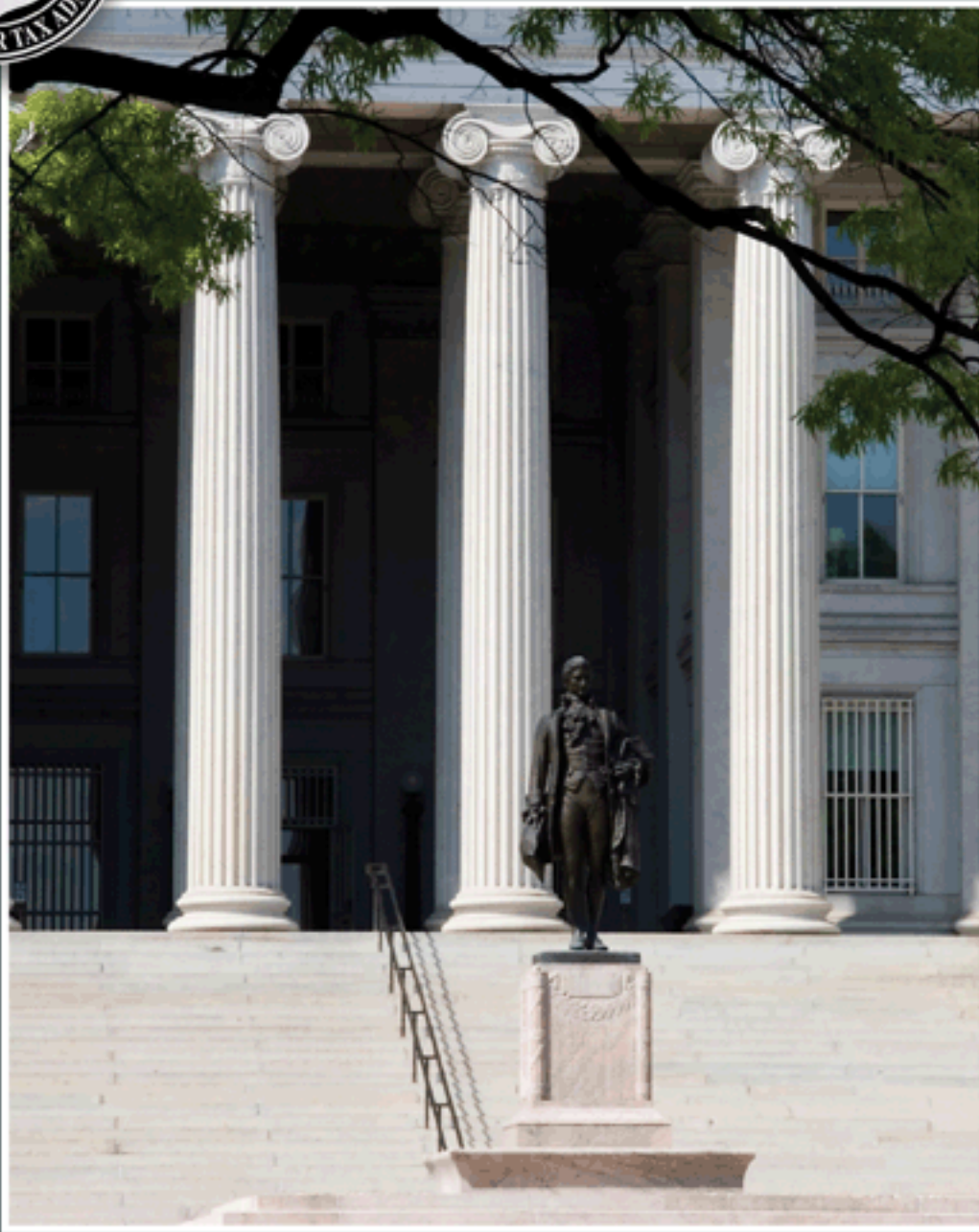




Treasury Inspector General for Tax Administration



Semiannual Report to Congress

April 1, 2008 through September 30, 2008



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INSPECTOR GENERAL'S MESSAGE TO CONGRESS

I am honored to present the Treasury Inspector General for Tax Administration's (TIGTA) Semiannual Report to Congress for the time period covering April 1, 2008 to September 30, 2008. As required by the *Inspector General Act of 1978*, as amended, we submit this report summarizing our independent audit and investigative oversight of tax administration, including Internal Revenue Service (IRS) activities, systems, and operations. TIGTA completed 179 audits as of the close of Fiscal Year 2008 that identified \$2.4 billion in financial accomplishments.

Three critical challenges affecting the IRS remain a priority for TIGTA: modernization of its aging computer systems; expanding taxpayer compliance; and protecting the secured personal and financial information of millions of taxpayers.

During this time of economic crisis, citizens are relying on the Federal Government to protect our Nation's economic interests. Now, more than ever, the IRS must focus efforts to close the Tax Gap – the difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. In audits conducted over this reporting period, TIGTA found that the IRS has neglected to consistently assess penalties on non-compliant businesses and individuals. Additionally, TIGTA noted that the IRS generally does not penalize taxpayers for making false statements when filing official tax forms. The IRS must aggressively address the lack of taxpayer compliance and hold those in violation accountable for their actions.

In the process of ensuring taxpayer compliance, IRS agents sometimes encounter threats and other potentially dangerous situations. I am pleased to report that special agents of TIGTA's Office of Investigations now have the authority to provide armed escorts to IRS employees thanks to the recent passage of the *Improving Government Accountability Act* (P.L. 110-409). The President signed it into law on October 14, 2008.

While the IRS has experienced positive results with its Modernized e-File System, the overall modernization effort continues to face challenges with adequate funding and maintaining of the projected 15-year system overhaul plan. Currently, the program is in its tenth year; however, it has not met the goals set forth in the initial timeline. System glitches,

budget shortfalls, and increased taxpayer activity have negatively impacted the project schedule.

Further, each year, millions of taxpayers entrust the IRS with sensitive financial and personal data. TIGTA remains committed to assisting the IRS by assessing current practices and finding innovative means to safeguard this information. This year, TIGTA recommended that the IRS implement additional controls at all levels of its computer environment to maintain adequate security over sensitive taxpayer data. Secured Internet connections, system access restrictions and monitoring, and emergency preparedness and disaster recovery must be strengthened.

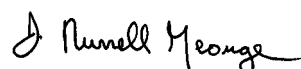
The 2008 Filing Season was unique for the IRS. During this busiest time of the year, the IRS also processed and distributed funds in accordance with the *Recovery Rebates and Economic Stimulus for the American People Act of 2008*. In addition to the expected filing rate, an estimated 20 million individuals who normally would not file a tax return did so. Despite this, the IRS achieved a high level of accuracy in calculating the 129.1 million economic stimulus payments. TIGTA identified less than a half percent inaccuracy rate in their calculations.

In addition to the critical challenges facing the IRS, TIGTA continues to review and make recommendations for providing quality taxpayer service operations, eliminating erroneous and improper payments, curtailing unauthorized access to IRS information and systems, and using performance and financial information for program and budget decisions.

While TIGTA promotes the stewardship of the taxpayer dollar through our audit and investigative efforts, we also look internally to ensure that our operations are serving the taxpaying public in the most economical, efficient, and effective manner. As a result, we have expanded our evaluative and reporting capabilities with the new Office of Inspections and Evaluations. This office provides an additional level of oversight and allows for flexibilities in evaluating certain IRS activities. Some notable reports already published by this new office involve the use of religious compensatory time for Federal employees, IRS's security measures for personally identifiable information, and improvements to strengthen lockbox bank oversight.

I look forward to continuing our relationship with Congress. I want to acknowledge the extraordinary efforts of the IRS and of our auditors, investigators, evaluators, attorneys, and support personnel who work tirelessly to ensure our Nation's tax system is operating efficiently, effectively and fairly.

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 2008.

	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, 2008 – Sept. 30, 2008	96	\$350 million	\$1.4 billion	1,826	1,895	284
FY 2008	179	\$350 million	\$1.6 billion	3,554	3,690	459

Examples of high profile cases from the Office of Investigations:

Randy Nowak Charged in Murder for Hire Plot of IRS Revenue Officer

In July 2008, Randy Nowak was charged in a criminal complaint in Florida, with attempting to kill an IRS Revenue Officer who was engaged in the performance of official duties.

According to court documents, in June 2008, Nowak, owner of RJ Nowak Enterprises, Inc., had been asking around to find someone to kill an IRS employee. Nowak sought to kill the IRS employee because she was auditing Nowak and he stood to lose \$4,000,000 that he had hidden offshore. Nowak had an outstanding liability to the IRS of approximately \$300,000 related to his personal income tax obligations and had four years of outstanding corporate tax returns for his business that he had not filed.

In July 2008, Nowak met with an undercover Federal Bureau of Investigation Task Force agent posing as a hit man and paid him \$10,000 as a down payment for killing the IRS Revenue Officer. Nowak also asked the undercover agent if he would be willing to burn down the IRS's office in Lakeland.

IRS Employee Sentenced for Unauthorized Accesses of Celebrities' Accounts

In August 2008, IRS employee John Snyder was sentenced in Kentucky for intentionally accessing a computer without authorization or exceeding authorized access to obtain information from the IRS. He was sentenced to three years probation, ordered to perform 60 hours of community service, and to pay a fine of \$1,000 and a \$25 assessment.

According to court documents, between 2003 and 2008, Snyder accessed the accounts of at least 202 taxpayers for which no business-related purpose could be identified. All but five of the taxpayers consisted of celebrities, spouses of these celebrities, sports figures, and well-

known individuals. Snyder confessed to making the unauthorized accesses, stating that he did so out of curiosity.

TIGTA's Strategic Enforcement Division detected the unauthorized accesses during routine analysis of suspicious accesses by IRS employees.

Former IRS Employee Pleads Guilty to Receipt of More Than \$9 Million in District of Columbia Property Tax Refund Scheme

According to a Department of Justice (DOJ) press release, in June 2008, former IRS employee Robert Steven pleaded guilty to receipt of stolen property and conspiracy to commit money laundering in connection with a property tax refund scheme in which millions of dollars were stolen from the District of Columbia Office of Tax and Revenue.

From 1990 to 2007, 67 deposits were made in the form of fraudulently obtained District of Columbia government checks or cash proceeds from the scheme, totaling \$9,272,312, into a checking account maintained by Steven. The individual checks ranged in amounts from a handful of initial deposits over \$4,000 each to subsequent deposits of up to \$490,000. Steven transferred at least \$1,709,500 of these funds into another checking account used primarily by him. Using these funds, Steven purchased at least four Jaguar cars, a townhouse, and multiple vacations to the Bahamas.

Examples of accomplishments from the Office of Audit:

Economic Stimulus Payments

TIGTA reviewed a number of phases in IRS's efforts to issue economic stimulus payments to more than 130 million households. The review included a series of audit reports designed to provide Congress with an ongoing status of the IRS's execution of the more than \$100 billion in payments.

The first report focused on the IRS's efforts to plan for the implementation of the stimulus payments and its actions through April 1, 2008, and found their efforts generally sufficient. The second report dealt with the impact that the economic stimulus program had on toll-free telephone access for the 2008 Filing Season. Lastly, the third report involved evaluating the IRS's processes for computation of the payments and the adequacy of controls to prevent ineligible individuals from receiving payments.

Most of the differences and findings of TIGTA's reports resulted from business decisions made by the IRS in concurrence with the Department of the Treasury, taxpayer errors, and/or tax software errors.

Questionable Refund Program

TIGTA found that the number of falsified tax returns, filed in an attempt to obtain fraudulent tax refunds, has increased dramatically between 2006 and 2007. TIGTA estimates the IRS has issued approximately \$1.6 billion in fraudulent tax refunds during this two-year timeframe.

The Questionable Refund Program is a nationwide program designed to detect and stop fraudulent claims for refunds on income tax returns. For the 2006 Filing Season, the IRS detected and stopped \$188 million in fraudulent refunds, but failed to stop an estimated \$894 million in fraudulent refunds because its detection system was not operational.

IRS Modernized Systems were Deployed with Known Security Vulnerabilities

Key components of the Customer Account Data Engine (CADE) and the Account Management Services (AMS) have been deployed with known security weaknesses in the controls over sensitive data protection, system access, and disaster recovery. The CADE will provide the foundation for managing all taxpayer accounts and will replace existing tax processing systems and AMS will provide faster and improved access by employees to taxpayer account data. TIGTA found that the IRS has established policies and procedures for security and privacy requirements, but it did not follow those guidelines during the planning and design phases for both systems. The report also found that IRS officials did not carry out their responsibilities for ensuring the identified weaknesses had been fully addresses prior to deployment.



PARTMENT OF THE TREASURY

TIGTA'S PROFILE

TIGTA 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 IRS's 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 five functional offices: the Office of Audit; the Office of Investigations; the Office of Inspections and Evaluations; the Office of Chief Counsel; and the Office of Mission Support (see chart on page 10).

TIGTA conducts audits and investigations designed to:

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

Office of Audit

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

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

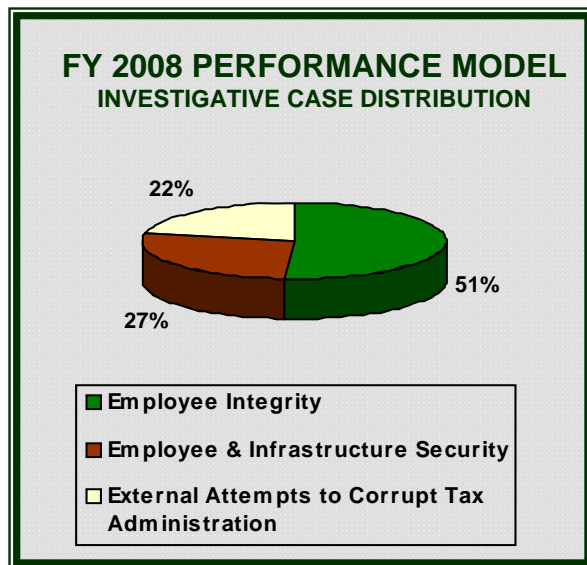
Statutory Mandate

- **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.

The Audit program is comprised of reviews mandated by statute or regulations, as well as reviews identified through Audit's planning and evaluation process. The OA strategically evaluates IRS programs, activities and functions so that resources are expended in areas of highest vulnerability to the nation's tax system. TIGTA's OA program is presented in the Annual Audit Plan which is published at the beginning of each fiscal year.

Office of Investigations

The Office of Investigations (OI) is charged with protecting the integrity of tax administration. OI investigates allegations related to fraud, waste, abuse, and mismanagement involving IRS programs and operations, and IRS employee misconduct. OI also strives to detect and prevent IRS internal misconduct and external manipulation of tax administration through its proactive investigative initiatives program and presentations to IRS employees, tax practitioners, and other community groups. TIGTA's investigations are based on a progressive performance model consisting of three primary areas of responsibility: employee integrity; employee and infrastructure security; and external attempts to corrupt tax administration. The use of the performance model has allowed OI to direct its crucial resources to the most vulnerable areas.



Office of Inspections and Evaluations

TIGTA's Office of Inspections and Evaluations (I&E) provides TIGTA with additional flexibility, capacity, and capability to produce value-added products and services to improve tax administration and promote good government. A proof-of-concept pilot was tested in FY 2006. The new organization, with a staff of eight, was formally established in March 2008, with the intent to complete responsive, timely, and cost-effective inspections and evaluations of IRS challenge areas by reviewing critical systems, programs, projects, and activities. I&E will provide a range of specialized services and products related to tax administration, including quick response reviews, on site inspections, and in-depth evaluations of major agency functions, activities or programs.

Inspections will usually be more limited in scope and will be completed in a more compressed period than a traditional audit. Evaluations are expected to be both broader in scope and longer-term reviews that focus on complete programs or major components of a program.

Inspections do the following:

- Provide factual and analytical information;

-
- Monitor compliance;
 - Measure performance;
 - Assess the effectiveness and efficiency of programs and operations;
 - Share best practices; and
 - Inquire into allegations of fraud, waste, abuse, and mismanagement.

Evaluations often result in recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective procedures. As a learning organization, I&E seeks to expand capacity to create results by nurturing new and expansive approaches to thinking, while maintaining independent and objective oversight of IRS programs and operations. Its work is not a substitute for audits and investigations; in fact, its findings may result in subsequent audit and/or investigations.

Office of Chief Counsel

The Office of Chief Counsel provides legal guidance, advice, and disclosure services to support TIGTA's accomplishment of its mission. The Office is comprised of attorneys, analysts, and support personnel providing a full range of legal and disclosure related services to the other functions.

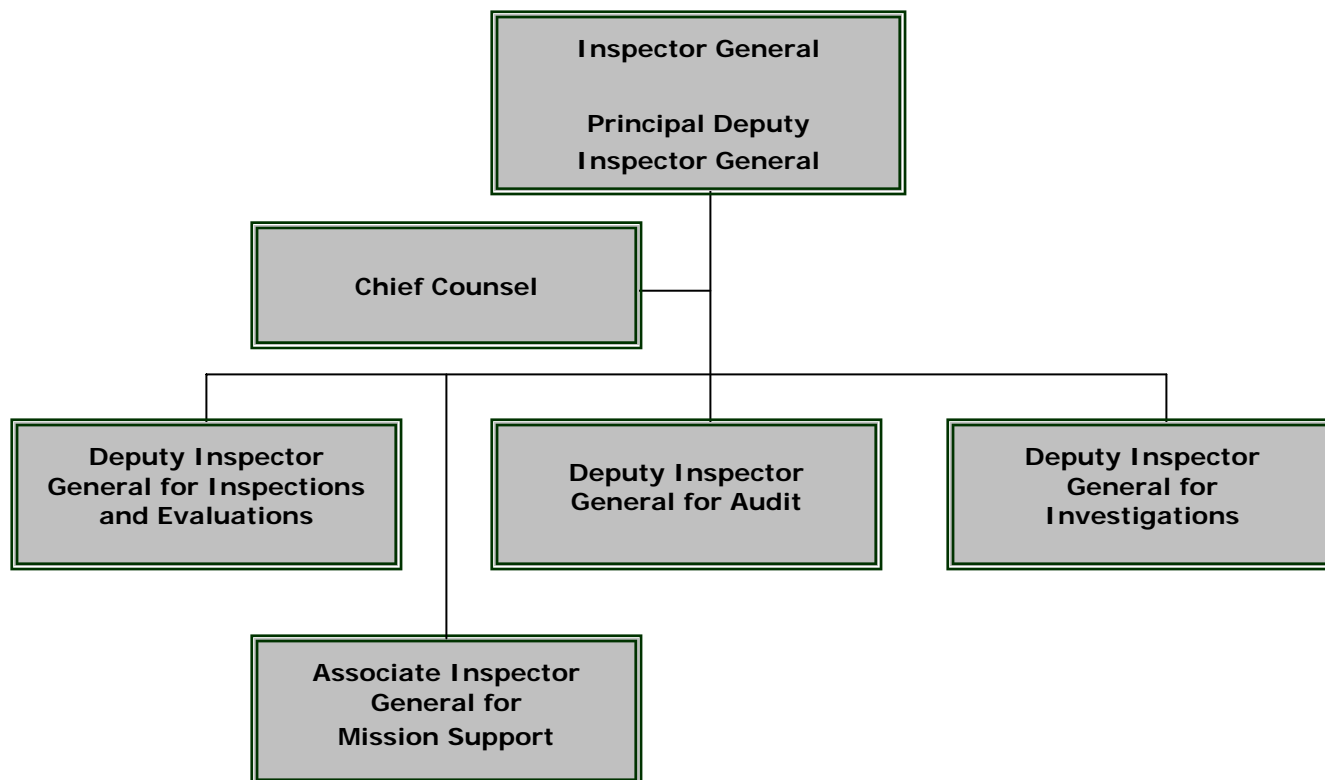
The attorneys in the legal branches provide independent legal analysis, advice, and assistance to TIGTA's senior management, and the Offices of Investigations, Audit, Inspections and Evaluations, and Mission Support to accomplish TIGTA's statutory mandate to promote the economy, efficiency and effectiveness of tax administration while protecting the integrity of tax administration. The legal staff reviews proposed or existing regulations and laws affecting tax administration and their impact on TIGTA and is involved in all legal matters affecting TIGTA and its stakeholders. As agency counsel, the legal staff manages TIGTA's ethics program to ensure high ethical standards for all TIGTA employees; reviews claims, debt collection, and procurement activities; serves as counsel in administrative litigation; and assists the Department of Justice in litigation in which TIGTA is a party or witness.

The analysts in the disclosure branch process all Freedom of Information Act and Privacy Act requests received by TIGTA, review all referrals to law enforcement agencies, determine the disclosability of TIGTA's final audit reports for posting on TIGTA's Web site, and prepare testimony authorizations for TIGTA employees who are subpoenaed or requested to testify on matters of official business.

Office of Mission Support

The Office of Mission Support delivers integrated management services to all of TIGTA's business units. This includes all aspects of human capital planning and support, budget formulation and execution, information technology services, and administrative operations. The Office of Mission Support also supports TIGTA's mission by facilitating strategic planning, coordinating performance management as mandated by the Government Performance and Results Act, and ensuring compliance with Inspector General Act reporting requirements.

Organizational Structure



Authorities

TIGTA has all of the authorities granted under the *Inspector General Act of 1978*, as amended.¹ 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)² 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.).

¹ 5 U.S.C.A. app. 3 (West Supp. 2008).

² 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.).

PROMOTE THE ECONOMY, EFFICIENCY, AND EFFECTIVENESS OF TAX ADMINISTRATION

TIGTA'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 address mandated reviews and high-risk challenges facing the IRS.

The IRS's 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, TIGTA identifies and addresses the major management challenges facing the IRS. TIGTA 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 areas of emphasis during this six-month reporting period.

Systems Modernization of the Internal Revenue Service

The Business Systems 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 while replacing outdated technology and maintaining the current tax system. The IRS's goal of providing high-quality, efficient, and responsive information services to its operating divisions is heavily dependent on

Audit Emphasis Areas

- Systems Modernization of the Internal Revenue Service
- Tax Compliance Initiatives
- Security of the Internal Revenue Service
- Providing Quality Taxpayer Service Operations
- Human Capital
- Erroneous and Improper Payments
- Taxpayer Protection and Rights
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Using Performance and Financial Information for Program and Budget Decisions

modernizing its core computer business systems while maintaining the existing systems. It also relies on the security of those systems, the buildings that house those systems, and the safety of the people who operate them.

Annual Assessment of the Business Systems Modernization Program

The IRS has achieved success when the Modernization program followed its systems development and management guidance. The program has progressed more effectively with the implementation of the Enterprise Services organization's management components, and with the development of the Information Technology Modernization Vision and Strategy (MVS) as a map for future development. However, the IRS and its contractors must overcome significant barriers to successfully implement the program goals. The Modernization program and processes have not progressed enough to eliminate its material weakness designation, and further reductions in funding could jeopardize the program's ability to deliver planned improvements.

The IRS originally estimated that the Modernization program would last up to 15 years and incur contractor costs of approximately \$8 billion. According to the IRS's original plan, the Modernization program would be past the halfway point by Calendar Year (CY) 2008. The program is in its tenth year and has received approximately \$2.5 billion for contractor services, plus an additional \$310 million for internal IRS costs. The IRS planned to spend \$267 million to manage the Modernization program in Fiscal Year (FY) 2008.

TIGTA provided an assessment of the Modernization program's status and accomplishments through FY 2008 but did not offer any recommendations. The IRS responded that it was pleased that the annual assessment recognized the progress in implementing Modernization projects, validating improvements in contracting procedures affecting the Modernization program, and documenting work to institutionalize the MVS. The IRS also stated that it has taken additional steps to improve Modernization program performance, including developing strategies to confront risks and issues to future system releases, efforts to address human capital challenges and succession planning, and developing and implementing a methodology for quantitatively measuring and reporting on project scope.

Report Reference No. 2008-20-129

Modernized e-File System

The Modernized e-File System replaces the current IRS tax return filing technology with a modernized, Internet-based electronic filing platform. So far, it has successfully processed electronically filed (*e-filed*) tax returns for corporations, partnerships, and exempt organizations. The number of tax returns filed through the Modernized e-File System increased 127 percent in 2007 to approximately 2.23 million from 982,000 in 2006. This System facilitates taxpayer account processing and also allows *e-filed* tax information to be accessed for use in tax administration compliance activities by the IRS business operating divisions.

TIGTA found that the IRS does not have a formal process for identifying, reporting, and resolving issues related to tax returns processed by the Modernized e-File System, nor does it

have a process for submitting and tracking issues requiring attention by the Wage and Investment Division's Submission Processing function and the Electronic Tax Administration office. In addition, available front-end tax return validation controls were not being used. These controls can prevent unnecessary tax return processing, error resolution activity by the Submission Processing function, and correspondence with taxpayers.

The Modernized e-File System also makes *e-filed* tax return data available to the business operating divisions and allows authorized users to access, print, and download tax return information. However, because of system limitations, the Large and Mid-Size Business Division and the Tax Exempt and Government Entities Division use their own applications to access Modernized e-File System filed tax return data. The Small Business/Self-Employed Division does not use the Modernized e-File System for tax return control, delivery, or examination processes, nor does it capture cost data for printing, shipping, and handling of tax returns filed using the Modernized e-File System.

TIGTA recommended that the IRS:

- 1) Develop a formal process for identifying, reporting, and resolving Modernized e-File System application processing issues that require subsequent tax return and account adjustment activity;
- 2) Perfect the validation controls in the Modernized e-File System to verify that taxpayers file the correct tax form based on their established filing election; and
- 3) Coordinate the capabilities of the Enterprise Return Retrieval System and the Small Business/Self-Employed Division's Technology and Data Integration Plan into the Information Technology MVS.

IRS management agreed with the recommendations and has planned appropriate corrective actions.

Report Reference No. 2008-20-122

Customer Account Data Engine Project Management Practices

The IRS has developed a strategy for a phased replacement of its computer systems to better support today's tax laws, tax policies, and taxpayer needs. As the centerpiece of the IRS's Modernization program, the CADE is an essential project in this strategy. The modernized CADE database will allow the IRS to update taxpayer accounts, support account settlement and maintenance, and process refunds daily, which will contribute to improved service to taxpayers. However, long-term objectives and the ability to adjust for unplanned initiatives have challenged the IRS's ability to meet the goal of having the CADE perform as the Modernization program's centerpiece.

Although the project team has made progress to ensure that CADE releases contain a reasonable scope of work and sufficient staffing, long-term issues continue to challenge the

CADE project. The CADE's ability to access historical taxpayer account information currently residing on the Individual Master File must be resolved to enable requirements for soon-to-be-developed releases. Additionally, with the expectation of significant increases in the CADE taxpayer population, processing capacity and data storage meeting the future operational requirements need to be considered.

The processing of payments related to the *Economic Stimulus Act of 2008*³ put the CADE Release 4 Project Schedule at risk. In January 2008, the IRS engaged the PRIME contractor⁴ to conduct an impact analysis and develop a preliminary design assessment for the work needed for the CADE to process economic stimulus payment checks. The project team included the work related to this effort in the scope of Release 4 with a task order modification. However, the IRS did not have funds appropriated for this work until the effort was already underway.

TIGTA recommended that the IRS:

- 1) Ensure that a Historical Data Conversion solution is in place to enable the CADE to process transactions related to issues such as balance-due conditions;
- 2) Develop an updated estimate of the processing and storage requirements (including the related costs) to support the long-term objectives and goals of CADE operations; and
- 3) Use a standardized process, including measurement and reporting to appropriate parties, to determine the effect on the CADE project's scope, cost, and delivery schedules when unplanned initiatives are mandated for implementation.

IRS management agreed with the recommendations and has planned appropriate corrective actions.

Report Reference No. 2008-20-151

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 voluntary compliance and reducing the Tax Gap are currently the focus of IRS initiatives. Nevertheless, the IRS is facing significant challenges in obtaining complete and timely data, as well as developing the methods necessary for interpreting the data. The IRS must continue to seek accurate measures for the various components of the Tax Gap and the effectiveness of the actions taken to reduce it.

The Department of the Treasury and the IRS developed a multiyear strategy for improving compliance and reducing the Tax Gap. However, the strategy is dependent on overcoming several high-risk challenges. The strategy is significantly more comprehensive and detailed

³ Pub. L. No. 110-185, 122 Stat. 613

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

than previous efforts. The strategy identifies seven components that support a multifaceted approach to reducing the Tax Gap: reducing opportunities for evasion; making a multiyear commitment to research; continuing improvements in information technology; improving compliance activities; enhancing taxpayer service; reforming and simplifying the tax law; and coordinating with partners and stakeholders. The long-term success of the strategy will, in large part, be dependent on addressing several risk factors, some of which are beyond the control of the IRS. As a result, broader strategies and better research may be needed to determine what actions are most effective in addressing noncompliance.

IRS Compliance Trends

During FY 2007, many of the IRS's compliance activities increased, resulting in improved collections. Since FY 2000, the IRS has reversed numerous downward trends in compliance activities that had occurred in prior years. Some of the positive changes might be attributable to management emphasis on Collection and Examination function programs. Over the last few years, the Small Business/Self-Employed Division has implemented reengineering and organizational changes, and both the Collection and Examination functions continue to study ways to improve their workload selection.

The level of compliance activities and the results obtained in many Collection functional areas showed a continued increase. Use of collection enforcement tools was greater and enforcement revenue collected continued to increase (to \$59.2 billion), but the total dollar amount of uncollected liabilities increased to \$290 billion. By the end of FY 2007, the gap between new delinquent account receipts and closures had widened by 63 percent.

During FY 2007, the overall percentage of tax returns examined increased by almost 9 percent, even though the number of field examiners decreased by just over 4 percent. In addition, the overall percentage of tax returns examined was 2 percent higher than in FY 1998. The number of individual tax returns examined increased. However, 83 percent were conducted *via* correspondence examinations, which are usually not as comprehensive as face-to-face examinations. Also in FY 2007, the number of corporate tax returns that were examined increased by just over 4 percent, after decreasing 1 percent in FY 2006. However, this number has decreased almost 45 percent since FY 1998.

Due to the nature of this review, TIGTA made no recommendations in the report. However, key IRS management officials reviewed the report prior to issuance and agreed with the facts and conclusions.

Report Reference No. 2008-30-095

IRS Enforcement Trends

Results of several key performance measures that had declined in prior years improved during FY 2007. For example, the number of subject investigations initiated increased 7.8 percent, the number of subject investigations recommended for prosecution increased 4.3 percent, and the

numbers of subjects convicted and sentenced increased 6.7 percent and 5.1 percent, respectively. In addition, the Department of Justice acceptance rate for the Criminal Investigation Division's (CID's) prosecution cases increased to 94.6 percent from 92.2 percent in FY 2006. Similarly, the acceptance rate by U.S. Attorney Offices for the CID's prosecution cases increased to 90.2 percent from 88.3 percent in FY 2006.

Continued progress in enforcement of the tax laws and prosecution of criminal tax violations is important to enhancing voluntary compliance by taxpayers and fostering confidence in the integrity of the tax system.

Due to the nature of this review, TIGTA made no recommendations in the report. However, key IRS management officials reviewed the report prior to issuance and agreed with the facts and conclusions.

Report Reference No. 2008-10-133

Use of Penalties to Encourage Compliance

According to the Internal Revenue Manual, penalties exist to encourage voluntary compliance by supporting the standards of behavior expected by the I.R.C. Penalties encourage voluntary compliance by:

- Defining standards of compliant behavior;
- Defining remedial consequences for noncompliance; and
- Providing monetary sanctions against taxpayers who do not meet the standards.

However, penalties are not consistently used. TIGTA evaluated the IRS's actions to address underwithholding of taxes on wages. Not only has the IRS not taken enforcement actions against employers who do not comply with notices (known as lock-in letters), it also generally does not penalize taxpayers for making false statements on the Employee's Withholding Allowance Certificate (Form W-4) that result in the underwithholding of taxes. The I.R.C.⁵ and related tax regulations allow assessment of a \$500 civil penalty for furnishing a false statement on the Form W-4 if:

- 1) The statement made on the Form W-4 results in less income tax withheld than what would have been withheld if the Form W-4 had been correctly completed; and
- 2) There was no reasonable basis for such a statement.

The IRS is not following its own procedures to consider penalties for taxpayers referred from other IRS functions for underwithholding. If the IRS had been following its procedures, it could have assessed potentially \$11 million in civil penalties. The following table shows the number of lock-in letters issued and the number of penalties assessed:

⁵ I.R.C. § 6682.

Figure 1: Taxpayers Issued Lock-in Letters Compared to Form W-4 Civil Penalties Assessed in FYs 2006 and 2007

Fiscal Year	Taxpayers Issued Lock-in Letters	Referred Taxpayers Issued Lock-in Letters	Penalties Assessed	Total Penalty Amount⁶
2006	122,140	9,182	29	\$14,500
2007	131,803	12,786	0	\$0

Source: IRS Withholding Compliance Program management and TIGTA analysis of Individual Master File data.

TIGTA made several recommendations that included:

- 1) Developing a process to identify employers who do not adequately withhold taxes after receiving a lock-in letter;
- 2) Developing criteria that will expand the use of the Form W-4 civil penalty beyond the current limited use; and
- 3) Providing related guidance and training to ensure consistent application of the criteria.

IRS management agreed with the recommendations and has planned appropriate corrective actions.

Report Reference No. 2008-40-167

Accuracy of Notices

The IRS Oversight Board expressed concern about the accuracy of notices sent to taxpayers when there is a discrepancy between the income reported by the taxpayer and the amount reported by the payor. The CP 2000 notice⁷ is the primary notice that the IRS issues to taxpayers as a result of underreporting discrepancies. From the approximately 1.3 million cases closed in FY 2007 (related to Tax Year (TY) 2005 returns), TIGTA reviewed a sample of CP 2000 notices sent to 138 taxpayers for accuracy and found that 7 (5.1 percent) taxpayers had inaccurate assessments. Employee errors on the CP 2000 notices resulted in some taxpayers being overassessed a total of \$18,968 and others being underassessed a total of \$1,146 in tax.

While errors identified were a result of employee mistakes, TIGTA believed that the complexity of the CP 2000 notices might also be a contributing factor in taxpayers agreeing to incorrect assessments. During FY 2007, customer satisfaction surveys for the Automated Underreporter Program (Program) indicated that, depending on the survey quarter, 24 to 32

⁶ The total penalty amount was calculated by multiplying the \$500 penalty by the number of penalties assessed during the fiscal year (i.e., \$500 x 29 = \$14,500).

⁷ The CP 2000 notice is an IRS letter sent to a taxpayer to resolve discrepancies between income, credits, and/or deductions claimed on a tax return and those reported by a third party, and to propose an additional tax assessment.

percent of the taxpayers who responded stated that their primary reason for calling the IRS was to have someone explain the CP 2000 notice to them.

TIGTA recommended that the IRS:

- 1) Ensure that management incorporates additional information on notice review procedures and quality service expectations into its refresher training for Program employees;
- 2) Simplify the CP 2000 notices issued by the Program; and
- 3) Ensure that Program management monitors site compliance with requirements to submit and implement corrective action plans when notice review error rates exceed 10 percent.

IRS management agreed with the recommendations and has planned appropriate corrective actions.

Report Reference No. 2008-40-180

Security of the Internal Revenue Service

Millions of taxpayers entrust the IRS with sensitive financial and personal data stored 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 could be compromised and that computer operations could be disrupted continue to increase. These risks are due to internal factors such as the increased connectivity of the computer systems and the increased use of laptop computers, and external factors such as the volatile threat environment resulting from increased terrorist and hacker activity.

To maintain adequate security over sensitive taxpayer data, the IRS must implement controls at all levels of its computer environment to guard against external intruders as well as malicious employees and contractors who have been given access to IRS systems to carry out their responsibilities. For example, controls are needed at the perimeter to keep unauthorized persons from intruding into IRS systems, the network architecture used to transmit data back and forth, and the applications and databases used to store taxpayer data.

Control Weaknesses at IRS Internet Connections

The IRS has three primary Internet gateways that make it possible for employees to communicate with outside partners and carry out other tax administration duties. However, audit logs were not adequately saved and reviewed, and the gateways had weak security configuration settings. These weaknesses increase the likelihood that intruders from the Internet could gain access to sensitive taxpayer data residing on the IRS network without being detected.

To strengthen security controls over audit logs, TIGTA recommended that the IRS ensure that:

- 1) Someone other than the database or system administrator reviews the logs;
- 2) Audit log data are transmitted to two separate servers; and
- 3) Audit logs are configured to show time stamps for events using the Coordinated Universal Time.⁸

To ensure that security configuration settings on routers and firewalls are adequate and consistent, the IRS should require that the Enterprise Networks and the Cybersecurity organizations develop standard security configurations and that the Enterprise Networks organization regularly tests the firewalls and routers to ensure compliance with the configurations.

The IRS agreed with the recommendations and has planned to take appropriate corrective action.

Report Reference No. 2008-20-143 (Sensitive But Unclassified)

Unauthorized Internal Web Servers

A Web server is a computer that contains the software necessary for a Web site to operate. During the time of TIGTA's review, 1,811 internal Web servers on the IRS network had not been approved to connect to the network, and 2,093 internal Web servers connected to the network had at least one security vulnerability. These unauthorized and insecure Web servers placed both the computers and the entire IRS network at risk of unauthorized access to taxpayer and personally identifiable information.

TIGTA recommended that the IRS:

- 1) Establish official ownership and responsibility for the Web registration program;
- 2) Enforce IRS procedures to block unauthorized Web servers from providing data over the IRS network; and
- 3) Require an annual scan of Web servers and compare the Web server to the Web registration database to identify unauthorized Web servers.

Unauthorized Web servers should be immediately disconnected from the IRS network, and inappropriate Web sites should be referred to the TIGTA Office of Investigations. In addition, the IRS should require quarterly network scans of Web servers to measure compliance with security requirements.

⁸ Coordinated Universal Time is a high-precision atomic time standard. It closely tracks Universal Time, which is a time standard based not on the uniform passage of seconds but on the Earth's angular rotation.

IRS management agreed with the recommendations and has planned appropriate corrective actions.

Report Reference No. 2008-20-159

IRS Modernized Systems Have Known Security Vulnerabilities

The CADE system will provide the foundation for managing all taxpayer accounts and will replace existing tax processing systems. The AMS will interface with the CADE and provide IRS employees faster and improved access to taxpayer account data. Security weaknesses in the controls over sensitive data protection, system access, monitoring of system access, and disaster recovery have continued to exist, although key phases of the CADE and the AMS have been deployed. As a result, the IRS is jeopardizing the confidentiality, integrity, and availability of an increasing volume of tax information for millions of taxpayers as application releases are put into operation.

TIGTA recommended that the IRS consider all vulnerabilities that affect the overall security of the CADE and the AMS before approving unconditional milestone exits. In addition, the CADE and AMS Project Managers should place more emphasis on preventing and resolving security vulnerabilities identified during Enterprise Life Cycle processes. TIGTA also recommended that the IRS recommend and approve interim authorities to operate when significant security vulnerabilities exist in system environments, and continue efforts to improve the accuracy and completeness of risk information in the security assessment reports. The IRS should also approve interim authorities to operate when significant security control weaknesses exist in system environments.

IRS management agreed with the recommendations and has planned appropriate corrective actions.

Report Reference No. 2008-20-163

Providing Quality Taxpayer Service Operations

Since the 1990s, the IRS has improved its delivery of quality customer service to taxpayers. In fact, in its current strategic plan, the IRS's first goal is to improve taxpayer service. However, since the late 1990s, the IRS has allocated more resources to its collection, examination, and criminal investigation functions and fewer resources to taxpayer service functions. As a result of this resource shift and other factors, in July 2005, Congress requested that the IRS develop a five-year plan, including an outline of which services the IRS should provide and how it would improve services for taxpayers. In response, the IRS developed the Taxpayer Assistance Blueprint to help it focus on providing the appropriate types and amounts of service. However, the IRS is already facing challenges with the Blueprint. As the IRS moves forward, inaccuracies and inconsistencies will put the Blueprint at risk of improperly aligning service content, delivery, and resources with taxpayer and partner expectations.

Rejected Electronic Tax Returns

The IRS rejected more than 6.8 million (8.5 percent) of the nearly 80 million electronically filed (*e-filed*) tax returns it received for TY 2006. More than 5.4 million of these returns were corrected and successfully *e-filed*. The methods currently used to assist customers with rejected *e-filed* returns are burdensome for the customer and create unnecessary expenses for the IRS, and resulted in the IRS maintaining redundant information in multiple systems. Providing a self-assistance option would help the IRS ensure that it continues to deliver a high level of service and support to customers who participate in electronic filing (*e-file*).

TIGTA recommended that the IRS:

- 1) Develop a self-assistance option on IRS.gov (the public IRS website) that allows customers to obtain detailed explanations of *e-file* reject conditions, including the steps to resolve them; and
- 2) Develop a business case for determining the feasibility of providing in the *e-file* acknowledgement file the information that would allow customers to resolve their reject conditions once individual tax returns are transitioned to the Modernized e-File System.

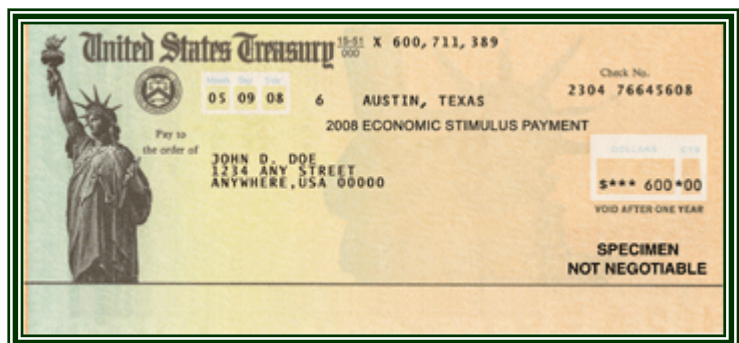
IRS management agreed with the first recommendation and disagreed with the second. With regard to the first, for the 13 most common reject codes, a self-assistance option providing descriptions and suggested solutions was added to IRS.gov. IRS management also plans to study the feasibility of adding a more comprehensive self-assistance option to IRS.gov. IRS management disagreed that a business case to determine the feasibility of providing information in the *e-file* acknowledgement file for customers to resolve their reject conditions is necessary. As the IRS transitions to the Modernized e-File System, customers will be provided reject codes that contain a clear and concise explanation of the reject conditions. This transition is scheduled for implementation by September 2009.

TIGTA agreed that the Modernized e-File System should provide customers with explanations of error reject codes. However, error explanations alone, no matter how clear and concise, will not consistently communicate the steps required to correct the errors.

Report Reference No. 2008-40-128

Economic Stimulus Payments

The *Economic Stimulus Act of 2008* was passed February 13, 2008, to energize the national economy. The first payments were issued May 2, 2008. Most of the IRS's planning and implementation activities had to take place during the IRS's busiest time of the year,



the tax filing season. In addition, individuals must have filed a 2007 tax return to receive a stimulus payment. The IRS estimated that an additional 20 million individuals who do not normally need to file a tax return would file. The IRS expected to issue more than \$100 billion in stimulus payments to more than 130 million households.

Following are examples of reviews completed by TIGTA to date. TIGTA will continue to evaluate the IRS's efforts to ensure that all eligible individuals receive a stimulus payment. Because of the significance and potential risks associated with the planning and issuance of economic stimulus payments, TIGTA planned to conduct its audit work in four phases. The first two phases, which evaluated the planning, computation, and the issuance of the checks as well as an evaluation of the controls to prevent erroneous or improper checks, are completed. This required rapid planning and coordination to evaluate the IRS's efforts to provide real-time feedback and recommendations.

Planning Efforts for the Issuance of Economic Stimulus Payments

The most significant part of the *Economic Stimulus Act of 2008* was the individual stimulus payment. The economic stimulus payment is a credit for TY 2008. However, the payments were estimated using income figures reported on TY 2007 tax returns and were issued in 2008, so individuals can benefit from the payments as soon as possible.

Recognizing that the stimulus payments would affect millions of individuals, the IRS designed a wide-reaching media campaign focused on educating individuals on the requirements to receive the stimulus payment along with ways to receive assistance. A number of methods were used to inform and notify all eligible individuals and households about the stimulus payments. This included media contacts, public service announcements, information on the IRS Web site, issuance of advance notices, and partnering with other Federal Government agencies and organizations. The IRS also established tools to provide assistance to the anticipated thousands of individuals who would contact the IRS with stimulus payment questions. This assistance had to be provided without harming service to taxpayers who were in the process of filing their annual income tax returns.

Although the IRS's planning for the stimulus payments was generally sufficient, TIGTA noted areas where improvements were needed. The IRS addressed these concerns as they were brought to management's attention. Addressing these concerns in a timely manner helped ensure that accurate and consistent information was provided to millions of individuals regarding requirements for receiving the payment, and helped reduce the risk of errors when stimulus-only returns were processed and payments were issued.

Report Reference No. 2008-40-149

Evaluation of the Computation of Economic Stimulus Payments

In preparing for computing the amount individuals would receive for an economic stimulus payment, the IRS was required to take a number of actions. These included:

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- Coordinating with the Department of the Treasury to ensure correct interpretation of the law;
 - Obtaining and reviewing the specific statutory language to identify requirements that must be met to qualify for an economic stimulus payment;
 - Developing computer programming to identify characteristics included on a tax return that result in an individual not qualifying for an economic stimulus payment; and
 - Developing computer programming to identify characteristics included on a tax return to be used to calculate the economic stimulus payment.

The IRS correctly calculated 99.6 percent of the 129.1 million economic stimulus payments TIGTA reviewed. In addition, IRS programs ensured that payments were not issued to individuals who were not entitled to receive an economic stimulus payment. These included individuals who:

- 1) Did not have a valid Social Security Number;
- 2) Did not meet qualifying income, gross income, and net tax liability requirements;
- 3) Had income that exceeded requirements; and
- 4) Indicated that they can be claimed by someone else on a tax return.

Although the accuracy rate for economic stimulus payments was very high, TIGTA identified 539,550 returns (0.4 percent) for which its calculation of the payment and the IRS's calculation did not agree. Most of the differences identified resulted from business decisions made by the IRS in concurrence with the Department of the Treasury, taxpayer errors, and/or tax software errors.

TIGTA made no recommendation in this report. However, IRS management agreed that the accuracy rate for the economic stimulus payments was very high.

Report Reference No. 2008-40-174

Increased Call Volume Associated With Economic Stimulus Payments

Each year, millions of taxpayers contact the IRS by calling the various toll-free telephone assistance lines to seek help in understanding tax laws and meeting their tax obligations. The IRS had planned to achieve an 81.1 percent Level of Service and a 270-second Average Speed of Answer for the 2008 Filing Season.⁹ However, because of the large volume of calls related to the economic stimulus payments, it instead achieved a 77.4 percent Level of Service and a 347-second Average Speed of Answer, indicating that the ability of taxpayers to access the toll-free telephone lines was lower than that in prior years.

Due to the anticipated volume of calls about the rebates, the IRS implemented a series of automated messages to address rebate questions during the 2008 Filing Season. Management

⁹ Level of Service is the IRS's 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.

decided not to route callers back to the main menu because the IRS assumed that once the caller had heard the rebate message, the caller would require no further information or would go to the IRS's Web site, IRS.gov.

TIGTA's recommendations included ensuring that callers had the option of returning to the main menu when the IRS used a recorded message to provide information to taxpayers. The IRS disagreed with this recommendation.

Report Reference No. 2008-40-168

Human Capital

The Federal workforce is aging, and agencies are faced not only with retirements and staff turnover, but also with the unique challenges of the 21st Century. The IRS recognizes that it must be prepared to respond to a growing and more demanding population, a more global and multilingual environment, and an increasing number of taxpayers who have complex financial holdings, and the means and motives to resist paying their taxes.¹⁰ In addition, the IRS, along with other Federal agencies, is slowly moving toward changing pay, classification, and performance management systems to transition to a more market-based and performance-oriented culture.

Strategic Human Capital Management

The IRS has not made substantial progress in developing and implementing an agency-wide process that will consistently and accurately project future human resource needs. If accurate projections are not made, the IRS might struggle to fill unforeseen vacancies, which could affect overall service to taxpayers. The potential loss of a large number of employees increases the importance of the IRS having a process in place to fill anticipated vacancies quickly and effectively.

The IRS has recognized this and has acted to identify potential qualified leaders to ensure continuity and stability, and it has established some key parts of a workforce planning foundation. Additional actions are necessary to ensure that the IRS can fully identify qualified candidates for future leadership positions and assess its efforts. If these actions are not taken, it will be difficult for the IRS to assess the progress of its leadership succession efforts, and more importantly, it will be difficult for the IRS to determine whether it can in a timely manner identify potential future leaders with the skills to address future challenges.

TIGTA recommended that the IRS develop a written strategic leadership succession plan and establish a more collaborative, integrative process to implement agency-wide roles and responsibilities for effectively creating, refining, and using projections of future human resource needs. In addition, TIGTA recommended that the IRS:

¹⁰ IRS, Publication No. 3744, *IRS Strategic Plan: 2005-2009*, (revised 6-2004).

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- 1) Prepare a plan specifying the key activities that should be completed in the short term to ensure that the leadership succession program continues to move forward; and
 - 2) Revise written guidance and develop agency-wide templates for more consistent projections of future human resource needs.

IRS management agreed with the recommendations and has planned appropriate corrective actions.

Report Reference Nos. 2008-10-132 and 2008-10-169

Erroneous and Improper Payments

As defined by the *Improper Payments Information Act of 2002*,¹¹ an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts. For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.

An Estimated \$1.6 Billion in Fraudulent Refunds Was Issued During the 2006 and 2007 Filing Seasons

The IRS's CID Questionable Refund Program is a nationwide, multifunctional program designed to detect and stop fraudulent claims for refunds on income tax returns. TIGTA estimated that the number of potentially fraudulent returns that would have been identified without threshold restrictions rose by an alarming 70 percent between PYs 2006 and 2007. As a result, the IRS worked only 48.7 percent of these returns, potentially allowing \$742 million in fraudulent refunds to be issued. If this trend continues over the next few years, the IRS might issue an even greater number of fraudulent refunds, possibly resulting in a significant annual revenue loss to the Federal Government. As a result, additional burden is placed on honest taxpayers whose tax dollars are being used to support this criminal activity.

TIGTA made several recommendations, including that the IRS:

- 1) Develop a more urgent approach to achieving the legislative change that will exempt the IRS from having to issue statutory notices of deficiency on fraudulent returns;
- 2) Develop a long-term, strategic approach to balancing available resources with the growth in refund fraud;
- 3) Review potentially fraudulent prisoner returns identified during PY 2006 and pursue recovery or offset through future non-fraudulent refunds;

¹¹ Pub. L. No. 107-300, 116 Stat. 2350.

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- 4) Identify all fraudulent PY 2006 tax returns for which the PY 2007 return was verified as being false; and
 - 5) Implement procedures to ensure that suspicious tax returns filed with an attached U.S. Individual Income Tax Return (Form 1040) Profit or Loss From Business (Schedule C) are identified by the fraud detection system during future processing years.

IRS management agreed with most of the recommendations and has planned to take appropriate corrective actions. However, IRS management disagreed with the recommendation to pursue recovery or offsets of payments associated with the PY 2006 fraudulent prisoner returns.

TIGTA continues to believe that several of the corrective actions to the recommendations will not fully address the reported concerns. These recommendations need to be reconsidered as part of the Pre-Refund Program Office's long-term strategy.

Report Reference No. 2008-10-172

Accuracy of Tax Refund Direct Deposits

The IRS states that having direct deposit provides taxpayers with a faster, more secure, more convenient means by which to receive their tax refunds. However, the IRS has not developed processes to ensure that the tax refunds were deposited only to an account in the name of the filer. Analysis of IRS direct deposit data identified bank accounts receiving multiple (three or more) tax refunds. For CY 2007, over 700,000 bank accounts received three or more tax refunds, totaling approximately \$8.14 billion. Twelve bank accounts received over 1,000 direct deposit tax refunds with one receiving over 58,000 refunds.

Taxpayer refunds can be deposited into a wrong bank account as a result of an error. When direct deposits are made to the wrong account, the assistance provided to taxpayers is inconsistent. Specifically, the IRS has not established a consistent process to assist taxpayers in recovering their tax refunds when erroneously deposited. The inability of the IRS to ensure the accuracy of direct deposit account information increases fraud potential and taxpayer burden.

TIGTA recommended that the IRS:

- 1) Coordinate with responsible Federal agencies and banking institutions to develop a process to ensure that direct deposit payments are made only to a deposit account in the name of the recipient, and until a process is in place, should limit the number of direct deposits being sent to the same account;
- 2) Develop an education campaign to clearly alert taxpayers and tax return preparers of the requirement that direct deposits be made only to accounts in the name of a recipient; and
- 3) Improve procedures for assisting taxpayers in recovering their erroneously deposited tax refunds.

IRS management disagreed with most of the first recommendation but agreed with the second and third recommendations. Although IRS management agreed that coordination between responsible Federal agencies and banking institutions is necessary to develop a direct deposit process, IRS officials do not believe they should initiate this coordination. In addition, the IRS disagreed with the recommendation to limit the number of direct deposits to the same account, but offered no alternative actions to reduce the potential fraud associated with multiple direct deposits to the same account.

Report Reference No. 2008-40-182

Taxpayer Protection and Rights

The IRS continues to place increased emphasis on tax compliance activities, such as better identifying corporations and individuals who fail to report or do not pay what they owe. However, all collection efforts must be balanced against the rights of taxpayers to receive fair and equitable treatment, both in the assessment of taxes and in all initiatives undertaken to collect open account balances. In summary, all collection efforts must ensure that taxpayer rights are protected.

Private Debt Collection Program

The I.R.C. authorizes the IRS to enter into contracts with private collection agencies to assist in the collection of delinquent Federal taxes. Although many of the Private Debt Collection program procedures were being followed, improvements can be made in how a taxpayer's identity is authenticated, how contractors handle taxpayer requests to opt out of the program, the quality control system, and case processing. These improvements will help to ensure that taxpayer rights are protected during the collection process.

TIGTA made several recommendations including that the IRS:

- 1) Continue to monitor the contractors' authentication process and implement improvements as necessary to assist contractors in increasing the number of authenticated taxpayer contacts;
- 2) Ensure that the Quality Unit provides statistically valid, weighted estimates of quality, conducts the required number of case action reviews, and that it has the quality analysts meet with the Statistics of Income Division staff semiannually; and
- 3) Ensure that the Quality Unit establishes a procedure for backup quality analysts to conduct telephone monitoring and case action reviews as needed.

IRS management agreed with the recommendations and has taken or has planned appropriate corrective actions.

Report Reference No. 2008-30-157

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

Each filing season tests the IRS's ability to implement tax law changes made by Congress. It is during the filing season that most individuals file their income tax returns and call the IRS with questions about specific tax laws or filing procedures. Correctly implementing tax law changes is a continuing challenge, because the IRS must identify the tax law changes, revise the various tax forms, instructions, and publications, and reprogram the computer systems used for processing returns. Changes to the tax laws have a major effect on how the IRS conducts its activities, what resources are required, and how much progress can be made on strategic goals. Congress frequently changes the tax laws; thus, some level of change is a normal part of the IRS environment. However, certain types of changes can significantly impact the IRS in terms of its quality and effectiveness of service and in how taxpayers perceive the IRS.

Alternative Minimum Tax Discrepancies

The number of taxpayers affected by the Alternative Minimum Tax (AMT) is expected to grow significantly in the next ten years if Congress does not continue to increase exemption amounts. AMT revenue increased from \$16.7 billion for TY 2005 to \$21.4 billion for TY 2006. Determining whether the AMT is owed is complex and time-consuming, and the complexity causes taxpayer errors. Recognizing the complexity of the AMT, the IRS provides taxpayers with tools to determine whether they will have to prepare an Alternative Minimum Tax—Individuals (Form 6251) to determine their AMT liabilities.

In CY 2006, computer checks identified about 226,000 discrepancies between the AMT figures reported, or not reported, by the taxpayers and the amounts computed by the IRS. TIGTA reviewed a random sample of 52 tax returns filed in CY 2006 on which IRS computers identified a discrepancy. For all 52 cases, computer checks correctly identified that there was a discrepancy, and the cases were correctly sent to tax examiners for further review. However, examiners did not follow procedures when resolving 11 (21 percent) of the 52 cases. Of these 11 cases, 3 resulted in the examiners incorrectly computing the amount of tax owed. Correct identification and resolution of discrepancies is essential to avoid further increasing the burden for taxpayers subject to the AMT.

TIGTA recommended and the IRS agreed that it should provide information to tax examiners reiterating the importance of correctly resolving AMT discrepancies and highlighting specific issues that could lead to incorrect resolution.

Report Reference No. 2008-40-146

2008 Filing Season

The filing season (January through April 15th) is critical for the IRS because it is the time when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. The 2008 Filing Season presented additional challenges for the IRS due to the late and unexpected enactment of two significant tax laws -- the *Tax*

Increase Prevention Act of 2007, signed on December 26, 2007, limiting the number of taxpayers who would be subject to the AMT for TY 2007, and the *Economic Stimulus Act of 2008*, signed on February 13, 2008. Through May 30, 2008, the IRS had received 144.2 million individual tax returns. Of those, approximately 86.7 million were electronically filed and approximately 57.5 million were filed on paper.

TIGTA conducted filing season audits that addressed the IRS's efforts to accurately process tax returns as well as the accuracy of tax returns prepared by unenrolled preparers and volunteers. Following is a synopsis of these reviews:

Late Tax Legislation

In spite of the late and unexpected enactment of two significant tax laws, the IRS generally had a successful 2008 Filing Season. Most key tax law and administrative changes were correctly implemented, and the IRS completed processing returns on schedule and issued refunds within the required 45 calendar days of the April 15, 2008 due date. While the IRS was able to meet the challenges of late and unexpected enacted legislation and accurately process most returns in a timely manner, TIGTA identified the following opportunities to improve the processing of some tax deductions:

- Taxpayers improperly claimed the Qualified Mortgage Insurance Premiums deduction;
- Taxpayers age 70½ or older improperly claimed the Individual Retirement Account deduction;
- Taxpayers did not claim the sales tax deduction; and
- Taxpayers who improperly claimed a “dual benefit” for both the tuition and fees deduction and the Education Credit are not receiving the dual benefit. However, improvements still need to be made in processing these returns.

TIGTA recommended that the IRS:

- 1) Ensure that the computer systems are programmed to identify taxpayer returns claiming the Qualified Mortgage Insurance Premiums deduction with Adjusted Gross Income that exceeds the maximum phase-out limitations;
- 2) Ensure that the computer systems are programmed to identify taxpayer returns claiming Individual Retirement Account (IRA) deductions for taxpayers age 70½ or older;
- 3) Continue to inform taxpayers that they are eligible for a sales tax deduction if they itemize and do not claim a State income tax deduction, if the sales tax deduction is extended beyond TY 2007. The possibility of calculating the sales tax deduction for taxpayers if it is not claimed or sending a notice to the affected taxpayers should be considered; and
- 4) Revise or verify the computer programming to ensure that all taxpayers claiming a dual benefit are identified if the tuition and fees deduction is extended beyond TY 2007.

This should include verifying the programming to forward paper returns with this condition to the Error Resolution System for correction.

IRS management fully agreed with two of the recommendations and partially agreed with one other recommendation. They did not agree to update computer programs to identify taxpayer returns claiming IRA deductions for taxpayers age 70½ and older because math error authority cannot be used for this condition. IRS management did, however, propose an alternative approach to identify these taxpayers. In addition, IRS management agreed to continue to inform taxpayers of eligibility for the sales tax deduction, but did not agree to calculate the sales tax deduction for the taxpayer or to send a notice.

Report Reference No. 2008-40-183

Most Tax Returns Prepared by Some Unenrolled Preparers Contained Significant Errors

Although taxpayers are ultimately responsible for the information reported on their tax returns, millions of taxpayers rely on preparers to prepare correct tax returns. Currently, there are no national standards that preparers are required to satisfy before selling tax preparation services to the public. Because more than half of all taxpayers use preparers to file their tax returns, preparers have a significant effect on taxpayer compliance.

In CY 2007, the IRS processed approximately 83 million individual Federal income tax returns prepared by paid preparers. In February and March 2008, TIGTA auditors posed as taxpayers in a large metropolitan area and paid to have 28 tax returns prepared at 12 commercial chain and 16 small independently owned tax return preparation offices. The preparers were unlicensed and unenrolled. That is, they were not practitioners (attorneys, Certified Public Accountants, Enrolled Agents, or Enrolled Actuaries). Preparers often made substantial errors when completing tax returns and correctly prepared only 11 (39 percent) of the 28 tax returns where the tax returns showed the correct amount of taxes owed or the refunds due. However, 17 tax returns (61 percent) were prepared incorrectly:

- Eleven (65 percent) of the 17 returns contained mistakes and omissions that were considered to have been caused by human error and/or misinterpretation of the tax laws; and
- Six (35 percent) of the 17 contained misstatements and omissions that were considered to have been caused by willful or reckless conduct.

If these incorrect tax returns had been filed, the net effect to the Federal Government would have been \$12,828 in understated taxes (this is the net effect—there were instances in which tax liabilities and tax refunds were both overstated and understated).

The IRS does not have one list or database for collecting information on preparers such as the preparer's name, associated identifying numbers, or whether the preparer is a practitioner or unenrolled preparer. Additionally, the IRS does not require preparers to have a unique identification number. The IRS acknowledges that it does not know how many paid preparers

exist and cannot determine the full extent of noncompliance and incompetence among practitioners.

TIGTA recommended that the IRS develop and require a single identification number to control and monitor all paid preparers. IRS management agreed to study this issue. It plans to commission a cross-functional team to study the feasibility and methodology associated with requiring a single identification number to control and monitor all paid preparers. The IRS plans to evaluate the results of the study and consider if it is feasible to implement.

Report Reference No. 2008-40-171

Free Tax Preparation Services

Millions of taxpayers borrow against all or part of their expected tax refunds to receive their money more quickly through short-term loans called Refund Anticipation Loans (RAL), that cost taxpayers fees and interest payments. During the 2008 Filing Season, almost 10 million taxpayers borrowed against all or part of their expected tax refunds using RALs.

TIGTA conducted a telephone survey of 350 taxpayers whose IRS TY 2007 tax accounts contained RAL indicators. Only 250 respondents claimed to have actually received RALs.¹² These respondents stated that they were aware they had received RALs and obtained these loans to receive their money more quickly to pay bills. Most respondents received their loans the same day of or within two business days of their tax return preparation. Respondents stated that preparers made it clear they were receiving loans. Additionally, most respondents stated that the preparers explained the fees and explained how long it would take for the taxpayers to receive their tax refunds if they chose not to obtain the loans. More than one-half of the respondents already had checking or savings accounts with financial institutions.

An analysis of taxpayer account data for the respondents showed that 158 (63 percent) received the Earned Income Tax Credit. Additionally, the majority of all survey respondents would have qualified for IRS's free tax preparation assistance; however, 81 percent (284 of 350) stated that they were unaware of these free services. Taxpayers may visit IRS walk-in offices called Taxpayer Assistance Centers, Volunteer Income Tax Assistance sites, and Tax Counseling for the Elderly sites, or use the Free-File Program to file their tax returns for free. During the 2008 Filing Season, more than nine million taxpayers took advantage of these services.

TIGTA recommended and the IRS agreed to use taxpayer account data for taxpayers who apply for RALs and Refund Anticipation Checks to better focus the IRS's marketing and education efforts so that more taxpayers can make use of the available free services.

Report Reference No. 2008-40-170

¹² Taxpayers may not have actually received RALs, applied but did not obtain the loans, or actually received Refund Anticipation Checks. A Refund Anticipation Check is a non-loan alternative to an RAL.

Using Performance and Financial Information for Program and Budget Decisions

While 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 lacks a comprehensive, integrated system that provides accurate, relevant, and timely financial and operating data that describes performance measures, productivity, and associated program costs. In addition, 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 in order to fulfill its responsibilities. TIGTA has continued to report that various IRS management information systems are insufficient to enable IRS management to measure costs, determine if performance goals have been achieved, or monitor progress in achieving program goals.

Benefits of Performance-Based Acquisition Are Not Being Fully Realized

When used properly, performance-based acquisition (PBA) increases performance, innovation, and competition, and results in the Federal Government receiving better value for its acquisitions. In addition, PBA shifts much of the risk from the Federal Government to industry and allows the Federal Government to focus its monitoring efforts on the desired outcomes rather than on how the work is to be performed. This saves taxpayer dollars because significantly fewer contract administration resources are needed.

When used within the IRS, PBA was performed in accordance with established guidelines. However, the IRS's overall use of PBA is well below the goals established by the Federal Government. Lack of internal expertise within program offices on how to implement PBA as an acquisition strategy, insufficient time to complete procurements, lack of a vigorous planning phase, and the inability of program managers to define requirements contributed to the underuse of PBA.

TIGTA recommended that the IRS ensure that program office management develops and implements a comprehensive plan to meet Federal Government goals for use of PBA methods. These methods should emphasize the collective responsibility of program offices and the procurement function to plan, manage, and execute PBA. Furthermore, if not already included, the insertion of PBA use as a measure in individual performance standards might provide the necessary incentive to achieve PBA goals and advantages. In addition, program personnel involved in writing contract requirements should be trained in PBA methods. The IRS should continue to advocate and educate program personnel on the benefits of PBA.

IRS management agreed with the recommendations and has planned to take appropriate corrective actions.

Report Reference No. 2008-10-098

Improvements in the Distribution and Design of Internal Documents

In FY 2007, the IRS spent more than \$237 million to print, process, and distribute internal documents, tax publications, forms, and written correspondence (including notices) to taxpayers and employees. The IRS can strengthen internal controls and increase oversight to reduce costs for the publishing and postal budget. Taxpayers indirectly benefit when management of tax administration is efficient and cost-effective.

TIGTA recommended that the IRS:

- 1) Establish a control system to ensure that the level of inventory of tax products at Taxpayer Assistance Centers is cost-effective;
- 2) Ensure that functional offices are aware of the significance of the Internal Management Document Distribution System (IMDDS);
- 3) Establish and implement a system of internal controls to ensure that IMDDS data are current and reliable; and
- 4) Enhance the notice improvement process to include reviews of all notices and letters to ensure that they use the fewest possible resources.

IRS management agreed with the recommendations and has taken or planned to take actions to improve oversight and reduce costs.

Report Reference No. 2008-40-125



DEPARTMENT OF THE TREASURY

PROTECT THE INTEGRITY OF TAX ADMINISTRATION

TIGTA's Office of Investigations accomplishes its investigative activities through the work of seven field divisions (see map on page 36), which are geographically located throughout the United States, and have direct reporting responsibilities to TIGTA headquarters in Washington, DC. OI headquarters has three divisions and a forensic science laboratory that perform support functions and provide technical and investigative assistance to the field divisions, and one division that operates specialized programs. These headquarters offices are:

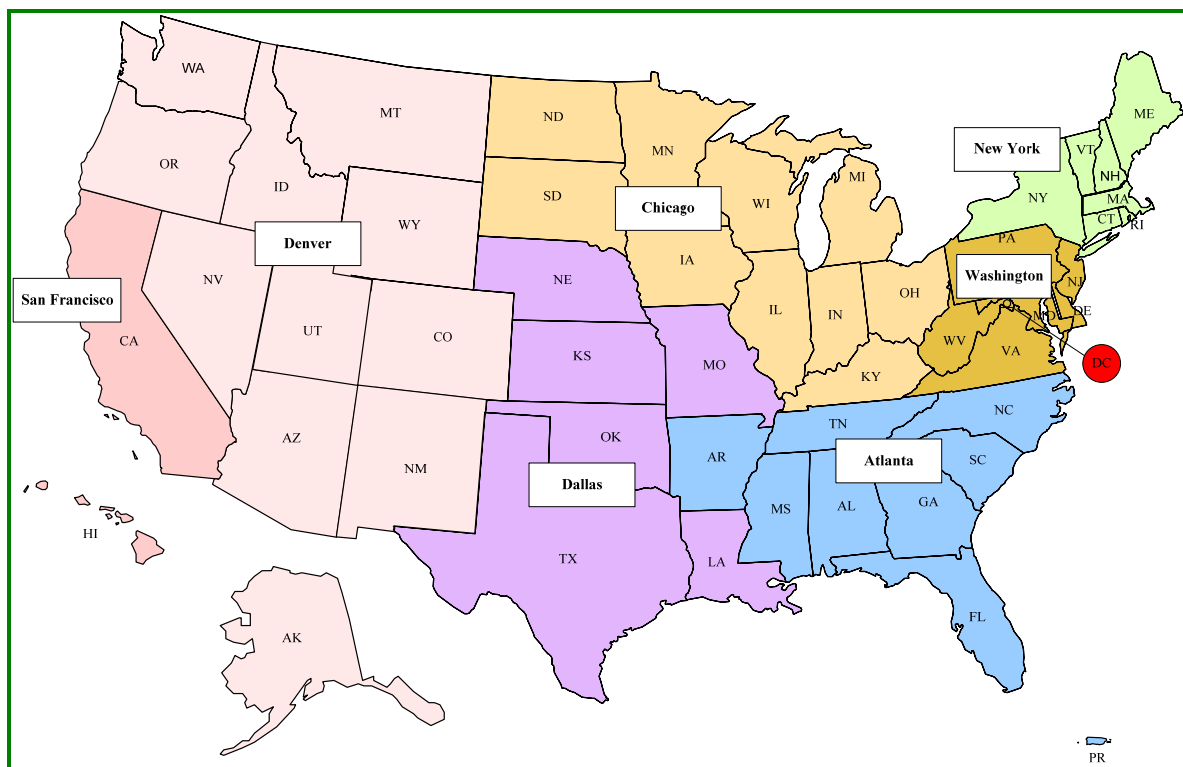
- **Operations Division** – Provides oversight and guidance to OI field and headquarters divisions, OI executives, and the Inspector General. The division consists of the following five teams:
 - ◆ **Complaint Management Team** - Reviews and refers complaints received in TIGTA's hotline and maintains OI's investigative records.
 - ◆ **Policy Team** - Prepares policy and procedures, reports and other documents for internal and external customers, responds to congressional inquiries, and oversees national programs.
 - ◆ **Data Analysis Team** - Prepares, trends, and analyzes OI's statistical data maintained in its management information system, and administers OI's national budget.
 - ◆ **Inspection Team** - Conducts internal reviews of field and headquarters operations.
 - ◆ **Training Team** - Administers training to OI criminal investigators and support staff.

- **Strategic Enforcement Division** – Executes an aggressive, proactive program to detect computer-based fraud in IRS operations, unauthorized accesses (UNAX) to IRS computer systems by internal users, and attempts to interfere with the security of IRS computers by external sources. The Strategic Enforcement Division has also teamed with the IRS to thwart phishing scams and minimize their impact on tax administration. One example of TIGTA and the IRS's combined efforts to combat phishing is the issuance of press releases to warn taxpayers about new scams (see press release on page 37).

- **Technical and Firearms Support Division** – Provides technical support, investigative assistance, equipment, training, and other specialized services to enhance OI's investigative activities through programs that include land-mobile radio, firearms and officer safety, and electronic surveillance equipment.

- **Special Inquiries and Intelligence Division** – Conducts sensitive investigations involving IRS senior management officials, the IRS Oversight Board, and IRS Chief Counsel, criminal investigation, and international employees. The division also operates two specialized programs:
 - 1) A procurement fraud program that investigates allegations concerning IRS procurements and procurement-related misconduct by IRS employees and contractors; and
 - 2) A criminal intelligence program that provides field investigators with criminal intelligence and coordinates criminal intelligence collection and dissemination within TIGTA nationwide.
- **Forensic Science Laboratory** – Provides crime lab services in direct support of TIGTA investigations, including handwriting and document analysis, latent print identification, and expert witness testimony.

OI Field Divisions



May 8, 2008

TAXPAYERS' HELP NEEDED TO SHUT DOWN ILLEGAL E-MAIL SCHEMES INVOLVING ECONOMIC STIMULUS PAYMENTS

DENVER – The United States Attorney’s office, the Treasury Inspector General for Tax Administration (TIGTA) and the Internal Revenue Service today released the following warning regarding Internet and e-mail schemes involving the Economic Stimulus Payments.

Wide-spread e-mail schemes, known as “phishing,” that claim to come from the IRS have become increasingly common. These e-mails appear to be legitimate, often bearing the official seal and logo of the IRS. These schemes have covered a variety of subjects, including tax refunds, audit notices, un-cashed Treasury checks and most recently economic stimulus payments. In each of these schemes, the e-mail requests that you provide personal or financial information. Often there will be a link in the e-mail where the recipient can enter the requested information. The purpose is clear – to defraud individuals and businesses of their money and identity information. Between November 2005 to September 2007, TIGTA and the IRS received 32,576 complaints or inquires nationwide regarding these schemes.

“No credible or reputable business will ask you for your personal identification information,” said Troy A. Eid, United States Attorney for the District of Colorado. “Crooks are savvy, especially when it comes to the Internet. The U.S. Attorney’s Office continues to prosecute those who defraud Coloradans.”

Terry Peacock, Special Agent in Charge for the TIGTA office headquartered in Denver advised that his office has received 35 complaints specifically from Colorado taxpayers. “Awareness is the best defense against these schemes. If taxpayers recognize these scams for what they are it will prevent the loss of their personal and financial information,” Mr. Peacock said.

Those who have received a questionable e-mail claiming to come from the IRS may forward it (unaltered) to the IRS at phishing@irs.gov or go to www.irs.gov and click on the bottom of the first page “Phishing and E-mail Scams.” Following these instructions will help the IRS and TIGTA track the suspicious e-mail to its origin and shut down the scheme. TIGTA investigates groups or individuals who impersonate the IRS. If you have paid money or provided personal or financial information to someone who falsely claimed to work for or represent the IRS, report the incident to TIGTA at 1-800-366-4484.

Internal Revenue Service Employee Misconduct

IRS employee misconduct can hinder the IRS's ability to collect revenue for the Federal Government. In addition to UNAX violations, TIGTA investigates other IRS employee misconduct, such as theft, extortion, false statements, and financial fraud. TIGTA also administers a proactive integrity program to help detect IRS employees who might be committing fraud and other misconduct.

The following are examples of significant investigations TIGTA conducted during the reporting period that involved IRS employee misconduct.

Revenue Officer Indicted in \$13 Million Securities Fraud Scheme

In April 2008, Revenue Officer Luis Acosta-Andino was charged in Puerto Rico with securities fraud and aiding and abetting.

According to the indictment, from about 2003 through about 2005, Acosta-Andino worked part-time as a promoter and sales agent in the high-yield investment program of CIA Financial Consulting Services, Inc. (CIA), a for-profit corporation in Puerto Rico. CIA solicited money from unsuspecting investors in the general public by persuading them to provide money to CIA to be invested in high-yield investment programs, and CIA guaranteed the investors a specific monetary return. CIA was not registered nor licensed to offer or sell investments to the general public.

In one program, CIA offered and sold investments through investment contracts in which participants were solicited to invest money with the promise of a 100 percent rate of return in a short period of time. Acosta-Andino offered and sold these investment contracts on behalf of CIA. He also gave private promotional presentations. In August 2004, Acosta-Andino and other defendants sent and caused to be sent *via* mail a security, that is, an investment contract, for sale to an investor in Hartford, Connecticut, without the required registration statement and without being registered as brokers and dealers.

The indictment also alleges forfeiture to the U.S. by the defendants, including Acosta-Andino, of any property constituting or derived from proceeds obtained directly and indirectly as the result of securities fraud and other violations, including but not limited to \$13 million.

IRS Mail Clerk Indicted for Theft of More Than \$75,000 in Taxpayer Checks

In May 2008, Shaun Lertswan was indicted in California on six counts of theft of government property.

According to court documents, beginning in February 2008 through April 2008, Lertswan, a mail clerk at the IRS Fresno Service Center, stole checks made payable to the IRS that totaled \$75,385.31. Lertswan changed or caused to be changed the checks by making them payable to his own name and deposited them in his bank account.

IRS Employee Sentenced for False Claims on Employee Time Reports

In June 2008, Charles Scoville was sentenced in Kentucky on one count of submitting false claims. He was sentenced to six months in prison and three years of supervised release, and was ordered to pay a \$100 assessment and make restitution in the amount of \$10,098.22.

According to court documents, Scoville, while acting as an IRS employee at the Prestonsburg, Kentucky post of duty, submitted numerous false, fictitious, and fraudulent employee time reports for hours worked. Scoville was paid for working a total of 233 hours over a span of 46 days in which he did not perform any employment-related duties. He filed false work reports to conceal the fact that he was not performing his employment-related duties.

During the same time frame, Scoville used his government vehicle for personal use on a regular basis, including, but not limited to: driving the vehicle on several trips to visit family in Lawrenceburg, Kentucky; driving the vehicle for personal use on weekends and holidays; and driving the vehicle to work at his second job as a sportscaster for a local radio station.

Dallas IRS Lockbox Employee Indicted for Theft and Embezzlement of More Than \$485,000 in Taxpayer Remittance Checks

In June 2008, Emmanuel Ekwuruke was indicted in Texas on one count of theft, embezzlement, misapplication by a bank employee, and one count of theft of public money.

According to court documents, from February 2006 through May 2008, Ekwuruke, employed at the Dallas lockbox, embezzled approximately \$485,539.76 in taxpayer remittance checks.

IRS Chicago Employee Pleads Guilty to Embezzlement of More Than \$12,000 in Payroll Compensation

In June 2008, Monique Steward pleaded guilty in Illinois to one count of embezzling public funds.

According to court documents, beginning as early as February 2004 and continuing through about August 2007, Steward embezzled money in the form of payroll compensation from the IRS. Steward worked as a secretary in the Chicago office where she entered IRS employees' timesheets into an automated system. She made various false entries in the system regarding her time and attendance records and was paid for 805 hours that she had not worked for a total loss to the government of \$12,657.68.

IRS Agent Sentenced for Conspiring to Launder Drug Proceeds

In August 2008, Evelyn Millen was sentenced in Michigan to two counts of conspiracy to launder monetary instruments. Millen was sentenced to 30 months imprisonment, 24 months of supervised release upon release from imprisonment, and ordered to pay a \$6,000 fine and a \$100 assessment.

According to a DOJ press release, in June 2003, Millen, an IRS Agent, conspired with another individual to purchase a \$65,000 BMW 745i with drug trafficking proceeds. The BMW was titled to Millen in order to conceal that the other individual was the true owner. Both individuals conspired to pay off the balance on the BMW with five cashier's checks that were purchased from five different banks on July 6, 2005, and four money orders that were all purchased on the same day, all totaling \$40,000. The payment was structured in a manner to avoid Federal bank reporting requirements for cash transactions over \$10,000.

Unauthorized Accesses

The protection of confidential taxpayer information is of critical importance to America's taxpayers. Unauthorized access of tax information undermines the taxpaying public's trust in the Federal tax system to safeguard confidential tax information in its custody. To protect sensitive taxpayer information from being jeopardized, TIGTA's Strategic Enforcement Division proactively identifies IRS employees who access and/or disclose private taxpayer information. UNAX violations are usually the initial phase of IRS employee misconduct and often lead to investigation of other criminal violations. IRS employees who are found to have committed UNAX violations are subject to Federal prosecution, termination of employment, or other disciplinary action. For the period April 1, 2008 through September 30, 2008, the IRS issued more than 200 adverse and disciplinary actions against its employees for UNAX violations.

The following are examples of significant investigations TIGTA conducted during the reporting period that involved UNAX.

Two IRS Employees Sentenced for Unauthorized Inspection of Tax Return Information

In August 2008, in two separate cases filed in California, Corina Yepez and Melissa Moisa were each charged with one count of unauthorized inspection of tax return information and one count of fraud and related activity in connection with computers. Yepez was sentenced to one year of unsupervised probation, 150 hours of unpaid community service, and was ordered to pay a \$25 assessment. Moisa was sentenced to one year of unsupervised probation, 50 hours of unpaid community service, and was ordered to pay a \$500 fine and \$25 assessment.

According to court documents, Yepez and Moisa, as IRS employees, unlawfully and without authorization accessed and inspected the tax return information of private individuals and intentionally exceeded their authorized access to a computer to do so.

Melody Woods Sentenced for Intentionally Accessing IRS Computer Without Authorization

In June 2008, Melody Woods was sentenced in New York on one count of intentionally accessing a computer without authorization and exceeding authorization to obtain information

from an agency of the U.S. She was sentenced to two years probation and was ordered to pay a \$25 assessment.

According to court documents, Woods intentionally and knowingly accessed a computer system maintained by the U.S. Department of Treasury without authorization. Woods exceeded her authorized access in order to access and obtain information from the Internal Revenue Service concerning at least six individuals.

Assaults and Threats

IRS employees routinely interact with taxpayers in the performance of their official duties. Sometimes these contacts can become volatile and a taxpayer might resort to violence, such as making threats against or physically assaulting the employee. TIGTA's highest priority complaints are those involving threats and assaults. TIGTA works aggressively and takes swift action to protect IRS employees. During this six-month reporting period, TIGTA investigated 211 threat and assault complaints.

The following is an example of a significant investigation TIGTA conducted during the reporting period that involved a threat.

Donita Williams Sentenced for Threatening TIGTA Agent with Bodily Harm

In July 2008, Donita Williams was sentenced in Michigan on one count of obstruction of justice by threat of force. She was sentenced to probation for one year and ordered to pay a \$25 fine.

According to court documents, in March 2007, Williams had her return prepared by a volunteer at a Volunteer Income Tax Assistance (VITA) site. In April 2007, an employee sent a letter to Williams explaining that her return was rejected because someone else claimed her as a dependent on their return.

Subsequently, Williams left a threatening voicemail message and, during a phone call to Williams, a TIGTA special agent was threatened by Williams.

Contract Fraud

TIGTA is committed to conducting procurement investigations that ensure the highest degree of integrity, economy, and efficiency in IRS contracts. This includes ensuring that improper contract activities or illegal acts are effectively identified and pursued in a timely manner. TIGTA special agents conduct independent reviews of contractor invoicing to ensure that the IRS is complying with the contract terms and conditions. They also conduct reactive and proactive investigations to detect and deter criminal activity by contractors. TIGTA's contract

investigations have produced significant results in the form of criminal indictments, civil penalties, and debarments.

The following is an example of a significant investigation TIGTA conducted during the reporting period that involved contract fraud.

Former GSA Employee Sentenced for Bribery in Scheme Involving Security for IRS Locations

In July 2008, Dessie Ruth Nelson was sentenced in Maryland to one count of bribery and one count of income tax evasion. Nelson was sentenced to 60 months in prison followed by three years of supervised release, and was ordered to pay a \$200 assessment, a \$25 processing fee, \$38,780 in restitution to the IRS, and to forfeit \$138,500.

According to court documents, Nelson, a long-time employee of the General Services Administration (GSA), was responsible for contracting on GSA's behalf with private companies to assist in providing security to GSA-managed buildings. GSA's Public Buildings Service (PBS) was responsible for acquiring and managing real estate for other civilian branches of the Federal Government. PBS in turn leased the space to Federal customer agencies, including the IRS.

Former Montgomery County police officer Michael Holiday was the Chief Executive Officer and sole shareholder of Holiday International Security (HIS). This company provided physical security to Federal installations. Between 2000 and 2003, Holiday provided Nelson with cash, vacations, and other benefits in exchange for her assistance in awarding multi-million dollar contracts to HIS. Holiday arranged and paid more than \$7,000 for Nelson's passage on a Caribbean cruise, gave Nelson a shopping bag containing approximately \$35,000 in cash, and an envelope containing \$10,000 in cash.

Bribery

IRS employees have frequent contact with taxpayers, which make them potential targets for bribes. Bribery is an act of corruptly giving, offering, or promising anything of value to a public official to influence the person to commit or allow fraud against the U.S. TIGTA educates IRS employees on how to recognize bribe overtures and their responsibility to report bribery attempts to TIGTA. During this reporting period, TIGTA initiated 26 bribery investigations.

The following are examples of significant investigations TIGTA conducted during the reporting period that involved bribery.

Victor John Indicted for Bribery of IRS Auditor

In April 2008, Victor John was indicted in California on one count of bribery of a public official.

According to court documents, between about March 24, 2008 and April 3, 2008, John corruptly gave \$4,900 to an auditor employed by the IRS to influence a pending assessment of tax due and owed by John.

Edward Sobczewski Indicted for Bribery of Revenue Agent with Colorado Rockies Tickets

In July 2008, Edward Sobczewski was indicted in Colorado on four counts of bribery of a public official.

According to court documents, in April and May 2008, Sobczewski offered and promised Colorado Rockies tickets to a Revenue Agent (RA) if the RA changed audit results of Sobczewski's 2006 personal income tax return. Later in May 2008, Sobczewski gave season tickets for the Colorado Rockies in exchange for changed audit results of his 2006 personal income tax return.

Former IRS Employee Pleads Guilty to Soliciting Bribe

In June 2008, former IRS employee Robert Rosner pleaded guilty in New York to bribery.

According to court documents, from August 2004 to December 2006, Rosner served as an Internal Revenue Agent with the IRS and was responsible for conducting taxpayer audits. From July 2006 through early December 2006, Rosner solicited a \$5,000 cash payment in order to close and not further pursue an audit of a taxpayer.

Rosner sent a letter to a small business in New York advising the company that the IRS had selected its Federal tax returns for an audit. During meetings with the head of the company, Rosner requested that the company head treat him to lunch, and during one meeting, he told the company head that he would terminate the IRS audit of the company if the company head would pay him \$5,000. Rosner submitted internal paperwork at the IRS recommending that no change be made to the company's tax returns, which ended the IRS audit of the company.

Other External Investigations

TIGTA is statutorily mandated to investigate external attempts to corrupt tax administration, which includes criminal misconduct by non-employees, such as impersonation, interference with the administration of internal revenue laws, misuse of Treasury names, symbols, etc., and tax practitioner fraud relating to the theft of remittances intended for the IRS and the theft of taxpayer refunds. TIGTA is committed to protecting the IRS's ability to collect revenue by investigating individuals who interfere with tax administration. During this reporting period, TIGTA received 2,253 complaints regarding improprieties by tax practitioners and other non-employees.

The following are examples of significant investigations TIGTA conducted during the reporting period that involved non-employees.

Superseding Indictment Charges Conspiracy and Interfering With Administration of Federal Internal Revenue Laws

A superseding indictment was issued in April 2008 in Ohio based on evidence developed during a joint investigation by TIGTA and the IRS Criminal Investigation Division. The indictment charges Winfield Thomas and Jeanne Herrington with conspiracy to defraud the U.S. in violation of 18 U.S.C. § 371, and also charges Herrington with interference with the administration of the internal revenue laws in violation of 26 U.S.C. § 7212(a).

According to the indictment, from about 1993 and continuing thereafter up to and including the date of this indictment, Thomas, Herrington, and others willfully and knowingly conspired and agreed to defraud the U.S. for the purpose of impeding, obstructing, and defeating the lawful functions of the IRS in the computation, assessment, and collection of revenue. Thomas and Herrington advanced their conspiracy by promoting and selling abusive trusts, preparing and advocating the preparation of false Federal income tax returns, submitting and/or assisting in the submission of false and fraudulent documentation to the IRS in an effort to eliminate tax liabilities and harass IRS employees, and organizing/attending meetings to discuss methods of tax evasion and evading the payment of tax liabilities with fictitious financial instruments.

The indictment also charges that Herrington prepared and submitted to the IRS fraudulent Forms 1099, which falsely reported that IRS employees associated with the Federal criminal investigation against her had failed to report personal income in excess of \$2 million, in an attempt to harass them.

Individual Indicted for Impersonating an IRS Employee and Preparing Fraudulent Tax Returns

Morgan Taylor Mayfaire pleaded guilty in August 2008 in Florida to preparing a fraudulent tax return.

According to court documents, Mayfaire prepared tax returns for taxpayer clients, and in return, her clients paid tax return preparation fees to her in the amount of ten percent of the amount of the refund claimed on their Federal tax returns. Mayfaire caused approximately \$472,904 to be fraudulently refunded by the IRS to her clients based on false deductions she included on the clients' tax returns. She did so by willfully aiding and assisting in the preparation of Forms 1040 and 1040X, U.S. Individual Income Tax Return and Amended U.S. Individual Income Tax Return that included Schedule A, Itemized Deductions, with fictitious and/or inflated deductions that Mayfaire knew the taxpayers were not entitled to claim.

In furtherance of the scheme, Mayfaire pretended to be an IRS employee by falsely representing to taxpayers that, as an IRS employee, she had ways of increasing taxpayer deductions on tax returns that no other person would know. She thereby induced taxpayers to

hire her to prepare their taxes, file false tax returns, collect improper tax refunds, and to pay her fees totaling approximately \$13,478.

Taxpayer Pleads Guilty to Theft of Public Money

In August 2008, Peter Kurhan Jr. pleaded guilty in Pennsylvania to six counts of theft of public money.

According to court documents, Kurhan Jr. owed money to the IRS based on his failure to pay Federal taxes. From about May 2003 through about July 2005, Kurhan Jr. sent more than eighty payment checks to the IRS in amounts exceeding his tax debt. The checks were drawn on closed, unfunded and non-existent bank accounts. Because the amounts on the checks exceeded his tax debt, the IRS sent refund checks before the agency discovered that his checks were fraudulent and unfunded. Kurhan Jr. cashed the IRS refund checks, knowing that he was not entitled to do so. He knowingly stole U.S. Treasury checks in an aggregate sum of \$83,996.61.





During this reporting period, Inspector General J. Russell George testified before Congress on three occasions.

The Growing Problem of the Threat Identity Theft Poses to the Administration of our Nation's Tax System

On April 10, 2008, Mr. George testified before the Senate Committee on Finance regarding identity theft and the 2008 Filing Season. Mr. George noted that the IRS has placed only limited emphasis on employment-related and tax fraud identity theft. Although the Internal Revenue Code currently permits the referral of tax information to certain Federal law enforcement agencies, the IRS does not appear to be fully utilizing this authority, he said. The IRS Criminal Investigation Division investigates identity theft crimes only if they are committed in conjunction with other criminal offenses having a large tax effect. As a result, the IRS has mainly focused on combating identity theft through public outreach. In addition, Mr. George noted that current processes have been inadequate in reducing burden for taxpayers victimized by identity theft. The IRS still lacks the comprehensive data needed to determine the impact identity theft is having on tax administration, he said.

Mr. George also noted that TIGTA is concerned about the proliferation of phishing scams that attempt to trick taxpayers into providing sensitive tax information. Insider attacks by IRS employees and contractors remain a concern, he said. Because of their familiarity with the IRS network, they can potentially do more harm than outsiders. Whether the attacks come from outside intruders or inside the IRS, the target is personal and financial information. However, he said, while the IRS relies on its Questionable Refund Program (QRP) to identify fraudulent refund claims and prevent them from being paid, TIGTA is concerned that the QRP is becoming increasingly unmanageable due to the growing number of fraudulent claims and the IRS's lack of resources to combat the fraud.

Mr. George said that overall, the 2008 Filing Season appeared to be progressing without major problems. The IRS had taken positive actions to prepare for the issuing of over \$100 billion in stimulus payments beginning in May. In addition, the IRS improved the quality of customer

service by creating a strategic plan to focus on service improvement and performance measures.

Internal Revenue Service Fiscal Year 2009 Budget Request

On April 16, 2008, Mr. George testified before the Senate Appropriations Committee's Subcommittee on Financial Services and General Government on the IRS's Fiscal Year 2009 budget request.

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

Mr. George noted that the IRS's budget request for systems modernization is \$40 million less than the Fiscal Year 2008 enacted amount. The IRS did not specify which programs will absorb the cuts, although it stated that the requested amount will allow continued progress on key modernization projects, including the Customer Account Data Engine, Accounts Management Services and Modernized e-File, he said. Furthermore, TIGTA continues to be concerned that the IRS is developing its modernized systems and bringing them online without adequately contemplating the security implications.

The Economic Stimulus Act of 2008

On June 19, 2008, Mr. George testified before the House Committee on Ways and Means, Subcommittee on Oversight and Social Security regarding TIGTA's audit and investigative actions pertaining to the *Economic Stimulus Act of 2008*, which was signed on February 13, 2008, and enacted to energize the national economy.

Mr. George said that the IRS issued approximately 76.5 million stimulus payment as of June 13, 2008, totaling approximately \$63.9 billion, and that the IRS plans to issue stimulus payments through December 2008 for those tax returns filed by October 15th. TIGTA determined that the IRS is correctly calculating the stimulus payment for approximately 99.6 percent of the returns, he said. However, TIGTA identified approximately 385,000 stimulus payments in which our calculation of the payment does not agree with the IRS's payment calculation.

Mr. George also said that TIGTA has initiated 12 complaints involving economic stimulus payments. One case involves an alleged return preparer scheme, two cases involved allegations of false impersonators requesting bank information, and nine cases involve phishing e-mails. TIGTA will continue to closely monitor the issuance of the economic stimulus payments and to promptly alert the IRS of any problems or emerging issues, he said.

AWARDS AND SPECIAL ACHIEVEMENTS

Executive Development Program Graduates



On August 8, 2008, a graduation ceremony was held for the participants in the Summer 2008 Executive Development (XD) Program. The XD Program is the formal training phase of the Senior Executive Service Candidate Development Program. TIGTA participated in this program as a partner with the IRS. Its purpose is to identify outstanding employees with demonstrated leadership competencies, to help participants better understand the strategic vision of the Department of the Treasury as it relates to their future role as an executive, and to prepare them for senior executive positions. Damon Plummer (middle row, far right) and Kenneth Casey (third row, third from right) graduated and are two of the six TIGTA managers who participated in the program. Four TIGTA managers attended the Winter 2008 XD Program that ended in March 2008.

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

The President's Council on Integrity and Efficiency 2008 Awards Committee presented an Award of Excellence to a team within TIGTA's Office of Audit.

The **Identity Theft Audit Team** was recognized for its outstanding achievement in identifying and reporting employment-related and tax fraud identity theft issues. The audit team members included Marybeth Schumann, Director, Compliance; Bryce Kisler, Acting Director; Alan Lund, Acting Audit Manager; Julia Tai, Lead Auditor; and Jean Kao, Auditor.

TIGTA Recognized by United States Attorney



On April 10, 2008, Chuck Rosenberg, U.S. Attorney for the Eastern District of Virginia (far right), presented TIGTA Special Agent Charles Venini (far left), TIGTA Forensic Data Analyst James Avery Jr. (second from left), and TIGTA Special Agent Brendan Soden (second from right) with an award for their outstanding work on an investigation involving unauthorized access and disclosure of tax records by an IRS employee. The case was prosecuted by Assistant U.S. Attorney Sally Chase (middle).

AUDIT STATISTICAL REPORTS

Reports with Questioned Costs

TIGTA issued four audit reports with questioned costs during this semiannual reporting period¹. 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	10	\$165,728	\$82,853
2. Reports issued during the reporting period	2	\$72	\$44
3. Subtotals (Item 1 plus Item 2)²	12	\$165,800	\$82,897
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	3	\$767	\$728
b. Value of costs not disallowed	1	\$22	\$22
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	8	\$165,011	\$82,147
6. Reports with no management decision within 6 months of issuance	7	\$165,000	\$82,147

¹ See Appendix II for identification of audit reports involved.

² Difference due to rounding

Reports with Recommendations that Funds Be Put to Better Use

TIGTA issued three reports with recommendations that funds be put to better use during this semiannual reporting period.¹ 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;
- De-obligation 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	3	\$350,203
3. Subtotals (Item 1 plus Item 2)	3	\$350,203
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	1	\$36
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree ²	2	\$350,166
5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)	0	\$0
6. Reports with no management decision within 6 months of issuance	0	\$0

¹ See Appendix II for identification of audit reports involved.

² Difference due to rounding

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 (GPRA).

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 was derived from analyses of historical data, and is thus considered a potential barometer of the impact of audit recommendations. Actual results will vary depending on the timing and extent of management's implementation of the corresponding corrective actions and the number of accounts or subsequent business activities impacted from the dates of implementation. Also, a report may have issues that impact more than one outcome measure category.

Reports With Additional Quantifiable Impact On Tax Administration			
Outcome Measure Category	Number of Reports¹	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	4	131,051	\$46,589
Revenue Protection	4	218,038	\$1,359,284
Reduction of Burden on Taxpayers	4	1,027,203	0
Taxpayer Rights and Entitlements at Risk	9	2,993,822	\$450,838
Taxpayer Privacy and Security	2	545	0
Inefficient Use of Resources	2	0	\$15,572
Reliability of Management Information	9	99,061	\$213,515
Protection of Resources	0	0	0

¹ See Appendix II for identification of audit reports involved.

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

- Increased Revenue: Reference Numbers 2008-40-113, 2008-30-147, 2008-40-167, and 2008-40-180.
- Revenue Protection: Reference Numbers 2008-10-088, 2008-10-172, and 2008-40-183.
- Taxpayer Burden: Reference Number 2008-10-088.
- Taxpayer Rights and Entitlements: Reference Numbers 2008-10-088, 2008-40-113, 2008-40-124, 2008-40-127, 2008-40-180, and 2008-40-183.
- Taxpayer Privacy and Security: Reference Numbers 2008-10-088 and 2008-30-147.
- Inefficient Use of Resources: Reference Number 2008-20-161.
- Reliability of Management Information: Reference Numbers 2008-10-088 and 2008-40-112.

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

- Taxpayer Rights and Entitlements: Reference Number 2008-30-164.
- Reliability of Management Information: Reference Number 2008-10-162.

INVESTIGATIONS STATISTICAL REPORTS

Significant Investigative Achievements April 1, 2008 – September 30, 2008	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,262
Complaints against Non-Employees	2,253
Total Complaints/Allegations	4,515
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,601
In Process within TIGTA ¹	291
Referred to IRS for Action	379
Referred to IRS for Information Only	757
Referred to a Non-IRS Entity ²	6
Closed with No Referral	1,129
Closed with All Actions Completed	352
Total Complaints	4,515
Investigations Opened and Closed	
Total Investigations Opened	1,826
Total Investigations Closed	1,895
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$18,559,077
Court Ordered Fines, Penalties and Restitution	\$2,839,314
Out-of-Court Settlements	0
Total Financial Accomplishments	\$21,398,391

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

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

Note: The IRS made 76 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.

Status of Closed Criminal Investigations			
Criminal Referrals¹	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	31	84	115
Referred – Declined for Prosecution	381	341	722
Referred – Pending Prosecutorial Decision	11	54	65
Total Criminal Referrals	425	479	904
No Referral	479	536	1,015

¹ Criminal referrals include both Federal and State dispositions.

Criminal Dispositions²			
	Employee	Non-Employee	Total
Guilty	19	38	57
Nolo Contendere (no contest)	0	3	3
Pre-trial Diversion	0	8	8
Deferred Prosecution ³	0	2	2
Not Guilty	0	1	1
Dismissed ⁴	2	8	10
Total Criminal Dispositions	21	60	81

² 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.

³ 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.

⁴ Court dismissed charges.

Administrative Dispositions on Closed TIGTA Investigations⁵	
	Total
Removed, Terminated or Other	357
Suspended/Reduction in Grade	101
Oral or Written Reprimand/Admonishment	119
Closed – No Action Taken	96
Clearance Letter Issued	78
Employee Resigned Prior to Adjudication	166
Non-Internal Revenue Service Employee Actions ⁶	340
Total Administrative Dispositions	1,257

⁵ 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.

⁶ 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	12/15/10	<p><i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i></p> <p><u>F-3, R-1, P-1, P-2.</u> Improve systems that process data the IRS receives on foreign sourced income.</p>
2003-10-094	Erroneous and Improper Payments	March 2003	10/15/08	<p><i>Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected</i></p> <p><u>F-1, R-2, P-1.</u> Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that feedback is provided regarding program effectiveness. Also, analyses of the Fraud Detection Centers' (FDC) control listing data should be analyzed to ensure reviews are done and accounts are resolved.</p>
2003-40-139	Tax Compliance Initiatives	June 2003	10/15/08	<p><i>Opportunities Exist to Improve the Administration of the Earned Income Tax Credit</i></p> <p><u>F-1, R-2, P-1.</u> Establish a consistent method to measure progress toward the Earned Income Tax Credit (EITC) Program's long-term goals.</p>
2003-30-176	Tax Compliance Initiatives	August 2003	01/15/09	<p><i>Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure</i></p> <p><u>F-1, R-2, P-1.</u> 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.</p>
2004-20-001	Systems Modernization of the IRS	October 2003	12/31/10	<p><i>Risks Are Mounting As the Integrated Financial System Project Team Strives to Meet An Aggressive Implementation Date</i></p> <p><u>F-2, R-1, P-1.</u> Ensure the disaster recovery environment is completely built-out and tested.</p>

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2004-30-068	Tax Compliance Initiatives	March 2004	06/15/09	<i>Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program</i> 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	12/15/08	<i>Better Use of the National Account Profile During Returns Processing Can Eliminate Erroneous Payments</i> 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	<i>The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness</i> F-2, R-4, P-1. Develop and implement a reasonable approach for reviewing audit trails over major applications.
2005-40-026	Providing Quality Taxpayer Service Operations	February 2005	12/31/10 12/31/10	<i>Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement</i> 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's 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	<i>The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses</i> 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's <i>Federal Managers' Financial Integrity Act of 1982</i> annual evaluation of controls and include any new or currently underway activities in the corrective action plan.
2005-10-107	Human Capital	July 2005	10/15/08 10/15/08 10/15/08 10/15/08	<i>Improved Policies and Guidance Are Needed for the Telework Program</i> F-1, R-1, P-1. Ensure an IRS-wide Flexiplace Program policy is developed and implemented that addresses all the elements recommended by the Office of Personnel Management. 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 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 there is no loss in productivity.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2005-40-110	Providing Quality Taxpayer Service Operations	July 2005	10/15/08 09/15/09	<i>The Effectiveness of the Taxpayer Assistance Center Program Cannot Be Measured</i> F-1, R-1, P-1. Enhance the management information system to capture the number of taxpayers served, the numbers and types of services provided, and the related resources. F-1, R-3, P-1. Develop a process that includes routine assessments of Taxpayer Assistance Center (TAC) operations to ensure the TACs are optimally located and the services provided at the TACs are the most effective and cost efficient.
2005-10-129	Providing Quality Taxpayer Service Operations	September 2005	05/31/10	<i>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program</i> F-1, R-1, P-2. Establish goals and performance measures for the LITC program to assist the Congress and IRS in evaluating the success of the program.
2005-10-149	Human Capital	September 2005	12/31/09	<i>The Internal Revenue Service Does Not Adequately Assess the Effectiveness of Its Training</i> F-2, R-1, P-2. Ensure all IRS components follow established procedures to evaluate training in order for the IRS to comply with the training assessment requirement of the <i>Federal Workforce Flexibility Act of 2004</i> .
2005-30-154	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2005	04/15/10	<i>The Clarity of Math Error Notices Has Been Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices</i> 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	12/15/08	<i>Efforts to Prevent Improper Tax Benefits Resulting From Multiple Uses of Taxpayer Identification Numbers Can Be Improved</i> 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.
2006-30-132	Tax Gap	September 2006	02/15/09 02/15/09	<i>Additional Enhancements Could Improve Tax Compliance of Employees Who Receive Tips</i> F-3, R-2, P-1. Ensure the Service Wide Employment Tax Research System program remains funded through completion and include the Gaming tip agreements in the Tip Agreement database. F-4, R-1, P-1. Ensure the results of initial testing of the Attributed Tip Income Program Revenue Procedure are analyzed and consider developing similar Revenue Procedures for small businesses in other industries to increase the chance of improving the tip income reporting 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.)
2006-20-166	Security of the IRS	September 2006	10/15/08	<i>The Monitoring of Privacy Over Taxpayer Data Is Improving, Although Enhancements Can Be Made to Ensure Compliance With Privacy Requirements</i> F-2, R-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 the tracking and monitoring of these activities.
2006-20-177	Security of the IRS	September 2006	10/15/08	<i>Improvements Are Needed to Ensure the Use of Modernization Applications Is Effectively Audited</i> F-2, R-2, P-1. Modify modernized system audit trails to comply with SAAS standards, ensuring data collected are valid and arranged in the proper format.
2006-20-178	Security of the IRS	September 2006	10/01/08	<i>Complete Certification and Accreditation Is Needed to Ensure the Electronic Fraud Detection System Meets Federal Government Security Standards</i> F-3, R-1, P-1. Develop a Business Impact Analysis for the Enterprise Computing Center – Memphis that places the Electronic Fraud Detection System 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	04/15/09	<i>Improvements to the E-Help Desk Are Needed to Support Expanding Electronic Products and Services</i> F-1, R-4, P-2, P-3. Develop processes and procedures to ensure management information is complete and accurate.
2007-30-049	Tax Compliance Initiatives	March 2007	01/15/09	<i>The Internal Revenue Service Needs to Improve Procedures to Identify Noncompliance With the Reporting Requirements for Noncash Charitable Contributions</i> 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	05/15/09 01/15/10	<i>Steps Can Be Taken to Reduce the Challenges Taxpayers With Vision Impairments Face When Attempting to Meet Their Tax Obligations</i> 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.
2007-10-061	Tax Exempt Organizations	March 2007	11/30/08	<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> F-1, R-1, P-1. Ensure the interim report includes an assessment of how tax-exempt hospitals are providing a community benefit, as well as any planned actions that is determined necessary to address the community benefit standard.

Reference Number	IRS Management Challenge Area		Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
		Issued		
2007-30-062	Tax Compliance Initiatives	March 2007	01/15/09 01/15/09 01/15/09	<i>Social Security and Medicare Taxes Are Not Being Properly Assessed on Some Tips and Certain Types of Wage Income</i> F-1, R-1, P-5. 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 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-3, R-2, P-1, P-2. Develop a compliance program to help ensure only qualifying individuals use the new form and the appropriate amounts of Social Security and Medicare taxes are assessed for self-employed taxpayers or employers that are misclassifying their employees.
2007-10-076	Erroneous and Improper Payments	May 2007	01/31/09 12/15/08	<i>Actions Have Been Taken to Address Deficiencies in the Questionable Refund Program; However, Many Concerns Remain, With Millions of Dollars at Risk</i> F-2, R-2, P-1. Initiate a legislative proposal to exempt the IRS from issuing a deficiency notice for disallowance of EITC and other refundable credits when the deficiency and credits are the result of fraudulent returns, if its current efforts through a regulatory change are not successful. F-4, R-1, P-1. Reemphasize the requirement to maintain documentation and/or notations to describe how the FDCs determined fraud.
2007-10-082	Tax Exempt Organizations	May 2007	01/31/09 01/15/09	<i>Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified</i> F-1, R-1, P-1. Develop and implement a long-term strategy to automate the matching of Forms 1023 and 990 information against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations. F-1, R-2, P-1. Evaluate whether more comprehensive terrorist watch lists should be used in conjunction with the Department of the Treasury's Office of Foreign Assets Control list during the screening of tax-exempt filing data to improve the identification of organizations and/or individuals potentially involved in terrorist-related activities.
2007-20-107	Security of the IRS	July 2007	10/15/08	<i>Employees Continue to Be Susceptible to Social Engineering Attempts That Could Be Used by Hackers</i> F-1, R-2, P-1. Conduct internal social engineering tests on a periodic basis to increase employees' security awareness and the need to protect usernames and passwords.
2007-20-123	Systems Modernization of the IRS	July 2007	03/01/09	<i>While Improvements Continue in Contract Negotiation Methods and Management Practices, Inconsistencies Need to Be Addressed</i> F-2, R-1, P-1. Collect and review lessons learned from the use of independent estimates to determine whether independent estimates can become a consistently more useful negotiations tool.
2007-20-121	Systems Modernization of the IRS	August 2007	12/31/10	<i>Annual Assessment of the Business Systems Modernization Program</i> F-1, R-1, P-1. Continue to address Modernization program corrective actions from TIGTA and Government Accountability Office reports through the Highest Priority Initiatives process.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2007-40-164	Providing Quality Taxpayer Service Operations	August 2007	10/15/08	<i>The Internal Revenue Service Provides Helpful Tax Law Assistance, But Still Has Problems With Tax Return Preparation Assistance</i> F-2, R-2, P-1. Consider revising the appointment procedures to alleviate taxpayer burden, i.e., having to return to the TACs multiple times to schedule appointments.
2008-30-001	Tax Compliance Initiatives	October 2007	01/15/08	<i>Identification of Unreported Self-Employment Taxes Can Be Improved</i> F-2, R-1, P-1. Strengthen the processes for reviewing returns upon initial receipt for potential unpaid self-employment taxes.
2008-30-027	Tax Compliance Initiatives	December 2007	01/15/09	<i>Tax Examiners Did Not Always Resolve Refund Delinquency Cases, And Computer Checks Did Not Identify Unfiled Returns</i> F-2, R-1, P-1. Modify the Refund Delinquency case creation criteria to ensure delinquency inquiries are made of related tax period Forms 941 and Form 940.
2008-20-029	Security of the IRS	December 2007	10/01/08 12/01/08 12/01/08	<i>Internal Revenue Service Databases Continue to Be Susceptible to Penetration Attacks</i> F-1, R-3, P-1. Expand the criteria used for scanning IRS databases for the presence of administrator accounts with default or blank passwords. F-1, R-4, P-1. Ensure the employees responsible for correcting default and blank passwords directly review the Computer Security Incident Response Center scan results. F-2, R-1, P-1. Establish a process for monitoring database patch installations and updates to current versions of database software.
2008-20-030	Security of the IRS	December 2007	01/01/09 10/01/08	<i>Lack of Proper IRS Oversight of the Department of the Treasury HSPD-12 Initiative Resulted in Misuse of Federal Government Resources</i> F-1, R-4, P-1. Coordinate with the Treasury to evaluate the possibility of combining its Public Key Infrastructure efforts with those of the General Service Administration. F-2, R-1, P-1. Ensure executive steering committees responsible for providing oversight to information technology projects take an active role to address these challenges and, specifically, to enforce use of the IRS Enterprise Life Cycle requirements.
2008-40-062	Providing Quality Taxpayer Service Operations	February 2008	12/15/08	<i>The Processing of Carryback Loss Claims Needs to Be Improved to Ensure Taxpayers Receive Accurate Refunds</i> F-1, R-1, P-2. Revise the applicable tax form instructions for claiming carryback losses to ease the burden on taxpayers and reduce the number of errors on claims.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2008-30-056	Human Capital	March 2008		<i>A More Strategic Approach Could Enhance the Workers' Compensation Program Return-To-Work-Efforts</i>
			10/15/08	<u>F-1, R-1, P-1.</u> Develop and implement control processes for reviewing the accuracy of the costs in Office of Workers' Compensation Program's chargeback reports.
			02/15/09	<u>F-2, R-1, P-1.</u> Implement a control to provide greater assurances that required procedures are completed in the claim process by managers and employees IRS-wide.
			05/15/09	<u>F-3, R-1, P-1.</u> Develop and establish a more strategic approach to enhance return-to-work efforts that include specific policies and procedures for working across functional areas to transition injured employees into productive activities in the workplace.
2008-40-086	Taxpayer Protection and Rights	March 2008	10/15/08	<i>Outreach Has Improved, But More Action Is Needed to Effectively Address Employment-Related and Tax Fraud Identity Theft</i> <u>F-2, R-1, P-1.</u> Update the individual case screens on the Automated Underreporter system to display prior year closing codes and ensure revision of the case selection criteria to incorporate special handling of identity theft victims.
2008-40-087	Complexity of the Tax Law	March 2008		<i>Individual Retirement Account Contributions and Distributions Are Not Adequately Monitored to Ensure Tax Compliance</i>
			12/15/11	<u>F-1, R-1, P-1.</u> Analyze Forms 5498 to identify the causes of the errors and possible corrective actions.
			01/15/10	<u>F-2, R-1, P-1.</u> Develop and implement strategies to bring noncompliant taxpayers back into compliance.
			01/15/10	<u>F-3, R-1, P-1.</u> Consider using the indicator on the Form 5498 to identify taxpayers who are subject to required minimum distributions.
			03/15/11	<u>F-3, R-2, P-1.</u> Consider requiring custodians to report estimated required minimum distribution amounts on the Form 5498.
2008-40-089	Providing Quality Taxpayer Service Operations	March 2008	03/15/09	<i>Increasing Federal and State Cooperation and Promoting Electronic Filing Would Improve Administration of Taxes Used to Maintain the Nation's Highways</i> <u>F-1, R-1, P-1, P-2.</u> Encourage more participation in the Alternate Proof of Payment Program, develop a process to identify States participating in the program, and ensure agreement provisions are followed.

Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	Result for TIGTA
<p>Access to Information</p> <p>Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	<p>As of September 30, 2008, there were no instances in which information or assistance requested by the Office of Audit was refused.</p>
<p>Disputed Audit Recommendations</p> <p>Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of September 30, 2008, no reports were issued in which significant recommendations were disputed.</p>
<p>Revised Management Decisions</p> <p>Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	<p>As of September 30, 2008, no significant management decisions were revised.</p>
<p>Audit Reports Issued in the Prior Reporting Period with No Management Response</p> <p>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>	<p>As of September 30, 2008, there were no prior reports where management's response was not received.</p>
<p>Review of Legislation and Regulations</p> <p>Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 284 proposed regulations and legislative requests during this reporting period.</p>

APPENDIX II

AUDIT PRODUCTS

April 1, 2008 – September 30, 2008

Inspector General Congressional Testimony	
Reference Number	Hearing Title
April 2008	
2008-OT-115	Identity Theft
2008-OT-116	The Internal Revenue Service's Fiscal Year 2009 Budget
June 2008	
2008-OT-145	Joint hearing, Subcommittee on Oversight, Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives

Audit Products	
Reference Number	Report Title
April 2008	
2008-1C-068	Audit of Cost Accounting Standard 417, Cost of Money As an Element of the Cost of Capital Assets Under Construction
2008-1C-069	Report on Contractor's Overall Fiscal Year 2007 Floor Check
2008-1C-070	Report on Examination of Fiscal Year 2004 Incurred Costs and Indirect Expense Rates
2008-1C-079	Incurred Cost Audit for Fiscal Year 2005
2008-1C-080	Report on Audit of Compliance With Cost Accounting Standard 411, Accounting for Acquisition Costs of Material
2008-1C-081	Report on Audit of Adequacy and Compliance of the Contractor's Fiscal Year 2007 Revised Disclosure Statement
2008-1C-083	Incurred Cost Audit for Fiscal Year Ended August 31, 2003
2008-1C-084	Examination of Paid Vouchers
2008-1C-085	Incurred Cost Audit for Fiscal Year 2004
2008-10-098	Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized
2008-30-097	Fiscal Year 2008 Statutory Review of Compliance With Legal Guidelines When Issuing Levies
2008-40-108	Fiscal Year 2008 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2008-30-095	Trends in Compliance Activities Through Fiscal Year 2007
2008-10-088	The Taxpayer Advocate Service Needs to Improve Its Processing of Economic Burden Cases (Revenue Protection: \$21,296, impacting 1,083 taxpayers; Taxpayer Burden: 36,003 taxpayers unnecessarily burdened; Taxpayer Rights and Entitlements: 1,354 taxpayers contacted despite having a power of attorney on file; Taxpayer Privacy and Security: 541 taxpayer accounts in which an unauthorized disclosure was made to third parties; Reliability of Information: The Primary Core Issue Code was incorrectly entered in 14,076 cases)

2008-30-094	Additional Actions Are Needed to Effectively Address the Tax Gap
2008-30-091	The Telephone Excise Tax Refund Program Was Successfully Implemented for Businesses; However, a Large Amount of Overcollected Tax Has Gone Unclaimed
2008-30-093	Lack of Compensation for Unused Sick Leave at Retirement Has Contributed to Higher Use by Employees in the Federal Employees Retirement System
2008-40-112	Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement (Reliability of Information: Information not available to determine if funding of \$3.9 million was appropriately spent)
2008-10-106	While Renowned for Its Forensic Capabilities, the Digital Evidence Program Faces Challenges and Needs More Controls
May 2008	
2008-30-107	The Complexity of the Law Makes Administering the Alternative Motor Vehicle Credit Difficult (Revenue Protection: \$151,828 impacting 69 taxpayers)
2008-40-113	Installment Agreement User Fees Were Not Properly Calculated or Always Collected (Increased Revenue: \$1,087,003 impacting 33,711 taxpayers; Taxpayer Rights and Entitlements: \$12,818,705 of excess or duplicate user fees paid impacting 941,256 taxpayers)
2008-40-118	Inaccurate and Incomplete Data Have Adversely Affected Implementation of the Taxpayer Assistance Center Geographic Footprint
2008-40-124	Fiscal Year 2008 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 427 taxpayers improperly identified)
2008-1C-101	Report on Audit of Compliance With Cost Accounting Standard 409, Depreciation of Tangible Capital Assets
2008-1C-102	Report on the Contractor's Information Technology System General Internal Controls
2008-1C-103	Report on Compliance With Cost Accounting Standard 403, Allocation of Home Office Expenses to Segments
2008-1C-104	Fiscal Year 2005 Incurred Costs Audit
2008-1C-105	Audit of the Contractors Fiscal Years 2008 through 2012 Forward Pricing and Provisional Billing Indirect Expense Rates
2008-1C-109	Audit of Cost Impact Statement Change in Executive Compensation
2008-30-114	Actions Are Needed to Control Risks With International Transactions Reported on Corporate Income Tax Returns
June 2008	
2008-10-123	Chief Counsel Should Address Questions Related to Proposed Changes in the Automatic Consent Process
2008-40-127	Fiscal Year 2008 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 984 taxpayer and taxpayer representative case files not adequately documented)
2008-30-126	Fiscal Year 2008 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 19 taxpayers whose rights could be adversely affected)
2008-40-125	Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably (Funds Put to Better Use: \$20,166,340)
2008-40-128	A Self-Assistance Option Would Reduce Burden and Costs Associated With Resolving Rejected Electronic Tax Returns (Inefficient Use of Resources: \$15,080,138 in reduced contact costs; Taxpayer Burden: 774,930 fewer contacts by taxpayers)
2008-10-117	Improvements Have Been Made to Educate Tax-Exempt Organizations and Enforce the Prohibition Against Political Activities, but Further Improvements Are Possible
2008-20-122	Improvements to the Modernized e-File System Will Help Provide Intended Benefits to the Internal Revenue Service and Taxpayers (Taxpayer Burden: 142,475 taxpayers with delayed

	return processing; Reliability of Information: incorrect data on 82,871 returns)
2008-20-129	Annual Assessment of the Business Systems Modernization Program
2008-10-132	Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders
July 2008	
2008-1C-110	Calendar Year 2005 Incurred Cost Audit (Cost Savings: \$10,627)
2008-1C-111	Report on Audit of Compliance With Cost Accounting Standard 416, Accounting for Insurance Costs
2008-1C-119	Report on Follow-up Audit of Budget and Planning System Internal Controls
2008-1C-120	Report on Audit of Compliance With Cost Accounting Standard 404, Capitalization of Tangible Assets
2008-1C-121	Fiscal Year 2005 Incurred Cost Audit
2008-40-131	While Progress Has Been Made, Limits on the Number of Examinations Reduce the Effectiveness of the Earned Income Tax Credit Recertification Program
2008-20-130	Correspondence Imaging System Performance Has Improved, but Additional Measures Are Needed to Ensure That the System Performs As Expected (Reliability of Information: Costs and benefits overstated by \$201.6 million)
2008-10-133	Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007
2008-20-143	Control Weaknesses at Internal Revenue Service Internet Connections Increase Security Risks
2008-30-147	While Documentation Was Not Available to Fully Assess the Return Preparer Program, Identification and Processing of Preparer Penalties Can Be Improved (Increased Revenue: \$750; Taxpayer Privacy and Security: 4 instances with potential for unauthorized disclosure)
2008-30-144	Better Management of Some Procedures for Sales of Seized Property Is Needed
2008-40-146	Procedures Were Not Always Followed When Resolving Alternative Minimum Tax Discrepancies
2008-20-134	The Information Technology Enterprise Governance Structure Needs Further Process Improvements to Ensure Adequate Oversight
2008-10-142	Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds (Questioned Costs: \$61,327; Reliability of Information: Controls not sufficient to ensure reported \$7.7 million in financial information is accurate)
2008-40-149	Evaluation of Planning Efforts for the Issuance of Economic Stimulus Payments
2008-20-153	Treasury Inspector General for Tax Administration – Federal Information Security Management Act (Intelligence – National Security Systems) Report for Fiscal Year 2008
August 2008	
2008-30-150	The Automated Collection System Gap Case Test Initiative Was Not Effectively Conducted (Reliability of Information: \$315,000 collected from taxpayers were not considered when assessing the results of the Gap Test)
2008-1C-135	Report on Fiscal Year 2008 Floor Check
2008-1C-136	Incurred Cost Audit for Fiscal Year Ended June 30, 2006
2008-1C-137	Report on Audit of Noncompliance With Cost Accounting Standard 420, Accounting for Independent Research and Development Costs and Bid and Proposal Costs
2008-1C-138	Audit of Contractor's Billing System Internal Controls
2008-1C-139	Audit of Subcontract Costs Billed in Fiscal Years 2004 Through 2006 on Prime Contract Number TIRNO-00-D-00014
2008-1C-141	Report on Audit of Compliance With Cost Accounting Standard 404, Capitalization of Tangible Assets
2008-1C-152	Report on Audit of Compliance With Cost Accounting Standard 409, Depreciation of Tangible Assets

2008-30-155	Computer Programming Changes Are Needed to Reduce Delays in Reissuing Some Undelivered Refund Checks (Questioned Costs: \$36,160; Taxpayer Burden: 73,795 taxpayers with delayed refunds after notices were sent to incorrect addresses)
2008-20-159	Unauthorized and Insecure Internal Web Servers Are Connected to the Internal Revenue Service Network
2008-30-154	Guidance Could Be Enhanced for Deciding to Use a Qualified Intermediary in Like-Kind Exchanges
2008-10-140	Indian Tribal Noncompliance With the Bank Secrecy Act Is Effectively Identified and Addressed, but Improvements Can Be Made (Reliability of Information: 270 accounts on database are not accurate or complete)
2008-30-164	The Office of Disclosure Continued to Improve Compliance With the Freedom of Information Act Requirements (Taxpayer Rights and Entitlements: 274 responses in which information was incorrectly withheld or that were not timely processed)
2008-40-167	The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed (Increased Revenue: \$45.5 million)
2008-40-168	Increased Call Volume Associated With Economic Stimulus Payments Reduced Toll-Free Access for the 2008 Filing Season
2008-10-169	A More Strategic and Consistent Approach to Estimating Retirements and Other Separations Is Needed to Better Plan for Future Human Resource Needs
2008-40-170	Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services
September 2008	
2008-40-171	Most Tax Returns Prepared by a Limited Sample of Unenrolled Preparers Contained Significant Errors
2008-40-174	Evaluation of the Computation of Economic Stimulus Payments
2008-10-162	Five Fair Tax Collection Practices Violations Resulted in Administrative Actions in Calendar Year 2007 (Reliability of Information: 13 employee cases not properly coded on the Automated Labor and Employee Relations Tracking System)
2008-30-157	The Internal Revenue Service and Contractors Are Generally Following Procedures Established for the Private Debt Collection Program, but Improvements Are Needed
2008-20-173	Treasury Inspector General for Tax Administration – Federal Information Security Management Act Report for Fiscal Year 2008
2008-20-151	Customer Account Data Engine Project Management Practices Have Improved, but Continued Attention Is Needed to Ensure Future Success
2008-10-160	The Office of Appeals Continues to Show Improvement in Processing Collection Due Process Cases (Taxpayer Rights and Entitlements: 6,437 closed Collection Due Process and Equivalency Hearing cases that did not contain required or sufficient documentation; Reliability of Information: 1,844 cases with incorrect computer codes)
2008-20-161	The Enterprise Systems Management Program Is Making Progress to Improve Service Delivery and Monitoring, but Risks Remain (Inefficient Use of Resources: \$491,952)
2008-30-166	Tax Forms and Publications Were Generally Obtainable, but the Time Required to Acquire Forms Could Be Reduced
2008-30-156	Opportunities Exist to Improve the Correspondence Examination Process for High-Income Nonfilers
2008-30-158	The Internal Revenue Service Needs to Evaluate Tolerance Levels to Ensure That Program Objectives Are Met
2008-10-148	Emergency Preparedness at Internal Revenue Service Facilities Needs to Be Improved
2008-30-175	The Telephone Excise Tax Refund Was Not Claimed on Business Tax Returns Primarily Because of the Perceived Work and Expense Involved to Do So
2008-20-176	The Office of Research, Analysis, and Statistics Needs to Address Computer Security

	Weaknesses
2008-20-178	Weaknesses in Business Resumption Plans Could Delay Recovery From a Disaster
2008-40-177	Accuracy of Volunteer Tax Returns Continues to Improve, but Better Controls Are Needed to Ensure Consistent Application of Procedures and Processes
2008-30-165	Additional Steps Need to Be Completed to Ensure the Success of the Service-wide Non-filer Strategy
2008-10-172	An Estimated \$1.6 Billion in Fraudulent Refunds Was Issued During the 2006 and 2007 Filing Seasons (Revenue Protection: \$1.356 billion; 206,208 taxpayers impacted)
2008-20-163	The Internal Revenue Service Deployed Two of Its Most Important Modernized Systems With Known Security Vulnerabilities
2008-40-180	Most Automated Underreporter Program Notices Are Correct; However, Additional Oversight Is Needed (Increased Revenue: \$1,146 and 97,340 taxpayers impacted; Taxpayer Rights and Entitlements: \$18,968 and 243,345 taxpayers impacted)
2008-40-182	Processes Are Not Sufficient to Minimize Fraud and Ensure the Accuracy of Tax Refund Direct Deposits
2008-20-179	Treasury Inspector General for Tax Administration – Federal Information Security Management Act (Non-Intelligence – National Security Systems) Report for Fiscal Year 2008
2008-30-181	Although the Large and Mid-Size Business Division’s Currency Initiative Was Considered a Success, Improvements Could Be Made in Future Initiatives
2008-40-183	The 2008 Filing Season Was Generally Successful Despite the Challenges of Late and Unexpected Tax Legislation (Revenue Protection: \$3.5 million impacting 10,678 taxpayers; Taxpayer Rights and Entitlements: \$438 million impacting 1.8 million taxpayers)



PARTMENT OF THE TREASURY

APPENDIX III

TIGTA'S STATUTORY REPORTING REQUIREMENTS

TIGTA issued 25 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2008, TIGTA completed its tenth 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 2008 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS's compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	Reference No. 2008-40-108, April 2008 Potential violations were identified in 7 (1 percent) of the 660 performance evaluation documents reviewed. In addition, four managers did not document that they had evaluated employees on the retention standard that requires the fair and equitable treatment of taxpayers, and 29 (45 percent) of the 65 employees and managers that TIGTA asked did not understand the intent of the retention standard. Further, five managers of employees could not substantiate compliance with IRS procedures by providing evidence that they had completed the requested RRA 98 Section 1204 Manager's Self-Certification Forms.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	Requires TIGTA to evaluate the IRS's compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.	Reference No. 2008-40-090, March 2008 The IRS's Internal Revenue Manual 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 tenth 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 improperly bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and there is no legal requirement for 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>Filing of a Notice of Lien</p> <p>I.R.C. § 7803(d)(1)(A)(iii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.</p>	<p>Reference No. 2008-30-082, March 2008</p> <p>The IRS may not have complied with the law in all cases. TIGTA's review of a statistically valid sample of 150 Federal Tax Lien cases identified 145 cases (97 percent) for which the IRS did mail lien notices correctly and in a timely manner, as required by I.R.C. § 6320 and internal procedures. For the other five lien notices (3 percent), TIGTA could not determine if the law was complied with because the IRS could not provide proof of mailing.</p> <p>When an initial lien notice is returned because it could not be delivered and a different address is available for the taxpayer, the IRS does not always meet its statutory requirement to send the lien notice to the taxpayer's last known address. For 29 (7 percent) of the 400 cases, employees did not research IRS computer systems for different addresses. For 104 (26 percent) of the 400 cases, the research was not performed within five business days. TIGTA also identified two cases for which a new lien notice should have been sent to the taxpayer at the updated address because the IRS systems listed the address prior to the lien filing. These two cases could involve legal violations because the IRS did not meet its statutory requirement of sending lien notices to the taxpayer's last known address.</p> <p>Also, the IRS did not always follow its own internal guidelines for notifying taxpayer representatives of the filing of lien notices. For 12 (40 percent) of the 30 cases in which the taxpayer had an authorized representative at the time of the lien actions, the IRS did not notify the taxpayer's representative of the lien filing. In addition, on two cases, it sent notifications to representatives not authorized to receive such information.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Extensions of the Statute of Limitations for Assessment of Tax</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>Reference No. 2008-40-127, June 2008</p> <p>The IRS has shown improvement over prior years when documenting that taxpayers were informed of their rights. The percentage of case files without documentation has steadily decreased over the last 5 years. However, there were still instances in which there was no documentation in the related case files to show that taxpayers were advised of their rights regarding assessment statute extensions. In TIGTA's statistical sample of 139 tax returns, 8 (6 percent) of the related case files reviewed did not adequately document that the taxpayers had been advised of their rights regarding assessment statute extensions. This sample included 109 case files with authorizations for third-party representation. TIGTA found that 9 (8 percent) of the 109 files did not document that the taxpayers' representatives were provided with the required notifications.</p> <p>TIGTA's discussions with employees who worked these exception cases determined that some employees overlooked the fact that the required information was not documented in the case file. Other employees indicated that when a taxpayer asked them to deal directly with his or her representative, the employees did so exclusively. Because the taxpayer did not want to be involved in the audit process, the employees informed only the representative of the taxpayer's rights. This is consistent with the IRS's position that informing a taxpayer's representative meets the requirement that the taxpayer be informed.</p>
<p>Levies</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Reference No. 2008-30-097, April 2008</p> <p>The IRS is protecting taxpayers' rights when issuing manually prepared levies. TIGTA reviewed 30 Integrated Collection System manual levies issued by revenue officers and 30 Automated Collection System (ACS) manual levies issued by customer service representatives and found that the IRS properly informed taxpayers of their appeal rights at least 30 calendar days prior to issuing the levies.</p> <p>Additionally, TIGTA evaluated the effectiveness of program changes on the ACS for sending reminder notices to taxpayers when more than 180 calendar days passed since the date of the notification letter. TIGTA reviewed 30 manual levies issued more than 180 calendar days after the original notices of intent to levy had been sent. The review showed that the IRS had sent appropriate reminder letters if there had been no other contacts with taxpayers within 180 calendar days of the date of the notices.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Collection Due Process</p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p>Reference No. 2008-10-160, September 2008</p> <p>The IRS has continued to show improvements in the processing of Collection Due Process cases as a whole by generally classifying taxpayer requests properly, developing additional procedures, and ensuring that the Collection Statute Expiration Dates for taxpayer accounts were correct. However, TIGTA identified a few instances in which taxpayers were not provided with their right to a hearing because Appeals employees did not make sufficient attempts to contact the taxpayers before closing their cases. In addition, some taxpayers might not have received an appropriate or complete response to the issues raised in their appeals because some case files did not include required documentation. Without the appropriate case documentation, TIGTA could not identify the issues raised by the taxpayer or whether Appeals adequately addressed all issues in the taxpayer's hearing. Further, hearing officers are still not always documenting their impartiality in the case files. TIGTA also found correspondence to some taxpayers was not accurate or clear or did not fully address all issues raised by the taxpayers. As a result, taxpayers could experience increased burden if they have to contact the IRS for additional assistance. Finally, TIGTA identified taxpayer accounts that did not contain required computer coding to identify those taxpayers who had exercised their appeal rights. As a result, IRS employees who access the taxpayers' accounts for review or to take subsequent actions will not be aware of the taxpayers' appeals. This could result in erroneous collection actions, inappropriate suspension of collection activity, or incorrect information or advice from IRS personnel.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Seizures</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.</p>	<p>Reference No. 2008-30-126, June 2008</p> <p>TIGTA reviewed a random sample of 50 of the 683 seizures conducted from July 1, 2006 through June 30, 2007, and determined that the IRS complied with the numerous legal and internal guidelines when conducting the majority of seizures. However, in 19 seizures, there were 25 instances in which the IRS did not comply with a particular I.R.C. requirement. Because there can be numerous statutory violations on each case, the 25 instances identified in the 50 cases represent an error rate of only about 1 percent. 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.</p> <p>The Seized Property Sale Report (Form 2436) contains the required entries for expenses and proceeds, as well as a summary section for expenses incurred. However, Form 2436 was not required for all seizure expenses and proceeds transactions. Consistent use of this Form might have prevented many of the instances TIGTA identified from occurring.</p>
<p>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the IRS's compliance with restrictions under section 3707 of RRA 98 on designation of taxpayers.</p>	<p>Reference No. 2008-40-124, May 2008</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 it has removed all ITP reference from the Internal Revenue Manual. However, there were some references in case files. In 430 instances out of approximately 65.2 million records and cases, IRS employees referred to taxpayers as ITPs or other similar designations in case narratives.</p>
<p>Disclosure of Collection Activities With Respect to Joint Returns</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>Reference No. 2008-40-099, March 2008</p> <p>IRS procedures provide employees sufficient guidance for handling joint filer collection activity information requests. However, this is the tenth 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. IRS management information systems do not separately record or monitor joint filer requests, and there is no legal requirement for the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Taxpayer Complaints</p> <p>I.R.C. § 7803(d)(2)(A)</p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received are shown on page 55.</p>
<p>Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996</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 debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Reference No. 2008-10-162, September 2008</p> <p>In Calendar Year 2007, 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 collection practices violation.</p>
<p>Denial of Requests for Information</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>Reference No. 2008-30-164, August 2008</p> <p>The IRS continued to improve the accuracy, timeliness, and completeness of its responses to requests for information covered by the Freedom of Information Act (FOIA). For example, the percentage of untimely responses to FOIA/Privacy Act requests continued to decrease. In the previous eight years' audits, the percentages of untimely responses ranged from a high of 43.5 percent to a low of 2.3 percent. In addition, TIGTA noted no exceptions in the 84 I.R.C. § 6103 cases reviewed. This is a marked improvement over the results from last year, when information was improperly withheld in 14.5 percent of the cases reviewed.</p> <p>The improved performance can be attributed in large part to the policies, procedures, and techniques (management controls) in place to help ensure that disclosure personnel handle requests under the FOIA in a timely manner and in accordance with laws and regulations. While improvement was noted, management's continued attention is needed to ensure that disclosure personnel follow required procedures. In 3.7 percent (3 of 82 cases) of the FOIA/Privacy Act cases reviewed, information was improperly withheld from requestors. These errors occurred mainly because of inadequate research or simple oversight by disclosure personnel.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS's adequacy and security of its technology.</p>	<p>Information Technology Reviews: Reference Number 2008-20-002, November 2007 Reference Number 2008-20-028, January 2008 Reference Number 2008-20-053, March 2008 Reference Number 2008-20-122, June 2008 Reference Number 2008-20-129, June 2008 Reference Number 2008-20-130, July 2008 Reference Number 2008-20-134, July 2008 Reference Number 2008-20-151, September 2008 Reference Number 2008-20-161, September 2008</p> <p>Security Reviews: Reference Number 2008-20-026, November 2007 Reference Number 2008-20-029, December 2007 Reference Number 2008-20-030, December 2007 Reference Number 2008-20-061, February 2008 Reference Number 2008-20-071, March 2008 Reference Number 2008-20-076, March 2008 Reference Number 2008-20-077, March 2008 Reference Number 2008-20-078, March 2008 Reference Number 2008-20-143, July 2008 Reference Number 2008-20-153, July 2008 Reference Number 2008-20-159, August 2008 Reference Number 2008-10-148, September 2008 Reference Number 2008-20-163, September 2008 Reference Number 2008-20-176, September 2008 Reference Number 2008-20-178, September 2008 Reference Number 2008-20-179, September 2008</p>
<p>Federal Financial Management Improvement Act of 1996 (FFMIA)</p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the 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>Reference No. 2008-10-096, March 2008 TIGTA determined that no intermediate target dates were missed on the 35 open remedial actions. However, the IRS extended target dates related to 10 (29 percent) of the 35 open remedial actions. The extensions ranged from 6 months to 18 months. Although the IRS has reasonable explanations for the extended dates, these delays further hinder the IRS's ability to address its noncompliance with the FFMIA in a timely manner. In addition, the IRS is still in the process of updating the remediation plan with specific actions to develop timely and reliable cost accounting information.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Office of National Drug Control Policy Detailed Accounting Submission and Assertions</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's Office of National Drug Control Policy (ONDCP) detailed accounting submission and assertions.</p>	<p>Reference No. 2008-10-058, January 2008</p> <p>TIGTA determined that the IRS's FY 2007 ONDCP detailed accounting submission and performance summary report was clearly explained and adequately documented. However, in TIGTA's opinion, the performance measure reported by the IRS could be improved to better represent the IRS's contribution to the National Drug Control Strategy. Specifically, by reporting only the number of ONDCP-related investigations completed, the IRS is providing very little information on the effectiveness of its efforts.</p>

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.




PARTMENT OF THE TREASURY

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, 2008 through September 30, 2008. 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.


HUMAN CAPITAL OFFICE

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

October 6, 2008

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Barbara Patloty
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 29, 2008, to the Commissioner, I am providing the following information to you to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(i) for the period April 1, 2008 to September 30, 2008.

Report of Employee Misconduct by Disposition Groups
Report of Employee Misconduct – National Summary
Summary of Substantiated Section 1203 Inquiries Recorded in ALERTS

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, 2008. 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 149 §1203 allegations and removed 12 employees. Twelve employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 62 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: Commissioner
Deputy Commissioner for Services and Enforcement
Acting 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, 2008 through September 30, 2008
Summary by Disposition Groups
(Table Provided by the IRS)**

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	37	98	9	6	150
Separation of Probationary Employees	1	153	1	5	160
Separation of Temporary Employees		43	10	0	53
Resignation/Retirement	69	156	43	22	290
Suspensions	95	270	124	8	497
Reprimands	124	497	381	21	1,023
Counseling		338	364	46	748
Alternative Discipline	17	83	39	5	144
Clearance	81	189	9		279
Closed Without Action	211	292	139	141	783
Closed Without Action (Caution Statement)	161	175	73	133	542
Forwarded to TIGTA		16		1	17
Suspended – Waiting Supplemental	1				1
Termination for Abandonment of Position		12			12
Termination for Other Than Job Abandonment		3			3
Forwarded to OPM for MIF				1	1
Case Suspended Pending Employee Return To Duty	3	6	4		13
Prosecution Pending for TIGTA ROI's	11				11
Total	811	2,331	1,196	389	4,727

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: Thursday, October 02, 2008 Report ID = T1R3a

**Report of Employee Misconduct for the Period
April 01, 2008 through September 30, 2008
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 ¹	491	824	(811)	(0)	(0)	504
Administrative Case ²	918	2,404	(2,331)	(33)	(8)	950
Employee Tax Compliance Case ³	801	926	(1,196)	(27)	(0)	504
Background Investigations ⁴	124	483	(389)	(1)	(0)	217
Total	2,334	4,637	(4,727)	(61)	(8)	2,175

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: Thursday, October 02, 2008 Report ID = T1R1

¹ 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.

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

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

⁴ 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, 2008 through September 30, 2008
(Table provided by the IRS)**

§ 1203 Violation	Removals ¹	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated ¹	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	0
False Statement Under Oath	0	0	0	0	0	0	0
Constitutional & Civil Rights Issues	0	1	0	0	0	0	1
Falsifying or Destroying Records	0	0	0	0	0	1	1
Assault or Battery	0	0	0	0	0	0	0
Retaliate or Harass	0	0	0	0	0	0	0
Misuse of §6103	0	0	0	0	0	0	0
Failure to File Federal Tax Return	6	4	0	10	40	28	88
Understatement of Federal Tax Liability	6	5	0	2	22	22	57
Threat to Audit for Personal Gain	0	2	0	0	0	0	2
Totals	12	12	0	12	62	51	149

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

Extract Date: Thursday, October 02, 2008

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

List of Abbreviations

ACS	Automated Collection System
ALERTS	Automated Labor and Employee Relations Tracking System
AMS	Account Management Services
AMT	Alternative Minimum Tax
CADE	Customer Account Data Engine
CID	Criminal Investigation Division
CY	Calendar Year
DOJ	Department of Justice
EITC	Earned Income Tax Credit
FDC	Fraud Detection Centers
FFMIA	Federal Financial Management Improvement Act
FOIA	Freedom of Information Act
FY	Fiscal Year
GAO	General Accountability Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
I&E	Inspections and Evaluations
IMDDS	Internal Management Document Distribution System
I.R.C.	Internal Revenue Code
IRA	Individual Retirement Account
IRS	Internal Revenue Service

ITP	Illegal Taxpayer Protester
LITC	Low Income Tax Payer
MVS	Modernization Vision and Strategy
OA	Office of Audit
OI	Office of Investigations
ONDCP	Office of National Drug Control Policy
PBA	Performance Based Acquisition
PBS	Public Buildings Service
PY	Processing Year
QRP	Questionable Refund Program
RA	Revenue Agent
RAL	Refund Anticipation Loans
ROI	Report of Investigation
RRA 98	IRS Restructuring and Reform Act of 1998
SED	Strategic Enforcement Division
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year
UNAX	Unauthorized Accesses
USC	United States Code
VITA	Volunteer Income Tax Assistance



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www.treas.gov/tigta/

or Write:

**Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, DC 20044-0589**

Information is confidential and you may remain anonymous



DEPARTMENT OF THE TREASURY

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