

Treasury Inspector General  
for Tax Administration

# Semiannual Report to Congress



April 1, 2002 through  
September 30, 2002



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

October 31, 2002

The Honorable Paul H. O'Neill  
Secretary of the Treasury  
Washington, D.C. 20220

Dear Mr. Secretary:

I am pleased to submit to you the Treasury Inspector General for Tax Administration's (TIGTA) *Semiannual Report to Congress* for the reporting period April 1, 2002 through September 30, 2002. I am proud to say that despite the turmoil caused by the terrorist attacks last year and the increased demands on our staff, TIGTA has successfully produced results that aided tax administration and taxpayers nationwide.

This has been a very productive period for TIGTA's Offices of Audit and Investigations. Highlights of the Office of Audit's accomplishments include issuing 118 audit reports that identified over \$54 million in cost savings or funds put to better use, and an additional \$237.6 million in increased revenue and/or revenue protected. The Fiscal Year (FY) 2002 total is \$730 million. The Office of Audit also continues to identify significant issues related to information systems security, business systems modernization, returns processing, voluntary compliance and the earned income tax credit.

The Office of Investigations received 4,254 complaints of alleged criminal wrongdoing and/or administrative misconduct, of which 1,926 warranted further investigation. In addition, 3,061 investigations were opened and 2,430 were closed. The closed investigations included issues such as bribery, misuse of Internal Revenue Service (IRS) computer systems, fraud, and employee misconduct. Investigative recoveries totaled \$3.1 million for this reporting period. The total for FY 2002 is \$12.7 million. I look forward to continuing to work with you, Congress and IRS officials to help the IRS address current and future challenges.

Sincerely,

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

Pamela J. Gardiner  
Acting Inspector General



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# **A** *Message From the Acting Inspector General*

Despite the turmoil caused by the terrorist attacks last year and the increased demands on our staff, TIGTA has achieved its goals and produced results that aided tax administration and taxpayers nationwide. During this reporting period, the Office of Audit (OA) issued 122 audit products - 118 audit reports and the Inspector General (IG) and Deputy IG for Audit (DIGA) testified before Congress four times. The Office of Investigations (OI) opened 3,061 investigations and closed 2,430. Between April 1st and September 30th, Counsel reviewed 142 proposed regulations and legislation.



*Pamela J. Gardiner has been Acting Inspector General since August 2002.*

We bade farewell to David C. Williams, the first presidentially appointed TIGTA Inspector General who retired in August 2002. His leadership was instrumental in the success of TIGTA as an organization and the significant accomplishments achieved.

Our future holds many of the same challenges we have always faced. We will continue to streamline our processes and leverage technology to provide audit and investigative services effectively. We believe our recently-implemented telecommuting program, which we call the Virtual Resource Solution (VRS), will ultimately help us achieve greater efficiency in how we perform our work.

In light of the terrorist attacks of September 11, 2001, TIGTA faces great challenges in combating terrorism and cyber-terrorism targeted at the IRS. In response to heightened security concerns and TIGTA's responsibility for investigating threats against the IRS and its employees, we have established a Counter-Terrorism Section (CTS). The CTS coordinates investigative efforts and is the centralized repository and dissemination point of threat information to the IRS. The CTS proactively identifies domestic and international threats made to the IRS by participating on nationwide Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces (JTTFs), evaluating information developed by JTTFs and other sources, initiating investigations,



and issuing intelligence reports and advisories notifying TIGTA and IRS management of potential threats.

Additionally, we have initiated a review of our performance goals to ensure that we are in alignment with the *President's Management Agenda* and that our measures are guiding our agency's workload focus. We will continue implementing the *President's Management Agenda* by competing functions with the private sector (as prescribed in the Office of Management and Budget's *Circular A-76*) while improving our financial accountability.

Finally, we will continue to align our organization and focus, as appropriate and advisable, with that of the IRS. As IRS modernizes and changes, how TIGTA performs its oversight role may change. All of our staff will need to stay current and well trained on the latest technology enhancements as well as the new ways IRS conducts its business.

We look forward to welcoming a new IG and a new Commissioner of Internal Revenue and seek to further a productive relationship that results in improved tax administration.



## *Legacy of the First IG*

*In May 1999, David C. Williams became the first presidentially appointed IG for the newly-established TIGTA*

**A**s a result of the *Internal Revenue Restructuring and Reform Act of 1998 (RRA 98)*,<sup>1</sup> Mr. Williams helped to transition the former IRS Inspection Service into an independent IG office tasked with providing independent oversight of IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. He established the mission and vision of the organization, ensured that TIGTA remained independent and objective in both perception and reality, and that its products were timely and of high quality.

He always reminded staff that TIGTA should be “a good deal for the taxpayers.” To ensure this happened, he realigned TIGTA. The Office of Audit was organized to parallel IRS’ new structure, allowing audit teams to focus on specific issue areas. Office of Investigations (OI) Special Agents-in-Charge were strategically placed across the country to respond to allegations of fraud, waste, and abuse as well as threats and assaults. OI established the divisions of Complaint Management, Strategic Enforcement, Special Inquiries and Intelligence, Technical and Forensic Support, and Operations.

Additionally, Mr. Williams realized that TIGTA’s investigative training section would be a valuable asset to the entire IG community. In July 1999, a President’s Council on Integrity and Efficiency (PCIE) working group proposed that the IG Academy and the TIGTA Training Section be merged. Both the PCIE and the Executive Council on Integrity and Efficiency (ECIE) endorsed the consolidation and the specific recommendations for structuring the newly expanded Academy. Congress recently passed legislation that established the Criminal Investigator Academy within the Department of the Treasury for the

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<sup>1</sup>*Pub. L. No. 105-206, 112 Stat. 685.*

PROUD OF OUR PAST



purpose of performing investigator-training services for offices of Inspectors General.

Mr. Williams integrated TIGTA's budget and performance functions in the Office of Performance and Investment before this became one of the top issues of President George W. Bush's management agenda. To ensure TIGTA was positioned to meet 21st century challenges, he began the Engines of Change Initiative, designed to realign the organization efficiently and effectively, leverage state-of-the-art technology, address human capital needs and reinforce TIGTA's position as a performance-driven organization.

He also embraced the idea of telecommuting and instituted TIGTA's model program entitled the *Virtual Resource Solution*. Realizing that the rest of the Inspector General community would benefit from this effort, Mr. Williams established a working group and advised other OIGs on the means and benefits of mobilizing their workforce.

Mr. Williams has left a legacy which will enable TIGTA to continue the successes achieved in the past.





# Congressional Testimony

*In addition to TIGTA's audit and investigative work and as part of keeping key stakeholders informed of TIGTA's oversight of IRS, the IG and the Deputy IG for Audit testified on four occasions during this reporting period before congressional committees.*

## **Illegal Tax Activities and Their Impact on the Taxpaying Public**

The IG testified on April 11, 2002, before the Committee on Finance, U.S. Senate, discussing TIGTA's efforts to detect illegal tax activities and proposals for IRS to reduce illegal tax activities further. The illegal tax activities covered claims for the non-existent slavery reparations credit, Disabled Access Credit, Misuse of Employer Identification Numbers, advance-fee schemes, and impersonation scams.

## **TIGTA's Analysis of the Management Challenges Facing the IRS**

On April 15, 2002, testifying before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations Committee on Government Reform, U.S. House of Representatives, the Deputy IG for Audit focused on four areas of management challenges facing IRS: security of IRS employees, facilities and information systems; systems modernization; customer service performance; and the decline in tax enforcement.

CONGRESSIONAL TESTIMONY

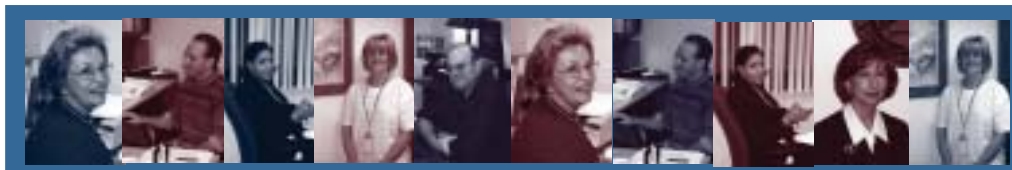


## **The Government Information Security Reform Act (GISRA)**

On May 2, 2002, the IG testified at a Joint Hearing before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations and the Subcommittee for Technology and Procurement Policy Committee on Government Reform, U.S. House of Representatives. The IG provided TIGTA's position regarding *H.R. 3844, Government Information and Security Reform Act of 2002*. The IG pointed out that government agencies continue to struggle with the appropriate balance between information technology security and computing capacity, too often with an overwhelming bias toward speed and ease of operations.

## **IRS' Compliance with RRA 98 and Other IRS Challenges**

The IG testified at a Joint Hearing before the Committees of the United States Senate and United States House of Representatives on May 14, 2002, to discuss IRS' progress in complying with *RRA 98*. The IG addressed several significant challenges facing the IRS, including its ability to modernize computer systems, improve customer service, and increase productivity.



## ***TIGTA: A Performance-Driven Organization***

TIGTA conducts audits and investigations that support its mission to achieve better program performance for each dollar spent. Its work addresses a pivotal point of the President's Management Agenda - to have performance drive an organization toward higher accountability.

This section highlights how our work during the six-month period covered by this report aligns with TIGTA's strategic goals to:

### **Improve the Economy, Efficiency, and Effectiveness of Tax Administration**

*TIGTA's audit work supporting this goal assessed areas related to information systems security; business modernization; customer service; returns processing; filing season; integrating performance and financial management; compliance; erroneous payments; and protecting taxpayer rights.*

### **Detect and Deter Fraud in IRS Programs and Organizations**

*Investigative work supporting this area addresses internal and external fraud. To achieve this goal, TIGTA investigations focus on three core elements: employee integrity; employee and infrastructure security; and external threats against tax administration.*



## **TIGTA Strategic Goal:**

### ***Improving the Economy, Efficiency & Effectiveness of Tax Administration***

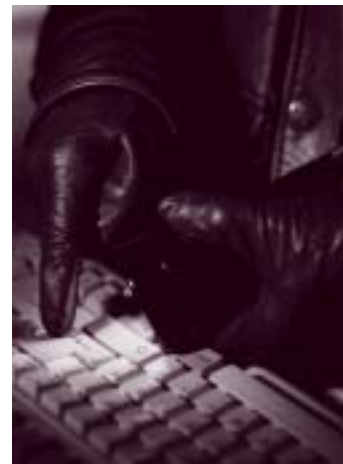
To support TIGTA's strategic goal to improve the economy, efficiency and effectiveness of IRS' tax administration efforts, the Office of Audit (OA) annually identifies the major management challenges facing IRS. OA focuses a large portion of its work on these challenges by conducting comprehensive, independent performance and financial audits. These audits help promote the sound administration of the nation's tax laws through objective reports on programs and operational deficiencies. Our audits also provide statutory coverage imposed by RRA 98, as well as address areas of concern to Congress, the Treasury Department, the Commissioner of Internal Revenue and the IRS Oversight Board.

## **I** **nformation Systems Security**

After September 11, 2001, IRS took significant actions to protect its employees from the threat of terrorism, and made other significant improvements to protect the vast amounts of sensitive data for which it is responsible.

Even with these significant improvements, OA determined that sensitive information is still vulnerable to attack by hackers, terrorists, and disgruntled employees. While recognizing that total security can never be achieved and that there must be trade-offs between security and operational needs, OA continues to identify significant weaknesses in perimeter security, infrastructure security, and application security.

OA attributes many of IRS' security problems to misplaced accountability. As OA reported last year, IRS does not hold its



***OA conducted 17 information systems security reviews — this area continues to be a material weakness and major challenge for IRS.***

***Major contributors to the problem — interconnectivity of computer systems via the Internet and the new understanding of the risk of terrorism in the United States.***



business (functional) managers accountable for the security of their systems. Instead, the Office of Security Services takes primary responsibility for this function. As a result, functional managers do not assess annually the security of their systems, as required by both the Office of Management and Budget policy and the *Government Information Security Reform Act*.<sup>2</sup> In addition, attention is needed to enhance the security awareness of IRS managers and employees, and to train employees with key security responsibilities.

OA's recommendations address the weaknesses identified and IRS management has taken or planned appropriate actions. Significant effort will be needed to transfer primary responsibility for systems security from the Office of Security to business unit managers.

➔ *A complete list of Information Security reports is in Appendix V or can be found at [http://www.treas.gov/tigta/audit\\_reports.htm](http://www.treas.gov/tigta/audit_reports.htm)*

## **B**usiness Systems Modernization (BSM)

IRS' goal of providing an efficient and responsive information service to its operating divisions is heavily dependent on modernizing its core computer business systems while maintaining the existing systems. IRS has made progress in modernizing its information systems in such areas as an upgraded toll-free telephone system to provide capacity to route taxpayers' calls to the appropriate IRS employee; an Internet application that allows taxpayers to check the status of their returns and refunds; an IRS-wide secure technology environment; and a system designed to improve the availability and performance of modernized systems. IRS also released an update to its Enterprise Architecture

*IRS continues to make progress in modernizing its information technology systems, but progress has been slower and more costly than expected*

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<sup>2</sup>Floyd D. Spence National Defense Authorization Act for FY 2001, *Pub. L. No. 106-398, 114 Stat. 1654.*



that serves as the roadmap for current and future modernization projects, and is working on several key projects that are scheduled for release late in 2002 and early 2003. One of the new projects, the Customer Account Data Engine, will eventually replace the existing *Masterfile* of taxpayer accounts.

However, IRS and its PRIME<sup>3</sup> contractor have struggled with developing and integrating the discipline and repeatable processes needed to modernize the agency's technology effectively and efficiently. IRS and the PRIME contractor have to rely on the dedication of their employees to deliver the projects. IRS and the PRIME contractor are challenged with implementing and integrating mature processes, while facing increased expectations and scrutiny from Congress and other stakeholders. In addition, the BSM projects IRS is designing and developing now will be significantly more complex as these process improvements are made. This creates a significant risk that costs will continue to exceed estimates, along with a delay of benefits to taxpayers.

Some of the BSM issues OA is monitoring include:

***Meeting project cost and schedule estimates.*** Virtually all of the BSM projects the PRIME contractor controls have experienced delays and have incurred cost increases. For the projects OA reviewed, delays of project dates were from four to nine months, while cost increases ranged from nearly \$700,000 to more than \$13 million from original estimates. As of September 30, 2002, IRS had spent or obligated almost \$1 billion in modernization funds. The agency plans to spend or obligate about \$450 million in 2003. IRS intends to deliver several projects with direct taxpayer benefits in 2003. However, some of these projects will be deployed later than planned, and others have been scaled back in order to meet delivery dates.

***Implementing performance-based contracting processes.*** Although there have been improvements in obtaining agreements on contract requirements and reducing modifications, improvements in the application of performance-based contracting techniques are needed. For example, plans for monitoring contractor performance were not consistent among projects, subjective monitoring methods often were used, and determinations of whether or not the PRIME contractor met performance standards often were not made or documented.

***Maintaining a consistent strategic direction.*** The Commissioner of Internal Revenue, who will complete his term in November 2002, has been a key player in

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<sup>3</sup>IRS has contracted with a group headed by the *Computer Sciences Corporation* (also known as the PRIME contractor) to manage its efforts in modernizing its information technology systems.



the early development of the BSM program. It will be critical for IRS to stay on course - even in light of changes in the leadership of the organization. Any changes in strategic direction, such as IRS' overall business vision or emphasis on modernization, could jeopardize IRS' ability to provide needed improvements in serving taxpayers.

During 2002, IRS and the PRIME contractor identified and are focusing on aggressively improving 12 key processes that are necessary to ensure future success. Although there are many challenges ahead, OA is cautiously optimistic about the future of the BSM program, assuming effective management of the risks noted above.

IRS management generally agreed with most of the recommendations OA made during this period and has taken or planned appropriate action.

➔ *A complete list of the BSM reports is listed in Appendix V and can be found at [http://www.treas.gov/tigta/audit\\_reports.htm](http://www.treas.gov/tigta/audit_reports.htm)*

## Customer Service

RRA 98 mandated that IRS do a better job responding to customer needs. IRS revised its mission statement to refocus its emphasis on helping taxpayers

understand and meet their tax responsibilities. IRS also modernized its organizational structure from one that was based on function and geography to one that is aligned with its major customer segments.

*Toll-Free Calling Provides More Accurate Answers to Taxpayer Questions (Filing Season 2002)*



Toll Free Calling — 78%



Walk-In 52%

*Source: OA Audit Reports<sup>4</sup>*

While IRS has made some progress in improving its customer service, additional improvements are necessary.

<sup>4</sup>Reference No. 2002-40-086, April 2002; Reference No. 2002-40-113, June 2002; Reference No. 2002-40-161, August 2002; Reference No. 2002-40-137, August 2002.

OA is conducting monthly reviews of the TACS as a result of an amendment to the Treasury spending bill for FY 2002 proposed by Senator Byron Dorgan, (D-North Dakota), Chairman of the Subcommittee on Treasury and General Government.





For example, taxpayers have several options from which to choose when they need assistance from IRS in answering tax law questions. These options include walk-in service at nationwide Taxpayer Assistance Centers (TACs) and toll-free telephone assistance. However, OA found variations in the quality of service received by taxpayers who use these options.

The audit results indicate that taxpayers who choose to use the telephone are more likely to receive a correct answer to their tax law question than taxpayers who choose to visit a TAC. The TACs are the only option for assistance that provides face-to-face contact with an IRS employee. IRS statistics showed that during the 2002 Filing Season, IRS handled more than six million calls from taxpayers who had tax law questions and wished to speak to a telephone assistant.<sup>5</sup> Also, during the filing period, approximately 6.2 million taxpayers visited IRS TACs. OA will issue a roll-up report during the next reporting period that will include recommendations to address improving the accuracy rate in the TACs.

IRS management has made significant progress in selecting more than 400 IRS sites nationwide to list their telephone numbers and addresses, but these have yet to be published in local telephone books as required. OA made recommendations to correct this issue and IRS has taken or planned appropriate corrective actions.

Also, the quality measurement system for IRS' Internet site has not been changed to reflect the new organizational structure. Without a separate measure, IRS is unable to reliably determine the quality of service being provided to each of its major customer segments. OA recommended that IRS take action to develop reliable measures of the quality of service provided to each customer segment.

IRS management agreed and will conduct a study to determine the feasibility of implementing the recommendation.

➡ *Customer Service reports are listed in Appendix IV and can be found at [http://www.treas.gov/tigta/audit\\_reports.htm](http://www.treas.gov/tigta/audit_reports.htm)*

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<sup>5</sup>OA did not validate the accuracy of these statistics.





# Returns Processing

The Small Business/Self-Employed (SB/SE) Division serves approximately 45 million taxpayers, including fully or partially self-employed individuals and small businesses. Many of these taxpayers are required by law to file a number of complex tax forms and schedules, which increases the inherent risk of filing and processing errors on the part of taxpayers and IRS. A strategic goal of IRS is to reduce the burden placed on these taxpayers. To help reduce taxpayer burden through improved business practices, IRS has shifted its focus from addressing taxpayer problems well after returns are filed to addressing them as early in the process as possible, thereby preventing problems wherever possible.

*The following summarizes the results of OA's significant reviews in this area.*

## ***The Internal Revenue Service Needs to Simplify Filing Requirements and Clarify Processing Procedures for Small Business Corporate Returns (Reference No. 2002-30-186)***

➔ <http://www.treas.gov/tigta/2002reports/200230186fr.html>

Each year IRS is unsuccessful in processing *U.S. Income Tax Returns for an S Corporation (Form 1120S)* for an estimated 46,000 small businesses. In these instances, IRS did not have the necessary *Elections By a Small Business Corporation (Form 2553)* on file to allow the *Form 1120S* returns to be processed. These taxpayers spent an estimated 3.2 million hours each year preparing, copying, assembling and sending these returns, which IRS then could not successfully process.

In addition, IRS did not consistently process *Forms 1120S* and determine the correct taxes due from small business taxpayers. In Calendar Year (CY) 2000, IRS did not process an estimated 9,000 returns as small business corporations, even after the taxpayers verified that their election requests were granted. Instead, IRS converted these *Forms 1120S* to *Forms 1120* and processed them as regular corporate returns without considering the fact that the taxpayers verified the elections were

***IRS did not consistently determine the correct and proper taxes due by small business corporate taxpayers***



granted. Because these returns were not processed correctly, there is the potential for the erroneous assessment of taxes on \$41 million of profits and the inability of taxpayers to claim over \$100 million in losses. Further, because of unclear IRS procedures, approximately 3,700 taxpayers who filed unprocessable *Forms 1120S* may have their rights violated when IRS assesses taxes on an estimated \$6.7 million in profits without sending a statutory notice of deficiency.

OA recommended the development of procedures that would improve and simplify the process for approving, recording, and controlling elections and the related notification process. This will make it easier for taxpayers to file their *Forms 1120S* and ensure the accuracy of the IRS' records. Implementation of these recommendations should reduce taxpayer burden for an estimated 232,000 taxpayers over a five-year period and reduce erroneous assessments and violations of taxpayer rights for approximately 50,000 taxpayers.

IRS management's response was not received prior to the issuance of the audit report.

***The Internal Revenue Service Successfully Processed Schedules K-1 for Its Matching Program, However, Tax Form Changes Would Reduce Unnecessary Notices to Taxpayers (Reference No. 2002-30-141)***

➔ <http://www.treas.gov/tigta/2002reports/200230141fr.html>

It is estimated that between 6 and 15 percent of approximately \$850 billion in partnership, trust and S-corporation income is not reported on individual income tax returns as required by law. IRS is under a mandate by the Senate Committee on Finance to match the information reported to taxpayers on *Schedules K-1* to the taxpayers' individual income tax returns.

IRS processed *Schedules K-1* timely and took the necessary steps to capture information to evaluate the effectiveness of the *Schedule K-1* matching process. However, while OA could not verify how accurately the *Schedules K-1* were processed, OA recommended modifications to one tax schedule (*Supplemental Income and Loss, Form 1040 Schedule E*) that could improve IRS' matching process and reduce the risk of erroneous matching results and unnecessary taxpayer notices.

IRS management agreed to analyze the data collected from ongoing matching efforts and establish a cross-functional work group to identify and evaluate potential improvements to the *Schedule K-1* matching process, including OA's recommended *Schedule E* changes.



# Filing Season

The filing season impacts every American taxpayer and is a highly critical program for the IRS. Programs, activities and resources have to be planned and managed effectively each filing season.

*The following summarizes the results of TIGTA's review of 2002 filing season activities.*

***Although the 2002 Filing Season Was Completed Timely, Customer Service Can Be Improved During Error Processing (Reference No. 2002-40-200)***

 <http://www.treas.gov/tigta/2002reports/200240200fr.html>

Overall, IRS had a successful 2002 Filing Season. As of May 31, 2002, it had received 123.2 million individual income tax returns - including 46.3 million received electronically - representing a small increase over 2001. Despite an unusually large number of unexpected errors, IRS completed processing all refund returns in a timely way. The increase in errors was caused primarily by taxpayer confusion in correctly reporting any additional *Rate Reduction Credit (RRC)* due after receiving the advance *RRC* credit refund in the summer of 2001.

IRS management could further improve its quality of taxpayer service by using a proactive approach when correcting error returns while in the *Error Resolution System (ERS)*. When IRS identified and corrected errors related to an incorrect *RRC* during normal tax return processing, these corrections resulted in 132,672 taxpayers becoming eligible for the *Additional Child Tax Credit (ACTC)* totaling \$25.7 million. Although IRS acknowledged the eligibility of these taxpayers and stated that applying the credit during error processing was feasible within the automated adjustment process available, IRS chose not to.

IRS' decision not to apply the credit during original return processing was based on the assumption that these returns would be identified later and the

***2002 Filing Season completed timely despite large number of unexpected errors at processing centers***



taxpayers given the appropriate credit during the planned outreach initiative. However, IRS subsequently cancelled this initiative.<sup>6</sup>

OA recommended that IRS consider developing a proactive approach in the ERS to apply appropriate credits affected by the corrections made during error processing. IRS declined this recommendation, citing limited capability and capacity and the complicated computer programming required as the primary obstacles preventing it from using the ERS as a proactive tool. However, IRS did acknowledge the recommendation's intent and agreed to notify the 132,672 taxpayers identified as to their potential eligibility for \$25.7 million in unclaimed ACTC. OA responded that while it believes this recommendation is worthy of further consideration, it recognizes the limitations expressed by IRS and believes IRS will continue working to overcome such limitations in the future.

***Outreach Initiatives Need to Ensure Taxpayers Receive the Benefit  
of the Child Tax and Additional Child Tax Credits  
(Reference No. 2002-40-203)***

 <http://www.treas.gov/tigta/2002reports/200240203fr.html>

After the 2002 Filing Season, IRS planned to conduct a proactive outreach initiative that would identify and contact eligible taxpayers who failed to claim the *Child Tax Credit (CTC)* or the *ACTC* on their *2001 Individual Income Tax Returns*. Analysis of tax returns processed between January 1 and May 31, 2002 determined that approximately 1.6 million taxpayers claimed the *ACTC*.

Additionally, OA identified 611,560 Tax Year (TY) 2001 tax returns where taxpayers did not claim potential *ACTC* totaling \$238 million. Of these, 87 percent qualified under the new tax law provisions of the *Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)*, with 74 percent having earned income of less than \$25,000 per year.

Taxpayers who appeared eligible, but did not claim or receive the credit, fell into two categories.<sup>7</sup> The larger consisted of 478,888 tax returns where taxpayers

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<sup>6</sup>See related audit report, Reference No. 2002-40-203, September 2002.

<sup>7</sup>OA only addressed this category in this report. The remaining taxpayers are addressed in a related report, Reference No. 2002-40-200, September 2002.



failed to claim the *ACTC* - totaling \$212.3 million - on their original tax returns and were not identified during IRS processing. IRS has no method in place to detect tax returns meeting this condition during normal IRS processing.

In April 2002, OA issued a memorandum recommending that IRS consider modifying its planned outreach initiative, accelerating the issuance of notices by using TIGTA's computer extract<sup>8</sup> of affected returns as a means to quickly notify taxpayers of their potential *ACTC* eligibility. However, in May 2002, IRS cancelled the initiative. IRS is currently looking at other options such as mailing a flyer to potentially eligible taxpayers.

## **I**ntegrating Performance and Financial Management

Improving performance is an overall goal of the federal government. Without accurate and timely financial information, it is not possible to accomplish the *President's Management Agenda* to secure the best performance and highest measure of accountability for the American people.

*The following summarizes the results of OA's significant reviews in this area.*

### ***Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For (Reference No. 2002-40-144)***

➔ <http://www.treas.gov/tigta/2002reports/200240144fr.html>

IRS' Volunteer Income Tax Assistance and Tax Counseling for the Elderly (VITA/TCE) program provides free tax assistance to people for whom professional assistance may be too expensive. In an effort to promote IRS electronic filing (*e-filing*), IRS provides more than 6,600 computers and the tax preparation software necessary to enable volunteers to offer taxpayers who receive assistance the option of *e-filing* their tax returns. For Filing Season 2001,

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<sup>8</sup>To claim the *ACTC*, taxpayers must first claim the *CTC*. TIGTA's computer extract identified all taxpayers claiming the *CTC* and then analyzed the return data for the potential eligibility of taxpayers that had not also claimed the *ACTC*. OA's extract did not identify potentially eligible taxpayers that did not claim the *CTC*.



volunteers prepared approximately 1.1 million tax returns, with more than 700,000 (64 percent) *e-filed*.

IRS does not have adequate internal controls and accountability over the computers it provides to *VITA/TCE* sites. It cannot physically account for computers provided to volunteers, did not ensure that taxpayer *e-file* data were removed from volunteer computers at the end of Filing Season 2001, and did not ensure that only authorized software was loaded on volunteer computers when provided.

OA recommended that IRS management perform a physical inventory of all computers in its *VITA/TCE* program. Procedures should be developed, distributed, and implemented to ensure that property records are updated for all computer equipment obtained from external agencies, *e-filed* taxpayer data is erased from volunteer computers at the conclusion of a tax filing season, and only authorized software is loaded onto volunteer computers. IRS management should pursue legislative changes that would allow IRS to transfer ownership of the computers to the volunteer organizations. Presently, the *Federal Property and Administrative Services Act of 1949*<sup>9</sup> prohibits IRS from donating computers to volunteers. As a result, IRS must continue to maintain control and accountability over these computers, as well as to protect taxpayer data saved on these computers.

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

***Criminal Investigation's Use of Confidential Funds for  
Undercover Operations Is Appropriate; However, Certain Aspects  
of Undercover Operations Need Improvement  
(Reference No. 2002-10-196)***

 <http://www.treas.gov/tigta/2002reports/200210196fr.html>

In general, the Criminal Investigation (CI) function's use of approximately \$4 million in confidential expenditures was appropriate in the 12 undercover operations OA reviewed. However, instances were identified where confidential information was in jeopardy of being breached. More attention is needed on some categories of expenses, namely those that were unauthorized, unsupported, or unrelated to ongoing investigations. In addition, not all payments to informants were properly documented.

OA recommended that CI management minimize potential security breaches of undercover identities; provide closer scrutiny of certain high-risk expenses;

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<sup>9</sup>Pub. L. 81-152, 63 Stat. 377.





reemphasize existing procedures for payments to confidential informants; and, emphasize adherence to administrative reviews and record keeping.

CI management agreed with the findings and recommendations.

## Compliance

IRS' goal of providing world-class service to taxpayers is based on the theory that, if the agency provides the right mix of education, support, and up-front problem solving to taxpayers, the overall rate of voluntary compliance with the tax laws will increase.

*The following summarizes the results of OA's significant reviews in this area.*

### ***The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers (Reference No. 2002-30-156)***

➔ <http://www.treas.gov/tigta/2002reports/200230156fr.html>

Both the Social Security Administration (SSA) and IRS have critical interests in ensuring the accuracy of information provided by employers on *Wage and Tax Statements (Forms W-2)*. SSA is required to maintain accurate earnings records and calculate Social Security benefits. IRS uses the Social Security Number (SSN) to ensure that information submitted by taxpayers is properly processed to the IRS' *Masterfile*<sup>10</sup> and to rely on the accuracy of *Forms W-2* in programs to verify filing and reporting compliance with tax laws.

To achieve more accurate name/SSN reporting by employers, SSA requested in November 1998 that IRS more strictly enforce the "information return" penalty against employers.<sup>11</sup> As a follow-up, in August 2000 SSA provided IRS with a list of the most egregious non-compliant employers for TYs 1997 and 1998. SSA provided this information so IRS could determine whether or not to assess penalties.

OA determined that IRS does not impose available penalties on employers who file *Forms W-2* with inaccurate name/SSN combinations. Also, IRS has not

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<sup>10</sup>The *Masterfile* is the main IRS computer system that stores various types of taxpayer account information, including individual and business data.

<sup>11</sup>*Internal Revenue Code (I.R.C.) § 6721.*



developed a regularly scheduled program for administering the information return penalty for those forms.

In this context, IRS did not determine whether penalties should be assessed against the most egregious non-compliant employers. As a result, IRS did not propose and, subsequently assess when justified, an estimated \$26 to \$29.7 million in penalties against 93 employers for TY 1997 and 98 employers for TY 1998.

OA apprised IRS of this concern through a memorandum issued during the audit. OA recommended that IRS ascertain if penalties could be assessed before the three-year statute of limitations expired<sup>12</sup> and meet with SSA to develop jointly a method for SSA to refer formally to IRS the most egregious non-compliant employers for penalty consideration in future years. Moreover, OA apprised IRS of the need for a separate, regularly scheduled penalty program.

IRS management determined that assessing penalties so close to the statute expiration date would be contrary to the IRS' due process procedures and could compromise taxpayers' rights. However, IRS management agreed with the remaining recommendations and is taking corrective action. IRS also advised that it is exploring the ramifications of not pursuing this area of non-compliance.

***The Large and Mid-Size Business Division's Program Controls Could Be Improved to Ensure More Timely and Accurate Examinations of Large Corporations***<sup>13</sup>

➔ [http://www.treas.gov/tigta/audit\\_reports.htm](http://www.treas.gov/tigta/audit_reports.htm)

The Large and Mid-Size Business (LMSB) Division has responsibility for examining the nation's largest corporations. For examination purposes, the LMSB Division divides the nation's 58,000 large corporations into two segments. About 1,300 are classified as Coordinated Industry Cases (CIC), while the remaining are referred to as Industry Cases (IC). The CIC and IC corporate examinations account for about two-thirds of all recommended additional taxes from all IRS examinations. However, the length of time it takes to complete the burdensome examinations has been an ongoing concern of both IRS and stakeholders.

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<sup>12</sup>I.R.C. § 6501.

<sup>13</sup>Reference Nos. 2002-30-147, 2002-30-148, and 2002-30-149, September 2002.





Due to the complexity of the tax issues in large corporate examinations, examiners are often required to call upon Engineer Specialists, Financial Products Specialists, and Computer Audit Specialists for assistance. OA's reviews of the processes for requesting and providing these types of specialized assistance indicated the time taken to do so might hamper LMSB Division's efforts to meet its goals for timely completing examinations and reducing the burden lengthy examinations have on taxpayers.

For example, the LMSB Division has a FY 2003 goal of closing IC and CIC examinations in 29 and 54 months, respectively, after the returns are filed. However, OA analysis showed that after returns were filed, Engineer Specialists were taking an average of 36 months to complete their portion of an IC examination and about 56 months to complete a CIC examination. Similarly, Financial Products Specialists were taking an average of 37 months to complete their portion of an IC examination and about 43 months to complete a CIC examination. OA reviews also identified that examiners were not consistently requesting the assistance of the specialists in IC examinations when they should. As a result, issues involving approximately \$724 million of potential tax revenue were overlooked.

To address the timeliness of requesting and delivering Engineer and Financial Products Specialist services, OA recommended: (1) ensuring management's information system has complete data so problems that affect timeliness can be identified and addressed; and, (2) providing guidance to managers on establishing specific time frames for completing examinations that are aligned with the LMSB Division goals. OA also recommended establishing a control process that ensures the three types of specialists have an opportunity to assist in all large corporate examinations.

IRS management agreed with these findings and is taking action to implement the recommendations.

## **E**rroneous Payments

Improper payments include inadvertent errors, unsupported or inadequately supported claims, services not rendered, ineligible beneficiaries, and payments resulting from outright fraud and abuse by program participants or federal employees.

In early CY 2002, the U.S. Chief Financial Officers Council and the PCIE jointly chartered a work group to address improper and erroneous payments



government-wide. The work group's mission is to assist in fostering changes in federal government policies and practices that will reduce the risks associated with the expenditure of program and administrative funds. It is seeking to identify and benchmark methods to reduce and, where possible, eliminate improper and erroneous payments made by federal agencies. TIGTA is participating in this important effort.

***The following summarizes the results of OA's significant reviews in this area.***

***The Internal Revenue Service Does Not Always Address Subchapter S Corporation Officer Compensation During Examinations (Reference No. 2002-30-125)***

 <http://www.treas.gov/tigta/2002reports/200230125fr.html>

A corporation electing to become a *Subchapter S Corporation* (*S Corporation*) may pass through its income and losses to its shareholders for federal income tax purposes. In addition, *S Corporations* are required to pay their officers a reasonable salary for any personal services rendered in the administration or management of the corporation.

Some *S Corporations* have historically paid very small salaries to their officers and passed through most of the *S Corporation's* income directly to the officers. This action enables the *S Corporation* and the officers to avoid paying the *Federal Insurance Compensation Act (FICA)*<sup>14</sup> tax on a reasonable amount of compensation or salary. As recently as 1998, IRS conducted a study of *S Corporation* officer compensation. The study results indicated that as much as \$284 million in FICA taxes might have been unreported for TY 1995.

OA reviewed 84 *S Corporation* cases, of which 58 had officer distributions, but examiners did not address officer compensation issues in 13 (22 percent) of the 58 cases. In the cases reviewed, the shareholders reported an average of only \$5,300 of wages on the *Form W-2*, while reporting an average distribution of \$349,323. OA also determined that examiners have limited access to sophisticated tools, such as software and databases, which are necessary to identify *S Corporations* that attempt to evade paying FICA taxes on reasonable officer salaries. Additionally, IRS management could improve its outreach efforts to improve *S Corporation* compliance through more educational activities.

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<sup>14</sup> I.R.C. §3101.



OA recommended that IRS management improve its technical guidelines to ensure that examiners are aware of the requirements to search for *S Corporation* non-compliance and to increase the educational outreach through IRS' Taxpayer Education and Communication function. Additionally, OA recommended programming changes to computer systems, which would enhance the IRS' ability to identify non-compliant *S Corporations*.

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

***Despite Some Problems, the Internal Revenue Service Properly Identified Returns With Rate Reduction Credit Errors During the 2002 Filing Season (Reference No. 2002-40-142)***

➔ <http://www.treas.gov/tigta/2002reports/200240142fr.html>

*The Economic Growth and Tax Relief Reconciliation Act of 2001*<sup>15</sup> provided that eligible taxpayers who had not received their maximum advance refund may be able to claim a *Rate Reduction Credit (RRC)* or use the new ten percent tax rate on their TY 2001 returns. Overall, IRS properly identified and referred for correction returns with *RRC* and 10 percent tax rate errors during the 2002 Filing Season. However, IRS did experience problems related to the *RRC* and its unexpectedly large volume of errors (over six million compared to an expected three million).

OA identified a problems with the advance refund information that was added to the *National Account Profile (NAP)*.<sup>16</sup> Thirty-five million taxpayers who did not receive an advance refund in CY 2001 did not have a zero advance refund amount information added to the *NAP* to assist them in determining if they were entitled to the *RRC*.

Also, no advance refund amount was placed on the surviving secondary spouse's *NAP* account for a jointly filed TY 2000 return with a deceased taxpayer. If the surviving secondary spouse filed a TY 2001 return, IRS

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<sup>15</sup> *Pub. L. No. 107-16, 115 Stat. 38.*

<sup>16</sup> The *NAP* database contains taxpayer entity information (taxpayer name and SSN). This database is used to validate tax return entity information during processing.



computers could have added a *RRC* that the taxpayer was not entitled to receive, resulting in approximately 217,000 taxpayers receiving approximately \$50 million in erroneous *RRCs* if these taxpayers all filed TY 2001 returns.

OA reported both of these conditions early in the review and IRS management took prompt corrective action. These conditions were caused by both a programming oversight and misinterpretation of programming requirements.

## **P**rotecting Taxpayer Rights

In addition to the *RRA 98* statutory reviews (*see Appendix V*), OA conducted reviews to determine whether the IRS is protecting taxpayer rights in other areas of the IRS.

### ***The New Suspension of Interest Provision is Not Always Calculated Correctly (Reference No. 2002-10-187)***

➔ <http://www.treas.gov/tigta/2002reports/200210187fr.html>

Congress believed that certain types of IRS interest and penalties could quickly increase a tax debt so that it becomes difficult for most taxpayers to satisfy their unpaid tax liabilities. As a result, the Internal Revenue Code<sup>17</sup> was revised and now requires the IRS to suspend the accumulation of further interest unless a taxpayer is notified of an additional tax assessment within 18 months following a timely filed individual tax return.

OA's review of the suspension of interest provision determined an estimated 29,000 taxpayers were under-assessed a total of \$1.6 million in interest due to a computer programming discrepancy.

Additionally, OA estimated 4,600 taxpayers were over-assessed \$536,000 and 5,700 taxpayers were under-assessed \$139,000 in interest because the

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<sup>17</sup>I.R.C. § 6404 (g).



IRS did not timely or correctly input notification dates or properly include weekends or holidays in the calculation of the notification period. OA also identified that IRS computer programming incorrectly over-assessed interest on *Earned Income Tax Credit (EITC)* adjustments for an estimated 2,000 taxpayers, totaling approximately \$26,000 in interest.

OA recommended IRS identify all suspension of interest taxpayers with applicable under-assessed interest due and zero out any under-assessed amounts. OA also recommended IRS provide a systemic reminder about suspension of interest when employees close audits; update computer programming to consider weekends and holidays in the calculation of the suspension of interest notification period; and adjust applicable taxpayer accounts with incorrectly suspended *EITC* interest amounts.

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



## **TIGTA Strategic Goal:** ***Detecting & Deterring Fraud in IRS Programs and Operations***

TIGTA is responsible for conducting investigations and audits to help prevent, detect, and deter waste, fraud and abuse in IRS programs and operations. This includes: investigating allegations of misconduct by IRS employees; protecting IRS against external attempts to corrupt or threaten its employees; and performing reviews of activities related to fraud, waste, abuse and mismanagement of IRS and related entities, such as the IRS Oversight Board and IRS Chief Counsel.

TIGTA's efforts serve as a deterrent against those contemplating illegal actions that would undermine the integrity of federal tax administration.

### **S**trategic Enforcement Division (SED)

SED conducts proactive investigative initiatives that are based on research and analysis or information developed from criminal referrals. The methodology of

*SED, within the Office of Investigations, is comprised of three components:*

- Special agents, forensic data analysts, and computer programmers who execute proactive programs to detect internal fraud in IRS operations and unauthorized access to IRS computer systems.
- Special agents and computer programmers - the *System Intrusion Network Response Attack Team (SINART)* - who investigate attempts to interfere with the security, integrity, and reliability of IRS computers.
- Special agents assigned to the Computer Investigative Support Program (CIS) who provide forensic processing of computers and other media in support of TIGTA investigations.

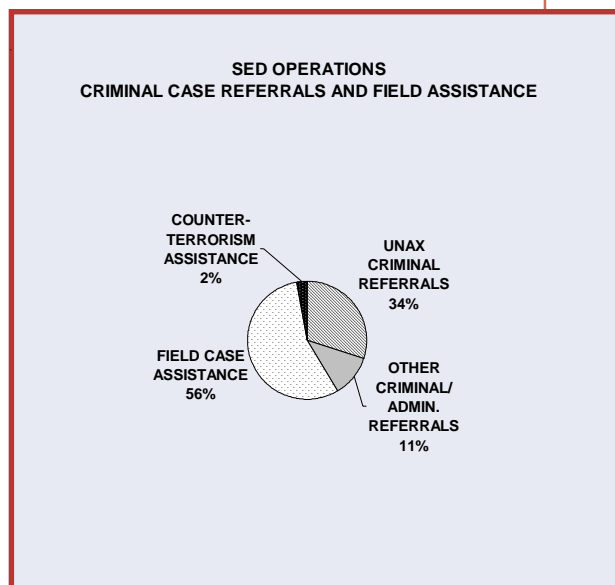
the crime is used to develop computer database applications that will identify other individuals who may be perpetrating the same crime. These investigative initiatives use computer matching and are included in *Computer Matching Act* agreements, *Pub. L. No. 100-503*. During this period, there were 14 ongoing proactive initiatives that produced 184 criminal and administrative referrals to field special agents for investigation.

One of SED's initiatives identifies employees who have made potential unauthorized accesses to electronic taxpayer information on IRS computer systems. For example, in July 2002, a former IRS employee



was sentenced to five years probation for accessing and disclosing tax return information. Additionally, the employee's father, a certified public accountant, pled guilty to a misdemeanor count of procuring the unlawful access to confidential tax records. The investigation, assisted by SED, revealed that the employee assisted the father with several client accounts by altering confidential computerized taxpayer records so that the tax collections would be delayed and penalties eliminated.

During this six-month reporting period, TIGTA has identified and analyzed 1206 leads of potentially unauthorized accesses to tax information by IRS employees. Also, TIGTA referred 174 criminal cases to field special agents for investigation for violations of the *Taxpayer Browsing Protection Act of 1997*. Since April 2002, there has been one criminal prosecution and 41 adverse administrative actions against IRS employees involved in the unauthorized access of tax information.



### **SINART Activities**

SINART is a cooperative effort between SED special agents, computer programmers and IRS Office of Cyber Security – Computer Security Incident Response Team employees. The SINART unit promotes security and integrity of all IRS computer systems by providing technical support, conducting criminal investigations, and participating in proactive initiatives. During this reporting period, SINART special agents and computer programmers conducted 14 computer security reviews/tests and 18 criminal investigations.

To highlight, SINART agents and programmers have identified that a vendor's Virtual Private Network (VPN) was attacked. The affected VPNs are widely used throughout the government. SINART acted immediately to disseminate this information to the federal computer security community. The vendor verified the vulnerability and issued a software fix. SINART also conducted a joint operation with the IRS Computer Security Incident





Response Capability (CSIRC) to validate the overall security of the IRS Large and Mid-Size Business Virtual Private Network project. As a result of this penetration testing, security concerns were uncovered and reported to the IRS.

### ***CIS Activities***

The CIS program provides support and advice concerning: the search and seizure of computers and computer related media; the processing of seized electronic evidence; and, Internet related crimes and investigations.

Computer forensic examination was instrumental in the investigation of a check-cashing scheme involving stolen Treasury checks in Texas. As a result of the investigative work, which identified photographs and driver license templates used in the scheme, an individual was arrested for theft of government checks and manufacturing counterfeit driver licenses. The individual was sentenced to 33 months incarceration and ordered to make \$41,304 in restitution.

Since April 2002, CIS special agents have conducted forensic examinations in 70 TIGTA investigations, reviewing 140 devices containing 1,520 gigabytes of storage space.

## **I**nternal Fraud

OI conducts investigations that protect taxpayers from IRS employees who commit criminal violations and administrative misconduct. These inquiries may involve allegations of unauthorized access to and disclosure of confidential taxpayer information, bribery, financial fraud, false statements and abuse of taxpayer rights.

***Investigative highlights follow.***

### ***IRS Special Agent Arrested and Indicted for Soliciting \$60,000 Bribe***

In April 2002, an IRS special agent was arrested after the attorney representing an individual reported that the IRS special agent solicited a cash bribe of \$60,000 in exchange for disclosure of grand jury and tax return information.





With assistance from OI's Technical Services Section, electronic audio and video evidence was gathered which showed the IRS special agent accepting \$6,000 as a down payment for the information. The agent was arrested before leaving the meeting.

### ***IRS Employee Pled Guilty to Stealing over \$191,000 in Remittances***

An employee at an IRS Submission Processing Center altered the payee named on tax remittance checks and attempted to convert the money for personal use by depositing the checks into a personal bank account.

In April 2002, the employee pled guilty and was sentenced to five years probation for stealing checks and a money order totaling \$191,871. The checks and money order were made payable to either the IRS or the U.S. Treasury Department. TIGTA recovered the stolen money and the taxpayers' accounts were properly credited.

### ***Former IRS Investigative Aide Arrested for Worker's Compensation Fraud***

In the Eastern District of New York, a former IRS employee submitted false certifications regarding employment status in order to continue receiving worker's compensation benefits. The employee received approximately \$38,000 in self-employment wages by preparing federal tax returns for individuals and churches, while receiving approximately \$110,000 in worker's compensation benefits. With the assistance of OI's Technical Services Section, covert video and digital audio equipment was used to prove the former IRS employee, who was arrested in July 2002, knowingly provided false statements.

### ***Laboratory Analysis Leads to Guilty Plea of IRS Employee***

An IRS Tax Examining Assistant pled guilty in June 2002 to embezzling checks and money orders made payable to the IRS. The employee altered the letters "IRS" to indicate the employee's own name, and then endorsed and deposited the checks into a personal bank account.

Handwriting analysis by OI's Forensic Science Laboratory concluded that the employee signed the endorsements on the checks and money orders. The plea agreement requires the employee to pay restitution to the IRS in the amount of \$9,395.



### ***IRS Mail Clerk Embezzles Taxpayer Refunds***

An IRS mail clerk in the Eastern District of California pled guilty to embezzling \$32,583 in taxpayer refunds. The employee opened envelopes that contained tax return forms and altered the forms to direct taxpayer refunds to be electronically transferred to the employee's bank accounts. The IRS was notified of the employee's actions and the taxpayers were immediately sent refunds.

## **E**external Fraud

OI is responsible for protecting against external attempts to corrupt the IRS, its employees, facilities and data systems.

***Investigative highlights follow.***

### ***Bomb Threat at IRS Building Results in Arrest***

In July 2002, an individual was arrested for making a bomb threat at a building that housed IRS and SSA offices. The individual became angry and began cursing when an IRS customer service representative was unable to resolve the individual's problem with a tax refund. Upon leaving the building, the individual commented that there was a bomb in the building. The building was immediately evacuated and searched, but no bomb was found.

### ***Tax Preparer Sentenced in Murder-for-Hire Plot***

In August 2002, a tax preparer was sentenced to five years imprisonment for conspiracy to tamper with a witness. The investigation began when TIGTA received information from a local police department regarding an alleged murder for hire plot that possibly included an IRS special agent as a target.

According to the plea agreement, the tax preparer sought to locate someone who would murder five individuals that the tax preparer believed might provide incriminating information to law enforcement in connection with an ongoing IRS investigation of the tax preparer's business. The tax preparer



paid an individual \$5,000 to purchase guns and conduct surveillance of the targets.

### ***Individual Sentenced for Threatening IRS Employee***

In the Northern District of Florida, an individual entered an IRS office requesting assistance in preparing a personal income tax return. During the meeting with an IRS employee, the individual became irate when requested to provide SSNs for dependents. The individual grabbed papers from the IRS employee and upon exiting the interview room, threatened to return with a gun.

In May 2002, the individual was sentenced to two months imprisonment for interfering with the administration of internal revenue laws by threatening an IRS employee.

### ***Individual Arrested for Multiple Threats to IRS Employees***

In April 2002, TIGTA special agents arrested an individual who made threatening statements to IRS employees during telephone contact. The individual was indicted for interfering with internal revenue laws by threat or force by using interstate communications.

### ***Individual Sentenced for Assaulting Special Agent and Investigator***

In June 2002, an individual was sentenced to 96 months incarceration for assaulting a federal officer with the use of a deadly weapon. An inmate, while attempting to escape from the custody of a county sheriff's deputy, assaulted a TIGTA Special Agent and IRS General Investigator, who came to the assistance of the deputy. Both the General Investigator and the Special Agent assisted in subduing the inmate as the inmate engaged in a violent struggle with the deputy.



### ***Individual Pled Guilty to Bribing Taxpayer Advocate's Employee***

In an effort to expedite the processing of amended tax returns, an individual offered an IRS employee a bribe on two separate occasions. The individual ultimately mailed a portion of the bribe to the IRS employee and in a subsequent telephone conversation confirmed that the money was provided in order to expedite the processing of amended tax returns. In June 2002, the individual pled guilty to bribing a public official.



### ***Business Owner Indicted for Bribery***

A business owner owed the IRS approximately \$410,829 in assessed taxes, penalties and interest arising from an audit. The owner gave an IRS revenue officer checks totaling \$18,665 in return for delaying the

collection of the owner's tax liability. In June 2002, the owner was charged with bribing an IRS employee.

### ***Tax Preparer Convicted of Impersonating an IRS Official***

A tax preparer bilked a couple of \$17,500 to clear a nonexistent tax liability. The tax preparer authored a fictitious IRS letter to the couple advising them they owed back taxes. After charging the couple a \$17,500 fee, the tax preparer generated a second fictitious letter from the IRS that indicated their account was cleared. In July 2002, the tax preparer was convicted of impersonating an IRS official and wire fraud. Sentencing is pending.

### ***Individual Threatens to Assault Law Enforcement Officers***

An individual was placed on 18 months Pre-Trial Diversion in June 2002 pursuant to a charge of threatening to assault federal law enforcement officers. A local police department informed TIGTA that an individual who had been interviewed regarding a threat against an IRS official threatened to shoot any federal agents who returned to the individual's property.



### ***Stolen Tax Information Used by Siblings in Identity Fraud***

In June 2002, siblings were arrested and charged with identity fraud. One sibling, while working for a temporary agency, was assigned to work for a tax service company. While working at the tax service company, the sibling pilfered tax records concerning hundreds of individuals and provided the confidential information to the other sibling, who used the stolen tax information to establish identities for the purpose of obtaining credit cards and bank accounts. The investigation identified more than \$80,000 in purchases and cash advances on the fraudulently obtained credit cards.

### ***Con Artist Pled Guilty to Fraudulent Use of IRS Seal***

Several individuals invested in a business created by an individual purporting to be a multimillionaire businessperson. When the business began having serious financial problems, the investors demanded information as to the wealth and integrity of the businessperson. In response to these demands, the businessperson provided investors with a fraudulent letter indicating the owner's net worth included in excess of \$26 million that had been temporarily frozen by the IRS for a tax debt. The businessperson also provided investors with a fraudulent letter from the IRS that contained the IRS official seal and confirmed the funds were frozen due to a tax liability. In June 2002, the individual pled guilty to fraudulent use of a government seal and as part of the plea agreement was ordered to make restitution to the victims.

### ***Individual Pled Guilty to Fraudulent "Credit Repair" Scheme***

In June 2002, an individual pled guilty to perpetrating a fraudulent "Credit Repair" scheme, whereby the individual and a co-conspirator defrauded more than 7,000 victims of nearly \$1 million. The individual provided brochures that advised customers how to apply to the IRS for an *Employer Identification Number* and to use that number on credit applications as a SSN. Also, the brochure falsely guaranteed to provide new, legal and unblemished credit rating.

### ***Individual Convicted of Filing False IRS Forms Against Public Officials***

In an effort to retaliate against judges, police officers, sheriffs, prosecutors, court officials and others involved in a prior conviction, an individual filed false copies of *Report of Cash Payments Over \$10,000 Received in a Trade or Business*



(Form 8300) that claimed the public officials made money order and cash payments in amounts from \$49,087 to more than \$1,000,000. The individual also presented the IRS and two banks fictitious money instruments in an attempt to pay debts and tax obligations. In May 2002, with the assistance of IRS Criminal Investigation, the individual was convicted of harassing public officials by filing false IRS forms.

### ***Former CPA Sentenced for Fraud in Excess of \$1 Million***

In June 2002, a former CPA was sentenced to 51 months in prison and ordered to pay more than \$50,000 in fines and restitution for false statements, wire and mail fraud, and tampering with a witness. The CPA devised a scheme to defraud a client and numerous financial institutions by filing false power of attorney forms with the IRS and creating numerous fictitious IRS letters that were provided to a client and several lenders. The letters were purported to be official IRS correspondence and described how a client's tax lien would be released through the acceptance of an offer in compromise. The client paid the former CPA approximately \$39,000 as settlement of the tax lien which was embezzled by the former CPA. Additionally, the client unwittingly used the fictitious IRS letters to secure more than \$1 million in loans that defaulted.



# TIGTA ORGANIZATION



# TIGTA's Organizational Structure

TIGTA provides independent oversight of IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. TIGTA is organizationally placed within the Department of Treasury but is independent of the Department and all other Treasury offices. TIGTA's focus is devoted to all aspects of work related to tax administration.

TIGTA's primary organizational components are the Office of Audit (OA), and the Office of Investigations (OI). TIGTA's Offices of Chief Counsel, Information Technology, and Management Services support OA's and OI's efforts.

TIGTA's audit and investigative activities are designed to:

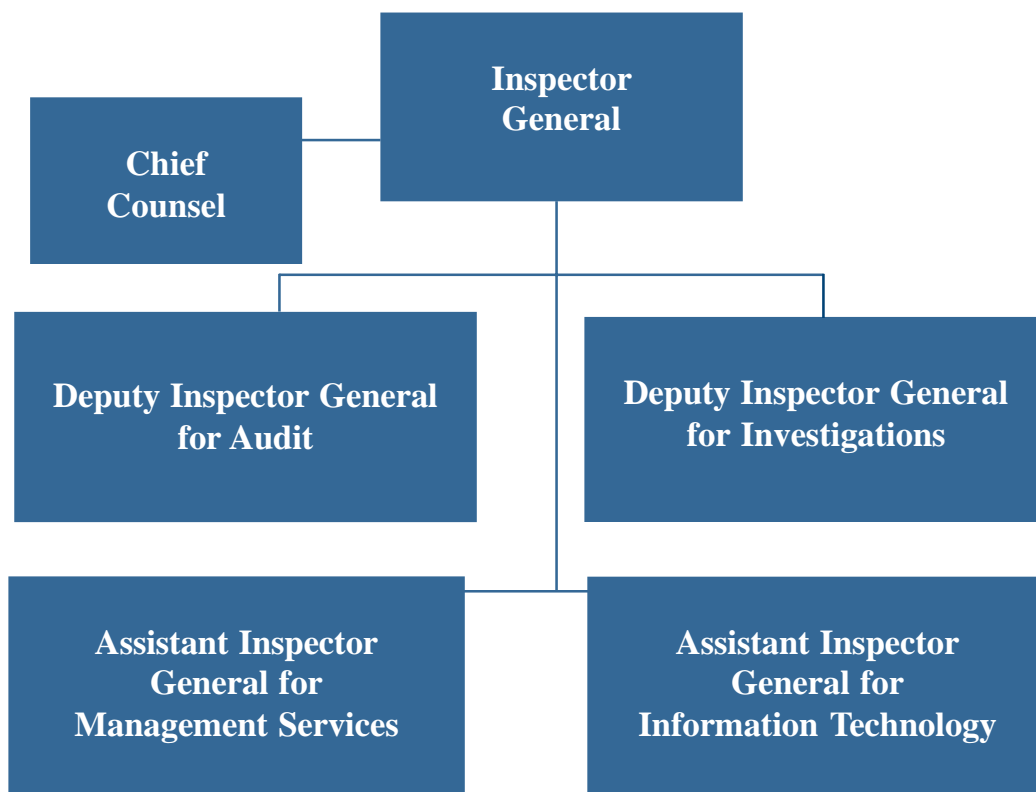
- Promote economy, efficiency, and effectiveness in administering the Nation's tax system.
- Detect and deter waste, fraud and abuse in IRS programs and operations.
- Protect IRS against external attempts to corrupt or threaten its employees.

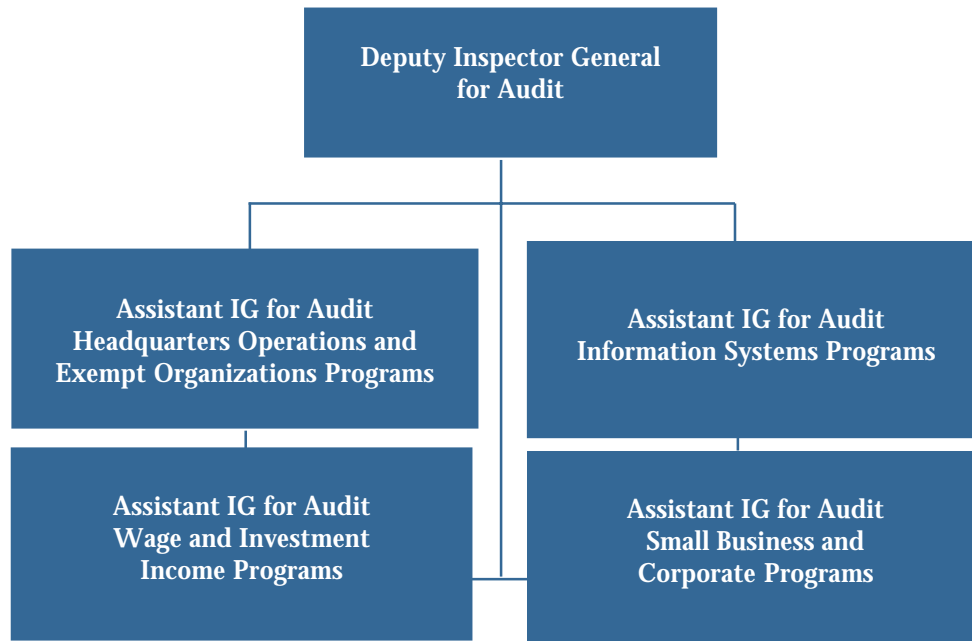
## Authorities

TIGTA has all the authorities granted under the *Inspector General Act of 1978*. TIGTA also has access to tax information in the performance of its tax administration responsibilities and has the obligation to report potential criminal violations directly to the Department of Justice. The Inspector General (IG) and the Commissioner of Internal Revenue have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the internal revenue laws.

In addition, *RRA 98* amended the *Inspector General Act of 1978* to give TIGTA statutory authority to carry firearms and execute the provisions of the *I.R.C. §7608(b)(2)*. These provisions include law enforcement authority to execute and serve search warrants, serve subpoenas, and make arrests.





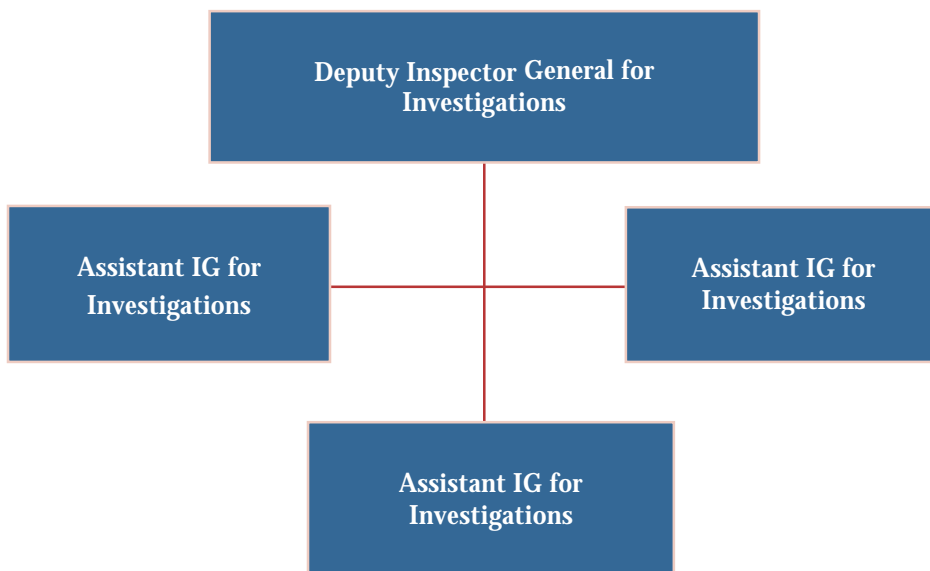


## ***Office of Audit***

The Office of Audit identifies opportunities to improve administration of the Nation's tax laws by conducting comprehensive, independent performance and financial audits of IRS programs and operations to: assess efficiency, economy, effectiveness, and program accomplishments; ensure compliance with applicable laws and regulations; and prevent, detect, and deter fraud, waste, and abuse.

The Audit program is comprised of reviews mandated by statute, as well as reviews identified through the annual planning process. The *Annual Audit Plan* describes audit responsibilities, audit focus and audit direction for the fiscal year. The planning process begins with independent risk assessments, which are designed to prioritize areas based on the greatest risks to the IRS. Major management issues, as well as specific areas of concern to Congress and the IRS Commissioner and the IRS Oversight Board, are considered as part of this planning process.

OA is organized around IRS' core business activities: Headquarters Operations and Exempt Organizations; Small Business and Corporate Programs; Wage and Investment Income; and Information Systems. Emphasis is also placed on the statutory coverage imposed by *RRA 98*, as well as on other statutory authorities and standards involving computer systems and financial management.



## *Office of Investigations*

The Office of Investigations investigates activities related to fraud, waste, abuse and mismanagement concerning activities of the IRS and related entities (the IRS Oversight Board and Chief Counsel). OI also protects the IRS against attempts to corrupt or threaten its employees. This mission is accomplished through proactive and reactive investigative programs.

OI is organized around 11 field offices which conduct investigations involving criminal wrongdoing and administrative misconduct by IRS employees. Headquarters includes other divisions that perform special functions and provide technical and investigative assistance. These divisions are:

**Operations Division** provides OI with TIGTA guidance concerning all investigative matters. Examples of Operations' responsibilities include: responding to congressional inquiries; liaison with federal law enforcement agencies, preparation of recurring statistical reports for internal and external use, complaints management, and reviews of divisions.

**Special Inquiries and Intelligence Division** conducts complex, high profile investigations involving IRS senior management, the IRS Oversight Board, IRS Office of Chief Counsel, and TIGTA employees. This division includes two sections that focus on procurement fraud and counter-terrorism.



**Strategic Enforcement Division** is responsible for executing a proactive program to detect fraud in IRS operations, unauthorized accesses (UNAX) to IRS computer systems by internal users, and attempts to interfere with the security of IRS computers by external sources. SED combines the expertise of auditors, special agents, and computer programmers to form a successful investigative team.

**Technical and Forensic Support Division** is responsible for implementing programs concerning Technical Services and the Forensic Science Laboratory (FSL). Each of these programs provides technical expertise throughout the development and the adjudication process of investigations.



# **K***udos*

It is through the hard work and dedication of its employees that TIGTA is able to accomplish its mission successfully. While the organization is proud of all its employees, TIGTA would like to give special recognition to those individuals who have been honored by outside organizations.

## ***Special Agents Recognized by U.S. Attorney's Office***

Special Agents (SA) *Philip Kuhn, Charles Venini, John Donnelly, Robert Ekey* and *Steven Geary* — On June 21, 2002, the U.S. Attorney for the Eastern District of Virginia recognized the agents' investigative work that resulted in the conviction of an individual who made numerous threatening and harassing calls to IRS and the Social Security Administration (SSA). The individual appealed the conviction, but the conviction was upheld by the United States Court of Appeals for the Fourth Circuit. The investigation was conducted jointly with Special Agents of SSA and the U.S. Secret Service in what the U.S. Attorney described as a "willingness to work together for justice."

Special Agent *Denise Powers* — On July 10, 2002, the U. S. of the Southern District of Florida awarded SA Powers the Outstanding Law Enforcement Officers Award for her participation in a multi-agency investigation. The investigation involved anti-government activists who filed fraudulent liens against and sent threatening correspondence to IRS employees.

Special Agent *Dennis Martel* — On June 21, 2002, the U.S. Attorney for the Eastern District of Virginia honored SA Martel for his work on an investigation involving an individual who impersonated an IRS Special Agent. The investigation was conducted jointly with other federal agencies and led to the successful prosecution of the individual, who was sentenced to 78 months in prison and ordered to pay more than \$233,000 in restitution.

EXTERNAL RECOGNITION

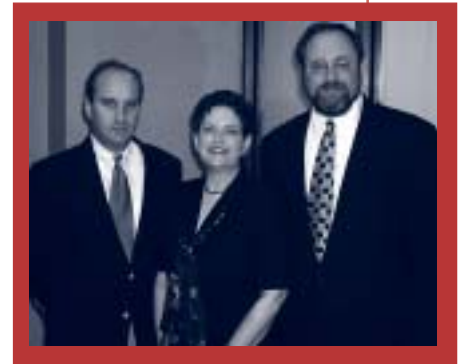


## *Federal Bureau of Investigation Honors TIGTA Employee*

The FBI honored *Belle Mills*, an OI employee, on June 11, 2002, for her work on the highly publicized civil rights case of the 1964 church bombing in Birmingham, Alabama that killed four children. At the FBI's request, Ms. Mills transcribed a tape recording of the co-conspirators talking about the bombing, including several parts of the tape that were barely audible. As a result of her assistance, according to the FBI, the jury found the subject guilty of the bombing.

## *Recognition by the PCIE*

The PCIE 2002 Awards Committee presented *Awards for Excellence* to two audit teams within OA's Division of Headquarters Operations and Exempt Organizations programs. They were recognized for their work relating to terrorist attacks in the United States. Under the leadership and direction of Assistant Inspector General for Audit *Dan Devlin* and OA Director *Nancy Nakamura*, one audit team reviewed the *Victims of Terrorism Tax Relief Act of 2001* legislation and the IRS' efforts to prepare for the processing of tax returns for those individuals killed as a result of terrorist attacks in Oklahoma City and on September 11, 2001, as well as the anthrax attacks occurring on or after September 11, 2001 and before January 1, 2002. The audit team consisted of *Jeffrey Jones, Theresa Berube* and *Thomas Seidell*.



*Jeffrey Jones, Theresa Berube and Thomas Seidell (left to right)*



*Tom Hawkins, Allen Brooks, Julia Collins, Jeffrey Smith, Yolanda Brown, and Andrew Burns (left to right)*

Another audit team quickly reviewed taxpayer accounts for individual taxpayers located in the disaster and emergency areas for the September 11, 2001 terrorist attacks. An estimated 22.3 million taxpayers in the New York and Washington, DC areas were identified as affected taxpayers. The audit team consisted of *Tom Hawkins, Allen Brooks, Julia Collins, Jeffrey Smith, Yolanda Brown, Andrew Burns, and Catherine Cloudt*.



### ***Joint PCIE/ECIE Award for Excellence***

*Agapi Doulaveris* and *Carlotta Blatchford* were recognized for their efforts in planning and facilitating the IG Community's 2002 Annual Conference, *Challenges of a New World*.

### ***2002 PCIE Investigative Award***

Special Agent *Jeffrey Gordon* was recognized for his "outstanding performance, versatility, innovation and overall excellence" as a criminal investigator protecting federal tax administration from corruption.







# A P P E N D I C E S





# Appendix I – Office of Audit’s Statistical Reports

## Audit Reports With Questioned Costs

**4** *audit reports with questioned costs were issued during this semiannual reporting period.*

The term “questioned cost” means a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation (“unsupported cost”); or (3) a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable. The term “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

Reports with Questioned Costs (4/1/02 - 9/30/02) Report Category	Number of Reports <sup>1</sup>	Questioned Costs <sup>2</sup> (In Thousands)	Unsupported Costs (In Thousands)
1. For which no management decision had been made by the beginning of the reporting period	1	\$1,099	\$0
2. Which were issued during the reporting period	4	\$726	\$82
3. Subtotals (Item 1 plus Item 2)	5	\$1,825	\$82
4. For which a management decision was made during the reporting period			
- Dollar value of disallowed costs	1	\$66	\$0
- Dollar value of costs not disallowed	1	\$83	\$82
5. For which no management decision had been made by the end of the reporting period. (Item 3 minus Item 4)	3	\$1,676	\$0
6. For which no management decision was made within six months of report issuance	0	\$0	\$0

<sup>1</sup>See Appendix IV to identify involved audit reports or [http://www.treas.gov/tigta.audit\\_reports.htm](http://www.treas.gov/tigta.audit_reports.htm)

<sup>2</sup>“Questioned Costs” include “Unsupported Costs.”



## Report Recommendations That Funds Be Put to Better Use

**6** reports with recommendations that funds be put to better use were issued during this semiannual reporting period.

The term “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements; or (5) any other savings which are specifically identified. The term “management decision” means the evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions concluded to be necessary.

Reports With Recommendations That Funds Be Put To Better Use (4/1/02 - 9/30/02) Report Category	Number of Reports <sup>3</sup>	Amounts (In Thousands)
1. For which no management decision has been made by the beginning of the reporting period	2	\$12,905
2. Which were issued during the reporting period	6	\$54,134
3. Subtotals (Item 1 plus Item 2)	8	\$67,039
4. For which a management decision was made during the reporting period. Dollar value of recommendations that were agreed to by management.		
Based on proposed management action	7	\$27,040
Based on proposed legislative action	0	\$0
Dollar value of recommendations that were not agreed to by management	1	\$39,999
5. For which no management decision has been made by the end of the reporting period. (Item 3 minus Item 4)	0	\$0
6. For which no management decision was made within six months of issuance	0	\$0

<sup>3</sup>See Appendix IV for involved audit reports.



## Reports With Additional Quantifiable Impact on Tax Administration

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**I**n addition to questioned costs and funds put to better use, the Office of Audit has identified additional measures that demonstrate the value of audit recommendations on tax administration and business operations. These issues are of interest to the IRS and Treasury executives, the Congress, and the taxpaying public, and are expressed in quantifiable terms to provide further insights to the value and potential impact of the Office of Audit's products and services. Including this information also advances adherence to the intent and spirit of the *Government and Performance Results Act* to secure the best performance and highest measure of accountability for the American people.

*Definitions of these additional measures are:*

- ✓ ***Taxpayer Rights and Entitlements at Risk:*** The protection of due process (rights) that is granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise in the performance of filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds (entitlements) are also included in this category, relating to instances when taxpayers have a legitimate assertion to overpayments of tax.
- ✓ ***Reduction of Burden on Taxpayers:*** Decreases by individuals or businesses in the need for, frequency of, or time spent on contacts, record keeping, preparation, or costs to comply with tax laws, regulations, and IRS policies and procedures.
- ✓ ***Increased Revenue:*** Assessment or collection of additional taxes.
- ✓ ***Revenue Protection:*** Proper denial of claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system.
- ✓ ***Taxpayer Privacy and Security:*** Protection of taxpayer financial and account information (privacy). Processes and programs that provide protection of tax administration, account information, and organizational assets (security).
- ✓ ***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. This measure will often be expressed as a value of the entity or program affected by the issue(s) described in the audit report.
- ✓ ***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.



## Reports With Additional Quantifiable Impact on Tax Administration (continued)

**T**he number of taxpayer accounts and dollar values shown in this chart were derived from analyses of historical data, and are thus considered potential barometers of the impact of audit recommendations. Actual results will vary depending on the timing and extent of management's implementation of the corresponding corrective actions, and the number of accounts or subsequent business activities impacted from the dates of implementation. Also, a report may have issues that impact more than one outcome measure category.

Reports With Additional Quantifiable Impact on Tax Administration (4/1/02 - 9/30/02) Outcome Measure Category	Number of Reports in Category <sup>a</sup>	Number of Taxpayer Accounts	Dollar Value (In Thousands)	Other <sup>d</sup>
Taxpayer Rights and Entitlements at Risk	13	734,556 <sup>b</sup>	\$238,562	<sup>e</sup>
Reduction of Burden on Taxpayers	8	266,331 <sup>b</sup>		<sup>f</sup>
Increased Revenue	7	6,681	\$187,662 <sup>c</sup>	
Revenue Protection	1		\$50,000	
Taxpayer Privacy and Security	2	517		<sup>g</sup>
Protection of Resources	2		\$1,395	
Reliability of Management Information	3	79,600	\$9,900	<sup>h</sup>

<sup>a</sup>See Appendix IV for identification of audit reports involved.

<sup>b</sup>In one report (Reference No. 2002-10-110) IRS management did not concur with TIGTA's recommendations and the associated measures concerning deceased terrorist victims, including a reduction in taxpayer burden for an estimated 2,900 victims and increased protection of taxpayer rights for 117 victims.

<sup>c</sup>For two reports (Reference Nos. 2002-30-156 and 2002-30-181) IRS management did not concur with TIGTA's calculation of increased revenue totaling \$82.8 million.

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

<sup>e</sup>Other measures of taxpayer rights and entitlements consist of 2,847 FOIA, PA and I.R.C. §6103 requests that were improperly withheld or not timely provided and 4,534 employees whose performance documentation could contain violations concerning the use of enforcement statistics.

<sup>f</sup>Other measures of taxpayer burden consist of 501,000 telephone calls in which the callers may have received incorrect or incomplete answers. IRS management did not concur with the calculation of this measure.

<sup>g</sup>Other measures of taxpayer privacy and security consist of 688 remittances not properly controlled.

<sup>h</sup>Other measures of reliability of information consist of \$9.9 million in underreported project costs and 144 Internal Revenue Manual Sections with prohibited references to Illegal Tax Protester designations.





## Prior Period Reports

**9** *audit reports issued before April 1, 2002 contained or identified questioned costs resulting from audits of open contracts.*

**At the time the reports were issued, the value of those questioned costs could not be determined, typically because there were open issues that were not resolved until the contract ended. During this reporting period, the IRS provided TIGTA with the value of the questioned costs for the reports listed below.**

Reference No.	Issued	Report Title	Value of Costs Disallowed
2000-1C-002	10/13/1999	<i>Audit of Fiscal Year 1997 Incurred Costs for TIR-92-0014</i>	\$99,748
2001-1C-007	10/19/2000	<i>Incurred Cost Audit TIRNO-95-C-00044</i>	\$42,689
2001-1C-029	12/19/2000	<i>Incurred Cost Audit TIRNO-95-D-00062 FY 98</i>	\$5,128
2001-1C-032	12/19/2000	<i>Incurred Cost Audit TIRNO-95-D-00062FY 97</i>	\$27,453
2001-1C-114	08/03/2001	<i>TIRNO-92-C-00014 Incurred Cost Audit Fiscal Year 1998</i>	\$33,227
2001-1C-115	08/01/2001	<i>TIRNO-92-C-00014 Incurred Cost Audit Fiscal Year 1999</i>	\$62,379
2001-1C-133	08/13/2001	<i>Report on Audit of Specified Elements for Indefinite Delivery/Indefinite Quantity Proposal TIRNO-01-R-00005</i>	\$1,117
2002-1C-013	10/23/2001	<i>TIR-89-0056 and TIRNO-95-D-00062 Incurred Cost Audit for Fiscal Year Ended December 31, 1999</i>	\$3,227
2002-1C-019	11/13/2001	<i>TIRNO-95-D-00066: Incurred Cost Audit for Fiscal Years Ended June 30, 1998 and 1999</i>	\$137,411
<i>Total</i>			\$412,379





## *Appendix II – Office of Investigation’s Statistical Reports*

**Investigative Results**  
**April 1, 2002 – September 30, 2002**

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### ***I** nvestigations Opened and Closed ...*

<b>Total Investigations Opened</b>	<b>3,061</b>
<b>Total Investigations Closed</b>	<b>2,430</b>

### ***F** inancial Accomplishments ...*

<b>Embezzlement/Theft Funds Recovered</b>	<b>\$892,015</b>
<b>Court Ordered Fines, Penalties and Restitution</b>	<b>\$2,215,491</b>
<b>Out-of-Court Settlements</b>	<b>\$0</b>



## Investigative Results April 1, 2002 – September 30, 2002

### **S**tatus of *Closed Criminal Investigations ...*

<i>Criminal Referrals</i> <sup>1</sup>	<i>Employee</i>	<i>Non-Employee</i>	<i>Total</i>
Referred - Accepted for Prosecution	23	164	187
Referred - Declined for Prosecution	390	517	907
Referred - Pending Prosecution Decision	11	86	97
<b>Total Criminal Referrals</b>	<b>424</b>	<b>767</b>	<b>1,191</b>
<b>No Referrals</b>	<b>734</b>	<b>635</b>	<b>1,369</b>

<sup>1</sup>Criminal referrals include both federal and state dispositions.

### **C**losed *Dispositions*<sup>2</sup>...

	<i>Employee</i>	<i>Non-Employee</i>	<i>Total</i>
Guilty	13	101	114
<i>Nolo-Contendere</i>	0	4	4
Pre-Trial Diversion	6	13	19
Deferred Prosecution <sup>3</sup>	2	1	3
Not Guilty	1	0	1
Dismissed <sup>4</sup>	0	11	11
<b>Total Criminal Disposition</b>	<b>22</b>	<b>130</b>	<b>152</b>

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

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

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



## **Investigative Results** **April 1, 2002 – September 30, 2002**

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### **A** *Administrative Dispositions on Closed TIGTA Investigations<sup>5</sup>...*

Removed, Terminated or Other	169
Suspended/Reduction in Grade	68
Oral or Written Reprimand/Admonishment	121
Closed - No Actions Taken	252
Clearance Letter Issued	102
Employee Resigned Prior to Adjudication	73
<b>Total Administrative Dispositions</b>	<b>785</b>

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



## Investigative Results

### April 1, 2002 – September 30, 2002

The following tables summarize the number of complaints received by TIGTA and the status of the complaints.

#### **C**omplaints/Allegations Received by TIGTA ...

Complaints Against IRS Employees	1,678
Complaints Against Non-Employees	2,576
Number of Complaints/Allegations	4,254

#### **S**tatus of Complaints/Allegations Received by TIGTA ...

Investigations Initiated	1,926
In Process Within TIGTA <sup>6</sup>	66
Referred to IRS for Action	102
Referred to IRS for Information Only	915
Referred to a Non-IRS Entity <sup>7</sup>	36
Closed With No Referral	986
Closed With All Actions Completed	223
Total Complaints	4,254

<sup>6</sup>Complaints for which final determination had not been made at the end of the reporting period.

<sup>7</sup>A non-IRS entity includes other law enforcement entities or federal agencies.

**Note:** IRS made 109 referrals to TIGTA that would more appropriately be handled by IRS and, therefore, were returned to IRS. These are not included in the total complaints shown above.



## Allegations of Misconduct Against IRS Employees

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The following three tables document allegations of misconduct against individual IRS employees that were recorded in the IRS Automated Labor and Employee Relations Tracking System (ALERTS). Employee misconduct cases investigated by TIGTA have been extracted and reported on the previous two pages. IRS management conducted the inquiries into the cases reflected in these tables.

### **A**llegations of Employee Misconduct Investigated by IRS Management ...

	<i>Case Type</i>		
	<i>Administrative<sup>8</sup></i>	<i>Employee Tax Matter<sup>9</sup></i>	<i>Total</i>
Inventory on April 1, 2002	867	670	1,537
<i>Add:</i> Cases Received	2,821	1,167	3,988
<i>Less:</i> Cases Closed	(2,966)	(901)	(3,867)
Duplicates	(16)	(54)	(70)
Not Misconduct	(9)	(0)	(9)
Total Closures	(2,991)	(955)	(3,946)
Inventory on September 30, 2002	697	882	1,579

<sup>8</sup>Administrative -- Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

<sup>9</sup>Employee Tax Matter -- Any conduct matter that becomes of official interest involving an employee's tax compliance.





## Allegations of Misconduct Against IRS Employees (continued)

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### ***D**isposition of Employee Misconduct Cases Investigated by IRS Management ...*

<i>Disposition</i>	<i>Administrative</i>	<i>Employee Tax Matter</i>	<i>Total</i>
Removal	93	10	103
Separation of Probationary Employees	472	6	478
Separation of Temporary Employees	6	3	9
Resignation/Retirement	236	19	255
Suspensions	133	39	172
Reprimands	271	151	422
Counseling	892	511	1,403
Alternative Discipline	52	9	61
Clearance	113	8	121
Closed Without Action	640	130	770
Forwarded to TIGTA	7	0	7
Not Otherwise Coded	51	15	66
<b>Total</b>	<b>2,966</b>	<b>901</b>	<b>3,867</b>



## Allegations of Misconduct Against IRS Employees (continued)

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### **I**RS Summary of Substantiated § 1203 Allegations ...

	<i>Removals</i>	<i>Penalty Mitigated</i>
Seizure Without Approval	0	0
False Statement Under Oath	0	0
Constitutional & Civil Rights Issues	0	0
Falsifying or Destroying Records	1	0
Assault or Battery	0	0
Retaliate or Harass	0	0
Misuse of 6103	0	0
Failure to File Federal Tax Return	7	46
Understatement of Federal Tax Liability	7	5
Threat to Audit for Personal Gain	0	0
<b>Total</b>	<b>15</b>	<b>51</b>

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

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





## Appendix III – Statistical Reports – Others

### Audit Reports With Significant Unimplemented Corrective Actions

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

Reference Number	Issued	Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)	Projected Completion Date
093603	4/1999	<i>The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits</i>  <u>F-1, R-3, P-2.</u> Require a separation of duties among auditors who identify Midwest Automated Compliance System (MACS) returns with potential tax changes, auditors who select MACS returns to be audited, and auditors who conduct the examinations. <u>F-1, R-4, P-2.</u> Ensure that all MACS data discs forwarded from the MACS Development Center to district offices are properly accounted for and secured. <u>F-2, R-4, P-1.</u> Clarify the Internal Revenue Manual to provide specific guidance for conducting correspondence audits in district office settings.	10/01/02  10/01/05 03/01/03
093009	6/1999	<i>Review of the Electronic Fraud Detection System</i>  <u>F-2, R-1, P-3.</u> Program the Electronic Fraud Detection System (EFDS) application audit trail to record all accesses to taxpayer data (including access to prior year records, records assigned to specific tax examiners, and records assigned to other service center sites). <u>F-2, R-2, P-3.</u> Design an audit trail application to record access to taxpayer data through secondary sources such as the database administrator, system query tools, or contract vendors.	01/01/04  01/01/04

To view audit reports referenced in this appendix, click below:



[http://www.treas.gov/tigta/audit\\_reports.htm](http://www.treas.gov/tigta/audit_reports.htm)

APPENDIX III



Report Title and Recommendation Summary			
Reference Number	Issued	(F=Finding Number, R=Recommendation Number, P=Plan Number)	
		Projected Completion Date	
093009 (continued)		<p><u>F-3, R-1, P-3.</u> The EFDS Project Office should work with EFDS developers to ensure that the following programming changes are made: The EFDS application audit reports should be changed to include a date range field and service center site field where applicable.</p> <p><u>F-3, R-4, P-3.</u> An assessment should be completed and take into consideration the audit trail issues referred to in the Memorandum of Understanding to improve the usefulness of the EFDS application audit trail.</p>	01/01/04 01/01/04
1999-20-063	8/1999	<p><i>The General Controls Environment Over the Internal Revenue Service's Unisys 2200 Systems Can Be Improved</i></p> <p><u>F-2, R-1, P-1.</u> Standardize control settings for files common to the Unisys 2200 production mainframes.</p> <p><u>F-3, R-1, P-1.</u> Ensure all improperly owned files are identified and assigned an owner present on the Unisys 2200 system at each service center, with the exception of files required to be unowned, prior to movement of that service center's mainframe to the consolidated Unisys 4800 environment.</p> <p><u>F-3, R-2, P-2, P-3.</u> Institute a policy requiring that all files owned by users being removed from the Unisys 2200 and Unisys 4800 systems either be deleted or assigned to a user present on the system.</p> <p><u>F-4, R-1, P-1.</u> Examine the possibility of tracking individual user actions while using the MASTER user-id on the Unisys 4800 system and, if possible, implement this feature as soon as feasible.</p> <p><u>F-6, R-1, P-1.</u> Ensure that all required C-2 documentation is prepared for the Unisys 4800.</p> <p><u>F-6, R-2, P-1.</u> Develop and maintain a security policy for the Unisys 4800.</p>	10/01/02 10/01/02 P-2: 10/01/02 P-3: 01/01/03 10/01/02 10/01/02 12/01/02
1999-10-072	9/1999	<p><i>The Internal Revenue Service Needs to Improve Compliance With Legal and Internal Guidelines When Taking Taxpayers' Property for Unpaid Taxes</i></p> <p><u>F-2, R-3, P-1, P-2, P-3.</u> Verify that all applicable items on the pre-seizure checklist are completed prior to approving the seizure and that all applicable items on the seizure and post-seizure checklists under development are completed.</p>	P-1: 12/01/02 P-2: 12/01/02 P-3: 12/01/02



Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)			
Reference Number	Issued		Projected Completion Date
2000-30-015	12/1999	<i>Consolidated Report on Opportunities for the Internal Revenue Service to Improve Service to Business Taxpayers</i>  <i>F-2, R-1, P-1.</i> Expand the current <i>Federal Tax Deposits</i> alert reengineering effort to re-evaluate the cost effectiveness of the Program.	10/01/02
2000-10-033	2/2000	<i>The Internal Revenue Service Can Further Reduce the Burden on Taxpayers Who Disagree With Proposed Assessments</i>  <i>F-1, R-1, P-1.</i> Send letters of proposed changes (30-Day Report) via certified mail, with return receipt requested, when taxpayers do not respond to the initial contact letter.	10/01/02
2000-30-059	3/2000	<i>The Internal Revenue Service Can Improve the Estate Tax Collection Process</i>  <i>F-1, R-1, P-1.</i> Assign to Service Center employees, rather than to district office staff, the responsibility for determining whether a bond or tax lien should be secured. <i>F-1, R-2, P-2.</i> Review and approve all requests for payment extensions. The review should ensure the estate has demonstrated reasonable cause before granting the payment extension. <i>F-2, R-1, P-1.</i> Instruct managers and employees to conduct a 100 percent review of all current estate cases to ensure active tax liens are input to the Automated Lien System (ALS), tax liens and lien fees are properly reflected on the taxpayer accounts, and all tax liens are released on accounts that have no tax obligation. <i>F-2, R-2, P-1.</i> Develop procedures to periodically reconcile tax liens on the ALS with information shown on the taxpayer accounts. <i>F-2, R-3, P-1.</i> Clarify procedures to employees that all estate tax liens should be recorded on the ALS. <i>F-3, R-4, P-1.</i> Coordinate to develop a procedure to identify accounts with multiple assessments and collection statute dates to ensure partial abatements occur when the earliest CSED is reached.	12/01/02 10/01/02 11/01/02 07/01/03 11/01/02 01/01/03



Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)			
Reference Number	Issued		Projected Completion Date
2000-40-055	3/2000	<i>The Internal Revenue Service Needs to Improve Its Coordinated Oversight of the Substitute for Return Process</i>	
		<u>F-2, R-1, P-1.</u> Coordinate the development of a Substitute for Return (SFR) process to monitor the future filing compliance of taxpayers with SFR tax assessments regardless of which function processed the account.	10/01/02
2000-30-088	6/2000	<i>Millions of Dollars in Internal Revenue Service Excess Collections Accounts Could Be Credited to Taxpayers</i>	
		<u>F-2, R-1, P-4.</u> Coordinate education efforts for employees handling these accounts and develop strategies for increasing taxpayer and practitioner awareness of the law on the statute of limitations for refunding and crediting payments related to overdue tax returns.	03/01/03
2000-20-092	6/2000	<i>Certifying the Security of Internal Revenue Service Computer Systems Is Still a Material Weakness</i>	
		<u>F-1, R-4, P-1.</u> Ensure that IRS' certification process includes follow-ups with the accrediting executives prior to the expiration of their systems security certification to ensure that they are aware that a new certification and accreditation is required.	10/01/02
		<u>F-1, R-5, P-1.</u> Ensure that all functional executives for individual systems are fully aware of the overall certification and accreditation process.	12/01/02
		<u>F-1, R-6, P-1.</u> Centralize the process for identifying and tracking all information systems requiring certification and accreditation.	10/01/02
		<u>F-2, R-1, P-1.</u> Ensure that IRS' certification process includes follow-ups with the accrediting executives to ensure that necessary information relevant to the official accreditation is provided and to educate them on the importance of providing this information.	10/01/02





Reference Number	Issued	Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)	Projected Completion Date
2000-20-094	6/2000	<i><b>A Comprehensive Program for Preventing and Detecting Computer Viruses Is Needed</b></i>	
		<i><b><u>F-2, R-1, P-1.</u> Develop and implement IRS-wide procedures detailing the frequency and steps to be followed for reliably updating anti-virus software on both networked and portable notebook computers.</b></i>	10/01/02
		<i><b><u>F-2, R-2, P-1.</u> Establish controls for ensuring all updates have been successfully accomplished.</b></i>	11/01/02
		<i><b><u>F-3, R-1, P-1.</u> Develop a system for gathering information to help analyze and monitor the effectiveness of the program's virus detection and prevention activities.</b></i>	11/01/02
		<i><b><u>F-4, R-1, P-1.</u> Strengthen procedures for ensuring that employees comply with the Internal Revenue Manual requirements for preparing Virus Incident Reports.</b></i>	10/01/02
2000-30-111	8/2000	<i><b>Improvements Are Needed in Resolving In-Business Trust Fund Delinquencies to Prevent Tax Liabilities From Pyramiding</b></i>	
		<i><b><u>F-2, R-1, P-1.</u> Use all collection tools, including enforcement tools and require the filing of monthly, rather than quarterly, returns.</b></i>	01/01/03
2000-30-120	8/2000	<i><b>Expanding the Electronic Tax Law Assistance Program</b></i>	
		<i><b><u>F-1, R-1, P-1.</u> To meet its Electronic Tax Administration goals, the IRS needs to redesign the Electronic Tax Law Assistance (ETLA) program to leverage technology that will provide enhanced access to tax information, maximize efficiency, and improve electronic customer service.</b></i>	02/15/03
		<i><b><u>F-2, R-1, P-1.</u> To effectively administer the rapid growth of taxpayer demand, economically use resources, and design future enhancements of the program, IRS needs to fully commit to the ETLA program by converting it from a long-term research project to a fully supported independent function.</b></i>	10/01/02
		<i><b><u>F-3, R-1, P-1.</u> Until there are technological changes and an organizational commitment, IRS needs to delay the marketing of the ETLA program. In the interim, IRS should expand the ETLA program to additional call sites to process the ever-increasing taxpayer demand for this electronic service while reducing the need to use more expensive Compliance function personnel.</b></i>	12/31/02



Report Title and Recommendation Summary			
Reference Number	Issued	(F=Finding Number, R=Recommendation Number, P=Plan Number)	Projected Completion Date
2000-30-130	9/2000	<b>Opportunities Exist to Enhance the International Field Assistance Specialization Program</b>	
		<i>F-2, R-1, P-1.</i> Improve the management information system by linking the International Field Assistance Specialization Program (IFASP) indicator to specific issues listed in the International Case Management System.	10/01/03
		<i>F-2, R-2, P-2.</i> Ensure international examiners gain greater access to the IRS' Intranet so that the IFASP can accumulate and disseminate more information electronically, including an electronic referral form for IFASP assistance.	06/01/03
2000-30-154	9/2000	<b>Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File</b>	
		<i>F-1, R-1, P-1.</i> Require that all balance due notices generated for gift tax accounts be reviewed. Tax examiners should be instructed to review the taxpayers' corresponding individual income tax and gift tax accounts to determine if the taxpayers' gift tax payments and extensions were correctly processed.	01/01/03
2000-30-162	9/2000	<b>The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations</b>	
		<i>F-1, R-2, P-1.</i> Provide additional computer programming enhancements to improve the value of litigation transcripts.	10/01/02
		<i>F-1, R-5, P-1.</i> Provide consistent guidelines to the SPF units on how to notify the Examination function that the taxpayer is in bankruptcy.	10/01/02
		<i>F-2, R-1, P-1, P-2.</i> Request that the Automated Insolvency System be reprogrammed so that the actual receipt date of the case can be input into the system to provide management with more accurate data on timeliness of input of new case information.	P-1: 10/01/02 P-2: 01/01/03
		<i>F-2, R-2, P-1, P-2.</i> Ensure that all employees review the Potentially Invalid Taxpayer report and resolve all cases promptly to ensure timely posting of the bankruptcy to the taxpayer's account.	P-1: 10/01/02 P-2: 01/01/03



Reference Number	Issued	Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)	Projected Completion Date
2001-30-014	11/2000	<p><i>The Internal Revenue Service Does Not Effectively Use the Trust Fund Recovery Penalty as a Collection Enforcement Tool</i></p> <p><u>F-1, R-5, P-1.</u> Make programming changes to the Automated Trust Fund Recovery System to ensure that delinquent tax returns are addressed when making trust fund recovery penalty calculations.</p>	02/01/03
2001-40-008	11/2000	<p><i>Electronic Returns Were Processed Effectively</i></p> <p><u>F-2, R-1, P-4.</u> Develop national standards, goals, and procedural guidance to ensure consistent and effective customer service is provided by all processing site Help Desks.</p>	07/01/02
2001-20-016	11/2000	<p><i>Employees' Extensive Personal Use of the Internet Should Be Controlled</i></p> <p><u>F-1, R-2, P-1.</u> Mandate that all Internet-related activity logs from the IRS firewall and proxy servers are retained and periodically reviewed to identify inappropriate accesses.</p>	10/01/02
2001-10-026	12/2000	<p><i>Additional Management Actions Are Needed to Ensure the Timely and Successful Modernization of the Tax Exempt and Government Entities Division</i></p> <p><u>F-3, R-1, P-2.</u> Ensure that the risks associated with Tax Exempt and Government Entities (TE/GE) Division core processes that could result in disruptions to customer service are identified and monitored. Also, all other TE/GE Division workaround processes are to ensure that permanent solutions are in place and working as intended.</p>	10/01/02
2001-20-022	12/2000	<p><i>Controls Over the Development of the Practitioner Secure Messaging System Prototype Should Be Improved</i></p> <p><u>F-3, R-1, P-1.</u> Require the contractor to break down the total hours worked by task on each status report and by individual project the labor hours and other costs billed on each payment voucher, report as "current" (not "cumulative") all costs that are included on the payment voucher with an appropriate comment when the costs apply to another accounting period, and report the amount billed for each person's current hours.</p>	12/01/02



Reference Number	Issued	Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)	Projected Completion Date
2001-40-021	1/2001	<p><b><i>Additional Efforts Are Needed for Improving Revenue Protection</i></b></p> <p><b><i>F-1, R-1, P-1, P-2.</i></b> Ensure that the Revenue Protection Strategy (RPS) is a long-term strategic plan that is coordinated among functional areas. The RPS should recognize and take steps to defeat known fraud and abuse, as well as outline proactive measures for attempting to eliminate potential areas of fraud and abuse.</p> <p><b><i>F-1, R-2, P-1, P-2.</i></b> Establish measurable goals and objectives to evaluate the effectiveness of the RPS. The goals and objectives should ensure that revenue is protected and taxpayer burden is reduced.</p> <p><b><i>F-2, R-1, P-1, P-2.</i></b> Develop a process to measure the effectiveness of individual initiatives on reducing noncompliance, until the RPS is developed and implemented. Once developed, the RPS should also contain provisions for measuring the effect of its components on reducing noncompliance.</p>	<p>P-1: 10/01/02 P-2: 10/01/02</p> <p>P-1: 10/01/02 P-2: 10/01/02</p> <p>P-1: 10/01/02 P-2: 10/01/02</p>
2001-10-027	1/2001	<p><b><i>Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program</i></b></p> <p><b><i>F-1, R-1, P-1.</i></b> Upgrade the automated case management system to provide more timely and accurate data on case activities and the use of program resources.</p>	<p>03/01/03</p>
2001-20-043	2/2001	<p><b><i>Electronic Signature Initiatives Could Be Better Defined and Evaluated</i></b></p> <p><b><i>F-1, R-1, P-1.</i></b> Finalize IRS requirements for the use of Personal Identification Numbers as alternative signatures for electronically filed returns based on evolving guidance and the draft IRS authentication security policy and implementation guide.</p> <p><b><i>F-1, R-2, P-1.</i></b> Ensure that all operational alternative signature initiatives comply with the requirements.</p>	<p>12/01/02</p> <p>12/01/02</p>



Reference Number	Issued	Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)	Projected Completion Date
2001-30-052	3/2001	<p><i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i></p> <p><u>F-1, R-1, P-1.</u> Ensure the prior recommendations are implemented. Establishing a formal program with goals, objectives, processes and measures could help ensure that sufficient management attention is devoted to improving the use of the Routine Exchange of Information Program for compliance.</p> <p><u>F-2, R-1, P-1.</u> Identify the highest risk foreign sourced income documents and use them to coordinate with tax treaty partners to positively identify the U.S. taxpayers involved.</p> <p><u>F-3, R-1, P-1, P-2.</u> Improve systems that process data the IRS receives on foreign sourced income.</p>	<p>01/01/03</p> <p>01/01/03</p> <p>P-1: 01/01/07 P-2: 01/01/07</p>
2001-30-099	6/2001	<p><i>Management Advisory Report: The Internal Revenue Service Could Reduce the Number of Business Tax Returns Destroyed Because of Missing Information</i></p> <p><u>F-1, R-1, P-2, P-3.</u> Make necessary modifications to tax forms and instructions to ensure taxpayers understand that their names, addresses, and taxpayer identification numbers are required on both their tax forms and payment vouchers.</p>	<p>P-2: 07/10/03 P-3: 07/10/03</p>
2001-10-103	8/2001	<p><i>Improvements Are Needed to Comply With Legal and Procedural Requirements for Collection Statute Extensions and Installment Agreements</i></p> <p><u>F-2, R-1, P-1.</u> Develop a comprehensive plan for implementing the provisions of RRA 98 § 3461(c).</p> <p><u>F-4, R-1, P-1.</u> Provide training to applicable IRS employees and managers on the requirements and the method to compute installment agreements and collection statute extensions, consistent with the law and IRS policy and procedures.</p>	<p>10/01/02</p> <p>07/01/03</p>
2001-20-146	8/2001	<p><i>The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act</i></p> <p><u>F-1, R-1, P-1.</u> Prepare an overall strategy, plan and schedule to bring the IRS in full compliance with the Clinger-Cohen Act.</p>	<p>08/01/03</p>





Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)			
Reference Number	Issued		Projected Completion Date
2001-30-117	8/2001	<b><i>Letter Report: Additional Controls Are Necessary to Ensure that All Businesses Are Classified by Their Principal Business Activity</i></b>	
		<b><i>F-1, R-1, P-1.</i></b> Identify business taxpayers by their principal business activity (PBA) from information provided on the <i>Application for Employer Identification Number (Form SS-4)</i> for entry to the IRS' Masterfile.	11/01/02
		<b><i>F-2, R-1, P-1.</i></b> Implement processing controls to identify Individual Masterfile tax returns with invalid or missing PBA codes, and Business Masterfile tax returns with invalid PBA codes for research and correction during processing.	11/01/02
2001-30-132	8/2001	<b><i>Significant Tax Revenue May Be Lost Due to Inaccurate Reporting of Taxpayer Identification Numbers for Independent Contractors</i></b>	
		<b><i>F-2, R-1, P-1.</i></b> Explore opportunities to supplement the IRS' future Internet-based <i>Taxpayer Identification Number (TIN)</i> confirmation program with an automated telephone-based <i>TIN</i> confirmation process for those payers who do not have Internet access.	07/01/03
2001-10-147	9/2001	<b><i>Compliance with Certain Taxpayer Rights Provisions Contained in the Internal Revenue Service Restructuring and Reform Act of 1998 Could Be Improved</i></b>	
		<b><i>F-1, R-2, P-1.</i></b> Complete the request for programming changes for the Integrated Data Retrieval System, Automated Collection System, and Integrated Collection System to print detailed interest and penalty notices.	07/01/03
2001-30-158	9/2001	<b><i>Some Individual Taxpayers are Inappropriately Receiving Tax Credits Intended for Businesses that Provide Access for Disabled Americans</i></b>	
		<b><i>F-1, R-2, P-1.</i></b> Analyze the results of TIGTA's computer program; perform similar analyses of Tax Year 2000 returns; and develop a compliance approach to address the issue of taxpayers fraudulently claiming this credit.	10/01/02



Report Title and Recommendation Summary (F=Finding Number, R=Recommendation Number, P=Plan Number)			
Reference Number	Issued		Projected Completion Date
2001-30-164	10/2001	<i>The Internal Revenue Service Has an Opportunity to Relieve Considerable Taxpayer Burden Involving the Estimated Tax Penalty</i>	
		<u>F-1, R-1, P-1.</u> Evaluate the design and clarity of <i>Underpayment of Estimated Tax by Individuals, Estates and Trusts (Form 2210)</i> and its instructions in order to alleviate the excess taxpayer burden.	02/01/03
		<u>F-1, R-2, P-1.</u> Coordinate any redesign of <i>Form 2210</i> with both the practitioner and tax software communities.	10/01/02
2002-30-042	12/2001	<i>The Internal Revenue Service Has Made Some Progress, but Significant Improvements Are Still Needed to Reduce Errors in Manual Interest Calculations</i>	
		<u>F-1, R-1, P-1.</u> Limit the calculation of restricted interest to centralized staffs within the various functions and locations of the IRS. Consider creating a specific command code to be used on the IRS' Integrated Data Retrieval System (IDRS) for entering restricted interest.	10/01/02
		<u>F-1, R-2, P-1.</u> Establish a national quality review process that includes all restricted interest cases.	05/01/03
		<u>F-1, R-3, P-1.</u> Establish training that must be completed before an employee can work restricted interest cases.	10/01/02
		<u>F-1, R-4, P-1.</u> Authorize a standard interest computation tool that would be used by all employees working restricted interest cases.	10/01/02
		<u>F-2, R-1, P-1.</u> Explore all available options to provide the technology and programming necessary to allow more interest calculations to be performed by computer.	10/01/02
2002-10-009	1/2002	<i>GPRA: Criminal Investigation Can Improve Its Performance Measures to Better Account for Its Results</i>	
		<u>F-1, R-1, P-1.</u> Include the appropriate information from the National Operations Annual Report that presents the outcomes of Criminal Investigation's (CI) investigative efforts.	10/01/02
		<u>F-1, R-3, P-1.</u> Include measures that will report the results of major programs within CI.	10/01/02
		<u>F-2, R-1, P-1.</u> Establish a process by which the Criminal Investigation Management Information System (CIMIS) data will be verified and validated.	10/01/03
		<u>F-2, R-2, P-1.</u> Ensure that audit trail requirements are met and documented, and that an Information System Security Officer is assigned to review audit trail data.	01/01/03
		<u>F-4, R-1, P-1.</u> Include the Department of Justice Tax Division attorneys in the customer satisfaction surveys.	10/01/02





Report Title and Recommendation Summary		
Reference Number	Issued	(F=Finding Number, R=Recommendation Number, P=Plan Number)
		Projected Completion Date
2002-30-050	2/2002	<b><i>Significant Efforts Have Been Made to Combat Abusive Trusts, but Additional Improvements Are Needed to Ensure Fairness and Compliance Objectives Are Achieved</i></b>
		<b><i><u>F-2, R-1, P-1.</u> Ensure the Abusive Trust Program consistently applies the accuracy-related penalty in accordance with IRS policy, in order to help ensure fair and equitable taxpayer treatment.</i></b> 10/01/02
		<b><i><u>F-2, R-2, P-1.</u> Provide examiners with formal guidance on the appropriate application of the accuracy-related penalty, in order to help ensure its consistent application.</i></b> 10/01/02
		<b><i><u>F-2, R-3, P-1.</u> Request that the Advisory Opinion issued by the Office of Chief Counsel in the former Western Region be reviewed by the IRS' Headquarters Office of Chief Counsel, in order to help ensure fairness to all taxpayers and compliance with the provisions of I.R.C. §6110 requirements.</i></b> 10/01/02
		<b><i><u>F-3, R-1, P-1.</u> Identify compliance measures that will determine not only changes in the abusive trust compliance levels, but also whether the taxpayer behavior has actually changed.</i></b> 12/01/02
		<b><i><u>F-4, R-1, P-1.</u> Develop a system to capture the results of Form 1041 examinations that would provide management with information on emerging abusive trust issues, further noncompliance and allocate resources to maximize audit results.</i></b> 10/01/02
2002-30-055	2/2002	<b><i>Federal Requirements Need Strengthening at Lockbox Banks to Better Protect Taxpayer Payments and Safeguard Taxpayer Information</i></b>
		<b><i><u>F-1, R-2, P-1.</u> Consider involving the Office of Security in performing periodic security reviews at each lockbox bank to assist in identifying security weaknesses.</i></b> 11/01/02
		<b><i><u>F-1, R-3, P-1.</u> Develop test data for use in testing disaster recovery plans at the contingency sites and ensure that tests are conducted as soon as possible.</i></b> 01/01/03



Report Title and Recommendation Summary			
Reference Number	Issued	(F=Finding Number, R=Recommendation Number, P=Plan Number)	Projected Completion Date
2002-30-062	3/2002	<i>The Internal Revenue Service Continues to Owe Millions of Dollars in Interest to Taxpayers with Frozen Refunds</i>	
		<u>F-1, R-1, P-1.</u> Modify the IRS' computer system to systemically release the newly established Million Dollar Freeze for credit balances that fall below the \$10 million threshold.	01/01/04
		<u>F-1, R-2, P-1, P-2.</u> Establish indicators on key computer screens and generate periodic notices as alerts for employees to review accounts with Million Dollar Freeze and take appropriate resolution actions.	P-1: 01/01/04 P-2: 01/01/04
		<u>F-2, R-1, P-1, P-2.</u> Coordinate efforts to provide updated training for employees that manually initiate refunds.	P-1: 01/01/03 P-1: 01/01/03
2002-30-071	3/2002	<i>Computer Programming Can be Used to More Effectively Stop Refunds on Illegal Claims for Reparations Credits</i>	
		<u>F-2, R-1, P-2.</u> Ensure that appropriate employees from the Frivolous Return Program are given access to and training regarding the computer Command Code under development for the Criminal Investigation function.	01/01/03
		<i>The Internal Revenue Service's Levy Process Can Be Improved to Ensure Compliance With the Internal Revenue Code</i>	
2002-10-078	3/2002	<u>F-1, R-1, P-2.</u> Take additional actions to ensure that open levies are identified and released as appropriate when Automated Collection System (ACS) personnel close a case Currently Not Collectible (CNC) Hardship.	07/01/03
		<u>F-1, R-2, P-1.</u> Ensure that revenue officers review available information to properly identify levies issued by ACS personnel and ensure the levies are appropriately released prior to closing a case CNC (Hardship).	12/01/02
		<u>F-1, R-3, P-2.</u> Before approving a CNC (Hardship) case closure, the case files should be reviewed to ensure levies are released, if appropriate, in compliance with the Internal Revenue Code. The revenue officer should document in the case history the reason why a levy was closed rather than released.	12/01/02
		<u>F-1, R-4, P-1.</u> Research the 46 cases in which insufficient levy data was available to ensure the IRS is complying with I.R.C. § 6343.	10/01/02
		<u>F-2, R-2, P-1.</u> Ensure that a hardship determination is made before approving cases closed CNC.	12/01/02



## Statistical Reports: Others

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### □ ***Access to Information***

The *Inspector General Act of 1978* requires IGs to report on unreasonable refusals of information available to the agency that relate to programs and operations for which the IG has responsibilities.

*As of September 30, 2002, there were no instances where information or assistance requested by OA was refused.*

### □ ***Disputed Audit Recommendations***

The *Inspector General Act of 1978* requires IGs to provide information on significant management decisions in response to audit recommendations with which the IG disagrees.

*As of September 30, 2002, TIGTA did not issue a report where a significant recommendation was disputed.*

### □ ***Revised Management Decisions***

The *Inspector General Act of 1978* requires IGs to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.

*As of September 30, 2002, no significant management decisions were revised.*

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

The *Inspector General Act of 1978* requires IGs to provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.

*As of September 30, 2002, there were no prior reports where management's response was not received.*

### □ ***Review of Legislation and Regulations***

The *Inspector General Act of 1978* requires IGs to review existing and proposed legislation and regulations and to make recommendations concerning the impact of such legislation or regulations.

*TIGTA's Office of Chief Counsel reviewed 142 proposed legislation and regulations during the six-month reporting period.*



# Appendix IV – Audit Products

## Audit Products

April 1, 2002 - September 30, 2002

### Inspector General Congressional Testimonies

#### April 2002

- ◆ 2002-0T-088 *Hearing Before the Committee on Finance United States Senate (4/11/02)*
- ◆ 2002-0T-089 *Hearing Before the Committee on Government Efficiency Financial Management and Intergovernmental Relations Committee on Government Reform U.S. House of Representatives (4/15/02)*

#### May 2002

- ◆ 2002-0T-096 *Joint Hearing Before the Subcommittee on Government Efficiency Financial Management and Intergovernmental Relations and Subcommittee for Technology and Procurement Policy Committee on Government Reform U.S. House of Representatives (5/2/02)*
- ◆ 2002-0T-099 *Joint Hearing Before the Committees of the United States Senate and United States House of Representatives (5/14/02)*

### Audit Reports

#### April 2002

- ◆ 2002-1C-081 *Concurrent Adequacy and Compliance of Revised Disclosure Statement 02-2, Dated October 30, 2001 (4/8/02)*
- ◆ 2002-1C-083 *Internal Revenue Service Cost Proposal Evaluation of TIRNO-01-R-00022 (4/8/02)*
- ◆ 2002-20-073 *Verification of the Treasury Communications System Invoices Should Be Improved (Questioned Costs: \$66,375; Funds Put to Better Use: \$982,906) [4/9/02]*
- ◆ 2002-20-064 *Controls Over the Excise Files Information Retrieval System Web Site Should Be Improved to Better Deter and Detect External Attacks (4/17/02)*
- ◆ 2002-40-086 *Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions (4/23/02)*
- ◆ 2002-20-082 *System-Level Controls Over the Detroit Computing Center Mainframe Computers Are Generally Adequate, But Some Improvement Is Needed (Taxpayer Privacy and Security and Reliability of Information: 212 million accounts at risk.) [4/24/02]*
- ◆ 2002-30-066 *Management Advisory Report: Improvements Have Been Made in Processing Gift Tax Payments and Associated Extensions to File (4/29/02)*

To view audit reports referenced in this appendix, click below:



[http://www.treas.gov/tigta/audit\\_reports.htm](http://www.treas.gov/tigta/audit_reports.htm)



## May 2002

- ◆ 2002-20-084 *Critical Processes and Dependencies Need to Be Addressed to Avoid Further Delays in Deployment of the Enterprise Systems Management Project (5/2/02)*
- ◆ 2002-40-087 *Telephone Numbers and Addresses for Local Internal Revenue Service Offices Have Not Been Published in Telephone Books (Taxpayer Burden: 9 million taxpayers received assistance from local IRS Offices in Fiscal Year 2001.) [5/3/02]*
- ◆ 2002-40-090 *Appropriate Changes Were Made to Tax Products; However, Improvements Are Needed for Tracking the Changes (5/7/02)*
- ◆ 002-10-094 *Management Advisory Report: The Internal Revenue Service Needs to Implement Policies and Procedures to Ensure Compliance With the Rural Development Act of 1972 (5/9/02)*
- ◆ 002-10-085 *Increased Monitoring of the Low-Income Taxpayer Clinics Is Needed to Ensure Compliance with the Grant Terms and Conditions (Questioned Costs: \$83,328; Protection of Resources: \$294,841 of expenses that could not be verified as supporting the program.) [5/10/02]*
- ◆ 2002-30-091 *Management Advisory Report: The Small Business/Self-Employed Division's Collection Process Improvement Effort Will Not Adversely Affect Internal Controls, but Potential Risks Still Exist (Taxpayer Rights and Entitlements: 2,487 FOIA, PA, and Section 6103 requests were improperly withheld or not provided timely.) [5/17/02]*
- ◆ 2002-10-093 *Actions Should Continue to Be Taken to Improve Compliance With the Freedom of Information Act and Related Procedures (5/20/02)*
- ◆ 2002-10-097 *The Internal Revenue Service Should Continue to Develop Its Measures Program to Ensure That Its GPRM Measures Cover All of the Major Components of Tax Administration (5/30/02)*
- ◆ 2002-10-104 *Management Advisory Report: Project Management Techniques Would Help in Managing Risks For the Increased Employee Plan Determination Letter Workload (5/30/02)*
- ◆ 2002-20-100 *The Management of Information Systems Maintenance Contracts Can Be Improved (Funds Put to Better Use: \$1.18 million; Reliability of Information: Maintenance contracts value at \$257 million may not be recorded on the tracking database.) Note: Monetary benefit projected over a three-year period. (5/30/02)*
- ◆ 2002-30-103 *The Internal Revenue Service Needs to Ensure Remittance Processing Controls Are Being Followed (5/30/02)*
- ◆ 2002-10-101 *Management Advisory Report: Two Violations of the Fair Debt Collection Practices Act Resulted in Administrative Actions (Fiscal Year 2002) [5/31/02]*
- ◆ 2002-10-108 *Management Advisory Report: Review of Lost or Stolen Sensitive Items of Inventory at the Treasury Inspector General for Tax Administration (5/31/02)*





## June 2002

- ◆2002-30-106 *The Internal Revenue Service Should Modify Its Federal Tax Lien Practices to Treat Taxpayers More Equitably and Better Protect the Government's Interest (Increased Revenue/Revenue Protection: \$8.9 billion in potential collections at risk because liens were not filed to protect the government's interest.) Note: It should be recognized that some liabilities would be collected without liens, while others would not be collected even if liens are filed. [6/5/02]*
- ◆2002-30-095 *Analysis of Notice Error Trends May Identify Systemic and Procedural Causes for Erroneous Notices and Refunds (Reliability of Information: 105,061 voided notices were not included in the population.) [6/7/02]*
- ◆2002-10-105 *Better Procedures Are Needed to Ensure Lien Payoff Letters Are Properly Authorized and Accurately Calculated (Taxpayer Burden: 129 taxpayers received incorrect lien payoff letters; Taxpayer Privacy and Security: 517 taxpayers that may not have authorized release of lien payoff information to third parties.) [6/10/02]*
- ◆2002-30-092 *Management Advisory Report: The Internal Revenue Service's Response to the Falling Level of Income Tax Examinations and Its Potential Impact on Voluntary Compliance (6/12/02)*
- ◆2002-10-107 *Controls Need to Be Strengthened Over the Internal Revenue Service's Taxable Travel Reporting (6/19/02)*
- ◆2002-10-098 *Improvements Are Needed to Ensure That Employee Plans Return Information Is Timely Received and That Returns Are Properly Processed and Adequately Safeguarded (Taxpayer Burden: 19 taxpayers received erroneous notices; Taxpayer Privacy and Security: 688 remittances not properly controlled.) [6/21/02]*
- ◆2002-20-112 *Management Advisory Report: Progress Has Been Made in Establishing a Secure Modernization Infrastructure; However, Continuing Risks Could Impact Timely Deployment of Modernization Projects (6/24/02)*
- ◆2002-40-113 *Management Advisory Report - Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions (6/26/02)*
- ◆2002-40-116 *Advance Refunds Were Accurately Calculated and Issued to Eligible Taxpayers, But Some Undelivered Refunds Were Unnecessarily Delayed (Funds Put to Better Use: \$367,000; Taxpayer Rights and Entitlements: 34,000 taxpayers had refunds delayed an average of 8 weeks.) Note: Monetary benefit projected over a five-year period. (6/26/02)*
- ◆2002-20-117 *Improvements Made But Actions Still Needed to Prevent Computer Virus Infections (6/27/02)*
- ◆2002-40-111 *E-File Providers Are Not Adequately Screened (Taxpayer Privacy and Security: 29 million electronic tax returns were transmitted by preparers who were not subject to an effective screening procedure.) [6/27/02]*
- ◆2002-20-109 *Management Advisory Report: The Configuration of a Security and Communications System Backup Computer Environment Is Not Compliant With Internal Revenue Service Requirements (6/28/02)*



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- ◆ 2002-20-121 *Processes to Effectively Manage the Development of the Custodial Accounting Project Are Improving (6/28/02)*
- ◆ 2002-10-118 *Management Advisory Report: No Improprieties Were Identified in the Contract Actions Related to a Conflict of Interest Allegation Made Against the Commissioner of the Internal Revenue Service (7/2/02)*
- ◆ 2002-20-122 *Management Advisory Report: Most Taxpayer Communication Enhancements Planned for 2002 Will Be Delivered, Although Some Are Later Than Originally Expected (7/2/02)*
- ◆ 2002-30-114 *Erroneous Refunds May Be Issued Without a Program to Verify Foreign Partners' Withholding Claims (7/2/02)*
- ◆ 2002-30-115 *The Delinquent Tax Return Investigation Program for Employment Taxes Within the Collection Field Function Can Be Improved (7/2/02)*
- ◆ 2002-30-119 *Management Advisory Report: Progress Is Being Made Toward Providing Specialized Toll-Free Telephone Services to Small Businesses and Self-Employed Taxpayers, but Some Challenges Still Remain (7/2/02)*
- ◆ 2002-30-120 *Management Advisory Report: The Internal Revenue Service Needs a Reliable Measure of the Quality of Electronic Tax Law Assistance Provided to Small Businesses and Self-Employed Taxpayers (7/5/02)*
- ◆ 2002-30-125 *The Internal Revenue Service Does Not Always Address Subchapter S Corporation Officer Compensation During Examinations (Increased Revenue/Revenue Protection: \$648,065.) [7/5/02]*
- ◆ 2002-30-127 *Most Security Controls Were Adequate at the New Lockbox Facility in Dallas, But Some Improvements Are Needed (Protection of Resources: Over \$70.7 billion in payments at risk.) [7/5/02]*
- ◆ 2002-20-124 *The Latest Update to the Enterprise Architecture Improves on Previous Versions, But Processes to Develop Future Updates Could Be Improved (7/9/02)*
- ◆ 2002-20-128 *Management Advisory Report: Comprehensive Measures for Interim Business Systems Modernization Status Reporting Are Needed (7/10/02)*
- ◆ 2002-30-126 *Most Security Controls Were Adequate at the New Lockbox Facility in Cincinnati, But Some Improvements Are Needed (Protection of Resources: \$39.5 billion in payments at risk.) [7/10/02]*
- ◆ 2002-10-102 *To Provide Quality Service, the Government Entities Organization First Needs to Identify Its Customers (7/24/02)*
- ◆ 2002-30-129 *Management Advisory Report: The Internal Revenue Service Provided High Quality Service to Taxpayers Calling the Toll-Free Line for Tax Forms (7/24/02)*
- ◆ 2002-20-136 *Management Advisory Report: Efforts to Consolidate Information Technology Services Staff Continue to Need Attention (7/29/02)*
- ◆ 2002-30-141 *The Internal Revenue Service Successfully Processed Schedules K-1 for Its Matching Program, However, Tax Form Changes Would Reduce Unnecessary Notices to Taxpayers (7/30/02)*



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- ◆ **2002-1C-130** *TIRNO-95-D-00062 Incurred Costs Audit For Fiscal Year Ending December 31, 1998 (8/2/02)*
- ◆ **2002-1C-131** *TIR-95-D-00065 Report on Contract Audit Closing Statement Task Order Numbers 0009, IR-95-NO-4646, and 0021 (8/2/02)*
- ◆ **2002-1C-132** *TIRNO-94-D0089, TIRNO-94-D-00890005, TIRNO-94-D-00890006, TIRNO-D-00890007, TIRNO-D-00890008, TIRNO-D-00890010 Report of Incurred Cost Submission For Fiscal Year 1998 and 1999 (8/2/02)*
- ◆ **2002-1C-133** *TIRNO-99-D-0005 Report on Compliance with Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance with the Office of Management and Budget Circular A-133 Fiscal Year 2001 (Questioned Costs: \$3,237) [8/2/02]*
- ◆ **2002-1C-134** *TIRNO-95-D-00067 Report on Examination of Direct And Indirect Costs and Rates For Fiscal Year Ended December 18, 1998 (8/2/02)*
- ◆ **2002-20-146** *Management Advisory Report: Progress Has Been Made in Developing Transition to Support Guidance for Modernization Projects (8/2/02)*
- ◆ **2002-40-135** *Compliance With Lien Notice Requirements Has Not Been Achieved (Taxpayer Rights and Entitlements: 29,219 Lien Notices with potential violations of taxpayer rights.) [8/2/02]*
- ◆ **2002-40-142** *Despite Some Problems, the Internal Revenue Service Properly Identified Returns With Rate Reduction Credit Errors During the 2002 Filing Season (Increased Revenue/Revenue Protection: \$50 million; Taxpayer Burden: 35 million taxpayers whose advanced refund information was not available by telephone.) [8/2/02]*
- ◆ **2002-20-145** *Persistent Security Weaknesses at Internet Connections Can Be Traced to a Lack of Policies and Procedures (8/5/02)*
- ◆ **2002-10-110** *Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary (Taxpayer Rights and Entitlements: 117 taxpayers that could have been identified; Taxpayer Burden: 2,900 families that could have been provided service.) [8/6/02]*
- ◆ **2002-40-137** *The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service (Taxpayer Burden: 501,000 telephone calls in which taxpayers may not have received complete and accurate information.) [8/6/02]*
- ◆ **2002-10-140** *The Internal Revenue Service Responded to the Needs of Surviving Individual Taxpayers Following the September 11, 2001, Terrorist Attacks (Reliability of Information: 79,600 accounts in which computer records did not contain the disaster status indicator.) [8/8/02]*





## **August 2002 (continued)**

- ◆ **2002-1C-152** *Report on Audit of Direct and Indirect Costs for Contractor's Fiscal Year 2001 Incurred Costs (8/13/02)*
- ◆ **2002-20-138** *The Selection, Monitoring, and Management of Systems Improvement Projects, Such as the Print Consolidation Project, Need Modification (Taxpayer Privacy and Security: 200 million taxpayers' account information at risk; Reliability of Information: \$9.9 million in project costs were underreported.) [8/13/02]*
- ◆ **2002-40-144** *Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For (Taxpayer Privacy and Security: 700,000 taxpayer e-filed returns at risk.) [8/13/02]*
- ◆ **2002-30-139** *The Internal Revenue Service Worked Quickly to Assist Business Taxpayers Needing Disaster Relief After September 11, 2001 (8/15/02)*
- ◆ **2002-10-143** *Additional Improvements Will Better Focus the Employee Plans Function's Examinations Workplan on Areas That Identify and Correct Noncompliance (8/16/02)*
- ◆ **2002-10-151** *The National Taxpayer Advocate Has Taken Significant Steps to Implement Selected Provisions of the Internal Revenue Service Restructuring and Reform Act of 1998 (8/16/02)*
- ◆ **2002-10-154** *Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks (8/20/02)*
- ◆ **2002-1C-153** *TIRNO-93-C-0026 Incurred Costs and Indirect Expense Rates Audit Fiscal Year 2000 (8/21/02)*
- ◆ **2002-10-150** *The Criminal Investigation Function Provides Adequate Guidance to Field Offices for Money Laundering Investigations (8/21/02)*
- ◆ **2002-40-155** *The Internal Revenue Service Continues to Comply With the Law When Seizing Taxpayers' Property (8/21/02)*
- ◆ **2002-40-159** *Compliance With Statutory Requirements for the Disclosure of Collection Information to Joint Filers Cannot Be Determined (8/21/02)*
- ◆ **2002-10-158** *Management Advisory Report: Appeals Can Enhance the Usefulness of Appeals Quality Measurement System Results (8/30/02)*
- ◆ **2002-40-161** *Management Advisory Report: Progress Was Made to Provide Taxpayers With Correct Answers to Tax Law Questions (8/30/02)*



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- ◆ 2002-10-164 *Management Advisory Report: Appeals Should Further Evaluate Team Concept and Settlement Authority Before Implementing Nationwide (9/4/02)*
- ◆ 2002-20-168 *System-Level Controls for the Internal Revenue Service's Mainframe Computers Are Generally Adequate; However, Additional Actions are Needed (9/4/02)*
- ◆ 2002-1C-157 *Report on Audit of Direct and Indirect Costs for Fiscal Year 2001 (9/6/02)*
- ◆ 2002-40-162 *Efforts Are Still Needed to Discourage the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 303 taxpayers improperly identified; Reliability of Information: 144 Internal Revenue Manual Sections with prohibited references to Illegal Tax Protester designations.) [9/6/02]*
- ◆ 2002-30-171 *Controls Over Compliance Initiative Projects Have improved, But Use of the Process Is Limited (9/9/02)*
- ◆ 2002-40-167 *Third Party Designee Information Was Correctly Processed and Made Available to Resolve Account and Notice Inquiries (9/10/02)*
- ◆ 2002-10-123 *Additional Management Actions Should Be Taken to Ensure That Government Entities' Customers Meet Their Federal Tax Obligations (Increased Revenue/ Revenue Protection: \$104 million) [9/11/02]*
- ◆ 2002-20-160 *The Hardware Refreshment Program Is Generally Effective, But Improvements Can Be Made (9/11/02)*
- ◆ 2002-20-165 *Although Still Behind in Certifying the Security of Sensitive Computer Systems, the Internal Revenue Service Has Made Significant Progress (9/11/02)*
- ◆ 2002-30-148 *The Large and Mid-Size Business Division Should Consider Changes to the Computer Audit Specialist Program to Address Operational Priorities (9/11/02)*
- ◆ 2002-30-156 *The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers (Increased Revenue/ Revenue Protection: \$39 million) Note: Monetary benefit projected over a five-year period. [9/11/02]*
- ◆ 2002-40-163 *Compliance With Regulations Restricting the Use of Records of Tax Enforcement Results Shows Improvement (Taxpayer Rights and Entitlements: 4,534 employees whose performance documentation may contain violations of RRA 98 § 1204 (b) concerning the use of enforcement statistics.) [9/11/02]*
- ◆ 2002-40-177 *The Internal Revenue Service Cannot Monitor Its Compliance With the Direct Contact Provisions (9/11/02)*
- ◆ 2002-30-147 *The Financial Products Specialist Program Controls Could Be Improved to Ensure More Timely and Accurate Examinations of Large Corporations (9/12/02)*
- ◆ 2002-20-170 *Additional Improvements Are Needed in the Application of Performance Based Contracting to Business Systems Modernization Projects (9/13/02)*



## September 2002 (continued)

- ◆ 2002-30-166 *Management Advisory Report: Progress Has Been Made to Consolidate the Automated Collection System Workload, But Achieving Employee Skill Specialization Remains an Uncertainty (9/13/02)*
- ◆ 2002-30-149 *The Engineer Specialist Program Controls Could Be Improved to Ensure More Timely and Accurate Examinations of Large Corporations (9/16/02)*
- ◆ 2002-30-182 *Management Advisory Report: Progress in Issuing Employer Identification Numbers Has Been Made, But Enhancements Are Needed (9/16/02)*
- ◆ 2002-40-174 *The Internal Revenue Service Needs to Improve the Pre-Filing Tax Services Provided to Taxpayers (9/16/02)*
- ◆ 2002-10-169 *Improvements Are Needed in the Automated Underreporter Program to Ensure That Taxpayer Information Sent to External Tax Agencies Is Accurate (Taxpayer Burden: 469 taxpayer accounts containing inaccurate information.) [9/18/02]*
- ◆ 2002-30-180 *Nationwide Guidelines and Controls for Lockbox Banks Need Further Improvement (Protection of Resources: \$329 billion in payments at risk.) [9/18/02]*
- ◆ 2002-30-185 *The Internal Revenue Service Should Evaluate the Feasibility of Using Available Documents to Verify Information Reported on Business Tax Returns (9/18/02)*
- ◆ 2002-40-176 *The Internal Revenue Service Has Improved Controls Over the Issuance of Levies, But More Should Be Done (Taxpayer Rights and Entitlements: one taxpayer did not receive levy appeal rights.) [9/18/02]*
- ◆ 2002-10-183 *The Travel Charge Card Program's Controls Could Be Enhanced (Funds Put to Better Use: \$104,468; Protection of Resources: \$1.1 million, from 5,474 transactions, could not be reconciled to an approved travel document.) [9/23/02]*
- ◆ 2002-30-186 *The Internal Revenue Service Needs to Simplify Filing Requirements and Clarify Processing Procedures for Small Business Corporate Returns (Increased Revenue/Revenue Protection: 61 taxpayers; Taxpayer Rights and Entitlements: 52,050 taxpayer accounts; Taxpayer Burden: 232,425 accounts.) [9/23/02]*
- ◆ 2002-10-178 *Management Advisory Report: The Internal Revenue Service Does Not Yet Have a System That Integrates All Taxpayer Complaints (9/24/02)*
- ◆ 2002-10-190 *The Internal Revenue Service Has Implemented a New Policy to Reduce Future Relocation Costs, But Improvements Are Needed in Its Cost Tracking Systems (9/24/02)*



## September 2002 (continued)

- ◆ 2002-10-196 *Criminal Investigation's Use of Confidential Funds for Undercover Operations Is Appropriate; However, Certain Aspects of Undercover Operations Need Improvement (Increased Revenue/Revenue Protection: \$38,712) [9/24/02]*
- ◆ 2002-40-175 *Improved Documentation Is Needed to Ensure Taxpayers Are Informed of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 37 taxpayer returns with one or more potential violations.) [9/24/02]*
- ◆ 2002-10-179 *Improvements Are Needed in the Safety and Health Program to Fully Comply with Laws and Regulations (9/25/02)*
- ◆ 2002-1C-192 *Cost Verification for Subcontract Number S800631, Prime Contract Number TIRNO-99-D-00001 (9/25/02)*
- ◆ 2002-1C-193 *Cost Verification of Subcontract Cost Prime Contract Number TIRNO-95-D-00059 (9/25/02)*
- ◆ 2002-1C-194 *Agreed Upon Procedures for Subcontract Number S800654, Prime Contract Number TIRNO-99-D-00001 (9/25/02)*
- ◆ 2002-1C-195 *Agreed Upon Procedures for Subcontract Number S506440, Prime Contract Number TIRNO-95-D-00059 (9/25/02)*
- ◆ 2002-30-181 *The Internal Revenue Service Needs to Take Timely and Appropriate Closing Actions on Offers in Compromise (Increased Revenue/Revenue Protection: \$43.79 million for 931 accounts; Taxpayer Rights and Entitlements: 713 taxpayers with improperly offset refunds and rebates; Taxpayer Burden: 1,661 taxpayers received unnecessary balance due notices.) [9/25/02]*
- ◆ 2002-40-188 *Management Advisory Report: The Internal Revenue Service Has Made Progress to Address Tax Law Complexity and to Control New Tax Law Implementation (9/25/02)*
- ◆ 2002-1C-197 *Audit of Termination for Convenience Proposal of Subcontract Number S2233P3057, Prime Contract Number TIRNO-00-D-00020, Task 015 (Questioned Costs: \$573,464) [9/26/02]*
- ◆ 2002-20-198 *Controls Over the Telecommunications Programs Continue to Need Improvement (Funds Put to Better Use: \$11.5 million) Note: Monetary benefit projected over a five-year period. [9/26/02]*
- ◆ 2002-40-200 *Although the 2002 Filing Season Was Completed Timely, Customer Service Can Be Improved During Error Processing (Taxpayer Rights and Entitlements: 132,672 taxpayers did not receive \$25.7 million in Additional Child Tax Credits.) [9/26/02]*
- ◆ 2002-10-187 *The New Suspension of Interest Provision Is Not Always Calculated Correctly (Increased Revenue/Revenue Protection: \$138,532 for 5,689 accounts; Taxpayer Rights and Entitlements: \$561,997 for 6,556 accounts; Taxpayer Burden: 28,728 taxpayers not notified about under assessed interest.) [9/27/02]*





## September 2002 (continued)

- ◆ 2002-20-189 *Annual Assessment of the Internal Revenue Service's Business Systems Modernization Program (9/27/02)*
- ◆ 2002-20-199 *Annual Assessment of the Internal Revenue Service's Information Security – Fiscal Year 2002 (9/27/02)*
- ◆ 2002-40-202 *The Internal Revenue Service Continues to Pay Tax Refunds on E-Filed Tax Returns Prior to Ensuring a Signature Document Is Processed (Funds Put to Better Use: \$40 million) Note: Monetary benefit projected over a five-year period. [9/27/02]*
- ◆ 2002-40-203 *Outreach Initiatives Need to Ensure Taxpayers Receive the Benefit of the Child Tax and Additional Child Tax Credits (Taxpayer Rights and Entitlements: \$212.3 million for 478,888 taxpayers not notified that they appear eligible for Additional Child Tax Credit) [9/27/02].*
- ◆ 2002-30-184 *Management Advisory Report: Analysis of Trends in Compliance Activities through Fiscal Year 2001 (9/30/02)*



# Appendix V – Statutory TIGTA Reporting Requirements

**40** statutory audit reports that dealt with the adequacy and security of IRS technology were issued during this reporting period.<sup>1</sup>

In FY 2002, TIGTA completed its fourth round of statutory reviews that are required annually by RRA 98. The following table reflects the status of the FY 2002 RRA 98 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/ TIGTA Audit Status
Enforcement Statistics  <i>I.R.C. § 7803(d)(1)(A)(i)</i>	An evaluation of IRS' compliance with restrictions under <i>Section 1204 of RRA 98</i> on the use of enforcement statistics to evaluate IRS employees.	<i>Reference No. 2002-40-163, September 2002</i>  IRS' compliance with <i>RRA 98 § 1204 (a) and (b)</i> has not yet been achieved although there was some improvement. A review of 200 statistically sampled enforcement employees' performance or related supervisory documentation revealed no violations. However, the review did reveal that 22 of 200 employee files did not include evidence that the employee was evaluated in the fair and equitable treatment of taxpayers. Projected across the estimated population of 41,220 enforcement employees as of October 6, 2001, OA estimated that similar potential violations could affect 4,534 enforcement employees ( $\pm 4.9$ percent). OA was unable to determine if the IRS was in compliance with <i>Section 1204 § (c)</i> because of IRS and TIGTA resource limitations. Limited tests of the appropriate supervisors responsible for the 200 sampled employees indicated the certifications were properly submitted.

<sup>1</sup>This includes 23 audit reports on the adequacy of IRS technology and 17 audit reports on the security of IRS technology. All information technology program reviews are considered statutory based on the RRA 98 requirement to report annually on the adequacy and security of IRS technology.

To view audit reports referenced in this appendix, click below:



[http://www.treas.gov/tigta/audit\\_reports.htm](http://www.treas.gov/tigta/audit_reports.htm)

APPENDIX V



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Restrictions on Directly Contacting Taxpayers</p> <p><i>I.R.C. § 7803(d)(1)(A)(ii)</i></p>	<p>An evaluation of IRS' compliance with restrictions under <i>I.R.C. § 7521</i> on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.</p>	<p><i>Reference No. 2002-40-177, September 2002</i></p> <p>As in the prior reviews, OA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither IRS nor OA could readily identify cases where the taxpayer requested a representative or the IRS contacted the taxpayer directly and bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and the Congress has not explicitly required IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>
<p>Filing of a Notice of Lien</p> <p><i>I.R.C. § 7803(d)(1)(A)(iii)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6320 (Supp. IV 1998)</i> upon the filing of a notice of lien.</p>	<p><i>Reference No. 2002-40-135, August 2002</i></p> <p>IRS has not yet achieved full compliance with the statute and its own internal guidelines. A review of 223 Notice of Federal Tax Liens (NFTL) identified 20 NFTL cases with potential legal violations of taxpayers' rights. In three NFTL cases, IRS did not mail the lien notices to the taxpayer or to the last known address of the taxpayer. For one NFTL, the Automated Lien System did not create a corresponding lien notice, and for two NFTLs, two lien notices were not issued to the taxpayers because of employee errors. IRS employees requesting the liens did not ensure they had used the taxpayers' most current address available on IRS' computer systems before mailing the lien notices. For 17 NFTL cases, the lien notices were not mailed within five business days after the filing of the NFTL and were late because of printer problems and/or staffing issues. OA estimates that similar taxpayer rights could have been potentially affected in 29,219 NFTLs prepared from October 1, 2000, to July 31, 2001.</p> <p>In addition, OA identified 46 of 223 NFTL cases in which IRS employees did not follow internal guidelines when issuing lien notices.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Levies</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. § 6330 (Supp. IV 1998)</i> regarding levies.</p>	<p><i>Reference No. 2002-40-176, September 2002</i></p> <p>IRS has not achieved full compliance with the statute. Although the systemic controls in both the Automated Collection System (ACS) and the Integrated Collection System (ICS) are functioning as intended, revenue officers working in Collection field offices can easily circumvent the ICS systemic controls over the issuance of levies. Revenue officers have the ability to change the date that the notice of appeal rights was sent to the taxpayer. This could result in the systemic control incorrectly computing the number of lapsed days. OA identified one case of this actually happening in its review of 61 levies generated by the ICS.</p> <p>Manual levies pose an even greater risk to the IRS than systemic levies generated by the ACS and ICS. IRS does not know how many manual levies are issued, and the use of manual levies by revenue officers is uncontrolled. The risk of taxpayers not having their rights properly protected is increased because revenue officers have the authority to issue manual levies without managerial review or approval.</p> <p>The Collection quality review system could also be improved to specifically identify violations of the statute.</p>
<p><b>Collection Due Process</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>I.R.C. §§ 6320 and 6330 (Supp. IV 1998)</i> regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p><i>Reference No. 2002-10-068, March 2002</i></p> <p>In 85 of the 87 cases reviewed (98 percent), the IRS generally complied with the requirements of the law and ensured taxpayers' appeal rights were protected. However, in 2 of the 87 cases, the IRS did not always follow all the requirements of the law. In these instances, Appeals Officers either did not adequately balance the efficiency of the proposed collection action against the taxpayer's legitimate concerns that the action be no more intrusive than necessary or did not obtain adequate verification from the IRS that all regulations had been met. OA</p>





Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
		<p><b>Collection Due Process (continued)</b></p> <p>does not believe that in either of these cases the noncompliance resulted in a legal violation of the taxpayer's Collection Due Process rights since no collection actions were ever initiated.</p> <p>Additionally, in 82 of the 87 cases, Appeals appropriately communicated the decision to taxpayers. These results indicate an improvement in communicating Appeals' decisions to taxpayers when compared to the prior year's audit. Ensuring all determination letters completely outline all the provisions of the law considered in the decision and by ensuring all established guidelines are followed could make further improvements.</p> <p>The <i>Code of Federal Regulations (CFR)</i>, 26 <i>CFR</i> 301.6330-1T(e)(Q-E7), and Appeals procedures state that the letters must address all issues raised by the taxpayer and whether the IRS followed all the applicable rules and administrative procedures and balanced tax collection with the taxpayers' legitimate concerns. The IRS guidelines also require the letters to provide information concerning which court the taxpayer must file his/her request for judicial review, as well as information about any agreements reached during the hearing and the actions to be taken by the IRS or the taxpayer.</p>
<p>Seizures</p> <p><i>I.R.C. § 7803(d)(1)(A)(iv)</i></p>	<p>An evaluation of IRS' compliance with required procedures under <i>Subchapter D of Chapter 64</i> for seizure of property for collection of taxes.</p>	<p>Reference No. 2002-40-155, August 2002</p> <p>Based on OA's review of a sample of 73 seizures performed during February through July 2001, OA determined that actions taken by IRS when seizing taxpayers' property for payment of delinquent taxes were in accordance with the law. For two seizures, IRS initially did not follow internal guidelines. However, IRS' review process identified the errors and took the appropriate steps to correct the conditions. Taxpayer rights were not affected. IRS' continuing compliance with legal provisions is attributed to the consistent legal provisions and internal seizure procedures, as well as to the technical expertise and assistance provided by various IRS offices and the IRS' continued emphasis on training.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</b></p> <p><i>I.R.C. § 7803(d)(1)(A)(v)</i></p>	<p>An evaluation of IRS' compliance with restrictions under <i>Section 3707 of RRA 98</i> on designation of taxpayers</p>	<p>Reference No. 2002-40-162, September 2002</p> <p>In general, IRS is in compliance with the prohibition on using Illegal Tax Protestor (ITP) or similar designations. Former ITP codes were not reintroduced on IRS' Master File after the effective date of the law and were not reassigned to a similar ITP designation. IRS has effectively updated or made obsolete any publications containing ITP references. However, IRS still has not removed all the ITP references from its Internal Revenue Manual and IRS employees continue to make references to taxpayers as ITPs and other similar designations in case file histories.</p>
<p><b>Disclosure of Collection Activities With Respect to Joint Returns</b></p> <p><i>I.R.C. § 7803(d)(1)(B)</i> <i>I.R.C. § 6103(e)(8)</i></p>	<p>Review and certify whether or not IRS is complying with <i>I.R.C. § 6103(e)(8)</i> to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Reference No. 2002-40-159, August 2002</p> <p>This is the fourth year that OA could not determine whether IRS is complying with the statutory requirements for responding to written requests from joint filers because both OA and IRS are still unable to readily identify joint filer requests received nationwide. IRS management has decided not to develop a new management control process to track joint filer requests. IRS management information systems do not separately record or monitor joint filer requests, and Congress has not explicitly required the IRS to do so. OA does not recommend the creation of a separate tracking system.</p>
<p><b>Taxpayer Complaints</b></p> <p><i>I.R.C. § 7803(d)(2)(A)</i></p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.</p>	<p>Reference No. 2002-10-178, September 2002</p> <p>The IRS does not yet have a system to integrate all taxpayer complaints for the TIGTA Semiannual Report to the Congress. IRS management reports complaints of employee misconduct required by <i>I.R.C. § 7803(d)(2)(A)(ii)</i>, but does not believe they have the responsibility to report the more general complaints required by <i>I.R.C. § 7803(d)(2)(A)(i)</i>. A business case for a new case management system is being developed for the Taxpayer Advocate Service Office. If approved, this system may eventually be expanded to other offices and provide the ability to record complaints not currently tracked on other systems.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Administrative or Civil Actions With Respect to the <i>Fair Debt Collection Practices Act of 1996</i></p> <p><i>I.R.C. § 7803(d)(1)(G)</i> <i>I.R.C. § 6304</i> <i>Section 3466 of RRA 98</i></p>	<p>Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of <i>I.R.C. § 6304</i>, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Reference No. 2002-10-101, May 2002</p> <p>Based on a review of information recorded as potential <i>Fair Debt Collection Practices Act (FDCPA)</i> violations on the IRS' computer systems, OA identified two <i>FDCPA</i> violations that occurred after July 22, 1998, and resulted in administrative actions being taken against employees for the period January 1 through December 31, 2001. In addition, the IRS had no closed cases in which the IRS paid any money to taxpayers for civil actions resulting from <i>FDCPA</i> violations.</p>
<p>Denial of Requests for Information</p> <p><i>I.R.C. § 7803(d)(1)(F)</i> <i>I.R.C. § 7803(d)(3)(A)</i></p>	<p>Include information regarding improper denial of requests for information from IRS, based on a statistically valid sample of the total number of determinations made by IRS to deny written requests to disclose information to taxpayers on the basis of <i>I.R.C. § 6103</i> or <i>5 U.S.C. § 552(b)(7)</i>.</p>	<p>Reference No. 2002-10-093, May 2002</p> <p>The IRS improperly withheld information from requesters in 10.6 percent of the <i>Freedom of Information Act (FOIA)</i> and <i>Privacy Act (PA)</i> requests, and 12.2 percent of the <i>I.R.C. § 6103</i> requests reviewed. Additionally, the IRS did not respond timely to requesters in 22.7 percent of the cases included in OA's sample of information that was denied or where the IRS replied that responsive records were not available. OA's statistically valid samples were taken from cases closed during the period January 1 through June 30, 2001. OA estimated that information was improperly withheld from responses to 458<sup>1</sup> <i>FOIA</i> and <i>PA</i> requests and 1,052 <i>I.R.C. § 6103</i> requests during the sample period. OA also estimated that responses to 977<sup>2</sup> <i>FOIA</i> and <i>PA</i> requests were not processed timely during the same period.</p>

<sup>1, 2</sup> Since the *FOIA* and *PA* grant taxpayers the right to receive requested information (unless specifically exempted) as well as the right to receive a response to their information request within a certain time period, OA is reporting these outcomes separately.



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>I.R.C. § 7803(d)(1)(C)</i> <i>I.R.C. § 6501</i></p>	<p>Include information regarding extensions of the statute of limitations for assessment of tax under <i>I.R.C. § 6501</i> and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Reference No. 2002-40-175, September 2002</p> <p>IRS generally complied with the requirements of the law and ensured that taxpayers were notified of their rights concerning the extension of assessment statute. IRS employees properly advised taxpayers of their rights to refuse or restrict the scope of the statute extension in 32 of 48 case files reviewed. However, in 16 of 48 case files, employees did not document the related case files whether or not taxpayers were advised of their rights. Also, employees did not always ensure that both taxpayers who jointly filed returns (22 of 24) were separately notified of their rights to extend the statute. In addition, where taxpayers made a declaration of representation, there was no documentation in the related case files (24 of 33) that IRS had provided both the taxpayers and the representatives with the advice of rights.</p>
<p>Adequacy and Security of the Technology of the IRS</p> <p><i>I.R.C. § 7803(d)(1)(D)</i></p>	<p>Evaluation of IRS' adequacy and security of its technology.</p>	<p>The consolidated status of the adequacy and security of IRS technology for this reporting period is highlighted on pages 10 through 11.</p> <p><i>Information Technology:</i></p> <p>Reference No. 2002-10-017, November 2001 Reference No. 2002-20-025, November 2001 Reference No. 2002-20-026, November 2001 Reference No. 2002-40-028, December 2001 Reference No. 2002-20-043, January 2002 Reference No. 2002-30-054, February 2002 Reference No. 2002-20-056, March 2002 Reference No. 2002-20-059, March 2002 Reference No. 2002-20-073, April 2002 Reference No. 2002-20-084, May 2002 Reference No. 2002-20-100, May 2002 Reference No. 2002-20-112, June 2002 Reference No. 2002-20-121, June 2002 Reference No. 2002-20-122, July 2002 Reference No. 2002-20-124, July 2002 Reference No. 2002-20-128, July 2002 Reference No. 2002-20-136, July 2002 Reference No. 2002-20-138, August 2002 Reference No. 2002-20-146, August 2002 Reference No. 2002-20-160, September 2002 Reference No. 2002-20-170, September 2002 Reference No. 2002-20-189, September 2002</p>



Reference  
to Statutory  
Coverage

Explanation  
of the  
Provision

Comments/TIGTA Audit Status

**Adequacy and Security of the Technology of the IRS  
(continued)**

**Reference No. 2002-20-198, September 2002**

***Security Reviews:***

**Reference No. 2002-20-007, October 2001**

**Reference No. 2002-20-044, January 2002**

**Reference No. 2002-20-045, January 2002**

**Reference No. 2002-10-079, March 2002**

**Reference No. 2002-20-057, March 2002**

**Reference No. 2002-20-063, March 2002**

**Reference No. 2002-20-074, March 2002**

**Reference No. 2002-20-075, March 2002**

**Reference No. 2002-20-064, April 2002**

**Reference No. 2002-20-082, April 2002**

**Reference No. 2002-20-109, June 2002**

**Reference No. 2002-20-117, June 2002**

**Reference No. 2002-10-102, July 2002**

**Reference No. 2002-20-145, August 2002**

**Reference No. 2002-20-165, September 2002**

**Reference No. 2002-20-168, September 2002**

**Reference No. 2002-20-199, September 2002**





## Appendix VI – Section 1203 Standards

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

### Misconduct violations include:

- Willful failure to obtain the required approval signatures on documents authorizing the seizure of a taxpayer’s home, personal belongings, or business assets.
- Providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative.
- Violating, with respect to a taxpayer, taxpayer representative, or other employee of 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 (Pub. L. No. 88-352, 78 Stat. 241 [codified as amended in 42 U.S.C. § 2000e]); Title IX of the Education Amendments of 1972 (20 U.S.C. §§ 1681-1688 [1994]); Age Discrimination in Employment Act of 1967 (29 U.S.C. §§ 621-634 [1994 & Supp. IV 1998]); Age Discrimination Act of 1975 (42 U.S.C. §§ 6101-6107 [1994 & Supp. IV 1998]); Section 501 or 504 of the Rehabilitation Act of 1973 (Pub. L. No. 93-112, 87 Stat. 355 [codified as amended in 29 U.S.C. §§ 701 & 794]); or Title I of the Americans with Disabilities Act of 1990 (42 U.S.C. §§ 12111 et seq. [1994 & Supp. IV 1998]).*
- 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 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.

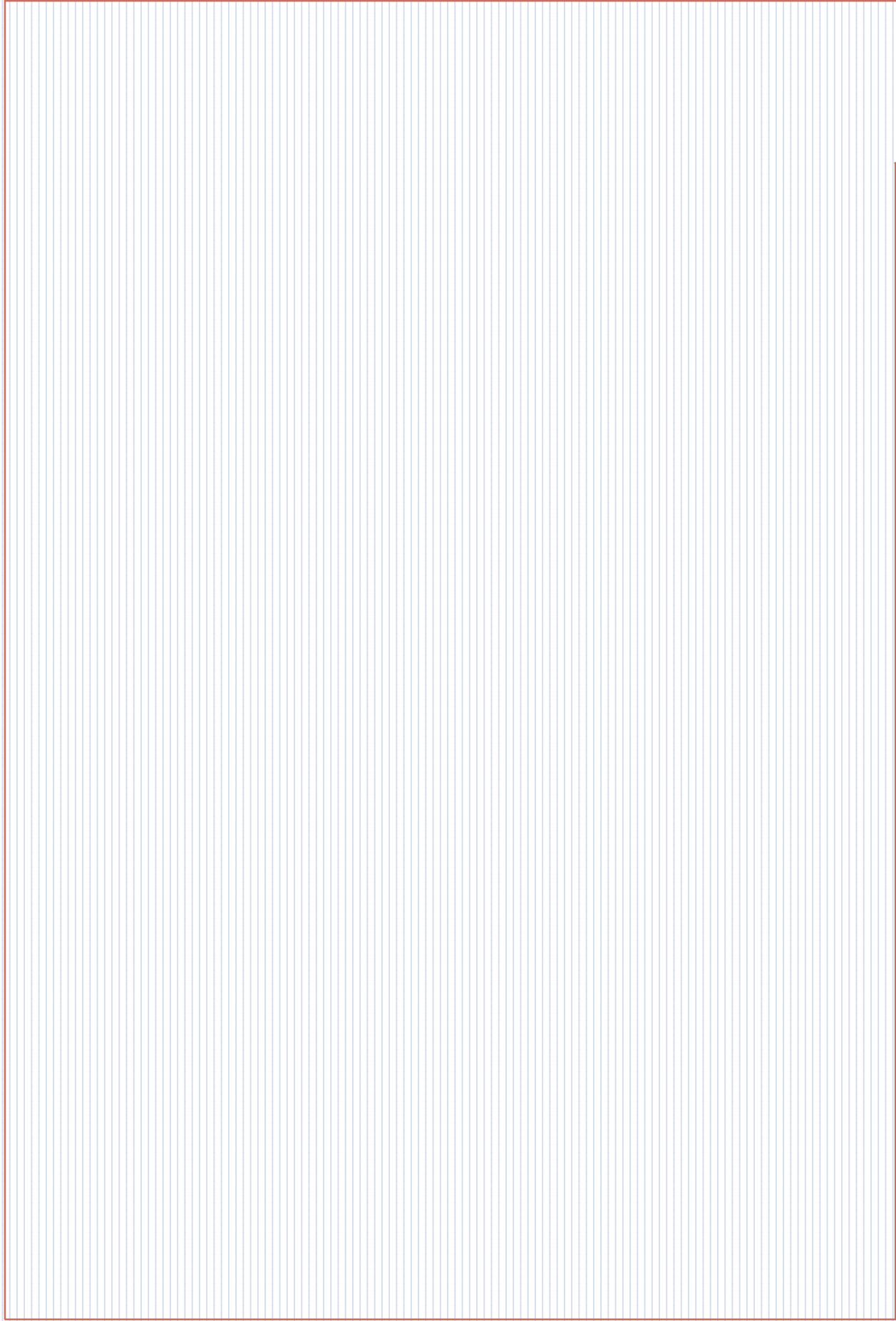


## **Appendix VI – Section 1203 Standards (continued)**

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- ❑ Violating the Internal Revenue Code of 1986, Treasury regulations, or policies of IRS (including the Internal Revenue Manual) for the purpose of retaliating against, or harassing a taxpayer, taxpayer representative, or other employee of IRS.**
- ❑ Willfully misusing provisions of Section 6103 of the Internal Revenue Code of 1986 for the purpose of concealing information from a Congressional inquiry.**
- ❑ Willfully failing to file any return of tax required under the *Internal Revenue Code of 1986* on or before the date prescribed therefore (including any extensions), unless such failure is due to reasonable cause and not to willful neglect.**
- ❑ Willfully understating Federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect.**
- ❑ Threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.**

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







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