



Treasury Inspector General for Tax Administration



Semiannual Report to Congress

October 1, 2006 through March 31, 2007



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Inspector General's Message to Congress

Our Nation's government depends on an effective and efficient tax system. As the demand for Federal resources grows, it is important that Americans have faith that their tax dollars are fairly and accurately assessed, and that tax laws are administered effectively. The Treasury Inspector General for Tax Administration (TIGTA) is charged with ensuring that these responsibilities are met, and I remain dedicated to upholding this important mission.

I am proud of our accomplishments and pleased to present TIGTA's Semiannual Report to Congress. This report highlights notable audit and investigative work conducted between October 1, 2006, and March 31, 2007, and summarizes the statistical results of our work. Over the last six months, TIGTA has completed 62 audits that identified more than \$5.8 million in total cost savings and more than \$541 million in increased or protected revenue.

The Internal Revenue Service (IRS) continues to face many challenges. Recent initiatives to improve tax compliance, including the use of private collection agencies, implementing last-minute tax law changes for the 2007 filing season, and unique situations, such as the one-time telephone excise tax refund, have reinforced my priorities for TIGTA. They include: enhancing our ability to protect tax administration from corruption; monitoring IRS initiatives to improve tax compliance; and overseeing IRS efforts to modernize technology.

As the IRS attempts to close a portion of the estimated \$345 billion tax gap through its Private Debt Collection Program, it is critical that contractor performance and accountability be effectively managed. To that end, the IRS has effectively developed and implemented several aspects of the program. Specifically, our audits found that contractor employees have been adequately trained and background investigations have been completed within established guidelines. The IRS resolved most computer security concerns prior to cases being assigned to the private collection agencies; however, improvements could be made to better enhance computer security. We will continue to actively monitor the progress of this program to ensure the protection of taxpayers' rights and the security of sensitive information.

The IRS is entrusted with sensitive personal and financial information for millions of taxpayers. Increased reports of identity theft from both the public and private sectors have emphasized the importance of protecting taxpayer data. A recent TIGTA audit estimated that among 490 IRS laptops reported lost or stolen between January 2003 and June 2006, some may have contained the personal information of approximately 2,300 taxpayers. In light of this significant concern, TIGTA recommended that the IRS alter its incident response procedures and implement a systemic disk encryption program for all laptops.

The loss or theft of this equipment poses a significant risk to the IRS and potentially to taxpayers. TIGTA is focused on ensuring that IRS employees are aware of their security responsibilities and

TIGTA Semiannual Report to Congress

the need to immediately report the loss or theft of information technology equipment. TIGTA and the IRS have enhanced existing processes and information management systems to improve TIGTA's ability to investigate and recover this equipment. TIGTA's Office of Investigations and the IRS are also producing an employee training video that highlights the risks of handling sensitive information outside controlled environments. The video emphasizes security awareness and the timely reporting of lost or stolen equipment to both TIGTA and the IRS.

As an essential part of its mission, TIGTA is also concerned about protecting the system of tax administration from disruption. In June 2006, the IRS National Headquarters building was flooded with over 20 feet of water. The IRS responded by implementing a business resumption protocol. TIGTA found that the flood had no measurable impact on tax administration and that sensitive data stored in the basement area were adequately protected. However, more than 2,200 employees in the building were displaced, costing the IRS millions of dollars in administrative leave costs. TIGTA recommended that the IRS expand its telecommuting participation by increasing the availability of laptop computers as an additional component of its emergency contingency plan.

The TIGTA Inspections and Evaluations staff began its first year of operation after a successful pilot project last fiscal year. The staff, which is currently part of our Office of Audit, provides TIGTA with new capabilities and flexibilities to complement the work of our audit and investigation functions. As part of its responsibilities, the staff routinely analyzes data on the tax gap, supplying valuable information to various stakeholders.

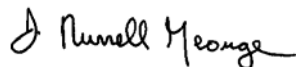
Despite efforts by the IRS, unauthorized access to confidential tax information (UNAX) remains a significant problem. During this reporting period, TIGTA opened 242 new UNAX cases and closed 286 cases, 270 of which resulted in disciplinary action against IRS employees. Our report highlights some of those investigations.

In addition, TIGTA's Office of Investigations provided fraud awareness presentations at training conferences and meetings to more than 28,000 IRS employees and tax practitioners during this reporting period. This outreach has enabled TIGTA to develop relationships with these groups that assist in identifying corruption within the IRS and our system of tax administration.

The IRS continues to face many challenges. TIGTA remains dedicated to working with the IRS, Congress, and other stakeholders to ensure the effectiveness and efficiency of our tax system.

I would like to thank the men and women of TIGTA for their outstanding work. They, along with the employees of the IRS, serve an extremely important function. I am greatly appreciative of their hard work and service to the American people.

Sincerely,



J. Russell George
Inspector General

TIGTA's Profile

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

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

TIGTA's organizational structure is comprised of five functional offices: the Office of Audit (OA); the Office of Investigations (OI); the Office of Chief Counsel; the Office of Information Technology; and the Office of Management Services (see chart on page 4).

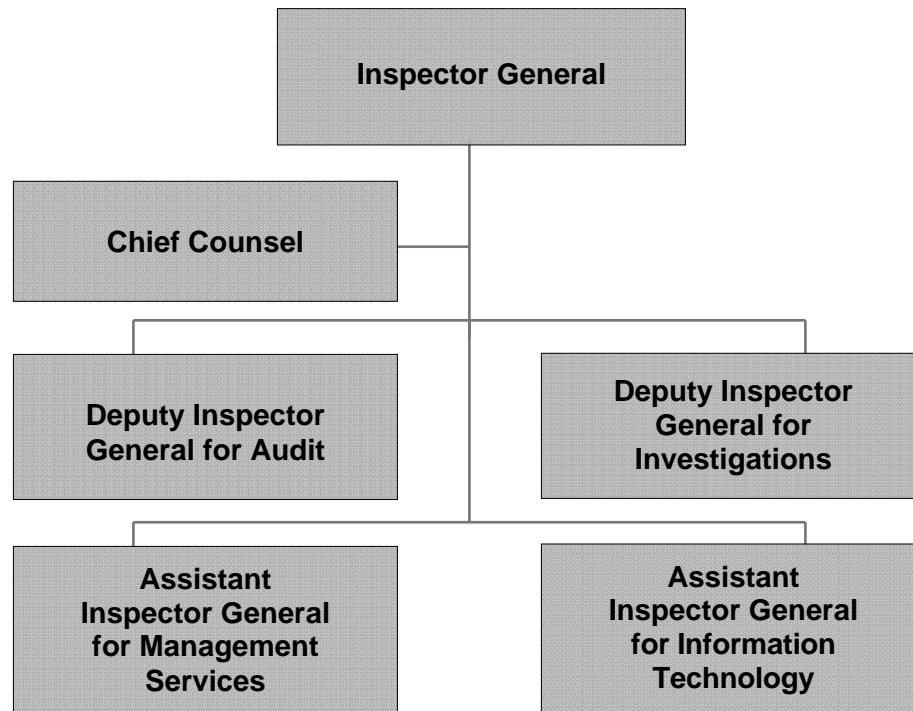
TIGTA conducts audits and investigations designed to:

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

Statutory Mandate

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

Organizational Structure



Authorities

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

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

¹ 5 U.S.C.A. app. 3 (West Supp. 2007).

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

Promote the Economy, Efficiency and Effectiveness of Tax Administration

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

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

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

<p style="text-align: center;">Audit Emphasis Areas</p> <ul style="list-style-type: none">• Tax Compliance Initiatives• Systems Modernization of the IRS• Tax-Exempt Organizations• Security of the IRS• Providing Quality Taxpayer Service Operations

The following summaries highlight significant audits that TIGTA completed in each of the five audit areas of emphasis during this six-month reporting period.

Tax Compliance Initiatives

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

Private Debt Collection Program

As of September 30, 2006, the gross accounts receivable to the IRS totaled \$271 billion. On October 22, 2004, the President signed the American Jobs Creation Act,³ which created a new I.R.C. Section 6306 (2004) to permit private collection agencies (PCA) to help collect Federal tax debts.

Overall, the IRS effectively developed and implemented several aspects of the program, thus providing better assurance that taxpayer rights are protected and Federal tax

³ Pub. L. No. 108-357, 118 Stat. 1418 (2004).

information is secure. Specifically, the IRS adequately trained contractor employees, completed background investigations, established telephone call monitoring and oversight procedures, and established computer and physical security procedures before assigning cases. However, the IRS needs to follow up on computer security issues, update procedures, and update the application used to calculate projected revenue.

TIGTA recommended that the IRS:

- includes in the Request for Quotation⁴ a requirement for PCAs to maintain Federal tax information on a separate server;
- ensures that PCAs have resolved specified computer and physical security concerns;
- updates the Contracting Officer's Technical Representative⁵ and Telephone Monitoring and Case Action Review procedures to ensure consistency and completeness;
- includes in the Request for Quotation a requirement for PCAs to provide to the IRS for its review and approval a copy of scripts for all telephone contacts with taxpayers; and
- continues to update and/or modify the revenue model to ensure that the IRS appropriately accounts for the impact of: taxpayers who opt out of the Program; the age of the balance due; and the actual collection rate achieved.

IRS management agreed with all of the recommendations and is taking corrective action.

Report Reference No. 2007-30-066

[Click on report references to go to online reports](#)

⁴ A Request for Quotation is a formal solicitation to sources outside of the Federal Government for offers to provide products or services.

⁵ Contracting Officer's Technical Representatives are responsible for managing the PCA contracts and ensuring compliance with requirements.

Social Security and Medicare Taxes

TIGTA estimates that the IRS could assess an additional \$108 million⁶ in Social Security and Medicare taxes each year. As the tax collector for the Social Security program, the IRS must help taxpayers meet their tax responsibilities by assessing and collecting the proper amount of employment taxes in this area.

TIGTA obtained data from the IRS Master File,⁷ reviewed a statistical sample, and determined that:

- the IRS is not assessing the employer's share of Social Security and Medicare taxes on unreported tip income. TIGTA estimated that the IRS assessed \$20 million in Social Security and Medicare taxes on tips for Calendar Year (CY) 2005, but the IRS could have assessed an additional \$20 million.
- the lack of a specific form or adequately written instructions increases the burden on taxpayers trying to report Social Security and Medicare taxes on wages. TIGTA estimated that this additional burden affected about 377,850 taxpayers filing Form 4137 (Social Security and Medicare Tax on Unreported Tip Income) during CY 2005.
- many taxpayers appear to be reporting self-employment income as wages on Form 4137 to pay less Social Security and Medicare taxes. TIGTA estimated that the IRS could have assessed an additional \$88 million in Social Security and Medicare taxes on these wages.

⁶ This is comprised of approximately \$20 million in Social Security and Medicare taxes on tips, and approximately \$88 million in Social Security and Medicare taxes on wages.

⁷ This is the IRS database that contains individual, business, employee plans, and exempt organizations data.

TIGTA recommended that the IRS revise Form 4137 to capture the data necessary to properly assess the employer's share of Social Security and Medicare taxes on unreported tip income, revise instructions on use of the form, and revise IRS training and procedures to reflect the changes. In addition, TIGTA suggested that the IRS use the revised form to develop a compliance program to assess the employer's share of taxes on the unreported tip income.

IRS managers agreed with the findings and recommendations in the report; however, they did not agree with the proposed corrective actions. In several instances, the IRS proposed its own corrective actions. TIGTA considered each of the proposed alternative corrective actions and found each to be satisfactory.

**Report Reference No. 2007-30-062
(Limited Official Use)**

Noncash Charitable Contributions

TIGTA estimated that 101,236 taxpayers could have claimed unsubstantiated noncash contributions totaling approximately \$1.8 billion for the period January 15 through September 21, 2006. Gifts of donated property, clothing, and other noncash items have long been a popular deduction for taxpayers. In recent years, the IRS and Congress have questioned the value placed on some of these noncash donations. As a result, Congress passed legislation adding reporting requirements to substantiate the value of these donations. Currently, taxpayers who may not be entitled to these deductions are reducing their tax liabilities and may receive refunds whether or not they provide the required substantiation. This could result in a loss of revenue to the Federal Government and inequitable treatment of taxpayers.

Individual taxpayers are required to file Form 8283 (Noncash Charitable Contributions) if their charitable deductions claimed for noncash contributions exceed \$500. If the value of donated property exceeds \$5,000, taxpayers are required to obtain signatures on Form 8283, acknowledging receipt of the donated property, and attest that the value placed on the donated property was determined by a qualified appraisal.

The IRS revised tax forms and publications, and provided training and information to employees to facilitate implementing the new requirements. However, taxpayers and tax practitioners still need to be better educated about these requirements. The IRS needs to establish additional procedures to identify noncompliance with these requirements when processing returns. Once these two needs are met, the IRS will be better able to address potential noncompliance, as Congress intended in its legislation.

TIGTA recommended that the IRS develop a comprehensive outreach plan to address these requirements for affected taxpayers and tax practitioners. Procedures should be developed to correspond with taxpayers to obtain missing Forms 8283 and supporting documentation. Taxpayers failing to provide missing forms and substantiation should have a specific audit code input on their tax returns to alert the IRS' Examination function of returns that do not include required substantiation for noncash charitable contributions. In response to the report, IRS management agreed with most of the recommendations.

Report Reference No. 2007-30-049

National Research Program Study of Subchapter S Corporations

While the IRS effectively managed and monitored implementation of the National Research Program Study of Subchapter S Corporations, TIGTA noted areas that can be improved. Some study results may not be complete, accurate, or provide information sufficient to update existing return selection formulas. These concerns could reduce the reliability of the study results. However, the IRS is taking or is planning to take action to reduce these risks.

The IRS included oversight and feedback to ensure that, when completed, the study provides valuable data. However, in 35 of 62 examination cases that TIGTA reviewed, revenue agents requested unnecessary information from taxpayers during the examinations. This included information that was already part of the examination case file or information that the agents could have obtained using research tools readily available. In 10 of the 35 cases, the revenue agent did not fully explain what information was being requested from the taxpayer.

TIGTA recommended that the IRS issue a reminder to all examiners that requests for information need to be specific and tailored to each examination. IRS managers stated that they will issue a reminder in the *Technical Digest* to all examiners that requests for information be specific and tailored to the examination and that examiners consider taxpayer burden in preparing the requests.

Report Reference No. 2007-30-027

Systems Modernization of the IRS

Modernization of the IRS includes both computer systems and business structure

(reorganization) modernization. Although both issues have their own sets of challenges, they must both succeed to fully modernize the IRS. Business Systems Modernization (BSM) involves integrating thousands of hardware and software components over 15 years. The BSM program is in its ninth year and has received approximately \$2.3 billion for contractor services. Two of TIGTA's highlighted audit reports concern the Electronic Fraud Detection System and the Modernized e-File System.

Electronic Fraud Detection System

Since TIGTA's previous audit,⁸ the IRS has improved executive oversight of the Electronic Fraud Detection System (EFDS) project by requiring periodic reports on the status and risks of the project. Project management controls were also improved. Regular meetings are being held with stakeholders and contractors to ensure that tasks are on target for timely completion and risks are addressed. If tasks are not completed as scheduled, the effect on the overall schedule is determined and remedial action is taken, if needed.

Although project management controls had improved, as of December 8, 2006, risks still remained, because several critical tasks were not completed. For example:

- the EFDS (applications and three years of data) needed to be loaded into the production environment;
- final integration testing was not completed; and
- the required Enterprise Life Cycle documents were not prepared.

⁸ *The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified* (Reference Number 2006-20-108, dated August 9, 2006).

On April 19, 2006, the IRS stopped all system development activities for the Web EFDS and focused all efforts on restoring the client-server EFDS for use in January 2007. The restoration effort required the contractors to prepare the EFDS and related databases for Processing Year (PY) 2007 by starting with the PY 2005 EFDS and updating it with the 2006 and 2007 tax law changes. Therefore, the EFDS restoration work did not contain the level of complexity involved in redesigning the EFDS into a Web-based system.

The IRS recently issued a contract for an estimated amount of \$3,080,004 for restoration work to be performed from November 1, 2006, through February 24, 2007. TIGTA reviewed the contract and found that payment of the contractor's fee was not dependent on the timely delivery of specific EFDS deliverables or milestones. The contract also established a cost sharing amount not to exceed \$3,080,004 as an equitable adjustment amount to compensate the IRS for the cost to restore the client-server EFDS. The agreement did not include a provision that would refund the unused equitable adjustment to the IRS, and the cost-sharing commitment was exclusively related to delivering a client-server EFDS in January 2007.

From TIGTA's review of the EFDS project work breakdown structure (i.e., a list of all tasks required to complete the project), it did not appear that the Computer Sciences Corporation (CSC) had \$3,080,004 worth of work remaining on the restoration project. The EFDS executive agreed with this conclusion and stated that CSC verbally agreed to work on two application changes unrelated to the restoration work to ensure that the IRS would receive the \$3,080,004 equitable adjustment. However, the contract stated that CSC's cost-sharing commitment was exclusively

related to delivering a client-server based EFDS and did not apply to any Federal Government-directed scope increases. Therefore, the IRS would be obligated to pay the contractor's fee if a functional EFDS was not implemented timely, and the IRS may not receive the entire equitable adjustment.

The IRS should ensure that it receives all of the equitable adjustment from CSC. If the entire adjustment is not received by the end of the original period of performance stated in the contract, the IRS should request that CSC pay it the difference between the equitable adjustment amount and the credit the IRS received during the period of performance. Alternatively, the IRS should request that the application of the remaining equitable adjustment credit owed to the IRS be applied to invoices for future EFDS-related task orders or other work being performed by CSC.

IRS management agreed with the recommendation and prepared a modification to the task order to ensure that the IRS received the full equitable adjustment. The modification was signed on February 23, 2007. It extended the base period of performance and included additional work within the scope of the cost sharing agreement.

Report Reference No. 2007-20-052

Modernized e-File System

The IRS' plans for processing additional tax forms using the Modernized e-File (MeF) system are uncertain, including plans to schedule development of Form 1040 (U.S. Individual Income Tax Return), which are pending approval from the Office of Management and Budget. As a result of these uncertainties, the IRS:

- has been unable to use fixed-price contracts for the MeF project;

- has experienced difficulty in managing the project's funding and contract accounting; and
- has had delays in negotiations and approvals of the project's contracting actions.

TIGTA recommended that the IRS ensure that the MeF project office involves the Enterprise Service organization's Business Rules and Requirements Management Office in its efforts to define release requirements. The requirements definition should incorporate the concepts and plans of the Information Technology Modernization Vision and Strategy, and include the content of each release, expected deployment dates, and anticipated funding for the release work.

TIGTA also recommended that the IRS ensure that the appropriate congressional committees are promptly notified of any proposed changes to future modernization program expenditure plans, and identify the cost effects of deferring significant and material project release requirements or work segments to future releases. The IRS should direct the MeF project team to work with the Procurement Office to finalize the negotiations of work previously completed and clarify the policy for escalating failed negotiation attempts.

The IRS agreed with most of TIGTA's recommendations, and corrective actions are underway. However, the IRS did not agree to implement a process to identify the cost effect of deferring significant and material project release requirements to future releases. TIGTA commented on concerns about the rationale the IRS provided for not using fixed-priced contracts and the absence of controls to assess the cost effect of deferring requirements to future releases.

Report Reference No. 2007-20-005

Tax-Exempt Organizations

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

According to the Congressional Budget Office, nonprofit hospitals received more than \$6 billion in Federal tax exemptions in 2002. The IRS is conducting a hospital compliance project to assess how tax-exempt hospitals believe they provide a community benefit in exchange for tax-favored status. Project information may assist the IRS in differentiating tax-exempt hospitals from for-profit hospitals and could potentially result in regulatory changes or a Revenue Ruling.

As part of this compliance project, IRS personnel sent a nine-page questionnaire to 544 tax-exempt hospitals, soliciting information on compensation practices and the community benefit standard. At the time of TIGTA's fieldwork, IRS personnel were still analyzing the questionnaire responses and identifying potential examination of organizations based on the manner in which they determined executive compensation. If information gathered in the compliance project shows that hospitals are taking only minimal action to meet the community benefit standard, the IRS will consider initiating examinations in this area. Additionally, the compliance project will gather information about the practices and procedures that tax-exempt organizations use

to assign compensation and promote compliance in this area, if necessary.

IRS management will prepare two reports summarizing the results of its analyses of the questionnaires and related examinations. An interim report, due in July 2007, will present the results of the tax-exempt hospitals' responses to the community benefit questions. This report will include any recommendations for the next steps that are planned to address the community benefit standard. IRS management plans to issue a final report publicly in September 2008, summarizing the results of the tax-exempt hospital compliance project. This report will provide an update on the community benefit standard since the issuance of the interim report and will include a summary of the examination results related to excess compensation.

While the IRS has specific plans for addressing potential noncompliance with the executive compensation issue, it is still in the process of evaluating the responses and has not determined what is needed for this issue. Because of the complexity that currently exists in the industry and the potential for new regulations, TIGTA believes it is premature to plan for a final project report covering both executive compensation and community benefit issues. If extensive action is needed to address noncompliance in the community benefit area, including developing new Revenue Rulings or recommending regulatory changes, IRS management may need to develop separate plans to accomplish this. As a result, TIGTA recommended that the IRS ensure that the interim report includes all planned actions related to community benefit issues and develop plans to prepare a separate final report on this issue, if all necessary actions will not be completed for inclusion in the

final compliance report scheduled for September 2008.

IRS management generally agreed with the recommendation. The interim report will reflect the community benefit information pertaining to tax-exempt hospitals. However, IRS management stated that it was too early in the process to determine if a supplemental report on community benefit was needed or what the precise next steps will be, but agreed to issue a supplemental report, if necessary.

Report Reference No. 2007-10-061

Security of the IRS

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

Lost and Stolen Laptop Computers and Other Computer Devices

TIGTA found that IRS employees had lost at least 490 computers between January 2, 2003, and June 13, 2006. Also, employees did not properly encrypt data on computer devices, and password controls over laptop computers were not adequate. The IRS annually processes more than 220 million tax returns containing personal financial information and personally identifiable information such as Social Security

Numbers. As a result, it is likely that sensitive data for a significant number of taxpayers have been unnecessarily exposed to potential identity theft and/or other fraudulent schemes.

IRS procedures require employees to report lost or stolen computers to the IRS Computer Security and Incident Response Center (CSIRC) and TIGTA's Office of Investigations. For the period of TIGTA's review, employees reported the loss of computers and other sensitive data in 387 separate incidents. Employees reported 296 (76 percent) of the incidents to TIGTA, but not to the CSIRC. In addition, employees reported 91 incidents to the CSIRC, but 49 of these incidents were not reported to TIGTA. Coordination to identify the full scope of the losses was inadequate between the CSIRC and TIGTA.

TIGTA conducted a test on 100 laptop computers currently in use by IRS employees and found that 44 laptop computers contained unencrypted sensitive data, including taxpayer data and employee personnel data. As a result, TIGTA believes it is very likely that a large number of lost computers contained similar unencrypted data. TIGTA also found other computer devices, such as flash drives, CDs, and DVDs, on which sensitive data were not always encrypted. TIGTA reported similar findings in July 2003,⁹ but the IRS had not taken adequate corrective actions.

In addition to encryption solutions to protect sensitive data on its laptop computers, the IRS requires controls, such as usernames and passwords, to restrict access to laptop computers. However, for

15 of the 44 laptop computers with unencrypted sensitive data, TIGTA found security weaknesses that could be exploited to bypass these security controls. TIGTA evaluated the security of backup data stored at four offsite facilities, and found that, at all of the facilities, backup data were neither encrypted nor adequately protected. TIGTA noted that inventory controls of backup media were inadequate, and attributed these weaknesses to a lack of emphasis by management.

TIGTA recommended that the IRS:

- refine incident response procedures to ensure that sufficient details are gathered regarding taxpayers who are potentially affected by a loss;
- consider purchasing computer cable locks for employees' laptop computers;
- periodically publicize an explanation of employees' responsibilities for preventing loss of computer equipment and taxpayer data, penalties for neglecting these responsibilities, and a summary of actual violation statistics and disciplinary action;
- include a reminder about encrypting sensitive information in the employees' annual certification of security awareness, including instructions on using approved encryption software on electronic media devices, such as flash drives; and
- consider implementing a systemic disk encryption solution on laptop computers that does not rely on employees' discretion about what data to encrypt.

Finally, TIGTA recommended that the IRS implement procedures to encrypt backup data sent to non-IRS offsite facilities and ensure that employees assigned to oversee these facilities conduct an annual inventory validation of backup media and a physical security check of the offsite facility used to

⁹ *Security Over Computers Used in Telecommuting Needs to Be Strengthened* (Reference Number 2003-20-118, dated July 2003).

store the media. IRS management agreed with the findings in the report and has taken, or planned to take, appropriate corrective action. For two of the recommendations, the IRS offered alternative corrective action that adequately addressed the findings. TIGTA concurred with the planned corrective action.

Report Reference No. 2007-20-048

Background Investigations of Employees and Contractors

Background investigations were not completed timely for IRS and contractor employees. Of the background investigations that TIGTA sampled within established IRS baselines, the IRS did not timely complete 77 percent of the IRS employee investigations and 72 percent of the contractor employee investigations. Delays in processing background investigations increase the risk that the IRS may be hiring unsuitable employees and could compromise sensitive taxpayer information, physically harm employees, and disrupt operations.

Furthermore, temporary bank (lockbox) employees, who assist at lockbox sites in handling over \$360 billion in taxpayer remittances per year, receive only an annual fingerprint check. In 2005, 54 remittances totaling approximately \$2.8 million were stolen from one lockbox site alone. The IRS is currently working with the Department of the Treasury Financial Management Service to revise the requirements for hiring temporary lockbox employees.

One other concern is that background investigations were not always required for cleaning contractor employees who had access to IRS office space. Hiring these employees without performing background investigations increases the risk that unsuitable individuals will gain access to

IRS facilities where taxpayer information is vulnerable.

The IRS' process for pre-screening its employees prior to conducting background investigations was found to be appropriate and effective. IRS employees were fingerprinted and preliminary checks were completed prior to the employees gaining access to IRS facilities and systems. Also, IRS employee background investigations were appropriate for the level of risk associated with the positions.

TIGTA recommended that the IRS ensure that its management information system is programmed to track the time expended to process background investigations. Alerts and reports to management should be developed to enable management to determine when and where delays occur to ensure that investigations are completed within established baselines. In addition, managers, contracting officials, and system administrators should be reminded to review documentation verifying that contractor employees have been pre-screened before they are given access to computer systems.

IRS management stated that action is underway to improve background investigations of temporary bank employees and cleaning contractor employees. In addition, IRS management agreed with the recommendations in the report, and corrective action is underway.

Report Reference No. 2007-20-059

Business Resumption after Flooding at IRS Headquarters

In June 2006, the subbasement and basement of the IRS National Headquarters building in Washington, D.C., were flooded with over 20 feet of water. Many IRS personnel displaced by the flood were either unable to telecommute or unable to

do so effectively, which resulted in granting IRS personnel approximately 101,000 hours of administrative leave. IRS personnel who work in the Headquarters building are involved with activities that do not require a significant amount of day-to-day contact with taxpayers.



IRS Headquarters,
Washington, D.C.

The IRS responded by implementing business resumption plans that contain specific procedures for managing such events. While the flood displaced more than 2,200 IRS personnel who worked in the building, TIGTA found that the displacement had no measurable impact on taxpayers and tax administration.

The IRS needs to complete a comprehensive assessment of its response to the flooding of the Headquarters building. The assessment should capture the overall successes and lessons learned in responding to and recovering from the flood. Such an assessment could be useful to IRS officials in the future when faced with a similar challenge or one of greater magnitude.

TIGTA's Inspection and Evaluation Team recommended that the IRS develop a business case for deciding whether or not to expand telecommuting participation by increasing the availability of laptop computers to IRS personnel, including comparing the various costs and benefits associated with replacing desktop

computers as they reach the end of their useful lives with laptop computers. Effective telecommuting could have lowered the \$4.2 million of salary costs associated with the administrative leave. In addition, the IRS should ensure that a comprehensive analysis is completed and well documented on its overall performance in responding to and recovering from the flood.

The IRS agreed that expanding telecommuting participation and the use of laptops can serve business resumption needs, and noted that it will advocate the consideration and use of telecommuting as a contingency planning strategy. It will also encourage using laptops in emergency situations, and recommend that these decisions be included in its business resumption plans. Additionally, the IRS indicated that it is finalizing a document to capture the analysis that was conducted and lessons learned from the flood.

Report Reference No. 2007-30-028

Protection of Sensitive Data and Restoration of Computer Operations

The flooding at the IRS Headquarters building in Washington, D.C., could have resulted in the loss of taxpayer data and disruption in computer operations. Computer assets were removed from the building before an asset-tracking system was put in place, and a physical inventory validation of computer assets remaining in the building could not be performed while the building was closed. However, due to preparatory and responsive actions, the IRS adequately protected sensitive data in the aftermath of the flooding and restored computer operations for its Headquarters employees.



Destroyed equipment in the basement of the IRS Headquarters Building after flooding

The IRS adequately protected taxpayer data stored throughout the building against the risk of unauthorized access. In addition, destroyed taxpayer data stored in the basement were properly protected and disposed of. A little more than one month after the flooding, the IRS had completed workstation space arrangements for displaced employees in 15 different locations in the District of Columbia, Maryland, and Virginia. Within the same time period, unassigned computers were located for those employees without computers, configured to fit each employee's needs, and technical support was provided to allow employees to reconnect to the IRS network. In addition, the IRS restored computer infrastructure operations that were conducted in the Headquarters building prior to the flooding. Critical servers were moved from the Headquarters building to other IRS facilities and restored for availability to employees within two weeks after the flooding. TIGTA commends the IRS' efforts and believes that its actions minimized the disruption caused by the flooding.

TIGTA recommended that the IRS ensures that the Incident Management Plans for all IRS locations include implementing an asset-tracking system immediately after a disaster. IRS officials agreed with

TIGTA's findings and have taken appropriate corrective actions.
Report Reference No. 2007-20-023

Providing Quality Taxpayer Service Operations

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

Missing and Exploited Children

On a quarterly basis, the IRS provides the National Center for Missing and Exploited Children (NCMEC) with a list that shows which instructions and publications include which missing children. However, this information is not always accurate. By enhancing the Picture Them Home Program and improving the process used to publish pictures, the IRS could include more pictures of missing children in its printed instructions and publications.

IRS data could provide additional value if that data were used to help locate missing children and/or their alleged abductors. However, according to 26 U.S.C. § 6103, the IRS is restricted from sharing tax returns or return information. The law provides that tax return information is

confidential and may not be disclosed by the IRS, other Federal and State government employees, and certain others having access to the information. TIGTA conducted an analysis of the NCMEC cases that contained Social Security Numbers for missing children and/or alleged abductors and identified new addresses (i.e., addresses different from those where the children and/or alleged abductors lived at the time of the abductions) for 237 (46 percent) of 520 missing children and 104 (34 percent) of 305 alleged abductors.

Disclosure of tax return information to Federal officers or employees for use in criminal investigations is an exception. The Federal Bureau of Investigation (FBI) has jurisdiction and investigative responsibilities over crimes against children, including violations of Federal statutes relating to kidnappings, such as child abductions, and domestic and international parental kidnappings. The law authorizes disclosure of tax returns and return information to Federal law enforcement personnel such as the FBI if a Federal district court judge or magistrate grants an *ex parte* order. The information, such as taxpayer identifying information and the sources of income and deductions, could provide leads to help locate missing children and/or the alleged abductors.

TIGTA recommended that the IRS ensure that available blank space is consistently identified and considered for picture placement in all instructions and publications, and that it develop a process to ensure that management information accurately reflects which instructions and publications include which missing children. The IRS agreed with the recommendations and is taking corrective action.

Report Reference No. 2007-40-029

E-Help Desk Program

TIGTA had several concerns about the E-Help Desk Program. Examples included:

- customer satisfaction not being measured;
- quality measures and procedures not fully established and developed; and
- processes and procedures not being developed to ensure that predefined solutions are accurate and current, or that management information is accurate and reliable.

The IRS recognizes the need to provide customers of its electronic products and services with the ability to obtain the assistance needed to successfully use these products. Since the inception of the E-Help Desk in 2002, the IRS has continued to identify ways to improve program efficiency and customer service. However, continued expansion in the availability and use of electronic products and services requires that improvements are made to ensure that the program can continue to provide effective customer service.

TIGTA recommended that the IRS develop:

- a process to ensure that it timely measures customer satisfaction;
- quality measures as well as a process to assess progress in achieving the measures;
- processes and procedures to ensure that predefined solutions¹⁰ are accurately developed, timely monitored, and appropriately approved;
- processes and procedures to ensure that management information is complete and accurate; and

¹⁰ To ensure the consistency of responses provided to customers, the E-Help Desk uses a set of predefined solutions for common problems.

- a process to ensure that assistors complete required training.

IRS management agreed with all the recommendations in the report and has already taken action to address them.

Report Reference No. 2007-40-026

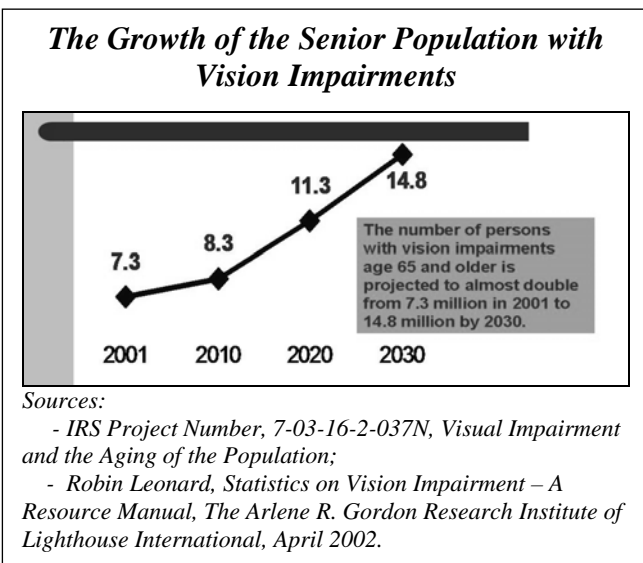
Taxpayers with Vision Impairments

Most notices taxpayers receive from the IRS are standardized computer-generated notices using 12-point Arial font for document headings and 11-point Arial font for text language. These font sizes for notices may be too small for taxpayers with vision impairments to read. There is currently neither a systemic process to routinely provide large print notices for taxpayers who need or desire them, nor a process or means to capture the number of taxpayers who need or desire alternative media. Thus, the IRS cannot determine the population of taxpayers with vision impairments and study the need for more service options. Although the IRS provides forms and publications in alternative media, it discourages taxpayers from filing tax returns in these formats.

The American Foundation for the Blind reports that there are between 7 million and 10 million people in the United States who are blind or vision impaired. The National Eye Institute¹¹ reports that by 2020, the number of people who are blind or have low vision is projected to increase substantially. This includes the senior vision-impaired population that is expected to increase from 7.3 million in 2001 to 14.8 million by 2030.

The IRS provides tax forms and publications in formats accessible to taxpayers with vision impairments to help them file their tax returns. These formats include large print, Braille, and “talking forms.”¹² The Braille and talking form documents are accessible to people using special assistive technology, including screen-reading software, refreshable Braille displays, and voice recognition software. During FY 2006, the Alternative Media Center made more than 782 tax forms and 109 publications available in alternative media.

Currently, the IRS’ national partners serve as the primary source of information about the needs of vision-impaired taxpayers. Recently the IRS initiated a program, TAXfacts+, which is a public-private collaborative study designed to improve the long-term economic well being of Americans with disabilities. In addition, the IRS is undergoing a five-year study, called the Taxpayer Assistance Blueprint, to improve customer service. However, neither TAXfacts+ nor the Taxpayer



¹¹ The National Eye Institute conducts and supports research that leads to sight-saving treatments and plays a key role in reducing visual impairment and blindness. It is part of the National Institutes of Health, an agency of the United States Department of Health and Human Services.

¹² Talking forms are tax forms that are accessible to Web site users who have a screen reader and speech recognition software.

Assistance Blueprint focuses on the needs of taxpayers with vision impairments. The senior population is expected to double by 2030, and vision loss from eye diseases will increase as Americans age. The IRS should consider the challenges that the estimated 71 million senior citizens will have by 2030 when interacting with the IRS to meet their tax obligations.

TIGTA made several recommendations to the IRS, including:

- considering the feasibility of providing an interface that would make tax-preparation software packages

- accessible through the Free File Web site to blind and other taxpayers with vision impairments; and
- partnering with advocacy groups to conduct a study to determine the current and future needs and required services for taxpayers with vision impairments, and then using the results to develop a long-term strategy to assist taxpayers with vision impairments.

IRS management agreed with all of the recommendations. It has taken and has committed to take appropriate corrective action to address the recommendations.

Report Reference No. 2007-40-057

Protect the Integrity of Tax Administration

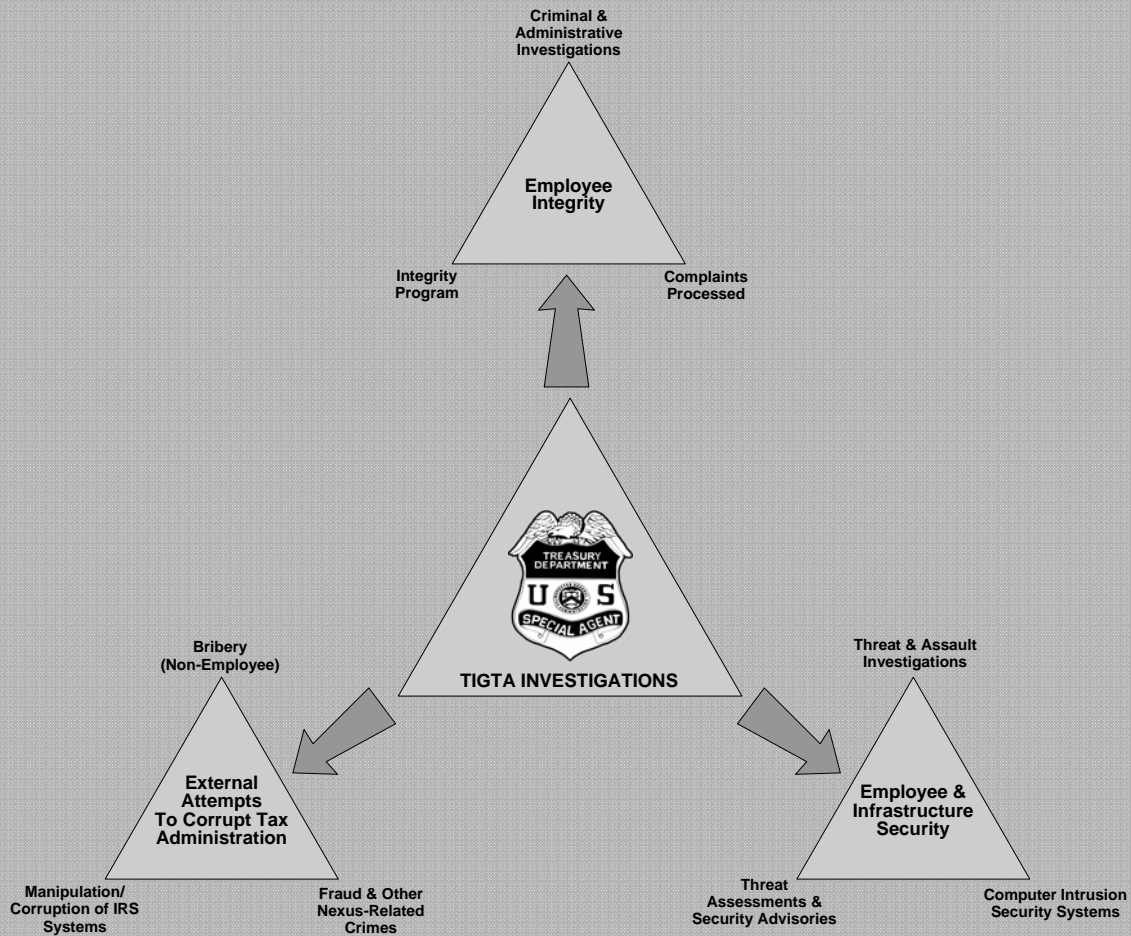
TIGTA's mission is to help protect the ability of the IRS to collect revenue for the Federal Government. To accomplish this, TIGTA's Office of Investigations (OI) conducts investigations and proactive investigative initiatives to ensure the integrity of IRS employees, contractors, and other tax professionals; to ensure IRS employee and infrastructure security; and to protect the IRS from external attempts to corrupt tax administration. OI's Performance Model (see page 20) emphasizes high-quality investigations relative to these three areas.

While most Offices of Inspector General focus primarily on fraud, waste, and abuse, TIGTA's mission is far more extensive. TIGTA's statutory mandate includes responsibility to protect the integrity of Federal tax administration. OI performs a variety of functions to accomplish this mandate, including:

- investigating allegations of criminal violations that impact Federal tax administration, and serious administrative misconduct by IRS employees;
- conducting proactive investigative initiatives to detect criminal and administrative misconduct in the administration of IRS programs;
- conducting integrity and fraud awareness presentations for IRS employees, tax practitioners, community groups, and others;
- investigating assaults and threats made against IRS employees, facilities, and information systems;
- investigating fraud, waste, and abuse involving IRS procurements;
- operating a national complaint center, including a hotline and Web site, to process complaints of fraud, waste, abuse, and misconduct involving IRS employees and programs;
- operating a Criminal Intelligence Program to manage and coordinate threat information that could impact the security of IRS personnel and operations;
- conducting forensic examinations of physical and electronic evidence to support investigations; and
- using technical and investigative support equipment, training, and specialized services to enhance investigative operations.

In November 2004, J. Russell George was confirmed by the U.S. Senate as TIGTA's new Inspector General. At that time, Mr. George identified four priorities for TIGTA. These priorities addressed the tremendous challenges facing the IRS as the nation moves into the 21st century.

TIGTA'S INVESTIGATIVE PERFORMANCE MODEL



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

Those priorities are the same today:

- enhance TIGTA's ability to protect tax administration from corruption;
- assist the IRS to improve tax compliance initiatives;
- monitor use of private debt collection agencies; and
- oversee IRS business systems modernization efforts.

Protect Tax Administration

TIGTA promotes the economy, efficiency, and effectiveness of tax administration, while protecting the integrity of the nation's tax system. OI's strategy for accomplishing this important mission is to conduct high impact investigations that protect the ability of the IRS to collect the nation's tax revenue.

The following cases are examples of TIGTA investigations that involve the protection of tax administration, and were conducted during this reporting period.

Individual Indicted for False Personation and Wire Fraud

Bonnie Sharrit was indicted in November 2006 by a Federal Grand Jury in the U.S. District Court for the District of Massachusetts on three counts of false personation and ten counts of wire fraud. According to the indictment, Sharrit engaged in a scheme to defraud a company by billing it for false and unnecessary services and expenses. Sharrit represented to the company that the company and its principals had certain tax problems resulting in the imposition of Government liens and

levies, and that she could assist in the resolution of the matters because of her status as an IRS contract auditor and her tax expertise. Sharrit prepared and sent to the company numerous fictitious documents concerning the alleged tax issues, purportedly prepared by various Government agencies, including the IRS. Some of these documents purportedly reflected that Sharrit made settlement payments to the Government in connection with the alleged outstanding tax liabilities. As a result, Sharrit fraudulently induced the company to issue payments to her of at least \$46,687.50, for claimed expenses, hourly wages, and settlement of outstanding liabilities with various Government agencies. Despite Sharrit's representations, she did not pay any of this money to Government agencies and did not perform any services for the company that involved resolving any alleged tax problems.

Wisconsin Man Pleads Guilty to Impeding Administration of Internal Revenue Laws by Threatening Force

Todd Schulze was arrested at his residence in October 2006 by TIGTA Special Agents. He pleaded guilty in February 2007 in the U.S. District Court for the Western District of Wisconsin to impeding the administration of internal revenue laws by threatening force during a telephone call made from New York to Wisconsin. According to court documents, an IRS employee in New York contacted Schulze about taxes he owed to the IRS. During the recorded conversation with the IRS employee, Schulze stated, "I'm a little concerned about this because this is strictly a matter where you want to call to seize my account, and if you do that, I'll start killing people and you can record that." As a result of this threat, the IRS

Taxpayer Assistance area in Madison, Wisconsin was shut down for three and a half hours.

Taxpayer Charged with Assaulting IRS Employee and Federal Law Enforcement Officers

In January 2007, Antenene Oden was charged with assaulting and impeding an IRS Senior Tax Resolution Officer and Federal law enforcement officers in the performance of their official duties. According to the criminal complaint filed in the U.S. District Court for the Northern District of New York, during a confrontation with an IRS officer, Oden struck him on the cheek with her forearm, knocking his glasses off. When Federal law enforcement officers attempted to place Oden in handcuffs, she kicked, screamed, and spit at them.

Individual Charged with Corruptly Interfering with Administration of Internal Revenue Laws

In December 2006, Walter Helwich was charged in the U.S. District Court for the Northern District of Illinois, Eastern Division, with corrupt or forcible interference with the administration of internal revenue laws. According to the indictment, Helwich impeded and impaired the IRS in carrying out its lawful function to assess and collect income taxes, penalties, interest, and fines for the United States. Helwich signed and filed purported income tax returns for four tax years on behalf of "Senior America Estate Planning Trust," falsely reported his own income as income of the alleged trust, and claimed that the trust owed no taxes. He also signed and filed individual income tax returns for nine tax years on behalf of himself and for seven years on behalf of his spouse, and falsely reported that he

earned zero gross and taxable income. But, in fact, Helwich had earnings during those tax years, including but not limited to \$739,725. He also submitted altered documents, frivolous correspondence, and forms to the IRS, and made false statements to the IRS concerning his gross and taxable income. In furtherance of the corrupt endeavor, Helwich passed checks drawn on a closed bank account in purported payment of outstanding income taxes, penalties, and interest that he owed the IRS. Between December 2002 and October 2004, Helwich submitted almost 40 checks to the IRS, ranging from a few hundred dollars to more than \$380,000. He continued to submit checks to the IRS on the closed bank account even after IRS agents told him the account had been closed.

Individual Pleads Guilty to Threatening to Murder Federal Employees

Robert Nelson pleaded guilty in February 2007 in the U.S. District Court for the District of Idaho to threatening to murder Federal employees. According to court documents, on December 6, 2006, Nelson called the IRS office in Boise, Idaho, and left a voice mail message in which he threatened to blow up the IRS. The next day, Nelson made a telephone call to the U.S. Social Security office in Boise, Idaho, and left a voice mail message at that office in which he threatened to murder Federal employees with the intent to intimidate and interfere with them while they were engaged in their official duties. Nelson admitted to making the threat to the Social Security office, but denied making the threat that was left on the voice mail at the IRS.

Individual Charged with Threatening to Kill IRS Employee

In January 2007, William Kelly was charged in the U.S. District Court for the District of Oregon with threatening to assault an IRS auditor with the intent to interfere and impede because of her official duties. According to the criminal complaint, in June 2005, Kelly called the IRS concerning his tax issues and stated to an IRS employee, “I have told and informed the Internal Revenue Service in previous phone calls, if any, any

messenger, law enforcement agent, agency of the Internal Revenue Service, touches or messes with any of my property, accounts, or anything, they will be put to death.” During the call, Kelly also threatened the IRS auditor, who previously audited his tax returns. The criminal complaint also indicates that in 1996 and 2001, Kelly made similar threatening statements involving IRS employees. In March 2007, Kelly entered into a Pretrial Diversion program.

BRIBERY INVESTIGATIONS

Bribery investigations continue to be vital in TIGTA's attempt to thwart criminal activities that threaten the integrity of tax administration. Bribe offers impede the IRS' ability to properly collect revenue, and if gone unchecked, substantially undermine the integrity of Federal tax administration. As U.S. President Theodore Roosevelt observed over a century ago, "There is no crime more serious than bribery. Other offenses violate one law while corruption strikes at the foundation of all law."

The IRS has stepped up tax enforcement efforts in recent years to reduce the tax gap, which is defined as the difference between what taxpayers owe and what they voluntarily and timely pay. These efforts have resulted in an increase in desire by unscrupulous taxpayers to resort to bribery to avoid paying taxes due. In fact, since the beginning of this fiscal year, the number of investigations of significant bribery allegations has increased.

The following cases are examples of bribery investigations conducted during this reporting period.

Individual Sentenced for Paying \$5,000 Bribe to IRS Employee

In October 2006, Ming Liou was sentenced for bribery of a public official in the U.S. District Court for the Southern District of Ohio. According to court documents, Liou gave a designer purse and \$5,000 to an IRS employee with the intent to unlawfully influence an official act. Liou was sentenced to 12 months and one day imprisonment, and was ordered to pay a \$10,000 fine and a \$100 special assessment.

Taxpayer Indicted for Bribing IRS Revenue Officers

Yan Borr was indicted in February 2007 for bribing a public official. According to court documents filed in the U.S. District Court for the Eastern District of New York, Borr gave U.S. currency to a person acting on behalf of the IRS with the intent to influence an official act. During several meetings, Borr and IRS Revenue Officers (RO) discussed his outstanding tax liabilities. Borr indicated that he could not fully pay the outstanding tax liabilities, which were approximately \$15,000 as of that date, and indicated that he had a couple of "bonds" that he could cash and give to the RO, if the RO could take care of his situation. At another meeting, Borr met with another RO and gave the RO an envelope containing \$1,000, in exchange for reducing his tax liability from approximately \$22,000 to approximately \$8,500. Borr then offered and gave the RO an additional \$500 to reduce the tax liability by an additional \$2,000.

Individual Sentenced for Bribery of IRS Representative

In December 2006, a U.S. District Court Judge in the Middle District of Florida, Tampa Division, sentenced Diana Hong to 12 months and one day probation, and ordered her to pay a \$100 assessment, for bribery of a public official. According to the indictment, Hong gave \$1,500 to an IRS representative for the delivery of a "no change" letter concerning her sister's 2002 individual income tax return.

Improve Tax Compliance Initiatives

The tax gap threatens the integrity of our voluntary tax system. It requires a concerted effort to identify and address individuals within the IRS who play key roles in the collection of Federal revenue and interaction with external stakeholders. OI has worked diligently to make contact with and educate large segments of the IRS workforce and other external entities about preventing fraud in the tax system. By doing so, TIGTA has developed relationships with these groups that assist in identifying crimes against the IRS and taxpayers. This results in increased reports of bribery, UNAX, and other offenses that undermine effective tax administration. During the reporting period, TIGTA provided presentations to more than 28,000 IRS employees, and external entities, including tax professional organizations, and briefings for entities within the IRS, such as the Office of Employee Protection and the Office of the Commissioner of Internal Revenue. For example, OI has provided integrity and fraud awareness presentations to Revenue Officers and Revenue Agents at their Continuing Professional Education (CPE) conferences. During the reporting period, OI provided 97 awareness presentations to 2,115 Revenue Officers and 227 integrity and awareness presentations to 5,224 Revenue Agents.

Additionally, OI's outreach strategy includes an effort to partner with the tax preparer and practitioner community in preventing fraud in the tax system. OI worked to educate tax professionals by providing 151 awareness presentations to 9,848 tax practitioners and preparers

at professional conferences during the reporting period.

The following are examples of cases conducted during this reporting period that involved particularly egregious fraudulent activity.

Individual Sentenced for Stealing IRS Refunds from Soldiers and Families

After pleading guilty to one count of theft of public money, Clarence G. Maxwell III was sentenced in December 2006 in the U.S. District Court for the Western District of Texas, Austin Division, to five years probation, and was ordered to pay restitution of \$11,276.51 and a \$100 assessment. According to court documents, Maxwell was assigned to the Fort Hood Tax Center to assist soldiers and their families in preparing and filing Federal income tax returns. From March 2005 through May 2005, Maxwell altered five tax returns that he assisted in preparing by falsely designating his own personal bank account as the account into which the IRS was directed to deposit the claimed tax refunds, all without the knowledge or authorization of the taxpayers. As a result of his scheme, Maxwell caused the IRS to deposit in excess of \$11,000 into bank accounts that he possessed or controlled.

Former IRS Employee Indicted for False Personation and Bank Fraud

In December 2006, former IRS employee Jacqueline Exum was indicted in the U.S. District Court for the Western District of Tennessee for false personation, bank fraud, and bankruptcy fraud. According to the indictment, Exum pretended to be an IRS employee and devised a scheme to defraud various banks and credit unions by applying for and receiving a new Social Security Number (SSN). Using the new SSN, her original SSN, and variations of them, she

applied for credit, personal loans, and car loans. She used variations of her maiden name in connection with her new and original SSNs in an effort to conceal her true identity when applying for loans at financial institutions. She also created fictitious SSNs, leave and earning statements, and tax documents, and provided them to the lending institutions to support her loan applications. In an effort to conceal her fraudulent scheme, when the loans became delinquent and foreclosure proceedings were imminent, Exum filed bankruptcy petitions to maintain the vehicles and other possessions. She received in excess of \$100,000 in cash, merchandise, and loans.

Former IRS Employee Sentenced for Theft of Government Funds

In January 2007, Shelly Thompson, a former IRS seasonal employee, was sentenced in the U.S. District Court for the Eastern District of California to 24 months of probation, 150 hours of unpaid community service, \$5,048 in restitution, and a \$25 assessment. According to the plea agreement, Thompson caused a tax refund of \$5,048, intended for taxpayers, to be deposited directly into her bank account. She did this by preparing the taxpayers' 2003 Federal joint tax return, signing their signatures, and providing her bank account information as the location to which the refund was to be direct deposited. Thompson did this without the knowledge or consent of the taxpayers.

Certified Public Accountant Pleads Guilty to Defrauding IRS and Others of More Than \$1.3 Million

In January 2007, Certified Public Accountant Harry Kylo pleaded guilty in the U.S. District Court for the District of Oregon to mail fraud, false personation, and attempting to defeat payment of tax, all related to a scheme

he devised and intended to devise to defraud the IRS, the Oregon Department of Revenue, and various clients.

According to court documents, Kylo instructed his clients to leave the payee line blank on checks they provided to him to pay their tax liabilities. Kylo then fraudulently endorsed the checks and deposited them into one of his own bank accounts for his own use. As part of his scheme, Kylo told his clients that he hand-delivered their returns to the IRS, when in fact he did not file their returns. When his clients received notices from the IRS indicating that they had outstanding tax liabilities and/or their returns had not been filed, Kylo mailed his clients fraudulently created letters purportedly from the IRS that indicated the problem had been resolved. To delay discovery of his fraud, Kylo prepared false tax returns for his clients and filed them with the IRS, stopping the IRS from sending notices to his clients. As a result of his scheme, Kylo caused losses totaling more than \$1.3 million. He also billed and collected fees for his services.

Monitor Use of Private Collection Agencies

TIGTA continues to monitor the IRS Private Debt Collection (PDC) Program that is designed to contract the collection of delinquent Federal tax debts to private collection agencies, as authorized by the 2004 American Jobs Creation Act (see footnote 3 on page 5). While the use of private collection agencies could result in significant recoveries of unpaid taxes, the potential for abuse exists. The law subjects the collection agencies to the same rigorous taxpayer protection and privacy rules under which IRS employees currently work.

Consistent with TIGTA's mission of protecting tax administration, OI continues to play a critical role in implementing the PDC Program by providing oversight, input, and support to the IRS.

For example, OI has reviewed documents that the IRS uses to solicit bids from private collection agencies and monitored the integrity of the IRS procurement process that led to the award of three collection agency contracts. Additionally, OI participated in the production of an IRS training video for contractor employees, and provided presentations and on-site training about TIGTA's role in the PDC Program to IRS and contractor personnel. Also, OI's Strategic Enforcement Division continued its work with the IRS Computer Security Incident Response Center (CSIRC) to conduct on-site vulnerability testing of computer systems maintained by the three PCAs that received IRS contracts.

Forensic Support of Investigative Efforts

TIGTA's investigative efforts are greatly enhanced by its Forensic Science Laboratory (FSL). Established in 1981, the FSL provides timely crime laboratory services in direct support of TIGTA's investigations through the processing of physical evidence using various techniques and best practices.

Tax Return Preparer Sentenced for Impeding Administration of Internal Revenue Laws and False Statements

David Klingelsmith, Sr., was sentenced in January 2007 in the U.S. District Court, Southern District of Florida, Fort Pierce Division, to 16 months in prison, three years of supervised release with the special condition that he cooperate fully with the IRS in determining and paying tax liabilities, was fined \$15,000, and ordered to pay a \$200 assessment. According to court documents, Klingelsmith submitted to the IRS a power of attorney with forged signatures of taxpayers, and falsely advised the IRS that the taxpayers had not given him records. Klingelsmith also prepared and signed a letter purporting to be from an IRS employee. In the letter, he advised a taxpayer that tax liens were filed in error and that the taxpayer should ignore notices from the IRS, when Klingelsmith knew that the tax liens were not filed in error. TIGTA's FSL assisted in the investigation by conducting handwriting and fingerprint analysis.

Oversee IRS Modernization Efforts

IRS efforts to modernize its programs and operations have required a significant investment of public monies. Currently, the combined value of active IRS procurements, including each contract's base and option years, is approximately \$61 billion. OI's Procurement Fraud Section (PFS), located within the Special Inquiries and Intelligence Division (SIID), is committed to identifying and investigating procurement fraud within the IRS. The PFS achieves its goals in this area through proactive and reactive investigations, fraud awareness presentations, investigative initiatives, and data analysis. These investigative efforts relate directly to TIGTA's core mission of preventing external attempts to corrupt the IRS' ability to administer the tax laws effectively.

The IRS continues its efforts to modernize and expand services to taxpayers by developing new automated systems. To date, the IRS has identified more than 260 applications that will be affected by this modernization effort. Because these systems maintain sensitive taxpayer information, including personally identifiable information (PII), the IRS is working with TIGTA to ensure that each system will have appropriate audit trail capabilities.

OI ensures the privacy and security of taxpayer information by detecting and deterring:

- unauthorized access to taxpayer information by IRS employees; and
- individuals, both inside and outside of the IRS, who attempt to gain

unauthorized access to IRS computer systems.

The availability of these audit trails provides OI with opportunities to identify potential UNAX violations and properly investigate misconduct. OI's Strategic Enforcement Division (SED) uses a variety of audit trail and forensic data analysis tools to proactively identify potential UNAX violators, and systemic problems and weaknesses. Investigative leads that SED developed are currently substantiated as actual UNAX violations more than 90 percent of the time. In this reporting period, TIGTA opened 242 new UNAX cases and closed 286 cases, of which 14 cases resulted in criminal prosecutions, and 270 cases resulted in adverse disciplinary action against IRS employees.

OI works closely with the IRS to identify incidents involving lost or stolen Government computers that contain sensitive taxpayer information or PII, and aggressively pursues the responsible individuals. In response to increased reports of theft of Government-owned computers over the past year, TIGTA and the CSIRC have worked together to mitigate any adverse impact on tax administration resulting from these computer or data thefts. During this reporting period, the cooperative efforts of both parties resulted in the signing of a Memorandum of Understanding that includes a process to accurately report and document lost and/or stolen IRS Information Technology assets. This immediate notification process will promote a swift response, and possibly preemptive measures, to protect sensitive information maintained by the IRS.

SED was instrumental in identifying UNAX violations in the following investigations.

Former IRS Employee Sentenced for Inspecting Tax Return Information without Authorization

In November 2006, former IRS employee Terri Ward was sentenced in the U.S. District Court for the Eastern District of California to 12 months of probation, a \$500 fine and a \$25 assessment, and was ordered to complete 100 hours of unpaid community service. According to the plea agreement, while an employee of the IRS, Ward made numerous unauthorized accesses to inspect private tax return information of individuals without the authorization of the IRS and/or the individuals.

Former IRS Employee Sentenced for Unauthorized Access of Computer

In April 2007, former IRS employee Patricia Kraft was sentenced in the U.S. District Court for the Eastern District of California for tampering with a witness and unauthorized access of a computer. According to court documents, Kraft intentionally exceeded her authorized access to the IRS Integrated Data Retrieval System (IDRS) and obtained tax return information from a tax account of a taxpayer with whom she had a personal relationship. Kraft also attempted to offer to forgive a \$200 debt owed to her by a family friend if the friend falsely told law enforcement agents that he had requested previously filed W-2 Forms and other documents from IRS employees, when he had not done so. Kraft did this with the intent to prevent communicating to a law enforcement officer information related to the unauthorized access to a computer. She was sentenced to 36 months of probation with the special conditions that she complete 200 hours of unpaid community service and 180

consecutive days of home detention, and was ordered to pay a \$750 fine and a \$125 assessment.

IRS Employee Charged with Unauthorized Access and Inspection of Tax Return Information

IRS employee Joanne C. Morado was charged in December 2006 in the U.S. District Court for the Eastern District of California with five counts of unauthorized inspection of returns or return information and four counts of fraud and related activities with computers. According to a court document, Morado willfully and without authorization, accessed and inspected the accounts of four private individuals. She also intentionally accessed a computer without authorization and obtained tax return information of private individuals from the IDRS.

Former IRS Contact Representative Sentenced for Exceeding Authorized Access of Computer

Former IRS employee Andrea McNeail was sentenced in the U.S. District Court for the Western District of Tennessee, Western Division, for intentionally exceeding authorized access of a computer. According to court documents, McNeail obtained the name and SSN of an individual by exceeding her authorized access of a computer. She pleaded guilty in July 2006, and was sentenced in October 2006 to three years of probation with the conditions that she participate in a home detention program for six months and in career and academic counseling. McNeail is also prohibited from receiving any more Federal loans or guarantees. She was also ordered to pay \$210.30 in restitution and a \$100 assessment.



Congressional Testimony

Inspector General J. Russell George appeared before Congress twice during this semiannual reporting period. The following are summaries of his testimony.

On **February 16, 2007**, Mr. George testified before the House Committee on the Budget during its hearing on the IRS and the tax gap. Mr. George stated that the IRS has appropriately refocused audit attention on high-income taxpayers. However, this effort has been conducted through an increase in correspondence examinations rather than face-to-face examinations. This type of examination limits the tax issues that can be addressed, he said. Because high-income households typically have a large percentage of their income that is not subject to third-party reporting and withholding, it is difficult to determine whether these taxpayers have reported all of their income.

In addition, Mr. George stated that in order to improve compliance in business tax filings, TIGTA has recommended that the IRS establish a comprehensive document-matching program for the various business documents it receives.

On **March 20, 2007**, Mr. George submitted testimony to the House Committee on Ways and Means' Subcommittee on Oversight for a hearing on the 2007 tax filing season. Mr. George reported that the number of electronically filed tax returns continued to increase this tax season; however, the IRS would not meet Congress' goal of 80 percent of all returns being filed electronically by 2007. Nevertheless, because the goal has had a positive effect, TIGTA agrees with the IRS Oversight Board that Congress should extend that goal to 2012.

Mr. George also stated that customer service during the tax filing season was satisfactory. However, he raised concerns about the one-time refund for the telephone excise tax, which was estimated to affect between 151 million and 189 million people. He stated that TIGTA was concerned because many taxpayers were not claiming the credit; and others, who were claiming the credit, were submitting claims for amounts that were considered to be highly questionable, but did not meet the IRS' criteria for further review.



Awards and Special Achievements

TIGTA Executive Receives Presidential Rank Award



Steven M. Jones
Deputy Inspector General for Investigations

In October 2006, TIGTA's Deputy Inspector General for Investigations, Steven M. Jones, received the Presidential Rank Award for Meritorious Service for his sustained, extraordinary accomplishments. Each year, the President recognizes a small group of outstanding leaders in the Senior Executive Service who achieve results and consistently demonstrate strength in leadership, integrity, industry, and relentless commitment to excellence in public service.



Audit Statistical Reports

Reports with Questioned Costs

TIGTA issued six audit reports with questioned costs during this semiannual reporting period.¹³ 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	9	\$165,469	\$82,853
2. Reports issued during the reporting period	6	\$5,822	\$33
3. Subtotals (Item 1 plus Item 2)	15	\$171,291	\$82,886
4. Reports for which a management decision was made during the reporting period ¹⁴			
a. Value of disallowed costs	1	\$0	\$0
b. Value of costs not disallowed	1	\$21	\$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	14	\$171,269¹⁵	\$82,885¹⁵
6. Reports with no management decision within 6 months of issuance	9	\$165,469	\$82,853

¹³ See Appendix II for identification of audit reports involved.

¹⁴ IRS management disallowed only a part of the questioned cost for one report. The value of the disallowed and unsupported costs was less than \$1,000.

¹⁵ Difference due to rounding.

Reports with Recommendations That Funds Be Put to Better Use

TIGTA issued no reports with recommendations that funds be put to better use during this semiannual reporting period. 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;
- deobligations 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;
- prevention of 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 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 Congress, Treasury Department and IRS executives, and the taxpaying public, and are expressed in quantifiable terms to provide further insight into the value and potential impact of the Office of Audit's products and services. Including this information also promotes adherence to the intent and spirit of the Government Performance and Results Act.

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

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

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

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

(entitlements) are also included in this category, such as when taxpayers legitimately assert that they overpaid their taxes.

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

Inefficient Use of Resources: Value of efficiencies gained from recommendations to reduce cost while maintaining or improving the effectiveness of specific programs; resources saved that 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.

TIGTA Semiannual Report to Congress

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 Category¹	Number of Reports²	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	1	456,688	\$541,124
Revenue Protection	1		\$21
Reduction of Burden on Taxpayers	4	378,115	
Taxpayer Rights and Entitlements at Risk	2	691	
Taxpayer Privacy and Security	1	480	
Inefficient Use of Resources	2		\$2,786
Reliability of Management Information	2		\$3,520,000
Protection of Resources	0		

¹ Management did not agree with the outcome measures in the following reports:

- Taxpayer Rights and Entitlements at Risk: Report Reference Number 2007-40-053
- Reliability of Management Information: Report Reference Number 2007-20-024

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

- Taxpayer Rights and Entitlements at Risk: Report Reference Number 2007-30-051
- Reduction of Burden on Taxpayers: Report Reference Numbers 2007-20-026
- Reliability of Management Information: Report Reference Number 2006-40-026

² See Appendix II for identification of audit reports involved.

Investigations Statistical Reports

Significant Investigative Achievements	
October 1, 2006 – March 31, 2007	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,179
Complaints against Non-Employees	2,059
Total Complaints/Allegations	4,238
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,643
In Process within TIGTA ¹	296
Referred to IRS for Action	288
Referred to IRS for Information Only	852
Referred to a Non-IRS Entity ²	9
Closed with No Referral	857
Closed with All Actions Completed	293
Total Complaints	4,238
Investigations Opened and Closed	
Total Investigations Opened	1,854
Total Investigations Closed	1,612
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$129,581
Court Ordered Fines, Penalties and Restitution	\$2,283,316
Out-of-Court Settlements	0
Total Financial Accomplishments	\$2,412,897

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 50 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.

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Status of Closed Criminal Investigations			
Criminal Referrals¹	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	27	58	85
Referred – Declined for Prosecution	296	233	529
Referred – Pending Prosecutorial Decision	52	54	106
Total Criminal Referrals	375	345	720
No Referral	445	433	878

¹ Criminal referrals include both Federal and State dispositions.

Criminal Dispositions²			
	Employee	Non-Employee	Total
Guilty	24	39	63
Nolo Contendere (no contest)	0	1	1
Pre-trial Diversion	4	4	8
Deferred Prosecution ³	0	0	0
Not Guilty	0	1	1
Dismissed ⁴	1	4	5
Total Criminal Dispositions	29	49	78

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

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

⁴ Court dismissed charges.

Administrative Dispositions on Closed TIGTA Investigations⁵	
	Total
Removed, Terminated or Other	291
Suspended/Reduction in Grade	95
Oral or Written Reprimand/Admonishment	83
Closed – No Action Taken	80
Clearance Letter Issued	100
Employee Resigned Prior to Adjudication	130
Non-Internal Revenue Service Employee Actions ⁶	251
Total Administrative Dispositions	1,030

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 management officials.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2001-30-052	Tax Compliance Initiatives	March 2001	12/15/07	<i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i> F-3, R-1, P-1, P-2. Improve systems that process data that the IRS receives on foreign sourced income.
2003-10-054	Using Performance and Financial Information for Program and Budget Decisions	March 2003	10/01/07	<i>The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses</i> F-1, R-3, P-1. Ensure that the ability to record and report trust fund administrative expenses, as currently envisioned in the IFS development plans, is properly implemented.
2003-10-094	Erroneous and Improper Payments	March 2003	05/15/07	<i>Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected</i> F-1, R-2, P-1. Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that feedback is provided regarding program effectiveness. Also, analyses of the Fraud Detection Center's control listing data should be analyzed to ensure that reviews are done and accounts are resolved.
2003-40-139	Tax Compliance Initiatives	June 2003	10/15/07	<i>Opportunities Exist to Improve the Administration of the Earned Income Tax Credit</i> F-1, R-2, P-1. Establish a consistent method to measure progress toward the Earned Income Tax Credit (EITC) Program's long-term goals.
2003-20-118	Security of the IRS	July 2003	01/15/08	<i>Security Over Computers Used in Telecommuting Needs to Be Strengthened</i> F-1, R-6, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure that sensitive data are being stored and encrypted properly.

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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2003-30-176	Tax Compliance Initiatives	August 2003	12/15/07	<p><i>Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure</i></p> <p>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.</p>
2003-10-212	Human Capital	September 2003	P-3: 09/30/07 P-4: 10/01/07	<p><i>Information on Employee Training Is Not Adequate to Determine Training Cost or Effectiveness</i></p> <p>F-3, R-2, P-3, P-4. Ensure that IRS training and financial systems can provide information needed for the IRS to assess its own training efforts.</p>
2004-20-001	Systems Modernization of the IRS	October 2003	12/31/10	<p><i>Risks Are Mounting As the Integrated Financial System Project Team Strives to Meet an Aggressive Implementation Date</i></p> <p>F-2, R-1, P-1. Ensure that the disaster recovery environment is completely built-out and tested.</p>
2004-30-038	Tax Compliance Initiatives	January 2004	07/15/07	<p><i>Access to the Toll-Free Telephone System Was Significantly Improved in 2003, but Additional Enhancements Are Needed</i></p> <p>F-3, R-1, P-1. Develop an Activity-Based Costing system that reliably captures and reports both the total cost and the cost-per-call of providing services on each toll-free product line.</p>
2004-30-068	Tax Compliance Initiatives	March 2004	07/15/08	<p><i>Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program</i></p> <p>F-2, R-1, P-1. Develop standard risk-based case selection criteria that would provide minimum requirements and parameters for case selection.</p>
2004-40-098	Erroneous and Improper Payments	May 2004	06/15/07	<p><i>Better Use of the National Account Profile During Returns Processing Can Eliminate Erroneous Payments</i></p> <p>F-2, R-1, P-1. Conduct studies on the accuracy of EITC claims on tax returns for individuals who have been claimed for EITC purposes who are 20 or more years older than the primary taxpayer, or are listed as children that are up to 19 years older than the primary taxpayer.</p>
2004-20-131	Security of the IRS	September 2004	04/30/12	<p><i>The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness</i></p> <p>F-2, R-4, P-1. Develop and implement a reasonable approach for reviewing audit trails over major applications.</p>
2004-10-182	Using Performance and Financial Information for Program and Budget Decisions	September 2004	04/01/07	<p><i>The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually</i></p> <p>F-2, R-3, P-1. Consider allocating rent funds to the operating divisions to help ensure more efficient use of space and more communication between the facility managers and the local operating divisions; consider incentives and consequences to ensure better cooperation.</p>

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

TIGTA Semiannual Report to Congress

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2005-10-129	Providing Quality Taxpayer Service Operations	September 2005	05/15/07 03/15/07	<i>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low-Income Taxpayer Clinic Grant Program</i> F-1, R-1, P-2. Establish goals and performance measures for the LITC program to assist the Congress and IRS in evaluating the success of the program. F-3, R-2, P-1. Develop a method to obtain information necessary to verify that clinics are following all LITC program requirements.
2005-30-140	Tax Compliance Initiatives	September 2005	10/15/07 10/15/07	<i>Improved IRS Coordination Is Needed to Resolve Large Volumes of Fraudulent Schedule C Refund Returns</i> F-1, R-1, P-2, P-3. Develop an overall compliance strategy for Schedules C with fraudulent refunds, especially when large volumes of returns are involved. F-1, R-2, P-2, P-3. Identify potential computerized methods incorporating possible math error authority to temporarily stop refunds for cases meeting the characteristics of those in this scheme or other large Schedule C refund schemes.
2005-10-149	Human Capital	September 2005	04/15/07 09/30/07 04/15/07	<i>The Internal Revenue Service Does Not Adequately Assess the Effectiveness of Its Training</i> F-1, R-1, P-1, P-2. Require all business units to follow the training assessment and develop requirements and properly document this process. F-2, R-1, P-1, P-2. Ensure that all IRS components follow established procedures to evaluate training in order for the IRS to comply with the training assessment requirement of the Federal Workforce Flexibility Act of 2004. F-3, R-1, P-1. Use the numerical scores from the Employee Satisfaction Survey training question in addition to narrative comments.
2005-30-154	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2005	04/15/07 04/15/07	<i>The Clarity of Math Error Notices Has Been Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices</i> F-1, R-2, P-1. Revise tax statement tables contained on notices to include specific amounts from at least some line items on which taxpayers made errors on their tax returns. F-1, R-3, P-1. Revise CP16 to present information in a manner consistent with the other notices sent to individual taxpayers including the location of the error explanation and tax statement, and the wording of the taxpayers' rights to appeal with the math error adjustment.
2006-30-006	Taxpayer Compliance Initiatives	November 2005	07/15/07	<i>The Internal Revenue Service Needs a Coordinated National Strategy to Better Address an Estimated \$30 Billion Tax Gap Due to Non-Fileers</i> F-2, R-2, P-1. Consider a study to devise an effective outreach and education strategy.
2006-40-007	Erroneous and Improper Payments	November 2005	04/15/08	<i>Efforts to Prevent Improper Tax Benefits Resulting from Multiple Uses of Taxpayer Identification Numbers Can Be Improved</i> F-1, R-1, P-2. Lead a collaborative effort to identify a workable solution to resolve multiple identification number use cases where an identification number is used as a primary identification number on one return and a secondary identification number on another return.

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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2006-40-024	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	December 2005	04/15/07	<p><i>Individual Income Tax Returns Were Timely Processed in 2005; However, Implementation of Tax Law Changes Could Be Improved</i></p> <p><u>F-3, R-1, P-1.</u> Implement a computer check that would identify questionable large-dollar entries for review and resolution for both paper and electronic individual income tax returns.</p>
2006-40-061	Providing Quality Taxpayer Service Operations	March 2006	10/15/07 10/15/07	<p><i>The Taxpayer Assistance Center Closure Plan Was Based on Inaccurate Data</i></p> <p><u>F-1, R-1, P-1.</u> Ensure that data used in the Model or any decision-making tool are accurate and reliable and have been validated before using them to make decisions regarding the TAC Program.</p> <p><u>F-1, R-2, P-1.</u> Include in the Model or any decision-making tool data to identify customer characteristics and capture customer input to effectively measure the impact any results might have on taxpayer service and compliance.</p>
2006-10-066	Erroneous and Improper Payments	March 2006	04/15/07 09/15/07 06/15/07	<p><i>The Office of Professional Responsibility Can Do More to Effectively Identify and Act Against Incompetent and Disreputable Tax Practitioners</i></p> <p><u>F-1, R-2, P-1.</u> Develop a process to obtain relevant information on State disciplinary actions by coordinating with State licensing authorities.</p> <p><u>F-1, R-3, P-1.</u> Develop a method to identify representatives on the Centralized Authorization File that does not require representatives to use Social Security Numbers on Form 2848.</p> <p><u>F-2, R-1, P-1.</u> Implement recommendations from the prior audit. This should include employing the case management system to provide data on the use of program resources and performing an annual workload and staffing analysis to help prioritize and allocate resources.</p>
2006-50-077	Tax Gap	April 2006	04/15/07	<p><i>Some Concerns Remain About the Overall Confidence That Can Be Placed in Internal Revenue Service Tax Gap Projections</i></p> <p><u>F-1, R-2, P-1.</u> Establish a tax gap advisory panel that includes tax and economic experts to identify ways to better measure voluntary compliance.</p>
2006-20-111	Security of the IRS	July 2006	06/15/07	<p><i>Increased Managerial Attention Is Needed to Ensure Taxpayer Accounts Are Monitored to Detect Unauthorized Employee Accesses</i></p> <p><u>F-1, R-3, P-1.</u> Ensure that all business unit managers' operational review requirements are updated to include a step to validate that all Online Reports Services system-related reports are certified timely and hold business unit managers accountable for meeting the security-related responsibilities.</p>
2006-40-109	Hurricane Relief	July 2006	02/15/08	<p><i>Taxpayers Residing in the Hurricane Katrina and Rita Disaster Areas Were Accurately Identified for Tax Relief</i></p> <p><u>F-1, R-2, P-1.</u> Identify accounts with manually input disaster indicators and update the accounts with the extended ending date.</p>
2006-20-108	Systems Modernization of the IRS	August 2006	12/31/10	<p><i>The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified</i></p> <p><u>F-3, R-4, P-1.</u> Defer additional work on the Web Electronic Fraud Detection System (EFDS) until the IRS decides who will perform the EFDS work.</p>

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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2006-40-122	Providing Quality Taxpayer Service Operations	August 2006	05/15/07	<p><i>Customer Service at Taxpayer Assistance Centers Showed Improvement During the 2006 Filing Season</i></p> <p><u>F-2, R-1, P-2.</u> Develop guidelines and provide training to Taxpayer Assistance Center managers and assistors on how to manage customer traffic and wait times.</p>
2006-10-124	Tax Exempt Organizations	September 2006	04/01/08 04/01/08	<p><i>Resource and Computer Programming Limitations Have Hindered the Progress of the Federal, State, and Local Governments Office in Identifying Its Customers</i></p> <p><u>F-1, R-3, P-1.</u> Revise computer programming to ensure that the code used to identify Federal Government agencies is not deleted if the Form 941 filing requirements are removed from an agency's account.</p> <p><u>F-1, R-5, P-1.</u> Submit a Request for Information Services to allow government entities with unique filing requirement codes, such as Puerto Rican, Virgin Islands, and American Samoa filers, to be coded as Federal, State, and local government office customers.</p>
2006-40-138	Providing Quality Taxpayer Service Operations	September 2006	P-2: 11/15/07 P-3: 04/15/08	<p><i>The Wage and Investment Division's Automated Underreporter Telephone Operations Could Improve Service to Taxpayers</i></p> <p><u>F-2, R-1, P-2, P-3.</u> Increase the number of bilingual Automated Underreporter (AUR) Program assistors available to handle the demand from Spanish-speaking taxpayers; revise the AUR Program tax examiner position description to specifically include telephone duties; and adopt more precise scheduling and assignment practices.</p>
2006-30-132	Tax Gap	September 2006	07/15/07 07/15/07 07/15/07 02/15/09 02/15/09 07/15/07	<p><i>Additional Enhancements Could Improve Tax Compliance of Employees Who Receive Tips</i></p> <p><u>F-1, R-1, P-1.</u> Ensure that adequate staffing remains available to monitor the tip agreements for all industries and use the results of monitoring to measure compliance.</p> <p><u>F-2, R-1, P-1, P-2.</u> Prepare a workforce plan to determine the necessary staffing levels needed to maximize the Tip Program to accomplish its goals.</p> <p><u>F-3, R-1, P-1.</u> Implement data verification procedures for the transcription of Forms 8027 and give priority to the identification of potential Form 941 non-filers over the identification of Form 8027 non-filers.</p> <p><u>F-3, R-2, P-1.</u> Ensure that the SWETRS program remains funded through completion and include the gaming tip agreements in the Tip Agreement database.</p> <p><u>F-4, R-1, P-1.</u> Ensure that the results of initial testing of the ATIP Revenue Procedure are analyzed, and consider developing similar Revenue Procedures for small businesses in other industries to increase the chance of improving tip income reporting compliance.</p> <p><u>F-5, R-1, P-1.</u> Establish an action plan to monitor progress of the Tip Program.</p>
2006-40-164	Providing Quality Taxpayer Service Operations	September 2006	01/15/08	<p><i>Individual Tax Returns Were Timely Processed in 2006, but Opportunities Exist to Improve Verification of Certain Tax Deductions</i></p> <p><u>F-3, R-1, P-1.</u> Create a new form for the tuition and fees deduction to ensure compliance with the tax legislation.</p>

TIGTA Semiannual Report to Congress

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

Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	Result for TIGTA
<p>Access to Information Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	As of March 30, 2007, there were no instances in which information or assistance requested by the Office of Audit was refused.
<p>Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	As of March 30, 2007, no reports were issued in which significant recommendations were disputed.
<p>Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	As of March 30, 2007, no significant management decisions were revised.
<p>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.</p>	As of March 30, 2007, there were no prior reports where management's response was not received.
<p>Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	TIGTA's Office of Chief Counsel reviewed 142 proposed regulations and legislative requests during this reporting period.

Appendix II

Audit Products

October 1, 2006 - March 31, 2007

Inspector General Congressional Testimony	
Reference Number	Hearing Title
February 2007	
2007-OT-054	Inspector General Testimony Before U.S. House of Representatives Committee on Budget - IRS and the Tax Gap
March 2007	
2007-OT-067	Inspector General Testimony Before Committee on Ways and Means' Subcommittee on Oversight - 2007 Filing Season

Audit Products	
Reference Number	Report Title
October 2006	
2007-20-002	Stronger Management Oversight Is Required to Ensure That Valuable Systems Modernization Expertise Is Received from the Federally Funded Research and Development Center Contractor
2007-20-003	The Internal Revenue Service Is Successfully Taking Steps to Transition Modernization Activities from the PRIME Contractor; However, Difficult Challenges Remain
2007-20-001	The Modernization and Information Technology Services Organization's Revised Post Implementation Review Procedure Can Be Improved (Inefficient Use of Resources: Eliminating the requirement to perform Post Milestone Reviews will provide over \$1 million in efficiency gains)
2007-50-004	Analysis of the Internal Revenue Service's Fiscal Year 2007 Budget Legislative Proposals
November 2006	
	No audit reports issued
December 2006	
2007-30-006	Most Compliance Actions Were Prevented; However, Some Letters Were Sent Inappropriately to Taxpayers Affected by Hurricanes Katrina and Rita (Taxpayer Burden: 230 instances of inappropriate compliance actions)
2007-1C-008	Report on Audit of Direct and Indirect Costs for Contractor's Fiscal Year 2004 (Company 6)
2007-1C-009	Audit of Labor Accounting System Internal Controls
2007-1C-010	Report on Audit of Cost Accounting Standard 418, Allocation of Direct and Indirect Costs Noncompliance
2007-1C-011	Report on Audit of Cost Accounting Standard 404, Capitalization of Tangible Assets
2007-1C-012	Report on Labor Cost Charging and Allocation
2007-20-005	The Modernized e-File Project Can Improve the Management of Expected Capabilities and Associated Costs
2007-1C-013	Report on Audit of Contractor's Fiscal Year 2004 Incurred Costs (Questioned Costs: \$17,083)
2007-1C-014	Report on Cumulative Allowable Cost Worksheet for Fiscal Year Ended June 30, 2004

TIGTA Semiannual Report to Congress

Audit Products	
Reference Number	Report Title
January 2007	
2007-1C-015	Report on Audit of Fiscal Year 2007 Forward Pricing Indirect Rates and Out Years
2007-1C-016	Audit of Purchasing System Internal Controls
2007-10-025	Invoice Audit of the Management of Seized and Forfeited Assets Contract – TIRNO-05-C-00010 (Questioned costs: \$21,298)
2007-1C-017	Report on Audit of Incurred Cost for Fiscal Year Ending September 30, 2003
2007-1C-018	Report on Audit of Fiscal Year 2007 Forward Pricing Rates
2007-1C-019	Report on Contractor’s Fiscal Year 2006 Labor Floor Checks
2007-1C-020	Report on Audit of the Contractor’s Fiscal Year 2006 Revised Provisional Rates
2007-1C-021	Incurred Costs Audit for Fiscal Year Ended June 30, 2004
2007-1C-022	Incurred Costs Audit for Fiscal Years 2000 through 2003
2007-20-024	Business Cases for Information Technology Projects Remain Inaccurate (Reliability of Information: \$3.52 billion due to inaccurate reporting of project costs, inaccurate measuring of progress on development projects, and inconsistent reporting of total costs)
2007-20-023	The Internal Revenue Service Adequately Protected Sensitive Data and Restored Computer Operations After the Flooding of Its Headquarters Building
2007-40-026	Improvements to the E-Help Desk Are Needed to Support Expanding Electronic Products and Services (Taxpayer Burden: 16,101 tax professionals who received incorrect answers; Reliability of Information: 28,178 E-cases with inadequate documentation to assess the accuracy of responses provided to customers)
2007-30-027	The National Research Program Study of S Corporations Has Been Effectively Implemented, but Unnecessary Information Was Requested From Taxpayers (Taxpayer Burden: 35 requests for information from taxpayers that contained unnecessary items or were vague.)
February 2007	
2007-10-046	Attestation Review of the Internal Revenue Service’s Fiscal Year 2006 Annual Accounting of Drug Control Funds
2007-30-028	The Internal Revenue Service Building Flood Caused No Measurable Impact on Tax Administration
2007-40-029	The Internal Revenue Service Provides Valuable Assistance in Locating Missing Children
2007-1C-034	Detailed Financial Condition Risk Assessment
2007-1C-038	Report on the Audit of the Contractor’s Estimating System and Internal Controls
2007-1C-039	Report on the Audit of the Adequacy and Compliance of the Contractor’s Cost Accounting Change
2007-10-050	Voucher Audit of the Information Processing Support Services Contract – TIRNO-00-D-00009 (Questioned costs: \$3.4 million)
2007-1C-031	Report on the Audit of Adequacy and Compliance of the Contractor’s Home Office Disclosure Statement Revision 5, Part VIII
2007-1C-032	Report on Audit of Noncompliance with Cost Accounting Standard 408, Accounting for Costs of Compensated Personal Absence
2007-1C-033	Report on the Audit of the Adequacy and Compliance of the Contractor’s Systems and Services Division Disclosure Statement Revision 16, Parts I – VII
2007-1C-035	Report on Audit of the Contractor’s Compensation System
2007-1C-036	Incurred Costs Audit for Fiscal Year Ending September 30, 2002
2007-1C-037	Report on Audits of Cost Accounting Standard 412, Composition and Measurement of Pension Costs, and Cost Accounting Standard 413, Adjustment and Allocation of Pension Costs
March 2007	
2007-20-030	Telecommunication Projects Need Improved Contract Documentation and Management Oversight
2007-30-049	The Internal Revenue Service Needs to Improve Procedures to Identify Noncompliance with the Reporting Requirements for Noncash Charitable Contributions

TIGTA Semiannual Report to Congress

Audit Products	
Reference Number	Report Title
2007-1C-040	Report on Compliance with Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance with the Office of Management and Budget Circular A-133, Fiscal Year 2005 (Questioned Costs: \$103,560)
2007-1C-041	Incurred Cost Audit for Fiscal Year 2003 (Questioned Costs: \$2,246,867)
2007-1C-042	Report on Accounting System Audit
2007-1C-043	Report on the Contractor's Information Technology System General Internal Control Follow-up
2007-1C-045	Report on Audit of the Contractor's Compliance with Cost Accounting Standard 420, Accounting for Independent Research and Development Costs and Bid and Proposal Costs
2007-40-047	The Correspondence Imaging System Helps to Manage Taxpayer Correspondence, but There Are Delays in the Scanning Process
2007-40-053	The Process to Separate Joint Tax Accounts for Innocent Spouse Cases Has Been Improved; However, Additional Actions Are Needed (Revenue Protection: \$20,834; Taxpayer Rights and Entitlements: Refunds to 691 taxpayers not released due to input of improper codes.)
2007-1C-044	Supplement to Report on Audit of the Contractor's Fiscal Year 2003 Incurred Costs (Questioned Costs: \$22,099)
2007-10-007	A Statistical Portrayal of Federally Recognized Indian Tribal Governments' Tax Filing Characteristics for Tax Years 2000 Through 2004
2007-30-051	Fiscal Year 2007 Statutory Review of Compliance with Lien Due Process Procedures (Taxpayer Rights and Entitlements: 15,847 lien notices untimely mailed and proof of mailing not located; 60 cases not researched for different addresses.)
2007-40-055	Fiscal Year 2007 Statutory Audit of Compliance with Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2007-20-048	The Internal Revenue Service Is Not Adequately Protecting Taxpayer Data on Laptop Computers and Other Portable Electronic Media Devices (Taxpayer Privacy and Security: 480 individuals whose loss of sensitive data could have been prevented.)
2007-40-057	Steps Can Be Taken to Reduce the Challenges Taxpayers with Vision Impairments Face When Attempting to Meet Their Tax Obligations
2007-30-058	Centralized Sites Effectively Evaluated Offers in Compromise from Self-Employed Taxpayers and Assisted in Reducing Overall Staffing
2007-30-056	Trends in Compliance Activities Through Fiscal Year 2006
2007-30-066	The Private Debt Collection Program Was Effectively Developed and Implemented, but Some Follow-up Actions Are Still Necessary
2007-20-059	The Background Investigations Process Needs Improvements to Ensure That Investigations Are Completed Timely and Effectively
2007-20-060	Sensitive Data Remain at Risk From the Use of Unauthorized Wireless Technology
2007-20-052	Oversight of the Electronic Fraud Detection System Restoration Activities Has Improved, but Risks Remain (Inefficient Use of Resources: \$1.7 million paid to contractors that could have been avoided if the system was timely implemented.)
2007-10-061	Tax-Exempt Hospital Industry Compliance With Community Benefit and Compensation Practices Is Being Studied, but Further Analyses Are Needed to Address Any Noncompliance
2007-30-062	Social Security and Medicare Taxes Are Not Being Properly Assessed on Some Tips and Certain Types of Wage Income (Increased Revenue: \$541 million impacting 456,688 taxpayers; Taxpayer Burden, 377,850 taxpayers burdened by lack of written instructions.)



Appendix III TIGTA's Statutory Reporting Requirements

TIGTA issued 11 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2007, TIGTA is currently working on the ninth round of statutory reviews that are required annually by the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). TIGTA is also working on the annual review requirement of the Federal Financial Management Improvement Act of 1996 (FFMIA). The following table reflects the status of the FY 2007 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Enforcement Statistics</p> <p>Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.</p>	<p><i>Reference No. 2007-40-055, March 20, 2007</i></p> <p>IRS first-line managers had appropriately not used records of tax enforcement results, or production quotas or goals, when evaluating employees and considered the fair and equitable treatment of taxpayers a performance requirement. First-line managers also appropriately certified that they had not used records of tax enforcement results in a prohibited manner. TIGTA believes that the IRS' efforts to ensure that managers are not using records of tax enforcement results, or production goals or quotas, to evaluate employees are generally effective and are helping to protect the rights of taxpayers.</p>
<p>Restrictions on Directly Contacting Taxpayers</p> <p>I.R.C. § 7803(d)(1)(A)(ii)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</p>	<p>Audit fieldwork in progress.</p>

TIGTA Semiannual Report to Congress

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Filing of a Notice of Lien</p> <p>I.R.C. § 7803(d)(1)(A)(iii)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.</p>	<p><i>Reference No. 2007-30-051, March 20, 2007</i></p> <p>The IRS did not comply with the law in all cases. TIGTA's review of a statistically valid sample of 150 Federal Tax Lien cases identified 142 cases (95 percent) for which the IRS did mail lien notices timely and correctly, as required by I.R.C. § 6320 and internal procedures. Four lien notices (about 3 percent) were not sent timely; for another four lien notices (about 3 percent), TIGTA could not determine if the IRS complied with the law, because the IRS could not provide proof of mailing. When an initial lien notice is returned because it could not be delivered and a different address is available for the taxpayer, the IRS is not always meeting its statutory requirement to send the lien notice to the taxpayer's last known address. For 60 (15 percent) of the 400 cases, the IRS did not research its computer systems for the taxpayer's last known address. These cases could involve legal violations.</p> <p>Also, the IRS did not always follow its own internal guidelines for notifying taxpayer representatives of the filing of lien notices. For 15 (60 percent) of the 25 cases in which the taxpayer had a representative at the time of the IRS lien actions, the IRS did not notify the taxpayer's representative of the lien filing.</p>
<p>Extensions of the Statute of Limitations for Assessment of Tax</p> <p>I.R.C. § 7803(d)(1)(C)</p> <p>I.R.C. § 6501(c)(4)(B)</p>	<p>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501, and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Audit fieldwork in progress.</p>
<p>Levies</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Audit in report writing phase.</p>
<p>Collection Due Process</p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding taxpayers' rights to appeal lien or levy actions.</p>	<p>Audit fieldwork in progress.</p>

TIGTA Semiannual Report to Congress

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Seizures I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS' 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 IRS' compliance with restrictions under section 3707 of RRA 98 on designation of taxpayers.	Audit fieldwork in progress.
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.	Audit fieldwork in progress.
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by the IRS or TIGTA from taxpayers, IRS employees, and other sources.	Statistical results on the number of taxpayer complaints received are shown on page 39.
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 in planning phase.

TIGTA Semiannual Report to Congress

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Denial of Requests for Information</p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p>Audit fieldwork in progress.</p>
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS' adequacy and security of its technology.</p>	<p>Information Technology Reviews: Reference Number 2007-20-001, October 2006 Reference Number 2007-20-002, October 2006 Reference Number 2007-20-003, October 2006 Reference Number 2007-20-005, December 2006 Reference Number 2007-20-024, January 2007 Reference Number 2007-20-030, March 2007 Reference Number 2007-20-052, March 2007</p> <p>Security Reviews: Reference Number 2007-20-023, January 2007 Reference Number 2007-20-048, March 2007 Reference Number 2007-20-059, March 2007 Reference Number 2007-20-060, March 2007</p>
<p>Federal Financial Management Improvement Act of 1996</p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the IRS' financial management systems to ensure compliance with Federal requirements, or establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Audit in report writing phase.</p>

Appendix IV

Section 1203 Standards

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

Misconduct violations include:

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


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



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, 2006, through March 31, 2007. Also, data concerning substantiated I.R.C. § 1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.


HUMAN CAPITAL OFFICE

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

April 5, 2007

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: Barbara B. 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 of February 7, 2007 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, 2006 to March 31, 2007.

- Report of Employee Misconduct by Disposition Groups
- Report of Employee Misconduct – National Summary
- Summary of Substantiated Section 1203 Allegations 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, 2007. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).

The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 235 §1203 allegations and removed 51 employees. In 13 of the removals IRS managers considered information forwarded in a TIGTA investigation. Twenty-seven employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 69 cases. There are an additional nine §1203 cases pending final actions in Labor and Employee Relations.

If you have any questions or need additional information, please call me at 622-6383, or a member of your staff may contact Christine Adams at 622-9363.

Attachments (3)

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

**Report of Employee Misconduct for the Period
October 01, 2006 through March 31, 2007
Summary by Disposition Groups
(Table provided by the IRS)**

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	67	91	31	2	191
Separation of Probationary Employees	3	58		28	89
Separation of Temporary Employees		30	6	7	43
Resignation/Retirement	94	145	50	18	307
Suspensions	97	240	62	4	403
Reprimands	93	466	430	21	1,010
Counseling		340	220	68	628
Alternative Discipline	20	103	16	4	143
Clearance	106	135	11	1	253
Closed Without Action	172	278	122	123	695
Closed Without Action (Caution Statement)	120	106	82	74	382
Forwarded to TIGTA		22			22
Suspended – Waiting Supplemental	3				3
Termination for Abandonment of Position		19			19
Case Suspended Pending Employee Return To Duty	5	3	4		12
Prosecution Pending for TIGTA ROI's	17				17
Total	797	2,036	1,034	350	4, 217

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

This report is being produced in accordance with 26 USC § 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999 Extract Date: Monday, April 02, 2007 Report ID = T1R3a

**Report of Employee Misconduct for the Period
October 01, 2006 through March 31, 2007
National Summary
(Table provided by the IRS)**

Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Cases	
TIGTA Investigations ROI ¹	582	838	(797)	(3)	(0)	620
Administrative Case ²	806	2,150	(2,036)	(19)	(4)	897
Employee Tax Compliance Case ³	615	1,896	(1,034)	(39)	(0)	1,438
Background Investigations ⁴	137	293	(350)	(0)	(0)	80
Total	2,140	5,177	(4,217)	(61)	(4)	3,035

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

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

Extract Date: Monday, April 02, 2007 Report ID = T1R1

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

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

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

⁴ 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, 2006 through March 31, 2007
(Table provided by the IRS)**

§ 1203 Violation	Removals¹	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated¹	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	0
False Statement Under Oath	0	0	0	0	0	1	1
Constitutional & Civil Rights Issues	0	0	0	0	0	0	0
Falsifying or Destroying Records	0	2	0	0	0	0	2
Assault or Battery	1	0	0	0	0	0	1
Retaliate or Harass	0	1	0	0	0	0	1
Misuse of §6103	0	0	0	0	0	0	0
Failure to File Federal Tax Return	22	9	0	8	40	27	106
Understatement of Federal Tax Liability	28	15	0	3	29	48	123
Threat to Audit for Personal Gain	0	0	0	0	0	1	1
Totals	51	27	0	11	69	77	235

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

Extract Date: Wednesday, April 04, 2007

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



Call our toll-free hotline to report fraud, waste, or abuse:

1-800-366-4484

by Web:

www.treas.gov/tigta/

or Write:

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

Information is confidential and you may remain anonymous



DEPARTMENT OF THE TREASURY

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

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