



Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

April 1, 2012 – September 30, 2012

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

TIGTA's Vision

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

TIGTA's Mission

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

TIGTA's Core Values

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

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

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

Commitment to Community – Establish and maintain collaborative and professional relationships with other governmental and non-governmental stakeholders.





Inspector General's Message to Congress

It is my honor to submit this Semiannual Report to Congress summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of April 1, 2012 through September 30, 2012. This report highlights the most notable audits, investigations, and inspections and evaluations performed by TIGTA, as we continue to work diligently to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of Federal tax administration.



In 1998, Congress created TIGTA to ensure that our Nation's tax system is effectively, efficiently, and fairly administered, and that the IRS is held to a high level of accountability. The Inspector General Act of 1978, as amended, requires that we submit this report summarizing our independent audit and investigative oversight of tax administration, including IRS activities, systems, and operations. I remain dedicated to upholding this important mission.

During this reporting period, TIGTA's combined audit and investigative efforts have recovered, protected, and identified monetary benefits totaling \$22.4 billion. Our Office of Audit has completed 83 audits, and the Office of Investigations has closed 1,814 investigations, over the past six months.

Among the important challenges currently confronting the IRS in its efforts to administer the Nation's tax system are those of increasing voluntary tax compliance and addressing the growing threat of identity theft and tax fraud. During this reporting period, TIGTA issued several reports, and I testified before the House Committee on Oversight and Government Reform, Subcommittee on Government Organization, Efficiency, and Financial Management, concerning TIGTA's oversight of the IRS's efforts to surmount these challenges.

The Tax Gap is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year. Increasing voluntary taxpayer compliance and reducing the Tax Gap remain the focus of many IRS initiatives. Nevertheless, the IRS continues to face significant challenges in obtaining complete and timely compliance data and developing the methods necessary to interpret the data. Even with improved data collection, the IRS will need to develop broader strategies and conduct more research to determine which actions are most effective in addressing taxpayer noncompliance.

The IRS has also expanded its efforts to detect and prevent identity theft. However, the impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents. TIGTA's analysis of tax returns using characteristics of IRS-



confirmed identity theft has identified approximately 1.5 million tax returns with potentially fraudulent tax refunds totaling in excess of \$5.2 billion. TIGTA estimates that the IRS could potentially issue \$21 billion in fraudulent tax refunds over the next five years as a result of identity theft.

However, delayed access to third-party income and withholding information makes it difficult for the IRS to detect fraudulent tax refunds in the course of processing tax returns. During this six-month period, TIGTA issued a report containing several recommendations for the IRS to develop or improve processes that will increase its ability to detect and prevent the issuance of fraudulent tax refunds resulting from identity theft. TIGTA also issued recommendations regarding how the IRS could more effectively provide assistance to victims of identity theft and better communicate identity theft procedures to taxpayers.

Other concerns addressed by TIGTA during this reporting period regarding the Nation's system of tax administration include: the risk of unauthorized access by IRS employees and third-party tax professionals to taxpayers' sensitive tax return information; the current status of the IRS's efforts to improve the effectiveness of its Whistleblower Program; the IRS's implementation of management controls to improve the ability of its Exempt Organizations function to properly oversee and timely process referrals; and the importance of strengthening procedures employed by the IRS to resolve delinquent tax accounts of Federal agencies and assist them with understanding and meeting their tax responsibilities.

In the international arena, TIGTA continued to execute risk assessment inspections designed to highlight challenges to the effectiveness of the IRS's international activities. These inspections are designed to be repeated over time and across all IRS locations involved in international operations. The data gathered will subsequently be analyzed for potential trends and other indicators that will assist management in identifying potential risk areas in the IRS's international operations.

I would like to once again acknowledge the outstanding efforts of our auditors, investigators, evaluators, attorneys, and support personnel who work tirelessly to fulfill our responsibility of serving the American people. While reflecting on this year and looking forward to the next, TIGTA stands committed to carrying out its mission to make our Nation's tax system more efficient, effective, and fair.

Sincerely,

A handwritten signature in cursive script that reads "J. Russell George". The signature is enclosed in a thin black rectangular border.

J. Russell George
Inspector General



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TIGTA's Profile

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

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

TIGTA's organizational structure is comprised of the Office of the Inspector General and six functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; the Office of Information Technology; and the Office of Chief Counsel (see chart on page 8).

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

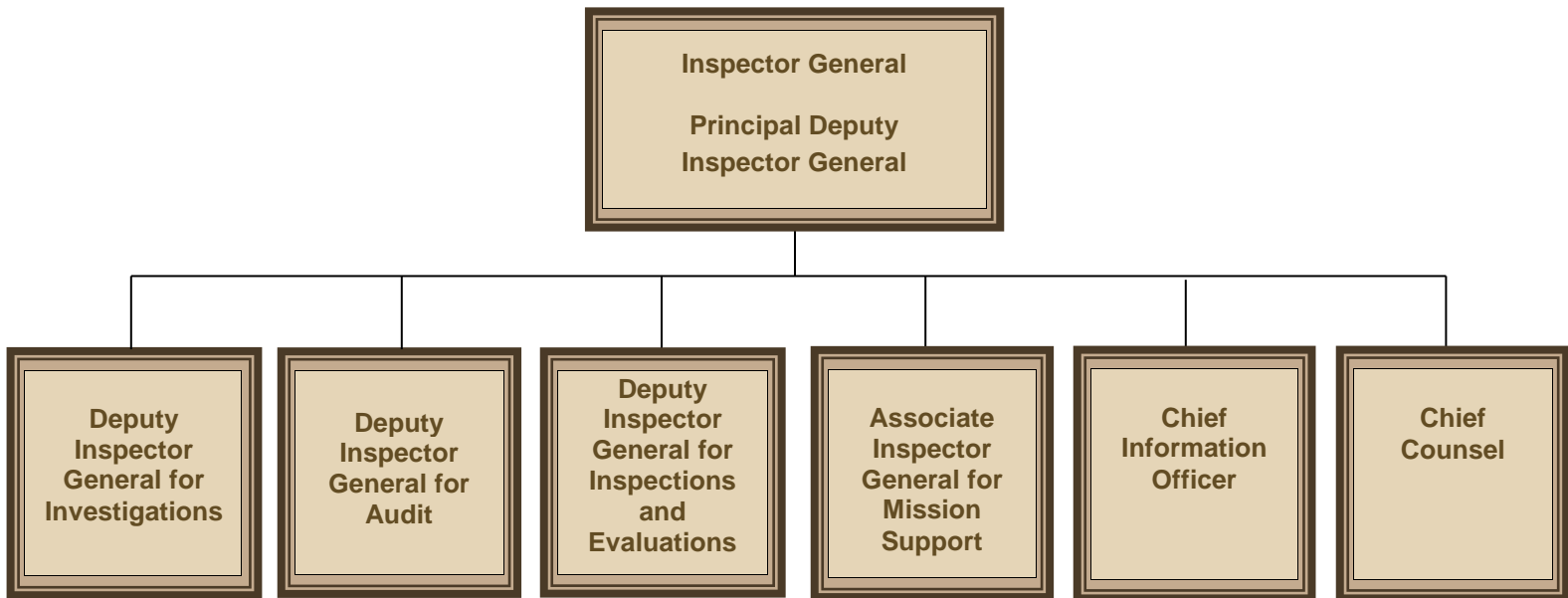
- Promote the economy, efficiency, and effectiveness of tax administration; and
- Protect the integrity of tax administration.

Statutory Mandate

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



Organizational Structure



Authorities

TIGTA has all of the authorities granted under the Inspector General Act of 1978, as amended.¹ TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA must also report potential criminal violations directly to the Department of Justice. TIGTA and the Commissioner of the IRS have established policies and procedures delineating responsibilities to investigate potential criminal offenses under Internal Revenue laws. In addition, the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)² amended the Inspector General Act of 1978 to give TIGTA the statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Internal Revenue Code (I.R.C.) Section (§) 7608(b)(2).

¹ 5 U.S.C. app. 3 (amended 2008).

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



TIGTA's Highlights

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

Keeping IRS Employees Safe from Threats and Assaults:

Jason Bowser Arrested for Threatening to Murder IRS Agents

On June 7, 2012, in McCook, Illinois, Jason Bowser was arrested for making a threat against a Federal official.³ Bowser was indicted by a Federal grand jury on April 25, 2012, for threatening to assault and murder IRS agents with the intent to impede, intimidate, and interfere with IRS agents while engaged in the performance of their official duties.⁴

Protecting Taxpayers from Identity Theft:

IRS Employee George Albright Sentenced for Aggravated Identity Theft and False Claims

On August 15, 2012, in the Middle District of Tennessee, IRS employee George L. Albright was sentenced to 24-months and one-day imprisonment, followed by one year of supervised release, for committing aggravated identity theft and making false claims. Albright was also ordered to pay restitution to his victims in the amount of \$9,669, and a court assessment of \$200.⁵ Albright pled guilty as charged to the two counts on May 18, 2012.

According to court documents, Albright accessed Federal tax records to obtain the names, Social Security Numbers, and dates of birth of other persons. He then used this information between early 2008 and early 2011 to electronically file nine fraudulent Federal tax returns which were sent to the U.S. Department of the Treasury and the IRS.⁶

Albright falsified these persons' earnings, Federal taxes withheld from their earnings, and Federal tax refunds due. He requested refunds on these returns and then directed payments totaling \$10,954 to be electronically deposited into bank accounts which he controlled. Albright ultimately received refunds from eight of nine fraudulent returns totaling \$9,669.⁷

³ M.D. Pa. Arrest Warrant executed June 7, 2012.

⁴ M.D. Pa. Indict. filed Apr. 25, 2012.

⁵ M.D. Tenn. Judgment filed Aug. 15, 2012.

⁶ M.D. Tenn. Plea Agr. filed May 18, 2012.

⁷ *Id.*



Examples of High-Profile Reports by the Office of Audit:

There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft

Undetected tax refund fraud results in significant unintended Federal outlays and erodes confidence in our Nation's tax system. The impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents. TIGTA's analysis of tax returns using characteristics of IRS-confirmed identity theft identified approximately 1.5 million tax returns with potentially fraudulent tax refunds totaling in excess of \$5.2 billion. TIGTA estimated that the IRS could potentially issue \$21 billion in fraudulent tax refunds over the next five years as a result of identity theft.

The IRS has expanded its efforts to detect and prevent identity theft. However, delayed access to third-party income and withholding information makes it difficult for the IRS to detect fraudulent tax refunds in the course of processing tax returns. Third parties are not required to submit income and withholding documents to the IRS until March 31, yet taxpayers can begin filing tax returns in mid-January. While the IRS does not have access to all third-party information documents at the time tax returns are filed, some third-party information is available. However, the IRS has not developed processes to obtain and use this third-party information. The use of direct deposits, including debit cards, to claim fraudulent tax refunds also increases the risk that the IRS will fail to detect identity theft.

TIGTA made several recommendations for the IRS to develop or improve processes that will increase its ability to detect and prevent the issuance of fraudulent tax refunds resulting from identity theft. In addition, TIGTA agreed with the IRS Fiscal Year 2012 budget proposal that legislation is needed to expand the IRS's access to, and authority to use, the National Directory of New Hires database for the purposes of detecting identity theft.

IRS management agreed with these recommendations and stated that it has taken or plans to take corrective actions. However, in view of its ongoing efforts to improve the detection of identity theft, the IRS did not agree with TIGTA's estimate that \$21 billion in potentially fraudulent refunds could result from identity theft over the next five years. TIGTA agreed that the IRS's ongoing efforts will help reduce fraudulent refunds. However, TIGTA's estimate of \$21 billion takes into consideration the estimated impact of the IRS's continued efforts to improve its identity theft filters in the 2012 Filing Season.

Reference No. 2012-42-080



Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service

The Federal Trade Commission reported that identity theft was the number one complaint that it received in Calendar Year (CY) 2011, and that Government documents/benefits fraud was the most common form of reported identity theft. As of December 31, 2011, the IRS's Incident Tracking Statistics Report showed that 641,052 taxpayers were affected by identity theft in CY 2011. The IRS is not effectively providing assistance to victims of identity theft, and current processes are not adequate to communicate identity theft procedures to taxpayers, resulting in increased burden for victims of identity theft.

When taxpayers call to advise the IRS that their electronic tax return has been rejected because it appeared that another individual had already filed a tax return using the same identity, the IRS instructs them to mail in a paper tax return with the Form 14039, *Identity Theft Affidavit*, and to attach supporting identity documents. However, the IRS has been processing these tax returns using standard processing procedures.

Identity theft guidelines and procedures are dispersed among 38 different sections of the Internal Revenue Manual. These guidelines are inconsistent and conflicting, and not all IRS functions have guidelines on handling identity theft issues. In addition, the IRS is using little of the data from identity theft cases to identify any trends, etc., that could be used to detect or prevent future refund fraud.

As a result, TIGTA recommended that the IRS:

- Establish accountability for the Identity Theft Program;
- Implement a process to ensure that IRS notices and correspondence are not sent to the address listed on the identity thief's tax return;
- Conduct an analysis of the letters sent to taxpayers regarding identity theft;
- Ensure that taxpayers are notified when the IRS has received their identifying documents;
- Create a specialized unit in the Accounts Management function to exclusively work identity theft cases;
- Ensure that all quality review systems used by IRS functions and offices working identity theft cases are revised to ensure the selection of a representative sample of identity theft cases;
- Revise procedures for the Correspondence Imaging System⁸ screening process; and
- Ensure that programming is adjusted so that identity theft issues can be tracked and analyzed for trends and patterns.

IRS management agreed with all these recommendations and stated that it has taken or plans to take corrective actions.

Reference No. 2012-40-050

⁸ An IRS inventory control system.





Promote the Economy, Efficiency, and Effectiveness of Tax Administration

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

The IRS's implementation of audit recommendations results in:

- Cost savings;
- Increased or protected revenue;
- Protection of taxpayers' rights and entitlements; and
- More efficient use of resources.

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

Audit Emphasis Areas for April 2012 through September 2012

- Security for Taxpayer Data and Employees
- Tax Compliance Initiatives
- Modernization
- Implementing Major Tax Law Changes
- Fraudulent Claims and Improper Payments
- Providing Quality Taxpayer Service Operations
- Achieving Program Efficiencies and Cost Savings

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

Security for Taxpayer Data and Employees

As computer use continues to be inextricably integrated into the IRS's core business processes, effective information systems' security becomes essential to ensure that



data are protected against inadvertent or deliberate misuse, improper disclosure, or destruction, and that computer operations supporting tax administration are secured against disruption or compromise.

Insufficient E-Services Controls May Put Taxpayer Information at Risk

By law, the IRS can generally disclose tax information only to a taxpayer or that taxpayer's designee or attorney-in-fact. Taxpayers can authorize individuals to represent them and can authorize a designee or attorney-in-fact to receive confidential tax information.

However, taxpayers' sensitive tax return information is at risk of unauthorized disclosure when controls are insufficient to ensure that tax professionals properly file a power of attorney with the IRS before it discloses taxpayer information to them. Current IRS controls are insufficient to ensure that:

- Tax professionals obtain a signed Form 2848, *Power of Attorney and Declaration of Representation*, before submitting it via e-Services Disclosure Authorization;
- Tax professionals use Form 2848 only for its intended purpose; and
- Only tax professionals who can file a power of attorney electronically have access to Disclosure Authorization.

Although the IRS requires tax professionals to obtain a taxpayer signature before filing the power of attorney, existing controls do not ensure compliance with the requirement. Tax professionals are also using a power of attorney for purposes other than intended, such as for ordering and providing tax return transcripts for individuals who request them online. In addition, tax professionals who have access to e-Services but are not permitted by the IRS to electronically file a power of attorney can circumvent this control.

Finally, IRS employees have access to e-Services online tools even though they are prohibited from participating in tax preparation activities. The IRS should not allow IRS employees to have access to Disclosure Authorization and the Transcript Delivery System without managerial authorization and a business need.

TIGTA recommended that the IRS:

- Conduct periodic data analysis to identify tax professionals using Disclosure Authorization for other than its intended purpose;
- Verify that tax professionals are obtaining and retaining a signed power of attorney before submitting one through Disclosure Authorization;
- Periodically review policies for granting Disclosure Authorization access to tax professionals; and
- Ensure that unauthorized IRS employees do not have access to e-Services, and monitor the transactions of employees who do have authorized access.



IRS management agreed with most of the recommendations and stated that it plans to take corrective actions.

Reference No. 2012-40-071

An Enterprise Approach Is Needed to Address the Security Risk of Unpatched Computers

Patch management is an important element in mitigating the security risks associated with known vulnerabilities. The IRS has taken some actions to address patch management weaknesses, but an enterprise approach is needed to fully implement and enforce patch management policy. Any significant delays in patching software with critical vulnerabilities provides ample opportunity for persistent attackers to gain control over the vulnerable computers and get access to the sensitive data they may contain, including taxpayer data.

TIGTA recommended that the IRS implement enterprise-level responsibility to set and enforce IRS patch management policy, complete deployment of an automated asset discovery tool and build an accurate and complete inventory of information technology assets, take an enterprise-wide approach to buying tools to avoid redundancy and excessive cost, and complete implementation of controls to ensure that unsupported operating systems are not putting the IRS at risk.

IRS management agreed with the recommendations and stated that it planned to take corrective actions for most of the recommendations. Although IRS management agreed with the intent of the recommendation to hold system owners accountable for patching computers within prescribed time frames, it stated that its existing procedures addressed this recommendation and planned to take no corrective actions. While TIGTA believes further actions could have been taken, it also believes that IRS management will address this issue through other planned corrective actions.

Reference No. 2012-20-112

Tax Compliance Initiatives

Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and oversight of tax-exempt and Government entities. Increasing voluntary taxpayer compliance and reducing the Tax Gap⁹ remain the focus of many IRS initiatives. Nevertheless, the IRS continues to face significant challenges in obtaining complete and timely compliance data and developing the methods necessary to interpret the data. Even with improved data collection, however, the IRS will need to develop broader strategies and conduct more research to determine which actions are most effective in addressing taxpayer noncompliance.

⁹ The IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year.



Improved Oversight Is Needed to Effectively Process Whistleblower Claims

The IRS has authority to pay awards to whistleblowers for credible information relating to violations of Internal Revenue laws that result in the Federal Government's recovery of taxes, penalties, interest, and additional amounts collected. Without adequate oversight of whistleblower claims, the IRS is not as effective as it could be in responding timely to tax noncompliance issues. Also, the IRS's effort to improve compliance is important in reducing the Tax Gap and maintaining the integrity of the voluntary tax compliance system.

The IRS did not fully and adequately address previously reported internal control weaknesses on the processing of whistleblower claims. In a prior report,¹⁰ TIGTA found that information captured on three inventory systems, and subsequently transferred manually into a single inventory control system known as Entellitrak, was inaccurate. However, IRS management did not ensure that steps were taken to reconcile and correct the inaccurate information that was reported in the review.

TIGTA also determined that Whistleblower Program officials did not include a quality review process to ensure that claims are accurately controlled in the Entellitrak system. Moreover, guidance to employees did not specify that they review the received date of a claim, which is critical when reporting business results to internal and external stakeholders. During its review, TIGTA determined that additional reports could be generated to evaluate the effectiveness of the Whistleblower Program. Also, timeliness standards for processing claims have not been fully established, and the existing monitoring process has not been fully developed to improve efficiencies in processing whistleblower claims by IRS operating divisions.

In August 2011, the Government Accountability Office issued a report on the IRS's Whistleblower Program that included eight recommendations suggesting that the IRS collect more information in its claim tracking system and case processing activities, and that it incorporate more data in its reports regarding the effectiveness of the Whistleblower Program. TIGTA made no recommendations in its audit report on whistleblower claims because the IRS Whistleblower Office is currently addressing the recommendations in the Government Accountability Office's August 2011 report. The IRS plans to fully implement the corrective actions it has taken in response to the Government Accountability Office report by October 15, 2012.

During the review, the Whistleblower Program officials declined TIGTA's request for direct access to their management information system, citing concerns on their commitment to protect the identities of whistleblowers and taxpayers and their view that direct access to the system was not consistent with "need to know". The Whistleblower Office and TIGTA management did agree to an alternative method to obtain audit work from the case management system, as a substitute for direct access, so that TIGTA could continue the audit. However, the alternative method was not effective.

Reference No. 2012-30-045

¹⁰ TIGTA, Ref. No. 2009-30-114, *Deficiencies Exist in the Control and Timely Resolution of Whistleblower Claims* (Aug. 2009).



Implementing Better Management Controls Would Improve the Exempt Organizations Function's Ability to Properly Oversee and Timely Process Referrals

Referrals alert the IRS's Exempt Organizations function to potentially serious violations of Federal tax law. While the Exempt Organizations function has greatly improved its timeliness in acknowledging receipt of referrals to submitters, it did not always control referrals or process them timely. If referrals are not properly accounted for or worked timely, the Exempt Organizations function may not identify tax-exempt organizations that may be violating Federal tax law or have referrals ready when new examination cases are needed.

As a result, TIGTA recommended that the IRS:

- Ensure that all referrals are properly controlled, guidance is developed and updated, performance goals are developed, and timeliness measures are updated; and
- Evaluate the priority for additional funding for a more robust case management system.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.

Reference No. 2012-10-058

A Concerted Effort Should Be Taken to Improve Federal Government Agency Tax Compliance

Federal agencies are exempt from paying Federal income taxes. However, they are not exempt from meeting their employment tax deposits and related reporting requirements. As of December 31, 2011, 70 Federal agencies with 126 delinquent tax accounts owed approximately \$14 million in unpaid taxes. In addition, 18 Federal agencies had not filed, or had been delinquent in filing, 39 employment tax returns. Federal agencies should be held to the same filing and payment standards as all American taxpayers.

To improve the administration of the Federal Agency Delinquency Program, TIGTA made several recommendations to the IRS, which include strengthening the procedures for resolving delinquent tax accounts and assisting Federal agencies with understanding and meeting their tax responsibilities.

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

Reference No. 2012-30-094



Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts

TIGTA identified several control issues that adversely affected the ability of the IRS's Small Business/Self-Employed Division to timely and accurately post audit results to taxpayer accounts and protect the statutory period for assessing tax deficiencies. These issues increased the risk of: 1) allowing noncompliant taxpayers to avoid paying taxes they otherwise owe; 2) creating unnecessary burden on taxpayers by posting inaccurate tax assessments; and 3) compromising the integrity of the tax system by issuing erroneous tax refunds.

As a result, TIGTA made several recommendations, including that the IRS:

- Establish procedures to ensure that all audits entering the Centralized Case Processing operation with short statute expiration dates and large dollar deficiencies are timely and accurately assigned and processed in accordance with applicable procedures;
- Establish procedures to ensure accurate information is posted to taxpayer accounts; and
- Monitor employees' use of sensitive command code combinations.

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

Reference No. 2012-30-097

Modernization

The Business Systems Modernization Program (Modernization Program) is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system. Factors that characterize the IRS's complex information technology environment include: a wide variety of inputs from taxpayers; seasonal processing with extreme variations in processing loads; transaction rates on the order of billions per year; and data storage measured in trillions of bytes.

The IRS's modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. The Modernization Program provides new information technology capabilities and related benefits, and has continued to help improve IRS operations and business practices. Management of project costs and schedules has improved during the past year, but more attention must be given to systems development disciplines.



Customer Account Data Engine 2 Performance and Capacity Is Sufficient, But Actions Are Needed to Improve Testing

Built on the foundations of the current Customer Account Data Engine (CADE), CADE 2 will allow the IRS to convert the existing weekly individual taxpayer account processing system to daily batch processing. Such an enhancement should improve the service provided to taxpayers by allowing the IRS to more effectively and efficiently update taxpayer accounts, support account settlement and maintenance, and process refunds on a daily basis. The ability of the IRS to accurately execute, monitor, and assess performance and capacity testing directly affects whether, after implementation, CADE 2 will be capable of processing the necessary quantity and types of information within required time frames. The untimely completion of information processing could result in delayed taxpayer refunds and reduced customer service.

The IRS has successfully established a testing environment for CADE 2 that is representative of the production environment, thereby allowing the IRS to obtain meaningful data from its pre-production tests. However, the IRS did not follow procedures to ensure that performance requirements were completely tested during the Final Integration Test Phase I. As a result, the IRS may not have acquired all the necessary information to make a fully informed decision on the ability of the CADE 2 system to effectively process transactions under expected normal and peak workload conditions, within acceptable response time thresholds.

TIGTA also found that the IRS needs to develop procedures for access to, and retention and maintenance of, testing artifacts for Final Integration Testing.

TIGTA recommended that the IRS:

- Ensure that internal controls for testing performance and capacity requirements are formally and effectively implemented to ensure the traceability of these requirements through the performance testing process; and
- Develop procedures related to the access to, and retention and maintenance of, testing artifacts for performance testing.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.

Reference No. 2012-20-051

The IRS Is Making Progress Toward Implementing Daily Processing of Individual Tax Returns

At the end of CY 2011, the IRS had identified more than 122 million taxpayer accounts for daily processing and more than 148 million taxpayer accounts for weekly processing. Through April 30, 2012, the IRS had successfully processed 71 million individual tax returns through daily tax return processing.



TIGTA found that the IRS was able to accurately identify tax accounts for daily processing, and that its planning efforts reduced the risk associated with the daily processing of individual tax returns. In addition, the IRS effectively analyzed tax account transactions and other conditions that affect tax return processing, and identified those that would require additional time to process correctly. These transactions are referred to as disqualifiers. Tax accounts that contain one or more disqualifiers will continue to be processed weekly. TIGTA's review of 89 of 108 disqualifiers on more than 79 million taxpayer accounts processed between January 17 and February 29, 2012, found that the IRS computer system was correctly programmed.

The IRS conducted reviews of tax accounts and tax return transactions during the 2012 Filing Season to monitor the accuracy of CADE 2 processing. However, it verified only a fraction of the approximately 119 million individual tax returns processed through April 30, 2012. In addition, the IRS did not track which disqualifiers it was able to verify as part of its review. Unless the IRS verifies at least a limited number of tax accounts that contain each of the identified disqualifiers, there can be no assurance that individual tax account transactions are properly being posted to the Master File.

TIGTA made no recommendations as a result of the work performed during the review. However, IRS management reviewed the report prior to its issuance and agreed with the facts and conclusions presented.

Reference No. 2012-40-085

Despite Steps Taken to Increase Electronic Returns, Unresolved Modernized e-File System Risks Will Delay the Retirement of the Legacy e-File System and Implementation of Business Forms

The Modernized e-File (MeF) system, which will replace the existing electronic filing system (the Legacy e-File system), is a critical component of the IRS's initiative to meet the needs of taxpayers, reduce taxpayer burden, and broaden the use of electronic interactions. Unresolved performance issues with MeF Release 7.0 and planned Calendar Year 2012 infrastructure changes have impaired the IRS's efforts to retire the existing Legacy e-File system and have delayed plans for receiving employment tax forms through MeF Release 8.0. Deferring the implementation of employment tax forms and schedules will further delay the ability of the IRS to detect employment tax return errors on a real-time basis.

As a result, TIGTA recommended that the IRS:

- Defer retirement of the Legacy e-File system until the increased risk associated with retiring it can be addressed;
- Update the Internal Revenue Manual (IRM) to include improved performance testing processes, ensure system performance test teams obtain approved waivers or deferrals when performance tests are not executed, and ensure performance test teams submit End of Test Status Reports for senior management review; and



- Complete a retirement plan for the Legacy e-File system as well as communicate retirement milestones and timelines to key stakeholders.

IRS management partially agreed with these recommendations and stated that it is taking steps to build a contingency plan for the MeF system and updating the IRM. However, IRS management did not state that it would develop a Legacy e-File system retirement plan, along with associated implementation dates and monitoring plans.

Reference No. 2012-20-121

Implementing Major Tax Law Changes

Each filing season tests the IRS's ability to implement tax law changes made by Congress, because the IRS must often act quickly to assess the changes and determine the necessary actions to:

- Ensure that all legislated requirements are satisfied;
- Create new or revise existing tax forms, instructions, and publications;
- Revise internal operating procedures; and
- Reprogram major computer systems used for processing returns.

Processes to Address Erroneous Adoption Credits Result in Increased Taxpayer Burden and Credits Allowed to Nonqualifying Individuals

One of the challenges that the IRS addresses each year in processing tax returns is the implementation of new tax law changes. For instance, the Patient Protection and Affordable Care Act¹¹ contained a provision making the Adoption Credit refundable for Tax Years (TY) 2010 and 2011. As of December 23, 2011, the IRS had received 101,627 Adoption Credit claims totaling more than \$1.2 billion for TY 2010. Although the Adoption Credit provides benefits to many qualified individuals, the unintended consequence of refundable credits is that they are often the target of unscrupulous individuals who file erroneous claims.

The law did not provide, and the IRS did not seek, math-error authority for Adoption Credit claims that were not supported by sufficient documentation. As a result, 43,295 (42.6 percent) of the 101,627 total Adoption Credit claims were referred to the IRS's Examination function because of incomplete or missing documentation. Math-error authority would have allowed the IRS to reallocate approximately \$1.9 million to other high-priority programs within the Examination function.

TIGTA's review also found that, as of August 6, 2011, the IRS had processed 94,092 tax returns with an Adoption Credit claim and found that 4,258 (4.5 percent) taxpayers received almost \$49.3 million in Adoption Credits without sufficient supporting

¹¹ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of 18 U.S.C., 20 U.S.C., 21 U.S.C., 25 U.S.C., 26 U.S.C., 28 U.S.C., 29 U.S.C., 30 U.S.C., 31 U.S.C., 35 U.S.C., and 42 U.S.C.).



documentation. TIGTA estimated that 953 tax returns filed by these 4,258 taxpayers, claiming Adoption Credits totaling more than \$11 million, were erroneous.

In addition, TIGTA found that 333 taxpayers with valid Adoption Credit claims totaling \$2 million had their credits incorrectly suspended, and their tax returns were referred to the Examination function. However, these taxpayers had previously provided documentation when they applied for a Taxpayer Identification Number for a pending United States adoption.

TIGTA recommended that the IRS:

- Develop a process to prevent taxpayers from receiving the Adoption Credit when a foreign adoption is in process and to ensure that taxpayers identified as erroneously claiming the Adoption Credit are reviewed in the Examination function; and
- Ensure that computer programming accurately excludes tax returns that list Adoption Taxpayer Identification Numbers on Form 8839, *Qualified Adoption Expenses*, and indicate that the adoption is in process, so these taxpayers do not have their refunds erroneously suspended and delayed.

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

Reference No. 2012-40-065

Affordable Care Act: Planning Efforts for the Tax Provisions of the Patient Protection and Affordable Care Act Appear Adequate; However, the Resource Estimation Process Needs Improvement

The Patient Protection and Affordable Care Act contains many provisions that are to be implemented over the course of several years, including some that required implementation during the year the legislation was signed into law. TIGTA found that the IRS had developed appropriate plans to implement tax-related provisions of the Act using well-established methods for implementing tax legislation. The IRS's plans addressed tax forms, instructions, and most of the affected publications, as well as employee training, outreach and guidance to taxpayers and preparers, computer programming, and data needs.

The IRS projected its Fiscal Years (FY) 2012 and 2013 Patient Protection and Affordable Act staffing needs to be 1,278 Full-Time Equivalents and 859 Full-Time Equivalents, respectively. The IRS has not projected staffing needs beyond FY 2013. The lack of documentation to support the projected staffing requirements necessary to implement the Act precluded TIGTA from providing an opinion on the adequacy of staffing requests. The IRS did not analyze each provision to determine the amount of staffing necessary to implement the provision.



Therefore, TIGTA recommended that the IRS perform an analysis to evaluate the resources necessary to efficiently implement the provisions of the Act and to ensure that this process is documented.

IRS management agreed with the recommendation and stated that it plans to take corrective action.

Reference No. 2012-43-064

Affordable Care Act: While Much Has Been Accomplished, the Extent of Additional Controls Needed to Implement Tax-Exempt Hospital Provisions Is Uncertain

The Patient Protection and Affordable Care Act contains provisions that impact the IRS and tax-exempt hospital organizations. The IRS has made progress establishing controls to assess tax-exempt hospital organization compliance. However, additional work will be required once legal guidance is published. Until guidance is published, the public cannot be assured that the IRS has implemented all controls necessary to ensure compliance with the provisions of the Act that are designed to protect those served by tax-exempt hospitals.

In addition, the Department of the Treasury will be required in the near future to send its first annual report to Congress regarding tax-exempt hospitals. The IRS is responsible for working with the Department of Health and Human Services to gather the necessary data for this report. While communication has been established, the format and timing of receipt of data have not been formalized.

TIGTA recommended that the IRS work with the Department of the Treasury to establish a Memorandum of Understanding (MOU) with the Department of Health and Human Services. The MOU should take into consideration when information for the annual report to Congress should be received by the IRS and the proper format of the data to ensure that it will be timely and usable for the report to Congress.

IRS management agreed with the recommendation and stated that it plans to take corrective action.

Reference No. 2012-13-070

Fraudulent Claims and Improper Payments

Improper payments include: any payment to an ineligible recipient or for an ineligible service; any duplicate payment; any payment for services not received; and any payment that does not account for credit for applicable discounts. Improper payments issued by the IRS generally involve improperly paid refunds, tax return filing fraud, or improper payments to vendors or contractors.



Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications

In CY 1996, the IRS created the Individual Taxpayer Identification Number (ITIN) so that individuals who are not eligible to obtain Social Security Numbers could obtain an identification number for tax purposes. However, IRS management has not established adequate internal controls to detect and prevent the assignment of ITINs to individuals submitting questionable applications. The lack of adequate controls over the processing of ITIN applications can result in the improper assignment of ITINs to individuals who have not substantiated their identity or foreign status, which can result in fraudulent tax returns. Controls are important because of the volume of returns processed. In Processing Year 2011, the IRS processed more than 2.9 million ITIN tax returns resulting in tax refunds of \$6.8 billion.

As a result, TIGTA recommended that the IRS:

- Develop detailed procedures and deliver adequate training to identify questionable documents;
- Expand the quality review process to include emphasis on whether employees are accurately identifying fraudulent documents;
- Revise the criteria for identifying questionable applications;
- Establish a process to evaluate questionable applications;
- Develop a business process to include analyzing the current system to identify trends and schemes;
- Require only original documents or documents certified by the issuing agency in support of an ITIN application; and
- Discontinue the Certifying Acceptance Agent designation.

IRS management agreed with most of these recommendations and stated that it plans to take corrective actions.

Reference No. 2012-42-081

An Independent Risk Assessment of Facility Physical Security Was Not Performed in Compliance With Contract Requirements

The IRS has an obligation to protect the Federal Government's tax administration system, which includes approximately 100,000 employees stationed at more than 700 facilities, as well as taxpayer information and the taxpayers who visit the IRS throughout the United States. TIGTA's review identified significant deficiencies in the administration of an IRS physical security risk assessment contract. As a result, the contractor was unable to conduct an in-depth, independent assessment regarding the security posture of IRS facilities, as required by the contract. When contracts are not properly administered, the IRS may not receive the desired contract outcomes and the best return on the taxpayer's dollar.



Therefore, TIGTA recommended that the IRS:

- Reemphasize to IRS management officials, program office employees, and Contracting Officer's Technical Representatives (COTR),¹² that contracting officers must be promptly notified of any changes to contract requirements; and
- Ensure that COTRs perform their specific responsibilities including: advising the contracting officer when changes in the work occur; reviewing contractor vouchers and invoices to ensure that they are accurate; determining whether services are delivered in conformance with the requirements of the contract; and following the contract's quality assurance plan.

IRS management agreed with these recommendations and stated that it plans to take corrective actions.

Reference No. 2012-10-075

Expansion of Controls Over Refundable Credits Could Help Reduce the Billions of Dollars of Improperly Paid Claims

Refundable credits, unlike other tax credits, not only have the potential to reduce a taxpayer's tax liability to zero, but also allow the taxpayer to receive a cash payment of any remaining credit amount. During Tax Years 2006 through 2009, taxpayers claimed almost \$470 billion in refundable credits. Due to post-examinations, taxpayers were required to repay more than an estimated \$2.3 billion in erroneous credits. TIGTA found that taxpayers repeatedly claimed erroneous Additional Child Tax Credits after the credits had been disallowed the previous year.

TIGTA recommended that the IRS implement additional controls to identify and stop erroneous claims for refundable credits before refunds are issued, including:

- Implementing an account indicator to identify taxpayers who claim erroneous refundable credits. Taxpayers with such an indicator should be required to provide documentation before their claims for refundable credits are processed and should be considered for pre-refund examinations of claims. Such an indicator should be applied for a specified time period;
- Freezing and verifying claims for the Additional Child Tax Credit (ACTC) on all returns for which the Earned Income Tax Credit (EITC) is frozen; and
- Working with the Department of the Treasury's Office of Tax Policy to seek legislation to expand the EITC due diligence requirements and penalties to include the ACTC.

IRS management agreed with these recommendations and stated that it plans to take corrective actions.

Reference No. 2012-40-105

¹² The designation for Contracting Officer's Technical Representative has been changed to Contracting Officer's Representative.



Providing Quality Taxpayer Service Operations

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

Better Information Is Needed to Assess Ongoing Efforts to Expand Self-Assistance and Virtual Services to Taxpayers

Taxpayers have different preferences and behaviors that affect their service needs. The IRS's challenge is to meet taxpayer needs and determine how to provide the best services with its limited resources. The IRS is implementing or testing four strategic initiatives to examine the feasibility of Facilitated Self-Assistance and video conferencing technology as alternative service delivery options to replace traditional face-to-face contacts at Taxpayer Assistance Centers and Volunteer Program sites.

A limited number of taxpayers have used these alternative services: 33,636 have used Facilitated Self-Assistance in the Taxpayer Assistance Centers and 5,938 at the Volunteer Program sites, while 8,514 have used Virtual Services at the Taxpayer Assistance Centers and 2,101 at the Volunteer Program sites. Although these service options appear to be viable alternatives to serve more taxpayers and preserve limited resources, the IRS does not yet have sufficient data to determine if Facilitated Self-Assistance and Virtual Services are an effective and efficient means of providing customer service. Moreover, these services are not consistently offered to all taxpayers who may need or desire them.

The IRS is collecting data to determine the number of taxpayers who use Facilitated Self-Assistance and Virtual Services located in Taxpayer Assistance Centers and Volunteer Program sites. In some instances, it is gathering customer satisfaction ratings. Nevertheless, it has not established goals and measures for all four initiatives to gauge their success, nor has it accumulated data to determine if any or all are cost effective.

In addition, TIGTA auditors had difficulty contacting or locating Volunteer Program sites that offered Facilitated Self-Assistance or Virtual Services, and the IRS does not publish on its website the Taxpayer Assistance Centers offering Facilitated Self-Assistance.



TIGTA recommended that the IRS:

- Develop sufficient measures (including a customer satisfaction survey) and goals for the Facilitated Self-Assistance initiative in the Taxpayer Assistance Centers that will allow the IRS to determine if the initiative is cost effective and is meeting expectations;
- Establish a baseline and develop goals and measures for the Virtual Services initiative in the Volunteer Program sites, in order to ensure that it is meeting expectations;
- Emphasize to employees and volunteers the need to consistently offer taxpayers the option of using Facilitated Self-Assistance when available at their Taxpayer Assistance Center or Volunteer Program site; and
- Accurately publicize these alternative service options on its website.

IRS management agreed with three of the four recommendations and stated that it plans to take corrective actions. IRS management partially agreed with one recommendation, but stated that usage is a better measure than a customer satisfaction survey to evaluate the success of the Facilitated Self-Assistance initiative.

Reference No. 2012-40-073

Achieving Program Efficiencies and Cost Savings

Given the current economic environment and the increased focus by the Administration, Congress, and the American people on Government accountability and efficient use of resources, the American people must be able to trust that their Government is taking action to stop wasteful practices and to ensure that every tax dollar is spent wisely. While the IRS has made progress in using its data to improve program effectiveness and reduce costs, this area continues to be a major challenge.

The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in reduced Funds Available for Tax Administration

During FY 2011, the IRS entered into 89 separate agreements to perform services on a reimbursable basis. These services were conducted primarily on behalf of other Federal agencies, with the IRS collecting approximately \$90 million related to these agreements. However, TIGTA's review identified significant costs incurred by the IRS that were not reimbursed. Specifically, TIGTA's review of six randomly selected agreements identified more than \$28 million in costs incurred by the IRS that were not reimbursed. When the IRS is reimbursed in an amount less than the cost of performing reimbursable work, it must fund this work using its own operating budget, thereby reducing funds available for tax administration.

As a result, TIGTA recommended that the IRS:

- Ensure that all active reimbursable agreements are based on the full costs estimated for the services provided;



- Reconcile the identified difference between the amount of reimbursement receipts recorded in the IRS's Integrated Financial System and the amount of the expected reimbursement for one of the agreements that TIGTA reviewed, and pursue the collection of any unreimbursed funds, as applicable; and
- Ensure that guidelines are updated to require that overhead be included in reimbursable work cost estimates, and provide refresher training on a periodic basis to responsible business unit personnel.

IRS management agreed with these recommendations and stated that it plans to take corrective actions.

Reference No. 2012-10-076

Significant Additional Real Estate Cost Savings Can Be Achieved by Implementing a Telework Workstation Sharing Strategy

On June 10, 2010, President Obama directed Government agencies to eliminate excess properties and achieve \$3 billion in savings by the end of FY 2012. TIGTA's review found that the IRS has achieved some cost savings in support of the President's goal. However, these efforts are impeded by the lack of an established policy and effective strategy on implementing workstation sharing by IRS employees who telework. A policy requiring employees who telework to share workstations would allow the IRS to further reduce its long-term office space needs and achieve additional cost savings. Specifically, if employees who routinely telework on a full or part-time basis shared their workstations, 10,244 workstations could potentially be eliminated. This could allow the IRS to reduce its office space needs by almost one million square feet, resulting in potential rental savings of approximately \$111.4 million over five years.

TIGTA recommended that the IRS:

- Finalize an agreement with the National Treasury Employees Union (NTEU) that establishes a workstation sharing policy that can be implemented IRS-wide;
- Pursue a workstation sharing policy with other IRS business units similar to the agreement reached with its Information Technology organization until an agreement between the IRS and the NTEU is finalized;
- Develop an overall strategy that links workstation sharing with the IRS's planning for future space needs; and
- Reevaluate the potential impact of workstation sharing on all current real estate planning projects.

IRS management agreed with these recommendations and stated that it has taken or plans to take corrective actions.

Reference No. 2012-10-100



Protect the Integrity of Tax Administration

TIGTA is statutorily charged with protecting the integrity of Federal tax administration. TIGTA accomplishes its mission, in part, through the investigative case work conducted by the Office of Investigations (OI). Through its investigative programs, OI protects the integrity of the IRS by investigating allegations of IRS employee misconduct, external threats to employees and facilities, and attempts to impede or otherwise interfere with the IRS's ability to collect taxes.

Employee misconduct undermines the IRS's ability to deliver taxpayer service, enforce tax laws effectively, and collect taxes owed. Misconduct by IRS employees manifests itself in a variety of ways, including extortion, theft, taxpayer abuses, false statements, financial fraud, and identity theft.

TIGTA places the highest priority on its statutory responsibility to protect approximately 100,000 IRS employees located in over 700 facilities nationwide. In the last three years, threats directed at the IRS have become a larger percentage of OI's work. Physical violence, harassment, and intimidation of IRS employees continue to pose significant challenges to the implementation of a fair and effective system of tax administration. OI is committed to ensuring the safety of IRS employees and the security of IRS facilities.

Over the past decade, identity theft has become the top complaint of consumers.¹³ Not only does identity theft have a negative impact on the economy, but the damage it causes to its victims can be personally, professionally, and financially devastating. OI is committed to investigating identity theft that involves any type of IRS employee involvement, misuse of client information by preparers, or the impersonation of the IRS through phishing¹⁴ and other means.

Safeguarding the IRS

IRS contact with taxpayers can be stressful, and taxpayers may become confrontational or even violent. Taxpayers have made threats against IRS employees and some have physically assaulted employees. OI continues to place a priority on ensuring the safety and security of IRS employees and facilities.

The following case is representative of OI's efforts to safeguard IRS employees during this six-month reporting period:

¹³ Federal Trade Commission, *Consumer Sentinel Network Data Book for January – December 2011*, (February 2012).

¹⁴ Phishing is a fraudulent attempt, usually made through e-mail, to steal an individual's personal information.



John Daly Sentenced for Threatening and Intimidating an IRS Employee

On September 18, 2012, in the District of Massachusetts, John Daly was sentenced to two years of probation and ordered to pay a \$250 assessment for threatening and intimidating a United States official acting in official capacity.¹⁵ According to court documents, Daly threatened to assault an IRS employee with the intent to impede, intimidate, and interfere with the employee while the employee was engaged in the performance of official duties and with the intent to retaliate against the employee for performing official duties.¹⁶ Daly previously pled guilty to two counts of threatening a United States official and two counts of corrupt endeavor to impede the administration of the Internal Revenue Code.¹⁷

Investigating Identity Theft

Identity theft occurs when someone uses the Personally Identifiable Information (PII), e.g., name, Social Security Number, or credit card number, of another, without permission, to commit fraud or other crimes. Unfortunately, identity theft can be committed or facilitated by employees who have access to IRS information or others who may have knowledge of internal IRS operations. OI recognized that a proactive approach is needed to effectively reduce this risk to the American taxpayer and to Federal tax administration.

OI's jurisdiction to investigate identity theft involves:

- IRS employees who are involved in committing identity theft;
- Tax preparers who misuse and disclose client information to others in furtherance of identity theft; and
- Impersonation of the IRS in furtherance of an identity-theft scheme.

"Impersonation of the IRS as part of an identity theft scheme has many forms. Often, the IRS is impersonated by individuals who seek to trick unsuspecting taxpayers into revealing their personal information. The details of each scheme tend to vary, but the common thread is the use of the IRS name to lure recipients into accessing links or providing sensitive information."

J. Russell George
Inspector General for Tax Administration
"Problems at the Internal Revenue Service:
Closing the Tax Gap and Preventing
Identity Theft" testimony on April 19, 2012

OI is aggressively combating identity theft by dedicating investigative resources to: actively seek out and participate in Federal, State, and local identity theft task forces; initiate proactive projects to identify IRS employees who may be using taxpayer information to engage in identity theft; and respond to any allegations that IRS employees may be involved in identity-theft activity.

OI employs forensic data analysts, criminal investigators, and computer programmers who detect fraud involving the misuse of IRS computer systems and data in IRS

¹⁵ D. Mass. Judgment filed Sept. 20, 2012.

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

¹⁷ D. Mass. Plea Agr. filed June 6, 2012.



operations. This specialized group of analysts, investigators, and programmers attempts to uncover IRS employee-related identity theft schemes through the use of technology and other forensic tools.

The following cases are examples of OI's efforts to combat identity theft during this six-month reporting period:

Former IRS Employee Arrested for Aggravated Identity Theft, Mail Fraud, and Unauthorized Inspection and Disclosure of Tax Returns and Return Information

On July 5, 2012, in Lake Mary, Florida, former IRS employee Domeen Flowers was arrested by TIGTA,¹⁸ after being charged by a Federal grand jury on June 26, 2012, with aggravated identity theft, mail fraud, unauthorized inspection of tax returns and return information, and unauthorized disclosure of tax returns and return information.¹⁹

Flowers was hired by the IRS as a mailroom clerk in July 2007. From June 2009 to July 2009, Flowers accessed the IRS Integrated Data Retrieval System (IDRS), an electronic database, to obtain her landlord's tax information. Flowers used her landlord's PII, along with her own rental address, to obtain a credit card in her landlord's name without her landlord's permission.²⁰

Flowers caused a series of purchases aggregating approximately \$220 to be charged to the credit card. After Flowers attempted to use the credit card to pay an outstanding debt to the Philadelphia Gas Works, the bank mailed a letter addressed to Flowers' landlord at Flowers' rental address advising that it had placed a hold on the account until the cardholder provided various documents to verify the information contained in the cardholder's personal credit file.²¹

Flowers attempted to obtain additional identifying information from her landlord by preparing a bogus letter on IRS letterhead to her landlord that falsely informed her landlord that the IRS would audit her tax returns unless she faxed to the IRS copies of a valid driver's license or State issued I.D. card and a valid Social Security card. In the letter, Flowers instructed her landlord to fax copies of the documents to a fax machine located in her work area within the IRS workspace.²²

Jared Brewton Pleads Guilty to Impersonating an IRS Employee and Identity Theft in Fraudulent Tax Refund Scheme

On July 11, 2012, in the Southern District of New York, Jared Brewton pled guilty to false impersonation of an officer and employee of the United States, identity theft, subscribing to false and fraudulent U.S. individual income tax returns, and false,

¹⁸ E.D. Pa. Arrest Warrant executed July 5, 2012.

¹⁹ E.D. Pa. Crim. Indict. filed June 26, 2012.

²⁰ *Id.*

²¹ *Id.*

²² *Id.*



fictitious or fraudulent claims. Brewton was indicted by a grand jury on January 25, 2012.²³

According to court documents, from 2006 through 2010, Brewton obtained false and fraudulent tax refunds from the IRS by posing as an IRS "Audit Group Representative" named "Susan Waters." While doing so, Brewton sent letters to various employers demanding that they send him the names, contact information, dates of birth, and Social Security Numbers of employees. On at least one occasion, Brewton informed an employer that "identity theft is an [sic] an all-time high ... [and that] [o]ur offices are making every effort to ensure that no possible identity theft can occur by [sending the personal identifying information]."²⁴

Brewton then prepared and sent false and fraudulent Federal tax returns and accompanying forms that contained Form W-2 information, such as income and withholding, that was falsely and fraudulently inflated, in the names of various other taxpayers without their knowledge or consent. Brewton received fraudulently procured tax refunds, including those in the names of the other taxpayers, and used the refunds to purchase various personal items.²⁵ The investigation was worked jointly with IRS-Criminal Investigation.

Protecting Sensitive Taxpayer Information

Electronic tax records of all taxpayers are stored in computer systems maintained by the IRS. Misuse of this information can result in identity theft or other fraud. OI ensures the privacy and security of taxpayer information by detecting and investigating IRS employees who make or attempt to make unauthorized accesses to taxpayer information, as well as individuals who attempt to gain unauthorized access to IRS computer systems.

To ensure that sensitive taxpayer information is protected, OI evaluates IRS computer applications that process or contain taxpayer information and conducts proactive initiatives to detect unauthorized access to taxpayer data using a variety of tools. These tools include pairing computer matching programs with fraud detection scenarios to uncover unauthorized accesses to electronic taxpayer records contained in IRS computer systems. During this reporting period, OI initiated 207 unauthorized access investigations.

OI employs experienced computer specialists and criminal investigators who are part of a computer crimes unit that detects and investigates threats to IRS computer systems and networks from individuals attempting to gain unauthorized access. The computer crimes unit detects intrusions to IRS information systems, networks, hardware, telecommunications, Internet sites, and vendor-supplied software products.

²³ S.D.N.Y. Minute Entry filed July 11, 2012.

²⁴ S.D.N.Y. Crim. Indict. filed Jan. 25, 2012.

²⁵ *Id.*



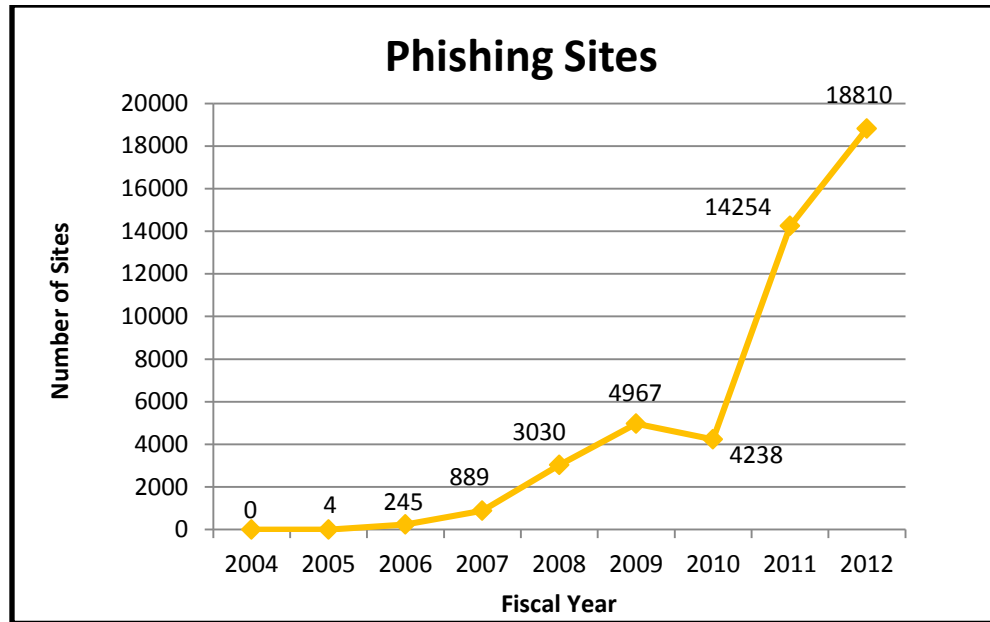
Combating Phishing Schemes

Criminals involved in identity theft schemes use creative ways to obtain victims' PII to commit fraud. Phishing, which usually involves mass solicitation of potential victims through e-mail or other forms of electronic communication, is a widespread method used by criminals to steal another's identity. Often scammers send e-mails claiming to be from the IRS. These phishing e-mails contain a "hook" that induces the victim to take some overt action. For example, an e-mail may contain an attachment or an Internet link which directs the victim to a website that appears to belong to the IRS. These hooks indicate to the victims that they are due a tax refund, but before they can collect they must provide additional information, such as their date of birth, SSN, bank information, or a credit card number. In some cases the victim is prompted to open an attachment in the e-mail which may contain malicious code, or "malware," designed to compromise the victim's computer.

Once installed, malware can steal information from victim-computers or serve as nodes in a network of compromised computers, known as "botnets," which are often used to perpetrate other illicit activity. While phishing schemes may vary in their technical complexity, most share a common trait: they involve computers located outside the U.S. Despite the significant investigative challenges this poses, OI has been successful in working with law enforcement personnel in foreign countries to identify the perpetrators and obtain prosecutions.

Each year the number of IRS phishing websites that go online increases. In FY 2012, 18,810 phishing websites were identified by the IRS Office of Online Fraud Detection and Prevention (OFDP), 4,556 more than previous fiscal year. Of those, approximately 3,582 websites were identified during this six-month reporting period.²⁶ Internet scams using IRS seals and symbols to solicit victims for PII, financial information, or money continued to be an investigative priority for OI during this six-month reporting period. OI is partnered with the IRS Computer Security Incident Response Center (CSIRC), the OFDP, and the Office of Safeguards, to aggressively combat these schemes.

²⁶ IRS Office of Online Fraud Detection and Prevention.



Number of Phishing Sites Identified Since 2004

The following case is representative of OI's effort to combat IRS phishing schemes during this six-month reporting period:

Christian Amaukwu Sentenced for Internet Fraud Scheme

On July 31, 2012, in Brooklyn, New York, Christian Amaukwu was sentenced to a total of 30 months of imprisonment and five years of supervised release for Aggravated Identity Theft and Conspiracy to Commit Wire Fraud. In addition, he was ordered to pay \$1,741,822 restitution to victims and a \$200 assessment.²⁷

According to court documents, Amaukwu and co-conspirators operated a scheme to defraud numerous individuals through Internet solicitations, stealing more than \$1 million and the identities of those individuals.²⁸ Amaukwu and his co-conspirators obtained massive e-mail distribution lists containing thousands of e-mail addresses, and sent unsolicited e-mails falsely informing victims that they had won a lottery or had inherited money from a distant relative. Follow-up e-mails instructed the victims to provide personal and bank account information to receive their lottery winnings or inheritance.²⁹

Subsequent e-mails to victims falsely indicated that a Government or a quasi-governmental agency, such as the IRS or the United Nations,³⁰ would not pay the money due to them because an advance payment of taxes and other fees was required.

²⁷ E.D.N.Y. Judgment filed Aug. 9, 2012.

²⁸ E.D.N.Y. Response to Defendant's Sentencing Letter filed Dec. 19, 2011.

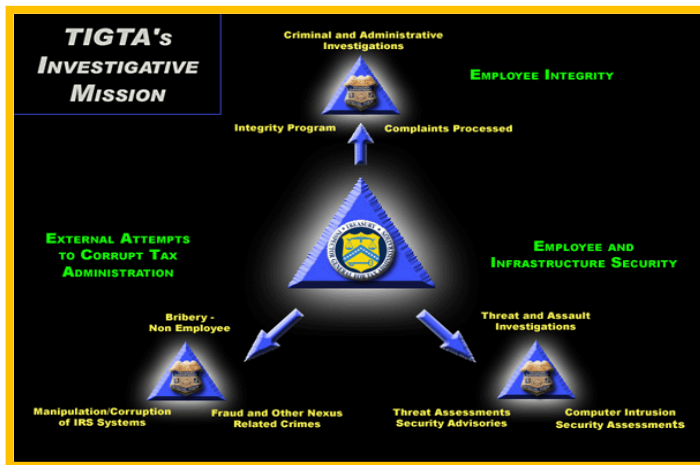
²⁹ E.D.N.Y. Superseding Info. filed May 10, 2011.

³⁰ E.D.N.Y. Response to Defendant's Sentencing Letter filed Dec. 19, 2011.

The e-mails solicited the victims to wire the money necessary to pay the taxes and other fees to designated bank accounts controlled by Amaukwu and his co-conspirators.³¹

If the victims were unable to pay the taxes and fees, Amaukwu and his co-conspirators offered to loan them the money. Victims were convinced to open online bank accounts and provide the necessary login information. Using this information, Amaukwu and his co-conspirators stole money from various bank accounts, transferred that stolen money to the victims' accounts, and instructed the victims to wire the money to foreign bank accounts controlled by Amaukwu and his co-conspirators as payment for taxes and other fees on their purported lottery winnings or inheritance. The victims never received any lottery winnings, inheritance, or other money in connection with the scheme.³²

Office of Investigations Performance Model



OI uses a performance model for its law-enforcement operations consistent with its mission to protect Federal tax administration. These performance measures guide the activities of OI personnel and help demonstrate the value of its accomplishments to external stakeholders. OI's investigations are based on a performance model that focuses on three primary areas of investigation: 1) employee integrity; 2) employee and infrastructure security; and 3)

external attempts to corrupt tax administration. The performance model is a valuable tool that allows OI to identify how resources are allocated and ensures that OI focuses its investigative efforts on its core mission. To gauge the value of its law enforcement activities, OI uses a formula to measure positive investigative results from these activities. Rather than simply tracking the number of investigations, OI's performance model measures the ratio of those investigations that have the greatest impact on IRS operations or the protection of Federal tax administration to total investigations conducted.

Through the use of this performance model, OI management can set and adjust performance expectations as the investigative environment changes, adapting to the IRS's continually evolving operations while taking into consideration the operational conditions unique to each field division. In addition to quantifying productivity, the model is a reliable tool for determining budget, training, and staffing needs.

³¹ E.D.N.Y. Superseding Info. filed May 10, 2011.

³² *Id.*



Employee Integrity Investigations

Due to trust and integrity implications, employee misconduct undermines the IRS's ability to collect taxes and deliver taxpayer services. IRS employee misconduct occurs in a variety of ways, including fraud, theft, unauthorized access to tax return information, false statements, extortion, and taxpayer abuses. During this reporting period, employee misconduct investigations have accounted for 50 percent of OI's work.

The following case examples are representative of OI's efforts to ensure employee integrity during this six-month reporting period:

IRS Employee Sentenced for Mail Fraud Related to a Benefits Scheme

On September 4, 2012, in the Eastern District of California, IRS employee Cheryl Frazier was sentenced to four months of imprisonment to be followed by three years of supervised release for mail fraud. Frazier was also ordered to pay \$13,285 restitution and a \$200 special assessment.³³

Frazier pled guilty, on June 6, 2012, to two counts of mail fraud related to a scheme to defraud the State of California of money. As part of her scheme, Frazier filed for and received unemployment insurance benefits from the California Employment Development Department (EDD) despite having obtained full-time employment with the IRS. She listed false information on claim forms and mailed them to the EDD. Frazier became a full-time IRS employee in about October 2008, but continued filing for and receiving unemployment insurance benefits through about April 2011.³⁴

IRS Employee Pleads Guilty to Theft of Taxpayer's Remittance Check

On April 2, 2012, in North Carolina, IRS employee Stephanie Taylor pled guilty to theft of Government property. According to court documents, Taylor was a secretary for the IRS collections group office in Winston-Salem. In this capacity, one of her duties was to open and distribute the mail, including any remittance checks sent to the IRS office by taxpayers. On February 23, 2011, a taxpayer reported that a check in the amount of \$1,738 had been mailed to the IRS, yet was never posted to the taxpayer's account.³⁵

The investigation revealed that the taxpayer had sent the remittance check to the IRS on February 9, 2011. The check was stolen and altered to reflect the name of "Stephanie Taylor" in the "To the order of" section and had been signed by Taylor. A review of Taylor's bank account disclosed she had deposited the altered check into her personal account on February 15, 2011.³⁶

³³ E.D. Cal. Judgment filed Sept. 6, 2012.

³⁴ E.D. Cal. Plea Agr. filed June 8, 2012.

³⁵ M.D.N.C. Plea Agr. filed Apr. 2, 2012.

³⁶ *Id.*



IRS Employee Sentenced for Unauthorized Inspection of Return Information

On April 24, 2012, in the Western District of Washington, IRS employee Jeanne Desozier was sentenced to a term of one-year probation and ordered to pay a \$25 assessment for inspecting tax return information without authorization.³⁷ As an employee of the IRS, Desozier willfully accessed and inspected the tax return information of three private individuals in violation of Federal law.³⁸ She used the IRS database to look up the addresses of two half-brothers and an old friend with whom she had lost contact. Desozier admitted that she should not have accessed the information. She pled guilty as charged and lost her job with the IRS, in addition to being sentenced for her actions.³⁹

IRS Employee Sentenced for Falsely Claiming a First-Time Homebuyer Credit

On May 7, 2012, in the District of Massachusetts, IRS employee Michael A. Doyle was sentenced to serve three years of probation, fined \$2,000, and ordered to pay \$7,500 restitution and a \$100 assessment.⁴⁰

On March 23, 2011, Doyle was indicted by a Federal grand jury on one count of violating Title 18, United States Code, Section 2878 – Filing False Fictitious and Fraudulent Claims.⁴¹ He was arrested on March 25, 2011,⁴² and was found guilty by a jury on February 8, 2012.⁴³

In 2008, the United States Congress passed the Housing and Economic Recovery Act, which established a first-time homebuyer tax credit. The Act allowed first-time home buyers to receive tax credits of up to \$7,500 when purchasing their homes, so long as the home was purchased after April 8, 2008 and before July 1, 2009.⁴⁴

Doyle had been employed by the IRS for approximately 20 years and, at the time of the offense, worked as a supervisor in the Small Business and Self Employed Division at the Andover Campus location.⁴⁵ Between February 12, 2009 and March 2, 2009, Doyle completed a 2008 U. S. Individual Income Tax Return, Form 1040, in which he falsely claimed to have purchased a home on April 15, 2008, in order to obtain a \$7,500 first-time homebuyer tax credit. In fact, that home was purchased on August 15, 2007 and was not eligible for the credit.⁴⁶ This investigation was worked jointly with IRS-Criminal Investigation.

³⁷ W.D. Wash. Judgment filed Apr. 24, 2012.

³⁸ W.D. Wash. Info. filed Apr. 11, 2012.

³⁹ W.D. Wash. Defendant's Sentencing Memorandum & Recommendation filed Apr. 20, 2012.

⁴⁰ D. Mass. Judgment dated May 8, 2012.

⁴¹ D. Mass. Indict. dated Mar. 23, 2011.

⁴² D. Mass. Arrest Warrant executed Mar. 25, 2011.

⁴³ D. Mass. Verdict dated Feb. 8, 2012.

⁴⁴ D. Mass. Indict. dated Mar. 23, 2011.

⁴⁵ *Id.*

⁴⁶ *Id.*



Employee and Infrastructure Security

TIGTA has the statutory responsibility to protect Federal tax administration by identifying and investigating threats to IRS personnel and physical infrastructure. OI is committed to protecting approximately 100,000 IRS employees and more than 700 IRS facilities throughout the country, so employees can feel secure and focus on performing their critical jobs. During this six-month reporting period, threat and assault investigations accounted for 39 percent of OI's work.

In 2011, OI assumed the sole authority and responsibility for all armed escorts of IRS employees. OI special agents provide escorts to IRS employees to ensure their safety when interacting with hostile and potentially dangerous taxpayers. OI conducted 42 armed escorts during this reporting period.

To support OI's proactive threat initiatives, particularly as they relate to anti-tax and anti-government extremist groups, OI established a full-time presence at the Federal Bureau of Investigation's (FBI) National Joint Terrorism Task Force and the Domestic Terrorism Operations Unit. These representatives ensure the timely dissemination of threat information that directly impacts IRS personnel, facilities, or critical infrastructure to OI.

The following case is an example of OI's effort to provide IRS employees with a safe and secure working environment.

Fugitive Larry M. Myers Sentenced for Conspiracy to Obstruct Justice

On May 14, 2012, in Tampa, Florida, fugitive Larry M. Myers was sentenced to 78-months imprisonment to be followed by 24 months of supervised probation. He was also ordered to pay a \$250 special assessment fee.⁴⁷ Myers was indicted along with 10 other individuals in March 1996.⁴⁸ He remained a fugitive for 14 years⁴⁹ until his arrest on August 5, 2011.⁵⁰

According to the indictment, on at least two previous occasions, Myers and his co-conspirators were investigated for obstruction of justice. Myers and his co-conspirators were members of "The Constitutional Court of We The People In and For The United States of America;" also known as the "Constitutional Common Law Court" (CLC); also known as "The Supreme Court of the Constitutional Court of We the People – In and For the united [sic] States of America," which was a pseudo-judicial, non-governmental, and unofficial enterprise, created and established in 1992 in Tampa, Florida.⁵¹

In conjunction with his co-conspirators, Myers established "The Constitutional Common Law Militia" (Militia) to act as the "Supreme Law Enforcement Authority" of the CLC.

⁴⁷ M.D. Fla. Sentencing Notice filed May 14, 2012.

⁴⁸ M.D. Fla. Indict. filed Mar. 15, 1996.

⁴⁹ M.D. Fla. Joint Status Report filed Sept. 15, 2011.

⁵⁰ M.D. Fla. Arrest Warrant Return filed Aug. 23, 2011.

⁵¹ M.D. Fla. Indict. filed Mar. 15, 1996.



The Militia was entrusted by the CLC to execute its “arrest warrants,” and to enforce its judicial “orders.” Militia members were, in most cases, participants in or “members” of the CLC.⁵² Among other things, members of this group were subjects of an IRS investigation and inquiry into the potential use of violence by individuals who advocate unlawful non-compliance with the United States Tax Code.⁵³

The Internal Security Division of the IRS, now known as TIGTA, participated in the investigation of Myers and his co-conspirators. Myers, along with others, sent a "complaint" to the assigned IRS Inspector accusing him of treason, and threatened arrest and incarceration unless he ceased his investigation.⁵⁴

On February 14, 2012, Myers was found guilty by a Federal jury of: conspiring to use threats and intimidation to prevent officers of the United States, including the IRS Inspector, from carrying out their official duties; mailing threatening communications with the intent to extort a thing of value; and obstruction of justice. The jury also found Myers guilty of conspiracy to mail threatening communications to intimidate and impede jurors and judicial personnel in the discharge of their lawful responsibilities.⁵⁵

External Attempts to Corrupt Tax Administration

TIGTA investigates external attempts to corrupt or impede the administration of Internal Revenue laws, such as impersonation of IRS employees or misuse of IRS seals, filing false or frivolous documents against IRS employees, using fraudulent IRS documentation to perpetrate criminal activity, offering bribes to IRS employees to influence their tax cases, and fraud committed by contractors hired by the IRS. During this reporting period, investigations into attempts to corrupt or impede tax administration accounted for 11 percent of OI's work.

The following cases are examples of OI's efforts to deter external attempts to corrupt tax administration during this six-month reporting period:

California Woman Sentenced for Misusing Treasury Department Symbols

On June 11, 2012, in the Eastern District of California, Desiree Caldwell, Chief Executive Officer of Elite HR Logistics, was sentenced to 36 months of probation and ordered to pay a fine of \$1500 and a \$25 assessment fee.⁵⁶

Caldwell pled guilty to one count of misusing the Department of the Treasury symbols or emblems.⁵⁷ According to court documents, Caldwell cut out an image of the IRS seal, as well as the signature of an IRS employee, from a document she had previously

⁵² M.D. Fla. Indict. filed Mar. 15, 1996.

⁵³ *Id.*

⁵⁴ *Id.*

⁵⁵ M.D. Fla. Sentencing Notice filed May 14, 2012.

⁵⁶ E.D. Cal. Judgment June 11, 2012.

⁵⁷ E.D. Cal. Plea Agr. Feb. 27, 2012.



received from the IRS, and taped the seal and signature onto a fake Letter of Subordination she created. Caldwell then created and faxed the fake letter to Riviera Finance to convey the false impression that the Letter of Subordination had been approved, endorsed, and authorized by the IRS. Relying upon the fake Letter of Subordination, Riviera Finance provided Caldwell's company \$7,807.33 in financing.⁵⁸

Gavriel Murdukhayevich Aronov Arrested for Bribery

On June 8, 2012, in Phoenix, Arizona, Gavriel Murdukhayevich Aronov, who owns and operates a small business with significant cash receipts,⁵⁹ was arrested for attempting to bribe an IRS employee.⁶⁰ According to the indictment, in January 2012, an IRS revenue agent met with Aronov to initiate an income tax audit. During the course of the audit, the revenue agent determined that Aronov owed approximately \$34,000 in additional unpaid taxes and penalties based on unreported income. On April 10, 2012, Aronov offered a bribe to the revenue agent to avoid a tax liability, and on April 20, 2012, he provided the revenue agent with an envelope containing \$4,000 in cash. Aronov also promised an additional \$1,000 upon receipt of an audit report showing zero tax liability.⁶¹

⁵⁸ E.D. Cal. Plea Agr. Feb. 27, 2012.

⁵⁹ D. Ariz. Indict. filed June 5, 2012.

⁶⁰ D. Ariz. Arrest Warrant Return filed June 8, 2012.

⁶¹ D. Ariz. Indict. filed June 5, 2012.



Advancing Oversight of America's Tax System

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

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

Inspections are intended to:

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

Evaluations are intended to:

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

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

Oversight of the Public Transportation Subsidy Program Can Be Further Improved

This project was initiated as a follow-up review of an earlier report⁶² to determine whether the IRS had implemented corrective actions and established the necessary controls to ensure that the Public Transportation Subsidy Program (Program) is properly monitored and effectively administered.

In March 2006, TIGTA found that the IRS was in basic compliance with the law⁶³ and had established procedures to administer the Program. However, to enhance Agency-

⁶² TIGTA, Ref. No. 2006-10-062, *The Administration of the Public Transportation Subsidy Program Can Be Improved*, (March 23, 2006).

⁶³ 5 U.S.C. § 7905.



Wide Shared Services (AWSS) processes and controls, TIGTA recommended that AWSS:

- Establish an annual recertification process for all employees participating in the Program;
- Require employees to certify their actual commuting costs when picking up their transit subsidies;
- Develop a better process to ensure that separated employees are removed promptly from the Department of Transportation (DOT) database; and
- Periodically match a valid statistical sample of IRS subsidy recipients to the DOT invoices to ensure that the invoices are limited to employees.

IRS management agreed to these recommendations. However, TIGTA found that the AWSS management has implemented only portions of the corrective actions proposed to address each of the recommendations made in 2006.

The IRS initiated a computerized application for the initial program enrollment, management approval, and subsequent subsidy change requests. Some employees are completing annual recertification, but this requirement is not yet in place IRS-wide. When picking up the subsidy, participants certify by their signature the actual commuting expenses for the previous period.

Travel Services Branch staff members access multiple internal data sources to identify and remove separated employees from the Program database. Also, Travel Services Branch staff members select a monthly statistical sample of participants for review to verify that only IRS employees are receiving the benefit and to identify any potential abuse within the Program. However, the reviews could be more accurate if additional data sources were used. Further, the Travel Services Branch did not always maintain records of the cases that its staff members had referred to TIGTA's Office of Investigations, and the results of the Program reviews were not shared with either the affected employees or their managers.

TIGTA recommended that the Chief, AWSS:

- Ensure that the IRS completes the rollout of the recertification process IRS-wide;
- Ensure that the Internal Revenue Manual (IRM)⁶⁴ is updated to include the specific requirements for recertification;
- Increase coordination with the DOT to identify an effective process for removing separated employees from the DOT database, in order to reduce the potential loss of IRS Program funds; and

⁶⁴ The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities.



- Modify the current review processes by including additional data sources to improve the accuracy of the review results.

TIGTA also recommended that the Chief:

- Publish the necessary IRM procedures to ensure that managers and participants are notified when a review identifies questions concerning the accuracy of the transportation subsidy; and
- Develop Program operating procedures to include requirements for documenting all referrals made to any party external to the Travel Services Branch staff.

The Chief, AWSS, agreed with these recommendations and has initiated, or plans to initiate, corrective actions. Implementation of these corrective actions will enhance the accountability of the Program by improving internal controls and communications. Many of these corrective actions will require negotiations with the NTEU before they can be implemented.

Report Reference No. 2012-IE-R004



TIGTA's International Programs

TIGTA is committed to providing comprehensive oversight of IRS international programs and operations by developing a strategy of international audit, inspection, and law enforcement liaison and outreach. This will enhance TIGTA's capacity to execute its oversight model in the international environment.

The International Tax Gap

The IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year. The International Tax Gap – the amount the U.S. loses each year that is attributable to the abuse of offshore tax havens is estimated to be approximately \$100 billion.⁶⁵

The IRS has embraced a Service-wide approach to international tax administration that seeks to address more effectively the increased globalization of both individuals and businesses. This strategy is designed to improve voluntary compliance with international tax provisions and to reduce the tax gap attributable to international transactions.

IRS Exchange of Information Program

A key component in this IRS strategy is the Exchange of Information (EOI) Program. The EOI Program is an important tool for effective tax administration in the global environment because it promotes transparency in international transactions. International agreements, such as tax treaties and Tax Information Exchange Agreements (TIEA), are administered to avoid double taxation and to enforce the tax laws. TIEAs facilitate the exchange of information between the U.S. and many other countries, even where there is no bilateral tax treaty in place. They generally allow for mutual assistance for both civil and criminal investigations. Recent TIEAs involve countries such as the Netherland Antilles, the Cayman Islands, Jersey, the British Virgin Islands, Guernsey, Antigua, and the Isle of Man. The IRS administers its EOI Program through Tax Attachés, a Revenue Service Representative, and Headquarters Managers, in six offices located around the world:



- National Headquarters, Washington, D.C.
- Revenue Service Representative, Plantation, Florida
- Tax Attaché, London, United Kingdom

⁶⁵ U.S. Senate Committee on Homeland Security and Government Affairs, Permanent Subcommittee on Investigations, *Tax Haven Banks and U.S. Tax Compliance*. Washington D.C. July 17, 2008, http://hsgac.senate.gov/public/_files/071708PSIRreport.pdf.



- Tax Attaché, Paris, France
- Tax Attaché, Frankfurt, Germany
- Tax Attaché, Beijing, China

Inspection of the EOI Process at the Plantation, Florida, Office

TIGTA continues to execute risk assessment inspections designed to highlight challenges to the effectiveness of the IRS's international activities. These inspections are designed to be repeated over time and across all IRS locations involved in international operations. The data gathered will subsequently be analyzed for potential trends and other indicators that will assist management in identifying potential risk areas in IRS's international operations.

Plantation, Florida, Post Jurisdiction

Country	Tax Treaty in Force	TIEA in Force	Country	Tax Treaty in Force	TIEA in Force
Anguilla			Guyana		✓
Antigua & Barbuda		✓	Haiti		
Argentina			Honduras		✓
Aruba		✓	Jamaica	✓	✓
Bahamas		✓	Martinique		
Barbados	✓	✓	Mexico	✓	✓
Belize			Montserrat		
Bermuda	✓	✓	Netherland Antilles (Curaçao, Bonaire, St. Maarten & Saba)		✓
Bolivia			Nicaragua		
Brazil		✓	Panama		✓
British Virgin Islands		✓	Paraguay		
Cayman Islands		✓	Peru		✓
Chile	✓		St. Barthelemy (St. Barts)		
Colombia		✓	St. Christopher (St. Kitts) and Nevis		
Costa Rica		✓	St. Lucia		✓
Dominica		✓	St. Martin		
Dominican Republic		✓	St. Vincent and Grenadines		
Ecuador			Surinam		
El Salvador			Trinidad & Tobago	✓	✓
French Guiana			Turks & Caicos		
Grenada		✓	Uruguay		
Guadeloupe			Venezuela	✓	
Guatemala					

TIGTA reviewed the operations at the Plantation, Florida, office to ensure that the IRS was applying relevant policies and procedures consistently in its interaction with treaty partners through the international EOI Program. The review determined that the Plantation, Florida, office is operating largely in compliance with applicable IRM requirements.

The inspection covered all 190 cases in the Plantation office EOI Program inventory that were closed from April 1, 2011 through March 31, 2012. Each case file was reviewed for documentation to verify that as many as 15 specific controls detailed in the IRM were appropriately followed. Among TIGTA's specific findings were the following:

- **Second-Level Managerial Approval (Specific Exchanges)** – The IRM requires that all requests to foreign tax authorities be approved by second-level management.⁶⁶ Our review determined that only 39 percent of the EOI cases involving an outgoing request to a foreign tax authority were approved by second-level management as required.

⁶⁶ IRM 4.60.1.2.4.2(3), *Written Request Format* (Jan. 1, 2002).



- **60-Day Status Reports** – The IRM requires that EOI Program offices provide 60-day status reports to the IRS field offices that have submitted a request for information from a foreign tax authority.⁶⁷ TIGTA’s review determined that, while most of the EOI cases that involved a U.S.-initiated request pursuant to a tax treaty or a TIEA did contain evidence of the required status report, 37 percent did not.
- **Competent Authority Delegation** – The IRM requires that all exchanges of information with foreign tax administrations must occur through the U.S. Competent Authority.⁶⁸ TIGTA’s review determined that 100 percent of these exchanges were processed through the U.S. Competent Authority delegate.
- **IRS Criteria Checklist** – The IRM requires that each case “include a checklist that is to be completed on each incoming request to ensure that the foreign request meets IRS criteria.”⁶⁹ TIGTA’s review determined that checklists were completed in 98 percent of the cases involving a foreign-initiated request.
- **Receipt Confirmation** – The IRM requires that, upon receipt by a field office of a foreign-initiated request, the manager must confirm receipt with the EOI Program office and provide the assignment information.⁷⁰ TIGTA’s review determined that the field office confirmed receipt of the request in 96 percent of the cases in which foreign-initiated requests were referred to a field office.
- **Field Office 60-Day Response/Status** – Regarding foreign-initiated requests that are referred to a field office, the IRM requires that within 60 days from the date of the transmitting memorandum the revenue agent or international examiner must either obtain the requested information or provide a status report and the estimated completion date.⁷¹ TIGTA’s review determined that the field office provided the requested information or a status report within 60 days in 91 percent of the cases.

The remaining nine inspection items were not applicable, since the Plantation office did not process and close during the time frame under inspection any of the applicable types of cases, such as requests from foreign competent authorities seeking grand jury information, simultaneous examinations, or industry-wide exchanges with foreign tax authorities. Additionally, although the inspection reviewed 32 spontaneous exchange cases, none of the cases were initiated by a U.S. examiner. Consequently, none required the exchange to be processed through a second-level manager (*i.e.*, all of the cases were initiated by foreign tax authorities).

⁶⁷ IRM 4.60.1.2.4.3(4), *U.S. Initiated Specific Requests* (Jan. 1, 2002).

⁶⁸ IRM 4.60.1.2(3), *Specific Exchange Program* (Jan. 1, 2002).

⁶⁹ IRM 4.60.1.2.5(2), *Foreign Initiated Specific Requests* (Jan. 1, 2002).

⁷⁰ IRM 4.60.1.2.5.1.1(3), *Procedures for SBSE and LMSB Cases* (Jan. 1, 2002).

⁷¹ *Id.*



TIGTA recommended that the IRS Assistant Deputy Commissioner, International:

- Evaluate whether or not the IRM provisions requiring that all requests to foreign tax authorities be approved by second-level management, and that EOI Program offices provide 60-day status reports to the IRS field offices that have submitted a request for information received from a foreign tax authority, beneficially contribute to the effective administration of the EOI Program;
- Revise the IRM regulations and any other local procedural guidance as necessary to be consistent with that evaluation; and
- Establish effective managerial oversight procedures to ensure compliance with those regulations.

IRS management agreed with these recommendations and has already taken corrective action.

Report Reference No. 2012-IE-R006

International Visitors

TIGTA's international strategy includes engaging with foreign tax authorities in the sharing of mutually beneficial strategies for providing oversight of the IRS and foreign national revenue collection agencies. During this six-month reporting period, TIGTA was very pleased to host delegations from Cambodia, South Africa, Croatia, and Indonesia. These international visits, administered in association with the IRS International Visitors Program, serve to build working relationships and foster increased cooperation in the arena of international tax administration.



Cambodia

In June 2012, TIGTA hosted a seven-member delegation from the General Department of Taxation (GDT) of the Royal Government of Cambodia, led by His Excellency Sim Eang, Delegate of the Royal Government in Charge as Director General of the GDT. The GDT had previously worked with the U.S. Department of the Treasury, Office of Technical Assistance (OTA), to begin developing an employee training handbook about the importance of maintaining the confidentiality of taxpayer data. In that context, and upon OTA's advice, the GDT wanted to discuss with IRS and TIGTA officials the importance of ethics and integrity in tax administration, and to learn how these issues are handled both within the IRS and by TIGTA in its oversight capacity.



The GDT met with the Inspector General and representatives from TIGTA's Offices of Audit, Investigations, Inspections and Evaluations, and Chief Counsel. The topics discussed included:

- The organization and responsibilities of TIGTA, and its relationship with the IRS;
- IRS policies regarding confidentiality of taxpayer information, disclosure, ethics, and integrity;
- The development and delivery of ethics training material;
- Integrity Awareness Presentations delivered to employees;
- Employee training about protecting taxpayer information from disclosure; and
- Different types of unauthorized disclosures and how they are handled.

South Africa

In July 2012, TIGTA hosted a three-member delegation from the South African Revenue Service. The delegation was led by Mmathabo Abigail Sukati, Group Executive: Internal Audit. The delegation sought to understand how the internal audit function is positioned to ensure the effective and efficient provision of internal audit services to the IRS, including the methodologies and tools used, risk assessments, and performance management systems.

The delegation met with representatives from TIGTA's Office of Audit. As TIGTA is an independent organization and does not provide internal audit services for the IRS, the audit-centric discussion provided a better understanding of TIGTA's role in our Nation's tax administration and its relationship with the IRS.

Croatia

In August 2012, TIGTA hosted a three-member delegation from the Croatian Tax Administration (CTA), led by Mrs. Nada Čavlović Smiljanec, CTA Director General. The group formally met with the Inspector General and the respective heads of TIGTA's Offices of Audit, Investigations, Inspections and Evaluations, as well as the Chief Counsel. The CTA members wanted a better understanding of the role TIGTA plays in providing independent oversight of IRS activities in regards to promoting the effectiveness and efficiency of the administration of the U.S. tax system.

Indonesia

In September 2012, TIGTA hosted the Indonesian Working Group on Strengthening Integrity and Accountability. This group was established with the cooperation of the U.S. Agency for International Development (USAID) office in Jakarta, Indonesia, and includes government officials, journalists, academicians, and public interest specialists. The 24-member group that participated in this visit also included representatives from USAID.



The group met with the Inspector General and representatives from TIGTA's Offices of Audit, Investigations, Inspections and Evaluations, and Chief Counsel. Topics of interest to this group included a variety of areas common to Offices of Inspector General (OIG) activities, including:

- OIG scope, operations, and management;
- OIG Audits, Investigations, and Hotlines;
- Whistleblower protection;
- Performance management; and
- Law, legislation, and regulations.

TIGTA includes international tax administration as part of its annual audit planning process. At the end of FY 2012, TIGTA was finishing several reviews. These include a review of the **Foreign Earned Income Exclusion** where TIGTA is determining the impact of this exclusion on tax administration. TIGTA is also looking at the IRS's processing of **Foreign Currency Payments** to determine if taxpayer payments collected in foreign currencies are being effectively and efficiently processed. In addition, TIGTA's review of **Foreign Corporations Filing Compliance** will determine whether the IRS's automated penalty process has achieved its goal of encouraging filing compliance for entities with Forms 5471, *Information Returns of U.S. Person With Respect to Certain Foreign Corporations*, reporting requirements.



American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act)⁷² was enacted on February 17, 2009. The Recovery Act presented significant challenges to all Federal agencies as they moved to implement provisions quickly while attempting to minimize risk and meet increased standards for transparency and accountability. With its 56 tax provisions (20 related to individual taxpayers and 36 related to business taxpayers), the Recovery Act poses significant challenges to the IRS as the Nation's tax collection agency and administrator of the tax laws.

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

Deficiencies Continue to Exist in Verifying Contractor Labor Charges Prior to Payment

The IRS's Recovery Act funds expired on September 30, 2011. As such, only the funds that were obligated by the IRS prior to this date are available for the IRS to expend. As of October 11, 2011, the IRS had awarded 25 procurement actions to 17 contractor companies for Recovery Act program initiatives. These actions included procurements for reprogramming IRS computer systems, updating related tax forms and publications, and providing customer services to assist taxpayers with the new tax law provisions included in the Recovery Act. The total contract value of these initiatives was \$85.4 million, of which \$83.2 million had been disbursed to various contractors by October 1, 2011. The IRS follows the same laws, principles, procedures, and practices in awarding and administering contracts with Recovery Act funds as it does with other funds. However, there are additional OMB mandated requirements for Recovery Act procurements.

TIGTA's review of a statistically valid sample of \$1 million in labor charges determined that the IRS did not have documentation supporting \$394,430 of the invoiced labor hours that it had paid. Applying the results of the analysis to the \$5.3 million in labor charges for the procurement in which TIGTA identified unsupported payments, TIGTA estimates a total of \$927,992 may have been erroneously paid. IRS COTRs did not obtain required documentation supporting all billed labor charges. The unsupported labor charges relate to work performed by contractor and subcontractor employees. In contrast, TIGTA's review of a sample of \$34,306 in travel expenses found that COTRs did obtain documentation supporting the travel expenses claimed. TIGTA confirmed that the travel expenses submitted and paid by the IRS were consistent with Federal Travel Regulations.

⁷² Pub. L. No. 111-5, 123 Stat. 115.



TIGTA's review also determined that some labor hours billed and paid were at higher or lower rates than established in the contract for the qualification level of the individual for whom the hours were billed. Finally, TIGTA found that although the Contracting Officers verified the qualifications and experience levels of those contractor employees who were designated as key personnel, a similar verification of a random sample of the remaining personnel was not performed by the responsible COTR as required by their appointment letter.

TIGTA recommended that the IRS ensure:

- That established processes and procedures to verify all labor charges are followed prior to payment;
- The validity of all labor charges associated with the procurement that TIGTA identified as having a total amount paid of \$394,430 for labor charges that were not supported by required documentation. Actions should be initiated to recover any funds identified as being paid erroneously; and,
- That COTRs are in compliance with the requirement to perform random checks of resumes of individuals who are not considered to be key personnel if this requirement is included in their appointment letter.

IRS management agreed with the recommendations and stated that it plans to take corrective actions.

Reference No. 2012-11-101

In addition to this report, TIGTA responded to requests from the Recovery Accountability and Transparency Board (RATB):

ARRA Lessons Learned Survey

TIGTA participated in a multi-agency review of lessons learned implementing and executing the Recovery Act. On March 23, 2012, the RATB issued a letter to the Commissioner of the IRS informing him of the 16 agencies and departments that are to participate in the review. The overall objective of the Lessons Learned Survey was to identify which actions, processes, and mechanisms have either been beneficial or posed challenges to agencies, departments, and their respective Offices of Inspector General in meeting the requirements of the Recovery Act. Central to the review were cross-cutting issues that have surfaced in the following areas:

- Pre-award processes associated with Recovery Act funds;
- Outreach, education, and technical assistance provided to Recovery Act funds recipients;
- Performance measures; and
- Oversight.

As a result, TIGTA consolidated and classified IRS's responses to the Lessons Learned Survey and has forwarded it to the Office of Inspector General, Department of the



Interior, to be consolidated with responses from the other 15 agencies. IRS expressed a high degree of satisfaction with their implementation of the Recovery Act requirements while acknowledging that improvements could have been made.

Project # IE-12-008-A

Agency Verification of Recovery Act Funds

The Recovery Act authorized stimulus funds to be spent within very specific time frames. In keeping with its mission of transparency and accountability of Recovery Act funds, the RATB asked TIGTA to coordinate with the IRS and to respond to the following:

- Review and confirm the accuracy of the appropriation amount for each Treasury Account Funding Symbol (TAFS), or provide the amount of apportionment received from the Office of Management and Budget (OMB) for all formula-driven entitlements. In the event that the appropriation amount is incorrect, provide the correct amount and an explanation of the difference (e.g., rescissions, transfers in/out).
- Review and confirm that the obligation amount, as reported on the Recovery Act Financial Activity Report (FAR) dated June 30, 2012, for each TAFS, is correct.
- Provide a list of all expired funds, or funds that are projected to expire, by TAFS. This includes identifying any waivers granted by OMB that permit the obligation of Recovery Act funds past the December 31, 2012 deadline, as cited in the Dodd-Frank Wall Street Reform and Consumer Protection Act,⁷³ or any other special circumstances regarding time frames for obligating remaining funds.

TIGTA received a response from the Department of the Treasury on behalf of the IRS, and the response was forwarded to the RATB. The RATB will use the collected information to publish a list of Recovery Act appropriations and obligations as reported by the agencies.

Project # IE-12-014-A

⁷³ Pub. L. No. 111-103, 124 Stat. 1376 (2010).





An Organization That Values Its People

TIGTA's Training Academy Receives FLETA Accreditation

On July 12, 2012, TIGTA Training Academy Special Agent Advanced Training Program was awarded initial program accreditation by the Federal Law Enforcement Training Accreditation Board (FLETA). The training academy received initial accreditation from FLETA in November 2008, and reaccreditation in November 2011.



Pictured from left to right: Annette Scanlon, Training Specialist; Kay Arthur, Program Analyst/Accreditation Manager; Mike Radetic, Assistant Special Agent in Charge; Michael Delgado, Assistant Inspector General for Investigations; Marvin Weindorff, Special Agent; Gayle Hatheway, Special Agent in Charge; and Jacquelyne Ellison, Special Agent.





Congressional Testimony

During this reporting period, Inspector General J. Russell George testified before Congress on two occasions. The following are summaries of his testimony.

On April 19, 2012, Mr. George testified before the House Committee on Oversight and Government Reform, Subcommittee on Government Organization, Efficiency, and Financial Management, on "Problems at the Internal Revenue Service: Closing the Tax Gap and Preventing Identity Theft." Mr. George described how TIGTA provides oversight of the IRS's efforts to ensure that taxpayers comply with their tax obligations, as well as what the IRS is doing to address the growing risk of identity theft and tax fraud.

A wide range of factors influence voluntary compliance, including tax law changes, the economy, and changing demographics of the taxpayer population. There are also indirect effects of IRS enforcement activities beyond the direct effects of additional revenue collection. However, the IRS stated that it is very difficult to determine the impact that any IRS activity has on voluntary compliance.

From the perspective of tax administration, the IRS needs to overcome institutional impediments to more effectively address the Tax Gap (the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year). Such institutional impediments include incomplete compliance research, insufficient compliance strategies, incomplete document matching programs, and insufficient enforcement resources.

The IRS also has the challenging task of maintaining a quality workforce and enforcing tax laws in an environment of constantly changing tax legislation. For example, during FY 2010, the IRS encountered challenges from a variety of tax provisions that were created, extended, or expanded, including the American Recovery and Reinvestment Act,⁷⁴ the Worker, Homeownership, and Business Assistance Act of 2009,⁷⁵ the Hiring Incentives to Restore Employment Act of 2010 (HIRE Act),⁷⁶ and the Patient Protection and Affordable Care Act of 2010 (Affordable Care Act).⁷⁷

In order to better address the Tax Gap, the IRS has undertaken a number of enforcement initiatives. In December 2009, the IRS announced a suite of proposed reforms to improve oversight of the tax return preparer community. TIGTA is monitoring the IRS's implementation of its new Return Preparer Program, and has recommended several corrective actions which the IRS has agreed to implement.

Third-party reporting and transparency are hallmarks of high levels of tax compliance. The IRS has undertaken several initiatives in recent years to implement third-party

⁷⁴ Pub. L. No. 111-5, 123 Stat. 114.

⁷⁵ Pub. L. No. 111-92, 123 Stat. 2984.

⁷⁶ Pub. L. No. 111-147, 124 Stat. 71.

⁷⁷ Pub. L. No. 111-148, 124 Stat. 119.



reporting requirements. These initiatives include new basis reporting requirements for stockbrokers and mutual fund companies associated with the buying and selling of securities, and new merchant card reporting requirements to provide third-party reporting data on business receipts for the first time.

To improve its international compliance efforts, the IRS's strategic initiatives focus on strengthening reporting requirements, enhancing the IRS's access to international data, and aligning resources to cases and issues with the highest compliance risk. The IRS continues to work with the U.S. Department of Justice on tax evasion cases involving foreign countries that have bank secrecy laws which prevent the United States from obtaining information on taxpayer transactions.

The Department of the Treasury and the IRS recognize that the delivery of effective taxpayer service also has a significant impact on voluntary tax compliance. However, as a result of budget constraints, the IRS expects to have fewer resources at its disposal to provide such service.

TIGTA continues to assess efforts by the IRS to identify potentially fraudulent returns. For instance, in TIGTA's review of the IRS's processes to identify potentially fraudulent tax returns for screening, TIGTA auditors found that the majority of tax returns the IRS identified as being filed by prisoners were not screened to assess fraud potential. TIGTA has made a number of recommendations related to prisoner fraud. The IRS partially agreed to these recommendations, but work remains before the IRS is fully in control of this issue.

TIGTA is also identifying and quantifying potential tax refund losses resulting from identity theft, and has found that the amount of tax refunds issued based on false income documents is significantly greater than the amount detected and prevented by the IRS. The IRS has continued to take actions to improve its Identity Theft Program. Nevertheless, the improvements may not be sufficient to significantly reduce the burden that identity theft has placed on tax administration and on taxpayers whose identities have been stolen.

On May 8, 2012, Mr. George testified at a Joint Hearing before the House Committee on Ways and Means, Subcommittees on Oversight and Social Security, on the subject of identity theft and its impact on taxpayers and tax administration. Mr. George reported that, at the beginning of the 2012 Filing Season, the IRS announced the results of a nationwide sweep cracking down on suspected identity-theft perpetrators as part of a stepped-up effort against refund fraud and identity theft. For instance, the IRS has developed new identity-theft screening filters that it believes will improve its ability to identify false tax returns before they are processed and before any fraudulent tax refunds are issued. As of April 19, 2012, the IRS reported that it had stopped the issuance of \$1.3 billion in potentially fraudulent tax refunds as a result of its new identity-theft filters.

However, the IRS does not know how many identity thieves are filing fraudulent tax returns or the amount of revenue being lost. TIGTA evaluated the IRS's efforts to



identify and prevent fraudulent tax returns resulting from identity theft,⁷⁸ and found that, although the IRS detects and prevents a large number of fraudulent refunds based on false income documents, there is much fraud that it does not detect. For Tax Year 2010, TIGTA identified approximately 1.5 million additional tax returns with potentially fraudulent tax refunds totaling in excess of \$5.2 billion that had gone undetected by the IRS, and estimates that, unless the issue is addressed, the IRS could issue approximately \$26 billion in fraudulent tax refunds resulting from identity theft over the next five years.

The IRS has faced budget cuts, a hiring freeze, and staffing reductions during the same time it has encountered a significant surge in identity-theft refund fraud. Without the necessary resources, even with improved identification of potentially fraudulent returns, it is unlikely that the IRS will be able to work the entire inventory of potentially fraudulent tax refunds it identifies.

Direct deposit, which now includes debit cards, is often used by identity thieves to obtain fraudulent tax refunds. Approximately \$4.5 billion of the \$5.2 billion in potentially fraudulent tax refunds that TIGTA identified were issued by direct deposit. In September 2008, we reported⁷⁹ that the IRS was not in compliance with direct deposit regulations that require tax refunds to be deposited into an account only in the name of the individual listed on the tax return.⁸⁰ To date, little has been done to ensure that tax refunds are directly deposited only into the taxpayer's account.

In May 2012, TIGTA completed an audit that evaluated the assistance that the IRS provides to victims of identity theft, and found that the IRS is not effectively providing assistance to these victims.⁸¹ Of continuing concern is the length of time taxpayers must work with the IRS to resolve identity theft cases.

As a result of an assessment of its Identity Theft Program completed in October 2011, the IRS is currently planning improvements to the program. Nevertheless, these improvements may not be sufficient to significantly reduce the burden that identity theft has placed on tax administration and on taxpayers whose identities have been stolen.

Finally, when individuals steal identities and file fraudulent tax returns to obtain fraudulent refunds before the legitimate taxpayers file, the crime is simple tax fraud and it falls within the jurisdiction and programmatic responsibility of the IRS. However, there are related variations of identity theft that fall within TIGTA's jurisdiction. For instance, TIGTA is responsible for conducting investigations of IRS employees who use their access to taxpayer information as a means for stealing identities for the purpose of committing identity theft.

⁷⁸ TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

⁷⁹ TIGTA, Ref. No. 2008-40-182, *Processes Are Not Sufficient to Minimize Fraud and Ensure the Accuracy of Tax Refund Direct Deposits* (Sept. 2008).

⁸⁰ 31 C.F.R. Part 210 (2011).

⁸¹ TIGTA, Ref. No. 2012-40-050, *Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service* (May 2012).





Audit Statistical Reports Reports With Questioned Costs

TIGTA issued two audit reports with questioned costs during this semiannual reporting period.⁸² The phrase “questioned costs” means costs that are questioned because of:

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

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

Reports With Questioned Costs			
Report Category	Number	Questioned Costs⁸³ (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	10	\$200,912	\$82,147
2. Reports issued during the reporting period	2	\$2,406	\$928
3. Subtotals (Item 1 plus Item 2)	12	\$203,318	\$83,075
4. Reports for which a management decision was made during the reporting period ⁸⁴			
a. Value of disallowed costs	1	\$17	\$0
b. Value of costs not disallowed	3	\$132,101	\$49,773
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)⁸⁵	9	\$71,201	\$33,302
6. Reports with no management decision within six months of issuance	7	\$68,795	\$32,374

⁸² See Appendix II for identification of audit reports involved.

⁸³ “Questioned costs” includes “unsupported costs.”

⁸⁴ Includes one report in which the IRS allowed part of the questioned costs.

⁸⁵ Difference due to rounding.



Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued seven audit reports during this semiannual reporting period with the recommendation that funds be put to better use.⁸⁶ The phrase “recommendation that funds be put to better use” means funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

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

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

Reports With Recommendations That Funds Be Put to Better Use		
Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	0	\$0
2. Reports issued during the reporting period	7	\$21,940,094
3. Subtotals (Item 1 plus Item 2)	7	\$21,940,094
4. Reports for which a management decision was made during the reporting period ⁸⁷		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	4	\$650,185
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	4	\$21,289,909
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	0	\$0
6. Reports with no management decision within six months of issuance	0	\$0

⁸⁶ See Appendix II for identification of audit reports involved.

⁸⁷ Includes one report in which the IRS partially agreed with the values associated with the recommendations.



Reports With Additional Quantifiable Impact on Tax Administration

In addition to questioned costs and funds put to better use, the Office of Audit has identified measures that demonstrate the value of audit recommendations to tax administration and business operations. These issues are of interest to IRS and Treasury Department executives, Congress, and the taxpaying public, and are expressed in quantifiable terms to provide further insight into the value and potential impact of the Office of Audit's products and services. Including this information also promotes adherence to the intent and spirit of the Government Performance and Results Act of 1993 (GPRA).⁸⁸

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

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

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

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

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

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

Reliability of Management Information: Ensuring the accuracy, validity, relevance, and integrity of data, including the sources of data and the applications and processing thereof, used by the organization to plan, monitor, and report on its financial and operational activities. This measure will often be expressed as an

⁸⁸ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).



absolute value, *i.e.*, without regard to whether a number is positive or negative, of overstatements or understatement of amounts recorded on the organization's documents or systems.

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

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

Reports With Additional Quantifiable Impact on Tax Administration			
Outcome Measure Category	Number of Reports⁸⁹	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	8	2,151	\$228,868
Revenue Protection	2	137,109	\$60,275
Reduction of Burden on Taxpayers	9	3,425,791	\$0
Taxpayer Rights and Entitlements at Risk	13	1,594,996	\$182,488
Taxpayer Privacy and Security	1	1,492,215	\$0
Inefficient Use of Resources	4	0	\$7,006
Reliability of Management Information	6	0	\$13
Protection of Resources	0	0	\$0

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

- Increased Revenue: Reference Numbers 2012-10-076 and 2012-40-117;
- Taxpayer Burden: Reference Numbers 2012-40-111 and 2012-40-117; and
- Reliability of Management Information: Reference Number 2012-10-044.

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

- Taxpayer Burden: Reference Number 2012-30-093;
- Taxpayer Rights and Entitlements: Reference Number 2012-30-098; and
- Reliability of Management Information: Reference Numbers 2012-10-043, 2012-10-044, 2012-10-055, 2012-10-058, and 2012-10-087.

⁸⁹ See Appendix II for identification of audit reports involved.



Investigations Statistical Reports

Significant Investigative Achievements	
April 1, 2012 – September 30, 2012	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2450
Complaints against Non-Employees	2225
Total Complaints/Allegations	4675
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1560
In Process within TIGTA ⁹⁰	5
Referred to IRS for Action	149
Referred to IRS for Information Only	1072
Referred to a Non-IRS Entity ⁹¹	2
Closed with No Referral	1138
Closed with All Actions Completed	697
Returned to IRS – No Action Taken	52
Total Complaints	4675
Investigations Opened and Closed	
Total Investigations Opened	1753
Total Investigations Closed	1814
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$3,640,085
Court Ordered Fines, Penalties and Restitution	\$5,071,909
Out-of-Court Settlements	0
Total Financial Accomplishments	\$8,711,994

⁹⁰ Complaints for which final determination had not been made at the end of the reporting period.

⁹¹ A non-IRS entity includes other law enforcement entities or Federal agencies.



Status of Closed Criminal Investigations			
Criminal Referral	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	29	41	70
Referred – Declined for Prosecution	363	252	615
Referred – Pending Prosecutorial Decision	23	16	39
Total Criminal Referrals⁹²	415	309	724
No Referral	459	641	1100
Criminal Dispositions⁹³			
Criminal Disposition	Employee	Non-Employee	Total
Guilty	25	43	68
Nolo Contendere (no contest)	3	1	4
Pre-trial Diversion	5	3	8
Deferred Prosecution ⁹⁴	3	3	6
Not Guilty	2	0	2
Dismissed ⁹⁵	4	1	5
Total Criminal Dispositions	42	51	93
Administrative Dispositions on Closed Investigations⁹⁶			
Administrative Disposition	Total		
Removed or Terminated	303		
Suspended/Reduction in Grade	116		
Resigned Prior to Adjudication	96		
Oral or Written Reprimand/Admonishment	129		
Clearance Letter	83		
Closed - No Action Taken	55		
Non-Employee Actions ⁹⁷	454		
Total Administrative Dispositions	1236		

⁹² Criminal referrals include both Federal and State dispositions.

⁹³ Final criminal dispositions during the reporting period. These data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.

⁹⁴ Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon the defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.

⁹⁵ Court dismissed charges.

⁹⁶ Final administrative dispositions during the reporting period. These data may pertain to investigations referred administratively in prior reporting periods and do not necessarily relate to the investigations closed in the Investigations Opened and Closed table.

⁹⁷ Administrative actions taken by the IRS against non-IRS employees.



Appendix I

Statistical Reports - Other

Audit Reports With Significant Unimplemented Corrective Actions

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

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2007-10-082	Tax Exempt Organizations	May 2007	06/15/13	Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified F-1, R-1, P-1. Develop and implement a long-term strategy to automate the matching of Forms 1023, <i>Applications for Recognition of Exemption Under Section 501 (c)(3) of the Internal Revenue Code</i> , and 990, <i>Returns of Organization Exempt From Income Tax</i> , information against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations.
2008-40-167	Tax Compliance Initiatives	August 2008	12/15/13	The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed F-2, R-1, P-1. Create a single data entry point for processing Withholding Compliance Program cases, and provide lock-in-letter issuance authority to other IRS functions.
2009-10-107	Improving Performance and Financial Data for Program and Budget Decisions	July 2009	06/15/13 01/15/14	Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases F-1, R-2, P-1. Develop a comprehensive national policy regarding workstation sharing for the flexi-place program and the ratio of flexi-place employees to a shared workstation. F-1, R-4, P-1. Develop procedures requiring that building level projected space needs assessments include consideration of the impact of workstation sharing, and be periodically reconciled in total to agency-wide projected staffing levels.
2009-10-121	Improving Performance and Financial Data for Program and Budget Decisions	September 2009	12/15/12	The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel F-2, R-1, P-1. Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2009-40-130	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	02/15/14	<i>Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs</i> F-1, R-2, P-1. Refocus the Modernized Submission Processing Concept to include implementing a process to convert paper-filed tax returns prepared by individuals using a tax preparation software package into an electronic format.
2010-40-005	Providing Quality Taxpayer Service	December 2009	01/15/14	<i>Individual Taxpayer Identification Numbers Are Being Issued Without Sufficient Supporting Documentation</i> F-3, R-1, P-1. Ensure that the data on the Real-Time System are accurate and validate the records that indicate an agent submitted the application, to ensure that the Individual Taxpayer Identification Number Program has accurate and reliable data to oversee the Program.
2010-20-027	Taxpayer Protection and Rights	March 2010	10/15/13 10/15/13 09/15/14 09/15/14	<i>Additional Security Is Needed For Access to the Registered User Portal</i> F-1, R-1, P-1. Require suitability checks on delegated users who e-file tax returns or access the e-Services incentive products, and disable the principal consent feature on e-Services that allows a user to propagate his or her privileges to other users. F-1, R-3, P-1. Enhance the e-file application on the Third-Party Data Store to post the complete results of the Automated Suitability Analysis Program's spouse tax compliance check. F-1, R-5, P-1. Make passwords more difficult to guess by unauthorized individuals and decrease the use of SSNs as usernames. F-1, R-6, P-1. Implement a control to allow users to answer a series of challenge questions to unlock their accounts.
2010-40-043	Taxpayer Compliance Initiatives	March 2010	10/15/12	<i>A Service-wide Strategy Is Needed to Address Growing Noncompliance With Individual Retirement Account Contribution and Distribution Requirements</i> F-1, R-1, P-1. Ensure a Service-wide strategy is developed to address retirement provision noncompliance.
2010-40-045	Security of the IRS	March 2010	07/15/14	<i>Telephone Authentication Practices Need Improvement to Better Prevent Unauthorized Disclosures</i> F-3, R-1, P-1. Incorporate available technology to authenticate callers in the queue as part of the development of the Authentication Retention Project.
2010-20-044	Modernization of the IRS	May 2010	02/28/13 11/15/14	<i>Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program</i> F-1, R-2, P-1. Ensure that information technology equipment energy use is measured in order to determine the energy, efficiency, and savings from implementing energy improvements. F-1, R-5, P-1. Ensure that energy audits are performed at the data centers.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2010-20-056	Modernization of the IRS	June 2010	10/31/12	Additional Efforts Are Needed to Implement the Electronics Stewardship Program and Maximize the Energy Efficiency of Desktop Computer Equipment F-2, R-2, P-1. Develop a tracking system to support the ongoing review of the IRS' efforts in acquiring electronic products of which at least 95 percent are Electronic Product Environmental Assessment Tool-registered.
2010-30-061	Taxpayer Compliance Initiatives	June 2010	01/15/14 01/15/14	Plans Exist to Engage the Tax Preparer Community in Reducing the Tax Gap; However, Enhancements Are Needed F-1, R-1, P-1. Update the existing IRS Strategic Plan and ensure that strategic plans have all of the information in the plans as required by the Government Performance and Results Act of 1993 and Office of Management and Budget Circular A-11 (Preparation, Submission, and Execution of the Budget). F-2, R-1, P-1. Define and include in the IRS Strategic Plan sufficient measures to provide data that can be used to monitor the IRS's efforts to achieve objectives aimed at strengthening partnerships with tax practitioners and paid preparers to ensure effective tax administration.
2010-20-084	Security of the IRS	August 2010	10/15/12 09/30/12	More Actions Are Needed to Correct the Security Roles and Responsibilities Portion of the Computer Security Material Weakness F-2, R-1, P-1. Develop an effective and repeatable method to: identify all IRS and contract employees performing in established information technology security roles; include all IRS and contract employees performing in information technology security roles in the population for potential selection in the compliance assessments; and develop adequate procedures to validate compliance with current security role-related responsibilities through compliance assessments that incorporate supporting evidence of proper execution of assigned responsibilities. F-3, R-1, P-1. Ensure that adequate and accurate metrics are established that assess progress and can be analyzed to develop actions to further improve implementation of security roles and responsibilities policy.
2010-30-104	Taxpayer Compliance Initiatives	September 2010	06/15/13	Currency Report Data Can Be a Good Source for Audit Leads F-1, R-1, P-1. Explore the feasibility of making greater use of Currency Transaction Reports to pursue additional nonfilers and underreporters for audit.
2010-40-108	Providing Quality Taxpayer Service	September 2010	01/15/13	Toll-Free Telephone Access Exceeded Expectations, But Access for Hearing- and Speech-Impaired Taxpayers Could Be Improved F-1, R-1, P-1. Revise the various taxpayer instructions for calling the IRS, including notices, to clearly explain that the Tele-Typewriter/Telecommunications Device (TTY/TDD) number is for hearing- and speech-impaired individuals.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2010-40-121	Taxpayer Compliance Initiatives	September 2010	12/15/12 12/31/12 01/15/13	Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States F-1, R-3, P-1. Determine whether it would be feasible to require payers issuing multiple Forms 1042-S, <i>Foreign Person's U.S. Source Income Subject to Withholding</i> , to issue a single summary Form 1042-S at the end of the calendar year, to simplify reporting for the United States business and third-party payer and decrease taxpayer burden. F-2, R-1, P-1. Use the Foreign Country Codes on Form 1040NR, <i>U.S. Nonresident Alien Income Tax Return</i> , to ensure that the correct tax rate has been applied. F-3, R-2, P-1. Clarify instructions on what constitutes United States source income in the United States Tax Guide for Aliens (Publication 519) and Withholding of Tax on Nonresident Aliens and Foreign Entities (Publication 515) in regard to income from multi-level marketing companies.
2010-40-127	Taxpayer Compliance Initiatives	September 2010	04/15/13	It Will Take Years to Implement the Return Preparer Program and to Realize Its Impact F-1, R-2, P-1. Establish controls to ensure that Preparer Tax Identification Number (PTIN) applicants with domestic addresses are United States citizens or legal aliens, and the SSN of the PTIN applicant is not the SSN of a deceased person.
2011-40-014	Taxpayer Protection and Rights	January 2011	01/15/13 01/15/13	The Income Verification Express Services Program Needs Improvements to Better Protect Tax Return Information F-1, R-1, P-1. Develop and enforce minimum requirements for the Income Verification Express Services (IVES) Program that would help ensure participants are suitable to have a working relationship with the IRS and receive taxpayer information from the IVES Program. F-1, R-3, P-1. Within one year of revising Form 13803, <i>Income Verification Express Services (IVES) Application</i> , contact and obtain a completed Form 13803 from all current IVES Program participants.
2011-40-023	Erroneous and Improper Payments and Credits	February 2011	09/15/13 09/15/13	Reduction Targets and Strategies Have Not Been Established to Prevent the Issuance of Billions of Dollars in Improper Earned Income Tax Credit Payments Each Year F-1, R-1, P-1. Establish quantifiable reduction targets and strategies to meet those targets. F-2, R-1, P-1. Use the National Research Program sample to estimate instances where the IRS incorrectly pays less in EITC than the taxpayer claims (underpayments).
2011-30-020	Taxpayer Protection and Rights	March 2011	01/15/13	Taxpayer Payments Were Improperly Transferred to the Excess Collection File F-2, R-1, P-1. Request programming changes to systemically issue Letter 2765C when taxpayers submit payments after the Assessment Statute Expiration Date in advance of an examination adjustment or with an amended return.
2011-30-039	Human Capital	May 2011	10/15/12	Challenges Remain to Balance Revenue Officer Staffing With Attrition and Workload Demands F-1, R-1, P-1. Establish rules for optimizing staffing levels for Revenue Officers to address Collection's potentially collectible inventory.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2011-20-046	Security of the IRS	May 2011	01/15/13	Access Controls for the Automated Insolvency System Need Improvement F-1, R-1, P-1. Identify incompatible duties and implement policies to segregate those duties; issue a memorandum to program managers requiring them to adhere to the new policy when assigning duties and approving Automated Insolvency System access privileges; and designate a limited number of employees to perform the User Administrator duties.
2011-40-058	Providing Quality Taxpayer Service	July 2011	01/15/13	Taxpayers Do Not Always Receive Quality Responses When Corresponding About Tax Issues F-1, R-3, P-1. Complete the study of the interim letters to ensure that they: are strategically timed; alert taxpayers of delays and provide taxpayers with an accurate status and time period for case resolution; provide taxpayers with sufficient information to deter them from using other channels to contact the IRS regarding their case; and are clear and concise.
2011-10-107	Human Capital	September 2011	12/15/12	The Administration of Recruitment and Retention Incentives Has Improved, but Additional Actions Should Be Taken F-2, R-1, P-1. Develop a methodology to assess the impact of the use of recruitment and retention incentives in helping IRS management meet long-term workforce planning goals.
2011-20-111	Security of the IRS	September 2011	09/30/12 11/01/12 05/01/13 10/02/12	Continued Centralization of the Windows Environment Would Improve Administration and Security Efficiencies F-1, R-1, P-1. Establish an enterprise-wide Active Directory governing body that finalizes and enforces IRS Activity Directory forest design criteria, develops standards, oversees trusts, and ensures that unauthorized forests or domains are not implemented in the IRS. F-1, R-2, P-1. Ensure that the planned shutdown of the Business Systems Modernization forest is completed once the Systems, Applications, and Products Secure Network Communications solution is in place. F-2, R-1, P-1. Ensure that standards and processes are developed and implemented enterprise-wide to prevent servers and workstations from being connected to the network without the proper authorization and required compliance documentation. F-2, R-2, P-1. Ensure that scanning tools are utilized to locate unauthorized servers, workstations, and domains on the IRS network, and that adequate procedures are developed and implemented to ensure that they are removed.
2011-30-112	Taxpayer Compliance Initiatives	September 2011	01/15/13 01/15/13	Reducing the Processing Time Between Balance Due Notices Could Increase Collections F-1, R-1, P-1. Consider reducing the time between each notice by seven days. F-2, R-1, P-1. Consider establishing a business rule to address taxpayers with multiple balance due modules entering the notice stream at the same time.
2011-20-127	Modernization of the IRS	September 2011	02/01/13	The Customer Account Data Engine 2 Program Management Office Implemented Systems Development Guidelines; However, Process Improvements Are Needed to Address Inconsistencies F-1, R-2, P-1. Ensure that the Internal Revenue Manual includes detailed instructions on how to develop a Program-level test plan.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2012-10-006	Human Capital	November 2011	09/30/12 01/15/13	<i>The Internal Revenue Service Diversity Demographics Compare Favorably With Other Federal Agencies' Senior Executive Service Ranks</i> F-2, R-1, P-1. Consider partnering with Federal professional executive organizations to gain additional insight on diversity issues in the Federal executive community, identify mentoring practices, and use these partnerships as a tool to recruit executive applicants. F-2, R-2, P-1. Consider ways to communicate to employees the existence of professional executive organizations that may assist employees in their self-development efforts toward higher level positions.
2012-40-010	Tax Compliance Initiatives	December 2011	07/15/13	<i>More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed to Ensure That All Are Complying With the New Preparer Regulations</i> F-1, R-1, P-1. Monitor preparers' compliance with the e-file mandate.
2012-30-011	Tax Compliance Initiatives	January 2012	02/15/13 P-1: 03/15/13 P-2, P-3: 12/15/13	<i>Opportunities Exist to Identify More Taxpayers Who Underreport Retirement Income</i> F-1, R-1, P-1. Revise the Form 1099-R, <i>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</i> , to clarify the meaning of the taxable amount not determined box, to reduce taxpayer confusion when payers are unable to calculate the taxable amount of the distribution. F-1, R-4, P-1, P-2, P-3. Convert the Simplified Method Worksheet to a tax form and require taxpayers to file it with their tax returns.
2012-20-019	Security for Taxpayer Data and Employees	March 2012	12/31/12 12/31/12 12/31/12 12/31/12 12/31/12 12/31/12	<i>The Computer Security Incident Response Center Is Effectively Performing Most of Its Responsibilities, but Further Improvements Are Needed</i> F-1, R-1, P-1. Develop the Cybersecurity Data Warehouse capability to correlate and reconcile active servers connected to the IRS network with servers monitored by the Host-Based Intrusion Detection System. F-2, R-1, P-1. Require TIGTA's Office of Investigations to refer all reportable and relevant computer security incidents to the Computer Security Incident Response Center, except for those that cannot be shared due to privacy or legal concerns. F-2, R-2, P-1. Develop and use common identifiers to facilitate the reconciliation of the Computer Security Incident Response Center's incident tracking system to TIGTA's Office of Investigations' tracking system. F-3, R-1, P-1. Develop a standalone incident response policy for currency and accuracy. F-3, R-2, P-1. Develop a standalone incident plan that includes the elements recommended by the National Institute of Standards and Technology. F-3, R-3, P-1. Develop, update, and formalize all critical standard operating procedure and, once completed, test these procedures to ensure completeness and accuracy.
2012-30-030	Tax Compliance Initiatives	March 2012	04/15/13	<i>Actions Can Be Taken to Reinforce the Importance of Recognizing and Investigating Fraud Indicators During Field Audits</i> F-1, R-2, P-1. Reinforce the importance of involving a Fraud Technical Advisor in audits when there are indicators of fraud.



Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	Result for TIGTA
<p>Access to Information</p> <p>Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	<p>As of September 30, 2012, there were no instances where information or assistance requested by the Office of Audit was refused.</p>
<p>Disputed Audit Recommendations</p> <p>Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of September 30, 2012, there was one instance where significant recommendations were disputed: Using SmartID Cards to Access Computer Systems Is Taking Longer Than Expected (Reference No. 2012-20-115)</p>
<p>Revised Management Decisions</p> <p>Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	<p>As of September 30, 2012, no significant management decisions were revised.</p>
<p>Audit Reports Issued in the Prior Reporting Period With No Management Response</p> <p>Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.</p>	<p>As of September 30, 2012, there were no prior reports where management's response was not received.</p>
<p>Review of Legislation and Regulations</p> <p>Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 215 proposed regulations and legislative requests during this reporting period.</p>





Appendix II

Audit Products

April 1, 2012 – September 30, 2012

Audit Products	
Reference Number	Report Title
April 2012	
2012-10-043	Future Improvements Could Further Increase the Benefits of the Tuition Assistance Program (Inefficient Use of Resources: \$105,889; Reliability of Information: Six inaccurate records in the Tuition Assistance Program database)
2012-1C-034	Adequacy of the Contractor's Initial Disclosure Statement and Revision Number 1
2012-1C-035	Independent Audit of Contractor's Pre-Award Accounting System
2012-1C-042	Incurred Cost Audit for Fiscal Year Ended September 28, 2007
2012-1C-047	Purchasing System Follow-Up
2012-1C-048	Inadequate Fiscal Year 2011 Incurred Cost Proposal
2012-10-040	Opportunities Exist to Reduce Lockbox Fingerprinting Costs (Funds Put to Better Use: \$200,418)
2012-10-044	No Fair Tax Collection Practices Violations Were Closed in Fiscal Year 2011
2012-30-045	Improved Oversight Is Needed to Effectively Process Whistleblower Claims
2012-40-049	Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers
May 2012	
2012-20-041	Disaster Recovery Testing Is Being Adequately Performed, but Problem Reporting and Tracking Can Be Improved
2012-40-050	Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service (Taxpayer Burden: 838,095 taxpayer accounts impacted)
2012-10-046	The Exempt Organizations Function Should Take Action to Limit the Disclosure of Social Security Numbers on Publicly Available Tax-Exempt Returns
2012-10-055	Oversight of Nonbank Trustees Has Improved, but Resources Expended on the Program Should Be Reevaluated (Reliability of Information: four entities either erroneously appeared on or were erroneously absent from the IRS's list of approved nonbank trustees)
2012-20-051	Customer Account Data Engine 2 Performance and Capacity Is Sufficient, but Actions Are Needed to Improve Testing
2012-30-057	Problems Persist When Processing Undelivered Lien Notices and Notifying Taxpayers' Representatives (Taxpayer Rights and Entitlements: 43,821 taxpayer accounts impacted)
June 2012	
2012-10-058	Implementing Better Management Controls Would Improve the Exempt Organizations Function's Ability to Properly Oversee and Timely Process Referrals (Reliability of Information: 350 referrals not controlled on the Exempt Organizations' database and 48 referrals contained on the Exempt Organizations' database with inaccurate information)



2012-10-052	The Taxpayer Advocate Service's ASK-TAS1 Toll-Free Line Has Evolved Over Time, but Additional Steps Are Necessary to Evaluate Its Impact
2012-20-063	Enterprise-Level Oversight Is Needed to Ensure Adherence to Windows Server Security Policies
2012-40-065	Processes to Address Erroneous Adoption Credits Result in Increased Taxpayer Burden and Credits Allowed to Nonqualifying Individuals (Funds Put to Better Use: \$11,003,043; Inefficient Use of Resources: \$1,863,773; Taxpayer Rights and Entitlements: 333 taxpayer accounts impacted)
2012-43-064	Affordable Care Act: Planning Efforts for the Tax Provisions of the Patient Protection and Affordable Care Act Appear Adequate; However, the Resource Estimation Process Needs Improvement
2012-30-060	Despite Some Favorable Partnership Audit Trends, the Number of No-Change Audits Is a Concern
2012-30-066	Fiscal Year 2012 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 16 taxpayer accounts impacted)
2012-30-062	The Recommended Adjustments From S Corporation Audits Are Substantial, but the Number of No-Change Audits Is a Concern
2012-13-070	Affordable Care Act: While Much Has Been Accomplished, the Extent of Additional Controls Needed to Implement Tax-Exempt Hospital Provisions Is Uncertain
2012-1C-053	Contractor's Fiscal Year 2005 Incurred Cost Proposal
2012-1C-054	Contractor's Fiscal Years 2004 Through 2008 Inadequate Cost Impact Proposal
2012-1C-059	Contractor's Fiscal Year 2006 Incurred Cost Proposal Deficiency
2012-1C-061	Fiscal Year 2012 Labor Floor Checks for Civil Group
2012-30-068	Implementation of the Return Preparer Visitation Project Was Successful, but Improvements Are Needed to Increase Its Effectiveness
2012-40-071	Insufficient E-Services Controls May Put Taxpayer Information at Risk
2012-30-072	Fiscal Year 2012 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 9 taxpayer accounts impacted)
July 2012	
2012-40-073	Better Information Is Needed to Assess Ongoing Efforts to Expand Self-Assistance and Virtual Services to Taxpayers
2012-10-074	Accounting for the Austin Incident (Reliability of Information: \$13,493 in incorrectly coded expenditures)
2012-42-081	Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications
2012-10-069	The Remediation Plan Still Does Not Contain All the Necessary Actions to Address the Unpaid Assessments Material Weakness
2012-42-080	There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft (Funds Put to Better Use: \$20,797,046,368; Taxpayer Privacy and Security: 1,492,215 taxpayer accounts impacted)
2012-30-084	Fiscal Year 2012 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns
2012-10-076	The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in Reduced Funds Available for Tax Administration (Increased Revenue: \$28,001,070)
2012-40-085	The Internal Revenue Service Is Making Progress Toward Implementing Daily Processing of Individual Tax Returns
2012-10-075	An Independent Risk Assessment of Facility Physical Security Was Not Performed in Compliance With Contract Requirements (Inefficient Use of Resources: \$1,236,638)
2012-10-077	Office of Appeals Errors in the Handling of Collection Due Process Cases Continue to Exist (Increased Revenue: 1,772 taxpayer accounts impacted; Taxpayer Rights and



	Entitlements: 14,184 taxpayer accounts impacted)
2012-30-083	The Collection Function Develops Quality Fraud Referrals but Can Improve the Identification and Development of Additional Fraud Cases
2012-40-088	Ensuring the Quality Review Process Is Consistently Followed Remains a Problem for the Volunteer Program
August 2012	
2012-10-087	Statistical Portrayal of the Tax Exempt Bonds Office's Enforcement Activities Fiscal Year 2005 Through Fiscal Year 2010 (Reliability of Information: 50 penalty investigations for which time was not tracked)
2012-10-091	The Onboarding Process Has Improved, but Additional Steps Should Be Taken to Ensure Employees Have the Tools, Resources, and Knowledge to Be Successful and Productive
2012-1C-078	Initial Disclosure Statement and Revision 1 for Adequacy With Cost Accounting Standards
2012-1C-079	Fiscal Year 2011 Compliance With Requirements of Office of Management and Budget Circular A-133 Applicable to Research and Development (Questioned Costs: \$1,477,659)
2012-1C-082	Billing System Limited Scope Audit
2012-30-090	Fiscal Year 2012 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2012-20-086	The End-User Equipment and Services Organization Successfully Planned Its Reorganization; However, Program Measures and Efficiencies Can Be Improved
2012-30-092	Business Taxpayers Were Effectively Transitioned to Electronic Payments; However, They Were Not Always Timely Contacted When Payments Were Missed (Taxpayer Burden: 5,815 taxpayer accounts impacted)
2012-30-093	Improved Toll-Free Telephone Services Should Make It Easier for Taxpayers to Obtain Assistance During a Correspondence Audit (Taxpayer Burden: 35,591 telephone calls that will not be returned)
2012-30-095	Fiscal Year 2012 Statutory Review of Compliance With Legal Guidelines When Issuing Levies
2012-30-098	Fiscal Year 2012 Statutory Review of Compliance With the Freedom of Information Act (Taxpayer Rights and Entitlements: 95 responses to Freedom of Information Act or Privacy Act requests for which information may have been improperly withheld and 48 responses to Freedom of Information Act or Privacy Act requests that may not have been processed within statutory time periods)
2012-30-096	Procedures for Withdrawals and Releases of Notices of Federal Tax Lien Were Not Always Followed (Taxpayer Burden: 485 taxpayer accounts impacted; Taxpayer Rights and Entitlements: 13,547 taxpayer accounts impacted)
2012-40-103	Additional Controls Are Necessary When Processing Employees' Amended Tax Returns
2012-10-100	Significant Additional Real Estate Cost Savings Can Be Achieved by Implementing a Telework Workstation Sharing Strategy (Funds Put to Better Use: \$111,404,345)
September 2012	
2012-30-089	Fiscal Year 2012 Statutory Review of Restrictions on Directly Contacting Taxpayers (Taxpayer Rights and Entitlements: 4,845 taxpayer accounts impacted)
2012-30-102	Fiscal Year 2012 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 706 taxpayer accounts impacted)
2012-30-094	A Concerted Effort Should Be Taken to Improve Federal Government Agency Tax Compliance (Increased Revenue: \$2,400,000; Taxpayer Rights and Entitlements: 25 taxpayer accounts impacted; Taxpayer Burden: 17 taxpayer accounts impacted)
2012-30-104	Criminal Investigation's Firearms Training and Qualification Policies Need to Be Clarified



2012-30-097	Actions Are Needed to Ensure Audit Results Post Timely and Accurately to Taxpayer Accounts (Increased Revenue: \$719,779)
2012-40-105	Expansion of Controls Over Refundable Credits Could Help Reduce the Billions of Dollars of Improperly Paid Claims (Funds Put to Better Use: \$527,738,058)
2012-40-106	The Process for Individuals to Report Suspected Tax Law Violations Is Not Efficient or Effective (Inefficient Use of Resources: \$3,800,000; Taxpayer Burden: 581,535 taxpayer accounts impacted)
2012-40-108	Control Weaknesses Could Allow Taxpayers' Delinquent Accounts to Be Inappropriately Closed As Currently Not Collectible (Increased Revenue: \$115,725,586; Taxpayer Burden: 1,889 taxpayer accounts impacted)
2012-30-110	Collection Field Function Procedures Were Not Always Followed When Assessing Taxes on Businesses That Have Not Filed Tax Returns (Taxpayer Rights and Entitlements: 1,536 taxpayer accounts impacted)
2012-40-111	Delays In Processing Net Operating Loss Cases Resulted in Millions of Dollars in Unnecessary Interest Payments (Funds Put to Better Use: \$333,669,984; Taxpayer Burden: 74,360 taxpayer accounts impacted)
2012-11-101	Deficiencies Continue to Exist in Verifying Contractor Labor Charges Prior to Payment (Questioned Costs: \$927,992)
2012-40-113	Penalty Abatement Procedures Should Be Applied Consistently to All Taxpayers and Should Encourage Voluntary Compliance (Taxpayer Rights and Entitlements: \$181,547,944 and 1,514,757 taxpayer accounts impacted)
2012-40-116	While Use of the Modernized e-File System for Individual Tax Returns Has Increased, the Legacy e-File System Is Still Needed As a Backup (Revenue Protection: \$11,792,063)
2012-20-099	Audit Trails Did Not Comply With Standards or Fully Support Investigations of Unauthorized Disclosure of Taxpayer Data
2012-20-107	The Information Technology Organization Needs to Implement a Competency Database to Efficiently Manage Its Workforce
2012-20-112	An Enterprise Approach Is Needed to Address the Security Risk of Unpatched Computers
2012-40-117	The Estimated Tax Penalty Is Not Administered Equitably
2012-40-118	Processes for the Direct Deposit of Tax Refunds Need Improvement to Increase Accuracy and Minimize Fraud
2012-40-119	The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season (Funds Put to Better Use: \$159,031,326; Revenue Protection: \$48,482,716 and 137,109 taxpayer accounts impacted; Increased Revenue: \$2,016,843 and 379 taxpayer accounts impacted; Taxpayer Rights and Entitlements: \$940,524 and 1,217 taxpayer accounts impacted)
2012-20-109	The Customer Account Data Engine 2 Database Was Initialized; However, Database and Security Risks Remain, and Initial Timeframes to Provide Data to Three Downstream Systems May Not Be Met
2012-20-121	Despite Steps Taken to Increase Electronic Returns, Unresolved Modernized e-File System Risks Will Delay the Retirement of the Legacy e-File System and Implementation of Business Forms
2012-20-114	Treasury Inspector General for Tax Administration – Federal Information Security Management Act Report for Fiscal Year 2012
2012-20-115	Using SmartID Cards to Access Computer Systems Is Taking Longer Than Expected
2012-20-120	Annual Assessment of the Internal Revenue Service Information Technology Program
2012-20-122	Customer Account Data Engine 2 (CADE2): System Requirements and Testing Processes Need Improvements



Appendix III

TIGTA's Statutory Reporting Requirements

TIGTA issued 15 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2012, TIGTA completed its 14th round of statutory reviews that are required annually by the IRS Restructuring and Reform Act of 1998 (RRA 98). It also completed its annual reviews of the Federal Financial Management Improvement Act (FFMIA) of 1996, the Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The following table reflects the FY 2012 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Enforcement Statistics</p> <p>Internal Revenue Code (I.R.C.) Section (§) 7803(d)(1)(A)(i)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.</p>	<p>Ref. No: 2012-30-090, August 2012</p> <p>The IRS achieved full compliance with RRA 98 § 1204(a) requirements. However, TIGTA's review found that managers had not included records of tax enforcement results (ROTTER) in performance evaluation documents for the 145 employees reviewed.</p> <p>The IRS also achieved full compliance with RRA 98 § 1204(b) and (c) requirements. The IRS evaluated all employees on the fair and equitable treatment of taxpayers and prepared quarterly self-certifications showing that ROTERs were not used to evaluate employees.</p> <p>In FY 2011, the IRS launched mandatory RRA 98 § 1204 training for managers and employees. TIGTA selected a judgmental sample of 15 employees and found a high percentage of employees that understood the term "retention standard." However, 13 percent were not sure if they had attended retention standard training.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Restrictions on Directly Contacting Taxpayers</p> <p>I.R.C. § 7803(d)(1)(A)(ii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</p>	<p>Ref. No: 2012-30-089, September 2012</p> <p>The IRS has a number of policies and procedures in place to help ensure that taxpayers are afforded the right to designate a qualified representative to act on their behalf in dealing with IRS personnel in a variety of tax matters. However, TIGTA reviewed a statistical sample of 73 of 25,264 IRS Small Business/Self-Employed Division's closed field collection investigations and found that revenue officers were not always involving representatives appropriately in some key actions.</p> <p>In the sample of 73 cases, TIGTA found that 14 revenue officers deviated from procedures by: 1) contacting the taxpayer directly, instead of the authorized representative, on the initial or subsequent contact in the collection investigation; 2) not sending copies of taxpayer correspondence to the authorized representative; or 3) not allowing enough time for the taxpayer to obtain a representative. In addition, little documentation was found in managerial reviews indicating that managers checked to ensure revenue officers were: 1) involving representatives in all case actions; 2) providing representatives a copy of all original correspondence sent to taxpayers; and 3) allowing taxpayers sufficient time to obtain representation.</p> <p>Although none of the taxpayers in the 14 cases formally complained to the IRS or to TIGTA, the deviations can negatively affect the ability of taxpayers to obtain appropriate and effective representation during collection investigations.</p> <p>Moreover, the deviations can increase the risk of taxpayers seeking monetary damages from the IRS if its personnel are intentionally disregarding the direct contact provisions of the I.R.C.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.</p>	<p>Ref. No: 2012-30-057, May 2012 TIGTA reviewed a statistically valid sample of 105 Notices of Federal Tax Lien (NFTL) filed for the 12-month period ending June 30, 2011, and determined that the IRS mailed taxpayers lien notices in a timely manner as required. However, the IRS did not always follow its own regulations for notifying representatives of the filing of NFTLs. IRS regulations require taxpayer representatives be given copies of all NFTLs issued to taxpayers. For four (18 percent) of 22 sample cases for which the taxpayer had an authorized representative, the IRS did not notify the taxpayer's representative of the NFTL. TIGTA estimated that 43,817 taxpayers may have been adversely affected because the IRS did not follow requirements to notify the taxpayers' representatives of the taxpayers' rights related to liens.</p> <p>Additionally, when an initial lien notice is returned undelivered and a different address is available for the taxpayer, the IRS does not always meet its statutory requirement to send the lien notice to the taxpayer's last known address. From a judgmental sample of 250 undelivered lien notices, TIGTA identified four cases for which a new lien notice should have been sent to the taxpayer's updated address because IRS systems reflected the updated address prior to the lien preparation. These cases could involve legal violations because the IRS did not meet its statutory requirement to send lien notices to the taxpayer's last known address.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Extensions of the Statute of Limitations for Assessment of Tax</p> <p>I.R.C. § 7803(d)(1)(C)</p> <p>I.R.C. § 6501(c)(4)(B)</p>	<p>Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.</p>	<p>Ref. No: 2012-30-102, September 2012</p> <p>TIGTA's review of a statistical sample of 115 closed taxpayer audit files with extensions of the statute of limitations found that the IRS is compliant with I.R.C. § 6501(c)(4)(B). However, four of the taxpayer audit files did not contain documentation to indicate whether taxpayers were directly advised of their rights before consenting to extend the time to assess tax. In each of the four instances, the taxpayer's representative signed Form 872, <i>Consent to Extend the Time to Assess Tax</i>, and was notified of taxpayer rights regarding extending the assessment statute of limitations. Although notification to the taxpayers' representatives appears to meet the intent of the law, the IRS's internal procedures require notification to be provided to both the taxpayer and the representative.</p> <p>In addition, TIGTA's review found instances in which there was no documentation to support that the IRS complied with IRS procedures related to notifying taxpayers' representatives when an authorization for third-party representation existed. TIGTA's review included 100 taxpayer audit files that had authorizations for third-party representation and found that three of the taxpayer audit files did not contain documentation that the taxpayers' representatives were provided with the required notifications.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Levies</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Ref. No: 2012-30-095, August 2012</p> <p>The IRS is protecting taxpayers' rights when issuing systemically generated and manually prepared levies. TIGTA reviewed 30 systemically generated levies identified through the Automated Collection System and the Integrated Collection System and determined that systemic controls were effective to ensure taxpayers were given notice of their appeal rights at least 30 calendar days prior to the issuance of the levies. In addition, TIGTA identified and reviewed 59 manual levies issued by IRS employees on those same systems and determined that all taxpayers were given notice of their appeal rights at least 30 calendar days prior to issuance of the levies.</p>
<p>Collection Due Process</p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding taxpayers' rights to appeal lien or levy actions.</p>	<p>Ref. No: 2012-10-077, July 2012</p> <p>TIGTA's review continued to identify the same deficiencies in the IRS's processing of Collection Due Process cases. Specifically, TIGTA identified that the IRS's Office of Appeals did not always classify taxpayer requests properly and, as a result, some taxpayers received the wrong type of hearing. TIGTA also identified an increase in errors relating to the determination of the Collection Statute Expiration Date on taxpayer accounts, compared to that identified during prior audits. In addition, TIGTA found that Appeals personnel continue to not always document their impartiality as required.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Seizures</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.</p>	<p>Ref. No: 2012-30-072, June 2012</p> <p>TIGTA reviewed a random sample of 50 of the 747 seizures conducted from July 1, 2010 through June 30, 2011, to determine whether the IRS is complying with legal and internal guidelines when conducting each seizure. In the majority of seizures the IRS followed all guidelines, and TIGTA did not identify any instances in which the taxpayers were adversely affected.</p> <p>However, in 11 seizures TIGTA identified 14 instances in which the IRS did not comply with a particular I.R.C. requirement. Specifically, TIGTA found:</p> <ul style="list-style-type: none"> • The sale of the seized property was not properly advertised (I.R.C. § 6335(b)). • The amount of the liability for which the seizure was made was not correct on the notice of seizure provided to the taxpayer (I.R.C. § 6335(a)). • Proceeds resulting from the seizure were not properly applied to the taxpayer's account (I.R.C. § 6342(a)). • Information relating to the sale of the seized property was either incorrect or not provided to the taxpayer (I.R.C. § 6340(c)). <p>When legal and internal guidelines are not followed, it could result in the abuse of taxpayers' rights.</p>
<p>Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation</p> <p>I.R.C. § 7803(d)(1)(A)(v)</p>	<p>An evaluation of the IRS's compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.</p>	<p>Ref. No: 2012-30-066, June 2012</p> <p>The IRS has not reintroduced past Illegal Tax Protester codes or similar designations on taxpayer accounts. However, TIGTA found that out of approximately 4.2 million records and cases, there were 16 instances in which 16 employees had referred to taxpayers as "Tax Protester," "Constitutionally Challenged," or other similar designations in case narratives on the computer systems analyzed.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Disclosure of Collection Activities With Respect to Joint Returns</p> <p>I.R.C. § 7803(d)(1)(B)</p> <p>I.R.C. § 6103(e)(8)</p>	<p>Requires TIGTA to review and certify whether the IRS is complying with the requirement of I.R.C. § 6103(e) (8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Ref. No: 2012-30-084, July 2012</p> <p>IRS procedures provide employees with sufficient guidance for handling joint filer collection activity information requests. However, TIGTA could not determine whether the IRS fully complied with I.R.C. § 6103(e)(8) requirements when responding to written collection activity information requests from joint filers. IRS management information systems do not separately record or monitor joint filer requests, and there is no legal requirement for the IRS to do so. Further, TIGTA does not recommend the creation of a separate tracking system.</p>
<p>Taxpayer Complaints</p> <p>I.R.C. § 7803(d)(2)(A)</p>	<p>Requires TIGTA to include in each of its <i>Semiannual Reports to Congress</i> the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees, and other sources.</p>	<p>Statistical results on the number of taxpayer complaints received are shown on page 65.</p>
<p>Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996</p> <p>I.R.C. § 7803(d)(1)(G)</p> <p>I.R.C. § 6304</p> <p>RRA 98 § 3466</p>	<p>Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Ref. No: 2012-10-044, April 2012</p> <p>The IRS did not close any cases in FY 2011 that it classified as Fair Tax Collection Practice violations. In addition, there were no civil actions resulting in monetary actions for damages to taxpayers because of a Fair Tax Collection Practice violation. However, TIGTA identified one case that should have been coded and worked as a potential Fair Tax Collection Practice violation. TIGTA determined the case was not considered as a potential Fair Tax Collection Practice violation because guidance describing Fair Tax Collection Practice violations did not adequately define the allegation in this case as a potential violation.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Denial of Requests for Information</p> <p>I.R.C. § 7803(d)(1)(F)</p> <p>I.R.C. § 7803(d)(3)(A)</p>	<p>Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).</p>	<p>Ref. No: 2012-30-098, August 2012</p> <p>TIGTA reviewed a statistically valid sample of 60 Freedom of Information Act/Privacy Act cases and found 3.3 percent in which taxpayer rights may have been violated because the IRS improperly withheld information from requestors. TIGTA also found that the IRS properly adhered to the legal requirements under I.R.C. § 6103 in the sample of 60 requests reviewed. In addition, the results of TIGTA's last three audits in FYs 2010 through 2012 found that the IRS has remained relatively consistent in providing responses to requestors within the statutory time periods.</p>
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS's adequacy and security of its technology.</p>	<p>Information Technology Reviews:</p> <p>Ref. No. 2012-20-029, March 2012</p> <p>Ref. No. 2012-20-041, May 2012</p> <p>Ref. No. 2012-20-051, May 2012</p> <p>Ref. No. 2012-20-086, August 2012</p> <p>Ref. No. 2012-20-107, September 2012</p> <p>Ref. No. 2012-20-109, September 2012</p> <p>Ref. No. 2012-20-120, September 2012</p> <p>Ref. No. 2012-20-121, September 2012</p> <p>Ref. No. 2012-20-122, September 2012</p> <p>Security Reviews:</p> <p>Ref. No. 2012-20-019, March 2012</p> <p>Ref. No. 2012-20-063, June 2012 (SBU)</p> <p>Ref. No. 2012-20-099, September 2012</p> <p>Ref. No. 2012-20-112, September 2012</p> <p>Ref. No. 2012-20-114, September 2012</p> <p>Ref. No. 2012-20-115, September 2012</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Federal Financial Management Improvement Act of 1996 (FFMIA)</p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements or the establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Ref. No: 2012-10-069, July 2012</p> <p>The IRS continues to face challenges in becoming compliant with the FFMIA. TIGTA's review of the IRS's September 30, 2011, FFMIA remediation plan identified that the plan continues to provide specific remediation actions to address the material weakness related to information security. However, as previously reported, the IRS continues to not fully include costs and remediation actions that will address the material weaknesses relating to unpaid assessments. TIGTA found that this year's remediation plan does not include any specific details relating to the Customer Account Data Engine 2 (CADE 2). Since the CADE 2 is a key piece of the IRS's strategy to address its material weakness related to unpaid assessments, TIGTA continues to believe this information should be included in the remediation plan.</p>
<p>Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions</p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled <i>Drug Control Accounting</i>, dated May 1, 2007.</p>	<p>Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.</p>	<p>Ref. No: 2012-10-018, January 2012</p> <p>Nothing came to TIGTA's attention that caused TIGTA to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report were not appropriately presented in all material aspects in accordance with ONDCP-established criteria. The IRS reported that it expended \$66.5 million on ONDCP-related activities and completed 927 ONDCP-related investigations in FY 2011. The IRS also reported that it participated in 435 ONDCP-related cases that resulted in convictions, which represented an 88.1 percent conviction rate.</p>



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Improper Payments Elimination and Recovery Act of 2010 (IPERA)</p> <p>31 U.S.C. § 3321</p>	<p>Requires TIGTA to assess the IRS's compliance with improper payment requirements.</p>	<p>Ref. No: 2012-40-028, March 2012</p> <p>The methodology the IRS uses to estimate the Earned Income Tax Credit (EITC) improper payment rate results in a reasonable estimate of EITC overclaims. However, the IRS did not comply with all of the improper payment requirements included in the IPERA.</p> <p>The IRS has not established annual EITC improper payment reduction targets and has not computed a gross estimate of EITC improper payments, as the estimate does not include underpayments. An underpayment results when an EITC payment is made in an amount less than what an individual is entitled to receive.</p> <p>The IRS has plans in place to establish EITC reduction targets and is exploring the feasibility of computing an improper payment estimate for EITC underpayments.</p>



Appendix IV

Section 1203 Standards

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

Misconduct violations include:

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

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





Appendix V

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

Inspector General Peer Review Activity April 1, 2012 Through September 30, 2012

Last Peer Review Conducted on TIGTA Office of Audit

As part of the three-year cycle of independent peer reviews, on March 6, 2012, the General Services Administration, Office of the Inspector General, began its review of TIGTA's Office of Audit. The review was completed September 25, 2012, and stated:



In our opinion, the system of quality control for the audit organization of TIGTA in effect for the year ended March 31, 2012, has been suitably designed and complied with to provide TIGTA with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*; *pass with deficiencies*; or *fail*. TIGTA has received a peer review rating of *pass*.





Appendix VI Data Tables Provided by the IRS

The memorandum copied below is the IRS's transmittal to TIGTA. The tables that follow the memorandum contain information that the IRS provided to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period from April 1, 2012 through September 30, 2012. Also, data concerning substantiated RRA 98 §1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.

 <p>DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D. C. 20224</p> <p>HUMAN CAPITAL OFFICE</p> <p>October 3, 2012</p> <p>MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION</p> <p>FROM: Phyllis Brown  Director, Workforce Relations Division</p> <p>SUBJECT: Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress</p> <p>In response to your memorandum on July 25, 2012, to the Commissioner, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period April 1, 2012, to September 30, 2012.</p> <ul style="list-style-type: none"> • Report of Employee Misconduct by Disposition Groups; • Report of Employee Misconduct – National Summary; and, • Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS). <p>The attached tables contain information concerning alleged misconduct reported to Internal Revenue Service (IRS) managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of September 30, 2012. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).</p> <p>The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 87 §1203 allegations and removed six employees. Three employees retired or resigned prior to a final administrative action by management. In two of the removals IRS managers considered information forwarded in a TIGTA investigation. The Commissioner mitigated proposed removals in 37 cases.</p>	<p>2</p> <p>If you have any questions, please contact me, or a member of your staff may contact Julia Caldwell at 202-622-6363.</p> <p>Attachments (3)</p> <p>cc: Commissioner Deputy Commissioner for Services and Enforcement Deputy Commissioner for Operations Support National Taxpayer Advocate Executive Director, Equity, Diversity and Inclusion Chief, Communications & Liaison Associate Chief Counsel (GLS)</p>
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Reports of Employees Misconduct for the Period April 1, 2012 through September 30, 2012 Summary by Disposition Groups (Tables Provided by the IRS)

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Totals
Removal	41	65	9	1	116
Separation of Probationary Employees	2	40	3	4	49
Separation of Temporary Employees	0	15	0	2	17
Resignation/Retirement	35	113	23	17	188
Suspensions	102	243	131	0	476
Reprimands	100	459	342	6	907
Counseling	30	285	406	16	737
Alternative Discipline	23	63	40	0	126
Clearance	84	205	10	1	300
Closed Without Action	138	389	81	44	652
Closed Without Action (Caution Statement)	151	182	137	51	521
Forwarded to TIGTA	0	40	0	0	42
Suspended – Waiting Supplemental	0	2	0	0	2
Termination for Abandonment of Position	0	59	0	0	59
Termination for Other Than Job Abandonment	0	1	0	0	1
Case Suspended Pending Employee Return to Duty	1	1	0	0	3
Prosecution Pending for TIGTA ROI's	4	0	0	0	4
Total	711	2,162	1,185	142	4,200

Notes:

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

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

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

Extract Date: Monday, October 01, 2012

Report ID = T1R3a



Reports of Employee Misconduct for the Period April 1, 2012 through September 30, 2012 National Summary (Tables Provided by the IRS)

Inventory Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Issues	
TIGTA Investigations ROI ⁹⁸	442	813	(711)	(12)	(0)	532
Administrative Case ⁹⁹	580	2,283	(2,162)	(9)	(10)	682
Employee Tax Compliance Case ¹⁰⁰	541	1,193	(1,185)	(20)	(0)	529
Background Investigations ¹⁰¹	81	127	(142)	(3)	(0)	63
Total	1,644	4,416	(4,200)	(44)	(10)	1,806

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

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

Extract Date: Monday, October 01, 2012

Report ID = T1R1

⁹⁸ TIGTA Investigations (ROI) - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred a ROI to IRS for appropriate action.

⁹⁹ Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

¹⁰⁰ Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.

¹⁰¹ Background Investigation - Any matter involving a National Background Information Center investigation into an employee's background that is referred to management for appropriate action.



Summary of Substantiated I.R.C. Section 1203 Allegations Recorded in ALERTS for the Periods April 1, 2012 through September 30, 2012 (Tables Provided by the IRS)

§ 1203 Violation	Removals	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated ¹⁰²	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	0
False Statement Under Oath	0	0	0	0	0	0	0
Constitutional & Civil Rights Issues	0	0	0	0	1	0	1
Falsifying or Destroying Records	0	0	0	0	0	1	1
Assault or Battery	0	0	0	0	0	0	0
Retaliate or Harass	0	0	0	0	0	0	0
Misuse of § 6103	0	0	0	0	0	0	0
Failure to Timely File/ Under-statement of Tax Liability	6	3	0	0	35	35	82
Threat to Audit for Personal Gain	0	0	0	2	1	0	3
Totals	6	3	1	4	37	36	87

Notes:

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

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

Extract Date: Monday, October 1, 2012

¹⁰² The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third party appeal.

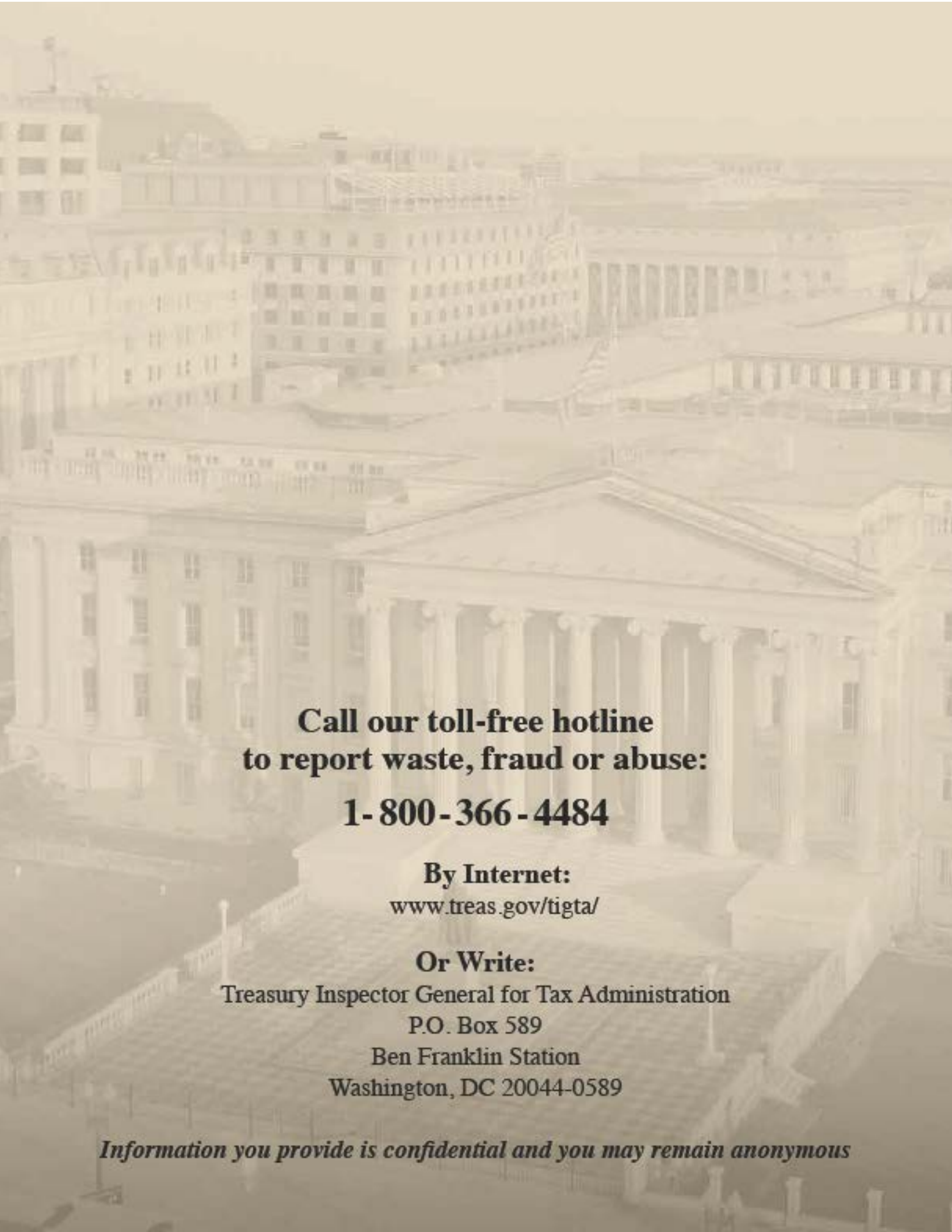


Glossary of Acronyms

ACTC	Additional Child Tax Credit
ALERTS	Automated Labor and Employee Relations Tracking System
AWSS	Agency Wide Shared Services
CADE	Customer Account Data Engine
CLC	Constitutional Common Law Court
COTR	Contracting Officer's Technical Representatives
CSIRC	Computer Security Incident Response Center
CY	Calendar Year
DOT	Department of Transportation
EDD	Employment Development Department
EITC	Earned Income Tax Credit
EOI	Exchange of Information
FAR	Financial Activity Report
FBI	Federal Bureau of Investigation
FFMIA	Federal Financial Management Improvement Act of 1996
FLETA	Federal Law Enforcement Training Accreditation Board
FY	Fiscal Year
GDT	General Department of Taxation
I&E	Inspections and Evaluations
IPERA	Improper Payment Elimination and Recovery Act of 2010
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual



IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
IVES	Income Verification Express Services
MOU	Memorandum of Understanding
NFTL	Notices of Federal Tax Lien
NTEU	National Treasury Employees Union
OA	Office of Audit
OFDP	Office of Online Fraud Detection and Prevention
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
OTA	Office of Technical Assistance
PII	Personally Identifiable Information
PTIN	Preparer Tax Identification Number
RATB	Recovery Accountability and Transparency Board
ROTTER	Records of Tax Enforcement Results
RRA 98	IRS Restructuring and Reform Act of 1998
SSN	Social Security Number
TIEA	Tax Information Exchange Agreement
TIGTA	Treasury Inspector General for Tax Administration
TTY/TDD	Tele-Typewriter/Telecommunications Device
TY	Tax Year
USAID	United States Agency for International Development



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