

THE TREASURY DEP

Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2010 – MARCH 31, 2011



TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

TIGTA's VISION

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

TIGTA's MISSION

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

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 gives me great pleasure to submit this Semiannual Report to Congress summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of October 1, 2010 through March 31, 2011. This report highlights the most notable audits, investigations, and inspections and evaluations performed by TIGTA as we have continued to work diligently to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of the Federal system of tax administration.

During this reporting period, TIGTA's combined audit and investigative efforts has recovered, protected, and identified monetary benefits totaling \$2.08 billion. Our Office of Audit (OA) has completed 33 audits and the Office of Investigations (OI) has closed 1,823 investigations over the past six months.

In this time of continuing economic challenge, all Americans are being asked to do more with less. American citizens and their Government must work smarter, harder, and better, with fewer resources and greater purpose. Against this backdrop, TIGTA must redouble its efforts to promote economy, efficiency, and integrity in the administration of the Internal Revenue laws. We have never felt the need for greater commitment to our oversight of the IRS, nor has it ever been more important to improve compliance and reduce the Tax Gap – the \$345 billion difference between what taxpayers owe and what they pay timely. Underreporting of taxes constitutes over 70 percent of the Tax Gap.

To reduce the Tax Gap, the IRS must do a better job of obtaining complete and timely compliance data, and must develop methods to correctly interpret the data to determine what actions are most effective in addressing taxpayer noncompliance. TIGTA audit reports completed during this reporting period found that problems with existing IRS practices allowed its contractors to receive payments while owing delinquent taxes; that the IRS must increase its actions to identify, select, and examine individual tax returns with rental real estate activity; and that the IRS could make improvements in its publishing and mail budget. We also found ways that the IRS could reduce the number of inaccurate information returns submitted. If the IRS will take the necessary actions, the end results will improve compliance and reduce the Tax Gap.

We documented the challenges facing the IRS with implementing new laws. This reporting period, our third report on the First-Time Homebuyer Credit found additional problems with the administration of this credit, and our Interim Report on the 2011 Filing Season uncovered challenges in several areas involving the administration of other new laws. Implementation of the *Patient Protection and Affordable Care Act* presents an

even greater challenge as it represents a totally new area of activity and enforcement for an agency whose work has historically been devoted almost entirely to tax collection.

Meanwhile, the steady migration of the system of tax administration to the electronic environment requires the IRS to be more vigilant in the protection of taxpayer data. Hundreds of millions of taxpayers are e-filing their income tax returns each year and in so doing, they entrust IRS computer systems with sensitive financial and personal data. The Nation's tax collectors are responsible for protecting confidential taxpayer information from inadvertent or deliberate misuse, improper disclosure, or destruction. TIGTA's audits described in this report found that the IRS's Secure Email program could do more to improve the security of confidential taxpayer information, and that the IRS's systems do not entirely prevent the unauthorized use of electronic filing identification numbers.

Responding to and preventing threats to the tax system posed by the cyber-environment has become an increasingly important part of TIGTA's mission. The increased reliance on computers has also created an elevated risk of phishing scams. Since 2008, law enforcement officials have identified more than 12,416 IRS phishing sites, which impersonate the IRS and lure taxpayers into providing confidential information in order to extract money from them under false pretenses. Work by our Office of Investigations resulted in the guilty plea of a Belarusian national to charges of conspiracy and wire fraud in a fraudulent international online tax refund scheme. As a result of this scheme, income tax refunds were stolen from U.S. taxpayers around the country.

Threats to taxpayers also sometimes come from those entrusted to serve them. TIGTA's investigative efforts led to indictments and criminal charges against corrupt IRS employees who embezzled taxpayer payments, stole taxpayer funds, and altered taxpayer information on IRS computers for the purposes of private financial gain.

At the same time, as the IRS remains a target for citizens' frustration, threats of violence directed at the IRS's 100,000 employees at more than 700 facilities throughout the country have increased during a time of continued financial hardship. During this reporting period, threats have continued to escalate, with 723 reported over the past six months. We will continue to place a priority on our oversight of IRS employee safety and physical security.

Our work to protect the funding made available under the *American Recovery and Reinvestment Act of 2009* (Recovery Act) continues. TIGTA monitors IRS compliance with all Recovery Act procurement requirements and ensures that the IRS uses its Recovery Act funds for their intended purpose. Our work in this field during the reporting period includes oversight of the Making Work Pay Credit, continued oversight of the First-Time Homebuyer Credit, and of the Plug-in Electric and Alternative Motor Vehicle Credits.

TIGTA joins the Nation in embracing new and increased responsibilities in an environment full of challenge. Our Office of Audit and Office of Investigations have

aligned in a new procurement fraud division that will protect the IRS against external attempts to corrupt Federal tax administration. In addition, like the IRS, we are looking internationally to build a component that will prevent waste, fraud, and abuse and shield the tax system against threats launched from abroad.

It is a daunting mission, but one we embrace with both passion and skill as we ready ourselves for the challenges that lie ahead. As before, I look forward to working with Congress, the Administration, the IRS, and our auditors, investigators, evaluators, attorneys, and support personnel as we work tirelessly to make our Nation's tax system more efficient, effective, and fair.

Sincerely,



J. Russell George
Inspector General



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TIGTA's Highlights

During this reporting period, TIGTA recovered a total of \$2.08 billion in financial benefits. Through its vigilant work, the Office of Investigations successfully closed 1,823 cases, saving American taxpayers more than \$1.17 billion in costs. In addition, the Office of Audit completed 33 audits that identified over \$916 million in potential financial benefits. It is through this type of work that TIGTA is able to effectively carry out its mission of protecting the integrity of tax administration.

Examples of High-Profile Cases From the Office of Investigations:

IRS Revenue Agent Sentenced for Soliciting and Agreeing to Receive a Bribe

On December 16, 2010, in Minnesota, Roger Coombs was sentenced on one count of soliciting and agreeing to receive a bribe by a public official. Coombs was sentenced to serve 33 months in prison and three years supervised release. He was also ordered to pay a \$100 assessment and \$3,000 in restitution.¹

As a former Internal Revenue Service (IRS) Revenue Agent, Coombs' official duties included examining taxpayers' tax filings to determine whether the taxpayers correctly reported and paid their tax liability to the IRS.²

In early 2010, a taxpayer received official correspondence from Coombs indicating that the taxpayer had been selected for an examination. Coombs met with the taxpayer and a business partner of the taxpayer several times. During one meeting, and outside the presence of the accountant, Coombs suggested to the business partners that they meet him without their accountant. At that meeting, Coombs told the taxpayers that approximately \$60,000 was owed to the IRS, which was more than what Coombs had previously indicated. At that point, Coombs proposed a solution to make the situation "go away." He asked both parties to pay him \$9,700. In return for paying Coombs the bribe, Coombs said he would arrange for the IRS to accept \$11,000 instead of the \$60,000 that Coombs said was owed to the IRS.³

During two separate meetings, the taxpayers gave Coombs cash payments for the total amount of the \$9,700 bribe Coombs requested. Coombs told the taxpayers that he had "taken care" of things at the IRS.⁴

This case was worked jointly by TIGTA and the Federal Bureau of Investigation.

¹ D. Minn. J. filed Dec. 20, 2010.

² D. Minn. Indict. filed Jun. 21, 2010.

³ *Id.*

⁴ *Id.*

Oracle America to Pay the Government \$46 Million to Resolve False Claims Act Allegations Against Sun Microsystems

Oracle America Incorporated agreed to pay the Government \$46 million to settle claims that Sun Microsystems Incorporated (Sun), a corporation that merged with Oracle in 2010, submitted false claims and caused others to submit false claims to the IRS, the General Services Administration (GSA), and other Federal agencies.⁵ The settlement resolved allegations under the *False Claims Act* (FCA) and the *Anti-Kickback Act* that Sun knowingly paid kickbacks to systems integrator companies in return for recommendations that Federal agencies purchase Sun's products.

Sun executed agreements with consulting companies that provided for the payment of fees each time the companies influenced a Government agency to purchase a Sun product. The kickback allegations were part of a larger, ongoing investigation of Government technology vendors that resulted in settlements to date with six other companies.⁶

The settlement also resolved claims under the FCA that Sun's 1997 and 1999 GSA Schedule contracts were defectively priced because Sun provided incomplete and inaccurate information to GSA contracting offices during contract negotiations. In addition, the settlement resolved the claim that the incomplete and inaccurate information resulted in defective pricing of Sun's contract with the U.S. Postal Service and GSA schedule contracts held by two resellers of Sun products.

At the time Sun entered into its contracts with GSA to sell information technology products and services to Federal agencies, applicable regulations and contract provisions required Sun to fully and accurately disclose to GSA how it conducted business in the commercial marketplace so that GSA could use that information to negotiate a fair price for Government customers using the GSA contracts to purchase Sun products and services. The defective pricing information that Sun disclosed to GSA was subsequently relied on by the U.S. Postal Service in negotiating a contract with Sun, as well as by GSA in negotiating contracts with two resellers of Sun products.⁷

Example of a High-Profile Case From the Office of Audit:

Additional Security Is Needed for the Taxpayer Secure Email Program

IRS employees and taxpayers are required to work together to ensure the security of taxpayers' sensitive data transmitted in email messages. If employees and taxpayers do not follow required security policies, there are increased risks that the data could be intercepted and accessed by unauthorized individuals or inadvertently sent to the wrong recipient.

⁵ United States Department of Justice, Office of Public Affairs Release dated Jan. 31, 2011.

⁶ *Id.*

⁷ *Id.*

Although some controls, such as the installation of antivirus software on employees' computers for the Secure Email With Taxpayers program, were in place, other security controls were not implemented. The IRS had not implemented an automated control to detect and prevent Sensitive But Unclassified (SBU) data in unencrypted emails from being transmitted outside the IRS. In addition, some employees and taxpayers were not encrypting their emails that contained SBU data. These program violations were not reported to IRS management. Further, IRS procedures and training lacked adequate guidance for employees to report the violations. The IRS also did not timely correct persistent medium-risk security vulnerabilities detected on email servers.

As a result, TIGTA recommended that the IRS:

- Develop additional procedures for employees participating in the Secure Email With Taxpayers program to address how, when, and to whom employee and taxpayer secure email violations should be reported;
- Update guides and training materials to include these procedures;
- Amend the Memorandum of Understanding to apprise the taxpayer of the specific risks associated with transmitting an unencrypted email with SBU data; and
- Issue a memorandum to all employees advising them of the disciplinary actions that will be taken against employees who violate IRS email policies by sending unencrypted emails to taxpayers who have not signed a Memorandum of Understanding to participate in the program.

TIGTA also recommended that the IRS ensure data leakage prevention software is implemented by April 2012, and update the annual Information Systems Security briefing to include the new Secure Email With Taxpayers procedures. Lastly, TIGTA recommended that the IRS ensure medium-risk vulnerabilities detected on email servers are appropriately tracked and, if the vulnerabilities cannot be corrected within two months, follow security requirements to post the vulnerabilities to the appropriate Plan of Actions and Milestones.

IRS management agreed with most of the recommendations.

Reference No. 2011-20-012



TIGTA's Profile

TIGTA provides independent oversight of the Department of the Treasury 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 reports to the Secretary of the Treasury and to Congress, TIGTA functions independently from all other offices and bureaus within the Department.

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

TIGTA's organizational structure is comprised of the Office of the Inspector General and five functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; and the Office of Chief Counsel (see chart on page 14).

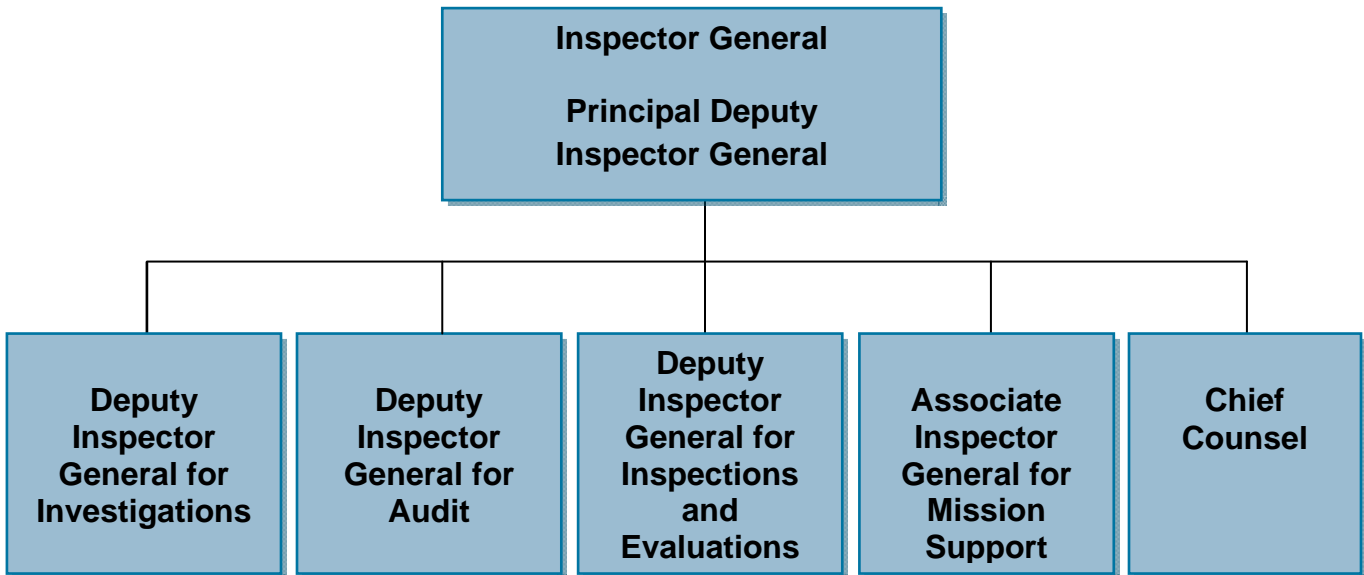
TIGTA conducts audits, inspections and evaluations, and investigations designed to:

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

Statutory Mandate

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

Organizational Structure



Authorities

TIGTA has all of the authorities granted under the *Inspector General Act of 1978*, as amended.⁸ 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 the IRS have established policies and procedures delineating responsibilities to investigate potential criminal offenses under Internal Revenue laws. In addition, the *Internal Revenue Service Restructuring and Reform Act of 1998* (RRA 98)⁹ 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 Internal Revenue Code (I.R.C.) Section (§) 7608(b)(2).

⁸ 5 U.S.C.A. app. 3 (West Supp. 2010).

⁹ 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., and 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.).

Promote the Economy, Efficiency, and Effectiveness of Tax Administration

TIGTA's Office of Audit (OA) strives to promote the economy, efficiency, and effectiveness of tax administration. TIGTA provides recommendations to improve the IRS's systems and operations while ensuring fair and equitable treatment of taxpayers. TIGTA's comprehensive and independent performance and financial audits of the IRS's 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;
- Increased or protected revenue;
- Protection of taxpayers' rights and entitlements; and
- More efficient use of resources.

Each year, TIGTA identifies and addresses 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.

Audit Emphasis Areas for October 2010 through March 2011

- Security of the IRS; Employees, Systems, and Facilities
- Modernization of the IRS
- Tax Compliance Initiatives
- Implementing Health Care and Other Tax Law Changes
- Providing Quality Taxpayer Service Operations
- Human Capital
- Erroneous and Improper Payments and Credits
- Taxpayer Protection and Rights
- Leveraging Data to Improve Program Effectiveness and Reduce Costs

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

Security of the Internal Revenue Service; Employees, Systems, and Facilities

In addition to safeguarding a vast amount of sensitive financial and personal data, the IRS must also protect approximately 100,000 employees and more than 700 facilities throughout the country. Attacks and threats against IRS employees and facilities have risen steadily in recent years. Dissatisfaction with the tax collection process is nothing new, and recent events, such as the February 2010 attack on an IRS facility in Austin, Texas, point to a surge of hostility towards the Federal Government. The ongoing public debate regarding the recently enacted health care legislation may also lead to increased threats against IRS employees and facilities.

Concurrent with the IRS's monitoring of threats against its employees and facilities, the IRS must also remain vigilant with regard to computer security, particularly as it relates to safeguarding the privacy of confidential taxpayer information. As computer usage continues to be inextricably integrated into core business processes, the need for effective information system security becomes essential to ensure the confidentiality, integrity, and availability of data. IRS computer systems process hundreds of millions of tax returns and contain confidential tax information for over 100 million taxpayers.

The *Federal Information Security Management Act* (FISMA)¹⁰ requires each Federal Government agency to report annually to the Office of Management and Budget (OMB) 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 audits continue to show that the IRS still needs to take additional actions in the areas of configuration management and contingency planning to better secure its systems and data.

Review of the Use of the Electronic Filing Identification Number

More than 60 million individual tax returns were electronically filed in Fiscal Year (FY) 2010 by Electronic Return Originators.¹¹ The Electronic Filing (e-File) Program enables tax returns to be sent to the IRS in an electronic format via an authorized IRS e-File Provider. An e-File Provider is generally the first point of contact for most taxpayers filing a tax return through the IRS's e-File Program. Insufficient system validations put at risk the integrity of the e-File Program.

System validations related to the unauthorized use of Electronic Filing Identification Numbers (EFIN) and compliance with various e-File Program requirements need strengthening. From March 11, 2005 to October 21, 2010, there were 1,192 EFINs reported to the IRS as compromised.

¹⁰ Pub. L. No. 107-347, 116 Stat. 2899 (2002)(codified as amended in 44 U.S.C. §§3541-3549).

¹¹ Electronic Return Originator is the authorized IRS e-File Provider that originates the electronic submission of a return to the IRS.

As a result, TIGTA made several recommendations for improvement. IRS management agreed with most of the recommendations. TIGTA maintains that controls need strengthening to prevent the unauthorized use of the EFIN.

Reference No. 2011-40-031

Modernization of the Internal Revenue Service

The Business Systems Modernization Program (“Modernization Program” or “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.

The Modernization Program has continued to help improve IRS operations and is refocusing its efforts to improve business practices with new information technology solutions. However, project development activities have not always effectively implemented planned processes or delivered all planned system capabilities to achieve the Modernization Program’s expectations. Management of the Modernization Program’s cost and schedule has improved since the previous year, but more attention must be given to the development and management of Program requirements.

Further, resolution has not yet been completely achieved for security vulnerabilities affecting two significant systems. The IRS revised its Modernization Program and is currently testing a prototype¹² database concept for all taxpayer data. The new approach will require the IRS to increase its employees’ information technology-related skills, tools, and operations to effectively deliver the revised Program.

Prototype Process Improvements Will Benefit Efforts to Modernize Taxpayer Account Administration

The mission of the Customer Account Data Engine (CADE) 2 Program is to provide state-of-the-art individual taxpayer account processing and technologies to improve service to taxpayers and enhance IRS tax administration. 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, which will contribute to improved service to taxpayers.

The CADE 2 Program Management Office created five prototype teams to demonstrate confidence in the CADE 2 solution by verifying system viability and performance and by defining components that will serve as the foundation for development activities. The prototype teams generally managed their objectives effectively. The teams also identified risks to the successful execution of the prototype plans and took steps to overcome those barriers.

¹² This prototype is an approach to system development using an iterative process of discovering requirements, designing, and building a trial model, examining the results, and repeating the process until the desired solution is attained.

The CADE 2 Program Management Office has been vigilant in monitoring the prototypes to provide direction and support to development activities. The prototype teams recognized the limits in approaching some of the original objectives and made modifications to keep the prototype activities relevant to future CADE 2 Program development. However, the ability of the CADE 2 Program to process individual taxpayer accounts as envisioned cannot be determined until the prototype results and recommendations are understood and implemented.

TIGTA recommended that the CADE 2 Program Management Office reemphasize compliance with the elements of the CADE 2 Prototype Process to ensure planning, execution, and reporting activities are followed and incorporate guidance to include:

- Appropriately detailed work breakdown structures;
- Testing plans and documentation standards that follow the Internal Revenue Manual and Enterprise Life Cycle guidance;
- Effective management of contracting activities to ensure that issues concerning organizational conflicts of interest are properly managed; and
- Timely completion of all necessary security documentation for contractor personnel.

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

Reference No. 2011-20-001

The Sustaining Infrastructure Program Is Significantly Improved and a Comprehensive Information Technology Infrastructure Strategy Has Been Developed

The Sustaining Infrastructure Program centrally funds the IRS's information technology infrastructure investments primarily to replace computer hardware that has reached or surpassed its useful life. The Sustaining Infrastructure Program has significantly improved and agreed-upon prior recommendations are being implemented. Taxpayers and IRS employees rely on the information technology infrastructure to ensure satisfaction of tax liabilities, quick resolution of any issues, and a high level of service to both taxpayers and the Federal Government.

TIGTA found that monthly reports are generated showing the number and value of aged computer hardware. IRS management uses these reports to monitor their progress in replacing the aged computer hardware. The appropriate executive steering committee oversees the Sustaining Infrastructure Program. The IRS also approved the business case for a new tool called the Knowledge, Incident/Problem, Service Asset Management system which can associate information technology problem tickets with the aged computer hardware that caused the problem. Implementation of the Knowledge, Incident/Problem, Service Asset Management system involves replacing the current inventory and problem management system and is scheduled to be implemented by July 2011.

In addition, the IRS developed a comprehensive Information Technology Infrastructure Strategy that will be used to improve access to data and information technology services, responsiveness to demand, optimization, and cost effectiveness in a sustainable manner. TIGTA made no recommendations. IRS management was pleased with TIGTA's comments and observations acknowledging that the Sustaining Infrastructure Program has significantly improved.

Reference No. 2011-20-006

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 taxpayer compliance and reducing the Tax Gap¹³ are still the focus of many IRS initiatives. Nevertheless, the IRS still faces significant challenges in obtaining complete and timely compliance data and developing methods necessary to interpret the data. Even with improved data collection, however, the IRS needs to develop broader strategies and conduct more research to determine which actions are most effective in addressing taxpayer noncompliance.

Existing Practices Allowed IRS Contractors to Receive Payments While Owing Delinquent Taxes

The IRS's mission is to provide American taxpayers with top-quality service by helping them to understand and meet their tax responsibilities and by applying the tax law with integrity and fairness. TIGTA believes that contractors who conduct business with the IRS should be held to a strict compliance standard particularly given the IRS's mission to enforce tax laws and ensure that everyone meets their obligation to pay Federal taxes.

The IRS blocked 11 contractors with delinquent tax liabilities totaling approximately \$4.3 million from inclusion in the Federal Payment Levy Program. These contractors received more than \$356 million in payments from the IRS and approximately \$3.7 billion in payments from other Federal agencies. For eight of these contractors, the amount of delinquent taxes that could have been collected if the tax accounts had not been blocked from inclusion in the Federal Payment Levy Program totaled \$3.8 million.

Although delinquent taxes may indicate serious issues that could jeopardize contract performance, they rarely preclude a contractor from obtaining a contract. Three of these contractors owed \$3.7 million in delinquent taxes when their contracts were awarded. Further, seven of the 11 contractors did not properly follow Federal guidelines to notify the GSA when they had a tax delinquency.

¹³ The IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely paid for a tax year.

As a result, TIGTA recommended that the IRS review its current process to identify opportunities to expedite levying Federal contractor cases in a blocked status and ensure timely enforcement of those in a suspended collection status.

IRS management agreed with the recommendations, but did not agree with the reported outcome measure of \$3.8 million. The IRS stated that the calculation that TIGTA used to determine the amount of uncollected revenue included cases in a suspended collection status as available for levy through the Federal Payment Levy Program. The IRS also stated that it has a responsibility to investigate the merit of a taxpayer's claim before initiating enforced collection activity.

TIGTA agreed that the IRS should investigate the merit of a taxpayer's claim before initiating enforced collection activity. However, the results showed that contractors were in a suspended collection status for an average of eight months while the IRS evaluated whether the information the contractor provided would resolve the tax liability. TIGTA believes that the IRS could improve the timeliness of these cases by taking a more active enforcement approach to suspend payments to contractors if they are not making attempts to resolve their tax liability within a reasonable time period.

Reference No. 2011-30-013

Targeted Compliance Efforts May Reduce the Number of Inaccurate Information Returns Submitted by Government Entities

The hundreds of thousands of information returns with inaccurate names and taxpayer identification numbers that are submitted annually by Government entities create opportunities for individuals to underreport income and avoid the scrutiny of the IRS. Those individuals who take advantage of such opportunities can create unfair burdens on honest taxpayers and diminish the public's respect for the tax system.

TIGTA recognized that it would be very difficult, if not impossible, to ensure that every information return submitted contains an accurate name and taxpayer identification number. However, focusing the IRS's efforts on the small number of Government entities that submit the largest portion of inaccurate information returns has the potential to deliver other benefits. Specifically, such a focus would likely provide the IRS with additional information for computer matching compliance programs. This, in turn, may provide the IRS with opportunities to increase tax revenues by detecting and pursuing additional individuals who underreport income.

Therefore, TIGTA recommended that the IRS expand the criteria used to select Government entities for compliance activities to include the volume of information returns submitted with inaccurate names or taxpayer identification numbers. TIGTA also recommended that compliance activities for entities selected based on the volume of inaccurate returns not be closed until IRS employees assess the reasons for the inaccuracies and determine whether any corrective actions should be taken. To help ensure that corrective actions are evaluated during subsequent compliance activities, the IRS should thoroughly document the results of these assessments within the compliance case files.

IRS management agreed with the recommendations and stated that corrective actions have been taken.

Reference No. 2011-30-019

Actions Are Needed in the Identification, Selection, and Examination of Individual Tax Returns With Rental Real Estate Activity

The IRS's Examination function plays a vital role in its mission of promoting voluntary compliance with tax laws. Given the magnitude of underreporting, even small improvements in the IRS's examination of tax returns with rental real estate activity could increase taxpayer compliance and generate substantial revenue to the Federal Government to reduce the Tax Gap. In addition, increased tax compliance can raise the public's confidence in the IRS's ability to enforce tax laws in a fair, equitable, and consistent manner.

The IRS should increase its examinations of tax returns with losses from rental real estate activity. TIGTA found that the criteria used to select tax returns included in the Compliance Initiative Programs (CIP) were producing results that were more productive than tax returns selected for examination based on other criteria. TIGTA determined that if the IRS performed more examinations through their rental real estate CIPs, it could increase the potential tax assessments by \$27.3 million over a five-year period.

TIGTA also found that requiring taxpayers with prior year unallowed Passive Activity Losses to submit Passive Activity Loss Limitations forms (Form 8582) and increasing the amount of data input from tax returns to the Master File would further improve the efficiency of programs used to select tax returns with questionable real estate activities for further examination.

Therefore, TIGTA recommended that the IRS:

- Conduct an analysis to determine the population of tax returns with rental real estate activity that meet the criteria for inclusion in the CIPs;
- Revise the instructions for Form 8582 to require all taxpayers with prior year unallowed Passive Activity Losses to submit the form with their tax return; and
- Ensure that the information taxpayers provide to report the net amount of income earned or lost from being a real estate professional is transcribed.

IRS management agreed with the recommendations and planned to take appropriate corrective actions. However, the IRS disagreed with the proposed monetary outcome measures. TIGTA computed the outcomes conservatively using historical data from the Examination program, and maintained that the potential \$27.3 million of increased revenue over a five-year period was reasonable, considering the assumptions used to calculate the estimate.

Reference No. 2011-30-005

Implementing Health Care and Other Tax Law Changes

Each filing season¹⁴ tests the IRS's ability to implement tax law changes made by Congress. It is during the filing season that most individuals file their income tax returns and contact the IRS with questions about specific tax laws or filing procedures. Correctly implementing late tax law changes remains a significant challenge because the IRS must often act quickly to: assess the changes and determine the necessary actions to ensure all legislative requirements are satisfied; create new or revise various tax forms, instructions, and publications; revise internal operating procedures; and reprogram major computer systems used for processing returns.

Congress frequently changes tax laws, so some level of change has become a normal part of the IRS's operating environment. Although the IRS has generally been able to adapt and react to tax law changes, the new laws do have a major effect on how the IRS conducts its activities, determines resource requirements, and progresses toward meeting its strategic goals. While the IRS has recognized the increasing complexity of tax administration in formulating its strategic plan, it has also acknowledged the impossibility of predicting with 100 percent accuracy the timing and extent of the impact of changes in tax laws. As such, the IRS will continue to face significant challenges in its efforts to respond quickly, accurately, and effectively to tax law changes.

Interim Results of the 2011 Filing Season

As of March 4, 2011, the IRS received nearly 60.5 million tax returns – 53.9 million (89 percent) were e-filed and nearly 6.7 million (11 percent) were filed on paper. The IRS has issued nearly 52.6 million tax refunds totaling approximately \$161.3 billion.

The passage of late legislation resulted in the IRS having Electronic Return Originators hold approximately 6.5 million e-file tax returns to be transmitted on February 14, 2011. In addition, the IRS held approximately 100,000 paper tax returns received prior to February 14, 2011.

TIGTA's review identified that several programming errors resulted in the incorrect populating of the IRS's computer records. Programming errors also resulted in the issuance of erroneous First-Time Homebuyer Credits and Non-Business Energy Property Credits.

In addition, the IRS has received returns from 9,859 individuals claiming over \$124 million in Adoption Credits, with 6,974 (71 percent) of the claims either having invalid, insufficient, or missing documentation to support the legitimacy of these claims. The IRS did not act on TIGTA's recommendation to seek authority to disallow claims without proper documentation. As such, each of these claims will be sent to the IRS's Examination function.

¹⁴ The period from January 1 through April 15 when most individual income tax returns are filed.

Furthermore, as of March 4, 2011, the IRS had identified 335,341 tax returns with \$1.9 billion claimed in fraudulent refunds and prevented the issuance of \$1.8 billion (97 percent) of those fraudulent refunds. The IRS also selected 63,501 tax returns filed by prisoners for fraud screening, representing an 88 percent increase compared to last filing season.

Finally, during visits to 26 different Taxpayer Assistance Centers (TAC) between November 2010 and February 2011, assistants answered all 35 tax law questions accurately. However, TIGTA auditors waited an average of 62 minutes before they received assistance and, on five occasions, TIGTA auditors who visited three different TACs were turned away or denied services and asked to return another day.

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

Reference No. 2011-40-032

Providing Quality Taxpayer Service Operations

In July 2005, Congress requested that the IRS develop a five-year plan, to include an outline of how the IRS would improve the service that it provides to taxpayers as well as a detailed list of which services it should provide. The IRS developed the Taxpayer Assistance Blueprint, which focuses primarily on services that support the needs of taxpayers who file or should file the Form 1040 series tax returns.¹⁵ The Blueprint includes performance measures, service improvement initiatives, and an implementation strategy for improving future service investment decisions. The IRS has begun implementing the Blueprint, but much of its implementation depends on the availability of future funding.

The Department of the Treasury and the IRS recognize that the delivery of effective taxpayer service has a significant impact on voluntary tax compliance. Answering taxpayers' questions to assist them in the correct preparation of their tax returns reduces the need to send notices and correspondence when taxpayers make errors. Taxpayer service also reduces unintentional noncompliance and shrinks the need for future collection activity. The IRS continues to focus on the importance of improving service by emphasizing it as a main goal in its strategic plan, including seeking innovative ways to simplify or eliminate processes that unnecessarily burden taxpayers or Government resources.

¹⁵ The Form 1040 series tax returns include any IRS tax forms that begin with "1040" such as the U.S. Individual Income Tax Return (Form 1040), U.S. Individual Income Tax Return (Form 1040-A), and Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ).

The Taxpayer Assistance Centers Are Not Located to Effectively Serve the Maximum Number of Taxpayers

The IRS provides taxpayers the option of obtaining personal, face-to-face tax assistance at 401 TACs nationwide. IRS employees who work in the TACs assist taxpayers by interpreting tax laws and regulations, preparing certain individual tax returns, resolving inquiries on taxpayer accounts, accepting payments, and providing other services designed to minimize the burden on taxpayers in satisfying their tax obligations. It is important that TACs be optimally located to serve the most taxpayers. Management information is essential to effectively oversee the TACs.

The IRS acknowledges that the locations of most TACs have not changed significantly since FY 2000, and that it has not kept pace with shifts in population and demographics. Currently, 35 percent of the United States population does not live within 30 minutes of a TAC. This represents more than 100 million taxpayers who do not have convenient access to a TAC. Conversely, 28 percent of the United States population lives within 30 minutes of more than one TAC.

As of October 2010, no actions had been taken to combine, relocate, or close the TACs. IRS officials cited budget constraints and legislative concerns as reasons that the IRS had not moved forward. This has caused the IRS to delay conducting any cost-benefit or return-on-investment analyses needed to make any recommendations regarding combining, relocating, or closing the TACs.

The IRS had not validated the data used in the current Geographic Coverage Model.¹⁶ Without clear documentation of the methodology used, it is difficult to determine if the results of the Geographic Coverage Model are reliable. In addition, it would be difficult to compare results over a period of time.

As a result, TIGTA recommended that the IRS:

- Validate the data used in the Geographic Coverage Initiative¹⁷ process and ensure that all decisions, along with the data used and methodologies for making the decisions, are supported and documented; and
- Identify opportunities to better align the TACs with taxpayer needs and complete the evaluative process in the Geographic Footprint Initiative,¹⁸ including a cost-benefit analysis, return-on-investment analysis, taxpayer impact assessment, stakeholder input, and communication plan.

¹⁶ This Model is part of the Blueprint and is used to better identify optimal TAC locations.

¹⁷ This Initiative is part of the Blueprint and was designed to use specific information to develop a repeatable process that can be used to ensure there is TAC coverage for service delivery.

¹⁸ This Initiative is part of the Blueprint and is used to identify opportunities to better align taxpayer needs with resource allocations using demographic variables to determine the optimal placement of the TACs.

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

Reference No. 2011-40-022

Multiple Channels Are Used to Provide Information to Small-Business Taxpayers, but More Information Is Needed to Understand Their Needs

The IRS's Small Business/Self-Employed (SB/SE) Division serves approximately 57 million taxpayers. It supports the IRS's goal to improve customer service by educating and informing these taxpayers of their tax obligations, developing educational products and services, helping them to understand and comply with applicable laws, and protecting the public's interest by applying the tax law with integrity and fairness to all.

TIGTA found that research is needed to identify the needs and preferences of small-business taxpayers. The IRS is conducting research on individual taxpayers to incorporate taxpayer needs in making service improvement decisions, but it has only begun to devote sufficient resources to conduct comparable research to determine the needs of small-business taxpayers.

The IRS is also taking steps to improve customer service to small-business and self-employed taxpayers. Outreach to small-business taxpayers is based on multiple sources and delivered through a variety of channels. The IRS has developed a process to help determine which services and information to provide to these taxpayers. This allows the IRS to extend outreach and education and deliver information and materials through various channels.

However, TIGTA found that the Issue Management Resolution System, which is used to track significant issues and identify trends, is not complete. Employees do not always appropriately enter issues, and the System does not help the IRS identify industry needs because the affected industry was identified for only 25 percent of the national issues submitted in Calendar Year 2009. Further, 14 percent of the records were missing from the Outreach Initiative Database.

TIGTA recommended that the IRS:

- Evaluate the effectiveness of the industry codes in the Issue Management Resolution System; and
- Ensure that sufficient preventive controls are activated for the Outreach Initiative Database to provide an adequate audit trail to record changes or deletions as well as the associated reasons.

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

Reference No. 2011-40-010

Human Capital

Human capital is the Federal Government's most critical asset. At a time when the Federal Government is preparing for increased retirements and facing challenges such as health care reform, the recruitment of new employees and retention of existing employees plays a key role in ensuring the maintenance of a quality workforce capable of meeting the needs of the American public. Like many Federal agencies, the IRS is faced with the major challenge of replacing existing talent because of a large number of retirements expected over the next several years. Of the approximately 100,000 employees, including 9,100 managers that the IRS employs, more than half have reached age 50 and can retire within 10 years. In addition, 39 percent of IRS executives are already eligible for retirement. Replacing these employees represents a significant challenge since many possess unique skills and institutional knowledge that will be difficult to replace.

The IRS's challenge of having the right people in the right place at the right time is made more difficult by many complex internal and external factors. The work performed by IRS employees continually requires greater expertise as tax laws become more complex, manual systems used to support tax administration become computer-based, and attempts by taxpayers and tax practitioners to evade compliance with the tax laws become more sophisticated. The IRS must also compete with other Government agencies and private industry for the same human resources, a difficult prospect as younger generations of employees switch between jobs more frequently than employees in the past. Further, budget constraints, legislative changes, and economic shifts can create unforeseen challenges for the IRS in addressing its long-term human capital issues.

The Impact of the Frontline Leader Readiness Program on Succession Planning Should Be Determined

The IRS created the Frontline Leader Readiness Program (the Program) to identify and develop highly skilled nonmanagers interested in assuming leadership responsibilities. However, it is currently not possible for the IRS to determine whether the Program provides a pool of qualified candidates ready for promotion or the overall impact of the Program on succession planning. Evaluating the success of the Program would enable IRS management to make informed decisions to ensure that upcoming leadership vacancies are filled in a timely manner with qualified leaders who can address the challenges of the future, which will help to preserve public confidence in the IRS's ability to fulfill its mission.

The IRS began the Program in Calendar Year 2000 to identify and develop high-potential, motivated employees for frontline manager positions. The Program takes nine months to complete and includes classroom training sessions, outside reading assignments, online training courses, a shadow manager assignment, and an acting assignment.

The IRS is taking action to obtain feedback from the Program graduates and their managers. Overall, participants and managers generally believe the Program is beneficial in helping employees prepare for frontline management. However, the IRS does not generally assess graduates' readiness for promotion upon completion of the Program or measure the impact of the Program on succession planning. If the IRS assessed the promotion potential of the Frontline Leader Readiness Program graduates and measured Program's impact, it could better determine its bench strength (the relationship between the number of employees ready for management and the number of critical management positions) for the frontline manager position and provide valuable feedback to graduates.

TIGTA recommended that the IRS:

- Require an assessment of readiness for promotion for the Program graduates interested in management;
- Analyze these assessments to determine whether changes to the Program are needed and develop goals and measures to determine the Program's impact on succession planning; and
- Develop a data collection process to capture all necessary information from the operating divisions/functional offices to accurately measure the impact of the Program.

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

Reference No. 2011-10-015

Erroneous and Improper Payments and Credits

As defined by the *Improper Payments Information Act of 2002*,¹⁹ an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for applicable discounts. For the IRS, erroneous and improper payments generally involve improperly paid refunds, tax-return filing fraud, or overpayments to vendors or contractors.

The Administration has emphasized the importance of reducing improper payments. In November 2009, the President issued Executive Order 13520, which included a strategy to reduce improper payments by increasing transparency, holding agencies accountable, and creating strong incentives for compliance.²⁰ Recently, the *Improper*

¹⁹ Pub. L. No. 107-300, 116 Stat. 2350.

²⁰ 74 *Fed. Reg.* 62201 (Nov. 25, 2009).

*Payments Elimination and Recovery Act of 2010*²¹ placed additional requirements on Federal agencies to reduce improper payments.

Reduction Targets and Strategies Have Not Been Established to Reduce the Billions of Dollars in Improper Earned Income Tax Credit Payments Each Year

The Government Accountability Office has listed the Earned Income Tax Credit (EITC) Program as having the second highest dollar amount of improper payments of all Federal programs. The IRS has made little improvement in reducing EITC improper payments since 2002, the year it was first required to report estimates of these payments to Congress. The IRS continues to report that 23 to 28 percent of EITC payments are issued improperly each year. In FY 2009, this equated to \$11 to \$13 billion in EITC improper payments.

Executive Order 13520 requires that the IRS intensify its efforts and set targets to reduce EITC improper payments. The IRS's report to TIGTA did not include any quantifiable targets to reduce EITC improper payments. IRS management noted that reduction targets were not set because the IRS had to balance enforcement efforts among different taxpayer income levels. The IRS stated that its new efforts to regulate tax return preparers will reduce the improper payment rate. However, it is unknown whether the regulation of tax return preparers will result in a significant reduction in EITC improper payments.

TIGTA conducted a number of audits that have provided the IRS with specific actions that could be taken to reduce improper payments. While the IRS has implemented some of TIGTA's recommendations, it has not taken actions to address key recommendations aimed at preventing or reducing EITC improper payments. TIGTA also found that the methodology used to compute the FY 2009 EITC improper-payment rate provides a valid estimate of EITC overpayments. The IRS used results from its National Research Program to estimate the 2009 EITC improper payment rate. While one goal of the National Research Program may be to identify noncompliance, the statistical nature of the study provides the IRS with the opportunity to estimate EITC underpayments.

TIGTA recommended that the IRS:

- Establish quantifiable reduction targets and strategies to meet those targets as required by Executive Order 13520; and
- Use the National Research Program sample to estimate instances in which the IRS incorrectly pays less of the EITC than the taxpayer claims (underpayments).

IRS management agreed with the first recommendation, stating that the tax return preparer initiative will enable the IRS to have a baseline against which it can set meaningful reduction targets. The IRS agreed in concept with the second recommendation and planned to explore whether using the National Research Program

²¹ Pub. L. No. 111-204, 124 Stat. 2224.

sample to estimate underpayments is possible and practical. The IRS also noted that its focus on tax return preparers would serve to improve EITC tax returns and further reduce EITC errors.

TIGTA agreed that the regulation of tax-return preparers would have some impact on reducing EITC improper payments. Nonetheless, the IRS's report did not provide details on when or how the IRS planned to measure the impact of the tax return preparer strategy on EITC improper payments. As noted in TIGTA's report, the IRS had just begun implementing the tax return preparer strategy and did not anticipate the strategy would be fully implemented until 2014. Using IRS estimates for FY 2009, it is likely that the IRS will have issued anywhere from \$55 billion to \$65 billion in improper payments by FY 2014.

The loss of billions of dollars in improper EITC payments annually calls for more aggressive and immediate actions to reduce improper payments. Executive Order 13520 requires that the IRS intensify its efforts and sets targets to reduce EITC improper payments. The IRS has not met this requirement, and as a result, the risk remains high that no significant improvement will be made in reducing improper EITC payments.

Reference No. 2011-40-023

Significant Problems Still Exist With the Internal Revenue Service's Efforts to Identify Prisoner Tax Refund Fraud

Refund fraud committed by prisoners is increasing at a significant rate. The number of fraudulent prisoner tax returns identified by the IRS has more than doubled from 18,103 tax returns in Calendar Year 2004, to 44,944 tax returns in Calendar Year 2009. Fraudulent refunds claimed by prisoners rose from \$68.1 million to \$295.1 million during the same period.

TIGTA's review identified that, as of October 2010, the IRS had not completed required agreements to allow it to disclose prisoner tax return information to prison officials. As a result, no information had been disclosed to either the Federal Bureau of Prisons or State Departments of Corrections.

In addition, the Calendar Year 2009 Report to Congress on prisoner fraud was incomplete. The report stated that the IRS identified 44,944 fraudulent prisoner tax returns during Calendar Year 2009. However, the processes the IRS uses to identify prisoner tax returns may result in the IRS understating the amount of prisoner fraud. In addition, the process used by the IRS's Criminal Investigation function to compile the 2009 prisoner data file identified a lack of managerial oversight to ensure the accuracy and reliability of this file.

As a result, TIGTA recommended that the IRS work with the Department of the Treasury to seek legislation to extend the period of time that the IRS has to disclose prisoner tax return data to the Federal Bureau of Prisons and State prison officials. TIGTA also recommended that the IRS:

- Revise the annual report to provide Congress with a complete assessment of potential prisoner fraud;
- Ensure that all tax returns filed by prisoners are processed through the Electronic Fraud Detection System and receive a prisoner indicator;
- Revise prisoner filters to validate wages and withholding associated with prisoners incarcerated for a year who filed tax returns claiming a refund; and
- Develop a process to assess the reliability (accuracy and completeness) of data received from Federal and State prisons.

IRS management agreed with most of the recommendations.

Reference No. 2011-40-009

Taxpayer Protection and Rights

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

The Income Verification Express Services Program Needs Improvements to Better Protect Tax Return Information

Borrowers cannot obtain loans unless they sign a consent that allows the IRS to disclose their nonpublic income information to their lenders. Lenders can obtain this income information from the Income Verification Express Services (IVES) Program. Taxpayers' Personally Identifiable Information is at risk of theft or misuse when taxpayers submit IVES Program requests for tax return information through third parties because controls are insufficient to ensure taxpayer information that the IRS provides to IVES Program participants is protected.

As a result, TIGTA recommended that the IRS:

- Develop and enforce minimum requirements for the IVES Program;
- Update the IVES Program application to include a statement that taxpayer information can only be used for the purpose the taxpayer intended as well as ensuring the current version is provided to all applicants, posted on IRS.gov, and the only version accepted;
- Within one year of revising the IVES Program application, contact and obtain a completed application from all current IVES Program participants; and
- Revise transcript request forms to allow taxpayers to limit lenders' disclosure of their tax return information to nonaffiliated third parties only in the course of processing or selling their loan.

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

Reference No. 2011-40-014

Taxpayer Payments Were Improperly Transferred to the Excess Collection File

Taxpayer payments that cannot be applied to the proper taxpayer account are transferred to the Excess Collection File (XSF). The IRS did not always properly document and approve requests for transfers or adequately notify taxpayers of their right to have payments refunded before it transferred the payments to the XSF. This situation creates an increased risk that taxpayers will not recover their payments.

As a result, TIGTA recommended that the IRS improve the guidance and forms associated with the XSF program to ensure more consistent processing, approval, and communication with taxpayers.

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

Reference No. 2011-30-020

Leveraging Data to Improve Program Effectiveness and Reduce Costs

While the IRS has made 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 that can be used to evaluate performance measures, productivity, and the associated costs of IRS programs. In addition, the IRS cannot produce timely, accurate, and useful information needed for day-to-day decisions, hindering its ability to address financial management and operational issues to fulfill its responsibilities.

Publishing and Mail Costs Need to Be More Effectively Managed to Reduce Future Costs

Part of the IRS's mission is to help taxpayers understand and meet their tax responsibilities. To assist taxpayers in complying with their tax filing obligations, the IRS provides forms with instructions and publications to individual and business taxpayers. The FY 2010 publishing and mail budget exceeded \$272 million.

The IRS is reducing publishing and mail costs, however recent reductions have resulted from budget cuts and not as part of a long-term strategy. In response to the cost savings proposed in the FY 2011 budget request, the IRS formed a task force to identify ways to achieve cost savings. The task force proposed 25 actions to reduce publishing and mail costs and laid the foundation for long-term implementation of cost reductions for FY 2011 and beyond.

However, the task force proposal did not include documentation to show the methodology used to make the proposals, how the estimates were calculated or validated, or how the IRS will measure the results or the cost savings of the proposals.

The task force believed that reducing the mailings of forms instead of eliminating them was a more cautious approach, affecting fewer taxpayers in the short term. Nevertheless, IRS executives decided to eliminate all mailings of tax packages for U.S. Individual Income Tax Return (Form 1040), partnerships, and corporations in FY 2011 in order to meet the cost savings presented in the FY 2011 budget request. This could increase burden and reduce compliance for those taxpayers who rely on receiving these packages by mail.

As the IRS moves forward with a proposed cost savings plan or pursues other methods of saving publishing and mail costs, it needs to implement sufficient controls and procedures to ensure that the methodology for the decisions are documented and that the data used are accurate and complete. In addition, these controls should be part of a long-term strategy to continually assess publishing and mail costs and identify opportunities for cost reductions and efficiencies.

TIGTA recommended that the IRS:

- Establish and implement a system of internal controls to ensure that savings and cost data related to the elimination or reduction of mailing tax products are current and reliable; and
- Develop a strategy to ensure that publishing and mail costs are continually evaluated. This strategy should include goals and measures, as well as steps to monitor the effect on taxpayer burden and compliance.

IRS management agreed with the recommendations and stated that corrective actions had been taken.

Reference No. 2011-40-025

Protect the Integrity of Tax Administration

TIGTA's Office of Investigations' (OI) unique statutory mandate includes the responsibility to protect the revenue that funds the Federal Government. TIGTA's work touches every citizen of the United States every day, because the revenue it protects provides for the health, safety, welfare, and common defense of every American. TIGTA's statutory mandate is substantially broader than that of most Offices of Inspectors General. While all Offices of Inspectors General combat waste, fraud, and abuse, TIGTA is also statutorily charged with protecting the integrity of Federal tax administration.

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

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

TIGTA's Investigative Performance Model

TIGTA's investigations are based on a performance model that focuses on OI's three primary areas of investigative responsibility: employee integrity; employee and infrastructure security; and external attempts to corrupt Federal tax administration. The use of the performance model enables OI to direct its resources to the most critical areas, as illustrated below.



OI's strategic plan is designed to adapt to the IRS's constantly evolving operations and to mitigate intensified risks associated with responses to threats and attacks directed against IRS employees and infrastructure, and to protect the integrity of IRS operations by detection and deterrence of waste, fraud, abuse, or misconduct. OI accomplishes its strategic mission objectives with performance measures, defined as the percentage of results from investigative activities which most accurately align with the mission of the organization, and which provide the greatest impact on the protection of the integrity of Federal tax administration.

During this reporting period, OI processed 4,315 complaints, and opened 1,822 investigations. OI remains dedicated to work impacting integrity programs, threat and assault investigations, and other criminal and administrative investigations such as bribery, theft, impersonation, taxpayer abuses, and false statements. Between October 1, 2010 and March 31, 2011, OI closed 1,823 investigations which included 705 cases of employee misconduct referred for action and 102 cases accepted for criminal prosecution. OI investigations also resulted in the identification of 437 taxpayers who may pose a danger to IRS employees and infrastructure. OI's contract and procurement investigations continue to produce high dollar recoveries. OI's investigative activities resulted in \$60 million placed into the United States' treasury.

Current Challenges

Physical violence, harassment, and intimidation of IRS employees pose some of the most significant challenges to the implementation of a fair and effective system of Federal tax administration. OI is committed to protecting approximately 100,000 employees and more than 700 facilities throughout the country. OI will continue to place a priority on its oversight of IRS employee safety and physical security.

Threats have accounted for 40 percent of OI's work during this reporting period. OI has experienced an increase in threats and assaults directed towards IRS employees and/or infrastructure. When a taxpayer threatens or assaults an IRS employee, TIGTA responds and an investigation ensues. As part of the investigation, a TIGTA special agent will contact the taxpayer and conduct a law-enforcement interview. Depending upon the facts and outcome of the investigation, if needed, TIGTA will provide an armed escort for the IRS employee when he or she meets with the taxpayer.

OI's Armed Escort Program allows IRS employees to request that TIGTA's special agents escort them when they require personal contact with a potentially dangerous taxpayer. Using armed escorts, TIGTA is able to provide a safe environment for the IRS employee to conduct tax administration functions. Since October 1, 2010, TIGTA has conducted 29 armed escorts.

OI adapts its oversight activities to address increasingly complex and high-risk issues associated with IRS operations. This adaptation includes improvement of the detection and investigation of electronic crimes. The migration of Federal tax administration's operations to the Internet and electronic environment has increased the risks of cyber attacks, both internally and externally. Sophisticated attacks can now be launched from anywhere in the world, with substantial, potential damage to the individual taxpayer and the Nation's critical financial infrastructure.

The IRS Modernization Program and the protection of confidential taxpayer information from inadvertent or deliberate misuse, improper disclosure, or destruction represent a continued risk to the IRS. Protection of taxpayers against privacy violations is of critical importance, and OI will continue to dedicate its resources toward ensuring that the unauthorized access (UNAX) of taxpayer information is detected, investigated, and prevented.

Mitigation Strategies

OI has implemented several mitigation strategies to meet current challenges. OI has forged new partnerships to strengthen its ability to deal with current and future threats that are directed against the IRS and its employees. To further enhance the safety and security of IRS personnel, OI has partnered with the following IRS Offices: the Office of Physical Security and Emergency Preparedness (PSEP); the Office of Online Fraud Detection and Prevention (OFDP); the Situational Awareness Management Center (SAMC); the Office of Privacy; and the Computer Security Incident Response Center.

As a result, the IRS Threat Information and Critical Response Initiative (TIRC) was developed. The TIRC was created to allow for the effective review and dissemination of threat information to IRS stakeholders in support of the critical employee safety mission. The TIRC serves as a focal point for the timely and efficient sharing of threat information, including cyber and Internet-based threats, to maximize the IRS's ability to engage in appropriate threat mitigation.

On October 1, 2010, OI established three new divisions that are aligned to apply dedicated resources to critical areas of need. This reorganization forms the framework upon which OI will base its threat and internal corruption strategy. The realignment created the Electronic Crimes and Intelligence Division. The goal of this division is to focus resources in the areas of advanced electronic criminal intelligence investigative activities as well as to leverage OI's existing resources to support the IRS TIRC.

The realignment also created a stand-alone Procurement Fraud Division (PFD). The PFD's mission is to protect the IRS against external attempts to corrupt Federal tax administration involving IRS procurements. The PFD conducts comprehensive investigations to uncover corruption within the Federal Government contracting processes. Additionally, the PFD launched new collaborative efforts with the TIGTA's Office of Audit (OA) in furtherance of the FY 2011 strategic initiatives. These strategic initiatives promote enhanced communications with TIGTA's OA to help identify contract fraud indicators. Strategies such as employing the use of advanced data analysis techniques and fraud indicator training will augment the efforts of this strategic alliance and maximize resources dedicated to protecting the interests of taxpayers.

Finally, the realignment created the Strategic Enforcement and Data Integrity Division. This realignment combines the resources of the Investigation Development Group, the Research Development and Operational Support Group, the Modernized UNAX Development Group, and TIGTA's Atlanta-based Data Center Warehouse. This newly configured division will better leverage all of the agency's data needs in support of both current and future proactive initiatives.

Employee Integrity Investigations

IRS employee misconduct (criminal and administrative) weakens the public's trust in the Government and impedes effective Federal tax administration. The goal is to detect, investigate, and neutralize IRS employee criminal and administrative misconduct.

The following cases are examples of employee integrity investigations conducted during this period:

Internal Revenue Service Revenue Officer Indicted for Stealing Approximately \$160,000 in Taxpayer Funds

By indictment filed on December 13, 2010, in New York, Fern Stephens, an IRS revenue officer, was indicted on one count each of mail fraud, theft of public monies, and fraud in connection with computers.²²

As a revenue officer, Stephens was responsible for the collection of taxes from individuals and corporations. As a condition of employment, Stephens was required to sign an annual certification stating that she would not access tax records in IRS databases except in connection with her official duties. From March 2003 through November 2010, Stephens used her position to steal taxpayer funds held by the IRS by devising a scheme involving the use of an IRS database. Stephens made false computer entries that documented purported requests to transfer corporate or business entity tax refunds or payments causing the IRS to issue checks, wires, and credits to Stephens's relatives and close associates. Stephens caused approximately 20 fraudulent credit transfers, from approximately 14 taxpayer victims, to be sent to eight of her relatives or close associates.²³

IRS Employee Indicted for Embezzlement and Theft

On October 5, 2010, in Ohio, Vonda Edmonds was indicted on one count of embezzlement and theft. Beginning about September 27, 2005, and continuing thereafter until on or about October 27, 2005, in the Southern District of Ohio, Edmonds, an employee of the IRS, embezzled taxpayers' payments to the IRS in various amounts through 50 or more transactions over approximately one month until a loss in the amount of \$3,915.04 was realized. Edmonds converted the funds to which she was not lawfully entitled, to her own use.²⁴

Alice Rodriguez Charged with Unauthorized Access

On January 11, 2011, in California, IRS employee Alice Rodriguez was charged with the unauthorized access to a computer. On or about April 21, 2010, Rodriguez, while an IRS employee, accessed electronically stored Federal tax information on the IRS's electronic system without authorization, on 49 occasions²⁵

Vandetta Logan Pleads Guilty to Charges of Unauthorized Inspection of Tax Return Information

On January 13, 2011, in Michigan, Vandetta Logan pleaded guilty to the unauthorized inspection of tax return information. Logan worked as an individual taxpayer advisory specialist for the IRS from April 16, 1986 through January 21, 2010. On December 17,

²² S.D.N.Y. Indict. filed Dec. 13, 2010.

²³ *Id.*

²⁴ S.D. Ohio Indict. filed Oct. 5, 2010.

²⁵ E.D. Cal. Info. filed Jan. 11, 2011.

2009, she inspected the Federal tax account of a taxpayer without authorization and outside of her employment duties.²⁶

Catherine Griffin Indicted for the Unauthorized Use of an Internal Revenue Service Computer Network System

On February 22, 2011, in Georgia, Catherine Griffin was indicted for altering taxpayer information. According to the indictment, Griffin, an IRS employee, intentionally and knowingly accessed an IRS computer network system without authorization and altered taxpayer information for the purposes of private financial gain. Griffin received approximately \$8,000 from other individuals for her acts.²⁷

Employee and Infrastructure Security

Tax revenue is critical to our Nation's infrastructure. Threats and assaults to IRS employees, data, and facilities impede the Department of the Treasury from administering effective tax administration. The goal is to detect, investigate, and deter external attempts to threaten or attack tax administration.

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

Nathaniel Ellison Indicted by Grand Jury

On December 15, 2010, in Alabama, Nathaniel Ellison was indicted on one count of threatening to assault and murder Federal officials; one count of interstate transmission of a communication threatening to injure IRS employees; and one count of an attempt to interfere with the administration of Internal Revenue laws.²⁸

On or about November 15, 2010, Ellison threatened over the telephone to injure IRS employees. He threatened to assault, murder, and retaliate against IRS employees while they were engaged in the performance of their official duties. Ellison also, by threats of force, endeavored to intimidate an employee acting in an official capacity and obstructed and impeded the due administration of the Internal Revenue laws.²⁹

²⁶ E.D. Mich. Plea Agr. filed Jan. 13, 2011.

²⁷ N.D. Ga. Indict. filed Feb. 22, 2011.

²⁸ M.D. Ala. Indict. filed Dec. 15, 2010.

²⁹ *Id.*

Michael Wayne Patterson Pleads Guilty to Making a False Threat of Hoax for Mailing Envelopes Containing White Powder to the Internal Revenue Service and Social Security Administration

On December 10, 2010, in Texas, Michael Wayne Patterson pleaded guilty to making a false threat of hoax.³⁰ According to an affidavit filed in support of the criminal complaint, on or about August 14, 2010, an envelope containing a plastic ziplock baggie, filled with an unknown white powder, was delivered to the IRS facility in Austin, Texas. After IRS employees opened the envelope and discovered the white powder, the facility was evacuated. The powder was later tested and was determined to be baking soda.³¹

On or about August 16, 2010, employees at the U.S. Postal Service Dallas Main Post Office discovered an envelope, addressed to a Social Security Administration (SSA) facility in Baltimore, Maryland, leaking white powder. Investigators opened the envelope; inside was a small piece of foil containing a white powder. The powder was tested and was also determined to be baking soda.³²

TIGTA's Forensic Science Laboratory (FSL) analyzed the handwriting on the envelopes sent to the IRS and to the SSA. It was determined that the handwriting on the IRS and SSA envelopes matched. The FSL also compared the handwriting on the two envelopes to handwriting on two greeting cards Patterson sent to a former girlfriend. The FSL concluded that the handwriting on the greeting cards matched the handwriting on the envelopes sent to the IRS and the SSA. Fingerprints found on the greeting cards were also matched to Patterson.³³

Don Lawrence Asheim Indicted for False Information and Hoaxes

On October 19, 2010, in Illinois, Don Lawrence Asheim was indicted for False Information and Hoaxes. According to the indictment, on April 30, 2010, Asheim placed a white powdery substance in an envelope addressed to an individual at the IRS. Enclosed in the envelope was Asheim's tax bill which he had altered to remove and obliterate his personally identifiable information in an attempt to conceal his identity. Asheim also wrote various hostile and profane statements upon the tax bill.³⁴

Albert Dermott Sentenced on Attempt to Intimidate and Impede by Threats of Force an Employee of the United States

On February 11, 2011, in Virginia, Albert Dermott was sentenced on one count of attempt to intimidate and impede by threats of force an employee of the United States. Dermott was sentenced to 30 days in jail, five-years supervised release, and ordered to

³⁰ N.D. Tex. Plea Agr. filed Dec. 13, 2010.

³¹ N.D. Tex. Compl. filed Aug. 26, 2010.

³² *Id.*

³³ *Id.*

³⁴ C.D. Ill. Indict. filed Oct. 19, 2010.

pay a \$25 assessment and adhere to special conditions set forth by the court regarding his supervised release.³⁵

On or about October 22, 2010, Dermott contacted an employee of the IRS by cell phone to request a modification to his wage levy, which is automatically debited from his wages to pay unpaid taxes. During his phone conversation with the IRS employee, Dermott became frustrated when the IRS employee advised him that his request could not be granted. Dermott asked where the IRS building was located. After he was given the address, Dermott asked what kind of security the building had and if the building faced the street. The IRS employee asked Dermott why he needed the information and Dermott replied, "Hey, everybody has to do what they got to do." The IRS employee asked, "Why are you saying these things?" Dermott responded, "It doesn't matter. At this point, I'm finished. I can't even pay my rent or my car."³⁶

Again on January 4, 2011, Dermott contacted another IRS employee by cell phone to request that his monthly debits be reduced one time in the amount of \$420 to permit him to purchase a computer for his business. The IRS employee advised Dermott that the requested reduction could not be made. Dermott then advised the employee that on the previous day he had been advised by another IRS representative that such a reduction could occur. When the IRS representative advised that she did not see a record of his call on January 3, 2011, Dermott became argumentative and yelled at the IRS employee, "Well, if I blow your building up, you won't do that you [expletive] faced [expletive]."³⁷

Both IRS employees were acting in their official capacities during their communication with Dermott. Dermott, by the threats of force described above, endeavored to intimidate and impede them in the performance of their official duties.³⁸

John Daly Indicted for Threatening to Assault Internal Revenue Service Employees

On February 16, 2011, in Massachusetts, John K. Daly was indicted on two counts of Threatening a Public Official, and two counts of Intimidating a United States Employee Acting in an Official Capacity. According to the indictment, Daly threatened to assault an employee of the IRS and endeavored to obstruct the Internal Revenue Code.³⁹

³⁵ E.D. Va. J. Doc. filed Feb. 11, 2011.

³⁶ E.D. Va. Stat. of Fact filed Feb. 10, 2011.

³⁷ *Id.*

³⁸ *Id.*

³⁹ D. Mass. Indict. filed Feb. 16, 2011.

External Attempts to Corrupt Tax Administration

External attempts to corrupt tax administration inhibit the Department of the Treasury's ability to collect revenue and also undermine the public's confidence in fair and effective tax administration. The goal is to detect, investigate, and neutralize external attempts to corrupt tax administration.

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

Belarusian National Pleads Guilty to Participation in International Online Tax Refund Scheme

On January 19, 2011, in Massachusetts, Mikalai Mardakhayeu, a Belarusian national and resident of Nantucket, Massachusetts, pleaded guilty to charges of conspiracy and wire fraud for his participation in an international online scheme to steal income tax refunds from United States taxpayers around the country.⁴⁰ According to court records, from 2006 through 2007, Mardakhayeu and his co-conspirators operated websites that falsely represented to be authorized by the IRS to offer low-income taxpayers free online tax return preparation and electronic tax return filing (e-filing).

After taxpayers uploaded their tax information, co-conspirators in Belarus collected the data and altered the returns to direct the refunds to United States bank accounts controlled by Mardakhayeu and, in some cases, to inflate the refund amounts. The co-conspirators then caused the fraudulently altered returns to be e-filed with the IRS. The co-conspirators ultimately caused the IRS and various State treasury departments to deposit approximately \$200,000 in stolen refunds into bank accounts controlled by Mardakhayeu.⁴¹

Rene Coleman Pleads Guilty to Bribery of Internal Revenue Service Employee

On February 3, 2011, in Mississippi, Rene Coleman pleaded guilty to bribery of a public official.⁴² On or about June 16, 2010, Coleman offered \$1,000 to an IRS employee to unlawfully reduce the tax liability Coleman owed to the IRS. Coleman had also been indicted for corruptly giving \$2,100 to an IRS employee with the intent to eliminate, by half, Coleman's tax obligations owed to the IRS on or about July 8, 2010.⁴³

⁴⁰ D. Mass. Plea Agr. filed Jan. 19, 2011; D. Mass. Indict. filed June 23, 2010.

⁴¹ D. Mass. Indict. filed June 23, 2010.

⁴² S.D. Miss. Plea Agr. filed Feb. 3, 2011.

⁴³ S.D. Miss. Indict. filed Sept. 10, 2010.

David Eye Sentenced for Corrupt Interference With the Internal Revenue Code

On February 14, 2011, in West Virginia, David Eye was sentenced to five-years probation and ordered to pay a \$100 assessment after having pleaded guilty to Corrupt Interference with the I.R.C.⁴⁴

According to the previously filed indictment, from on or about March 16, 2007 to on or about April 28, 2008, Eye corruptly endeavored to obstruct and impede the due administration of the I.R.C. by, among other things:

- On or about March 16, 2007, Eye caused a document entitled “NOTICE OF LIEN/COMMERCIAL SECURITY AGREEMENT ON FILE” to be filed when in fact Eye knew there was no such lien;
- On or about May 14, 2007, Eye caused a letter regarding “NOTICE OF SETTLEMENT AND CLOSURE OF FEDERAL TAX LIEN” to be filed when in fact Eye knew there was no such settlement or closure;
- On or about August 22, 2007, an agent acting for Eye appeared at a public auction for the right, title and interest of Eye’s certain real property and placed a winning bid of \$75,000, leaving a \$5,000 deposit and a balance of \$70,000 to be paid by September 21, 2007; and
- On or about September 14, 2007, Eye purported to pay the \$70,000 balance with a document entitled “BONDED PROMISSORY NOTE,” when Eye knew the document had no legal monetary value.⁴⁵

Stephanie Bare Indicted for the Misuse of the Department of the Treasury’s Names and Symbols

On February 8, 2011, in Tennessee, Stephanie Bare was indicted on various charges including the Misuse of the Department of the Treasury’s Names and Symbols. According to the indictment, on about January 1, 2005 through on or about February 28, 2010, Bare knowingly devised a scheme to defraud and obtain money from victims. The purpose of the scheme was to obtain money and property from individuals by falsely claiming that Bare and another person had received a large inheritance which was frozen by the IRS and by falsely claiming that the IRS would release the large inheritance only upon the payment of tax liens.⁴⁶

As part of the scheme, on about July 29, 2009, Bare used the title of an officer or employee of the IRS and the abbreviations or initials of the IRS on documents and electronic communications which were provided to victims in order to obtain money and things of value.⁴⁷

⁴⁴ N.D. W. Va. J. filed Feb. 14, 2011.

⁴⁵ N.D. W. Va. Indict. filed Feb. 18, 2009.

⁴⁶ E.D. Tenn. Indict. filed Feb. 8, 2011.

⁴⁷ *Id.*

Joseph Aluya Sentenced for Stealing Portions of Tax Refunds

On February 14, 2011, in California, Joseph Aluya was sentenced to 27 months in prison to be followed by three years of supervised release. He was also ordered to pay \$380,705.39 in restitution and a \$500 special assessment.⁴⁸

According to the plea agreement, Aluya is a California Tax Education Council registered tax preparer. From approximately 2003 through 2007, Aluya operated the businesses Joseph Ayula Paradigm Financial and Paradigm Realty. Aluya devised a scheme to defraud his clients by preparing two sets of Federal income tax returns for each client and convincing the clients to allow him to electronically file their Federal tax return Forms 1040. On the tax return provided to the client, Aluya usually inflated the amount of tax owed which would make the refund amount lower than it should have been. Aluya would then file a correct tax return with the IRS which showed a higher refund amount. Aluya kept the difference for himself. Aluya's clients were unaware of the situation and believed the tax return they received from Aluya was the tax return filed with the IRS.⁴⁹

Aluya admits that he knowingly stole portions of his client's tax refunds. From calendar years 2003 to 2007, Aluya stole \$321,492.39.⁵⁰

⁴⁸ C.D. Cal. J. and Probation/Commitment Order filed Feb. 14, 2011.

⁴⁹ C.D. Cal. Plea Agr. filed June 1, 2010.

⁵⁰ *Id.*



Advancing Oversight of America's Tax System

TIGTA's Office of Inspections and Evaluations (I&E) provides responsive, timely, and cost-effective inspections and evaluations of challenging areas within the IRS, providing TIGTA with additional flexibility and capability to produce value-added products and services to improve tax administration. Its work is not a substitute for audits and investigations; in fact, its findings may result in subsequent audits and/or investigations.

The Office has two primary product lines: inspections and evaluations.

The purpose of inspections is to:

- 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 waste, fraud, abuse, and mismanagement.

The purpose of evaluations is to:

- 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:

Additional Oversight Could Improve the Occupational Safety and Health Program

This project was initiated to determine whether the IRS takes appropriate steps to identify, correct, or reduce the impact of hazards in the workplace that could cause individuals physical harm. TIGTA found that the IRS's Occupational Safety and Health program includes policies and guidelines, program evaluations, and systems designed to report and document injuries and illnesses, and track hazards in the workplace. The IRS also developed the Graphic Database Interface (GDI) system to document, track and analyze safety-inspection results. As evidenced by the decline in the number of accident and injury claims, the IRS has a proactive approach to minimize workplace hazards.

The IRS's Occupational Safety and Health program needs additional oversight in the areas of data management and program enforcement. This includes enhancing the capabilities of the GDI system and increasing oversight to ensure safety inspections are completed timely and effectively. TIGTA found that the GDI system was not fully operational and was not consistently used by IRS employees involved in the safety review process. Additionally, there were no controls in place to ensure safety inspections were completed effectively and timely. TIGTA's inspections of a sample of IRS facilities identified a number of safety hazards.

TIGTA recommended that the Chief, Agency-Wide Shared Services (AWSS) fully implement the GDI system or employ a similar means to effectively collect and analyze safety-inspection data. The Chief, AWSS, should also increase management oversight to ensure safety inspections are completed timely and effectively.

In their response to the report, IRS officials stated the Chief, AWSS has begun to enhance the data reporting capabilities of the GDI system and implement a plan to improve its use. Furthermore, the Chief, AWSS will implement an action plan for improving communication, oversight, and management of the safety inspection program. Particularly, the safety and health staff will ensure safety inspections are completed on time and entered into the GDI system.

Report Reference No. 2011-IE-R002

American Recovery and Reinvestment Act of 2009

The *American Recovery and Reinvestment Act of 2009* (Recovery Act)⁵¹ was enacted on February 17, 2009. The Recovery Act presents significant challenges to all Federal agencies as they move to implement provisions quickly while attempting to minimize risks and meet increased standards for transparency and accountability. With its 56 tax provisions (20 related to individual taxpayers and 36 related to business taxpayers), the Recovery Act poses significant challenges to the IRS as the Nation's tax collection agency and administrator of the tax laws. These provisions will continue to challenge the IRS as it implements the required changes over multiple filing seasons.

TIGTA has issued numerous reports related to the IRS's efforts to implement Recovery Act tax provisions. For this six-month reporting period, TIGTA issued the following:

Overall, the Making Work Pay Credit Was Implemented As Intended by Congress, but Resulted in Many Taxpayers Owing Taxes With Their Returns

The Making Work Pay Credit is advanced to taxpayers through their wages by a decrease in Federal income tax withholding. This created the vulnerability that some taxpayers had their taxes under-withheld at the end of 2009 or 2010. If taxpayers were advanced more of the Making Work Pay Credit than they were entitled to, they may have ultimately owed taxes when they filed their 2009 tax returns and may owe taxes when they file their 2010 tax returns. These taxpayers may have been or could be assessed the Estimated Tax Penalty.

TIGTA recommended that the IRS should:

- Consider including simplified withholding adjustment instructions on the IRS website for specific scenarios that could result in underwithholding, in the case of future credits that are implemented by changes in the withholding tables; and
- Identify those taxpayers that owed any Estimated Tax Penalty as a result of the Making Work Pay Credit and notify them of their right to have the portion of the Penalty related to the credit abated.

IRS management agreed with most of the recommendations and planned to continue outreach efforts, but declined to contact taxpayers who owed any penalty based on the Making Work Pay Credit. TIGTA was concerned that the IRS's corrective actions were not adequate.

Reference No. 2011-41-002

⁵¹ Pub. L. No. 111-5, 123 Stat. 115.

Individuals Received Millions of Dollars in Erroneous Plug-in Electric and Alternative Motor Vehicle Credits

The Recovery Act included a number of provisions that encouraged the purchase of motor vehicles that operate on clean renewable sources of energy. Individuals claimed more than \$163.9 million in plug-in electric and alternative motor vehicle credits from January 1, 2010 through July 24, 2010. Agencies are required to ensure that Recovery Act funds are used for authorized purposes and appropriate measures are taken to prevent waste, fraud, and abuse.

As of July 24, 2010, TIGTA identified 12,920 individuals who electronically filed their tax returns and erroneously claimed \$33 million in plug-in electric and alternative motor vehicle credits. In addition, 1,719 of the 12,920 individuals erroneously reduced the amount of Alternative Minimum Tax they owed by almost \$5.3 million. During this review, IRS management took corrective actions to reduce erroneous claims when process weaknesses were brought to their attention. These actions resulted in an estimated \$3.1 million in protected revenue. The erroneous claims that TIGTA identified resulted from inadequate IRS processes to ensure information reported by individuals claiming plug-in electric and alternative motor vehicle credits met qualifying requirements for vehicle year, placed in-service date, and make and model.

TIGTA recommended that the IRS:

- Develop procedures to disallow credits for vehicles with nonqualifying years;
- Initiate actions to recover erroneous credits that TIGTA identified; and
- Either develop a coding system to identify vehicle makes and models or require the Vehicle Identification Number to be listed on the forms used to claim plug-in electric and alternative motor vehicle credits.

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

Reference No. 2011-41-011

Administration of the First-Time Homebuyer Credit Indicates a Need for Improved Controls Over Refundable Credits

Homebuyers who purchased a home in 2008, 2009, or 2010 were able to take advantage of the First-Time Homebuyer Credit (Homebuyer Credit). The Homebuyer Credit allowed eligible taxpayers to claim up to an \$8,000 refundable credit on their tax return. Fraudulent and erroneous Homebuyer Credits totaling millions of dollars in refunds were issued, revealing a need for not only stronger controls over claims for the Homebuyer Credit, but also for strengthening controls over all refundable credits.

The IRS has taken positive steps to strengthen controls and help prevent inappropriate Homebuyer Credits from being issued. Primary among these controls was the implementation of filters to identify questionable claims for the Credit before they are

processed. Additionally, legislation granted the IRS math error⁵² authority to deny Homebuyer Credits if proper documentation was not provided by the taxpayer. However, the implementation of the filters and passage of this legislation occurred after many Homebuyer Credits had already been issued, including fraudulent and erroneous credits totaling millions of dollars.

Control weaknesses identified allowed potentially erroneous refunds of more than \$513 million to be received by taxpayers who most likely did not qualify for the Homebuyer Credit. Furthermore, during the final phase of this audit, TIGTA identified additional IRS employees who made questionable claims for the Credit.

As a result, TIGTA recommended that the IRS:

- Require taxpayers to provide documentation to support eligibility for all refundable tax credits and seek legislation that would provide the IRS with math error authority to deny refundable credits when supporting documentation is not provided;
- Ensure that the processing of refundable credits provided for in late legislation be initiated only after sufficient controls can be implemented to protect the Government from erroneous and fraudulent claims for these credits; and
- Take additional steps to recover erroneous credits discussed in this report, including claims for: purchases from related persons; invalid addresses; a taxpayer's previous address; and invalid acquisition dates.

IRS management partially agreed with one of the recommendations and agreed with the others. However, TIGTA believed that the IRS needed to take a much more timely and proactive approach to prevent fraudulent claims for refundable credits than they agreed to take in their response.

Reference No. 2011-41-035

The IRS Accurately and Timely Accounted for American Recovery and Reinvestment Act Fund Expenditures During the Period of February 17, 2009 through September 30, 2009

TIGTA conducted an inspection of the IRS's compliance with implementing the guidance⁵³ issued by the Office of Management and Budget (OMB)⁵⁴ for the Recovery Act. This report presented the results of the inspection to verify the accuracy of the IRS's accounting and timeliness of reporting Recovery Act procurement expenditures.

⁵² A program in which the IRS contacts taxpayers through the mail or by telephone when it identifies mathematical errors or mismatches of taxpayer information that would result in a tax change.

⁵³ 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.

⁵⁴ OMB has the primary responsibility for developing government-wide rules and procedures to ensure funds are awarded and distributed in a prompt and fair manner. Uses of funds are transparent to the public; and steps are taken to mitigate waste, fraud, and abuse.

The IRS accurately and timely reported Recovery Act procurements and was in substantial compliance with the OMB's Implementing Guidance during the period of February 17, 2009 through September 30, 2009. The IRS purchased goods and services totaling almost \$14 million⁵⁵ during the inspection period. Further, the IRS appropriately obtained nearly 82 percent of the total available discounts for Recovery Act-related procurements. For Recovery Act expenditures, the IRS executed adequate internal controls to ensure timely and accurate reporting. However, its controls and processes were not formally documented. Earlier this year, TIGTA identified a lack of written procedures regarding Recovery Act procurement requirements.⁵⁶

To assist in ensuring proper documentation of Recovery Act expenditures, TIGTA recommended that the IRS finalize the documentation of its Recovery Act procurement processes. The IRS agreed with the recommendation and completed a Policy and Procedures Memorandum which documents its Recovery Act procurement processes.⁵⁷

Reference No. 2011-IE-R001

⁵⁵ The IRS received Recovery Act related invoices totaling \$13,754,127.75 and paid \$13,641,554.49; realizing \$112,573.26 in discounts of the maximum available discounts of \$137,541.28, for 81.8 percent.

⁵⁶ TIGTA, Ref. No. 2010-11-071, *Additional Actions Are Needed to Ensure Readiness to Comply With the American Recovery and Reinvestment Act of 2009 Procurement Requirements 3* (June 2010).

⁵⁷ Policy and Procedures Memorandum No. 70.26 entitled, "American Recovery and Reinvestment Act of 2009" was approved on November 17, 2010.

An Organization That Values Its People

TIGTA employees were honored at the 13th Annual Council of the Inspectors General on Integrity and Efficiency's (CIGIE) Awards Ceremony, held on October 12, 2010, at the Andrew W. Mellon Auditorium. Several TIGTA employees received awards for their excellent work and dedication or courage while performing duties for the Office of the Inspector General.

TIGTA's Office of Investigation (OI) Austin Group was honored with the Sentner Award, accepted on their behalf by Special Agent Keith Feldman, for their dedication and courage in identifying, interdicting, and mitigating potential threats directed at the IRS and its employees. OI also won an Award for Excellence for the Tyler Bomb Investigation, with the award being accepted by Special Agent Andy Farwell. OI's Edward Bosak was also honored for his work on the Information Technology Fees Case – EMC Corporation Investigative Team joint investigation.

On December 7, 2010, Inspector General J. Russell George recognized the exemplary achievements of TIGTA employees through the 2010 Inspector General Award Program. Each recipient was recognized for his or her commitment to excellence in public service on behalf of TIGTA. The recipients' accomplishments demonstrate high mission impact, major contributions to customers and stakeholders, ingenuity and innovation, and significant quantifiable results. There were five individual award recipients and three group awards from the Office of Audit (I.R.C. § 6707A Penalty Audit Team, First-Time Homebuyer Credit Audit Team, 2010 Filing Season Implementation Team); one group award each from the Office of Inspections and Evaluations (Pandemic Influenza Preparedness Inspection Team) and Office of Mission Support (Security and Compliance – Cyber Security Team). The following are some highlights and pictures taken during the ceremony.

Daniel K. Carney, Special Agent, Office of Investigations

TIGTA's primary mission is to protect the integrity of tax administration, and as a critical piece of this mission, investigate all allegations of criminal misconduct by IRS employees. Dan's perseverance and extraordinary efforts in the investigation of stolen money orders from June 2009 through December 2009, illustrated his commitment to achieving this mission. Special Agent Daniel Carney is recognized with this honorary award based on his excellent investigation which resulted in the sentencing, imprisonment, and the order of restitution for the IRS employees indicted in this case.



Pictured above from left to right, Principal Deputy Inspector General Joseph Hungate, Deputy Inspector General for Investigations Timothy Camus, Special Agent Daniel K. Carney, and Inspector General J. Russell George.

Keith D. Feldman, Special Agent, Office of Investigations

Special Agent Keith D. Feldman demonstrated outstanding investigative skills and leadership while completing 50 investigations. Four of Agent Feldman's investigations were accepted for prosecution and 43 investigations resulted in administrative actions.



Pictured above from left to right, Principal Deputy Inspector General Joseph Hungate, Deputy Inspector General for Investigations Timothy Camus, Special Agent Keith D. Feldman, and Inspector General J. Russell George.

Robert W. Lesnevich, Quality Assurance Manager, Beltsville Investigative Support Center, Office of Investigations

Robert Lesnevich was TIGTA's Lead Forensic Document Analyst when he was asked to spearhead the efforts to get the lab accredited by the American Society of Crime Laboratory Directors Laboratory Accreditation Board (ASCLD/LAB). Robert immediately attended an accreditation course and became instrumental in obtaining professional accreditation for the lab. There are many important reasons for a laboratory to attain accreditation; one of which is that it stops a whole line of credibility questioning of in-court testimony. Under Robert's inspired leadership, laboratory staff re-wrote large parts of the quality assurance and operations manuals to exactly reflect their procedures. In conclusion, Robert almost single-handedly addressed issues and encouraged staff to rise to the challenge and succeed. Since the Forensic Science Laboratory is asked to assist with many other Federal Inspector General cases, the accreditation indirectly benefits the entire Inspector General community.



Pictured above from left to right, Principal Deputy Inspector General Joseph Hungate, Deputy Inspector General for Investigations Timothy Camus, Quality Assurance Manager Robert W. Lesnevich, and Inspector General J. Russell George.

East Texas Pipe Bomb Task Force - Team members include:

Andy Farwell, Special Agent
Sam Johnson, Special Agent
Gary Smith, Special Agent
Paul Compton, Special Agent

TIGTA special agents demonstrated superior skills, dedication, and sacrifice while conducting one of TIGTA's most significant investigations during this nomination period. This group's hard work resulted in the arrest of an individual who was terrorizing the East Texas area by leaving explosive devices in various locations near Tyler, Texas. These explosive devices included Molotov cocktails and pipe bombs. This investigation took on added significance as it came within a month of the attack on an IRS building in Austin, Texas, that resulted in the loss of the life of one IRS employee. TIGTA's special

agents developed leads throughout the community that eventually led to the identity of the suspect and a subsequent arrest on April 7, 2010. Through their efforts, these Special Agents demonstrated excellence in law enforcement and their professionalism reflected highly on the Inspector General community.



Pictured above from left to right, Principal Deputy Inspector General Joseph Hungate, Deputy Inspector General for Investigations Timothy Camus, Special Agent Gary Smith (accepting the IG Award on behalf of the team), and Inspector General J. Russell George.

Audit Statistical Reports Reports With Questioned Costs

TIGTA issued one audit report with questioned costs during this semiannual reporting period.⁵⁸ 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.

| Reports With Questioned Costs | | | |
|--|----------|--|-------------------------------------|
| Report Category | Number | Questioned Costs ⁵⁹ (in thousands) | Unsupported Costs (in thousands) |
| 1. Reports with no management decision at the beginning of the reporting period | 5 | \$164,637 | \$82,147 |
| 2. Reports issued during the reporting period | 1 | \$187 | \$0 |
| 3. Subtotals (Item 1 plus Item 2) | 6 | \$164,824 | \$82,147 |
| 4. Reports for which a management decision was made during the reporting period. | | | |
| a. Value of disallowed costs | 0 | \$0 | \$0 |
| b. Value of costs not disallowed | 0 | \$0 | \$0 |
| 5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4) | 6 | \$164,824 | \$82,147 |
| 6. Reports with no management decision within six months of issuance | 5 | \$164,637 | \$82,147 |

⁵⁸ See Appendix II for identification of audit reports involved.

⁵⁹ “Questioned costs” includes “unsupported costs.”

Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued two audit reports during this semiannual reporting period with the recommendation that funds be put to better use.⁶⁰ 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 Additional Child Tax Credit; or
- Any other savings that are specifically identified.

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

| Reports With Recommendations That Funds Be Put to Better Use | | |
|--|----------|--------------------------|
| Report Category | Number | Amount (in thousands) |
| 1. Reports with no management decision at the beginning of the reporting period | 0 | \$0 |
| 2. Reports issued during the reporting period | 2 | \$525,728 |
| 3. Subtotals (Item 1 plus Item 2) | 2 | \$525,728 |
| 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 | 2 | \$400,726 |
| ii. Based on proposed legislative action | 0 | \$0 |
| b. Value of recommendations to which management did not agree | 1 | \$125,002 |
| 5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4) | 0 | \$0 |
| 6. Reports with no management decision within six months of issuance | 0 | \$0 |

⁶⁰ 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 Department of the Treasury 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 and 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.

| Reports With Additional Quantifiable Impact on Tax Administration | | | |
|--|---------------------------------------|------------------------------------|------------------------------------|
| Outcome Measure Category | Number of Reports⁶¹ | Number of Taxpayer Accounts | Dollar Value (in thousands) |
| Increased Revenue | 4 | 26,943 | \$106,865 |
| Revenue Protection | 2 | 15,837 | \$44,060 |
| Reduction of Burden on Taxpayers | 1 | 11,148,277 | \$0 |
| Taxpayer Rights and Entitlements at Risk | 5 | 2,502,854 | \$239,876 |
| Taxpayer Privacy and Security | 0 | 0 | \$0 |
| Inefficient Use of Resources | 0 | 0 | \$0 |
| Reliability of Management Information | 5 | 40 | \$186,987 |
| Protection of Resources | 1 | 0 | \$220 |

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

- Increased Revenue: Reference Numbers 2011-30-005 and 2011-30-013; and
- Taxpayer Rights and Entitlements at Risk: Reference Numbers 2011-30-004 and 2011-30-016.

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

- Reliability of Management Information: Reference Numbers 2011-40-009; 2011-40-010; 2011-30-008; and 2011-10-015.

⁶¹ See Appendix II for identification of audit reports involved.

Investigations Statistical Reports

| Significant Investigative Achievements | |
|---|---------------------|
| October 1, 2010 – March 31, 2011 | |
| Complaints/Allegations Received by TIGTA | |
| Complaints against IRS Employees | 2,126 |
| Complaints against Non-Employees | 2,189 |
| Total Complaints/Allegations | 4,315 |
| Status of Complaints/Allegations Received by TIGTA | |
| Investigations Initiated | 1,425 |
| In Process within TIGTA ⁶² | 352 |
| Referred to IRS for Action | 356 |
| Referred to IRS for Information Only | 825 |
| Referred to a Non-IRS Entity ⁶³ | 1 |
| Closed with No Referral | 1,051 |
| Closed with All Actions Completed | 305 |
| Total Complaints | 4,315 |
| Investigations Opened and Closed | |
| Total Investigations Opened | 1,822 |
| Total Investigations Closed ⁶⁴ | 1,823 |
| Financial Accomplishments | |
| Embezzlement/Theft Funds Recovered | \$47,516,144 |
| Court Ordered Fines, Penalties and Restitution | \$12,195,368 |
| Out-of-Court Settlements | 0 |
| Total Financial Accomplishments | \$59,711,512 |

| Status of Closed Criminal Investigations | | | |
|---|-----------------|---------------------|--------------|
| Criminal Referrals⁶⁵ | Employee | Non-Employee | Total |
| Referred – Accepted for Prosecution | 28 | 78 | 106 |
| Referred – Declined for Prosecution | 293 | 246 | 539 |
| Referred – Pending Prosecutorial Decision | 38 | 89 | 127 |
| Total Criminal Referrals | 359 | 413 | 772 |
| No Referral | 464 | 587 | 1,051 |

⁶² Complaints for which final determination had not been made at the end of the reporting period.

⁶³ A non-IRS entity includes other law enforcement entities or Federal agencies.

⁶⁴ Closed investigations that are pending an administrative or criminal action.

⁶⁵ Criminal referrals include both Federal and State dispositions.

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

| Criminal Dispositions⁶⁶ | | | |
|---|-----------------|---------------------|--------------|
| | Employee | Non-Employee | Total |
| Guilty | 14 | 52 | 66 |
| Nolo Contendere (no contest) | 1 | 0 | 1 |
| Pre-trial Diversion | 3 | 3 | 6 |
| Deferred Prosecution ⁶⁷ | 0 | 1 | 1 |
| Not Guilty | 0 | 1 | 1 |
| Dismissed ⁶⁸ | 4 | 7 | 11 |
| Total Criminal Dispositions | 22 | 64 | 86 |

| Administrative Dispositions on Closed TIGTA Investigations⁶⁹ | |
|--|--------------|
| | Total |
| Removed, Terminated, or Other | 389 |
| Suspended/Reduction in Grade | 101 |
| Oral or Written Reprimand/Admonishment | 107 |
| Closed – No Action Taken | 64 |
| Clearance Letter Issued | 52 |
| Employee Resigned Prior to Adjudication | 74 |
| Non-Internal Revenue Service Employee Actions ⁷⁰ | 410 |
| Total Administrative Dispositions | 1,197 |

⁶⁶ Final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.

⁶⁷ 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.

⁶⁸ Court dismissed charges.

⁶⁹ Final administrative dispositions during the reporting period. This data may pertain to investigations referred administratively in prior reporting periods and does not necessarily relate to the investigations closed in the Investigations Opened and Closed table.

⁷⁰ 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 the 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 Department of the Treasury management officials.

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|---|----------------|---------------------------|--|
| 2005-40-026 | Providing Quality Taxpayer Service Operations | February 2005 | 10/01/11 | <p><i>Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement</i></p> <p><u>F-1, R-2, 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 | 10/01/11 | <p><i>The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses</i></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> |
| 2005-10-129 | Providing Quality Taxpayer Service Operations | September 2005 | 01/15/12 | <p><i>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low-Income Taxpayer Clinic Grant Program</i></p> <p><u>F-1, R-1, P-2.</u> Establish goals and performance measures for the Low-Income Taxpayer Clinic program to assist Congress and the IRS in evaluating the success of the program.</p> |
| 2007-10-082 | Tax-Exempt Organizations | May 2007 | 06/15/11 | <p><i>Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified</i></p> <p><u>F-1, R-1, P-1.</u> 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.</p> |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|---------------------------------|----------------|---------------------------|---|
| 2008-40-087 | Complexity of the Tax Law | March 2008 | 12/15/11 05/15/11 | <i>Individual Retirement Account Contributions and Distributions Are Not Adequately Monitored to Ensure Tax Compliance</i> 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 | 12/15/13 | <i>The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed</i> F-2, R-1, P-1. Create a single data entry point for processing Withholding Compliance Program cases and, provide lock-in-letter issuance authority to other IRS functions. |
| 2008-40-180 | Tax Compliance Initiatives | September 2008 | 09/15/11 | <i>Most Automated Underreporter Notices Are Correct; However, Additional Oversight Is Needed</i> 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 | <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> 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. |
| 2009-10-041 | Human Capital | February 2009 | 04/15/11 | <i>Workforce Planning Efforts Are Hindered by Lack of Comprehensive Information on Employee Skills Levels</i> F-1, R-2, P-4. Develop a detailed plan to guide the IRS's overall skills gaps assessment effort and coordinate the multifunctional participation necessary to ensure the success of the effort. |
| 2009-30-068 | Taxpayer Compliance Initiatives | May 2009 | 03/15/11 | <i>Expanded Information Reporting Should Increase the Proper Reporting of Farm Income, But Additional Steps Could Be Taken</i> F-2, R-1, P-1. Develop compliance strategies for ensuring more Commodity Credit Corporation income payments are properly reported. |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|--|----------------|--|--|
| 2009-10-107 | Improving Performance and Financial Data for Program and Budget Decisions | July 2009 | 06/15/13 01/15/14 | <i>Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases</i> F-1, R-2, P-1. Develop a comprehensive national policy regarding workstation sharing for the flexiplace program and the ratio of flexiplace employees to a shared workstation. F-1, R-4, P-1. 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. |
| 2009-40-112 | Taxpayer Compliance Initiatives | August 2009 | 12/15/11 | <i>Mortgage Interest Data Could Be Used to Pursue More Nonfilers and Underreporters</i> F-1, R-1, P-1. Explore the feasibility of making greater use of mortgage interest data to pursue additional nonfilers and underreporters for audit. |
| 2009-10-121 | Improving Performance and Financial Data for Program and Budget Decisions | September 2009 | 07/15/11 11/15/11 06/15/11 | <i>The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel</i> F-1, R-2, P-2, P-3. Reevaluate the structure and size to ensure an appropriate balance between staff and budgetary resources used to support the Panel. F-2, R-1, P-1. Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently. F-4, R-1, P-2. 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. |
| 2009-40-130 | Processing Returns and Implementing Tax Law Changes During the Tax Filing Season | September 2009 | 09/15/11 | <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> F-1, R-2, P-1. 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. |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|------------------------------------|----------------|---------------------------|--|
| 2009-40-138 | Taxpayer Protection and Rights | September 2009 | 01/15/12 | Combat Zone Indicators on Taxpayer Accounts Are Frequently Inaccurate <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 inaccurate Combat Zone indicators that were incorrectly reactivated for 339,027 taxpayers. |
| | | | 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. |
| 2010-40-005 | Providing Quality Taxpayer Service | December 2009 | 08/15/12 | Individual Taxpayer Identification Numbers Are Being Issued Without Sufficient Supporting Documentation <u>F-3, R-1, P-1.</u> Ensure the data on the Real-Time System are accurate and validate the records that indicate an agent submitted the application to ensure that the Individual Taxpayer Identification Number Program has accurate and reliable data to oversee the Program. |
| | | | 08/15/12 | <u>F-3, R-2, P-1.</u> Develop procedures and internal controls to monitor the Real-Time System to ensure information entered is accurate. |
| 2010-10-012 | Taxpayer Compliance Initiatives | December 2009 | 09/30/11 | Additional Process Improvements Are Needed Due to Continued Growth in the Voluntary Correction Program for Retirement Plans <u>F-1, R-1, P-2, P-3.</u> Ensure the Voluntary Correction Program provides timely service to those in the retirement plan community who are attempting to bring their retirement plans into compliance with tax-exempt laws. |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|---------------------------------|--------------|--|---|
| 2010-40-017 | Erroneous and Improper Payments | January 2010 | 11/15/11 | <i>Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds</i> F-1, R-1, P-1. Perform a comprehensive analysis during the 2010 Filing Season to determine the average time to complete one unit of work for each of the transitioned activities. |
| 2010-30-023 | Taxpayer Compliance Initiatives | March 2010 | 12/15/11 | <i>Lien Determinations Were Untimely or Not Made Appropriately For Over \$1.4 Billion in Delinquent Taxes</i> F-3, R-1, P-1. Consider assessing liens on those modules in the queue with a balance due between \$5,000 and \$25,000 that meet the Study criteria before shelving. |
| 2010-30-025 | Taxpayer Compliance Initiatives | March 2010 | 09/15/11 01/15/12 | <i>Employment Tax Compliance Could Be Improved With Better Coordination and Information Sharing</i> F-1, R-1, P-1. Create an audit code to flag paper returns that have an incomplete Form 8919 attached. F-1, R-4, P-1. Ensure that paper and electronically filed returns with Forms 8919 attached are compared to filed Forms SS-8 through a post-filing compliance program. Ensure that paper returns flagged during processing are reviewed and any noncompliance addressed. |
| 2010-20-027 | Taxpayer Protection and Rights | March 2010 | 06/15/11 05/15/11 09/15/11 09/15/11 09/15/11 | <i>Additional Security Is Needed For Access to the Registered User Portal</i> F-1, R-1, P-1. Require suitability checks on delegated users who e-file tax returns or access the e-Services incentive products and disable the principal consent feature on e-Services that allows a user to propagate his or her privileges to other users. F-1, R-2, P-1. Stop overturning the Fraud Detection Center's recommendations and revise the appeal procedures for e-file applicants and other tax professionals who fail their suitability check. F-1, R-3, P-1. Enhance the e-file application on the Third-Party Data Store to post the complete results of the Automated Suitability Analysis Program's spouse tax compliance check. F-1, R-5, P-1. Make passwords more difficult to guess by unauthorized individuals and decrease the use of Social Security Numbers as usernames. F-1, R-6, P-1. Implement a control to allow users to answer a series of challenge questions to unlock their accounts. |
| 2010-20-028 | Security of the IRS | March 2010 | 12/01/11 | <i>Additional Security Controls Are Needed to Protect the Automated Collection System</i> F-1, R-3, P-1. Make the identity access provisioning and management solution a top priority. |

TIGTA Semiannual Report to Congress

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|------------------|---------------------------------|------------|---------------------------|---|
| 2010-30-032 | Taxpayer Compliance Initiatives | March 2010 | 09/15/12 | <p><i>Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement</i></p> <p><u>F-1, R-1, P-1, P-2.</u> Submit a request to revise the computer programming to allow taxpayers only one additional automatic skip per 12-month period and include only individual taxpayers in the processing routine.</p> |
| 2010-40-042 | Taxpayer Protection and Rights | March 2010 | 09/15/11 09/15/11 | <p><i>The Screening and Monitoring of E-File Providers Has Improved, but More Work Is Needed to Ensure the Integrity of the E-File Program</i></p> <p><u>F-2, R-1, P-2.</u> Implement controls to ensure that the monitoring visit procedures are being followed.</p> <p><u>F-2, R-2, P-2.</u> Ensure information reported is accurate and the results of the monitoring visits are used to improve and measure the effectiveness of the e-File Program.</p> |
| 2010-40-043 | Taxpayer Compliance Initiatives | March 2010 | 10/15/12 | <p><i>A Service-wide Strategy Is Needed to Address Growing Noncompliance With Individual Retirement Account Contribution and Distribution Requirements</i></p> <p><u>F-1, R-1, P-1.</u> Ensure a service-wide strategy is developed to address retirement provision noncompliance.</p> |
| 2010-40-045 | Security of the IRS | March 2010 | 09/15/11 | <p><i>Telephone Authentication Practices Need Improvement to Better Prevent Unauthorized Disclosures</i></p> <p><u>F-3, R-1, P-1.</u> Incorporate available technology to authenticate callers in the queue as part of the development of the Authentication Retention Project.</p> |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|-------------------------------|----------|---------------------------|---|
| 2010-20-044 | Modernization of the IRS | May 2010 | | <i>Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program</i> |
| | | | 07/15/11 | <u>F-1, R-1, P-1.</u> Ensure that policies and procedures are established to evaluate and determine which best practices to implement to improve data center energy efficiency. |
| | | | 11/15/11 | <u>F-1, R-2, P-1.</u> Ensure information technology equipment energy use is measured in order to determine the energy efficiency and savings from implementing energy improvements. |
| | | | 07/15/11 | <u>F-1, R-3, P-1.</u> Ensure employee workstations and information technology equipment and non-information technology equipment and furniture that are no longer needed are removed from the data centers. |
| | | | 03/01/12 | <u>F-1, R-4, P-1.</u> Ensure current and future data center space needs are identified and plans developed to consolidate or reduce excess data center space. |
| | | | 11/15/14 | <u>F-1, R-5, P-1.</u> Ensure energy audits are performed at the data centers. |
| | | | 04/15/11 | <u>F-2, R-1, P-1.</u> Ensure that a governance process is established to evaluate, select, and approve recommendations and projects to implement. |
| | | | 04/15/11 | <u>F-2, R-2, P-1.</u> Ensure that a database of all recommendations and projects to improve energy efficiency and the environment is established. |
| 2010-20-051 | Security of the IRS | May 2010 | 09/30/11 | <i>Taxpayer Data Used at Contractor Facilities May Be at Risk for Unauthorized Access or Disclosure</i> <u>F-2, R-1, P-1.</u> Validate correction of the Cybersecurity Infrastructure Security and Reviews office reported security weaknesses and recommend a process for reporting weaknesses that remain unmitigated to increase the accountability of the responsible parties for remediation of security weaknesses. |
| 2010-10-054 | Human Capital | May 2010 | 04/15/11 | <i>Additional Actions Are Needed to Measure and Evaluate the Impact of the Pay-For-Performance System on Recruiting, Retaining, and Motivating Highly Skilled Leaders</i> <u>F-2, R-2, P-1, P-2.</u> Define a process where Pay-for-Performance system issues are assessed at least annually. |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|--|-----------|--|--|
| 2010-20-056 | Modernization of the IRS | June 2010 | 06/01/11 10/15/11 12/15/11 | <p><i>Additional Efforts Are Needed to Implement the Electronics Stewardship Program and Maximize the Energy Efficiency of Desktop Computer Equipment</i></p> <p><u>F-1, R-2, P-1, P-2.</u> Develop an implementation strategy and plan to ensure the applicable energy-efficient practices such as power management for desktop computers and duplex printing outlined in the Electronics Stewardship Program and Implementation Plan are implemented, as soon as possible, to the maximum degree based on the IRS's mission needs.</p> <p><u>F-2, R-1, P-1.</u> Implement an effective process to timely review training records and ensure employees complete required annual training by the June 30 due date.</p> <p><u>F-2, R-2, P-1.</u> Develop a tracking system to support the ongoing review of the IRS's efforts in acquiring electronic products of which at least 95 percent are Electronic Product Environmental Assessment Tool-registered.</p> |
| 2010-30-061 | Taxpayer Compliance Initiatives | June 2010 | 01/15/14 01/15/14 | <p><i>Plans Exist to Engage the Tax Preparer Community in Reducing the Tax Gap; However, Enhancements Are Needed</i></p> <p><u>F-1, R-1, P-1.</u> Update the existing IRS Strategic Plan and ensure strategic plans have all of the information in the plans as required by the <i>Government Performance and Results Act of 1993</i> and Office of Management and Budget Circular A-11 (Preparation, Submission, and Execution of the Budget).</p> <p><u>F-2, R-1, P-1.</u> Define and include in the IRS Strategic Plan sufficient measures that will provide data that can be used to monitor the IRS's efforts to achieve objectives aimed at strengthening partnerships with tax practitioners and paid preparers to ensure effective tax administration.</p> |
| 2010-41-069 | Implementing Health Care and Other Tax Law Changes | June 2010 | 09/15/11 09/15/11 09/15/11 09/15/11 | <p><i>Additional Steps Are Needed to Prevent and Recover Erroneous Claims for the First-Time Homebuyer Credit</i></p> <p><u>F-1, R-1, P-1.</u> Ensure that steps are taken to reconcile prisoner files from year-to-year to account for individuals known to be incarcerated in a given year but not included on the current year's prisoner file.</p> <p><u>F-1, R-2, P-1.</u> Ensure that steps are taken to recover fraudulent Homebuyer Credits refunded to prisoners.</p> <p><u>F-2, R-1, P-1.</u> Perform a computer run similar to TIGTA's to identify multiple taxpayers claiming the same home for the Homebuyer Credit and perform post-refund examinations to ensure refunds for the invalid claims are recovered.</p> <p><u>F-3, R-1, P-1.</u> Identify those claims for homes purchased prior to the effective date of the legislation and initiate post-refund examinations to ensure refunds for the invalid claims are recovered.</p> |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|--|-------------|--|---|
| 2010-40-062 | Erroneous and Improper Payments | July 2010 | 01/15/12 | <p><i>Better Use of Available Third-Party Data Could Identify and Prevent More Than One Billion Dollars in Potentially Erroneous Refunds</i></p> <p><u>F-1, R-3, P-1.</u> Work with the Department of the Treasury, Office of Tax Policy, to obtain limited math error authority so that the IRS can freeze refunds while contacting taxpayers with a questionable age for certain filing statuses, taxpayers shown as deceased based on Social Security Administration information, and taxpayers with questionable EITC claims based on age difference.</p> |
| 2010-20-084 | Security of the IRS | August 2010 | 09/30/11 02/01/12 09/30/11 | <p><i>More Actions Are Needed to Correct the Security Roles and Responsibilities Portion of the Computer Security Material Weakness</i></p> <p><u>F-1, R-1, P-1.</u> Update the Internal Revenue Manual (IRM) to include all information technology security roles in existence at the IRS and the related responsibilities for each of these roles; establish recurring processes and communications to ensure security roles and responsibilities in the IRM are periodically reviewed and updated and alignment between the IRM and the training curriculum is maintained; and establish a process to periodically collect, update, and review security role-related procedures and guidelines to ensure day-to-day procedures align with current IRS policy.</p> <p><u>F-2, R-1, P-1.</u> Develop an effective and repeatable method to identify all IRS and contract employees performing in established information technology security roles; include all IRS and contract employees performing in information technology security roles in the population for potential selection in the compliance assessments; and develop adequate procedures to validate compliance with current security role-related responsibilities through compliance assessments that incorporate supporting evidence of proper execution of assigned responsibilities.</p> <p><u>F-3, R-1, P-1.</u> Ensure adequate and accurate metrics are established that assess progress and can be analyzed to develop actions to further improve implementation of security roles and responsibilities policy.</p> |
| 2010-41-086 | Implementing Health Care and Other Tax Law Changes | August 2010 | 09/15/11 09/15/11 | <p><i>A Comprehensive Strategy Is Being Developed to Identify Individuals With First-Time Homebuyer Credit Repayment Requirements</i></p> <p><u>F-1, R-1, P-1.</u> Correct the purchase dates for the 68,924 accounts that were identified as having incorrect purchased dates recorded.</p> <p><u>F-2, R-1, P-1.</u> Ensure that the 798 individuals who were identified as being deceased prior to the purchase of the home are entitled to claim the Homebuyer Credit.</p> |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|------------------------------------|----------------|--|---|
| 2010-40-091 | Globalization | August 2010 | 01/15/12 | Improvements Are Needed to Reduce Erroneous Foreign Earned Income Exclusion Claims F-1, R-4, P-1. Include programming to forward tax returns to the Error Resolution System for correction if the individual incorrectly computes the foreign earned income. |
| 2010-30-095 | Taxpayer Compliance Initiatives | August 2010 | 10/15/11 P-1: 02/15/12 P-2: 04/15/11 | The Collection Field Function Did Not Take All Appropriate Collection Actions Prior to Closing In-Business Taxpayer Accounts as Currently Not Collectible F-1, R-1, P-2. Ensure training is provided with additional emphasis on the importance of securing, verifying, and analyzing financial information. F-1, R-2, P-1, P-2. Ensure the Integrated Collection System and IRM are updated to include verification of income and expense requirements. |
| 2010-30-104 | Taxpayer Compliance Initiatives | September 2010 | 06/15/13 | Currency Report Data Can Be a Good Source for Audit Leads F-1, R-1, P-1. Explore the feasibility of making greater use of Currency Transaction Reports to pursue additional nonfilers and underreporters for audit. |
| 2010-40-108 | Providing Quality Taxpayer Service | September 2010 | 01/15/13 01/15/12 01/15/12 | Toll-Free Telephone Access Exceeded Expectations, But Access for Hearing- and Speech-Impaired Taxpayers Could Be Improved F-1, R-1, P-1. Revise the various taxpayer instructions, including notices, for calling the IRS to clearly explain that the Tele-Typewriter/Telecommunications Device (TTY/TDD) number is for hearing- and speech-impaired individuals. F-1, R-2, P-1. Revise the various taxpayer publications and IRS pages to include the Federal Relay Service website and toll-free telephone number as a means to communicate with the IRS. F-1, R-3, P-1. Determine whether it would be more efficient to move the Atlanta, Georgia, workstation to Dallas, Texas, or Indianapolis, Indiana, where the majority of the TTY/TDD calls are received and have the two sites serve as each other's backup. |
| 2010-40-109 | Providing Quality Taxpayer Service | September 2010 | 06/15/11 | Improvements to the Volunteer Program Are Producing Positive Results, But Further Improvements Are Needed to the Quality Assurance Process F-2, R-1, P-1. Develop an initiative to help reduce or eliminate paper products at Volunteer Program sites. |

TIGTA Semiannual Report to Congress

| Reference Number | IRS Management Challenge Area | Issued | Projected Completion Date | Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.) |
|------------------|--|----------------|--|--|
| 2010-40-121 | Taxpayer Compliance Initiatives | September 2010 | 04/15/11 07/15/11 04/15/11 01/15/12 | <p><i>Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States</i></p> <p><u>F-1, R-1, P-1.</u> Ensure that plans developed during the course of the audit to address the control weaknesses discussed in the report are implemented.</p> <p><u>F-1, R-3, P-1.</u> Determine whether it would be feasible to require payers issuing multiple Forms 1042-S to issue a single summary Form 1042-S at the end of the calendar year to simplify reporting for the United States business and third-party payer and decrease taxpayer burden.</p> <p><u>F-2, R-1, P-1.</u> Use the Foreign Country Codes on Form 1040NR to ensure that the correct tax rate has been applied</p> <p><u>F-3, R-2, P-1.</u> Clarify instructions on what constitutes United States source income in United States Tax Guide for Aliens (Publication 519) and Withholding of Tax on Nonresident Aliens and Foreign Entities (Publication 515) in regard to income from multi-level marketing companies.</p> |
| 2010-40-127 | Taxpayer Compliance Initiatives | September 2010 | 09/15/11 P1: 09/15/11 P2: 09/15/12 09/15/12 | <p><i>It Will Take Years to Implement the Return Preparer Program and to Realize Its Impact</i></p> <p><u>F-1, R-1, P-1.</u> Provide sufficient resources to verify professional credentials for all attorneys and Certified Public Accountants applying for a Preparer Tax Identification Number (PTIN).</p> <p><u>F-1, R-2, P-1, P-2.</u> Establish controls to ensure PTIN applicants with domestic addresses are United States citizens or legal aliens, and the Social Security Number of the PTIN applicant is not the Social Security Number of a deceased person.</p> <p><u>F-1, R-3, P-1.</u> Complete the study comparing the four preparer programs to gain an understanding of the basis for the requirements and if they should apply to each program; to ensure consistencies in the requirements and suitability testing among the program; and to identify any overlaps, including user fees, among the programs.</p> |
| 2010-41-128 | Implementing Health Care and Other Tax Law Changes | September 2010 | 07/15/11 | <p><i>Verifying Eligibility for Certain New Tax Benefits Was a Challenge for the 2010 Filing Season</i></p> <p><u>F-5, R-1, P-1.</u> Ensure programming is implemented to identify and freeze refunds of individuals claiming more than a specific dollar amount in Qualified Motor Vehicle Tax deductions on Schedule A.</p> |



Other Statistical Reports

| <i>The Inspector General Act of 1978 requires Inspectors General to address the following issues:</i> | |
|---|--|
| Issue | Result for TIGTA |
| <p>Access to Information</p> <p>Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p> | <p>As of March 31, 2011, there were no instances where information or assistance requested by the Office of Audit was refused.</p> |
| <p>Disputed Audit Recommendations</p> <p>Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p> | <p>As of March 31, 2011, there were no instances where significant recommendations were disputed.</p> |
| <p>Revised Management Decisions</p> <p>Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p> | <p>As of March 31, 2011, no significant management decisions were revised.</p> |
| <p>Audit Reports Issued in the Prior Reporting Period With No Management Response</p> <p>Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.</p> | <p>As of March 31, 2011, there were no prior reports where management's response was not received.</p> |
| <p>Review of Legislation and Regulations</p> <p>Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p> | <p>TIGTA's Office of Chief Counsel reviewed 135 proposed regulations and legislative requests during this reporting period.</p> |



Appendix II Audit Products October 1, 2010 – March 31, 2011

| Audit Products | |
|-------------------------|--|
| Reference Number | Report Title |
| October 2010 | |
| | N/A |
| November 2010 | |
| 2011-41-002 | Overall the Making Work Pay Credit Was Implemented As Intended by the Congress, but Resulted in Many Taxpayers Owing Taxes With Their Returns (Taxpayer Rights and Entitlements: \$24,143,843 and 2,269,158 taxpayers impacted; Taxpayer Burden: 11,148,277 taxpayers) |
| 2011-20-003 | Treasury Inspector General for Tax Administration – <i>Federal Information Security Management Act</i> Report for Fiscal Year 2010 |
| 2011-20-001 | Prototype Process Improvements Will Benefit Efforts to Modernize Taxpayer Account Administration |
| December 2010 | |
| 2011-30-004 | Penalty Cases for Failure to Disclose Reportable Transactions Were Not Always Fully Developed (Taxpayer Rights and Entitlements: 19 taxpayers impacted) |
| 2011-30-005 | Actions Are Needed in the Identification, Selection, and Examination of Individual Tax Returns With Rental Real Estate Activity (Increased Revenue: \$27,274,412) |
| 2011-40-009 | Significant Problems Still Exist With Internal Revenue Service Efforts to Identify Prisoner Tax Refund Fraud (Reliability of Information: 360,540 prisoner records with missing or inaccurate information) |
| 2011-20-006 | The Sustaining Infrastructure Program Is Significantly Improved and a Comprehensive Information Technology Infrastructure Strategy Has Been Developed (Funds Put to Better Use: \$12,395,037; Increased Revenue: \$16,430,630) |
| 2011-40-010 | Multiple Channels Are Used to Provide Information to Small Business Taxpayers, but More Information Is Needed to Understand Their Needs (Reliability of Information: 52 records missing from the Outreach Initiatives Database) |
| January 2011 | |
| 2011-30-008 | Weaknesses Continue to Exist in the Controls Over Investigative Equipment (Protection of Resources: \$219,699; Reliability of Information: 20,795; investigative equipment items not properly controlled in the Criminal Investigation Management Information System) |
| 2011-41-011 | Individuals Received Millions of Dollars in Erroneous Plug-in Electric and Alternative Motor Vehicle Credits (Revenue Protection: \$43,528,926 and 15,741 taxpayers impacted) |
| 2011-40-014 | The Income Verification Express Services Program Needs Improvements to Better Protect Tax Return Information |
| 2011-10-021 | Attestation Review of the Internal Revenue Service's Fiscal Year 2010 Annual Accounting of Drug Control Funds and Related Performance |

TIGTA Semiannual Report to Congress

| February 2011 | |
|----------------------|---|
| 2011-20-012 | Additional Security Is Needed for the Taxpayer Secure Email Program |
| 2011-30-013 | Existing Practices Allowed IRS Contractors to Receive Payments While Owing Delinquent Taxes (Increased Revenue: \$3,766,609) |
| 2011-40-023 | Reduction Targets and Strategies Have Not Been Established to Reduce the Billions of Dollars in Improper Earned Income Tax Credit Payments Each Year |
| 2011-40-022 | The Taxpayer Assistance Centers Are Not Located to Effectively Serve the Maximum Number of Taxpayers |
| 2011-30-019 | Targeted Compliance Efforts May Reduce the Number of Inaccurate Information Returns Submitted by Government Entities (Increased Revenue: \$59,393,655 and 26,943 taxpayers impacted) |
| 2011-20-007 | The Applications Development Function's Quality Assurance Program Office Can Make Its Processes More Effective |
| 2011-30-016 | Progress Has Been Made to Reengineer the Examination Program, but Additional Improvements Are Needed to Reduce Taxpayer Burden (Taxpayer Rights and Entitlements: 209,879 taxpayers impacted) |
| 2011-1C-017 | Cost Impact of Noncompliance With Cost Accounting Standard 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives (Questioned Costs: \$187,283) |
| 2011-1C-018 | Noncompliance With Cost Accounting Standard 409, Depreciation of Tangible Capital Assets |
| 2011-40-025 | Publishing and Mail Costs Need to Be More Effectively Managed to Reduce Future Costs |
| March 2011 | |
| 2011-30-020 | Taxpayer Payments Were Improperly Transferred to the Excess Collection File (Taxpayer Rights and Entitlements: \$204,013,345; Reliability of Information: \$186,987,048 in credits transferred without managerial approval and 40 taxpayers impacted) |
| 2011-10-015 | The Impact of the Frontline Leader Readiness Program on Succession Planning Should Be Determined (Reliability of Information: seven incorrectly reported promotions of Frontline Leader Readiness Program participants) |
| 2011-30-026 | The Initiative to Reduce Compliance Risks Associated With Delinquent Income Tax Returns Filed After a Substitute for Return Assessment Could Be Enhanced |
| 2011-1C-024 | Compliance With Cost Accounting Standard 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives |
| 2011-1C-028 | Contractor's Calendar Year 2007 Incurred Cost Rate Proposal |
| 2011-1C-029 | Follow-up Audit of the Contractor's Office Space Utilization |
| 2011-1C-030 | Limited Scope Audit of the Contractor's Public Sector Billing System Internal Controls |
| 2011-40-031 | Review of the Use of the Electronic Filing Identification Number |
| 2011-30-036 | Fiscal Year 2011 Statutory Review of Compliance With Legal Guidelines When Issuing Levies |
| 2011-40-032 | Interim Results of the 2011 Filing Season |
| 2011-41-035 | Administration of the First-Time Homebuyer Credit Indicates a Need for Improved Controls Over Refundable Credits (Funds Put to Better Use: \$513,332,955; Revenue Protection: \$531,134 and 96 taxpayers impacted; Taxpayer Rights and Entitlements: \$11,718,500 and 23,437 taxpayers impacted.) |

Appendix III

TIGTA's Statutory Reporting Requirements

TIGTA issued five audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2011, TIGTA is working to complete its 13th round of statutory reviews that are required annually by the *IRS Restructuring and Reform Act of 1998* (RRA 98). It will also complete its annual review of the *Federal Financial Management Improvement Act of 1996*, and its annual review of the Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions. The following table reflects the FY 2011 statutory reviews.

| Reference to Statutory Coverage | Explanation of the Provision | Comments/TIGTA Audit Status |
|---|---|-------------------------------------|
| Enforcement Statistics Internal Revenue Code (I.R.C.) Section (§) 7803(d)(1)(A)(i) | Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees. | Audit fieldwork in progress. |
| Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii) | Requires TIGTA to evaluate the IRS's compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted. | Audit in report writing phase. |
| Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii) | Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien. | Draft report issued March 24, 2011. |
| Extensions of the Statute of Limitations for Assessment of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501(c)(4)(B) | Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time. | Audit in report writing phase. |

| Reference to Statutory Coverage | Explanation of the Provision | Comments/TIGTA Audit Status |
|--|---|---|
| <p>Levies 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>Ref. No: 2011-30-036, March 2011 The IRS is protecting taxpayers' rights when issuing systemically generated and manually prepared levies. TIGTA reviewed 30 systemically generated levies identified through the Automated Collection System and Integrated Collection System and determined that systemic controls were effective to ensure that the taxpayers were given notice of their appeal rights at least 30 calendar days prior to the issuance of the levies. In addition, TIGTA identified 60 manual levies issued by employees on those same systems and determined that all the taxpayers were given notice of their appeal rights at least 30 calendar days prior to issuance of the levies.</p> |
| <p>Collection Due Process 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 taxpayers' rights to appeal lien or levy actions.</p> | <p>Audit fieldwork in process.</p> |
| <p>Seizures 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>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation I.R.C. § 7803(d)(1)(A)(v)</p> | <p>An evaluation of the IRS's compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.</p> | <p>Draft report issued March 11, 2011.</p> |
| <p>Disclosure of Collection Activities With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) 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>Audit in planning phase.</p> |

| Reference to Statutory Coverage | Explanation of the Provision | Comments/TIGTA Audit Status |
|--|---|---|
| <p>Taxpayer Complaints I.R.C. § 7803(d)(2)(A)</p> | <p>Requires TIGTA to include in each of its Semiannual Reports to Congress the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p> | <p>Statistical results on the number of taxpayer complaints received are shown on page 59.</p> |
| <p>Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996 I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 RRA 98 § 3466</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>Audit in report writing phase.</p> |
| <p>Denial of Requests for Information I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)</p> | <p>Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p> | <p>Audit fieldwork in progress.</p> |
| <p>Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)</p> | <p>Requires TIGTA to evaluate the IRS's adequacy and security of its technology.</p> | <p>Information Technology Reviews: Ref. No. 2011-20-001, November 2010 Ref. No. 2011-20-006, December 2010 Ref. No. 2011-20-007, February 2011</p> <p>Security Reviews: Ref. No. 2011-20-003, November 2010 Ref. No. 2011-20-012, February 2011</p> |

| Reference to Statutory Coverage | Explanation of the Provision | Comments/TIGTA Audit Status |
|---|--|---|
| <p>Federal Financial Management Improvement Act of 1996 (FFMIA)</p> <p>31 U.S.C. § 3512</p> | <p>Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements or the 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>Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions</p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled <i>Annual Accounting of Drug Control Funds</i>, dated April 18, 2003.</p> | <p>Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.</p> | <p>Ref. No: 2011-10-021, January 2011 TIGTA reviewed the IRS's ONDCP Detailed Accounting Submission and Performance Summary Report for FY 2010, which ended September 30, 2010. 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 appropriately presented in all material respects in accordance with ONDCP-established criteria. The IRS reported that it expended \$61.3 million on ONDCP-related activities and completed 405 ONDCP-related cases that resulted in convictions in FY 2010. The IRS also reported that it participated in 405 ONDCP-related cases that resulted in convictions, with an 82.3 percent conviction rate.</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), the Department of the 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 § 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

Implementing Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act

Inspector General Peer Review Activity October 1, 2010 – March 31, 2011

Last Peer Review Conducted on TIGTA’s Office of Investigations

As part of the three-year cycle of independent peer reviews, the last peer review report covering TIGTA’s Office of Investigations (OI) was issued September 8, 2008, by the United States Department of Justice, Office of the Inspector General. There were no outstanding recommendations included in the Report on the External Quality Assessment Review. Their report stated:

In our opinion, the system of internal safeguards and management procedures for the investigative function of the TIGTA is in compliance with the quality standards established by the PCIE.

TIGTA is scheduled to be reviewed this calendar year by the Social Security, Office of the Inspector General.

Last Peer Review Conducted by TIGTA Office of Investigations


On March 2, 2011, TIGTA’s OI completed the peer review of the United States Department of Labor, Office of the Inspector General (DOL OIG). There were no recommendations included in the Report on the External Quality Assessment Review. The report stated:

After conducting the peer review, it is our opinion that the system of internal safeguards and management procedures for the investigative function of the DOL OIG for the review period are in compliance with the quality standards established by the PCIE, the CIGIE, and the Attorney General’s Guidelines. This review of safeguards and procedures provides reasonable assurances that the DOL OIG is conforming with professional standards related to its investigations.



Appendix VI Data Tables Provided by the IRS

The memorandum copied below is the IRS's transmittal to TIGTA. The tables that follow the memorandum contain information that the IRS provided to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period of October 1, 2010 through March 31, 2011. Also, data concerning substantiated RRA 98 §1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.

| | |
|---|---|
|  <p>DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D.C. 20224</p> <p>HUMAN CAPITAL OFFICE</p> <p>April 5, 2011</p> <p>MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p>FROM: David Krieg <i>David Krieg</i> Director, Workforce Relations Division</p> <p>SUBJECT: Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress</p> <p>In response to your memorandum on February 15, 2011, 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, 2010, to March 31, 2011.</p> <ul style="list-style-type: none">• Report of Employee Misconduct by Disposition Groups;• Report of Employee Misconduct – National Summary; and,• Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS). <p>The attached tables contain information concerning alleged misconduct reported to Internal Revenue Service (IRS) managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of March 31, 2011. 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).</p> <p>The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 86 §1203 allegations and removed eight employees. Three employees retired or resigned prior to a final administrative action by management. In one of the removals IRS managers considered information forwarded in a TIGTA investigation. The Commissioner mitigated proposed removals in 20 cases. There are an additional seven cases to be reviewed by the Commissioner for mitigation.</p> | <p>2</p> <p>If you have any questions, please contact me, or a member of your staff may contact Christine Adams at 202-622-9363.</p> <p>Attachments (3)</p> <p>cc: Commissioner Deputy Commissioner for Services and Enforcement Deputy Commissioner for Operations Support National Taxpayer Advocate Acting Executive Director, Equity, Diversity and Inclusion Chief, Communications & Liaison Associate Chief Counsel (GLS)</p> |
|---|---|

**Reports of Employee Misconduct for the Period
October 1, 2010 through March 31, 2011
National Summary
(Tables 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 ⁷¹ | 478 | 800 | (813) | (0) | (1) | 464 |
| Administrative Case ⁷² | 699 | 1,538 | (1,641) | (25) | (13) | 558 |
| Employee Tax Compliance Case ⁷³ | 452 | 1,692 | (1,631) | (13) | (0) | 500 |
| Background Investigations ⁷⁴ | 164 | 418 | (390) | (0) | (0) | 192 |
| Total | 1,793 | 4,448 | (4,475) | (38) | (14) | 1,714 |

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

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

Extract Date: Monday, April 04, 2011 Report ID = T1R1

⁷¹ TIGTA Report of Investigation (ROI) - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred an ROI to IRS for appropriate action.

⁷² Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

⁷³ Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.

⁷⁴ Background Investigation - Any matter involving a National Background Information Center investigation into an employee's background that is referred to management for appropriate action.

Reports of Employee Misconduct for the Period October 1, 2010 through March 31, 2011 Summary by Disposition Groups (Tables Provided by the IRS)

| Disposition | TIGTA Investigations | Administrative Cases | Employee Tax Matter Cases | Background Investigations | Totals |
|--|----------------------|----------------------|---------------------------|---------------------------|--------------|
| Removal | 42 | 62 | 6 | 6 | 116 |
| Separation of Probationary Employees | 8 | 52 | 4 | 10 | 74 |
| Separation of Temporary Employees | 2 | 9 | 0 | | 12 |
| Resignation/Retirement | 50 | 83 | 36 | 22 | 191 |
| Suspensions | 121 | 213 | 95 | 4 | 433 |
| Reprimands | 124 | 327 | 418 | 10 | 879 |
| Counseling | 20 | 207 | 845 | 51 | 1,123 |
| Alternative Discipline | 22 | 68 | 26 | 6 | 122 |
| Clearance | 53 | 152 | 5 | | 210 |
| Closed Without Action | 175 | 251 | 90 | 129 | 645 |
| Closed Without Action (Caution Statement) | 191 | 174 | 102 | 152 | 619 |
| Forwarded to TIGTA | | 15 | 0 | | 16 |
| Suspended – Waiting Supplemental | 1 | | | | 1 |
| Termination for Abandonment of Position | | 25 | | | 25 |
| Termination for Other Than Job Abandonment | | 3 | | | 3 |
| Case Suspended Pending Employee Return to Duty | 1 | | 0 | | 3 |
| Prosecution Pending for TIGTA ROI's | 3 | | | | 3 |
| Total | 813 | 1,641 | 1631* | 390 | 4,475 |

Notes:

*Columns containing numbers of 2 or less and protected by I.R.C. Section 6103 are annotated with a 0.

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

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

Extract Date: Monday, April 04, 2011 Report ID = T1R3a

**Summary of Substantiated
I.R.C. Section 1203 Allegations
Recorded in ALERTS for the Period
October 1, 2010 through March 31, 2011
(Tables Provided by the IRS)**

| § 1203 Violation | Removals | Resigned/ Retired | Probation Separation | Removed On Other Grounds | Penalty Mitigated ⁷⁵ | In Personnel Process | Total |
|--|----------|----------------------|-------------------------|--------------------------------|------------------------------------|----------------------------|-----------|
| Seizure Without Approval | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| False Statement Under Oath | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| Constitutional & Civil Rights Issues | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| Falsifying or Destroying Records | 1 | 0 | 0 | 1 | 1 | 0 | 3 |
| Assault or Battery | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Retaliate or Harass | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| Misuse of § 6103 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Failure to Timely File/ Under-statement of Tax Liability | 6 | 3 | 0 | 10 | 18 | 39 | 77 |
| Threat to Audit for Personal Gain | 1 | 0 | 0 | 2 | 0 | 0 | 3 |
| Totals | 8 | 3 | 1* | 15 | 20 | 39 | 86 |

Notes:

* Columns containing numbers of 2 or less and protected by I.R.C. Section 6103 are annotated with a 0.

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

Extract Date: Monday, April 04, 2011

⁷⁵ The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third party appeal.

Glossary of Acronyms

| | |
|------------------|--|
| ALERTS | Automated Labor and Employee Relations Tracking System |
| ASCLD/LAB | American Society of Crime Laboratory Directors Laboratory Accreditation Board |
| AWSS | Agency-Wide Shared Services |
| CADE | Customer Account Data Engine |
| CIGIE | Council of the Inspectors General on Integrity and Efficiency |
| CIP | Compliance Initiative Programs |
| DOD | Department of Defense |
| DOL OIG | Department of Labor Office of Inspector General |
| EFIN | Electronic Filing Identification Number |
| EITC | Earned Income Tax Credit |
| FCA | <i>False Claims Act</i> |
| FISMA | <i>Federal Information Security Management Act</i> |
| FSL | Forensic Science Laboratory |
| FY | Fiscal Year |
| GDI | Graphic Database Interface |
| GPRA | <i>Government Performance and Results Act</i> |
| GSA | General Services Administration |
| I&E | Inspections and Evaluations |
| IDRS | Integrated Data Retrieval System |
| I.R.C. | Internal Revenue Code |
| IRM | Internal Revenue Manual |
| IRS | Internal Revenue Service |
| IVES | Income Verification Express Services |
| OA | Office of Audit |

| | |
|------------------|--|
| OFDP | Online Fraud Detection and Prevention |
| OI | Office of Investigations |
| OMB | Office of Management and Budget |
| ONDCP | Office of National Drug Control Policy |
| PCIE/ECIE | President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency |
| PFD | Procurement Fraud Division |
| PSEP | Physical Security and Emergency Preparedness |
| PTIN | Preparer Tax Identification Number |
| RRA 98 | <i>IRS Restructuring and Reform Act of 1998</i> |
| SAMC | Situational Awareness Management Center |
| SB/SE | Small Business/ Self-Employed |
| SBU | Sensitive But Unclassified |
| SSA | Social Security Administration |
| Sun | Sun Microsystems Incorporated |
| TAC | Taxpayer Assistance Center |
| TIGTA | Treasury Inspector General for Tax Administration |
| TIRC | Threat Information and Critical Incident Response Center |
| TTY/ TDD | Tele-Typewriter / Telecommunication Device for the Deaf |
| UNAX | Unauthorized Access |
| XSF | Excess Collection File |

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