Treasury Inspector General for Tax Administration

Semiannual Report to Congress

October 1, 2008 – March 30, 2009

TIGTA 1998–2008 CELEBRATING TEN YEARS

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INSPECTOR GENERAL'S MESSAGE TO CONGRESS

It is my pleasure to submit the Treasury Inspector General for Tax Administration's (TIGTA) Semiannual Report to Congress for the period October 1, 2008 to March 31, 2009. This report highlights TIGTA's dual responsibility of providing oversight of the Internal Revenue Service (IRS) while protecting the integrity of the Nation's tax administration system.

January 2009 marked the ten-year anniversary of TIGTA's stand-up as an independent organization. In July of 1998, Congress approved and the President signed into law the *IRS Restructuring and Reform Act* (RRA 98). In January 1999, TIGTA became operational as a newly formed Office of Inspector General with oversight authority of the IRS. Over the past decade, TIGTA has:

- Issued more than 1,600 final audit reports and made more than 4,000 recommendations to improve tax administration, 3,500 of which the IRS has taken action;
- Identified more than $25 billion in funds that could have been put to better use and $192 million in questioned costs;
- Processed more than 91,684 complaints;
- Opened 44,373 investigations and successfully closed more than 99 percent of those cases; and
- Provided testimony to Congress on 36 occasions.

This semiannual report is the first to reflect a full period in which the new Office of Inspections and Evaluations (I&E) has been in existence. It is headed by the Deputy Inspector General for Inspections and Evaluations and has a small but growing staff. To date, I&E has reported on several key issues including, taxpayer privacy, theft at IRS facilities and inappropriate use of compensatory time by IRS employees.

This reporting period covers one of the most difficult financial times this country has faced, making it more imperative than ever that the IRS safeguards the resources it holds in trust for the American people. Through it all, we at TIGTA have not neglected our statutory obligation to effectively and efficiently oversee the programs, systems, and processes of the IRS. During times like these, underreporting of income, tax shelters and other schemes to evade taxes continue to grow. TIGTA is committed to continue working closely with the IRS to root out abuses as well as to promote and maintain the confidence of the American taxpayer in the Federal system of tax administration.

During the timeframe covered by this report, TIGTA's audit and investigative efforts have recovered, protected, and identified questioned costs totaling more than $10 billion in Federal tax revenue. This figure represents a more than $8 billion increase from the previous reporting period. Our audit efforts have realized approximately $10 billion in protected revenue and funds that could be put to better use. Through our investigative efforts, $54 million was recovered from theft, embezzlement, court imposed fines, penalties and restitution. These results are not unusual for TIGTA. In the previous reporting period, TIGTA provided an estimated return on investment of $14 for every $1 invested in us; for this reporting period, TIGTA's return on investment increased to an annualized estimate of $68.84 for every $1 invested by the American taxpayer through appropriations.

We at TIGTA stand ready to meet the challenges the current economic environment poses and remain committed to providing the essential oversight necessary to promote the efficiency, transparency, and accountability owed to the American taxpayer. On October 3, 2008, the *Emergency Economic Stabilization Act of 2008* was enacted. In addition to the financial protections the law provided, it created the Special Inspector General for the Troubled Asset Relief Program (SIG TARP). TIGTA offered and was called upon by the Department of the Treasury to assist in the stand-up of the SIG TARP. We gladly shouldered this responsibility and our dedicated staff, with the assistance of our virtual office environment, got right to work enabling that new oversight entity to hit the ground running.

This reporting period has been punctuated with a wide array of issues and crises facing the Federal Government, all demonstrating an increased need for transparency and oversight. In the throes of this economic challenge, Congress passed the *American Recovery and Reinvestment Act of 2009*, which stresses the immediate need for increased oversight and transparency throughout all levels of government. This legislation established the Recovery Act Accountability and Transparency Board, consisting of ten Inspectors General from across the Federal Government. TIGTA is one of the entities provided statutory membership on this board. In this additional role, we will promote efficiencies and integrity to ensure that the measures and appropriations enacted are carried out in the most effective means on behalf of the American people.

Notwithstanding these increased responsibilities, we remain dedicated to our mission to provide independent oversight of the IRS while protecting the integrity of Federal tax administration with continued scrutiny of the critical challenges facing the IRS today and in the future.

Sincerely,

J Russell George

J. Russell George
Inspector General

TIGTA'S HIGHLIGHTS

Examples of high profile cases from the Office of Investigations:

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

On March 5, 2009, U.S. District Court Judge James S. Moody, Jr., imposed a sentence of 30 years imprisonment on Florida businessman Randy Nowak. He noted that, after having listened to Nowak's recorded conversations with an undercover agent posing as a hit man, he had concluded that Nowak had "no conscience."

Nowak was convicted by a Federal jury in December 2008 of attempting to murder a U.S. officer or employee and for using a facility of interstate commerce with the intent that a murder-for-hire be committed.

According to court documents, in June 2008, Nowak, owner of RJ Nowak Enterprises, Inc., had been looking for someone to kill an IRS employee who was auditing him because he stood to lose $4,000,000 that he had hidden offshore.

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

Nowak was charged in a criminal complaint filed in July 2008 with attempting to kill an IRS Revenue Officer who was engaged in the performance of official duties. At that time, Nowak had an outstanding IRS liability of approximately $300,000 related to his personal income tax obligations, and he had four years of outstanding corporate tax returns for his business that he had not filed.

Former IRS Employee Sentenced in D.C. Tax Scam

According to a Department of Justice (DOJ) press release, and court documents and plea agreements as cited in the release, in December 2008, former IRS employee Robert Steven was sentenced to 46 months in prison, three years supervised release and ordered to pay $8,833,310 in restitution for receipt of stolen property and conspiracy to commit money laundering in connection with a property tax refund scheme in which more than $48 million was stolen from the government of the District of Columbia. Robert Steven had been employed by the IRS since 1975. At the time of his arrest, Steven was Division Director, Modernization Information Technology Systems.

The release stated that Robert Steven's wife, Patricia Steven, first met Harriette Walters, a former manager in the District of Columbia Office of Tax and Revenue, in the mid-1970s. By the late 1980's, Harriette Walters proposed that Patricia Steven deposit a check drawn on a

District of Columbia government bank account and made payable to Patricia Steven. Walters explained that Steven would be allowed to keep a portion of the proceeds from the check, but would have to return a substantial portion to Walters. In spite of knowing that Walters obtained the check fraudulently, Patricia Steven agreed and deposited the first check.

Robert and Patricia Steven opened a business that eventually developed into a clothing design business called "Bellarmine Design." Bellarmine Design never grossed more than $15,000 in a single year. From 1990 to 2007, Patricia Steven and Harriette Walters made 67 deposits of fraudulently obtained District of Columbia government checks or cash proceeds from the scheme into a Bellarmine Design checking account maintained by Robert Steven and Patricia Steven. The individual checks ranged in amounts from a handful of initial deposits of more than $4,000 each to subsequent deposits of up to $490,000. Patricia Steven also transferred at least $344,700 to Harriette Walters.

Patricia Steven and Robert Steven transferred at least $1,709,500 of these funds into another bank account used primarily by Robert Steven. Using these funds, Robert and Patricia Steven purchased at least four Jaguar cars, a townhouse located in Edgewater, Maryland, and multiple vacations to the Bahamas.

Patricia Steven was sentenced to 70 months in prison, three years supervised release and ordered to pay $8,833,310 in restitution.

U.S. Awarded a Final Judgment Against RGI, CSM and John Rachel

According to the evidence presented at trial, in 1995 the IRS entered into a contract with a company to repair laptop computers used by the IRS throughout the country. The contract called for the company to charge the IRS a fixed hourly rate, plus the actual cost of parts used in the repairs. The contractor subcontracted much of the work to RGI.

Testimony showed that RGI contracted with a third party to perform certain repairs to the IRS laptops. Instead of billing the actual cost of the third party's work, Rachel and RGI artificially inflated these costs by claiming that a shell company, CSM, had actually performed this work. When questioned about these transactions, Rachel and RGI provided the IRS with phony invoices reflecting that the work had been done by CSM at prices much higher than was actually charged by the true vendor. Trial testimony showed that the IRS paid an additional $428,532 under the contract as a direct result of the fraudulently inflated invoices.

On March 16, 2009, a final judgment against RGI, CSM, and John Rachel awarded the U.S. Government $1,285,597 in treble damages and a civil penalty of $385,000.

Examples of high profile audits from the Office of Audit:

Ensuring that Tax Practitioners and Preparers Adhere to Standards and Follow the Law

In Calendar Year 2007, the IRS processed approximately 83 million individual Federal income tax returns prepared by paid tax return preparers. With its current processes, the IRS cannot determine how many complaints against tax return preparers it receives, how many complaints are worked, and the total number of multiple complaints against a specific firm or preparer. Taxpayer complaints about tax return preparers can provide valuable information about understanding the root causes of taxpayer problems, identify areas of noncompliance, and help the IRS address core processes that need improvement.

The Office of Professional Responsibility (OPR) plays an important role in regulating the conduct of licensed tax professionals who act as powers of attorney for taxpayers who might be involved in an audit, collection issue, or appeal of an IRS determination. However, the OPR was not aware of 160 practitioners that had been assessed tax penalties, were permanently enjoined by a Federal Court, or had been criminally sentenced for abusive tax shelter activities that caused loss to the Federal Government of approximately $34.9 million. These practitioners continue to represent 9,766 taxpayers before the IRS.

Revenue Lost Due to Unassessed Failure to Pay Tax Penalties

A Failure to Pay (FTP) penalty encourages taxpayers to pay their Federal income taxes on time. It also authorizes the IRS to charge a penalty on tax accounts when taxes are not paid when they are due, including charging interest on the penalty until it has been paid in full. Interest is not being fully assessed on the penalty for most accounts and is fully assessed on only some accounts, because of the procedures used by the IRS to administer the penalty. As a result, hundreds of millions of dollars in revenue owed to the Federal Government is lost every year and taxpayers are not treated equitably.

Additionally, the IRS's procedure of associating the assessment of the FTP penalty with the issuance of an annual reminder notice is not effective. Moreover, the lack of effective corrective action allows for continued inconsistent treatment of taxpayers.

The IRS's Modernized e-File System Was Deployed With Known Security Vulnerabilities

The Modernized e-File (MeF) system is an IRS system that will provide a single method for filing all IRS tax returns, information returns, forms, and schedules via the Internet. The Modernized Tax Return Database (M-TRDB), a component of the MeF system, is the authoritative store of accepted returns and extensions submitted through the MeF system. Security weaknesses in the controls over system access, monitoring of system access, and disaster recovery have continued to exist even though key phases of the MeF system and the M-TRDB 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 phases are put into operation.

Example of a high profile report from the Office of Inspections and Evaluations:

International Tax Gap

The international tax gap is defined as taxes owed—but not collected on time—from a United States person or foreign person whose cross-border transactions are subject to U.S. taxation.

The IRS has not developed an accurate and reliable estimate of the international tax gap. Non-IRS estimates of the international tax gap range from $40 billion to $123 billion annually, but are based on educated guesses rather than direct measurement. The IRS estimated that the entire tax gap for Tax Year (TY) 2001 was $345 billion. However, it is doubtful that the IRS's tax gap estimate includes the entire international tax gap because identifying hidden income within international activity is very difficult and time-consuming.

The IRS has no plans to comprehensively measure the international tax gap due to cost, staffing and technical limitations that make direct measurement unfeasible. Consequently, there is less certainty that international tax compliance resources are efficiently allocated to address noncompliance.

Nevertheless, over the past few years, the IRS has taken action to better coordinate international tax compliance issues. In September 2007, the Service-wide Approach to International Tax Administration was announced. In July 2008, the Commissioner of Internal Revenue announced that international issues are a top priority during his tenure. Additionally, the IRS modified some organizational structures, changed processes to improve compliance, invested in human capital and information technology, and increased cooperation and outreach to foreign governments.

LEGISLATIVE RECOMMENDATIONS

The Inspector General is required by law[1] to review existing and proposed legislation and regulations relating to programs and operations of the establishment for which it provides oversight and to make recommendations in the semiannual reports to the Congress concerning the impact of such legislation or regulations on the:

- Economy and efficiency in the administration of programs and operations administered or financed by such establishment; and the
- Prevention and detection of fraud and abuse in such programs and operations.

Requiring a Social Security Number for the Additional Child Tax Credit – Legislation is needed to clarify whether refundable tax credits such as the Additional Child Tax Credit (ACTC) may be paid to filers without a valid Social Security Number (SSN) and, if these credits may not be paid, to provide the IRS math error authority to disallow associated claims for the credits. IRS management agrees with this recommendation. The Individual Taxpayer Identification Number (ITIN) is available to resident or nonresident aliens who are unable to obtain an SSN but have a tax return filing requirement. Billions of dollars in tax credits are provided to ITIN filers without adequate verification of eligibility. In TY 2007, more than 1.2 million (66 percent) ITIN filers received ACTC of almost $1.8 billion. This is a refundable credit available to individuals with no tax liability. The payment of Federal funds to ITIN filers through the ACTC is inconsistent with Federal law and policy. ***[Disallowance of the ACTC to filers without a valid SSN would reduce Federal outlays by $8.9 billion over 5 years.]***

Assessment of Interest on Failure to Pay Penalties – Legislation is needed to address whether separate notices must be issued to taxpayers each time Failure to Pay (FTP) penalties are assessed and interest is charged on the penalties. IRS management did not take a position on this recommendation. I.R.C. § 6601(e)(2)(A) states “interest shall be imposed” on FTP penalties from the date of notice and demand to the date of payment. The IRS currently interprets the law to mean that no interest can be charged on FTP penalties until and unless notice and demand is sent on the specific penalty amount. However, this interpretation has a number of ramifications which cause significant disparities in the amount of interest charged to taxpayers. The other possible interpretation of the law is that once a notice and demand for the tax liability plus interest and penalty is originally sent, the taxpayer has been notified that the penalty is running. This would provide for more consistent application of the FTP penalties and interest. ***[Consistent application of the FTP penalty and interest could increase revenue by an estimated $855 million over 5 years.]***

[1] 5 USC App. § 4(a)(2).

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).

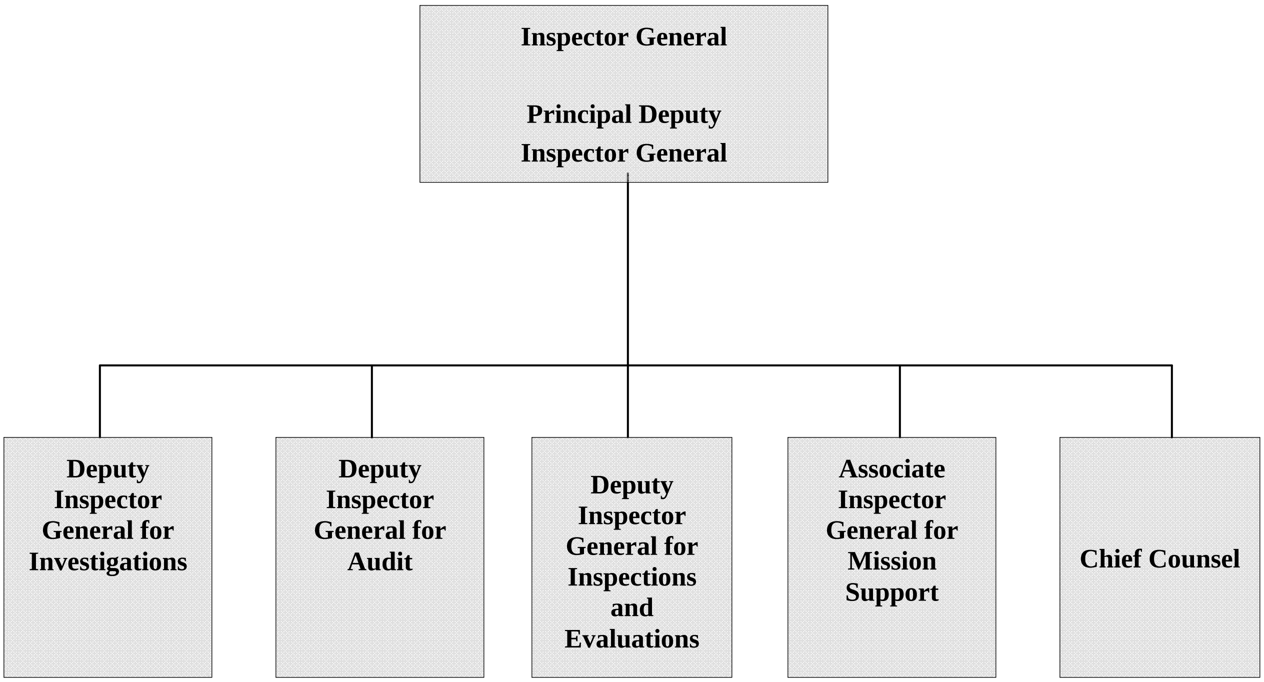
TIGTA conducts audits, investigations, and inspections and evaluations designed to:

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

Statutory Mandate

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

Organizational Structure



Authorities

TIGTA has all of the authorities granted under the *Inspector General Act of 1978,* as amended.[2] 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)[3] 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.).

[2] 5 U.S.C.A. app. 3 (West Supp. 2008).

[3] 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;
- More efficient use of resources;
- Protection of taxpayer privacy and security;
- Protection of resources/reliability of information; and
- Protection of taxpayer rights and entitlements.

For Fiscal Year (FY) 2009, the OA realigned its staff to enable it to continue to provide quality audit products as well as a better perspective and assessment of the IRS's operations and results. This realignment will better mirror all of the IRS's processes and provide improved OA coverage of all of the major IRS goals and initiatives.

The OA's structure was realigned into the following four business units:
<u>Returns Processing and Account Services</u> – (formerly Wage and Investment Income Programs) focuses on activities related to the preparation and processing of tax returns and the issuing of refunds to taxpayers.
<u>Compliance and Enforcement Operations</u> – (formerly Small Business and Corporate Programs) focuses on reporting, filing, and payment compliance IRS-wide, and will therefore include the examination (except for tax-exempt organizations), collection, and Automated Collection System (ACS) functions for all taxpayer groups.
<u>Management Services and Exempt Organizations</u> – (formerly Headquarters Operations and Exempt Organizations Programs) focuses on most of the former business unit programs except for the Criminal Investigation (CI) Division and the Office of Professional Responsibility (OPR) which fall within the purview of Compliance and Enforcement Operations. In addition, this business unit will develop an OA cross-cutting strategy that will evaluate the IRS's overall acquisition process, from planning through final delivery of goods and services, including whether the delivered product met the IRS's needs.

Security and Information Technology Services – (formerly Information Systems Programs) focuses on the same coverage areas as the former business unit, including post-implementation reviews of the Business Systems Modernization program.

Each year, TIGTA's OA identifies and addresses the major management challenges facing the IRS. The OA places audit emphasis on statutory coverage required by the RRA 98, and areas of concern to Congress, the Secretary of the Treasury, the Commissioner of the IRS, and other key stakeholders.

The following summaries highlight significant audits completed in eight areas of emphasis during this six-month reporting period.

Audit Emphasis Areas

- **Systems Modernization of the IRS**
- **Security of the IRS**
- **Tax Compliance Initiatives**
- **Human Capital**
- **Erroneous and Improper Payments**
- **Taxpayer Protection and Rights**
- **Processing Returns and Implementing Tax Law Changes During the Tax Filing Season**
- **Improving Performance and Financial Data for Program and Budget Decisions**

Systems Modernization of the IRS

The Business Systems Modernization (Modernization) program is a complex effort to modernize IRS technology and related business processes. For the IRS, modernizing technology has been an ongoing challenge. The IRS has achieved successes when the Modernization program followed its systems development and management guidance. It also 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 (MV&S) as a map for future development. However, the IRS and its contractors still must overcome significant barriers to achieve the goals of the Modernization program. The IRS's goal of providing high-quality, efficient, and responsive information services to its operating divisions is heavily dependent on this modernization of its core computer business systems while maintaining the existing systems.

Implementing the Data Strategy for More Efficient and Effective System and Application Development

The IRS is developing a Data Strategy that includes a comprehensive plan for data collection, consolidation, storage, and distribution. The Data Strategy is a key element in the IRS's Modernization Program along with the Modernized e-File (MeF), Customer Account Data Engine, and Account Management Services projects. Successful implementation of these four "pillars" is essential to the support of all tax administration activities and is critical to the long-term success of the Modernization Program.

"All of the IRS's compliance activities rely on data. By improving the quality and accessibility of the data, the IRS will be better equipped to enforce the nation's tax laws," commented J. Russell George, the Treasury Inspector General for Tax Administration.

To facilitate implementation of the Data Strategy, TIGTA recommended that the IRS: 1) work with IRS senior executives to consider the priority of the Data Strategy effort to provide the necessary funding so that it can be successfully implemented as an integral component of the Information Technology MV&S; 2) quantify and communicate the benefits that will be realized from implementation of the Data Strategy; and 3) develop a method to determine the priority for IRS systems and data assets to begin following the Data Strategy and when systems and data assets can be retired.

IRS management agreed with two of the recommendations. The Data Strategy Implementation Program Office plans to quantify potential benefits from the Data Strategy and develop a method to determine the priority for IRS systems and data assets to begin following the Data Strategy. While IRS management agreed with the intent of the first recommendation to consider the priority of the Data Strategy effort, they do not plan to implement the recommendation because they cannot agree to fund any one project without considering each year's annual budget.

TIGTA understands the IRS cannot agree to fund any one project without considering the available budget, but the IRS should place a high enough priority on the Data Strategy so that the project is considered for a relevant portion of available funding. Without providing the resources to secure this portion of the foundation, the Modernization effort is weakened, potentially leading the Data Strategy to a partially completed goal.
Report Reference No. 2009-20-022

Security of the Internal Revenue Service

Each year, millions of taxpayers entrust the IRS with their sensitive financial and personal data that are stored in and processed by IRS computer systems. The risk that taxpayers' identities could be stolen by exploiting security weaknesses in the IRS's computer systems continues to increase, as does the risk that IRS computer operations could be disrupted. Both internal factors (such as the increased connectivity of computer systems and greater use of portable laptop computers) and external factors (such as the volatile threat environment related to increased phishing scams and hacker activity) contribute to these risks.

The IRS's Modernized e-File System Was Deployed With Known Security Vulnerabilities

The MeF system is an IRS system that will provide a single method for filing all IRS tax returns, information returns, forms, and schedules via the Internet. The Modernized Tax Return Database (M-TRDB), a component of the MeF system, is the authoritative store of accepted returns and extensions submitted through the MeF system.

> ***"The IRS continues to struggle with security vulnerabilities in its modernized systems while at the same time trying to provide effective and efficient service to taxpayers," commented J. Russell George, the Treasury Inspector General for Tax Administration.***

Security weaknesses in the controls over system access, monitoring of system access, and disaster recovery have continued to exist even though key phases of the MeF system and the M-TRDB 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 phases are put into operation.

TIGTA recommended that the IRS: 1) consider all security vulnerabilities that affect the overall security of the MeF system and the M-TRDB before approving milestone exits; 2) provide more emphasis to the MeF project office to both prevent and resolve security vulnerabilities identified during Enterprise Life Cycle processes; and 3) approve interim authorities to operate when significant security control weaknesses exist in system environments.

IRS management agreed with the recommendations and has planned corrective actions. However, the corrective actions were focused on continuing to follow or strengthening existing processes. TIGTA believes that the security vulnerabilities were not caused by process deficiencies. Instead, IRS personnel did not fulfill their responsibilities for correcting security vulnerabilities before deployment.
Report Reference No. 2009-20-026

Emergency Preparedness Planning
The IRS's ability to protect its employees and provide taxpayers service during and after a major disruption is dependent on the effective preparation of four integrated plans called the Business Continuity "Suite of Plans." However, many of the plans TIGTA reviewed were not up to date, had not been adequately tested, and did not contain sufficient detail to be effective. These deficiencies could affect the IRS's ability to process 235 million tax returns, issue $295 billion in refunds, and collect $2.7 trillion in revenue each year.

TIGTA recommended that the IRS Commissioner appoint an executive with cross-organizational authority to oversee the IRS business continuity program and serve as the chairperson of the Emergency Management and Preparedness Executive Steering Committee. TIGTA also recommended that the IRS Commissioner require the executive responsible for business continuity planning to monitor and ensure that comprehensive testing is conducted and documented for all business continuity plans, and consider testing business continuity plans concurrently as opposed to testing the plans separately.

"This big picture look at the IRS's ability to recover from a disaster like the 2006 flooding of the IRS's headquarters building or Hurricane Katrina in 2005 clearly shows the need for IRS business units to work together to develop and test business continuity plans," commented J. Russell George, the Treasury Inspector General for Tax Administration.

IRS management agreed with the recommendations and has taken or plans to take appropriate corrective actions.
Report Reference No. 2009-20-038

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[4] are currently the focus of IRS initiatives. Nevertheless, the IRS is facing significant challenges in obtaining more 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 than previous efforts. The long-term success of the strategy will, in large part, be dependent on addressing several risk factors, some of which are beyond the IRS's control. As a result, broader strategies and better research may be needed to determine what actions are most effective in addressing noncompliance.

Some Large-Dollar Cases Were Not Worked Effectively

An ACS large-dollar case is one in which the taxpayer's aggregate delinquent tax owed is greater than or equal to $100,000 and less than $1 million. Although workload and inventory were managed effectively, 17 (27 percent) of 62 sampled cases were either removed from the inventory or not worked properly by employees. TIGTA estimated that work might have been discontinued on approximately 1,001 taxpayer accounts with a potential dollar impact of up to $209 million.

TIGTA recommended that the IRS: 1) determine how many cases might have been sent to the Queue[5] prior to meeting the general criteria, sample some of the cases to determine why the cases were moved, and evaluate the current Business Rules and resulting programming that automatically move cases to the Queue; 2) remind employees of the required actions on large-dollar cases through annual training or briefings and remind managers of the importance of reviewing the cases for these actions; and 3) determine whether it is practical to involve ACS function managers in a case review when a non-ACS function employee works a case assigned to the ACS inventory.

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[4] The tax gap is the difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
[5] An automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign a case for contact.

IRS management agreed with two of the three recommendations and they plan to take appropriate corrective actions. However, IRS management decided it is not practical or necessary to involve ACS managers in those cases when a non-ACS function employee works a case assigned to the ACS inventory. In addition, management disagreed with the $209 million estimated dollar impact because dollars might continue to be collected from cases in the Queue.

TIGTA continues to believe that the IRS should take some action to prevent/detect errors in cases processed by non-ACS employees even though the number of cases worked by non-ACS employees was small. In addition, the outcome measurement estimates were based on the information available at the time of the review, and the IRS could not provide reliable estimates or probabilities on amounts that might be collected in future years while cases remain in the Queue.
Report Reference No. 2009-30-023

Worker Misclassification
The misclassification of employees as independent contractors is a nationwide issue affecting millions of workers that continues to grow and contributes to the tax gap. The IRS has taken and plans to take many positive actions to address worker misclassification. However, it does not have an agency-wide employment tax program to coordinate the decision-making process and efforts among its business divisions. The limited data available indicates that the worker classification issue is growing significantly. When an employee is misclassified, tax revenues are not reported or paid and the burden of uncollected taxes shifts to other taxpayers.

As a result, TIGTA recommended that the IRS develop and implement an agency-wide employment tax program to address the issue of worker classification to improve coordination among the business divisions, improve compliance, and reduce the tax gap. TIGTA also recommended that the IRS consider conducting a formal National Research Program reporting compliance study to measure the impact of worker misclassification on the employment tax gap.

IRS management agreed with the recommendations and has planned appropriate corrective actions.
Report Reference No. 2009-30-035

Human Capital
Like many other Federal Government agencies, the IRS has experienced workforce challenges over the past few years, including recruiting, training, and retaining employees, as well as an increasing number of employees who are eligible to retire. In addition, the IRS, along with other Federal Government 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 potential loss of a large number of its most experienced technical employees within the next several years, coupled with the continually increasing complexity of the work performed by these employees, necessitates that the IRS conduct effective workforce planning. However, the IRS lacks the comprehensive, agency-wide information on mission critical employee skills it needs and does not have an agency-wide recruitment strategy. Without agency-wide information on current employee skills or an agency-wide recruitment strategy for attracting new employees, the IRS cannot effectively assess its workforce needs and may not be able to provide taxpayers with high-quality service in the future.

Assessing skills and effective recruiting are key in this day and age as:

- The work performed by IRS employees continually requires enhanced and more diverse skills;
- Significantly more vacancies might need to be filled as baby boomers[6] retire;
- Fewer qualified candidates are entering the workforce;
- Other Government agencies and private industry are competing for the same resources;
- Younger generations of employees are more mobile between jobs than employees have been in the past; and
- The IRS needs to ensure that its employees represent the diverse background of the public it serves.

TIGTA recommended that the IRS continue with efforts to develop a corporate process for skills gaps assessments and a detailed plan to guide the IRS's overall skills gaps assessment effort. In addition, TIGTA recommended that the IRS develop an agency-wide recruitment strategy that is tied to organizational objectives and desired outcomes.

IRS management agreed with the recommendations and has planned appropriate corrective actions. In addition, the Commissioner of Internal Revenue established the *Workforce of Tomorrow* task force to ensure that five years from now the IRS has the leadership and workforce ready for the next 15 years.
Report Reference Nos. 2009-10-025 and 2009-10-041

Erroneous and Improper Payments

As defined by the Improper Payments Information Act of 2002,[7] 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

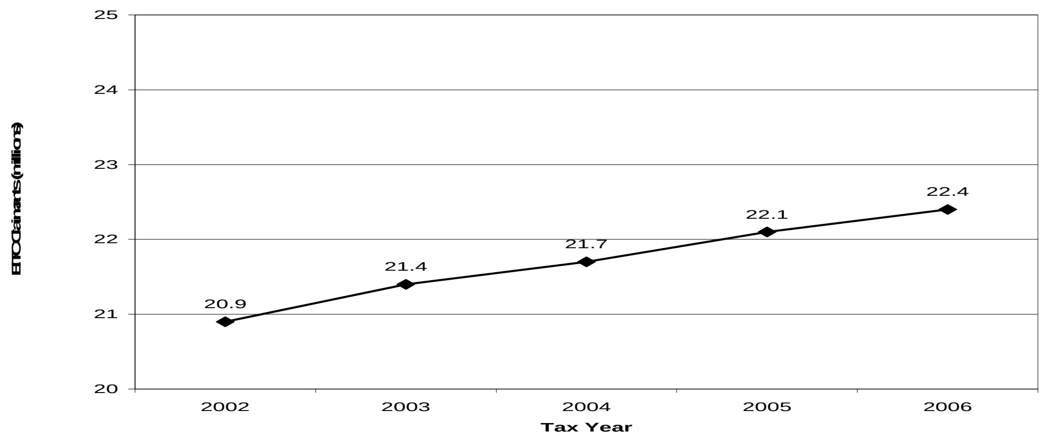
[6] Baby boomers are persons born during a baby boom. The term is currently used to refer to persons born in the U.S. between 1946 and 1964. U.S. Census Bureau, "Facts for Features" CB06 FFSE.01-2 (January 3, 2006).
[7] Pub. L. No. 107-300, 116 Stat. 2350.

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.

Alternative Methods Needed to Stop Billions of Dollars in Erroneous Payments in the Earned Income Tax Credit Program

The IRS has successfully developed a number of processes to identify erroneous Earned Income Tax Credit (EITC) payments prior to issuance. However, because compliance resources are limited and alternatives to traditional compliance methods have not been developed, the majority of the potentially erroneous EITC claims identified continue to be paid in error. The IRS reports $10 billion to $12 billion annually in erroneous EITC payments.

Figure 1: Growth in EITC Claimants (Tax Years 2002 - 2006)



Source: IRS EITC Fact Sheet Tax Years 2002 - 2006.

TIGTA recommended that the IRS conduct a study to identify alternative processes that will expand the IRS's ability to effectively and efficiently identify and adjust erroneous EITC claims for which data show that the taxpayer does not meet EITC requirements. In addition, TIGTA recommended that the IRS work with the Assistant Secretary of the Treasury for Tax Policy to obtain the authority necessary to implement alternative processes to adjust erroneous EITC claims.

"The IRS has numerous compliance priorities in addition to the EITC Program, which it must balance against its limited resources. However, this is a significant revenue loss to the Federal Government and that must be addressed. Closing the nation's estimated $345 billion annual Tax Gap requires taking steps on a number of levels," commented J. Russell George, the Treasury Inspector General for Tax Administration.

IRS management agreed with the recommendations and has planned appropriate corrective actions.
Report Reference No. 2009-40-024

New Procedures Allowed Some False Economic Stimulus Payments to Be Issued
The IRS distributed 119.2 million stimulus payments totaling $96.3 billion during 2008. However, TIGTA identified $1.2 million in false stimulus payments and $16.3 million in false refunds that were inappropriately issued due to reliance on new controls that did not work effectively. Although the amount of erroneously issued stimulus payments is small in relation to the total amount issued, TIGTA remains concerned that the existing controls pose a risk that false refunds and stimulus payments will be erroneously issued in the future. Allowing false stimulus payments or false refunds to be issued reduces the dollars in the United States Treasury, which is especially critical in this current economic environment.

TIGTA recommended that the IRS: 1) extend the time to verify potentially false returns and prevent the issuance of false refunds; 2) establish a quality review process to identify false refunds not timely processed to or updated on the computer system used to control false returns; and 3) seek a Chief Counsel opinion to determine whether a rebate recovery credit calculated by the IRS requires a statutory notice of deficiency.

IRS management agreed to request a formal written opinion from its Chief Counsel. IRS management disagreed with the other recommendations, stating that the prior manually intensive process was replaced with an automated, streamlined process that negates the need for manual intervention, and that it continues to monitor and take proactive steps to refine processes to hold the refund until all issues are resolved.

In spite of the IRS's new automated process and other freeze conditions, TIGTA identified instances where false refunds were erroneously issued due to the expiration of the temporary freeze within the established time periods. TIGTA also identified control weaknesses in the CI Division's processes. The CI Division outlined several improvements it had made to monitor the referral process and ensure issues are timely resolved. While TIGTA believes some of the actions taken by the CI Division could be an improvement, these actions will not be implemented until Processing Year 2009. As a result, TIGTA cannot comment on their effectiveness. In addition, if the IRS does not take corrective actions, the IRS will continue to be at risk of allowing false refunds to be issued. TIGTA remains concerned that the programmed expiration for the temporary freeze may not give the IRS sufficient time to verify wages and refer false refunds for resolution.
Report Reference No. 2009-10-049

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.

Ensuring that Tax Practitioners and Preparers Adhere to Standards and Follow the Law

Because of the number of taxpayers they represent, tax practitioners and preparers are an important part of tax administration. Misconduct or lack of competence by tax practitioners and preparers affects tax compliance, revenues, and taxpayer burden.

In Calendar Year 2007, the IRS processed approximately 83 million individual Federal income tax returns prepared by paid tax return preparers. With its current processes, the IRS cannot determine how many complaints against tax return preparers it receives, how many complaints are worked, and the total number of multiple complaints against a specific firm or preparer. Taxpayer complaints about tax return preparers can provide valuable information about understanding the root causes of taxpayer problems, identify areas of noncompliance, and help the IRS address core processes that need improvement.

The OPR plays an important role in regulating the conduct of licensed tax professionals who act as powers of attorney for taxpayers who might be involved in an audit, collection issue, or appeal of an IRS determination. However, the OPR was not aware of 160 practitioners that had been assessed tax penalties, were permanently enjoined by a Federal Court, or had been criminally sentenced for abusive tax shelter activities that caused loss to the Federal Government of approximately $34.9 million. These practitioners continue to represent 9,766 taxpayers before the IRS.

"Paid preparers are a critical component and stakeholder in tax administration, but there are occasions when the need arises for a taxpayer to file a complaint against preparers. The IRS's processes for receiving and processing complaints about tax preparers need to be improved," commented J. Russell George, the Treasury Inspector General for Tax Administration.

TIGTA recommended that the IRS clarify guidance to taxpayers on *IRS.gov* regarding the preparer complaint process. TIGTA also recommended that the IRS develop a form (both Web-based and paper) specifically for tax return preparer complaints that is routed to the correct function based on type of tax return preparer and includes the items necessary for the IRS to appropriately evaluate the legitimacy of the complaint. In addition, once a form is developed to ensure that sufficient information is captured about the complaint, a database(s) or tracking system should be developed to efficiently control the complaints.

TIGTA also recommended that the OPR: 1) determine whether additional disciplinary actions are warranted for the tax practitioners that TIGTA identified; 2) establish written procedures for controlling and reviewing case referrals on the inventory system; and 3) work with other IRS functions on the referrals.

IRS management agreed with all of the recommendations and has planned appropriate corrective actions.
Report Reference Nos. 2009-10-039 and 2009-40-032

Bankruptcy Proceedings
The United States Bankruptcy Code's automatic stay provision is designed to protect taxpayers from collection activities while they are in bankruptcy. Nonetheless, an estimated 495 potential taxpayer rights violations occurred between October 2005 and December 2007 because the IRS filed liens while taxpayers were in bankruptcy. There were also 27,838 taxpayers at risk of having their rights violated because a bankruptcy freeze code was not posted to their accounts in a timely manner. The bankruptcy freeze code designates that the account is in bankruptcy status. The code is an important control component for protecting taxpayer rights during bankruptcy proceedings by helping the IRS and its Centralized Insolvency Operation function identify and address potential automatic stay violations.

TIGTA recommended that the IRS: 1) develop and implement guidance for the identification and correction of potential lien stay violations when establishing bankruptcy cases on the Automated Insolvency System; 2) improve the Centralized Insolvency Operation function's Weekly Inventory Reports to include aging information on taxpayers accounts; 3) enhance efforts to resolve freeze codes that do not post to accounts by ensuring that managers consistently work Potentially Invalid Taxpayer Identification Number reports; and 4) evaluate the frequency, consistency, and effectiveness of team manager reviews of the quality and timeliness of bankruptcy closing actions in future operational reviews.

IRS management agreed with the recommendations and has taken or plans to take appropriate corrective actions.
Report Reference No. 2009-30-036

<u>Processing Returns and Implementing Tax Law Changes During the Tax Filing Season</u>

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 affect the IRS in terms of the quality and effectiveness of its service and in how taxpayers perceive the IRS.

Revenue Lost Due to Unassessed Failure to Pay Tax Penalties

Congress established the Failure to Pay (FTP) penalty to encourage taxpayers to pay their Federal income taxes on time and authorized the IRS to charge this penalty on tax accounts when taxes are not paid when due. Interest should also be charged on the penalty until it has been paid in full. However, because of the procedures used by the IRS to administer the penalty, interest is being fully assessed on the penalty for only some accounts, while on most accounts it is not. As a result, hundreds of millions of dollars in revenue owed to the Federal Government is lost every year and taxpayers are not treated equitably.

TIGTA recommended that the IRS develop and follow consistent procedures for assessing accrued FTP penalties on a regular basis on all balance-due accounts where such an assessment is not prohibited by statute. TIGTA also recommended that the IRS request clarifying legislation to address whether or not separate notices must be issued to taxpayers each time penalties are assessed and interest is charged on the penalties.

IRS management partially agreed with both of the recommendations. They reexamined TIGTA's sample of cases and found that, at most, 25 of the 278 cases should have received a notice but did not. The IRS made no plans to address the second recommendation other than to work closely with its Office of Chief Counsel to review available options.

TIGTA's review did not focus solely on cases that should have received annual notices, but on whether or not accrued FTP penalties had been assessed to allow for the accrual of interest. The IRS's procedure of associating the assessment of the FTP penalty with the issuance of an annual reminder notice is not effective. Moreover, the lack of effective corrective action allows for continued inconsistent treatment of taxpayers.

TIGTA is concerned with the lack of specific corrective action to address the second recommendation and will provide a copy of the report to the Assistant Secretary of the Treasury for Tax Policy for consideration of a legislative proposal to clarify the law. If the law is clarified to state that the original notice and demand issued to taxpayers at the time the FTP penalty is first assessed suffices for future assessments, the IRS should ensure that the penalty is assessed regularly and applicable interest is charged on all taxpayer accounts. If the law is clarified to state that a new notice must be issued each time the penalty is assessed, then the IRS should address the selective and inconsistent manner in which the penalty is now being assessed.
Report Reference No. 2009-30-052

Tax Returns with Individual Taxpayer Identification Numbers

The IRS issues Individual Taxpayer Identification Numbers (ITIN) to provide a unique number for individuals who are not eligible for a Social Security Number (SSN). The ITINs help these individuals comply with the tax laws and provide a means to efficiently process and account for tax returns. Improvements to the ITIN Program are needed to ensure that it is meeting its intent and that refundable credit claims are verified.

TIGTA recommended that the IRS develop processes to: 1) identify individuals who are improperly using ITINs for work purposes and develop outreach efforts with the Social Security Administration to address the improper use; 2) limit the automatic population feature for ITIN tax returns; 3) ensure that accurate tax information is input into IRS systems from both paper and electronically filed ITIN tax returns; and 4) ensure the requirements for the Child Tax Credit and Additional Child Tax Credit (ACTC) are met on ITIN returns claiming the credits.

TIGTA also made a legislative recommendation to clarify whether refundable tax credits such as the ACTC may be paid to filers without an SSN and, if these credits may not be paid, to provide the IRS math error authority to disallow associated claims for the credits. Disallowance of the ACTC to filers without an SSN would reduce Federal outlays by $8.9 billion over 5 years.

IRS management agreed to continue to work with software companies to limit the auto-populate feature and also agreed to work with the Department of the Treasury's Office of Tax Policy to consider legislation to limit claims for the ACTC to taxpayers with an SSN. However, the IRS disagreed with the other recommendations. TIGTA does not believe that IRS management provided adequate justification for the disagreed recommendations.
Report Reference No. 2009-40-057

Improving Performance and Financial Data for Program and Budget Decisions

While the IRS has made some progress in this area, it 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 hinders 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.

Current Practices May Be Preventing Use of the Most Advantageous Contractual Methods for Acquiring Goods and Services

Cost-reimbursement contracts, which reimburse contractors for all their costs, represent the highest monetary risk to the Federal Government. TIGTA reviewed a sample of 40 contracts, of which 33 were awarded on a cost-reimbursement basis. The IRS's predisposition to use cost-reimbursement

"While the contract types we reviewed were not improper, these types of contracts present a greater risk of the IRS paying more for contracts than necessary," commented J. Russell George, the Treasury Inspector General for Tax Administration.

contracts could result in inefficient use or misuse of taxpayer funds.

TIGTA recommended that the IRS ensure Contracting Officers document contract files with a detailed justification for awarding a cost-reimbursement contract and/or a contract that does not use Performance-Based Acquisition methods. In addition, the IRS should establish and implement guidance that requires members of the acquisition team to meet and coordinate prior to writing the statement of work to ensure that the best value contract type can be negotiated. Finally, TIGTA recommended that the IRS require the program offices to routinely review contracts prior to exercising option years or recompeting the contracts for follow-on work, for the possibility of converting all or portions of the contracts to less risky contract types.

IRS management agreed with the first two recommendations and partially agreed with the third, and they are taking or plan to take appropriate corrective actions. The IRS agreed that contracts should be reviewed when recompeting for follow-on work to less risky contract types, but disagreed with changing the contract type at the time of exercising an option. The IRS does plan to look for opportunities to use firm fixed-price contracts on an ongoing basis. **Report Reference No. 2009-10-037**

PROTECT THE INTEGRITY OF TAX ADMINISTRATION

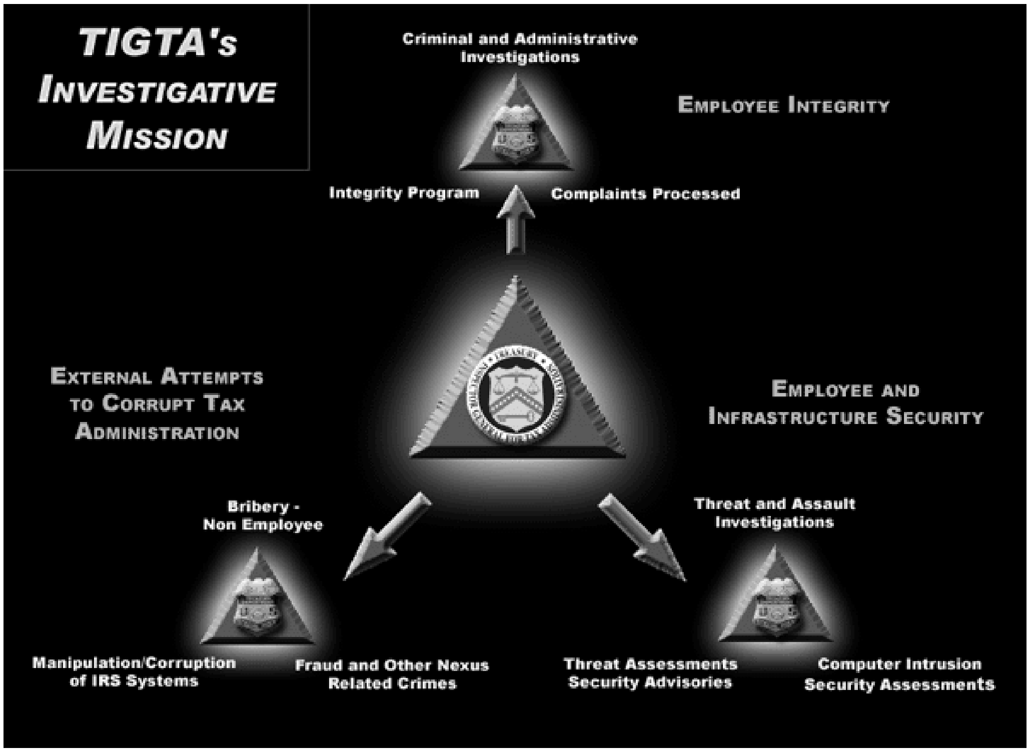
TIGTA's Office of Investigations (OI) has a unique statutory mandate to protect the revenue that funds the Federal Government. TIGTA's work touches every citizen of the United States everyday, because the revenue it protects provides for the health, safety, welfare, and common defense of every American.

TIGTA's statutory mandate is substantially broader than that of most Offices of Inspectors General. While all Offices of Inspectors General combat fraud, waste and abuse, TIGTA is also statutorily charged with protecting the integrity of Federal tax administration.

To accomplish its broad mandate, OI performs a variety of functions, including:

- Investigating allegations of criminal violations that adversely impact Federal tax administration;
- Providing armed escorts for IRS employees in certain volatile situations;
- Investigating allegations of serious administrative misconduct by IRS employees;
- Initiating proactive work to detect criminal or administrative misconduct in the administration of IRS programs;
- Working closely with IRS employees, tax practitioners, and community groups to educate them about indicators of integrity problems or fraud in IRS programs;
- Operating an aggressive Criminal Intelligence Program to proactively identify and mitigate threats to IRS employees or to the continuity of IRS operations;
- Investigating assaults on, and threats to, IRS employees, facilities, and operations;
- Working proactively to identify and mitigate threats to IRS information systems;
- Protecting the increasingly important electronic environment in which Federal tax administration is conducted;
- Investigating fraud, waste, and abuse involving IRS procurements and contracting;
- Maintaining a national complaint center accessible via telephone or Internet, which serves as the hub for receiving and addressing complaints of fraud, waste, abuse, and misconduct involving IRS employees, programs, and operations;
- Maintaining a robust forensic science program to analyze the physical and digital evidence gathered during investigations;
- Managing the Treasury-wide land mobile radio program; and
- Employing specialized technical and investigative equipment, training, and techniques to enhance investigative outcomes.

TIGTA's Investigative Performance Model



TIGTA has employed a progressive Performance Model to focus investigative efforts on its three primary areas of investigative responsibility: employee integrity; employee and infrastructure security; and external attempts to corrupt Federal tax administration. Since its introduction, the Performance Model has served both to focus TIGTA's investigative activities and to demonstrate the value of its investigations to external stakeholders.

Over time, the Performance Model has proven to be a far more powerful management tool than was initially anticipated. Because the Performance Model focuses on TIGTA's core mission-related objectives, it has become an essential tool for gauging almost every aspect of OI's investigative operations. In addition to quantifying investigative productivity, the model provides reliable statistical data which assists in the assessment of budgetary planning, staffing decisions, and training needs.

TIGTA's budget planning is now driven by the objective, measurable data derived from use of the Performance Model. Special agent training needs are also identified based on data derived from the use of the Performance Model. Imbalances in the distribution of human capital resources are detectible by analysis of data produced by use of the Performance Model.

The Performance Model has become an indispensable management tool as the growing body of data collected from its use has been analyzed and transformed into information to better inform strategic organizational decisions. For example, the use of the Performance Model has identified the need for OI to focus greater resources on the electronic environment in which Federal tax administration increasingly occurs, and in which new threats to IRS operations are rapidly emerging and known threats are continually evolving.

Investigating in the Automated Environment

Complex financial fraud, unauthorized access, and/or disclosure of taxpayer information require that TIGTA proactively identify IRS employee access anomalies and irregularities within the IRS revenue accounting system. Recent financial frauds in the District of Columbia city government and elsewhere are evidence of how experienced employees can overcome even the best internal controls and avoid detection through audits.

The environment in the IRS is ripe for significant fraud and unauthorized access of taxpayer information. The IRS plans to install 261 new records systems and make other process changes to replace the older familiar systems. There has been a decentralizing of authority to accommodate taxpayer service. People at lower levels can now make financial decisions about taxpayer accounts, and 70 percent of IRS employees have access to some part of agency revenue or budgetary accounting systems. These changes, which were made to enhance the IRS's cost effectiveness and improve taxpayer service, have added additional risk to the IRS structure which had previously been quite stable.

The implications for the IRS are significant. With $2.5 trillion in revenue and 149 million revenue accounts, there is much at risk and much to protect and oversee.

To address this risk, OI has developed a strategic plan to guide the organization toward operating effectively in the automated environment. The OI's vision is to develop a professional and productive workforce with the knowledge, skills, and abilities to operate in the ever-changing electronic/automated/technological environment. To realize this vision, OI developed a series of strategic goals to be accomplished over time. These goals are to:

- Determine the specific characteristics of the electronic tax administration environment;
- Establish a program of training that specifically targets the needs of investigative personnel operating in an electronic tax administration environment;
- Establish a program of proactive investigative initiatives to identify potential indicators of fraudulent activity within OI's jurisdiction; and
- Develop hiring and other personnel practices to enhance OI's capability to conduct investigations in the current and future electronic environments.

The OI anticipates completing its goals and being fully positioned to achieve its mission of effectively conducting proactive and reactive investigations in the increasingly automated environment of electronic tax administration by 2013.

The OI has already taken the first steps along the path to meet its goals. The TIGTA Training Academy received full accreditation on November 19, 2008, from the Federal Law Enforcement Training Accreditation Board. The OI routinely conducts training in its internally-developed yearly continuing professional education seminars on topics relating to conducting investigations in an automated environment. Each year, more than 300 special agents and organization leaders receive this exceptional training.

The OI has also undertaken the development of field office special agent/analyst positions. The special agent/analysts will review investigative data for trends and work to develop case leads with other field office analysts and TIGTA's Strategic Enforcement Division (SED), whose function is the detection of fraud in IRS programs, unauthorized access to IRS systems by internal users, and attempts to interfere with IRS computers by external sources.

The OI believes that a bottom-up approach is fundamental for the success of the organization. Those who work in the trenches each day are best able to identify issues and problems quickly. The OI has established a performance element that has been added to each special agent's evaluation plan which calls for proactive development of an initiative area. This encourages each special agent to develop investigations on their own in areas they have identified as problematic.

Dovetailing with these first steps to successfully conducting investigations in an automated environment is TIGTA's recently developed Armed Escort Program. This program, made possible through a legislative change, provides OI the ability to further enhance its assault/threat investigations by allowing TIGTA special agents to accompany IRS employees in certain volatile situations. Because TIGTA's jurisdiction encompasses threats to IRS employees, it is very likely that a TIGTA agent has already spoken with a taxpayer who has threatened and may assault an IRS employee. As the taxpayer will understand that a law enforcement officer is present, it can be expected that simple "officer presence" will be enough to discourage the taxpayer from committing a criminal act. Should simple "officer presence" fail, TIGTA agents are fully trained in law enforcement techniques to defuse and control hostile encounters, are armed, and may be armed with law enforcement model shotguns and rifles. To prepare for this newly enhanced mission area, the TIGTA Training Academy is providing training to all TIGTA special agents and leaders to further enhance their skills necessary to conduct armed escorts.

The OI leadership recognizes the future challenges to the organization and can see over the horizon in targeting the needs of its employees in the near and distant future. OI recognizes that it must continue to work aggressively with a strong sense of personal accountability for excellence and professionalism to realize its vision and accomplish its mission.

TIGTA Office of Investigations Training Program Receives Accreditation

TIGTA's Training Team and Supervisors

Left to right, (back row) Special Agent Marvin Weindorff; Assistant Special Agent in Charge Michael Radetic; Assistant Inspector General for Investigations Michael Delgado

Left to right, (front row) Management Analyst Yvette Taylor; Employee Development Specialist Kay Arthur; and Special Agent in Charge Dedra Drayton

Grand Opening of the TIGTA Investigative Support Center

After years in the making, OI has opened the TIGTA Investigative Support Center. The Center houses multiple disciplines: the Forensic Science Laboratory; the Technical and Firearms Support Division; portions of the Strategic Enforcement Division; and the Office of Information Technology.

The Center provides investigative support in areas such as latent fingerprint examination, handwriting identification, computer searching and seizing, forensic examination of electronic evidence, graphics services, radio communication, and the use of surveillance equipment. The Center creates synergy by bringing together multiple diverse groups which can cross-pollinate ideas and concepts that will help TIGTA achieve its mission.

Employee Integrity Investigations

IRS employee misconduct negatively affects the image and mission of the IRS. TIGTA is charged with addressing IRS employee misconduct. The OI investigates allegations such as extortion, bribery, theft, abusive treatment of taxpayers, false statements, financial fraud, and unauthorized access (UNAX) to confidential taxpayer information, including contractor misconduct and fraud.

UNAX is a persistent vulnerability for the IRS and the Federal tax system. The IRS is entrusted with properly maintaining and safeguarding sensitive taxpayer information, including personally identifiable information - the loss or misuse of which could result in identity theft and other fraudulent activity. The Federal tax system is based on voluntary compliance, and public confidence that the personal and financial information given to the IRS for tax administration purposes will be kept confidential is essential to that system. Even where unauthorized access does not involve unauthorized disclosure of taxpayer information by an IRS employee, unauthorized accesses undermine taxpayer confidence in the tax administration system. The OI has specific programs to protect the privacy, integrity, and availability of this sensitive information.

During this reporting period, OI completed 808 employee integrity investigations, of which 232 were UNAX investigations. These investigations resulted in 9 criminal prosecutions and 499 administrative disciplinary actions against IRS employees.

The following cases are examples of IRS employee and contractor integrity investigations TIGTA conducted during this period:

Fernando Cruz Indicted for Accepting a Bribe and Wire Fraud

On October 22, 2008, Fernando Cruz was indicted in Nevada and charged with accepting a bribe and wire fraud. According to the indictment, Cruz was an IRS Tax Compliance Officer. Cruz was performing an audit of a tax return when he accepted $1,000 in cash and assistance in finding an apartment in exchange for being influenced in the performance of the audit. In addition, Cruz schemed to defraud another individual by placing his (Cruz's) bank account number on a tax form that resulted in the victim's Federal tax refund and stimulus payment being deposited into Cruz's bank account.

Former Employee of IRS Contactor Who Stole and Deposited U.S. Treasury Checks is Sentenced

On October 23, 2008, Jacqueline White was sentenced in Connecticut as a result of her previous guilty plea to theft of government property. According to a U.S. DOJ press release, White was employed as a clerk for a contractor for the IRS that operated a lockbox facility in Windsor, Connecticut. As part of her responsibilities, White opened taxpayer remittance envelopes and removed checks to forward for processing. In April 2006, White stole eight checks written by individual taxpayers payable to the U.S. Treasury that had an aggregate value of $51,433. White altered the checks to reflect her name, "Jacqueline White", or some version of her name, as the payee, and then deposited the checks into her personal checking account.

White was sentenced to three years probation, the first six months of which White must serve in community confinement at a Salvation Army counseling program, and ordered to pay $460 in restitution and a $100 special assessment.

Ruchika Chawla Charged with Accessing Taxpayer Information without Authorization
On October 27, 2008, in California, Ruchika Chawla was charged with using a government computer to access or inspect taxpayer information without authority or authorization. According to court documents, Chawla was an employee of the IRS who accessed, without authorization, her own information, the information of five relatives, and the information of a taxpayer who had the same name as a relative. Chawla admitted making the accesses to her own information out of curiosity and to see how many other people had her same name. Chawla is alleged to have made a total of 329 unauthorized accesses of an IRS database.

IRS Revenue Agent Jim Liu Agrees to Plead Guilty to Tax Fraud
On March 30, 2009, Jim H. Liu agreed to plead guilty to Count One of the indictment: submitting a false tax return.

On November 13, 2008, Liu, a revenue agent with the IRS, was indicted in the United States District Court for the Central District of California on one count of submitting a false tax return and two counts of obstructing the IRS audit of his 2002 tax return.

According to court documents, in or about 2001, Liu purchased property in Pomona, California. In or about 2002, Liu sold the property. On or about April 15, 2003, Liu falsely claimed a $4,236 loss from the sale of the property on his 2002 tax return when Liu knew he had actually sold the property for a substantial gain.

On or about June 18, 2004, while the IRS was conducting an audit of Liu's 2002 tax return, he mailed and faxed to the IRS documents that falsely listed Liu's purchase price of the Pomona, California, property as $231,250, when the purchase price was approximately $185,000. Also in or about June 2004, Liu falsely stated on the documents listing the purchase price of the property that his wife provided money for a $47,550 additional deposit when there had not been an additional deposit.

Kimberly Perez Sentenced for Fraud Activity Connected with Computers
On November 5, 2008, Kimberly Perez was sentenced in California to one year probation, 200 hours of community service, and ordered to pay a $250 fine and a $25 assessment. According to court documents, Perez, as an employee of the IRS, intentionally exceeded her authorized access to an IRS data system and obtained the tax information of 24 people, including her daughter.

Employee and Infrastructure Security

Threats to and assaults of IRS employees decrease the morale of IRS employees and affect the Federal Government's ability to collect tax revenue. TIGTA protects revenue collection by investigating threats to IRS employees, IRS physical infrastructure, and IRS information systems.

During this reporting period, OI completed 452 employee and infrastructure security investigations. These investigations resulted in 6 criminal prosecutions.

The following cases are examples of employee and infrastructure security investigations TIGTA conducted during this reporting period:

Laurence Wolff Sentenced for Interfering with the Administration of Internal Revenue Laws

On March 23, 2009, Laurence Wolff was sentenced to 27 months in prison, three years supervised release and ordered to pay $450 in assessments and a $400 fine.

On September 24, 2008, Wolff was indicted by a grand jury in Wyoming for Interference with the Administration of Internal Revenue Laws and Mailing a Threatening Communication. According to court documents, Wolff mailed a communication to numerous government employees, including IRS employees, that stated he would defend property that was the subject of an Order of Foreclosure and Decree of Sale and further threatened to kill any person who attempted to enforce the Order. Wolff also refused to vacate property that had been foreclosed as ordered in the Order of Foreclosure and Decree of Sale. He posted notices on the foreclosed property threatening to use force against law enforcement officers and barricaded entry doors to the foreclosed property. Additionally, Wolff caused to be delivered a communication addressed to a United States judge containing a threat to injure government agents and officials.

U.S. to be Paid more than $1 Million in Settlement for Defective Ballistic Vests Purchased by TIGTA and other Agencies

In January 2009, according to the Department of Justice press release, Barrday Inc. and two related companies agreed to pay more than $1 million dollars to the United States in connection with their role in the weaving of Zylon fabric used in the manufacture and sale of defective bullet-proof vests.

The United States alleged that Barrday's woven Zylon fabric was used in the manufacture of bullet-proof vests sold by various companies and that the Zylon in the vests lost its ballistic capability quickly. These vests were purchased by agencies of the United States. TIGTA purchased 296 ballistic vests, for a total cost of $190,495.80, that contained the Zylon fabric. Barrday was reportedly aware of the defective nature of the Zylon by at least December 2001, but continued to sell Zylon for use in ballistic armor until approximately 2003.

Taxpayer Indicted for Using His Vehicle to Assault IRS Employees
On December 1, 2008, Ernest Milton Barnett was indicted in the Northern District of Alabama on two criminal counts. Count One charges Barnett with forcibly assaulting, intimidating and interfering with employees of the IRS and the Small Business Administration by use of a dangerous and deadly weapon, to wit: a Jeep Cherokee sport utility vehicle, in violation of Title 18 United States Code, Section 111. Count Two of the indictment charges that Barnett willfully injured and committed depredation against property of the United States, to wit: a building and its contents located in Birmingham, Alabama, and in doing so caused damage in excess of one thousand dollars ($1,000), in violation of Title 18 United States Code, Section 1361.

Anthony Blasi Pleads Guilty to Interference with a Federal Employee
On December 12, 2008, Anthony Blasi pleaded guilty in Colorado to Interference with a Federal employee and was sentenced to six months probation and ordered to pay a $25 special assessment. According to the sworn affidavit supporting the criminal complaint, Blasi was being interviewed at his residence on August 11, 2008, by two IRS agents. During the interview, Blasi became angry and said, "I should have killed you when I first met you." The IRS agents decided to end the meeting. Prior to the IRS agents departing, Blasi said to one of the agents, "If you show up again, I'll start shooting." During a telephone call with one of the IRS agents the next day, Blasi again made a threatening statement.

External Attempts to Corrupt Tax Administration
External attempts to corrupt the administration of internal revenue laws diminishes the IRS's ability to collect revenue and accomplish its core mission. TIGTA investigates these external attempts to corrupt or impede the administration of internal revenue laws. Investigations in this area include:

- Taxpayers offering bribes to IRS employees;
- Use of fraudulent IRS documentation;
- Phishing schemes;
- Impersonation of IRS officials (in person, telephonically, or via the Internet); and
- Corruption of IRS programs or operations through procurement or contractor fraud.

TIGTA is particularly concerned about phishing schemes that rely on e-mail messages falsely purporting to be about legitimate IRS operations. Some of the messages purport to be from the IRS; others purport to be from legitimate businesses seeking to assist taxpayers in dealing with the IRS. These messages have one thing in common: they solicit personally identifiable information such as Social Security Numbers and banking information, which is then used to commit identity theft.

During this reporting period, the IRS reported 1,523 phishing incidents. The OI continues its efforts to educate the public about these abusive schemes to ensure that misuse of the IRS name, impersonation of IRS employees, and identity theft incidents are minimized.

The following cases are examples of investigations of external attempts to corrupt Federal tax administration that TIGTA conducted during this period:

Merlinhg Alcantara Sentenced for Conspiracy

On December 18, 2008, Merlinhg Alcantara was sentenced in New Jersey to five years imprisonment, three years supervised release, and was ordered to pay $1,160,865.94 in restitution jointly and severally with other defendants after pleading guilty to one count of conspiracy.

According to court documents and a U.S. DOJ press release, Alcantara worked with a number of other individuals to acquire mail containing U.S. Treasury checks by paying baggage handlers working at Newark Liberty International Airport to steal the mail as it was being transported in the luggage compartment of commercial airlines. To avoid detection, on days on which airport security was conducting inspections, the baggage handlers communicated with each other to advise of the inspections. Baggage handlers hid stolen mail in their clothing and backpacks as they were unloading luggage. They would subsequently remove it from the airport undetected. Alcantara would receive the stolen mail from the baggage handlers. After the Treasury checks were acquired, counterfeit Treasury checks were created, copying five specific characteristics of authentic Treasury checks. Other members of the conspiracy were then given the counterfeit Treasury checks to be negotiated at banks. More than $1 million in counterfeit Treasury checks were negotiated.

As part of the ongoing investigation, Alex Torres and Kenneth Robinson, both baggage handlers working at Newark Airport, have pleaded guilty to conspiracy charges. Elaine Acevedo, of the Dominican Republic, who served the role of cashing counterfeit United States Treasury checks, has pleaded guilty in Federal court in Orlando, Florida, to one count of bank fraud, and was sentenced to 13 months in prison, five years of supervised release, ordered to perform 150 hours of community service, and ordered to pay $76,997 in restitution. Juan Castillo has been charged by complaint and remains at large.

Tax Preparer Pleaded Guilty in Connection with Tax Payment Theft

On January 12, 2009, Abdul Wahid pleaded guilty in California to ten charges including mail fraud, theft of government property, and aggravated identity theft. Wahid was sentenced to 132 months in prison, three years supervised release, and ordered to pay a $1,000 special assessment.

According to court documents, Wahid owned and operated a tax return business in Los Angeles called Global Accounting and Tax Service. Wahid would prepare personal and corporate tax returns for his clients. These returns would show significant amounts of tax due to various taxing authorities.

Wahid would direct his clients to give him checks in the amounts of the taxes due, as reflected on the return. In cases where the clients made the checks payable to Wahid, he would deposit the checks into his accounts and not pay the taxes. In cases where the clients made the checks payable to the relevant taxing authority, Wahid would deposit the checks into his own accounts and convert them to his own use. In order to avoid detection, Wahid would prepare a different return showing little or no tax due and submit those returns to the taxing authorities.

Robert Grieve Pleads Guilty to Conspiracy to Commit Wire Fraud
On November 12, 2008, Robert Grieve pleaded guilty in Washington State to Conspiracy to Commit Wire Fraud. According to court documents, Grieve was a private investigator based in Houston, Texas, who operated a private investigation firm called Robert Grieve, International (RGI). RGI conspired with others to obtain through false pretenses confidential information of unsuspecting people for use in RGI's investigations.

Court documents indicate that in 2006, Grieve and RGI were hired to investigate the sources and amount of income of a person. Co-conspirators used false pretenses known as "pretexting" to telephone an IRS customer service representative and deceive the customer service representative into releasing the person's detailed tax information for TY 2005. RGI then provided this information to its client.

Rulon DeYoung Indicted for Corrupt Interference with the Administration of Internal Revenue Laws
On September 3, 2008, Rulon DeYoung was indicted by a grand jury in Utah. According to court documents, DeYoung corruptly endeavored to obstruct the administration of the internal revenue laws by advising and counseling a person, who DeYoung knew owed taxes to the IRS, to transfer title of the person's personal residence into the name of a nominee controlled by DeYoung. The transfer was done in order to conceal ownership of the property and prevent the IRS from seizing it. DeYoung repeated this scheme three additional times with other persons. DeYoung was also indicted on four counts of Evasion of Payment of Income Taxes.

Michael Sabo Sentenced for False Impersonation of an IRS Agent and Tax Evasion
On September 29, 2008, Michael J. Sabo pleaded guilty in Nevada to False Impersonation of an Officer or Employee of the United States and Tax Evasion. According to court documents, Sabo, under false authority while pretending to be an agent of the IRS, affirmatively signed and filed three forms which fraudulently purported to release Federal tax liens that the IRS lawfully imposed against his property. Sabo then sold the property, thereby avoiding payment of taxes, and transferred most of the proceeds of the sale to a third party to further evade the payment of his taxes.

On January 9, 2009, Sabo was sentenced to one year and one day in prison, three years supervised release, and ordered to pay $94,909 in restitution.

George W. Dumstorf, Jr. Sentenced for Misuse of a Treasury Symbol and Bank Fraud
On October 31, 2008, George W. Dumstorf, Jr. was sentenced to 27 months in prison, five years supervised release, and ordered to pay $850,000 in restitution and a $125 assessment. According to court documents, Dumstorf used two fraudulent certificates of deposit, purportedly issued by the U.S. Treasury, to act as collateral for an $850,000 loan. This loan was to consolidate previous loans which had been obtained by Dumstorf through his use of fraudulent certificates of deposits purportedly issued by the Kennedy Space Center Federal Credit Union.

Ashok Patel Sentenced for Bribery of a Public Official for the Purpose of Lowering his Tax Liability
On March 9, 2009, Ashok Patel was sentenced in the United States District Court for the Southern District of Illinois to 10 months in prison, two years supervised release, and ordered to pay $89,221 in restitution and a $100 assessment. Patel previously pleaded guilty to Bribery of a Public Official. According to the indictment, Patel had intentionally and corruptly acted to influence an official act by promising or giving $5,000 to a public official for the purpose of accomplishing a lower tax liability.

ADVANCING THE OVERSIGHT OF AMERICA'S TAX SYSTEM

TIGTA's Office of Inspections and Evaluations (I&E), established March 2008, provides responsive, timely and cost-effective inspections and evaluations of IRS challenge areas. I&E provides TIGTA additional flexibility and capability to provide value-added products and services for improving tax administration.

The I&E staff is tasked with performing quick-response reviews, on-site inspections of IRS facilities, and in-depth evaluations of major IRS functions, activities, and programs. As a learning organization, I&E seeks to nurture new and expansive approaches to independent and objective oversight of IRS programs and operations.

The Office has two primary product lines: Inspections and Evaluations.

Inspections:

- 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:

- Performs in-depth reviews of specific management issues, policies, or programs;
- Addresses government-wide or multi-agency issues, or may be conducted in coordination with other Offices of Inspectors General; and
- Develops recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective procedures.

The following summaries highlight significant inspections and evaluations during this six-month reporting period.

International Tax Gap

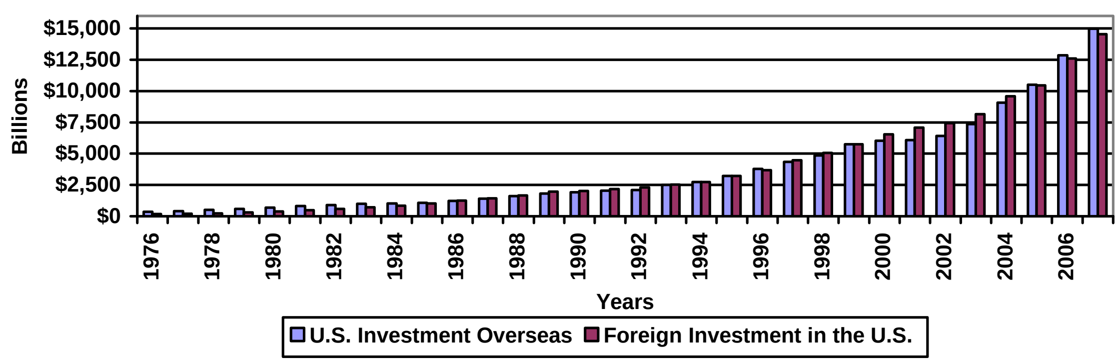
The international tax gap is defined as taxes owed—but not collected on time—from a United States person[8] or foreign person[9] whose cross-border transactions are subject to U.S.

[8] A U.S. person is defined as a citizen or resident of the United States, domestic partnership, domestic corporation, any estate (not defined as a foreign estate under I.R.C. §7701(a)(31)), and any trust, if administered by a U.S. court or supervised by one or more U.S. persons. I.R.C. §7701(a)(30).
[9] A foreign person includes a nonresident alien individual, foreign corporation, a foreign partnership, a foreign trust, a foreign estate, and any other person who is not a U.S. person. IRS Publication 515 (April 2008) p 6.

The international tax gap is defined as taxes owed—but not collected on time—from a United States person or foreign person whose cross-border transactions are subject to U.S. taxation.

The challenges of international tax administration reflect the complexity of the global economy. U.S. tax law must address a multitude of potentially taxable transactions. These transactions are engaged in by millions of entities worldwide, including large multinational enterprises, US-based companies operating internationally, foreign-based companies operating in the U.S., nonresident individual investments in the U.S., individual U.S. investors' international investments, individual U.S. residents residing abroad, and non-resident aliens residing in the U.S. Moreover, there are nearly 60 tax treaties with other nations that can modify and/or change the application of tax law. The tax gap is a critical issue for tax administration because international business and investments in the U.S. have grown from nearly $188 billion in 1976 to over $14.5 trillion in 2007, while U.S. business and investment overseas grew from nearly $368 billion to nearly $15 trillion over the same period.[10]

Figure 1: U.S. Business and Investment Overseas and Foreign Business and Investment in the U.S., 1976 - 2007



Source: TIGTA Analysis of the Bureau of Economic Analysis Data on International Investment Position of the U.S. at Yearend, 1976-2007.[11]

Growth in International Activity: The tremendous growth in offshore and international activity is a relatively recent phenomenon, even though corporate and individual use of tax havens started in the 1950s. Since about 1980, the legal and technological barriers to the movement of capital, goods, and services have declined dramatically[12]. Technological advances have provided opportunities for offshore investments that were once only possible for large corporations and wealthy individuals.

[10] Guttentag, Joseph and Reuven Avi-Yonah. "Chapter 5 - Closing the international tax gap" *Bridging the Tax Gap: Addressing the Crisis in Federal Tax Administration.* Edited by Max B. Sawicky. Economic Policy Institute. Washington D.C. 2005.
[11] *Ibid*.
[12] *See* footnote 10.

TIGTA found that the IRS has not developed an accurate and reliable estimate of the international tax gap. Non-IRS estimates of the international tax gap range from $40 billion to $123 billion annually, but are based on educated guesses rather than direct measurement. The IRS estimated that the entire tax gap for TY 2001 was $345 billion. However, it is doubtful that the IRS's tax gap estimate includes the entire international tax gap because identifying hidden income within international activity is very difficult and time-consuming.

The IRS has no plans to comprehensively measure the international tax gap due to cost, staffing and technical limitations that make direct measurement infeasible. Consequently, there is less certainty that international tax compliance resources are efficiently allocated to address noncompliance.

Nevertheless, over the past few years, the IRS has taken action to better coordinate international tax compliance issues. In September 2007, the Service-wide Approach to International Tax Administration was announced. In July 2008, the Commissioner of Internal Revenue announced that international issues are a top priority during his tenure. Additionally, the IRS modified some organizational structures, changed processes to improve compliance, invested in human capital and information technology, and increased cooperation and outreach to foreign governments.

Religious Compensatory Time

TIGTA reviewed the IRS program controls over Religious Compensatory Time (RCT). Taxpayers' confidence in the integrity of the IRS could be jeopardized if IRS employees abuse the RCT provisions for personal gain. Additionally, if the IRS does not properly control the accrual and use of RCT, the IRS has to compensate separated employees with a RCT balance. The funds to compensate them for the accrued RCT is derived from existing program operating budgets.

TIGTA found that approximately 2.6 percent of IRS employees had either a positive or negative RCT balance. Of that number, only 86 had balances that TIGTA considered to be excessive. While the issue of excessive RCT balances is not widespread within the IRS, the accumulation of excessive balances increases the risk that RCT may be used for unintended purposes. This includes using RCT to receive a lump sum payment upon separation or retirement from the IRS, taking time off for illnesses, or circumventing regulations designed to limit employee pay.

The IRS has taken several steps to improve controls applicable to RCT. For example, the IRS formed a task force to study the problem and issued guidance related to the proper use of RCT. However, additional measures are required to reduce the risk that employees will abuse RCT. TIGTA provided recommendations to IRS to help strengthen controls over the RCT program. The IRS substantially agreed to the recommendations.

CONGRESSIONAL TESTIMONY

During this reporting period, Inspector General J. Russell George provided testimony to Congress on one occasion and participated in a Congressional Roundtable discussion on another.

IRS Assistance for Taxpayers Experiencing Economic Difficulties

On February 26, 2009, Mr. George provided testimony to the House Committee on Ways and Means, Subcommittee on Oversight regarding IRS's efforts to assist taxpayers experiencing economic difficulties.

Mr. George noted that the American economy is in the midst of an economic crisis. The economy lost 3.6 million jobs in the last 13 months, the biggest job loss since the end of the Second World War. In light of this historic economic weakness, President Obama signed the *American Recovery and Reinvestment Act of 2009* (ARRA 2009), a nationwide effort to create jobs and transform our economy to compete in the 21st century.[13] The legislation represents the most ambitious effort to stimulate the economy in our Nation's history.

Mr. George said that the IRS plays a key role in helping to accomplish the economic recovery. According to Recovery.gov, tax relief accounts for approximately $288 billion of ARRA 2009 provisions, he said. Mr. George stated that in spite of the additional challenges, overall 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, he said.

Mr. George also stated that although the IRS has improved its service to taxpayers in recent years, more needs to be done. In this time of economic difficulty, the IRS must ensure that it remains sensitive to the situation of the public it serves. The IRS must effectively implement the tax relief provisions of the ARRA 2009 and assist taxpayers with filing their tax returns and meeting their tax obligations. Mr. George noted that this is an enormous challenge. TIGTA will continue to assist the IRS in meeting this challenge by providing proper oversight and audits in helping to ensure the integrity, economy, and efficiency of our tax system, he said.

[13] Pub. L. No. 111-5, 123 Stat. 115.

The Growing Problem of the Nation's Tax Gap

On October 9, 2008, Mr. George along with representatives from the Government Accountability Office and the National Taxpayer Advocate, participated in a Tax Gap roundtable hosted by Senator Thomas Carper (D-DE). Senator Carper hosted this informal session to address and discuss the detrimental and rapidly growing problem facing the United States, the Tax Gap.

The Tax Gap is defined as the difference between what taxes are owed the Federal Government, and what taxes are paid voluntarily on time. The Internal Revenue Service estimates the Tax Gap at $345 billion each year; however, after taking into account enforcement actions, recoveries, and late payments, it is estimated that the annual Tax Gap totals $290 billion annually. Mr. George noted that these numbers are most likely inaccurate, as the IRS made these estimations based on information gathered by the National Research Program in 2001 and that in fact, the actual Tax Gap currently warrants a much higher figure.

Mr. George conveyed that there is no singular cause for the Tax Gap, but rather a multitude of contributing factors that are collectively responsible for the annual Tax Gap. He further identified TIGTA's evaluation of the top three causes of the Tax Gap to include underreporting of income, underpaid taxes on filed returns, and unfiled tax returns. According to a TIGTA audit report issued in April 2008, underreporting of income makes up 82.6 percent of the overall Tax Gap, making it the most contributing factor.

Additionally noted by Mr. George were figures obtained by the IRS revealing compliance rates among taxpayers. On average, individual wage earners who are subject to withholding report 99 percent of their earnings for tax purposes, whereas small business owners report only 68 percent of their earning for tax purposes. Astonishingly, it is estimated that small business owners who operate on a cash only basis, report only 19 percent of their earnings for tax purposes. Mr. George pointed out that these figures are evidence as to how enormous the Tax Gap is and where the focus needs to be in order to facilitate its reduction.

During the discussion, Mr. George and TIGTA identified five areas that could contribute to closing the Nation's Tax Gap. These areas include basis reporting and information reporting, document matching, tip agreements, subchapter S employment tax reporting, and schedule C filing – hobby loss. Mr. George also expressed that third-party reporting and IRS's effective use of data are also essential tools in closing the Tax Gap.

AWARDS AND SPECIAL ACHIEVEMENTS

Assistant Inspector General for Investigations Tim Camus Named Department of the Treasury Meritorious Senior Executive

An honor bestowed on only five percent of Federal Government executives, Assistant Inspector General for Investigations Timothy Camus was recognized for his outstanding leadership and longtime service to the United States as a Department of the Treasury Presidential Rank Award Meritorious Senior Professional.

"I am not at all surprised by the President's recognition of Tim. As a dedicated professional, Tim is committed to excellence and I am proud to say he works for our organization," said J. Russell George, Treasury Inspector General for Tax Administration.

Each year, the President recognizes and celebrates a small group of career senior executives with the Presidential Rank Award. Recipients of this prestigious award are strong leaders and professionals who achieve results and consistently demonstrate strength, integrity, industriousness, and a relentless commitment to excellence in public service.

With 23 years of Federal Government tenure, Tim currently supervises all of TIGTA's field special agents who conduct on average over 4,000 investigations a year as well as the Strategic Enforcement Division, the division within TIGTA responsible for computer-related investigations including the unauthorized access to taxpayer information detection program, computer forensics and the most recent phishing and spam e-mail impersonation attacks.

Tim has been a Treasury employee for the entirety of his Federal career, beginning in 1985 as a Revenue Officer for the IRS. In 1991, Tim joined the IRS Inspection Service as a criminal investigator and followed that role when TIGTA was established under the IRS Restructuring and Reform Act of 1998 to provide independent oversight of IRS activities. In July 2002, Tim received the TIGTA Inspector General Award for his innovative leadership.

Special Agent in Charge Terry Peacock Presents Award to IRS Contact Representative Ieisha Austin

In October 2008, TIGTA Special Agent in Charge (SAC) Terry Peacock presented IRS Contact Representative Ieisha Austin with a letter and token of recognition for the outstanding assistance she provided to both TIGTA and the IRS. In August 2008, Ms. Austin received a telephone call from an out-of-state taxpayer who she believed posed an immediate threat to that taxpayer's local IRS office. Austin promptly notified the taxpayer's local police department, as well as her manager, who in turn immediately notified TIGTA. Mr. Peacock acknowledged and commended Austin for her accurate assessment of the seriousness of the situation and her prompt reporting, both to the local authorities and to the local TIGTA office, which prevented a more serious and dangerous situation.

Left to right Ieisha Austin and SAC Terry Peacock

TIGTA Office of Audit Received Letter of Appreciation

The Memphis Security and Information Technology Services office received a letter of appreciation, plaque, and commemorative coins from the Department of Transportation Office of Inspector General in recognition of the audit work conducted on the development and implementation of the Excise Files Information Retrieval System. This system is used by the IRS to help process and collect motor fuel excise taxes that are used by the Federal Highway Trust Fund to provide funding to maintain and build Federal highways. The Department of Transportation Inspector General recognized the Memphis audit team for their continuing commitment to helping combat motor fuel tax evasion fraud, thereby increasing the Highway Trust Fund revenues so essential to our Nation's surface transportation programs.

AUDIT STATISTICAL REPORTS

Reports with Questioned Costs

TIGTA issued three audit reports with questioned costs during this semiannual reporting period[1]. 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 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	8	$165,011	$82,147
2. Reports issued during the reporting period	3	$348	$0
3. Subtotals (Item 1 plus Item 2)	**11**	**$165,359**	**$82,147**
4. Reports for which a management decision was made during the reporting period. [2] a. Value of disallowed costs	3	$249	$0
b. Value of costs not disallowed	2	$165	$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4) [3]	**7**	**$164,944**	**$82,147**
6. Reports with no management decision Within 6 months of issuance	6	$164,840	$82,147

[1] See Appendix II for identification of audit reports involved.
[2] Includes one report in which IRS management allowed part of the questioned cost
[3] Difference due to rounding

Reports with Recommendations that Funds Be Put to Better Use

TIGTA issued one report 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-obligations 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	1	$8,900,000
3. Subtotals (Item 1 plus Item 2)	**1**	**$8,900,000**
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	0	$0
ii. Based on proposed legislative action	1	$8,900,000
b. Value of recommendations to which management did not agree	0	$0
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.

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

Reports With Additional Quantifiable Impact On Tax Administration			
Outcome Measure Category	**Number of Reports[1]**	**Number of Taxpayer Accounts**	**Dollar Value (in thousands)**
Increased Revenue	4	13,071,963	$1,066,152
Revenue Protection	1	0	$125,900
Reduction of Burden on Taxpayers	1	9,766	$0
Taxpayer Rights and Entitlements at Risk	1	495	$0
Taxpayer Privacy and Security	0	0	$0
Inefficient Use of Resources	0	0	$0
Reliability of Management Information	3	359,523	$5,765
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 2009-30-023, 2009-30-052, and 2009-20-051.
- Revenue Protection: Reference Number 2009-10-049

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

- Reliability of Management Information: Reference Number 2009-10-040.

INVESTIGATIONS STATISTICAL REPORTS

Significant Investigative Achievements October 1, 2008 – March 31, 2009	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,207
Complaints against Non-Employees	2,067
Total Complaints/Allegations	**4,274**
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,496
In Process within TIGTA[1]	282
Referred to IRS for Action	389
Referred to IRS for Information Only	864
Referred to a Non-IRS Entity[2]	4
Closed with No Referral	975
Closed with All Actions Completed	264
Total Complaints	**4,274**
Investigations Opened and Closed	
Total Investigations Opened	1,692
Total Investigations Closed	1,605
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	$37,580
Court Ordered Fines, Penalties and Restitution	$54,222,376
Out-of-Court Settlements	0
Total Financial Accomplishments	**$54,259,956**

[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 75 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 Referrals[1]	**Employee**	**Non-Employee**	**Total**
Referred – Accepted for Prosecution	30	83	**113**
Referred – Declined for Prosecution	291	217	**508**
Referred – Pending Prosecutorial Decision	64	97	**161**
Total Criminal Referrals	**385**	**397**	**782**
No Referral	**418**	**429**	**847**

[1] Criminal referrals include both Federal and State dispositions.

Criminal Dispositions[2]			
	Employee	**Non-Employee**	**Total**
Guilty	19	68	**87**
Nolo Contendere (no contest)	0	0	**0**
Pre-trial Diversion	3	2	**5**
Deferred Prosecution[3]	0	0	**0**
Not Guilty	0	0	**0**
Dismissed[4]	2	6	**8**
Total Criminal Dispositions	**24**	**76**	**100**

[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 Investigations[5]	
	Total
Removed, Terminated or Other	300
Suspended/Reduction in Grade	63
Oral or Written Reprimand/Admonishment	101
Closed – No Action Taken	78
Clearance Letter Issued	72
Employee Resigned Prior to Adjudication	67
Non-Internal Revenue Service Employee Actions[6]	345
Total Administrative Dispositions	**1,026**

[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	***Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income*** F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2003-30-176	Tax Compliance Initiatives	August 2003	02/15/10	***Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure*** F-1, R-2, P-1. Gather pertinent information concerning the affected proposed procedure to reduce the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.
2004-30-068	Tax Compliance Initiatives	March 2004	06/15/09	***Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program*** F-2, R-1, P-1. Develop standard risk-based case selection criteria that would provide minimum requirements and parameters for case selection.
2004-20-131	Security of the IRS	September 2004	04/30/12	***The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness*** 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	***Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement*** 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.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2005-20-024	Security of the IRS	March 2005	 12/31/10	***The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses*** 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 Federal Managers' Financial Integrity Act of 1982 annual evaluation of controls and include any new or currently underway activities in the corrective action plan.
2005-10-107	Human Capital	July 2005	 03/15/09 03/15/09	***Improved Policies and Guidance Are Needed for the Telework Program*** 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-2, P-1. Ensure Flexiplace Program training is provided as needed to help address productivity concerns.
2005-40-110	Providing Quality Taxpayer Service Operations	July 2005	 09/15/09	***The Effectiveness of the Taxpayer Assistance Center Program Cannot Be Measured*** 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	***Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program*** 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	***The Internal Revenue Service Does Not Adequately Assess the Effectiveness of Its Training*** 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 Federal Workforce Flexibility Act of 2004.
2005-30-154	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2005	 04/15/10	***The Clarity of Math Error Notices Has Been Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices*** 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.

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	03/31/09	***The Monitoring of Privacy Over Taxpayer Data Is Improving, Although Enhancements Can Be Made to Ensure Compliance With Privacy Requirements*** F-2, R-1, 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.
2007-40-057	Providing Quality Taxpayer Service Operations	March 2007	05/15/09 01/15/10	***Steps Can Be Taken to Reduce the Challenges Taxpayers With Vision Impairments Face When Attempting to Meet Their Tax Obligations*** 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.
2007-30-062	Tax Compliance Initiatives	March 2007	P-1: 01/15/10 P-2: 07/15/10 P-1: 01/15/10 P-2: 07/15/10	***Social Security and Medicare Taxes Are Not Being Properly Assessed on Some Tips and Certain Types of Wage 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 to report wage income and the appropriate amounts of Social Security and Medicare taxes are assessed for self-employed taxpayers or employers that are misclassifying their employees.
2007-10-082	Tax Exempt Organizations	May 2007	01/31/10	***Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified*** 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.
2007-20-121	Systems Modernization of the IRS	August 2007	12/31/10	***Annual Assessment of the Business Systems Modernization Program*** 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.)*
2008-30-027	Tax Compliance Initiatives	December 2007	 08/15/09	***Tax Examiners Did Not Always Resolve Refund Delinquency Cases, And Computer Checks Did Not Identify Unfiled Returns*** F-2, R-1, P-1. Modify the Return Delinquency case creation criteria to ensure delinquency inquiries are made of related tax period Forms 941 and Form 940.
2008-30-056	Human Capital	March 2008	 05/15/09	***A More Strategic Approach Could Enhance the Workers' Compensation Program Return-To-Work-Efforts*** F-3, R-1, P-1. 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.
2008-40-087	Complexity of the Tax Law	March 2008	 12/15/11 01/15/10 01/15/10 03/15/11	***Individual Retirement Account Contributions and Distributions Are Not Adequately Monitored to Ensure Tax Compliance*** F-1, R-1, P-1. Analyze Forms 5498 to identify the causes of the errors and possible corrective actions. F-2, R-1, P-1. Develop and implement strategies to bring noncompliant taxpayers back into compliance. F-3, R-1, P-1. Consider using the indicator on the Form 5498, Box 11 to identify taxpayers who are subject to required minimum distributions. F-3, R-2, P-1. Consider requiring custodians to report estimated required minimum distribution amounts on the Form 5498.
2008-10-132	Human Capital	June 2008	 P-1: 04/30/09 P-2: 04/15/09 03/15/09	***Progress Has Been Made, But Important Work Must Be Completed to Ensure Timely Identification of Future Leaders*** F-1, R-1, P-1, P-2. Develop a written strategic leadership succession plan that documents the high-level succession strategy and how the strategy will work with other human capital efforts. F-1, R-2, P-1. Prepare a plan that specifies the key activities that should be completed in the short term to ensure that the leadership succession program continues to move forward.
2008-40-146	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	July 2008	 05/15/09	***Procedures Were Not Always Followed When Resolving Alternative Minimum Tax Discrepancies*** F-1, R-1, P-1. Provide information to tax examiners reiterating the importance of correctly resolving Alternative Minimum Tax discrepancies and highlighting specific issues that could lead to incorrect resolution.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2008-20-159	Security of the IRS	August 2008		***Unauthorized and Insecure Internal Web Servers Are Connected to the Internal Revenue Service Network***
			05/01/09	F-1, R-2, P-1. Enforce IRS procedures to block unauthorized Web servers from providing data over the IRS network.
			08/01/09	F-1, R-3, P-1. Require an annual scan of Web servers and compare the scan results to the Web registration database.
			08/01/09	F-2, R-1, P-1. Require annual network scans of Web servers to measure compliance with security requirements.
			05/01/09	F-2, R-2, P-1. Formally limit the number of approved Web software packages for Web servers used in the non-modernized environment.
2008-40-167	Tax Compliance Initiatives	August 2008		***The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed***
			12/15/09	F-1, R-1, P-1. Develop a process to identify those employers that do not adequately withhold taxes from their employees after receiving a lock-in-letter.
			05/15/10	F-1, R-2, P-2. Develop employer examination criteria for referring those employers that did not follow lock-in-letter instructions.
			12/15/09	F-1, R-3, P-1. Develop and deliver training to appropriate IRS employees on the existing criteria for the current referral process.
			12/15/10	F-1, R-4, P-1. Research and develop criteria that will expand the use of the Form W-4 civil penalty beyond the current limitation of referrals and special projects.
			12/15/13	F-2, R-1, P-1. Create a single data entry point for processing Withholding Compliance Program cases and, provide lock-in-letter issuance authority to other IRS functions.
2008-10-169	Human Capital	August 2008		***A More Strategic and Consistent Approach to Estimating Retirements and Other Separations Is Needed to Better Plan For Future Human Resource Needs***
			07/15/09	F-1, R-1, P-1. Establish a more collaborative, integrative process to implement agency wide roles and responsibilities for effectively creating, refining, and using separation projections.
2008-20-151	Systems Modernization of the IRS	September 2008		***Customer Account Data Engine Project Management Practices Have Improved, But Continued Attention Is Needed to Ensure Future Success***
			04/01/09	F-1, R-1, P-1. Ensure that a Historical Data Conversion solution is in place to enable the Customer Account Data Engine (CADE) to process transactions related to issues such as balance-due conditions.
			07/01/09	F-1, R-2, P-1. 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.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No., P = Plan No.)*
2008-40-171	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2008	06/15/10	***Most Tax Returns Prepared By a Limited Sample of Unenrolled Preparers Contained Significant Errors*** F-1, R-1, P-1. Develop and require a single identification number to control and monitor all paid preparers.
2008-40-180	Tax Compliance Initiatives	September 2008	09/15/11	***Most Automated Underreporter Notices Are Correct; However, Additional Oversight Is Needed*** F-1, R-2, P-1. Simplify the Computer Paragraph 2000 notices issued by the Automated Underreporter Program.
2008-40-182	Erroneous and Improper Payments	September 2008	P-1: 04/15/09 P-2: 05/15/09	***Processes Are Not Sufficient To Minimize Fraud and Ensure the Accuracy of Tax Refund Direct Deposits*** F-1, R-2, P-1, P-3. Develop an education campaign to clearly alert taxpayers and tax return preparers of the requirements that direct deposits only be made to accounts in the name of a recipient.
2008-40-183	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2008	01/15/10	***The 2008 Filing Season Was Generally Successful Despite the Challenges of Late and Unexpected Tax Legislation*** F-1, R-1, P-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.

Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	**Result for TIGTA**
Access to Information Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.	As of March 31, 2009, there were no instances where information or assistance requested by the Office of Audit was refused.
Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.	As of March 31, 2009, no reports were issued where significant recommendations were disputed.
Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	As of March 31, 2009, no significant management decisions were revised.
Audit Reports Issued in the Prior Reporting Period With No Management Response Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.	As of March 31, 2009, there were no prior reports where management's response was not received.
Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.	TIGTA's Office of Chief Counsel reviewed 202 proposed regulations and legislative requests during this reporting period.

APPENDIX II
AUDIT PRODUCTS

October 1, 2008 – March 31, 2009

Inspector General Congressional Testimony	
Reference Number	**Hearing Title**
October 2008	
2009-OT-033	Inspector General Testimony before Senator Carper Congressional Roundtable: Making Headway on Closing the Tax Gap
February 2009	
2009-OT-048	Inspector General Testimony before U.S. House of Representatives Subcommittee on Oversight Committee on Ways and Means: IRS Assistance for Taxpayers Experiencing Economic Difficulties

Audit Products	
Reference Number	**Report Title**
October 2008	
2009-20-001	Customer Account Data Engine Release 3 Successfully Processes Individual Tax Return and Tax Account Information
2009-20-008	The Modernization Vision and Strategy Program Is Achieving Desired Results, but Risks Remain
November 2008	
2009-10-017	A Budget and Additional Business Measures Would Help the Criminal Investigation Division Better Administer Its Counterterrorism Efforts
2009-1C-002	Fiscal Year 2005 Incurred Cost Audit
2009-1C-003	Audit of Compensation System and Related Internal Controls
2009-1C-004	Audit on Labor Charging and Timekeeping Practices
2009-1C-005	Supplement to Audit of Direct Costs on Contracts TIRNO-00-D-00014 and TIRNO-06-D-00026 (Questioned Costs: $104,548)
2009-1C-006	Audit of Estimating System and Related Internal Controls
2009-1C-007	Cumulative Allowable Cost Worksheet for Fiscal Year Ended June 30, 2006
December 2008	
2009-30-018	Despite the Success Achieved, the Son of Boss Settlement Had Little Impact on Investor Filing and Payment Compliance
2009-20-026	The Internal Revenue Service Deployed the Modernized e-File System With Known Security Vulnerabilities
2009-40-024	The Earned Income Tax Credit Program Has Made Advances; However, Alternatives to Traditional Compliance Methods Are Needed to Stop Billions of Dollars in Erroneous Payments

January 2009	
2009-1C-009	Follow up Audit on Information Technology System General Internal Controls
2009-1C-010	Follow up Audit on Indirect and Other Direct Cost System Internal Controls
2009-1C-011	Report on the Contractor's Purchasing System
2009-1C-012	Audit of Fiscal Year 2009 Forward Pricing Rates
2009-1C-013	Supplement to Audit of Fiscal Year 2006 Incurred Costs (Questioned Costs: $184,194)
2009-1C-014	Follow up Audit on the Contractor's Facilities Utilization
2009-1C-015	Incurred Cost Audit for Fiscal Year Ended June 30, 2006
2009-1C-016	Evaluation of Fiscal Years 2003 Through 2005 Internal Revenue Service Cumulative Allowable Cost Worksheets
2009-40-030	Call Volume Associated With the Economic Stimulus Payments Made It Difficult to Reach the Internal Revenue Service During Fiscal Year 2008
2009-10-040	Attestation Review of the Internal Revenue Service's Fiscal Year 2008 Annual Accounting of Drug Control Funds and Related Performance (Reliability of Information: 39 prior year cases that should not be included in the report)
February 2009	
2009-30-035	While Actions Have Been Taken to Address Worker Misclassification, an Agency-Wide Employment Tax Program and Better Data Are Needed
2009-30-023	Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively (Increased Revenue: $209 million impacting 1,001 taxpayers)
2009-10-037	Current Practices Might Be Preventing Use of the Most Advantageous Contractual Methods to Acquire Goods and Services
2009-30-034	Examiners Did Not Always Properly Select the Prior and/or Subsequent Year Tax Returns (Increased Revenue: 16,830 taxpayers impacted)
2009-20-038	Better Emergency Preparedness Planning Could Improve Business Continuity Efforts
2009-20-022	Implementing the Data Strategy Will Make System and Application Development More Efficient and Effective
2009-40-031	The Federal Payment Levy Program Needs to Reduce Taxpayer Burden and Maximize Revenue
2009-30-036	Additional Actions Are Needed to Protect Taxpayers' Rights and the Government's Interest During Bankruptcy Proceedings (Taxpayer Rights and Entitlements: 495 taxpayers with liens filed)
2009-10-039	Tax Practitioners Promoting Abusive Tax Shelters Are Still Able to Represent Taxpayers Before the Internal Revenue Service (Taxpayer Burden: 9,766 taxpayers represented by penalized, enjoined, or sentenced preparers)
2009-10-025	An Agency-Wide Recruitment Strategy and Effective Performance Measures Are Needed to Address Future Recruiting Challenges
2009-40-032	The Process Taxpayers Must Use to Report Complaints Against Tax Return Preparers Is Ineffective and Causes Unnecessary Taxpayer Burden
2009-10-041	Workforce Planning Efforts Are Hindered by a Lack of Comprehensive Information on Employee Skills Levels
March 2009	
2009-30-044	Revenue Officers Have Minimal Need for Individual Forms 809 Books
2009-20-045	While Controls Have Been Implemented to Address Malware, Continued Attention Is Needed to Address This Growing Threat
2009-40-047	There Were Significant Limitations in Phase 1 of the Facilitated Self-Assistance Research Project

2009-30-046	Fiscal Year 2009 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns
2009-10-050	Controls Over Employee Telephone Calling Cards Are Insufficient to Identify Waste, Fraud, and Abuse (Questioned Costs: $59,249)
2009-30-052	Significant Revenue Continues to Be Lost Because of Unassessed Failure to Pay Tax Penalties (Increased Revenue: $855,451,550 impacting 13,054,132 taxpayers)
2009-30-054	Fiscal Year 2009 Statutory Review of Restrictions on Directly Contacting Taxpayers
2009-10-049	Reliance on New Procedures Allowed Some False Economic Stimulus Payments to Be Issued and Pose a Continuing Risk of False Refunds Being Issued in the Future (Revenue Protection: $125.9 million)
2009-30-053	Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2008
2009-1C-019	Audit of Noncompliance With Cost Accounting Standard 414, Cost of Money As an Element of the Cost of Facilities Capital
2009-1C-020	Audit of the Contractor's Indirect Cost and Other Direct Cost System Internal Controls
2009-1C-021	Audit of Comprehensive Labor
2009-1C-027	Audit of the Adequacy and Compliance of Revised Disclosure Statement
2009-1C-028	Audit of the Adequacy and Compliance of the Contractor's Fiscal Year 2009 Revised Disclosure Statement
2009-1C-029	Audit of Noncompliance With Cost Accounting Standard 418, Allocation of Direct and Indirect Costs
2009-1C-042	Follow up Audit on Information Technology System General Internal Controls
2009-1C-043	Follow up Audit of Accounting System Internal Controls
2009-20-055	Progress Has Been Slow in Implementing Federal Security Configurations on Employee Computers
2009-20-051	The Fuel Excise Tax Compliance Program Has Made Significant Progress, but Program Improvements Are Needed to Increase Highway Trust Fund Revenue (Increased Revenue: $1.7 million; Reliability of Information: $5.765 million presented in reports on program results are not fully represented or timely filed)
2009-40-058	Interim Results of the 2009 Filing Season
2009-10-056	A Documented Comprehensive Strategy Is Needed to Focus Efforts on Ensuring Compliance by Tax-Exempt Non-filers
2009-40-057	Actions Are Needed to Ensure Proper Use of Individual Taxpayer Identification Numbers and to Verify or Limit Refundable Credit Claims (Funds Put to Better Use: $8.9 billion; Reliability of Information: 359,523 e-filed returns with Taxpayer Identification Numbers incorrectly input into IRS systems)

APPENDIX III
TIGTA'S STATUTORY REPORTING REQUIREMENTS

TIGTA issued eight audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2009, TIGTA will complete its eleventh round of statutory reviews that are required annually by the *IRS Restructuring and Reform Act of 1998 (RRA 98)*. It will also complete its annual review of the *Federal Financial Management Improvement Act of 1996*. TIGTA has completed its annual review of the Office of National Drug Control Policy Detailed Accounting Submission and Assertions. The following table reflects the FY 2009 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.	Audit in report writing phase.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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. 2009-30-054, issued March 2009** The IRS has informed taxpayers of their rights related to I.R.C. §§ 7521(b)(2) and (c) through various publications. However, between October 2007 and September 2008, six complaint/investigation cases closed by TIGTA's Office of Investigations found that IRS employees improperly bypassed taxpayer representatives and were either counseled or reprimanded for their actions. Neither TIGTA nor the IRS can provide assurances that there were not other potential direct contact violations. IRS management information systems do not separately record or monitor cases that involve direct contact issues, and there is no legal requirement to do so. The Internal Revenue Manual (IRM) provides IRS employees with directions and explanations of the statutory and administrative procedures to follow in their day-to-day contacts with taxpayers and their representatives. However, the IRS could take better advantage of group manager review processes to ensure Examination function employees are properly following the direct contact provisions. Currently, there is no requirement in the IRM that specifically requires Examination function group managers to address direct contact issues during reviews even though such reviews are a key control component that ensures procedures are followed and work is meeting acceptable standards. The requirement would also be consistent with IRM guidance for Collection function group manager reviews. Most importantly, perhaps, the documentation from the reviews could provide needed support to provide greater assurances that Examination function employees are following the direct contact provisions in their day-to-day contact with taxpayers and their representatives.
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	Audit in report writing phase.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Extensions of the Statute of Limitations for Assessment of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501(c)(4)(B)	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.	Audit fieldwork in progress.
Levies I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.	Audit in report writing phase.
Collection Due Process I.R.C. § 7803(d)(1)(A)(iii) and (iv)	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.	Audit fieldwork in progress.
Seizures I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.	Audit in report writing phase.
Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation I.R.C. § 7803(d)(1)(A)(v)	An evaluation of the IRS's compliance with restrictions under section 3707 of RRA 98 on designation of taxpayers.	Audit in report writing phase.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Disclosure of Collection Activities With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)	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.	**Reference No. 2009-30-046, issued March 2009** IRS procedures provide employees with sufficient guidance for handling joint filer collection activity information requests. However, TIGTA could not determine whether the IRS fully complied with I.R.C. § 6103(e)(8) requirements when responding to all written 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.
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each of its *Semiannual Reports to Congress* 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.	Statistical results on the number of taxpayer complaints received are shown on page 53.
Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996 I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 Section 3466 of RRA 98	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.	Audit fieldwork in progress.
Denial of Requests for Information I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)	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).	Audit fieldwork in progress.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)	Requires TIGTA to evaluate the IRS's adequacy and security of its technology.	***Information Technology Reviews:*** Reference Number 2009-20-001, October 24, 2008 Reference Number 2009-20-008, October 31, 2008 Reference Number 2009-20-022, February 19, 2009 Reference Number 2009-20-051, March 30, 2009 ***Security Reviews:*** Reference Number 2009-20-026, December 30, 2008 Reference Number 2009-20-038, February 13, 2009 Reference Number 2009-20-045, March 10, 2009 Reference Number 2009-20-055, March 27, 2009
Federal Financial Management Improvement Act of 1996 (FFMIA) 31 U.S.C. § 3512	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.	Audit fieldwork in progress.
Office of National Drug Control Policy Detailed Accounting Submission and Assertions National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled *Annual Accounting of Drug Control Funds*, dated April 18, 2003.	Requires TIGTA to authenticate the IRS's Office of National Drug Control Policy (ONDCP) detailed accounting submission and assertions.	**Reference No. 2009-10-040, issued January 2009** TIGTA determined that the methodology used to prepare the IRS's FY 2008 ONDCP Detailed Accounting Submission and Performance Summary Report was clearly explained and adequately documented. However, TIGTA did identify that the performance information reported by the IRS included a small number of cases from fiscal years prior to FY 2008. Specifically, 18 of the 478 convictions reported by the IRS actually occurred prior to the FY 2008 measure. Similarly, 3 of the 827 ONDCP-related investigations reported as completed in FY 2008 were actually completed prior to FY 2008. Finally, 18 cases the IRS reported as recommended for prosecution, but ultimately resulted in acquittal or dismissal, occurred prior to FY 2008. Complete and reliable financial and performance information is critical to the IRS's ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

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.

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 October 1, 2008 through March 30, 2009. 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

April 3, 2009

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Barbara Pabotoy
Director, Workforce Relations Division

SUBJECT: Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress

In response to your memorandum on February 10, 2009, 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)(ii) for the period October 1, 2008 to March 31, 2009.

- 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 March 31, 2009. 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 117 §1203 allegations and removed five employees. In five of the removals IRS managers considered information forwarded in a TIGTA investigation. Nine employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 55 cases.

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If you have any questions, please contact me, or a member of your staff may contact Christine Adams at (202) 622-9363.

Attachments (3)

cc: Commissioner
Deputy Commissioner for Services and Enforcement
Deputy Commissioner for Operations Support
National Taxpayer Advocate
Acting Chief, EEO & Diversity
Chief, Communications & Liaison
Associate Chief Counsel (GLS)

Report of Employee Misconduct for the Period October 01, 2008 through March 31, 2009 Summary by Disposition Groups (Table Provided by the IRS)

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	44	71	2	3	**120**
Separation of Probationary Employees	4	87	8	17	**116**
Separation of Temporary Employees		11	8	7	**26**
Resignation/Retirement	57	138	49	22	**266**
Suspensions	83	262	87	9	**441**
Reprimands	117	476	397	32	**1,022**
Counseling		434	1,030	41	**1,505**
Alternative Discipline	31	81	24	6	**142**
Clearance	87	157	17		**261**
Closed Without Action	172	360	123	134	**789**
Closed Without Action (Caution Statement)	188	197	121	115	**621**
Forwarded to TIGTA		9			**9**
No Action on Appeal		1	1		**2**
Suspended – Waiting Supplemental	2				**2**
Termination for Abandonment of Position		24			**24**
Termination for Other Than Job Abandonment		13		1	**14**
Case Suspended Pending Employee Return To Duty	2	4	6	1	**13**
Prosecution Pending for TIGTA ROI's	15				**15**
Total	**802**	**2,325**	**1,873**	**388**	**5,388**

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, April 02, 2009 Report ID = T1R3a

Report of Employee Misconduct for the Period October 01, 2008 through March 31, 2009 National Summary (Table provided by the IRS)

Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Issues	
TIGTA Investigations ROI[1]	523	738	(802)	(1)	(0)	**458**
Administrative Case[2]	985	2,199	(2,325)	(26)	(9)	**824**
Employee Tax Compliance Case[3]	512	1,994	(1,873)	(15)	(0)	**618**
Background Investigations[4]	229	359	(388)	(3)	(1)	**196**
Total	**2,249**	**5,290**	**(5,388)**	**(45)**	**(10)**	**2,096**

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, April 02, 2009 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 October 01, 2008 through March 31, 2009 (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	0	1	0	0	0	**1**
Falsifying or Destroying Records	1	0	0	0	0	0	**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	1	5	2	4	26	23	**61**
Understatement of Federal Tax Liability	3	4	0	2	29	16	**54**
Threat to Audit for Personal Gain	0	0	0	0	0	0	**0**
Totals	**5**	**9**	**3**	**6**	**55**	**39**	**117**

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

Extract Date: Thursday, April 02, 2009

[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
ACTC	Additional Child Tax Credit
ALERTS	Automated Labor and Employee Relations Tracking System
ARRA 2009	American Recovery and Reinvestment Act of 2009
CADE	Customer Account Data Engine
CI	Criminal Investigation Division
DOJ	Department of Justice
EITC	Earned Income Tax Credit
FBI	Federal Bureau of Investigation
FTP	Failure to Pay
FY	Fiscal Year
GPRA	Government Performance and Results Act
I&E	Inspections and Evaluations
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
MeF	Modernized e-File
M-TRDB	Modernized Tax Return Database
MV&S	Modernization Vision and Strategy
OA	Office of Audit

OI	Office of Investigations
OPR	Office of Professional Responsibility
ONDCP	Office of National Drug Control Policy
RCT	Religious Compensatory Time
RGI	Robert Grieve, International
RRA 98	IRS Restructuring and Reform Act of 1998
SAC	Special Agent in Charge
SED	Strategic Enforcement Division
SIG TARP	Special Inspector General for the Troubled Asset Relief Program
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year
UNAX	Unauthorized Accesses
USC	United States Code

DEPARTMENT OF THE TREASURY

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