



Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

April 1, 2010 – September 30, 2010



Inspector General's Message to the Congress



It gives me great pleasure to submit this Semiannual Report to the Congress that features the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period dating from April 1, 2010 through September 30, 2010. This report highlights our most notable audit, investigative and inspections and evaluations work and summarizes the statistical results thereof.

During this reporting period, TIGTA's combined efforts have recovered, protected and identified monetary benefits totaling more than \$6.6 billion. When combined with our earlier results, we have achieved savings of more than \$11.69 billion for Fiscal Year (FY) 2010. Our Office of Audit (OA) has completed 86 audits and the Office of Investigations (OI) has opened 1,944 investigations and has closed 2,105 investigations over the past six months. TIGTA's Office of Chief Counsel has reviewed and made recommendations on the impact of 380 proposed or existing regulations and laws affecting tax administration.

The Internal Revenue Service (IRS) has confronted a number of challenges during this reporting period. The Modernized e-File Project will replace the IRS's current tax return filing technology with a modernized, Internet-based electronic filing platform. While the IRS is counting on the Modernized e-File system to become the dominant system for processing tax returns, we identified key weaknesses and made recommendations to help the system to perform up to expected levels.

Furthermore, several other audit reports revealed that many individuals received improper and erroneous refunds from the IRS based on inappropriately filed Earned Income Tax Credits, Foreign Earned Income Exclusions and First-Time Homebuyer Credits. As the IRS lost a significant amount of revenue because of these erroneous refunds, it is imperative that safeguards be implemented to protect these Federal funds. In July 2010, the Congress passed, and the President signed into law, the *Homebuyer Assistance and Improvement Act of 2010*, and as a result of our second interim report on the First-Time Homebuyer Credit, this law includes language to improve the information sharing between the IRS and State prisons helping to prevent abuse of the tax system by incarcerated individuals. Through this reporting period, TIGTA has remained at the forefront in making recommendations to the IRS to help prevent fraud, waste and abuse in these tax credit programs.

The Office of Investigations had its most productive fiscal year since 2003. OI has continued to aggressively pursue those who threaten the safety and security of IRS personnel, data and facilities, or who otherwise attempt to corruptly impact the integrity of the IRS and the Federal system of tax administration. In order to address the increasing threats to the IRS, OI has



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undertaken an ambitious reorganization to better align its personnel and technical resources to meet the growing challenges facing the IRS. One of the major components of the reorganization involves the consolidation of all of TIGTA's data gathering and analysis capabilities into one unit. This unit is called the Strategic Enforcement and Data Integrity Division and will be responsible for ensuring TIGTA's access to IRS tax data, the continued detection of unauthorized access to IRS systems and data, and the identification of potential fraud in IRS programs through the use of sophisticated data analysis techniques. Another component of the reorganization involves combining our electronic investigative expertise with our Criminal Intelligence Division, which will result in increased efficiency and internal collaboration as the Internet continues to be the source of a growing number of threats against Federal tax administration. This realignment of personnel, technology and specialized skills will enhance TIGTA's ability to protect the IRS from both internal and external threats that negatively impact the Service's ability to efficiently and effectively collect the Nation's tax revenues.

Our Office of Inspections and Evaluations remains committed to protecting the funding made available under the *American Recovery and Reinvestment Act of 2009* (Recovery Act). We have embraced the task of ensuring that the IRS complies with all Recovery Act procurement requirements and uses its Recovery Act funds for their intended purpose and will continue to work to promote integrity and efficiency in our work with the Recovery Board.

I want to acknowledge the outstanding efforts of our auditors, investigators, evaluators, attorneys and support personnel who work tirelessly to serve the American people. In addition, I want to thank the staff of the IRS for their efforts on behalf of the Nation's taxpayers. While reflecting on this year and looking forward to the next, one thing is clear: We at TIGTA remain committed to carrying out our mission to protect the integrity and efficiency of our Nation's tax system.

A handwritten signature in cursive script that reads "J. Russell George".

J. Russell George
Inspector General



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TIGTA’s Highlights

The following table shows the statistical highlights of the Treasury Inspector General for Tax Administration (TIGTA) for this semiannual reporting period as well as for all of Fiscal Year (FY) 2010.

	Number of Audit Reports Completed	Cost Savings Identified	Increased/Protected Revenue	Number of Investigations Opened	Number of Investigations Closed	Regulations/Legislative Requests Reviewed
April 1, 2010 – Sept. 30, 2010	86	\$2.74 billion	\$3.74 billion	1,944	2,105	380
FY 2010	129	\$2.82 billion	\$8.6 billion	3,857	3,743	683

Examples of high profile cases from the Office of Investigations:

EMC Corporation Pays the United States \$87.5 Million

EMC Corporation (EMC) has paid the United States \$87.5 million to settle a lawsuit alleging that the information technology company violated the *False Claims Act* and the *Federal Anti-Kickback Act*¹.

As a result of a multi-agency investigation which included TIGTA, the United States alleged in a lawsuit that, by misrepresenting its commercial pricing practices, EMC fraudulently induced the General Services Administration (GSA) to enter into a contract with prices that were higher than they would have been had the company not made false misrepresentations. Specifically, the United States alleged that EMC represented during contract negotiations that, for each government order under the contract, it would conduct a price comparison to ensure the Government received the lowest price provided to any of its commercial customers making a comparable purchase. According to the Government’s complaint, EMC knew that it was not capable of conducting such a comparison; therefore, EMC’s representations during the negotiations – as well as its subsequent representations to GSA that it was conducting the comparisons – were false or fraudulent.²

The United States also alleged that EMC engaged in an illegal kickback scheme designed to influence the Government to purchase the company’s products. EMC maintained agreements whereby it paid consulting companies fees each time the companies recommended that a Government agency purchase an EMC product. The kickback investigation was initiated by a

¹ Source: U.S. Department of Justice Press Release dated May 25, 2010.

² *Id.*



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lawsuit filed under the *qui tam*, or whistleblower provisions of the *False Claims Act*, which allow private citizens to sue for fraud on behalf of the United States and share in any recovery.³

The Department of Justice's Civil Division and the U.S. Attorney for the Eastern District of Virginia handled the case, with the assistance of the GSA Office of the Inspector General, the Department of Energy Office of the Inspector General, the U.S. Postal Service Office of the Inspector General, the Defense Criminal Investigative Service and TIGTA.

IRS Service Center Employees Sentenced for Theft of Government Money

On August 31, 2010, Joseph Ligon was sentenced to 42-months imprisonment and on September 27, 2010, Lashon Weaver was sentenced to 36-months imprisonment, both for theft of Government property. Ligon and Weaver were both sentenced to three-years of supervised release. Ligon and Weaver were each ordered to pay \$55,430.14 in restitution. Ligon was also ordered to pay a \$1,100 special assessment and Weaver was ordered to pay a \$100 special assessment.⁴

According to the Federal indictment, Ligon and/or Weaver stole money orders from June 2009 through December 2009.⁵ Ligon and Weaver worked in the mail department as clerks at the IRS Service Center in Covington, Kentucky. The two lived together. They each started stealing money orders sent to the IRS by taxpayers and converting them for their own use. The U.S. could prove that a taxpayer had mailed a money order to the Service Center along with an IRS payment voucher. Weaver cashed the money order, but the payment voucher was found in Ligon's desk at work. They were both interviewed at the same time, and during the interview Weaver received a text message from Ligon which read "Code of the Streets."⁶

Pictures and/or video tapes showed Ligon and Weaver in the process of cashing several of the money orders. Additionally, handwriting samples from the money orders matched Ligon and Weaver's handwriting obtained from documents in their respective personnel files. Finally, Weaver confessed that she did steal and convert each of the money orders with which she was charged in the indictment.⁷

William Murray Sentenced to 19.5 Years for Mail Fraud and Interference with Tax Administration

On May 28, 2010, in California, William Murray was sentenced to 19 and a half years in prison, to be followed by three-years of supervised release for mail fraud and interference with tax administration in a Ponzi scheme. He has also been ordered to pay restitution of \$10,375,118 to victims of the scheme. Murray's sentence provides for the forfeiture of all of his remaining

³ *Id.*

⁴ Source: Eastern District of Kentucky Judgments in a Criminal Case filed September 1, 2010, and September 28, 2010.

⁵ Source: Eastern District of Kentucky Indictment filed March 11, 2010.

⁶ Source: Eastern District of Kentucky Plea Agreement filed September 27, 2010.

⁷ *Id.*



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property, the disclosure of his bank account information to his victims and a full disclosure of all of his financial affairs.⁸ Murray stole approximately \$13,357,133 from more than 50 clients between 2001 and 2009. He told clients to write checks to accounts under his control so that he could pay taxes or invest money on their behalf. In fact, he spent millions of dollars in client money on his own lifestyle. He bought for himself houses, a classic car, a fleet of limousines, jewelry, rugs, fine wines, and other luxury items. Murray changed his clients' addresses to his own, so that they would not receive the IRS's demands for payment on their delinquent taxes. As demands for payment arrived from clients and the IRS, Murray's fraud became a Ponzi scheme. He used \$3,507,502 in later clients' money to pay off demands associated with earlier clients.⁹ Prior to his arrest, Murray had been a person of some prominence. He was a Certified Public Accountant with hundreds of clients. He regularly gave tax advice on a local television channel, and gave sworn expert witness testimony in courts in five counties. He had served as an IRS Revenue Agent between 1976 and 1980.¹⁰ This case was worked jointly with the IRS's Criminal Investigation (CI) Division.¹¹

Examples of high profile audits from the Office of Audit:

A Comprehensive Strategy Is Being Developed to Identify Individuals With First-Time Homebuyer Credit Repayment Requirements

Approximately 1.8 million taxpayers claimed a total of almost \$12.5 billion in First-Time Homebuyer Credits (Credit) in calendar year 2009. More than 950,000 taxpayers will be required to repay these credits because their homes were purchased in 2008. Many more may have to repay the credits if the homes cease to be the taxpayers' primary residences within 36 months.

The IRS developed computer coding to record a special indicator during the processing of tax returns and adjustment transactions to distinguish individuals with a 2008 home purchase from those with a 2009 home purchase. The IRS also created a Homebuyer Credit Entity Section on the tax accounts for those individuals who received the credit.

Currently, the IRS does not have the ability to identify when the homes of those individuals who received the credit cease to be their main residences. The IRS is developing a comprehensive strategy to address repayment provisions in the law. The strategy objectives include identifying third-party data sources to ensure individuals are complying with the provisions of the law.

TIGTA recommended that the IRS correct the purchase dates that TIGTA identified as incorrect and ensure that the validity of the credits claimed by individuals, who TIGTA identified as being deceased before the home was purchased, are entitled to claim the credit.

⁸ Source: Department of Justice Press Release dated May 28, 2010.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*



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

Reference No. 2010-41-086

Currency Report Data Can Be a Good Source for Audit Leads

Individuals who fail to file required returns or underreport their income can create unfair burdens on honest taxpayers and diminish the public's respect for the tax system. While currency reports may be commonly associated with money laundering, TIGTA identified a number of individuals who have enough cash to engage in currency transactions totaling at least \$20,000, yet they did not file tax returns even though they appeared to have a filing requirement.

A number of other individuals engaged in similar currency transactions filed tax returns, but reported income that did not appear sufficient to cover their basic living expenses. The difference between their income and expenses raised questions about whether there are additional income sources that should have been reported.

The IRS recognizes the benefits of using Currency Transaction Reports (CTR) in its criminal and civil enforcement efforts. The IRS's CI Division has obtained a number of convictions for tax evasion that either originated from CTR data, or for which CTR data served as a roadmap to establish that a crime was committed. Additionally, IRS examiners closed several hundred audits that were initiated from CTR data and, in the process, recommended additional taxes of \$13.6 million.

TIGTA recommended that, as resources become available, the IRS should explore the feasibility of making greater use of CTRs to pursue additional nonfilers and underreporters for audit. IRS management agreed with the recommendation and planned to evaluate opportunities during their work planning process to expand audit coverage of nonfilers using CTR data.

Reference No. 2010-30-104

Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States

Control weaknesses in the processing of refunds issued to nonresident aliens could result in significant revenue loss to the United States. The probability of recovering fraudulent refunds from nonresidents living outside the United States is very low.

TIGTA recommended that the IRS:

- Ensure that plans developed during the course of this audit to address control weaknesses discussed in this report are implemented; and
- Work with the Forms and Publications function to clarify instructions on what constitutes United States source income.



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

Reference No. 2010-40-121

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

H.R. 5815, Inspector General Authority Improvement Act of 2010

TIGTA reviewed the *Inspector General Authority Improvement Act of 2010* (the Act) for its amendments to the *Inspector General Act* (IG Act). Among other things, the Act would grant Inspectors General the authority to compel, by subpoena, testimony from witnesses who are not Federal employees. The Act would also exempt Inspectors General from certain provisions of the *Privacy Act of 1974*¹² as amended, related to computer matching. Additionally, the Act would require entities which Inspectors General oversee to take corrective action on Inspector General recommendations or provide an explanation to the Congress why corrective action was not taken.

H.R. 4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act

TIGTA reviewed the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, which makes broad changes to the financial sector. The bill amends the IG Act to require Inspectors General to include information on peer reviews in their Semiannual Reports to the Congress. The legislation also requires the newly created Bureau of Consumer Financial Protection to report instances of tax law noncompliance to the IRS. The bill establishes a Council of Inspectors General on Financial Oversight to share information and discuss concerns with the financial sector and ways to improve financial oversight.

H.R. 3590, Patient Protection and Affordable Care Act and H.R. 4872, the Health Care and Education Reconciliation Act of 2010

TIGTA reviewed H.R. 3590, the *Patient Protection and Affordable Care Act*, and H.R. 4872, the *Health Care and Education Reconciliation Act of 2010* for their impacts on tax administration. These bills make comprehensive changes to the health care system, including a requirement for individuals to maintain minimum essential health care coverage and a tax, beginning in 2014, on individuals without minimum essential health care coverage. Failure to pay the tax will not result in criminal prosecution, and the IRS is prohibited from filing liens or levying a taxpayer's property for failure to pay the tax. H.R. 3590 also amends Internal Revenue Code (I.R.C.) § 6103 by adding a new section that addresses disclosure of return information to determine eligibility for tax credits, cost-sharing reductions, or eligibility for participation in a State Medicaid program, a State's children's health insurance program, or a basic health program. H.R. 3590 and H.R. 4872 contain numerous provisions amending the I.R.C., including tax credits for small businesses, individual tax credits, an increase in the hospital insurance payroll

¹² 5 U.S.C. § 552a.



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tax for certain individuals and taxes on the prescription drug and medical device manufacturer industries.

S. 1508, Improper Payments Elimination and Recovery Act of 2010

TIGTA reviewed the *Improper Payments Elimination and Recovery Act of 2010* (the Act), which has since been enacted into law, that requires agency heads to periodically review agency programs and activities that are potentially susceptible to significant improper payments, expands current reporting requirements on estimated improper payments and requires agency heads to conduct recovery audits for programs that expend \$1 million or more annually, if cost effective. In addition, the legislation directs that Inspectors General report annually on the extent of their agency's compliance with the Act and establishes a process for addressing non-compliance. During multiple reviews, TIGTA identified several issues with this legislation, including ambiguities in the scope of the annual compliance review, the need for a reliable mechanism to fund such reviews, and certain complications that could arise from a proposed Council of the Inspectors General on Integrity and Efficiency (CIGIE) study. Many of these issues were resolved by the final version of this legislation, which was enacted on July 22, 2010.



TIGTA's Profile

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

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

TIGTA's organizational structure is comprised of the Office of the Inspector General and five functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; and the Office of Chief Counsel (see chart on page 12).

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

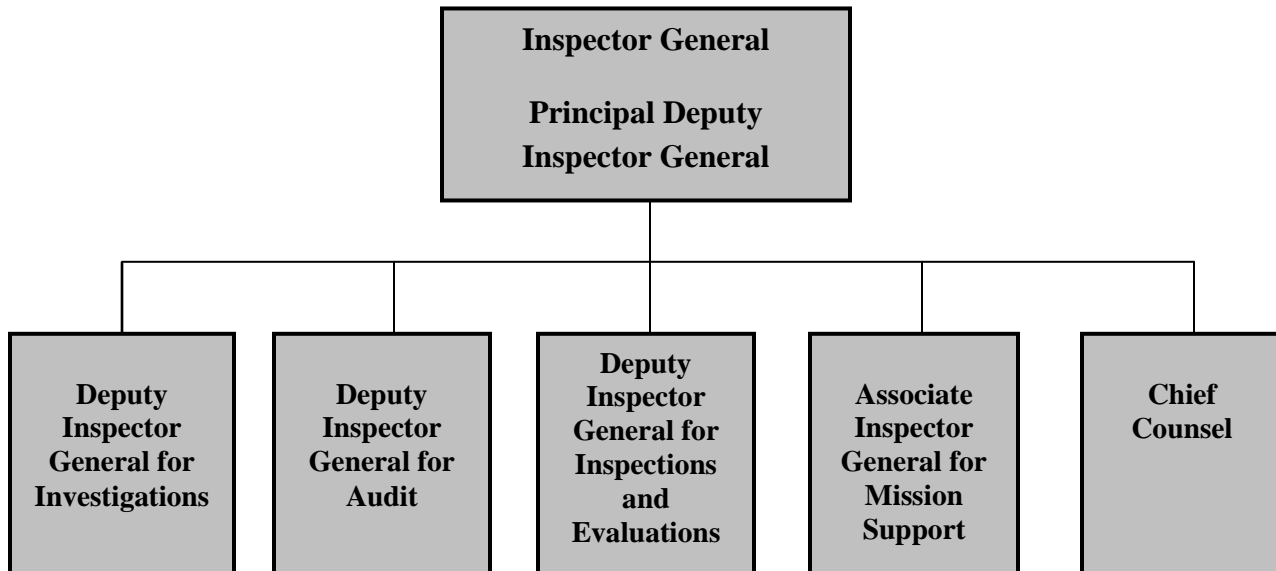
- Promote the economy, efficiency and effectiveness of tax administration; and
- Protect the integrity of tax administration.

Statutory Mandate

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



Organizational Structure



Authorities

TIGTA has all of the authorities granted under the Inspector General Act, as amended.¹³ TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA also has the obligation to report potential criminal violations directly to the Department of Justice. TIGTA and the Commissioner of Internal Revenue have established policies and procedures delineating responsibilities to investigate potential criminal offenses under Internal Revenue laws. In addition, the *Internal Revenue Service Restructuring and Reform Act of 1998* (RRA 98)¹⁴ amended the IG Act to give TIGTA statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Internal Revenue Code (I.R.C.) Section (§) 7608(b)(2).

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

¹⁴ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., and 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



Promote the Economy, Efficiency and Effectiveness of Tax Administration

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

The IRS's implementation of audit recommendations results in:

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

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

Audit Emphasis Areas for April 2010 through September 2010

- Modernization of the IRS
- Security of the IRS
- Tax Compliance Initiatives
- Implementing Tax Law Changes
- Providing Quality Taxpayer Service Operations
- Human Capital
- Erroneous and Improper Payments and Credits
- Globalization
- Taxpayer Protection and Rights



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

Modernization of the Internal Revenue Service

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

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

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

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

Annual Assessment of the Business Systems Modernization Program

The Modernization Program, which began in 1999, is a complex effort to modernize the IRS's technology and related business processes. This is being done while replacing outdated technology and maintaining the current tax system. The objective of the Modernization Program is to address and manage the inherent risks of modernization, while still delivering the level of service American taxpayers expect.

The Modernization Program is now in its 12th year and has received approximately \$3.24 billion for contractor services, plus an additional \$474 million for internal IRS costs. The IRS originally estimated that the Modernization Program effort would last up to 15 years and incur contractor costs of approximately \$8 billion. The three core projects of the Modernization Program, referred to as the "Pillars of Modernization," are the:



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- Customer Account Data Engine (CADE) – the databases and related applications that include applications for daily posting, settlement, maintenance, refund processing and issue detection for taxpayer tax account and return data;
- Modernized e-file – an electronic filing platform used for electronic tax return filing for both business and individual taxpayers; and
- Account Management Services/Integrated Data Retrieval System – systems that provide IRS employees with the ability to view, access, update and manage taxpayer accounts.

The Modernization Program has continued to provide new information technology capabilities and related benefits to both the IRS and taxpayers. Since July 2009, the IRS has implemented new releases of the CADE, Account Management Services and Modernized e-file systems. Most significantly, the Modernized e-file for the first time included individual tax returns in addition to business tax returns.

The IRS is at a key point in its Modernization Program, with respect to the demands for achieving success, and has refocused the Modernization Program to deliver the modernized systems sooner. TIGTA was encouraged by the IRS's efforts to refocus the Modernization Program, especially related to the retooling of the CADE program, known as CADE 2. When successful, the CADE 2 program will provide a significant boost to the IRS's ability to move away from its antiquated tax return processing systems and provide improved service to taxpayers. However, there are significant risks involved in retooling the entire Modernization Program and with the use of techniques and processes new to the IRS.

Because this was an assessment of the Modernization Program's status and accomplishments through FY 2010, TIGTA did not offer any recommendations. However, because of the significant risks involved with refocusing the Modernization Program, TIGTA believes that the IRS should continue to consider the Modernization Program as a material weakness until it can successfully demonstrate that CADE 2 can operate securely and effectively.

The IRS responded that it was pleased TIGTA's assessment of the Modernization Program has continued to provide new information technology capabilities and related benefits to the IRS and taxpayers. The IRS also stated that it is at a key point in its Modernization effort and believed that it was on its way to successfully demonstrate the effective operation of CADE 2.

Reference No. 2010-20-094

Modernized e-file

The Modernized e-file (MeF) Project's goal is to replace the IRS's current tax return filing technology with a modernized, Internet-based electronic filing platform. This will



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allow more individual taxpayers to take advantage of the benefits of electronic filing, while streamlining the IRS's filing processes and reducing the costs associated with paper tax returns. The IRS's management of the Project's risks, requirements and security can be improved to ensure the capabilities expected and approved to be deployed are appropriately implemented.

TIGTA's review showed that on February 17, 2010, the IRS deployed MeF Release 6.1 and began processing electronically filed individual income tax forms. During the first three weeks of operation, the MeF system rejected 23 percent of the individual income tax returns filed. In addition, the System Integration Test Results indicated that all application requirements were tested and passed. However, supporting test documents showed that many of the requirements were not tested and many more failed the tests with no indication provided to show that the defects were corrected. Further, controls were not adequate to manage all of the MeF system security risks, issues and action items. Information provided by the IRS in December 2009, showed that 10 of the 13 security vulnerabilities were resolved. However, the January 2010 Security Test and Evaluation reported that only two of the 13 vulnerabilities had been resolved.

TIGTA recommended that the IRS ensure that project releases are deployed only after all system requirements are tested and met, and verify test results to ensure their completeness and accuracy. Further, the IRS should modify guidance to require consideration of Lessons Learned Reports earlier in the project development process. To resolve all MeF system security issues, cybersecurity must completely implement the process to ensure that system owners enter and track all system security weaknesses in IRS control systems.

IRS management stated that it completed the process to control system security weaknesses as of March 25, 2010, and that it plans to update project development guidance. The IRS disagreed with the recommendation about release deployment only after testing showed that requirements were met, citing milestone readiness reviews and the Executive Steering Committee as controls. With the significant number of failed tests and the resulting problems in rejected individual income tax returns filed, TIGTA questioned whether the Executive Steering Committee had sufficient and timely information to make an informed risk-based decision for deploying MeF Release 6.1.

Reference No. 2010-20-041

Energy Efficiency

In October 2009, the President signed Executive Order 13514, Federal Leadership in Environmental, Energy, and Economic Performance, which stipulates that Federal agencies must increase energy efficiency, reduce greenhouse-gas emissions, eliminate waste and foster conservation and sustainability. More specifically, it mandates that agencies implement best practices for energy-efficient management of Federal data centers and servers. While previous Executive orders pertaining to energy efficiency did



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not preclude agencies from instituting efficiency measures at data centers, they also did not require such action.

Improving Data Center Energy Efficiency and the Environmental and Energy Program

IRS management indicated that the agency's overall energy program has consistently met standards as set forth in all pertinent Executive orders and legislative mandates. However, while data centers typically consume more energy than other types of buildings, the IRS has not yet fully implemented most data-center best practices. As a result, the IRS has not maximized the energy efficiency and use of taxpayer funds resulting from decreased energy consumption in its data centers.

Therefore, TIGTA recommended that the IRS ensure that:

- Policies and procedures are established to evaluate and determine which best practices to implement;
- Information Technology (IT) equipment energy use is measured;
- Employee workstations, equipment and furniture that are no longer needed are removed from the data centers;
- Current and future data-center space needs are identified and plans are developed to consolidate or reduce excess data-center space;
- Energy audits (including an assessment of best practices) are performed at the data centers;
- A governance process is established; and
- A database of all recommendations and projects is established.

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

Reference No. 2010-20-044

Electronics Stewardship Program

Additional actions by the IRS to minimize the energy consumption of its 110,000 desktop computers and improve printing practices could potentially save the IRS more than \$18.2 million over four years.

The IRS has taken actions to improve the energy efficiency of desktop computer equipment. For example, the IRS is purchasing energy-efficient desktop computer equipment and has enabled an energy saving feature on computer monitors that puts the monitors in "sleep mode" during periods of inactivity.

However, the IRS has not established an implementation strategy to ensure the timely completion of applicable action items in the Electronics Stewardship Program and Implementation Plan. For example, timely actions have not been taken to implement



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power management, *e.g.*, power down/sleep mode functionality on desktop computers (also including laptop computers). Neither policies nor procedures have been established to implement duplex (two-sided) printing on printers. In addition, actions to ensure that procurement of energy-efficient desktop computer equipment need improvement.

As a result, TIGTA recommended that the IRS:

- Assign clear responsibilities to ensure the effective execution of the Electronics Stewardship Program and Implementation Plan and require each organization to periodically report its progress in completing the action items;
- Develop an implementation strategy and plan to ensure the applicable energy efficient practices, such as power management for desktop computers and duplex printing, are implemented as soon as possible, to the maximum degree based on IRS mission needs;
- Implement an effective process to timely review training records and ensure that employees complete required annual training by the June 30 due date; and
- Develop a tracking system to support the ongoing review of IRS efforts in acquiring energy-efficient electronic products.

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

Reference No. 2010-20-056

Security of the Internal Revenue Service

Millions of taxpayers entrust the IRS with sensitive financial, personal and other data that are processed by and stored on IRS computer systems. Reports of identity theft from both the private and public sectors have heightened awareness of the need to protect these data. The risk that taxpayers' identities could be stolen by exploiting security weaknesses in the IRS's computer systems continues to increase, as does the risk that IRS computer operations could be disrupted. Internal factors (such as the increased connectivity of computer systems and increased use of portable laptop computers) and external factors (such as the volatile threat environment resulting from increased terrorist and hacker activity) require strong security controls.

More Actions Are Needed to Correct the Security Roles and Responsibilities Portion of the Computer Security Material Weakness

The *Federal Managers' Financial Integrity Act of 1982*¹⁵ requires that each agency conduct annual evaluations of its systems of internal accounting and administrative controls and submit an annual statement on the status of the agency's system of management controls, including identifying areas that can be considered material

¹⁵ 31 U.S.C. § 3512.



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weaknesses. The IRS prematurely closed the security roles and responsibilities component of its computer security material weakness. As a result, the IRS could not ensure that all IRS and contract employees will carry out their responsibilities to protect the confidentiality, integrity and availability of taxpayer data. While the IRS has made strides in addressing each set of corrective actions, TIGTA's analysis found that the IRS did not effectively complete four of its six corrective action objectives. Specifically, the IRS did not:

- Document all IT security roles and responsibilities in the Internal Revenue Manual (IRM);
- Develop and document day-to-day IT security procedures and guidelines;
- Properly conduct compliance assessments to test IT procedures; and
- Establish effective metrics for measuring compliance.

The IRS uses two documents, *IRS Roles Requiring an IT Security Training Curriculum* and *IRM IT Security Roles and Responsibilities*, to document security roles and responsibilities. While each document is used for different purposes, the IRM acts as the official policy over security roles and responsibilities. TIGTA identified that for 10 of 18 roles that are similar in both documents, the IRM did not include all the responsibilities established in the training curriculum. The IRS also did not document an additional five IT security roles existing at the IRS in the IRM. Further, the IRS did not properly conduct compliance assessments to verify and validate that IRS and contract employees were executing their security responsibilities. Lastly, because the compliance assessment did not yield significant information, the IRS has yet to establish or collect meaningful performance metrics for this weakness area.

TIGTA recommended that the IRS:

- Update the IRM to include all IT security roles in existence at the IRS;
- Establish recurring processes and communications to ensure security roles and responsibilities are periodically reviewed and updated;
- Develop procedures to validate compliance that incorporate supporting evidence of proper execution of assigned responsibilities; and
- Reopen the roles and responsibilities component of the computer security material weakness.

IRS management agreed with most of the recommendations and planned to take appropriate corrective actions. However, the IRS disagreed that the roles and responsibilities component should be reopened as a material weakness and believes that this component is in a state of "Significant Deficiency," as defined by the Government Accountability Office. The IRS planned to maintain its focus, with governance oversight, on maturing these processes and procedures.



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TIGTA disagreed with the IRS's assessment that the roles and responsibilities component is in a state of "Significant Deficiency," and believed that repeatable processes are not in place. As such, TIGTA did not agree with the downgrade.

Reference No. 2010-20-084

Taxpayer Data at Contractor Facilities May Be at Risk

The IRS provides its taxpayer data to contractors who store and process the data at their own facilities in support of the IRS's mission of tax administration. These data can contain Personally Identifiable Information, such as tax return data and Social Security Numbers (SSN). The IRS did not have effective processes to identify all contractors with IRS taxpayer data that require annual security reviews by the IRS, and it did not ensure that computer security weaknesses identified at contractor facilities during security reviews have been corrected. As a result, taxpayer data may be at risk for unauthorized access or disclosure.

Therefore, TIGTA recommended that the IRS:

- Identify the information system that can serve as the primary source for identifying contractors requiring reviews;
- Ensure appropriate indicators are captured on each existing contract with a disclosure and privacy impact;
- Validate whether the IRS business organization provided any IRS taxpayer data to these contractors;
- Provide the appropriate notification and guidance to the responsible IRS business organizations to execute annual security reviews of contractors when required; and
- Validate correction of reported security weaknesses and recommend a process for reporting weaknesses that remain unmitigated to increase the accountability of the responsible parties for remediation of security weaknesses.

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

Reference No. 2010-20-051

Tax Compliance Initiatives

Tax compliance initiatives include administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and oversight of tax-exempt and government entities. Increasing voluntary compliance and reducing the Tax Gap¹⁶ are currently the focus of many IRS initiatives. Nevertheless, the IRS is facing significant

¹⁶ The IRS defines the "Tax Gap" as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely paid for a tax year.



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challenges in obtaining more complete and timely data, and developing the methods necessary to interpret the data. The IRS must continue to seek accurate measures for the various components of the Tax Gap and the effectiveness of the actions taken to reduce it. In addition, while the IRS regularly encounters lax governance practices on the part of tax-exempt entities, it must remain vigilant in ensuring that the privilege of tax exemption is not abused.

Return Preparer Community

According to the IRS, more than 80 percent of all Federal individual income tax returns for 2007 and 2008 were prepared by paid tax return preparers or by taxpayers using commercial tax preparation software. Recently, the IRS began a major initiative to regulate tax return preparers in an effort:

- To strengthen partnerships with tax practitioners, tax return preparers, and other third parties to ensure effective tax administration; and
- To ensure that all tax practitioners, tax return preparers, and other third parties adhere to professional standards and follow the law.

This IRS initiative will require registration, minimum competency testing, and continuing education for all of the estimated 900,000 to 1.2 million paid tax return preparers. Using information obtained from the initiative, the IRS plans to establish a database of preparers to assist taxpayers in determining if they are dealing with a qualified preparer.

Return Preparer Program

Every year, more than one-half of all taxpayers pay someone else to prepare their Federal income tax returns. In calendar year 2009, the IRS processed approximately 83.1 million individual Federal income tax returns prepared by paid preparers. Immediately after announcing the return preparer review, the IRS established a Return Preparer Implementation Project Office. The Project Office will support the IRS in implementing key Return Preparer Program functions for Filing Season 2011 and lay the foundation for long-term program institutionalization.

When the decision was made to register preparers in September 2010, the IRS had only begun to implement the Return Preparer Program. It had not established all program requirements or the organizational structure of the Return Preparer Program, and it had not determined how to ensure all preparers met the requirements. In addition, the IRS had not determined how it would enforce program requirements, and it had not developed the system(s) and processes necessary to administer and oversee the program.

The new preparer requirements will take several years to implement, and it will not be until calendar year 2014 that all preparers will be subjected to all suitability and competency tests. During that time, the IRS will be developing and implementing an enforcement strategy. Currently, the IRS does not have a management information



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system capable of gathering data on all preparers. Further, the IRS will need to ensure that taxpayers understand the new requirements and the importance of only using registered preparers to prepare their tax returns.

TIGTA made several recommendations for improvement. Specifically, the IRS should complete the study comparing the four preparer programs to gain an understanding of the basis for the requirements and to ensure consistencies in the requirements and suitability testing among the programs.

IRS management plans to complete the study comparing the four preparer programs and to leverage existing best practices when appropriate.

Reference No. 2010-40-127

Plans to Reduce the Tax Gap

Paid preparers have a professional obligation to represent their clients effectively and play an important role in ensuring that taxpayers comply with the Nation's tax laws. Because most taxpayers use preparers to file their tax returns, adherence to standards and the preparation of accurate tax returns have a significant effect on taxpayer compliance and the IRS's efforts to reduce the Tax Gap.

The IRS has taken actions to engage the tax preparer community that could affect tax administration and reduce the Tax Gap. The IRS developed a strategic plan for FY 2009–2013 to improve oversight of tax administration. The Plan includes two key objectives and several strategies that pertain to reducing the Tax Gap by engaging the tax preparer community. However, actions were not taken to ensure that previously omitted key components were included in the existing IRS strategic plan. Without these components, it is unclear how the IRS will effectively monitor its performance and adherence to the requirements for strategic plans.

As a result, TIGTA recommended that the IRS:

- Take steps to update the existing IRS strategic plan and ensure future strategic plans contain all key components; and
- Define and include in the strategic plan sufficient measures to provide data that can be used to monitor the IRS's efforts to achieve objectives aimed at strengthening partnerships with tax practitioners and paid preparers in the effort to ensure effective tax administration.

IRS management agreed with the recommendations; however, the planned corrective actions did not address updating the existing strategic plan with omitted key components and sufficient measures to monitor the IRS's efforts regarding the paid preparer community.



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TIGTA continues to believe the existing strategic plan should be updated to ensure that the IRS is compliant with the *Government Performance and Results Act of 1993*.¹⁷ In addition, without an effective process to monitor its performance, the IRS cannot ensure its programs are achieving their objectives and desired outcomes.

Reference No. 2010-30-061

Improving the Identification of Preparers Who Submit Improper Earned Income Tax Credit Claims

The Earned Income Tax Credit (EITC) was created in 1975 to offset the impact of Social Security taxes for individuals who work but have low incomes. The amount of EITC claimed has increased steadily. The Recovery Act increased the EITC for families with three or more EITC qualifying children, further increasing the amount of benefits that were claimed in tax year 2009.

The IRS has taken steps to strengthen the EITC Preparer Strategy for FY 2010. However, TIGTA's review of the IRS's methodology determined that actions can be taken to further improve the effectiveness of identifying high-risk EITC tax return preparers.

As a result, TIGTA recommended that the IRS:

- Include a risk factor in its computation of the probability score for tax return preparers who were identified in a previous year as high-risk tax return preparers and were included in the control group;
- Select high-risk tax return preparers for a Due Diligence Visit (DDV) based on the preparer's probability score and volume of EITC tax returns prepared; and
- Ensure that the DDVs are properly performed with adequate case documentation in support of the assessment or nonassessment of penalties.

IRS management agreed to implement actions to improve the probability scoring and the quality of the DDVs. However, IRS management did not agree to revise the selection of high-risk tax return preparers for a DDV. The IRS indicated that the current process provides the flexibility needed to maximize the use of resources and allows for consideration of additional factors when needed.

The EITC program has the second highest amount of improper payments after Medicaid. The IRS reports annual improper EITC payments totaling between \$11 to \$14 billion dollars. As such, TIGTA is concerned that the IRS did not agree to implement the recommendation that could result in further reducing erroneous EITC payments.

¹⁷ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).



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TIGTA's analysis showed that the IRS's process does not result in the most efficient and effective use of limited DDV resources. The analysis of the volume of EITC tax returns prepared and the IRS probability score identified more high-risk tax return preparers for a DDV than the IRS identified.

Reference No. 2010-40-114

Troubled Asset Relief Program

The Troubled Asset Relief Program was a large expenditure of public funds that required participants to indicate in agreements with the Department of the Treasury that all material Federal taxes have been paid. However, the fact that some participants had unpaid taxes when the agreements were executed could jeopardize the public's confidence and trust in the performance and accountability of our Federal Government.

IRS records showed 130 of the 558 institutions included in this audit had unpaid taxes totaling \$530.8 million when agreements were signed by the Department of the Treasury's Assistant Secretary for Financial Stability and the institutions' representatives. However, IRS records also showed that 97 percent of the unpaid taxes were resolved by December 2009.

In considering the significance of the unpaid taxes, it is important to recognize that when the agreements were signed, the Department of the Treasury was in the beginning stages of establishing the Troubled Asset Relief Program to address the serious economic conditions threatening the stability of our Nation's financial system. As a result, the focus on stabilizing the financial system may have taken priority over establishing the controls needed to identify unpaid taxes so that the impact of the liabilities could be evaluated. Currently, IRS management is collaborating across functional areas and adapting traditional collection processes to accelerate the identification and resolution of unpaid taxes.

TIGTA made no recommendations in this report, but it did provide IRS management an opportunity to review the draft report. IRS management did not provide any comments to the report.

Reference No. 2010-30-050

In-Business Trust Fund Accounts

The large number of in-business taxpayers that accumulate trust fund tax liabilities is a major tax compliance problem for the IRS. Overall, TIGTA determined that the IRS's Collection field function needs to improve collection actions for in-business trust fund accounts closed as currently not collectible. Because not all required collection actions were taken, taxpayers continued to accumulate additional trust fund taxes. Taxpayers who do not voluntarily pay their share of taxes create an unfair burden on honest taxpayers and diminish the public's respect for the tax system.



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TIGTA recommended that the IRS:

- Provide training to Collection field function managers and revenue officers, with additional emphasis on the importance of securing, verifying and analyzing financial information;
- Ensure the Integrated Collection System (ICS) and IRM are updated to include verification of income and expense requirements;
- Continue to develop and implement a systemic process within the ICS to require the scheduling of mandatory follow-up reviews; and
- Update Centralized Case Processing function procedures to clarify mandatory follow-up review procedures and require periodic monitoring prior to mandatory follow-up review dates.

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

Reference No. 2010-30-095

Tax Returns With Abusive Tax Avoidance Transactions

Combating Abusive Tax Avoidance Transactions (ATAT) is one of the IRS's highest priorities. There are tax returns with ATAT issues that do not warrant examination and are surveyed before taxpayer contact. Surveying tax returns with an ATAT issue without proper justification or approval could be counterproductive to the IRS's goal to combat abusive schemes. In addition, this approach can erode the public's confidence in the IRS's ability to enforce tax laws in a fair, equitable and consistent manner.

As a result, TIGTA recommended that the IRS:

- Develop internal controls and train employees to ensure that justification is in the case files to survey tax returns with an ATAT issue;
- Have an independent function review the tax return for concurrence with the group manager's decision;
- Ensure that tax returns with ATAT issues (surveyed as excess inventory) can be readily identified, and examinations are completed once taxpayers are contacted; and
- Develop procedures to ensure surveyed tax returns are included as part of the quality review process.

IRS management agreed with two recommendations, but disagreed with the other two recommendations related to strengthening existing controls and developing procedures to include surveyed tax returns as part of the quality review process. TIGTA continues to believe that the breakdown in controls for the approval process indicated that tax returns surveyed without documentation may have yielded examination results.

Reference No. 2010-30-118



Implementing Tax Law Changes

Each filing season tests the IRS's ability to implement tax law changes made by the Congress. Most individuals file their income tax returns during the filing season and contact the IRS with questions about specific tax laws or filing procedures. Correctly implementing tax law changes is a continuing challenge because the IRS must identify tax law changes; revise the various tax forms, instructions, and publications; and reprogram the computer systems used for processing returns. Changes to the tax laws have a major effect on how the IRS conducts its activities, what resources are required and how much progress can be made on strategic goals.

The Congress frequently changes tax laws, so some level of change is a normal part of the IRS environment. However, certain types of changes and the timing of those changes can significantly affect the IRS in terms of the quality and effectiveness of its service and how taxpayers perceive the IRS. The IRS has identified the increasing complexity of tax administration, which includes responding to new tax provisions and adjusting to expiring ones, as a major trend expected to affect the IRS for the next five years.

The 2010 Filing Season

The passage of two significant tax laws impacted the 2010 Filing Season and presented additional challenges for the IRS. As of May 28, 2010, the IRS received more than 131.7 million individual income tax returns and issued approximately 101 million refunds totaling \$291.7 billion.

The IRS timely processed individual tax returns during the 2010 Filing Season. However, implementing some new tax law provisions presented challenges for the IRS. These challenges resulted in increased error inventories from individuals incorrectly calculating the Making Work Pay Credit and individuals not providing required documentation when claiming the First-Time Homebuyer Credit. There were nearly 23.7 million errors on tax returns through May 28, 2010, an increase of 7.1 percent in error receipts compared to the same time last year.

TIGTA identified inadequate controls and incomplete and inaccurate programming resulting in 125,762 individuals receiving nearly \$111.4 million in erroneous Recovery Act-related tax benefits:

- 10,581 individuals claimed \$65.6 million in erroneous First-Time Homebuyer Credits. IRS compliance efforts did not allow 2,363 of the 10,581 individuals to receive \$11.3 million they claimed for the First-Time Homebuyer Credit;
- 109,665 individuals erroneously received \$29.7 million in Making Work Pay and Government Retiree credits;



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- 5,345 individuals erroneously claimed \$15.6 million in Qualified Plug-in Electric and Electric Vehicle credits; and
- 171 individuals claimed \$453,220 in erroneous Non-business Energy Property credits.

In addition, TIGTA identified 2,933 individuals with more than \$95.8 million in qualified motor vehicle tax deductions on United States Individual Income Tax Returns Schedule A, Itemized Deductions, that exceeded the dollar amount that the IRS uses to identify a potentially erroneous claim. The IRS had not developed a process to identify these potentially erroneous claims on the Schedule A.

TIGTA recommended that the IRS:

- Develop processes to track and account for Recovery Act credits claimed on plug-in electric vehicle credit tax forms;
- Verify whether 8,218 individuals identified as erroneously claiming the First-Time Homebuyer Credit are entitled to claim the credit;
- Ensure that computer systems are programmed to identify individuals exceeding the maximum allowable nonbusiness energy credits; and
- Ensure that programming is implemented to identify and freeze refunds of individuals claiming more than a specific dollar amount in qualified motor vehicle tax deductions on Schedule A, if the deduction is extended.

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

Reference No. 2010-41-128

Providing Quality Taxpayer Service Operations

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

Portrayal of the Taxpayer Advocate Service for Fiscal Years 2005 Through 2009

The Taxpayer Advocate Service (TAS) plays an important role in tax administration by helping taxpayers who have tried, unsuccessfully, to resolve their tax problems using normal IRS channels. TIGTA found that fluctuating staffing levels, current authorities and increased case receipts have contributed to longer case processing times. As a result, although TAS may take interim actions to assist taxpayers, they have had to wait longer for their tax problems to be fully resolved. Despite the increased workload and decreased



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staffing, TAS has been successful in maintaining high levels of quality and customer satisfaction.

Many internal and external factors have affected TAS's ability to timely assist taxpayers. Specifically, the economy, the IRS's increased emphasis on enforcement actions and legislative changes have led to more taxpayers requesting TAS's assistance. In addition, TAS's internal policy of accepting all cases referred to it by other IRS functions may have contributed to the 38 percent increase in case receipts since FY 2005. Collectively, TIGTA believes these factors have made it challenging for TAS to accomplish part of its mission related to timely resolving taxpayer problems.

Rising caseloads have also affected case processing time. In FY 2009, cases were open an average of 80 calendar days, an increase of 22 percent since FY 2005. Despite these challenges, TAS reported an overall quality rating of 88 percent and a customer satisfaction rating of 84 percent during FY 2009. However, TIGTA believes many of the issues identified in the review will continue to present challenges for TAS and affect its ability to timely resolve taxpayer problems in the future.

Due to the nature of this review, TIGTA made no recommendations. However, TAS management reviewed the report prior to issuance and, overall, agreed with the facts and conclusions presented regarding the major trends in TAS over the past five years. TAS management provided an additional perspective related to TAS's change in authority and its effect on the issuance of Operations Assistance Requests to the operating divisions. In addition, TAS management provided input related to the increase in case processing time.

Reference No. 2010-10-081

Improvements Are Needed for Quality Taxpayer Service

Access for Hearing and Speech-Impaired Taxpayers

During the 2010 Filing Season, the IRS exceeded its key toll-free telephone assistance performance measurement goals. However, hearing- and speech-impaired callers who used the IRS tele-typewriter/telecommunications device for the Deaf (TTY/TDD) telephone line experienced a low level of service and had difficulty reaching an IRS assistor.

The IRS planned to achieve a 73 percent level of service and a 635-second average speed of answer. Instead, it achieved a 75.3 percent level of service and a 580-second average speed of answer. The IRS moved less complex calls to automation, leaving more complex calls for assistors to answer. The average speed of answer has increased by 12 percent since the 2009 Filing Season. During the 2010 Filing Season, 72 million total dialed attempts were made to the IRS's toll-free telephone customer account services lines.



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Through automation and assistors, the IRS answered 37.3 million calls during normal hours of operation. The IRS hired more assistors, but assistors answered fewer calls during the 2010 Filing Season than during the 2009 Filing Season, and callers waited longer to reach an assistor. Assistor calls answered decreased by 14 percent.

The level of service for the TTY/TDD toll-free telephone line for the 2010 Filing Season was 8.8 percent, the lowest Level of Service since the 2003 Filing Season when it was 6.2 percent. The TTY/TDD product line level of service has consistently provided the lowest level of service among all of the Customer Account Services Enterprise product lines.

TIGTA recommended that the IRS:

- Revise the various taxpayer instructions, including notices, for calling the IRS to clearly explain that the TTY/TDD number is for hearing- and speech-impaired individuals;
- Include in IRS publications the Federal Relay Service website and toll-free telephone number as a means to communicate with the IRS;
- Determine the efficiency of the placement of its TTY/TDD workstations; and
- Revise TeleTax Topic 102 to include the TTY/TDD hours of operation.

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

Reference No. 2010-40-108

Quality Assurance Process

The Volunteer Program plays an important role in achieving the IRS's goal of improving taxpayer service and facilitating participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing directed toward underserved segments of individual taxpayers, including low-income to moderate-income, elderly, disabled and limited English-proficient taxpayers.

The accuracy rates for tax returns prepared at Volunteer Program sites increased sharply from the 2009 Filing Season. Improved volunteer use of the Intake/Interview and Quality Review Sheet (Form 13614-C), increased and improved training, and increased oversight have all contributed to this change.

During January 2010, the IRS implemented a process to help ensure that willful acts of fraud not occur at Volunteer Program sites. However, not all sites were aware of the procedures or obtained the proper signage used to alert taxpayers of the process to report improper activity.



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In addition, resources could be saved by reducing or eliminating paper reference materials that are available electronically. Each year, the IRS spends more than \$600,000 (\$3 million projected over 5 years) to provide paper reference materials to volunteers, even though the tax preparation software it provides has the same reference material. Overall, improvements are needed to the quality assurance process used to monitor program effectiveness. Results show that quality review procedures were not consistently followed and did not always conform to applicable guidelines.

Therefore, TIGTA recommended that the IRS:

- Revise the site visit checksheet to ensure volunteers and site coordinators understand the process and required signs are posted;
- Ensure that referrals reporting improper activities are properly documented, investigated and resolved;
- Develop an initiative to help reduce or eliminate paper products at Volunteer Program sites; and
- Revise the managerial checksheet used for the Quality Statistical Sample Reviews to include a focus on tax return selection and documentation standards.

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

Reference No. 2010-40-109

Human Capital

Like many other Federal Government agencies, the IRS has experienced workforce challenges over the past few years, including recruiting, training, and retraining employees, as well as an increasing number of employees who are eligible to retire. More than half of the IRS's employees and managers have reached the age of 50, and 39 percent of IRS executives are currently eligible for retirement. To fill the projected shortage in leadership, the IRS has stated that it must recruit one manager a day for the next 10 years. Furthermore, the rate at which new recruits in mission-critical occupations are leaving the IRS during the first and second year of employment has increased since FY 2005. The pending loss of institutional knowledge and expertise at all levels and the challenge of retaining a highly skilled workforce increase the risk that the IRS may not be able to achieve its mission.

Pay-for-Performance System on Recruiting, Retaining, and Motivating Highly Skilled Leaders

With an increasingly retirement-eligible managerial workforce and the work of the IRS becoming more complex, it will be essential that the Pay-for-Performance System successfully accomplishes its purpose. If the IRS does not identify and adequately address concerns with the Pay-for-Performance System, it may be a negative factor for



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current or future leaders who serve in key roles to enable the IRS to provide taxpayers with the high-quality service they have come to expect.

While five years of data are needed before the impact of the Pay-for-Performance System can be fully evaluated, the IRS has started the process of gathering data on managers' perceptions of the system. In addition, as part of an interim evaluation, an IRS contractor has determined the system does not have a negative impact on the IRS managerial workforce. While these are positive initial steps, there are several actions the IRS still needs to take to determine if the Pay-for-Performance System is helping the IRS recruit, retain, and motivate a highly skilled managerial workforce.

TIGTA recommended that the IRS:

- Collect additional data to assess the impact the IRS Pay-for-Performance System is having on recruiting, retaining and motivating highly skilled leaders;
- Conduct additional research on two contractor observations; and
- Define a process where Pay-for-Performance System issues are assessed at least annually.

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

Reference No. 2010-10-054

Erroneous and Improper Payments and Credits

As defined by the *Improper Payments Information Act of 2002*,¹⁸ an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received and any payment that does not account for credit for applicable discounts. For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.

On November 29, 2009, the President signed Executive Order 13520, Reducing Improper Payments. The purpose of the Order is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in major Federal programs. The Order requires that each agency provide its Inspector General a report on the agency's methodology for identifying and measuring improper payments and agency plans to reduce them. The Inspector General will assess the level of risk associated with the applicable programs, determine the amount of oversight warranted, and provide

¹⁸ Pub. L. No. 107-300, 116 Stat. 2350.



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recommendations on the methodology and improper payment reduction plan. Agencies must also report quarterly on high-dollar improper payments and efforts to prevent them from occurring in the future.

TIGTA is currently conducting an assessment of the IRS's efforts to reduce improper EITC payments as required by this Order. TIGTA will report on the IRS's efforts in early calendar year 2011.

Better Use of Data Could Prevent More Than One Billion Dollars in Potentially Erroneous Refunds

To verify the accuracy of the information that taxpayers report on their tax returns, the IRS uses data from various sources such as employers, Government agencies and financial institutions. These types of data are referred to as third-party data. Effective use of these data helps to ensure taxpayer compliance. The IRS is not fully using the third-party data it receives during returns processing. Additional action is needed to use third-party data to validate EITC requirements and other questionable claims. Expanding the use of third-party data during processing would allow the IRS to decrease erroneous refunds, increase revenues and promote voluntary compliance.

In addition, the IRS does not have a centralized data log or control point for third-party data requested or received from outside sources. TIGTA requested that the IRS provide a list of all third-party data received from outside sources, but it was unable to do so, stating that it did not have a centralized control point for all of the data received from outside of the organization. Moreover, the IRS could not provide cost data for obtaining third-party data files. The IRS's own work in this area in the past has shown multiple payments made for the same data. The IRS does not use standardized procedures for validating the data or formatting data received from third-party vendors.

Therefore, TIGTA recommended that the IRS use the authority already provided in the law to freeze refunds while contacting those taxpayers with potentially invalid EITC claims; and require a valid response from the taxpayers before allowing the EITC and adjust the return if the taxpayer does not respond within a specific time period. In addition, TIGTA recommended that the IRS maintain a control log that contains all third-party data, ensure that all data sources are included and that the data elements are listed for each source. Procedures should also ensure that all data files received are validated upon receipt.

The IRS did not agree to freeze potentially invalid EITC refunds and did not agree with the need for a centralized third-party control point. The IRS did agree to discuss with the Department of the Treasury the merits of an administrative amendment to the tax code to obtain limited math error authority to freeze certain refunds while contacting taxpayers and to institute procedures to ensure all data are validated upon receipt.



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TIGTA is concerned with the IRS's lack of adequate corrective action to address certain improper EITC claims. The lack of action is not in accordance with Executive Order 13520, which was recently issued to help reduce improper payments in Federal programs.

Reference No. 2010-40-062

Globalization

The scope, complexity and magnitude of the international financial system present significant enforcement challenges for the IRS. As technology continues to advance and cross-border transactions rise, the IRS faces the growing challenge created by economic globalization. Technological advances have provided opportunities for offshore investments that were once only possible for large corporations and wealthy individuals.

The IRS is challenged by a lack of information reporting on many cross-border transactions. In addition, the varying legal requirements imposed by different jurisdictions result in the formation of complex business structures that make it difficult to determine the full scope and effect of cross-border transactions. However, over the past few years, the IRS has taken actions to better coordinate international tax compliance issues. The IRS has also made changes to its structure and processes, including increasing cooperation and outreach efforts to foreign governments.

Erroneous Foreign Earned Income Exclusion Claims

Taxpayers excluded \$19.2 billion in foreign earned income on tax year 2008 tax returns. TIGTA's review identified 23,334 tax returns during the 2008 tax year with erroneous foreign earned income tax exclusions totaling \$675 million with an estimated revenue loss of \$90 million. Over five years, TIGTA estimated erroneous claims could result in a total revenue loss of \$450 million.

Some of the recommendations that TIGTA provided were that the IRS:

- Review the tax returns of those individuals that TIGTA identified as incorrectly claiming the foreign earned income exclusion;
- Establish a unit to address taxpayers identified as erroneously claiming the foreign earned income exclusion;
- Assess whether compliance project criteria can be used to identify erroneous claims during tax return processing; and
- Include programming to forward tax returns (both electronically filed and paper) to the Error Resolution System for correction when individuals incorrectly compute their foreign earned income exclusion.

IRS management agreed with most of the recommendations, but it stated that substantial barriers prevented the implementation of certain ones at the time of the review. TIGTA was concerned that the lack of corrective actions would allow continued revenue loss.

Reference No. 2010-40-091



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Actions to Address the Impact That International Financial Reporting Standards Will Have on Tax Administration

One of the IRS's goals from its strategic plan for FYs 2009-2013 is to enforce the law to ensure everyone meets their obligation to pay taxes. The IRS's Large and Mid-Size Business Division's Strategic Initiatives and FY 2009 Priorities include developing a Service-wide strategy to address the consequences of the expected conversion to the International Financial Reporting Standards (IFRS). The IRS is positioning itself to address the impact that the IFRS will have on tax administration and on taxpayers.

The IRS is currently providing awareness training to IRS employees and managers by introducing them to IFRS concepts and potential issues. The IRS is also providing technical advice and guidance to employees conducting examinations of returns filed based on the IFRS. The IRS appropriately coordinated with the tax practitioner community to outline IFRS implementation concerns. In addition, the IRS is currently developing procedures to address significant issues related to the IFRS.

TIGTA made no recommendations in this report, but it did provide IRS management an opportunity to review the draft report. IRS management did not provide any comments to the report.

Reference No. 2010-30-112

Foreign Bank and Financial-Account Report-Filing Requirements

As a result of new legislation on foreign-tax reporting and disclosure of financial assets, some taxpayers may be required to file the Report of Foreign Bank and Financial Accounts (FBAR) and the new foreign-financial-assets disclosure statement with their income tax return. These reporting requirements will potentially add to both taxpayer burden and the complexity of tax law changes. Specifically, United States citizens, residents, and domestic entities that have a financial interest in, signature authority or other authority over, a foreign-financial account that exceeds \$10,000 in the aggregate at any time during the calendar year, are required to file the FBAR. New legislation will require individual taxpayers with an aggregate balance of more than \$50,000 in foreign financial assets to file a disclosure statement with their income tax return.

The IRS is working to address the impact that these legislative requirements have on United States citizens and residents. As a result, TIGTA made no recommendations in this report. However, IRS management reviewed the report before it was issued and agreed with the facts and conclusions presented.

Reference No. 2010-30-125



Taxpayer Protection and Rights

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

Eliminating or Reducing Taxpayer Social Security Numbers From Outgoing Correspondence

More than 130 million taxpayers entrust the IRS with sensitive financial and personal data, much of it on paper documents requiring protection. Taxpayers need assurance that the IRS is taking every precaution to protect their private information from inadvertent disclosure.

In response to Office of Management and Budget's (OMB's) Memorandum 07-16, the IRS developed and is implementing its Social Security Number Elimination and Reduction Plan (SSN ER Plan). TIGTA was able to validate most of the sample SSN ER Plan accomplishments. However, most of the supporting documentation had to be reassembled, and it was not clear if the IRS had validated the accomplishments before reporting them. Milestones for Phase 3 of the SSN ER Plan had not been established. The IRS will not be eliminating or reducing the use of taxpayers' SSNs in the immediate future. The IRS has many systems, notices and forms that use SSNs which require significant analysis before SSN use is eliminated or reduced. The IRS focused first on internal forms using SSNs and eliminating employees' SSNs from its systems.

TIGTA recommended that the IRS maintain documentation to support major deliverables and key meetings so that it is readily available for examination. TIGTA also recommended that the IRS validate data received from its business units and all accomplishments to ensure that all needed actions are complete. TIGTA also recommended that the IRS refine and update the milestones for the SSN ER Plan to ensure timely progress of the strategy.

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

Reference No. 2010-40-098

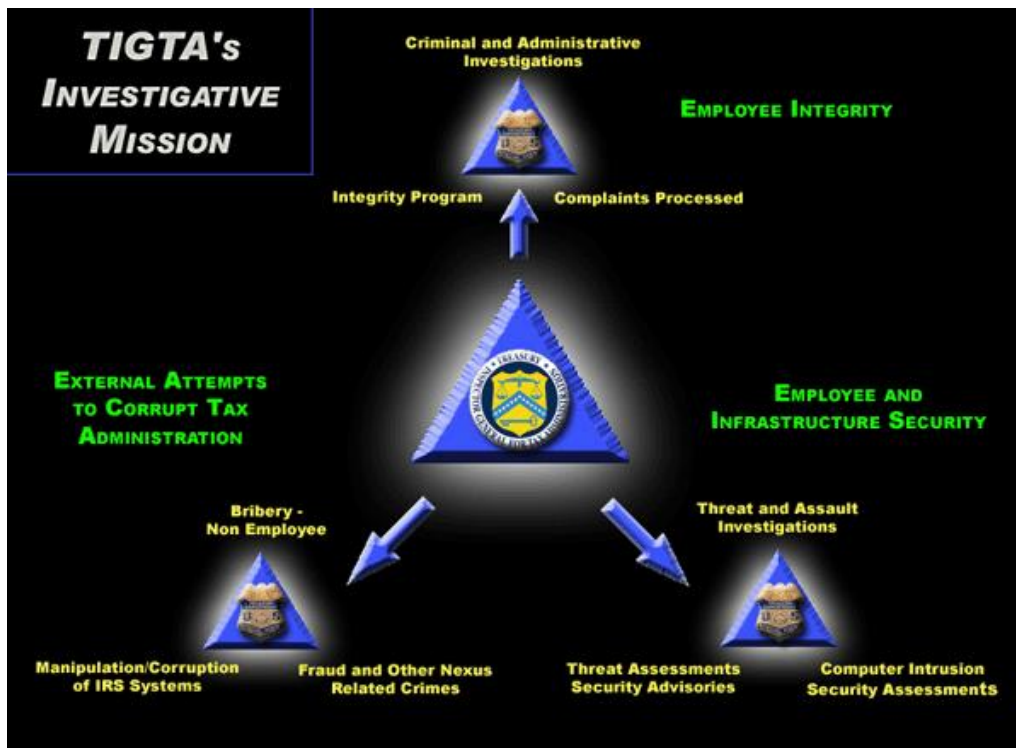




Protect the Integrity of Tax Administration

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

TIGTA's Investigative Performance Model



During this reporting period, TIGTA Special Agents continued the vital work of protecting the integrity of Federal tax administration. OI processed 5,190 complaints, and initiated 1,944 investigations. OI remains dedicated to work impacting integrity programs, threat and assault investigations, and other criminal and administrative investigations such as bribery, theft, impersonation, taxpayer abuses, and false statements. Additionally, OI's contract and procurement investigations continued to provide a valuable return on investment for investigative efforts impacting approximately \$47 billion in IRS contracts. OI's investigative activities resulted in \$142 million in recoveries placed into the United States' Treasury.



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Between April 1, 2010 and September 30, 2010, OI completed 1,975 investigations, which included 832 cases of employee misconduct referred for action and 138 cases accepted for criminal prosecution. OI investigations also resulted in the identification of 460 taxpayers who may pose a danger to the IRS and its employees.

Furthermore, OI's employee security program provides armed escorts for IRS employees who are required to have personal contact with known or suspected dangerous taxpayers. Such encounters are dangerous to IRS employees and TIGTA's armed presence enables them to perform their duties with confidence that their safety will not be compromised. Since the April 1, 2009, inception of the Armed Escort Program, TIGTA has conducted 62 armed escorts.

This section of the report will highlight TIGTA's Forensic Science Laboratory (FSL), which is dedicated to technical excellence in direct support of TIGTA's investigative initiatives. The FSL follows standard operating procedures and security requirements, which comply with TIGTA policies and the American Society of Crime Laboratory Directors – Laboratory Accreditation Board (ASCLD-LAB). In June 2010, the FSL was awarded laboratory accreditation through ASCLD-LAB. All laboratory reports are subject to technical and administrative reviews according to standard operating procedures, to ensure the accuracy of the findings reported and adherence to laboratory and professional standards. Annual proficiency testing of technical examiners is conducted to ensure the consistent quality of examinations. The FSL constantly updates its operating procedures to reflect policy changes, legal rulings and changes in professional responsibilities.

The FSL plays an integral role in TIGTA investigations. The FSL provides examinations of physical evidence in direct support of investigations conducted by TIGTA. The services that FSL provides include the following:

Handwriting/Handprinting Analysis



Document Identification and Analysis



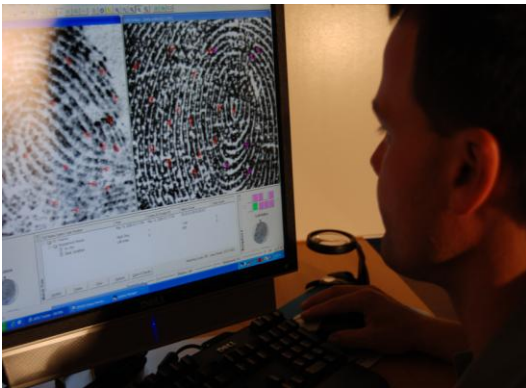


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Digital Image Processing/Visual Information



Latent Print Processing



The FSL is also responsible for:

- Providing field agents with crime scene assistance in the collection, preservation and analysis of physical evidence;

- Responding to inquiries from agents regarding the general rules of evidence;
- Conducting training exercises for TIGTA personnel regarding proper evidence-handling procedures;
- Assisting agents in determining which forensic analyses are available in their investigations;
- Maintaining an efficient turnaround time for each forensic examination;
- Issuing written reports based on the findings of its examiners; and
- Providing expert witness testimony in judicial proceedings.

In furtherance of its mission objectives, the FSL staff:

- Conducts independent and impartial analyses of physical evidence;
- Strives to develop all physical evidence to its fullest evidentiary potential;
- Educates its customers on the proper use of forensic science;
- Performs duties in a timeframe that maintains the professional quality of its findings so that the findings are ultimately useful to the submitter;
- Provides expert testimony in a fair and impartial manner; and
- Conducts applied research to bring the latest technological advances to physical evidence.



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During this reporting period, the FSL latent print section worked 40 cases, processed and examined 1,149 pieces of evidence for latent prints and made 279 fingerprint identifications. The FSL Questioned Document Section worked 35 cases, examined 2,770 pieces of evidence; made 193 identifications for handwriting; and identified 48 counterfeit or altered documents.

The following case is an example of a recent TIGTA investigation in which the FSL played a pivotal role in protecting Federal tax administration:

Michael Wayne Patterson Indicted for Making a False Threat or Hoax

On September 21, 2010, in Texas, Michael Wayne Patterson was indicted for making a threat or hoax.¹⁹ On or about August 14, 2010, an envelope containing a plastic ziplock “baggie,” filled with an unknown white powder, was delivered to an IRS facility in Austin, Texas. After IRS employees opened the envelope and discovered the white powder, the facility was evacuated. The powder was later tested and determined to be baking soda.²⁰ On or about August 16, 2010, employees at the U.S. Postal Service Dallas Main Post Office discovered an envelope, addressed to a Social Security Administration (SSA) facility in Baltimore, Maryland, that was leaking white powder. Investigators opened the envelope; inside was a small piece of foil containing a white powder. The powder was tested and was also determined to be baking soda.²¹ TIGTA’s FSL analyzed the handwriting on the envelopes sent to the IRS and to the SSA. TIGTA’s FSL determined that the handwriting on the IRS and SSA envelopes matched, and concluded that the handwriting on the envelopes sent to the IRS and the SSA matched the handwriting on two greeting cards Patterson sent to a former girlfriend. Fingerprints found on the greeting cards were also matched to Patterson.²²

Office of Investigations

OI is statutorily responsible for protecting the integrity of Federal tax administration. OI investigates allegations related to waste, fraud, abuse, and mismanagement involving IRS programs and operations, and misconduct by IRS employees. OI also strives to detect and prevent IRS internal misconduct and external manipulation of tax administration, through its proactive investigative initiatives program and presentations to IRS employees, tax practitioners, and other community groups.

OI consists of six headquarters divisions which provide investigative support to its seven field divisions. In addition to the FSL, the other headquarters divisions include: the Operations Division; Contract Fraud and Criminal Intelligence Division (CCID); the Internal Affairs Division (IAD); the Technical and Firearms Support Division (TFSD);

¹⁹ Source: Northern District of Texas Indictment filed September 21, 2010.

²⁰ Source: Northern District of Texas Criminal Complaint filed August 26, 2010.

²¹ *Id.*

²² *Id.*



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and the Strategic Enforcement Division (SED). Each of these divisions has a unique role in supporting OI's nationwide investigative activities.

Operations Division

The Operations Division consists of four teams: the Policy Team, the Complaint Management Team, the Performance Team, and the Training Team. Through these teams, the Operations Division develops policies and procedures, manages complaints and records, manages OI performance data, conducts divisional inspections, and coordinates training for all OI law enforcement personnel.

Contract Fraud and Criminal Intelligence Division

CCID consists of two critical functions: procurement fraud and criminal intelligence/counter-terrorism. The Procurement Fraud Group is responsible for investigating allegations of waste, fraud, and abuse involving IRS procurements and procurement-related misconduct by IRS employees and contractors. The group also promotes fraud awareness within the IRS contracting community. The Criminal Intelligence/Counter-Terrorism Group is responsible for providing field divisions with criminal intelligence, coordinating criminal intelligence collection and dissemination within TIGTA nationwide, and emergency preparedness coordination. The group also oversees OI's nationwide participation in the Joint Terrorism Task Forces sponsored by the Federal Bureau of Investigation. The Criminal Intelligence/Counter-Terrorism Group also plays a significant role in the IRS Continuity of Operations Plan (COOP) because of TIGTA's responsibility for investigating threats and assaults against IRS employees, facilities, and data infrastructure. OI closely coordinates with IRS management officials to ensure that TIGTA's COOP activities complement IRS activities. TIGTA personnel participate in regular COOP exercises with the IRS and the Department of the Treasury.

Internal Affairs Division

IAD is responsible for conducting or overseeing the Service's most sensitive investigations involving allegations of possible misconduct by IRS Senior Management Officials and Senior Executives; the IRS Chief Counsel and his/her employees; members of the IRS Oversight Board; IRS CI Division employees; IRS international employees; and TIGTA employees.

Technical and Firearms Support Division

The TFSD main office is located in Beltsville, Maryland, and its staff is responsible for managing the following programs: Land Mobile Radio; Firearms, Agent Safety and Tactics (FAST); Audio/Video Enhancement; Investigative Equipment/Technical Surveillance Counter Measures (TSCM); Vehicles; and Treasury Enforcement Communications System (TECS).



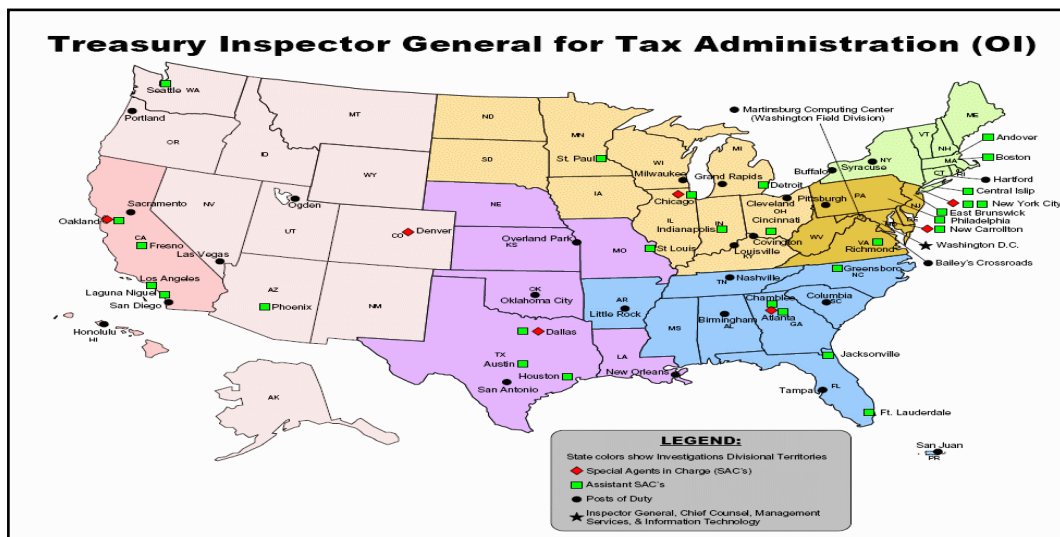
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TFSD develops and oversees policies, training and budgets relative to firearms, officer safety equipment, vehicles, the TECS, radio communications and investigative equipment. TFSD provides expertise in the use of technical and electronic investigative equipment including enhancement of video and audio evidentiary material, on-site assistance during investigations and TSCM activities. Work assignments for the TFSD staff are assigned directly by TFSD management and work progress is monitored monthly. Monthly program accomplishments are reported through the Special Agent-in-Charge (SAC) TFSD to the Deputy Assistant Inspector General for Investigations–Headquarters Operations.

Strategic Enforcement Division

SED has major components in Cincinnati, Ohio, Lanham, and Beltsville, Maryland (MD). SED–Cincinnati is responsible for identifying possible fraudulent activities and control weaknesses in IRS operations, including the detection of potentially unauthorized accesses (UNAX) to electronic taxpayer records maintained within IRS computer systems. The System Intrusion and Network Attack Response Team (SINART) in Lanham, MD, detects and investigates intrusions into IRS network systems and information technology equipment. SED also maintains a separate Computer Investigative Support (CIS) program in Beltsville, MD. Support provided by CIS includes technical guidance in the preparation of warrants and subpoenas for electronic media; on-site support for search warrant execution; forensic laboratory analysis of seized media; expert testimony at judicial proceedings; and training and consultation to TIGTA agents on investigations conducted in an automated environment.

OI also has seven field divisions: Atlanta, Chicago, Dallas, Denver, New York, San Francisco and the District of Columbia, whose geographical coverage is depicted in the map below. Each of these divisions operates under the supervision of a SAC.





Employee Integrity Investigations

IRS employee misconduct undermines the image and mission of the IRS. TIGTA is statutorily responsible for investigating IRS employee misconduct. OI investigates allegations such as extortion, bribery, theft, abusive treatment of taxpayers, false statements, financial fraud and unauthorized access to and disclosure of confidential tax information which includes contractor misconduct and fraud.

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

Fernando Hernandez Sentenced to Federal Prison for Receiving Cash Bribe

On May 3, 2010, in Texas, Fernando Hernandez was sentenced to serve 16-months in prison, two-years supervised release, and ordered to pay criminal monetary penalties of \$100.²³ On or about June 3, 2005, Hernandez, then an IRS employee, sought and demanded a cash payment of \$2,000 from a taxpayer in return for promising that no representative of the IRS would audit the taxpayer's tax return.²⁴

David Leoce Sentenced for Making False Workers' Compensation Claims

On July 21, 2010, in Florida, David Leoce, a former Supervisory Special Agent with the IRS's CI Division, was sentenced to two-years of probation and ordered to pay \$32,391.17 in restitution for making false statements to obtain Federal workers' compensation benefits. He was also ordered to pay a \$100 special assessment.²⁵ According to the indictment, Leoce received approximately \$772,301 in workers' compensation benefits, tax free, from approximately 1997 through 2008. Leoce submitted fraudulent Forms EN 1032 (Claim for Continuing Compensation on Account of Disability) in connection with his application for and receipt of Federal workers' compensation benefits, claiming not to be involved in any business enterprise and not to have received any voluntary compensation or income from any business. However, from at least February 2005 to August 2008, Leoce was a co-owner and manager of Leoce & Martin Enterprises, d/b/a Scratch the Surface Tattoo II.²⁶

Eileen Covarrubias Sentenced for Unauthorized Inspection of Tax Return Information

On June 21, 2010, in California, Eileen Covarrubias was sentenced to two-years supervised release and ordered to pay a \$25 special assessment.²⁷ From at least 2005 to at least 2009, Covarrubias, a secretary employed by the IRS, received annual training in which she was instructed that she was forbidden to access taxpayer returns and taxpayer

²³ Source: Northern District of Texas Judgment in a Criminal Case filed May 4, 2010.

²⁴ Source: Northern District of Texas Indictment filed October 7, 2009.

²⁵ Source: Middle District of Florida Minutes on Sentencing filed July 21, 2010.

²⁶ Source: Middle District of Florida Indictment filed November 4, 2009.

²⁷ Source: Central District of California Judgment and Probation/Commitment Order filed June 21, 2010.



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return information without an official purpose, and that any unauthorized access would be criminally punishable. Every year she signed written statements that she understood these limits and the potential penalties she faced. From October 14, 2005 through January 6, 2009, Covarrubias accessed the tax returns and return information of at least 12 taxpayers and one business at least 96 times in total.²⁸

Terry Irwin Sentenced for Computer Fraud

On August 2, 2010, in California, Terry Irwin was sentenced to serve 24-months of probation and ordered to pay a \$1,500 fine for fraud and related activity in connection with computers. She was also ordered to pay a \$25 court assessment.²⁹ On or about December 16, 2005 and January 17, 2006, while employed at the IRS, Irwin willfully and unlawfully made numerous unauthorized accesses to inspect tax return information of a private individual without authorization.³⁰

Todd Jason Snarr Indicted for Unauthorized Inspection of Tax Returns or Return Information and Making Fraudulent Statements

By indictment on April 22, 2010, in Montana, IRS employee Todd Jason Snarr was charged with the unauthorized inspection of tax returns or return information and making fraudulent statements. From approximately January 3, 2006 until approximately April 9, 2008, he inspected the tax returns of two individuals without authorization. From approximately July 17, 2006 until September 14, 2007, Snarr also made fraudulent entries into the IRS's Integrated Data Retrieval System.³¹

Roger Coombs Pleads Guilty to Soliciting and Agreeing to Receive a Bribe

On August 17, 2010, in Minnesota, Roger Coombs agreed to plead guilty to soliciting and agreeing to receive a bribe. On or about May 8, 2010, in the course of his official duties, Coombs solicited a \$9,700 bribe from a taxpayer. In exchange, Coombs indicated he would report a lower tax obligation than that truly owed by the taxpayer to intentionally result in the IRS seeking to collect only the lower amount and not the taxpayer's true tax obligation. On or about May 19, 2010, and on or about June 2, 2010, Coombs received two payments, totaling the \$9,700 bribe.³²

Employee and Infrastructure Security

The IRS has been recognized as part of the Nation's critical infrastructure, which underscores the importance of TIGTA protecting the Department of the Treasury's

²⁸ Source: Central District of California Plea Agreement for Defendant Eileen M. Covarrubias filed June 21, 2010.

²⁹ Source: Eastern District of California Judgment in a Criminal Case filed August 9, 2010.

³⁰ Source: Eastern District of California Memorandum of Plea Agreement filed May 24, 2010.

³¹ Source: District of Montana Indictment filed April 22, 2010.

³² Source: District of Minnesota Plea Agreement and Sentencing Stipulations filed August 19, 2010.



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ability to collect Federal tax revenue by ensuring IRS employee safety, infrastructure security and continuity of operations. As part of its statutory mission, TIGTA investigates threats and attacks directed against IRS personnel, property and data infrastructure. TIGTA also conducts threat assessments to determine whether individuals or groups pose a threat to the IRS, its employees or its infrastructure.

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

Ernest Barnett Sentenced for Ramming his Vehicle into an IRS Building and Injuring IRS Employees

On August 20, 2010, in Alabama, Ernest Barnett was sentenced to 52-months imprisonment for assaulting, intimidating and interfering with Federal employees while performing their official duties; 12-months imprisonment for damaging United States property; and 36-months of supervised release. He was also ordered to pay \$3,075.50 in restitution and a \$125 special assessment.³³

On August 26, 2008, Barnett contacted the IRS by telephone to discuss a longstanding tax debt. He became upset during the call and handed the telephone to his wife twice. When he passed the phone to his wife the second time, minutes later she was heard to cry out, "Oh my God, he went and got the gun." She then screamed and the call ended abruptly.³⁴ The IRS employee on the telephone became concerned that Barnett might harm himself or others and contacted local officials. A Jefferson County Sheriff's dispatcher called Barnett who said he did not need any help. However, he told the dispatcher before hanging up, "In about ten minutes, my life will be over with, so don't worry about me."³⁵ Barnett drove his Jeep Cherokee Sport Utility Vehicle to a building where IRS offices are located and rammed the vehicle into one of the building's windows. Barnett then backed up a few feet and struck the building a second time. Two IRS employees sustained physical injuries as a result of Barnett's attack.³⁶

Logan Painter Sentenced for Making Threats

On May 21, 2010, in North Carolina, Logan Painter was sentenced to serve 46-months in prison and three-years of supervised release for threatening to assault a law enforcement officer while engaged in the performance of official duties. He was also ordered to pay a \$100 special assessment.³⁷ According to the criminal complaint, on April 7, 2009, Painter telephonically contacted a special agent with the IRS's CI Division and repeatedly said, "I'm gonna off you." The agent also received a telephone call from

³³ Source: Northern District of Alabama Judgment in a Criminal Case dated August 20, 2010.

³⁴ Source: Department of Justice Press Release dated August 24, 2010, Northern District of Alabama Indictment filed December 1, 2008, and Government's Sentencing Memorandum filed July 27, 2010.

³⁵ *Id.*

³⁶ *Id.*

³⁷ Source: Western District of North Carolina Judgment in a Criminal Case filed June 18, 2010.



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Painter's defense attorney, who advised him that Painter had telephoned the agent's wife and told her, "Goodbye, you're not going to see me again and you will be reading about me in the papers."³⁸

William Brown Sentenced for IRS Service Center Bomb Threat

On May 10, 2010, in California, William Brown was sentenced to serve five-years probation and ordered to pay \$833.64 in restitution and a \$25 special assessment.³⁹ On August 1, 2008, Brown endeavored to intimidate and impede an IRS employee acting under official capacity, and obstruct and impede the due administration of internal revenue laws by calling the IRS 1-800 number and stating: "There is a bomb in the Fresno Service Center." Brown has a history of threatening violence to IRS employees, disturbing the peace, and refusing to follow directions of law enforcement. IRS security officers and Fresno police officers responded to Mr. Brown's bomb threat by searching the Fresno Service Center for evidence of a bomb.⁴⁰

Lawrence Rios Charged with Obstructing or Impeding the Due Administration of the IRC

On May 28, 2010, in California, Lawrence Rios was charged with obstructing or impeding the due administration of the I.R.C. On August 17, 2009, Rios was being assisted by an IRS employee for about 10 minutes before he became agitated. He handed the employee a note that read "BOMB BAG" while he patted and gestured at his backpack. The employee activated a panic/duress alarm and IRS's CI Division agents responded to the alarm. Local police were called, Rios was taken into custody, and the building was evacuated. No bomb was found in the backpack.⁴¹

Irene Lezcano Indicted for Harassing and Threatening Telephone Calls to Employees of the IRS

By indictment filed on May 27, 2010, in Florida, Irene Lezcano was charged with making harassing phone calls to employees of the IRS and with transmitting threatening communications in interstate commerce. From about August 2005, and continuing through about April 8, 2010, Lezcano repeatedly made telephone calls solely to harass employees of the IRS. During this time period, Lezcano also made seven telephone calls in which she threatened to kill an employee of the IRS. During one of these telephone calls, Lezcano threatened to kill both the employee and the family of the employee.⁴²

³⁸ Source: Western District of North Carolina Affidavit in Support of a Criminal Complaint filed April 8, 2009.

³⁹ Source: Criminal Minutes filed May 10, 2010.

⁴⁰ Source: Amended Sentencing Memorandum filed May 5, 2010.

⁴¹ Source: Criminal Complaint filed May 28, 2010.

⁴² Source: Indictment filed May 27, 2010.



External Attempts to Corrupt Tax Administration

The IRS is statutorily responsible for collecting revenue for the Federal Government. Essential governmental functions, programs, and operations of the Federal Government depend on the timely, accurate and uninterrupted collection of that revenue. TIGTA's statutory responsibility includes investigating external attempts to corrupt or impede the administration of internal revenue laws so as to ensure the timely, accurate, and uninterrupted collection of Federal tax revenue. Investigations in this area include taxpayers offering bribes to IRS employees to avoid paying their fair tax obligations; the use of fraudulent IRS documentation to avoid tax liabilities; and the corruption of IRS programs or operations through procurement or contractor fraud. Phishing schemes are also a rapidly growing external threat to Federal revenue collection, and due to the technical and international nature of these fraudulent operations they are extremely difficult to investigate and prosecute.

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

Four Sentenced in Tax Defiance Scheme

On August 30, 2010, in Washington, DC, four promoters in a business that sold illegal tax defiance schemes were sentenced. Eddie Ray Kahn was sentenced to 20-years in prison; Stephen Hunter, Danny True and Allan Tanguay were each sentenced to 10-years in prison.⁴³ The evidence at trial showed that Kahn founded and ran American Rights Litigators/Guiding Light of God Ministries from 1996 through 2004. Hunter, True and Tanguay worked at American Rights Litigators/Guiding Light of God Ministries with Kahn to develop and sell tax defiance schemes based on deliberate misrepresentations of the legal foundation of the tax system. The purpose of the tax defiance schemes was to thwart the IRS in its attempts to assess and collect taxes. The schemes included manufacturing and selling more than one thousand worthless "bills of exchange" supposedly drawn on the United States Treasury for customers to use in purported payment of their taxes.⁴⁴ Upon rejection of the "bills of exchange" by the IRS, the schemes included the manufacture and sale to customers of letters to TIGTA alleging that IRS employees had committed criminal offenses by not accepting the "bills of exchange".⁴⁵ American Rights Litigators/Guiding Light of God Ministries enrolled more than 4,000 customers. Individual customers paid an annual fee of \$150 to belong to American Rights Litigators/Guiding Light of God Ministries plus additional fees for various schemes. American Rights Litigators/Guiding Light of God Ministries generally charged customers \$50 for each piece of correspondence that it sent to the IRS on the customer's behalf.⁴⁶

⁴³ Source: U.S. Department of Justice Press Release dated August 30, 2010.

⁴⁴ *Id.*

⁴⁵ Source: District of Columbia Indictment filed April 28, 2010.

⁴⁶ *Id.*



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Rene Dunn Sentenced for Impersonating an IRS Revenue Officer

On June 28, 2010, in California, Rene Dunn was sentenced to serve three-years of supervised release and ordered to pay a \$5,000 fine for impersonating a Federal officer.⁴⁷ On or about May 1, 2008, IRS Revenue Officer Wendy Wooldridge issued a Form 668-A Notice of Levy in the amount of \$212,295.11 to clients of Springer & Associates, Inc. ("S&A"), requiring the clients to pay any monies owed to S&A to the IRS. On or about May 13, 2008, Dunn created a false "Release of Levy/Release of Property from Levy" form and signed the document as Officer Wooldridge. Dunn sent the form to three of S&A's clients, representing that they no longer had to pay monies owed to S&A to the IRS, but could pay the monies to S&A. On or about May 13, 2008, the clients owed S&A a total of \$27,622.38.⁴⁸

John Edward O'Rourke Sentenced for Possessing and Using a Central Authorization File Number of Another Tax Practitioner

On July 26, 2010, in California, John Edward O'Rourke, also known as Terry O'Rourke, was sentenced to 12-months probation for unlawful possession of an authentication feature, *i.e.*, Central Authorization File (CAF number), issued by the IRS. He was also ordered to pay a \$2,000 fine and \$25 special assessment.⁴⁹ During 2007, O'Rourke operated Citizens Tax Relief, a business that assisted individuals with various tax matters, including making offers in compromise to the IRS. Only authorized tax practitioners can represent individuals before the IRS. The IRS issues a CAF number to authorized tax practitioners for identification. On two different occasions, O'Rourke submitted IRS Forms 2848, Power of Attorney using the name and CAF number of another tax practitioner.⁵⁰

Jerry R. Williamson Sentenced for Tax Defiance Schemes

On September 8, 2010, in the District of Columbia, Jerry R. Williamson was sentenced to 10-months imprisonment, five-months to a community correctional facility, and five-months home detention for mail fraud and aiding and abetting. He was also sentenced to 36-months of supervised release and ordered to pay a \$100 special assessment.⁵¹

Williamson sold and promoted tax defiance schemes that interfered with the functioning of the IRS and other taxing authorities. The tax defiance schemes consisted mainly of mass-produced false documents that were mailed on behalf of customers to Government officers across the United States, especially to the IRS and the U.S. Department of the

⁴⁷ Source: Southern District of California Judgment in a Criminal Case filed June 30, 2010.

⁴⁸ Source: Southern District of California Plea Agreement filed April 6, 2010.

⁴⁹ Source: Central District of California Judgment and Probation/Commitment Order filed July 26, 2010.

⁵⁰ Source: Central District of California Plea Agreement for Defendant John Edward O'Rourke filed April 30, 2010.

⁵¹ Source: District of Columbia Judgment in a Criminal Case filed September 13, 2010.



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Treasury. The letters were generally prepared for \$50 each and declared things such as IRS Revenue Officers (ROs) were without authority to collect taxes, and false announcements that the customer has “expatriated” from the United States and was therefore no longer subject to taxation. Additionally, Williamson prepared letters falsely telling banks that it is against the law for the IRS to levy funds from customer accounts for overdue taxes.

Williamson also participated in a scheme that involved preparing and filing frivolous Uniform Commercial Code documents with State agencies. He further prepared and mailed to creditors fictitious financial instruments that falsely claimed to draw upon the U.S. Treasury to pay taxes and other debts. Williamson encouraged others to send these documents to the U.S. Treasury in Washington, D.C., and to various IRS offices in purported payment of their tax debts.⁵²

Ronald Hoodenpyle Sentenced for Filing a False Lien Against an IRS Employee

On September 17, 2010, in Colorado, Ronald Hoodenpyle was sentenced to 12-months imprisonment for filing a false lien against a Federal employee. He was also ordered to serve two-years supervised release and ordered to pay a \$100 special assessment.⁵³ On or about April 2, 2008, Hoodenpyle filed a false lien against the real property of an IRS RO. Hoodenpyle filed a false “Notice of Equity Interest and Claim” against the RO’s real property, which contained the false representation that he had a claim against the RO “believed to be in excess of one million dollars.”⁵⁴

Makalai Mardakhayeu Charged with Theft of IRS Tax Refunds in International “Phishing” Scheme

On June 23, 2010, in Massachusetts, Makalai Mardakhayeu was charged for his participation in an online scheme to steal income-tax refunds from U.S. taxpayers. He was indicted on charges of conspiracy and wire fraud.⁵⁵ The IRS allows taxpayers to prepare their Federal income tax-returns online and to file them electronically through a select group of IRS-authorized providers. According to the indictment, from approximately January 2006 through approximately November 2007, Mardakhayeu and his co-conspirators operated websites that falsely claimed to be authorized by the IRS. After taxpayers completed an online form and uploaded their tax return information, co-conspirators in Belarus collected the data and altered the returns so that tax refunds would be directed to U.S. bank accounts controlled by Mardakhayeu and/or the claimed refund amount was inflated. The conspiracy caused the U.S. Treasury and various State treasury departments to deposit approximately \$200,000 into Mardakhayeu-controlled bank accounts in and around Nantucket, Massachusetts.⁵⁶

⁵² Source: District of Columbia Indictment filed September 3, 2008.

⁵³ Source: District of Colorado Judgment in a Criminal Case filed September 23, 2010.

⁵⁴ Source: District of Colorado Indictment filed January 6, 2009.

⁵⁵ Source: District of Massachusetts Indictment filed June 23, 2010.

⁵⁶ *Id.*



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Ai Van Duong Pleads Guilty to Bribery of an Internal Revenue Agent

On June 30, 2010, in Massachusetts, Ai Van Duong pled guilty to bribery of a public official. On or around January 2010, an IRS agent was auditing prior tax returns filed by Duong. Beginning on or about January 7, 2010, and continuing up to and including February 19, 2010, Duong gave the IRS agent \$3,000 to influence the agent to falsely report that Duong owed approximately \$80,000 less back taxes than he actually owed.⁵⁷

Fred Covey Sentenced for Interference with Administration of Internal Revenue

Laws

On April 29, 2010, in Idaho, Fred Covey was sentenced to serve 24-months in prison, one-year of supervised release, and ordered to pay criminal monetary penalties of \$100, for interference with the administration of internal revenue laws.⁵⁸

In 1993, Covey stopped voluntarily filing tax returns as required by internal revenue laws. On or about March 4, 2005, Covey filed a frivolous Uniform Commercial Code (UCC) financial statement against the Secretary of the Treasury falsely claiming that the Secretary of the Treasury was indebted to him for \$177,636,572.04. Covey also filed frivolous UCC financial statements against three IRS employees, two of whom had been assigned to collect Covey's outstanding tax debt. The UCC filings falsely claimed that each IRS employee was indebted to Covey for \$166,676,468.⁵⁹

On or about November 29, 2005, a U.S. Department of Justice attorney filed a civil complaint against Covey seeking to have the false and frivolous UCC financial statements filed against the IRS employees expunged. Throughout the course of the civil suit, Covey filed in court and mailed frivolous documents claiming that the assigned judicial officer, U.S. Marshal, court clerk and government attorneys had acted improperly, threatening lien filings and purporting to charge hundreds of thousands of dollars for trespassing and incarceration.⁶⁰

On or about February 22, 2009, Covey mailed or caused to be mailed to the IRS a false and fraudulent document purporting to pay his Federal tax debt and demanding that his account be balanced to zero when, in fact, no actual cash or negotiable financial instrument was included in the mailing. On May 29, 2009, Covey hand-delivered to the IRS a false and fraudulent document purporting to pay his outstanding tax debt and demanding that his account be balanced to zero when, in fact, no actual cash or negotiable financial instrument was included in the delivery.⁶¹

⁵⁷ Source: District of Massachusetts Indictment filed March 30, 2010.

⁵⁸ Source: District of Idaho Judgment in a Criminal Case filed April 29, 2010.

⁵⁹ Source: District of Idaho Indictment filed September 9, 2009.

⁶⁰ *Id.*

⁶¹ *Id.*



ADVANCING OVERSIGHT OF AMERICA'S TAX SYSTEM

TIGTA's Office of Inspections and Evaluations (I&E) provides responsive, timely and cost-effective inspections and evaluations of challenging areas within the IRS, providing TIGTA additional flexibility and capability to produce value-added products and services to improve tax administration.

I&E has two primary product lines: inspections and evaluations.

The purpose of inspections is to:

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

The purpose of evaluations is to:

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

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

Inspection of the IRS's Pandemic Influenza Preparedness Plan - Phase II

In 2006, the Homeland Security Council requested that department and agency heads certify that their department or agency has addressed the applicable elements of pandemic planning set forth in a checklist it developed. In August 2008, the checklist was updated to reflect newer Federal Government guidance. The Department of the Treasury used the Homeland Security Council checklist to assess pandemic preparations by each of the Treasury bureaus. TIGTA chose to use the same criteria for its initial inspection and shared the results of this inspection with the Department of the Treasury's Director, Emergency Programs.



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In the initial review completed in January 2009,⁶² TIGTA determined that the IRS had addressed the majority of the pandemic checklist issued by the Homeland Security Council. While acknowledging the IRS addressed the pandemic checklist, there were additional aspects of a potential outbreak that TIGTA believed warranted a second review.

In the course of this second review, TIGTA determined that guidance developed by the IRS related to the pandemic influenza was distributed to field operations and that seasonal and pandemic vaccinations would be provided to employees. TIGTA found that while continuity exercises were improved, further planned development of the exercises was warranted. In addition, TIGTA noted that even with the potential of high absenteeism due to a pandemic, daily staffing levels at large IRS facilities were not consistently tracked, and the IRS did not include a provision in teleworking agreements for directed teleworking of qualified employees in an emergency, such as a pandemic.

TIGTA recommended that the Chief, Submission Processing (Wage and Investment Division) implement a process to provide senior management of campuses and other large facilities with daily information on attendance levels at the facility they manage. Also, in expanding the teleworking program of the IRS, the Chief Human Capital Officer should include a provision for directed teleworking of qualified employees in an emergency, such as a pandemic outbreak.

In their response to the report, IRS officials stated that the Wage and Investment Division has incorporated procedures for reporting absenteeism into their Business Resumption Plans, and the Human Capital Office plans to modify telework agreements to stipulate that employees may be directed to telework during emergency situations.

Report Reference No. 2010-IE-R004

Revised Procedures Preceded Significant Increases in Reports of Potential Disclosure of Personally Identifiable Information

In 2009, there was an increase in reports of potential disclosure of Personally Identifiable Information. Personally Identifiable Information is information that can be used to distinguish or trace an individual's identity, alone or when combined with other personal or identifying information. Inappropriate disclosure of Personally Identifiable Information can place individuals at higher risk of identity theft and may erode public confidence in the Nation's tax system, which is built upon the principle of voluntary compliance with the provisions of the tax code.

Our analysis of reported incident data, policy changes, and interviews with front-line personnel leads us to conclude that the increase in disclosure incidents was related to

⁶² Inspection of the Internal Revenue Service's Pandemic Influenza Preparedness Plan (Reference Number 2010-IE-R001, dated January 2010).



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revised reporting guidelines and requirements published by the IRS in March and September 2009.

No recommendations were made in this report. IRS officials reviewed the draft report and concurred with what TIGTA had developed and reported.

Report Reference No. 2010-IE-R005

Review of the IRS Criminal Investigation Division's Nonprofit Fraud Referral Process

During FY 2007 through FY 2009, the IRS's CI Division had an inventory of 168 tax-exempt investigations. Twenty-seven percent of the referrals received by CI came from other IRS functions while about 20 percent came from United States Attorney Offices. The third largest number came from other Federal agencies including the FBI. In general, the percentage of investigations related to tax-exempt entities seems reasonable compared to the number of tax-exempt returns filed.

Approximately 72 percent of tax-exempt investigations (121 of 168) are subject criminal investigations, which are investigations related to a specific individual or entity alleged to be in violation of laws enforced by the IRS and having criminal prosecution potential. About one-third of the subject criminal investigations completed by CI resulted in a conviction.

TIGTA was unable to fully determine if fraud referrals were accepted or declined within 30 calendar days as stipulated in CI procedures. In March 2005,⁶³ TIGTA's OA reported that CI took an average of 93 calendar days to decide to accept or decline fraud referrals during FY 2003. In response to that report, the Chief, CI, replied that several actions were to be implemented by September 2004 to address that finding. The actions included implementing a fraud referral tracking system, re-emphasizing established operating procedures, and a requirement to better track referrals and to evaluate referrals within 30 workdays of receipt.

TIGTA attempted to determine if CI timely evaluated the referrals included in its review. CI staff was able to provide information on only 14 cases. Of those only 5 of the 14 were evaluated timely.

TIGTA recommended that CI modify the Criminal Investigation Management System to capture data required to readily assess the timeliness of fraud referral evaluations. CI did not agree with TIGTA's recommendation. Instead, CI proposed assessing the timeliness of fraud referral evaluations based on information currently available in its management information system, and issuing guidance to ensure that special agents timely record information related to fraud-referral evaluations.

⁶³ The Criminal Investigation Function Has Made Progress in Investigating Criminal Tax Cases; However, Challenges Remain (Reference Number 2005-10-054, dated March 2005).



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TIGTA believes these measures will provide a general indication of whether evaluations are processed timely. In cases where the evaluation period exceeds CI guidelines, additional research will be required to determine whether there were delays in posting information to the management information system or actual delays in the evaluation process.

Report Reference No. 2010-IE-R006



American Recovery and Reinvestment Act of 2009

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

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

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

OA's Oversight Program Plan (Plan) identifies its planned actions to address the Recovery Act. OA reviewed the Recovery Act legislation, the OMB Implementing Guidance, and summaries of key IRS-related provisions prepared by the Senate Finance and House Ways and Means Committees, IRS websites, and information available through the Department of the Treasury Recovery Act Program in determining the scope of the Recovery Act on tax administration. This Plan is expected to evolve over the next three years and will be updated periodically to reflect TIGTA's current Recovery Act actions.

The following summaries highlight the Recovery Act audits completed by OA during this six-month reporting period:



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Additional Steps Are Needed to Prevent and Recover Erroneous Claims for the First-Time Homebuyer Credit

Homebuyers who purchased a home in 2008, 2009, or 2010 may be able to take advantage of the First-Time Homebuyer Credit. The credit may be an interest-free loan or a fully refundable credit depending on when the taxpayer purchased his or her home.

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

However, fraudulent and erroneous credits totaling millions of dollars in refunds were issued, which increases an already burgeoning Federal deficit. Additional controls are necessary to address erroneous claims for the credit. Further, fraudulent and questionable claims processed prior to implementation of controls will need follow-up action by the IRS.

Control weaknesses allowed fraudulent claims filed by prison inmates totaling an estimated \$9.1 million to be processed. Multiple claims for the same home were allowed. In addition, claims totaling an estimated \$17.6 million were allowed for homes purchased before the dates allowed by the law.

Many questionable claims for the credit made on amended tax returns were not appropriately sent to the IRS's Examination function for scrutiny. Further, TIGTA found additional IRS employees that made questionable claims for the credit.

TIGTA recommended that the IRS ensure that steps are taken to reconcile their prisoner files from year to year. TIGTA also recommended that the IRS ensure that erroneous credits received by prisoners and taxpayers claiming homes that do not qualify for the credit (including those filed on amended returns) are identified and recovered through post-refund examination activities.

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

Reference No. 2010-41-069

Additional Actions Are Needed to Ensure Readiness to Comply With the American Recovery and Reinvestment Act of 2009 Procurement Requirements

The IRS received an appropriation of \$203 million in Recovery Act funds. TIGTA determined that the IRS did not always comply with Recovery Act procurement requirements and used annual appropriated funds instead of Recovery Act funds for some procurements. As a result, approximately \$385,000 were not available for other



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IRS mission-critical needs, such as improving taxpayer service or addressing the Tax Gap.

The IRS took some proactive steps before the Recovery Act was enacted in February 2009, and continued to refine its efforts to plan, award and report Recovery Act procurements during the remainder of calendar year 2009. However, it still does not have the necessary controls in place to ensure future procurements will comply with Recovery Act requirements. For example, the IRS has not developed written procedures regarding Recovery Act procurement requirements, provided formal training for those procuring goods and services, or dedicated sufficient resources to track and report Recovery Act procurements.

TIGTA recommended that the IRS strengthen controls for Recovery Act procurements, including developing written procedures, providing training to both program office and procurement personnel, and re-evaluating the resources assigned to track and report IRS Recovery Act procurements.

The IRS agreed with the recommendation and planned to take appropriate corrective action.

Reference No. 2010-11-071

Health Coverage Tax Credit Recovery Act Provisions Were Timely Implemented, but Program Capacity Is Limited

The Health Coverage Tax Credit (HCTC) is a refundable tax credit created to assist certain workers who lost their jobs due to foreign trade and retirees who receive payments from the Pension Benefit Guaranty Corporation. TIGTA's review found that processes were developed to ensure that HCTC payments were timely and accurately processed. All payments that TIGTA reviewed were sent to the Health Plan Administrators on time to ensure the continuity of the individual's health coverage.

TIGTA did recommend, however, that the IRS:

- Develop a process to ensure the accuracy of Health Plan Administrators' information on the IRS's financial system and HCTC financial system;
- Ensure individuals participating in the Advance Monthly Payment Option receive accurate HCTC Advance Payments (Form 1099-H) payment information; and
- Identify and resolve unpostable records to ensure eligibility indicators are added to individuals' tax accounts.

IRS management agreed with most of the recommendations, but they disagreed with the recommendation to ensure that individuals receive accurate Forms 1099-H. IRS management indicated that individuals receive accurate Forms 1099-H and that the form is for information only. Notwithstanding IRS management's response, TIGTA found that



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some individuals did receive inaccurate Forms 1099-H. Form 1099-H needs to be accurate because individuals use the information on these forms when preparing their tax returns.

Reference No. 2010-41-122



An Organization that Values Its People



Deputy Inspector General for Audit Receives Presidential Rank Award from Treasury Deputy Secretary Neal S. Wolin

Each year, the President recognizes and celebrates a small group of career Senior Executives and senior career employees with the Presidential Rank Award. The Presidential Rank Award is the highest award for superior performance that is available for career Senior Executives. Recipients of this prestigious award are strong leaders, professionals, and scientists who achieve results and consistently demonstrate strength, integrity, industry and a relentless commitment to excellence in public service. We are pleased to announce that this year, TIGTA's own Michael R. Phillips, Deputy Inspector General for Audit, was the recipient of this prestigious award for Meritorious Service.

Mr. Phillips provides outstanding leadership to the Office of Audit organization that includes a diverse workforce of 292 audit staff in 26 offices and an overall budget of \$36 million. Since becoming a member of the executive cadre in 2002, Mr. Phillips has served at the Assistant Inspector General and Deputy Inspector General levels. As Assistant Inspector General (Wage and Investment Income Programs) he focused on successfully improving his program's products and services to its stakeholders. He increased the value, timeliness, and balance of his products while also strengthening stakeholder communications and relationships with credibility and responsiveness. Since becoming the Deputy Inspector General of Audit in October 2005, Mr. Phillips has transformed the Office of Audit by implementing his strategic model which provides a visionary roadmap for product improvement, performance enhancement, human capital initiatives, and organizational realignment.

On behalf of all TIGTA employees, we extend our congratulations to Mr. Phillips for this outstanding achievement.





Audit Statistical Reports Reports with Questioned Costs

TIGTA issued two audit reports with questioned costs during this semiannual reporting period.⁶⁴ The phrase “questioned costs” means costs that are questioned because of:

- An alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds;
- A finding, at the time of the audit, that such cost is not supported by adequate documentation (an unsupported cost); or
- A finding that expenditure of funds for the intended purpose is unnecessary or unreasonable.

The phrase “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

Reports With Questioned Costs			
Report Category	Number	Questioned Costs⁶⁵ (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	6	\$165,418	\$82,147
2. Reports issued during the reporting period	2	\$413	\$412
3. Subtotals (Item 1 plus Item 2)	8	\$165,831	\$82,559
4. Reports for which a management decision was made during the reporting period. ⁶⁶			
a. Value of disallowed costs	2	\$52	\$0
b. Value of costs not disallowed	2	\$1,142	\$412
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	5	\$164,637	\$82,147
6. Reports with no management decision within six-months of issuance	5	\$164,637	\$82,147

⁶⁴ See Appendix II for identification of audit reports involved.

⁶⁵ “Questioned costs” includes “unsupported costs.”

⁶⁶ Includes one report in which IRS management allowed part of the questioned cost.



Reports with Recommendations that Funds Be Put to Better Use

TIGTA issued 10 audit reports during this semiannual reporting period with the recommendation that funds be put to better use.⁶⁷ The phrase “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- Reductions in outlays;
- Deobligations of funds from programs or operations;
- Costs not incurred by implementing recommended improvements related to operations;
- Avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements;
- Prevention of erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; or
- Any other savings that are specifically identified.

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

Reports With Recommendations That Funds Be Put To Better Use		
Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	0	\$0
2. Reports issued during the reporting period	10	\$2,748,642
3. Subtotals (Item 1 plus Item 2)	10	\$2,748,642
4. Reports for which a management decision was made during the reporting period		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	6	\$147,210
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	4	\$2,601,432
5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)	0	\$0
6. Reports with no management decision within six-months of issuance	0	\$0

⁶⁷ See Appendix II for identification of audit reports involved.



Reports with Additional Quantifiable Impact on Tax Administration

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

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

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

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

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

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

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

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

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



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

Reports With Additional Quantifiable Impact on Tax Administration			
Outcome Measure Category	Number of Reports⁶⁸	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	6	144,813	\$ 2,044,394
Revenue Protection	7	78,997	\$ 1,701,669
Reduction of Burden on Taxpayers	25	62,876	\$ 0
Taxpayer Rights and Entitlements at Risk	8	80,708	\$ 2
Taxpayer Privacy and Security	0	0	\$ 0
Inefficient Use of Resources	2	0	\$ 1,985
Reliability of Management Information	5	0	\$ 0
Protection of Resources	0	0	\$ 0

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

- Increased Revenue: Reference Numbers 2010-30-1104 and 2010-30-118;
- Revenue Protected: Reference Numbers 2010-40-062, 2010-40-117 and 2010-40-129; and
- Taxpayer Rights and Entitlements at Risk: Reference Numbers 2010-30-172 and 2010-30-073.

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

- Taxpayer Rights and Entitlements at Risk: Reference Number 2010-30-090;
- Reliability of Management Information: Reference Numbers 2010-40-055 and 2010-20-099.

⁶⁸ See Appendix II for identification of audit reports involved.



Investigations Statistical Reports

Significant Investigative Achievements	
April 1, 2010 – September 30, 2010	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,450
Complaints against Non-Employees	2,505
Total Complaints/Allegations	4,955
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,732
In Process within TIGTA ⁶⁹	137
Referred to IRS for Action	9
Referred to IRS for Information Only	940
Referred to a Non-IRS Entity ⁷⁰	2
Closed with No Referral	1,558
Closed with All Actions Completed	851
Total Complaints	5,229
Investigations Opened and Closed	
Total Investigations Opened	1,944
Total Investigations Closed	2,105
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$142,599,342
Court Ordered Fines, Penalties and Restitution	\$23,696,382
Out-of-Court Settlements	0
Total Financial Accomplishments	\$166,295,724

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

⁶⁹ Complaints for which final determination had not been made at the end of the reporting period.

⁷⁰ A non-IRS entity includes other law enforcement entities or Federal agencies.



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Status of Closed Criminal Investigations			
Criminal Referrals⁷¹	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	40	88	128
Referred – Declined for Prosecution	379	419	798
Referred – Pending Prosecutorial Decision	15	52	67
Total Criminal Referrals	434	559	993
No Referral	503	671	1,174
Criminal Dispositions⁷²			
	Employee	Non-Employee	Total
Guilty	25	71	96
Nolo Contendere (no contest)	1	1	2
Pre-trial Diversion	12	5	17
Deferred Prosecution ⁷³	1	1	2
Not Guilty	0	1	1
Dismissed ⁷⁴	1	14	15
Total Criminal Dispositions	40	93	133
Administrative Dispositions on Closed TIGTA Investigations⁷⁵			
			Total
Removed, Terminated or Other			404
Suspended/Reduction in Grade			113
Oral or Written Reprimand/Admonishment			136
Closed – No Action Taken			93
Clearance Letter Issued			104
Employee Resigned Prior to Adjudication			135
Non-Internal Revenue Service Employee Actions ⁷⁶			453
Total Administrative Dispositions			1,438

⁷¹ Criminal referrals include both Federal and State dispositions.

⁷² Final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.

⁷³ Generally, in a deferred prosecution, the defendant accepts responsibility for his or her actions, and complies with certain conditions imposed by the court. Upon the defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.

⁷⁴ Court dismissed charges.

⁷⁵ 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.

⁷⁶ Administrative actions taken by the IRS against non-IRS employees.



Appendix I

Statistical Reports – Other Audit Reports with Significant Unimplemented Corrective Actions

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

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2001-30-052	Tax Compliance Initiatives	March 2001	12/15/10	<i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i> F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2004-20-131	Security of the IRS	September 2004	04/30/12	<i>The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness</i> F-2, R-4, P-1. Develop and implement a reasonable approach for reviewing audit trails over major applications.
2005-40-026	Providing Quality Taxpayer Service Operations	February 2005	12/31/10 12/31/10	<i>Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement</i> F-1, R-1, P-4. Develop a process to ensure that only authorized personnel have access to IRS.gov content. F-1, R-2, P-1, P-2. Enhance the IRS’s content management software application to provide the ability to identify specific content accessed or revised by individual users.
2005-20-024	Security of the IRS	March 2005	12/31/10	<i>The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses</i> F-1, R-1, P-1, P-5. Report disaster recovery program material weakness to the Department of the Treasury as part of the IRS’s <i>Federal Managers’ Financial Integrity Act of 1982</i> annual evaluation of controls and include any new or currently underway activities in the corrective action plan.
2005-10-129	Providing Quality Taxpayer Service Operations	September 2005	01/15/11	<i>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low-Income Taxpayer Clinic Grant Program</i> F-1, R-1, P-2. Establish goals and performance measures for the Low-Income Taxpayer Clinic program to assist the Congress and IRS in evaluating the success of the program.



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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2007-30-062	Tax Compliance Initiatives	March 2007	P-1: 01/15/11 P-2: 07/15/11	<i>Social Security and Medicare Taxes Are Not Being Properly Assessed on Some Tips and Certain Types of Wage Income</i> F-3, R-2, P-1, P-2. Develop a compliance program to help ensure only qualifying individuals use the new form to report wage income and the appropriate amounts of Social Security and Medicare taxes are assessed for self-employed taxpayers or employers that are misclassifying their employees.
2007-10-082	Tax-Exempt Organizations	May 2007	06/15/11	<i>Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified</i> F-1, R-1, P-1. Develop and implement a long-term strategy to automate the matching of Forms 1023 and 990 information against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations.
2007-20-121	Systems Modernization of the IRS	August 2007	12/31/10	<i>Annual Assessment of the Business Systems Modernization Program</i> F-1, R-1, P-1. Continue to address Modernization program corrective actions from TIGTA and Government Accountability Office reports through the Highest Priority Initiatives process.
2008-40-087	Complexity of the Tax Law	March 2008	12/15/11 03/15/11	<i>Individual Retirement Account Contributions and Distributions Are Not Adequately Monitored to Ensure Tax Compliance</i> F-1, R-1, P-1. Analyze Forms 5498 to identify the causes of the errors and possible corrective actions. F-3, R-2, P-1. Consider requiring custodians to report estimated required minimum distribution amounts on the Form 5498.
2008-40-167	Tax Compliance Initiatives	August 2008	12/15/13	<i>The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed</i> F-2, R-1, P-1. Create a single data entry point for processing Withholding Compliance Program cases and, provide lock-in-letter issuance authority to other IRS functions.
2008-40-180	Tax Compliance Initiatives	September 2008	09/15/11	<i>Most Automated Underreporter Notices Are Correct; However, Additional Oversight Is Needed</i> F-1, R-2, P-1. Simplify the Computer Paragraph 2000 notices issued by the Automated Underreporter Program.
2009-40-024	Erroneous and Improper Payments	December 2008	12/15/11	<i>The Earned Income Program Has Made Advances, However, Alternatives To Traditional Compliance Methods Are Needed to Stop Billions of Dollars in Erroneous Payments</i> F-1, R-1, P-1. Conduct a study to identify alternative processes that will expand the IRS's ability to effectively and efficiently identify and adjust erroneous EITC claims for which data show that the taxpayer does not meet the EITC requirements.
2009-10-041	Human Capital	February 2009	09/30/10	<i>Workforce Planning Efforts Are Hindered by Lack of Comprehensive Information on Employee Skills Levels</i> F-1, R-1, P-1. Develop a workable process that can be used for the Agency-wide skills gap assessment of Mission Critical Occupations.



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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2009-30-068	Taxpayer Compliance Initiatives	May 2009	03/15/11	<p><i>Expanded Information Reporting Should Increase the Proper Reporting of Farm Income, But Additional Steps Could Be Taken</i></p> <p>F-2, R-1, P-1. Develop compliance strategies to ensure more Commodity Credit Corporation income payments are properly reported.</p>
2009-40-087	Taxpayer Protection and Rights	June 2009	12/15/10	<p><i>Inadequate Management Information Has Adversely Affected the Acceptance Agent Program</i></p> <p>F-1, R-2, P-1. Develop procedures and internal controls to monitor the Acceptance Agent Program to ensure all rules and regulations are being followed and the Program is operating as intended.</p>
2009-10-107	Improving Performance and Financial Data for Program and Budget Decisions	July 2009	06/15/13 01/15/14	<p><i>Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases</i></p> <p>F-1, R-2, P-1. Develop a comprehensive national policy regarding workstation sharing for the flexi-place program and the ratio of flexi-place employees to a shared workstation.</p> <p>F-1, R-4, P-1. Develop procedures requiring that building level projected space needs assessments include consideration of the impact of workstation sharing, and be periodically reconciled in total to Agency-wide projected staffing levels.</p>
2009-20-102	Systems Modernization of the IRS	August 2009	10/15/10	<p><i>Changing Strategies Led to the Termination of the My IRS Account Project</i></p> <p>F-1, R-1, P-1. Complete a long-term strategy for the My IRS Account project.</p>
2009-30-106	Erroneous and Improper Payments	August 2009	01/15/11	<p><i>More Progress Is Needed to Reduce the Millions of Dollars Paid in Interest on Improperly Frozen Refunds</i></p> <p>F-1, R-1, P-2. Ensure employees receive periodic computer alerts to review large dollar frozen taxpayer accounts for credits that can be released and that the freeze on accounts is systemically released when credits fall below the threshold by implementing agreed-upon computer programming modifications.</p>
2009-40-112	Taxpayer Compliance Initiatives	August 2009	P-1: 12/15/11 P-2: 12/15/10	<p><i>Mortgage Interest Data Could Be Used to Pursue More Nonfilers and Underreporters</i></p> <p>F-1, R-1, P-1, P-2. Explore the feasibility of making greater use of mortgage interest data to pursue additional nonfilers and underreporters for audit.</p>



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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2009-10-121	Improving Performance and Financial Data for Program and Budget Decisions	September 2009	11/15/10 07/15/11 11/15/11 10/15/10 01/15/11 10/15/10 01/15/11	<p><i>The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel</i></p> <p><u>F-1, R-1, P-1.</u> Revise its time tracking system and require the staff to track hours by activity.</p> <p><u>F-1, R-2, P-2, P-3.</u> Re-evaluate the structure and size to ensure an appropriate balance between staff and budgetary resources used to support the Panel.</p> <p><u>F-2, R-1, P-1.</u> Re-evaluate the roles of staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.</p> <p><u>F-3, R-1, P-3.</u> Establish and implement a process to validate data in the database on an annual basis, before issuing the Panel's annual report.</p> <p><u>F-3, R-2, P-1.</u> Establish a process to follow up with the IRS on the Panel's recommendations under consideration for future implementation.</p> <p><u>F-4, R-1, P-1, P-2, P-3.</u> Establish and follow formal guidance for conducting tax compliance checks to include using the IDRS as a tool for accomplishing this.</p> <p><u>F-4, R-2, P-1.</u> Develop procedures for verifying the good standing of licensed practitioners serving on the Panel.</p>
2009-40-130	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	01/15/11	<p><i>Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs</i></p> <p><u>F-1, R-2, P-1.</u> Refocus the Modernized Submission Processing Concept to include implementing a process to convert paper filed tax returns prepared by individuals using a tax preparation software package into an electronic format.</p>
2009-40-131	Erroneous and Improper Payments	September 2009	01/15/11 01/15/11 01/15/11	<p><i>Increased Automated Controls Could Further Improve Accountability Over Manual Refunds</i></p> <p><u>F-1, R-2, P-1.</u> Ensure the requestor's employee identification number is captured in electronic data files for non-IDRS manual refunds.</p> <p><u>F-1, R-3, P-1.</u> Establish a process to regularly obtain the electronic data file that includes key information relative to those non-IDRS manual refunds for use in monitoring the manual refund program.</p> <p><u>F-2, R-1, P-1.</u> Develop a process to provide for a systemic managerial approval to increase accountability.</p>



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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2009-40-138	Taxpayer Protection and Rights	September 2009	01/15/12	<p><i>Combat Zone Indicators on Taxpayer Accounts Are Frequently Inaccurate</i></p> <p><u>F-2, R-1, P-1.</u> Improve the process of identifying joint filers serving in the military to properly identify which individual(s) is/are in a Combat Zone to ensure appropriate enforcement actions are taken.</p> <p><u>F-2, R-2, P-1.</u> Improve the process of ensuring that Combat Zone indicators are reversed when an exit date is received from the Department of Defense (DOD) for those individuals who file a joint tax return but do not maintain the same order of primary and secondary taxpayer.</p> <p><u>F-3, R-1, P-1.</u> Discontinue providing the option to taxpayers of self-identifying by annotating a tax return with "Combat Zone" and continue to provide individuals with the option of self-identifying by telephone or electronically.</p> <p><u>F-3, R-2, P-1.</u> Take action to correct the 339,027 taxpayers with inaccurate Combat Zone indicators that were incorrectly reactivated.</p> <p><u>F-4, R-1, P-1.</u> Develop a process to identify and resolve unpostable records when entry and exit date information provided by the DOD is unable to be posted to an individual's tax account.</p> <p><u>F-4, R-2, P-1.</u> Take actions to resolve the 458 DOD Combat Zone transactions posted to invalid Social Security Numbers and revise the DOD validation process to ensure accurate posting of entry and exit date information.</p> <p><u>F-5, R-1, P-1.</u> Develop a process to validate Combat Zone service when an individual self-identifies.</p> <p><u>F-5, R-2, P-1.</u> Improve the process for individuals who self-identify their Combat Zone service by e-mail by establishing a secure fillable form with the required data fields.</p>
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			01/15/12	
			01/15/12	
			12/15/11	
			01/15/12	
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			12/15/11	
2009-10-139	Erroneous and Improper Payments	September 2009	12/15/10	<p><i>Controls Over the Contracting Officer's Technical Representative Workforce Were Ineffective, Resulting in Significant Risks to the Government</i></p> <p><u>F-1, R-2, P-1.</u> Identify all IRS employees Agency-wide performing COTR-related duties and ensure that they are formally delegated authority by the responsible CO on their procurement duties, appropriately trained, and certified in accordance with Federal acquisition requirements.</p> <p><u>F-2, R-1, P-1.</u> Re-evaluate their current approach and expand the reviews of COTR contract files to ensure that reviews are routinely performed to substantiate that relevant, accurate, and complete documentation is being received, verified, and retained to support the contractors' billed expenses.</p> <p><u>F-3, R-1, P-1.</u> Ensure that supervisors are knowledgeable of the oversight requirements for the contracts their employees are assigned to monitor and evaluate all aspects of their employees' contract management performance.</p> <p><u>F-4, R-1, P-1.</u> Ensure that consistent ongoing on-the-job support is provided for newly selected or less experienced COTRs to enable the COTRs to learn and effectively perform their responsibilities.</p>
			12/15/10	
			12/15/10	
			12/15/10	



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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2010-40-005	Providing Quality Taxpayer Service	December 2009	08/15/12 08/15/12	<i>Individual Taxpayer Identification Numbers Are Being Issued Without Sufficient Supporting Documentation</i> F-3, R-1, P-1. Ensure the data on the Real-Time System are accurate and validate the records that indicate an agent submitted the application to ensure that the Individual Taxpayer Identification Number Program has accurate and reliable data to oversee the Program. F-3, R-2, P-1. Develop procedures and internal controls to monitor the Real-Time System to ensure information entered is accurate.
2010-10-012	Taxpayer Compliance Initiatives	December 2009	P-2, P-3: 09/30/11 P-5: 09/30/10	<i>Additional Process Improvements Are Needed Due to Continued Growth in the Voluntary Correction Program for Retirement Plans</i> F-1, R-1, P-2, P-3, P-5. Ensure the Voluntary Correction Program provides timely service to those in the retirement plan community who are attempting to bring their retirement plans into compliance with tax exempt laws.
2010-40-017	Erroneous and Improper Payments	January 2010	11/15/11	<i>Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds</i> F-1, R-1, P-1. Perform a comprehensive analysis during the 2010 Filing Season to determine the average time to complete one unit of work for each of the transitioned activities.
2010-30-024	Taxpayer Compliance Initiatives	February 2010	10/15/10 10/15/10 10/15/10	<i>Significant Tax Issues Are Often Not Addressed During Correspondence Audits of Sole Proprietors</i> F-1, R-1, P-1. Require examiners to conduct and document, in audit case files, checks to identify unfiled employment tax and information returns, including consideration given to transferring the audit to the field if issues are identified. F-1, R-2, P-1. Require examiners to conduct and document, in audit case files, the results of preliminary cash transaction analysis, including consideration given to transferring the audit to the field if issues are identified. F-1, R-3, P-1. Expand controls that provide assurances that examiners are properly performing checks for unfiled employment tax and information returns and conducting preliminary cash transaction analysis so corrective actions can be identified and taken, if needed.
2010-30-023	Taxpayer Compliance Initiatives	March 2010	12/15/10 04/15/11	<i>Lien Determinations Were Untimely or Not Made Appropriately For Over \$1.4 Billion in Delinquent Taxes</i> F-2, R-1, P-1. Remind Revenue Officers to use valid lien determination criteria when closing cases as currently not collectible. F-3, R-1, P-1. Consider assessing liens on those modules in the queue with a balance due between \$5,000 and \$25,000 that meet the study criteria before shelving.
2010-30-025	Taxpayer Compliance Initiatives	March 2010	01/15/11 01/15/12	<i>Employment Tax Compliance Could Be Improved With Better Coordination and Information Sharing</i> F-1, R-1, P-1. Create an audit code to flag paper returns that have an incomplete Form 8919 attached. F-1, R-4, P-1. Ensure that paper and electronically filed returns with Forms 8919 attached are compared to filed Forms SS-8 through a post-filing compliance program. Ensure that paper returns flagged during processing are reviewed and any noncompliance is addressed.



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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2010-20-027	Taxpayer Protection and Rights	March 2010	06/15/11 11/15/10 01/15/11 12/15/10 01/15/11 01/15/11	<p><i>Additional Security Is Needed For Access to the Registered User Portal</i></p> <p><u>F-1, R-1, P-1.</u> Require suitability checks on delegated users who e-file tax returns or access the e-Services incentive products and disable the principal consent feature on e-Services that allows a user to propagate his or her privileges to other users.</p> <p><u>F-1, R-2, P-1.</u> Stop overturning the Fraud Detection Center's recommendations and revise the appeal procedures for e-file applicants and other tax professionals who fail their suitability check.</p> <p><u>F-1, R-3, P-1.</u> Enhance the e-file application on the Third Party Data Store to post the complete results of the Automated Suitability Analysis Program's spouse tax compliance check.</p> <p><u>F-1, R-4, P-1.</u> Disable and delete inactive accounts in accordance with IRS procedures or follow the IRS's risk-based decision procedures to obtain the required thorough assessment, recommendation, and approval from the Modernization and Information Technology Services Cybersecurity office.</p> <p><u>F-1, R-5, P-1.</u> Make passwords more difficult to guess by unauthorized individuals and decrease the use of Social Security Numbers as usernames.</p> <p><u>F-1, R-6, P-1.</u> Implement a control to allow users to answer a series of challenge questions to unlock their accounts.</p>
2010-20-028	Security of the IRS	March 2010	12/01/11 01/01/11 01/01/11 01/01/11 01/01/11	<p><i>Additional Security Controls Are Needed to Protect the Automated Collection System</i></p> <p><u>F-1, R-3, P-1.</u> Make the identity access provisioning and management solution to enhance the OL5081 system or acquire a commercial off-the-shelf software product a top priority.</p> <p><u>F-2, R-1, P-1.</u> Set completion dates and prioritize the work needed to complete the high level and Automated Collection System (ACS) configuration management plans.</p> <p><u>F-2, R-3, P-1.</u> Manage and protect critical system documentation from unauthorized changes by storing all critical ACS system documentation in the DocIt system.</p> <p><u>F-2, R-4, P-1.</u> Identify the key software configuration items, assign unique identifiers, and maintain the items in the Clear Case system to facilitate efficient tracking, monitoring, and other configuration management activities.</p> <p><u>F-2, R-5, P-1.</u> Ensure the required change management procedures are followed for all changes to the ACSWeb.</p>
2010-30-032	Taxpayer Compliance Initiatives	March 2010	09/15/12	<p><i>Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement</i></p> <p><u>F-1, R-1, P-1, P-2.</u> Submit a request to revise the computer programming to allow taxpayers only one additional automatic skip per 12-month period and include only individual taxpayers in the processing routine.</p>



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Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2010-10-039	Leveraging Data to Improve Program Effectiveness and Reduce Costs	March 2010	10/15/10 10/15/10 10/15/10 10/15/10 10/15/10	<p><i>Internal Accounting Errors Reduced the Federal Funding Available for Unemployment Benefits by \$63 Million During Fiscal Years 2005 Through 2009</i></p> <p><u>F-1, R-1, P-1.</u> Update the procedures used by the IRS business units to calculate their Unemployment Trust Fund (UTF) administrative expenses.</p> <p><u>F-1, R-2, P-1.</u> Provide instruction that the audit file and the supporting documentation be maintained in a central location to facilitate the effective location and retrieval of the files when performing a review.</p> <p><u>F-1, R-3, P-1.</u> Implement a policy to routinely review documentation supporting the summary cost reports submitted by IRS business units to ensure the accuracy of the information submitted in the summary reports.</p> <p><u>F-1, R-4, P-1.</u> Determine if new versions of the Form 940 are developed, incorporate any new versions of the Form 940 into its procedures, and review summary cost reports to ensure new versions of the Form 940 are included in the calculation of UTF administrative expenses.</p> <p><u>F-2, R-1, P-1.</u> Ensure a cost accounting capability that supports the ability to readily track, record and report UTF expenses is considered during the development of future financial accounting system requirements.</p>
2010-40-042	Taxpayer Protection and Rights	March 2010	11/15/10 P-1: 10/15/10 P-2: 09/15/11 P-1: 10/15/10 P-2: 09/15/11	<p><i>The Screening and Monitoring of E-File Providers Has Improved, but More Work Is Needed to Ensure the Integrity of the E-File Program</i></p> <p><u>F-1, R-1, P-1.</u> Ensure the not-for-profit status is verified for all e-file program applicants.</p> <p><u>F-2, R-1, P-1, P-2.</u> Implement controls to ensure that the monitoring visit procedures are being followed.</p> <p><u>F-2, R-2, P-1, P-2.</u> Ensure information reported is accurate and the results of the monitoring visits are used to improve and measure the effectiveness of the e-file Program.</p>
2010-40-043	Taxpayer Compliance Initiatives	March 2010	10/15/12	<p><i>A Service-wide Strategy Is Needed to Address Growing Noncompliance With Individual Retirement Account Contribution and Distribution Requirements</i></p> <p><u>F-1, R-1, P-1.</u> Ensure a Service-wide strategy is developed to address retirement provision noncompliance.</p>
2010-40-045	Security of the IRS	March 2010	01/15/11 01/15/11 01/15/11	<p><i>Telephone Authentication Practices Need Improvement to Better Prevent Unauthorized Disclosures</i></p> <p><u>F-1, R-2, P-1.</u> Emphasize during training that assistors should not prematurely authenticate callers when using the Account Management Services. Also, train assistors on the importance of controlling calls.</p> <p><u>F-2, R-1, P-1.</u> Emphasize during training that assistors should place callers on hold while conducting research and should develop guidelines that require assistors to ask callers to repeat Personally Identifiable Information if clarification is needed. Also, if an assistor has to repeat information back to a caller, it should be limited to only partial information.</p> <p><u>F-3, R-1, P-1.</u> Incorporate available technology to authenticate callers in the queue as part of the development of the Authentication Retention Project.</p>



Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	Result for TIGTA
<p>Access to Information Report unreasonable refusals of information available to the Agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	As of September 30, 2010, there were no instances where information or assistance requested by the Office of Audit was refused.
<p>Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	As of September 30, 2010, there was one instance where significant recommendations were disputed.
<p>Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	As of September 30, 2010, no significant management decisions were revised.
<p>Audit Reports Issued in the Prior Reporting Period With No Management Response Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.</p>	As of September 30, 2010, there were no prior reports where management's response was not received.
<p>Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	TIGTA's Office of Chief Counsel reviewed 380 proposed regulations and legislative requests during this reporting period.





Appendix II

Audit Products

April 1, 2010 – September 30, 2010

Audit Products	
Reference Number	Report Title
April 2010	
2010-40-048	Payments Processed Through the Remittance Strategy for Paper Check Conversion Are Posted Accurately, but Deposit Timeliness Needs Improvement
2010-30-046	More Management Information Is Needed to Improve Oversight of Automated Collection System Outbound Calls
2010-30-050	Most Unpaid Taxes of Participants in the Troubled Asset Relief Program Have Been Resolved
May 2010	
2010-20-044	Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program (Funds Put to Better Use: \$3,172,872)
2010-30-049	Fiscal Year 2010 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 14 seizures not in compliance with legal and internal provisions)
2010-40-053	Accountability Over Volunteer Program Computers Has Significantly Improved, but Providing Computers to Volunteers Presents Many Challenges
2010-10-054	Additional Actions Are Needed to Measure and Evaluate the Impact of the Pay-for-Performance System on Recruiting, Retaining, and Motivating Highly Skilled Leaders
2010-40-055	Current Practices Are Preventing a Reduction in the Volume of Undeliverable Mail (Reliability of Information: 4.1 million notices sent to known bad addresses)
2010-20-051	Taxpayer Data Used at Contractor Facilities May Be at Risk for Unauthorized Access or Disclosure
2010-21-057	Recovery Act Provisions for the Health Coverage Tax Credit Were Implemented, but Development Processes Could Be Improved
2010-20-041	Modernized e-File Will Enhance Processing of Electronically Filed Individual Tax Returns, but System Development and Security Need Improvement
June 2010	
2010-30-060	Fiscal Year 2010 Statutory Review of Restrictions on Directly Contacting Taxpayers
2010-30-059	Accuracy-Related Penalties Are Seldom Considered Properly During Correspondence Audits (Increased Revenue: \$17.5 million impacting 9,255 taxpayers)
2010-10-065	Measurable Progress Has Been Made in Addressing Federal Financial Management Improvement Act Noncompliance; However, Significant Challenges Remain (Reliability of Information: Reported and actual resource estimate difference of \$18.3 million)
2010-20-063	Implementation of General Support System Security Controls Needs Improvement to Protect Taxpayer Data
2010-30-061	Plans Exist to Engage the Tax Preparer Community in Reducing the Tax Gap; However, Enhancements Are Needed
2010-30-066	Trends in Compliance Activities Through Fiscal Year 2009
2010-30-067	Filing Characteristics and Examination Results for Small Business Corporate Returns
2010-41-070	The Implementation of the Five-Year Net Operating Loss Carryback Claim Provisions Were Generally Effective



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2010-20-056	Additional Efforts Are Needed to Implement the Electronics Stewardship Program and Maximize the Energy Efficiency of Desktop Computer Equipment (Funds Put to Better Use: \$18,270,932)
2010-30-068	Fiscal Year 2010 Statutory Review of Compliance With Legal Guidelines When Issuing Levies
2010-41-069	Additional Steps Are Needed to Prevent and Recover Erroneous Claims for the First-Time Homebuyer Credit
2010-10-052	The Internal Revenue Service Oversight Board Has Taken Actions to Improve Its Financial Management, but Continuing Weaknesses Were Identified (Questioned Costs: \$420; Funds Put to Better Use: \$2,178,976)
2010-30-058	The Criminal Investigation Division Can Take Steps to Ensure Its Seizure Opportunities Are Maximized
2010-11-071	Additional Actions Are Needed to Ensure Readiness to Comply With the American Recovery and Reinvestment Act of 2009 Procurement Requirements (Inefficient Use of Resources: \$385,421)
July 2010	
2010-30-074	Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained
2010-20-064	The Internal Revenue Service Is Improving Management Controls for Information Technology Strategic Planning and Capital Investments
2010-30-072	Actions Are Needed to Protect Taxpayers' Rights During the Lien Due Process (Taxpayer Rights and Entitlements: 75,847 notices were not sent timely, to authorized representatives, or to taxpayers' updated addresses)
2010-40-062	Better Use of Available Third-Party Data Could Identify and Prevent More Than One Billion Dollars in Potentially Erroneous Refunds (Funds Put to Better Use: \$1.175 billion; Revenue Protection: \$17 million impacting 6,406 taxpayers)
2010-10-085	Tax-Exempt User Fee Processing Improved for Dishonored Checks and Refund of Overpayments (Taxpayer Rights and Entitlements: \$1,730 in user fee overpayments not refunded to 13 taxpayers)
2010-11-083	Initial Build America Bond Subsidy Payments Were Processed Accurately and Timely
2010-10-075	The Office of Appeals Has Improved Compliance Within Its Collection Due Process Program; However, Some Improvement Is Still Needed (Taxpayer Rights and Entitlements: 4,273 cases that did not contain required or sufficient documentation or with Collection Statute date improperly extended; Increased Revenue: 2,048 cases with Collection Statute date improperly extended)
2010-30-073	Fiscal Year 2010 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 192 taxpayer accounts in which an illegal Tax Protestor or similar designation was used)
2010-30-076	Fiscal Year 2010 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2010-11-087	Concerns About Contracting Officer's Technical Representatives That Are Relevant to the American Recovery and Reinvestment Act of 2009 Procurements
2010-20-082	Additional Actions and Resources Are Needed to Resolve the Audit Trail Portion of the Computer Security Material Weakness
August 2010	
2010-30-090	The Office of Disclosure Continues to Improve Compliance With the Freedom of Information Act Requirements (Taxpayer Right and Entitlements: 98 improperly denied FOIA or Privacy Act requests)
2010-10-097	Statistical Trends in Retirement Plans
2010-40-098	Target Dates Have Not Been Established to Eliminate or Reduce Taxpayer Social Security Numbers From Outgoing Correspondence
2010-10-081	A Statistical Portrayal of the Taxpayer Advocate Service for Fiscal Years 2005 Through 2009



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2010-41-086	A Comprehensive Strategy Is Being Developed to Identify Individuals With First-Time Homebuyer Credit Repayment Requirements (Funds Put to Better Use: \$36.6 million; Taxpayer Burden: 59,802 taxpayers that could receive notices due to incorrect recording of purchase date)
2010-40-091	Improvements Are Needed to Reduce Erroneous Foreign Earned Income Exclusion Claims (Revenue Protection: \$450 million impacting 23,334 taxpayers)
2010-40-100	Surveys of Taxpayers With Tax Account Issues Indicate They Are Satisfied With the Service They Received at Taxpayer Assistance Centers
2010-30-095	Collection Actions for In-Business Trust Fund Accounts Closed as Currently Not Collectible Need Improvement (Increased Revenue: \$650 million impacting 10,245 taxpayers)
2010-30-096	Classifiers Are Eliminating Less Productive Tax Returns From the Audit Stream, but Their Work Needs Closer Monitoring
2010-30-103	Fiscal Year 2010 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 173 files not documented to show whether taxpayers or representatives were advised of rights regarding assessment statutes)
2010-20-084	More Actions Are Needed to Correct the Security Roles and Responsibilities Portion of the Computer Security Material Weakness
2010-30-089	Plans for Evaluating the Use of Soft Notices in Addressing Underreporting Can Be Enhanced
September 2010	
2010-20-099	The Federal Student Aid Datashare Application Was Successfully Deployed, but Improvements in Systems Development Disciplines Are Needed (Reliability of Information: number of test cases corrected to 472)
2010-40-109	Improvements to the Volunteer Program Are Producing Positive Results, but Further Improvements Are Needed to the Quality Assurance Process (Funds Put to Better Use: \$3,098,835)
2010-40-108	Toll-Free Telephone Access Exceeded Expectations, but Access for Hearing- and Speech-Impaired Taxpayers Could Be Improved
2010-40-111	System Errors and Lower Than Expected Tax Return Volumes Affected the Implementation of the Modernized e-File System for Individual Tax Return Processing
2010-30-112	Actions Are Being Taken to Address the Impact That International Financial Reporting Standards Will Have on Tax Administration
2010-20-101	Treasury Inspector General for Tax Administration's Federal Information Security Management Act (Non-Intelligence National Security Systems) Report for Fiscal Year 2010
2010-30-105	Tests for Unreported Income During Sole Proprietor Field Audits Can Be Strengthened (Increased Revenue: \$41 million impacting 851 taxpayers)
2010-10-106	Chief Counsel Can Take Actions to Improve the Timeliness of Private Letter Rulings and Potentially Reduce the Number Issued (Taxpayer Burden: 3,074 taxpayers did not receive timely responses)
2010-21-110	The Internal Revenue Service Should Strengthen Processes for Managing Recovery Act Funds Used for the Health Coverage Tax Credit (Questioned Costs: \$412,107)
2010-10-113	Improvements Have Been Made to the Recruitment Process, but Continued Focus and Additional Enhancements Are Needed
2010-1C-077	Contractor's Asset Management System
2010-1C-078	Adequacy and Compliance of Revised Disclosure Statement Number 6, Dated July 31, 2008
2010-1C-079	Financial Capability Detail Risk Assessment
2010-1C-080	Contractor's Compensation System
2010-10-088	Procurement Audit Results Indicate Problems Continue to Exist After Corrective Actions Were Implemented
2010-1C-092	Noncompliance With Cost Accounting Standard 404, Capitalization of Tangible Assets
2010-1C-093	Calendar Years 2010 Through 2019 Forward Pricing Direct Labor Rates and Calendar Years 2010 Through 2013 Forward Pricing Indirect Expense Rates



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2010-1C-107	Adequacy and Compliance of the Contractor's Fiscal Year 2010 Revised Disclosure Statement, Version 10-01
2010-10-115	The Internal Revenue Service Can Make Better Use of Defense Contract Audit Agency Reports (Reliability of Information: Documentation not provided to support \$355,507 in contractor repayments)
2010-40-116	Actions Can Be Taken to Improve the Identification of Tax Return Preparers Who Submit Improper Earned Income Tax Credit Claims (Funds Put to Better Use: \$125,660,285)
2010-40-117	Multiple Use of Taxpayer Identification Numbers Continues to Result in Significant Erroneous Exemptions and Credits (Funds Put to Better Use: \$1,297,598,700; Revenue Protection: \$605,082,280)
2010-11-102	Previously Reported Acquisition Concerns That Are Relevant to the American Recovery and Reinvestment Act of 2009 Procurements
2010-40-121	Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States (Revenue Protection: \$6,260,352 impacting 146 taxpayers)
2010-30-104	Currency Report Data Can Be a Good Source for Audit Leads (Increased Revenue: \$1,334,176,111 impacting 121,574 taxpayers)
2010-1C-114	Contractor's Labor Floor Check for Fiscal Year 2009
2010-30-119	Coordination and Procedures for Foreclosures Can Be Improved
2010-1C-126	Compliance With Cost Accounting Standard 409, Depreciation of Tangible Capital Assets
2010-20-094	Annual Assessment of the Business Systems Modernization Program
2010-40-123	Many Taxpayers Who Were Not Eligible Received Additional Education Credits Intended for Those Attending Schools in Midwestern Disaster Areas (Revenue Protection: \$55,773,489 impacting 48,940 taxpayers)
2010-41-122	Health Coverage Tax Credit Recovery Act Provisions Were Timely Implemented, but Program Capacity Is Limited
2010-10-124	Although Citibank Travel Rebates Have Significantly Increased, They Were Not Properly Allocated, Resulting in the Misappropriation of Funds (Funds Put to Better Use: \$3,161,592; Reliability of Information: \$3,161,592 in rebates that cannot be validated)
2010-30-118	Internal Controls for Surveying Tax Returns With Abusive Tax Avoidance Transactions Need to Be Strengthened (Increased Revenue: \$1,718,640 impacting 840 taxpayers; Taxpayer Rights and Entitlements: 196 taxpayers contacted prior to survey)
2010-30-120	Federal Guidelines Do Not Prohibit the Awarding of Contracts to Contractors With Delinquent Tax Liabilities
2010-30-125	New Legislation Could Affect Filers of the Report of Foreign Bank and Financial Accounts, but Potential Issues Are Being Addressed
2010-1C-130	Labor Interviews
2010-40-127	It Will Take Years to Implement the Return Preparer Program and to Realize Its Impact
2010-41-128	Verifying Eligibility for Certain New Tax Benefits Was a Challenge for the 2010 Filing Season (Funds Put to Better Use: \$83.9 million; Revenue Protection: \$453,220 impacting 171 taxpayers)
2010-40-129	Expanded Access to Wage and Withholding Information Can Improve Identification of Fraudulent Tax Returns (Revenue Protection: \$567.1 million; Inefficient Use of Resources: \$1.6 million)



Appendix III

TIGTA’s Statutory Reporting Requirements

TIGTA issued 13 audit reports as required by statute that address the adequacy and security of IRS technology during this reporting period. In FY 2010, TIGTA completed its 12th round of statutory reviews which are required annually by the RRA 98. It also completed its annual review of the *Federal Financial Management Improvement Act of 1996* and its annual review of the Office of National Drug Control Policy Detailed Accounting Submission and Assertions. The following table reflects the FY 2010 statutory reviews:

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Enforcement Statistics</p> <p>I.R.C. § 7803(d)(1)(A)(i)</p>	<p>Requires TIGTA to evaluate the IRS’s compliance with restrictions under § 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.</p>	<p>Reference No. 2010-30-076, July 2010</p> <p>The IRS did not achieve full compliance with §1204(a) requirements. TIGTA identified violations of RRA 98 § 1204(a) in three of the 1,074 employee or manager performance evaluation documents reviewed. TIGTA found documentation that managers included a record of tax enforcement results in three employees’ performance evaluation documents.</p> <p>The IRS did achieve full compliance with §1204(b) and (c) requirements. The IRS evaluated all employees on the fair and equitable treatment of taxpayers and prepared quarterly self-certifications showing that record of tax enforcement results were not used to evaluate employees.</p> <p>In a judgmental sample of 31 employees, seven (23 percent) did not understand the term “retention standard” and 11 (35 percent) were not sure if they had received training on the retention standard.</p>



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Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Restrictions on Directly Contacting Taxpayers</p> <p>I.R.C. § 7803(d)(1)(A)(ii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</p>	<p>Reference No. 2010-30-060, June 2010</p> <p>The IRS informed taxpayers of their rights related to I.R.C. §§ 7521(b)(2) and (c) through various publications. However, between October 2008 and September 2009, TIGTA's Office of Investigations closed three complaints and found that IRS employees who improperly bypassed taxpayer representatives were either counseled or reprimanded for their actions. TIGTA also reviewed a judgmental sample of 30 cases that were closed by IRS field examiners in FY 2009 and found one additional instance where a taxpayer's representative was bypassed.</p> <p>This is the 12th year in which TIGTA has reported its inability to give an opinion on how well the IRS is complying with the I.R.C. restrictions on direct contact because of limitations with the IRS's management information systems. In considering the significance of this limitation, it is equally important to recognize that the IRS has policies, procedures, and techniques (internal control activities) in place at the agency and operational levels that are designed to help ensure its personnel adhere to the direct contact provisions of I.R.C. §§ 7521(b)(2) and (c).</p> <p>At the top of the agency, the IRS's mission statement and supporting policy statements provide nationwide guidance to IRS compliance and other personnel who have contact with taxpayers. To supplement agency-level mission and policy statements, the IRS uses, and periodically updates, the Internal Revenue Manual (IRM) and numerous taxpayer publications. Both the IRM and taxpayer publications are available online and are designed to provide guidance nationwide to IRS personnel and taxpayers alike.</p> <p>At the operational level, the first-line managers over IRS collectors and examiners (enforcement personnel) are a key control because they are responsible for ensuring that the personnel they supervise follow procedures and that their work meets acceptable standards. To assist managers in ensuring procedures are followed and standards are met, the IRM requires managers to conduct reviews over the work of the personnel they supervise both while it is in process and after it is completed. These control techniques, as TIGTA has previously reported, help identify problems so prompt corrective actions, if needed, can be taken.</p>



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Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Filing of a Notice of Lien</p> <p>I.R.C. § 7803(d)(1)(A)(iii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a Notice of a Federal Tax Lien (NFTL).</p>	<p>Reference No. 2010-30-072, July 2010</p> <p>TIGTA reviewed a statistically valid sample of 125 Federal Tax Liens (FTL) filed for the 12-month period ending June 30, 2009, and determined that the IRS mailed substantially all of the 125 NFTLs in a timely manner, as required by I.R.C. § 6320. However, there were some errors which could result in violations of taxpayers' rights. TIGTA estimated that 15,169 NFTL filed during the same period could have been mailed late.</p> <p>In addition, the IRS did not always follow its own regulations for notifying taxpayers' representatives that a FTL had been filed. IRS regulations require taxpayer representatives be given copies of all correspondence issued to the taxpayer. For eight of the 31 cases in the statistically valid sample where the taxpayer had an authorized representative, the IRS did not notify the taxpayer's representative that a lien had been filed. The IRS does not have an automated process that updates taxpayer representative information directly to the system that generates the NFTLs. TIGTA estimated that 60,675 taxpayer representatives may not have been provided NFTLs, resulting in potential violations of taxpayers' right to have their representative notified.</p> <p>When an initial NFTL is returned because it could not be delivered and a different address is available for the taxpayer, the IRS does not always meet its statutory requirement to send the NFTL to the taxpayer's last known address. TIGTA identified some cases for which a new NFTL should have been sent to the taxpayer at the updated address because IRS systems listed the address before the FTL was filed. The cases could involve legal violations because the IRS did not meet its statutory requirement to send NFTLs to the taxpayer's last known address.</p>



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Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Extensions of the Statute of Limitations for Assessment of Tax</p> <p>I.R.C. § 7803(d)(1)(C)</p> <p>I.R.C. § 6501(c)(4)(B)</p>	<p>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Reference No. 2010-30-103, August 2010</p> <p>Over the past five fiscal years, the IRS has improved its compliance with requirements for documenting that taxpayers were informed of their rights to refuse to extend the period of limitations or to limit such extension to a particular issue or to a particular period of time. The percentage of case files without documentation decreased from FY 2006 to FY 2010.</p> <p>For FY 2010, taxpayer files for five (5 percent) of the 111 taxpayers in TIGTA’s statistical sample did not contain sufficient documentation to indicate whether taxpayers were advised of their rights before consenting to extend the time to assess tax. In all five taxpayer cases, the taxpayer’s representative signed Consent to Extend the Time to Assess Tax (Form 872) or Consent to Extend the Time to Assess Employment Taxes (Form SS-10), both of which contain a statement detailing the taxpayer’s rights regarding extending the assessment statute of limitation. However, there was no evidence in the case files that the taxpayers themselves were advised of their rights, as required by IRS procedures.</p> <p>In addition, the sample included taxpayers’ files containing authorizations for third-party representation. TIGTA found that 2.67 percent of the taxpayers’ files did not contain sufficient documentation that the taxpayers’ representatives were provided with the required notifications. For these taxpayers, IRS management officials informed TIGTA that some employees may have overlooked the fact that the required information was not documented in the case file or the documents were separated from the case files.</p>
<p>Levies</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS’s compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Reference No. 2010-30-068, June 2010</p> <p>The IRS is protecting taxpayers’ rights when issuing systemically generated and manually prepared levies. TIGTA reviewed 30 systemically generated levies identified through the Automated Collection System and Integrated Collection System and determined that systemic controls were effective to ensure that the taxpayers were given notice of their appeal rights at least 30 calendar days before the levies were issued. In addition, TIGTA identified 60 manual levies issued by employees on those same systems and determined that all the taxpayers were given notice of their appeal rights at least 30 calendar days before the levies were issued.</p>



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Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Collection Due Process</p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p>Reference No. 2010-10-075, July 2010</p> <p>The Office of Appeals continues to show improvement in complying with the statutory requirements for its Collection Due Process program. TIGTA determined that Appeals classified most taxpayer requests properly; as a result, these taxpayers received the appropriate type of hearing. Also, in most cases, Appeals personnel input the proper computer coding to identify the taxpayer requests were received and completed. However, hearing officers did not always document their impartiality as required. As a result, there is a risk of prior involvement in the taxpayer's case and a potential lack of independence. Finally, on taxpayer accounts, the Collection Statute Expiration Date was extended longer than the length of the Collection Due Process hearing, a potential violation of taxpayer rights.</p>
<p>Seizures</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.</p>	<p>Reference No. 2010-30-049, May 2010</p> <p>TIGTA reviewed a random sample of 50 of the 578 seizures conducted from July 1, 2008, through June 30, 2009, to determine whether the IRS is complying with legal and internal guidelines when conducting seizures. The review included a total of 58 guidelines for each seizure. TIGTA determined that in the majority of seizures, the IRS followed all guidelines applicable to the respective case. However, in 17 seizures, there were 22 instances in which the IRS did not comply with a particular I.R.C. requirement. While TIGTA did not identify any instances in which the taxpayers were adversely affected, not following legal and internal guidelines could result in abuses of taxpayers' rights.</p> <p>After the seizure of property, the IRS is required to provide the taxpayer a Notice of Seizure (Form 2433) that specifies the liability for which the seizure was made and an accounting of the property seized. The liability should be the total amount due for all accruals and the tax modules listed on the Levy (Form 668-B). In seven cases, the Notice of Seizure (Form 2433) provided to the taxpayer did not show the correct liability.</p> <p>Money realized from the seizure of property is required to be applied first to expenses of the seizure and sale, second against any unpaid tax imposed by IRS law against the property seized, and finally against the liability for which the seizure was made. TIGTA identified seven instances in which expenses and proceeds were not properly applied to the taxpayer's account.</p>



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Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the IRS’s compliance with restrictions under § 3707 of RRA 98 on designation of taxpayers.</p>	<p>Reference No. 2010-30-073, July 2010</p> <p>The IRS has not reintroduced past Illegal Tax Protester codes or similar designations on taxpayer accounts. In addition, IRS publications and the IRM no longer contain any Illegal Tax Protester references. However, TIGTA found that out of approximately 80.6 million records and cases, there were 196 instances in which 163 employees had referred to taxpayers as “Tax Protester,” “Constitutionally Challenged,” or other similar designations in case narratives on the computer systems analyzed.</p> <p>The IRS did take the positive step of modifying the Integrated Collection System so that prohibited protester designations could not be entered into case histories. This is significant because this system has historically accounted for a large number of the exceptions that TIGTA identified in prior reviews.</p>
<p>Disclosure of Collection Activities With Respect to Joint Returns</p> <p>I.R.C. § 7803(d)(1)(B)</p> <p>I.R.C. § 6103(e)(8)</p>	<p>Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Reference No. 2010-30-026, February 2010</p> <p>IRS procedures provide employees with sufficient guidance for handling joint filer collection activity information requests. However, TIGTA could not determine whether the IRS fully complied with I.R.C. § 6103(e)(8) requirements when responding to all written information requests from joint filers. IRS management information systems do not separately record or monitor joint filer requests, and there is no legal requirement for the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>
<p>Taxpayer Complaints</p> <p>I.R.C. § 803(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 the IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received are shown on page 66.</p>



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Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996</p> <p>I.R.C. § 7803(d)(1)(G)</p> <p>I.R.C. § 6304 and §3466 of RRA 98</p>	<p>Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Reference No. 2010-10-037, March 2010</p> <p>The Fair Tax Collection Practices (FTCP) provisions of I.R.C. § 6304 prohibit employees from using abusive or harassing behavior toward taxpayers when attempting to collect taxes. Employees who are found to have violated the FTCP could be subject to disciplinary action. From January through September 2009, IRS Collection employees did not violate the FTCP statute. The IRS coded only three cases as FTCP complaints; however, two cases were not substantiated as FTCP violations and the other was improperly coded as an FTCP case. TIGTA recommended the miscoding be fixed during the audit and the IRS corrected the miscoding. In addition, there were no civil actions resulting in monetary settlements being paid to taxpayers because of an FTCP violation. As a result, taxpayers have reasonable assurance that communications with the IRS in connection with the collection of unpaid taxes generally did not violate the FTCP statute.</p>
<p>Denial of Requests for Information</p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p>Reference No. 2010-30-090, August 2010</p> <p>The IRS continued to improve the accuracy and completeness of its responses to requests for information covered by the Freedom of Information Act (FOIA). While improvement was noted, management needs to ensure that disclosure personnel continue to follow required procedures on all requests. In 1.3 percent (one of 76 cases) of the FOIA/Privacy Act cases that TIGTA reviewed, information was improperly withheld from the requestors. The error occurred mainly because of inadequate research or simple oversight by Disclosure office personnel. The IRS also did not fully adhere to the legal requirements under I.R.C. § 6103.</p> <p>Since FY 2000, the IRS has made significant improvement in responding timely to FOIA and Privacy Act requests. In all FOIA and Privacy Act requests reviewed, a timely response was provided. In TIGTA's audits over the previous 10 years, the percentages of untimely responses ranged from 1.2 percent to 43.5 percent. The increase in responsiveness may, in part, be due to the continued decrease in the numbers of FOIA and Privacy Act cases received during FY 2009 compared to FY 2008 and the prior years when this review has been conducted.</p>



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Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS's adequacy and security of its technology.</p>	<p>Information Technology Reviews: Reference Number 2010-20-007, November 2009 Reference Number 2010-20-001, December 2009 Reference Number 2010-20-041, May 2010 Reference Number 2010-20-044, May 2010 Reference Number 2010-21-057, May 2010 Reference Number 2010-20-056, June 2010 Reference Number 2010-20-064, July 2010 Reference Number 2010-20-095, September 2010 Reference Number 2010-20-099, September 2010 Reference Number 2010-21-110, September 2010</p> <p>Security Reviews: Reference Number 2010-20-004, October 2009 Reference Number 2010-20-003, November 2009 Reference Number 2010-20-027, March 2010 Reference Number 2010-20-028, March 2010 Reference Number 2010-20-051, May 2010 Reference Number 2010-20-063, June 2010* Reference Number 2010-20-082, July 2010* Reference Number 2010-20-084, September 2010 Reference Number 2010-20-101, September 2010</p> <p>*Final Reports issued to the IRS, but not issued publicly at this time due to potential Sensitive But Unclassified designation.</p>
<p>Federal Financial Management Improvement Act of 1996 (FFMIA)</p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements, or establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Reference No. 2010-10-065, June 2010 The FFMIA remediation plan is a critical part of the IRS's efforts to bring its financial management systems into compliance with the FFMIA and to provide reliable and timely financial data. Overall, the IRS still faces significant challenges in its efforts to comply with the FFMIA. In addition, TIGTA's analysis of the IRS's September 30, 2009, FFMIA remediation plan found that the IRS continues to experience difficulties in developing resource estimates for remediation actions. For example, five resource estimates, totaling \$84.3 million, were not supported by detailed and verifiable documentation. Complete and reliable financial information is critical to the IRS's ability to accurately reflect on the results of its operations to both internal and external stakeholders, including taxpayers.</p>



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Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Office of National Drug Control Policy Detailed Accounting Submission and Assertions</p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled <i>Annual Accounting of Drug Control Funds</i>, dated April 18, 2003.</p>	<p>Requires TIGTA to authenticate the IRS's Office of National Drug Control Policy (ONDCP) detailed accounting submission and assertions.</p>	<p>Reference No. 2010-10-022, January 2010</p> <p>TIGTA reviewed the IRS's ONDCP Detailed Accounting Submission and Performance Summary Report for FY 2009, which ended September 30, 2009. The IRS is responsible for preparing this report. Based on the review, nothing came to TIGTA's attention that caused it to believe that the assertions in the Report were not presented in all material respects in accordance with ONDCP-established criteria. The IRS reported that it expended \$60.6 million on ONDCP-related activities and completed 652 ONDCP-related investigations in FY 2009. For FY 2009, the IRS also reported it participated in 462 ONDCP-related cases that resulted in convictions.</p>





Appendix IV

Section 1203 Standards

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

Misconduct violations include:

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

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





Appendix V

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

Inspector General Peer Review Activity

April 1, 2010 – September 30, 2010

Last Peer Review Conducted on TIGTA Office of Audit

As part of the three-year cycle of independent peer reviews,⁷⁷ the last peer review report covering the TIGTA Office of Audit was issued February 3, 2010, by the Office of Inspector General, United States Environmental Protection Agency. There were no recommendations included in the System Review Report. Their report stated:

“In our opinion, the system of quality control for the audit organization of TIGTA in effect for the year ended March 31, 2009, has been suitably designed and complied with to provide TIGTA with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. TIGTA has received a peer review rating of *pass*.”

Last Peer Review Conducted by TIGTA Office of Audit

The TIGTA Office of Audit was not involved in any peer review work during the reporting period. TIGTA issued its last Reviewing Inspector General report on September 22, 2009, to the Housing and Urban Development Office of Inspector General (HUD OIG). There were no recommendations included in the System Review Report. The report stated:

“In our opinion, the system of quality control in effect for the year ended March 31, 2009, for the audit organization of the HUD OIG has been suitably designed and complied with to provide the HUD OIG with reasonable assurance of performing and

⁷⁷ The Council of Inspectors General on Integrity and Efficiency (CIGIE) Audit Committee administers the external peer review program under generally accepted government auditing standards (GAGAS) for Federal Offices of Inspector General. GAGAS requires audit organizations that perform audits or attestation engagements in accordance with GAGAS to have an appropriate system of quality control and to undergo external peer reviews at least once every three years. GAGAS prescribes: (1) the elements of the scope of the peer review, including performing a risk assessment to help determine the number and types of engagements to select; (2) the requirements for reporting on the results of the peer review; (3) the qualifications of review staff; and (4) the distribution of peer review reports. GAGAS also prescribes requirements for granting extensions of deadlines for submitting peer review reports.



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reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The HUD OIG has received a peer review rating of *pass*.”

Last Peer Review Conducted on TIGTA Office of Investigations

As part of the three-year cycle of independent peer reviews, the last peer review report covering the TIGTA Office of Investigations was issued August 20, 2008, by the United States Department of Justice, Office of Inspector General. There were no outstanding recommendations included in the Report on the External Quality Assessment Review. Their report stated:

“In our opinion, the system of internal safeguards and management procedures for the investigative function of the Treasury Inspector General for Tax Administration in effect for the year ended March 31, 2007 is in compliance with the quality standards established by the PCIE/ECIE, the CIGIE, and the Attorney General guidelines. These safeguards and procedures provide reasonable assurance of conforming with professional standards in the conduct of its investigations.”


Last Peer Review Conducted by TIGTA Office of Investigations

The TIGTA Office of Investigations is currently conducting the peer review of the Department of Labor, Office of Inspector General. The anticipated completion date for this review is December 2010.



Appendix VI Data Tables Provided by the IRS

The memorandum copied below is the IRS transmittal to TIGTA. The tables that follow the memorandum contain information that the IRS provided to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period from April 1, 2010 through September 30, 2010. Also, data concerning substantiated RRA 98 §1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.

 DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20524

October 4, 2010

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

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

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

In response to your memorandum on July 15, 2010 to the Commissioner, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period April 1, 2010 to September 30, 2010.

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

The attached tables contain information concerning alleged misconduct reported to IRS managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of September 30, 2010. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).

The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 72 §1203 allegations and removed six employees. Six employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 27 cases. There are an additional ten cases to be reviewed by the Commissioner for mitigation.

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

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Attachments (3)

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



Treasury Inspector General for Tax Administration

**Reports of Employee Misconduct for the Period
April 1, 2010 through September 30, 2010
Summary by Disposition Groups
(Tables Provided by the IRS)**

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Totals
Removal	33	120	7	8	168
Separation of Probationary/Temporary Employees	5	147	4	24	180
Resignation/Retirement	62	170	20	42	294
Suspensions	118	306	100	8	532
Reprimands	126	452	294	29	901
Counseling		281	363	92	736
Alternative Discipline	21	67	34	2	124
Clearance	95	130		1	226
Closed Without Action	181	242	73	304	800
Closed Without Action (Caution Statement)	199	185	88	214	686
Forwarded to TIGTA		6		1	7
Suspended – Waiting Supplemental	1				1
Termination for Abandonment of Position		82			82
Termination- Other Than Job Abandonment		4			4
FORWARDED TO OPM FOR MIF				1	1
Case Suspended Pending Employee Return to Duty	2	6			8
Total	843	2,198	983	726	4,750

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

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

Extract Date: Monday, October 04, 2010

Report ID = T1R3a



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

Inventory Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Issues	
TIGTA Investigations ROI⁷⁸	509	804	(843)	(1)	(1)	468
Administrative Case⁷⁹	745	2,167	(2,198)	(23)	(7)	684
Employee Tax Compliance Case⁸⁰	466	979	(985)	(11)	(0)	449
Background Investigations⁸¹	347	545	(726)	(8)	(0)	158
Total	2,067	4,495	(4,752)	(43)	(8)	1,759

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

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

Extract Date: Monday, October 04, 2010 Report ID = T1R1

⁷⁸ 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.

⁷⁹ Administrative case – Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

⁸⁰ Employee tax compliance case – Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.

⁸¹ Background investigation – Any matter involving an National Background Investigations Center (NBIC) investigation into an employee's background that is referred to management for appropriate action.



**Summary of Substantiated
I.R.C. Section 1203 Allegations
Recorded in ALERTS for the Period
April 1, 2010 through September 30, 2010
(Tables Provided by the IRS)**

§ 1203 Violation	Removals	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated ⁸²	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	0
False Statement Under Oath	0	0	0	0	0	0	0
Constitutional & Civil Rights Issues	0	0	0	1	0	0	1
Falsifying or Destroying Records	0	1	0	1	0	1	3
Assault or Battery	0	0	0	0	0	0	0
Retaliate or Harass	0	0	0	1	0	0	1
Misuse of § 6103	0	0	0	0	0	0	0
Failure to Timely File/Understate ment of Tax Liability	6	5	1	8	27	20	67
Threat to Audit for Personal Gain	0	0	0	0	0	0	0
Totals	6	6	1	11	27	21	72

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

Extract Date: Monday, October 04, 2010

⁸² The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third-party appeal.



Glossary of Acronyms

ACS	Automated Collection System
ASCLD - LAB	American Society of Crime Laboratory Directors – Laboratory Accreditation Board
ATAT	Abusive Tax Avoidance Transactions
BIC	Beneficiaries in Common
CADE	Customer Account Data Engine
CAF	Central Authorization File
CI	Criminal Investigation
CIGIE	Council of Inspectors General on Integrity and Efficiency
CIS	Computer Investigative Support
COOP	Continuity of Operations Plan
COTR	Contracting Officer's Technical Representative
CTR	Currency Transaction Reports
DAIGI	Deputy Assistant Inspector General for Investigations
DDV	Due Diligence Visit
DOD	Department of Defense
EITC	Earned Income Tax Credit
FAST	Firearms, Agent Safety and Tactics
FBAR	Foreign Bank and Financial Accounts Report
FBI	Federal Bureau of Investigation
FFMIA	Federal Financial Management and Improvement Act of 1996



Treasury Inspector General for Tax Administration

FOIA	Freedom of Information Act
FSL	Forensic Science Lab
FTB	Franchise Tax Board
FTCP	Fair Tax Collection Practice
FTL	Federal Tax Liens
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GSA	General Services Administration
HCTC	Health Coverage Tax Credit
HUD	Housing and Urban Development
ICE	Immigration and Customs Enforcement
IFRS	International Financial Reporting Standards
ICS	Integrated Collection System
I&E	Inspections and Evaluations
IG	Inspector General
I.R.C. or Code	Internal Revenue Code
IRM	Internal Revenue Manual
IRS-CI	Internal Revenue Service Criminal Investigations
IRS	Internal Revenue Service
IT	Information Technology
LOC	Letter of Comment



Treasury Inspector General for Tax Administration

MEF	Modernized E-File
NBIC	National Background Investigations Center
NFTL	Notice of Federal Tax Liens
OA	Office of Audit
OCC	Office of Chief Counsel
OI	Office of Investigations
OIG	Office of the Inspector General
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
PCIE	President's Counsel on Integrity and Efficiency
PTO	Pure Trust Organizations
RO	Revenue Officer
ROI	Report of Investigation
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
SAC	Special Agent-in-Charge
S&A	Springer and Associates
SINART	System Intrusion and Network Response Team
SSN	Social Security Number
SSN ER	Social Security Number Elimination and Reduction
TAS	Taxpayer Advocate Service
TECS	Treasury Enforcement Communications System



Treasury Inspector General for Tax Administration

TFSD	Technical and Firearms Support Division
TIGTA	Treasury Inspector General for Tax Administration
TSCM	Technical Surveillance Counter Measures
TTY/ TDD	Tele-typewriter/ Telecommunications Device for the Deaf
UNAX	Unauthorized accesses to confidential tax information
UNTF	Unemployment Trust Fund



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

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