



Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2009 – SEPTEMBER 30, 2009

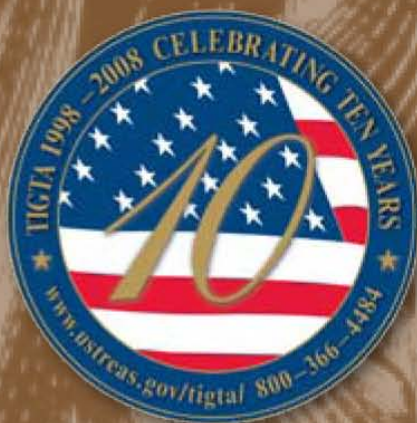




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INSPECTOR GENERAL'S MESSAGE TO CONGRESS



I am pleased to submit this Semiannual Report to Congress, highlighting the Treasury Inspector General for Tax Administration's (TIGTA) many accomplishments in promoting its mission to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of Federal tax administration. TIGTA's achievements for the six-month period ending September 30, 2009 (the Reporting Period), are showcased through the many noteworthy audits, investigations, and inspections and evaluations summarized in this report.

Now more than ever, it is critical to our Nation's future for the IRS to diligently perform its duty of collecting Federal tax revenues while administering the many economic recovery programs with which the IRS is charged. We at TIGTA are committed to ensuring that the IRS carries out its responsibilities to America's taxpayers as effectively and efficiently as possible and with the highest level of quality and service.

TIGTA's combined audit and investigative efforts have recovered, protected and identified monetary benefits totaling more than \$3.8 billion for the Reporting Period and more than \$14 billion for all of fiscal year 2009. These results are not unusual for TIGTA, as time and again our work has resulted in a significant return on investment for American taxpayers. For the Reporting Period, TIGTA's Office of Audit completed 86 reports (142 for all of fiscal year 2009) and our Office of Investigations closed 1,992 investigations (3,527 for all of fiscal year 2009).

Congress's passage of the *American Recovery and Reinvestment Act of 2009* (Recovery Act) resulted in the immediate need for increased oversight throughout all levels of government. The Recovery Act established the Recovery Act Accountability and Transparency Board, consisting of ten Inspectors General from across the Federal Government. TIGTA is one of the entities with statutory membership on this board. In this role, we will promote integrity and efficiency for all agencies that received Recovery Act funding, with particular attention to the IRS's administration of the many tax credits and other economic stimulus provisions contained in the Act.

TIGTA stands ready to continue carrying out our important mission of serving the American people by working to ensure the integrity of Federal tax administration.

Sincerely,

A handwritten signature in black ink that reads "J. Russell George". The signature is written in a cursive, flowing style.

J. Russell George
Inspector General



TIGTA'S HIGHLIGHTS

The following table shows the statistical highlights of the Treasury Inspector General for Tax Administration (TIGTA) for this semiannual reporting period as well as all of Fiscal Year 2009.

	Number of Audit Reports Completed	Cost Savings Identified	Increased/Protected Revenue	No. of Investigations Opened	No. of Investigations Closed	Regulations/Legislative Requests Reviewed
April 1, 2009 – Sept. 30, 2009	86	\$159 million	\$3.8 billion	1,812	1,922	379
FY 2009	142	\$9 billion	\$4.9 billion	3,504	3,527	581

Examples of High-Profile Cases from TIGTA's Office of Investigations:

Houston Businessman Sentenced for Bribery of a Public Official¹

On May 22, 2009, Ramesh Khilnani was sentenced to two years in prison and three years of supervised release.² Khilnani had previously pleaded guilty to bribery of a public official.³

In February 2008, an Internal Revenue Service (IRS) agent met with Khilnani to discuss the audit of his 2004 through 2007 tax returns. After several meetings, the IRS agent contacted her supervisor and indicated that she believed Khilnani was attempting to offer her a bribe.⁴

On March 26, 2008, in conjunction with TIGTA, the IRS agent called Khilnani. Khilnani did not want to discuss the matter over the phone and suggested a face-to-face meeting. On April 2, 2008, the IRS agent met with Khilnani.⁵

At the meeting, Khilnani wanted the IRS agent to reduce his tax liability from approximately \$49,000 to \$500. In exchange for the reduction, Khilnani would pay the IRS agent \$2,500 in cash for her personal use. Khilnani stated that he knew this was illegal and did not want either his tax preparer or his wife to find out about the arrangement.⁶

On April 16, 2008, the IRS agent again met with Khilnani. At this meeting, Khilnani gave the IRS agent \$2,000 in cash. The IRS agent presented Khilnani with two Income Tax Discrepancy Forms: the original indicating the \$49,000 tax liability and a second indicating a \$524 tax liability. Khilnani signed the second form indicating his tax liability and acknowledging the adjusted amount.⁷

¹ Source: U.S. Department of Justice Press Release dated May 22, 2009.

² Source: Southern District of Texas Sentencing dated May 22, 2009.

³ Source: Southern District of Texas Plea Agreement dated February 27, 2009.

⁴ *Ibid.*

⁵ *Ibid.*

⁶ *Ibid.*

⁷ *Ibid.*

Logan Painter Indicted for Threatening to Murder an IRS Employee

On April 21, 2009, Logan Painter was indicted in North Carolina for threatening an IRS Special Agent⁸ in the Criminal Investigation Division.⁹ On April 7, 2009, IRS Special Agent Eric Veater received a call from confidential informant Logan Painter. Painter told Veater, “I’m gonna off you!” Veater also received a telephone call from Painter’s defense attorney who advised Veater that Painter had telephoned his wife and told her, “Goodbye, you’re not going to see me again and you will be reading about me in the papers.”¹⁰

IRS Dallas Lockbox Employee Sentenced for Theft and Embezzlement of Over \$485,000 in Taxpayer Remittance Checks

On April 9, 2009, Emmanuel Ekwuruke was sentenced in Texas to sixty-six months in prison and four years of supervised release, for theft by a bank employee, theft of public money and aggravated identity theft.¹¹

Ekwuruke was initially stopped by Mesquite, Texas, police officers who were responding to a 911 call from a bank regarding a possible forged check. After arresting Ekwuruke, the police officers impounded and inventoried a vehicle located in the bank parking lot that was registered to Ekwuruke and in which an identification card was hanging from the rear view mirror identifying Ekwuruke. Found in the vehicle were 21 checks, totaling approximately \$485,539 that had been sent to the IRS Dallas Lockbox.¹²

Ekwuruke was subsequently indicted by a Federal grand jury and convicted at trial.

Woman Sentenced to 96 Months in Prison for Conspiracy and Interference with the IRS

On June 2, 2009, Jeanne Herrington was sentenced in Ohio to ninety-six months in prison and three years of supervised release and ordered to pay a \$200 special assessment.¹³

Herrington had been found guilty of conspiracy and interfering with the IRS. She conspired with others to defraud the United States by impeding the lawful governmental functions of the IRS in the ascertainment, evaluation, assessment and collection of income taxes. Among other things, Herrington promoted and sold abusive trusts, prepared and advocated the preparation of false Federal income tax returns, submitted and/or assisted in the submission of false and fraudulent documentation to the IRS in an effort to eliminate tax liabilities and harassed IRS employees, and organized and/or attended meetings to discuss methods of tax evasion and evading the payment of tax liabilities with fictitious financial instruments.¹⁴

In addition, Herrington corruptly endeavored to obstruct or impede the due administration of the Internal Revenue laws by preparing and submitting to the IRS fraudulent Forms 1099, which falsely reported that individuals associated with the Federal criminal tax investigation of

⁸ Source: Western District of North Carolina Indictment dated April 21, 2009.

⁹ Source: Western District of North Carolina Affidavit in Support of a Criminal Complaint dated April 8, 2009.

¹⁰ Source: Western District of North Carolina Affidavit in Support of a Criminal Complaint dated April 8, 2009.

¹¹ Source: Northern District of Texas Judgment in Criminal Case dated April 9, 2009.

¹² Source: Affidavit in support of criminal complaint dated June 6, 2008.

¹³ Source: Northern District of Ohio Judgment in a Criminal Case dated June 2, 2009.

¹⁴ Source: Northern District of Ohio Superseding Indictment dated April 7, 2008.

Herrington had engaged in reportable transactions. Herrington submitted fraudulent 1099s for three different people. Two of the fraudulent 1099s were for \$1,000,000 each and one was for \$300.¹⁵

Examples of High-Profile Audits from TIGTA's Office of Audit:

Inadequate Data on Paid Preparers Impedes Effective Oversight (Reference No. 2009-40-098)

Every year, more than one-half of all taxpayers pay someone else to prepare their income tax returns. Currently, there are no national standards that a preparer is required to satisfy before selling tax preparation services to the public. Anyone, regardless of training, experience, skill, or knowledge, is allowed to prepare Federal income tax returns for others for a fee. Furthermore, the IRS cannot determine the population of preparers or if the preparers are compliant with their own tax obligations as well as all of the tax laws and regulations. In order for the IRS to facilitate tax administration and provide effective oversight of tax return preparers, TIGTA made recommendations that include assigning a unique identifying number to each preparer and establishing an effective management information system. IRS management agreed to take appropriate corrective actions.

More Progress Is Needed to Reduce the Millions Paid in Interest on Improperly Frozen Refunds (Reference No. 2009-30-106)

If a taxpayer's account has a filed tax return and a credit balance exceeding a certain dollar threshold, the IRS's computer system places a freeze on the account to prevent it from automatically refunding or offsetting to another liability. This freeze is intended to alert the IRS that a refund, if appropriate, must be issued manually. The IRS computer system does not allow for the number of digits needed to automatically issue refunds over a certain amount. In September 1999, TIGTA reported problems with the release of large dollar frozen refunds, for which the IRS incurred additional interest expense of \$17.5 million on forty-four taxpayer accounts. TIGTA made several recommendations to improve the resolution of frozen refunds. In March 2002, TIGTA reported that the IRS had not implemented the recommendations as agreed. Instead, in January 2001, the IRS increased the threshold for automatically freezing refunds. The threshold increase did not solve the problem, resulting in approximately \$186 million in delayed refunds and about \$15 million in additional interest expense. TIGTA again made recommendations to improve the resolution of frozen refunds. The IRS subsequently reported that it had implemented them. In this follow-up review, TIGTA found fewer accounts with a large dollar refund freeze. However, the percentage of accounts with credits that continue to be improperly frozen remains high, and the interest the IRS will pay on these accounts is substantial because the IRS has yet to implement the recommendations from prior TIGTA reviews.

Increased Oversight Is Needed to Prevent Inadvertent Disclosure of Personally Identifiable Information (Reference No. 2009-30-059)

Identity theft is the number one consumer complaint nationwide, and each year it affects more than 10 million Americans. More than 130 million taxpayers entrust the IRS with sensitive financial and personal data, much of it on paper documents. Taxpayers need to be assured that the IRS is taking every precaution to protect their private information from inadvertent

¹⁵ *Ibid.*

disclosure. TIGTA found that: responsibilities associated with the IRS's waste disposal program need to be clearly defined and delineated and that the IRS needs greater standardization over contracts for the disposal of sensitive waste. TIGTA also found that policies related to the protection and disposal of paper documents containing sensitive information need to be more widely communicated to IRS employees and contractors. At every location visited, documents containing personally identifiable or other sensitive information were found in regular waste containers and/or dumpsters. TIGTA made several recommendations to improve controls over sensitive data. IRS management agreed with all of TIGTA's recommendations.

Examples of Significant Legislation Reviewed by the Office of Chief Counsel:

S.139, Data Breach Notification Act and S.1490, Personal Data Privacy and Security Act of 2009

The Data Breach Notification Act (S.139) would require Federal agencies and business entities to disclose security breaches, such as compromises of computerized data and of sensitive personally identifiable information (PII), and to notify those affected. It creates civil penalties for violations. The Personal Data Privacy and Security Act of 2009 (S.1490) is a bill intended to prevent and mitigate identity theft. The bill's provisions would require notice of security breaches, which are defined as compromises of computerized data. In addition, S.1490 would create new criminal penalties for unauthorized access to sensitive PII.

Both bills mitigate the notice requirement, in some circumstances, by providing a law enforcement exemption, but require an agency to go through the U.S. Secret Service (USSS), which is the final arbiter of their use. TIGTA's responses to Treasury's request for comments identified concerns with various provisions. Among other things, TIGTA's concerns focused on the bills' failure to recognize the Inspectors General's (IG) role in security breaches. Under the terms of the bills, IGs, who are uniquely situated to provide the oversight necessary to prevent the type of breach, abuse, or misuse that these bills intend to prevent, have not been included in the notification provisions. In addition, both bills fail to take into account various Federal confidentiality statutes that may prevent or limit the information that may be provided to the USSS in connection with the law enforcement exemption provision. TIGTA also raised concern with the bills' definition of "personally identifiable information," as it appears to be different from the definition propounded by the Office of Management and Budget for this term.

S.372 and HR.1507, Whistleblower Protection Enhancement Act of 2009

TIGTA reviewed several versions of this Act, which strengthens whistleblower protections for Federal employees who expose government waste, fraud, and abuse of authority. TIGTA agreed with concerns raised by the Council of Inspectors General on Integrity and Efficiency and the Department of Justice. Most of TIGTA's concerns were addressed by the latest version of the substitute for S.372, Whistleblower Protection Enhancement Act of 2009. However, TIGTA commented on the potential budgetary impact of the unfunded mandate contained in section 120, Whistleblower Protection Ombudsman, which amends section 3(d) of the IG Act to require each IG to "designate a Whistleblower Protection Ombudsman who shall advocate for the interests of agency employees or applicants who make protected disclosures of information, educate agency personnel about prohibitions on retaliation for protected disclosures, and advise agency employees, applicants, or former employees who have made or are contemplating making a protected disclosure."

LEGISLATIVE RECOMMENDATIONS

Protect Tax-Related Whistleblowers Against Retaliation and Provide Specific Relief to Informants Who Are Retaliated Against. The whistleblower provision in the Tax Relief and Health Care Act of 2006 provides a significant financial incentive for individuals with knowledge of tax noncompliance. Protection against retaliation for reporting such noncompliance would increase the likelihood that employees would come forward. Without such protection for employees, the risk of retaliation might outweigh the incentive of the reward. IRS management did not take a position on this recommendation.

Mandate E-filing for Paid Preparers. Federal law currently prohibits the IRS from requiring e-filing of individual income tax returns. A Federal mandate for paid preparers to e-file individual income tax returns would result in an increase of 26.9 percent in e-filed tax returns. Most paid preparers who filed paper tax returns used an electronic tax software preparation package, and 70 percent also e-filed at least one tax return, which indicates a familiarity with the electronic preparation and e-filing process. IRS management agreed with this recommendation. *Mandating e-filing for Paid Preparers would reduce paper tax return processing costs by \$66.6 million annually with potential five-year cost savings totaling approximately \$333 million.*

Improve the Administration of Education Credits By Providing the IRS Math Error Authority to Disallow Claims for the Hope Credit That Are Taken for More Years Than Allowed By Law. Despite provisions in the law allowing the Hope Credit for only two tax years, TIGTA identified approximately 203,000 taxpayers who claimed the Hope Credit for the same student for three consecutive tax years ending in 2006. IRS management agreed with this recommendation. *Providing math error authority would help to prevent the payment of \$398 million in ineligible claims for the Hope Credit to an estimated 505,041 taxpayers over a three-year period.*

Change the Reporting Requirements for Educational Institutions to Produce Forms 1098-T, Tuition Statement, or Eliminate the Requirement for the Form Altogether. As currently administered, Form 1098-T is not meeting its intended purpose. The amount of education credits claimed by taxpayers often does not correlate to the amount of qualified tuition and related expenses reported on Form 1098-T because the law allows educational institutions to report either the amounts billed or the amounts paid to the educational institution. As a result, the IRS does not use the form in its compliance programs and does not accept it as documentation to support claims for education credits. IRS management agreed with this recommendation. *We estimate that educational institutions expend approximately 25.5 million hours to complete Forms 1098-T and \$19.1 million to mail the forms to students over a five-year period.*

A full list of legislative recommendations and the associated audit reports are shown in Appendix VI.



TIGTA'S PROFILE

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

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

TIGTA's organizational structure is comprised of five functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; and the Office of Chief Counsel (see chart on page 10).

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

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

Statutory Mandate

Protect against external attempts to corrupt or threaten IRS employees.

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

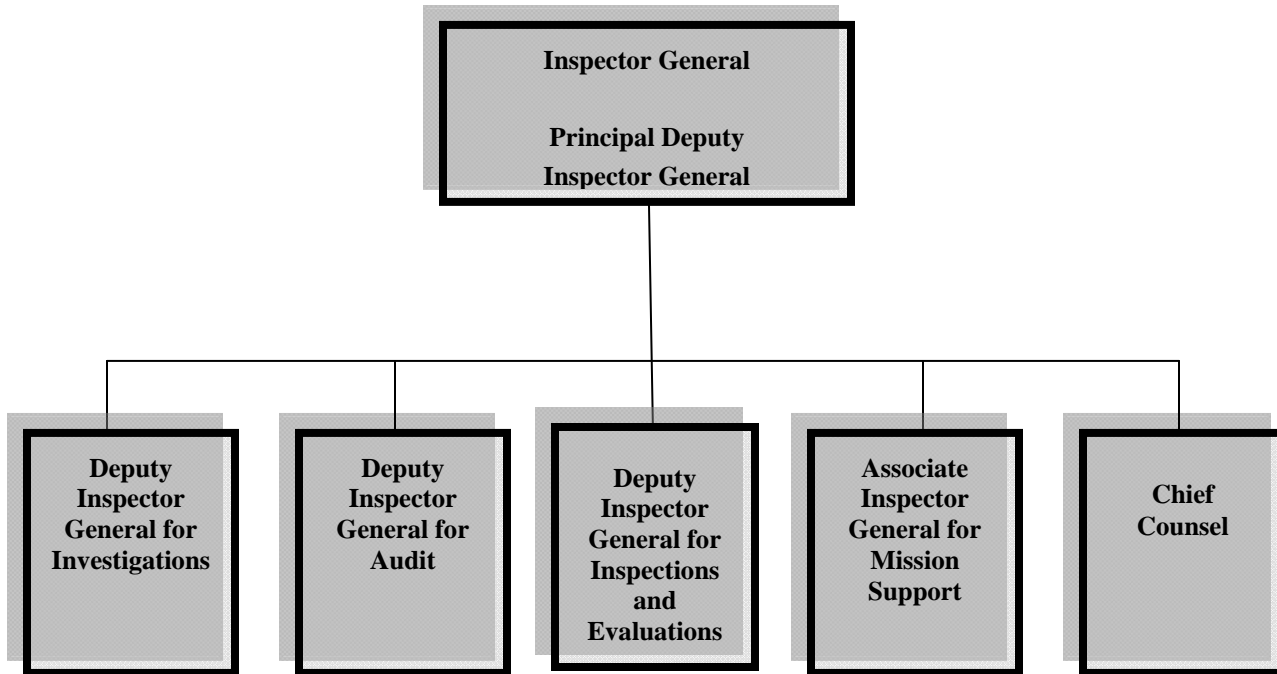
Review existing and proposed legislation and regulations related to IRS programs and operations and make recommendations concerning the impact of such legislation or regulations.

Promote economy and efficiency in the administration of tax laws.

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

Inform the Secretary of the Treasury and 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.¹⁶ TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA also has the obligation to report potential criminal violations directly to the Department of Justice. TIGTA and the Commissioner of Internal Revenue have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the Internal Revenue laws. In addition, the *IRS Restructuring and Reform Act of 1998* (RRA 98)¹⁷ amended the *Inspector General Act of 1978* to give TIGTA statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Section 7608(b)(2) of the Internal Revenue Code (I.R.C.).

¹⁶ 5 U.S.C.A. app. 3 (West Supp. 2008).

¹⁷ Public Law No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C. 38 U.S.C., and 49 U.S.C.).

PROMOTE THE ECONOMY, EFFICIENCY AND EFFECTIVENESS OF TAX ADMINISTRATION

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

The IRS's implementation of audit recommendations results in:

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

For Fiscal Year (FY) 2009, OA realigned its staff to enable it to continue to provide quality audit products as well as a broader perspective and assessment of IRS operations and results. This realignment better mirrors the IRS's processes and provides improved OA coverage of all of the major IRS goals and initiatives.

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

American Recovery and Reinvestment Act of 2009

During FY 2009, OA developed an Oversight Program Plan for the American Recovery and Reinvestment Act (Recovery Act). The Recovery Act is intended to jumpstart the American economy, create or save millions of jobs, and address many of the challenges facing our country. Included in the Recovery Act are many tax law provisions that the IRS is charged with administering. In addition, TIGTA received \$7 million in separate Recovery Act funding through September 30, 2013, to be used in oversight activities of IRS programs.

OA's Oversight Program Plan identifies its planned actions to address the Recovery Act. In determining the scope of the Recovery Act on tax administration, OA reviewed the Recovery Act legislation, the Office of Management and Budget (OMB) Implementing Guidance, and summaries of key IRS-related provisions prepared by the Senate Finance and House Ways and Means Committees, IRS Web sites, and the Department of the Treasury (Treasury) Recovery Act Program information. OA's Oversight Program Plan is expected to evolve over the next four and one-half years and will be updated periodically to reflect OA's current Recovery Act actions.

The Recovery Act is a far-reaching effort that includes many tax law changes. The impact of some of these changes will not be apparent for several years. As part of its Recovery Act oversight, TIGTA will continue to coordinate its activities with appropriate external oversight agencies and include the impact of these provisions in its strategic planning activities. TIGTA and the Treasury Office of Inspector General (TIG) agreed to coordinate oversight activities in two key Recovery Act areas: Low-Income Housing Grants and Specified Energy Property Grants. Both TIGTA and TIG have oversight responsibility in these two areas. Furthermore, TIGTA has started or has plans to start audits in several Recovery Act-related areas, such as: reporting standards for Recovery Act contracts; expansion of the Health Coverage Tax Credit; extension of the Net Operating Loss carryback period for small businesses; tax-exempt bond provisions; and implementation of the Making Work Pay Credit.

The following summary highlights the Recovery Act audit completed during this six-month reporting period.

First-Time Homebuyer Credit (Reference No. 2009-41-144)

Congress allocated \$13.6 billion for the First-Time Homebuyer Credit (Credit) in the Housing and Economic Recovery Act of 2008. The Joint Committee on Taxation estimated that more than \$4.3 billion more would be paid to first-time homebuyers in FYs 2009 and 2010 as a result of the revisions in the Recovery Act.

The IRS developed controls to identify many questionable claims for the Credit. However, some key controls to prevent individuals from erroneously claiming the Credit were missing. Despite recommendations made in a November 25, 2008, memorandum as part of a prior TIGTA audit, the IRS did not require taxpayers to provide documentation to substantiate the purchase of a home.

Many taxpayers erroneously claiming the Credit will be identified by recently implemented IRS filters and subject to pre-refund audits. However, TIGTA identified 70,005 taxpayers whose tax returns were processed prior to the implementation of these filters. Also, 48,580 taxpayers who may not have been aware of the changes to the Credit included in the Recovery Act did not claim the full amount to which they were entitled.

TIGTA recommended that the IRS develop a plan to address questionable claims for the Credit that were processed prior to IRS examination filters being implemented. TIGTA also recommended that the IRS monitor accounts of taxpayers who purchased homes in calendar year 2009 and claimed Credits of \$7,500 to determine if the taxpayers amend their returns with respect to the Credit. If not, the IRS should contact these taxpayers to inform them that they may be entitled to an additional refund if the purchase price of their home was greater than \$75,000.

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

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

Audit Emphasis Areas for April through September 2009

- **Systems Modernization of the Internal Revenue Service**
- **Security of the Internal Revenue Service**
- **Tax Compliance Initiatives**
- **Providing Quality Taxpayer Service**
- **Human Capital**
- **Erroneous and Improper Payments**
- **Taxpayer Protection and Rights**
- **Processing Returns and Implementing Tax Law Changes During the Tax Filing Season**
- **Improving Performance and Financial Data for Program and Budget Decisions**

Systems Modernization of the Internal Revenue Service

The Business Systems Modernization Program (Modernization Program) is a complex effort to modernize IRS technology and related business processes. For the IRS, modernizing technology has been an ongoing challenge. The Modernization Program accomplishments extend from the development of Program Management Offices and enterprise architecture to the implementation of systems and applications that improve the IRS's ability to administer and enforce compliance with the Nation's tax laws, while providing quality customer service. The Modernization Program has also continued to develop and deploy modernized applications. New capabilities include enhancements to the Customer Account Data Engine (CADE) that incorporated new tax law provisions including the processing of Economic Stimulus Act of 2008 payments, and the ability of IRS employees to access taxpayer account information through the Account Management Services system.

The IRS has recognized that it faces significant challenges in meeting the requirements of the next phase of project development and systems integration. The immediate challenge is the future of CADE, the acknowledged centerpiece throughout the life of the Modernization Program. The IRS is considering using elements from the Individual Master File and the current CADE to significantly reengineer the IRS tax account management process. The continued improvement to managing individual taxpayer accounts will be curtailed until the use of the reengineered database is implemented and made available for integration with other systems and applications. Furthermore, the challenge in modernizing the management of business taxpayer accounts has yet to be considered.

Annual Modernization Assessment (Reference No. 2009-20-136)

The objective of the Modernization Program is to address the complex effort to modernize IRS technology and related business processes, manage the inherent risks of modernization, and deliver the level of service that American taxpayers expect.

For the past year, Modernization Program management development activities generally have met the objectives of the IRS's Modernization Program. These activities included the

development and implementation of strategic planning and program management efforts in the form of the Information Technology Modernization Vision and Strategy, Enterprise Data Access and Data Strategy Implementation Programs, and a tiered program management structure designed to act as an enterprise governance model.

The past year's Modernization Program performance did not continue the trend of improvement it demonstrated in the prior three years in delivering projects within estimated ranges for development costs and schedule variance. The IRS also has experienced a turnover of executives that challenges the Program's continued long-term success. Furthermore, a control process to manage the Modernization and Information Technology Services organization's *Highest Priority Initiatives* process has been discontinued. The Enterprise Services organization is currently developing processes that will be used to replace the *Highest Priority Initiatives* process.

The IRS recognizes the need to incorporate necessary program management disciplines and has plans to implement a process-improvement strategy. This strategy will allow the Modernization Program to continue to improve its management practices by incorporating industry best practices.

TIGTA provided this assessment of the Modernization Program status and accomplishments through FY 2008 but did not offer specific recommendations. IRS management responded that they were pleased that the annual assessment recognized the accomplishments in providing quality customer service. The IRS also appreciated acknowledgment of the continued development and deployment of modernized applications. In response to TIGTA's comments on the use of the Information Technology Modernization Vision and Strategy planning process, the IRS stated that it expanded the breadth of the business technology included in this strategy and plans to establish a pre-selection process for investment planning.

My IRS Account Project (Reference No. 2009-20-102)

The My IRS Account project was designed to improve the IRS's ability to meet taxpayers' needs by developing secure online procedures for electronic access to tax return information. The intent of the project was to develop a plan that would provide taxpayers a means to securely view their tax account and return information online, as well as provide tools for self-service assistance. It was also intended to be used as a prototype for future delivery of new Web-based projects.

Successful implementation of this effort is essential to support taxpayers' abilities to electronically fulfill their tax responsibilities and is critical to the long-term success of the IRS Modernization Program. However, the IRS's decision to terminate deployment of the My IRS Account project puts the goals of the project at risk, as well as the approximately \$10 million spent to develop it.

TIGTA recommended that the IRS develop a long-term strategy for the My IRS Account project. If the project is restarted, it should be quickly deployed. This will allow the IRS to realize the maximum benefit from its \$10 million investment by reusing the hardware and functionality developed for My IRS Account Release 1. TIGTA also recommended that the IRS ensure that a

strategy to develop and deploy an enterprise-wide electronic authentication solution is developed as quickly as possible to allow online projects that require secure access, such as the My IRS Account project, to be deployed without experiencing similar costly delays, and ensure formal project termination procedures are developed for information technology projects that are shut down prior to deployment.

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

Uncertainties Affecting the Account Management Services Project (Reference No. 2009-20-071)

The Account Management Services (AMS) system will provide IRS employees with immediate access to taxpayer account data and the ability to perform instantaneous transaction processing and daily account settlement. IRS management needs to decide what future project development plans will be followed and improve project funding controls. Addressing these issues will allow the AMS system to help meet the ongoing need to modernize tax administration processes, applications, and technologies, and enhance the level of service provided to the Nation's taxpayers.

“The IRS must make several strategic decisions that will affect the future of the Account Management Services systems,” commented J. Russell George, the Treasury Inspector General for Tax Administration. “The longer those decisions are delayed, the greater the risk of costly rework.”

TIGTA recommended that AMS project management activities follow the appropriate governance process to redirect remaining AMS funding in order to complete Releases 1.3 and 2.1. To address the need to improve controls over project funding, TIGTA recommended that the IRS direct project management teams and contracting

officers to propose modernization task orders with the ability to readily account for system development activity funding on a release basis. In addition, actions should be taken to reinforce existing governance procedures to executives and managers about release-specific project funding. Training and desk procedures on the proper use of release-specific project funding should also be provided, including steps for preparing, reviewing, and approving requisitions.

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

Efforts to Develop a Web-based Portal Environment Were Not Successful (Reference No. 2009-20-079)

The use of the Internet is critically important to the IRS's tax administration mission of delivering top-quality service to all taxpayers. Internet portals allow taxpayers and tax practitioners to submit and retrieve tax-related and general information and electronically file tax returns. Although the initial attempt to develop a new portal environment terminated unsuccessfully, the IRS subsequently hired a contractor to assist in the development of an enterprise portal business strategy. The success of this effort is important in order to provide

taxpayers with both continuous access to IRS data and information and the ability to electronically fulfill their tax responsibilities.

TIGTA recommended that the IRS develop a process to ensure that new projects seeking approval and funding during the information technology governance process, and which are not part of the Modernization Vision and Strategy process, are properly identified and their portal needs are considered. The new process should be similar to existing procedures to ensure that a uniform analysis is conducted for projects that are not part of the Modernization Vision and Strategy process.

IRS management agreed with TIGTA's recommendation and plans to take appropriate corrective action.

Security of the Internal Revenue Service

Each year, millions of taxpayers entrust the IRS with their sensitive financial and personal data that are stored in and processed by IRS computer systems. The risk that taxpayers' identities could be stolen by exploiting security weaknesses in the IRS's computer systems continues to increase, as does the risk that IRS computer operations could be disrupted. Both internal factors (such as the increased connectivity of computer systems and greater use of portable laptop computers) and external factors (such as the volatile threat environment related to increased phishing scams and hacker activity) contribute to these risks.

Progress Is Slower than What Was Reported for the Weaknesses Identified in the HSPD-12 Program Office (Reference No. 2009-20-084)

The Homeland Security Presidential Directive 12 (HSPD-12) established a new standard for issuing and maintaining identification badges for Federal Government employees. The HSPD-12 Program Management Office (PMO) is making slow progress in issuing the badges to employees and contractors. In addition, the number of badges that have been issued is less than what has been reported to the OMB and Treasury officials. Issuing the badges is critical to improving the future security over Treasury facilities, computer systems, and critical processes, such as collecting tax revenues and issuing refunds to taxpayers.

TIGTA recommended that to ensure progress is accurately reported, the HSPD-12 Executive Steering Committee should instruct the HSPD-12 program manager to: 1) continue reporting the program as being behind schedule and report to the OMB a revised estimated date that all employees and contractors will be issued badges; and 2) define badges issued as badges that have been activated and given to employees or contractors, report to the OMB the total cumulative number of badges that have been issued to employees and contractors, and include all contractors and seasonal employees in the total Treasury population as long as these individuals are employed by the Treasury.

IRS management disagreed with TIGTA's recommendations but took some corrective actions. The IRS reported to the OMB a revised estimated completion date of March 2010. However, the IRS stated that it would continue to use its current definition of "issued," continue its current reporting methods, no longer attempt to issue badges to seasonal employees, and continue to exclude contractors from the Treasury population until a viable method of uploading

contractors' personal information into the General Services Administration database is implemented.

TIGTA continues to believe that the PMO's definition of "issued" significantly overstates the progress of the HSPD-12 program. TIGTA also believes the technical challenges in issuing badges to contractors do not justify excluding them from the Treasury population.

Improvement Is Needed for Computer System Access Controls Over Contractors (Reference No. 2009-20-108)

The IRS uses contractors to perform a variety of information technology functions, such as developing applications for IRS business operations and maintaining computer operations. To perform these functions, contractors are granted access to IRS computer systems. However, some contractors who no longer had a business need continued to have access to active user accounts on IRS systems. When contractors are allowed to have unnecessary access to computer systems, the IRS increases the risks of exposing taxpayer data to unauthorized disclosure and to disruption of system operations.

TIGTA recommended that the IRS: 1) provide appropriate communications to all Contracting Officer's Technical Representatives (COTR) and managers reinforcing the need to ensure that system access is revoked

“When contractors are allowed to have unnecessary access to IRS computer systems, the risk of exposing taxpayer data to unauthorized disclosure and disrupting system operations is substantially increased,” commented J. Russell George, the Treasury Inspector General for Tax Administration.

when contractors leave the IRS and that separation of duties (the practice of dividing the steps in a system function among different individuals) is followed; 2) enforce current procedures on all systems by configuring systems to automatically disable and/or delete user accounts when they are not accessed for the appropriate number of days; 3) provide appropriate communications to all COTRs and managers to remind them that they have the primary responsibility for providing prompt notification to the responsible organization of any contractor status changes; 4) provide appropriate communications to COTRs and managers that the Online 5081 system is the primary system used for authorizing and approving requests for any system access and that system access should not be granted until a contractor or employee has successfully completed a background investigation; and 5) improve accountability over employee and manager adherence with security policies and procedures over contractor system access.

IRS management agreed with TIGTA's recommendations and plans to take appropriate corrective actions.

Processing Requests for Tax Returns and Transcripts of Tax Returns (Reference No. 2009-40-140)

Identity theft is the number one consumer complaint. Identity theft occurs when someone uses personally identifiable information, such as an individual's name or Social Security Number (SSN), to commit fraud and other crimes. Taxpayers need to be assured that the IRS is taking every precaution to protect their private information from inadvertent disclosure.

Taxpayers who submit Form 4506, Request for Copy of a Tax Return, or Form 4506-T, Request for Copy of a Tax Return Transcript, are at risk of unauthorized disclosures of taxpayer information. As a result, TIGTA recommended that the IRS clarify guidelines to require an accurate name and SSN before Forms 4506 and 4506-T can be processed. TIGTA also recommended that internal controls be developed and training provided to ensure that Return and Income Verification Services units: 1) use the Transcript Delivery System (an IRS system used to house taxpayers' account information) automated process to mail transcripts; 2) send copies of tax returns and transcripts only to the address of record; and 3) properly maintain requests for copies of tax returns and transcripts. Guidelines should also be developed to process requests for taxpayers who are victims of identity theft, the user fee for e-filed tax returns should be reduced or eliminated, and the IRS's Web site (IRS.gov) and Form 4506-T should be updated to prominently display the option and benefits of ordering a transcript using the Integrated Customer Communications Environment, an automated touch-tone telephone system that permits taxpayers to resolve tax account issues and obtain tax information.

The IRS agreed with most of TIGTA's recommendations and plans to take appropriate corrective actions. The IRS did not agree with the recommendation to reduce or eliminate the user fee for requesting copies of e-filed tax returns. The IRS believes the costs to provide electronic printouts to taxpayers justify the user fee.

TIGTA believes that the cost to process requests for a printout of an e-filed tax return may be significantly lower than the cost to process copies of tax returns submitted on paper. The cost of providing printouts of e-filed tax returns is comparable to providing printouts of transcripts, which are free.

Tax Compliance Initiatives

Tax compliance initiatives include administering tax regulations, collecting the correct amount of tax for businesses and individuals, and overseeing tax-exempt and government entities for compliance. Increasing voluntary compliance and reducing the tax gap¹⁸ are currently the focus of IRS initiatives. Nevertheless, the IRS is facing significant challenges in obtaining more-complete and timely data, as well as developing the methods necessary for interpreting the data. The IRS must continue to seek accurate measures for the various components of the tax gap and the effectiveness of the actions taken to reduce it. In addition, while the IRS regularly encounters lax governance practices on the part of tax-exempt entities, it must remain vigilant in ensuring that the privilege of tax-exemption is not abused.

The Treasury and the IRS developed a multiyear strategy for improving compliance and reducing the tax gap. However, the strategy is dependent on overcoming several high-risk challenges. The strategy is significantly more comprehensive and detailed than previous efforts. The long-term success of the strategy will, in large part, be dependent on addressing several risk factors, some of which are beyond the IRS's control. As a result, broader strategies and better research may be needed to determine what actions are most effective in addressing noncompliance.

¹⁸ The tax gap is the difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.

Additional Steps Are Still Needed for the Proper Reporting of Farm Income (Reference No. 2009-30-068)

The IRS annually receives thousands of information returns reporting Commodity Credit Corporation (CCC) income payments that it is unable to use in determining whether farmers filed tax returns or reported the income reflected on the statements. Because the

“The filing of information returns is central to the success of the Nation’s voluntary tax system. Information returns allow the IRS to more-economically and efficiently detect and pursue noncompliant taxpayers who can create unfair burdens on honest taxpayers and diminish the public’s respect for the Federal tax system,” commented J. Russell George, the Treasury Inspector General for Tax Administration.

information returns are unable to be used, opportunities exist for farmers to avoid the scrutiny of the IRS through underreporting income and not filing tax returns. This creates unfair burdens on honest taxpayers and diminishes the public’s respect for the tax system.

TIGTA recommended that the IRS coordinate with United States Department of Agriculture officials to minimize the number of information returns submitted with mismatched names and identification numbers and initiate actions to develop compliance strategies for ensuring more CCC income payments are properly reported.

IRS management agreed with TIGTA’s recommendations and has planned appropriate corrective actions. However, IRS management stated that the outcome measures in the report totaling approximately \$94 million over five years may be overstated because of several factors. After considering the IRS’s comments, TIGTA maintains that the outcome measures in the report are reasonable.

A Corporate Approach Is Needed for a More Effective Tax-Exempt Fraud Program (Reference No. 2009-10-096)

In response to prior TIGTA reports, each of the IRS’s Tax Exempt and Government Entities (TE/GE) Division offices implemented changes to their fraud programs. This resulted in significantly more fraud development cases, of which most were from one office.

However, a more corporate approach with centralized oversight is needed to provide for a more-effective TE/GE Division fraud program.

“The Tax Exempt Division has made significant progress in detecting and preventing fraud,” stated J. Russell George, the Treasury Inspector General for Tax Administration. “However, the IRS should ensure that all of the Division’s offices are effectively implementing anti-fraud programs.”

TIGTA believes an effective fraud program will provide greater assurance that the trust placed in the tax-exempt sector by taxpayers and the good work done by most tax-exempt organizations are not tarnished.

TIGTA recommended that the IRS develop and implement a corporate fraud approach with centralized oversight for the TE/GE Division and ensure that all TE/GE Division offices follow IRS procedures and contact the Small Business/Self-Employed Division Fraud Office to

determine whether cases with affirmative indications of fraud should be pursued as fraud development cases.

IRS management agreed with TIGTA's recommendations and has planned appropriate corrective actions.

Deficiencies Exist with Whistleblower Claims (Reference No. 2009-30-114)

The IRS's Whistleblower Program provides an opportunity to recover potentially billions of dollars in taxes and related penalties and interest based on information provided by claimants. The Tax Relief and Health Care Act of 2006¹⁹ provided increased awards to individuals for information that leads to the detection and punishment of persons guilty of violating Internal Revenue laws. This Act created a new type of claim for referrals of \$2 million or more. Since the Act's passage, the IRS has seen significant growth in claims. In 2008, the IRS received claims alleging more than \$65 billion in underreported income. However, without effective control over and timely processing of these claims, the success of the IRS's Whistleblower Program could be diminished.

TIGTA recommended that the IRS ensure that reporting capabilities are included in the newly implemented single inventory control system (a system for tracking and controlling whistleblower claims) and perform a physical reconciliation of claim information to ensure that the information captured from existing systems and input into the new system is accurate. In addition, written procedures with timeliness standards should be established and processes to monitor the timely processing of claims should be developed.

TIGTA also recommended that legislation is needed to ensure that informants are protected against retaliation by their employers and to provide specific relief to informants who experience retaliatory actions.

IRS management agreed with TIGTA's recommendations and has taken or plans to take appropriate corrective actions. However, the IRS stated that pursuing new legislation to protect informants against retaliation by their employers is outside of their jurisdiction.

Mortgage Interest Data Could Be Used to Pursue Nonfilers and Underreporters (Reference No. 2009-40-112)

Individuals who fail to file required returns and/or underreport their income can create unfair burdens on honest taxpayers and diminish the public's respect for the tax system. TIGTA recognizes that, given the current state of the economy, many individuals are struggling to meet their mortgages and other financial obligations. Nevertheless, a large number of individuals are paying a significant amount of mortgage interest and are either not filing tax returns or are filing tax returns reporting income that is not sufficient to cover their mortgage obligations and basic living expenses. The considerable difference between income and expenditures on these returns raises serious questions about whether additional income should have been reported.

¹⁹ Public Law No. 109-432, 120 Stat. 2958 (2006).

TIGTA recommended that the IRS explore the feasibility of making greater use of mortgage interest data to pursue additional nonfilers and underreporters for audit. IRS management agreed with TIGTA's recommendation and plans to take appropriate corrective action.

Providing Quality Taxpayer Service

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

Elderly Taxpayers Would Benefit if the IRS and Tax Professionals Would Partner to Reduce Unnecessary Filings (Reference No. 2009-30-076)

Taxpayers age 65 and older will directly benefit by not filing returns when they have no need to do so. These taxpayers will have less burden and will save time and financial costs. To realize these benefits, taxpayers will need to work with tax professionals and guidance from the IRS to reevaluate their withholding requirements if they do not anticipate tax liabilities in future years.

TIGTA recommended that the IRS ensure consistency between the IRS's public Web site and written products by reviewing, and, if necessary, revising its most common publications and Forms 1040/1040A

instructions. The revisions should advise taxpayers to discontinue income tax withholding if there is little likelihood that they will be required to file returns in subsequent years. In addition, TIGTA

“To reduce the burden and cost for elderly taxpayers, the IRS should provide seniors with a consistent message about whether payments should be subject to income tax withholding,” commented J. Russell George, the Treasury Inspector General for Tax Administration. “The IRS and the tax professional community share the responsibility for educating taxpayers age 65 and older about discontinuing unnecessary withholding and avoiding the filing of tax returns when appropriate.”

recommended that the IRS conduct focus groups to determine why taxpayers are filing unnecessary returns. As part of its existing outreach and education efforts for tax professionals, the IRS should include discussions on: 1) tax responsibilities of the elderly; 2) discontinuing withholding on Social Security benefits; 3) coordinating rollovers with financial institutions to avoid the mandatory 20 percent withholding; and 4) filing requirements.

IRS management did not agree to revise the IRS's most common publications and the instructions to Forms 1040/1040A. The IRS stated that such a change would risk causing confusion for the vast majority of taxpayers in order to accommodate a small number of filers. However, IRS management plans to reinforce the message about unnecessary filings in the *Tax Guide for Seniors* (Publication 554) and will review other publications targeting the elderly. The IRS is working on reviewing prior research for internal and external entities, such as the

AARP. Once this research is completed, the IRS plans to determine what future action is necessary, including whether it should conduct focus groups with the elderly, tax professionals, and/or payers of pensions and annuities.

Although TIGTA agrees that reinforcing the message regarding unnecessary filings in publications specifically for the elderly is necessary, an increased awareness effort may not be successful if it is limited to only those publications. The IRS should refer elderly taxpayers from the instructions and most common publications to the targeted publication for more detailed information. In addition, IRS management stated that they would only consider conducting focus groups if warranted by their review of prior research. However, TIGTA believes that focus groups will provide valuable insight into the root causes of why the elderly continue to file unnecessary returns and/or have income tax unnecessarily withheld. Focus groups and outreach efforts to engage the preparer community will assist the IRS with its effort to reduce taxpayer burden.

In addition, after considering the IRS's comments to the outcome measures reported, TIGTA maintains that they are sound and reasonable.

Quality of Volunteer Program Site Services During the 2009 Filing Season (Reference No. 2009-40-128)

The Volunteer Program plays an increasingly important role in achieving the IRS's goal of improving taxpayer service and facilitating participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing directed toward underserved segments of individual taxpayers, including low-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. However, the quality assurance process needs some improvements and is still not consistently followed. Incorrectly prepared tax returns can increase the risk of taxpayers receiving erroneous tax refunds by not receiving credits to which they are entitled or receiving additional credits for which they do not qualify.

TIGTA recommended that the IRS: 1) begin trending accuracy rates (an analytical means to review the performance of volunteer sites over time) by site and tax topic to identify patterns and concerns in which to focus education, training, and accountability; 2) ensure that all new tax law topics and questions pertaining to filing status are incorporated into the IRS intake sheet, and augment the process for IRS approval of locally developed intake sheets to ensure completeness and consistency of information gathered from taxpayers during the tax return preparation process; 3) ensure that quality reviews completed at the volunteer sites are selected by the IRS quality reviewer, samples are random, and complete documentation is obtained; and 4) require that quality review training be revised based on results of the 2009 filing season to better ensure that tax returns are randomly selected and all quality reviews are consistently supported by sufficient documentation.

IRS management agreed with three recommendations and partially agreed with one other recommendation. The IRS plans to incorporate new tax law topics and questions pertaining to filing status into the IRS intake sheet. In addition, it plans to augment the process for approving locally developed intake sheets. To further mitigate the risk of incomplete or inconsistent

information gathering, the IRS plans to require for the 2010 filing season that all grant recipients use its intake sheet.

The IRS agreed in part with TIGTA's first recommendation, noting that it captures an accuracy rate by tax topic, but did not agree to trend accuracy rates by site because this would increase the number of reviews conducted at each site. The IRS cited a lack of resources to accomplish the reviews, particularly considering that it has more than 12,000 volunteer sites. However, TIGTA does not believe additional reviews would be required. The IRS should capture the accuracy rate by site for the reviews required to achieve a statistical sample.

Toll-Free Telephone Access Reduced During the 2009 Filing Season (Reference No. 2009-40-127)

During the 2009 filing season, the IRS did not achieve several of its key toll-free telephone assistance performance measurement goals. Access to the toll-free telephone assistors was lower than planned because of the high volume of calls regarding the prior year's Adjusted Gross Income, the Recovery Rebate Credit, and the Recovery Act. In addition, the IRS's main performance measure for the toll-free telephone lines (the Customer Service Representative Level of Service (Level of Service)), did not adequately reflect total call demand and taxpayer experience when calling its toll-free telephone lines.

TIGTA recommended that the IRS develop a Government Performance and Results Act of 1993²⁰ (GPRA) quantity outcome measure that takes into account total taxpayer demand as well as the taxpayer experience when calling the IRS's toll-free telephone lines.

IRS management disagreed with TIGTA's recommendations stating that they already have a suite of measures that are utilized to assess the customer experience. The IRS believes that any new quantity outcome measure would not incorporate TIGTA's characterization of total call demand. However, IRS management has undertaken a review of their GPRA measures and plans to take into consideration the concerns outlined in the report.

Although the IRS has a suite of measures and reports the level of service externally to taxpayers and other stakeholders, the average speed of answer is not reported. Of most importance to taxpayers and other stakeholders is whether a taxpayer is able to speak with an assistor when desired and how quickly a taxpayer speaks with an assistor.

Human Capital

Like many other Federal Government agencies, the IRS has experienced workforce challenges over the past few years, including recruiting, training, and retaining employees, as well as an increasing number of employees who are eligible to retire. In addition, the IRS's challenge of having the right people in the right place at the right time is made more difficult by many complex internal and external factors. For example, future IRS leaders will need to be more proactive and think on a larger scale, while the work performed by IRS employees continually requires greater expertise.

²⁰ Public Law 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.).

Assessment of Actions to Address the IRS's Human Capital Challenge (Reference No. 2009-10-118)

While the IRS has recently increased its focus on workforce issues, TIGTA believes that the IRS will have to address several key areas to make progress in addressing its human capital challenge. If the IRS is not successful, it may not have the right people in the right place at the right time to achieve its mission of providing taxpayers with top quality service and enforcing the law with integrity and fairness to all.

Successfully addressing the human capital challenge will be a long-term effort. Currently, the IRS faces a loss of leadership and technical employees that could threaten its ability to provide American taxpayers with the service they have come to expect. Today, the IRS has approximately 106,000 employees, including 9,100 managers. However, more than half of the IRS's employees and managers have reached age 50, and 39 percent of IRS executives are already eligible for retirement. To fill projected shortages in leadership ranks, the IRS has stated that it must recruit one manager a day for the next ten years. Furthermore, the rate at which new recruits are leaving the IRS during the first and second year of employment has increased since FY 2005. The pending loss of institutional knowledge and expertise at all levels and the challenge of retaining a highly skilled workforce increase the risk that the IRS may not be able to achieve its mission.

The IRS is currently taking significant actions to address workforce issues, such as the creation of the IRS Commissioner's Workforce of Tomorrow Task Force and the incorporation of human capital strategies and high-level measures in the IRS's 2009–2013 Strategic Plan. However, TIGTA audits show that the IRS will need to address four key areas to make progress in addressing its human capital challenge. IRS executive management will need to:

- 1) lead the agency to act as "one IRS" to strategically address its human capital issues;
- 2) balance the need for a more strategic focus on human capital issues with the need to continue addressing day-to-day issues that affect the IRS workforce;
- 3) evaluate the success of human capital initiatives and make adjustments as necessary; and
- 4) build upon the momentum gained through the IRS's recent emphasis on human capital issues.

Specifically, TIGTA's previous audits found that the IRS lacked comprehensive agency-wide information on the skills of its employees in mission-critical occupations and that the IRS had not determined the overall leadership strength of each operating division. In addition, the IRS did not have an agency-wide recruitment strategy, and substantial progress had not been made in developing and implementing an agency-wide process to consistently and accurately project future human resource needs.

While the IRS is currently taking significant actions to focus on human capital issues, including actions to address TIGTA's prior recommendations, there is much work ahead. Due to the importance of human capital management to the accomplishment of the IRS's mission, TIGTA will continue to monitor the IRS's progress in addressing this challenge.

TIGTA made no recommendations in this report; however, key IRS management officials reviewed it prior to issuance and agreed with the facts and conclusions presented.

Erroneous and Improper Payments

As defined by the Improper Payments Information Act of 2002,²¹ an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts. For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.

More Progress Is Needed to Reduce the Millions Paid in Interest on Improperly Frozen Refunds (Reference No. 2009-30-106)

The IRS issues millions of refunds worth billions of dollars to taxpayers each year through its automated and manual systems. The IRS's inability to promptly resolve some accounts with a large dollar refund freeze (a freeze of a taxpayer's account that has a filed tax return and a credit balance of \$10 million or more) can adversely affect taxpayers who may need the refunds to help meet their financial obligations. These delayed actions may also negatively impact the IRS's mission of providing top-quality customer service, in addition to costing the Federal Government millions of dollars in additional interest.

TIGTA recommended that the IRS coordinate with its appropriate functional areas and follow through with implementing the prior recommendations to: 1) properly implement computer system modifications to provide alerts to review large dollar frozen taxpayer accounts for credits that can be released and to systemically release the freeze on accounts when credits fall below the large dollar refund freeze threshold; 2) ensure procedures for processing large dollar frozen refunds adequately address common issues that arise and delineate responsibilities of the various functions that are most involved with the processing and monitoring of these taxpayer accounts; and 3) ensure training materials cover the procedures for processing large dollar frozen refunds.

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

Increased Automated Controls Could Further Improve Accountability Over Manual Refunds (Reference No. 2009-40-131)

During 2007, the IRS issued approximately 184,000 manual refunds totaling over \$1.5 billion to individual taxpayers, and approximately 70,000 manual refunds totaling almost \$32 billion to business taxpayers. Due to inaccurate and incomplete data, and data that are not always maintained by the IRS, neither the IRS nor its oversight organizations are able to perform systemic analyses to identify erroneous manual refunds. Given the large dollar amounts involved, this could result in a significant loss of Federal Government revenues.

TIGTA recommended that the IRS ensure that the identification number of the manual refund requestor is not overridden on the electronic data file and that the requestor's employee identification number is captured in electronic data files for all manual refund transactions.

²¹ Public Law No. 107-300, 116 Stat. 2350 (2002).

TIGTA also recommended that the IRS should establish a standardized computer record that includes key information on manual refunds processed through the Secure Payment System and establish a process to regularly obtain the electronic data file for use in monitoring the program. To increase accountability, the IRS should develop a process to provide for systemic managerial approval. In the interim, the IRS should capture the identification number of the managerial Approving Official in the electronic data files.

IRS management agreed with TIGTA's recommendations and they plan to take appropriate corrective actions, contingent on funding availability.

Contracting Officer's Technical Representatives Effectiveness Over Contracts (Reference No. 2009-10-139)

The COTR workforce is a key internal control to ensure that the contractor is meeting the Government's interest in terms of providing deliverables that are: of high quality, complete, timely, and cost effective. TIGTA determined that the IRS's contract administration was ineffective. As a result, the IRS cannot ensure that payments were made only to contractors who performed in accordance with contract terms and conditions and that taxpayer dollars are not being misspent.

TIGTA recommended that the IRS: 1) identify all IRS employees performing COTR-related duties and ensure that they are formally delegated authority by the responsible contracting officer, appropriately trained, and certified in accordance with Federal acquisition requirements; 2) ensure supervisors are knowledgeable of the contract oversight requirements and that they evaluate all aspects of their employees' COTR responsibilities; and 3) ensure that consistent ongoing on-the-job support is provided for newly hired/less experienced COTRs. TIGTA also recommended that the IRS reevaluate the current approach to expand the reviews of COTR contract files to ensure that reviews are routinely performed, accurate, and that complete documentation is received, verified, and retained to support the contractor's billed expenses.

IRS management agreed with most of TIGTA's recommendations and plans to take appropriate corrective actions. The IRS did not agree to revise the yearly performance evaluation process because of contractual issues in the collective bargaining agreement. TIGTA recognizes the legitimate concerns the IRS has raised with regard to evaluating the performance of the COTRs; however, despite these concerns, the IRS could attempt to negotiate different terms in the next collective bargaining agreement in an effort to address TIGTA's concerns.

Taxpayer Protection and Rights

The IRS continues to place increased emphasis on tax compliance activities, such as better-identifying corporations and individuals who fail to report income or do not pay what they owe. However, all collection efforts must be balanced against the rights of taxpayers to receive fair and equitable treatment, both in the assessment of taxes and in all initiatives undertaken to collect open account balances. In summary, all collection efforts must ensure that taxpayer rights are protected.

Increased Oversight Is Needed to Prevent Inadvertent Disclosure of Personally Identifiable Information (Reference No. 2009-30-059)

In November 2007, the Federal Trade Commission reported that, for the eighth year in a row,

“Taxpayers need to be assured that the IRS is taking every precaution to protect their private information from inadvertent disclosure,” commented J. Russell George, the Treasury Inspector General for Tax Administration.

identity theft was the number one consumer complaint nationwide and that each year it affects more than 10 million Americans. Consumers have lost more than \$45 billion to identity thieves. Taxpayers need to be assured that the IRS is taking every precaution to protect their private information from inadvertent disclosure.

TIGTA recommended that the IRS establish authority and responsibility at the national level for the disposal and destruction of sensitive but unclassified (SBU) waste and personally identifiable information (PII) and establish policies and procedures to address internal control weaknesses. The IRS should ensure that all SBU waste contracts include the Federal security requirements for SBU waste/PII disposal and destruction. Additionally, improvements to oversight and management of SBU waste disposal contracts should include standardization of critical elements and the creation of a national database of all IRS facilities, the contracts covering SBU waste disposal, and the contractors that serve them. Furthermore, the IRS should provide complete, updated, and accurate guidance and education to all IRS management, employees, and contractors involved in any aspect of the collection, disposal, or destruction of SBU waste and PII.

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

Inadequate Management Information Has Adversely Affected the Acceptance Agent Program (Reference No. 2009-40-087)

The purpose of the Individual Taxpayer Identification Number (ITIN) is to provide alien individuals, whether or not they reside in the United States, an identifying number for use in connection with United States tax return filing requirements. One method by which taxpayers obtain ITINs is through IRS-approved Acceptance Agents or Certifying Acceptance Agents (both hereafter referred to as “Agents”).

The primary means by which the IRS regulates Agents are the application screening process and the monitoring program. The volume of ITINs is growing, increasing the risk of fraudulent tax returns using ITINs. Inadequate screening and monitoring increase the potential for lost revenue

“Without proper oversight, there is an increased risk that fraudulent tax returns are being filed using ITINs,” commented J. Russell George, the Treasury Inspector General for Tax Administration. “The IRS must improve its information management processes to effectively oversee this program.”

resulting from actions of unscrupulous Agents.

TIGTA recommended that the IRS ensure that the IRS’s management information system is modified to generate periodic and regular reports, followed by the development of

procedures and internal controls to monitor the Acceptance Agent Program. Sufficient resources should be used to make certain all validations are completed and qualification checks passed before an application is accepted. Compliance checks should be automated. In addition, TIGTA recommended that sufficient staffing be provided to review the documents that support the Forms W-7, Application for IRS Individual Taxpayer Identification Number, submitted by Agents.

IRS management agreed with TIGTA's recommendations and plans to take appropriate corrective actions.

Effectiveness of the Process to Ensure Accuracy of Combat Zone Indicators (Reference No. 2009-40-138)

In recognition of the dangers that members of the military face and the sacrifices they make on behalf of the United States, special Federal income tax benefits are extended to members of the military. These benefits include the exclusion of combat pay from taxation and extension of time to file tax returns and pay taxes. While civilian employees supporting the military in combat zones are not entitled to the Combat Zone military pay exclusion, they are entitled to other benefits, such as extensions of time to file and pay. To identify these taxpayers, the IRS places Combat Zone indicators on their tax accounts. However, Combat Zone indicators are often inaccurate, which can result in taxpayers not receiving the benefits to which they are entitled, or continuing to receive special tax benefits to which they are no longer entitled.

TIGTA recommended that the IRS develop processes to distinguish military taxpayers from civilian taxpayers, properly identify individuals who are in the military that file a joint tax return, and ensure Combat Zone indicators are properly reversed. TIGTA also recommended that the IRS discontinue providing the option to self-identify by annotating a tax return. Further, TIGTA recommended that the IRS review the accounts of nonfilers with inaccurate indicators to determine if notification or compliance actions are needed, identify and resolve unpostable records from the Department of Defense, validate Combat Zone service at the time an individual self-identifies, and develop a secure fillable form with the required data fields to improve electronic self-identification.

IRS management agreed with most of TIGTA's recommendations; however, it disagreed with the recommendation to develop a process to distinguish military taxpayers from civilian taxpayers, indicating that the IRS has the ability to distinguish between military and civilian taxpayers. TIGTA acknowledges that the IRS can identify military individuals via the information received monthly from the Department of Defense. However, as the report stated, the IRS uses the same indicator for both military and civilian taxpayers. Once this indicator is set on the accounts of civilian taxpayers, it could allow civilian taxpayers to inappropriately exclude income without action by the IRS, because the IRS will not review accounts with unreported income if a Combat Zone indicator is present.

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

Each filing season tests the IRS's ability to implement tax law changes made by Congress. It is during the filing season that most individuals file their income tax returns and call the IRS with questions about specific tax laws or filing procedures. Correctly implementing tax law changes is a continuing challenge because the IRS must identify the tax law changes; revise the various tax forms, instructions, and publications; and reprogram the computer systems used for processing returns. Changes to the tax laws have a major effect on how the IRS conducts its activities, what resources are required, and how much progress can be made on strategic goals. Congress frequently changes the tax laws. Thus, some level of change is a normal part of the IRS environment. However, certain types of changes can significantly affect the IRS in terms of the quality and effectiveness of its service and in how taxpayers perceive the IRS.

2009 Filing Season Implementation (Reference No. 2009-40-142)

Each year, tax law changes create challenges for both the IRS and individual taxpayers. Moreover, the 2009 filing season presented additional challenges due to the passage of three significant tax laws in 2008 and 2009 after the filing season had started. Through May 29, 2009, the IRS had received more than 133.6 million individual tax returns. Of those, 91.7 million were electronically filed and 41.9 million were filed on paper.

One of the challenges facing the IRS involved administering revisions to the First-Time Homebuyer Credit (FTHC). At the time of TIGTA's review, the IRS had received more than 1.1 million tax returns on which taxpayers were allowed more than \$7.8 billion in FTHCs. Because of different rules regarding the repayment of the credit, the IRS established special processing code "H" to assist computer programs in distinguishing FTHC claims for homes purchased in calendar year 2009, from homes purchased in calendar year 2008. This code should have been recorded only when FTHC claims show the home is purchased in calendar year 2009.

In limited testing of returns with the FTHC, TIGTA found that the special processing code was not always recorded accurately. We reviewed the purchase dates shown on the 47,276 e-filed returns and found that 93 percent (43,967) did not have their IRS accounts properly coded. Since these taxpayers purchased their homes in calendar year 2009, they generally should not be required to repay the FTHC but may eventually be incorrectly identified as being liable for repayment of the credit. Taxpayers may be burdened by inaccurate notices and improper collection attempts if the IRS cannot accurately identify which credits must be repaid.

TIGTA recommended that the IRS ensure that special processing code "H" is accurately used on taxpayer accounts by identifying previously processed tax returns that were not coded accurately and ensuring subsequently processed tax returns are properly coded.

IRS management disagreed with this recommendation, stating that they have gone to considerable lengths to mark accounts with the year of purchase and the dollar value of the credit issued, and intend to track this information for taxpayers who are required to pay back the credit. As the IRS determines what compliance activities will be conducted, it will validate the information it has in order to ensure that only those taxpayers who have not met their

responsibilities are contacted. This will include ensuring that the date of purchase was captured accurately.

Despite IRS management's assertion that the IRS went through considerable lengths to mark accounts with the year of purchase and to track such information in determining if recapture is required, TIGTA's review of electronically filed returns found that 93 percent did not have their accounts properly coded. As a result, TIGTA initiated an audit that will evaluate the effectiveness of the IRS's efforts to distinguish between filers claiming the credit for a purchase in 2008 versus a purchase in 2009.

Assessment of IRS Stimulus Payment Recovery Payment Efforts (Reference No. 2009-40-129)

The Recovery Rebate Credit is provided to those eligible individuals who may not have received an economic stimulus payment or who are entitled to an additional credit. Overall, the IRS successfully planned for the implementation of the Recovery Rebate Credit. The IRS issued more than \$96 billion in advanced economic stimulus payments to more than 119 million individuals in 2008, and approximately \$8.5 billion in Recovery Rebate Credits to almost 21 million taxpayers as of April 17, 2009. The IRS was able to achieve the intent of Congress by providing billions of dollars to millions of Americans.

TIGTA recommended that the IRS issue recovery payments to individuals who did not receive the Recovery Rebate Credit to which they were entitled as a result of programming and other errors.

IRS management agreed with the intent of TIGTA's recommendations and is currently reviewing the data provided by TIGTA. The IRS plans to provide appropriate taxpayer relief, if warranted, based on the results of the review.

Inadequate Data on Paid Preparers Impedes Effective Oversight (Reference No. 2009-40-098)

More than half of all tax returns filed are prepared by paid preparers. However, the IRS cannot determine the population of preparers or if the preparers are compliant with their own tax obligations as well as all tax laws and regulations. Tax return preparers have a significant effect on taxpayer compliance. A unique identifying number to control each preparer and an effective management information system are necessary for the IRS to facilitate tax administration and provide effective oversight of preparers.

“The IRS currently is not able to track, monitor or control preparers’ activities and compliance, or even determine the total number of paid tax return preparers,” commented J. Russell George, the Treasury Inspector General for Tax Administration.

TIGTA recommended that the IRS: 1) establish a requirement that paid preparers be compliant with their own Federal tax filing obligations in order to be allowed to prepare tax returns for others for a fee; 2) revise the target completion date for its study on requiring preparers to use a single identification number when filing tax returns; 3) develop a method to enforce I.R.C. Section 6695(c), which imposes a penalty on preparers who do not provide an identification number on tax returns they prepare; and 4) develop a comprehensive data management system

that allows the IRS, at a minimum, to determine the population of preparers by eliminating discrepancies between its various computer systems.

IRS management agreed in principal with the first and second recommendations and believes these recommendations will be addressed by the Commissioner's Tax Return Preparer Review team as well as a guidance project being conducted in coordination with the Department of the Treasury. IRS management agreed with the third and fourth recommendations and plans to take appropriate corrective actions.

IRS Plans for Modernizing Tax Return Processing (Reference No. 2009-40-130)

In 2008, the IRS received 156.3 million individual income tax returns of which 66.4 million (42.5 percent) were paper-filed. The IRS has devoted significant resources to identify ways it could modernize its method for processing paper tax returns, but has had no success. Mandating electronic filing (e-filing) for paid preparers and developing processes to convert paper returns into an electronic format would significantly reduce paper filings, processing costs, and error rates, with the added benefit of faster tax refunds and more-accurate tax returns for taxpayers. TIGTA recommended that the IRS pursue implementing successful processes followed by States that use scanning technology to convert paper-filed tax returns prepared by individuals using a tax preparation software package into an electronic format. TIGTA also made a legislative recommendation to consider mandating e-filing for all paid preparers.

IRS management agreed with the recommendation and plans to take appropriate corrective action. The IRS also agreed with the legislative recommendation and stated that it is currently under consideration by the Treasury, and is included in the President's 2010 budget request.

Procedures to Address Noncompliance with Reporting Requirements for Contributions of Motor Vehicles Are Inadequate (Reference No. 2009-30-116)

The legitimacy of the values placed on donations of motor vehicles has recently been questioned by the IRS and Congress. As a result, Congress passed legislation limiting deductions and adding reporting requirements. Individual taxpayers are required to file Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, or a written acknowledgment from the charity, in addition to Form 8283, Noncash Charitable Contributions, if their charitable deductions claimed for donated motor vehicles exceed \$500. Currently, taxpayers who may not be entitled to deductions for charitable contributions of motor vehicles are reducing their tax liabilities, which could result in a loss of revenue to the Federal Government and inequitable treatment of taxpayers.

TIGTA recommended that the IRS ensure that: 1) returns without substantiation for charitable contributions of motor vehicles are adjusted pursuant to math error authority; 2) procedures are developed to match the information reported by charities on Forms 1098-C with the information reported on taxpayers' returns; and 3) outreach, educational material, and other methods be used to ensure charitable organizations comply with the requirement to file Form 1098-C with the IRS for each donated motor vehicle with a value in excess of \$500.

IRS management agreed with one of the three recommendations. The IRS agreed to process returns without substantiation for charitable contributions of motor vehicles pursuant to math

error authority. IRS management did not agree to match the information reported by charities on Forms 1098-C with the information reported on taxpayers' returns. The IRS believes the noncash contribution review is better suited for the Correspondence Examination Program, a program in which tax returns are examined. In addition, IRS management believes they have a substantial outreach program for motor vehicle donations and have completed what is being recommended.

However, TIGTA believes matching the information reported by charities with the information on taxpayers' returns would more effectively identify potential underreporting by taxpayers claiming undue deductions for motor vehicle donations. Matching it could also facilitate the imposition of penalties on charities that do not provide the required documentation to donors and the IRS. TIGTA also believes the IRS has had more than two years to make charities aware of the change in the law, but the analysis still identified an approximately 60 percent noncompliance rate. The deficient cases in the samples were all filed after the IRS outreach was available. Furthermore, because the IRS is not identifying noncompliant charities and imposing penalties when the charities fail to submit the required documentation, compliance by charities may not improve.

Improving Performance and Financial Data for Program and Budget Decisions

While the IRS has made some progress in this area, it lacks a comprehensive, integrated system that provides accurate, relevant, and timely financial and operating data that describes performance measures, productivity, and associated program costs. In addition, the IRS cannot produce timely, accurate, and useful information needed for day-to-day decisions, which hinders its ability to address financial management and operational issues in order to fulfill its responsibilities. TIGTA has continued to report that various IRS management information systems are insufficient to enable IRS management to measure costs, determine if performance goals have been achieved, or monitor progress in achieving program goals.

Improved Project Management Is Needed to Measure the Impact of Research Efforts on Tax Administration (Reference No. 2009-10-095)

IRS management relies on research programs to deliver information that is integral to improving performance on strategic goals and objectives. However, IRS research management has not

“The IRS does not have an effective process to monitor, validate and measure its research efforts,” commented J. Russell George, the Treasury Inspector General for Tax Administration.

developed and implemented effective business measures and project management processes to provide pertinent data about whether IRS research efforts achieved established program objectives. This is especially

significant because the IRS spent more than \$93.2 million on research in Fiscal Year 2008, but cannot effectively assess the impact its research efforts had on tax administration.

TIGTA recommended that the IRS develop and implement effective business measures to better-assess whether its research efforts achieve program objectives and to show the impact on tax administration. TIGTA also recommended establishing research standards and

practices to ensure basic project information is captured, tracked, and monitored to allow for consistent and comparable reporting of IRS research performance.

IRS management agreed in principle with TIGTA's recommendations, but offered alternative corrective actions for all three recommendations. The Servicewide Research Council (a high-level leadership group for sharing information, coordinating cross-cutting activities and resolving procedural issues that affect research efforts across the entire IRS) plans to consider developing appropriate business measures and explore whether standardized measures are desirable. The Council also plans to look for opportunities to develop consistent definitions of research projects and establish an appropriate set of documentation standards and practices. Some IRS research units were already in the process of developing workload measures and redesigning tracking systems.

While recognizing the value of having the Servicewide Research Council discuss the establishment of business measures, TIGTA is concerned that IRS management has not made a commitment to establishing business measures. The Servicewide Research Council serves as a forum for exchanging ideas and coordinating cross-cutting activities, not as a standards-making body. The Internal Revenue Manual states the Office of Research, Analysis, and Statistics is responsible for providing functional leadership, guidance, and support to the IRS Research Community on research standards and practices to ensure consistency and comparability of performance between the various research programs.

In this environment of increased government accountability and transparency, TIGTA believes it is critical for IRS management to be able to report the benefits and impact of IRS research resources (\$93.2 million spent in FY 2008) beyond just internal IRS customer satisfaction.

Additional Efforts in Space Planning Are Needed to Address Planned Staffing Increases (Reference No. 2009-10-107)

As a result of its ongoing space reduction efforts, the IRS has reduced its office space seven percent since 2004. However, the IRS still faces a number of challenges in its ongoing efforts to effectively manage its space and associated costs. In

February 2009, the IRS actively began planning for a hiring initiative which could increase the non-campus staffing by as much as nine percent over the

“Although the IRS has unused space currently available, additional efforts are needed to ensure that the space-related challenges created by its new hires are effectively addressed,” commented J. Russell George, the Treasury Inspector General for Tax Administration.

next two years. In addition, long-term space planning needs to consider the impact of workstation sharing, which could result in \$6 million in future annual rent savings.

TIGTA recommended that the IRS develop an overall estimate of planned hiring by location and compare this estimate to existing space and develop a comprehensive national policy regarding workstation sharing for flexi-place employees. TIGTA also recommended the IRS reevaluate all significant in-process and planned space reduction projects based on the additional space

needs created by the planned hiring initiative, perform a reassessment of the projected long-term space requirements for non-campus facilities, and revise the IRS's overall space utilization goal.

TIGTA further recommended that the IRS develop procedures requiring that future building-level space needs assessments consider the impact of workstation sharing and be periodically reconciled to agency-wide projected staffing levels. Finally, TIGTA recommended that the IRS reinforce the need to perform periodic validations of space data, expand guidance regarding these evaluations, and ensure that its project tracking system is updated to include all key information for significant in-process projects.

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

Taxpayer Advocacy Panels (Reference No. 2009-10-121)

The Taxpayer Advocacy Panel (Panel) was established in 2002 to listen to taxpayers, identify "grass roots" issues, and make recommendations for improving the customer service provided by the IRS. The Panel provides a valuable service to the IRS and to taxpayers. However, the Taxpayer Advocate Service (TAS) needs to ensure better use of its resources by providing a better balance between the costs of administration and staff used to support the Panel and the Panel's ability to help improve service to taxpayers. Given the current emphasis on accountability for Federal programs, it is important for the National Taxpayer Advocate (NTA) to ensure that TAS resources are being efficiently spent and the Panel is at an optimal size.

TIGTA recommended that the IRS: 1) revise the staff time tracking system to help evaluate whether resources are being used efficiently; 2) reevaluate the Panel's structure and size to ensure an appropriate balance between TAS staff and budgetary resources used to support the Panel; 3) reevaluate the roles of the TAS staff assigned to the Panel and establish guidance to ensure that the Panel functions independently; 4) revise the charter to accurately reflect the roles of Panel members; 5) establish and implement a process to validate data in the Panel database and correct the erroneous entries TIGTA identified; 6) establish a process to follow-up with the IRS on the recommendations planned for future implementation; 7) establish formal guidance for conducting tax compliance checks of Panel members; and 8) develop procedures to verify that licensed tax practitioners serving on the Panel are in good standing with the IRS.

IRS management agreed with most of TIGTA's recommendations. The IRS did not fully agree to reevaluate the Panel's size to determine the optimal structure of the Panel's membership, indicating there was no compelling data that the current structure is flawed, and that it would not be cost-effective to make such changes. In addition, the IRS noted that any changes to the Panel require approval by the Secretary of the Treasury and the Commissioner.

In the current environment of increased accountability in government, TIGTA believes that it is important for the IRS to evaluate this program and identify any potential changes that could reduce costs and improve efficiency. Because no new studies have been performed since the Panel was established in 2002, the recommendation to reevaluate the structure and size of the Panel and the TAS staff supporting the Panel continues to be valid.

PROTECT THE INTEGRITY OF TAX ADMINISTRATION

TIGTA's mission was enhanced on October 14, 2008, when the President signed Public Law 110-409, the Inspector General Reform Act of 2008, which lifted the statutory prohibition against TIGTA providing physical security to protect IRS employees against external threats.

Subsequent to passage of this important legislation, TIGTA developed the Armed Escort Program. The Armed Escort Program allows IRS employees to request that TIGTA special agents escort them when an IRS employee requires personal contact with a taxpayer who has been designated by the IRS as a Potentially Dangerous Taxpayer, is the subject of an open assault investigation, an open threat investigation, or the IRS employee believes such contact with the taxpayer poses a dangerous situation. TIGTA expects the necessity for armed escorts to increase over time as the IRS places additional focus on collection and enforcement activity and shifts away from using private debt collectors to collect delinquent tax debt and reassigns that function to IRS employees. By providing armed escorts, TIGTA is able to provide a safe environment for the IRS employee to conduct tax administration functions. TIGTA initiated its Armed Escort Program on April 1, 2009.

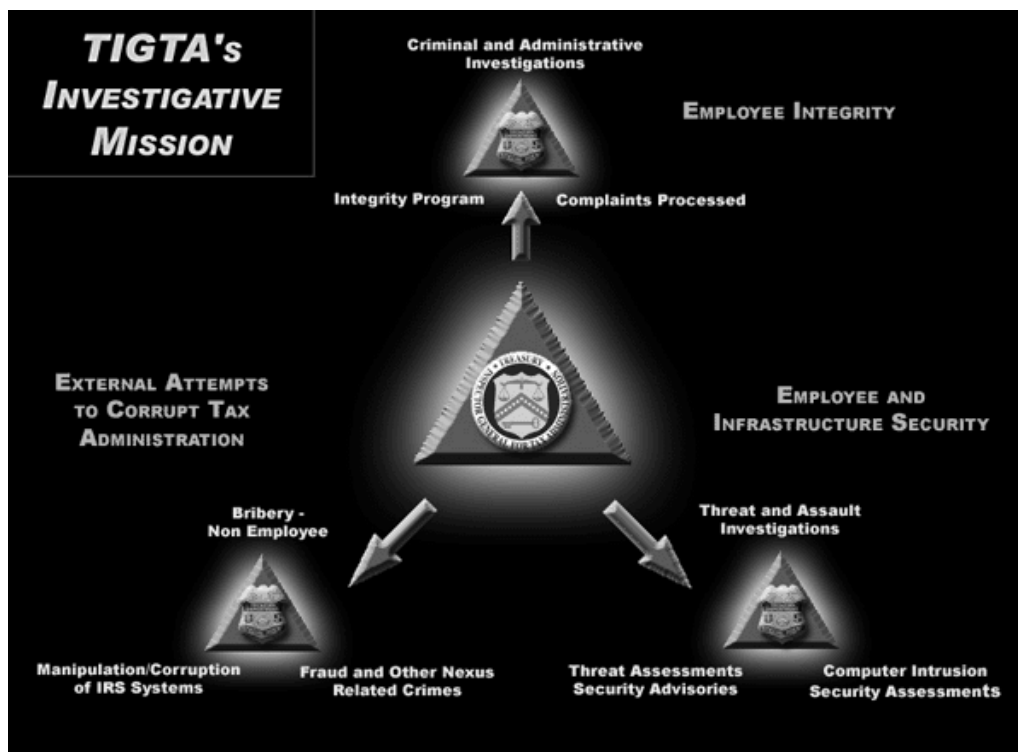
TIGTA's Armed Escort Program is a seamless extension of its assault and threat investigations. When a taxpayer threatens or assaults an IRS employee, TIGTA responds and an investigation ensues. As part of the investigation, a TIGTA special agent will contact the taxpayer and conduct a law enforcement interview. Depending upon the facts and outcome of the investigation, should an IRS employee again need to contact the taxpayer, TIGTA will provide an armed escort for the IRS employee when meeting with the taxpayer.

Prior to initiating the Armed Escort Program, TIGTA developed a specialized training program specifically tailored to prepare its special agents to manage volatile encounters with individuals who may have a violent anti-government or anti-tax viewpoint and pose a threat to IRS employees who are attempting to conduct official IRS business. TIGTA was able to develop and present this essential training to almost 100 percent of its front-line special agents before the commencement of armed escort actions.

TIGTA expects the necessity for armed escorts to increase over time, as the IRS places additional focus on collection and enforcement activity. Should violence ensue, TIGTA special agents are trained, ready and able to address the situation as Federal law enforcement officers. The value of securing the safety of IRS personnel during the course of their official duties is immeasurable.

Since the April 1, 2009, inception of the Armed Escort Program, TIGTA has conducted 23 armed escort activities.

TIGTA'S INVESTIGATIVE PERFORMANCE MODEL



TIGTA pursues three mission-critical investigative areas: employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration. These focus areas, each subdivided into three components, define and guide the Office of Investigations (OI) in its decision-making process regarding investigative resources and provides a conceptual and visual depiction of TIGTA's investigative jurisdiction for its employees and others.

The model has shown its durability, usefulness, and stamina. Over time, even through strategic reassessments and changes in administration, the model has anchored OI and provided the stability necessary for increased success. The model has shown field agents and supervisors which investigations are critical to pursue. The model has also shown OI senior leadership what areas need evaluation or budgetary assessment.

For example, the model identified increasing dangers from procurement fraud and threats against IRS facilities and personnel. In turn, OI senior leadership has sought to increase the scale of OI involvement in the mission-critical investigative areas of employee and infrastructure security, fraud and other related crimes, external attempts to corrupt tax administration, and threat and assault investigations.

Procurement Fraud

Contract fraud can be defined as the corruption of the Federal acquisition process, either by internal or external parties, in such a way that the Government is harmed through overcharges, unallowable fees, and/or defective products or services, as it seeks to use third party vendors to meet organizational needs.

Contract expenditures constitute nearly 20 percent of the IRS's annual budget of approximately \$12 billion. During FY 2008, the IRS spent approximately \$1.9 billion to procure various goods and services. Significantly, the vast majority of IRS acquisition activities concern the development, implementation and maintenance of over 450 data systems used to conduct its tax administration responsibilities.

TIGTA investigates a wide variety of contract fraud allegations. The most common ones are:

- **Product Substitution:** This occurs when the contractor substitutes one product for another (usually of lesser value) and the Government pays for the higher-valued item.
- **Labor Cost Mischarging:** This occurs between cost-reimbursement and fixed-price contracts in which the contractor “shifts” costs (usually in the form of labor hours) from the fixed-price contract (usually with another government or private sector entity) onto the government-held cost-reimbursement contract. Additionally, a contractor can mischarge the Government by including unallowable costs (such as alcohol or lobbying expenses) within overhead rates or fictional expenses in order to pass along these costs to the Government.
- **Defective Pricing:** This occurs when the contractor submits inaccurate cost and pricing data to the Government. This is often “hidden” from view until an audit or contract closeout activity identifies the actual costs the contract incurred.
- **Antitrust Violations:** This occurs when contractors agree to enter into collusive bidding or price fixing in order to limit competition and place the Government at an unfair disadvantage in obtaining the most competitive price. These activities results in higher costs for the Government and damage the public's confidence in the fairness of the procurement process.
- **False Claims Act Qui Tam Provisions:** The False Claims Act (FCA)²² provides for liability for triple damages and a penalty from \$5,500 to \$11,000 per claim for anyone who knowingly submits or causes the submission of a false or fraudulent claim to the United States.

This law, first passed during the Civil War, includes an ancient legal device called a “Qui Tam” provision—from the Latin phrase meaning “he who brings a case on behalf of the king as well as for himself.” This allows for a private person called a “relator” to bring a lawsuit on behalf of the United States, when the person has information that the defendant knowingly submitted or

²² 31 U.S.C. § 3729 et seq.

caused the submission of false claims. The relator need not have been personally harmed by the defendant's conduct.

The FCA has a very detailed process for the filing and pursuit of these claims. The complaint must be filed "under seal," which means that all records relating to the case must be kept on a secret docket by the Clerk of the Court. Copies of the complaint must be given only to the Department of Justice (DOJ), including the local Assistant United States Attorney (AUSA) and to the assigned judge of the District Court. The complaint and all other filings in the case remain under seal for a period of at least 60 days. At the conclusion of the 60 days, DOJ must, if it wants the case to remain under seal, file a motion with the District judge showing "good cause" as to why the case should remain under seal. Typically, these motions request an extension of the seal for six months at a time.

In addition to the complaint filed with the District Court, the relator must serve upon DOJ a "disclosure statement" containing substantially all evidence in their possession about the allegations in the complaint. This disclosure statement is not filed in any court and is not available to the named defendant.

The DOJ attorney assigned to a Qui Tam complaint must diligently investigate the allegations of violations of the FCA. Often this will involve multiple law enforcement organizations such as TIGTA, the Postal Inspection Service, and the Federal Bureau of Investigation. In some cases where State agencies are the victims, the States' attorneys general will participate in the investigation with the Federal agencies.

The investigation will often involve specific investigative techniques, including subpoenas for documents or electronic records, witness interviews, or compelled oral testimony. Government participation in these lawsuits generally results in the relator receiving 15 to 25 percent of any financial settlement. According to DOJ information, of the \$1.4 billion in settlements and judgments received in 2005, \$1.1 billion is associated with suits initiated by whistleblowers under the FCA's Qui Tam provisions.

The following case study is an example of a procurement fraud investigation TIGTA conducted:

U.S. Awarded a Final Judgment Against RGI, CSM and John Rachel

According to the evidence presented at trial, in 1995 the IRS entered into a contract with a company to repair laptop computers used by the IRS throughout the country. The contract called for the company to charge the IRS a fixed hourly rate plus the actual cost of parts used in the repairs. The contractor subcontracted most of the work to RGI.

Testimony showed that RGI contracted with a third party to perform certain repairs to the IRS laptops. Instead of billing the actual cost of the third party's work, John Rachel and RGI artificially inflated these costs by claiming that a shell company, CSM, had actually performed this work. When questioned about these transactions, Rachel and RGI provided the IRS with phony invoices reflecting that the work had been done by CSM at prices much higher than was actually charged by the true vendor. Trial testimony showed that the IRS paid an additional \$428,532 under the contract as a direct result of the fraudulently inflated invoices.

On March 16, 2009, a final judgment against RGI, CSM, and John Rachel awarded the U.S. Government \$1,285,597 in treble damages and a civil penalty of \$385,000.

Threats and Assaults Against Internal Revenue Service Facilities and Personnel

TIGTA works to ensure that the IRS operates in an environment free from threats, assaults, and critical infrastructure sabotage. To accomplish this mission, TIGTA relies on its Criminal Intelligence Program (CIP) for comprehensive intelligence gathering capabilities to combat the activities of individuals and groups who pose a potential threat to the IRS.

The CIP obtains and analyzes intelligence information by leveraging the resources of the law enforcement and intelligence communities. The CIP has access to intelligence information and various databases through its presence on the national Joint Terrorism Task Force and local Joint Terrorism Task Forces throughout the country. The CIP researches, analyzes and disseminates intelligence information in support of mission requirements.

TIGTA is uniquely positioned, through its work with potentially dangerous taxpayers and intelligence gathering, to curtail or prevent criminal activity targeted at the IRS's efforts to collect revenue. For example, special agents of the CIP previously learned that a large war-tax protest organization was organizing various anti-war/anti-government groups to participate in a blockade of the IRS headquarters. The CIP special agents worked with their law enforcement counterparts and IRS staff in an effort to minimize the disruptive impact of the protest. Thirteen TIGTA special agents were assigned to the protest to collect intelligence, monitor the crowds, and to provide emergency response assistance, if necessary. During this event, approximately 300-400 people protested and attempted to block access to the entrances of IRS headquarters. Numerous protestors climbed over the barricades, refused to adhere to law enforcement warnings, and attempted to turn away IRS employees. Thirty-two individuals were arrested as a result of this incident.

Employee Integrity Investigations

IRS employee misconduct negatively affects the image and mission of the IRS. TIGTA is charged with addressing IRS employee misconduct. OI investigates allegations such as extortion, bribery, theft, abusive treatment of taxpayers, false statements, financial fraud, and unauthorized access (UNAX) to confidential taxpayer information, including contractor misconduct and fraud.

UNAX is a persistent vulnerability for the IRS and the Federal tax system. The IRS is entrusted with properly maintaining and safeguarding sensitive taxpayer information, including personally identifiable information—the loss or misuse of which could result in identity theft and other fraudulent activity. The Federal tax system is based on voluntary compliance, and public confidence that the personal and financial information given to the IRS for tax administration purposes will be kept confidential is essential to that system. Even when unauthorized access does not involve unauthorized disclosure of taxpayer information by an IRS employee, unauthorized accesses undermine taxpayer confidence in the tax administration system. OI has specific programs to protect the privacy, integrity, and availability of this sensitive information.

During this reporting period, OI completed 959 employee integrity investigations, of which 270 were UNAX investigations. Also, during the same period, OI investigations resulted in 23 criminal prosecutions and 680 administrative disciplinary actions against IRS employees.

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

Albert Bront Charged with Threatening to Assault and Murder Federal Law Enforcement Officers

On July 28, 2009, in California, Albert Bront was charged with threatening to assault and murder Federal officers.²³ Bront, an Internal Revenue Service Revenue Agent, was being investigated for filing false tax returns. The investigating agent obtained information that Bront was “bi-polar” and had a “temper”. The investigating agent also learned that Bront had three firearms registered to him.²⁴

During the execution of a search warrant at Bront’s residence, witnesses reported that Bront said something to effect of “I’m going to kill you” to the agents. Bront later admitted to making the threats to kill the agents and to knowing that the agents were the police.²⁵

Bront threatened to assault and murder two TIGTA Special Agents and one IRS Criminal Investigation Division Special Agent. Bront’s threat was made with the intent to intimidate the Special Agents and retaliate against them for the performance of their official duties.²⁶

Edith Squillace Charged with Attempted Extortion

On July 8, 2009, IRS employee, Edith Squillace, was charged with attempted extortion. Squillace was involved in a private-party small claims court civil case in the amount of approximately \$3,750. Squillace attempted to commit an act of extortion by demanding that her victim abandon repayment of approximately \$3,750 of personal loans made to Squillace under the threat of an IRS audit.²⁷

Frank Auerbach Charged with Unauthorized Inspection of Tax Return Information

On April 29, 2009, Frank Auerbach, an IRS employee, was charged in California with intentionally exceeding his authorized access to a computer and obtaining information of 21 individuals. Auerbach was also charged with inspecting a private individual’s tax return information without authorization.²⁸

IRS Employee Charged with Injuring Government Property

On May 26, 2009, IRS employee, Michael Hicks, was charged with injuring government property. After having received a complaint that someone had urinated in a freight elevator at the Detroit Enterprise Computing Center, TIGTA reviewed the images stored in a surveillance

²³ Source: Central District of California Indictment filed July 28, 2009.

²⁴ Source: Central District of California Affidavit in Support of a Criminal Complaint dated July 14, 2009.

²⁵ *Ibid.*

²⁶ Source: Central District of California Indictment filed July 28, 2009.

²⁷ Source: Northern District of California Indictment filed July 8, 2009.

²⁸ Source: Eastern District of California Information dated April 29, 2009.

camera that monitored the elevator from which the complaint emanated. The images revealed that a man, later identified as Hicks, urinated in the freight elevator numerous times between October 10, 2007 and October 31, 2007.²⁹

During an interview with a TIGTA special agent, Hicks admitted to urinating in the elevator and stated that he did so because he felt he could get away with it. Due to Hick's urination, the IRS incurred a deep cleaning expense of \$4,626.25.³⁰

Employee and Infrastructure Security

Threats to and assaults of IRS employees decrease the morale of IRS employees and affect the Federal Government's ability to collect tax revenue. TIGTA protects revenue collection by investigating threats to IRS employees, physical infrastructure, and information systems.

During this reporting period, OI completed 588 employee and infrastructure security investigations. These investigations resulted in eight criminal prosecutions. Also, between April 1, 2009 and September 30, 2009, 23 armed escort activities occurred.

The following case is an example of an employee and infrastructure security investigation TIGTA conducted during this reporting period:

John Barker Sentenced for Mailing a Threatening Communication to the IRS

On August 11, 2009, John Barker was sentenced in Kansas to one year and one day in prison and two years supervised release.³¹ On May 11, 2009, Barker pleaded guilty to mailing a threatening communication to the Internal Revenue Service (IRS).³²

On Sunday, June 22, 2008, an envelope containing a white powder and a threatening letter was opened at the IRS processing center in Austin, Texas. The letter inside the envelope stated "YOU HAVE BEEN EXPOSED TO ANTRAX DIE! [*sic*]" The local fire department HAZMAT team was contacted, retrieved the letter and transported it to the Laboratory Response Network laboratory. The laboratory found no anthrax in their initial test of the powder.³³

The postage used to mail the threat letter was purchased at an Automated Postal Center located in Shawnee, Kansas. The U.S. Postal Inspection Service identified the credit card number used to purchase the postage and Barker was identified.³⁴

On July 21, 2008, Barker provided fingerprints and handwriting exemplars pursuant to a subpoena. In addition, Barker provided a written statement admitting he mailed the anthrax threat letter and explained the white substance was baby powder.³⁵

²⁹ Source: Eastern District of Michigan Affidavit in Support of a Criminal Complaint dated May 26, 2009.

³⁰ *Ibid.*

³¹ Source: District of Kansas Judgment in a Criminal Case filed August 11, 2009.

³² Source: District of Kansas Plea Agreement filed May 11, 2009.

³³ *Ibid.*

³⁴ *Ibid.*

³⁵ *Ibid.*

An examination of the handwriting exemplar, threat letter and envelope, and fingerprints provided by Barker revealed that Barker prepared the envelope and threat letter and that the print on the envelope was made by Barker.³⁶

External Attempts to Corrupt Tax Administration

External attempts to corrupt the administration of Internal Revenue laws diminish the IRS's ability to collect revenue and accomplish its core mission. TIGTA investigates these external attempts to corrupt or impede the administration of Internal Revenue laws. Investigations in this area include:

- Taxpayers offering bribes to IRS employees;
- Use of fraudulent IRS documentation;
- Phishing schemes;
- Impersonation of IRS officials (in person, telephonically, or via the Internet); and
- Corruption of IRS programs or operations through procurement or contractor fraud.

During this reporting period, OI completed 365 external attempts to corrupt tax administration investigations. These investigations resulted in 35 criminal prosecutions.

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

Maxim Maltsev Arrested Upon Arrival at Los Angeles Airport³⁷

On April 29, 2009, Maxim Maltsev of Novosibirsk, Russia, was arrested upon his arrival in the United States at the Los Angeles International Airport. Maltsev was charged in an Indictment by a Federal Grand Jury on April 16, 2009.³⁸

Maltsev is charged with Conspiracy to Defraud the United States regarding a scheme, in which he participated with co-conspirators to defraud the IRS and U.S. taxpayers by fraudulently obtaining Federal income tax returns before they were filed electronically with the IRS. Without the permission of the taxpayers, Maltsev and the co-conspirators fraudulently changed the income tax returns to re-direct the tax refund payments to bank accounts controlled by him and other co-conspirators.³⁹

The IRS sponsors a program known as "Free File," which is a free Federal tax preparation and electronic filing program for eligible taxpayers. The IRS has approved 19 Free File affiliates who provide online return preparation and e-filing with the IRS.⁴⁰ As part of the conspiracy, Maltsev and his co-conspirators would engage in phishing; that is, members of the conspiracy would create fake Web sites that misrepresented themselves as accredited and authorized to electronically file Federal tax returns. Maltsev and his co-conspirators would advertise these

³⁶ *Ibid.*

³⁷ Source: Southern District of California News Release dated April 30, 2009.

³⁸ *Ibid.*

³⁹ Source: Southern District of California Indictment dated April 16, 2009.

⁴⁰ *Ibid.*

bogus Web sites on the Internet through various search engines and through unsolicited electronic mail.⁴¹

Maltsev and his co-conspirators would receive Federal income tax returns prepared for electronic filing by taxpayers who were misled by fraudulent Web sites or electronic mail. The information was changed to cause any refunds issued by the IRS to be sent to bank accounts opened by Maltsev and other co-conspirators.⁴²

Approximately 65 Federal income tax refunds, representing approximately \$105,000, were illegally diverted to accounts opened by Maltsev. Those funds were withdrawn by debit and check cards and by automatic teller machine⁴³ and cash withdrawals in the U.S. and overseas.⁴⁴

Tu Ky Huynh Sentenced in Representation and Tax Fraud Scheme

Tu Ky Huynh, also known as Tiffany Huynh, was sentenced on June 11, 2009, in California, to 16 months in prison to be followed by three years supervised release and was ordered to pay \$100,545 in restitution and a \$2,100 special assessment.⁴⁵

Huynh made a false and fraudulent representation on Form 2848, Power of Attorney and Declaration of Representation, that she was qualified to practice as a Certified Public Accountant when she was not.⁴⁶

Huynh also prepared Federal tax returns listing various deductions, losses, and credits that she knew the taxpayers were not entitled to. In doing so, Huynh willfully assisted each of the taxpayers in the preparation of a false income tax return. The tax loss attributable to Huynh's actions was \$106,292.⁴⁷

Lourdes Salazar-Velazquez Sentenced for Falsely Representing Herself as an IRS Employee

On April 6, 2009, Lourdes Salazar-Velazquez was sentenced, in Arizona, to five years probation and ordered to pay a \$1,000 fine and a \$100 special assessment.⁴⁸ Salazar-Velazquez mailed a letter that represented that she was an IRS Agent acting with the authority of the United States and authorized to collect debt owed to her, garnish wages, and levy property.⁴⁹

Shannon Ford and Michael Ford Charged in Fraud Scheme

On April 23, 2009, in California, Shannon Ford and Michael Ford were charged with various counts, including making false claims to the United States and bank fraud.

The investigation uncovered information indicating Shannon Ford prepared three false tax returns for victim Corey D. (Last name withheld to protect his identity.) Investigators also

⁴¹ *Ibid.*

⁴² *Ibid.*

⁴³ *Ibid.*

⁴⁴ Source: Southern District of California News Release dated April 30, 2009.

⁴⁵ Source: Central District of California Judgment and Probation/Commitment Order filed June 11, 2009.

⁴⁶ Source: Central District of California Plea Agreement filed March 13, 2009.

⁴⁷ *Ibid.*

⁴⁸ Source: District of Arizona Judgment in a Criminal case dated April 6, 2009.

⁴⁹ Source: District of Arizona Indictment dated December 2, 2008, and Plea Agreement dated April 6, 2009.

determined that Shannon Ford fraudulently negotiated one of the income tax refund checks (for tax year 2004 in the amount of \$5,437 payable to victim Corey D.). Investigators recovered photographic evidence of Shannon Ford depositing Corey D.'s falsely endorsed 2004 income tax refund check into her personal account at Members 1st Credit Union. A review of the 2003, 2004, and 2005 U.S. Individual Income Tax Returns prepared and filed by Shannon Ford for victim Corey D. indicate that for each year, Ford, in the name of victim Corey D., claimed a business expense to reduce or eliminate taxable income in order to qualify for a refund. Each tax return claimed a false loss on a Schedule C, Profit and Loss from Business, which (a) eliminated or significantly reduced victim Corey D.'s income tax liability and (b) created a fraudulent claim to the Earned Income Tax Credit (a refundable tax credit) for each tax return. Corey D. informed investigators that in the tax years 2003, 2004, and 2005, he did not operate any kind of business that could claim a loss on a tax return. Corey D. further stated that he did not authorize Shannon Ford to negotiate his income tax refund checks, did not authorize Shannon Ford to change his address to Ford's residence address, and he had not seen nor signed the tax returns submitted for tax years 2003, 2004, and 2005.⁵⁰

The investigation identified similar fraudulent tax returns (false Schedule C forms) submitted to the United States by Shannon and Michael Ford on behalf of other victims. Many of the victims were co-workers (at a Walmart distribution center) of an associate of Shannon Ford. An additional victim was a co-worker of Michael Ford at Crown Motors. In some cases, the victims did not receive their tax refunds. Rather, the refunds were misdirected into bank and credit union accounts of Shannon and Michael Ford. The Fords filed fraudulent income tax refunds claims totaling \$159,308.08. There are at least 20 victims of the Fords' scheme.⁵¹

During an interview with investigators, Michael Ford admitted to recruiting at least one co-worker to have his tax return prepared by Shannon Ford. Shannon Ford admitted to knowingly filing false tax returns claiming refunds.⁵²

California Franchise Tax Board Employee Charged with Unauthorized Access to a Computer

On April 29, 2009, Nancy Hudak was charged in the United States District Court for the Eastern District of California with unauthorized access to confidential taxpayer information on a California Franchise Tax Board (FTB) computer. As a compliance representative for the FTB, Hudak intentionally exceeded her authorized access, on 45 occasions, to electronically stored Federal tax information provided to the California Franchise Tax Board by the IRS.⁵³

Man Pleads Guilty to Conversion of Government Property

On May 20, 2009, in Arizona, Victor Vasquez pleaded guilty to conversion of government property. Vasquez agreed that in March 2006, the victim paid him to file her 2005 Federal tax return. The victim provided Vasquez with her bank account information so that her refund could be direct deposited. Vasquez filed the victim's return but arranged to have the victim's refund deposited into an account he controlled.⁵⁴

⁵⁰ Source: Eastern District of California Affidavit in Support of a Criminal Complaint dated April 23, 2009.

⁵¹ Source: Eastern District of California Affidavit in Support of a Criminal Complaint dated April 23, 2009.

⁵² Source: Eastern District of California Affidavit in Support of a Criminal Complaint dated April 23, 2009.

⁵³ Source: Eastern District of California Information dated April 29, 2009.

⁵⁴ Source: District of Arizona Plea Agreement filed May 20, 2009.

Jose Toro-Mendez Pleads Guilty to Conversion of Funds Belonging to the IRS

On June 25, 2009, in Puerto Rico, Jose Toro-Mendez pleaded guilty⁵⁵ to two counts of conversion of funds belonging to the IRS.⁵⁶ On two occasions, Toro-Mendez converted, to his own use, taxes paid by another and belonging to the IRS. Toro-Mendez stole approximately \$180,000.⁵⁷

Vendel Matis Sentenced for Making False Statements to the IRS

On June 26, 2009, in California, Vendel Matis was sentenced to three years probation and ordered to pay a special assessment of \$100.⁵⁸

Matis was disbarred from the Virginia State Bar on or about May 24, 2001. Since being disbarred, Matis has never again become a member of any other bar. On or about March 31, 2003, Matis was suspended from representing taxpayers before the IRS by IRS's Office of Professional Responsibility.⁵⁹

After Matis was disbarred in 2001 and continuing through May 2004, Matis submitted to the IRS 90 Forms 2848, in which he falsely claimed to be a licensed attorney authorized to represent taxpayers before the IRS. Matis pleaded guilty to one count of making a false statement.⁶⁰

Robert Stockton Sentenced for Theft of Government Property

On July 20, 2009, Robert Stockton was sentenced to 18 months in prison and three years supervised release for theft of government property.⁶¹

Stockton formed the company, The Business Office, in 1985. The Business Office provided payroll services to its clients. In or about August 2003, Online Business Services, Inc. purchased The Business Office. Stockton became an employee of Online Business Services and continued to be responsible for the former The Business Office clients.⁶²

The Business Office and Online Business Services promised its clients it would process their payroll each payroll period, pay all Federal and State payroll taxes accurately and consistently, prepare and file quarterly payroll tax returns, and prepare all Internal Revenue Service Forms W-2, W-3 and 1099.⁶³

⁵⁵ Source: District of Puerto Rico Plea Agreement filed June 25, 2009.

⁵⁶ Source: District of Puerto Rico Information filed June 25, 2009.

⁵⁷ Source: District of Puerto Rico Plea Agreement filed June 25, 2009.

⁵⁸ Source: Central District of California Judgment and Probation/Commitment Order filed June 26, 2009.

⁵⁹ Source: Central District of California Plea Agreement filed November 18, 2008.

⁶⁰ *Ibid.*

⁶¹ Source: District of New Jersey Judgment in a Criminal Case filed July 21, 2009.

⁶² Source: District of New Jersey Information filed November 20, 2008.

⁶³ *Ibid.*

In or about December 2003, Stockton intentionally filed false IRS Forms 941 that indicated that the victims were responsible for paying only a fraction of the tax actually due. Online Business Services did not forward to the IRS the actual amount of payroll tax for each victim and instead kept the money in an Online Business Services account to be used for other improper purposes.⁶⁴ The total amount of money improperly withheld from payment to the IRS was \$1.8 million.

⁶⁴ *Ibid.*

ADVANCING THE OVERSIGHT OF AMERICA'S TAX SYSTEM

TIGTA's Office of Inspections and Evaluations (I&E), established in March 2008, provides responsive, timely and cost-effective inspections and evaluations of IRS challenge areas, providing TIGTA additional flexibility and capability to produce value-added products and services for improving tax administration.

The Office has two primary product lines: Inspections and Evaluations.

Inspections:

- 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 fraud, waste, abuse, and mismanagement.

Evaluations:

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

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

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act (Recovery Act) was signed into law by the President on February 17, 2009. The Recovery Act is intended to jumpstart the economy, create or save millions of jobs, and address many of the challenges facing our country.

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

The Recovery Act requires each Federal agency that receives Recovery Act funds to designate a Senior Accountable Official for Recovery Act activities. Within TIGTA, that responsibility has been assigned to the Deputy Inspector General for Inspections and Evaluations. The Deputy has overseen the development of TIGTA's Recovery Act work plan and reports on the completion of

planned activities and the amount of funds spent by TIGTA to complete those activities. The Deputy Inspector General also coordinates TIGTA's activities with the Board.

The I&E staff is administering the Board's first coordinated survey of Agency Contracting and Grants staff qualifications. The results of this survey are due to be posted on Recovery.gov in November 2009.

Taxpayer Assistance Centers

The IRS Wage and Investment Field Assistance Office staffs 401 Taxpayer Assistance Centers (TACs) in order to provide taxpayers with face-to-face assistance. About 2,100 employees staff the TACs and work with taxpayers to resolve tax issues, answer tax law questions, make adjustments to tax accounts, accept completed tax returns and payments, establish payment agreements for qualified individuals who cannot pay in full, prepare basic individual income tax returns, and provide various tax forms and publications. In FY 2008, TAC employees assisted approximately 6.9 million taxpayers.

Our on-site inspections of 59 TACs revealed they generally complied with the policies prescribed by Field Assistance senior staff. The offices had the required signs listing the services offered, provided adequate space, and stocked the required forms and publications. During the inspection, we noted the TACs were clean, well organized, and appeared to run efficiently.

While on-site and in subsequent discussion with Field Assistance managers, TIGTA learned that the level of uniformed guard service provided varied from location to location. At the time of TIGTA's inspection, only 181 locations had some type of on-site uniformed guard service. This ranged from perimeter security, which requires all visitors be screened upon entering the building, to having a guard stationed in the actual TAC, or in some cases both. Of the 401 TACs, 220 (55 percent) have no on-site guard service, unlike the Social Security Administration, which has a policy of providing on-site guard service at its walk-in sites. Instead, the 220 TACs have a duress alarm system monitored by local police or the Federal Protective Services.

For FY 2009, the IRS expects to spend approximately \$6 million for guard service in TACs that are currently provided guard service. The Physical Security and Emergency Preparedness staff estimates it would cost \$36.2 million to place one guard in each TAC for a full year and up to \$104.1 million to provide full screening at each location. TIGTA recognizes that on-site guard service does not guarantee there will be no reportable incidents at the TACs; however, TIGTA believes their presence may provide a significant deterrent effect and result in a reduction in the number of incidents reported. The report was issued to the IRS on August 21, 2009.

TIGTA recommended that the IRS reemphasize the need for each TAC manager to fully understand the security measures in place in each office, and that the Commissioner determine what security policy should be applied to walk-in offices, and whether that should include a commitment to provide guard service at each walk-in location through general building security measures or placing a guard in the TAC office. IRS management agreed with TIGTA's recommendations and they issued a reminder to reemphasize existing security measures and identified the security policy to be applied to all TACs. IRS management plans to assess the feasibility of providing guard service at each TAC by September 2010. TIGTA recognizes that

implementing the suggested corrective action is not a simple process, but is concerned that if not implemented by January 2010, the IRS will enter a new filing season with largely the same conditions and risks as in the last filing season.

Reference No. 2009-IE-R003



AWARDS AND SPECIAL ACHIEVEMENTS

Special Agent Edward “Bo” Bozak Presented Certificate of Meritorious Service



Left to right: Special Agent Bo Bozak, Acting United States Attorney Channing Phillips, District of Columbia Inspector General Charles Willoughby

On June 30, 2009, the United States Attorney's Office, District of Columbia, presented TIGTA Special Agent Edward “Bo” Bozak a certificate of appreciation for meritorious service to the citizens of the District of Columbia and adherence to the highest standards of professional law enforcement in the pursuit of justice related to an investigation of an IRS employee who was involved in a D.C. tax scam.

TIGTA Office of Audit Leadership Conference



Gettysburg, Pennsylvania is the place where 165,000 soldiers met to fight for their beliefs. It is the place where President Abraham Lincoln helped mend a torn nation with his Gettysburg Address and the place where millions have stood to reflect on the importance of the events that occurred there.

It is also the place where the Office of Audit leaders gathered for their leadership training conference on August 18-20, 2009. Office of Audit leaders discussed the various leadership styles of the senior military officers in the Battle of Gettysburg. The training also covered other aspects of leadership, including Transparent Leadership, Ethics, Virtual Workforce, and the 2008 Federal Human Capital Survey and Best Places to Work ranking.

TIGTA's Summer Intern Colleagues



Pictured from left to right are Lara Reyna, Gurjas Singh, Daniel Genn, Inspector General J. Russell George, Edward Shiang, William Story, III, and Breyana Kelly.

During the summer of 2009, TIGTA brought on board a group of talented and energetic students to work in its various functional areas. The students provided valuable support in the areas of human capital, personnel security, audit, investigations, information technology and the Office of the Inspector General.

TIGTA's interns included: Lara Reyna, Gurjas Singh, Daniel Genn, Edward Shiang, William Story, III and Breyana Kelly.

TIGTA views its summer intern program as a great way to spread the word about jobs at TIGTA and as a valuable pipeline for talented and energetic future employees. With this in mind, TIGTA works hard to ensure that interns have the best summer experience possible.



AUDIT STATISTICAL REPORTS

Reports with Questioned Costs

TIGTA issued two audit reports with questioned costs during this semiannual reporting period¹. The phrase “questioned cost” means a cost that is questioned because of:

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

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

Reports With Questioned Costs			
Report Category	Number	Questioned Costs (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	7	\$164,944	\$82,147
2. Reports issued during the reporting period	2	\$927	\$0
3. Subtotals (Item 1 plus Item 2)²	9	\$165,872	\$82,147
4. Reports for which a management decision was made during the reporting period. ³			
a. Value of disallowed costs	2	\$339	\$0
b. Value of costs not disallowed	1	\$11	\$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	7	\$165,522	\$82,147
6. Reports with no management decision within 6 months of issuance	5	\$164,595	\$82,147

¹ See Appendix II for identification of audit reports involved.

² Difference due to rounding.

³ Includes one report in which IRS management allowed part of the questioned cost.

Reports with Recommendations That Funds Be Put To Better Use

TIGTA issued four audit reports during this semiannual reporting period with the recommendation that funds be put to better use.¹ The phrase “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- Reductions in outlays;
- Deobligations of funds from programs or operations;
- Costs not incurred by implementing recommended improvements related to operations;
- Avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements;
- Preventing erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; and
- 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	4	\$158,901
3. Subtotals (Item 1 plus Item 2)	4	\$159,901
4. Reports for which a management decision was made during the reporting period		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	3	\$149,901
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	1	\$9,000
5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)	0	\$0
6. Reports with no management decision within 6 months of issuance	0	\$0

¹ See Appendix II for identification of audit reports involved.

Reports with Additional Quantifiable Impact On Tax Administration

In addition to questioned costs and funds put to better use, 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 Department of the Treasury executives, Congress, and the taxpaying public, and are expressed in quantifiable terms to provide further insight into the value and potential impact of the Office of Audit's products and services. Including this information also promotes adherence to the intent and spirit of the Government Performance and Results Act (GPRA).

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

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

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

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

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

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

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

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

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

Reports With Additional Quantifiable Impact On Tax Administration				
Outcome Measure Category	Number of Reports¹	Number of Taxpayer Accounts	Dollar Value (in thousands)	Number of Hours
Increased Revenue	7	458,312	\$ 1,690,036	
Revenue Protection	4	7,245,060	\$ 2,076,733	
Reduction of Burden on Taxpayers	6	1,325,217	\$ 33,634	27,467,303
Taxpayer Rights and Entitlements at Risk	8	553,353	\$ 190,712	
Taxpayer Privacy and Security	1	134		
Inefficient Use of Resources	7		\$ 379,890	
Reliability of Management Information	12	1,725	\$ 11,787,348	
Protection of Resources	0	0	0	

¹ See Appendix II for identification of audit reports involved.

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

- Increased Revenue: Reference Numbers 2009-30-068 and 2009-30-124;
- Taxpayer Burden: Reference Numbers 2009-40-072, 2009-30-076, and 2009-40-140;
- Taxpayer Rights and Entitlements at Risk: Reference Numbers 2009-40-078 and 2009-30-113;
- Taxpayer Privacy and Security: Reference Number 2009-30-085; and
- Inefficient Use of Resources: Reference Number 2009-40-140.

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

- Taxpayer Rights and Entitlements: Reference Numbers 2009-30-089 and 2009-30-115; and
- Reliability of Management Information: Reference Numbers 2009-10-095, 2009-10-107, 2009-40-099, 2009-10-097, and 2009-10-121.

Investigations Statistical Reports

Significant Investigative Achievements April 1, 2009 – September 30, 2009	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,437
Complaints against Non-IRS Employees	1,975
Total Complaints/Allegations	4,412
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,470
In Process within TIGTA ¹	249
Referred to IRS for Action	359
Referred to IRS for Information Only	824
Referred to a Non-IRS Entity ²	3
Closed with No Referral	1,114
Closed with All Actions Completed	393
Total Complaints	4,412
Investigations Opened and Closed	
Total Investigations Opened	1,812
Total Investigations Closed	1,922
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$10,906
Court Ordered Fines, Penalties and Restitution	\$5,022,220
Out-of-Court Settlements	0
Total Financial Accomplishments	\$5,033,126

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

² A non-IRS entity includes other law enforcement entities or Federal agencies.

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

Status of Closed Criminal Investigations			
Criminal Referrals¹	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	32	71	103
Referred – Declined for Prosecution	364	296	660
Referred – Pending Prosecutorial Decision	30	81	111
Total Criminal Referrals	426	448	874
No Referral	457	551	1,008

¹ Criminal referrals include both Federal and State dispositions.

Criminal Dispositions²			
	Employee	Non-Employee	Total
Guilty	20	50	70
Nolo Contendere (no contest)	1	1	2
Pre-trial Diversion	4	2	6
Deferred Prosecution ³	1	1	2
Not Guilty	0	0	0
Dismissed ⁴	1	10	11
Total Criminal Dispositions	27	64	91

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

³ 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.

⁴ Court dismissed charges.

Administrative Dispositions on Closed TIGTA Investigations⁵	
	Total
Removed, Terminated or Other	291
Suspended/Reduction in Grade	101
Oral or Written Reprimand/Admonishment	86
Closed – No Action Taken	69
Clearance Letter Issued	67
Employee Resigned Prior to Adjudication	68
Non-Internal Revenue Service Employee Actions ⁶	350
Total Administrative Dispositions	1,032

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

⁶ 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 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 management officials.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2001-30-052	Tax Compliance Initiatives	March 2001	12/15/10	<p><i>Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income</i></p> <p><u>F-3, R-1, P-1, P-2.</u> Improve systems that process data the IRS receives on foreign sourced income.</p>
2003-30-176	Tax Compliance Initiatives	August 2003	02/15/10	<p><i>Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure</i></p> <p><u>F-1, R-2, P-1.</u> Gather pertinent information concerning the affected proposed procedure to reduce the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.</p>
2004-20-131	Security of the IRS	September 2004	04/30/12	<p><i>The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness</i></p> <p><u>F-2, R-4, P-1.</u> Develop and implement a reasonable approach for reviewing audit trails over major applications.</p>
2005-40-026	Providing Quality Taxpayer Service Operations	February 2005	12/31/10 12/31/10	<p><i>Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement</i></p> <p><u>F-1, R-1, P-4.</u> Develop a process to ensure that only authorized personnel have access to IRS.gov content.</p> <p><u>F-1, R-2, P-1, P-2.</u> Enhance the IRS's content management software application to provide the ability to identify specific content accessed or revised by individual users.</p>
2005-20-024	Security of the IRS	March 2005	12/31/10	<p><i>The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses</i></p> <p><u>F-1, R-1, P-1, P-5.</u> Report a disaster recovery program material weakness to the Department of the Treasury as part of the IRS's <i>Federal Managers' Financial Integrity Act of 1982</i> annual evaluation of controls and include any new or currently underway activities in the corrective action plan.</p>
2005-10-107	Human Capital	July 2005	11/30/09 11/30/09	<p><i>Improved Policies and Guidance Are Needed for the Telework Program</i></p> <p><u>F-1, R-1, P-1.</u> Ensure an IRS-wide Flexiplace Program policy is developed and implemented that addresses all the elements recommended by the Office of Personnel Management.</p> <p><u>F-2, R-2, P-1.</u> Ensure Flexiplace Program training is provided as needed to help address productivity concerns.</p>

Reference Number	IRS Management Challenge Area		Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
	Issued			
2005-10-129	Providing Quality Taxpayer Service Operations	September 2005	05/31/10	<i>Progress Has Been Made, but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program</i> F-1, R-1, P-2. Establish goals and performance measures for the Low Income Taxpayer Clinic program to assist the Congress and IRS in evaluating the success of the program.
2005-10-149	Human Capital	September 2005	12/31/09	<i>The Internal Revenue Service Does Not Adequately Assess the Effectiveness of Its Training</i> F-2, R-1, P-2. Ensure all IRS components follow established procedures to evaluate training in order for the IRS to comply with the training assessment requirement of the <i>Federal Workforce Flexibility Act of 2004</i> .
2005-30-154	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2005	04/15/10	<i>The Clarity of Math Error Notices Has Been Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices</i> F-1, R-2, P-1. Revise tax statement tables contained on notices to include specific amounts from at least some line items on which taxpayers made errors on their tax returns.
2006-20-166	Security of the IRS	September 2006	11/15/09	<i>The Monitoring of Privacy Over Taxpayer Data Is Improving, Although Enhancements Can Be Made to Ensure Compliance With Privacy Requirements</i> F-2, R-1, P-3, P-4. Initiate a program providing for the routine evaluation of employee training activities relative to current privacy policy requirements and develop a system for the tracking and monitoring of these activities.
2007-40-057	Providing Quality Taxpayer Service Operations	March 2007	01/15/10	<i>Steps Can Be Taken to Reduce the Challenges Taxpayers With Vision Impairments Face When Attempting to Meet Their Tax Obligations</i> F-3, R-1, P-1. Provide additional viewing options on IRS.gov, such as scalable fonts, enlarged text size, or background colors to make it more accessible to taxpayers with vision impairments.
2007-30-062	Tax Compliance Initiatives	March 2007	P-1: 01/15/10 P-2: 07/15/10 P-1: 01/15/10 P-2: 07/15/10	<i>Social Security and Medicare Taxes Are Not Being Properly Assessed on Some Tips and Certain Types of Wage Income</i> F-1, R-2, P-1, P-2. Develop a compliance program to ensure the revised Form 4137 is used effectively to identify and assess the employer's share of Social Security and Medicare taxes on unreported tip income. F-3, R-2, P-1, P-2. Develop a compliance program to help ensure only qualifying individuals use the new form to report wage income and the appropriate amounts of Social Security and Medicare taxes are assessed for self-employed taxpayers or employers that are misclassifying their employees.
2007-10-082	Tax Exempt Organizations	May 2007	01/31/10	<i>Screening Tax-Exempt Organizations Filing Information Provides Minimal Assurance That Potential Terrorist-Related Activities Are Identified</i> F-1, R-1, P-1. Develop and implement a long-term strategy to automate the matching of Forms 1023 and 990 information against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations.
2007-20-121	Systems Modernization of the IRS	August 2007	12/31/10	<i>Annual Assessment of the Business Systems Modernization Program</i> F-1, R-1, P-1. Continue to address Modernization Program corrective actions from TIGTA and Government Accountability Office reports through the Highest Priority Initiatives process.

Reference Number	IRS Management Challenge Area		Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
	Issued			
2008-40-087	Complexity of the Tax Law	March 2008	12/15/11 01/15/10 01/15/10 03/15/11	<i>Individual Retirement Account Contributions and Distributions Are Not Adequately Monitored to Ensure Tax Compliance</i> F-1, R-1, P-1. Analyze Forms 5498 to identify the causes of the errors and possible corrective actions. F-2, R-1, P-1. Develop and implement strategies to bring noncompliant taxpayers back into compliance. F-3, R-1, P-1. Consider using the indicator on the Form 5498, Box 11 to identify taxpayers who are subject to required minimum distributions. F-3, R-2, P-1. Consider requiring custodians to report estimated required minimum distribution amounts on the Form 5498.
2008-40-167	Tax Compliance Initiatives	August 2008	12/15/09 05/15/10 12/15/09 12/15/10 12/15/13	<i>The Withholding Compliance Program Is Improving Taxpayer Compliance; However, Additional Enforcement Actions Are Needed</i> F-1, R-1, P-1. Develop a process to identify those employers that do not adequately withhold taxes from their employees after receiving a lock-in-letter. F-1, R-2, P-2. Develop employer examination criteria for referring those employers that did not follow lock-in-letter instructions. F-1, R-3, P-1. Develop and deliver training to appropriate IRS employees on the existing criteria for the current referral process. F-1, R-4, P-1. Research and develop criteria that will expand the use of the Form W-4 civil penalty beyond the current limitation of referrals and special projects. F-2, R-1, P-1. Create a single data entry point for processing Withholding Compliance Program cases and provide lock-in-letter issuance authority to other IRS functions.
2008-40-171	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2008	06/15/10	<i>Most Tax Returns Prepared By a Limited Sample of Unenrolled Preparers Contained Significant Errors</i> F-1, R-1, P-1. Develop and require a single identification number to control and monitor all paid preparers.
2008-40-180	Tax Compliance Initiatives	September 2008	09/15/11	<i>Most Automated Underreporter Notices Are Correct; However, Additional Oversight Is Needed</i> F-1, R-2, P-1. Simplify the Computer Paragraph 2000 notices issued by the Automated Underreporter Program.
2008-40-183	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2008	01/15/10	<i>The 2008 Filing Season Was Generally Successful Despite the Challenges of Late and Unexpected Tax Legislation</i> F-1, R-1, P-1. Ensure that the computer systems are programmed to identify taxpayer returns claiming the Qualified Mortgage Insurance Premiums deduction with Adjusted Gross Income that exceeds the maximum phase-out limitations.
2009-40-024	Erroneous and Improper Payments	December 2008	04/15/10	<i>The Earned Income Program Has Made Advances; However, Alternatives To Traditional Compliance Methods Are Needed to Stop Billions of Dollars in Erroneous Payments</i> F-1, R-1, P-1. Conduct a study to identify alternative processes that will expand the IRS's ability to effectively and efficiently identify and adjust erroneous Earned Income Tax Credit (EITC) claims for which data show that the taxpayer does not meet the EITC requirements.

Reference Number	IRS Management Challenge Area		Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
	Issued			
2009-30-023	Taxpayer Compliance Initiatives	February 2009	01/15/10	<i>Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively</i> F-1, R-1, P-1. Perform an analysis to determine how many cases might have been sent to the Queue prior to meeting the general criteria and sample some of the cases to determine why the cases were moved, and evaluate the current Business Rules and resulting programming that move a case to the Queue automatically.
2009-10-025	Human Capital	February 2009	10/15/09 11/15/09 02/15/10	<i>An Agency-Wide Recruitment Strategy and Effective Performance Measures Are Needed to Address Future Recruiting Challenges</i> F-1, R-1, P-1. Develop an agency-wide recruitment strategy that is tied to organizational objectives and desired outcomes. F-1, R-2, P-1. Develop an action plan for each initiative in the new recruitment strategy. F-1, R-4, P-1. Update the Internal Revenue Manual guidance to reflect the current recruitment processes.
2009-40-032	Taxpayer Protection and Rights	February 2009	06/15/10	<i>The Process Taxpayers Must Use to Report Complaints Against Tax Return Preparers Is Ineffective and Causes Unnecessary Taxpayer Burden</i> F-2, R-1, P-1. Develop a form, both Web-based and paper, specifically for tax return preparer complaints that routes to the correct function based on type of tax return preparer and includes the items necessary for the IRS to appropriately evaluate the complaint.
2009-10-039	Taxpayer Protection and Rights	February 2009	07/15/10	<i>Tax Practitioners Promoting Abusive Tax Shelters Are Still Able to Represent Taxpayers Before the Internal Revenue Service</i> F-1, R-6, P-1. Develop a methodology to perform proactive analyses of information available from IRS functions to identify and appropriately address licensed tax practitioners engaged in potentially disreputable activity.
2009-10-041	Human Capital	February 2009	04/15/10 P-1, P-3: 11/15/09 P-2: 11/15/10	<i>Workforce Planning Efforts Are Hindered by Lack of Comprehensive Information on Employee Skills Levels</i> F-1, R-1, P-1. Develop a workable process that can be used for the agency-wide skills gap assessment of Mission Critical Occupations. F-1, R-2, P-1, P-2, P-3. Develop a detailed plan to guide the IRS's overall skills gap assessment effort and coordinate the multifunctional participation necessary to ensure the success of the effort.
2009-30-052	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	March 2009	10/15/09	<i>Significant Revenue Continues to be Lost Because of Unassessed Failure to Pay Tax Penalties</i> F-2, R-1, P-1. Request clarifying legislation to address whether separate notices must be issued to taxpayers each time Failure to Pay tax penalties are assessed and interest is charged on the penalties.

Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	Result for TIGTA
<p>Access to Information Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	<p>As of September 30, 2009, there were no instances where information or assistance requested by the Office of Audit was refused.</p>
<p>Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of September 30, 2009, one report entitled, "The Homeland Security Presidential Directive 12 Program Office Has Addressed Prior Weaknesses, but Progress Is Slower Than What Has Been Reported," (Reference No. 2009-20-084) was issued where significant recommendations were disputed.</p>
<p>Revised Management Decisions 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, 2009, no significant management decisions were revised.</p>
<p>Audit Reports Issued in the Prior Reporting Period With No Management Response Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.</p>	<p>As of September 30, 2009, there were no prior reports where management's response was not received.</p>
<p>Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 379 proposed regulations and legislative requests during this reporting period.</p>



Appendix II

Audit Products

April 1, 2009 – September 30, 2009

Audit Products	
Reference Number	Report Title
April 2009	
2009-40-069	Evaluation of Efforts to Ensure Eligible Individuals Received Their Economic Stimulus Payment (Taxpayer Rights and Entitlements: IRS corrected prior errors resulting in 274,611 taxpayers receiving \$105,435,753 in economic stimulus payments to which they were entitled)
May 2009	
2009-40-072	Field Assistance Office Management Information Systems Have Improved, but Enhancements Could Improve Taxpayer Service (Taxpayer Burden: reduced visits to the IRS for 1,075,764 taxpayers)
2009-30-059	Increased Management Oversight of the Sensitive but Unclassified Waste Disposal Process Is Needed to Prevent Inadvertent Disclosure of Personally Identifiable Information
2009-30-070	Fiscal Year 2009 Statutory Review of Compliance With Legal Guidelines When Issuing Levies
2009-10-080	Statistical Profile of Alleged Political Intervention by Tax-Exempt Organizations in the 2004 Election Season (Taxpayer Burden: 15 unclear closing letters; Reliability of Information: 14 misclassified examination cases)
2009-30-077	Fiscal Year 2009 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 23 taxpayers whose rights could be adversely affected)
2009-20-079	Initial Efforts to Develop a New Web-based Portal Environment Were Not Successful
2009-1C-060	Incurred Cost Audit for Fiscal Year Ending December 31, 2006
2009-1C-061	Audit of Travel Management System
2009-1C-062	Fiscal Year 2008 Labor Floor Checks
2009-1C-063	Audit of Compliance With Cost Accounting Standard 414, Cost of Money As an Element of the Cost of Facilities Capital
2009-1C-064	Audit of Compliance With Cost Accounting Standard 420, Accounting for Independent Research and Development Costs and Bid and Proposal Costs
2009-1C-065	Noncompliance With Cost Accounting Standard 420, Accounting for Independent Research and Development Costs and Bid and Proposal Costs
2009-1C-066	Noncompliance With Cost Accounting Standard 408, Accounting for Costs of Compensated Personal Absence
2009-1C-067	Follow-up Audit on Information Technology System General Internal Controls
2009-1C-073	Calendar Year 2006 Noncompliance With Cost Accounting Standard 405, Accounting for Unallowable Costs
2009-1C-074	Audit of Compliance With Cost Accounting Standard 415, Accounting for the Cost of Deferred Compensation
2009-1C-075	Contractor's Fiscal Years 2006 and 2007 Noncompliance With Cost Accounting Standard 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives
2009-30-068	Expanded Information Reporting Should Increase the Proper Reporting of Farm Income, but Additional Steps Could Be Taken (Increased Revenue: \$93.8 million)
2009-30-076	Elderly Taxpayers Would Benefit by the Internal Revenue Service and Tax Professionals Partnering to Reduce Unnecessary Filings (Taxpayer Burden: 163,836 elderly taxpayers spent \$14,550,432 and 1,967,303 hours to file unnecessary returns)

2009-40-078	Fiscal Year 2009 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 321 taxpayer accounts in which an illegal Tax Protestor or similar designation was used)
June 2009	
2009-20-071	Modernization Program Uncertainties Are Affecting the Account Management Services Project Development
2009-30-081	Enforcement Actions Were Not Always Timely Initiated When Taxpayers Did Not Respond to Contact Attempts or Missed Deadlines
2009-30-082	Trends in Compliance Activities Through Fiscal Year 2008
2009-30-083	Analyzing Taxpayer Errors Can Help to Improve Forms and Instructions
2009-30-089	Additional Actions Are Needed to Protect Taxpayers' Rights During the Lien Due Process (Taxpayer Rights and Entitlements: 45,554 notices not sent to authorized representatives and notices were not sent to the updated addresses of 17 taxpayers)
2009-30-086	An Appropriate Methodology Has Been Developed for Conducting the National Research Program Study to Measure the Voluntary Compliance of Individual Income Taxpayers
2009-40-087	Inadequate Management Information Has Adversely Affected the Acceptance Agent Program
2009-30-092	Collection Actions on Abusive Tax Avoidance Transaction Cases Are Generally Effective, but Measures to Evaluate Performance Results Are Needed
2009-10-088	Invoice Audit of the Financial Statement/Government Accountability Office Audit Support Services Contract – TIRNO-00-D-00022 (Questioned Costs: \$781,539)
2009-30-090	Collection Actions Could Be Accelerated on Some Large Dollar Balance Due Accounts (Increased Revenue: \$12.1 million)
2009-30-085	The Compliance Initiative Projects Program Performed Some Examinations After the Projects Expired or Were Terminated (Taxpayer Privacy and Security: 134 unauthorized examinations; Reliability of Information: updated project status for 517 accounts not reflected on database)
2009-20-084	The Homeland Security Presidential Directive 12 Program Office Has Addressed Prior Weaknesses, but Progress Is Slower Than What Has Been Reported
2009-30-091	Fiscal Year 2009 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2009-20-093	Changing Excise Files Information Retrieval System Development Requirements Resulted in Increased Costs and Schedule Delays (Inefficient Use of Resources: \$2,789,133; Reliability of Information: \$1,773,187 difference between reported and actual budget)
July 2009	
2009-10-096	A Corporate Approach Is Needed to Provide for a More Effective Tax-Exempt Fraud Program (Increased Revenue: \$47 million impacting 75 taxpayers)
2009-40-098	Inadequate Data on Paid Preparers Impedes Effective Oversight
2009-10-095	An Improved Project Management Process Is Needed to Measure the Impact of Research Efforts on Tax Administration (Reliability of Information: 16 research activities inaccurately reported)
2009-10-101	Collection Employees Adhered to Fair Tax Collection Practices in Calendar Year 2008 (Reliability of Information: one incorrectly coded case)
2009-10-107	Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases (Funds Put to Better Use: \$30 million; Reliability of Information: 64 workstations inaccurately shown in IRS databases)
2009-20-108	Computer System Access Controls Over Contractors Need to Be Improved
2009-10-094	The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan As of December 31, 2008 (Reliability of Information: \$41.3 million in unsupported resource estimates)
August 2009	
2009-30-113	Fiscal Year 2009 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 474 files not documented to show whether taxpayers or representatives were advised of rights regarding assessment statutes)

2009-30-105	Potential Opportunities Exist to Enhance the Favorable Productivity Trends for Audits Initiated by the Updated Return Selection Formulas
2009-40-099	The Discretionary Examination Program Performance Results Are Incomplete; Therefore, Some Measures Are Overstated and Inaccurate (Reliability of Information: \$44,223,984 in abated taxes and the audit reconsideration case processing time of 159 cycle days were excluded from the management operational report; Taxpayer Burden: 1,692 taxpayers received multiple requests for the same information)
2009-40-112	Mortgage Interest Data Could Be Used to Pursue More Nonfilers and Underreporters (Increased Revenue: \$1,426,735,748 impacting 136,963 taxpayers)
2009-30-103	Consistent and Effective Management Involvement Is Needed in Resolving Disagreements Over Audit Results
2009-20-102	Changing Strategies Led to the Termination of the My IRS Account Project (Inefficient Use of Resources: \$10 million)
2009-30-104	Embedded Quality Is an Effective Measure of Field Collection Program Work, but Improvements Could Be Made
2009-30-106	More Progress Is Needed to Reduce the Millions of Dollars Paid in Interest on Improperly Frozen Refunds (Funds Put to Better Use: \$92.6 million)
2009-10-118	To Address Its Human Capital Challenge, the Internal Revenue Service Needs to Focus on Four Key Areas
2009-40-125	Internal Controls for the Volunteer Income Tax Assistance Grant Program Are in Place but Could Be Strengthened
2009-30-114	Deficiencies Exist in the Control and Timely Resolution of Whistleblower Claims
2009-1C-109	Fiscal Year 2007 Corporate Office Incurred Cost Audit
2009-1C-110	Budget and Planning System Controls (Forward Pricing Budget)
2009-1C-111	Budget and Planning System Controls
2009-20-100	Customer Account Data Engine Release 4 Includes Most Planned Capabilities and Security Requirements for Processing Individual Tax Account Information
2009-20-120	Significant Improvements Have Been Made to Protect Sensitive Data on Laptop Computers and Other Portable Electronic Media Devices
September 2009	
2009-30-115	The Office of Disclosure Continues to Improve Upon Its Responses to Taxpayers' Requests Under the Freedom of Information Act (Taxpayer Rights and Entitlements: 114 improperly denied or untimely processed FOIA or Privacy Act requests)
2009-40-127	Higher Than Planned Call Demand Reduced Toll-Free Telephone Access for the 2009 Filing Season
2009-10-117	Controls Over the Use of Premium-Class Travel Are Generally Effective, but Did Not Detect Some Employees Traveling Without Proper Authorization (Reliability of Information: \$50,892 in premium-class air travel not reported to the Department of the Treasury)
2009-20-119	Progress Has Been Made, but Additional Steps Are Needed to Ensure Taxpayer Accounts Are Monitored to Detect Unauthorized Employee Accesses
2009-40-129	Evaluation of the Planning, Computation, and Issuance of the Recovery Rebate Credit (Funds Put to Better Use: \$27,300,599; Revenue Protection: \$1,576,636,877 impacting 6,387,101 taxpayers; Taxpayer Rights and Entitlements; \$84,565,597 impacting 258,550 taxpayers)
2009-40-130	Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs (Inefficient Use of Resources: \$333 million)
2009-30-116	Procedures to Address Noncompliance With the Reporting Requirements for Contributions of Motor Vehicles Continue to Be Inadequate (Increased Revenue: \$85.3 million impacting 319,860 taxpayers)
2009-30-124	Additional Managerial Involvement Is Needed to Promote Consistent Use of Accuracy-Related Penalties (Increased Revenue: \$24 million impacting 1,126 taxpayers)

2009-10-097	Future Tax Revenues Are at Risk Because Certain Tax-Exempt Bonds May Exceed Annual Dollar Limits Without Detection (Reliability of Information: bond data was not always entered correctly involving 725 bond returns and \$11.7 billion in transcription errors)
2009-40-131	Increased Automated Controls Could Further Improve Accountability Over Manual Refunds
2009-20-136	Annual Assessment of the Business Systems Modernization Program
2009-40-128	Ensuring the Quality Assurance Processes Are Consistently Followed Remains a Significant Challenge for the Volunteer Program
2009-10-126	The Office of Appeals Continues to Improve Compliance With Collection Due Process Requirements (Taxpayer Rights and Entitlements: 1,073 Collection Due Process and Equivalency Hearing cases that did not contain required or sufficient documentation or with Collection Statute date improperly extended; Reliability of Information: 1,193 cases with incorrect computer codes)
2009-40-142	The 2009 Filing Season Was Successful Despite Significant Challenges Presented by the Passage of New Tax Legislation
2009-40-140	Taxpayer Information Is at Risk When Copies of Tax Returns and Transcripts Are Ordered (Inefficient Use of Resources: \$31,065,455; Taxpayer Burden: 83,910 taxpayer impacted)
2009-40-138	Combat Zone Indicators on Taxpayer Accounts Are Frequently Inaccurate (Increased Revenue: \$1,100,702 impacting 288 taxpayers; Revenue Protection: 339,027 taxpayers impacted; (Inefficient Use of Resources: \$2,183,935)
2009-40-143	Inadequate Controls Over Dishonored Checks Put Millions of Dollars at Risk for Erroneous Refund Issuance (Revenue Protection: \$101,851,265 impacting 13,891 taxpayers; Inefficient Use of Resources: \$596,540)
2009-40-137	Improvements Are Needed to Ensure the Health Coverage Tax Credit Is Properly Claimed on Tax Returns (Funds Put to Better Use: \$9 million)
2009-20-145	Treasury Inspector General for Tax Administration – Federal Information Security Management Act (Non-Intelligence National Security Systems) Report for Fiscal Year 2009
2009-1C-122	Labor Floor Checks
2009-1C-123	Federal Budget and Planning System
2009-1C-132	Noncompliance With Cost Accounting Standard 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives
2009-1C-133	Contractor’s Estimating System
2009-1C-134	Calendar Year 2006 Incurred Cost Rate Proposal (Questioned Costs: \$145,605)
2009-10-121	The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel (Reliability of Information: the status of 46 closed recommendations were incorrectly recorded)
2009-41-144	RECOVERY ACT – The Internal Revenue Service Faces Significant Challenges in Verifying Eligibility for the First-Time Homebuyer Credit
2009-10-139	Controls Over the Contracting Officer’s Technical Representatives Workforce Were Ineffective, Resulting in Significant Risks to the Government
2009-30-141	Improvements Are Needed in the Administration of Education Credits and Reporting Requirements for Educational Institutions (Revenue Protection: 398,208,090 impacting 505,041 taxpayers; Taxpayer Burden: \$19 million in postage costs incurred by taxpayers and 25.5 million hours spent by taxpayers in form preparation; Inefficient Use of Resources: \$254,631)

APPENDIX III TIGTA'S STATUTORY REPORTING REQUIREMENTS

TIGTA issued 19 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In Fiscal Year (FY) 2009, TIGTA completed its eleventh round of statutory reviews that are required annually by the *IRS Restructuring and Reform Act of 1998 (RRA 98)*. It also completed its annual review of the *Federal Financial Management Improvement Act of 1996* and its annual review of the Office of National Drug Control Policy Detailed Accounting Submission and Assertions. The following table reflects the FY 2009 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS's compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	Reference No. 2009-30-091, issued June 2009 The IRS did not achieve full compliance with Section 1204(a) requirements. Violations were identified in seven (1 percent) of the 601 employee or manager performance evaluation documents reviewed. In all seven violations, TIGTA found documentation that the managers included record of tax enforcement results in the employees' performance evaluation documents, evaluated employees on the fair and equitable treatment of taxpayers, and prepared quarterly self-certifications showing that record of tax enforcement results were not used to evaluate employees.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Restrictions on Directly Contacting Taxpayers</p> <p>I.R.C. § 7803(d)(1)(A)(ii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.</p>	<p>Reference No. 2009-30-054, issued March 2009</p> <p>The IRS has informed taxpayers of their rights related to I.R.C. §§ 7521(b)(2) and (c) through various publications. However, between October 2007 and September 2008, six complaint/investigation cases closed by TIGTA's Office of Investigations found that IRS employees improperly bypassed taxpayer representatives and were either counseled or reprimanded for their actions.</p> <p>Neither TIGTA nor the IRS can provide assurances that there were not other potential direct contact violations. IRS management information systems do not separately record or monitor cases that involve direct contact issues, and there is no legal requirement to do so.</p> <p>The Internal Revenue Manual (IRM) provides IRS employees with directions and explanations of the statutory and administrative procedures to follow in their day-to-day contacts with taxpayers and their representatives. However, the IRS could take better advantage of group manager review processes to ensure Examination function employees are properly following the direct contact provisions.</p> <p>Currently, there is no requirement in the IRM that specifically requires Examination function group managers to address direct contact issues during reviews even though such reviews are a key control component that ensures procedures are followed and work is meeting acceptable standards. The requirement would also be consistent with IRM guidance for Collection function group manager reviews. Most importantly, perhaps, the documentation from the reviews could provide needed support to provide greater assurances that Examination function employees are following the direct contact provisions in their day-to-day contact with taxpayers and their representatives.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Filing of a Notice of Lien</p> <p>I.R.C. § 7803(d)(1)(A)(iii)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.</p>	<p>Reference No. 2009-30-089, issued June 2009</p> <p>TIGTA reviewed a statistically valid sample of 125 Federal Tax Liens filed for the 12-month period ending June 30, 2008, and determined that the IRS mailed all 125 lien notices in a timely manner, as required in I.R.C. Section 6320. However, the IRS did not always follow its own regulations and internal guidelines for notifying taxpayers' representatives of the filing of lien notices. IRS regulations require that taxpayer representatives be given copies of all correspondence issued to the taxpayer. For eight of the 27 cases in the statistically valid sample where the taxpayer had an authorized representative, the IRS did not notify the taxpayer's representative of the lien filing. The IRS did not have an automated process that updated taxpayer representative information directly with the system that generates the lien notices. TIGTA estimated that 45,554 taxpayer representatives may not have been provided lien notices, resulting in potential violations of the taxpayers' right to have their representative notified of the filing of a lien notice.</p> <p>When an initial lien notice is returned because it could not be delivered and a different address is available for the taxpayer, the IRS does not always meet its statutory requirement to send the lien notice to the taxpayer's last known address. For 234 (83 percent) of 283 cases in a judgmental sample, employees did not timely research IRS computer systems for different addresses. In addition, TIGTA identified 17 cases for which a new lien notice should have been sent to the taxpayer at the updated address because the IRS systems listed the address prior to the lien filing. The 17 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>Reference No. 2009-30-113, issued August 2009</p> <p>Over the past five years, the IRS has improved its compliance with requirements for documenting that taxpayers were informed of their rights to refuse to extend the statute of limitation or to limit such extension to particular issues or to a particular period of time. The percentage of case files without required documentation decreased from FY 2005 to FY 2008, remaining the same in FY 2009.</p> <p>For FY 2009, cases files for seven (6 percent) of the 112 tax returns in a statistically valid sample did not contain sufficient documentation to indicate whether taxpayers were advised of their rights before consenting to extend the time to assess tax. In all seven cases, the taxpayers' representatives signed Consent to Extend the Time to Assess Tax (Form 872) or Consent to Extend the Time to Assess Employment Taxes (Form SS-10), both of which contain a statement detailing the taxpayer's rights regarding extending the assessment statute of limitation. However, there was no evidence in the case files that the taxpayers themselves were advised of their rights.</p> <p>In addition, the sample included 67 case files with authorizations for third-party representation. TIGTA found that seven (10 percent) of the 67 cases files did not contain sufficient documentation that the taxpayers' representatives were provided with the required notifications. For these cases, IRS management informed TIGTA that some employees may have overlooked the fact that the required information was not documented in the case file or the documents got separated from the case files.</p>
<p>Levies</p> <p>I.R.C. § 7803(d)(1)(A)(iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.</p>	<p>Reference No. 2009-30-070, issued May 2009</p> <p>The IRS is protecting taxpayers' rights when issuing systemically generated and manually prepared levies. TIGTA reviewed 30 systemically generated levies identified through the Automated Collection System and Integrated Collection System and determined that systemic controls were effective to ensure the taxpayers were given notice of their appeal rights at least 30 calendar days prior to the issuance of the levies. In addition, TIGTA identified 60 manual levies issued by employees on those same systems and determined that all the taxpayers were given notice of their appeal rights at least 30 calendar days prior to issuance of the levies.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Collection Due Process</p> <p>I.R.C. § 7803(d)(1)(A)(iii) and (iv)</p>	<p>Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.</p>	<p>Reference No. 2009-10-126, issued September 2009</p> <p>The Office of Appeals has improved its handling of Collection Due Process (CDP) cases when taxpayers exercised their rights to appeal the filing of a Notice of Federal Tax Lien or the issuance of a notice of levy. TIGTA previously reported that hearing officers were not consistently including impartiality statements in their case files. Although TIGTA's current review identified the same condition, previously implemented procedures have either reduced or eliminated the number of occurrences in the CDP and Equivalent Hearing cases that were reviewed.</p> <p>However, TIGTA identified errors continuing from previous years where taxpayers may not have received an appropriate or complete response to the issues raised in their appeals, because some case files did not include documentation required to evaluate the completeness of the response. This audit identified the same condition and, as a result, TIGTA could not determine whether the taxpayers' issues were fully addressed and whether the taxpayers' rights were potentially violated. In addition, TIGTA identified taxpayer accounts that did not contain the required coding to identify those taxpayers who had exercised their rights for a CDP or Equivalent Hearing case. Finally, TIGTA identified one occurrence where the Collection Statute Expiration Date was incorrectly extended.</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>Reference No. 2009-30-077, issued May 2009</p> <p>TIGTA reviewed a random sample of 50 of the 610 seizures conducted from July 1, 2007, through June 30, 2008, and determined that the IRS complied with the numerous legal and internal guidelines when conducting the majority of seizures. However, in 23 seizures, there were 26 instances in which the IRS did not comply with a particular I.R.C. requirement. Because there can be numerous statutory violations on each case, the 26 instances TIGTA identified in the 50 cases represent an error rate of only about 1.5 percent. While TIGTA did not identify any instances in which the taxpayers were adversely affected, not following legal and internal guidelines could result in abuses of taxpayers' rights.</p> <p>After the seizure of property, the IRS is required to provide the taxpayer a Notice of Seizure (Form 2433) that specifies the liability for which the seizure was made and an accounting of the property seized. The liability should be the total amount due for the taxes and tax periods listed on the Levy (Form 668-B). In 11 cases, the Notice of Seizure (Form 2433) provided to the taxpayer did not show the correct liability.</p> <p>Money realized from the seizure of property is required to be applied first to expenses of the seizure and sale, second against any unpaid tax imposed by IRS law against the property seized, and finally against the liability for which the seizure was made. TIGTA identified seven instances in which expenses and proceeds were not properly applied to the taxpayer's account. There is currently no procedure on the Post-Seizure Review Checklist (Form 13361) to verify that expenses and proceeds are being applied as required.</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 section 3707 of RRA 98 on designation of taxpayers.</p>	<p>Reference No. 2009-40-078, issued May 2009</p> <p>The IRS has not reintroduced past Illegal Tax Protester codes or similar designations on taxpayer accounts. In addition, IRS publications and the IRM no longer contain any Illegal Tax Protester references. However, TIGTA found that out of approximately 65.3 million records and cases, there were 324 instances in which 263 employees had referred to taxpayers as "Tax Protester," "Illegal Tax Protester," "Constitutionally Challenged," or other similar designations in case narratives on the computer systems analyzed.</p>
<p>Disclosure of Collection Activities With Respect to Joint Returns</p> <p>I.R.C. § 7803(d)(1)(B)</p> <p>I.R.C. § 6103(e)(8)</p>	<p>Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.</p>	<p>Reference No. 2009-30-046, issued March 2009</p> <p>IRS procedures provide employees with sufficient guidance for handling joint filer collection activity information requests. However, TIGTA could not determine whether the IRS fully complied with I.R.C. § 6103(e)(8) requirements when responding to all written information requests from joint filers. IRS management information systems do not separately record or monitor joint filer requests, and there is no legal requirement for the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.</p>

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<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 59.</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>Section 3466 of RRA 98</p>	<p>Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Reference No. 2009-10-101, issued July 2009</p> <p>The Fair Tax Collection Practices (FTCP) provisions of I.R.C. Section 6304 prohibit employees from using abusive or harassing behavior toward taxpayers when attempting to collect taxes. Employees who are found to have violated the FTCP statute could be subject to disciplinary action. In Calendar Year (CY) 2008, IRS employees in the collection-related job series committed only one potential violation of the FTCP statute. Initially, the IRS coded two cases as FTCP violations. In the first case, the action taken by management was considered a lesser action and did not qualify as an administrative action. The other case was improperly coded as an FTCP violation and should not have been because it did not involve an employee in a collection-related job series. During the audit, TIGTA recommended the miscoding in the second case be corrected and the IRS corrected the miscoding. In addition, there were no civil actions resulting in monetary awards being paid to taxpayers because of an FTCP violation.</p> <p>It is important that FTCP violations information be accurate since it is needed by IRS management to detect any problems or trends that might exist and properly address them to minimize negative interactions between IRS employees and taxpayers. In previous reports, TIGTA noted the miscoding of a significant number of cases. For example, TIGTA determined that 13 cases were miscoded in CY 2007. As a result, TIGTA previously recommended that improvements be made to ensure that cases are coded correctly. To determine whether the IRS had made improvements, TIGTA reviewed 498 cases in 6 “other case” categories to determine whether there were other instances of FTCP violations that were coded incorrectly. TIGTA’s review determined that the IRS had improved its practices because no additional cases were identified that should have been coded as FTCP violations.</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>Reference No. 2009-30-115, issued September 2009</p> <p>The IRS continued to improve the accuracy and completeness of its responses to requests for information covered by the Freedom of Information Act (FOIA). While improvement was noted, IRS management needs to ensure that disclosure personnel continue to follow required procedures on all requests. In 1.3 percent (one of 80 cases) of the FOIA/Privacy Act cases TIGTA reviewed, information was improperly withheld from the requestors. The error occurred mainly because of inadequate research or simple oversight by Disclosure office personnel. The IRS adhered to legal requirements under I.R.C. Section 6103 in the sample of 77 cases TIGTA reviewed.</p> <p>Since FY 2000, the IRS has made significant improvement in responding timely to FOIA and Privacy Act requests. For example, response to only one (1.3 percent) of the 80 cases in TIGTA's sample was untimely. In TIGTA's audits over the previous nine years, the percentages of untimely responses ranged from 1.2 percent to 43.5 percent. The increase in responsiveness may, in part, be due to the continued decrease in the numbers of FOIA and Privacy Act cases received during FY 2008 compared to FY 2007 and the prior years this review has been conducted.</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>Reference Number 2009-20-001, October 24, 2008 Reference Number 2009-20-008, October 31, 2008 Reference Number 2009-20-022, February 19, 2009 Reference Number 2009-20-051, March 30, 2009 Reference Number 2009-20-079, May 19, 2009 Reference Number 2009-20-071, June 9, 2009 Reference Number 2009-20-093, June 30, 2009 Reference Number 2009-20-102, August 12, 2009 Reference Number 2009-20-100, August 28, 2009 Reference Number 2009-20-136, September 14, 2009</p> <p>Security Reviews:</p> <p>Reference Number 2009-20-026, December 30, 2008 Reference Number 2009-20-038, February 13, 2009 Reference Number 2009-20-045, March 10, 2009 Reference Number 2009-20-055, March 27, 2009 Reference Number 2009-20-084, June 25, 2009 Reference Number 2009-20-108, July 24, 2009 Reference Number 2009-20-120, August 31, 2009 Reference Number 2009-20-119, September 9, 2009 Reference Number 2009-20-145, September 25, 2009</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 establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Reference No. 2009-10-094, issued July 2009</p> <p>The IRS continues to face challenges with reporting complete and verifiable resource estimates in its Federal Financial Management Improvement Act (FFMIA) remediation plans. During the review of the IRS's December 31, 2008, FFMIA remediation plan, the IRS was unable to provide supporting documentation for certain resource estimates, totaling \$41.3 million. In addition, TIGTA found that the IRS did not include complete resource estimates for several remediation actions included in its December 31, 2008, FFMIA remediation plan. Further, the IRS does not have effective procedures to track and report all open recommendations in its FFMIA remediation plan. Until the IRS develops and completes the necessary remediation actions to address all of the Government Accountability Office's open findings and recommendations, the IRS will continue to be noncompliant with the FFMIA.</p>
<p>Office of National Drug Control Policy Detailed Accounting Submission and Assertions</p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled <i>Annual Accounting of Drug Control Funds</i>, dated April 18, 2003.</p>	<p>Requires TIGTA to authenticate the IRS's Office of National Drug Control Policy (ONDCP) detailed accounting submission and assertions.</p>	<p>Reference No. 2009-10-040, issued January 2009</p> <p>TIGTA determined that the methodology used to prepare the IRS's FY 2008 ONDCP Detailed Accounting Submission and Performance Summary Report was clearly explained and adequately documented. However, TIGTA did identify that the performance information reported by the IRS included a small number of cases from fiscal years prior to FY 2008. Specifically, 18 of the 478 convictions reported by the IRS actually occurred prior to the FY 2008 measure. Similarly, three of the 827 ONDCP-related investigations reported as completed in FY 2008 were actually completed prior to FY 2008. Finally, 18 cases the IRS reported as recommended for prosecution, but ultimately resulted in acquittal or dismissal, occurred prior to FY 2008. Complete and reliable financial and performance information is critical to the IRS's ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.</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), Treasury regulations, or policies of the IRS (including the Internal Revenue Manual) for the purpose of retaliating against, or harassing a taxpayer, taxpayer representative, or other employee of the IRS;
- Willfully misusing provisions of Section 6103 of the 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 determine 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

DATA TABLES PROVIDED

BY THE IRS

The memorandum copied below is the IRS transmittal to TIGTA. The tables that follow the memorandum contain information as provided by the IRS to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period from April 1, 2009, through September 30, 2009. Also, data concerning substantiated *IRS Restructuring and Reform Act of 1998* Section 1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

October 5, 2009

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

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

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

In response to your memorandum on July 23, 2009 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)(i) for the period April 1, 2009 to September 30, 2009

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

The attached tables contain information concerning alleged misconduct reported to IRS managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of September 30, 2009. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).

The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 95 §1203 allegations and removed eight employees. In three of the removals IRS managers considered information forwarded in a TIGTA investigation. Eight employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 47 cases. There are an additional 17 cases to be reviewed by the Commissioner for mitigation.

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

Attachments (3)

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

**Report of Employee Misconduct for the Period
April 1, 2009 through September 30, 2009
Summary by Disposition Groups
(Table Provided by the IRS)**

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	36	86	6	5	133
Separation of Probationary Employees	4	115	6	17	142
Separation of Temporary Employees		11	2	1	14
Resignation/Retirement	71	117	22	34	244
Suspensions	115	238	113	8	474
Reprimands	96	462	351	33	942
Counseling	19	338	462	95	914
Alternative Discipline	22	86	37	4	149
Clearance	71	192	8	7	278
Closed Without Action	178	265	88	386	917
Closed Without Action (Caution Statement)	166	200	93	209	668
Forwarded to TIGTA		8			8
Not Otherwise Coded	2	4	2	2	10
Suspended – Waiting Supplemental	3				3
Termination for Abandonment of Position		54			54
Termination for Other Than Job Abandonment		1			1
Case Suspended Pending Employee Return To Duty	7		2	1	10
Prosecution Pending for TIGTA ROI's	10				10
Total	800	2,177	1,192	802	4,971

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: Friday, October 02, 2009 Report ID = T1R3a

**Report of Employee Misconduct for the Period
April 1, 2009 through September 30, 2009
National Summary
(Table 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 ¹	484	852	(800)	(2)	(0)	534
Administrative Case ²	860	1,990	(2,177)	(20)	(8)	645
Employee Tax Compliance Case ³	640	1,042	(1,192)	(14)	(0)	476
Background Investigations ⁴	209	1,171	(802)	(3)	(0)	575
Total	2,193	5,055	(4,971)	(39)	(8)	2,230

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: Friday, October 02, 2009 Report ID = T1R1

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

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

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

⁴ Background Investigation - Any matter involving an NBIC investigation into an employee's background that is referred to management for appropriate action.

**Summary of Substantiated I.R.C. § 1203 Allegations
Recorded in ALERTS for the Period
April 1, 2009 through September 30, 2009
(Table provided by the IRS)**

§ 1203 Violation	Removals ¹	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated ¹	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	0
False Statement Under Oath	0	0	0	0	0	1	1
Constitutional & Civil Rights Issues	0	0	0	0	0	0	0
Falsifying or Destroying Records	0	0	0	0	0	0	0
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 File Federal Tax Return	2	5	0	4	21	11	43
Understatement of Federal Tax Liability	6	2	0	0	26	14	48
Threat to Audit for Personal Gain	0	1	0	1	0	1	3
Totals	8	8	0	5	47	27	95

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

Extract Date: Friday, October 02, 2009

¹ The cases reported as “Removals” and “Penalty Mitigated” do not reflect the results of any third-party appeal.

APPENDIX VI LEGISLATIVE RECOMMENDATIONS

The Inspector General is required by law¹ to review existing and proposed legislation and regulations relating to programs and operations of the establishment for which it provides oversight and to make recommendations in the semiannual reports to the Congress concerning the impact of such legislation or regulations on the:

- Economy and efficiency in the administration of programs and operations administered or financed by such establishment; and
- Prevention and detection of fraud and abuse in such programs and operations.

Reference Number	Issued	Audit Report Title and Legislative Recommendation
2009-30-083	June 11, 2009	<p><i>Analyzing Taxpayer Errors Can Help to Improve Forms and Instructions</i> Recommendation: Legislation is needed to allow for the judicious use of additional colors on tax returns and instructions to highlight important warnings and information.</p>
2009-40-098	July 14, 2009	<p><i>Inadequate Data on Paid Preparers Impedes Effective Oversight</i> Recommendation: Establish a requirement that paid preparers be compliant with their own Federal tax filing requirements in order to be allowed to prepare tax returns for others for a fee.</p>
2009-30-114	August 20, 2009	<p><i>Deficiencies Exist in the Control and Timely Resolution of Whistleblower Claims</i> Recommendation: Legislation is needed to ensure that informants are protected against retaliation by their employers and to provide specific relief to informants who are retaliated against.</p>
2009-40-130	September 10, 2009	<p><i>Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs</i> Recommendation: Consider mandating e-filing for all paid preparers.</p>
2009-30-141	September 30, 2009	<p><i>Improvements Are Needed in the Administration of Education Credits and Reporting Requirements for Educational Institutions</i> Recommendations:</p> <ul style="list-style-type: none"> • Provide the IRS with math error authority to disallow claims for the Hope Credit that are taken for more years than allowed by law. • Enact legislation to either make Form 1098-T useable to the IRS and taxpayers by requiring educational institutions to report amounts paid rather than allowing them to choose between amounts paid and amounts billed, or relieve educational institutions of the burden of producing this form.

¹5 USC App. § 4(a)(2).



List of Abbreviations

ALERTS	Automated Labor and Employee Relations Tracking System
AMS	Account Management Services
AUSA	Assistant United States Attorney
CADE	Customer Account Data Engine
CCC	Commodity Credit Corporation
CDP	Collection Due Process
CIP	Criminal Intelligence Program
COTR	Contracting Officer's Technical Representative
CY	Calendar Year
DOJ	Department of Justice
EITC	Earned Income Tax Credit
FCA	False Claims Act
FFMIA	Federal Financial Management Improvement Act
FOIA	Freedom of Information Act
FTB	Franchise Tax Board
FTCP	Federal Tax Collection Practice
FTHC	First-Time Homebuyer Credit
FY	Fiscal Year
GPRA	Government Performance and Results Act
HSPD-12	Homeland Security Presidential Directive 12
I&E	Inspections and Evaluations

IG	Inspector General
I.R.C. or Code	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
NTA	National Taxpayer Advocate
OA	Office of Audit
OI	Office of Investigations
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
PII	Personally Identifiable Information
PMO	Program Management Office
RGI	Robert Grieve, International
ROI	Report of Investigation
RRA 98	IRS Restructuring and Reform Act of 1998
SBU	Sensitive But Unclassified
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TAS	Taxpayer Advocate Service
TE/GE	Tax Exempt and Government Entities
TIG	Treasury Office of Inspector General
TIGTA	Treasury Inspector General for Tax Administration

UNAX	Unauthorized Accesses
USC	United States Code
USSS	U.S. Secret Service