

# Semiannual Report to Congress

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Treasury Inspector General for Tax Administration

April 1, 2004 through September 30, 2004



# TIGTA's 5th Anniversary

## A BRIEF HISTORY OF THE TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION (TIGTA)

- In 1952, as a result of a rash of scandals within the Bureau of Internal Revenue, Congress created the Inspection Service. For nearly five decades, the organization served as an internal affairs bureau within the Internal Revenue Service (IRS) and ensured that the IRS Commissioner had full accountability in Federal tax administration.
- One of the duties of the Inspection Service was to protect taxpayer information confidentiality, as defined by Section 6103 of the Internal Revenue Code. With its law enforcement and audit authority, the Inspection Service ensured that the IRS complied with the law.
- The Inspector General Act of 1978 established an independent corps of government professionals to provide accountability throughout the Federal Government. The Inspection Service remained part of the IRS, but was distinct from the Inspector General of the Department of the Treasury.
- TIGTA was established officially in January 1999, in accordance with the IRS Restructuring and Reform Act of 1998 (RRA 98), as a separate entity within the Department of the Treasury. TIGTA is tasked with providing independent oversight of IRS activities by conducting audits and providing investigative services concerning IRS programs and operations.
- 2004 marks TIGTA's 5th Anniversary! TIGTA is proud of its past and focused on its future.



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Seated, left to right: Gordon Milbourn and Joseph Hungate  
 Standing, left to right: Marty Greiner, Pamela Gardiner,  
 Steven Jones and Mary Anne Curtin

## MESSAGE FROM TIGTA'S SENIOR EXECUTIVES

Marking our fifth anniversary as an independent Inspector General affords us the opportunity to reflect on our past and note our accomplishments. On the inside cover of this report is a chronicle of the significant milestones in our corporate history, beginning in 1952, when we were established as the Inspection Service within the Bureau of Internal Revenue. Since TIGTA's creation in 1999, we have had independent status as a distinct bureau within the Treasury Department.

TIGTA realizes that there are continually new threats to the IRS and methods to improve its operations. We do not rest on our laurels, but continue the challenging work that our agency is required to perform. We also strive to improve our internal agency operations. Our Deputy Inspector General for Investigations, Steven Jones, was recently interviewed by the Federal Times (see page 20 in this report). In the article, titled "How to Measure Success at a Law Enforcement Agency," Mr. Jones describes the innovative performance measurement tool he and his fellow executives have developed.

Our audits for the past six months assessed such IRS operational and programmatic issues as systems modernization, tax compliance initiatives, IRS security, integrating performance and financial management, providing quality customer service operations, processing returns and implementing tax law changes, and human capital.

TIGTA accomplishments since inception and for the past six months are summarized in the following table and demonstrate our continuing commitment to helping in the important effort to improve tax administration and protect its integrity, thereby benefiting taxpayers. TIGTA is certainly proud of its past with the many significant accomplishments we have had, including having established excellent working relationships with the IRS and Congress. Our hard working employees are focused on the challenges and opportunities that the future holds as we strive to fulfill our agency's mission and carry out our objectives.

	Number of Audit Reports Completed	Cost Savings Identified	Increased/Protected Revenue	No. of Investigations Opened	No. of Investigations Closed	Regulations/Legislative Requests Reviewed
Since inception (1999)	1,077	\$16.4 billion	\$27.8 billion	25,525	25,289	1,678
April 1, 2004 – Sept. 30, 2004	108	\$337 million	\$1.17 billion	1,691	1,911	171

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# TIGTA'S MISSION, MANDATE AND ORGANIZATIONAL STRUCTURE

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

TIGTA's work is devoted to all aspects of activity related to the Federal tax system as administered by the IRS. TIGTA protects the public's confidence in the tax system by

overseeing the IRS as it strives to achieve its strategic goals, by identifying and addressing the IRS' management challenges, and by implementing the *President's Management Agenda* and the priorities of the Department of the Treasury. TIGTA's primary functional offices are the Office of Audit (OA) and the Office of Investigations (OI). TIGTA's Offices of Chief Counsel, Information Technology, and Management Services support OA and OI efforts. TIGTA conducts audits and investigations designed to:

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

## TIGTA's Statutory Mandate

**Protect** against external attempts to corrupt or threaten IRS employees.

**Provide** policy direction and conduct, supervise and coordinate audits and investigations related to IRS programs and operations.

**Review** existing and proposed legislation and regulations related to IRS programs and operations and make recommendations concerning the impact of such legislation or regulations.

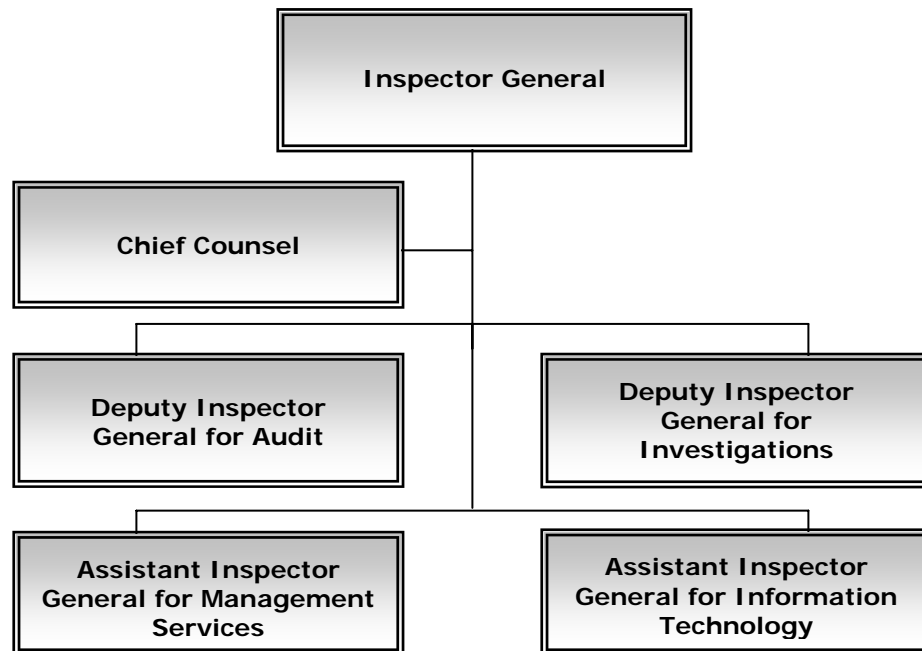
**Promote** economy and efficiency in the administration of tax laws.

**Prevent** and detect fraud and abuse in IRS programs and operations.

**Inform** the Secretary of the Treasury and Congress of problems and deficiencies identified and of the progress made in resolving them.

*Source: TIGTA Strategic Plan, Fiscal Years 2003-2008*

## TIGTA'S ORGANIZATIONAL STRUCTURE



## AUTHORITIES

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

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

<sup>1</sup> 5 U.S.C.A. app. 3 (West Supp. 2003).

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





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*P R O M O T E   T H E   E C O N O M Y ,  
E F F I C I E N C Y ,   A N D  
E F F E C T I V E N E S S   O F   T A X  
A D M I N I S T R A T I O N*

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

Audit recommendations result in cost savings and increased or protected revenue, reduction of taxpayer burden, and protection of: taxpayer rights and entitlements; taxpayer privacy and security; and IRS resources.

Each year, TIGTA identifies the major management challenges facing the IRS. These challenge areas for Fiscal Year (FY) 2004 follow. Audit emphasis is placed on statutory coverage required by the *RRA 98*, as well as on areas of concern to the Commissioner of Internal Revenue, the Secretary of the Treasury, and key stakeholders.

The statutory audits generally address aspects of the major management challenges; however, legislation also provides TIGTA the authority to conduct audits and investigations of the IRS Oversight Board.

**IRS' Major Management Challenges**

- Systems Modernization
- Tax Compliance Initiatives
- Security of the IRS
- Integrating Performance and Financial Management
- Complexity of the Tax Law
- Providing Quality Customer Service Operations
- Erroneous and Improper Payments
- Processing Returns and Implementing Tax Law Changes
- Taxpayer Protection and Rights
- Human Capital

*The following sections highlight significant audits completed during this 6-month reporting period.*

The *RRA 98* established the IRS Oversight Board to oversee the IRS in its administration of internal revenue laws. The IRS Oversight Board has the authority and responsibility to be directly involved in the management, direction, strategy, and long-term operation of the IRS. The Board was specifically granted review and approval authority for strategic plans, the Commissioner's plans for any major reorganization of the IRS, and the IRS budget request submitted by the Commissioner. In addition, the Board was given the responsibility to review, but not to approve operational plans and functions of the IRS including modernization of the tax

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system, and the Commissioner's selection, evaluation, and compensation of IRS senior executives who have program management responsibility over significant functions of the IRS.

In our audit of the Oversight Board, many stakeholders told us the Board has improved IRS governance, as intended by the *RRA 98*. However, some stakeholders were concerned that issues have been brought to the Board's attention each year with no apparent action taken towards resolution.

For example, one responsibility of the Oversight Board is to review and approve the IRS budget before it is submitted to the Department of the Treasury to ensure it adequately supports IRS' strategic priorities. However, there is concern that the Board has not had enough influence in the budget process since previous IRS budgets submitted by the President and those passed by the Congress have been significantly less than those submitted by the Board.

Similarly, the Board was tasked to oversee the IRS' Business Systems Modernization (BSM) efforts which are significantly behind schedule and over budget. Many BSM-related recommendations made by the Board in December 2003 had already been made much earlier by TIGTA and the Government Accountability Office.

TIGTA recommended the Board formalize a process to focus its efforts strategically on the most significant issues facing the IRS, and adopt a process for evaluating and communicating its effectiveness and impact on tax administration. In addition, the Board

should define practices for coordinating with IRS executives and other oversight bodies, develop policies and procedures to evaluate the IRS' efforts and results in achieving savings and efficiencies, and make timely use of independent assessments of the IRS' modernization and other programs.

Further, TIGTA recommended the Board establish guidance to specify which circumstances will require a formal resolution and a process to vote on formally and publish resolutions, and define a system to educate new Board members on IRS operations and strategic issues. The Oversight Board agreed with the recommendations and is implementing corrective action.

**Report Reference No. 2004-10-193**

*The remaining audit summaries in this report fall into IRS' Major Management Challenges categories (see page 7).*

## **SYSTEMS MODERNIZATION**

The IRS has developed an enterprise architecture to guide the BSM program, and the IRS and the PRIME contractor<sup>3</sup> have deployed business systems projects that provide value to taxpayers.

TIGTA reports issued during the past three years have emphasized the need to improve the BSM program. These findings were confirmed by three independent studies and a BSM benchmarking analysis launched by the

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<sup>3</sup> The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology.

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IRS, as well as an internal probe by the PRIME contractor, which resulted in 21 recommendations, 15 of which were similar to those issued in previous TIGTA reports. TIGTA concluded from these reports that BSM weaknesses continue to exist and the IRS and its contractors need to complete planned corrective actions to address the root causes identified in the studies.



IRS computer room with outdated technology

Over the past two fiscal years, TIGTA has cited four primary challenges the IRS and its contractors must overcome to be successful – challenges TIGTA believes still must be met:

- Implement planned improvements in key management processes and commit necessary resources to enable success.
- Manage the increasing complexity and risks of the BSM program.
- Maintain the continuity of strategic direction with experienced leadership.
- Ensure PRIME contractor performance and accountability are effectively managed.

In its response, the IRS agreed with TIGTA's annual BSM program assessment report and stated a fundamental change was needed. To

accomplish this culture change, the IRS will ensure the Customer Account Data Engine (CADE)<sup>4</sup> program and the overall health of the BSM program are periodically subjected to a third-party assessment, modernization efforts are scaled back, senior IRS business unit managers are held accountable for the success of modernization efforts related to business requirements, capped or fixed-price contracts for development work are used, and the skills of experienced IRS tax executives are complemented by those of outside seasoned technology executives.

**Report Reference No. 2004-20-107**

### **TAX COMPLIANCE INITIATIVES**

The IRS' overall FY 2003 enforcement efforts and results for its Collection, Examination, and Criminal Investigation (CI) functions were mixed but showed some continuing positive changes. The President's proposed FY 2005 budget provides for additional staffing in these functions, a crucial step in the IRS' ability to increase enforcement activities. Significant 2003 highlights include:

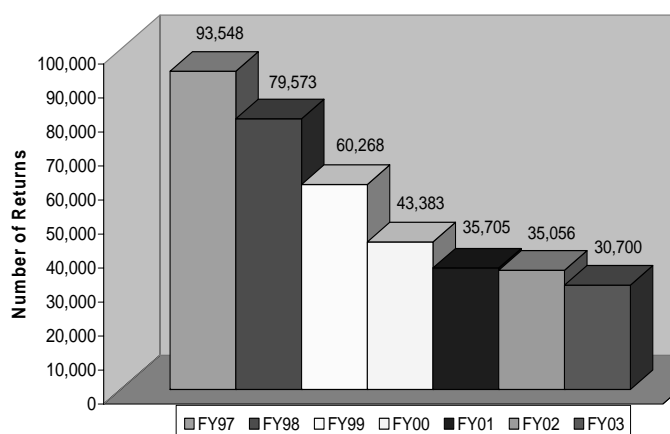
- Collection function enforcement actions and revenue increased, while there was a decrease in the total amount of uncollected liabilities and in the gap between account closures and new delinquent accounts.
- Due mainly to increased correspondence activity, the percentage of tax returns examined increased despite a decrease in staffing.

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<sup>4</sup> The CADE is the foundation for managing taxpayer accounts in the IRS' modernization plan.

- Corporate tax return examinations continued to decline. From FY 1997 to FY 2003, the examination rate for corporate tax returns fell from 1 in 52 to 1 in 182. To counteract this, the IRS Commissioner has indicated that some staffing increases from the President’s proposed FY 2005 budget would be allocated to corporate compliance.

**Corporate Tax Returns Examined  
FYs 1997 - 2003**



Source: TIGTA analysis of the IRS Data Book information

- In FY 2002 the CI function increased the number of subject investigations initiated and referred for prosecution and the percentage of time directly spent on subject investigations, with fewer days being expended to discontinue subject investigations. These indicators continued to show improvement in FY 2003 even with an overall decrease in the number of special agents. However, CI expects to increase special agent staffing substantially in FYs 2004 and 2005. TIGTA is hopeful that IRS productivity will continue to improve and that planned special agent staffing increases will materialize.

**Report Reference Nos. 2004-30-083 and 2004-10-115**

“International transfer pricing” is a term commonly used to describe pricing arrangements for exchanging goods, services, and other property between related entities or affiliates of a Multinational Enterprise (MNE) group<sup>5</sup> with operations in the United States and other countries. As part of a comprehensive transfer pricing strategy, at the beginning of an examination, Large and Mid-Size Business Division employees are to request transfer pricing documentation from MNE taxpayers for evaluation by an international examiner and/or an economist.

TIGTA found that information was requested for only about 35 percent of cases closed between FYs 1997 and 2002. Following the January 2003 Transfer Pricing Compliance Directive’s issuance, that number increased to 55 percent of cases, which still fell short of the Directive’s requirement to request documentation for every case.

TIGTA estimated over half of returns with potential transfer pricing issues were not referred to an international examiner for evaluation because they were surveyed improperly by domestic revenue agents and team managers and were never opened for examination. Likewise, some returns with potential transfer pricing issues that were opened for examination were also not being referred for review by international examiners. By improving controls in this area, Federal Government revenue could increase by approximately \$32.3 million annually in additional

<sup>5</sup> An MNE group is a group of associated companies with business establishments in two or more countries. These companies may be any form of business entity including corporations and partnerships.

income taxes or reduction in tax attributes,<sup>6</sup> provided the IRS has additional international examiner resources.

TIGTA recommended the IRS reemphasize to all executives, managers, and revenue agents the transfer pricing requirements, and implement an automated control to prevent these returns from being surveyed improperly. In the long term, the IRS should have the current system modified to generate referrals automatically to international examiners when returns are opened for examination. IRS management generally agreed with the recommendations.

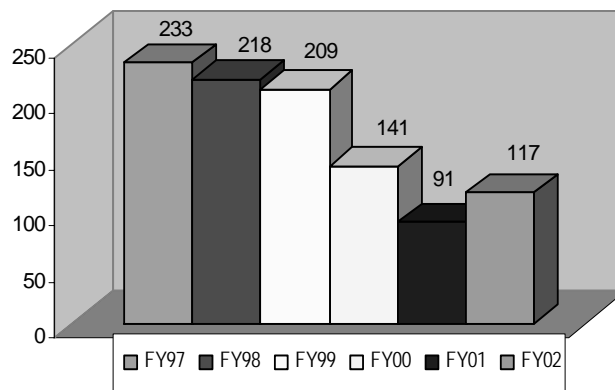
**Report Reference No. 2004-30-133**

The IRS has faced the significant challenge of working on an increasing inventory of non-filed returns with fewer resources. Potential individual non-filer cases increased from 6.1 million for Tax Year (TY) 1994 to 8.9 million for TY 2001, while the resources available to apply to these cases have been reduced significantly.

The Return Delinquency Notice Program's effectiveness has been significantly affected by the resource decline. Individual non-filers that have been identified by the IRS but have not received a return delinquency notice increased from 4.8 million for TY 1994 to 6.7 million for TY 2001, representing a potential net tax value of \$1 billion.

<sup>6</sup> Tax attributes are carry forwards of net operating losses and tax credits that can be used to reduce future taxes.

**Direct Full Time Equivalents (FTE) Return Delinquency Notice Program<sup>7</sup>  
FYs 1997 – 2002**



Source: IRS Small Business/Self-Employed (SB/SE) Division.

TIGTA made no recommendations to address the declining resource situation since the IRS' FY 2004 budget proposal provided for additional FTEs. However, TIGTA identified two opportunities to use the IRS' limited resources in a more efficient manner. First, return delinquency cases involving Federal Government employees or retirees could be assigned a lower work priority, freeing the IRS to address more fully other categories of non-filer cases that offer greater potential to maximize tax collections.

Second, at the time TIGTA completed its review, the IRS may not have been realizing the full potential of the Refund Hold Program<sup>8</sup> to encourage taxpayers to file delinquent returns. However, the IRS

<sup>7</sup> The data represents FTEs allocated by both the SB/SE and Wage & Investment Income Divisions.

<sup>8</sup> This Program identifies individual taxpayers that have filed a current year tax return claiming a refund but have not filed returns for a previous tax year for which the IRS believes a tax liability may exist. The IRS freezes the current year refund while it attempts to resolve the prior year tax return delinquency.



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stated it had made significant changes to the Refund Hold Program since our review was performed. IRS management agreed with some of the recommendations presented in the report.

**Report Reference No. 2004-30-127**

## **SECURITY OF THE IRS**

The IRS, under the *Federal Manager's Financial Integrity Act of 1982*, reported one computer security material weakness covering nine specific infrastructure weaknesses. The plans and processes developed by the IRS in eight of the areas have not been implemented completely and, as a result, weaknesses still exist. For example:

- Only 67 percent of systems had been certified, and 31 percent had been accredited. The E-Government scorecard for the President's Management Agenda now requires an agency to certify and accredit 80 percent of its systems to achieve "yellow" status and 90 percent to achieve "green" status.
- High-risk vulnerabilities exist in the mainframe, UNIX, and Windows operating systems because the IRS has not corrected identified weaknesses or systems did not comply with standards.
- Unpatched<sup>9</sup> UNIX and Windows servers exist throughout the IRS, mainly because system administrators were not installing all recommended security patches to their systems.

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<sup>9</sup> Patches are vendor updates that should be installed into existing programs to address security weaknesses or program bugs.

- Audit trail reviews have improved. However, for one major operating system, reviews are not being made due to the lack of software needed to analyze audit trail data and to the lack of capacity on several outdated computers. In addition, audit trails are not being run and reviewed for most IRS applications.

While the IRS agreed with most of our recommendations it did not agree that it should continue to designate eight of the nine issues as material weaknesses. In particular, the IRS did not agree with the recommendations to continue reporting certification and accreditation of computer systems and the review of audit trails as part of the overall computer security material weakness. These disagreements have been forwarded to the Department of the Treasury for resolution.

**Report Reference Nos. 2004-20-129, 2004-20-131, 2004-20-158 (Limited Official Use), and 2004-20-155**

The audit trail for detecting improper activities on modernized systems is not functioning. Software performance and functionality problems with the Security Audit and Analysis System (SAAS) have prevented users from accessing collected SAAS data. The IRS was aware the SAAS did not meet IRS requirements when delivered, but formally accepted the System with the caveat that its deficiencies were to be addressed. To date, the problems have not been resolved fully. As a result, the IRS' and TIGTA's ability to detect improper activity on its computer systems is diminished.

While the IRS agreed with most of our recommendations, it did not agree to develop alternatives to audit trails for

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modernized applications in the event SAAS deficiencies cannot be corrected.  
**Report Reference No. 2004-20-135**

### **INTEGRATING PERFORMANCE AND FINANCIAL MANAGEMENT**

Office space costs represent one of the IRS' largest non-payroll expenditures. In FY 2003, the IRS spent approximately \$633 million to occupy approximately 30.6 million square feet of space in 796 facilities.

Although the IRS has begun to address the problem of underused office space, miscalculation in the development of its overall space utilization rate caused the rate to be excessively high. Furthermore, the IRS did not set funds aside to pay the costs of releasing all underused space. TIGTA estimated \$64 million as the annual cost for underused IRS office space. Additionally, by releasing office space for telecommuting employees, TIGTA estimated the IRS could save \$19.8 million each year.

TIGTA recommended the IRS adjust the target utilization rate by revising calculations and the office space release plan to include specific details on costs, savings, and the benefits of reducing unneeded leased space. TIGTA also recommended the IRS release space after reporting vacancies based on division requirements for telecommuting employees. IRS management generally disagreed with the recommendations. These disagreements were elevated to the Department of the Treasury.

**Report Reference No. 2004-10-182**

### **PROVIDING QUALITY CUSTOMER SERVICE OPERATIONS**

Providing top quality service to every taxpayer in every transaction is integral to taxpayer compliance. To assist taxpayers in complying with the law, the IRS offers assistance through toll-free telephone numbers, walk-in services, and written and electronic communications, including the IRS' Web site, IRS.gov. The effectiveness of each of these services influences a taxpayer's ability and desire to comply voluntarily with tax laws.



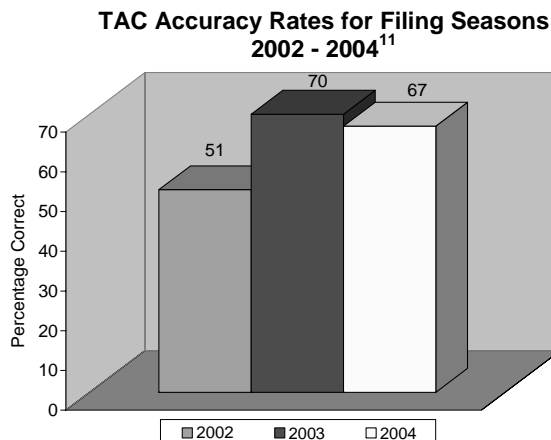
The Volunteer Income Tax Assistance (VITA) Program plays an important role in the IRS' goal of improving taxpayer service and facilitating public participation in the tax system. Posing as taxpayers, TIGTA auditors had 35 tax returns prepared at 44 VITA sites nationwide, none of which was prepared correctly. Taxpayer issues included income reporting, filing status, exemptions, and the Earned Income Tax Credit (EITC) and Child Tax Credit. In addition, information such as VITA site location, hours, need for an appointment, and language services available was not always provided accurately or clearly by IRS employees.

TIGTA recommended the IRS review the existing volunteer qualification process and develop a quality review program to make certain volunteers are trained, certified, and are applying the law correctly. In addition, the IRS should ensure VITA site information is current and accurate. IRS management agreed with the recommendations.

**Report Reference No. 2004-40-154**

Providing taxpayer assistance at walk-in sites called Taxpayer Assistance Centers (TAC) is one strategy the IRS has implemented to meet its goal of improving the quality and efficiency of service delivery. During the 2004 filing season, TIGTA made anonymous visits to the TACs to determine if taxpayers received accurate answers to tax law questions. IRS employees answered correctly only 67 percent of the 250 in-scope<sup>10</sup> tax law questions. Although this is an increase from the 2002 filing season's 51 percent accuracy rate, it is a decrease from the 2003 filing season's 70 percent.

The IRS has not adequately educated taxpayers on what services are offered at the TACs. This lack of information creates a burden for taxpayers who visit TACs and ask questions that are out of the scope of IRS employees' training and authorization.



Source: TIGTA reviews conducted during the period January through April 2002, 2003, and 2004.

TIGTA recommended the IRS identify ways to improve TAC work processes and the quality of the taxpayer experience for those who visit TACs. The IRS Web site and publications should provide a clear explanation of the services offered at TACs. The IRS should also help explain to taxpayers what tax law questions TAC employees can answer by training screeners or providing a list of tax law topics. IRS management generally agreed with the recommendations.

**Report Reference No. 2004-40-152**

The Kiosk Program plays an integral role in the IRS' future concept of self-assistance customer service. The program broadens the use of electronic interactions by providing more education and assistance through convenient, easy to use self-assistance channels. However, the IRS cannot determine whether the Kiosk Program provides cost-effective customer service because of insufficient internal controls and management oversight. Though the Kiosk Program has been in

<sup>10</sup> IRS employees are authorized to answer tax law questions related to specific tax topics as long as they are within their expertise and training; these are called in-scope questions.

<sup>11</sup> The accuracy rates in the graph represent percentages and include "Correct" and "Correct but Incomplete" responses.

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place since 1998, the IRS has yet to develop guidelines or processes to monitor the program efficiently and effectively.

TIGTA recommended the IRS develop guidelines and strategies to monitor taxpayer usage and satisfaction; ensure information is current, accurate, and consistent; monitor kiosk functionality; place kiosks optimally; and educate taxpayers on the benefits and locations of kiosks. IRS management agreed with the recommendations.

**Report Reference No. 2004-40-151**

The Taxpayer Advocate Service (TAS) is responsible for resolving taxpayers' problems that have not been addressed through normal IRS channels. The time it takes the TAS to resolve taxpayers' problems has increased significantly over the past five years, from an average of 37 days in FY 1998 to 76 days in FY 2003. However, staffing for the TAS has remained fairly constant, and new case receipts and closures have decreased approximately 40 percent since FY 1998.

Case management inefficiency was responsible for a significant portion of the time increase. Untimely action on cases occurred when case advocates did not document a plan of action on cases, did not establish follow-up dates to manage their inventory effectively, and did not have the technical knowledge to resolve certain issues.

Last year, TIGTA reviewed the TAS' systemic advocacy function, which is devoted to resolving problems that affect

large numbers of taxpayers.<sup>12</sup> TIGTA's prior and current reviews indicate that the TAS may not be using its resources effectively to accomplish its primary mission of helping individual taxpayers and resolving systemic problems.

TIGTA recommended the National Taxpayer Advocate (NTA) alert managers that case advocates are not developing case action plans as required, provide training on developing case action plans and establish estimated case completion dates. TIGTA also recommended the NTA provide specific direction for managers as to when and how often to review cases and revise procedures, and eliminate its 5-day grace period allowed on follow-up actions. While expressing some concerns about the presentation of data and conclusions, the NTA agreed with most of the recommendations and is implementing corrective action.

**Report Reference No. 2004-10-166**

**PROCESSING RETURNS AND  
IMPLEMENTING TAX LAW CHANGES**

Corporate taxpayers file a Corporation Application for Tentative Refund (Form 1139) to obtain refunds of tax by carrying net operating losses, net capital losses, or unused general business credits back to earlier years. The IRS paid corporate taxpayers an estimated \$22.8 million in interest on an estimated 3,300 late refunds issued for amounts greater than \$10,000 based on Forms 1139 processed in Calendar Year (CY) 2002. Interest was paid because the refunds were not issued

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<sup>12</sup> *The National Taxpayer Advocate Could Enhance the Management of Systemic Advocacy Resources* (Reference Number 2003-10-187, dated September 2003).

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within 45 days. TIGTA estimated the IRS could have taken action to avoid payment of \$12.6 million of this interest. Form 1139 refund timeliness was affected partly by the consolidation of ten form processing sites to two sites. The additional personnel required to process these cases at the two sites are now more experienced, and significant improvements have been made in controlling and recognizing these cases. Despite improving procedures, an estimated \$16 million in interest was paid on an estimated 3,000 late Form 1139 refunds in CY 2003.

TIGTA recommended the IRS use interest reports to monitor the payment of interest and to determine causes for the delays so they could be acted upon. This action could reduce the payment of avoidable interest by an estimated \$48.3 million over five years. IRS management generally agreed with the recommendation.

**Report Reference No. 2004-30-171**

The IRS maintains a National Account Profile (NAP) database that contains taxpayer information obtained from the Social Security Administration. During the processing of tax returns, the IRS compares selected NAP information to validate the identity and age of taxpayers and dependents claimed on each tax return. However, the IRS does not use all of the data available in the NAP to help validate that only qualifying children are claimed for EITC purposes or to identify tax returns that may be using the Social Security Numbers (SSNs) of deceased individuals improperly.

A significant number of returns exist on which the EITC was claimed for children who were considerably older than the primary taxpayers, or were actually the taxpayers' parents. For TY 2002, TIGTA estimates there were over 10,000 tax returns filed with more than \$16 million in potentially erroneous EITC claimed because the "child" was significantly older than the primary taxpayer.

The IRS has also been processing tax returns on which either the primary taxpayer or a dependent is deceased. Although in certain circumstances this is appropriate, TIGTA identified instances in which taxpayers were using SSNs of deceased taxpayers to reduce taxes due improperly or to receive larger refunds. TIGTA estimated that \$21 million in erroneous tax benefits was obtained after 22,000 tax returns included the SSNs of deceased individuals improperly.

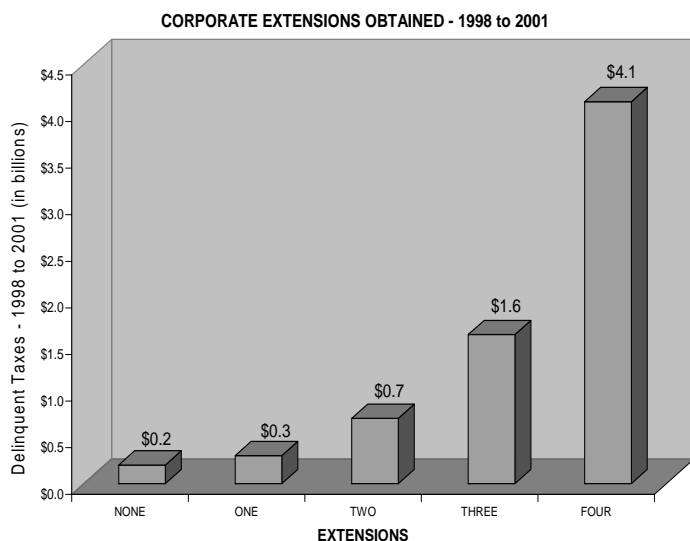
Management generally agreed with our recommendation to use NAP information more effectively while processing returns to help identify taxpayers claiming improper tax benefits.

**Report Reference No. 2004-40-098 (Limited Official Use)**

The IRS tax regulations and processes for granting extensions to file corporate income tax returns prevent the effective, fair, and efficient administration of the tax laws. TIGTA found that the IRS grants extensions of time to file corporate tax returns by relying on erroneous information provided by filers that show all anticipated taxes have been paid. This prevents effective and fair tax administration, as the IRS is generally prevented from assessing a Delinquency

Penalty<sup>13</sup> once it has granted an extension. Otherwise, this penalty would apply to any taxes not paid by the normal tax return due date.

**Relationship Between Extension Use and the Amount of Delinquent Taxes Owed**



Source: TIGTA analysis of IRS Business Master File data.

Of 960,000 taxable corporations that obtained extensions of time to file in CY 1999, TIGTA found that approximately 168,000 of them had failed to pay a total of \$1.8 billion in taxes by the normal tax return due date. Additionally, of the 960,000 corporations, 310,000 had failed to pay taxes on returns with extended due dates at least once between CYs 1998 and 2001, delaying the Federal Government's receipt

<sup>13</sup> The Delinquency Penalty (also commonly referred to as the Failure to File Penalty) is 5 percent per month and generally cannot exceed 25 percent of delinquent taxes. The penalty does not apply to taxpayers who have paid all taxes by the normal tax return due date. The Delinquency Penalty is reduced by the amount of the Failure to Pay (FTP) Penalty if they apply concurrently. The FTP Penalty is assessed on unpaid taxes at a rate of 0.5 percent per month and cannot exceed 25 percent of delinquent taxes.

of approximately \$5.8 billion in corporate taxes. Approximately 107,000 of these corporations were delinquent in at least two of the four years. Of all delinquent taxes reported on corporate income tax returns filed after the normal CY 1999 due date, 86 percent are represented by corporations that received an extension.

The IRS extension regulations also enable corporations owing unusually large amounts, such as \$100,000 or more, to delay tax payments while avoiding interest charges and FTP penalties that would otherwise accrue to their unpaid taxes. In CY 1999, approximately 2,000 corporations that received filing deadline extensions had more than \$100,000 each in unpaid taxes at the normal return due date. These corporations accounted for approximately 60 percent (\$1.1 billion) of all delinquent taxes for CY 1999 owed by corporations that were granted filing deadline extensions.

IRS regulations for granting extensions also penalize corporations differently for the same types of payment noncompliance. Corporations that file their returns late without a deadline extension can be subject to vastly different interest and penalty amounts than those that received an extension due to the Delinquent Penalty protection provided by an extension. Additionally, unnecessary taxpayer burden is created by the regulations as corporations that had paid their taxes on time expended an estimated \$183 million to prepare and submit extension forms in CY 1999, even though these corporations would not have been subject to interest or penalties. IRS management agreed with some of the recommendations presented in the report. **Report Reference No. 2004-30-106**



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# PROTECT THE INTEGRITY OF TAX ADMINISTRATION

TIGTA's Office of Investigations helps protect the ability of the IRS to collect revenue for the Federal Government. To achieve this, TIGTA employs federal criminal investigators (special agents) in various cities across the United States to investigate allegations of criminal violations and serious administrative misconduct by IRS employees, to protect the IRS against external attempts to corrupt tax administration, and to ensure IRS employee and infrastructure security.

*“At the IRS, our working equation is service plus enforcement equals compliance. The better we serve the taxpayer, and the better we enforce the law, the more likely the taxpayer will pay the taxes he or she owes.”*

Testimony of the Honorable  
Mark W. Everson, Commissioner,  
Internal Revenue Service, before the  
Subcommittee on Oversight of the  
House Committee on Ways and Means;  
February 12, 2004.

Through its investigative program, TIGTA, pursuant to its unique statutory charge, has responsibility to protect the integrity of tax administration. TIGTA investigators perform a variety of functions, including:

- Investigating allegations of criminal violations that impact Federal tax administration, and allegations of serious administrative misconduct by IRS employees.
- Conducting proactive investigative initiatives to detect criminal and administrative misconduct in the administration of IRS programs.
- Operating a Criminal Intelligence Program that manages and coordinates threat information that could impact the security of IRS employees and functions.
- Investigating assaults and threats made against IRS employees, facilities, and data infrastructure.
- Investigating fraud, waste, and abuse involving IRS procurements.
- Conducting Integrity/Fraud Awareness Program presentations for IRS employees and others, such as tax practitioners and community groups.
- Operating a national complaint center, including a hotline and Web site, to process complaints of fraud, waste, abuse and misconduct involving IRS employees and programs.
- Conducting forensic examinations of physical and electronic evidence to support investigations.
- Using technical and investigative support equipment, training, and other specialized services to enhance investigative operations.

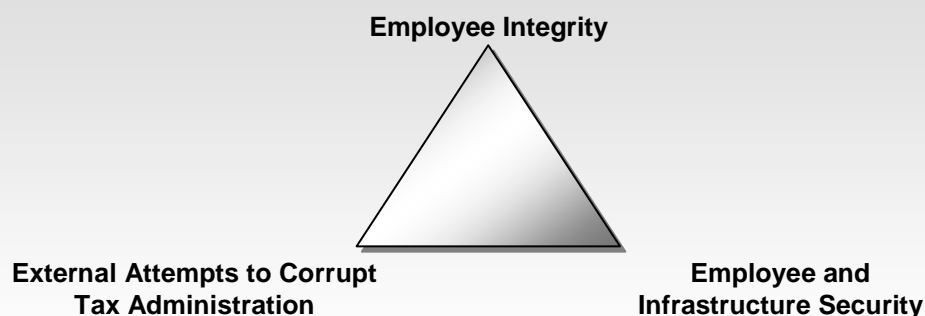
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## Executive Steven Jones Interviewed by Federal Times

TIGTA's Office of Investigations was profiled in the August 30, 2004 issue of the Federal Times as one of the key agencies and leaders changing government today. In the "spotlight" interview, Deputy Inspector General for Investigations Steven Jones outlined the Office of Investigations' (OI) efforts on "How to Measure Success at a Law Enforcement Agency." Following are highlights of Mr. Jones' comments:

- **Biggest Management Challenge** - is coming up with performance measures that support the agency's law enforcement goals of protecting tax administration and thoroughly vetting allegations of wrongdoing.
- **Big question - "What are we trying to accomplish?"** - OI identified three functional areas of accomplishment: employee integrity, infrastructure protection and external crime. OI described what the perfect agent should be doing and designed performance measures with that description in mind. The perfect agent's job is to conduct a thorough and complete investigation, because someone else has to do something with the results of the investigation. The perfect agent must think, "If I don't do my job, the case can't be adjudicated or prosecuted."
- **Performance Ratio** - equals the total actions on a case, divided by total number of cases. For example, an investigation involving a tax practitioner doing something inappropriate with a client could be referred for prosecution. But is that all that should be done to the practitioner? A certified public accountant could be debarred, for example. The IRS Office of Professional Responsibility, which regulates the tax practitioner community, should also hear about the case. Competent employees shouldn't have to worry about strategic issues, but should understand their work contributes to agency goals.

### TIGTA Investigations Protect the Department of Treasury's Key Role in Collecting the Nation's Tax Revenue



### TIGTA INVESTIGATIVE PERFORMANCE MODEL

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Earlier this year, the IRS announced its updated five-year Strategic Plan for 2005-2009. The Strategic Plan is intended to provide a roadmap for IRS operations that focuses on IRS' commitment to improve taxpayer customer service and enhanced enforcement of the tax law.

The investigative priorities established previously by TIGTA's Office of Investigations work hand-in-hand with the new IRS Strategic Plan. TIGTA's focus on ensuring employee integrity, employee and infrastructure protection, and protecting the IRS against external attempts to corrupt tax administration emphasizes high impact, cost-effective results in protecting Federal tax administration.

### **EMPLOYEE INTEGRITY**

IRS employee misconduct undermines the IRS' ability to deliver taxpayer service, enforce tax laws effectively and collect the proper amount of taxes owed. TIGTA investigates employee misconduct allegations including extortion, theft, taxpayer abuses, false statements, and financial fraud, as well as contractor misconduct and fraud. During the reporting period, TIGTA completed 923 employee integrity investigations.

As an integral part of its employee integrity program, TIGTA conducts proactive integrity initiatives designed to uncover fraud in IRS operations and to identify internal control weaknesses that may have permitted crime to go undetected or unreported. A primary tool used in this effort is TIGTA's Strategic Enforcement Division (SED). Through

SED, TIGTA pursues its proactive effort to detect IRS employees who may have improperly accessed confidential taxpayer information. During this reporting period, TIGTA's Unauthorized Access (UNAX) Program led to the initiation of 244 investigations involving apparent unauthorized access of IRS computer systems.

*The following cases are examples of IRS employee integrity investigations TIGTA conducted during this reporting period.*

#### **IRS Data Transcribers Indicted with Co-conspirators for Diverting and Attempting to Divert more than \$500,000 in Tax Refunds**

In July 2004, two IRS employees were indicted in Tennessee along with four others for diverting and attempting to divert tax refunds. While performing their official duties as IRS data transcribers, the employees allegedly electronically deposited tax refunds into bank accounts controlled by the co-conspirators and themselves. Their objective was to profit financially by diverting and attempting to divert tax refunds in excess of \$500,000, and was allegedly accomplished by changing the bank routing and account numbers on tax returns and/or in the IRS processing system.

#### **IRS Revenue Agent Indicted for Conspiracy, Bribery**

In September 2004, an IRS revenue agent in California responsible for monitoring and educating businesses about Currency Transaction Reports (CTR), was indicted for conspiracy, bribery, structuring, and

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causing failure to file legally-mandated reports. All cash transactions more than \$10,000 must be reported to the IRS by filing CTRs. The agent allegedly assisted the co-conspirators in writing checks below \$10,000 to avoid the CTR requirements, cashed the checks at businesses he monitored, and instructed the business owners not to file CTRs. The agent also allegedly enabled the co-conspirators to obtain more than \$400,000 in cash and to avoid the CTR requirements. The agent is alleged to have received more than \$30,000 in compensation from the co-conspirators for the check cashing services he provided.

#### **IRS Employee Pleads Guilty to Conspiracy to Defraud United States**

In July 2004, an IRS employee pled guilty in Maryland to conspiring to defraud the United States. The employee masterminded schemes in which she fabricated and filed fraudulent Federal income tax returns, resulting in erroneous tax refund payments. The employee arranged for the refunds to be sent directly to her or deposited directly into her personal bank account. In one scheme, the employee relayed confidential taxpayer information to another individual who used the information to prepare and file a fabricated tax return. The total loss to the Federal Government exceeded \$20,000. As part of the plea agreement, the IRS employee agreed to resign from employment with the Federal Government. Sentencing is currently pending.

#### **IRS Contract Employee Sentenced for Stealing IRS Property**

In September 2004, an IRS contract employee was sentenced in Maryland for stealing government-owned laptop computers and computer equipment from an IRS facility. In the employee's possession also were two personal digital assistants, each bearing the decal of the IRS. The approximate value of the stolen items was more than \$6,000. The employee was sentenced to 12 months' probation and fined \$1,000.

#### **IRS Employee Pleads Guilty to Stealing IRS Checks**

In May 2004, an IRS employee pled guilty in California to stealing two checks payable to the IRS. The employee altered the checks totaling \$500 and converted them for personal use and benefit. The employee was sentenced to 12 months' probation and ordered to pay the IRS \$500 in restitution, participate in a mental health treatment program and perform 100 hours of community service.

#### **IRS Tax Examining Assistant Sentenced for Unauthorized Taxpayer Account Access; Improper Refund Issuance**

In August 2004, an IRS Tax Examining Assistant was sentenced in California for accessing taxpayer accounts without authorization and causing improper Earned Income Tax Credit refunds totaling more than \$141,500 to be issued to taxpayers. The employee made more than 1,500 unauthorized accesses to the IRS taxpayers' accounts. In exchange, the IRS employee was paid a portion of the

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refunds generated. The individual was sentenced to over one year in prison and three years' supervised release. Additionally, the individual was ordered to pay restitution of more than \$141,500 to the IRS.

**TIGTA's Strategic Enforcement Division**

TIGTA utilizes a variety of tools to expose breaches of employee integrity and other attacks against tax administration. The SED consists of data analysts, computer specialists, and criminal investigators who monitor, probe, and investigate the evolving electronic environment. SED responds to computer intrusion incidents, investigates IRS network vulnerabilities, conducts system penetration tests, and provides forensic processing of computers and other media in support of TIGTA investigations.

**IRS Employee Pleads Guilty to Unauthorized Inspection of Tax Return Information**

In August 2004, an IRS employee pled guilty in California to inspecting taxpayers' return information without authorization. The employee made 276 different inspections of the tax return information of nine private individuals without authorization from the IRS. TIGTA's SED proactively identified the unauthorized accesses. Sentencing is currently pending.

**Former IRS Employee Sentenced for Bribe Solicitation and Unauthorized Access of Taxpayer's Records**

In June 2004, a former employee was sentenced in California for soliciting a

bribe and accessing a taxpayer's records without authorization. The former employee, a Lead Tax Examining Assistant, had demanded and agreed to accept a \$2,000 bribe from a taxpayer. The employee had accessed the taxpayer's IRS electronic tax records to abate the individual's tax liability, resulting in an improper refund. The employee was sentenced to five months' incarceration and three years supervised probation.

**IRS Employee Sentenced for Unauthorized Access of Computerized Tax Information**

In June 2004, an IRS employee was sentenced in New York for unauthorized access of computerized tax information and unauthorized inspection of returns or return information. The IRS employee was sentenced to two years' probation and fined \$2,000.

**IRS Employee Pleads Guilty to Unauthorized Access and Disclosure of Tax Information**

In September 2004, an IRS employee pled guilty in Texas to unauthorized access and disclosure of tax information, making false statements in IRS records, and unlawful solicitation by a Federal employee. The IRS employee assisted taxpayers with their delinquent Federal tax returns and accessed IRS computerized tax return information without authorization in attempts to collect sexual favors from them. The IRS employee also made false statements in IRS records and disclosed tax return information to unauthorized persons.

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## **EMPLOYEE AND INFRASTRUCTURE SECURITY**

Recognizing the critical role the IRS plays in collecting nearly \$2 trillion in revenue for the Federal Government, TIGTA is required by statute to protect tax administration. This unique statutory mandate sets it apart from other Federal Offices of Inspector General. As such, TIGTA must help protect the IRS' ability to collect tax revenue by providing criminal investigative support and ensuring IRS employee and infrastructure security.

In response to this unique challenge, and in addition to field investigations, TIGTA's Special Inquiries and Intelligence Division manages a Criminal Intelligence Program (CIP). The CIP attempts proactively to identify threats against IRS personnel and facilities. During this reporting period, TIGTA's concerted efforts resulted in the issuance of 46 advisories notifying IRS management of potential threats and TIGTA completed 531 investigations of threats and assaults directed at IRS facilities and employees.

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

### **Individual Pleads Guilty to Mailing Threatening Letter to IRS Employee**

In August 2004, an individual pled guilty in California to mailing a threatening communication to an IRS employee conducting an audit of the individual. The

letter, which also contained an inert white powder, stated "Well now it's my time to get even with you, You won't know when or where or even how, but I will get you and more."

### **TIGTA's Criminal Intelligence Program**

TIGTA's commitment to protect the IRS against threats and assaults includes operating a nationwide Criminal Intelligence Program. This Headquarters-directed initiative is designed to coordinate the agency's field investigations of threats, assaults, and violent acts targeted against the IRS. TIGTA utilizes this program to coordinate TIGTA's participation in FBI Joint Terrorism Task Forces throughout the country and to assist the IRS in developing and enhancing security protocol at all IRS facilities in an effort to deter and prevent attacks and ensure IRS employee safety and infrastructure security.

### **Individual Arrested for Mailing Threatening Letters to IRS**

In September 2004, an individual was arrested in Connecticut for mailing threatening letters to IRS. The individual allegedly sent several letters to IRS that contained threats to injure individuals, including the President of the United States.

### **Individual Arrested for Threatening IRS Employees**

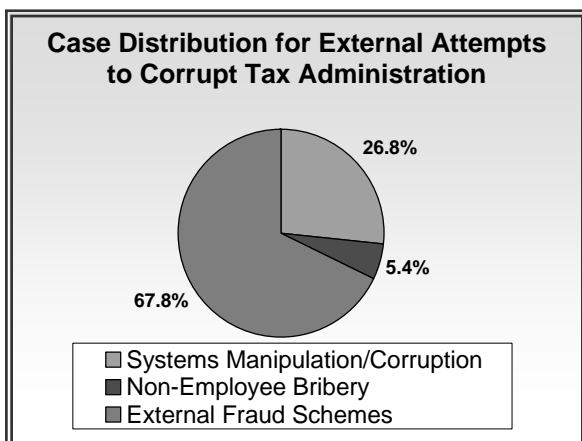
In April 2004, an individual was arrested in Michigan for intimidating and making threatening statements to IRS employees. During a compliance inspection of the individual's diesel vehicles, IRS



employees found a dyed fuel sample in violation of the Internal Revenue Code. When informed of the potential unlawful use penalty, the individual allegedly stated he would not pay the penalty, moved toward the employees yelling, and instructed them never to return without a warrant, protection, or the police.

### **EXTERNAL ATTEMPTS TO CORRUPT TAX ADMINISTRATION**

TIGTA is dedicated to investigating external attempts to corrupt or interfere with the administration of internal revenue laws. External attempts to corrupt tax administration include bribes offered by taxpayers to compromise IRS employees; the manipulation of IRS systems and programs through the use of bogus liens and IRS financial reporting instruments; the use of fraudulent IRS documentation; and impersonation of IRS officials. External attempts to corrupt tax administration inhibit the Treasury's ability to collect revenue and undermine the public's confidence in fair and effective tax administration — the two key facets of the IRS Strategic Plan.



With the IRS focusing on increased revenue collection from delinquent taxpayers, TIGTA anticipates a rise in attempts by taxpayers to bribe IRS employees involved in those collection activities. Since April 1, 2004, TIGTA has conducted 27 investigations into bribery allegations involving taxpayers. In addition, TIGTA conducted 93 investigations of attempts to manipulate or corrupt IRS systems and operations, and 335 investigations into non-tax fraud and other related activities.

*The following cases are examples of investigations of external attempts to corrupt tax administration TIGTA conducted during this reporting period.*

#### **Individual Pleads Guilty to Bribing IRS Employee**

In July 2004, an individual pled guilty in New York to bribing an IRS employee. The individual paid the employee \$10,000 in cash in exchange for “no-changing” the audits of the individual’s Tax Year (TY) 2000 and 2002 Individual Income Tax Returns (Form 1040). Additionally, the individual paid \$5,000 to the employee to reduce a TY 2001 tax liability from \$37,000 to approximately \$5,000 in tax, penalties, and interest. TIGTA’s Technical Services assisted in the collection of crucial evidence for the investigation by conducting electronic surveillance of meetings between the individual and the IRS employee.

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**Individual Sentenced for Bribing IRS Employee**

In August 2004, an individual was sentenced in Texas for bribing an IRS employee. The individual gave the IRS employee \$1,000 to improperly lower a client's assessment. The individual was sentenced to two years in prison, three years' supervised release, and fined \$5,000.

**Individual Sentenced for Client Fund, IRS Notice Fraud**

In August 2004, an individual was sentenced in Massachusetts for mail fraud. The individual, who worked as an accountant, directed corporate clients to deposit funds for tax purposes into a "client fund" bank account and used the deposited funds for personal purposes, while failing to make timely payments of client tax obligations to appropriate state and Federal tax authorities. Without the knowledge or consent of the clients, the individual also gave the tax authorities a mailing address, controlled by the individual, as that of the clients. As a result, the clients failed to receive notices from tax authorities informing them of their delinquencies. One client was defrauded of approximately \$17,000. The defendant was sentenced to two years' probation and ordered to pay more than \$3,000 in restitution.

**Two Individuals Charged with Interfering with Administration of Internal Revenue Laws**

In July 2004, two individuals were charged in Nevada for interference with administration of internal revenue laws

and aiding and abetting each other. The individuals allegedly attempted to intimidate an IRS Revenue Officer by threatening to "fine her \$5,000 per day in gold and silver" if the IRS Revenue Officer continued to collect delinquent Federal income tax liabilities owed by one of the individuals. The individuals, in an attempt to interfere with tax administration, also allegedly threatened county employees with financial harm.

**Certified Public Accountant Sentenced for Impersonation**

In July 2004, a CPA was sentenced in Texas for impersonating an IRS employee. The individual was retained by a taxpayer to assist in removing a Federal tax lien from a residence. The CPA prepared a bogus IRS letter with the forged signature of an IRS employee purporting to remove the tax lien. The individual was sentenced to one year probation and fined \$1,000. The IRS indefinitely suspended the CPA from practicing before the IRS.

**Individual Sentenced for Impersonating IRS Employee**

In July 2004, an individual was sentenced in Oregon for impersonating an IRS employee and using a counterfeit postage meter stamp. The individual pretended to be an IRS employee engaged in official business by producing and mailing fictitious letters to a corporation. The individual also knowingly used a counterfeit postage meter stamp. The individual was sentenced to more than one year in prison, three years' probation, and ordered to pay in excess of \$2,967 in restitution to the corporation.

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**Individual Indicted for Impersonating IRS Agent**

In June 2004, an individual was indicted in Kentucky for impersonating an IRS

agent. The individual, claiming to be an IRS employee, allegedly demanded and obtained a semi-tractor trailer truck, in violation of Federal law.

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# CONGRESSIONAL TESTIMONY



**TIGTA's Acting Inspector General, Pamela J. Gardiner, appeared before Congress three times during this semiannual reporting period:**

On April 7, 2004, Ms. Gardiner appeared before the Senate Subcommittee on Transportation, Treasury and General Government of the Committee on Appropriations to discuss the IRS FY 2005 budget proposal. Her testimony focused on TIGTA's review of IRS issues such as modernization and customer service.

Then, on July 8, 2004, Ms. Gardiner appeared before the House Government Reform Committee. The testimony spotlighted TIGTA's success in implementing telecommuting practices known as Telework. Ms. Gardiner showcased best practices that other Federal agencies can use in instituting their own Telework program. She also described the challenges developing the Telework program has posed to management and employees.

On July 21, 2004, Ms. Gardiner appeared before the U.S. Senate Committee on Finance. Ms. Gardiner discussed the Tax Gap problem, which is represented by the difference between what is collected in tax revenue, and what could be collected if everyone filed returns and paid the taxes they owed. Ms. Gardiner identified the measures the IRS is taking to address the problem, and what recommendations TIGTA has made to enhance the IRS' ability to identify non-filers and assist in obtaining tax returns and payments. These recommendations include, but are not limited to:

- Withholding on non-employee compensation.
- Improving compliance with estimated tax payments.
- Matching documents to verify business income.
- Addressing compliance in the global marketplace.
- Increasing the examination rate.
- Increasing staffing in the enforcement functions.
- Ensuring individuals sentenced for tax crimes comply with their sentences.

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## *S P E C I A L   A C H I E V E M E N T S*

### **TIGTA Receives Kudos from Ecuadorian Director General**

The Director General of Ecuador's tax system, the Honorable Elsa de Mena, recently led tax reform presentations before Paraguayan tax officials. Director General de Mena, who overhauled her country's tax system during the past few years, praised highly the assistance she received and is still receiving from the U.S. Treasury's Office of Technical Assistance (Tax) via TIGTA, citing Alan Beber, Ernest Valverde, and Terry Freedy for their individual contributions. She is most grateful to them for putting her on the right track toward strengthening internal controls and internal investigations.

### **IRS-Based Organization Elects TIGTA Managers to Leadership Positions**

On July 8, 2004, TIGTA Investigations managers Ernest Valverde and Robert Davila were sworn in as Regional Vice-Presidents in the Hispanic Internal Revenue Employees (H.I.R.E.) organization. The TIGTA managers represent IRS employees in the southeast and midstates regions of the country and are members of H.I.R.E.'s Executive Board. H.I.R.E.'s mission is to assist the IRS in recruiting and hiring Hispanics and in supporting the development and delivery of customer service to Hispanic taxpayers.

# AUDIT STATISTICAL REPORTS

## AUDIT REPORTS WITH QUESTIONED COSTS

Seven audit reports with questioned costs were issued during this semiannual reporting period.<sup>1</sup> The term “questioned cost” means a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding, at the time of the audit, that such cost is not

supported by adequate documentation (“unsupported cost”); or (3) a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable. The term “disallowed cost” means a questioned cost management, in a management decision, has sustained or agreed should not be charged to the government.

REPORTS WITH QUESTIONED COSTS			
REPORT CATEGORY	NUMBER OF REPORTS	QUESTIONED COSTS (IN THOUSANDS)	UNSUPPORTED COSTS (IN THOUSANDS)
1. For which no management decision had been made by the beginning of the reporting period	0	\$0	\$0
2. Which were issued during the reporting period	7	\$3,008	\$2,960
3. Subtotals (Item 1 plus Item 2)	7	\$3,008	\$2,960
4. For which a management decision was made during the reporting period			
- Dollar value of disallowed costs <sup>2</sup>	2	\$2,284	\$2,265
- Dollar value of costs not disallowed	1	\$17	\$10
5. For which no management decision had been made by the end of the reporting period (Item 3 minus Item 4)	5	\$707	\$684 <sup>3</sup>
6. For which no management decision was made within 6 months of report issuance	0	\$0	\$0

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

<sup>2</sup> IRS management disallowed only part of the questioned costs for one report.

<sup>3</sup> Difference due to rounding.



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## **PRIOR PERIOD REPORTS**

During this reporting period, the IRS did not provide TIGTA with the value of questioned costs for any reports issued before April 1, 2004, for which the amount of questioned costs could not be determined at the time the reports were issued.

## AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

Seven reports with recommendations that funds be put to better use were issued during this semiannual reporting period.<sup>1</sup> The term “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: (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract

agreements; (5) preventing erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; or (6) any other savings which are specifically identified. The term “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.

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

<b>AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</b>		
<b>REPORT CATEGORY</b>	<b>NUMBER OF REPORTS</b>	<b>AMOUNT (IN THOUSANDS)</b>
1. No management decision made by the beginning of the reporting period	2	\$44,340
2. Issued during the reporting period	7	\$333,615
3. Subtotals (Item 1 plus Item 2)	9	\$377,955
4. Management decision made during reporting period		
Dollar value management agreed to		
- Based on proposed management action	4	\$4,299
- Based on proposed legislative action	0	\$0
Dollar value management disagreed with	1	\$28,400
5. No management decision at end of period (Item 3 minus Item 4)	4	\$345,256
6. No management decision within 6 months of issuance	2	\$44,340

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## REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION

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

Definitions of these additional measures are:

**Taxpayer Rights and Entitlements at Risk:** The protection of due process (rights) that is granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise in the performance of 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, relating to instances when taxpayers have a legitimate assertion to overpayments of tax.

**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.

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

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

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

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

**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.

## 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.

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

REPORTS WITH ADDITIONAL QUANTIFIABLE IMPACT ON TAX ADMINISTRATION				
OUTCOME MEASURE CATEGORY	NUMBER OF REPORTS <sup>1</sup>	NUMBER OF TAXPAYER ACCOUNTS	DOLLAR VALUE (IN THOUSANDS)	OTHER <sup>5</sup>
Taxpayer Rights and Entitlements at Risk	7	2,024	\$484,440	<sup>6</sup>
Reduction of Burden On Taxpayers	9	2,455,549 <sup>2</sup>	\$1,967,400 <sup>3</sup>	<sup>7</sup>
Increased Revenue	6	4,407	\$1,146,698 <sup>3,4</sup>	
Revenue Protection	2	23,110	\$25,003	
Taxpayer Privacy and Security	1	197		
Inefficient Use of Resources	5		\$7,505 <sup>3</sup>	
Protection of Resources	1			<sup>8</sup>
Reliability of Management Information	7	30,549	\$1,000	<sup>9</sup>

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

<sup>2</sup> In one report (Reference No. 2004-10-148) IRS management did not agree with the total of 2.3 million taxpayer records affected over a 5-year period because a conclusive determination cannot be made on the accuracy of each record on the Centralized Authorization File. In a second report (Reference No. 2004-10-185) IRS management did not agree that taxpayer burden would be decreased by immediate transfer of 23,500 cases and that Collection Field function's control over cases indicates that \$2 million was being pursued for payment. In a third report (Reference No. 2004-10-166) IRS management did not fully agree that 76,183 taxpayer cases were delayed.

<sup>3</sup> In one report (Reference No. 2004-30-106) IRS management did not agree that the implementation of the recommendations would result in the reported potential benefits involving reduction of taxpayer expenses of \$1.97 billion and reduction of processing costs of \$5.0 million over a 5-year period. In addition, they expressed concern with using penalties to increase revenue of \$512.9 million over a five-year period.

<sup>4</sup> In one report (Reference No. 2004-30-127) IRS management did not agree that reapplying resources would result in increased revenue of \$436.7 million over a 5-year period.

<sup>5</sup> Some reports contained "Other" quantifiable impacts besides the number of taxpayer accounts, number of hours, and dollar value. These outcome measures are described in the footnotes, below.

<sup>6</sup> Other measures of taxpayer rights and entitlements consist of 22,478 Notices of Federal Tax Lien in which taxpayers rights could be affected.

<sup>7</sup> Other measure of taxpayer burden consists of 371,221 notices to taxpayers that were not sent to their representatives, did not reflect the taxpayer's most current name or address information, or contained unclear and missing information (Reference No. 2004-40-099) and 53 incorrect answers to tax law questions (Reference No. 2004-40-152).

<sup>8</sup> Other measure of protection of resources consists of 198 Employee Tax Compliance referrals that were over 180 days old (Reference No. 2004-40-176).

<sup>9</sup> Other measure of reliability of management information consists of 94 political organizations that may not be identified on the Web site (Reference No. 2004-10-097) and 106 Internal Revenue Manual Sections with prohibited references to Illegal Tax Protestor designations (Reference No. 2004-40-109)

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# I N V E S T I G A T I O N S S T A T I S T I C A L R E P O R T S

## COMPLAINTS/ALLEGATIONS RECEIVED BY TIGTA

Complaints Against IRS Employees:	2,144
Complaints Against Non-Employees:	1,611
<b>TOTAL COMPLAINTS/ ALLEGATIONS:</b>	<b>3,755</b>

## STATUS OF COMPLAINTS/ALLEGATIONS RECEIVED BY TIGTA

Investigations Initiated:	1,318
In Process Within TIGTA <sup>1</sup> :	174
Referred to IRS for Action:	327
Referred to IRS for Information:	920
Referred to a Non-IRS Entity <sup>2</sup> :	14
Closed/No Referral:	798
Closed/All Actions Completed:	204
<b>TOTAL COMPLAINTS:</b>	<b>3,755</b>

## INVESTIGATIONS OPENED AND CLOSED

Total Opened:	1,691
Total Closed:	1,911

## FINANCIAL ACCOMPLISHMENTS

Embezzlement/Theft Funds Recovered:	\$1,675,821
Court Ordered Fines, Penalties and Restitution:	\$4,213,100
Out-of-Court Settlements:	\$0

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

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

Note: The IRS made 62 referrals to TIGTA that would more appropriately be handled by the IRS and, therefore, were returned to the IRS. These are not included in the total complaints shown above.

<b>STATUS OF CLOSED CRIMINAL INVESTIGATIONS</b>			
<b>CRIMINAL REFERRALS<sup>1</sup></b>	<b>EMPLOYEE</b>	<b>NON-EMPLOYEE</b>	<b>TOTAL</b>
Referred – Accepted for Prosecution	36	130	166
Referred – Declined for Prosecution	386	351	737
Referred – Pending Prosecution Decision	32	44	76
<b>TOTAL CRIMINAL REFERRALS</b>	<b>454</b>	<b>525</b>	<b>979</b>
No Referrals	476	498	974

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

<b>CRIMINAL DISPOSITIONS<sup>1</sup></b>			
	<b>EMPLOYEE</b>	<b>NON-EMPLOYEE</b>	<b>TOTAL</b>
Guilty	24	91	115
Nolo-Contendere	0	3	3
Pre-trial Diversion	3	9	12
Deferred Prosecution <sup>2</sup>	2	11	13
Not Guilty	2	0	2
Dismissed <sup>3</sup>	3	16	19
<b>TOTAL CRIMINAL DISPOSITIONS</b>	<b>34</b>	<b>130</b>	<b>164</b>

<sup>1</sup> 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.

<sup>2</sup> Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.

<sup>3</sup> Court dismissed charges.

<b>ADMINISTRATIVE DISPOSITION ON CLOSED TIGTA INVESTIGATIONS<sup>1</sup></b>	
Removed, Terminated or Other	222
Suspended/Reduction in Grade	88
Oral or Written Reprimand/Admonishment	124
Closed – No Action Taken	297
Clearance Letter Issued	125
Employee Resigned Prior to Adjudication	104
<b>TOTAL ADMINISTRATIVE DISPOSITIONS</b>	<b>960</b>

<sup>1</sup>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.

# APPENDIX I – STATISTICAL REPORTS – OTHER

## AUDIT REPORTS WITH SIGNIFICANT UNIMPLEMENTED CORRECTIVE ACTIONS

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

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
093602	April 1999	10/01/05	<i>The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits</i>  F-1, R-4, P-2. Ensure that all MACS data discs forwarded from the MACS Development Center to district offices are properly accounted for and secured.
2000-30-059	March 2000	01/15/05  01/15/05	<i>The Internal Revenue Service Can Improve the Estate Tax Collection Process</i>  F-2, R-2, P-1. Develop procedures to periodically reconcile tax liens on the Automated Lien System (ALS) with information shown on the taxpayer accounts. F-2, R-3, P-1. Clarify procedures to employees that all estate tax liens should be recorded on the ALS.
2000-30-130	September 2000	10/15/05	<i>Opportunities Exist to Enhance the International Field Assistance Specialization Program</i>  F-2, R-1, P-1. Improve the management information system by linking the International Field Assistance Specialization Program indicator to specific issues listed in the International Case Management System.
2000-30-162	September 2000	11/15/06	<i>The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations</i>  F-1, R-2, P-1. Provide additional computer programming enhancements to improve the value of litigation transcripts.
2001-10-027	January 2001	12/15/04	<i>Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program</i>  F-1, R-1, P-1. Upgrade the automated case management system to provide more timely and accurate data on case activities and the use of program resources.
2001-20-043	February 2001	11/01/04  01/01/05	<i>Electronic Signature Initiatives Could Be Better Defined and Evaluated</i>  F-1, R-1, P-1. Finalize IRS requirements for the use of Personal Identification Numbers as alternative signatures for electronically filed returns based on evolving guidance and the draft IRS authentication security policy and implementation guide. F-1, R-2, P-1. Ensure that all operational alternative signature initiatives comply with the requirements.



REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2001-30-052	March 2001	01/01/05 01/01/05 01/01/07	<b><i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i></b>  F-1, R-1, P-1. Ensure the prior recommendations are implemented. Establishing a formal program with goals, objectives, processes and measures could help ensure that sufficient management attention is devoted to improving the use of the Routine Exchange of Information Program for compliance. F-2, R-1, P-1. Identify the highest risk foreign sourced income documents and use them to coordinate with tax treaty partners to positively identify the U.S. taxpayers involved. F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2002-30-042	December 2001	01/15/05	<b><i>The Internal Revenue Service Has Made Some Progress, but Significant Improvements Are Still Needed to Reduce Errors in Manual Interest Calculations</i></b>  F-1, R-2, P-1. Establish a national quality review process that includes all restricted interest cases.
2002-30-156	September 2002	11/15/04	<b><i>The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers</i></b>  F-1, R-1, P-1. Ensure that the IRS initiate, as proposed in their response to our memorandum dated February 1, 2002, a regularly scheduled program for proposing penalties for Wage and Tax Statements (Forms W-2) with inaccurate name/Social Security Number combinations.
2002-10-187	September 2002	01/15/05 01/15/05	<b><i>The New Suspension of Interest Provision Is Not Always Calculated Correctly</i></b>  F-2, R-1, P-1. Identify all taxpayers with under assessed interest caused by the original Master File computer programming, regardless of whether or not the interest had been reestablished on the accounts, and zero-out any under-assessed amounts to prevent burden on future disaster relief taxpayers or other taxpayers in special military conditions. F-2, R-2, P-1. Identify disaster relief taxpayers and refund the amounts that were automatically collected on the under assessed interest.
2003-40-023	November 2002	10/01/05	<b><i>Trends in Customer Service in the Taxpayer Assistance Centers Show Procedural and Training Causes for Inaccurate Answers to Tax Law Questions</i></b>  F-5, R-2, P-1. Explore other options such as the planned remote monitoring by Taxpayer Assistance Centers (TAC) managers, for conducting quality reviews of TAC employees on a regular basis.
2003-20-035	December 2002	06/15/05 03/15/05 11/01/04 01/15/05 06/01/05	<b><i>Additional Cost Savings and Increased Productivity in the Print Operation and Computer Support Function Can Be Achieved at the Campus Locations</i></b>  F-1, R-1, P-1. Increased coordination should be required with users to discontinue printing reports that are currently available in both printed and electronic format and convert additional reports to the Electronic On-Line/Output Network System (EONS). F-1, R-2, P-1. Establish a process for migrating identified efficient report distribution processes to all campuses. F-1, R-4, P-1. Defer any upgrades of the new printers until the print requirements are re-evaluated based on additional reports being available on the EONS and the transfer of notice printing to the consolidated print sites. F-2, R-2, P-1. Ensure that performance management reports are created for the print operation and computer support function based on the performance measures established in Recommendation 3. F-2, R-3, P-1. Ensure that managers compare results against performance measure goals and take actions to improve operational efficiency.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-20-049	February 2003	09/15/04 11/15/04 11/15/04 10/15/05 10/15/05	<b><i>Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement</i></b>  F-2, R-3, P-1. Ensure that all contractor employees have properly paid their tax obligations. F-2, R-4, P-2. Ensure that background investigations are completed for active contractor employees that obtained identification badges without a background investigation. F-2, R-5, P-2. Ensure that personnel in the Real Estate and Facilities area of the Agency-Wide Shared Services are adequately trained regarding the requirements for issuing a contractor employee an IRS identification badge. F-3, R-1, P-1. Ensure that a consolidated or integrated system is implemented to effectively manage all background investigations and identification badges, incorporating the needs of all stakeholders and eliminating the use of stand-alone systems such as the Security Entry Tracking System and the Procurement Background Investigation Program. F-3, R-2, P-1. Ensure that until a single system is implemented, all COTRs are required to use the Procurement Background Investigation Program regardless of their organizational placement, and complete periodic reconciliations between the contractor employee background investigation information and the identification badge information at each IRS facility are conducted to detect the issuance of contractor employee identification badges without completion of required background investigations.
2003-10-054	March 2003	03/31/05	<b><i>The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses</i></b>  F-1, R-3, P-1. Ensure that the ability to record and report trust fund administrative expenses, as currently envisioned in the Integrated Financial System development plans is properly implemented.
2003-10-094	March 2003	12/15/04 12/15/04	<b><i>Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected</i></b>  F-1, R-1, P-1. Consider providing future report listings to the Fraud Detection Center (FDC) in an electronic media format and consider changing the frequency of the report from quarterly to twice a year, during non-peak processing periods, to allow the FDC to focus their resources on taking necessary actions to resolve accounts. F-1, R-2, P-1. Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that feedback is provided regarding program effectiveness. Also, analyses of the FDCs control listing data should be required to ensure reviews are done and accounts are resolved.
2003-20-082	March 2003	10/01/04 02/01/05	<b><i>Penetration Test of Internal Revenue Service Computer Systems</i></b>  F-5, R-1, P-1. Apply proper security patches and/or registry settings. F-6, R-1, P-1. Allow only network services that are specifically required and explicitly disable all other services.
2003-40-139	June 2003	08/15/05	<b><i>Opportunities Exist to Improve the Administration of the Earned Income Tax Credit</i></b>  F-1, R-2, P-1. Establish a consistent method to measure progress toward the EITC Program's long-term goals.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-20-118	July 2003	06/30/05 06/30/05 06/30/05 04/01/05 06/30/05 12/15/06	<b><i>Security Over Computers Used in Telecommuting Needs to Be Strengthened</i></b>  F-1, R-1, P-1. Remind telecommuting employees periodically to store and encrypt sensitive information on secure locations of their laptop computers. F-1, R-2, P-1. Remind system administrators to reset security settings after servicing laptop computers. F-1, R-3, P-1. Develop guidance to assist functional managers in determining whether sensitive data are being stored in unencrypted areas on their employees' laptop computers. F-1, R-5, P-1. Consider purchasing commercial software to provide FIPS-compliant encryption scheme software for laptops used in telecommuting. F-1, R-6, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure that sensitive data are being stored and encrypted properly. F-2, R-2, P-1, P-2, P-3. Consider installing personal firewall and IDS software on SDI laptop computers and require CSIRC to centrally monitor the generated logs.
2003-30-162	August 2003	P-1: 08/15/05 P-2: 07/15/05 08/15/05 08/15/05	<b><i>The Regulations for Granting Extensions of Time to File are Delaying the Receipt of Billions of Tax Dollars and Creating a Substantial Burden for Compliant Taxpayers</i></b>  F-1, R-1, P-1, P-2. Revise the tax regulations applicable to individual taxpayers.  F-1, R-2, P-1. Consider changing the regulations to eliminate the requirement for taxpayers to file an application with the IRS in order to receive extensions of time to file a tax return. F-1, R-3, P-1. Revise the tax package instructions.
2003-30-176	August 2003	11/15/05	<b><i>Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure</i></b>  F-1, R-2, P-1. Gather pertinent information concerning the effect the proposed procedure will have on reducing the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.
2003-40-180	August 2003	07/15/06	<b><i>More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance</i></b>  F-2, R-1, P-1. Improve the current management information system process to capture data sufficient to establish baselines and long-term measures and goals.
2003-40-185	August 2003	12/15/04	<b><i>More Information Is Needed to Determine the Effect of the Discretionary Examination Program on Improving Service to All Taxpayers</i></b>  F-1, R-1, P-1. Finalize the Concept of Operations that will establish long-term goals and related measures for the Discretionary Examination Program that reflect the Program's anticipated outcomes over time.
2003-10-187	September 2003	08/15/04 08/15/04 01/01/05	<b><i>The National Taxpayer Advocate Could Enhance the Management of Systemic Advocacy Resources</i></b>  F-1, R-1, P-1. Formalize the policy of concurrently working systemic advocacy projects and assignments in support of its Annual Report to Congress, and implement a process to manage both operations simultaneously. F-1, R-2, P-1. Establish timeliness and staff resource standards for conducting systemic advocacy projects based on the experience to date. F-1, R-3, P-1. Upgrade the SAMS to provide data on systemic advocacy project activities and staff resources to assist managers in monitoring and budgeting systemic advocacy resources.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2003-10-201	September 2003	10/15/04 11/15/04	<b><i>Lead Development Centers Do Not Significantly Contribute to Increases in Legal Source Cases</i></b>  F-2, R-2, P-1. Issue procedures for the LDC analysts to follow when researching cases. F-3, R-1, P-1. Ensure that the data in the LDC database are consistent and issue instructions on how to use the LDC database.
2003-10-212	September 2003	12/15/04 03/25/05 03/15/05 10/15/04 10/15/04 P-1, P-2: 07/15/05 P-3, P-4: 10/15/05	<b><i>Information on Employee Training Is Not Adequate to Determine Training Cost or Effectiveness</i></b>  F-1, R-1, P-1. Require all business units to use the IRS training management information systems as their official system of records. F-1, R-2, P-1. Ensure the new Learning Management System has the appropriate validity checks to ensure data on training courses, costs, and CPE hours are correct, to avoid input errors. F-1, R-3, P-1. Ensure that periodic reviews of the ACES data are conducted to verify ACES data and make any needed corrections. F-2, R-1, P-1. Develop a method of properly allocating training costs to courses and employees/students. F-3, R-1, P-1. Ensure that a better course numbering scheme is developed in the LMS to be used to identify the types of training provided and the skills addressed. F-3, R-2, P-1, P-2, P-3, P-4. Ensure the IRS training and financial systems can provide information needed for the IRS to assess its own training efforts.
2003-20-219	September 2003	10/15/04 10/15/04	<b><i>The Cost and Schedule Estimation Process for the Business Systems Modernization Program Has Been Improved, But Additional Actions Should Be Taken</i></b>  F-1, R-1, P-1. Ensure that all contractors working on BSM projects follow the PRIME contractor's policies and procedures for preparing cost and schedule estimates and provide data for inclusion in the historical database. F-1, R-4, P-1. Ensure that the SEI is requested to conduct an independent review of the cost and schedule estimation system once the initial validation is complete and policies and procedures are fully implemented.
2004-20-001	October 2003	10/15/04 11/15/05	<b><i>Risks Are Mounting As the Integrated Financial System Project Team Strives to Meet An Aggressive Implementation Date</i></b>  F-1, R-4, P-1. Ensure the Enterprise Life Cycle is updated with the new testing strategy to include a requirement to document independent acceptance roles when the Product Assurance function is not providing full, independent assurance. F-2, R-1, P-1. Ensure the disaster recovery environment is completely built out and tested.
2004-40-003	October 2003	01/15/05 09/15/05	<b><i>The 2003 Filing Season Was Completed Timely and Accurately, But Some New Tax Law Changes Were Not Effectively Implemented</i></b>  F-4, R-1, P-2, P-3. Identify and notify taxpayers that appear eligible for the Additional Child Tax Credit but did not claim the credit. F-5, R-3, P-1. Identify and coordinate corrective actions between Submission Processing and Tax Forms and Publications functions that result from the planned examination of tax returns claiming the tuition and fees deduction.
2004-40-004	October 2003	11/15/04 02/15/05	<b><i>The Selection of Earned Income Tax Credit Returns for Examination can Be Improved to Further Prevent Payment of Erroneous Claims</i></b>  F-1, R-1, P-1. Complete an analysis of the historical Dependent Database examination data to determine if there is a relationship between the direct examination time, rules identified, and disposition of examinations. F-1, R-2, P-1. Incorporate a cost benefit analysis into the Dependent Database Risk-Based Scoring Model.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2004-30-005	November 2003	10/15/04	<b><i>Key Areas of Noncompliance Among Small Business and Self-Employed Taxpayers Could Be Addressed Through More Effective Use of Correspondence Examinations</i></b>  F-2, R-1, P-1. Expand the tax issues and types of returns that can be included in the inventory selected for the Correspondence Examination Program after a limited testing period.
2004-40-013	November 2003	01/15/05 01/15/05	<b><i>Improvements Are Needed in the Screening and Monitoring of E-File Providers to Protect Against Filing Fraud</i></b>  F-1, R-2, P-1. Enhance the screening procedures for E-File Providers to include sending scanned fingerprints to the FBI electronically. F-1, R-3, P-1. Enhance the screening procedures for E-File Providers to include verifying that individuals who provide professional certifications in lieu of a fingerprint card are in current standing with the organization to which the professional certification relates.
2004-20-027	January 2004	08/01/04 P-2: 09/01/04 P-4: 12/31/04	<b><i>Inadequate Accountability and Training for Key Security Employees Contributed to Significant Computer Security Weaknesses</i></b>  F-1, R-1, P-2. Develop a methodology to evaluate system administrators' and security specialists' performance of their roles and responsibilities. F-1, R-2, P-2, P-4. Ensure the current effort to identify security training needs will result in appropriate security training for employees with key security duties.
2004-30-038	January 2004	02/15/05	<b><i>Access to the Toll-Free Telephone System Was Significantly Improved in 2003, But Additional Enhancement Are Needed</i></b>  F-3, R-1, P-1, P-2. Develop an Activity Based Costing system that reliably captures and reports both the total cost and the cost-per-call of providing services on each toll-free product line.
2004-10-045	February 2004	03/15/05	<b><i>Review of the Tax Exempt and Government Entities Division's Independent Review Process</i></b>  F-1, R-1, P-1. Prepare and submit for issuance public guidance to reemphasize the IRS' position on political activity and private benefit related to certain organizations.
2004-10-060	March 2004	01/15/05	<b><i>Courts Are Not Always Notified When Criminals Fail to Comply With Their Sentences to Settle Civil Tax Liabilities</i></b>  F-1, R-3, P-1, P-2. Develop clear and concise procedures to define responsibilities and ensure the IRS is controlling and monitoring the accounts of the individuals whose court sentences require the settlement of their civil tax liabilities.
2004-20-063	March 2004	02/01/05 10/15/04 12/15/04	<b><i>Insufficient Contractor Oversight Put Data and Equipment at Risk</i></b>  F-1, R-1, P-3. Ensure the PRIME contractor's access privileges are limited to only those required to accomplish their responsibilities. F-2, R-1, P-1. Ensure COTRs and security administrators carry out their responsibilities to periodically review contractor compliance with established security standards and controls. F-3, R-1, P-1. Install security patches as needed and bring all contractors' computer workstations and servers up to standards.

REFERENCE NUMBER	ISSUED	PROJECTED COMPLETION DATE	REPORT TITLE AND RECOMMENDATION SUMMARY (F = FINDING NUMBER, R = RECOMMENDATION NUMBER, P = PLAN NUMBER)
2004-30-068	March 2004	10/15/04 10/15/04 10/15/04	<b><i>Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program</i></b>  F-1, R-1, P-1. Establish measurable performance-based indicators for the Bank Secrecy Act program. F-2, R-1, P-1. Develop standard risk-based case selection criteria that would provide minimum requirements and parameters for case selection. F-2, R-2, P-1. Reinforce the importance of case documentation with specific instructions or case models and implement a centralized quality review process.
2004-30-074	March 2004	10/15/04	<b><i>The Use of Anti-Money Laundering Referrals and Currency Transaction Information in the Income Tax Examination Process Could Be Improved</i></b>  F-1, R-1, P-1. Develop a referral review checklist or other similar methodology to assist in ensuring all required factors, including non-filed tax returns, are considered in evaluating Anti-Money Laundering referrals.

## STATISTICAL REPORTS – OTHER

### Access to Information

*The Inspector General Act of 1978* requires IGs to report on unreasonable refusals of information available to the agency that relate to programs and operations for which the IG has responsibilities. As of September 30, 2004, there were no instances where information or assistance requested by the Office of Audit was refused.

### Disputed Audit Recommendations

*The Inspector General Act of 1978* requires IGs to provide information on significant management decisions in response to audit recommendations with which the IG disagrees. As of September 30, 2004, four reports were issued where a significant recommendation was disputed. *Fiscal Year 2003 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations, Reference No. 2003-40-098; The Certification and Accreditation of Computer Systems Should Remain in the Computer Security Material Weakness, Reference No. 2004-20-129; The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness, Reference No. 2004-20-131; The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually, Reference No. 2004-10-182.*

### Revised Management Decisions

*The Inspector General Act of 1978* requires IGs to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. As of September 30, 2004, no significant management decisions were revised.

### Audit Reports Issued in the Prior Reporting Period With No Management Response

*The Inspector General Act of 1978* requires IGs to provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period. As of September 30, 2004, there were no prior reports where management's response was not received.

### Review of Legislation and Regulations

*The Inspector General Act of 1978* requires IGs to review existing and proposed legislation and regulations and to make recommendations concerning the impact of such legislation or regulations. TIGTA's Office of Chief Counsel reviewed 171 proposed regulations and legislative requests during this reporting period.

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## APPENDIX II - AUDIT PRODUCTS

**APRIL 1, 2004 – SEPTEMBER 30, 2004**

<b>INSPECTOR GENERAL CONGRESSIONAL TESTIMONY</b>	
<b>REFERENCE NUMBER</b>	<b>HEARING TITLE</b>
<b>APRIL 2004</b>	
2004-OT-095	Internal Revenue Service Budget Request
<b>JULY 2004</b>	
2004-OT-141	Tax Gap

<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
<b>APRIL 2004</b>	
2004-40-090	Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During November and December 2003 Than Compared to One Year Ago
2004-30-086	Fiscal Year 2004 Statutory Review of Compliance With Lien Due Process Procedures (Taxpayer Rights and Entitlements: 22,478 Notices of Federal Tax Liens with potential violations of taxpayer rights)
2004-20-079	Additional Disaster Recovery Planning, Testing, and Training Are Needed for Data Communications (Funds Put to Better Use: \$315,000) Note: monetary benefit projected over a five-year period
2004-40-089	The Risk of Inaccurate Computer Changes Can Be Reduced in Future Tests of the Earned Income Tax Credit
2004-40-088	Information Is Needed to Determine the Effect the Wage and Investment Division Research Program Has on Improving Customer Service and Voluntary Compliance
2004-1C-091	Report on Audit of Compliance With Cost Accounting Standard 418, Allocation of Direct and Indirect Costs
2004-30-087	The Lead Development Center Effectively Researched Abusive Tax Scheme Leads but Could Be More Proactive in Identifying Promoters
2004-30-083	Trends in Compliance Activities Through Fiscal Year 2003
2004-20-073	Penetration Test of Internal Revenue Service Computer Systems
2004-20-093	Performance Data for the Security Program Should Be Corrected

<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
2004-30-094	Additional Efforts Are Needed to Ensure Taxpayer Rights Are Protected When Manual Levies Are Issued (Taxpayer Rights and Entitlements: 5 taxpayers whose appeal rights are not protected)
<b>MAY 2004</b>	
2004-10-097	Improvements Are Needed to the Updated Web site for Political Organizations to Increase the Accuracy and Consistency of Search Results for Filing Information (Reliability of Information: 94 political organizations may not be identified on the Political Organizations Filings and Disclosure Internet site)
2004-40-100	The Statistical Sampling Method Used in the Earned Income Tax Credit Proof of Concept Test Appears Valid
2004-40-098	Better Use of the National Account Profile During Returns Processing Can Eliminate Millions of Dollars in Erroneous Payments (Revenue Protection: \$21 million for 22,200 taxpayers; Funds Put to Better Use: \$28.4 million for 19,500 taxpayers)
2004-10-092	Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely
2004-40-099	The Clarity and Accuracy of Taxpayer Notices Are Actively Being Improved (Taxpayer Burden: 371,221 notices that were not sent to representatives authorized to receive such notices, that did not reflect the taxpayers' most current name or address information, or that contained unclear and missing information concerning recertification obligations for the Earned Income Tax Credit)
2004-40-102	The Compliance Services Collection Operations Function Needs to Set Specific Quantifiable Goals to Ensure Its Reengineering Efforts Are Effective
2004-1C-096	Report on Audit of Labor Internal Controls
2004-1C-101	TIRNO-95-D-00066 and TIRNO-00-D-00020, Incurred Costs Audit for Fiscal Year Ended June 30, 2002 (Questioned Costs: \$3,069)
2004-1C-103	Report on Follow-Up Audit of the Billing System
2004-10-104	The Federal, State, and Local Governments Office Is Taking Action to Identify Its Customers, but Improvements Are Needed (Reliability of Information: 10 accounts in which the entity's employment codes were incorrectly reflected on IRS computer systems)
<b>JUNE 2004</b>	
2004-20-107	Annual Assessment of the Business Systems Modernization Program
2004-40-109	Fiscal Year 2004 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 306 taxpayers improperly identified; Reliability of Information: 106 IRM subsections with prohibited references to Illegal Tax Protester designations)
2004-1C-111	Report on Application of Agreed Upon Procedures – Quick Closeout for Contract Number TIRNO-95-D-00061
2004-10-113	Procedures to Collect Outstanding Emergency Salary Payments Need to Be Implemented
2004-40-108	Fiscal Year 2004 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 196 taxpayers that may not have been properly notified of their rights)
2004-40-110	Systemic Weaknesses Need to Be Addressed Before the On-Line E-File Application Is Released to the Public (Taxpayer Burden: 30,700 e-file applicants that were not issued interim letter acknowledging receipt of their application; Inefficient Use of Resources: \$377,000)



<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
2004-30-106	Changes to the Regulations for Granting Extensions of Time to File Corporate Returns Are Needed to Alleviate Significant Problems With Administering the Tax Laws (Increased Revenue \$512.9 million; Taxpayer Rights and Entitlements: \$482.2 million in penalties and interest no longer assessed; Taxpayer Burden: \$1.97 billion representing the value of taxpayers' time saved if they are not required to prepare extension forms; Inefficient Use of Resources: \$5.3 million in reduced processing costs) Note: all benefits projected over a five-year period
2004-1C-112	Development and Implementation of an Enterprise Business System
2004-30-118	Additional Actions Are Necessary to Control Abuse of the Disabled Access Credit (Revenue Protection: \$4 million for 910 taxpayers)
2004-10-117	Improvements Are Needed in the Invoice Review Process for the Business Systems Modernization Contract (Questioned Costs: \$52,165)
2004-30-105	Tax Information Reported by Taxpayers Using an Individual Taxpayer Identification Number Is Vulnerable to Fraud and Abuse
2004-10-115	Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 1999 Through Fiscal Year 2003
2004-30-116	Many Aspects of the Field Examination Reengineering Pilot Were Effectively Implemented; However, Continued Monitoring Is Needed During the Nationwide Rollout
<b>JULY 2004</b>	
2004-1C-114	Report on Application of Agreed Upon Procedures – Quick Closeout for Contract Number TIRNO-95-D-00061, Delivery Orders 0009, 0010, 0016, 0019, 0023, 0024, 0026, 0027, and 0029
2004-30-119	The Fast Track Dispute Resolution Pilot Program Was Successful, but Some Challenges Remain
2004-1C-122	Report on Audit of Revised Forward Pricing Indirect Rates for Fiscal Year 2004
2004-30-120	Processing Improvements Have Helped Ensure United States Estate Tax Return Filers Receive the Maximum Allowable Credits
2004-1C-123	Report on Audit of Cost Accounting Standard 412, Composition and Measurement of Pension Cost, and Cost Accounting Standard 413, Adjustment and Allocation of Pension Cost
2004-1C-124	Follow-Up Review of Accounts Payable Scanning System
2004-10-121	Improved Policies and Accounting Are Needed for Child Care Centers
2004-20-126	The Use of Personal Digital Assistants Poses Significant Security Risks
2004-10-134	Procedures and Practices to Comply With the <i>Rural Development Act of 1972</i> Have Improved
2004-10-128	Review of the Nationwide Electronic Tax Forum Conferences and Exhibitions Contract (Questioned Costs: \$684,000)
2004-1C-125	Audit of Control Environment and Overall Accounting System Controls
2004-40-143	Fair Tax Collection Practices Violations Did Not Result in Administrative or Civil Action
<b>AUGUST 2004</b>	
2004-1C-136	TIRNO-99-D-0005, Report on Compliance With Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance With the Office of Management and Budget Circular A-133, Fiscal Year 2003 (Questioned Costs: \$5,519)
2004-1C-137	Accounting System Deficiency Found During Incurred Cost Audit
2004-1C-138	Audit of Incurred Cost for the Period July 1, 1999, through June 30, 2000
2004-30-144	Taxpayers Experienced Improved Access to Toll-Free Telephone Services During the 2004 Filing Season
2004-20-129	The Certification and Accreditation of Computer Systems Should Remain in the Computer Security Material Weakness

<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
2004-10-145	The Federal, State, and Local Governments Office Needs Additional Information to Assess the Productivity of Compliance Checks and Assist Its Compliance and Outreach Efforts
2004-30-130	Important Progress Has Been Made in Using Research to Improve Programs for Large Businesses, but Challenges Remain
2004-20-132	Security Weaknesses in the Modernization Infrastructure Have Not Been Adequately Addressed
2004-20-147	The Integrated Financial System Project Team Needs to Resolve Transition Planning and Testing Issues to Increase the Chances of a Successful Deployment
2004-30-127	The Return Delinquency Notice Program Could Be Used More Effectively to Promote Filing Compliance and Reduce the Tax Gap (Increased Revenue: \$436.7 million) Note: monetary benefit projected over a five-year period
2004-20-135	The Audit Trail System for Detecting Improper Activities on Modernized Systems Is Not Functioning (Funds Put to Better Use: \$584,372; Inefficient Use of Resources: \$400,000)
2004-40-150	Additional Effort Answering Tax Law Questions Would Improve Customer Service (Taxpayer Burden: 122 taxpayers received incorrect answers to tax law questions)
2004-1C-139	Audit of Electronic Data Processing of Accounts Payable Scanning System
2004-1C-140	TIRNO-99-D-0005, Supplemental Report on Compliance With Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance With the Office of Management and Budget Circular A-133, Fiscal Year 2002 (Questioned Costs: \$1,069)
2004-10-148	Information on the Centralized Authorization File Is Often Not Accurate or Complete (Taxpayer Burden: 2.33 million accounts with inaccurate or incomplete information on the Centralized Authorization File (CAF); Taxpayer Privacy and Security: 197 accounts in which disciplinary actions against practitioners were not properly recorded on the CAF)
2004-30-149	Legal and Internal Guidelines Were Not Always Followed When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 23 accounts where the IRS did not comply with legal and internal procedures or where internal procedures can be improved regarding seizures)
2004-1C-159	TIRNO-95-D-00061 and TIRNO-00-D-00013, Report on Audit of Incurred Costs for Fiscal Year 2002
2004-1C-160	Report on Audit of Corporate Office Incurred Costs for Fiscal Year 2003
2004-1C-161	Report on Follow-Up Audit of Facilities Use of Leased Space
2004-40-151	The Effectiveness of the Kiosk Program Cannot Be Determined (Inefficient Use of Resources: \$685,900)
2004-10-146	The Office of Competitive Sourcing Needs to Improve the Planning, Scheduling, and Costing of Projects (Reliability of Information: \$1 million understatement in costs reported to the Department of the Treasury)
2004-20-142	Mainframe Computer Disaster Recovery Risks Are Increased Due to Insufficient Computer Capacity and Testing (Funds Put to Better Use: \$200,000)
2004-1C-162	Report on Audit of Facilities Utilization of Leased Space
2004-1C-163	Report on Audit of Compliance With Cost Accounting Standard 416, Accounting for Insurance Costs
2004-40-154	Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites
<b>SEPTEMBER 2004</b>	
2004-40-152	Taxpayer Experience at the Taxpayer Assistance Centers Could Be Improved (Taxpayer Burden: 53 incorrect responses to tax law questions)
2004-30-165	The New Risk-Based Collection Initiative Has the Potential to Increase Revenue and Improve Future Collection Design Enhancements

<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
2004-1C-164	Report on Audit of Facilities Utilization of Leased Space, Washington, D.C., and Southern New Jersey Areas
2004-1C-169	Audit of Fiscal Year 2005 Forward Pricing Indirect Rates
2004-20-156	Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Questioned Costs: \$2.2 million; Funds Put to Better Use: \$3.2 million; Inefficient Use of Resources: \$742,000) Note: Funds Put to Better Use benefit projected over a five-year period
2004-40-153	Most Attachments Submitted With Individual Taxpayers' Tax Returns Are Identified and Processed
2004-30-133	The Controls for Examination Processes for Industry Cases With International Transfer Pricing Issues Can Be Improved (Increased Revenue: \$161.5 million) Note: monetary benefit projected over a five-year period
2004-30-171	Avoidable Interest Was Paid on Tentative Carryback Refunds Requested by Corporate Taxpayers (Funds Put to Better Use: \$48.3 million)
2004-20-131	The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness
2004-20-157	The Office of Release Management Can Improve Controls for Modernization Program Coordination
2004-30-173	The Revised Collection Case Selection Criteria That Expedites Trust Fund Workload to the Field Appears Effective
2004-30-170	Improvements Are Needed for Processing Income Tax Returns of Controlled Corporate Groups (Increased Revenue: \$29.7 million for 3,984 taxpayers; Taxpayer Rights and Entitlements: \$2.2 million for 1,494 taxpayers) Note: monetary benefit projected over a five-year period
2004-10-174	Audit of the Asset Seizure and Forfeiture Program Contract (Questioned Costs: \$13,832)
2004-40-176	<i>Restructuring and Reform Act of 1998 Section 1203</i> Allegations Were Properly Controlled (Protection of Resources: 198 delayed employee investigations)
2004-10-175	The Voluntary Closing Agreement Program for Tax-Exempt Bonds Has Been Implemented, but Its Impact on Voluntary Compliance Has Not Been Determined
2004-10-187	The Integrated Financial System Software Does Not Comply With Some Accounting Standards or Contain Certain Functionality as Originally Asserted by the Vendor
2004-30-172	Increased Attention Is Needed to Reduce Taxpayer Burden and Ensure Fair and Consistent Tax Treatment When Filing Small Business Corporate Tax Returns
2004-10-178	Oversight of the Interagency Agreement Has Improved, but Additional Actions Are Needed to Ensure Timely, Accurate, and Complete Form 5500 Return Information
2004-10-167	The Internal Revenue Service's Annual Program Performance Report Could Be Improved
2004-30-183	Taxpayer Remittances Were Generally Safeguarded Within the Cincinnati Submission Processing Site; However, Perimeter Security Needs Improvement
2004-10-182	The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually (Funds Put to Better Use: \$252.6 million) Note: monetary benefit projected over a five-year period
2004-10-177	The Tax Exempt and Government Entities Division Ensures Reject Procedures Are Current, but Increased Controls and Analysis May Reduce Customer Burden (Taxpayer Burden: 13 returns with filing errors)
2004-10-185	The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved (Increased Revenue: \$2 million for 423 taxpayers; Taxpayer Burden: 23,500 requests not timely sent to Appeals; Reliability of Data: 11,555 records had unreliable data)
2004-30-184	Errors in Failure to Pay Penalty Amounts Occur When the Penalty Is Computed Manually

<b>AUDIT PRODUCTS</b>	
<b>REFERENCE NUMBER</b>	<b>REPORT TITLE</b>
2004-1C-179	Mandatory Annual Audit Requirement, Material Purchases Existence and Consumption Audit
2004-1C-181	Follow-Up Audit of Cost Accounting Standard 409, Depreciation of Tangible Capital Assets
2004-1C-180	Audit of Noncompliance With Cost Accounting Standard 409, Depreciation of Tangible Capital Assets
2004-10-186	Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records
2004-10-191	The Process for Assigning Cases Should Be Strengthened to Provide Better Coverage to Indian Tribal Governments Most in Need of Compliance Checks
2004-10-166	The Taxpayer Advocate Service Needs to Improve Case Management to Ensure Taxpayer Problems Are Resolved Timely (Taxpayer Burden: 76,183 delayed cases; Reliability of Data: 18,817 cases with unreliable data)
2004-10-189	Improvements Are Needed to Ensure Information Developed During Criminal Investigations Is Referred for Civil Action (Increased Revenue: \$3.9 million)
2004-20-155	Computer Security Roles and Responsibilities and Training Should Remain Part of the Computer Security Material Weakness
2004-10-190	The Tax Exempt and Government Entities Division Strategy for Abusive Tax Avoidance Transactions Needs Further Development
2004-10-192	Establishing Case Priorities and Enhancing the Processes Would Improve the Employee Plans Efforts to Resolve Reported Funding Deficiencies on Form 5500 (Reliability of Information: 167 returns with inaccurate or incomplete information).
2004-20-188	Security Controls Over the Internal Revenue Service's External Web Servers Need to Be Strengthened
2004-10-193	The Oversight Board Has Achieved Much of Its Original Intent, but There Are Opportunities for Increased Effectiveness
2004-20-158	Network Access, System Access, and Software Configuration Should Remain Part of the Computer Security Material Weakness

# APPENDIX III - STATUTORY TIGTA REPORTING REQUIREMENTS

Thirty statutory audit reports that dealt with the adequacy and security of IRS technology were issued during this reporting period. In FY 2004, TIGTA completed its sixth round of statutory reviews that are required annually by the *Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)*. The following table reflects the status of the FY 2004 RRA 98 statutory reviews.

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Enforcement Statistics</b></p> <p><i>Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)</i></p>	<p>An evaluation of IRS' compliance with restrictions under <i>Section 1204</i> of RRA 98 on the use of enforcement statistics to evaluate IRS employees.</p>	<p><b>Reference Number 2004-40-066, March 2004</b></p> <p>The IRS is complying with the law. A review of 75 judgmentally sampled enforcement employees' performance and related supervisory documentation, prepared between October 1, 2002, and August 31, 2003, revealed no instances of the use of records of tax enforcement results, production quotas, or goals to evaluate employee performance. In all of the 75 performance files reviewed, there was documentation the employees were being evaluated on the fair and equitable treatment of taxpayers. In addition, a review of 43 statistically sampled appropriate supervisors showed the IRS completed the required consolidated office certification memoranda on whether records of tax enforcement results were used in a prohibited manner.</p>
<p><b>Restrictions on Directly Contacting Taxpayers</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(ii)</i></p>	<p>An evaluation of IRS' compliance with restrictions under <i>I.R.C. § 7521</i> on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</p>	<p><b>Reference Number 2004-40-059, February 2004</b></p> <p>As in the prior reviews, TIGTA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither TIGTA nor the IRS could readily identify cases where a taxpayer requested a representative or the IRS contacted the taxpayer directly and bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and the Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>
<p><b>Filing of a Notice of Lien</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(iii)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6320</i> upon the filing of a notice of lien.</p>	<p><b>Reference Number 2004-30-086, April 2004</b></p> <p>The IRS did not completely comply with the law. A review of a statistically valid sample of 130 cases identified 6 for which the IRS correctly mailed the lien notices, but did not mail them timely within 5 business days, as required by <i>I.R.C. § 6320</i>. In addition, for another five cases, TIGTA could not determine if the IRS complied with the law because it did not provide proof of timely mailing. Finally, in 24 of the 130 cases reviewed, the IRS did not follow its own internal guidelines when issuing lien notices, including the guidelines for notifying taxpayer representatives and for receipting and maintaining certified mail listings.</p>

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Extensions of the Statute of Limitations for Assessment of Tax</b></p> <p><i>I.R.C. § 7803(d)(1)(C)</i></p> <p><i>I.R.C. § 6501(c)(4)(B)</i></p>	<p>Include information regarding extensions of the statute of limitations for assessment of tax under <i>I.R.C. § 6501</i> and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p><b>Reference Number 2004-40-108, June 2004</b></p> <p>There was not always documentation in case files that taxpayers were advised of their rights regarding assessment statute extensions. In TIGTA's sample, 21 percent of the case files (58 of 274 returns sampled) did not contain any documentation to support that taxpayers had been advised of their rights. In 20 additional cases where the IRS requested multiple extensions, there was no record documenting that the taxpayers were notified of their rights for the last extension requested. In 52 of 110 cases (47 percent) where taxpayers filed joint returns, the related case files did not contain any documentation that each taxpayer listed on the return was separately informed of their rights. In 66 of 167 cases (40 percent) where taxpayers had a representative, the related case files did not contain any documentation that the IRS had provided both the taxpayer and his or her representative with the advice of rights.</p>
<p><b>Levies</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6330</i> regarding levies.</p>	<p><b>Reference Number 2004-30-094, April 2004</b></p> <p>The IRS has effective controls over the issuance of systemically generated levies in both the Automated Collection System<sup>1</sup> and Integrated Collection System (ICS)<sup>2</sup> to prevent a levy from being generated unless there were at least 30 days between the date taxpayers received notice of their appeal rights and the date of the proposed levy. However, a review of 40 manual levies issued between July 1 and October 31, 2003, identified five instances in which revenue officers issued manual levies to seize the assets of taxpayers who had not been notified of their appeal rights.</p>

<sup>1</sup> A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

<sup>2</sup> An automated system used to control and monitor delinquent cases assigned to revenue officers in the IRS field offices.

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Collection Due Process</b></p> <p><i>I.R.C.</i> § 7803(d)(1)(A)(iii) and (iv)</p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C.</i> §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p><b>Reference Number 2004-40-067, March 2004</b></p> <p>The Appeals Officers and Settlement Officers (hearing officers) substantially complied with the requirements of the law when conducting Collection Due Process (CDP) hearings. In 98.5 percent of the CDP cases reviewed, the hearing officers adequately considered the following provisions of the law:</p> <ul style="list-style-type: none"> <li>• Obtained verification the IRS followed the applicable laws or administrative procedures during the lien and levy process.</li> <li>• Considered the issues raised by the taxpayer.</li> <li>• Considered if the proposed collection actions properly balanced the need for efficient collection of taxes with any legitimate concerns of the taxpayer about the intrusiveness of the liens or levies.</li> </ul> <p>While the hearing officers substantially complied with the requirements of the law when conducting CDP hearings, the hearing officers did not address all the issues raised by the taxpayers in the determination letters and the summary notice of determinations in approximately 11 percent of the cases reviewed.</p>
<p><b>Seizures</b></p> <p><i>I.R.C.</i> § 7803(d)(1)(A)(iv)</p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C.</i> §§ 6330 through 6344 when conducting seizures.</p>	<p><b>Reference Number 2004-30-149, August 2004</b></p> <p>The IRS did not always comply with legal provisions and internal procedures when conducting seizures. A review of a random sample of 50 of 380 seizures conducted between July 1, 2002, and June 30, 2003, identified 38 instances in 22 of the seizures in which the IRS did not fully comply with the <i>I.R.C.</i> While the review did not identify any instances where the taxpayers were adversely affected, not following legal and internal guidelines could result in abuses of taxpayers' rights.</p> <p>In addition, internal guidelines for conducting seizures can be improved to help prevent <i>I.R.C.</i> violations. While the IRS has established procedures to follow in obtaining approval prior to conducting a seizure, the <i>Internal Revenue Manual (IRM)</i> does not provide specific time periods for how soon a seizure should be conducted after the request for approval is made or after approval is given.</p>

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(v)</i></p>	<p>An evaluation of IRS' compliance with restrictions under <i>Section 3707 of RRA 98</i> on designation of taxpayers.</p>	<p><b>Reference Number 2004-40-109, June 2004</b></p> <p>In general, the IRS is in compliance with the prohibition on using Illegal Tax Protester (ITP) or similar designations. The IRS has not reintroduced past ITP codes on the IRS' Master File and has not reassigned any similar ITP designations to formerly coded ITP taxpayer accounts. However, a few taxpayers' records were coded as tax protesters on the Taxpayer Information File and the ICS. IRS employees also continue to label taxpayers as ITPs and other similar designations in case narratives. Additionally, multiple subsections of the IRM still contain ITP and similar designations.</p> <p>However, in its response to TIGTA's Fiscal Year 2003 report, the IRS disagreed with the determination that in order to comply with this provision, IRS employees should not designate taxpayers as ITPs or similar designations in case narratives. As a result, TIGTA elevated this disagreement to the Assistant Secretary for Management and Chief Financial Officer of the Treasury, but has not yet received a response.</p>
<p><b>Disclosure of Collection Activities With Respect to Joint Returns</b></p> <p><i>I.R.C. § 7803(d)(1)(B)</i></p> <p><i>I.R.C. § 6103(e)(8)</i></p>	<p>Review and certify whether or not IRS is complying with <i>I.R.C. § 6103(e)(8)</i> to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p><b>Reference Number 2004-40-058, March 2004</b></p> <p>This is the sixth year TIGTA could not determine whether the IRS is complying with the statutory requirements for responding to written requests from joint filers, because both TIGTA and the IRS are still unable to readily identify joint filer requests received nationwide. IRS management has decided not to develop a new management control process to track joint filer requests. IRS management information systems do not separately record or monitor joint filer requests, and the Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>



REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Taxpayer Complaints</b></p> <p><i>I.R.C.</i> § 7803(d)(2)(A)</p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received are prepared by TIGTA's Office of Investigations (OI) and are reflected in the OI Statistical Reports, p. 39.</p> <p><b>Reference Number 2004-40-176, September 2004</b> The IRS' process ensured § 1203 allegations referred from TIGTA and the Employee Tax Compliance (ETC) Branch for action and management responses were accounted for and addressed. In addition, the IRS and the § 1203 Review Board adequately controlled cases forwarded to the § 1203 Review Board for final determination.</p> <p>However, while reviewing ETC case processing, TIGTA identified 198 cases as of March 31, 2004, open for over 180 calendar days without a resolution as to whether the tax compliance issue was a substantiated § 1203 violation. Labor Relations offices did perform informal monthly reviews of cases over 180 calendar days old but did not always document their reviews. TIGTA identified some cases with periods spanning several months after the cases were 180 calendar days old where there was no activity noted in the case history or an explanation of the delay. In these overage cases, continual management oversight is needed to ensure more timely resolution of § 1203 violations and eliminate unnecessary employee stress when cases are needlessly delayed. TIGTA recommended the IRS formalize in the IRM the monthly requirement to conduct and document the follow-up activity on all cases open for over 180 days and to perform annual follow-up reviews to ensure the process is consistently followed.</p>
<p><b>Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996</b></p> <p><i>I.R.C.</i> § 7803(d)(1)(G)</p> <p><i>I.R.C.</i> § 6304 <i>Section 3466 of RRA 98</i></p>	<p>Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of <i>I.R.C.</i> § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p><b>Reference Number 2004-40-143, July 2004</b> Based on a review of information recorded as potential <i>Fair Debt Collection Practices Act</i> violations on the IRS computer systems, TIGTA identified no fair tax collection practice violations that occurred after July 22, 1998, and resulted in administrative action being taken against an employee for the period January 1 through December 31, 2003. In addition, the IRS had no closed cases in which it paid any money to taxpayers for civil actions resulting from fair tax collection practice violations.</p>

REFERENCE TO STATUTORY COVERAGE	EXPLANATION OF THE PROVISION	COMMENTS/TIGTA AUDIT STATUS
<p><b>Denial of Requests for Information</b></p> <p><i>I.R.C. § 7803(d)(1)(F)</i></p> <p><i>I.R.C. § 7803(d)(3)(A)</i></p>	<p>Include information regarding improper denial of requests for information from 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>I.R.C. § 6103</i> or <i>5 U.S.C. § 552(b)(7)</i>.</p>	<p><b>Reference Number 2004-40-064, March 2004</b></p> <p>The IRS improperly withheld information from requesters in 4.4 percent of the <i>Freedom of Information Act (FOIA)</i> and <i>Privacy Act (PA)</i> requests, and 14.6 percent of the <i>I.R.C. § 6103</i> requests reviewed. TIGTA's statistically valid samples were taken from cases closed during the period January 1 through June 30, 2003. TIGTA estimated information was improperly withheld from responses to 369 <i>FOIA</i> and <i>PA</i> requests and 1,108 <i>I.R.C. § 6103</i> requests during the sample period.</p>
<p><b>Adequacy and Security of the Technology of the IRS</b></p> <p><i>I.R.C. § 7803(d)(1)(D)</i></p>	<p>Evaluation of IRS' adequacy and security of its technology.</p>	<p><b>Information Technology:</b></p> <p>Reference Number 2004-20-001, October 2003  Reference Number 2004-20-014, November 2003  Reference Number 2004-20-017, November 2003  Reference Number 2004-20-026, December 2003  Reference Number 2004-20-034, January 2004  Reference Number 2004-20-041, January 2004  Reference Number 2004-20-036, February 2004  Reference Number 2004-20-061, March 2004  Reference Number 2004-20-072, March 2004  Reference Number 2004-20-107, June 2004  Reference Number 2004-20-147, August 2004  Reference Number 2004-20-156, September 2004  Reference Number 2004-20-157, September 2004</p> <p><b>Security Reviews:</b></p> <p>Reference Number 2004-20-027, January 2004  Reference Number 2004-20-046, February 2004  Reference Number 2004-20-053, March 2004  Reference Number 2004-20-063, March 2004  Reference Number 2004-20-081, March 2004  Reference Number 2004-20-073, April 2004  Reference Number 2004-20-079, April 2004  Reference Number 2004-20-093, April 2004  Reference Number 2004-20-126, July 2004  Reference Number 2004-20-129, August 2004  Reference Number 2004-20-132, August 2004  Reference Number 2004-20-135, August 2004  Reference Number 2004-20-142, August 2004  Reference Number 2004-20-131, September 2004  Reference Number 2004-20-155, September 2004  Reference Number 2004-20-158, September 2004  Reference Number 2004-20-188, September 2004</p>

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## 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:

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

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

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## APPENDIX V - DATA TABLES PROVIDED BY THE IRS

The following tables contain information exactly as provided by the IRS to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS). Also, data concerning substantiated §1203 allegations are included. IRS management conducted inquiries into the cases reflected in these tables.

### Report of Employee Misconduct for the Period April 01, 2004 to September 30, 2004 Summary by Disposition Groups

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	55	119	34	2	210
Separation of Probationary Employees	6	236	18	8	268
Separation of Temporary Employees	1	1	3	2	7
Resignation/Retirement	97	150	79	12	338
Suspensions	78	236	106	8	428
Reprimands	83	331	588	18	1,020
Counseling	4	285	1,082	37	1,408
Alternative Discipline	25	75	27	1	128
Clearance	123	142	16		281
Closed Without Action	310	246	283	74	913
Closed Without Action (Caution Statement)	93	33	68	11	205
Forwarded to TIGTA		10			10
<b>Total</b>	<b>875</b>	<b>1,864</b>	<b>2,304</b>	<b>173</b>	<b>5,216</b>

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

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

Extract Date: Saturday, October 2, 2004 Report ID = T1R3a

**Report of Employee Misconduct for the Period  
April 01, 2004 to September 30, 2004  
National Summary**

Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Cases	
TIGTA Investigations ROI <sup>1</sup>	652	795	(875)	(8)	(0)	564
Administrative Case <sup>2</sup>	757	1,801	(1,864)	(20)	(9)	665
Employee Tax Compliance Case <sup>3</sup>	1,421	2,093	(2,304)	(81)	(0)	1,129
Background Investigations <sup>4</sup>	111	220	(173)	(1)	(0)	157
<b>Total</b>	<b>2,941</b>	<b>4,909</b>	<b>(5,216)</b>	<b>(110)</b>	<b>(9)</b>	<b>2,515</b>

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

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

Extract Date: Saturday, October 2, 2004

Report ID = T1R1

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

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

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

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

**Summary of Substantiated §1203 Allegations  
Recorded in ALERTS for the Period  
April 01, 2004 to September 30, 2004**

<b>§ 1203 Violation</b>	<b>Removals<sup>1</sup></b>	<b>Resigned/ Retired</b>	<b>Probation Separation</b>	<b>Removed On Other Grounds</b>	<b>Penalty Mitigated</b>	<b>In Personnel Process</b>	<b>Total</b>
Seizure Without Approval	0	0	0	0	0	1	<b>1</b>
False Statement Under Oath	0	0	0	0	0	0	<b>0</b>
Constitutional & Civil Rights Issues	0	0	0	0	0	0	<b>0</b>
Falsifying or Destroying Records	1	1	0	0	0	1	<b>3</b>
Assault or Battery	0	0	0	0	0	0	<b>0</b>
Retaliate or Harass	0	0	0	0	0	1	<b>1</b>
Misuse of §6103	0	0	0	0	0	0	<b>0</b>
Failure to File Federal Tax Return	27	17	7	2	38	66	<b>157</b>
Understatement of Federal Tax Liability	15	10	0	1	27	41	<b>94</b>
Threat to Audit for Personal Gain	0	0	0	0	0	0	<b>0</b>
<b>Totals</b>	<b>43</b>	<b>28</b>	<b>7</b>	<b>3</b>	<b>65</b>	<b>110</b>	<b>256</b>

Source: Automated Labor and Employee Relations Tracking System (ALERTS) and §1203 Review Board records.  
Extract Date: Saturday, October 2, 2004

<sup>1</sup> The cases reported as "Removals" and "Penalty Mitigated" (see column above) do not reflect the results of any third party appeal.



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

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