





TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION  
**SEMIANNUAL REPORT TO CONGRESS**

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October 1, 2009 – March 31, 2010



# *Treasury Inspector General for Tax Administration*

## **TIGTA'S VISION**

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To maintain a highly skilled, proactive and diverse Inspector General organization with a record of protecting and promoting fair tax administration.

## **TIGTA'S MISSION**

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Provide integrated audit, investigative, and inspection and evaluation services that promote economy, efficiency, and integrity in the administration of the Internal Revenue laws.

## **TIGTA'S CORE VALUES**


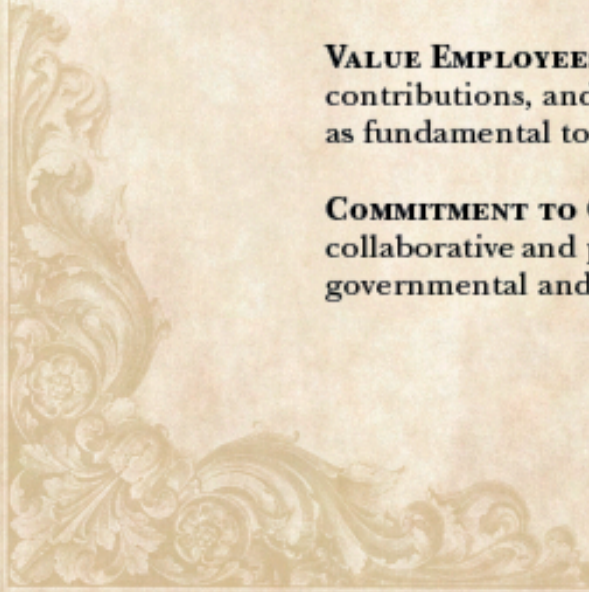
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**INTEGRITY** – Maintain the highest professional standards of independence, objectivity and operational excellence in pursuit of TIGTA's mission.

**ORGANIZATIONAL INNOVATION** – Model advanced practices in organizational structure, audit, investigative, and inspection and evaluation methodology through adoption of cutting-edge information technology.

**VALUE EMPLOYEES** – Respect employees' dignity, contributions, and work-life balance, and recognize diversity as fundamental to the strength of our organization.

**COMMITMENT TO COMMUNITY** – Establish and maintain collaborative and professional relationships with other governmental and non-governmental stakeholders.





## Inspector General's Message to Congress

It is my pleasure to submit this Semiannual Report to Congress that highlights the many accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) over the past six months. This reporting period, from October 1, 2009 to March 31, 2010, has produced a significant number of noteworthy audits, investigations, inspections and evaluations performed by TIGTA as it has worked diligently in promoting its mission to provide oversight of the Internal Revenue Service (IRS) and protecting the integrity of the United States' system of tax administration.



In this reporting period, TIGTA's Office of Audit completed 43 audit reports and our Office of Investigations closed 1,638 investigations. TIGTA's combined audit and investigation efforts have identified, protected and recovered monetary benefits totaling more than \$5 billion for the first six months of Fiscal Year 2010. We at TIGTA are very proud that our work consistently results in an outstanding return on investment for American taxpayers.

Notwithstanding these uncertain economic times, it is the responsibility of millions of Americans to send a portion of their income to the U.S. Treasury to support the Federal Government as they work to make ends meet in their own lives. Therefore, it is the duty of TIGTA to work to ensure that all taxpayer dollars collected by the Internal Revenue Service are utilized as envisioned and that the tax system is efficient and effective in using this money to fund our Federal Government. TIGTA has consistently shown its strong commitment to preventing waste, fraud, and abuse and is dedicated to promoting and maintaining the confidence of the American taxpayer in the Federal system of tax administration.

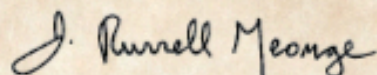
The past six months have also presented several formidable challenges to the IRS and to our Nation's system of tax administration. On the morning of February 18, 2010, a senseless act of violence ended the life of an IRS employee and injured 13 others at the building where they worked in Austin, Texas. That event shook the entire IRS workforce and delivered the tragic reminder that some individuals will stop at nothing to attack and attempt to destroy our tax administration system. TIGTA played a key role during the investigation of this case, as well as in the numerous threats against the IRS and its employees that followed. TIGTA is firmly committed to protecting IRS workers and relentlessly pursuing those who threaten the system of Federal tax administration.

The continued implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act) has been no easy task, but we at TIGTA have worked tirelessly to protect these Federal funds. Our Office of Audit reported on both the First-Time Homebuyer and the Making Work Pay tax credits (among others), working to identify taxpayer abuse and securing millions of at-risk dollars. TIGTA's efforts concerning the First-Time Homebuyer Credit led to substantive changes in the law as Congress incorporated our recommendations when it acted to extend the Credit this past November.

TIGTA's Office of Inspections and Evaluations has taken the lead in our efforts to monitor the spending of Recovery Act funds and the IRS's implementation of the key tax provisions of the Act. As one of 12 Inspectors General on the Recovery Accountability and Transparency Board, I work to promote integrity and efficiency among all offices that received Recovery Act funding, in addition to maintaining our focus on those provisions that immediately affect the IRS.

TIGTA has yet again proved unwavering in its mission to provide the most effective oversight of the IRS. In the second half of this year we will build on our past successes and embrace new and increased responsibilities. We stand ready to continue to perform our responsibility of serving the American people by protecting the integrity of Federal tax administration.

Sincerely,



J. Russell George  
Inspector General

# Table of Contents

<b>Mission and Vision Statement</b> .....	1
<b>Inspector General’s Message to Congress</b> .....	3
<b>TIGTA’s Highlights</b> .....	7
<b>Executive Summary</b> .....	11
<b>TIGTA’s Profile</b> .....	13
Statutory Mandate .....	13
Introduction to Our Organization .....	13
Organizational Structure .....	16
Authorities .....	16
<b>Promote the Economy, Efficiency and Effectiveness of Tax Administration</b> .....	17
Modernization of the Internal Revenue Service .....	17
Security of the Internal Revenue Service .....	19
Tax Compliance Initiatives .....	22
Providing Quality Taxpayer Service Operations .....	25
Erroneous and Improper Payments .....	26
Taxpayer Protection and Rights .....	27
Leveraging Data to Improve Program Effectiveness and Reduce Costs .....	29
<b>Protect the Integrity of Tax Administration</b> .....	31
Employee and Infrastructure Security .....	34
Armed Escort Activities .....	35
Employee Integrity Investigations .....	35
External Attempts to Corrupt Tax Administration .....	38
Tax Practitioner Investigations .....	42
Procurement Fraud Investigations .....	44
<b>Advancing Oversight of America’s Tax System</b> .....	47
<b>American Recovery and Reinvestment Act of 2009</b> .....	51
<b>Congressional Testimony</b> .....	55
<b>An Organization that Values Its People</b> .....	57
<b>Audit Statistical Reports</b> .....	61
Reports with Questioned Costs .....	61
Reports with Recommendations that Funds Be Put to Better Use .....	62
Reports with Additional Quantifiable Impact on Tax Administration .....	63

**Investigations Statistical Reports** ..... 65  
    Significant Investigative Achievements ..... 65  
    Status of Closed Criminal Investigations ..... 66

**Appendices**

**Appendix I – Statistical Reports – Other** ..... 67  
    Audit Reports with Significant Unimplemented Corrective Actions ..... 67  
    Other Statistical Reports ..... 75

**Appendix II – Audit Products** ..... 77

**Appendix III – TIGTA’s Statutory Reporting Requirements** ..... 81

**Appendix IV – Section 1203 Standards** ..... 85

**Appendix V – Data Tables Provided by the Internal Revenue Service** ..... 87  
    Internal Revenue Service Memorandum ..... 87  
    Report of Employee Misconduct, Summary by Disposition Groups ..... 88  
    Report of Employee Misconduct, National Summary ..... 89  
    Summary of Substantiated I.R.C. § 1203 Allegations Recorded in ALERTS ..... 90

**Glossary of Acronyms** ..... 91

## TIGTA's Highlights

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

#### U.S. Government Agrees to Settlement Amounts in Ongoing Zylon Fabric Investigation

As part of the United States Government's larger investigation of the use of Zylon fabric in body armor purchased by the United States for Federal agencies, Itochu Corporation of Japan and its American subsidiary, Itochu International Incorporated, and Lincoln Fabrics Limited and its American subsidiary have entered into agreements to resolve claims under the *False Claims Act*. Itochu Corp. has agreed to pay \$6.75 million and Lincoln Fabrics Ltd. has agreed to pay \$4 million to the United States.<sup>1</sup>

The United States alleged that the Zylon fabric in the body armor lost its ballistic capability quickly, especially when exposed to heat and humidity. The United States alleged that Lincoln was aware of the defective nature of the Zylon fabric by at least December 2001, but continued to sell Zylon for use in ballistic armor until August 2005. The United States also alleged that the Itochu companies were aware that the fiber degraded quickly over time and that the companies knew this degradation rendered the bulletproof vests containing Zylon unfit for use.<sup>2</sup>

<sup>1</sup> Source: U.S. Department of Justice Press Release dated February 12, 2010 and U.S. Department of Justice Press Release dated December 7, 2009.

<sup>2</sup> Ibid.

This is a joint investigation with multiple other Offices of Inspectors General.

#### David Leoce Indicted For False Statements and Stealing Government Compensation

On November 4, 2009, David Leoce, a former Supervisory Special Agent with the IRS Criminal Investigation Division (CID), was indicted on three counts of false statements and one count of stealing government compensation. Leoce received approximately \$772,301 in workers' compensation benefits, tax free, from approximately 1997 through 2008. As a condition of receiving Federal workers' compensation benefits, Leoce was required to submit an annual affidavit of earnings. Form EN 1032 (Claim for Continuing Compensation on Account of Disability) is the form that is used for that purpose. In each Form EN 1032 submitted from 2005 to 2008, he claimed not to be involved in any business enterprises and not to have received any business compensation or income.

On February 3, 2005, Leoce filed an application for registration of a fictitious name with the State of Florida as the owner of Scratch the Surface Tattoo II. On August 15, 2008, Leoce executed a Membership Interest in the Purchase and Sale Agreement in which he acknowledged owning, collectively with his spouse, 50 percent of the membership interests in a Florida limited liability company, Leoce & Martin Enterprises, d/b/a Scratch the Surface Tattoo II. In the purchase and sale agreement, Leoce sold his interest in the



company for a specified amount and resigned as manager of Leoce & Martin Enterprises.

From at least February 3, 2005 to August 15, 2008, Leoce was co-owner and manager of Leoce & Martin Enterprises, d/b/a Scratch the Surface Tattoo II. Leoce never reported his involvement with this business in any Form EN 1032 he submitted from 2005 to 2008.

Between approximately October 27, 2005 and November 17, 2005, Leoce submitted a fraudulent Form EN 1032 falsely claiming, among other things, that he was not self-employed in the past fifteen months, and not paid for any voluntary or non-voluntary work activities, in connection with the application for and receipt of compensation and other benefits and payments under the *Federal Employees' Compensation Act* (FECA) benefits, and in doing so he falsely obtained more than \$1,000 in such FECA benefits. Leoce submitted fraudulent Forms EN 1032 in January 2007 and January 2008. Additionally, between February 2005 and mid-August 2008, Leoce knowingly and willfully embezzled property of the United States, specifically FECA benefits<sup>3</sup>.

### **Examples of high profile cases from the Office of Audit:**

#### **Additional Security Is Needed for Access to the Registered User Portal**

The use of the Internet is an integral part of the Internal Revenue Service (IRS) mission to deliver top quality service to all taxpayers. The IRS developed the

Registered User Portal (RUP) to provide Web access to the IRS's e-services applications and provide outside tax professionals with the ability to submit and retrieve tax-related information and electronically file (e-file) tax returns. Because these external users have the ability to access taxpayer data, modify electronic tax returns prior to transmitting them to the IRS, and download taxpayer data to their computers, access controls at the RUP are critical to minimize the risk of unauthorized access to taxpayers' personal tax data.

Access to the RUP and e-services applications poses significant risks to the security of taxpayers' personal data. During the IRS's 2008 Filing Season, 58 percent of all tax returns - nearly 90 million of the 155 million tax returns filed - were received electronically. Although some RUP access controls are in place, several other security controls were not implemented. TIGTA made several recommendations to improve the security of the RUP. IRS officials agreed with most of the recommendations and are taking or have planned to take appropriate corrective actions.

#### **The Screening and Monitoring of E-file Providers Has Improved, but More Work Is Needed to Ensure the Integrity of the E-file Program**

The primary means by which the IRS regulates e-file providers are the application screening process and the monitoring program. The screening and monitoring of e-file providers has improved, but more work is needed to ensure the integrity of the e-file program. Inadequate screening and monitoring increases the risk to both the

<sup>3</sup> Source: Middle District of Florida, Orlando Division Indictment filed November 4, 2009.

taxpaying public and the Federal Government for potential losses associated with unscrupulous e-file providers. A statistical sample of 97 e-file providers from a population of 13,797 that were active as of August 2009, and designated as not-for-profit organizations, showed that 18 (19 percent) were erroneously designated. Twelve (12 percent of the sample) of the 18 were not subjected to suitability checks. Furthermore, the IRS is not requesting that e-file providers verify citizenship status. TIGTA recommended several improvements to the e-file program.

#### **Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds**

The Questionable Refund Program is a nationwide, multi-functional program designed to detect and stop fraudulent claims for refunds on income tax returns. Pre-refund fraud detection activities have been transferred from the Criminal Investigation Division to the Wage and Investment Division Accounts Management function. We are concerned that staffing may not be sufficient, which could reduce the number of fraudulent refunds identified and stopped. Insufficient staffing may also reduce the ability of the IRS to provide timely assistance to taxpayers who experience delays in receiving their refunds or who are victims of identity theft. TIGTA continues to monitor the impact of staffing on transitioned activities during the 2010 Filing Season and included results in our 2010 Interim Filing Season report and will include results in our 2010 Filing Season report.

#### **Examples of high profile cases from the Office of Inspections and Evaluations:**

##### **The Internal Revenue Service Restructuring and Reform Act of 1998 Was Substantially Implemented but Challenges Remain**

This evaluation determined whether the IRS substantially achieved the goals of the *IRS Restructuring and Reform Act of 1998* (RRA 98). RRA 98 required the IRS to change its organizational culture, restructure, modernize, and improve taxpayer protection and rights. With a new focus on taxpayer service, the IRS shifted its emphasis from an enforcement-first culture to a more customer-service-oriented culture. It also made progress in modernizing its business processes and computer systems, and provided taxpayers with greater protections and rights. As a result, taxpayers receive more professional and courteous services to assist them in complying with the tax law.

While the IRS has made significant strides in transforming into a modern financial services organization, major challenges remain. The Business Systems Modernization effort remains a work in progress. In addition, there are human capital management challenges for issues such as replacing an aging workforce, developing a comprehensive employee-skills gap assessment, measuring the effectiveness of training, and implementing a performance-based pay system. Finally, in the compliance arena, estimating noncompliance and effectively addressing repeat offenders are continuing challenges.

**Examples of significant legislation reviewed by the Office of Chief Counsel:**

**H.R. 3962, Affordable Health Care for America Act**

TIGTA reviewed the *Affordable Health Care for America Act* (the Act) for its impact on tax administration and its amendment to the *Inspector General Act* (IG Act). Specifically, the Act would: establish a Health Insurance Exchange Trust Fund within the Department of Treasury; amend the *Employee Retirement Income Security Act of 1974*; and create both an employment tax on employers who fail to elect and an excise tax on other failures of electing employers. The Act would also amend the *Internal Revenue Code* by adding a new section that addresses healthcare related taxes. Such taxes include a tax on individuals without acceptable health care coverage, healthcare-related taxes, and returns relating to health insurance coverage. The Act would amend Section 6103 of the *Internal Revenue Code* by adding a new section that addresses disclosure of return information to carry out health insurance exchange subsidies. The Act dictates that provisions of civil law that impose sanctions with respect to waste, fraud, and abuse under Medicare shall also apply to the public health insurance option. Lastly, the Act would amend the IG Act by creating the Office of the Inspector General for the Health Choices Administration.

Based upon TIGTA's review, the bill contains no provisions that would materially affect the duties or authorities of TIGTA or the OIG community in general. In addition, while the legislation provides for numerous

changes to the *Internal Revenue Code*, TIGTA did not identify any provisions that would impose sweeping changes to tax administration in general.

Furthermore, while the legislation creates a new Inspector General's office and amends the IG Act, the changes do not impact TIGTA or TIGTA's mission.

**S. 2834, Security Clearance Modernization and Reporting Act of 2009**

TIGTA reviewed the *Security Clearance Modernization and Reporting Act of 2009*, which would make changes to security clearance and suitability determination reporting and create a Security Clearance and Suitability Performance Accountability Council. The bill specifies that membership of the Council shall include a senior officer from the Office of the Director of National Intelligence, the Department of Defense, and the Office of Personnel Management, in addition to other members. TIGTA provided comments on the bill, suggesting that the draft bill be changed to include a member of the Inspector General community on the Council. TIGTA will continue to monitor this bill for changes that may have an impact on its mission.

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## Executive Summary

The following table shows the statistical highlights of the Treasury Inspector General for Tax Administration (TIGTA) for this semiannual reporting period from October 1, 2009 through March 31, 2010.

	Number of Audit Reports Completed	Cost Savings Identified	Increased/Protected Revenue	Number of Investigations Opened	Number of Investigations Closed	Regulations/Legislative Requests Reviewed
October 30, 2009 – March 31, 2010	43	\$69 million	\$4.86 billion	1,913	1,638	303

“This first half of the fiscal year represents one of the most difficult economic times this country has ever faced. By implementing the provisions of the *American Recovery and Reinvestment Act of 2009*, the IRS is providing much-needed tax relief. It is imperative that we at TIGTA carry out our mission to promote the effectiveness and integrity of tax administration to the best of our ability. We will continue to dedicate ourselves to this most important service on behalf of the American people.” - **J. Russell George, Inspector General**

### Investigations:

TIGTA special agents continued the vital work of protecting the integrity of tax administration. The Office of Investigations (OI) processed 4,323 complaints, resulting in 1,913 investigations opened. Vigilant work against extortion, bribery, contractor fraud and misconduct, theft, taxpayer abuses, false statements, financial fraud, potential loss of tax liability, and other criminal activity has saved taxpayers over \$61 million. Forty-seven percent of the 1,700 final closed investigations generated 793 cases of employee misconduct referred for action and 97 cases accepted for criminal prosecution. Furthermore, during the reporting period, TIGTA provided 13 armed escorts.

### Audits:

TIGTA’s auditors not only focus on the economy and efficiency of IRS operations, but also ensure that taxpayers’ rights are protected and that taxpayers are adequately served. The Office of Audit (OA) continues

to provide an excellent return on investment to American taxpayers. During this six-month reporting period, OA issued 43 audit reports that identified more than \$4.96 billion in potential cost savings reported in the following categories: funds that could be put to better use, increased or protected revenue, taxpayer rights and entitlements, and inefficient uses of resources. TIGTA audits provided taxpayers with \$131 in benefits for each dollar invested in the Office of Audit during this period.

### Inspections and Evaluations:

TIGTA established the Inspections and Evaluations (I&E) office to further facilitate tax administration oversight. During this six-month reporting period, I&E reported on several pertinent issues, including the *American Recovery and Reinvestment Act of 2009* (Recovery Act), IRS’s Implementation of the OMB Guidelines for ARRA, and Inspection of the IRS’s Pandemic Influenza Preparedness Plan - Phase I.



## TIGTA's Profile

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

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

TIGTA conducts audits and investigations designed to:

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

### Introduction to Our Organization

TIGTA's organizational structure is comprised of the immediate Office of the Inspector General and five functional offices: the Office of Audit; the Office of Investigations; the Office of Inspections and Evaluations; the Office of Chief Counsel; and the Office of Mission Support (see chart on page 16).

### 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.

### Immediate Office of the Inspector General

The immediate Office of the Inspector General provides the Inspector General: with staff assistance on high profile issues facing the Nation's system of tax administration. The immediate Office includes the Principal Deputy Inspector General; the Office of Communications, which primarily oversees communications with Congress and the media, as well as with external stakeholders;

and the Equal Employment Opportunity Program Manager.

### Office of Audit

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

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

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

### Office of Investigations

The Office of Investigations is charged with protecting the integrity of tax administration. OI investigates allegations related to waste, fraud, abuse, and mismanagement involving IRS programs and operations, and IRS employee misconduct. OI also strives to detect and prevent IRS internal misconduct and external manipulation of tax administration through its proactive investigative initiatives program and presentations to IRS employees, tax practitioners, and other community groups. TIGTA's investigations are based on a

progressive-performance model consisting of three primary areas of responsibility: employee integrity; employee and infrastructure security; and external attempts to corrupt tax administration. The use of the performance model enables OI to direct its crucial resources to the most critical areas.

A critical element of OI's employee security program consists of providing armed escorts for IRS employees who are required to have personal contact with known or suspected dangerous taxpayers. Such encounters are stressful to IRS employees, and TIGTA's armed presence enables them to perform their duties with confidence that their safety will not be compromised.

### Office of Inspections and Evaluations

TIGTA's Office of Inspections and Evaluations provides TIGTA with additional flexibility, capacity, and capability to produce value-added products and services to improve tax administration.

Inspections will usually be more limited in scope and will be completed in a more compressed period than a traditional audit. Evaluations often result in recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective programs.

I&E seeks to nurture new and expansive approaches to independent and objective oversight of IRS programs and operations. Its work is not a substitute for audits and investigations; in fact, its findings may result in subsequent audits and/or investigations.

### Office of Chief Counsel

The Office of Chief Counsel provides legal guidance, advice, and disclosure services to support TIGTA's accomplishment of its mission. The Office is comprised of

attorneys, analysts, and support personnel providing a full range of legal and disclosure-related services to the other functions.

The attorneys in the legal branches provide independent legal analysis, advice, and assistance to TIGTA's senior management, as well as to the offices of Investigations, Audit, Inspections and Evaluations, and Mission Support to accomplish TIGTA's statutory mandate to promote the economy, efficiency and effectiveness of tax administration while protecting the integrity of tax administration. Members of the legal staff review proposed or existing regulations and laws affecting tax administration and their impact on TIGTA and are involved in all legal matters affecting TIGTA and its stakeholders. As agency counsel, the legal staff: manages TIGTA's ethics program to ensure high ethical standards for all TIGTA employees; reviews claims, debt collection, and procurement activities; serves as counsel in administrative litigation; and assists the Department of Justice in litigation in which TIGTA is a party or witness. The analysts in the Disclosure Branch: process all Freedom of Information Act and Privacy Act requests received by TIGTA; review all referrals to State and local law enforcement agencies; determine the disclosability of TIGTA's final audit reports for posting on TIGTA's Web site; and prepare testimony authorizations for TIGTA employees who are subpoenaed or requested to testify on matters of official business.

### Office of Mission Support

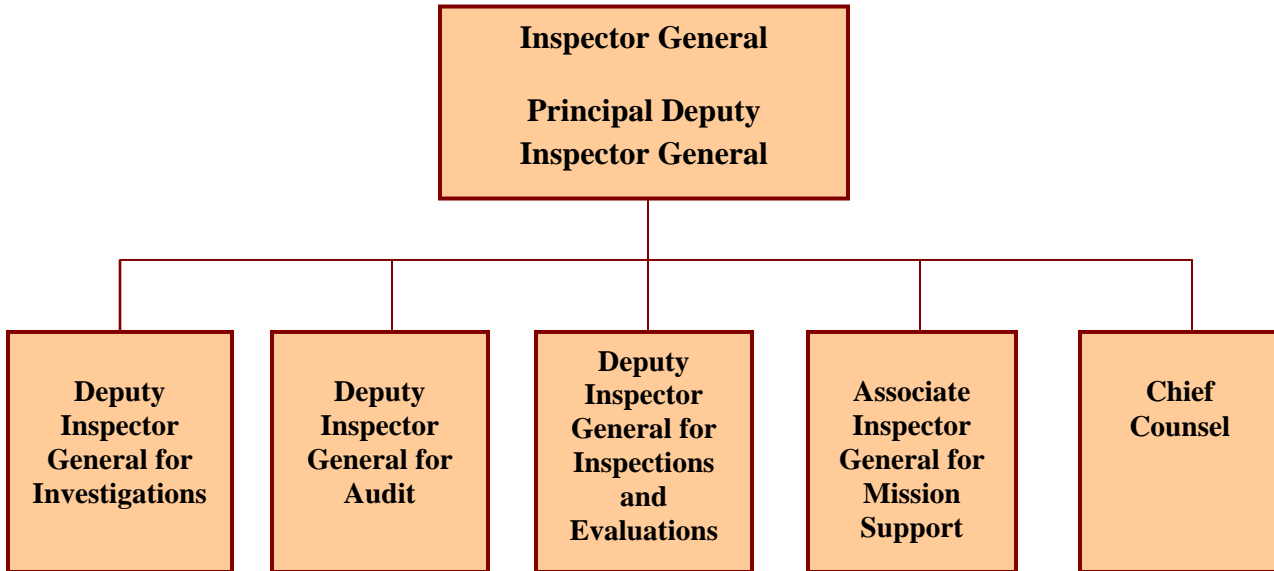
The Office of Mission Support delivers integrated management services to all of TIGTA's business units. This includes all

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

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## Organizational Structure



## Authorities

TIGTA has all of the authorities granted under the *Inspector General Act of 1978*, as amended.<sup>4</sup> TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA also has the obligation to report potential criminal violations directly to the Department of Justice. TIGTA and the Commissioner of Internal Revenue have established policies and procedures delineating responsibilities to investigate

potential criminal offenses under the Internal Revenue laws. In addition, the *IRS Restructuring and Reform Act of 1998*<sup>5</sup> amended the *Inspector General Act of 1978* to give TIGTA statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Section 7608(b)(2) of the *Internal Revenue Code* (I.R.C.).

<sup>4</sup> 5 U.S.C.A. app. 3 (West Supp. 2008).

<sup>5</sup> Public Law No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., and 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

**T**IGTA'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 and independent performance and financial audits of IRS programs and operations primarily address mandated reviews and high-risk challenges facing the IRS.

The IRS's implementation of audit recommendations results in:

- Cost savings and increased or protected revenue;
- Reduction of taxpayer burden;
- More efficient use of resources;
- Protection of taxpayer privacy and security;
- Protection of resources/reliability of information; and
- Protection of taxpayer rights and entitlements.

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

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

### Audit Emphasis Areas October 2009 through March 2010

- Modernization of the IRS
- Security of the IRS
- Tax Compliance Initiatives
- Providing Quality Taxpayer Service Operations
- Erroneous and Improper Credits and Payments
- Leveraging Data to Improve Program Effectiveness and Reduce Costs

### Modernization of the Internal Revenue Service

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

TIGTA reviews have identified weaknesses in program management processes throughout the life of the Modernization Program. While the IRS has improved its controls over these processes as the Modernization Program has continued to mature, several weaknesses continue to exist. Recent TIGTA audits have identified continued problems in requirements development and management, program

management, contract management, and security controls.

Although the Modernization Program has continued to help improve IRS operations, project development activities have not always implemented planned processes effectively or delivered all planned system capabilities. The past year's Modernization Program performance did not continue the trend of improvement it demonstrated in the prior three years.

The IRS has recognized that it faces challenges in meeting the requirements of the next phase of project development and system integration. As a result, the IRS has stated that a strategy correction is needed to meet changing business needs, provide a more agile information technology environment, and reduce risks with associated costs to build and maintain systems.

### **Reengineering Individual Tax Return Processing**

In August 2008, the IRS Commissioner established the Modernized Taxpayer Account Program Integration Office to manage the transition of individual taxpayer account processing to a new modernized environment. Once completed, the new modernization environment should allow the IRS to more effectively and efficiently update taxpayer accounts, support account settlement and maintenance, and process refunds on a daily basis, contributing to improved service to taxpayers.

TIGTA provided an assessment of the Modernized Taxpayer Account Program Integration Office status and accomplishments through August 2009 and did not offer any recommendations. IRS management acknowledged that the report assessment was valid and that the

detailed program plan, being developed as TIGTA suggested with the Modernization Vision and Strategy framework, may result in adjustments to target deliverables and time periods including elimination of redundant processing systems.

**Reference No. 2010-20-001**

“The IRS has made significant progress in developing the conceptual models for a number of processes, but it must manage the identified risks to enable the successful implementation of the strategy.”

*- J. Russell George  
Inspector General*

### **Standardizing Processes in IRS Computing Centers**

The IRS began the TRIPLEX initiative to optimize data center operations using industry best practices. Once fully implemented, the TRIPLEX initiative will create a Uniform Operating Environment across the three IRS computing centers, operated by a Competency-Based Organization through the standardization of processes and tools. This will make better use of taxpayer dollars by reducing labor costs and mitigating risks that can hamper the IRS's ability to perform its primary mission of tax collection and compliance activities.

“While savings have been realized and operations improved, additional planning and implementation is necessary to ensure ongoing and future process reengineering efforts are effectively planned and timely and successfully implemented.”

*- J. Russell George  
Inspector General*

TIGTA recommended that the IRS ensure that:

- Process reengineering teams adequately plan the scope, establish time periods for workload completion, track the progress, timely complete, and have adequate resources;
- Management timely completes the remaining process reengineering efforts or, if resources are not available to timely complete them, suspends or cancels the process reengineering effort(s);
- The Configuration Management reengineering team establishes a schedule for entering the prioritized configuration items in the Configuration Management Library;
- Operational processes selected for reengineering are baselined to establish the current state of the process; and
- Reengineered process performance measures are implemented.

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

**Reference No. 2010-20-007**

### **Realizing Benefits of TE/GE Reporting and Electronic Examination System**

The Tax Exempt and Government Entities Reporting and Electronic Examination System (TREES) was developed to provide a case management system for Tax Exempt and Government Entities (TE/GE) Division employees and to improve the examination process. While some improvements have been made to TREES since its release, the TE/GE Division has not realized the expected improvements in the examination process. This is due to the difficulties

experienced in the deployment of TREES and because many planned capabilities were not delivered due to budget cutbacks. If additional actions are not taken by TE/GE Division management, the Federal Government will not receive the highest possible return from the \$18.7 million of taxpayer funds spent on developing and implementing TREES.

“The TE/GE Division needs to take additional actions to transform its examination process from paper-intensive and inconsistent to efficient and electronic.”

**- J. Russell George  
Inspector General**

TIGTA recommended that the IRS develop an action plan that addresses issues identified by TIGTA and by the TE/GE Division. This will allow the TE/GE Division to gain increased acceptance and fuller use of TREES, which will lead to more attainment of its benefits.

IRS management agreed with the recommendation and planned to develop an action plan to address the issues identified, including providing additional information and training to TREES users.

**Reference No. 2010-10-020**

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

Millions of taxpayers entrust the IRS with sensitive financial, personal, and other data that are processed by and stored on IRS computer systems. Reports of identity theft from both the private and public sectors have heightened awareness of the need to protect these data. The risk that taxpayers' identities could be stolen by exploiting

security weaknesses in the IRS's computer systems continues to increase, as does the risk that IRS computer operations could be disrupted. Internal factors (such as the increased connectivity of computer systems and increased use of portable laptop computers) and external factors (such as the volatile threat environment resulting from increased terrorist and hacker activity) require strong security controls.

The *Federal Information Security Management Act* (FISMA)<sup>6</sup> requires each Federal Government agency to report annually to the Office of Management and Budget and to Congress on the effectiveness of its security programs and to perform an annual independent evaluation of its information security program and practices. The IRS has made steady progress in complying with FISMA requirements since the law's enactment in 2002, and it continues to place a high priority on efforts to improve its security program. However, TIGTA's audits continue to show that the IRS needs to do more to adequately secure its systems and data.

### **Protection of Federal Tax Information at State Government Agencies**

The IRS's Safeguards Program is tasked with ensuring that State Government agencies receiving Federal tax information maintain adequate safeguards to protect IRS data from unauthorized disclosure. Weaknesses in the program may increase the risk that taxpayer data are not being adequately secured and might be inappropriately accessed or used, possibly for fraudulent purposes such as identity theft.

TIGTA recommended that the IRS:

- Revise existing policies, as necessary, to require State agencies and their contractors to provide sufficient documentation on a more frequent basis to support that corrective actions were taken to address reported computer security weaknesses;
- Complete planned personnel actions so that adequate staffing is available to proactively monitor and validate the corrective security actions taken by State agencies and their contractors; and
- Continue to use a recently implemented monitoring tool and complete the training of new staff to increase the efficiency of the reporting process.

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

**Reference No. 2010-20-003**

### **Automated Collection System**

The Automated Collection System (ACS) is a telephone contact system used by IRS employees to perform critical IRS processes such as collecting tax revenues and helping taxpayers resolve their tax issues. The IRS needs to implement additional security controls to protect the ACS and sensitive taxpayer data. The lack of complete security controls increases the risks that taxpayer data could be stolen or computer operations could be disrupted.

TIGTA recommended that the IRS:

- Make enhancement or replacement of its online user access control system a top priority;
- Instruct the Modernization and Information Technology Services

<sup>6</sup> Federal Information Security Management Act of 2002, 44 U.S.C. §§ 3541-3549.

organization to create call site procedures to clarify the capabilities of ACS users' profiles;

- Set completion dates and prioritize the work needed to complete the high-level and ACS configuration management plans;
- Appoint an ACS configuration manager to oversee ACS configuration management activities and protect critical ACS documentation by storing the documents in the required electronic document management system;
- Identify key software configuration items and maintain the items in a secure system to allow efficient monitoring;
- Ensure that the IRS's required change-management procedures are followed for all changes to the ACS servers; and
- Establish criteria and completion dates for addressing vulnerabilities found on servers.

TIGTA also recommended that the IRS instruct ACS managers to review their employees' access privileges annually and remove users' accounts from the ACS when the users transfer to non-ACS functions. In addition, TIGTA recommended that the IRS reinstate the ACS Security Maintenance Report that identifies changes to employees' access levels.

IRS management agreed with most of the recommendations and stated that it has already revised some procedures. The IRS disagreed with the recommendation to appoint an ACS configuration manager and stated that it is currently aligning with configuration management procedures to implement corrective actions. TIGTA continues to believe an ACS configuration

manager should be appointed and that the weaknesses identified in the report could persist without appointment of this responsible official.

**Reference No. 2010-20-028**

### Telephone Authentication Practices

In February 2009, the Federal Trade Commission reported that, for the ninth year in a row, identity theft was the number one consumer complaint nationwide. Identity theft occurs when someone uses Personally Identifiable Information, such as an individual's name or Social Security Number, to commit fraud and other crimes. Taxpayers need to be assured that the IRS is taking every precaution to protect their private information from inadvertent disclosure.

TIGTA recommended that the IRS revise guidelines to require assistors to ask two additional high-risk probes when callers incorrectly answer the address or date of birth probes. Training should emphasize that assistors are not to prematurely authenticate callers and that it is important to control calls and place callers on hold while conducting research. Guidelines should require assistors to ask callers to repeat Personally Identifiable Information if clarification is needed. Finally, TIGTA recommended that the IRS incorporate available technology to authenticate callers in the queue as part of the development of the Authentication Retention system.

IRS management agreed with two and partially agreed with one of the four recommendations, and it plans to take appropriate corrective actions.

The IRS did not agree to revise guidelines to require assistors to ask two additional high-risk probes when callers incorrectly answer

the address or date of birth probes. However, training materials will continue to emphasize that when callers incorrectly answer the address or date of birth probes, inadequate caller identity authentication could result in an unauthorized disclosure.

TIGTA maintains that requiring assistors to ask two additional high-risk probes when callers incorrectly answer the address or date of birth probes is warranted to reduce the risk of unauthorized disclosures.

**Reference No. 2010-40-045**

### **Tax Compliance Initiatives**

Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and oversight of tax-exempt and government entities. Increasing voluntary compliance and reducing the Tax Gap<sup>7</sup> are currently the focus of many IRS initiatives. Nevertheless, the IRS is facing significant challenges in obtaining more complete and timely data, and in developing the methods necessary to interpret the data. The IRS must continue to seek accurate measures for the various components of the Tax Gap and the effectiveness of the actions taken to reduce it. In addition, while the IRS regularly encounters lax governance practices on the part of tax-exempt entities, it must remain vigilant in ensuring that the privilege of tax-exemption is not abused.

### **Collection Alternatives for Economically Distressed Taxpayers**

Collection provisions offer many viable alternatives to help resolve taxpayers' balance-due accounts. When the economy weakened, the IRS proactively implemented or re-emphasized provisions to help

<sup>7</sup> The IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for the tax year.

economically distressed taxpayers. However, some of the actions could jeopardize collections and, at times, some taxpayers may have had difficulty identifying the alternatives if they were unfamiliar with IRS resources.

TIGTA recommended that the IRS:

- Revise computer programming to remove the unintended consequences from the processing routine; and
- Ensure that the link to the various scenarios remains on the IRS home page and/or the Tax Information for Individuals page until the economy recovers.

IRS management agreed with the recommendations and has taken or plans to take appropriate corrective actions.

**Reference No. 2010-30-032**

### **Individual Retirement Accounts**

Individual Retirement Accounts (IRA) are a key tax-preferred way for individuals to save for retirement and are an important way for individuals to roll over savings from pension plans. A prior TIGTA review concluded that IRS processing procedures for IRAs do not ensure that individuals are complying with IRA rules. TIGTA's review of tax year 2006 and tax year 2007 IRA information showed that individual noncompliance with IRA excess contribution and minimum distribution requirements continued to grow since the previous review. TIGTA identified potential revenue losses associated with:

- 295,141 individuals improperly making excess contributions totaling \$812 million for tax year 2006 and \$757 million for tax year 2007. Estimated tax revenue

losses are \$94.2 million in excise tax and \$17.6 million in income tax for these two tax years.

- 255,498 individuals not taking required minimum distributions totaling \$348 million for tax years 2006 and 2007. The estimated tax revenue loss is \$174 million in excise tax for these two tax years.

TIGTA recommended that the IRS develop a Service-wide strategy to address retirement provision noncompliance.

IRS management agreed that a Service-wide strategy is warranted. Executives agreed to share responsibility for the development of this long-term strategy. This strategy will not only address compliance, but will also include plans for outreach and guidance for individual taxpayers and employee plan organizations.  
**Reference No. 2010-40-043**

### **Voluntary Correction Program**

The Voluntary Correction Program (VCP) permits retirement plan sponsors to pay a fee and receive the IRS's approval for correction of retirement plans at any time before an audit.

To meet increased customer demand, the IRS made several changes that reduced the overall VCP processing time nearly 50 percent. However, about 22 percent of the applications were still not being closed within timeliness goals in Fiscal Year (FY) 2008. Correcting errors in a timely and efficient manner protects the favorable treatment of employees' retirement benefits and reduces the uncertainty of any potential tax liabilities for employees as well as for retirement plan sponsors. To address increased customer demand, reduced

staffing, and the significant number of applications not being closed within timeliness goals, further improvements will be needed. TIGTA identified five areas where additional processing improvements can be made to improve the IRS's ability to timely process VCP applications.

IRS management agreed with the recommendations and has taken or plans to take appropriate corrective actions.

**Reference No. 2010-10-012**

### **Lien Determinations**

The IRS protects its claims against taxpayers who owe delinquent taxes by filing Federal tax liens (liens). This establishes the IRS's priority among secured creditors for the taxpayers' equity. However, lien determinations were not appropriately made or were made late for more than \$1.4 billion in delinquent taxes. Failure to protect the Government's interest on taxes that are owed creates an unfair burden on taxpayers who properly pay their taxes in full and on time.

TIGTA made several recommendations to improve the controls and guidance for making lien determinations. IRS management agreed with all of the recommendations.

**Reference No. 2010-30-023**

### **Sole Proprietor Correspondence Audits**

Estimates by the IRS show that the underreporting of income by sole proprietors contributed to \$68 billion of the \$345 billion Tax Gap in 2001. TIGTA evaluated closed correspondence audits of individual returns reporting sole-proprietor operations and found that significant tax issues were not addressed during these audits. Sole proprietors who underreport their income can create unfair burden on



honest taxpayers and diminish the public's respect for the tax system.

TIGTA recommended that the IRS require examiners to conduct and document in the audit case files checks to identify unfiled employment tax and information returns and the results of automated preliminary cash transactions analyses, including consideration given to transferring the audit to the field if issues are identified. In addition, TIGTA recommended that controls be expanded to ensure that examiners are properly performing checks for unfiled employment tax and information returns and are conducting preliminary cash transaction analyses so that corrective actions can be identified and taken, if needed.

“Sole proprietors who underreport their income can create an unfair burden on honest taxpayers and diminish the public's respect for the tax system.”

*- J. Russell George  
Inspector General*

IRS management partially agreed with the recommendations by responding with alternate corrective actions. The IRS plans to develop inventory selection filters to identify and exclude sole proprietors who have unfiled employment tax or information returns and/or have indicators of unreported income from correspondence examination inventory. The IRS will make those returns available for field examination. It also plans to provide additional guidance to correspondence examiners on documenting case files and transferring them to field examination and ensuring that appropriate actions are taken during quality reviews to provide feedback that can be used to update inventory selection filters.

TIGTA agreed that the IRS's alternate corrective actions may help reduce the number of significant tax issues that are not addressed during correspondence audits of sole proprietors. However, the absence of a specific commitment from the IRS requiring that examiners conduct a preliminary cash transaction analysis during sole-proprietor audits is surprising given the high number of correspondence audits closed in recent years, including those involving a sole proprietor. A preliminary cash transaction analysis can identify considerable differences between expenditures and income. This difference raises very serious questions about whether expenses may be overstated on the return and/or whether there may be additional sources of income that should have been reported. Moreover, the IRS readily admitted in its response that sole-proprietor underreporting is a serious compliance issue and that this type of analysis is necessary for an effective audit of the issue.

**Reference No. 2010-30-024**

### **Employment Tax Compliance**

The misclassification of employees as independent contractors is a nationwide issue affecting millions of employees that continues to grow and contribute to the Tax Gap. According to program documents, closing the Tax Gap remains one of the biggest challenges for the IRS's Small Business/Self-Employed Division. The IRS has several opportunities to enhance compliance in its Employment Tax Program by taking measures to ensure that employment tax forms are not misused to avoid paying proper tax and by regularly sharing results of examinations from worker classification leads to ensure it is maximizing its resources efficiently when addressing the underreporting Tax Gap. Implementing these enhancements will help

ensure that the burden of uncollected taxes is not shifted to compliant taxpayers.

TIGTA made three recommendations for the IRS to ensure that employment tax forms are not misused. In addition, TIGTA recommended that the operating divisions take steps to ensure that feedback is provided to the SS-8 program regarding its referrals.

IRS management agreed with two recommendations, disagreed with one, and partially agreed with the remaining recommendation. The IRS cited costs as the basis for its disagreement with one of the recommendations, and offered to conduct a pilot study as an alternate corrective action.

Although TIGTA is encouraged by this, it is also concerned about the overall effectiveness of the alternate corrective action and the Calendar Year 2012 completion date, noting that the IRS previously agreed to perform a similar pilot study in response to a prior report and only recently began to take action to address these concerns. Furthermore, the IRS stated it plans to consider the results of the pilot study, workload, staffing, and budget before committing to any expansion.

**Reference No. 2010-30-025**

### **Private Debt Collection Program**

While the Internal Revenue Code authorizes the IRS to enter into contracts with private collection agencies (contractors) to assist in the collection of delinquent Federal taxes, the IRS has discontinued the Private Debt Collection program. Actions taken by the IRS and contractors were appropriate to conclude work on the program. The IRS developed and implemented procedures that were designed to ensure that taxpayer rights

were protected as well as to provide security over Federal tax information.

Although TIGTA made no recommendations in the report, it provided IRS management an opportunity to review the draft report; however, IRS did not provide any report comments.

**Reference No. 2010-30-013**

### **Providing Quality Taxpayer Service Operations**

Since the late 1990's, the IRS has increased its delivery of quality customer service to taxpayers. In July 2005, Congress requested that the IRS develop a five-year plan, including an outline of which services the IRS should provide and how it will improve service for taxpayers. In response, the IRS developed the Taxpayer Assistance Blueprint, which focuses on the appropriate types and amounts of services that support the needs of individual filers. The IRS has begun implementing the initiatives of the Blueprint; however, many of the initiatives are dependent on future funding.

### **ITINs Are Being Issued Without Supporting Documentation**

The purpose of the Individual Taxpayer Identification Number (ITIN) is to provide alien individuals, whether or not they reside in the United States (U.S.), an identifying number for use in connection with U.S. tax return filing requirements. The volume of ITINs is growing. When applications for ITINs are not effectively processed and ITINs are inappropriately issued, the risk increases that ITINs will be used to file fraudulent tax returns. Inadequate processing of ITIN application packages increases the risk to both the taxpaying public and the Federal Government for

potential losses associated with ITIN applicants.

TIGTA recommended that the IRS revise guidelines related to processing applications submitted by Certified Acceptance Agents and applications submitted directly to the IRS to ensure that the instructions for completing the Form W-7 and internal guidelines are consistent. In addition, TIGTA recommended that the IRS ensure that the data on the Real-Time System are accurate, and develop procedures and internal controls to monitor the Real-Time System to ensure the accuracy of the information entered.

IRS management agreed with most of the recommendations and has taken or plans to take appropriate corrective actions.

**Reference No. 2010-40-005**

### **Campus Centralization Efforts**

The Appeals campus centralization was designed to resolve high volumes of work, improve customer service and increase efficiency by responding to taxpayer issues earlier in the Appeals process. While Appeals has made considerable progress in achieving its centralization goals and has taken corrective actions to address the recommendations made in TIGTA's prior report, additional improvement can be achieved in certain activities performed at the campuses to further enhance customer service and positively impact tax administration. TIGTA identified a few instances where actions could be taken to ensure the protection of taxpayer rights and Government revenue, and to further reduce taxpayer burden.

Continued focus in these areas will support Appeals' goal of reducing the processing time of taxpayers' appeals, enhance customer satisfaction, and improve the

quality of work performed by Appeals personnel.

TIGTA recommended that the IRS:

- Develop procedural guidance to properly notify appropriate parties in Innocent Spouse proceedings when the nonrequesting spouse is deceased;
- Issue reminders to employees to emphasize how statute of limitation dates should be determined for refund claims and the requirement to properly document the reason for abating penalties in the Appeals Case Memorandum; and
- Develop an internal control that would identify the absence of the Uniform Acknowledgement Letter on Collection Due Process and Offer in Compromise cases and ensure an acknowledgement letter is issued within 30 days of receipt as required.

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

**Reference No. 2010-10-021**

### **Erroneous and Improper Payments**

As defined by the *Improper Payments Information Act of 2002*,<sup>8</sup> an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not

<sup>8</sup> Pub. L. No. 107-300, 116 Stat. 2350 (2002).

account for credit for applicable discounts. For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors. On November 29, 2009, the President signed Executive Order 13520, Reducing Improper Payments. The purpose of the order is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in major Federal programs. The order requires that each agency provide its Inspector General with a report on the agency's methodology for identifying and measuring improper payments and agency plans to reduce them. The Inspector General will assess the level of risk associated with the applicable programs; determine the amount of oversight warranted; and provide recommendations on the methodology and improper payment reduction plan. Agencies must also report quarterly on high-dollar improper payments and efforts to prevent their occurrence in the future.

### **Detecting and Stopping Fraudulent Refunds**

The Questionable Refund Program (QRP) is a nationwide, multi-functional program designed to detect and stop fraudulent claims for refunds on income tax returns. Pre-refund fraud detection activities have been transferred from the IRS's Criminal Investigation Division to its Wage and Investment Division Accounts Management function. Insufficient staffing could reduce the number of fraudulent refunds identified and stopped, and leave the IRS unable to provide timely assistance to taxpayers who experience delays in receiving their refund or who are victims of identity theft.

TIGTA recommended that the IRS perform a comprehensive analysis during the 2010 Filing Season to determine the average time needed to complete one unit of work for

each of the transitioned activities. The average time to complete one unit of work should then be applied to the anticipated workload volumes to identify staffing resources needed to timely complete these activities in Processing Year 2011.

IRS management agreed with TIGTA's recommendation and plans to analyze the volume of work and staff hours needed to perform the 2010 Filing Season work in order to determine the resources required to timely complete the projected work in the 2011 Filing Season.

**Reference No. 2010-40-017**

### **Taxpayer Protection and Rights**

The IRS must balance its tax compliance activities against the rights of taxpayers to receive fair and equitable treatment. The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of RRA 98<sup>9</sup>. In general, the IRS has improved its compliance with these statutory taxpayer rights provisions. However, TIGTA audits continue to show that there are circumstances in which the IRS can better protect taxpayers' rights.

### **Registered User Portal**

The use of the Internet is an integral part of the IRS's mission to deliver top quality service to all taxpayers. The IRS developed the Registered User Portal (RUP) to provide Web access to the IRS's e-service applications and provide outside tax professionals with the ability to submit and retrieve tax-related information and electronically file (e-file) tax returns.

<sup>9</sup> Pub. L. 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 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

Because these external users can access taxpayer data, modify electronic tax returns prior to transmitting them to the IRS, and download taxpayer data to their computers, access controls at the RUP are critical to minimize the risk of unauthorized access to taxpayers' personal tax data.

TIGTA recommended that the IRS:

- Require suitability checks on delegated users who e-file tax returns or access sensitive e-service applications;
- Revise the appeal procedures for e-file applicants who fail their suitability check to specify that the IRS's Criminal Investigation Division's Fraud Detection Center has the final approval authority;
- Disable and delete inactive RUP accounts in accordance with IRS procedures or follow the IRS risk-based decision procedures to obtain the required thorough assessment and approval to not implement these security controls;
- Request that the Chief Technology Officer strengthen RUP passwords to contain a mix of lower case and upper case letters, set the password length to 12 characters, and prevent the use of Social Security numbers as usernames; and
- Request that the Chief Technology Officer implement a control to allow users to answer a series of challenge questions to unlock their RUP accounts.

TIGTA also recommended that the IRS enhance the e-file application on the Third Party Data Store to post the complete results of the tax compliance check that is performed for an e-file applicant's spouse, and develop a process to analyze the

activities of RUP users and begin reviewing the audit logs.

IRS management agreed with most of the recommendations and stated that the RUP audit logs are now being reviewed to detect unauthorized activities. In addition, the IRS plans to establish an Executive Review Board to formally consider deviations from the Criminal Investigation Division's recommendations. Further, it revised its required minimum password length to eight characters for all systems except the Windows operating system. TIGTA concurred with these corrective actions.

**Reference No. 2010-20-027**

### **E-file Program**

The primary means by which the IRS regulates e-file providers are the application screening process and the monitoring program. The application screening process does not ensure the integrity of the individuals applying for participation in the e-file program; nor does the monitoring program ensure e-file providers comply with e-file program requirements. Inadequate screening and monitoring increase the risk to both the taxpaying public and the Federal Government for potential losses associated with unscrupulous e-file providers.

TIGTA recommended that the IRS ensure citizenship and not-for-profit status are verified for all e-file program applicants and that both applicants and current e-file providers who are identified with a blank or unknown citizenship status in the Data Master-1 file are verified as being a U.S. citizen or a legal alien. TIGTA also recommended that the IRS implement controls to ensure that: the monitoring visit procedures are being followed; the information reported to Small Business/Self-Employed Division Headquarters is accurate; and the results of the monitoring

visits are used to improve and measure the effectiveness of the e-file program. The IRS agreed with most of the recommendations and plans to take or has taken appropriate corrective actions. The IRS did not agree to verify the citizenship status of all e-file providers because it would create e-file program eligibility conflicts with impending legislation mandating e-file for most return preparers. However, even if e-file is mandated, any U.S. based e-file provider will have a Social Security Number and can be verified for citizenship status. Any foreign-based preparers will have an ITIN that is distinguishable from a Social Security Number.

**Reference No. 2010-40-042**

### **Leveraging Data to Improve Program Effectiveness and Reduce Costs**

While the IRS has made some progress in using its data to improve program effectiveness and reduce costs, this area continues to be a major challenge. The IRS lacks a comprehensive, integrated system that provides accurate, relevant, and timely financial and operating data describing performance measures, productivity, and associated costs of IRS programs. In addition, the IRS cannot produce timely, accurate, or useful information needed for day-to-day decisions, which hinders its ability to address financial management and operational issues to fulfill its responsibilities. TIGTA has continued to report that various IRS management information systems are insufficient to enable IRS management to measure costs, determine if performance goals have been achieved, or monitor progress in achieving program goals.

### **Federal Funding for Unemployment Benefits**

TIGTA's review identified that while additional procedures and controls have been implemented, there are still insufficient controls to ensure that expenses associated with the administration of the Unemployment Trust Fund (the trust fund) are accurately calculated. For example, the IRS overestimated its trust fund-related expenses by \$63 million during Fiscal Years 2005 through 2009. As a result, these funds were not available during this period to fund the Federal Government's share of unemployment benefit payments to eligible taxpayers.

TIGTA recommended that the IRS:

- Update the procedures used by the business units to calculate their trust fund administrative expenses;
- Instruct that the audit file and supporting documentation be maintained in a central location for a minimum time period;
- Implement a policy to routinely review documentation supporting the summary cost reports submitted by the IRS business units; and
- Determine, on an annual basis, if new versions of the Employer's Annual Federal Unemployment Tax Return (Form 940) are developed and incorporated into its procedures.

Finally, TIGTA recommended that the IRS also ensure that the development of a cost accounting capability be considered during the development of future financial accounting system requirements to support the ability to readily track, record, and report trust fund expenses.

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

**Reference No. 2010-10-039**

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## Protect the Integrity of Tax Administration



**T**he Nation was shocked on Thursday, February 18, 2010, when a disgruntled taxpayer flew his single engine plane into an office building in Austin, Texas occupied by approximately 200 IRS employees. An IRS employee was killed in the incident and 13 others sustained injuries. Within an hour or so after the attack, the taxpayer's pre-positioned suicide note was discovered on the Internet and it became clear that this was an IRS-related attack and that the intended target was, in fact, the IRS.

TIGTA Special Agents in the OI Austin post of duty, whose mission is to protect IRS employees, immediately responded to the scene and worked alongside other Federal, State and local law enforcement agencies and first responders. Soon, IRS employees began reporting taxpayer statements that expressed support of the Austin attack. Bloggers began opining that more attacks should be forthcoming and expressed their disappointment that only one IRS employee had lost his life in the attack. OI

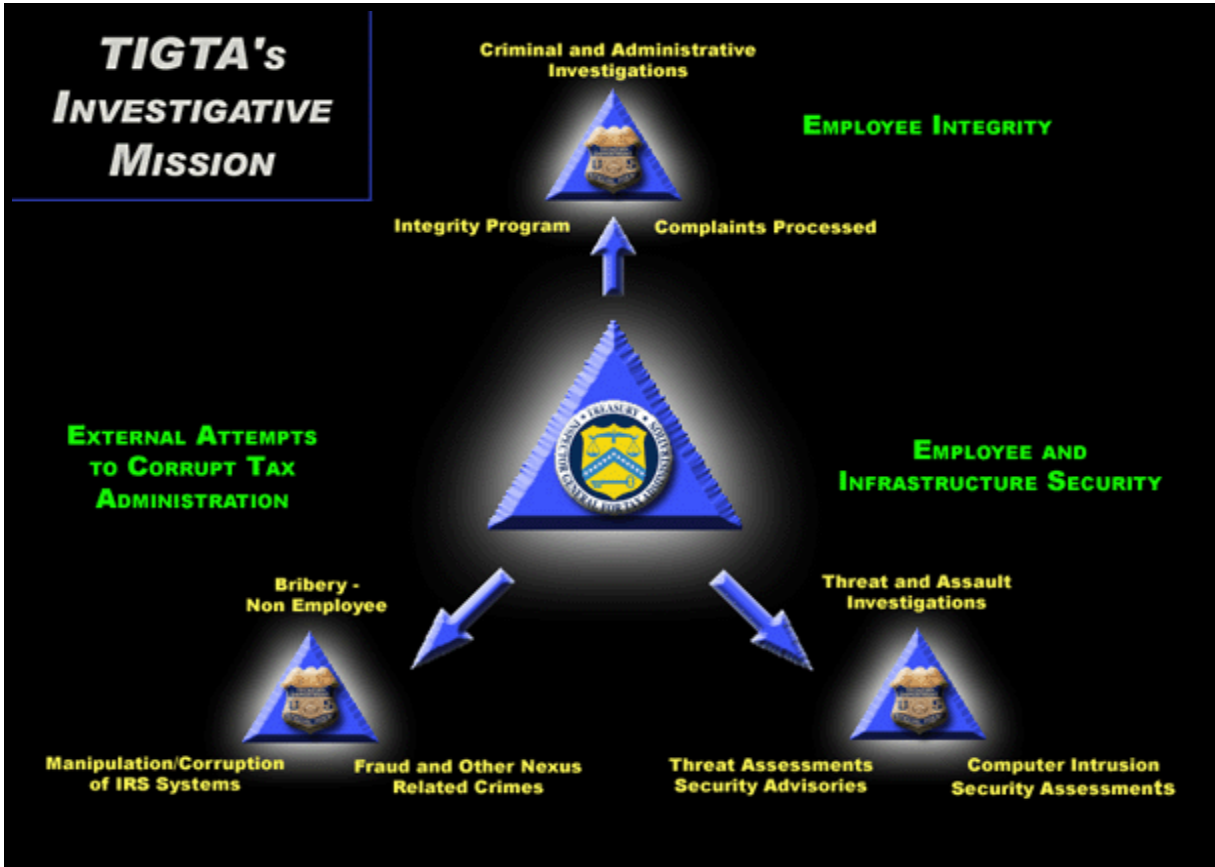


immediately began forming various teams to focus investigative resources on the issue. Identifying, interdicting and mitigating potential threats directed at the IRS and its employees is a huge and sometimes somber responsibility, but it is one at which OI's investigators excel.

With this poignant reminder of the dangers that the IRS and its employees face on a daily basis, we have chosen to highlight TIGTA's efforts in the area of IRS Employee and Infrastructure Security in this Semiannual Report to Congress.



TIGTA's Investigative Performance Model



TIGTA's three investigative responsibilities include employee integrity, employee and infrastructure security, and external attempts to corrupt or threaten tax administration. Each of these focus areas consists of three subcomponents. This performance model serves as the bedrock upon which OI's decision making process rests. The model is crucial in determining how to allocate scarce investigative resources, and it provides a sound conceptual model to ensure that those resources are effectively utilized. The performance model guides field agents and their supervisors in setting investigative priorities, and it informs budgetary planning and decision making throughout the organization.

## **Employee and Infrastructure Security**

Threats to and assaults of IRS employees adversely affect the Federal Government's ability to collect tax revenue. TIGTA protects revenue collection by investigating threats to IRS employees, IRS physical infrastructure, and IRS information systems. TIGTA also conducts threat assessments to determine if individuals or groups may pose a threat to the IRS, its employees or its infrastructure. From October 2009 through March 2010, OI closed 547 assault/threat investigations and threat assessments.

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

### **Man Charged With Making a Threat in Interstate Commerce and Interfering With the Administration of Internal Revenue Laws**

On December 16, 2009, in Utah, Michael Wight was charged with making a threat in interstate commerce and interfering with the administration of internal revenue laws.<sup>10</sup> Wight controls a MySpace page that clearly bears his photograph, confirmed using public record databases, holding a firearm. The MySpace page also contained another photograph showing a number of firearms lying on a bed. Underneath the photograph of the firearms lying on the bed was written "... I also dedicate this to the INTERNAL REVENUE SERVICE ACS Collection Manager [name deleted...]...who steals My money every Month for the last 2 ½ years I got Your Vengeance [sic] and Justice Coming to You all with My Guns...These Guns and others like them will Insure Your Death and the return of Freedom in America!..." The

<sup>10</sup> Source: District of Utah Indictment filed December 16, 2009.

IRS confirmed that the person named in Wight's posted MySpace threat is a real person employed by the IRS.<sup>11</sup>

This case was worked jointly with the Federal Bureau of Investigation.

### **Michael Belair Charged with Making Threats to the IRS**

On September 14, 2009, Michael Belair was charged in Florida with using interstate communications to threaten to injure another person.<sup>12</sup>

On March 19, 2009, the IRS received a letter from Belair that contained several threatening statements. Belair's letter was written in response to official IRS correspondence advising him of an outstanding tax liability.

TIGTA special agents interviewed Belair on April 10, 2009. During the interview, Belair stated "don't ask me to pay this Nazi country, I won't do it." Belair also stated that he had been under tremendous amounts of stress due to an illness, had been frustrated because of his situation with the IRS, and did not care if he were arrested because he was going to die soon anyway. TIGTA special agents advised that he may not threaten the IRS or its employees and that making threats is a violation of Federal law.

On June 26, 2009, the IRS reported receipt of correspondence from Belair dated June 12, 2009. This letter responded to official IRS correspondence advising him that the IRS was going to deduct money from his Social Security benefits in order to pay his

<sup>11</sup> Source: District of Utah Felony Complaint filed December 4, 2009.

<sup>12</sup> Source: Southern District of Florida Criminal Complaint filed September 14, 2009.

tax liability. In the letter Belair stated "...if one cent is deducted from my SS check I am quite certain that I will be outraged and might even be pushed to take this atrocity to the IRS offices and kill myself in the lobby...".

On June 30, 2009, investigators monitored a telephone call between an IRS employee and Belair. During the monitored call, Belair stated: "If one cent is touched from my social security (sic) check, there will be violence." Belair also stated, "I have attempted suicide three times, I'm a loose cannon and people better step off."

On June 30, 2009, TIGTA special agents and Hollywood, Florida police officers contacted Belair. The police officers took Belair into custody for safety reasons and transported him to a hospital for a psychological evaluation.<sup>13</sup>

### Armed Escort Activities

Congressional concern regarding the magnitude of uncollected revenue has prompted the IRS to intensify enforcement activities. Heightened enforcement is likely to cause a rise in external threats to IRS employees and infrastructure. Both TIGTA's proactive and reactive investigations are critical to mitigating future risks. TIGTA maintains IRS employee and infrastructure security by conducting investigations into incidents that threaten IRS employees, facilities, and infrastructure. TIGTA's highest priority complaints involve threats and assaults against IRS employees. TIGTA works aggressively and takes swift action to protect IRS employees, including providing them with armed escorts. In October 2008, the

<sup>13</sup> Source: Southern District of Florida Affidavit in Support of a Criminal Complaint filed September 14, 2009.

*Inspector General Reform Act of 2008*<sup>14</sup> was signed into law, which eliminated the statutory prohibition against TIGTA providing physical security to protect IRS employees against external threats. TIGTA also operates a Criminal Intelligence Program that develops and facilitates pertinent information regarding potential threats to IRS employees and operations. This program includes participation in the Federal Bureau of Investigation-sponsored Joint Terrorism Task Forces nationwide. In addition, TIGTA's System Intrusion and Network Attack Response Team defends against hackers who attempt to compromise the data integrity of taxpayer information stored in IRS computer systems.

TIGTA anticipates that the need for armed escorts may increase over time as the IRS places additional emphasis on collection and enforcement activity. TIGTA special agents are prepared to protect IRS employees and they take this important responsibility very seriously.

Since the elimination of the statutory prohibition against TIGTA providing physical security to protect IRS employees against external threats, TIGTA has conducted 28 armed escort operations; 13 were conducted during the reporting period.

### Employee Integrity Investigations

IRS employee misconduct adversely affects IRS operations and can undermine the public's confidence in the integrity of the IRS itself. TIGTA is charged with investigating IRS employee misconduct, including allegations such as extortion, bribery, theft, abusive treatment of taxpayers, false statements, financial fraud, and unauthorized access (UNAX) to

<sup>14</sup> Public Law No. 110-409, 122 Stat. 4302 (2008).

confidential taxpayer information, whether by IRS employees or contractors.

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

To protect the privacy of taxpayer data, OI's Strategic Enforcement Division (SED) employs a variety of audit trail and forensic data analysis tools to proactively identify potential UNAX violators, and to identify systemic problems or weaknesses. Once SED develops an investigative UNAX lead, it is forwarded to the appropriate OI field office for local investigation. TIGTA's UNAX program conducts investigations of unauthorized access of the Integrated Data Retrieval System (IDRS -- the IRS's primary system of taxpayer records at this time) by utilizing both proactive and reactive methods. During this reporting period, TIGTA has investigated, on average, 22 UNAX cases per month. Of those investigations, more than half are proactively generated utilizing data-correlation techniques by TIGTA's forensic

data analysts. The other investigations are initiated as a result of complaints or allegations made by taxpayers or IRS officials. Of the UNAX investigations proactively generated by TIGTA, over 84 percent result in substantiated UNAX violations. The UNAX allegations that are investigated as a result of taxpayer or IRS management complaints are fully investigated leveraging the forensic data analysts' expertise. Of the UNAX violations investigated during this reporting period, more than 9 percent have an affiliated criminal violation such as identity theft, bribery, and theft of Government funds through improper adjustments of IRS accounts.

During this reporting period, OI completed 832 employee integrity investigations, of which 169 were UNAX investigations. Also, during the same period, OI investigations resulted in 4 criminal prosecutions and 502 administrative disciplinary actions against IRS employees.

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

**Internal Revenue Service Revenue Officer Charged in a \$1,253,481 Tax Evasion Conspiracy**

On March 10, 2010, in Maryland, IRS Revenue Officer Mark Hunt was indicted for conspiracy to defraud, corrupt, endeavor to obstruct or impede the due administration of the internal revenue laws, and making false statements to investigators.

From approximately June 1999 and continuing thereafter until approximately February 2009, Hunt and taxpayers Irvin Catlett, Walter Cullum, and James Unterreiner worked in concert to execute a

tax evasion scheme whereby clients of Catlett's tax return preparation company, Tax Resolutions, Inc., purchased "investments" in various businesses owned by Catlett. These investments were, in fact, payments for the purchase from Catlett of bogus tax losses, which purportedly had been generated by the businesses. Catlett, Cullum, and Unterreiner then included these losses on false and fraudulent tax returns they prepared for their clients. By claiming such losses on their tax returns, Catlett, Cullum, and Unterreiner caused the clients to falsely reduce their amount of taxable income and total tax owed, and caused their clients to claim refunds from the IRS to which they were not entitled. Hunt accessed IRS records and provided Catlett with confidential tax information.

Hunt also showed his IRS Revenue Officer credentials during Catlett's meeting with clients and potential clients and allowed himself to be introduced as the "man on the inside" of the IRS in order to assure those clients and potential clients that the tax returns to be prepared by Tax Resolutions, Inc., would not be the subject of adverse IRS actions. Hunt made false statements to investigators regarding his interactions with Catlett and with his clients. Hunt also made false statements to investigators regarding his accessing taxpayer information without an official business purpose.<sup>15</sup>

This investigation was worked jointly with IRS Criminal Investigation.

### **Fernando Cruz Sentenced for Acceptance of a Gratuity by a Public Official**

On February 24, 2010, Fernando Cruz was sentenced in Nevada to three years of

<sup>15</sup> Source: District of Maryland Indictment filed March 10, 2010.

probation, was ordered to pay restitution in the amount of \$2,837.29, and was ordered to pay a special assessment of \$100.<sup>16</sup>

In June 2008, Cruz, then an IRS Tax Compliance Officer, accepted \$1,000 in cash from a taxpayer and assistance in finding an apartment in exchange for being influenced in performing an audit of a 2006 U.S. Individual Income Tax Return.<sup>17</sup>

### **Fernando Hernandez Enters Into a Plea Agreement for Bribery**

On December 18, 2009, in Texas, Fernando Hernandez entered into a plea agreement to plead guilty to receiving a bribe by a public official. On or about June 3, 2005, Hernandez, then an employee of the IRS, sought and demanded a cash payment of \$2,000 from a taxpayer in return for promising that no representative of the IRS would audit the taxpayer's tax return.<sup>18</sup>

This case was worked jointly with the Federal Bureau of Investigation and Immigration and Customs Enforcement.

### **Jonathan Howell and Bryce Slater Charged with Drug Possession on IRS Property**

On February 23, 2010, Jonathan Howell and Bryce Slater were each charged in Utah with possession of a controlled substance. On or about February 6, 2010, Howell and Slater each possessed a controlled substance while within the IRS Main Center in Ogden Utah.<sup>19</sup>

This case was worked jointly with the Federal Protective Service.

<sup>16</sup> Source: District of Nevada Judgment in a Criminal Case filed March 2, 2010.

<sup>17</sup> Source: District of Nevada Indictment filed October 22, 2008.

<sup>18</sup> Source: Northern District of Texas Plea Agreement and Factual Resume filed December 18, 2009.

<sup>19</sup> Source: District of Utah Information filed February 23, 2010.

**Jenni Caballero Charged with Exceeding Authorized Access to a Computer**

On October 22, 2009, in California, Jenni Caballero was charged with intentionally accessing a computer and exceeding her authorized access. While an employee of the IRS, Caballero accessed electronically stored Federal tax information on the IRS's electronic system 28 times without authorization.<sup>20</sup>

**Christina Maldonado Charged with Exceeding Authorized Access to a Computer**

On October 8, 2009, in California, Christina Maldonado was charged with intentionally accessing a computer and exceeding her authorized access. Maldonado, while an IRS employee, accessed electronically stored Federal tax information on the IRS's electronic system 23 times without authorization.<sup>21</sup>

**Adriana Olivarria Charged with Exceeding Authorized Access to a Computer**

On October 22, 2009, in California, Adriana Olivarria was charged with intentionally accessing a computer and exceeding her authorized access. While an IRS employee, Olivarria accessed electronically stored Federal tax information on the IRS's electronic system 17 times without authorization.<sup>22</sup>

**External Attempts to Corrupt Tax Administration**

External attempts to corrupt the administration of internal revenue laws diminish the IRS's ability to accomplish its

<sup>20</sup> Source: Eastern District of California Information filed October 22, 2009.

<sup>21</sup> Source: Eastern District of California Information filed October 8, 2009.

<sup>22</sup> Source: Eastern District of California Information filed October 22, 2009.

core mission of collecting Federal revenue. TIGTA investigates these external attempts to corrupt or impede the administration of internal revenue laws. Investigations in this area include:

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

During this reporting period, OI completed 268 external attempts to corrupt tax administration investigations. These investigations resulted in 12 criminal prosecutions.

*The following cases are examples of external attempts to corrupt Federal tax administration:*

**Fred Covey Found Guilty of Obstructing the Due Administration of Internal Revenue Laws**

On February 18, 2010, in Idaho, Fred Covey was found guilty by a jury of obstructing the due administration of internal revenue laws.<sup>23</sup>

On September 9, 2009, Fred Covey was indicted in Idaho for interference with internal revenue laws. In 1993, Covey stopped voluntarily filing tax returns as required. On or about March 4, 2005, Covey filed frivolous Uniform Commercial Code (UCC) financial statements against

<sup>23</sup> Source: District of Idaho Special Verdict Form filed February 18, 2010.

three IRS employees, two of whom had been assigned to collect Covey's outstanding tax debt. The UCC filings falsely claimed that each IRS employee was indebted to Covey for \$166,676,468. On or about March 4, 2005, Covey filed a frivolous UCC financial statement against the Secretary of the Treasury falsely claiming that the Secretary of the Treasury was indebted to him for \$177,636,572.04.

On or about November 29, 2005, a U.S. Department of Justice attorney filed a civil complaint against Covey seeking to have the false and frivolous UCC financial statements filed against the IRS employees expunged. Throughout the course of the civil suit, Covey filed in court and mailed frivolous documents claiming that the assigned judicial officer, U.S. Marshal, court clerk and government attorneys had acted improperly, threatening lien filings and purporting to charge hundreds of thousands of dollars for trespassing and incarceration.

On or about February 22, 2009, Covey mailed or caused to be mailed to the IRS a false and fraudulent document purporting to pay his Federal tax debt and demanding that his account be balanced to zero when, in fact, no actual cash or negotiable financial instrument was included in the mailing. On May 29, 2009, Covey hand-delivered to the IRS a false and fraudulent document purporting to pay his outstanding tax debt and demanding that his account be balanced to zero when, in fact, no actual cash or negotiable financial instrument was included in the delivery.<sup>24</sup>

<sup>24</sup> Source: District of Idaho Indictment filed September 9, 2009.

### **Alan Villaroel Sentenced for Filing Fraudulent Tax Lien Releases**

On February 19, 2010, in Florida, Alan Villaroel was sentenced to two years of probation and ordered to pay a special assessment of \$100.<sup>25</sup> From approximately June 8, 2005, and continuing until approximately April 30, 2007, Villaroel obstructed and impeded the due administration of the internal revenue laws by filing four false certificates of release of Federal tax lien.

On approximately June 8, 2005, Villaroel filed a fraudulent certificate of release of Federal tax lien in the amount of \$20,666.66 for a Federal tax lien encompassing the tax years 1998, 1999, and 2001. On approximately October 17, 2006, Villaroel filed two fraudulent certificates of release of Federal tax lien; one in the amount of \$7,888.61 for a Federal tax lien encompassing the tax years 1995 and 1996, and the second in the amount of \$7,976.74 for a Federal tax lien encompassing the tax years 1997 and 2003. On approximately April 30, 2007, Villaroel filed a fraudulent certificate of release of Federal tax lien in the amount of \$10,475.04 for a Federal tax lien encompassing tax year 1994.<sup>26</sup>

### **Bonnie Sharrit Pleads Guilty to False Personation and Wire Fraud**

On February 11, 2010, Bonnie Sharrit pleaded nolo contendere (no contest) to counts 1-13 of a previous indictment.<sup>27</sup>

Sharrit devised a scheme to defraud a victim company by representing to the victim

<sup>25</sup> Source: Middle District of Florida Minutes on Sentencing filed February 19, 2010.

<sup>26</sup> Source: Middle District of Florida Indictment filed July 8, 2009.

<sup>27</sup> Source: District of Massachusetts Clerk Notes from February 11, 2010, Charge of Plea Hearing.



company and its principals that they had certain tax problems resulting in the imposition of government liens and levies and that she could assist in the resolution of such matters based upon her status as a contract auditor for the IRS and her tax expertise.

Through her false representations, Sharrit induced the victim company to retain her to resolve the alleged tax problems. Sharrit then prepared and sent to the victim company numerous fictitious documents purportedly prepared by various State and Federal Government agencies concerning alleged tax issues. Certain of these documents purportedly reflected that Sharrit had made settlement payments to the government in connection with the alleged outstanding tax liabilities.

On at least two occasions, Sharrit traveled to the victim company's offices in Canada where she inspected company documents and met with members of the victim company's board of directors. Sharrit issued at least one invoice and requested advances, expenses and payment of monies to be held in escrow. As a result, Sharrit fraudulently induced the victim company to issue payments to her for claimed expenses, wages, and settlement of outstanding liabilities with various State and Federal government agencies.

The victim company issued payments to Sharrit in the total amount of \$46,687.50. Upon discovery of Sharrit's scheme, the victim company placed stop payment orders in connection with two checks made payable to Sharrit in the total amount of \$26,687.50. Those funds were recovered by the victim company.

Sharrit paid none of the money over to any government agencies on the victim

company's behalf, nor did she perform services for the victim company to resolve any alleged tax problems.<sup>28</sup>

### **Martha Sue Warshaw Sentenced for Obstructing and Impeding the Due Administration of Internal Revenue Laws**

On January 8, 2010, in Florida, Martha Sue Warshaw was sentenced to 18 months in prison, one year of supervised probation and ordered to pay a special assessment of \$100. Warshaw was sentenced on one count of obstructing and impeding the due administration of IRS laws.<sup>29</sup> She prepared and sent fraudulent IRS release-of-levy forms in an attempt to allow her spouse to gain access to funds subject to IRS levies. Warshaw also created and presented to an IRS employee copies of false and fictitious canceled checks payable to the IRS and letters confirming the cashing of the checks as proof of payment of taxes.<sup>30</sup>

### **Man Sentenced for Impersonating a Government Employee and Possession of a Firearm in Furtherance of a Drug Trafficking Crime**

On January 12, 2010, in Kansas, Herb Leeper was sentenced on one count of impersonating an employee of the United States and one count of possession of a firearm in furtherance of a drug trafficking crime.<sup>31</sup> Leeper impersonated an IRS employee and in such pretend character falsely demanded papers, documents, and things of value. Leeper was sentenced to time served and upon release from prison, Leeper shall be on supervised release for a

<sup>28</sup> Source: District of Massachusetts Indictment filed November 2, 2006.

<sup>29</sup> Source: Southern District of Florida Sentencing Document filed January 8, 2010.

<sup>30</sup> Source: Southern District of Florida Plea Agreement filed October 23, 2009.

<sup>31</sup> Source: District Court of Kansas Sentencing Document filed January 12, 2010.

term of five years; he was ordered to pay a \$200 assessment and forfeit \$2,784 in cash.<sup>32</sup>

This case was worked jointly with the United States Marshals Service and the Bureau of Alcohol, Tobacco Firearms and Explosives.

### **Robert Wiegman Sentenced for False Personation of an IRS Officer**

On January 14, 2010, in Georgia, Robert Wiegman was sentenced to 12 months in prison to be followed by one year supervised release and he was ordered to pay a \$100 special assessment.<sup>33</sup> Wiegman had previously pleaded guilty to pretending to be an officer of the IRS, and in such pretend character demanding money from a victim.<sup>34</sup>

### **William Merritt Pleaded Guilty to Attempting to Interfere with Administration of Internal Revenue Laws**

On December 4, 2009, in New Mexico, William “Bill” Merritt pleaded guilty to Count three of a three-count indictment, charging a violation of attempting to interfere with Administration of Internal Revenue Laws. Merritt agreed to pay restitution in the total approximate principal amount of \$311,814.46 to the IRS.

Merritt was an insurance salesman who failed to file Federal income tax returns for the years 1998 through 2004. The IRS prepared substitute for returns (SFRs) for the years 1998 through 2000 and issued statutory notices of deficiency to him for those years. Merritt defaulted on these

notices (he failed to file a petition with the Tax Court within 90 days of the issuance of the notices of deficiency), and the IRS assessed the tax and the additions to the tax identified in the notices of deficiencies.

On May 17, 2004, the IRS issued Notice CP90 (Final Notice – Notice of Intent to Levy and Notice of Your Right to a Hearing) to Merritt indicating that he owed \$154,288.71 for the taxable year 1999 and that the IRS may file a Notice of Federal Tax Lien in order to protect the Government’s interest or take his property or rights to property. In response to the notice, Merritt submitted to the IRS a fictitious financial obligation or “Certified Draft” in the amount of \$154,288.71, as payment for the outstanding tax liability for the taxable year 1999. Merritt submitted the “Certified Draft” on May 24, 2004.

On August 4, 2004, the IRS issued Letter 1058 (Final Notice – Notice of Intent to Levy and Notice of Your Right to a Hearing) to Merritt indicating that he owed \$311,814.46 for the taxable years 1998 through 2000 (\$87,883.26 for 1998, \$156,298.39 for 1999, and \$67,632.81 for 2000) and that the IRS may file a Notice of Federal Tax Lien to protect the Government’s interest or take his property or rights to property. In response to the letter, Merritt submitted to the IRS another fictitious obligation or “Certified Draft” in the amount of \$311,814.46, dated August 12, 2004, as payment for his outstanding tax liabilities for the years 1998 through 2000.

The “Certified Draft” that Merritt submitted on May 24, 2004, as payment for his outstanding tax liability, along with a “letter of advice” to Treasury Secretary John Snow in the amount of \$154,288.71, was fictitious in that it had no financial value or legal validity as determined by the United States Department of Treasury. It contained a non-

<sup>32</sup>Source: District Court of Kansas Superseding Indictment filed July 23, 2008.

<sup>33</sup>Source: Middle District of Georgia Minute Sheet of Sentencing Hearing filed January 14, 2010.

<sup>34</sup>Source: Middle District of Georgia Change of Plea filed October 28, 2009, and Indictment filed February 19, 2009.

existent routing number (printed as if on a check) and a non-existent “Personal Treasury UCC Contract Trust Account” number. The “Certified Draft” that Merritt submitted on August 12, 2004, in the amount of \$311,814.46 to Treasury Secretary Snow was fictitious in the same particulars as the one he submitted on May 24, 2004, and it also had no financial value or legal validity.

While these “Certified Drafts” that Merritt submitted were clearly designed to appear to be legitimate financial instruments, Treasury Department document examiners analyzed the aforementioned instruments and determined that they were without any value whatsoever. The TIGTA Forensic Science Laboratory examined the signatures on the “Certified Drafts” and determined that they were inkjet produced signatures consistent with Merritt’s handwriting samples which he produced on July 18, 2005, pursuant to an IRS summons.<sup>35</sup>

This case was worked jointly with IRS Criminal Investigation Division (CID).

### Tax Practitioner Investigations

In January 2010, the IRS proposed new procedures regarding the regulation of tax practitioners. TIGTA’s OI investigates complaints of unethical practices against practitioners who represent individuals before the IRS and unenrolled tax return preparers. Practitioners are authorized by the IRS to practice or represent taxpayers before the IRS. The regulations governing practitioners are contained in Treasury Department Circular 230, derived from 31 C.F.R. Part 10.

Practitioners include:

- Attorneys;
- CPAs;
- Enrolled agents;
- Enrolled actuaries; and
- Appraisers.

Unenrolled tax return preparers have limited rights to represent taxpayers. The rules governing practice of an unenrolled tax return preparer are set forth in Revenue Procedure 81-38, found in IRS Publication 470. The *Inspector General Act of 1978*, as amended, granted TIGTA investigative authority and responsibility for tax practitioner investigations. The Office of Investigations has initiated tax practitioner investigations at the request of IRS officials; on its own initiative; or in response to complaints received from taxpayers, other individuals, and IRS employees.

OI investigates complaints against:

- Practitioners and unenrolled tax return preparers who attempt to corrupt IRS employees and/or IRS programs that have no employee involvement.
- Practitioners and unenrolled tax return preparers, which also involve alleged misconduct by IRS employees.

Treasury Employee Rules of Conduct require IRS employees to report to TIGTA any alleged criminal misconduct or violation by an IRS employee of Office of Government Ethics (OGE) Standards, Treasury Supplemental Standards or Treasury Employee Rules of Conduct. This includes, but is not limited to, attempts by a practitioner to corrupt an IRS employee or IRS program. IRS employees must report all other allegations concerning unethical practices by a practitioner or unenrolled agent through their supervisory channels.

<sup>35</sup> Source: District of New Mexico Plea Agreement filed December 4, 2009.

*The following cases are examples of a tax practitioner investigation that TIGTA conducted during this period:*

### **Man Sentenced in Scheme to Defraud His Tax Return Customers and the IRS**

On September 2, 2009, in Wisconsin, Terry Stewart was charged in a scheme to defraud both his tax return customers and the IRS.

Stewart worked in the Madison, Wisconsin, area as a self-employed tax return preparer doing business as Madison Urban Tax Service. From approximately January 2007, through approximately June 2007, Stewart devised a scheme to defraud his tax return customers and the IRS.

For the purpose of executing the scheme to defraud, Stewart transmitted via the Internet a series of 19 tax returns to the IRS. In each of these returns, Stewart intentionally made false statements concerning the taxpayer's qualification for the Earned Income Credit, itemized deductions, dependants, and/or income, which triggered a higher tax refund than the taxpayer was entitled to receive.

Stewart had some of his customers' tax refunds issued in the form of refund anticipation loan debit cards. Stewart spent all or part of the value of the debit cards for his own use. Stewart also gave cash or checks to other customers in amounts significantly lower than what they should have received for their tax refunds and then kept the customer's refund.

Stewart stole approximately \$38,000 of the tax refunds that should have been provided to his customers.<sup>36</sup>

<sup>36</sup> Source: Western District of Wisconsin Information filed September 2, 2009.

On February 4, 2010, Stewart pleaded guilty and was sentenced to 24 months in prison, three years of supervised release and ordered to pay \$13,409.75 in restitution and a \$200 assessment.<sup>37</sup>

This case was jointly worked with the IRS's CID.

### **William Murray charged in Scheme to Defraud Tax Preparation Clients**

On February 10, 2010, in California, William Murray was charged with mail fraud as a result of his scheme to defraud, in that he falsely pretended that he was receiving clients' money for the purpose of paying their tax debts and for making investments, when in fact he was using the money for other purposes.

Murray induced approximately 52 tax preparation clients to write their tax payment checks to the Murray & Company Trust Account by falsely assuring them that he would make tax payments to the IRS and the Franchise Tax Board on their behalf. Murray also falsely told 13 of his clients that he would invest money for them if they wrote checks to a U.S. Financial Services account.

Murray caused clients' addresses to be changed with the IRS so that IRS correspondence would be directed to his office. When the IRS sent demands for payment, Murray did not forward that correspondence to the clients. When the IRS contacted clients directly, Murray falsely told the clients that he had paid their taxes as he promised and that the IRS had erred in its accounting. Murray did occasionally pay clients' tax obligations or purport to return their investments. Murray

<sup>37</sup> Source: Western District of Wisconsin Judgment in a Criminal Case filed February 4, 2010.

did this by using money that he received from other clients. Clients received approximately \$3,507,502 in this fashion.

Murray did not pay clients' tax obligations and invest their money as he had represented. Rather, Murray converted their money to his own use. Using client funds, Murray remodeled his residence, funded a limousine business, bought luxury and collectible automobiles, and purchased numerous luxury items. Murray also bought gifts worth tens of thousands of dollars each for a succession of girlfriends. By using false pretenses and representations, Murray induced victims to give him approximately \$13,357,133.<sup>38</sup>

This case was worked jointly with IRS's CID.

### Procurement Fraud Investigations

Contract fraud can be defined as either internal or external corruption of the Federal acquisition process in such a way that the government is harmed through overcharges, unallowable fees, and/or defective products or services. The types of procurement fraud investigations TIGTA conducts include:

- Product Substitution;
- Labor Cost Mischarging;
- Defective Pricing;
- Antitrust Violations; and
- False Claims.

On December 7, 2009, TIGTA's Contract Fraud & Criminal Intelligence Division (CCID) received a civil settlement agreement between the United States Government and Itochu Corporation, which was made in compromise of disputed contractual claims. Under the terms of the

<sup>38</sup> Source: Eastern District of California Information filed February 10, 2010.

agreement, Itochu Corporation made no admission of liability or wrongdoing; however, Itochu Corporation agreed to pay the United States \$6,750,000 to resolve allegations that it had violated the *False Claims Act*.<sup>39</sup>

On February 12, 2010, CCID received a related civil settlement agreement between the United States Government and Lincoln Fabric Corporation which was made in compromise of disputed claims. Under the terms of the agreement, Lincoln Fabric Corporation made no admission of liability or wrongdoing; however, Lincoln Fabric Corporation agreed to pay the United States \$4,000,000 to resolve allegations that it had also violated the *False Claims Act*.<sup>40</sup>

During the course of a CCID procurement investigation, information was developed indicating that the Zylon material used in the manufacture of ballistic vests was defective. The vests had been purchased by TIGTA and issued to law enforcement personnel. They were intended to protect law enforcement officers and agents from potentially deadly gun shot strikes to the torso area. But the ballistic vests were defective. Itochu Corporation is a United States subsidiary of Toyobo Corporation, the inventor of the Zylon fiber. Itochu is based in New York, NY, and is used as the fiduciary entity that facilitated shipping Zylon fiber to the body armor industry in the United States. Itochu Corporation knew that the Zylon material was defective and quickly degraded when exposed to heat, light, and humidity. This defective fiber was used in bulletproof vests sold by Second

<sup>39</sup> Source: Settlement Agreement entered into by Itochu Corporation and the United States Department of Justice December 7, 2009.

<sup>40</sup> Source: Settlement Agreement entered into by Itochu Corporation and the United States Department of Justice February 12, 2010.

Chance Body Armor. The bulletproof vests were purchased by the TIGTA and other Federal law enforcement agencies, as well as State and local law enforcement agencies that were reimbursed with Federal funds.

CCID developed information that Lincoln Fabric Corporation is a Canadian corporation with United States subsidiaries. Lincoln Fabric Corporation is based in St. Catharines Ontario, Canada, and used its manufacturing plant in Geneva, Alabama, to facilitate the weaving of Zylon fabric used by the body armor industry in the United States.

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## Advancing Oversight of America's Tax System

**T**IGTA's Office of Inspections and Evaluations provides responsive, timely, and cost-effective inspections and evaluations of IRS challenge areas, providing TIGTA additional flexibility and capability to produce value-added products and services to improve tax administration.

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

### Inspections:

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

### Evaluations:

- Provide in-depth reviews of specific management issues, policies, or programs;
- Address government-wide or multi-agency issues; and
- Develop recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective procedures.

*The following summaries highlight some of the significant activities I&E has engaged in during this six-month reporting period:*

### Inspection of the Internal Revenue Service's Pandemic Influenza Preparedness Plan Phase I

This inspection determined if the IRS met the requirements directed to Federal agencies in preparing for a potential outbreak of a pandemic influenza like the H1N1 virus.

In 2006, the Homeland Security Council requested that department and agency heads certify that their department or agency was addressing the applicable elements of pandemic planning set forth in a checklist it developed. Since 2006, preparedness efforts have matured and in August, 2008 the checklist was updated to reflect current Federal Government guidance.

The Department of the Treasury used the Homeland Security Council checklist to assess pandemic preparations by each of the Treasury Bureaus. We chose to use the same criteria and share the results of this inspection with the Department of the Treasury's Director, Emergency Programs.

We found that the IRS had addressed the majority of the items on the pandemic checklist issued by the Homeland Security Council. This included prioritizing essential operations in the event of a pandemic outbreak, communicating information to IRS employees, and taking steps to protect their health and safety. However, the IRS did not specifically address items in the checklist related to employees with disabilities, any changes needed with regard to procurements or contractors, teleworking as a response to a potential pandemic, and



adequate tests and exercises for pandemic scenarios.

TIGTA recommended that the IRS Chief, Agency-wide Shared Services should take immediate steps to finalize the items “in process” and address the items in the checklist not yet completed. In their response to this interim report, IRS officials stated that the Director, Physical Security and Emergency Preparedness, Agency-wide Shared Services, had taken action to complete the Homeland Security Council checklist items that were in progress and not yet completed.

**Reference No. 2010-IE-R001**

**The Internal Revenue Service Restructuring and Reform Act of 1998 was Substantially Implemented but Challenges Remain**

This evaluation determined whether the goals of the *IRS Restructuring and Reform Act of 1998* were substantially achieved by the IRS. RRA 98 was broadly scoped legislation with the goal to transform the IRS into a modern financial services organization. This transformation was to be accomplished by providing taxpayers customer service similar to the customer service provided by private-sector financial institutions, including electronic access to customer accounts. The IRS transformation was a massive undertaking that required changes to virtually every aspect of the organization.

RRA 98 required the IRS to change its organizational culture, restructure, modernize, and improve taxpayer protection and rights. With a new focus on taxpayer service, the IRS shifted its emphasis from an enforcement-first culture to a more customer service-oriented culture; made progress in modernizing its business processes and computer systems and provided taxpayers with greater protections and rights. As a

result, taxpayers receive more professional and more courteous service to assist them in complying with the tax law.

During our evaluation, we found that first, the IRS reorganized from a geographically based organization to a customer-based organization structure with four operating divisions, each charged with complete responsibility for serving taxpayers with similar needs. Second, a new mission statement focusing on taxpayer service was developed. To align with the new mission, organizational performance measures were changed to the three equally weighted measures of business results, customer service, and employee satisfaction. In addition, the IRS implemented safeguards to ensure enforcement statistics are no longer used as a basis for employee evaluations.

Third, efforts to modernize computer systems and business processes were also undertaken. With technology changes, the IRS made return filing easier by offering expanded electronic filing, creating an extensive Web site with a broad range of information, and installing a state-of-the-art telephone routing system to more effectively and efficiently answer taxpayer calls. In addition, 71 taxpayer protections and rights required by RRA 98 were engineered into operational processes and procedures. Finally, the IRS emphasized employee engagement throughout the change process. There was a consistent upward trend in employee job-satisfaction survey results that indicates that the IRS is providing a quality work environment.

While the IRS has made significant strides in transforming into a modern financial services organization, major challenges remain. The Business Systems Modernization effort remains a work in progress. In addition, there are human

capital management challenges for issues such as replacing an aging workforce, developing a comprehensive employee-skills-gap assessment, measuring the effectiveness of training, and implementing a performance-based pay system. Finally, in the compliance arena, estimating noncompliance and effectively addressing repeat offenders are continuing challenges.

TIGTA made no recommendations in this report concerning implementation of RRA 98. Management had no comment on the draft report.

**Reference No. 2010-IE-R002**

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## American Recovery and Reinvestment Act of 2009

The *American Recovery and Reinvestment Act* (Recovery Act) was signed into law by President Obama on February 17, 2009. It is intended as an unprecedented effort to jumpstart our economy, create or save millions of jobs, and put a down payment on addressing long-neglected challenges so our country can thrive in the 21st century. The Recovery Act is an extraordinary response to a crisis unlike any since the Great Depression, and includes measures to modernize our Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

Inspectors General are responsible for reviewing agency performance and use of Recovery Act funds. Recovery Act reports produced by Inspectors General are required to be forwarded to the Recovery Accountability and Transparency Board (the Board). The Board is responsible for coordinating and conducting oversight of covered funds in order to prevent waste, fraud, and abuse. The Board is also charged with issuing specific periodic reports and serving as a central repository for all Recovery Act-related Office of Inspector General reports.

The Recovery Act requires each Federal agency that receives Recovery Act funds to designate a Senior Accountable Official for Recovery Act activities. Within TIGTA, that responsibility has been assigned to the Deputy Inspector General for Inspections and Evaluations. The Deputy has overseen the development of TIGTA's Recovery Act work plan and reports on the completion of planned activities and the amount of funds

spent by TIGTA to complete those activities. The Deputy Inspector General also coordinates TIGTA's activities with the Board.

I&E staff administered the Board's first coordinated survey of Agency Contracting and Grants staff qualifications. The results of this survey were posted on [Recovery.gov](http://Recovery.gov) in November 2009.

OA's Oversight Program plan identifies its planned actions to address the Recovery Act. OA reviewed the Recovery Act legislation, the Office of Management and Budget Implementing Guidance, and summaries of key IRS-related provisions prepared by the Senate Finance and House Ways and Means Committees, IRS Web sites, and the Department of the Treasury Recovery Act Program information in determining the scope of the Recovery Act on tax administration. This plan is expected to evolve over the next four and one-half years and will be updated periodically to reflect OA's current Recovery Act actions.

*The following summaries highlight the Recovery Act ongoing and/or completed audits and evaluations completed by OA and I&E during this six-month reporting period:*

### **IRS's Implementation of the OMB Guidelines for Recovery Act of 2009**

The Office of Management and Budget (OMB) issued two memoranda<sup>41</sup> that provided guidance for carrying out and reporting on the programs and activities

<sup>41</sup> M-09-10, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009, February 18, 2009 and M-09-15, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009, April 3, 2009.

enacted in the Recovery Act to effectively manage activities under the Recovery Act. TIGTA's review concentrated on the following:

- Transparency and reporting;
- Information collection and dissemination;
- Budget execution; and
- Risk management.

The IRS has implemented a comprehensive process that is compliant with OMB's guidance for the Recovery Act. The IRS has the reporting processes in place that should address OMB's requirements. The IRS says these processes will allow for transparency and accountability in the use of Recovery Act administrative funds and will provide IRS the ability to identify and track these expenditures separately from its regular appropriations. IRS has also submitted the required weekly reports summarizing administrative costs incurred. TIGTA made no recommendations in this report.

**Reference No. 2010-IE-R004**

#### **Observations About Annual Dollar Limits for American Recovery and Reinvestment Act of 2009 Bonds**

The Recovery Act authorizes State and local governments to issue more than \$45 billion in new bonds, some with tax incentives to bond issuers or bondholders, and some with volume caps on the dollar amounts that can be issued. The Tax Exempt Bonds office will need to be vigilant to ensure that Recovery Act bonds are not issued in excess of annual limits. If annual limits are exceeded, the Federal Government risks losing future tax revenue because excess Recovery Act bonds may not be eligible for tax credits or may be taxable. Due to the challenging economic times the country is facing, it is even more

important that the IRS remain vigilant in ensuring that dollar limitations for bonds are not exceeded as the Federal Government works to stimulate the economy.

There were no recommendations in this report. IRS management reviewed the report before it was issued and offered clarifying comments and suggestions, which I&E took into account.

**Reference No. 2010-11-016**

#### **Millions of Taxpayers May Be Negatively Affected by the Reduced Withholding Associated with the Making Work Pay Credit**

The Making Work Pay Credit is to be advanced to taxpayers through their wages by a decrease in Federal income tax withholding. This creates the vulnerability that some taxpayers may have their taxes underwithheld at the end of tax years 2009 and 2010. If taxpayers are advanced more of the Making Work Pay Credit than they are entitled to, they may ultimately owe taxes when filing their tax years 2009 and 2010 tax returns and may be assessed estimated tax penalties.

TIGTA recommended that the IRS:

- Increase media coverage and consider other forms of advertisement in addition to the mediums already being used and to the extent possible, target these communications to taxpayers who may be adversely affected by underwithholding as a result of the Making Work Pay Credit; and
- Authorize the use of the withholding tables that were in effect prior to the enactment of the Recovery Act for pension payments to help prevent a significant number of pensioners

from being negatively affected by the Making Work Pay Credit.

IRS management agreed with the first recommendation and the importance and value of exploring every avenue for communicating to the public about the Making Work Pay Credit. The IRS plans additional communication efforts. The IRS, however, did not agree with the second recommendation and stated that the procedure published in May 2009 that may be used by pension plan administrators to adjust the withholding on pension distributions to retirees who are not eligible for the Making Work Pay Credit approximated the withholding rate schedules used prior to the enactment of the Making Work Pay Credit. The IRS stated that providing additional sets of withholding tables would be burdensome, costly, and confusing for the IRS, taxpayers, and employers.

TIGTA disagreed with the IRS. The recommendation made by TIGTA to allow pension plan administrators to use the withholding tables which were in place prior to the implementation of the Recovery Act rather than two sets of tables would significantly reduce the burden the IRS is now placing on these taxpayers and would be consistent with the process being used by the Federal Government's Office of Personnel Management.

**Reference No. 2010-41-002**

### **Evaluation of the Internal Revenue Service's Capability to Ensure Proper Use of Recovery Act Funds**

The Recovery Act contains 56 tax provisions, 20 individual taxpayer provisions, and 36 business taxpayer provisions. The individual taxpayer provisions will cost nearly \$252 billion and

provide tax relief to working or retired Americans and their families. The business taxpayer provisions will cost more than \$74 billion and provide several tax relief incentives for businesses. The IRS is unable to verify eligibility for the majority of Recovery Act benefits at the time a tax return is processed.

TIGTA did not include recommendations in this report, but has ongoing and planned audits that will focus on specific Recovery Act benefits and credits. It will include recommendations as appropriate as part of these reviews.

The IRS did not provide a written response to this report.

**Reference No. 2010-41-011**

### **Interim Results of the 2010 Filing Season**

The filing season is critical for the IRS because it is the time when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures.

As of March 5, 2010, the IRS received nearly 61.3 million tax returns. Of those, 51.6 million were electronically filed (approximately equal to this time last year) and nearly 9.7 million were filed on paper (a decrease of almost 20 percent from this time last year). The IRS issued nearly 52 million refunds totaling roughly \$160.2 billion.

The IRS recognized the difficulty taxpayers may have in claiming new credits and/or deductions. In an attempt to reduce this difficulty, the IRS created new forms, schedules, and instructions. The IRS also developed programming to identify taxpayers who may not have claimed credits to which they were entitled at the time they filed their tax returns. In addition, expanded

math error authority is enabling the IRS to stop the erroneous claiming of credits/deductions. However, implementing new tax legislation is still presenting some challenges for the IRS, which has resulted in the following:

- Increases in error inventories resulting from taxpayers' errors;
- Delays in completing programming resulting in the inability to process tax returns with First-Time Homebuyer Credit claims until February 16, 2010;
- Payment of \$24.2 million in erroneous Making Work Pay and Government Retiree Credits; and
- The inability to identify and prevent erroneous claims at the time tax returns are processed, resulting in more than \$4.7 million in erroneous Plug-in Vehicle Credits.

Moreover, errors are hindering the success of IRS processing of individual tax returns via its modernized e-file system.

In addition, as of March 5, 2010, the IRS had identified 119,484 tax returns with \$733,195,576 claimed in fraudulent refunds. It prevented the issuance of \$720,596,970 (98 percent) of the fraudulent refunds being claimed. Finally, from the beginning of the 2010 Filing Season, taxpayer demand for toll-free telephone assistors has been higher than planned. The IRS stated that call demand is higher because more taxpayers than planned are calling to ask account-related questions. It has received more calls from individuals who owe taxes and believes the economic downturn is part of the reason.

As of March 6, 2010, the IRS provided 960,161 services on the Individual Master File Balance Due application, which is 243,983 (34 percent) more than the 716,248 services it provided for the same period last year.

This report was prepared to provide interim information only. Therefore, no recommendations were made in the report.

**Reference No. 2010-41-047**

### **Initial Published Guidance for Recovery Act Bonds Was Complete, Accurate, and Consistent**

The Recovery Act authorizes new and expanded bond financing subsidies of more than \$57.8 billion. However, this figure could be much higher because one type of tax credit bond, known as Build America Bonds, was not given a limit. These financing subsidies enable State and local governments to borrow at lower costs for capital projects and also target programs for schools and energy projects. The IRS quickly published guidance to help bond issuers understand how to issue tax-exempt and tax credit bonds intended to stimulate the economy by preserving and creating jobs.

TIGTA made no recommendations in this report; however, key IRS management officials reviewed it prior to issuance and agreed with the facts and conclusions presented in the report.

**Reference No. 2010-11-035**

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## Congressional Testimony

**D**uring this reporting period, Inspector General J. Russell George provided testimony to Congress regarding the IRS's efforts to administer the First-Time Homebuyer Credit.

### Administration of the First-Time Homebuyer Credit

On October 22, 2009, Mr. George provided testimony to the House Ways and Means Subcommittee on Oversight regarding the IRS's administration of the First-Time Homebuyer Credit (the Credit) and TIGTA recommendations to improve the efficiency of the IRS's implementation of the Credit.

With the passage of the *Housing and Economic Recovery Act of 2008*, the First-Time Homebuyer Credit was created and the IRS was charged with ensuring the Credit was appropriately claimed and properly administered. The *American Recovery and Reinvestment Act of 2009* extended and expanded the Credit, increasing the responsibility of the IRS and the need for effective oversight.

In his testimony, Mr. George noted that the Recovery Act mandates TIGTA to oversee the IRS's efforts on all Recovery matters, including the implementation of Recovery tax credits. His testimony discussed how the IRS had allowed thousands of taxpayers to claim millions of dollars in First-Time Homebuyer Credits to which they were not entitled. Mr. George stated that key controls were missing to prevent individuals from erroneously or fraudulently claiming the Credit and receiving erroneous refunds of up to \$8,000.

Mr. George's testimony expressed concern about the IRS's ability to verify eligibility and discussed TIGTA's key audit findings: among them, that some taxpayers claimed the Credit for homes which they have not yet purchased, and others claimed the Credit despite indications they were not first-time homebuyers. He brought to the attention of Congress the fact that individuals as young as four years old had erroneously received the Credit.

Mr. George said that he is pleased to see that the IRS agreed to improve its controls in response to TIGTA's findings, and assured Congress that the bureau will continue to provide oversight of the IRS's efforts. He noted that the next report assessing the administration of the Credit will be issued in spring 2010. As a result of Mr. George's testimony, Congress incorporated TIGTA's recommendations when it voted to extend the Credit until April 2010.

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## An Organization that Values Its People

**T**IGTA is challenged to maintain its “Best Places to Work” status and will streamline processes, utilize distributed work teams and prototype new technologies and methodologies to meet this challenge. TIGTA recognizes and rewards employees for their contributions toward achieving the organization’s priorities and outcomes.

On January 26, 2010, the Inspector General J. Russell George recognized the exemplary achievements of TIGTA employees through the *2009 Inspector General Award Program*. Each recipient was recognized for his or her commitment to excellence in public service on behalf of TIGTA, exemplifying the true characteristics of the award criteria. The recipients' accomplishments demonstrate high mission impact; major contributions to customers and stakeholders; ingenuity and innovation; and significant quantifiable results. There were four individual award recipients (Angela Druen, Robert Courtenay, William Coull, and Amy Peters Jones); four group awards from the Office of Audit (Tax Return Preparer Strategy Team, Individual Taxpayer Identification Number Team, Questionable Refund Program II Team, and CADE/AMS Security Audit Team); two group awards from the Office of Investigations (Training Team and BNT Investigation); one group award each from the Office of Inspections and Evaluations (Tax Assistance Center Inspection Team) and Office of Mission Support-Human Capital (Personnel Security Team). Below are some pictures taken during the ceremony.

Office of Investigation  
(Individual Award Recipient)



(Left to right) - Joseph Hungate, Principal Deputy Inspector General; J. Russell George, Inspector General; Special Agent Angela Druen; and Steven Jones, Deputy Inspector General for Investigations

Office of Investigation  
(Individual Award Recipient)



(Left to right) - Joseph Hungate, Principal Deputy Inspector General; J. Russell George, Inspector General; Special Agent William Coull; and Steven Jones, Deputy Inspector General for Investigations

**Office of Audit  
(Recipient for Group Award)**



(Left to right) - Joseph Hungate, Principal Deputy IG; J. Russell George, Inspector General; Paula Johnson, (accepting the IG Award on behalf of the Tax Return Preparer Strategy Team); and Michael Phillips, Deputy Inspector General for Audit

**Office of Audit  
(Recipient for Group Award)**



(Left to right) - Joseph Hungate, Principal Deputy IG; J. Russell George, Inspector General; Jeff K. Jones, (accepting the IG Award on behalf of the Questionable Refund Program II Team); and Michael Phillips, Deputy Inspector General for Audit

**Office of Audit  
(Recipient for Group Award)**



(Left to right) - Joseph Hungate, Principal Deputy IG; J. Russell George, Inspector General; Sharon Buford, (accepting the IG Award on behalf of the Individual Taxpayer Identification Number Team); and Michael Phillips, Deputy Inspector General for Audit

**Office of Audit  
(Recipient for Group Award)**



(Left to right) - Joseph Hungate, Principal Deputy IG; J. Russell George, Inspector General; Kent Sagara, (accepting the IG Award on behalf of the CADE/AMS Security Audit Team); and Michael Phillips, Deputy Inspector General for Audit

**Office of Investigation  
(Recipient for Group Award)**



(Left to right) - Joseph Hungate, Principal Deputy IG; J. Russell George, Inspector General; Michael Radetic, (accepting the IG Award on behalf of the Office of Investigations Training Team); and Steven Jones, Deputy Inspector General for Investigations

**Office of Investigation  
(Recipient for Group Award)**



(Left to right) - Joseph Hungate, Principal Deputy IG; J. Russell George, Inspector General; Special Agents Michael Isenberg and Anthony Kordich, BNT Investigation; and Steven Jones, Deputy Inspector General for Investigations

**Office of Inspections and Evaluations  
(Recipient for Group Award)**



(Left to right) - Joseph Hungate, Principal Deputy IG; J. Russell George, Inspector General; James Douglas (accepting the IG Award on behalf of the Tax Assistance Center Inspection Team); and David Holmgren, Deputy Inspector General for Inspections and Evaluations

**Office of Mission Support -  
Human Capital  
(Recipient for Group Award)**



(Left to right) - Joseph Hungate, Principal Deputy IG; J. Russell George, Inspector General; Michael O'Halloran (accepting the IG Award on behalf of the Personnel Security Team); and Larry Koskinen, Associate Inspector General for Mission Support



## Audit Statistical Reports Reports with Questioned Costs

TIGTA issued no audit reports with questioned costs during this semiannual reporting period.<sup>1</sup> The phrase “questioned costs” means costs that are 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.

<b>Reports With Questioned Costs</b>			
<b>Report Category</b>	<b>Number</b>	<b>Questioned Costs (in thousands)</b>	<b>Unsupported Costs (in thousands)</b>
1. Reports with no management decision at the beginning of the reporting period	7	\$165,522	\$82,147
2. Reports issued during the reporting period	0	\$0	\$0
<b>3. Subtotals (Item 1 plus Item 2)</b>	<b>7</b>	<b>\$165,522</b>	<b>\$82,147</b>
4. Reports for which a management decision was made during the reporting period. <sup>2,3</sup>			
a. Value of disallowed costs	1	\$48	\$0
b. Value of costs not disallowed	1	\$55	\$0
<b>5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)</b>	<b>6</b>	<b>\$165,418</b>	<b>\$82,147</b>
6. Reports with no management decision within six months of issuance	6	\$165,418	\$82,147

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

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

<sup>3</sup> Includes one report in which IRS management allowed part of the questioned cost.

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

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

- Reductions in outlays;
- 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.

<b>Reports With Recommendations That Funds Be Put To Better Use</b>		
<b>Report Category</b>	<b>Number</b>	<b>Amount (in thousands)</b>
1. Reports with no management decision at the beginning of the reporting period	0	\$0
2. Reports issued during the reporting period	1	\$69,989
<b>3. Subtotals (Item 1 plus Item 2)</b>	<b>1</b>	<b>\$69,989</b>
4. Reports for which a management decision was made during the reporting period		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	1	\$69,989
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	0	\$0
<b>5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)</b>	<b>0</b>	<b>\$0</b>
6. Reports with no management decision within six months of issuance	0	\$0

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

## Reports with Additional Quantifiable Impact on Tax Administration

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

*Definitions of these additional measures are:*

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

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

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

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

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

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

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

**Protection of Resources:** Safeguarding human and capital assets, used by or in the custody of the organization, from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation.



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

<b>Reports With Additional Quantifiable Impact On Tax Administration</b>			
<b>Outcome Measure Category</b>	<b>Number of Reports<sup>1</sup></b>	<b>Number of Taxpayer Accounts</b>	<b>Dollar Value (in thousands)</b>
Increased Revenue	8	912,274	\$ 1,918,875
Revenue Protection	2	905	\$ 2,941,388
Reduction of Burden on Taxpayers	5	231,565	
Taxpayer Rights and Entitlements at Risk	3	356,553	\$ 197
Taxpayer Privacy and Security	2	158,879	
Inefficient Use of Resources	3	14,600	\$ 34,242
Reliability of Management Information	6		
Protection of Resources	0		

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

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

- Increased Revenue: Reference Numbers 2010-10-018, 2010-30-024, 2010-30-023, 2010-30-025, & 2010-40-030;
- Taxpayer Burden: Reference Number 2010-40-032;
- Taxpayer Rights and Entitlements at Risk: Reference Number 2010-30-019;
- Reliability of Information: Reference Number 2010-40-005; and
- Inefficient Use of Resources: Reference Numbers 2010-30-029, 2010-40-033, & 2010-40-045.

The following reports contained quantifiable impacts other than the number of taxpayer accounts and dollar value:

- Reliability of Management Information: Reference Numbers 2010-40-005, 2010-10-018, 2010-30-019, 2010-30-029, 2010-10-037, and 2010-40-042.

## Investigations Statistical Reports

<b>Significant Investigative Achievements</b>	
<b>October 1, 2009 – March 31, 2010</b>	
<b>Complaints/Allegations Received by TIGTA</b>	
Complaints against IRS Employees	2,287
Complaints against Non-IRS Employees	2,467
<b>Total Complaints/Allegations</b>	<b>4,754</b>
<b>Status of Complaints/Allegations Received by TIGTA</b>	
Investigations Initiated	1,590
In Process within TIGTA <sup>1</sup>	492
Referred to IRS for Action	578
Referred to IRS for Information Only	742
Referred to a Non-IRS Entity <sup>2</sup>	6
Closed with No Referral	1,061
Closed with All Actions Completed	285
<b>Total Complaints</b>	<b>4,754</b>
<b>Investigations Opened and Closed</b>	
Total Investigations Opened	1,913
Total Investigations Closed	1,638
<b>Financial Accomplishments</b>	
Embezzlement/Theft Funds Recovered	\$6,502,973
Court Ordered Fines, Penalties, and Restitution	\$15,081,256
Out-of-Court Settlements	0
<b>Total Financial Accomplishments</b>	<b>\$21,584,049</b>

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

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

Note: The IRS made 75 referrals to TIGTA that would more appropriately be handled by the IRS, and therefore were returned to the IRS. These are not included in the total complaints shown above.

<b>Status of Closed Criminal Investigations</b>			
<b>Criminal Referrals<sup>1</sup></b>	<b>Employee</b>	<b>Non-Employee</b>	<b>Total</b>
Referred – Accepted for Prosecution	31	59	90
Referred – Declined for Prosecution	278	264	542
Referred – Pending Prosecutorial Decision	28	77	105
<b>Total Criminal Referrals</b>	<b>337</b>	<b>400</b>	<b>737</b>
<b>No Referral</b>	<b>465</b>	<b>476</b>	<b>941</b>

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

<b>Criminal Dispositions<sup>2</sup></b>			
	<b>Employee</b>	<b>Non-Employee</b>	<b>Total</b>
Guilty	24	51	75
Nolo Contendere (no contest)	1	2	3
Pre-trial Diversion	1	5	6
Deferred Prosecution <sup>3</sup>	2	2	4
Not Guilty	0	3	3
Dismissed <sup>4</sup>	3	5	8
<b>Total Criminal Dispositions</b>	<b>31</b>	<b>68</b>	<b>99</b>

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

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

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

<b>Administrative Dispositions on Closed TIGTA Investigations<sup>5</sup></b>	
	<b>Total</b>
Removed, Terminated or Other	321
Suspended/Reduction in Grade	108
Oral or Written Reprimand/Admonishment	113
Closed – No Action Taken	62
Clearance Letter Issued	72
Employee Resigned Prior to Adjudication	89
Non-Internal Revenue Service Employee Actions <sup>6</sup>	370
<b>Total Administrative Dispositions</b>	<b>1,135</b>

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

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

## Appendix I

### Statistical Reports - Other

### Audit Reports with Significant

### Unimplemented Corrective Actions

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

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2001-30-052	Tax Compliance Initiatives	March 2001	12/15/10	<p><b><i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i></b></p> <p><u>F-3, R-1, P-1, P-2.</u> Improve systems that process data the IRS receives on foreign sourced income.</p>
2004-20-131	Security of the IRS	September 2004	04/30/12	<p><b><i>The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness</i></b></p> <p><u>F-2, R-4, P-1.</u> Develop and implement a reasonable approach for reviewing audit trails over major applications.</p>
2005-40-026	Providing Quality Taxpayer Service Operations	February 2005	12/31/10 12/31/10	<p><b><i>Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.gov Need Improvement</i></b></p> <p><u>F-1, R-1, P-4.</u> Develop a process to ensure that only authorized personnel have access to IRS.gov content.</p> <p><u>F-1, R-2, P-1, P-2.</u> Enhance the IRS's content management software application to provide the ability to identify specific content accessed or revised by individual users.</p>
2005-20-024	Security of the IRS	March 2005	12/31/10	<p><b><i>The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses</i></b></p> <p><u>F-1, R-1, P-1, P-5.</u> Report a disaster recovery program material weakness to the Department of the Treasury as part of the IRS's <i>Federal Managers' Financial Integrity Act of 1982</i> annual evaluation of controls and include any new or currently underway activities in the corrective action plan.</p>
2005-10-107	Human Capital	July 2005	05/15/10 05/15/10	<p><b><i>Improved Policies and Guidance Are Needed for the Telework Program</i></b></p> <p><u>F-1, R-1, P-1.</u> Ensure an IRS-wide Flexiplace Program policy is developed and implemented that addresses all the elements recommended by the Office of Personnel Management.</p> <p><u>F-2, R-2, P-1.</u> Ensure Flexiplace Program training is provided as needed to help address productivity concerns.</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.)
2005-10-129	Providing Quality Taxpayer Service Operations	September 2005	05/31/10	<b><i>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program</i></b>  F-1, R-1, P-2. Establish goals and performance measures for the Low Income Taxpayer Clinic program to assist the Congress and IRS in evaluating the success of the program.
2005-30-154	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2005	04/15/10	<b><i>The Clarity of Math Error Notices Has Been Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices</i></b>  F-1, R-2, P-1. Revise tax statement tables contained on notices to include specific amounts from at least some line items on which taxpayers made errors on their tax returns.
2007-30-062	Tax Compliance Initiatives	March 2007	P-1: 01/15/11 P-2: 07/15/11	<b><i>Social Security and Medicare Taxes Are Not Being Properly Assessed on Some Tips and Certain Types of Wage Income</i></b>  F-3, R-2, P-1, P-2. Develop a compliance program to help ensure that only qualifying individuals use the new form to report wage income and that the appropriate amounts of Social Security and Medicare taxes are assessed for self-employed taxpayers or employers that are misclassifying their employees.
2007-10-082	Tax Exempt Organizations	May 2007	01/31/10	<b><i>Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified</i></b>  F-1, R-1, P-1. Develop and implement a long-term strategy to automate the matching of Forms 1023 and 990 information against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations.
2007-20-121	Systems Modernization of the IRS	August 2007	12/31/10	<b><i>Annual Assessment of the Business Systems Modernization Program</i></b>  F-1, R-1, P-1. Continue to address Modernization program corrective actions from TIGTA and Government Accountability Office reports through the Highest Priority Initiatives process.
2008-40-087	Complexity of the Tax Law	March 2008	12/15/11 03/15/11	<b><i>Individual Retirement Account Contributions and Distributions Are Not Adequately Monitored to Ensure Tax Compliance</i></b>  F-1, R-1, P-1. Analyze Forms 5498 to identify the causes of the errors and possible corrective actions. F-3, R-2, P-1. Consider requiring custodians to report estimated required minimum distribution amounts on the Form 5498.
2008-40-167	Tax Compliance Initiatives	August 2008	05/15/10 12/15/10 12/15/13	<b><i>The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed</i></b>  F-1, R-2, P-2. Develop employer examination criteria for referring those employers that did not follow lock-in-letter instructions. F-1, R-4, P-1. Research and develop criteria to expand the use of the Form W-4 civil penalty beyond the current limitation of referrals and special projects. F-2, R-1, P-1. Create a single data entry point for processing Withholding Compliance Program cases, and provide lock-in-letter issuance authority to other IRS functions.

**TIGTA Semiannual Report to Congress**

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2008-40-171	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2008	06/15/10	<b><i>Most Tax Returns Prepared By a Limited Sample of Unenrolled Preparers Contained Significant Errors</i></b>  F-1, R-1, P-1. Develop and require a single identification number to control and monitor all paid preparers.
2008-40-180	Tax Compliance Initiatives	September 2008	09/15/11	<b><i>Most Automated Underreporter Notices Are Correct; However, Additional Oversight Is Needed</i></b>  F-1, R-2, P-1. Simplify the Computer Paragraph 2000 notices issued by the Automated Underreporter Program.
2009-40-024	Erroneous and Improper Payments	December 2008	12/15/11	<b><i>The Earned Income Program Has Made Advances, However, Alternatives To Traditional Compliance Methods Are Needed to Stop Billions of Dollars in Erroneous Payments</i></b>  F-1, R-1, P-1. Conduct a study to identify alternative processes that will expand the IRS's ability to effectively and efficiently identify and adjust erroneous Earned Income Tax Credit (EITC) claims for which data show that the taxpayer does not meet the EITC requirements.
2009-40-032	Taxpayer Protection and Rights	February 2009	06/15/10	<b><i>The Process Taxpayers Must Use to Report Complaints Against Tax Return Preparers Is Ineffective and Causes Unnecessary Taxpayer Burden</i></b>  F-2, R-1, P-1. Develop a form, both web-based and paper, specifically for tax return preparer complaints that routes to the correct function based on type of tax return preparer and includes the items necessary for the IRS to appropriately evaluate the complaint.
2009-10-039	Taxpayer Protection and Rights	February 2009	07/15/10	<b><i>Tax Practitioners Promoting Abusive Tax Shelters Are Still Able to Represent Taxpayers Before the Internal Revenue Service</i></b>  F-1, R-6, P-1. Develop a methodology to perform proactive analyses of information available from IRS functions to identify and appropriately address licensed tax practitioners engaged in potentially disreputable activity.
2009-10-041	Human Capital	February 2009	04/15/10 P-1, P-3: 02/15/11 P-2: 11/15/10	<b><i>Workforce Planning Efforts Are Hindered by Lack of Comprehensive Information on Employee Skills Levels</i></b>  F-1, R-1, P-1. Develop a workable process that can be used for the agency-wide skills gap assessment of Mission Critical Occupations. F-1, R-2, P-1, P-2, P-3. Develop a detailed plan to guide the IRS's overall skills gap assessment effort and coordinate the multifunctional participation necessary to ensure the success of the effort.
2009-30-059	Taxpayer Protection and Rights	May 2009	10/15/10  03/15/10	<b><i>Increased Management Oversight of the Sensitive But Unclassified Waste Disposal Process Is Needed to Prevent Inadvertent Disclosure of Personally Identifiable Information</i></b>  F-1, R-2, P-1. Revise the IRM with regard to mandating site visits to shred/burn facilities and establishing minimum standards for: the performance of site visits; the documentation required; and maintenance of these files. F-3, R-1, P-1, P-2. Provide complete and accurate guidance and education regarding the safeguarding and proper disposal of sensitive data.

**TIGTA Semiannual Report to Congress**

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2009-30-068	Taxpayer Compliance Initiatives	May 2009	02/15/10 03/15/11	<b><i>Expanded Information Reporting Should Increase the Proper Reporting of Farm Income, But Additional Steps Could Be Taken</i></b>  <u>F-1, R-1, P-1.</u> Coordinate with the United States Department of Agriculture officials to minimize the number of information returns submitted with mismatched names and identification numbers. <u>F-2, R-1, P-1.</u> Develop compliance strategies for ensuring more Commodity Credit Corporation income payments are properly reported.
2009-30-076	Providing Quality Taxpayer Service	May 2009	04/15/10	<b><i>Elderly Taxpayers Would Benefit by the Internal Revenue Service and Tax Professionals Partnering to Reduce Unnecessary Filings</i></b>  <u>F-1, R-1, P-1.</u> Ensure consistency between the IRS's public Web site and written products by reviewing and, if necessary, revising the IRS's most common publications and Form 1040/1040A instructions.
2009-20-071	Systems Modernization of the IRS	June 2009	06/01/10 02/01/10	<b><i>Modernization Program Uncertainties Are Affecting the Account Management Services Project Development</i></b>  <u>F-2, R-1, P-1.</u> Propose modernization task orders with the ability to readily account for system development activity funding on a release basis, and, for major modernization development projects, on a milestone basis. <u>F-2, R-2, P-1.</u> Reinforce governance procedures to managers about release-specific project funding, the need to gain approval of funding reallocations, and requirements to communicate these changes to stakeholders.
2009-40-087	Taxpayer Protection and Rights	June 2009	08/15/10 12/15/10	<b><i>Inadequate Management Information Has Adversely Affected the Acceptance Agent Program</i></b>  <u>F-1, R-1, P-1.</u> Ensure that the Real-Time System is modified to generate periodic and regular reports, including ad hoc reports that can be timely generated when necessary. <u>F-1, R-2, P-1.</u> Develop procedures and internal controls to monitor the Acceptance Agent Program to ensure all rules and regulations are being followed and the Program is operating as intended.
2009-10-095	Improving Performance and Financial Data for Program and Budget Decisions	July 2009	07/15/10 07/15/10 07/15/10	<b><i>An Improved Project Management Process Is Needed to Measure the Impact of Research Efforts on Tax Administration</i></b>  <u>F-1, R-1, P-1.</u> Develop and implement effective business measures to better assess whether IRS research efforts achieve program objectives and show their impact on improving tax administration. <u>F-2, R-1, P-1.</u> Establish research standards and practices that define what activities constitute a research project and specify the required documentation that should be prepared and maintained for all research projects. <u>F-3, R-1, P-1.</u> Develop guidance to ensure basic project management information is captured, tracked, monitored, and allows for consistent and comparable reporting of IRS research efforts.
2009-10-096	Taxpayer Compliance Initiatives	July 2009	06/10/10 06/15/10	<b><i>A Corporate Approach Is Needed to Provide for a More Effective Tax-Exempt Fraud Program</i></b>  <u>F-1, R-1, P-1.</u> Develop and implement a corporate fraud approach with centralized oversight for the Tax Exempt and Government Entities (TE/GE) Division. <u>F-1, R-2, P-1.</u> Ensure that all TE/GE offices follow IRS procedures and contact the Small Business/Self-Employed Fraud Office to determine whether cases with affirmative indications of fraud should be pursued as fraud development cases.

**TIGTA Semiannual Report to Congress**

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2009-40-098	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	July 2009	08/15/10 07/15/10 08/15/10	<b><i>Inadequate Data on Paid Preparers Impedes Effective Oversight</i></b>  F-1, R-1, P-1. Establish a requirement that paid preparers be compliant with their own Federal tax filing requirements in order to be allowed to prepare tax returns for others for a fee. F-2, R-2, P-1. Develop a method that imposes a penalty on preparers who do not provide an identification number on tax returns they prepare. F-2, R-3, P-1. Develop a comprehensive data management system that allows the IRS, at a minimum, to determine the population of preparers by eliminating discrepancies and duplicates between systems.
2009-10-107	Improving Performance and Financial Data for Program and Budget Decisions	July 2009	02/15/10 06/15/10 P-1: 01/15/11 P-2: 07/15/10	<b><i>Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases</i></b>  F-1, R-1, P-1. Develop an overall estimate of planned hiring by location for FY 2009 and 2010 and compare this estimate to its existing space in order to identify potential gaps in space availability. F-1, R-2, P-1. Develop a comprehensive national policy regarding workstation sharing for the Flexi-place Program and the ratio of flexi-place employees to a shared workstation. F-1, R-4, P-1, P-2. Develop procedures requiring that building level projected space needs assessments include consideration of the impact of workstation sharing, and be periodically reconciled in total to agency-wide projected staffing levels.
2009-20-102	Systems Modernization of the IRS	August 2009	10/15/10 02/15/10	<b><i>Changing Strategies Led to the Termination of the My IRS Account Project</i></b>  F-1, R-1, P-1. Complete a long-term strategy for the My IRS Account project. F-2, R-1, P-1. Ensure that a strategy to develop and deploy an enterprisewide electronic authentication solution is developed as quickly as possible to allow online projects that require secure access to be deployed without experiencing similar cost delays.
2009-30-106	Erroneous and Improper Payments	August 2009	01/15/11	<b><i>More Progress Is Needed to Reduce the Millions of Dollars Paid in Interest on Improperly Frozen Refunds</i></b>  F-1, R-1, P-2. Ensure that employees receive periodic computer alerts to review large-dollar frozen taxpayer accounts for credits that can be released and that the freeze on accounts is systemically released when credits fall below the threshold by implementing agreed-upon computer programming modifications.
2009-40-112	Taxpayer Compliance Initiatives	August 2009	P-1: 12/15/11 P-2: 12/15/10	<b><i>Mortgage Interest Data Could Be Used to Pursue More Nonfilers and Underreporters</i></b>  F-1, R-1, P-1, P-2. Explore the feasibility of making greater use of mortgage interest data to pursue additional nonfilers and underreporters for audit.
2009-30-114	Taxpayer Compliance Initiatives	August 2009	07/15/10	<b><i>Deficiencies Exist in the Control and Timely Resolution of Whistleblower Claims</i></b>  F-1, R-2, P-3. Perform a physical reconciliation of 7623(b) claim information to ensure the information captured from existing systems and input into the newly implemented single inventory control system is accurate.



**TIGTA Semiannual Report to Congress**

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2009-10-121	Improving Performance and Financial Data for Program and Budget Decisions	September 2009	11/15/10 02/15/10 11/15/11 05/15/10 10/15/10 01/15/11 10/15/10 01/15/11	<p><b><i>The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel</i></b></p> <p><u>F-1, R-1, P-1.</u> Revise its time tracking system and require the staff to track hours by activity.</p> <p><u>F-1, R-2, P-2, P-3.</u> Reevaluate the structure and size to ensure an appropriate balance between staff and budgetary resources used to support the Panel.</p> <p><u>F-2, R-1, P-1.</u> Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.</p> <p><u>F-2, R-2, P-1.</u> Revise the charter to clarify the liaison role that employees provide Panel members and accurately reflect the dual roles of members.</p> <p><u>F-3, R-1, P-3.</u> Establish and implement a process to validate data in the database on an annual basis, prior to the issuance of the Panel's annual report.</p> <p><u>F-3, R-2, P-1.</u> Establish a process to follow up with the IRS on the Panel's recommendations under consideration for future implementation.</p> <p><u>F-4, R-1, P-1, P-2, P-3.</u> Establish and follow formal guidance for conducting tax compliance checks, to include using the Integrated Data Retrieval System (IDRS) as a tool for accomplishing this.</p> <p><u>F-4, R-2, P-1.</u> Develop procedures for verifying the good standing of licensed practitioners serving on the Panel.</p>
2009-40-129	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	09/15/10	<p><b><i>Evaluation of the Planning, Computation and Issuance of the Recovery Rebate Credit</i></b></p> <p><u>F-1, R-2, P-1.</u> Issue recovery payments to the 258,550 individuals identified who did not receive the full recovery rebate credit to which they were entitled as a result of a computer programming and Error Resolution function errors.</p>
2009-40-130	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	01/15/11	<p><b><i>Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs</i></b></p> <p><u>F-1, R-2, P-1.</u> Refocus the Modernized Submission Processing Concept to include implementing a process to convert paper filed tax returns prepared by individuals using a tax preparation software package into an electronic format.</p>
2009-40-131	Erroneous and Improper Payments	September 2009	01/15/11 01/15/11 01/15/11	<p><b><i>Increased Automated Controls Could Further Improve Accountability Over Manual Refunds</i></b></p> <p><u>F-1, R-2, P-1.</u> Ensure the Requestor's employee identification number is captured in electronic data files for non-IDRS manual refunds.</p> <p><u>F-1, R-3, P-1.</u> Establish a process to regularly obtain the electronic data file that includes key information relative to those non-IDRS manual refunds for use in monitoring the manual refund program.</p> <p><u>F-2, R-1, P-1.</u> Develop a process to provide for a systemic managerial approval to increase accountability.</p>

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2009-40-138	Taxpayer Protection and Rights	September 2009		<b><i>Combat Zone Indicators on Taxpayer Accounts Are Frequently Inaccurate</i></b>
			01/15/12	<u>F-2, R-1, P-1.</u> Improve the process for identifying joint filers serving in the military to properly identify which individual(s) is/are in a combat zone to ensure appropriate enforcement actions are taken.
			01/15/12	<u>F-2, R-2, P-1.</u> Improve the process for ensuring that Combat Zone indicators are reversed when an exit date is received from the Department of Defense (DOD) for those individuals who file a joint tax return but do not maintain the same order of primary and secondary taxpayer.
			01/15/12	<u>F-3, R-1, P-1.</u> Discontinue providing the option to taxpayers of self-identifying by annotating a tax return with "Combat Zone" and continue to provide individuals with the option of self-identifying by telephone or electronically.
			12/15/11	<u>F-3, R-2, P-1.</u> Take action to correct the 339,027 taxpayers with inaccurate Combat Zone indicators that were incorrectly reactivated.
			01/15/12	<u>F-4, R-1, P-1.</u> Develop a process to identify and resolve unpostable records when entry and exit date information provided by the DOD is unable to be posted to an individual's tax account.
			01/15/12	<u>F-4, R-2, P-1.</u> Take actions to resolve the 458 DOD Combat Zone transactions posted to invalid Social Security Numbers and revise the DOD validation process to ensure accurate posting of entry and exit date information.
			12/15/11	<u>F-5, R-1, P-1.</u> Develop a process to validate Combat Zone service at the time an individual self-identifies.
01/15/12	<u>F-5, R-2, P-1.</u> Improve the process for individuals who self-identify their Combat Zone service by email with the establishment of a secure fillable form with the required data fields.			
2009-10-139	Erroneous and Improper Payments	September 2009		<b><i>Controls Over the Contracting Officer's Technical Representative Workforce Were Ineffective, Resulting in Significant Risks to the Government</i></b>
			02/15/10	<u>F-1, R-1, P-1.</u> Establish and implement cross-cutting guidance that effectively ensures that the IRS provides appropriate contract monitoring to reduce acquisition risks.
			02/15/10	<u>F-1, R-2, P-1.</u> Identify all IRS employees agency-wide performing COTR-related duties and ensure that they are formally delegated authority by the responsible CO on their procurement duties, appropriately trained, and certified in accordance with Federal acquisition requirements.
			12/15/10	<u>F-2, R-1, P-1.</u> Reevaluate their current approach and expand the reviews of COTR contract files to ensure that reviews are routinely performed to substantiate that relevant, accurate, and complete documentation is being received, verified, and retained to support the contractors' billed expenses.
			12/15/10	<u>F-3, R-1, P-1.</u> Ensure that supervisors are knowledgeable of the oversight requirements for the contracts their employees are assigned to monitor and evaluate all aspects of their employees' contract management performance.
			12/15/10	<u>F-4, R-1, P-1.</u> Ensure that consistent ongoing on-the-job support is provided for newly selected or less experienced COTRs to enable the COTRs to learn and effectively perform their responsibilities.

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2009-40-140	Security of the IRS	September 2009	10/15/10  03/15/10	<b><i>Taxpayer Information Is at Risk When Ordering Copies of Tax Returns and Tax Return Transcripts</i></b>  F-1, R-2, P-1. Develop internal controls and provide training to ensure that units use the Transcript Delivery System's automated process to mail transcripts, send copies of tax returns and transcripts only to the address of record, and properly maintain requests for copies of tax returns and transcripts.  F-3, R-1, P-1. Ensure IRS.gov is updated to prominently display the option and benefits of ordering a transcript using the Integrated Customer Contact environment.
2009-41-144	Recovery Act	September 2009	06/15/10  06/15/10 06/15/10  06/15/10	<b><i>The Internal Revenue Service Faces Significant Challenges in Verifying Eligibility for the First-Time Homebuyer Credit</i></b>  F-1, R-1, P-1. Initiate actions to determine whether those taxpayers known to have claimed the Credit for a future home purchase have actually purchased a home.  F-1, R-2, P-1. Perform a review to determine the extent to which these improper claims occurred on paper-filed returns.  F-2, R-1, P-1. Initiate actions to recover the First-Time Homebuyer Credit, when appropriate, from taxpayers who had previously claimed the Residential Energy Credit, the District of Columbia First-Time Homebuyer Credit, or the Mortgage Interest Credit on their individual income tax returns, and develop a plan to review the other questionable claims that were processed prior to the implementation of IRS filters.  F-4, R-1, P-1. Monitor the accounts of taxpayers known to have purchased homes in Calendar Year 2009 who claimed First-Time Homebuyer Credits of \$7,500 to determine if the taxpayers amended their returns.

## Other Statistical Reports

<b>The Inspector General Act of 1978 requires Inspectors General to address the following issues:</b>	
<b>Issue</b>	<b>Result for TIGTA</b>
<p><b>Access to Information</b> Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	<p>As of March 31, 2010, there were no instances where information or assistance requested by the Office of Audit was refused.</p>
<p><b>Disputed Audit Recommendations</b> Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of March 31, 2010, there were no instances where significant recommendations were disputed.</p>
<p><b>Revised Management Decisions</b> Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	<p>As of March 31, 2010, no significant management decisions were revised.</p>
<p><b>Audit Reports Issued in the Prior Reporting Period With No Management Response</b> Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.</p>	<p>As of March 31, 2010, there were no prior reports where management's response was not received.</p>
<p><b>Review of Legislation and Regulations</b> Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 303 proposed regulations and legislative requests during this reporting period.</p>



## Appendix II

### Audit Products

#### October 1, 2009 - March 31, 2010

<b>Inspector General Congressional Testimony</b>	
Reference Number	Hearing Title
<b>October 2009</b>	
2010-OT-006	Inspector General Testimony before U.S. House of Representatives Subcommittee on Oversight Committee on Ways and Means – First-Time Homebuyer Credit

<b>Audit Products</b>	
Reference Number	Report Title
<b>October 2009</b>	
2010-20-004	Treasury Inspector General for Tax Administration – <i>Federal Information Security Management Act</i> Report for Fiscal Year 2009
<b>November 2009</b>	
2010-41-002	Millions of Taxpayers May Be Negatively Affected by the Reduced Withholding Associated With the Making Work Pay Credit
2010-20-003	While Effective Actions Have Been Taken to Address Previously Reported Weaknesses in the Protection of Federal Tax Information at State Government Agencies, Additional Improvements Are Needed
2010-41-011	Evaluation of the Internal Revenue Service’s Capability to Ensure Proper Use of Recovery Act Funds
2010-20-007	Progress Has Been Made in Standardizing Processes in the Computing Centers, but Additional Improvements Are Needed to Maximize Benefits
<b>December 2009</b>	
2010-20-001	Reengineering Individual Tax Return Processing Requires Effective Risk Management
2010-40-005	Individual Taxpayer Identification Numbers Are Being Issued Without Sufficient Supporting Documentation (Revenue Protection: \$2,941,352,240; Reliability of Information: 1,590,535 Forms W-7 incorrectly input)
2010-10-012	Additional Process Improvements Are Needed Due to Continued Growth in the Voluntary Correction Program for Retirement Plans
2010-1C-008	Compliance With Cost Accounting Standard 418, Allocation of Direct and Indirect Costs
2010-1C-009	Compliance With Cost Accounting Standard 411, Accounting for Acquisition Costs of Material
2010-1C-010	Calendar Year 2009 Forward Pricing Indirect Expense Rates and Calendar Years 2009 Through 2019 Forward Pricing Direct Labor Rates
<b>January 2010</b>	
2010-30-013	Appropriate Actions Were Taken to Conclude Work on the Private Debt Collection Program
2010-11-016	Observations About Annual Dollar Limits for <i>American Recovery and Reinvestment Act of 2009</i> Bonds
2010-40-017	Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds
2010-1C-014	Noncompliance With Cost Accounting Standard 404, Capitalization of Tangible Assets

## TIGTA Semiannual Report to Congress

2010-1C-015	Fiscal Year 2009 Floor Check and Evaluation of Timekeeping Procedures
2010-10-020	Additional Actions Are Needed to Realize Benefits of the Tax Exempt and Government Entities Reporting and Electronic Examination System
2010-10-022	Attestation Review of the Internal Revenue Service's Fiscal Year 2009 Annual Accounting of Drug Control Funds and Related Performance
<b>February 2010</b>	
2010-10-018	Improvements Have Been Made, but Additional Actions Could Ensure That Section 527 Political Organizations More Fully Disclose Financial Information (Increased Revenue: \$5,234,000; Taxpayer Burden: 3,316 taxpayers; Reliability of Information: 22 notices and 3,095 report entries)
2010-10-021	Appeals Has Made Considerable Progress in Its Campus Centralization Efforts, but Some Opportunities Exist for Improvement (Revenue Protection: \$35,815 impacting 905 taxpayers; Taxpayer Burden: 5,116 taxpayers whose cases were not timely acknowledged; Taxpayer Rights and Entitlements: 336 taxpayers not informed of appeal rights)
2010-30-026	Fiscal Year 2010 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns
2010-30-024	Significant Tax Issues Are Often Not Addressed During Correspondence Audits of Sole Proprietors (Increased Revenue: \$82.6 million impacting 6,055 taxpayers)
<b>March 2010</b>	
2010-30-019	Processing and Monitoring of Balance Due Notice Cases Needs Improvement (Taxpayer Rights and Entitlements: \$196,770 and 6,217 taxpayers impacted; Reliability of Information: 1,257 notices not verified during inventory)
2010-40-031	The Internal Revenue Service Is Taking Several Actions to Improve Its Toll-Free Telephone Performance for the 2010 Filing Season
2010-30-023	Lien Determinations Were Untimely or Not Made Appropriately for Over \$1.4 Billion in Delinquent Taxes (Increased Revenue: \$657,681,672 impacting 176,315 taxpayers)
2010-30-032	Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement (Increased Revenue: 22,631 taxpayers)
2010-30-029	Improvements Are Needed When Identifying Revenue Officer Casework (Inefficient Use of Resources: \$3.9 million; Reliability of Information: 1,657 improperly documented or graded GS-13 cases)
2010-11-035	Initial Published Guidance for <i>American Recovery and Reinvestment Act of 2009</i> Bonds Was Complete, Accurate, and Consistent
2010-40-034	Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Venture Filing Option (Taxpayer Burden: 40,000 taxpayers required to spend additional time and cost to prepare forms; Taxpayer Rights and Entitlements: 350,000 spousal taxpayers that did not receive Social Security Credit for their portion of self-employment income)
2010-10-037	Collection Employees Adhered to Fair Tax Collection Practices From January 2009 Through September 2009 (Reliability of Information: 1 case miscoded as a violation)
2010-20-027	Additional Security Is Needed for Access to the Registered User Portal
2010-30-025	Employment Tax Compliance Could Be Improved With Better Coordination and Information Sharing (Increased Revenue: \$131.1 million and 74,068 taxpayers; Taxpayer Burden: 8 taxpayers received untimely responses)
2010-40-030	Withholding Compliance Program Results Are Trending Favorably, but Program Enhancements Are Needed (Increased Revenue: \$637.1 million; Taxpayer Burden: 183,185 taxpayers and employers receiving unnecessary lock-in letters)

**TIGTA Semiannual Report to Congress**

2010-40-033	The Automated Substitute for Return Program Brings Some Taxpayers Into Compliance; However, Program Enhancements Are Needed (Increased Revenue: 82,566 cases; Inefficient Use of Resources: 14,600 cases)
2010-30-036	Criminal Investigation Division Resources Devoted to Supporting Recommended Prosecutions Can Be Enhanced With a Stronger Strategic Focus
2010-10-039	Internal Accounting Errors Reduced the Federal Funding Available for Unemployment Benefits by \$63 Million During Fiscal Years 2005 Through 2009 (Funds Put to Better Use: \$69,989,070)
2010-40-040	Procedures Need to Be Developed for Collection Issues Associated With Individual Taxpayer Identification Numbers (Taxpayer Privacy and Security: 114,812 taxpayers whose names and Social Security Numbers could be used by ITIN tax filers)
2010-40-043	A Service-wide Strategy Is Needed to Address Growing Noncompliance With Individual Retirement Account Contribution and Distribution Requirements (Increased Revenue: \$405.1 million impacting 550,639 taxpayers)
2010-20-028	Additional Security Controls Are Needed to Protect the Automated Collection System
2010-1C-038	Compliance With Cost Accounting Standard 404, Capitalization of Tangible Assets
2010-40-042	The Screening and Monitoring of e-file Providers Has Improved, but More Work Is Needed to Ensure the Integrity of the e-file Program (Reliability of Information: 111,733 e-file Providers not properly validated)
2010-40-045	Telephone Authentication Practices Need Improvements to Better Prevent Unauthorized Disclosures (Taxpayer Privacy and Security: 44,067 taxpayers at risk; Inefficient Use of Resources: \$30,310,560)
2010-41-047	Interim Results of the 2010 Filing Season





## Appendix III

### TIGTA’s Statutory Reporting Requirements

TIGTA issued six audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2010, TIGTA is working toward completing its twelfth round of statutory reviews that are required annually by the *IRS Restructuring and Reform Act of 1998* (RRA 98). It also is working on completing its annual review of the *Federal Financial Management Improvement Act of 1996*, and it has completed its annual review of the Office of National Drug Control Policy Detailed Accounting Submission and Assertions. The following table reflects the FY 2010 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Enforcement Statistics</b>  Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS’s compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	Audit fieldwork in progress
<b>Restrictions on Directly Contacting Taxpayers</b>  I.R.C. § 7803(d)(1)(A)(ii)	Requires TIGTA to evaluate the IRS’s compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.	Audit in report writing phase
<b>Filing of a Notice of Lien</b>  I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS’s compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	Audit in report writing phase

**TIGTA Semiannual Report to Congress**

<b>Reference to Statutory Coverage</b>	<b>Explanation of the Provision</b>	<b>Comments/TIGTA Audit Status</b>
<p><b>Extensions of the Statute of Limitations for Assessment of Tax</b></p> <p>I.R.C. § 7803(d)(1)(C)</p> <p>I.R.C. § 6501(c)(4)(B)</p>	<p>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notices 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><b>Levies</b></p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Audit in report writing phase</p>
<p><b>Collection Due Process</b></p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p>Audit fieldwork in progress</p>
<p><b>Seizures</b></p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.</p>	<p>Audit in report writing phase</p>
<p><b>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</b></p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the IRS's compliance with restrictions under section 3707 of RRA 98 on the designation of taxpayers.</p>	<p>Audit fieldwork in progress</p>

**TIGTA Semiannual Report to Congress**

<b>Reference to Statutory Coverage</b>	<b>Explanation of the Provision</b>	<b>Comments/TIGTA Audit Status</b>
<p><b>Disclosure of Collection Activities With Respect to Joint Returns</b></p> <p>I.R.C. § 7803(d)(1)(B)</p> <p>I.R.C. § 6103(e)(8)</p>	<p>Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p><b>Reference No. 2010-30-026, February 2010</b></p> <p>IRS procedures provide employees with sufficient guidance for handling joint-filer collection activity information requests. However, TIGTA could not determine whether the IRS fully complied with I.R.C. § 6103(e)(8) requirements when responding to all written information requests from joint filers. IRS management information systems do not separately record or monitor joint filer requests, and there is no legal requirement for the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>
<p><b>Taxpayer Complaints</b></p> <p>I.R.C. § 7803(d)(2)(A)</p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received are shown on page 65.</p>
<p><b>Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996</b></p> <p>I.R.C. § 7803(d)(1)(G)</p> <p>I.R.C. § 6304</p> <p>Section 3466 of RRA 98</p>	<p>Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p><b>Reference No. 2010-10-037, March 2010</b></p> <p>The Fair Tax Collection Practices (FTCP) provisions of I.R.C. § 6304 prohibit employees from using abusive or harassing behavior toward taxpayers when attempting to collect taxes. Employees who are found to have violated the FTCP could be subject to disciplinary action. From January through September 2009, IRS Collection employees did not violate the FTCP statute. The IRS coded only three cases as FTCP complaints; however, two cases were not substantiated as FTCP violations while the other was improperly coded as an FTCP case. TIGTA recommended that the miscoding be fixed during the audit and the IRS corrected the miscoding. In addition, no civil actions resulted in the payment of monetary settlements to taxpayers because of an FTCP violation. As a result, taxpayers have reasonable assurance that communications with the IRS in connection with the collection of unpaid taxes generally did not violate the FTCP statute.</p>

**TIGTA Semiannual Report to Congress**

<b>Reference to Statutory Coverage</b>	<b>Explanation of the Provision</b>	<b>Comments/TIGTA Audit Status</b>
<p><b>Denial of Requests for Information</b></p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p>Audit fieldwork in progress</p>
<p><b>Adequacy and Security of the Technology of the IRS</b></p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS's adequacy and security of its technology.</p>	<p><b>Information Technology Reviews:</b> Reference Number 2010-20-007, November 2009 Reference Number 2010-20-001, December 2009</p> <p><b>Security Reviews:</b> Reference Number 2010-20-004, October 2009 Reference Number 2010-20-003, November 2009 Reference Number 2010-20-027, March 2010 Reference Number 2010-20-028, March 2010</p>
<p><b>Federal Financial Management Improvement Act of 1996 (FFMIA)</b></p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements, or establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Audit in report writing phase</p>
<p><b>Office of National Drug Control Policy Detailed Accounting Submission and Assertions</b></p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled <i>Annual Accounting of Drug Control Funds</i>, dated April 18, 2003.</p>	<p>Requires TIGTA to authenticate the IRS's Office of National Drug Control Policy (ONDCP) detailed accounting submission and assertions.</p>	<p><b>Reference No. 2010-10-022, January 2010</b> TIGTA reviewed the IRS's ONDCP Detailed Accounting Submission and Performance Summary Report for FY 2009, which ended September 30, 2009. The IRS is responsible for preparing this report. Based on the review, nothing came to TIGTA's attention that caused it to believe that the assertions in the Report were not presented in all material respects in accordance with ONDCP-established criteria. The IRS reported that it expended \$60.6 million on ONDCP-related activities and completed 652 ONDCP-related investigations in FY 2009. For FY 2009, the IRS also reported it participated in 462 ONDCP-related cases that resulted in convictions.</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, as amended (the Code), 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 Code for the purpose of concealing information from a congressional inquiry;
- Willfully failing to file any return of tax required under the Code 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 decide 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, 2009, through March 31, 2010. Also, data concerning substantiated *IRS Restructuring and Reform Act of 1998* Section 1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.

2



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

April 5, 2010

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX  
ADMINISTRATION

FROM: David A. Krieg *David A. Krieg*  
Acting Director, Workforce Relations Division

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

In response to your memorandum on February 18, 2010 to the Commissioner, I am providing the following information 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, 2009 to March 31, 2010.

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

The attached tables contain information concerning alleged misconduct reported to IRS managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of March 31, 2010. 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 93 §1203 allegations and removed four employees. In three of the removals IRS managers considered information forwarded in a TIGTA investigation. Seven employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 37 cases. There are an additional nine cases to be reviewed by the Commissioner for mitigation.

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

Attachments (3)

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



**Reports of Employee Misconduct for the Period  
October 1, 2009 through March 31, 2010  
Summary by Disposition Groups  
(Table Provided by the IRS)**

<b>Disposition</b>	<b>TIGTA Investigations</b>	<b>Administrative Cases</b>	<b>Employee Tax Matter Cases</b>	<b>Background Investigations</b>	<b>Totals</b>
Removal	39	70	2	46	157
Separation of Probationary Employees	7	50	6	66	129
Separation of Temporary Employees		7	4	3	14
Resignation/Retirement	64	100	33	51	248
Suspensions	131	249	72	2	454
Reprimands	131	403	328	30	892
Counseling		266	709	156	1,131
Alternative Discipline	26	78	21	3	128
Clearance	85	143	4		232
Closed Without Action	198	277	94	491	1,060
Closed Without Action (Caution Statement)	183	170	95	343	791
Forwarded to TIGTA		7	2		9
NO ACTION APPEAL	1	2			3
Suspended – Waiting Supplemental	3				3
Termination for Abandonment of Position		45			45
Termination for Other Than Job Abandonment		1			1
Case Suspended Pending Employee Return to Duty	3	2	1	1	7
Prosecution Pending for TIGTA ROI's	4				4
<b>Total</b>	<b>875</b>	<b>1,870</b>	<b>1,371</b>	<b>1,192</b>	<b>5,308</b>

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

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

Extract Date: Friday, April 02, 2010

Report ID = T1R3a

**Reports of Employee Misconduct for the Period  
October 1, 2009 through April 30, 2010  
National Summary  
(Table Provided by the IRS)**

Inventory Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Issues	
TIGTA Investigations ROI <sup>1</sup>	562	803	(875)	(0)	(1)	<b>489</b>
Administrative Case <sup>2</sup>	664	1,961	(1,870)	(19)	(5)	<b>731</b>
Employee Tax Compliance Case <sup>3</sup>	481	1,378	(1,371)	(25)	(0)	<b>463</b>
Background Investigations <sup>4</sup>	584	961	(1,192)	(3)	(1)	<b>349</b>
<b>Total</b>	<b>2,291</b>	<b>5,103</b>	<b>(5,308)</b>	<b>(47)</b>	<b>(7)</b>	<b>2,032</b>

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

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

Extract Date: Friday, April 02, 2010

Report ID = T1R1

<sup>1</sup> 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.

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

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

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

**Summary of Substantiated I.R.C. § 1203 Allegations  
Recorded in ALERTS for the Period  
October 1, 2009 through April 30, 2010  
(Table Provided by the IRS)**

§ 1203 Violation	Removals	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated <sup>1</sup>	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	<b>0</b>
False Statement Under Oath	0	0	0	0	1	1	<b>1</b>
Constitutional & Civil Rights Issues	1	0	0	1	1	0	<b>3</b>
Falsifying or Destroying Records	0	0	0	2	2	0	<b>4</b>
Assault or Battery	0	0	0	1	0	0	<b>1</b>
Retaliate or Harass	0	0	0	2	1	0	<b>3</b>
Misuse of § 6103	0	0	0	0	0	0	<b>0</b>
Failure to File Federal Tax Return	0	1	0	1	12	14	<b>28</b>
Understatement of Federal Tax Liability	3	6	0	7	18	17	<b>51</b>
Threat to Audit for Personal Gain	0	0	0	0	2	0	<b>2</b>
<b>Totals</b>	<b>4</b>	<b>7</b>	<b>0</b>	<b>14</b>	<b>37</b>	<b>31</b>	<b>93</b>

**Notes:**

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

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

Extract Date: Friday, April 02, 2010

## Glossary of Acronyms

ACS	Automated Collection System
ARRA	American Recovery and Reinvestment Act of 2009
CCID	Contract Fraud & Criminal Intelligence Division
CID	Criminal Investigation Division
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
CPA	Certified Public Accountant
DOD	Department of Defense
E-file	Electronically File
EO	Exempt Organizations
EITC	Earned Income Tax Credit
FECA	Federal Employees' Compensation Act
FISMA	Federal Information Security Management Act
FTB	Franchise Tax Board
FTCP	Fair Tax Collection Practices
FY	Fiscal Year
GPRA	Government Performance and Results Act
I&E	Inspections and Evaluations
IDRS	Integrated Data Retrieval System
IG	Inspector General
IRA	Individual Retirement Account
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
Liens	Federal Tax Liens
Modernization Program	Business Systems Modernization Program
OA	Office of Audit
OGE	Office of Government Ethics
OI	Office of Investigations
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
QRP	Questionable Refund Program
Recovery Act	The American Recovery and Reinvestment Act
RRA 98	IRS Restructuring and Reform Act of 1998
RUP	Registered User Portal
SED	Strategic Enforcement Division
SFRs	Substitute for Returns
TE/GE	Tax Exempt and Government Entities
The Credit	First-Time Homebuyer Credit
TIGTA	Treasury Inspector General for Tax Administration

## TIGTA Semiannual Report to Congress

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TREES	Tax Exempt and Government Entities Reporting and Electronic Examination System
UCC	Uniform Commercial Code
U.S.	United States
UNAX	Unauthorized Access
VCP	Voluntary Correction Program



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**DEPARTMENT OF THE TREASURY**  
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