by the IRS at the time, intentionally exceeded her authorized access

to the IRS Integrated Data Retrieval System and obtained tax return information from a tax account of a taxpayer with whom she had a personal relationship. Kraft also attempted to offer to forgive a \$200 debt owed to her by a family friend if the friend would falsely tell law enforcement agents that he had requested previously filed Forms W-2 and other documents from IRS employees, when he had not done so. Kraft did this with the intent to prevent the communication of information regarding unauthorized access to a computer to a law enforcement officer.

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### ***Individual Sentenced for Disclosing Confidential Information***

After pleading guilty on January 22, 2007, to one count of Disclosing Confidential Information, Robert M. Golub was sentenced on May 8, 2007, to one year of supervised probation, ordered to pay a fine of \$3,450 and a special assessment of \$25, and to participate in mental health treatment.

Golub was employed as an IRS revenue agent and, as part of his duties, had access to a database known as the Currency and Banking Retrieval System (CBRS) which is maintained by the Department of the Treasury. The CBRS contains information collected by financial institutions pursuant to the reporting authority of the Bank Secrecy Act. While working at the IRS, Golub, without authorization, used his U.S. Government password to electronically examine and access from the CBRS confidential information concerning several private individuals and a business entity. Golub also intentionally disclosed some of the confidential information he obtained from the CBRS to individuals outside the IRS.

### ***Individual Sentenced after Pleading Guilty to Unauthorized Inspection of Return or Return Information***

On June 14, 2007, Ellen McCall was sentenced by the U.S. District Court, Northern District of Texas, to 18 months of probation, a \$500 fine, and an assessment of \$25. On March 6, 2007, McCall pleaded guilty to the unauthorized inspection of return or return information.

According to court documents, on August 19, 2005, McCall, who was employed by the IRS at the time, willfully and without authorization accessed and inspected the return or return information of a private individual.

### ***IRS Employee Sentenced After Pleading Guilty to the Unauthorized Inspection of Return or Return Information***

On June 22, 2007, Eric Sanchez was sentenced in the U.S. District Court for the Northern District of Texas to probation for a term of two years, ordered to participate in mental health treatment as directed by his probation officer, file all outstanding tax returns, and pay all outstanding taxes, interest, and penalties. Sanchez was also assessed a \$25 criminal monetary penalty. Sanchez was sentenced after previously pleading guilty to willfully and without authorization, accessing and inspecting the return or return information of a private individual.

According to court documents, on June 4, 2004, Sanchez, who was an employee of the IRS, knowingly and without authorization accessed tax return information in the IRS' Integrated Data Retrieval System concerning the ex-husband of an individual with whom Sanchez had a personal relationship. Sanchez obtained and inspected the ex-husband's tax return information, including his return filing history.

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### ***Kevin Lackland Sentenced for Theft of IRS Computer Equipment***

On July 30, 2007, Kevin Lackland was sentenced by the U.S. District Court for the District of Maryland to a term of five years probation, restitution of \$10,930, and a special assessment of \$100.

According to a Department of Justice press release, Lackland, who began work as an information technology specialist with the IRS on December 29, 2003, pleaded guilty to theft of computer equipment belonging to the IRS. The equipment, which included computers, hard drives, and monitors, was valued at \$20,647. Lackland used *eBay.com* to sell much of the computer equipment he stole from the IRS. Some of the stolen equipment was recovered in Lackland's home.

### ***Individual Sentenced for Possession of Controlled Substance***

On July 11, 2007, Victoria Marshall was sentenced to 30 days of home detention, 12 months of probation, a \$1,000 fine, and a \$25 special assessment by the U.S. District Court for the Eastern District of California. Marshall was sentenced after pleading guilty to possession of a controlled substance on April 12, 2007.

According to court documents, on August 10, 2005, Marshall, an IRS employee at the time, knowingly possessed methamphetamine stored in a glass vial tube and three small baggies. Testing of the glass vial tube and one of the bags identified 0.40 grams and 1.53 grams of methamphetamine in the vial and bag, respectively.

### ***IRS Employee Indicted for Falsifying Information about Work Completed***

On May 15, 2007, IRS employee Maulik B. Desai was indicted in the U.S. District Court, Southern District of Ohio, on one count of wire fraud and eight counts of making or signing fraudulent entries or statements in IRS records by knowingly falsifying examination or audit activities while working as a revenue agent. Specifically, Desai made or signed fraudulent entries regarding telephone communications, work activities, travel, and meetings with respect to examinations or audits that Desai had been assigned to carry out regarding certain taxpayers.

## **Employee and Infrastructure Security**

The IRS collects approximately \$2 trillion in revenue annually for the Federal Government. Recognizing the vital nature of the IRS' responsibility, Congress directed TIGTA to protect the IRS from external threats. TIGTA accomplishes this mandate through the identification and investigation of potential and real threats to IRS employees, facilities, and data infrastructure. TIGTA protects the IRS' ability to collect tax revenue by ensuring IRS employee safety and infrastructure security.

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## **ASSAULT & THREAT INVESTIGATIONS**

TIGTA is statutorily charged with protecting the integrity of the IRS and its operations. In March 1972, TIGTA (through its predecessor organization) assumed primary jurisdiction for investigating threats, assaults, and forcible interference against IRS personnel. In a general sense, assaults and threats against IRS personnel undermine the IRS' ability to collect the nation's tax revenue. Because each specific assault or threat involves potential violence, the investigation of employee assaults has always remained a top priority for TIGTA.

In response to the terrorist attacks on September 11, 2001, TIGTA's commitment to employee and infrastructure security includes the operation of a headquarters-level Criminal Intelligence Program (CIP) to coordinate the agency's investigation of threats, assaults, and terrorist acts targeted at the IRS. In an effort to protect the IRS, TIGTA's CIP utilizes information from a variety of sources to identify and preempt threats, assaults, and violent acts targeted against IRS facilities, employees, and operations. In addition, TIGTA participates in the Federal Bureau of Investigation's Joint Terrorism Task Forces throughout the country and assists the IRS with enhancing its employee safety and infrastructure security programs.

During this reporting period, TIGTA completed 180 investigations of threats and assaults directed at the IRS and its employees, and initiated 294 advisories notifying IRS management of potential threats.

***The following cases are examples of assault and threat investigations conducted during this reporting period.***

### **Todd Schulze Sentenced for Making Threat to IRS**

On April 23, 2007, Todd W. Schulze was sentenced to one month in a residential re-entry center, a one-year term of probation, and charged a \$25 assessment penalty by the U.S. District Court, Western District of Wisconsin, after pleading guilty to one count of attempting to interfere with the administration of internal revenue laws. According to court documents, Schulze was audited by the IRS and was assessed delinquent taxes with interest and penalties in the amount of \$3,653.02 for Tax Year 2003 and \$2,726.89 for Tax Year 2004. On October 4, 2006, Schulze was contacted by telephone by an IRS representative regarding the amount he owed to the IRS. During the recorded conversation, Schulze stated to the IRS representative: "I'm a little concerned about this because this is strictly a matter where you want to call to seize my account, and if you do that, I'll start killing people, and you can record that." On October 6, 2006, Schulze was arrested by TIGTA special agents.

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### **Ka'munja Lockett Charged in Assault of IRS Employee**

On April 16, 2007, a criminal complaint was filed in the U.S. District Court, Southern District of Texas, charging Ka'munja R. Lockett with assault of an employee of the United States. According to the complaint, Lockett went into the IRS walk-in Taxpayer Assistance Center in Houston, Texas. When she went to the front desk, she told an IRS employee, "I'm tired of y'all stealing my money. You're going to fix this." She slammed a book and documents on the desk and said, "I'm sick of this." Lockett then picked up a chair and threw it, hitting a customer and causing minor injuries. She then threw a second chair at an IRS employee. Lockett was eventually apprehended by Federal Protective Service officers who relinquished custody of Lockett to TIGTA. Two IRS employees sustained injuries as a result of the incident.

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

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

Due to the increased frequency and complexity of electronic crimes in the United States, TIGTA considers major IRS programs to be highly at risk. Particularly important to TIGTA are phishing schemes that falsely depict e-mails from the IRS. These schemes often involve sending e-mails to users falsely claiming to be established, legitimate enterprises to solicit private information for identity theft. Such schemes attempt to retrieve a user's Social Security number and banking information by replicating an official IRS seal and/or requesting information required for depositing tax refunds. Phishing schemes may also involve impersonation of the IRS Web site in an effort to obtain sensitive taxpayer information. From November 2005 to September 30, 2007, TIGTA and the IRS received a total of 32,576 complaints or inquiries regarding these Internet schemes. Oversight of this area is necessary to ensure that misuse of the IRS name, impersonation of an IRS employee, and identity theft incidents are resolved properly.



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

***Individual Sentenced for Embezzling Client's Federal Tax Payments***

On June 28, 2007, Stephen E. Taylor was sentenced by the U.S. District Court, Northern District of Georgia, to 78 months of imprisonment and three years of supervised release, and was ordered to make restitution in the amount of \$4,174,144.61 and pay a special assessment of \$100. Taylor was sentenced after previously pleading guilty to wire fraud on April 18, 2007.

According to court documents, in February 2005, Taylor, who was the president of 20/20 Payroll Solutions, began diverting funds from the company's payroll account to pay for personal expenses and invest in real estate. The payroll account was established by the company to receive its clients' payroll and tax payments. The funds were supposed to be used to make Federal and State tax payments on behalf of 20/20 Payroll Solutions' clients.

As a result of Taylor's diversion of company money, the company was unable to pay its clients' Federal tax liabilities on a timely basis, even though it had already collected the amount due from its clients.

***Antonino Giuliano Sentenced for Stealing Federal Income Tax Refunds***

On April 13, 2007, Antonino Giuliano was sentenced in the U.S. District Court, Middle District of Florida, Orlando Division, on one count of mail fraud and one count of theft of U.S. Government property. He was sentenced to nine years in prison on each count to run concurrently, three years of supervised release, 150 hours of community service, a special assessment of \$200, and restitution of \$330,477.

According to court documents, Giuliano prepared tax returns for three individuals for Calendar Year 2004. Giuliano provided copies of the tax returns to two of the individuals showing balances due when, in fact, the IRS issued refunds for the individuals that were deposited into Giuliano's bank account. Giuliano falsely advised one individual that the IRS was not issuing the tax refund when Giuliano had already received it. During 2005 and 2006, Giuliano advised one of his clients that she was being audited by the IRS and that he was representing her. Giuliano induced his client to send him payments of \$1,233, \$1,974, and \$1,050, telling her that the payments would be forwarded to the IRS to keep interest and penalties from accruing. The client was not being audited by the IRS and did not owe any money to the IRS.

***Harry Kylo Sentenced After Pleading Guilty to Stealing Clients' Tax Remittances***

On May 23, 2007, Harry Kylo was sentenced in the U.S. District Court, District of Oregon, to a term of 51 months of imprisonment, \$1,322,582 in restitution, and three years of supervised

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release upon his release from prison, after he pleaded guilty to mail fraud, attempting to defeat the payment of tax, and impersonation.

According to court documents, beginning about 2000 and continuing to about September 30, 2005, Kylo prepared Federal and State income tax returns for a number of clients that reflected taxes due. The clients signed these returns and paid Kylo the funds to pay the taxes due. Kylo never filed the returns, and he did not pay the money to the IRS. On several occasions, after the IRS notified his clients that their returns had not been filed, Kylo created letters purportedly from the IRS indicating that the problem had been resolved. He sent these letters to his clients using the U.S. Postal Service.

### ***Evette Merritt Sentenced for Stealing Clients' Tax Refund Checks***

On April 27, 2007, Evette Merritt was sentenced to 10 months of incarceration, three years of supervised release upon the completion of her prison term, and was ordered to make restitution, and pay a special assessment of \$200. Merritt was also ordered to register with the self-exclusion lists maintained by the New Jersey Casino Control Commission and Racetrack Commission and, at the discretion of the U.S. Probation Office, to attend Gamblers Anonymous or a similar organization. Merritt was sentenced after pleading guilty on October 31, 2006, to one count of theft and one count of conspiracy.

The indictment alleged that from January 15, 2002, to March 20, 2003, Merritt conspired with another individual to solicit taxpayers to prepare their tax returns in exchange for a fee. Merritt forged signatures and filed the tax returns on behalf of her clients in which she falsely and fraudulently claimed that the taxpayers authorized their refund checks to be deposited into bank accounts controlled by Merritt and her co-conspirator. Merritt and her co-conspirator then converted the funds obtained from the scheme to their own use.

### ***Individual Sentenced for Misuse of Treasury Names and Symbols***

On July 23, 2007, Angelo M. Vitale was sentenced by the U.S. District Court for the Eastern District of California to 12 months of probation, a fine in the amount of \$500, and a special assessment of \$25. Vitale pleaded guilty on April 5, 2007, to one count of misuse of Department of the Treasury names and symbols.

According to court documents, on or about April 13, 2006, Vitale contacted an individual and solicited his financial participation in a real estate venture. Vitale told the individual that he planned to purchase a distressed property from a bank. Vitale also told the individual that the property had an IRS tax lien that needed to be cleared before the property could be purchased and that Vitale had negotiated a settlement with the IRS to clear the lien.

In support of these statements, Vitale provided the individual with a letter that purported to be from the Department of the Treasury, Internal Revenue Service. Based on the letter fabricated



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by Vitale and equally phony letters purporting to be from the bank and another company, the individual paid Vitale \$5,000 as an investment in the property.

***Individual Indicted for Bribery of IRS Revenue Officer***

On April 4, 2007, Jeffrey N. Darr was indicted in the U.S. District Court for the Central District of Illinois, on two counts of bribery.

According to the indictment, on or about November 21, 2006, Darr corruptly offered and promised to give money to an IRS revenue officer, with the intent to induce the revenue officer to both do and omit to do an act. On or about December 7, 2006, Darr corruptly gave money to an IRS revenue officer, with that intent.

***Individual Pleads Guilty to Attempting to Interfere with Administration of Internal Revenue Laws***

On June 27, 2007, Larry Canoso pleaded guilty in the U.S. District Court, District of Utah, to attempting to interfere with the administration of internal revenue laws.

According to the plea agreement, on November 13, 2003, Canoso caused a lien release in the amount of \$47,149 to be filed at the Salt Lake County Recorder's Office. The IRS filed the lien as a result of taxes due and owed for the year of 1995. This release was not official and was not a duly executed document of the IRS.

**PROCUREMENT FRAUD PROGRAM**

The combined value of active IRS procurements, including each contract's base and option years, is approximately \$61 billion. The Procurement Fraud Section (PFS) within TIGTA's Special Inquiries and Intelligence Division (SIID) is dedicated to identifying and investigating procurement fraud involving the IRS. The PFS achieves its goals through: proactive and reactive investigations; fraud awareness presentations; proactive investigative initiatives; data analyses; and liaisons. These activities, while labor-intensive, relate directly to TIGTA's core mission of preventing external attempts to corrupt the IRS' ability to effectively administer the tax laws.

During this reporting period, PFS investigations have resulted in more than \$16 million in recoveries, and PFS has given 14 fraud awareness presentations to 390 individuals.

***The following cases are examples of procurement fraud investigations conducted during this reporting period.***

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## PROCUREMENT FRAUD PROGRAM (CONTINUED)

### **Mellon Bank Agrees to Pay \$16.5 Million for Destruction of Tax Returns and Checks**

On June 28, 2007, Mellon Bank, N.A., reached a settlement agreement with the Department of Justice in which Mellon Bank agreed to pay \$16.5 million to the United States to avoid potential litigation under the *False Claims Act*.

According to court documents, Mellon Bank, under agreement with the Department of the Treasury, maintained a lockbox address in Pittsburgh, Pennsylvania, to take delivery of and process tax return forms, documents, and payments sent by individual taxpayers residing within the geographical area served by the IRS Service Center in Andover, Massachusetts. Mellon Bank was responsible for opening the incoming mail directed to its Pittsburgh lockbox operation, separating tax returns from the vouchers and payments, processing payments and vouchers, depositing checks from taxpayers into a depository clearing account for subsequent transfer to the U.S. Treasury, and forwarding the tax returns to the IRS in Andover.

Mellon Bank was also required to process IRS tax forms, vouchers, and payments within certain deadlines. In a letter dated December 15, 2000, to Mellon Bank, the IRS established April 29, 2001, as the "Program Completion Date" – the date by which all checks received by the lockbox site between April 15, 2001, and April 28, 2001, were to be processed. On April 29, 2001, a Mellon Bank vice president notified the IRS that Mellon Bank had "completed the 2001 April tax program." However, in fact, Mellon Bank had not processed all of the IRS submissions received by April 28, 2001, and Mellon Bank never met the April 29, 2001, tax processing deadline. Instead, Mellon Bank employees ultimately destroyed tens of thousands of tax returns, vouchers, and checks that Mellon Bank possessed as an agent of the United States after having received them from taxpayers, all in an effort to deceive the IRS about the bank's failure to complete the 2001 tax program on a timely basis.

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## **PROCUREMENT FRAUD PROGRAM (CONTINUED)**

### **Individual Sentenced after Pleading Guilty to Conspiracy to Defraud the United States and Obstruction of Federal Audit**

On September 25, 2007, Ketan R. Shah of Public Affairs International, Inc. (PAI), was sentenced in the U.S. District Court for the District of Maryland, to a prison term of 30 months, three years of supervised released upon the completion of his prison term, restitution in the amount of \$1,379,639, and a \$200 special assessment. Shah was sentenced after pleading guilty on June 12, 2007, to conspiracy to defraud the United States and obstruction of a Federal audit.

According to court documents, the IRS awarded a contract to PAI to plan, coordinate and manage seminars called "Tax Forums" on behalf of the IRS. The purpose of these events was to educate tax preparation professionals about changes in tax laws, forms, and procedures. Under the contract, PAI was empowered to make all arrangements for the seminars, to charge attendance fees, make payments to vendors who provided services related to the seminars, and to charge organizations that wished to set up displays at the seminars.

Under the contract, PAI received a management fee from the IRS as compensation for its services. This fee was paid each year by the IRS and was supposed to be reduced by the amount of profits, if any, that PAI earned by operating the seminars.

During contract years 2000 through 2003, Shah, who was the vice president of PAI, conspired with others against the IRS to intentionally understate income and overstate expenses related to the seminars. If PAI had accurately reported its income and expenses to the IRS, the earnings from the seminars would have completely offset PAI's management fee, and PAI would not have been entitled to any management fee during the years 2000 through 2003. However, as a result of PAI's misstatements, the IRS paid management fees totaling approximately \$1,379,630 to PAI from 2000 through 2003.

In October 2003, TIGTA's Office of Audit initiated an audit of PAI's records relating to the contract. Pursuant to that audit, TIGTA issued a subpoena to PAI for the production of documents relating to PAI's earnings and expenses under the contract. In response to the subpoena, Shah and others directed PAI employees to alter or manufacture invoices from vendors to increase PAI's apparent expenses, and to remove participant names from the seminar lists, thereby reducing PAI's apparent income. Further, Shah and others intentionally failed to provide certain documents requested in the subpoena.

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***Anthony DiNapoli Sentenced after Pleading Guilty to False Impersonation of a United States Government Employee***

Anthony DiNapoli was sentenced on June 22, 2007, in the U.S. District Court for the District of Massachusetts, to 24 months of probation and a special assessment of \$100. DiNapoli was sentenced after previously pleading guilty to falsely impersonating a U.S. Government employee.

According to court documents, on or about and between February 22, 2005, and February 23, 2005, DiNapoli pretended to be a U.S. Government employee in order to demand that another individual dismiss a civil suit.

**TIGTA'S SPECIAL INQUIRIES AND INTELLIGENCE DIVISION**

The Special Inquiries and Intelligence Division is responsible for three distinct missions. SIID is responsible for conducting sensitive investigations involving TIGTA employees, IRS Oversight Board members, IRS Senior Executives (Grade 15 and above), IRS Chief Counsel employees, IRS Criminal Investigation employees and IRS International employees located in Washington, D.C., and U.S. embassies abroad. SIID is also responsible for investigating allegations of fraud, waste, and abuse involving IRS procurements and procurement-related misconduct by IRS employees and persons outside of the agency. Third, SIID is responsible for coordinating all criminal intelligence collection and dissemination within TIGTA nationwide.

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## BADGES OF TIGTA



The badges displayed above represent the only three official badges worn by special agents of the Treasury Inspector General for Tax Administration, and their predecessors, the inspectors of the IRS' Internal Security Division.

In its early years, the Intelligence Unit of the Bureau of Internal Revenue authorized its special agents to carry a gold-plated, circular shield. These special agents were the forerunners of today's special agents of TIGTA and the IRS Criminal Investigation Division. The circular shield, issued from the early 1920s until 1939, gave way to a similar shield plated in silver.

By 1949, the Intelligence Unit could not supply all the members of its growing ranks with the circular shield. Special agents were allowed to order their own badges from a private manufacturer and carry them as official identification. This led to the first use of the starburst design, similar to the badges worn by New York City police officers.

While the Inspection Service was created on October 1, 1951, it was not until 1954 that inspectors received their first officially-issued badges. This badge, shown on the left featured a nine-point starburst design. Each badge bore a number representing the inspector to whom it was assigned.

In 1969, the starburst badge was redesigned. The newly created badge, depicted in the center, was used by all inspectors assigned to the Internal Security Division.

In 1998, Congress passed the IRS Restructuring and Reform Act, which transferred the Inspection Service assets and mission to TIGTA. In 1999, TIGTA issued its first badge, depicted on the right, which is issued to all special agents assigned to the Office of Investigations.



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# Congressional Testimony

During this reporting period, Inspector General J. Russell George and Deputy Inspector General for Audit Michael R. Phillips, testified before Congress on three occasions.

## **“Filing Your Taxes: An Ounce of Prevention is Worth a Pound of Cure”**

On April 12, 2007, Mr. Phillips testified before the Senate Committee on Finance regarding the 2007 Filing Season, identity theft, and fraud. Mr. Phillips said that overall, the 2007 Filing Season appeared to be progressing without major problems. Also, use of the IRS Internet site (IRS.gov) and the number of electronically filed tax returns were higher than during the same time period in 2006. He said that TIGTA was concerned, however, that changes in the Free File Agreement and elimination of the TeleFile Program in 2005 may have slowed the growth of electronic filing.

Mr. Phillips also said that TIGTA is concerned about the IRS’ telephone excise tax refund program, noting that of the 74 million individual tax returns that had been processed, about 30 percent failed to claim the refund. It was equally troubling that some paid tax preparers had filed thousands of highly suspicious claims that were well over the standard amounts yet too low to trigger IRS scrutiny, he said.

Mr. Phillips also discussed TIGTA’s concern about IRS-related identity theft and fraud, noting that TIGTA audits over the past four years have identified persistent computer security weaknesses that jeopardize the security of personally identifiable information. In addition, Mr. Phillips said that both TIGTA and the IRS are concerned by an increasing number of fraudulent claims that are being filed, noting that identity theft is a growing problem associated with refund fraud.

## **Legislative hearing on draft proposals: the Contractor Tax Enforcement Act and the Pilot Program for Local Governments to Offset Federal Tax Refunds**

On April 19, 2007, Mr. George testified before the House Committee on Oversight and Government Reform’s Subcommittee on Government Management, Organization, and Procurement. Mr. George noted that the draft “Contractor Tax Enforcement Act” would effectively make any person with an outstanding Federal tax debt ineligible to enter into a



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contract or to receive a loan from a Federal agency. Mr. George said that although TIGTA has not performed work directly on this issue, TIGTA anticipates that the impact on the IRS' other tax administrative efforts should be minimal if the proposed requirement is implemented in a manner similar to the IRS' current practices.

In addressing draft legislation to amend title 31 of the United States Code to create a pilot program to examine the feasibility and potential for collecting certain local tax debts, Mr. George noted that since 1984, the Internal Revenue Code has required that a Federal taxpayer's overpayment be applied to non-tax Federal debt prior to issuing a refund or crediting an overpayment to a future obligation, and the IRS has facilitated these offsets.

As well, in 1999, the Department of the Treasury's Financial Management Service (FMS) began offsetting Federal refunds to pay outstanding child support and Federal agency debts. In 2000 the program was extended to include State income tax debt. Mr. George said that the offset program has been highly successful, and if this legislative proposal is analogous, it should help local governments with their tax collection efforts. Assuming that the proposed pilot would operate through the Treasury Offset Program, it would affect FMS but would not adversely affect the IRS or Federal tax administration, he said.

### **Internal Revenue Service FY 2008 Budget Request**

On May 9, 2007, Mr. George testified before the Senate Appropriations Committee's Subcommittee on Financial Services and General Government on the IRS' Fiscal Year 2008 budget request.

Mr. George said that the IRS' request of \$11.4 billion includes funding for programs that pose long- and short-term challenges for the Service, which include improving taxpayer services, enhancing enforcement of the tax laws, and the IRS' modernization efforts, all while attempting to ensure their security.

Mr. George said that despite the challenges of implementing last-minute tax law changes, the 2007 Filing Season appeared to be progressing without major problems. However, he said, TIGTA is concerned about the IRS' telephone excise tax refund program because many taxpayers were not claiming the refund even though the IRS had simplified the process. In addition, some taxpayers had submitted highly questionable refund claims that did not garner further IRS scrutiny, he said.

In addition, Mr. George noted that approximately \$62 million in the IRS budget proposal would be used to develop and deploy its business systems modernization effort, including the Customer Account Data Engine, which will replace the antiquated Master File system. However, Mr. George noted that the CADE program could not meet expectations this filing season due to delays. While this is a short-term concern, he said, there has been a pattern of deferring CADE requirements and missing deployment dates. Allowing this pattern to continue could undermine the long-term success of the project, he said.

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# Awards and Special Achievements

## TIGTA Executive Receives 2007 Presidential Rank Award



**Joseph I. Hungate**  
**Principal Deputy Inspector General**

In September 2007, TIGTA's Principal Deputy Inspector General, Joseph I. Hungate, received the prestigious *Presidential Rank Award* of Distinguished Executive for Meritorious Service. Mr. Hungate was recognized for his sustained extraordinary accomplishments. Each year, the President recognizes a small group of outstanding leaders in the Senior Executive Service who achieve results and consistently demonstrate strength in leadership, integrity, industry, and relentless commitment to excellence in public service.

### **TIGTA Recognized by the President's Council on Integrity and Efficiency**

The PCIE 2007 Awards Committee presented *Awards of Excellence* to three teams within TIGTA's Office of Audit and one individual within TIGTA's Office of Investigations.

The **Electronic Fraud Detection System Audit Team** was recognized for its outstanding achievement in identifying and reporting system development issues. The audit team members included Margaret Begg, Assistant Inspector General for Audit, Information Systems Programs; Mark Carder, Senior Auditor; Olivia DeBerry, Auditor; Gary Hinkle, Director; Linda Screws, Auditor; Danny Verneuille, Audit Manager; Van Warmke, Senior Auditor; and Tina Wong, Senior Auditor.

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The **Protection of Electronic Media Audit Team** was recognized for its achievement in reporting weaknesses in encryption controls and physical security over personal financial data and other personal information, such as Social Security numbers, on IRS laptop hard drives. The audit team members included Margaret Begg, Assistant Inspector General for Audit, Information Systems Programs; Richard Borst, Senior Auditor; Joseph Cooney, Acting Audit Manager; Louis Lee, Senior Auditor; Abraham Millado, Senior Auditor; Steve Mullins, Director; Jacqueline Nguyen, Senior Auditor; Midori Ohno, Lead Auditor; and Kent Sagara, Audit Manager.

The **Stoneham Audit Group** was recognized for its valuable service to the American public by determining how the IRS can improve its ability to identify tax-exempt organizations potentially involved in terrorist activities. The audit team members included Nancy Nakamura, Assistant Inspector General for Audit, Headquarters Operations and Exempt Organizations Programs; Kenneth Forbes, Senior Auditor; Tom Hawkins, Acting Audit Director; Jeffrey Jones, Audit Manager; and Cheryl Medina, Senior Auditor.

**Special Agent Anthony G. Armentano** was recognized for his outstanding performance and commitment to excellence while conducting a high-impact investigation involving the criminal activity of an IRS agent and his co-conspirators.



L-R: Kent Sagara; Gary Hinkle; Joe Ananka; Mike Phillips; J. Russell George; Margaret Begg; Steve Mullins; Danny Verneuille; Joseph Conney



L-R: Michael Delgado; Timothy Camus; Anthony Armentano; J. Russell George; Steve Jones; Greg Holley

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# Audit Statistical Reports

## Reports with Questioned Costs

TIGTA issued four audit reports with questioned costs during this semiannual reporting period<sup>1</sup>. The phrase “questioned cost” means a cost that is questioned because of:

- an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds;
- a finding at the time of the audit, that such cost is not supported by adequate documentation (an unsupported cost); or
- a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable.

The phrase “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Federal Government.

Reports with Questioned Costs			
Report Category	Number	Questioned Costs (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	14	\$171,269	\$82,885
2. Reports issued during the reporting period	4	\$401	\$0
<b>3. Subtotals (Item 1 plus Item 2)<sup>2</sup></b>	<b>18</b>	<b>\$171,671</b>	<b>\$82,885</b>
4. Reports for which a management decision was made during the reporting period <sup>3</sup>			
a. Value of disallowed costs	2	\$2,800	\$0
b. Value of costs not disallowed	1	\$633	\$32
<b>5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)</b>	<b>16</b>	<b>\$168,237</b>	<b>\$82,853</b>
6. Reports with no management decision within 6 months of issuance	13	\$167,858	\$82,853

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

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

<sup>3</sup> IRS management disallowed only a part of the questioned cost for one report.

## Reports with Recommendations that Funds Be Put to Better Use

TIGTA issued six reports with recommendations that funds be put to better use during this semiannual reporting period.<sup>1</sup> The phrase “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- reductions in outlays;
- deobligation of funds from programs or operations;
- costs not incurred by implementing recommended improvements related to operations;
- 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; and
- any other savings that are specifically identified.

The phrase “management decision” means the evaluation by management of the findings and recommendations included in an audit report, and the issuance of a final decision concerning its response to such findings and recommendations, including actions concluded to be necessary.

Reports with Recommendations that Funds Be Put to Better Use		
Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	0	\$0
2. Reports issued during the reporting period	6	\$15,836
<b>3. Subtotals (Item 1 plus Item 2)</b>	<b>6</b>	<b>\$15,836</b>
4. Reports for which a management decision was made during the reporting period		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	6	\$15,836
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	0	\$0
<b>5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)</b>	<b>0</b>	<b>\$0</b>
6. Reports with no management decision within 6 months of issuance	0	\$0

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

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## Reports with Additional Quantifiable Impact on Tax Administration

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

*Definitions of these additional measures are:*

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

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

**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.

**Taxpayer Rights and Entitlements at Risk:** The protection of due process rights granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise when filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds (entitlements) are also included in this

category, such as when taxpayers legitimately assert that they overpaid their taxes.

**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.

**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.

**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.

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.

<b>Reports with Additional Quantifiable Impact on Tax Administration</b>			
<b>Outcome Measure Category</b>	<b>Number of Reports<sup>1</sup></b>	<b>Number of Taxpayer Accounts</b>	<b>Dollar Value (in thousands)</b>
Increased Revenue	8	2,321	\$1,267,685
Revenue Protection	5	17,283	\$43,713
Reduction of Burden on Taxpayers	6	128,152	
Taxpayer Rights and Entitlements at Risk	10	4,617,313	\$1,660,095
Taxpayer Privacy and Security	1	70	
Inefficient Use of Resources	2		\$15,654
Reliability of Management Information	10	117,151	\$247,175
Protection of Resources	1		

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

Management did not agree with the outcome measures in the following reports:

- Increased Revenue and Revenue Protection: Reference Numbers 2007-30-063, 2007-30-122, 2007-30-159, and 2007-30-170; and
- Taxpayer Rights and Entitlements: Reference Number 2007-40-167.

Management neither agreed nor disagreed with the outcome measure in the following report:

- Increased Revenue and Revenue Protection: Reference Number 2007-10-076.

The following reports contained quantifiable impacts in addition to the number of taxpayer accounts and dollar value:

- Taxpayer Burden: Reference Number 2007-40-164;
- Taxpayer Rights and Entitlements: Reference Number 2007-10-133;
- Reliability of Management Information: Reference Numbers 2007-10-068, 2007-10-081, 2007-40-112, and 2007-10-188; and
- Protection of Resources: Reference Number 2007-20-104.



# Investigations Statistical Reports

Significant Investigative Achievements April 1, 2007 – September 30, 2007	
<b>Complaints/Allegations Received by TIGTA</b>	
Complaints against IRS Employees	2,374
Complaints against Non-Employees	2,647
<b>Total Complaints/Allegations</b>	<b>5,021</b>
<b>Status of Complaints/Allegations Received by TIGTA</b>	
Investigations Initiated	2,037
In Process within TIGTA <sup>1</sup>	314
Referred to IRS for Action	330
Referred to IRS for Information Only	889
Referred to a Non-IRS Entity <sup>2</sup>	5
Closed with No Referral	1,043
Closed with All Actions Completed	403
<b>Total Complaints</b>	<b>5,021</b>
<b>Investigations Opened and Closed</b>	
Total Investigations Opened	1,910
Total Investigations Closed	2,068
<b>Financial Accomplishments</b>	
Embezzlement/Theft Funds Recovered	\$16,737,258
Court Ordered Fines, Penalties and Restitution	\$13,692,953
Out-of-Court Settlements	0
<b>Total Financial Accomplishments</b>	<b>\$30,430,211</b>

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

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

Note: The IRS made 62 referrals to TIGTA that would more appropriately be handled by the IRS, and therefore were returned to the IRS. These are not included in the total complaints shown above.

<b>Status of Closed Criminal Investigations</b>			
<b>Criminal Referrals<sup>1</sup></b>	<b>Employee</b>	<b>Non-Employee</b>	<b>Total</b>
Referred – Accepted for Prosecution	31	50	<b>81</b>
Referred – Declined for Prosecution	447	368	<b>815</b>
Referred – Pending Prosecutorial Decision	14	83	<b>97</b>
<b>Total Criminal Referrals</b>	<b>492</b>	<b>501</b>	<b>993</b>
<b>No Referral</b>	511	519	<b>1,030</b>

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

<b>Criminal Dispositions<sup>2</sup></b>			
	<b>Employee</b>	<b>Non-Employee</b>	<b>Total</b>
Guilty	31	47	<b>78</b>
Nolo Contendere (no contest)	0	0	<b>0</b>
Pre-trial Diversion	5	2	<b>7</b>
Deferred Prosecution <sup>3</sup>	1	1	<b>2</b>
Not Guilty	1	1	<b>2</b>
Dismissed <sup>4</sup>	1	6	<b>7</b>
<b>Total Criminal Dispositions</b>	<b>39</b>	<b>57</b>	<b>96</b>

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

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

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

<b>Administrative Dispositions on Closed TIGTA Investigations<sup>5</sup></b>	
	<b>Total</b>
Removed, Terminated or Other	442
Suspended/Reduction in Grade	136
Oral or Written Reprimand/Admonishment	150
Closed – No Action Taken	116
Clearance Letter Issued	117
Employee Resigned Prior to Adjudication	179
Non-Internal Revenue Service Employee Actions <sup>6</sup>	307
<b>Total Administrative Dispositions</b>	<b>1,447</b>

<sup>5</sup> Final administrative dispositions during the reporting period. This data may pertain to investigations referred administratively in prior reporting periods and does not necessarily relate to the investigations closed in the Investigations Opened and Closed table.

<sup>6</sup> Administrative actions taken by the IRS against non-IRS employees.

# Appendix I

## Statistical Reports - Other

### Audit Reports with Significant Unimplemented Corrective Actions

The Inspector General Act of 1978 requires identification of significant recommendations described in previous semiannual reports for 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 Department management officials.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2001-30-052	Tax Compliance Initiatives	March 2001	12/15/07	<b><i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i></b>  F-3, R-1, P-1, P-2. Improve systems that process data that the IRS receives on foreign sourced income.
2003-10-054	Using Performance and Financial Information for Program and Budget Decisions	March 2003	10/01/07	<b><i>The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses</i></b>  F-1, R-3, P-1. Ensure that the ability to record and report trust fund administrative expenses, as currently envisioned in the IFS development plans, is properly implemented.
2003-10-094	Erroneous and Improper Payments	March 2003	05/15/07	<b><i>Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts when Refund Fraud Is Suspected</i></b>  F-1, R-2, P-1. Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that feedback is provided regarding program effectiveness. Also, analyses of the Fraud Detection Center's control listing data should be analyzed to ensure that reviews are done and accounts are resolved.
2003-40-139	Tax Compliance Initiatives	June 2003	10/15/07	<b><i>Opportunities Exist to Improve the Administration of the Earned Income Tax Credit</i></b>  F-1, R-2, P-1. Establish a consistent method to measure progress toward the Earned Income Tax Credit (EITC) Program's long-term goals.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2003-20-118	Security of the IRS	July 2003	01/15/08	<b><i>Security Over Computers Used in Telecommuting Needs to Be Strengthened</i></b> F-1, R-6, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure that sensitive data are being stored and encrypted properly.
2003-30-176	Tax Compliance Initiatives	August 2003	12/15/07	<b><i>Interest Paid to Large Corporations Could Significantly Increase under a Proposed New Revenue Procedure</i></b> F-1, R-2, P-1. Gather pertinent information concerning the affected proposed procedure to reduce the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.
2003-10-212	Human Capital	September 2003	09/30/07	<b><i>Information on Employee Training Is Not Adequate to Determine Training Cost or Effectiveness</i></b> F-3, R-2, P-3. Ensure that IRS training and financial systems can provide information needed for the IRS to assess its own training efforts.
2004-20-001	Systems Modernization of the IRS	October 2003	12/31/10	<b><i>Risks Are Mounting As the Integrated Financial System Project Team Strives to Meet an Aggressive Implementation Date</i></b> F-2, R-1, P-1. Ensure that the disaster recovery environment is completely built-out and tested.
2004-30-038	Tax Compliance Initiatives	January 2004	07/15/08	<b><i>Access to the Toll-Free Telephone System Was Significantly Improved in 2003, but Additional Enhancements Are Needed</i></b> F-3, R-1, P-1. Develop an activity-based costing system that reliably captures and reports both the total cost and the cost-per-call of providing services on each toll-free product line.
2004-30-068	Tax Compliance Initiatives	March 2004	07/15/08	<b><i>Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program</i></b> F-2, R-1, P-1. Develop standard risk-based case selection criteria that would provide minimum requirements and parameters for case selection.
2004-40-098	Erroneous and Improper Payments	May 2004	12/15/07	<b><i>Better Use of the National Account Profile During Returns Processing Can Eliminate Erroneous Payments</i></b> F-2, R-1, P-1. Conduct studies on the accuracy of EITC claims on tax returns for individuals who have been claimed for EITC purposes who are 20 or more years older than the primary taxpayer, or are listed as children who are up to 19 years older than the primary taxpayer.
2004-20-131	Security of the IRS	September 2004	04/30/12	<b><i>The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness</i></b> F-2, R-4, P-1. Develop and implement a reasonable approach for reviewing audit trails over major applications.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2005-40-026	Providing Quality Taxpayer Service Operations	February 2005	12/31/10 12/31/10	<b><i>Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement</i></b>  F-1, R-1, P-4. Develop a process to ensure that only authorized personnel have access to IRS.gov content. F-1, R-2, P-1, P-2. Enhance the IRS' content management software application to provide the ability to identify specific content accessed or revised by individual users.
2005-20-024	Security of the IRS	March 2005	12/31/10	<b><i>The Disaster Recovery Program Has Improved, but It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses</i></b>  F-1, R-1, P-1, P-5. Report a disaster recovery program material weakness to the Department of the Treasury as part of the IRS' Federal Managers' Financial Integrity Act of 1982 annual evaluation of controls and include any new or currently underway activities in the corrective action plan.
2005-10-070	Human Capital	March 2005	09/30/07	<b><i>The Human Resources Investment Fund is Not a Cost-Effective Method of Providing Tuition Assistance</i></b>  F-2, R-1, P-1. Consider eliminating the HRIF Program and provide tuition assistance through alternative means, such as the Individual Development Plan process and the Career Transition Assistance Program.
2005-10-107	Human Capital	July 2005	10/15/08 10/15/08 10/15/07 10/15/08	<b><i>Improved Policies and Guidance Are Needed for the Telework Program</i></b>  F-1, R-1, P-1. Ensure that an IRS-wide Flexiplace Program policy is developed and implemented that addresses all the elements recommended by the OPM. F-2, R-1, P-1. Implement guidelines to assist managers in evaluating employees' abilities to participate in the Flexiplace Program without a loss in productivity. F-2, R-2, P-1. Ensure that Flexiplace Program training is provided as needed to help address productivity concerns. F-2, R-3, P-1. Assess the logistical support and equipment needs of Flexiplace Program participants to help ensure that there is no loss in productivity.
2005-40-110	Providing Quality Taxpayer Service Operations	July 2005	10/15/07 10/15/07 10/15/07	<b><i>The Effectiveness of the Taxpayer Assistance Center Program Cannot Be Measured</i></b>  F-1, R-1, P-1. Enhance the management information system to capture the number of taxpayers served, the number and types of services provided, and the related resources. F-1, R-2, P-1. Develop a Service Delivery Plan for the short-term and long-term direction of the TAC Program based on business cases and customer input. F-1, R-3, P-1. Develop a process that includes routine assessments of TAC operations to ensure that the TACs are optimally located and that the services provided at the TACs are the most effective and cost efficient.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2005-10-129	Providing Quality Taxpayer Service Operations	September 2005	12/31/07 12/31/07	<b><i>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low-Income Taxpayer Clinic Grant Program</i></b>  F-1, R-1, P-2. Establish goals and performance measures for the LITC Program to assist Congress and the IRS in evaluating the success of the program. F-3, R-2, P-1. Develop a method to obtain information necessary to verify that clinics are following all LITC Program requirements.
2005-10-149	Human Capital	September 2005	12/31/07 09/30/07 09/30/07	<b><i>The Internal Revenue Service Does Not Adequately Assess the Effectiveness of Its Training</i></b>  F-1, R-1, P-1, P-2. Require all business units to follow the training assessment and develop requirements and properly document this process. F-2, R-1, P-1, P-2. Ensure that all IRS components follow established procedures to evaluate training in order for the IRS to comply with the training assessment requirement of the Federal Workforce Flexibility Act of 2004. F-3, R-1, P-1. Use the numerical scores from the Employee Satisfaction Survey training question in addition to narrative comments.
2005-30-154	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2005	05/15/08	<b><i>The Clarity of Math Error Notices Has Been Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices</i></b>  F-1, R-2, P-1. Revise tax statement tables contained on notices to include specific amounts from at least some line items on which taxpayers made errors on their tax returns.
2006-40-007	Erroneous and Improper Payments	November 2005	04/15/08	<b><i>Efforts to Prevent Improper Tax Benefits Resulting from Multiple Uses of Taxpayer Identification Numbers Can Be Improved</i></b>  F-1, R-1, P-2. Lead a collaborative effort to identify a workable solution to resolve multiple identification number use cases where an identification number is used as a primary identification number on one return and a secondary identification number on another return.
2006-40-024	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	December 2005	01/15/08	<b><i>Individual Income Tax Returns Were Timely Processed in 2005; However, Implementation of Tax Law Changes Could Be Improved</i></b>  F-3, R-1, P-1. Implement a computer check that would identify questionable large-dollar entries for review and resolution for both paper and electronic individual income tax returns.
2006-40-061	Providing Quality Taxpayer Service Operations	March 2006	10/15/07 10/15/07	<b><i>The Taxpayer Assistance Center Closure Plan Was Based on Inaccurate Data</i></b>  F-1, R-1, P-1. Ensure that data used in the Model or any decision-making tool are accurate and reliable and have been validated before using them to make decisions regarding the TAC Program. F-1, R-2, P-1. Include in the Model or any decision-making tool data to identify customer characteristics and capture customer input to effectively measure the impact any results might have on taxpayer service and compliance.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2006-10-066	Erroneous and Improper Payments	March 2006	09/15/07	<b><i>The Office of Professional Responsibility Can Do More to Effectively Identify and Act Against Incompetent and Disreputable Tax Practitioners</i></b>  F-1, R-3, P-1. Develop a method to identify representatives on the Centralized Authorization File that does not require representatives to use Social Security numbers on Form 2848.
2006-20-108	Systems Modernization of the IRS	August 2006	12/31/10	<b><i>The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified</i></b>  F-3, R-4, P-1. Defer additional work on the Web Electronic Fraud Detection System (EFDS) until the IRS decides who will perform the EFDS work.
2006-10-124	Tax Exempt Organizations	September 2006	04/01/08 04/01/08	<b><i>Resource and Computer Programming Limitations Have Hindered the Progress of the Federal, State, and Local Governments Office in Identifying Its Customers</i></b>  F-1, R-3, P-1. Revise computer programming to ensure that the code used to identify Federal Government agencies is not deleted if the Form 941 filing requirements are removed from an agency's account. F-1, R-5, P-1. Submit a Request for Information Services to allow government entities with unique filing requirement codes, such as Puerto Rico, Virgin Islands, and American Samoa filers, to be coded as Federal, State, and local government office customers.
2006-40-138	Providing Quality Taxpayer Service Operations	September 2006	P-2: 11/15/07 P-3: 04/15/08	<b><i>The Wage and Investment Division's Automated Underreporter Telephone Operations Could Improve Service to Taxpayers</i></b>  F-2, R-1, P-2, P-3. Increase the number of bilingual Automated Underreporter (AUR) Program assistors available to handle the demand from Spanish-speaking taxpayers; revise the AUR Program tax examiner position description to specifically include telephone duties; and adopt more precise scheduling and assignment practices.
2006-30-132	Tax Gap	September 2006	02/15/09 02/15/09	<b><i>Additional Enhancements Could Improve Tax Compliance of Employees Who Receive Tips</i></b>  F-3, R-2, P-1. Ensure that the SWETRS program remains funded through completion and include the gaming tip agreements in the Tip Agreement database. F-4, R-1, P-1. Ensure that the results of initial testing of the ATIP Revenue Procedure are analyzed, and consider developing similar Revenue Procedures for small businesses in other industries to increase the chance of improving tip income reporting compliance.
2006-40-164	Providing Quality Taxpayer Service Operations	September 2006	01/15/08	<b><i>Individual Tax Returns Were Timely Processed in 2006, but Opportunities Exist to Improve Verification of Certain Tax Deductions</i></b>  F-3, R-1, P-1. Create a new form for the tuition and fees deduction to ensure compliance with the tax legislation.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2006-20-166	Security of the IRS	September 2006	10/15/07 P-1, P-2:  10/15/07 P-3: 02/15/08 P-1: 10/15/07 P-2, P-3: 10/15/08 P-4: 10/15/07 P-1, P-2: 10/15/07 P-3: 04/15/09	<b><i>The Monitoring of Privacy Over Taxpayer Data Is Improving, Although Enhancements Can Be Made to Ensure Compliance with Privacy Requirements</i></b>  F-1, R-1, P-1. Request that IRS business owners identify and report all systems or projects that collect personally identifiable information. F-1, R-2, P-1, P-2, P-3. Establish a centralized repository for all Privacy Impact Assessment in a searchable, electronic format. F-2, R-1, P-1, P-2, P-3, P-4. Initiate a program providing for the routine evaluation of employee training activities relative to current privacy policy requirements and develop a system for tracking and monitoring these activities. F-2, R-2, P-1, P-2, P-3. Reinforce the importance of Privacy Impact Assessment case documentation with specific instructions or case models and implement a compliance review process to assess whether IRS business units are adhering to privacy regulations, given limited resources and staff knowledge in conducting these reviews.
2006-40-172	Security of the IRS	September 2006	P-1: 06/01/07 P-2: 05/15/07	<b><i>Accountability over Volunteer Income Tax Assistance Program Computers Continues to Be a Problem</i></b>  F-1, R-2, P-1, P-2. Integrate the ITAMS and STARS to link the information between the two and ensure that all VITA Program computers are properly and efficiently controlled.
2006-20-177	Security of the IRS	September 2006	10/15/07 11/15/07  10/15/08  04/15/08	<b><i>Improvements Are Needed to Ensure that the Use of Modernization Applications Is Effectively Audited</i></b>  F-1, R-1, P-1. Establish a review process for CADE audit trails. F-2, R-1, P-1. Reassess the requirements for SAAS audit trails, including identifying all user requirements and the resulting SAAS system requirements needed to achieve them. F-2, R-2, P-1. Modify modernized system audit trails to comply with SAAS standards, ensuring that data collected are valid and arranged in the proper format. F-2, R-3, P-1. Re-evaluate SAAS procedures and processes to ensure that the new SAAS requirements are incorporated and that responsibilities for reviewing modernization audit trails are adequately defined.
2006-20-178	Security of the IRS	September 2006	01/15/08	<b><i>Complete Certification and Accreditation Is Needed to Ensure that the Electronic Fraud Detection System Meets Federal Government Security Standards</i></b>  F-3, R-1, P-1. Develop a Business Impact Analysis for the Enterprise Computing Center – Memphis that places the EFDS at an appropriate priority among the other major applications residing at the Enterprise Computing Center – Memphis.
2007-40-026	Providing Quality Taxpayer Service Operations	January 2007	P-1: 11/25/07 P-2: 11/15/07 P-2, P-3: 01/15/08  10/15/07	<b><i>Improvements to the E-Help Desk Are Needed to Support Expanding Electronic Products and Services</i></b>  F-1, R-1, P-1, P-2. Develop a process to ensure that customer satisfaction is timely measured. F-1, R-4, P-2, P-3. Develop processes and procedures to ensure that management information is complete and accurate. F-1, R-6, P-1. Realign the E-Help Desk Program assistors under the BSBA office.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2007-20-048	Security of the IRS	March 2007	12/15/07 10/15/07 04/01/08 12/01/07	<b><i>The Internal Revenue Service Is Not Adequately Protecting Taxpayer Data on Laptop Computers and Other Portable Electronic Media Devices</i></b>  F-2, R-3, P-1. Periodically publicize an explanation of employee's responsibilities for preventing the loss of computer equipment and taxpayer data, the associated disciplinary penalties for negligence over the responsibilities, and a statistical summary of actual violations and disciplinary actions relating to loss of computer equipment and taxpayer data. F-3, R-2, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure that encryption solutions are being used by employees and sensitive data are encrypted properly. F-5, R-1, P-1. Implement procedures to encrypt backup data sent to non-IRS facilities. F-5, R-2, P-1. Ensure that employees who are assigned oversight responsibilities for non-IRS facilities conduct and certify annual inventory validations of backup media; conduct periodic checks to verify the accuracy of the access list and ensure that individuals who no longer have a need to access the non-IRS facilities have been removed; and conduct annual internal physical security reviews of the non-IRS offsite facility to determine that the site meets IRS requirements.
2007-30-049	Tax Compliance Initiatives	March 2007	10/15/07 01/15/09	<b><i>The Internal Revenue Service Needs to Improve Procedures to Identify Noncompliance with the Reporting Requirements for Noncash Charitable Contributions</i></b>  F-1, R-1, P-1, P-2, P-3. Develop a comprehensive outreach plan on the reporting requirements for noncash charitable contributions for the affected taxpayers and tax practitioners. F-2, R-1, P-3. Develop procedures to address returns without required substantiation for noncash charitable contributions.
2007-40-057	Providing Quality Taxpayer Service Operations	March 2007	05/15/08 12/15/07 05/15/08 05/15/09 12/15/07	<b><i>Steps Can Be Taken to Reduce the Challenges Taxpayers with Vision Impairments Face When Attempting to Meet Their Tax Obligations</i></b>  F-1, R-1, P-1. Consider eliminating the income restriction on free tax preparation of simple tax returns at Taxpayer Assistance Centers for taxpayers with disabilities and allow them to schedule appointments in advance for tax return preparation assistance. F-1, R-2, P-1. Provide an interface that would make tax preparation software packages accessible to blind and other taxpayers with vision impairments through the Free File Web site. F-2, R-1, P-2. Conduct a study to determine the current and future needs and required services for taxpayers with vision impairments. F-2, R-2, P-1. Using the results of the study, develop a long-term strategy to assist taxpayers with vision impairments, including seniors. F-3, R-1, P-1. Provide additional viewing options on IRS.gov, such as scalable fonts, enlarged text size, or background colors to make it more accessible to taxpayers with vision impairments.
2007-20-059	Security of the IRS	March 2007	10/15/07	<b><i>The Background Investigation Process Needs Improvements to Ensure Investigations Are Completed Timely and Effectively</i></b>  F-2, R-1, P-1. Periodically remind business unit managers, contracting officer's technical representatives, and system administrators to review documentation verifying that contractors have been pre-screened before they are given access to computer systems.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2007-10-061	Tax Exempt Organizations	March 2007	09/15/08	<b><i>Tax-Exempt Hospital Industry Compliance with Community Benefit and Compensation Practices Is Being Studied, but Further Analyses Are Needed to Address Any Noncompliance</i></b>  F-1, R-1, P-1. Ensure that the interim report includes an assessment of how tax-exempt hospitals are providing a community benefit, as well as any planned actions that are determined to be necessary to address the community benefit standard.
2007-30-062	Tax Compliance Initiatives	March 2007	P-1, P-2, P-6: 11/15/07 P-5, P-7: 01/15/08  01/15/09  P-1: 11/15/07 P-2: 01/15/08  P-1, P-2, P-3: 11/15/07 P-6, P-7: 01/15/08  P-1, P-2: 11/15/07 P-5: 01/15/08  01/15/09	<b><i>Social Security and Medicare Taxes Are Not Being Properly Assessed on Some Tips and Certain Types of Wage Income</i></b>  F-1, R-1, P-1, P-2, P-5, P-6, P-7. Use Form 4137 exclusively for calculating Social Security and Medicare taxes on tip income. Revise the form to capture the data necessary to assess the employer's share of Social Security and Medicare taxes on unreported tip income. F-1, R-2, P-1, P-2. Develop a compliance program to ensure that the revised Form 4137 is used effectively to identify and assess the employer's share of Social Security and Medicare taxes on unreported tip income. F-2, R-1, P-1, P-2. Create a new form for the reporting of the worker's share of Social Security and Medicare taxes on wage income for taxpayers who fall under Section 530 or whose employment status is in dispute. F-2, R-2, P-1, P-2, P-3, P-6, P-7. Discontinue the use of Form 4137 when the new form is created; delete Schedule U from the bottom of Form 4137; create instructions that clearly state the criteria for filing the new wage form; modify instructions on the back of Form 1099-MISC to refer taxpayers to the instructions for the new form; add a specific section to Publication 17 containing instructions for taxpayers who have employment status conflicts with employers and instructions regarding who may qualify to file the new form; and ensure that the wage data from the new form will be sent electronically to the SSA. F-3, R-1, P-1, P-2, P-5. Ensure that the newly created form requires documentation of a name and EIN for each employer; ensure that the form requires the taxpayer to indicate the reason for reporting wage income, the date on which the taxpayer received an IRS determination letter in response to a Form SS-8, or a statement that an IRS determination had been requested; and develop procedures to correspond with taxpayers filing paper returns who do not provide the requested data and do not accept for processing any incomplete form filed electronically. F-3, R-2, P-1, P-2. Develop a compliance program to help ensure that only qualifying individuals use the new form and that the appropriate amounts of Social Security and Medicare taxes are assessed for self-employed taxpayers or employers who are misclassifying their employees.
2007-30-066	Tax Compliance Initiatives	March 2007	12/15/07  12/15/07  11/15/07	<b><i>The Private Debt Collection Program Was Effectively Developed and Implemented, but Some Follow-Up Actions Are Still Necessary</i></b>  F-1, R-1, P-1. Include a requirement for private collection agencies (PCA) to maintain Federal tax information on a separate, dedicated server when the IRS expands the program to include additional contractors. F-3, R-1, P-1. Include a requirement for PCAs to provide a copy of scripts for all telephone contacts with taxpayers to the IRS, who will then review and approve them. F-4, R-1, P-1. Continue updating the revenue model to ensure that the IRS appropriately accounts for the impact of taxpayers who opt out of the program, the age of the balance due, and the actual collection rate achieved.

## Other Statistical Reports

<b>The Inspector General Act of 1978 requires Inspectors General to address the following issues:</b>	
<b>Issue</b>	<b>Result for TIGTA</b>
<p><b>Access to Information</b> Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	As of September 28, 2007, there were no instances in which information or assistance requested by the Office of Audit was refused.
<p><b>Disputed Audit Recommendations</b> Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	As of September 28, 2007, no reports were issued in which significant recommendations were disputed.
<p><b>Revised Management Decisions</b> Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	As of September 28, 2007, no significant management decisions were revised.
<p><b>Audit Reports Issued in the Prior Reporting Period with No Management Response</b> 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.</p>	As of September 28, 2007, there were no prior reports where management's response was not received.
<p><b>Review of Legislation and Regulations</b> Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	TIGTA's Office of Chief Counsel reviewed 183 proposed regulations and legislative requests during this reporting period.



THE TREASURY DEPARTMENT



ALBERT GALLATIN  
SECRETARY OF THE TREASURY  
1791 - 1849

# Appendix II

## Audit Products

**April 1, 2007 – September 30, 2007**

Inspector General Congressional Testimony	
Reference Number	Hearing Title
<b>April 2007</b>	
2007-OT-100	Inspector General Testimony Before U.S. Senate Committee on Finance – Filing Your Taxes: An Ounce of Prevention is Worth a Pound of Cure
2007-OT-101	Inspector General Testimony Before Subcommittee on Government Management, Organization and Procurement – Committee on Oversight and Government Reform – U.S. House of Representatives
<b>May 2007</b>	
2007-OT-102	Inspector General Testimony Before Subcommittee on Financial Services and General Government – Committee on Appropriations – U.S. Senate – Internal Revenue Service FY 2008 Budget Request

Audit Products	
Reference Number	Report Title
<b>April 2007</b>	
2007-20-065	Complete Actions Were Not Taken to Validate the Best Software Solution Was Chosen for the Private Debt Collection Program
2007-40-072	Interim Results of the 2007 Filing Season
2007-30-063	Opportunities Exist to Improve the Processing and Accuracy of Electronically Filed Individual Income Tax Returns (Revenue Protection: \$5.8 million impacting 3,365 taxpayers)
2007-30-070	Fiscal Year 2007 Statutory Review of Compliance With Legal Guidelines When Issuing Levies
2007-10-069	Invoice Audit of the Financial Statement/Government Accountability Office Audit Support Services Contract – TIRNO-03-K-00167 (Questioned Costs: \$22,536)
2007-20-073	Continued Improvements Are Needed for the Development and Operations of the New Enterprise Services Organization
2007-10-074	More Careful Monitoring of Billings for Working Capital Fund Administrative Services Is Needed (Reliability of Information: \$34,485,176 in misclassified transactions)
<b>May 2007</b>	
2007-20-064	The Modernization and Information Technology Services Organization Can Improve Its Budget Formulation, Execution, and Review Processes
2007-10-071	The Office of Appeals Needs to Improve the Monitoring of Its Campus Operations Quality (Revenue Protection: \$108,091 impacting 3,732 taxpayers; Taxpayer Burden: 3,642 taxpayers with delays in notification and scheduling of appeals and resolution of cases; Taxpayer Rights and Entitlements: 8,704 taxpayers who did not receive proper notification on innocent spouse cases or of the availability of hearings; Taxpayer Privacy and Security: 70 unauthorized disclosures of information)

## Audit Products

Reference Number	Report Title
2007-10-068	Inefficiencies in Processing Operations Assistance Requests Caused Taxpayers Unnecessary Delays (Taxpayer Burden: delays impacting 89,263 taxpayers; Reliability of Information: milestone dates incorrectly entered for 90,000 Operations Assistance Requests and 37,212 instances of request delays that may not be identified)
2007-40-078	The Strategic Improvement Themes in the Taxpayer Assistance Blueprint Phase I Report Appear to Be Sound; However, There Were Some Inaccurate Data in the Report
2007-10-077	The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan As of December 31, 2006 (Reliability of Information: \$58.5 million in resources which could not be verified or differed materially from IRS-provided documentation)
2007-10-082	Screening Tax-Exempt Organizations' Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified
2007-40-079	Screening Electronically Filed Returns for Errors Provides a Significant Benefit and Does Not Appear to Be a Barrier to Electronic Filing (Funds Put to Better Use: \$62,230; Taxpayer Burden: 31,590 taxpayers that filed a second, paper return)
2007-30-075	Opportunities Exist to Help Seniors and Many Other Taxpayers Who Repeatedly Make Mistakes on Their Individual Income Tax Returns
2007-10-076	Actions Have Been Taken to Address Deficiencies in the Questionable Refund Program; However, Many Concerns Remain, With Millions of Dollars at Risk (Increased Revenue: \$81.5 million; Revenue Protection: \$34.3 million)
<b>June 2007</b>	
2007-10-083	Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 2000 Through Fiscal Year 2006
2007-10-081	More Complete and Accurate Data Are Needed to Assess the Impact of Actions to Address Compliance Reporting of State and Local Government Entities (Reliability of Information: 40 accounts with inaccurate or incomplete information)
2007-20-108	Sufficient Emphasis Was Not Placed on Resolving Security Vulnerabilities When Restoring the Electronic Fraud Detection System
2007-1C-084	Report on the Audit of Cost Accounting Standard 409, Depreciation of Tangible Capital Assets
2007-20-110	Progress Has Been Slow in Meeting Homeland Security Presidential Directive-12 Requirements
2007-40-105	Additional Action Is Needed to Expand the Use and Improve the Administration of the Free File Program
<b>July 2007</b>	
2007-20-103	Management Practices Over End-User Computer Server Storage Need Improvement to Ensure Effective and Efficient Storage Utilization (Funds Put to Better Use: \$9,345,125; Inefficient Use of Resources: \$14,553,876)
2007-10-106	The Internal Revenue Pay-for-Performance System May Not Support Initiatives to Recruit, Retain, and Motivate Future Leaders
2007-30-109	Fiscal Year 2007 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 20 taxpayers whose rights could be adversely affected)
2007-40-112	Fiscal Year 2007 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 601 taxpayers improperly identified; Reliability of Information: One Internal Revenue Manual subsection with prohibited reference to Illegal Tax Protester Designations)
2007-20-099	The Modernized e-File Project Can Improve Its Management of Requirements



## Audit Products

Reference Number	Report Title
2007-20-104	Network Devices Are Running Unnecessary Communication Services Which Could Expose Sensitive Data to Unauthorized Individuals (Protection of Resources: 31,445 devices on the IRS network that were potentially vulnerable due to the existence of unneeded non-secure services)
2007-40-115	System Updates and Control Improvements Are Needed to Ensure Contact Recording Will Provide an Accurate Assessment of Taxpayer Assistance Quality
2007-40-114	Suspended E-File Providers Were Not Adequately Assisted With Reinstatement of Electronic Filing Privileges
2007-40-119	Fiscal Year 2007 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns
2007-20-080	Vital Decisions Must Be Made to Ensure Successful Implementation of Customer Account Data Engine Capabilities
2007-10-113	The Internal Revenue Service Expects to Spend About \$13 Million to Recover From the 2006 Flood of Its Headquarters Building
2007-40-118	Fiscal Year 2007 Statutory Review of Restrictions on Directly Contacting Taxpayers
2007-20-107	Employees Continue to Be Susceptible to Social Engineering Attempts That Could Be Used by Hackers
2007-40-116	Eliminating TeleFile Increased the Cost and Burden of Filing a Tax Return for Many Taxpayers
2007-20-123	While Improvements Continue in Contract Negotiation Methods and Management Practices, Inconsistencies Need to Be Addressed (Funds Put to Better Use: \$3,682,729)
2007-30-126	The Philadelphia Collection Field Function Office Properly Controlled Form 809 Receipt Books and Timely Transmitted Remittances for Processing
2007-20-136	Treasury Inspector General for Tax Administration – Federal Information Security Management Act (Intelligence – National Security Systems) Report for Fiscal Year 2007
2007-30-122	The Centralized Lien Unit Properly Filed Federal Tax Liens but Needs to Minimize the Number of and Improve Controls Over Liens Returned by Recording Offices (Increased Revenue: \$3.4 million; Taxpayer Burden: 14 taxpayers whose liens may not have been released)
2007-30-132	The Phoenix Collection Field Function Office Properly Controlled Form 809 Receipt Books and Timely Transmitted Remittances for Processing
<b>August 2007</b>	
2007-30-138	The Kansas City Collection Field Function Office Properly Controlled Form 809 Receipt Books and Timely Transmitted Remittances for Processing
2007-1C-085	Incurred Costs Audit for the 3-Month Period October 1, 2002, Through December 31, 2002
2007-1C-086	Incurred Costs Audit for Fiscal Year 2002 (Company 9)
2007-1C-087	Incurred Costs Audit for Fiscal Year 2003 (Company 9)
2007-1C-088	Report on Audit of Annual Incurred Cost for Subcontractor's Fiscal Year Ended December 31, 2002
2007-1C-089	Report on Audit of Annual Incurred Cost for Fiscal Year Ending December 31, 2003
2007-1C-090	Report on Audit of Direct and Indirect Costs for Contractor's Fiscal Year 2005 (Company 1)
2007-1C-091	Report on Audit of Direct and Indirect Costs for Contractor's Fiscal Year 2005 (Company 6)
2007-1C-092	Incurred Costs Audit for Fiscal Year Ended June 30, 2005
2007-1C-093	Report on Audit of Accounting System Internal Controls
2007-1C-094	Report on the Contractor's Compliance With Requirements of the Office of Management and Budget Circular A-133 and Report on Audit of Incurred Costs for Fiscal Year 2001
2007-1C-095	Audit of Compensation System Internal Controls
2007-1C-096	Incurred Costs Audit for Fiscal Year Ended December 31, 2004

## Audit Products

Reference Number	Report Title
2007-1C-097	Report on the Contractor's Labor Charging and Cost Allocations
2007-1C-098	Report on Audit of the Contractor's Information Technology Segment Incurred Cost Proposal for Fiscal Year 2004
2007-20-120	Processes for Determining Whether to Lease or Purchase Computer Equipment Need to Be Improved (Questioned Costs: \$315,537; Inefficient Use of Resources: \$1.1 million; Reliability of Information: \$34.3 million in misclassified or insufficient information)
2007-40-131	The Customer Account Data Engine Release 2.1 Generally Posted Tax Return Information Accurately (Reliability of Information: 103,109 instances of incorrect postings to taxpayer accounts)
2007-20-117	Efforts Have Been Made, but Manager and Employee Noncompliance With Security Policies and Procedures Puts Personally Identifiable Information at Risk
2007-40-125	Taxpayer Service Savings Estimates for Fiscal Years 2006 and 2007 Could Not Be Validated (Reliability of Information: \$119.9 million in estimated taxpayer service cost savings that could not be validated)
2007-40-130	Evaluation of the Characteristics of Unnecessarily Filed Individual Income Tax Returns
2007-20-129	Standard Database Security Configurations Are Adequate, Although Much Work Is Needed to Ensure Proper Implementation
2007-10-140	The Development of Specific Long-Term Measures and Targets Improved the Internal Revenue Service's Strategic Plan (2005 - 2009)
2007-30-111	Processes to Resolve Business Taxpayers' Undeliverable Refunds Need to Be Strengthened (Funds Put to Better Use: \$2.6 million; Increased Revenue: \$10.4 million; Taxpayer Rights and Entitlements: 15 taxpayers who received checks without \$8,000 in interest due)
2007-20-121	Annual Assessment of the Business Systems Modernization Program
2007-10-135	The Indian Tribal Governments Office Has Developed an Effective Customer Satisfaction Survey Process
2007-40-164	The Internal Revenue Service Provides Helpful Tax Law Assistance but Still Has Problems With Tax Return Preparation Assistance (Taxpayer Burden: 13 instances of incorrect answers to tax law questions or incorrect tax returns obtained)
2007-10-166	Efforts to Collect Delinquent Employment Taxes Owed by Government Entities Could Be Improved
2007-40-137	Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed
2007-30-163	Opportunities Exist to Improve Manual Interest Calculations on Estate Tax Returns (Increased Revenue: \$81,677 from ten taxpayer accounts; Taxpayer Rights and Entitlements: \$3,161 for six accounts)
2007-10-128	The Human Capital Office Made Improvements to the Employee Tax Compliance Program but Has Not Yet Improved the Detection of Noncompliance
2007-10-133	The Office of Disclosure Can Improve Compliance With the Freedom of Information Act Requirements (Taxpayer Rights and Entitlements: 1,331 IRS responses to FOIA, Privacy Act and I.R.C. Section 6103 requests that improperly withheld information or were not timely)
2007-20-134	Insufficient Attention Has Been Given to Ensure States Protect Taxpayer Information
2007-30-159	Mismatched Names and Identification Numbers on Information Documents Could Undermine Strategies for Reducing the Tax Gap (Increased Revenue: \$1.17 billion)
2007-40-160	Toll-Free Access for the 2007 Filing Season Was Effective, but the Quality and Level of Customer Service for Spanish-Speaking Taxpayers Could Be Improved
2007-3E-162	Challenges in Reversing the Trends in Manhattan Office Examination Results
2007-40-165	Consolidation of Tax Return Processing Sites Is Progressing Effectively, but Improved Project Management Is Needed

## Audit Products

Reference Number	Report Title
2007-40-167	Fiscal Year 2007 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 595 taxpayer and taxpayer representative case files not adequately documented)
2007-30-168	Positive Steps Have Been Taken to Enhance the Sharing of Information Between Federal Agencies, but Additional Actions Are Needed
<b>September 2007</b>	
2007-1C-141	Incurred Costs Audit for Fiscal Year 2004 (Company 9)
2007-1C-144	Report on Audit of Direct and Indirect Costs for Contractor's Fiscal Year 2005 (Company 6)
2007-1C-145	Incurred Costs Audit for Fiscal Year Ended December 31, 2003
2007-1C-146	Report on Audit of Preaward Survey of Prospective Contractor's Accounting System
2007-1C-147	Audit of Preaward Survey of Prospective Contractor's Accounting System
2007-30-173	Significant Challenges Exist in Determining Whether Taxpayers With Schedule C Losses Are Engaged in Tax Abuse
2007-1C-142	Incurred Costs Audit for Fiscal Year 2005 (Company 9)
2007-1C-143	Report on Examination of Direct and Indirect Costs and Rates for Fiscal Year Ended December 20, 2002
2007-1C-148	Report on Post-Award Accounting System Audit
2007-1C-151	Modified Financial Condition Risk Assessment
2007-1C-152	Report on Compliance With Cost Accounting Standard 412, Composition and Measurement of Pension Costs, and Cost Accounting Standard 413, Adjustment and Allocation of Pension Costs
2007-1C-153	Report on Audit of Termination Proposal
2007-30-170	Employees Are Not Always Ensuring That Taxpayers Pay the Maximum Amount Possible When Granting Partial Payment Installment Agreements (Increased Revenue: \$1,870,943; Reliability of Information: management did not have an information system to track 14,042 taxpayers with agreements)
2007-40-175	Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions (Revenue Protection: \$1,641; Funds Put to Better Use: \$850; Taxpayer Rights and Entitlements: \$83,374 for 51 taxpayers)
2007-30-171	Improved Procedures Are Needed to Identify Noncompliance With the Reporting Requirements for Contributions of Motor Vehicles
2007-30-172	Like-Kind Exchanges Require Oversight to Ensure Taxpayer Compliance
2007-30-180	The Federal Tax Deposit Alert Program Helps Taxpayers Comply With Paying Taxes, but Alerts Can Be Worked More Effectively
2007-30-182	The Employer's ANNUAL Federal Tax Return (Form 944) Program Was Effectively Planned and Implemented, but Fewer Returns Than Anticipated Were Filed
2007-30-179	Management has Emphasized the Fraud Program, but Opportunities Exist to Further Improve It (Increased Revenue: \$432,000 from six taxpayers)
2007-10-184	Improving the Toll-Free Telephone Agreement Would Better Assure Tax-Exempt Customer Needs Will Be Met (Taxpayer Burden: 3,643 taxpayers not informed of the change in how their questions would be answered)
2007-20-161	Effectiveness of Access Controls Over System Administrator User Accounts Can Be Improved
2007-30-169	Improvements Have Been Made to Monitor Employers Who Use Professional Employer Organizations, but More Can Be Done
2007-40-176	Better Screening and Monitoring of E-File Providers Is Needed to Minimize the Risk of Unscrupulous Providers Participating in the E-File Program

## Audit Products

Reference Number	Report Title
2007-20-186	Treasury Inspector General for Tax Administration – Federal Information Security Management Act Report for Fiscal Year 2007
2007-10-139	The Office of Appeals Has Improved Its Processing of Collection Due Process Cases (Increased Revenue: 2,305 taxpayers impacted; Taxpayer Rights and Entitlements: 7,321 closed Collection Due Process and Equivalency Hearing cases that did not contain required or sufficient documentation)
2007-40-187	The 2007 Tax Filing Season Was Generally Successful, and Most Returns Were Timely and Accurately Processed (Revenue Protection: \$3.5 million impacting 10,186 taxpayers; Taxpayer Rights and Entitlements: \$1.66 billion, impacting 4.6 million taxpayers)
2007-10-188	Five Fair Tax Collection Practices Violations Resulted in Administrative Actions in Calendar Year 2006 (Reliability of Information: 26 employee cases not properly coded)
2007-1C-149	Report on the Contractor’s Compliance With Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance With Office of Management and Budget Circular A-133, Fiscal Year 2006 (Questioned Costs: \$62,192)
2007-1C-150	Report on the Contractor’s Cumulative Allowable Cost Worksheet for the Fiscal Year Ended June 30, 2005
2007-1C-154	Report on the Contractor’s Compliance With Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance With Office of Management and Budget Circular A-133, Fiscal Year 2003 (Questioned Costs: \$1,183)
2007-1C-155	Incurred Costs Audit for Fiscal Year Ended December 19, 2003
2007-1C-156	Incurred Costs Audit for Fiscal Year Ended December 31, 2003
2007-1C-157	Incurred Costs Audit for Fiscal Year 2004
2007-1C-158	Supplemental Report on Audit of Fiscal Year 2003 Incurred Costs Claim (January 1, 2002, through March 28, 2003)
2007-30-174	The Estate Tax Collection Process Has Improved, but Opportunities Exist to Better Ensure Taxpayers Are Treated Equitably
2007-10-181	The Growing Number of Requests for Procurement Actions at Year-End Increases the Risk of Inefficient and Ineffective Spending (Funds Put to Better Use: \$144,880)
2007-10-183	Progress Has Been Made in Improving the Accuracy of Trust Fund Recovery Penalty Transactions; However, Significant Work Remains
2007-10-185	Employee Plans Noncompliance Referrals Are Productive Sources of Work, but Processing Controls Need to Be Improved
2007-30-178	Although Strong Efforts Were Made, a Significant Amount of the Telephone Excise Tax Overcollected From Individual Taxpayers May Never Be Refunded

# Appendix III

## TIGTA's Statutory Reporting Requirements

TIGTA issued 30 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2007, TIGTA completed its ninth round of statutory reviews that are required annually by the Internal Revenue Service Restructuring and Reform Act of 1998. TIGTA also completed its annual review requirement of the Federal Financial Management Improvement Act of 1996 and the Office of National Drug Control Policy Detailed Accounting Submission and Assertions. The following table reflects the status of the FY 2007 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Enforcement Statistics</b>  Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS' compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	<i>Reference No. 2007-40-055, March 20, 2007</i> IRS first-line managers had appropriately not used records of tax enforcement results or production quotas or goals when evaluating employees and considered the fair and equitable treatment of taxpayers as a performance requirement. First-line managers also appropriately certified that they had not used records of tax enforcement results in a prohibited manner. TIGTA believes that the IRS' efforts to ensure that managers are not using records of tax enforcement results, or production goals or quotas, to evaluate employees are generally effective and are helping to protect the rights of taxpayers.
<b>Restrictions on Directly Contacting Taxpayers</b>  I.R.C. § 7803(d)(1)(A)(ii)	Requires TIGTA to evaluate the IRS' compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.	<i>Reference No. 2007-40-118, July 13, 2007</i> The IRS' Internal Revenue Manual (IRM) provides employees guidance to help ensure compliance with the direct contact provisions of the I.R.C. In addition, the IRS has informed taxpayers of these rights through various IRS publications. However, this is the ninth year that TIGTA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither TIGTA nor the IRS could readily identify cases where a taxpayer requested a representative or the IRS contacted the taxpayer directly and bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Filing of a Notice of Lien</b></p> <p>I.R.C. § 7803(d)(1)(A)(iii)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.</p>	<p><b>Reference No. 2007-30-051, March 20, 2007</b></p> <p>The IRS did not comply with the law in all cases. TIGTA's review of a statistically valid sample of 150 Federal Tax Lien cases identified 142 cases (95 percent) for which the IRS did mail lien notices timely and correctly as required by I.R.C. § 6320 and internal procedures. Four lien notices (about three percent) were not sent timely; for another four lien notices (about three percent), TIGTA could not determine if the IRS complied with the law because the IRS could not provide proof of mailing. When an initial lien notice is returned because it could not be delivered and a different address is available for the taxpayer, the IRS is not always meeting its statutory requirement to send the lien notice to the taxpayer's last known address. For 60 (15 percent) of the 400 cases, the IRS did not research its computer systems for the taxpayer's last known address. These cases could involve legal violations.</p> <p>Also, the IRS did not always follow its own internal guidelines for notifying taxpayer representatives of the filing of lien notices. For 15 (60 percent) of the 25 cases in which the taxpayer had a representative at the time of the IRS lien actions, the IRS did not notify the taxpayer's representative of the lien filing.</p>
<p><b>Extensions of the Statute of Limitations for Assessment of Tax</b></p> <p>I.R.C. § 7803(d)(1)(C)</p> <p>I.R.C. § 6501(c)(4)(B)</p>	<p>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p><b>Reference No. 2007-40-167, August 31, 2007</b></p> <p>There was not always documentation in the related case files that taxpayers were advised of their rights regarding assessment statute extensions. The IRS still used prior versions of the consent forms although the revised consent forms that explain taxpayers' rights to limit or refuse to extend the assessment statute of limitations had been available for over a year. In TIGTA's sample of 203 tax returns, 11 percent of the related case files did not contain adequate documentation to support that the taxpayers were advised of their rights regarding assessment statute extensions. In another 11 percent of the case files with authorizations for third-party representation, the IRS did not document that the representatives were separately notified of the written communications advising taxpayers of their rights.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Levies</b></p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p><b>Reference No. 2007-30-070, April 20, 2007</b></p> <p>The IRS has effective controls over the issuance of systemically generated and manually prepared levies in both the Automated Collection System and the Integrated Case Processing System to prevent a levy from being generated unless there were at least 30 days between the date taxpayers received notice of their appeal rights and the date of the proposed levy. TIGTA's review of 60 systemically generated levies and 60 manually prepared levies showed that taxpayers received notification of their appeal rights at least 30 days prior to the levy.</p>
<p><b>Collection Due Process</b></p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p><b>Reference No. 2007-10-139, September 21, 2007</b></p> <p>The IRS made improvements to the Collection Due Process by properly classifying most taxpayer requests to give taxpayers the Appeals review they are entitled to and by revising letters to taxpayers to make them more descriptive. However, the IRS was still not consistently including an impartiality statement in the case files, which presents a risk of prior involvement in the taxpayer's case and lack of independence. Also, the IRS did not always document whether all legal and administrative requirements were met, potentially impacting the actions taken by Appeals. In addition, the collection statute expiration dates for some taxpayers were incorrectly lengthened beyond 10 years, which is a potential violation of taxpayers' rights. In addition, other collection statutes were not extended long enough or at all, reducing the time the IRS has to collect the delinquent taxes.</p>
<p><b>Seizures</b></p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.</p>	<p><b>Reference No. 2007-30-109, July 3, 2007</b></p> <p>Review of a random sample of 50 seizures selected from 508 seizures conducted between July 1, 2005, and June 30, 2006, identified 15 seizures with 17 instances where the IRS did not fully comply with a particular I.R.C. requirement. While TIGTA did not identify any instances in which the taxpayers were adversely affected, not following legal and internal guidelines could result in abuses of taxpayers' rights. In addition, internal controls for sales of seized property can be improved to help prevent possible abuses of taxpayers' rights. Internal procedures require that sales of seized property be conducted by a property appraisal and liquidation specialist assisted by at least one other IRS employee. TIGTA identified seven cases where there was no documentation in the case file that an IRS employee assisted the property appraisal and liquidation specialist with the sale.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</b></p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the IRS' compliance with restrictions under section 3707 of RRA 98 on designation of taxpayers.</p>	<p><b>Reference No. 2007-40-112, July 3, 2007</b></p> <p>In general, the IRS is in compliance with the prohibition on using Illegal Tax Protester (ITP) or similar designations. The IRS has not reintroduced past ITP codes on the Master File, and formerly coded taxpayer accounts have not been assigned similar Master File designations. In addition, the IRS does not have any current publications with ITP references and has removed the one remaining reference from the IRM. There were some references in case files. In 601 instances out of approximately 49.6 million records and cases, IRS employees referred to taxpayers as ITPs or other similar designations in case narratives.</p>
<p><b>Disclosure of Collection Activities With Respect to Joint Returns</b></p> <p>I.R.C. § 7803(d)(1)(B)</p> <p>I.R.C. § 6103(e)(8)</p>	<p>Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p><b>Reference No. 2007-40-119, July 12, 2007</b></p> <p>The IRS' IRM provides employees sufficient guidance for handling joint filer collection activity information requests. However, this is the ninth year that TIGTA could not determine whether the IRS is complying with the statutory requirements for responding to written collection activity information requests from joint filers. Neither TIGTA nor the IRS could readily identify any 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>
<p><b>Taxpayer Complaints</b></p> <p>I.R.C. § 7803(d)(2)(A)</p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by the IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received are shown on page 49.</p>
<p><b>Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996</b></p> <p>I.R.C. § 7803(d)(1)(G)</p> <p>I.R.C. § 6304 Section 3466 of RRA 98</p>	<p>Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair tax collection provisions of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p><b>Reference No. 2007-10-188, September 21, 2007</b></p> <p>In Calendar Year (CY) 2006, there were five fair tax collection practices violations that resulted in an administrative action being taken against an IRS employee. There were no civil actions that resulted in the IRS paying monetary settlements to taxpayers because of a fair tax collections practice violation.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Denial of Requests for Information</b></p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p><b>Reference No. 2007-10-133, August 31, 2007</b></p> <p>In 4.6 percent of Freedom of Information Act (FOIA) and Privacy Act (PA) requests, the IRS improperly withheld information from taxpayers. This represents a lower percentage of improper withholdings than reported in TIGTA's FY 2006 audit report (6.1 percent). In addition, the percentage of untimely responses to FOIA and PA requests decreased to 2.3 percent in this year's sample, as compared to the untimely rates in previous audit reports, which ranged from 7.3 to 43.5 percent. The improvement in timeliness may, in part, be due to a significant decrease in the number of FOIA and PA cases received during FY 2006. However, the IRS improperly withheld information from requestor in 14.5 percent of I.R.C. § 6103 cases sampled. This represents a significantly higher percentage of improper withholdings than the 2.3 percent reported last year. TIGTA believes errors occurred mainly because of inadequate research or simple oversight by the Disclosure office caseworkers.</p>
<p><b>Adequacy and Security of the Technology of the IRS</b></p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS' adequacy and security of its technology.</p>	<p><b>Information Technology Reviews:</b></p> <p>Reference Number 2007-20-001, October 2006  Reference Number 2007-20-002, October 2006  Reference Number 2007-20-003, October 2006  Reference Number 2007-20-005, December 2006  Reference Number 2007-20-024, January 2007  Reference Number 2007-20-030, March 2007  Reference Number 2007-20-052, March 2007  Reference Number 2007-20-065, April 2007  Reference Number 2007-20-073, April 2007  Reference Number 2007-20-064, May 2007  Reference Number 2007-20-080, July 2007  Reference Number 2007-20-099, July 2007  Reference Number 2007-20-103, July 2007  Reference Number 2007-20-123, July 2007  Reference Number 2007-20-120, August 2007  Reference Number 2007-20-121, August 2007</p> <p><b>Security Reviews:</b></p> <p>Reference Number 2007-20-023, January 2007  Reference Number 2007-20-048, March 2007  Reference Number 2007-20-059, March 2007  Reference Number 2007-20-060, March 2007  Reference Number 2007-20-108, June 2007  Reference Number 2007-20-110, June 2007  Reference Number 2007-20-104, July 2007  Reference Number 2007-20-107, July 2007  Reference Number 2007-20-136, July 2007  Reference Number 2007-20-117, August 2007  Reference Number 2007-20-129, August 2007  Reference Number 2007-20-134, August 2007  Reference Number 2007-20-161, September 2007  Reference Number 2007-20-186, September 2007</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Federal Financial Management Improvement Act of 1996</b></p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the IRS' financial management systems to ensure compliance with Federal requirements, or establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p><b>Reference No. 2007-10-077, May 21, 2007</b></p> <p>TIGTA determined that no intermediate target dates were missed on the 51 open remedial actions and only one action was extended. However, 40 of the 51 actions were new for CY 2006. The 40 new actions all relate to computer security and replaced 11 existing actions that were all scheduled for completion by FY 2008. The new actions' completion dates range from FY 2007 through FY 2013.</p> <p>TIGTA's analysis of individual project resources listed in the December 31, 2006, remediation plan indicated that information on the estimated resources needed to implement the 40 open remedial actions relating to computer security was either incomplete or differed significantly from the detail supporting documentation provided by the IRS. For example, \$58.5 million reported for FY 2007 calculated costs related to computer security remediation actions could either not be verified or differed significantly from the detail supporting documentation provided.</p>
<p><b>Office of National Drug Control Policy Detailed Accounting Submission and Assertions</b></p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled <i>Annual Accounting of Drug Control Funds</i>, dated April 18, 2003.</p>	<p>Requires TIGTA to authenticate the IRS' Office of National Drug Control Policy detailed accounting submission and assertions.</p>	<p><b>Reference No. 2007-10-046, February 1, 2007</b></p> <p>TIGTA determined that the IRS' FY 2006 Office of National Drug Control Policy (ONDCP) detailed accounting submission and assertions, submitted to TIGTA on January 11, 2007, did not include all required material information or a reasonably detailed explanation regarding the methodology used to calculate funds expended. On January 25, 2007, TIGTA provided a discussion draft audit report notifying the IRS that its ONDCP detailed accounting submission was materially incomplete. The IRS responded by indicating that it calculated funds expended on the ONDCP program in FY 2006 to be \$55.484 million.</p> <p>In general, TIGTA found the overall cost allocation methodology described in the IRS' response to be reasonable and adequately explained with the exception of one matter. This matter relates to the IRS' adjustment of its allocation-based estimate of ONDCP funds expended upwards by \$2 million primarily to reflect salary and benefits related to program management and analytical support staff costs it directly attributed to the program.</p>

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# Appendix IV

## Section 1203 Standards

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

Misconduct violations include:

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

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



THE TREASURY DEPARTMENT

ALBERT GALLATIN  
SECRETARY OF THE TREASURY  
1791 - 1866


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# Appendix V

## Data Tables Provided by the IRS

The memorandum copied below is the IRS transmittal to TIGTA. The tables that follow the memorandum contain information 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) for the period from April 1, 2007, through September 30, 2007. Also, data concerning substantiated I.R.C. § 1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.

	DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D. C. 20224
HUMAN CAPITAL OFFICE	
	October 4, 2007
	MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION
FROM:	Barbara B. Flaboty Director, Workforce Relations Division
SUBJECT:	Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress
In response to your memorandum of July 27, 2007, to the Acting Commissioner, I am providing the following information to you to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period April 1, 2007 to September 30, 2007.	
<ul style="list-style-type: none"><li>• Report of Employee Misconduct by Disposition Groups</li><li>• Report of Employee Misconduct – National Summary</li><li>• Summary of Substantiated Section 1203 Inquiries Recorded in ALERTS</li></ul>	
The attached tables contain information concerning alleged misconduct reported to IRS managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of September 30, 2007. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).	
The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 167 §1203 allegations and removed 24 employees. In four of the removals IRS managers considered information forwarded in a TIGTA investigation. Seventeen employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 75 cases.	
If you have any questions or need additional information, please call me at 202-622-6383, or a member of your staff may contact Christine Adams at 202-622-9363.	
Attachments (3)	
cc: Acting Commissioner Deputy Commissioner for Services and Enforcement Deputy Commissioner for Operations Support National Taxpayer Advocate Acting Chief, EEO & Diversity Chief, Communications & Liaison Associate Chief Counsel (GLS)	

**Report of Employee Misconduct for the Period  
April 01, 2007 through September 30, 2007  
Summary by Disposition Groups  
(Table provided by the IRS)**

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	78	83	18	2	<b>181</b>
Separation of Probationary Employees	2	139	1	2	<b>144</b>
Separation of Temporary Employees		3	8	1	<b>12</b>
Resignation/Retirement	110	223	43	15	<b>391</b>
Suspensions	142	263	123	5	<b>533</b>
Reprimands	155	525	465	16	<b>1,161</b>
Counseling		385	988	38	<b>1,411</b>
Alternative Discipline	28	110	22	7	<b>167</b>
Clearance	117	152	8		<b>277</b>
Closed Without Action	224	345	102	153	<b>824</b>
Closed Without Action (Caution Statement)	175	141	98	74	<b>488</b>
Forwarded to TIGTA		13			<b>13</b>
Suspended – Waiting Supplemental	5				<b>5</b>
Termination for Abandonment of Position		47			<b>47</b>
Case Suspended Pending Employee Return To Duty	2	4	4	3	<b>13</b>
Prosecution Pending for TIGTA ROI's	16				<b>16</b>
<b>Total</b>	<b>1,054</b>	<b>2,433</b>	<b>1,880</b>	<b>316</b>	<b>5,683</b>

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

This report is being produced in accordance with 26 USC § 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999 Extract Date: Monday, October 01, 2007 Report ID = T1R3a



**Report of Employee Misconduct for the Period  
April 01, 2007 through September 30, 2007  
National Summary  
(Table provided by the IRS)**

Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Cases	
TIGTA Investigations ROI <sup>1</sup>	637	932	(1,054)	(4)	(0)	<b>511</b>
Administrative Case <sup>2</sup>	906	2,310	(2,433)	(29)	(2)	<b>752</b>
Employee Tax Compliance Case <sup>3</sup>	733	2,160	(1,880)	(69)	(0)	<b>944</b>
Background Investigations <sup>4</sup>	84	387	(316)	(1)	(0)	<b>154</b>
<b>Total</b>	<b>2,360</b>	<b>5,789</b>	<b>(5,683)</b>	<b>(103)</b>	<b>(2)</b>	<b>2,361</b>

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

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

Extract Date: Monday, October 01, 2007 Report ID = T1R1

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

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

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

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

**Summary of Substantiated I.R.C. § 1203 Allegations  
Recorded in ALERTS for the Period  
April 01, 2007 through September 30, 2007  
(Table provided by the IRS)**

§ 1203 Violation	Removals <sup>1</sup>	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated <sup>1</sup>	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	<b>0</b>
False Statement Under Oath	1	0	0	0	0	0	<b>1</b>
Constitutional & Civil Rights Issues	0	0	0	0	0	0	<b>0</b>
Falsifying or Destroying Records	0	0	0	0	1	1	<b>2</b>
Assault or Battery	0	0	0	0	0	0	<b>0</b>
Retaliate or Harass	1	0	0	0	0	0	<b>1</b>
Misuse of §6103	0	0	0	0	0	0	<b>0</b>
Failure to File Federal Tax Return	8	4	0	1	34	16	<b>63</b>
Understatement of Federal Tax Liability	13	13	0	4	39	28	<b>97</b>
Threat to Audit for Personal Gain	1	0	0	0	1	1	<b>3</b>
<b>Totals</b>	<b>24</b>	<b>17</b>	<b>0</b>	<b>5</b>	<b>75</b>	<b>46</b>	<b>167</b>

Source: Automated Labor and Employee Relations Tracking System (ALERTS) and § 1203 Review Board records.

Extract Date: Tuesday, October 02, 2007

<sup>1</sup> The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third-party appeal.



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## DEPARTMENT OF THE TREASURY

Office of the Inspector General for Tax Administration  
1125 15th Street, NW., Room 700A  
Washington, DC 20005

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