



Treasury Inspector General for Tax Administration
SEMIANNUAL REPORT TO CONGRESS

October 1, 2011 – March 31, 2012

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

TIGTA's Vision

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

TIGTA's Mission

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

TIGTA's Core Values

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

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

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

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





Inspector General's Message to Congress

It gives me great pleasure to submit this Semiannual Report to Congress summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of October 1, 2011 to March 31, 2012. This report highlights the most notable audits, investigations, and inspections and evaluations performed by TIGTA, as we continue to work diligently to provide oversight of the Internal Revenue Service (IRS) and protect the integrity of Federal tax administration.



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

TIGTA has recovered, protected, and identified monetary benefits totaling \$313 million for this reporting period. Over the past six months, our Office of Audit (OA) has completed 34 audits, and the Office of Investigations (OI) has opened 1,696 investigations and has closed 1,632 investigations. During the reporting period, TIGTA's Office of Chief Counsel reviewed 266 existing or proposed laws and regulations and, as appropriate, made recommendations concerning their impact on tax administration.

The current state of the U.S. economy and the watchful eye of the American public on the management of our Nation's Government are driving the need now more than ever for the IRS to efficiently and effectively collect taxes owed to the Federal Government. TIGTA remains steadfast in its oversight of the IRS, promoting effectiveness and efficiency in funding our Nation's Government at the highest level of quality and service to the American taxpayer.

TIGTA sees the security of the Federal system of tax administration as the IRS's top management challenge for Fiscal Year (FY) 2012. As our Nation's tax collector and administrator of the Internal Revenue Code, the IRS received more than 230 million tax returns, of which 141 million were from individual taxpayers, and collected more than \$2.3 trillion in revenue in 2010. Information from these tax returns is converted into electronic format, processed, and maintained in over 190 different computer system applications used by IRS employees. As computer use continues to be inextricably integrated into the IRS's core business processes, effective information systems' security becomes essential to ensure that data are protected against inadvertent or deliberate misuse, improper disclosure, or destruction, and that computer operations supporting tax administration are secured against disruption or compromise.



As I testified before the Committee on Oversight and Government Reform, Subcommittee on Government Organization, Efficiency and Financial Management in November, identity theft continues to be a significant problem for taxpayers and the IRS. Identity thieves are filing fraudulent tax returns and obtaining refunds. The IRS usually does not become aware of a problem until after the legitimate taxpayer files a return. At that point, the IRS often determines that two tax returns have been filed using the same name and Social Security Number (SSN). The legitimate taxpayer's refund is then delayed while the IRS attempts to identify the legitimate taxpayer. Meanwhile, the identity thief has obtained a fraudulent tax refund, which the IRS is unlikely to recover. As such, the effective authentication of legitimate taxpayers is a pressing challenge for the IRS as it develops and implements updates to its mission-critical systems and processes.

In addition, implementation of major tax law changes, including the Affordable Care Act (ACA), continues to present challenges as the IRS grapples with the full complexity of these laws. I testified later that month to the same subcommittee about the IRS's implementation of the small business provisions of the ACA. TIGTA will continue to monitor the IRS's implementation of significant provisions in the ACA and will promptly alert Congress and the IRS of any problems or emerging issues.

Another major challenge for the IRS is tax compliance. Despite an estimated voluntary compliance rate of 83 percent and IRS enforcement efforts, a significant amount of income remains unreported and unpaid. In January 2012, the IRS estimated the gross Tax Gap for Tax Year (TY) 2006 to be \$450 billion. The IRS continues to need broader strategies and more research to determine which actions are most effective to curtail the Tax Gap, which is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year.

The IRS is strengthening its international enforcement efforts for businesses and individuals. TIGTA and the State Department are working together to make TIGTA's Complaint Hotline information available on over 270 embassy, consulate, and other State Department web pages around the globe. Resources for a more comprehensive approach are limited, but TIGTA is also striving to strategically expand its oversight model in the international environment through a coordinated program of international audits, inspections, law enforcement liaison, and outreach.

In submitting this report, I want to acknowledge the extraordinary efforts of the IRS and of our auditors, investigators, evaluators, attorneys, professionals, and support personnel who work tirelessly to ensure that our Nation's tax system is efficient, effective, and fair.

Sincerely,

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

J. Russell George
Inspector General



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TIGTA's Profile

TIGTA provides independent oversight of the Department of the Treasury's matters involving IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel.

Although TIGTA is placed organizationally within the Department of the Treasury and reports to the Secretary of the Treasury and to Congress, it functions independently from all other offices and bureaus within the Department.

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

TIGTA's organizational structure is comprised of the Office of the Inspector General and 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 8).

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

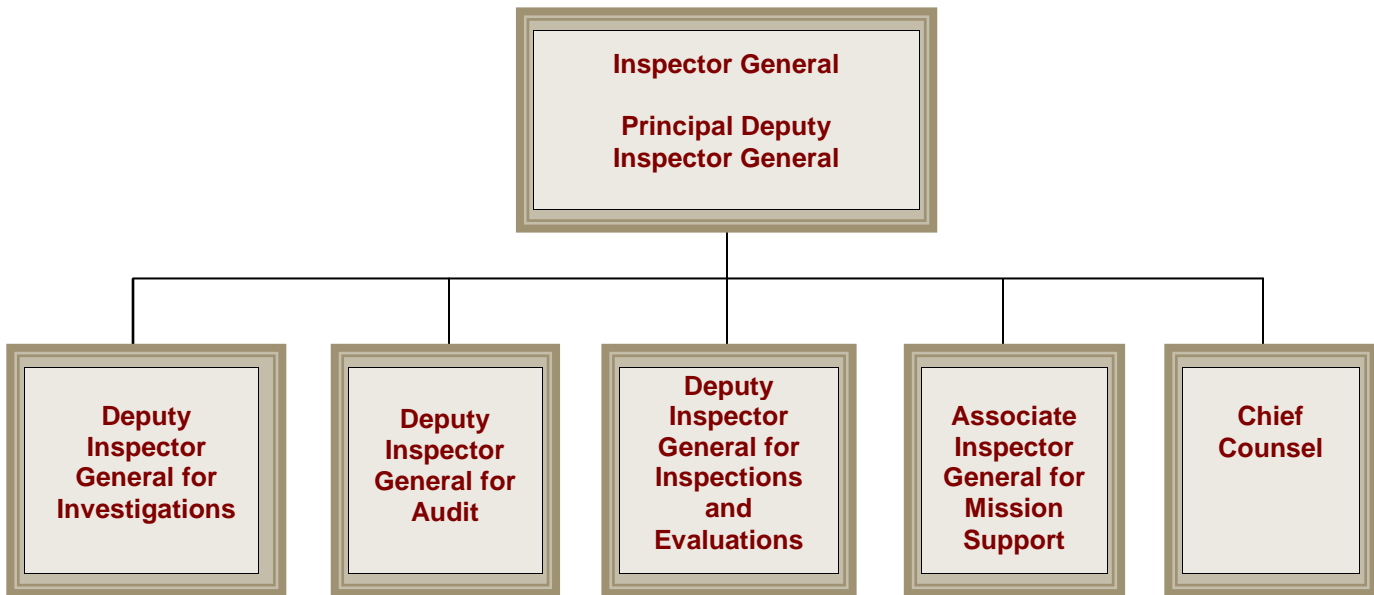
- Promote the economy, efficiency, and effectiveness of tax administration; and
- Protect the integrity of tax administration.

Statutory Mandate

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



Organizational Structure



Authorities

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

¹ 5 U.S.C. app. 3 (amended 2008).

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



TIGTA's Highlights

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

New York Man Sentenced for Internet Fraud Scheme

On December 19, 2011, in Brooklyn, New York, Godspower Egbufor was sentenced to 108 months of imprisonment and five years of supervised release for aggravated identity theft and conspiracy to commit wire fraud. In addition, he was ordered to pay \$1,741,822 in restitution and a \$200 assessment.³

According to court documents, Egbufor, together with co-conspirators, operated a scheme to steal the identities of numerous individuals and to defraud them out of more than \$1 million through Internet solicitations.⁴

Egbufor and his co-conspirators obtained massive e-mail distribution lists containing thousands of e-mail addresses and sent unsolicited e-mails falsely informing targeted victims that they had won a lottery or had inherited money from a distant relative. Follow-up e-mails instructed the victims that they were required to provide personal and bank account information in order to receive their lottery winnings or inheritance. Using this information, Egbufor and his co-conspirators stole the identities of some of the victims to facilitate the scheme.⁵

Subsequent e-mails to victims falsely indicated that a Government or quasi-governmental agency, such as the IRS⁶ or the United Nations, prevented the money from being awarded to them because advance payment of taxes and other fees were required. Victims were solicited to wire the money necessary to pay the taxes and other fees to designated bank accounts controlled by Egbufor and his co-conspirators.⁷

When victims indicated that they lacked the money to pay the taxes and fees, they were informed that Egbufor and his co-conspirators would loan them the money. Victims were then convinced to open online bank accounts and provide the necessary login information to the conspirators. Using this information, these conspirators stole money from various bank accounts, transferred that stolen money to the victims' accounts, and instructed the victims to wire the money to bank accounts outside the United States controlled by Egbufor and his co-conspirators. The victims never received any lottery winnings, inheritance, or other money in connection with the scheme.⁸

³ E.D.N.Y. Judgment filed Dec. 27, 2011.

⁴ E.D.N.Y. Gov. Letter filed Dec. 19, 2011.

⁵ E.D.N.Y. Superseding Ind. filed May 10, 2011; E.D.N.Y. Gov. Letter filed Dec. 19, 2011.

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*



Fugitive Convicted of Conspiracy to Obstruct Justice

On February 14, 2012, in Tampa, Florida, a Federal jury found Larry M. Myers guilty of conspiracy to mail threatening communications to intimidate and impede jurors and judicial personnel in the discharge of their lawful responsibilities and to obstruct justice; conspiracy to use threats and intimidation to prevent officers of the United States from carrying out their official duties; mailing threatening communications with the intent to extort a thing of value; and obstruction of justice.⁹

In March 1996, Myers was indicted along with 10 other individuals. He remained a fugitive for the past 15 years. On August 19, 2011, Myers was arrested.¹⁰

According to the indictment, Myers and his co-conspirators were members of “The Constitutional Court of We The People In and For The United States of America” also known as the “Constitutional Common Law Court” (CLC); also known as “The Supreme Court of the Constitutional Court of We the People – In and For the united [*sic*] States of America”, which was a pseudo judicial, non-governmental and unofficial enterprise, created and established in 1992 in Tampa, Florida.¹¹

CLC ideology advocated that there are two separate classes of citizens within the United States. The doctrine held that the “superior class,” referred to as “sovereigns” or “preamble citizens,” consisted of individuals who claimed to be the direct descendants and heirs of the “Founding Fathers.” Consequently, as members of the “sovereign” class, they believed that they were above the laws of the United States. In addition, they believed that an “inferior class” of citizens existed and was comprised of people who pay Federal income taxes, participate in Social Security programs, and accept “privileges and immunities” from the Government under the Fourteenth Amendment to the Constitution.¹²

In conjunction with his co-conspirators, Myers established “The Constitutional Common Law Militia” (militia) to act as the “Supreme Law Enforcement Authority” of the CLC. This militia was entrusted by the CLC to execute its “arrest warrants,” and to enforce its judicial “orders.” Militia members were, in most cases, participants in or “members” of the CLC.¹³

Myers mailed a CLC arrest warrant to a State Chief Judge in Florida. He also issued a CLC contempt of court order and “militia” arrest warrant to a Federal District Judge. By use of force and threatening communications, Myers and his co-conspirators attempted to influence, intimidate, obstruct, and impede jurors and officers of the Courts of the

⁹ M.D. Fla. Jury Verdict filed Feb. 14, 2012.

¹⁰ M.D. Fla. Arrest Warrant Ret. Exec. filed Aug. 23, 2011.

¹¹ M.D. Fla. Indict. filed Mar. 15, 1996.

¹² *Id.*

¹³ *Id.*



United States. They also endeavored to intimidate a jury panel with a CLC “contempt of court order” in which they threatened arrest by “militia” for alleged acts of treason.¹⁴

In order to obtain favorable rulings in criminal cases, dismissals of indictments, reversals of convictions, and the release from incarceration of individuals who had been lawfully convicted in accordance with State and Federal law, Myers and his co-conspirators engaged in this conspiracy.¹⁵

Sentencing for this matter is scheduled for May 14, 2012.¹⁶

Example of a High-Profile Report by the Office of Audit:

More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed to Ensure All Are Complying With the New Preparer Regulations

Every year, more than one half of all taxpayers pay someone else to prepare their Federal income tax returns. During the 2011 Filing Season, the IRS processed approximately 66.9 million individual Federal income tax returns prepared by paid tax return preparers; 90 percent of these returns were electronically filed (e-filed).

The e-file mandate is helping the IRS with its goal to electronically receive 80 percent of individual tax returns by Calendar Year (CY) 2012. As of June 9, 2011, more than 79 percent of tax returns had been e-filed in CY 2011. However, the continued use of multiple preparer identification numbers makes it difficult to match all tax returns to the preparers.

For the first few years, the IRS plans to use a “soft” approach to enforcement with emphasis on educating and collaborating with preparers in implementing e-file requirements. However, improvements are underway to ensure that controls and system validations for the preparer registration process are effective.

TIGTA made several recommendations and IRS management agreed with them all, stating that corrective actions have been taken or are planned.

Reference No. 2012-40-010

¹⁴ M.D. Fla. Indict. filed Mar. 15, 1996.

¹⁵ *Id.*

¹⁶ M.D. Fla. Sentencing Notice filed Feb. 15, 2012.





Promote the Economy, Efficiency, and Effectiveness of Tax Administration

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

The IRS's implementation of audit recommendations results in:

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

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

Audit Emphasis Areas for October 2011 Through March 2012

- Security for Taxpayer Data and Employees
- Tax Compliance Initiatives
- Implementing Major Tax Law Changes
- Providing Quality Taxpayer Service Operations
- Human Capital
- Taxpayer Protection and Rights
- Achieving Program Efficiencies and Cost Savings

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

Security for Taxpayer Data and Employees

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



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

The Computer Security Incident Response Center Is Effectively Performing Most of Its Responsibilities, but Further Improvements Are Needed

The Computer Security Incident Response Center (CSIRC) is responsible for monitoring the IRS's network 24 hours a day, every day for cyberattacks and computer vulnerabilities, and for responding to various computer security incidents such as the theft of a laptop computer. Taxpayers are impacted by network disruptions which prevent the IRS from performing vital taxpayer services such as processing tax returns, issuing refunds, and answering taxpayer inquiries.

The CSIRC is effectively performing most of its responsibilities for preventing, detecting, and responding to computer security incidents. However, further improvements could be made. The CSIRC's host-based intrusion detection system is not monitoring 34 percent of IRS servers, leaving the IRS network and data at risk. In addition, the CSIRC is not reporting all computer security incidents to the Department of the Treasury, as required. Finally, incident response policies, plans, and procedures are either nonexistent or inaccurate and incomplete.

As a result, TIGTA recommended that the IRS:

- Develop its Cybersecurity Data Warehouse capability to correlate and reconcile active servers connected to the IRS network with servers monitored by the host-based intrusion detection system;
- Revise and expand its Memorandum of Understanding with TIGTA's OI to ensure that all reportable and relevant security incidents are shared with the CSIRC;
- Collaborate with TIGTA's OI to create common identifiers to help the CSIRC reconcile its incident tracking system with TIGTA's OI incident system;
- Develop a standalone incident response policy or update the policy in the IRS's Internal Revenue Manual with current and complete information;
- Develop an incident response plan; and
- Develop, update, and formalize all critical standard operating procedures.

IRS management agreed with these recommendations and stated that they plan to take corrective actions for most of them. Although IRS management agreed with the recommendation to correlate and reconcile active servers connected to the IRS's network with servers monitored by the host-based intrusion detection system, their proposed corrective actions do not address TIGTA's recommendation.

Reference No. 2012-20-019



Tax Compliance Initiatives

Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and oversight of tax-exempt and Government entities. Increasing voluntary taxpayer compliance and reducing the Tax Gap¹⁷ remain the focus of many IRS initiatives. Nevertheless, the IRS faces significant challenges in obtaining complete and timely compliance data and developing the methods necessary to interpret those data. Even with improved data collection, the IRS needs to develop broader strategies and conduct more research to determine which actions are most effective to address taxpayer noncompliance.

Opportunities Exist to Identify More Taxpayers Who Underreport Retirement Income

Due to the amount and volume of tax assessments made, the Automated Underreporter (AUR) Program is one of the IRS's more successful compliance programs in increasing taxpayer awareness and contributing to the reduction of the Tax Gap. Given the magnitude of underreporting, even small improvements in the IRS's examination of tax returns with retirement income could increase taxpayer compliance and generate substantial revenue to the Federal Government to reduce the Tax Gap.

For Tax Years (TY) 2008 and 2009, the IRS Statistics of Income Program reported that taxpayers filed approximately 21 million tax returns with taxable Individual Retirement Arrangement (IRA) income totaling \$293 billion and approximately 52.2 million tax returns with taxable pension income totaling \$1 trillion.

TIGTA determined that the AUR Program is effectively determining the proper reporting of retirement income when Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, discloses the taxable amount of the retirement distribution. For example, for TY 2007, AUR Program examiners made tax assessments totaling approximately \$607.5 million for 217,811 tax returns. However, additional tax form information, if available, would improve compliance.

TIGTA recommended that the IRS:

- Revise Form 1099-R to clarify the meaning of the “*Taxable amount not determined*” box in order to reduce taxpayer confusion and include the dates needed to identify retirement savings program distributions and transfers not rolled over within 60 days, as required; and
- Establish procedures to transcribe additional lines from various tax forms.

¹⁷ The IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year.



IRS management agreed with these recommendations and stated that they plan to take corrective actions.

Reference No. 2012-30-011

Criminal Investigation Can Take Steps to Strengthen Oversight of Its Undercover Operations

Criminal Investigation (CI) uses undercover operations as an essential technique to detect and investigate criminal activity involving tax and money laundering offenses. TIGTA determined that weaknesses in the controls over undercover operations still exist. Given the risks associated with undercover operations, stronger oversight helps to ensure that undercover operations are properly managed and meet operational objectives, and that Federal tax dollars are used in the most efficient manner to ensure the public's confidence in CI's investigative techniques.

CI took steps to strengthen controls over its undercover operations in response to TIGTA's Fiscal Year (FY) 2002 review. However, TIGTA identified repeat findings and determined that internal control weaknesses continue to exist because corrective actions were not implemented sufficiently. In addition, some questionable undercover expenditures did not have documentation indicating that they had been preapproved.

Although CI's undercover agents stated that their training was sufficient and safety was emphasized, TIGTA believes that additional steps could be taken to protect the identity of undercover agents. TIGTA also determined that financial reviews of undercover operations that earned income were not conducted timely.

TIGTA recommended that the IRS:

- Modify existing guidance to include specific criteria regarding when operational and financial reviews are required;
- Develop a process to alert CI officials when operational and financial reviews are due;
- Strengthen controls to ensure that expenditures are properly and timely approved and documented;
- Strengthen procedures to protect the identity of undercover agents; and
- Ensure that the financial reviews of undercover operations with churning¹⁸ authority are requested within 90 calendar days after the undercover operation portion of the investigation is concluded.

IRS management agreed with these recommendations and stated that they plan to take corrective actions.

Reference No. 2012-30-014

¹⁸ Churning is defined as undercover operations which earn income.



Actions Can Be Taken to Reinforce the Importance of Recognizing and Investigating Fraud Indicators During Field Audits

Penalties, such as for civil fraud, are designed to promote voluntary compliance by imposing an economic cost on taxpayers who choose not to comply with tax laws. Because the IRS did not always recognize or properly address indicators of fraud, the IRS may have been missing opportunities to further promote voluntary compliance and enhance revenue for the Department of the Treasury.

TIGTA's review of a statistical sample of 116 field audits closed between July 2009 and June 2010, found 26 audits with fraud indicators that the IRS did not recognize and investigate in accordance with some key IRS procedures and guidelines. Each of the field audits involved unreported income and/or overstated expenses that resulted in taxpayers agreeing that they each owed additional taxes of at least \$10,000. TIGTA's evaluation indicated that a combination of factors caused the quality problems and that actions can be taken at both the examiner and first-line manager levels to better ensure that fraud indicators are recognized and properly investigated.

As a result, TIGTA recommended that the IRS:

- Enhance the job aid examiners use to better assist examiners with recognizing, investigating, and documenting fraud indicators in case files; and
- Provide specific examples in the Internal Revenue Manual for examiners and first-line managers to use when considering whether it would be beneficial to involve the IRS's fraud technical advisors when there are indications of fraud.

IRS management did not agree with the first recommendation. They indicated that the job aid was significantly enhanced in March 2011. In addition, IRS management did not agree with the second recommendation, but they do plan to take alternative corrective action. IRS management stated that they will issue a memorandum to all examination employees emphasizing the importance of involving the fraud technical advisors in audits.

TIGTA evaluated the enhanced job aid examiners use and continues to believe that further enhancements would be beneficial. TIGTA also considered the alternative corrective action that IRS management plans to take and concluded that it is responsive to the recommendation. However, TIGTA encourages IRS management to go beyond merely reiterating existing procedures in their memorandum by providing additional instructions and guidance to clarify when the assistance of a fraud technical advisor should be sought.

Reference No. 2012-30-030



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

The Pension Protection Act of 2006¹⁹ requires the IRS to maintain a list of organizations whose tax-exempt status had been automatically revoked for failing to file a return or notice for three consecutive years. The Exempt Organizations' function educated tax-exempt organizations on the requirements of the Act and identified and informed certain organizations that their tax-exempt status had been automatically revoked. However, it did not identify all organizations that should have been informed about their revocations and did not clearly inform organizations on how to regain their tax-exempt status if they were still operating.

The IRS performed extensive outreach and took actions to prepare for automatic revocations and, on June 8, 2011, informed more than 279,500 organizations that their tax-exempt status had been automatically revoked. In most cases, the IRS appropriately identified organizations that did not file a return or notice for three consecutive years. However, TIGTA determined that programming changes were incomplete and did not identify potentially more than 15,000 organizations that failed to file for three consecutive years. As a result, these organizations were not informed that their tax-exempt status had been automatically revoked.

TIGTA identified improvements that were needed to:

- Provide better guidance to organizations that had their tax-exempt status automatically revoked; and
- Ensure that accurate information is posted to the IRS's taxpayer database.

Throughout the review, TIGTA raised a number of issues and the IRS took actions to address them. Specifically, programming issues were corrected to ensure that:

- Organizations that had their tax-exempt status automatically revoked were identified;
- Guidance provided on an IRS website was updated; and
- Changes were made to an electronic filing website to reduce inaccurate address updates.

In addition, TIGTA recommended that the IRS:

- Make programming changes to more accurately identify organizations that did not file for three consecutive years;
- Offer more detailed guidance in the revocation notice; and
- Make programming changes to ensure that accurate information is posted on the accounts of tax-exempt organizations that have terminated operations.

¹⁹ Pub. L. No. 109-280, 120 Stat. 780.



IRS management agreed with these recommendations and have already taken corrective actions.

Reference No. 2012-10-027

Interim Results of the 2012 Filing Season

The filing season²⁰ is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures.

As of March 3, 2012, the IRS had received nearly 63 million tax returns: 57 million (90 percent) were e-filed and nearly 6.3 million (10 percent) were filed on paper. The IRS has issued nearly 52.4 million tax refunds totaling approximately \$157.6 billion. Taxpayers who e-filed their tax returns early in the 2012 Filing Season experienced delays in receiving their tax refunds. The IRS indicated that it had experienced problems with its filters established to identify fraud and with the program used by the Modernized e-File system to create output files in the accepted e-file tax return data format that other IRS systems need to continue processing tax returns.

The IRS has improved its processing of Homebuyer Credit installment repayments; however, some were still processed inaccurately. TIGTA also found that some paid tax return preparers did not fully comply with Earned Income Tax Credit due-diligence requirements. Furthermore, as of March 3, 2012, the IRS identified 441,462 tax returns with \$2.7 billion in fraudulent refund claims and prevented the issuance of \$2.6 billion (97 percent) of those fraudulent refunds. The IRS also selected 134,509 tax returns filed by prisoners for fraud screening, representing a 112 percent increase compared to the last filing season.

As a result of budget constraints, the IRS expects to be able to serve fewer taxpayers at its walk-in offices and answer fewer taxpayer telephone calls. The IRS also anticipates that it will have increased wait times, earlier cutoffs of assistance to avoid end-of-day overtime, and frequent unexpected closures of small walk-in offices due to unscheduled employee absences. Tax return preparation will only be provided for a limited number of days per week and only on a first-come, first-served basis.

The IRS is also planning on providing only a 61 percent Level of Service on its toll-free lines. As of March 3, 2012, IRS assistants answered 7.4 million calls and achieved a 66 percent Level of Service and a 975 second (16.3 minutes) Average Speed of Answer.

Finally, during visits to Volunteer Program sites as of March 3, 2012, TIGTA had nine tax returns prepared with a 44 percent accuracy rate. This is lower than the 60 percent accuracy rate that TIGTA reported during the same time period for the 2011 Filing Season.

²⁰ The period from January 1 through April 15 is when most individual income tax returns are filed.



This report was prepared to provide interim information only. Therefore, no recommendations were made in the report.

Reference No. 2012-40-036

Implementing Major Tax Law Changes

Each filing season tests the IRS's ability to implement tax law changes approved by Congress. Most individuals file their income tax returns and contact the IRS with questions about specific tax laws or filing procedures during the filing season. Correctly implementing late tax law changes remains a significant challenge because the IRS must often act quickly to assess the changes and determine the necessary actions to:

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

Affordable Care Act: The Office of Appeals' Planning Efforts for the Health Care Reform Legislation

The Patient Protection and Affordable Care Act (ACA)²¹ contains significant changes to the Nation's health care system, which the Office of Appeals (Appeals) expects will result in new cases over the next several years. Appeals has taken some initial actions to begin preparing for the anticipated new ACA Appeals cases. Since the ACA will potentially affect most taxpayers, effective planning is critical to ensure Appeals' readiness to prepare for this legislation and resolve taxpayer requests in a timely and effective manner.

After the ACA was enacted in March 2010, the IRS's ACA Office determined that the impact on Appeals would be minimal until after Calendar Year (CY) 2013. However, Appeals management has taken some initial actions to begin preparing for the ACA legislation. For example, Appeals' personnel have been detailed to the IRS's ACA Office and other IRS ACA teams on an ongoing basis to remain informed on how the IRS is preparing for the ACA and its potential impact on Appeals. Appeals has also created an internal website with links to IRS ACA-related training, guidance, and other resources. Finally, Appeals management informed TIGTA that they are currently assessing how to code ACA cases in their inventory database to track the number of taxpayers and businesses that appeal various health care provisions.

TIGTA believes that IRS management should develop a more formal approach to their ACA planning activities to ensure that they are ready to resolve taxpayer requests concerning ACA-related issues in a timely and effective manner. This should include outlining the key objectives/tasks that need to be addressed to prepare for the ACA-related impact on Appeals, which will be responsible for conducting these activities, and

²¹ Pub. L. No. 111-148, 124 Stat. 119 (2010).



stating when these actions need to be completed over the next several years.

In addition, TIGTA believes that IRS management should consider the type and frequency of communication that exists between the Appeals internal working group, the IRS's ACA Office, and other IRS operating divisions to ensure that their planning efforts are coordinated as appropriate. This communication will assist Appeals' management to stay informed of the IRS's actions and address provisions of the ACA.

TIGTA made no recommendations in this report. However, IRS management reviewed the report before it was issued and offered clarifying comments and suggestions, which were taken into account.

Reference No. 2012-13-009

Providing Quality Taxpayer Service Operations

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

Increasing Requests for Offers in Compromise Have Created Inventory Backlogs and Delayed Responses to Taxpayers

An offer in compromise (OIC) is an agreement between a taxpayer and the Federal Government that settles a tax liability for payment of less than the full amount owed. TIGTA found that the IRS did not always contact taxpayers when promised, and inventory backlogs caused processing delays. Delays could impact financial and business decisions because taxpayers do not know if or when their tax liabilities will be resolved.

The combined impact of a weak economy and IRS efforts to promote the OIC Program has increased the number of requested offers by 28 percent between FY 2007 and FY 2011. However, the resources available to work the offers have decreased. TIGTA reviewed a statistically valid sample of offers and found that the IRS did not timely process all offers. In 73 of 99 offers (74 percent), the IRS failed to contact the taxpayer by the promised date. TIGTA estimated that 9,509 taxpayers who submitted offers between July 1 and December 31, 2010 may not have been contacted when promised. Additionally, as of October 25, 2011, there were 7,472 unassigned offers in holding queues awaiting assignment to OIC staff. TIGTA found that one processing site had more than four times as many unassigned offers from self-employed taxpayers as the other site, and 37 percent of the offers were more than six-months old.



TIGTA also determined that an incorrect date was used when offers were returned to the IRS because of IRS processing errors. TIGTA estimated that the wrong date may have been used for 712 taxpayers who submitted offers between July 1, 2010 and December 31, 2010. Finally, TIGTA found that the IRS does not have formal performance measures for streamlined offers.

TIGTA recommended that the IRS revise OIC processing procedures, train employees, and add a formal performance measure for the streamlined offers or apply the streamlined process to all offers.

IRS management agreed with these recommendations and stated that they plan to take corrective actions.

Reference No. 2012-30-033

Human Capital

Human capital is the Federal Government's most critical asset. 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. The work performed by IRS employees continually requires greater expertise as tax laws become more complex, manual systems used to support tax administration become computer-based, and attempts by taxpayers and tax practitioners to evade compliance with the tax laws become more sophisticated. The IRS must also compete with other Government agencies and the private industry for the same human resources, which becomes more complicated as younger generations of employees move between jobs more frequently than employees in the past. Further, budgetary constraints, legislative changes, and economic shifts can create unforeseen challenges for the IRS as it addresses its long-term human capital issues.

IRS Diversity Demographics Compare Favorably With Other Federal Agencies' Senior Executive Service Ranks

Diversity and an inclusive work environment in the Federal Government's leadership ranks can be a key organizational component for executing agencies' missions and can yield greater engagement, productivity, and organizational performance. The IRS's Senior Executive Service (SES) diversity demographic statistics compare favorably with those of other Federal agencies' SES ranks. When agencies recruit and retain a representative leadership that looks like the public that it serves and the workforce it leads, they are able to better serve the public.

The success that the IRS has achieved in its SES diversity demographics is the result of key diversity practices that have been integrated into business processes agency-wide, as well as of top-level executive commitment and support, which together have established a culture that respects and values diversity. However, TIGTA noted that such key practices were not formally documented in the IRS's Equity, Diversity, and Inclusion (EDI) policies and procedures. TIGTA believes memorializing the IRS's key diversity



practices in formal internal procedures will help to ensure that these practices continue to receive the level of commitment that it currently receives, despite retirements, attrition, or other changes in the IRS's top leadership ranks. In addition, the IRS could benefit by expanding its outreach efforts to have a more specific focus at the SES level through participation in professional executive organizations.

As a result, TIGTA recommended that the IRS:

- Ensure that key SES diversity practices are memorialized within EDI internal guidance (policies and procedures); and
- Consider partnering with Federal professional executive organizations and communicating the existence of these organizations to employees.

IRS management agreed with these recommendations and stated that they plan to take corrective actions.

Reference No. 2012-10-006

Taxpayer Protection and Rights

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

Procedures Need to Be Updated to Ensure Proper Determinations of Tax Relief for Taxpayers Affected by Disasters

The purpose of the Disaster Assistance Program is for the IRS to provide tax relief to taxpayers affected by major disasters or emergencies. During these stressful and extraordinary situations, taxpayers and tax practitioners often require disaster assistance to enable them to meet their obligations of filing tax returns or paying taxes without being penalized.

The IRS has developed processes and procedures that help to ensure that taxpayers adversely affected by a major disaster or emergency receive tax relief. However, TIGTA's audit found that the IRS's Disaster Assistance Program guidelines were incomplete and inaccurate. They did not reflect the processes and procedures used by employees to assess disasters and grant tax relief to affected individuals and businesses. In addition, the program office is not documenting the assessment of the severity and scope of damage for each Federally declared disaster when determining the length and type of tax relief to be granted. Without formal documentation, there is no evidence to support the determination for external stakeholders.



Finally, TIGTA found that the IRS did not always timely release disaster relief indicators from individual tax accounts. TIGTA's analysis of tax accounts as of December 31, 2010, identified 597,513 individual tax accounts with an erroneous active disaster relief indicator. This was subsequently corrected when the IRS moved these accounts back to the Individual Master File.²² Although the disaster relief indicators were not timely released, none of the individuals received erroneous tax relief benefits.

TIGTA recommended that the IRS:

- Ensure that guidelines are updated to reflect the current processes and procedures used to assess Federally declared disasters and grant tax relief to affected individuals and businesses;
- Ensure that guidelines include a detailed description of the assessment and documentation prepared for the review of the unique facts and circumstances of each disaster, including the severity and scope of damage, when determining the disaster relief period and type of tax relief to be granted; and
- Develop programming to systemically release the disaster relief indicators on tax accounts stored on a database other than the Individual Master File.

IRS management agreed with these recommendations and stated that they plan to take corrective actions.

Reference No. 2012-40-015

Achieving Program Efficiencies and Cost Savings

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

Eliminating the Automatic Mailing of Tax Packages Achieved Significant Savings, Although Some Taxpayers Were Burdened

Part of the IRS's mission is to help taxpayers meet their tax responsibilities. To assist taxpayers, the IRS has, in the past, mailed forms with instructions and publications to individual and business taxpayers. However, in response to the continued increase in e-filing, and in the interest of saving postage and publishing costs, the IRS discontinued the mailing of tax packages in FY 2011.

As of August 2011, TIGTA determined that the IRS saved approximately \$14.19 million by not mailing TY 2010 tax packages. The IRS did capture costs and savings associated with the elimination of mailing tax packages. However, it did not document

²² The IRS database that maintains transactions or records of individual tax accounts.



all calculations and sources, or validate and consider all costs and savings.

The elimination of individual tax package mailings increased the burden for a number of taxpayers, including those who complained that they could not locate the forms that they needed, or those who did not know which forms to use. It also caused about six million taxpayers to spend an additional one and one-half million hours to obtain tax forms. The IRS failed to capture all the comments and complaints received by various sources or to incorporate them into a long-term strategy to monitor taxpayer burden.

TIGTA recommended that the IRS:

- Develop a process to ensure that savings and cost data related to the future elimination or reduction of mailing tax products are current and reliable; and
- Develop and document a formal strategy to ensure that publishing and postage costs are continually evaluated and cost and savings calculations are documented and validated.

IRS management agreed with these recommendations and stated that they have taken corrective actions.

Reference No. 2012-40-008





Protect the Integrity of Tax Administration

TIGTA's Office of Investigations (OI) has the unique statutory mandate to protect the tax system which funds the Federal Government. This statutory mandate is substantially broader than that of most Offices of Inspectors General. While all Offices of Inspectors General combat waste, fraud, and abuse, TIGTA has a dual mandate to also protect the integrity of Federal tax administration.

To achieve this broad mandate, OI performs a range of functions, including:

- Investigating allegations of criminal violations and criminal and serious administrative misconduct by IRS employees which undermines the integrity of our voluntary tax system;
- Investigating assaults on, and threats to, IRS employees, facilities, and information systems;
- Investigating external attempts to corrupt tax administration;
- Investigating waste, fraud, and abuse involving IRS procurements;
- Initiating proactive investigations to detect criminal and administrative misconduct in the administration of IRS programs;
- Providing integrity and fraud awareness presentations for IRS employees and others, such as tax practitioners and community groups;
- Administering a national complaint center, including a hotline and website, to process complaints of waste, fraud, abuse, and misconduct involving IRS employees and programs;
- Operating a criminal intelligence program to proactively identify and mitigate threats to IRS employees or to the continuity of IRS operations;
- Conducting forensic examinations of physical and electronic evidence to support investigations; and
- Employing specialized technical and investigative support equipment, training, and techniques to enhance investigative outcomes.

TIGTA's work impacts every citizen of the United States every day, because the tax system it protects provides for the health, safety, welfare, and common defense of every American.



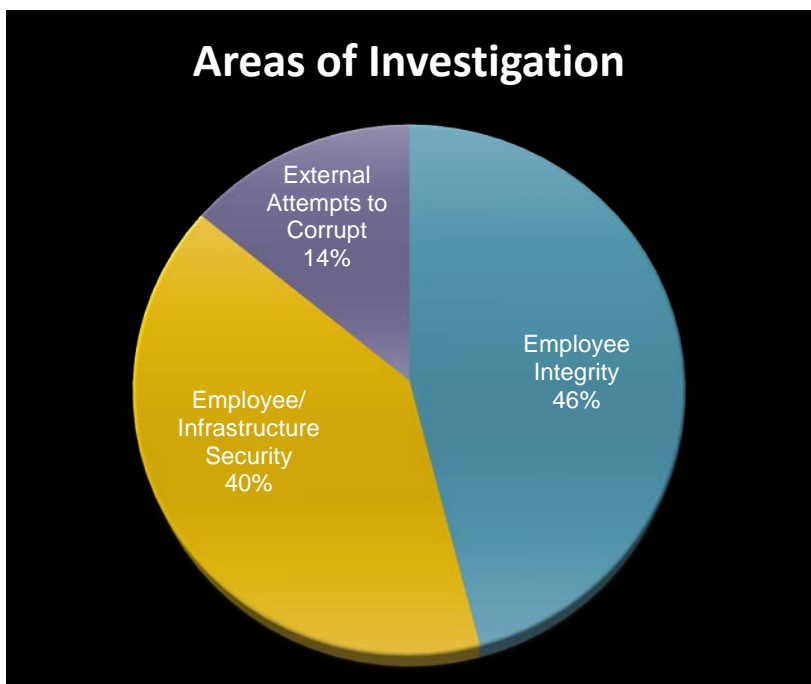
Performance Model

OI focuses its resources and bases its performance measures on three primary areas of investigative responsibility: employee integrity; employee and infrastructure security; and external attempts to corrupt Federal tax administration. The performance model also helps OI to ensure that its outcome measures are aligned with its strategic goals.



The following chart illustrates the distribution of OI's work throughout this reporting period:

The performance model helps OI allocate resources to areas of greatest need. Based on recent investigative activity, OI has reprioritized its resources to give greater focus on threats made against the IRS.





Threats Against IRS Employees and Facilities

OI categorizes threats against IRS employees, facilities, and infrastructure as Employee and Infrastructure Security investigations. During this reporting period, 40 percent of OI's work involved this area of the performance model.

IRS employees face a difficult and challenging mission in dealing with taxpayers. Sometimes individuals resort to violent acts against the IRS. OI considers responding to and investigating threats and assaults against IRS employees to be

its highest priority. OI also investigates harassment of IRS employees as they carry out their duties. TIGTA is committed to protecting approximately 100,000 IRS employees and more than 700 facilities throughout the U.S. and its territories. Over the last six months, OI has conducted 615 threat and assault investigations.

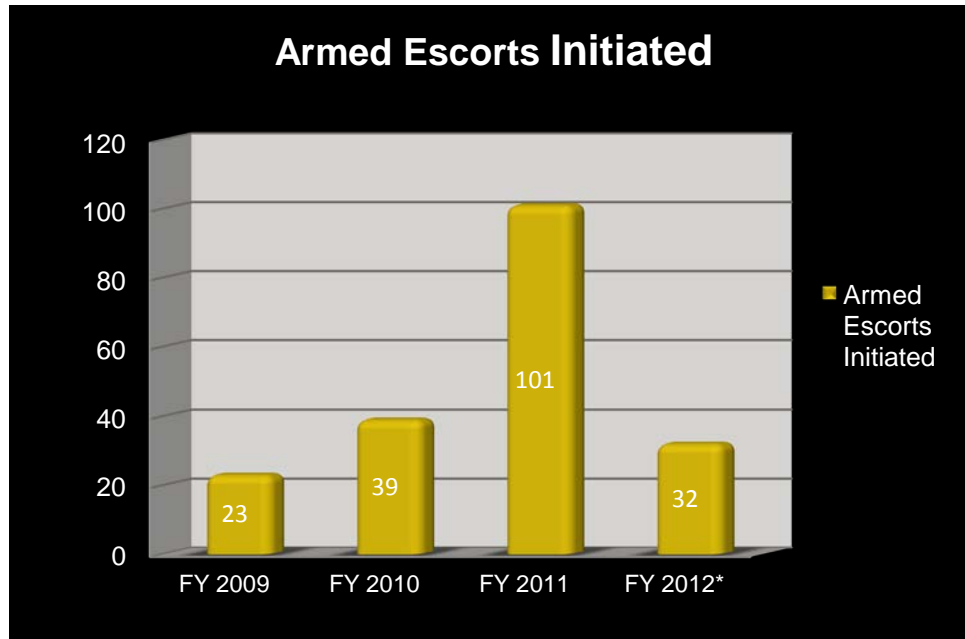
OI carries out a number of initiatives to protect IRS personnel and facilities from threats and attacks. TIGTA's Criminal Intelligence and Counterterrorism (CICT) group supports OI's efforts to prevent individuals and groups from threatening, assaulting, intimidating, or otherwise impeding IRS employees in the performance of their duties.

The main focus of CICT is to proactively identify individuals or groups that express or advocate violence against IRS employees, facilities, or critical infrastructure, where such threats or activities would cause harm or could reasonably threaten the safety of IRS employees or impede the administration of the Internal Revenue laws. This effort also focuses on individuals involved in domestic terrorism and others who advocate the use of violence to avoid complying with their tax obligations.

In addition to conducting criminal investigations of individuals and groups intent on causing harm to the IRS, OI endeavors to protect IRS personnel and facilities through several programs.

One such program is providing armed escorts for IRS employees during face-to-face contact with taxpayers whom the IRS has identified as potentially dangerous, or when OI has an open assault or threat investigation on a taxpayer. OI initiated nearly as many armed escorts during the first six months of FY 2012 as it completed in FY 2010. OI expects the number of armed escorts it conducts will continue to rise for the remainder of the Fiscal Year.

In 2011, OI assumed the primary responsibility for all armed escorts of IRS employees to ensure that they are able to perform their jobs without fear for their safety.



*Indicates armed escorts initiated for the six-month reporting period

As a result of the February 2010 attack against an IRS office in Austin, Texas, the CICT group worked closely with the IRS to create the Threat Information and Critical Incident Response Initiative (TIRC). TIRC was established as the focal point for the timely identification, review, dissemination, and coordination of threat information between the IRS and TIGTA's OI field divisions.

To achieve this coordination, the CICT group created the Threat Information Notification System (TINS). Threat information is analyzed, categorized, processed, and appropriately disseminated as quickly as possible. TINS alerts key personnel of threats and incidents, and streamlines coordination of investigative and threat mitigation between OI and the IRS. There are different categories of TINS reports, with the highest level encompassing situations involving a direct threat of an imminent physical assault action against identifiable IRS personnel, facilities, or critical infrastructure. In 2011, CICT produced and disseminated 298 TINS reports, 79 of which were of the highest level, to include: threats to blow up IRS facilities; shoot or assault IRS employees; and drive vehicles into IRS buildings. TINS reports were also issued regarding the mailing of white powdery substances to IRS facilities with the intent to disrupt operations and cause widespread distress among IRS employees and personnel in the facility. On average, OI field special agents have been able to mitigate these dangerous threats to the Federal system of tax administration within 24 hours of receipt.

Theft of Sensitive Taxpayer Information and Identity Fraud

OI recognizes that tax fraud perpetrated by identify theft is a growing problem. OI is aggressively addressing this problem by focusing its resources on the following areas of identity theft that directly impact Federal tax administration:



- IRS employee involvement in the scheme - either through Unauthorized Access (UNAX) to taxpayer information, disclosure, or as a participant in the criminal activity;
- Preparers who misuse and disclose client information to others in furtherance of identity theft (excluding tax preparers who prepare and file fraudulent tax returns for the purpose of personally stealing the refund); and
- Impersonation of the IRS in furtherance of the identity theft scheme.

Phishing schemes are prominent examples where individuals impersonate the IRS to commit identity theft. There has been a significant spike in these types of schemes. E-mail messages that are designed to look like legitimate communications are sent to the victims of this crime. The IRS name, the IRS seal, and sometimes the names or identities of real IRS employees, including the IRS Commissioner, are used to lend credibility to these phishing schemes.

The details of each scheme tend to vary, but the common thread is the use of the IRS name to lure recipients into accessing links or providing sensitive information. The schemes generally attempt to pressure victims with these basic approaches:

- Victims are told that they are either due a refund or that a tax payment was rejected and the taxpayer needs to click on a link which either opens an attached form or takes them to a website where they enter their Personally Identifiable Information (PII) and credit card information;
- Victims are told that they are being investigated by the IRS and need to immediately respond by clicking on a link which opens an attached form or takes them to a website where they are prompted to provide their PII to verify the status of their tax matter; or
- Victims are told they won a prize, but they must first pay their Federal tax.

In these situations, the victim is presented with an official-looking “IRS form” or a website which is designed to replicate a legitimate IRS.gov website, often by using authentic images and seals.

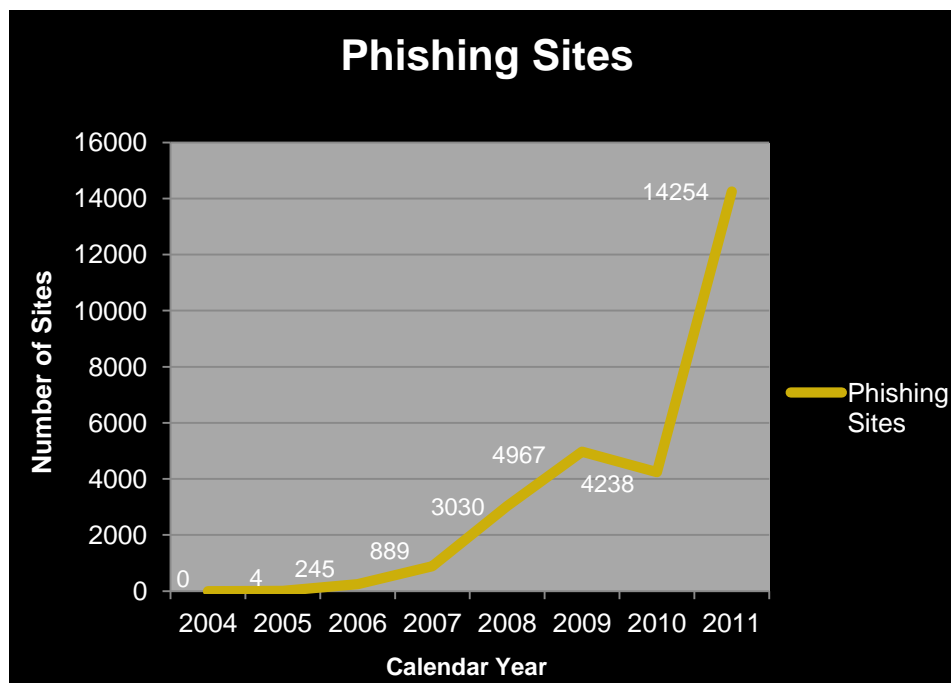
“Tax fraud perpetrated by identity theft is a growing concern, despite the IRS’s efforts to address this serious problem. For Calendar Year 2011, the IRS estimates the number of taxpayers impacted by identity theft – just through the August timeframe – is more than twice the annual estimate for Calendar Year 2008. Whenever identity theft permits criminals to commit tax fraud, law-abiding taxpayers are too often harmed, both financially and personally. Further, the essential trust and reliability of the Nation’s tax administration system is eroded.”

J. Russell George
Inspector General for Tax
Administration “Identity Theft and Tax
Fraud” testimony on November 4, 2011



In situations where victims are asked to provide information, their Social Security Numbers (SSN) and financial information are then used to commit identity theft. These schemes also take the form of unsolicited telephone calls and faxes to taxpayers, often using Voice over Internet Protocol (VoIP) phone lines.

As part of its efforts to combat the rise of IRS phishing, TIGTA has developed a close working relationship with the IRS's Office of Online Fraud Detection and Prevention (OFDP), which is the primary function responsible for tracking and identifying fraudulent websites and phishing schemes. TIGTA's OI also conducts investigations into phishing schemes. IRS's OFDP and TIGTA's OI work together to educate taxpayers, Government agencies, and the tax preparer community about IRS phishing scams and related impersonation schemes.



Data Source: IRS Office of Online Fraud Detection and Prevention

The spike in activity in 2011 is generally attributed to large-scale malware distribution campaigns hidden behind large groups of compromised computers called “botnets.” In the first quarter of CY 2012 alone, over 9,916 phishing sites involving online impersonation schemes and fraudulent IRS websites were identified. Although there are few reliable measures to indicate whether or not the activity will continue to increase in the future, there is little sign that phishing activity directed against taxpayers will decrease in the near term.

Employee Integrity Investigations

Employee misconduct undermines the IRS's ability to deliver taxpayer service, to enforce tax laws effectively, and to collect taxes. Over one-half of OI's investigations are based on allegations or information indicating that IRS employees have engaged in



misconduct. Misconduct by IRS employees manifests itself in a variety of ways, including extortion, theft, taxpayer abuses, false statements, and financial fraud.

Unauthorized Access (UNAX) to taxpayer information by IRS employees is a persistent vulnerability of the IRS and the Federal tax system. The IRS is entrusted with properly maintaining and safeguarding sensitive taxpayer information, the loss or misuse of which could result in identity theft and other fraudulent activity. Because the Federal tax system is based on voluntary compliance, it is essential to the public's confidence that personal and financial information given to the IRS for tax administration purposes will be kept confidential. Even when an unauthorized access does not involve an unauthorized disclosure of taxpayer information by an IRS employee, these cases compromise taxpayer confidence in the Federal tax administration system.

The following cases are examples of employee integrity investigations conducted during this six-month reporting period:

To protect the integrity of taxpayer information, TIGTA analyzes data to identify IRS employees who improperly access confidential information and taxpayers' records. Through the identification and investigation of IRS employees responsible for wrongfully accessing confidential taxpayer information, TIGTA helps to minimize opportunities for potential identity theft.

IRS Revenue Officer Sentenced for Stealing Approximately \$160,000 in Taxpayer Funds

On October 21, 2011, in New York, New York, IRS Revenue Officer Fern Stephens was sentenced to six-months' imprisonment after pleading guilty to mail fraud, theft of Government funds, and unlawfully accessing a Government computer. Stephens was also ordered to serve three years of supervised release following imprisonment, and to pay \$160,863 in restitution.²³

Stephens was employed by the IRS from January 1984 through December 2010. She served as an IRS Revenue Officer since the early 1990s and in that capacity was responsible for collecting Federal taxes from individuals and corporations. As a condition of her employment, she was required to sign an annual certification stating that she would not access taxpayer records in IRS databases except in connection with her official duties.²⁴

From March 2003 through November 2010, Stephens used her position as a Revenue Officer to steal taxpayer funds held by the IRS by devising a scheme involving the use of an IRS database. Stephens' scheme included making false computer entries that documented alleged requests to transfer corporate or business-entity tax refunds or

²³ S.D.N.Y. Judgment filed Oct. 25, 2011.

²⁴ S.D.N.Y. Indict. filed Dec.13, 2010.



payments. Her actions caused the IRS to make 20 fraudulent credit transfers from approximately 14 taxpayer victims to eight of her relatives or close associates.²⁵

State Government Employee Sentenced for Unauthorized Access to a Computer

On November 14, 2011, in Sacramento, California, Valerie Walker was sentenced to 12-months' probation, fined \$1,000, and ordered to pay a \$25 special assessment for accessing private information on a work computer without authorization.²⁶

According to court documents, Walker exceeded her authority by intentionally accessing private taxpayer information while employed at the California Franchise Tax Board (FTB) as a Senior Compliance Representative.²⁷ The electronically stored Federal tax information was provided to the FTB by the IRS.²⁸ Walker researched Federal tax returns, SSNs, and addresses of seven individuals when she had no legitimate business reason to do so.²⁹

Employee and Infrastructure Security

Congress recognized the importance of protecting Federal tax administration when it created TIGTA. TIGTA is responsible for investigating threats to IRS employees, physical infrastructure, and the electronic environment in which the majority of Federal tax administration occurs.

The following cases are examples of employee and infrastructure security investigations conducted during this six-month reporting period:

Georgia Men Charged in Plots to Purchase Silencers, Explosives, and to Manufacture a Biological Toxin

On November 3, 2011, in Gainesville, Georgia, Frederick W. Thomas, Emory Dan Roberts, Samuel J. Crump, and Ray H. Adams were indicted on charges related to plans to obtain weapons and explosives and to manufacture the biological toxin ricin, in violation of Federal law.³⁰

In 2011, to support OI's proactive threat and intelligence gathering role as it relates to emerging and mature anti-tax and anti-government extremist groups, OI established a full-time presence at the FBI's National Joint Terrorism Task Force and the Domestic Terrorism Operations Unit. This partnership with the FBI has strengthened OI's access and ability to respond to IRS-related, actionable intelligence.

²⁵ S.D.N.Y. Indict. filed Dec. 13, 2010.

²⁶ E.D. Cal. Judgment filed Nov. 18, 2011.

²⁷ E.D. Cal. Plea Agr. filed June 20, 2011.

²⁸ E.D. Cal. Info. filed Mar. 14, 2011.

²⁹ E.D. Cal. Plea Agr. filed June 20, 2011.

³⁰ N.D. Ga. Crim. Indict. filed Nov. 3, 2011



According to court documents, Thomas and Roberts met to discuss the formation of a covert militia group which would plan and carry out armed attacks on Government buildings and Federal Government employees, including law enforcement personnel. The members of the militia discussed their willingness to advance the group's objectives by assassinating others by various means including the use of a toxin.³¹ Thomas particularly expressed a desire to kill Department of Justice and IRS employees.³²

Thomas sought to obtain handgun and rifle silencers. In furtherance of their plans to attack Federal officials and law enforcement agencies, they discussed making claymore mines and acquiring trinitrotoluene (TNT) to make their own destructive devices.³³ Crump and Adams attended several meetings conducted by Thomas and Roberts. Both Crump and Adams aided and abetted one another and others in their conspiracy and attempt to develop, produce, and possess ricin for use as a weapon. Crump planned to produce ten pounds of ricin and disperse the ricin in several cities in the U.S.³⁴

Colorado Man Sentenced for Impeding Internal Revenue Administration

On November 15, 2011, in Denver, Colorado, Gary Neuger was sentenced to 24-months' imprisonment, followed by one year of supervised release. Neuger was ordered to pay restitution in the amount of \$393,791, as well as a special assessment of \$200. Additionally, Neuger must complete a mental health treatment program for filing a false tax return and impeding Internal Revenue administration.³⁵

According to court documents, Neuger admitted that he willfully filed false tax returns and took various steps to impede collections by the IRS. In 1997, Neuger stopped paying his Federal income taxes. The IRS then initiated several attempts to collect his outstanding taxes. It was at this time that Neuger began protesting the Federal tax system and started to harass and impede the IRS's collection efforts.³⁶

From May 2000 until November 2008, Neuger sent more than one dozen threatening letters to the IRS. Throughout this time period, he filed several lawsuits against IRS employees both in Federal and State courts and threatened employees with arrest. He also sought summonses against IRS employees in the course of protesting the levying of Federal taxes.³⁷

In 2003, Neuger filed a fabricated default judgment wherein he falsely claimed that he had won a lawsuit against the IRS in Federal court and demanded damages. In

³¹ N.D. Ga. Crim. Indict. filed Nov. 3, 2011.

³² N.D. Ga. Crim. Compl. for Frederick W. Thomas filed Nov. 1, 2011.

³³ N.D. Ga. Crim. Indict. filed Nov. 3, 2011.

³⁴ *Id.*

³⁵ D. Co. Judgment filed Nov. 22, 2011.

³⁶ D. Co. Reporter's Transcript (Sentencing Hearing: Order) filed Nov. 22, 2011.

³⁷ *Id.*



furtherance of his cause, Neuger filed lawsuits against any business that complied with the IRS's levies and sought to have the business owners arrested.³⁸

Alabama Man Sentenced for Threatening an IRS Employee

On January 30, 2012, in Birmingham, Alabama, Thomas Sitzler was sentenced to 12-months' probation with special conditions that he participate in mental health rehabilitation programs, as well as in drug and alcohol counseling. Additionally, Sitzler must pay a \$3,000 fine and a \$25 special assessment for making a telephone threat to an IRS employee.³⁹

According to the plea agreement, on September 12, 2011, Sitzler called an IRS facility located in Dallas, Texas, requesting to speak with a supervisor regarding a tax matter. An IRS employee advised Sitzler that she could not find a supervisor at that time, but that she would leave a note requesting that her supervisor contact Sitzler. Hearing that, Sitzler became incensed and issued a threat stating, "I have paid over \$1.5 million in Federal taxes while illegals reap the benefits of people like me who pay their taxes. And the IRS is screwin' [*sic*] me over. So write that down please. Report it to anybody you wanna [*sic*] report it to. I'll be in Austin next week, and I will blow up the building. I'll make Waco, Oklahoma City, and 9/11 look like a fire drill."

External Attempts to Corrupt Tax Administration

TIGTA has a statutory mission to investigate external attempts to corrupt or impede the administration of Internal Revenue laws. Such attempts include:

- Taxpayers offering bribes to IRS employees to reduce their tax liability;
- The use of fraudulent liens to harass and retaliate against IRS and other Federal employees;
- The use of fraudulent IRS documentation to advance criminal activity;
- Impersonation of IRS officials (in person, by telephone, or via the Internet); and
- Corruption of IRS programs or operations through procurement or contractor fraud.

The following are examples of external attempts to corrupt tax administration investigations performed during this six-month reporting period:

Theodore Roosevelt stated in his 1903 Annual Message to Congress: "There is no crime more serious than bribery. Other offenses violate one law while corruption strikes at the foundation of all law."

Bribery investigations remain critical in TIGTA's attempt to thwart criminal activities that threaten the integrity of tax administration. Additionally, bribery impedes the IRS's ability to properly collect revenue and, if allowed to go unchecked, substantially undermines the integrity of Federal tax administration.

³⁸ D. Co. Reporter's Transcript (Sentencing Hearing: Order) filed Nov. 22, 2011.

³⁹ N. D. Ala. Judgment filed Feb. 3, 2012.



Individual Sentenced for Bribing a Public Official

On December 14, 2011, in White Plains, New York, Chinh Tran was sentenced to time served and two-years' supervised release for bribing an IRS revenue agent (RA). The first year is to be served as home confinement. Tran must also pay a special assessment of \$100.⁴⁰

According to court documents, between August 17, 2010 and October 5, 2010, Tran unlawfully and knowingly gave things of value to the RA with the intent to influence an official act. Specifically, Tran gave the RA \$18,000 in cash and a bottle of tequila for the purpose of having the RA close a pending tax audit of Tran's income tax return. Tran also expected that the RA would issue a letter indicating that no changes were proposed to her income tax return as a result of the audit.⁴¹

Louisiana Seafood Distributor Pleads Guilty to Bribery

On January 5, 2012, in New Orleans, Louisiana, Vihn Q. Tran pled guilty to bribery of a public official.⁴² According to court documents, Tran offered \$6,000 in cash and other items of value to an IRS agent with the intent to influence an IRS audit of his seafood distribution business.⁴³

Tran owns and operates a seafood company that was licensed to conduct business in Louisiana as a shrimp and seafood distributor. In August 2007, an IRS agent delivered an appointment letter to Tran to schedule an IRS audit of Tran's business. At the conclusion of the meeting, Tran offered the IRS agent lunch; however, the agent declined. During a subsequent meeting, Tran told the agent that he would take care of him if the agent took care of Tran. Tran then asked the agent to make sure that he owed little or no taxes and to make the audit paperwork "clear." Tran offered the agent \$6,000 to help pay little or no Federal taxes.⁴⁴

During follow-up meetings, Tran made an initial bribe payment of \$500 cash and 75 pounds of jumbo shrimp valued at approximately \$400. Tran made additional cash payments to the agent totaling \$5,500. The agent later provided Tran with two IRS audit reports from which Tran could choose. First, the agent offered a legitimate audit report that reflected that Tran and his business owed the IRS approximately \$2 million. Next, the agent presented a fictitious audit report indicating that no taxes were owed by Tran or his business. Tran selected the fictitious audit report.⁴⁵

In April 2011, TIGTA special agents interviewed Tran concerning the bribery payments made to the IRS agent. Tran acknowledged that he made bribe payments over the

⁴⁰ S. D. N.Y. Judgment filed Jan. 10, 2012.

⁴¹ S. D. N.Y. Crim. Info. filed May 11, 2011.

⁴² E.D. La. Re-Arrestment and Plea Letter filed Jan. 5, 2012.

⁴³ E.D. La. Bill of Info. filed Nov. 29, 2011.

⁴⁴ E.D. La. Factual Basis filed Jan. 5, 2012.

⁴⁵ *Id.*



course of several meetings in an effort to obtain audit reports that showed he owed no taxes. Tran also admitted that he was aware that what he was doing was against the law.⁴⁶

Maryland Man Sentenced for Filing a False Retaliatory Lien and Three False Claims for Tax Refunds

On February 15, 2012, in Greenbelt, Maryland, Andrew Isaac Chance was sentenced for filing a false retaliatory lien against a Government employee and for filing three false claims against the U.S. for income tax refunds. Chance was ordered to serve 65-months' imprisonment followed by three years of supervised release. He also was ordered to pay a \$400 special assessment.⁴⁷

According to the Indictment, in 2007, Chance was convicted for filing a false IRS Form 1041, *U.S. Income Tax Return for Estates and Trusts*. He falsely claimed a \$306,753 refund for TY 2005. For this conviction, Chance was sentenced to 27 months in Federal prison. In 2009, he was released.⁴⁸

Shortly after his release from prison in 2009, Chance filed a false lien against the Federal prosecutor of his 2007 case, claiming that the prosecutor owed him \$1.3 billion. Chance subsequently submitted additional false returns with the IRS seeking refunds for 2007, 2008, and 2009. With these filings, Chance sought a total of \$900,000. He once again falsified IRS Form 1041, which had previously resulted in his 2007 conviction.⁴⁹ In the end, on November 18, 2011, Chance was convicted of filing a false retaliatory lien. In addition, he received a second conviction for filing false claims for tax refunds.

Tennessee Woman Sentenced for Fake Inheritance and IRS Scam

On January 3, 2012, in Greeneville, Tennessee, Stephanie Bare was sentenced to serve 46 months in prison and three years of supervised release for conspiracy to commit wire fraud. She was also ordered to pay \$553,310 in restitution and a \$200 assessment.⁵⁰

According to court documents, Stephanie Bare devised a confidence scheme to defraud victims of more than \$500,000. In order to support themselves, Stephanie and her husband, David, embarked on an elaborate ruse which continued for nearly five years, and which involved a fake inheritance and an alleged freeze on their assets by the IRS.⁵¹

⁴⁶ E.D. La. Factual Basis filed Jan. 5, 2012.

⁴⁷ D. Md. Judgment filed Feb. 17, 2012.

⁴⁸ D. Md. Indict. filed Dec. 13, 2010.

⁴⁹ *Id.*

⁵⁰ E.D. Tenn. Crim. Minutes: Sentencing filed Jan. 3, 2012.

⁵¹ E.D. Tenn. Plea Agr. filed July 7, 2011.



As part of the fraudulent scheme, Stephanie Bare fabricated promissory notes, documents, and e-mails, and either impersonated or caused others to impersonate individuals in positions of authority, such as IRS collection officers and lawyers.⁵²

The plan involved an elaborate plot which included a \$10 million alleged inheritance that David Bare received from his sister. Allegedly, in the settlement of the estate, he retained a law firm that failed to pay the appropriate Federal estate tax to the IRS and other taxes owed to the Commonwealth of Virginia. Consequently, the IRS seized the entire \$10 million inheritance and froze the Bares' personal bank accounts, real property, and Social Security accounts. As a result, the Bares said they were unable to negotiate checks, borrow money from financial institutions, or otherwise conduct routine financial transactions.⁵³

To implement the scheme, Stephanie Bare typically approached a friend or family member requesting small loans which she promised to repay once they received the rest of the "inheritance." She provided either a letter purportedly from the IRS or the Commonwealth of Virginia, or a letter from a law firm or investment firm to verify her story. When victims asked for a promissory note to secure the loan, she provided them the requested note, which was complete and contained both her and that of her husband's signature. The Bares even promised to repay the loans at exorbitant rates of interest that were sometimes as high as 200 percent. All of the documents were false.⁵⁴

The fraudulent scheme included personal and telephone conversations, e-mail communications, letters sent via the U.S. mail, and false claims about transactions with the IRS, the Commonwealth of Virginia, the State of Tennessee, Wachovia Bank, Citizens Bank and Trust, and various law firms and investment firms.⁵⁵

California Man Sentenced for Filing Liens or Encumbrances Against U.S. Employees

On October 26, 2011, in Las Vegas, Nevada, Thanh Viet Jeremy Cao was sentenced to 41 months of imprisonment and three years of supervised release. He was ordered to pay a special assessment of \$600 for filing false liens and encumbrances against U.S. employees.⁵⁶ Cao pled guilty to six counts of the indictment.⁵⁷ Each count carried 41 months of imprisonment and three years of supervised release; however, all six counts are to be served concurrently.⁵⁸

According to the plea agreement, Cao filed 22 false liens and encumbrances against U.S. employees in retaliation for performing their official duties with respect to Cao. The victims

⁵² E.D. Tenn. Sentencing Memo filed Dec. 27, 2011.

⁵³ E.D. Tenn. Plea Agr. filed July 7, 2011.

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ D. Nev. Judgment filed Oct. 26, 2011.

⁵⁷ D. Nev. Plea Agr. filed June 7, 2011.

⁵⁸ D. Nev. Judgment filed Oct. 26, 2011.



included two U.S. Magistrate Judges, two U.S. District Judges, and four IRS CI special agents.⁵⁹

Beginning in February 2007 until July 2010, Cao was involved in various matters concerning Federal courts and Federal agencies, including the Securities and Exchange Commission, the U.S. Attorney's Office for the Southern District of California, the U.S. Secret Service, and the IRS. In addition to these proceedings, Cao was under investigation by CI regarding tax returns he prepared and filed with the IRS. He submitted Federal individual and corporate income tax returns on behalf of himself and his clients claiming large refunds based upon fictitious income tax withholdings.⁶⁰ In response to the proceedings and investigations, Cao filed public record liens and encumbrances against the real and personal property of the victims. Cao knew when he filed the documents that each lien or encumbrance contained false, fictitious, and fraudulent statements, including statements that each victim was a "debtor" who owed Cao a large sum of money. He falsely claimed that each judge was a "debtor" to him in the amount of \$300,000,000 and that CI special agents were "debtors" to him in the amount of at least \$100,000,000.⁶¹

Mark Leitner Sentenced for Obstructing and Impeding the Due Administration of the Internal Revenue Laws and Filing False Liens Against Federal Employees

On September 30, 2011, in Pensacola, Florida, Mark Leitner was sentenced to 30 months in prison for corruptly endeavoring to obstruct and impede the due administration of the Internal Revenue laws and filing false liens against Federal employees.⁶²

Leitner filed false liens against numerous Federal employees including the U.S. Attorney for the Northern District of Florida, the previous Clerk of the court, several Assistant U.S. Attorneys, department trial attorneys, and a CI special agent who prosecuted him for tax fraud in 2010.⁶³

Throughout the jury trial and after his conviction, Leitner filed false maritime liens against the property of court and law enforcement personnel involved in his criminal trial. These false liens claimed that Leitner was owed \$48.489 billion from each named individual. Five of the seven false liens disclosed PII and the individual's SSN.⁶⁴

Leitner will serve his prison sentence consecutively with the five-year prison sentence he received for a 2010 conviction for tax fraud.⁶⁵

⁵⁹ D. Nev. Plea Agr. filed June 7, 2011.

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² N.D. Fla. Crim. Minutes filed Sep. 30, 2011.

⁶³ N.D. Fla. Info. filed July 18, 2011.

⁶⁴ *Id.*

⁶⁵ N.D. Fla. Info. filed July 18, 2011. See also Case No. 3:08cr00079MCR; N.D. Fla. J. filed Aug. 7, 2010.



Myran Butler Sentenced for Misusing the Department of the Treasury's Symbol

On October 19, 2011, in Salt Lake City, Utah, Myran Butler was sentenced to seven-months' imprisonment and a 12-month term of supervised release. He was ordered to pay a special assessment of \$25. Mr. Butler was convicted of one count of misusing the Department of the Treasury's symbol.⁶⁶ According to court documents, Butler knowingly used the words, "Department of the Treasury," or the "Internal Revenue Service" in connection with his business and in a manner that could be reasonably interpreted as falsely conveying that such business activity was approved and authorized by the Department of the Treasury or the IRS.⁶⁷

Butler falsely made and provided to a client a replica of IRS Form 668-D, *Release of Levy/Release of Property of Levy*, by altering an official form. The false Form 668-D contained the forged signature of an IRS tax specialist. Butler also provided the form to his client as proof that proceedings with the IRS had been completed.⁶⁸

The Secretary of the Treasury has delegated to TIGTA the authority to investigate violations of Title 31 U.S.C. 333, Misuse of Treasury Name or Symbol. Through this delegated authority, TIGTA investigates private entities that make false representations to deceive taxpayers into believing that the entity is actually endorsed by or affiliated with the IRS. The authority includes the ability to seek prosecution, assess civil penalties, and issue cease-and-desist letters to violators. Cease-and-desist letters instruct the addressee to immediately stop conduct that violates the statute.

Arkansas Woman Sentenced for Defrauding Clients of \$1.5 Million

On February 9, 2012, in Fayetteville, Arkansas, Kimberly O'Dell, who pled guilty to wire fraud, money laundering, and misuse of the Department of the Treasury's seal, names, and symbols, was sentenced to serve 108-months' imprisonment and three years of supervised release. O'Dell was also ordered to pay \$1,561,069 in restitution, \$150,000 in fines, and a \$1,025 special assessment.⁶⁹

According to the plea agreement, O'Dell founded the business "O'Dell and Associates," which provided general accounting services in Arkansas. From November 2005 through September 2008, she devised a scheme to obtain money from her clients under fraudulent pretenses, representations, and promises. O'Dell's scheme included transferring money from her clients' bank accounts via telephone transfers and online computer transfers to her company's American Express account. She also took money from her clients' bank

⁶⁶ D. Utah Judgment filed Oct. 20, 2011.

⁶⁷ D. Utah Misdemeanor Info. filed Feb. 3, 2011.

⁶⁸ D. Utah Stat. by Defendant in Advance of Plea of Guilty filed June 15, 2011.

⁶⁹ W.D. Ark. Judgment filed Feb. 9, 2012.



accounts by writing checks on their accounts to herself and her accounting firm. Typically, these transactions were done without her clients' authorization.⁷⁰

In July 2008, O'Dell misused the name of the IRS in a manner that conveyed a false impression. For the purpose of delaying the discovery of her fraudulent scheme, she tampered with a letter that was purported to be from the IRS. O'Dell used the IRS letterhead, falsified the contents of the letter, signed it with a fictitious name, and then sent it to her clients.⁷¹

⁷⁰ W.D. Ark. Plea Agr. filed Sept. 8, 2011.

⁷¹ *Id.*



Advancing Oversight of America's Tax System

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

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

Inspections are intended to:

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

Evaluations are intended to:

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

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

IRS Contract Security Guard Workforce Inspection

This project was initiated to determine whether the IRS has provided a reasonable level of assurance that its contract security guard workforce is suitable for employment at IRS facilities and whether responsible IRS personnel are qualified to oversee the day-to-day operations of the security guard contracts assigned to them.

TIGTA found that the IRS generally has controls in place to ensure that security guards are suitable for employment in IRS facilities. The inspection also found that most Contracting Officer's Technical Representatives (COTR) assigned to the guard contracts were properly appointed and certified. While no systemic issues regarding the on-site administration of contract security guards exist, the lack of controls in some areas prevented the IRS from accurately and timely identifying the number of security



guards working under IRS contracts. Additionally, COTRs allowed several security guards to work in some IRS facilities without escorts before receiving staff-like access (the ability for contract employees to enter an IRS-owned or controlled facility without an IRS escort), or after re-investigations required to maintain access to IRS facilities were overdue. Lastly, in one unique instance, guards hired to escort IRS employees outside one Federal building were not subject to normal screening procedures.

TIGTA recommended that the Director of IRS Physical Security and Emergency Preparedness:

- Develop, validate, and maintain a comprehensive listing of contract security guards;
- Require Office of Personnel Management background investigations for all contract security guards regardless of the type of service provided;
- Develop procedures that require COTRs to obtain and maintain records which document that contractors without staff-like access are properly escorted while in IRS facilities;
- Follow up on the results of requests for new investigations for contractor employees;
- Remove contractors from duty who fail to provide information required for the new investigations; and
- Periodically issue memoranda to remind all COTRs to adhere to internal procedures related to managing contract security guards.

IRS management agreed with these recommendations and stated that they have initiated or plan to initiate processes designed to improve oversight and provide assurance that security guards are suitable for employment in IRS facilities.

Report Reference No. 2012-IE-R002

Inspection of the Employee Pre-Screening Process

This project was initiated to determine if the IRS properly and timely pre-screens applicants before they are hired.

Many IRS employees must have access to sensitive taxpayer information to administer the Nation's tax system. The IRS must be particularly cognizant of hiring only those applicants who hold themselves to the highest standards of integrity. The IRS uses several controls to deter and detect the abuse of sensitive information. Pre-screening applicants and conducting background investigations of those applicants are the initial steps the IRS takes to ensure that it meets the highest standards of honesty, integrity, and security.

Reviews at four of nine Employment Operations branch offices revealed that nearly 77 percent of the cases reviewed (507 of 662) did not have sufficient documentation to verify that the Employment Operations offices had completed all of the required pre-screening steps before the employee reported for duty. The managers located in the



Employment, Talent, and Security Division, who have oversight of Employment Operations, noted that the documentation that was not included in the employees' case files could be obtained from other sources, as needed. However, if this documentation was not located in the case file, another employee would have to repeat steps that had already been completed in order to provide the appropriate documentation needed by managers or other third parties responsible for oversight. Additionally, repeating steps after the employee reports for duty does not provide evidence that pre-screening steps were completed before the employee's enter-on-duty date.

TIGTA recommended that the Human Capital Officer develop requirements and retention policies to ensure that pre-screening actions are consistently completed and fully documented.

IRS management agreed to implement this recommendation and stated that they plan to primarily use electronic files (the CareerConnector Companion⁷² and the Automated Background Investigation System) to record and verify the completion of pre-screening applicants. Additionally, IRS management plans to enhance the CareerConnector Companion to improve record-keeping and monitoring capabilities. IRS Management also issued guidance related to record retention policies for pre-screening actions.

Report Reference No. 2012-IE-R003

⁷² The CareerConnector Companion, referred to as "C-Comp," is a tool used by the IRS to track pre-hire screening checks.





TIGTA's International Programs

International tax compliance and taxpayer service issues have emerged as a major focus of tax policy and administration. Global business is rapidly expanding and combating offshore tax evasion is a priority of the IRS Commissioner. The IRS's increased emphasis on international tax administration can be illustrated by its recent development of a plan called the "Service-wide Approach to International Tax Administration," which was accompanied by a reorganization and a substantial increase in the size of the Deputy Commissioner (International) organization. The plan is designed to improve voluntary compliance with international tax provisions and to reduce the international Tax Gap attributable to cross-border transactions.

TIGTA's international programs continue to work with the IRS in pursuit of the plan's objectives to:

- Improve cooperation with treaty partners in the international community;
- Enhance the IRS's partnership with tax preparers involved in the preparation of international/U.S. Territory returns; and
- Detect and deter financial criminal activity and abusive transactions that involve offshore entities and cross-border transactions.

Resources for a more comprehensive approach are limited, but TIGTA is striving to strategically expand its oversight model in the international environment through a coordinated program of international audits, inspections, law enforcement liaison, and outreach.

International Audit Achievements

TIGTA includes international tax administration as part of its annual audit planning process. However, the amount of work conducted in this area in any given year is limited by other competing priorities. Recognizing the growing importance of international tax administration, TIGTA created an International Tax Program Strategy that laid out a uniform methodology to monitor the IRS's efforts with respect to international tax administration. Since the implementation of this strategy, TIGTA has

The IRS operates in 10 foreign countries and two U.S. territories:

Australia

Barbados

Canada

China (and Hong Kong)

Colombia

France

Germany

Mexico

Panama

Puerto Rico (U.S. Territory)

United Kingdom

Virgin Islands (U.S. Territory)



included several reports about international tax administration in its previous Semiannual Reports to Congress.

- **New Legislation Could Affect Filers of the Report of Foreign Bank and Financial Accounts, but Potential Issues Are Being Addressed**
(Reference No. [2010-30-125](#), dated September 9, 2010).
- **Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States**
(Reference No. [2010-40-121](#), dated September 15, 2010).
- **Actions Are Being Taken to Address the Impact That International Financial Reporting Standards Will Have on Tax Administration**
(Reference No. [2010-30-112](#), dated September 8, 2010).
- **Improvements Are Needed to Reduce Erroneous Foreign Earned Income Exclusion Claims**
(Reference No. [2010-40-091](#), dated August 16, 2010).
- **Procedures Need to Be Developed for Collection Issues Associated With Individual Taxpayer Identification Numbers**
(Reference No. [2010-40-040](#), dated March 29, 2010).
- **Improvements Are Needed to Ensure the Central Withholding Agreement Program Fosters Nonresident Alien Withholding Compliance**
(Reference No. [2011-30-117](#), dated September 30, 2011).
- **The 2009 Offshore Voluntary Disclosure Initiative Increased Taxpayer Compliance, but Some Improvements Are Needed**
(Reference No. [2011-30-118](#), dated September 21, 2011).

International Outreach

TIGTA's international outreach will advance its strategic objective of heightening IRS integrity awareness among millions of U.S. citizens living abroad in order to provide a deterrent effect against waste, fraud, and misconduct within Federal tax administration. It will also promote a greater understanding of the importance of a corruption-free IRS.

During this six-month reporting period, TIGTA has partnered with the U.S. Department of State to share TIGTA's message of combating fraud in Federal tax administration and to provide contact information about TIGTA's Complaint Hotline to the millions of taxpayers living in foreign countries, including military and State Department personnel stationed overseas. TIGTA and the State Department are working together to make TIGTA's Complaint Hotline information available on over 270 embassy, consulate, and other State Department web pages around the globe.



Risk Assessment Inspections

The IRS continues to place a high emphasis on effectively administering our Nation's Federal tax system as it relates to U.S. taxpayers living overseas, U.S. corporations doing business abroad, and our interaction with foreign governments pursuant to Tax Treaties and Tax Information Exchange Agreements. Commensurate with this effort, TIGTA is seeking to develop a program of risk-assessment inspections aimed at highlighting challenges confronting the IRS in its attempt to effectively conduct its international activities and to consistently apply relevant policies and procedures in those programs.

In coordination with the IRS Tax Attaché and her staff, TIGTA executed the first of these inspections at the IRS office in Frankfurt, Germany. These inspections are designed to be repeated over time and across all IRS locations involved in international operations. The data gathered will subsequently be analyzed for potential trends and other indicators that will assist IRS management in identifying potential risk areas in their international operations. These inspections will also allow TIGTA to better focus its limited inspection resources on those areas that will provide the greatest positive impact.





American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act)⁷³ was enacted on February 17, 2009. The Recovery Act presented significant challenges to all Federal agencies as they moved to implement provisions quickly while attempting to minimize risk and meet increased standards for transparency and accountability. With its 56 tax provisions (20 related to individual taxpayers and 36 related to business taxpayers), the Recovery Act poses significant challenges to the IRS as the Nation's tax collection agency and administrator of the tax laws.

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

The IRS Disallowed Erroneous First-Time Homebuyer Credits Totaling \$1.6 Billion; However, Its Examination Resources Could Have Been Used More Effectively

Qualifying taxpayers who purchased a home in CY 2008, 2009, or 2010 were able to take advantage of the First-Time Homebuyer Credit (Homebuyer Credit), a refundable credit worth up to \$8,000. Through July 30, 2011, the IRS reported that it processed more than 4.3 million claims for the Homebuyer Credit totaling almost \$30.4 billion. During that same time, the IRS completed 495,592 Homebuyer Credit examinations, with 52,170 still to be closed. The purpose of these examinations is to ensure that only qualified taxpayers receive the Homebuyer Credit. Examining Homebuyer Credit claims that pose the greatest compliance risk is an effective use of limited IRS resources and avoids burdening compliant taxpayers with an examination.

The IRS developed a comprehensive strategy to address erroneous claims for the Homebuyer Credit. While it properly evaluated questionable claims that were selected for examination, a large number of high-risk claims were not examined and many of the examinations conducted were unproductive. More specifically, some of the high-risk claims were never run through the automated filters designed to select claims for examination. In addition, the IRS methods for determining the highest risk claims were flawed. TIGTA also identified instances where the IRS exceeded its legal authority in denying Homebuyer Credits to some taxpayers under 18 years of age.

During the course of the audit, TIGTA made recommendations that resulted in immediate IRS corrective actions. IRS management modified their methods of determining high-risk claims and shifted examination resources to more productive cases. They also agreed to use a method other than post-processing math-error authority to address claims filed by underage taxpayers.

⁷³ Pub. L. No. 111-5, 123 Stat. 115.



In addition, TIGTA recommended that the IRS:

- Use updated examination results to make adjustments throughout the year, which will optimize the overall examination results; and
- Ensure that the IRS runs all claims for the Homebuyer Credit against its automated examination filters and selects the highest risk cases for post-refund examinations.

IRS management agreed with these recommendations. In their response to the first recommendation, IRS management stated that they routinely use prior examination results to adjust IRS workloads. Nonetheless, TIGTA found that the IRS did not do this consistently in the case of Homebuyer Credit examinations.

Reference No. 2012-41-013



An Organization That Values Its People

TIGTA's Inspector General Awards

On October 20, 2011, Inspector General J. Russell George recognized the exemplary achievements of TIGTA's employees through the 2011 Inspector General Award Program. Recipients were recognized for their commitment to excellence in public service on behalf of TIGTA. The recipients' accomplishments demonstrate high mission impact, major contributions to customers and stakeholders, integrity and efficiency, and significant quantifiable results. There were five individual award recipients and three group awards from the Office of Audit (Customer Account Data Engine 2 Team, Improper Payments and Credits Group, and American Opportunity Tax Credit Team); two group awards from the Office of Investigations (Criminal Intelligence and Counterterrorism Group and Fraudulent First-Time Homebuyers Credit Investigations Group); two group awards from the Office of Inspections and Evaluations (Treasury Directive 74-06 Evaluation Team and Facilities Inspection Team); and one group award from the Office of Mission Support (Procurement Services). The following are a few highlights and pictures taken during the ceremony.

Individual Award Recipients



Top row from left to right: Timothy Camus, Deputy Inspector General for Investigations; Randy Silvis, Deputy Assistant Inspector General for Investigations; Terry Peacock, Assistant Inspector General for Investigations; and John Fowler, Deputy Assistant Inspector General for Investigations.

Bottom row from left to right: Thomas Black, Director; William Kalb, Assistant Special Agent in Charge; Sherwood Zimmerman, Assistant Special Agent in Charge; Michelle Brasfield, Assistant Special Agent in Charge; and Edward Bosak, Special Agent.



Fraudulent First-Time Homebuyers Credit Investigations Group



From left to right: Joseph Hungate, Principal Deputy Inspector General; Timothy Camus, Deputy Inspector General for Investigations; Michelle Brasfield, Assistant Special Agent in Charge; and J. Russell George, Inspector General. **Not pictured:** Aaron McLean, Special Agent.

Criminal Intelligence and Counterterrorism Group



Top row from left to right: Timothy Camus, Deputy Inspector General for Investigations; James Jackson, Special Agent in Charge; Randy Silvis, Deputy Assistant Inspector General for Investigations; John Fowler, Deputy Inspector General for Investigations; and Terry Peacock, Assistant Inspector General for Investigations.

Bottom row from left to right: Nicole Randall, Investigative Analyst; Daniel Mummert, Special Agent; Nikki Rawls, Investigative Analyst; Veronica Ferguson, Investigative Analyst; William Seested, Investigative Analyst; Jeffery Long, Special Agent; and Christine Cosson, Investigative Analyst.

Not pictured: Jennifer Franklin, Special Agent.



Procurement Services Team



Top row from left to right: Larry Koskinen, Associate Inspector General for Mission Support; Thomas Roberts, Program Analyst; Matthew Chabak, Program Analyst; Jeffrey Stephenson, Program Analyst; and Benjamin Trapp, Director.

Bottom row from left to right: Karen Ziegler, Program Analyst; Yvette Taylor, Program Analyst; Olga Brichto, Program Analyst; and Lolita Hodges, Program Analyst.

Council of the Inspectors General on Integrity and Efficiency Award

On Tuesday, October 18, 2011, more than 85 individuals and groups were recognized for their outstanding accomplishments at the 14th Annual Inspector General Community awards ceremony. The Honorable Eric H. Holder Jr., The United States Attorney General, provided the keynote address at the ceremony hosted by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE is composed of Inspectors General and Government ethics and law enforcement officials. The ceremony took place at the Andrew W. Mellon Auditorium, Washington, DC. The Honorable Jeffrey Zients, CIGIE Executive Chairperson, Deputy Director for Management and Chief Performance Officer, Office of Management and Budget, presented the Inspector General community's most prestigious awards.

Award Recipients

Assistant Special Agent in Charge Sherwood Zimmerman was recognized for his outstanding achievement during the investigation and prosecution of Kulwant Lasher, Tarlochan Lasher, and Jaswinder Lasher for bribing an IRS employee.



Sherwood Zimmerman, Assistant Special Agent in Charge

TIGTA's Returns Processing and Account Services Prisoner Fraud Group received recognition for outstanding achievement for their efforts in improving the identification of fraud within the IRS.



From left to right: Carl A. Clinefelter, CIGIE Vice Chair; Deann Baiza, Audit Manager; and the Honorable Phyllis K. Fong, CIGIE Chair. **Not Pictured:** Russell Martin, Director; Karen Fulte, Senior Auditor; and Sharla Robinson, Senior Auditor.

TIGTA Special Agent Edward Bosak was also recognized for his part in the General Services Administration Cisco Systems Qui Tam Settlement Team. The team was recognized for its outstanding collaboration by multiple agencies resulting in the



successful settlement with Cisco Systems that involved pricing irregularities that compromised the integrity of Government procurement. Mark Anderson and Kevin Riley of I&E received CIGIE awards for their participation on the Interagency Inspections and Evaluations Survey Team and Joan Bonomi, of OA, received the Barry R. Snyder Joint Award.

National Association of State Boards of Accountancy Certification

The Office of Audit has successfully completed the requirements as a Learning Provider for both Group Live and Group Internet-Based Training and is now listed on the National Registry as being recognized by the National Association of State Boards of Accountancy (NASBA). Learning providers become listed among quality Continuing Professional Education (CPE) program sponsors that have been certified to conduct programs in compliance with the requirements of State Accountancy Boards and the uniform standards for continuing education in the accounting profession.

Developed in 1990, the National Registry of CPE Sponsors is a program offered by the NASBA to recognize CPE program sponsors who provide programs in accordance with nationally recognized standards. Many State Boards of Accountancy require CPAs to earn required CPE credits through companies approved on the National Registry of CPE Sponsors. Additionally, in December 2011, NASBA and the National Registry of CPE Sponsors were approved as a qualified accrediting organization by the IRS as part of the IRS Registered Tax Return Preparer program. This designation allows members of the National Registry that want to offer continuing education programs to Registered Tax Return Preparers to use a simple IRS registration process to become a qualified continuing education provider for that program.

Currently, over 1,700 program sponsors hold approved Registry sponsor status after demonstrating compliance with the Statement on Standards for CPE Programs approved jointly by the American Institute of Certified Public Accountants and NASBA. Within the Registry, there are 11 other Inspector General offices recognized as Learning Providers for Group Live Sessions. TIGTA is the only Inspector General office that is recognized as a Learning Provider for both Group Live and Group Internet-Based Training. Only a limited number of organizations have completed the requirements for Group Internet-Based Training. TIGTA now joins the likes of Franklin Covey, Wells Fargo, MIS Training Institute, and the National Society of Accountants with this distinguished accomplishment.

TIGTA Academy Reaccredited

On November 17, 2011, The Federal Law Enforcement Training Accreditation (FLETA) Board reaccredited TIGTA's Training Academy, which trains all TIGTA law enforcement personnel.

The FLETA Board is nationally recognized by Federal law enforcement agencies, as well as stakeholders in law enforcement training. It is the Board's goal to advance the



Federal law enforcement community with each accreditation, and the Board has now awarded 48 program accreditations and 13 academy accreditations.

To achieve accreditation, agencies submit to a rigorous independent review of their academy and/or program to ensure compliance with the 52 FLETA Program Standards in the areas of: Program Administration, Training Staff, Training Development, and Training Delivery, with an additional 20 standards for Academies. Accreditation is a cyclical process occurring every three years.



From left to right: Martin Kenney, Deputy Special Agent in Charge; Michael Radetic, Assistant Special Agent in Charge; Kay Arthur, Program Analyst/Accreditation Manager; Gary Mitchell, Executive Director of FLETA; Michael Delgado, Assistant Inspector General for Investigations; Donald Webb, FLETA Board Chairman – DEA; Jacquelyn Ellison, Special Agent; Marvin Weindorff, Special Agent; and Annette Scanlon, Training Specialist.



Congressional Testimony

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

On November 4, 2011, Mr. George testified before the House Committee on Oversight and Government Reform, Subcommittee on Government Organization, Efficiency and Financial Management on “Identity Theft and Tax Fraud.” Mr. George noted that there are two primary types of identity theft that relate to tax administration: the first type involves an individual using another person’s name and/or SSN to file a fraudulent tax return to generate a tax refund, which is referred to as “tax fraud identity theft.” The second type involves using another person’s identity (*e.g.*, name, SSN, or both) to obtain employment, which is referred to as “employment-related identity theft.”

Since 2008, the number of tax-related identity theft incidents impacting tax administration has grown significantly. Although the IRS acknowledges that it does not know for certain the number of open or closed identity theft cases, as of August 31, 2011, IRS incident tracking reports indicated that 582,736 taxpayers were affected by identity theft in CY 2011. In CY 2008, the IRS reported 254,079 taxpayers were affected.

TIGTA is currently evaluating whether the IRS is effectively providing assistance to victims of identity theft.⁷⁴ To date, auditors have analyzed identity theft cases, reviewed all significant guidance and procedures dealing with identity theft, and conducted interviews with more than 200 IRS employees who work identity theft issues.

TIGTA’s preliminary observations are that the IRS is not effectively providing assistance to victims of identity theft and its processes are not adequate to communicate identity theft procedures to taxpayers. This results in increased burden for the victims of identity theft.

The IRS needs a better process to identify and respond whenever tax fraud occurs as a result of identity theft. While the IRS has undertaken important steps and initiatives to prevent the occurrence of identity theft and associated tax fraud, additional controls could help to minimize or prevent future incidences. TIGTA continues to address this escalating problem through audits and investigations that assist the IRS in its efforts to strengthen critical programs, processes, and controls needed to protect sensitive taxpayer data. Moreover, TIGTA believes that the escalating rate of identity theft across the Nation warrants additional safeguards and response capabilities that will enable the IRS to avoid unacceptable future losses due to the consequences of tax fraud perpetrated through identity theft.

⁷⁴ TIGTA, Audit No. 201140042, *Effectiveness of Assistance Provided to Victims of Identity Theft* (planned report issuance in May 2012).



On November 15, 2011, Mr. George testified before the House Committee on Ways and Means, Subcommittee on Oversight during its hearing on “Implementation and Effectiveness of the Small Business Health Care Tax Credit.” The Patient Protection and Affordable Care Act⁷⁵ amended the Internal Revenue Code to provide the Small Business Health Care Tax Credit (Credit). This is a new business credit for employee health insurance expenses of small businesses and certain tax-exempt organizations. The Congressional Budget Office estimated the Credit would cost \$37 billion over 10 years.

Despite the IRS’s efforts to inform 4.4 million taxpayers who could potentially qualify for the Credit, the volume of claims for the Credit has been low. The Credit was designed to encourage small employers to offer health care insurance. However, through mid-October 2011, the IRS reported that 309,000 taxpayers (including the tax-exempt taxpayers previously referred to) had claimed the Credit for a total amount of \$416 million.⁷⁶ This is substantially lower than the Congressional Budget Office estimate that taxpayers would claim up to \$2 billion for the Credit for Tax Year 2010.

In TIGTA’s report regarding the Small Business Health Care Tax Credit,⁷⁷ examples of specific errors taxpayers were making when claiming the Credit were provided. These errors are beyond the IRS’s current authority to correct through math-error processes. However, the errors could be addressed through legislation providing targeted math-error authority. Math-error authority would allow the IRS to improve compliance and avoid burdensome audits by correcting certain errors, or by contacting the taxpayer during processing but prior to allowing the Credit or paying refunds on potentially erroneous returns.

IRS management agreed that math-error authority is an important compliance tool and will explore with the Department of the Treasury whether math-error authority is appropriate for this Credit. The IRS agreed that it is beneficial to address potential compliance issues as early in the process as possible and has developed procedures to examine questionable returns prior to the issuance of refunds.

On March 7, 2012, Mr. George testified before the House Committee on Appropriations, Subcommittee on Financial Services and General Government on its “Budget Hearing – Office of Treasury IG and Office of Treasury IG for Tax Administration.” Mr. George noted that the IRS is the largest component of the Department of the Treasury and has primary responsibility for administering the Federal tax system. The IRS strives to enforce the tax laws fairly and efficiently while balancing service and education to promote voluntary compliance and reduce taxpayer burden. To achieve these goals, the proposed FY 2013 IRS budget requests appropriated resources of \$12.8 billion.⁷⁸

⁷⁵ Pub. L. No. 111-148, 124 Stat. 119, § 1421 (2010).

⁷⁶ Internal Revenue Service statistics on credits claimed under I.R.C. § 45R.

⁷⁷ TIGTA, Ref. No. 2011-40-103, *Affordable Care Act: Efforts to Implement the Small Business Health Care Tax Credit Were Mostly Successful, but Some Improvements Are Needed* (September 2011).

⁷⁸ The FY 2013 budget request also includes approximately \$135 million from reimbursable programs, \$218 million from user fees, and \$239 million in available multi-year/no-year funds for a total amount of \$13.4 billion in available resources.



The total appropriations amount is an increase of \$945 million, or approximately eight percent, more than the FY 2012 enacted level of approximately \$11.8 billion. The budget request includes a net staffing increase of more than 4,500 full-time equivalents (FTE),⁷⁹ to a total of 95,257 appropriated FTEs. However, the FY 2013 increase represents only approximately 700 additional employees over the FY 2011 enacted level because of the budget cuts the IRS sustained in FY 2012.

The President's FY 2013 \$153,834,000 budget request for TIGTA strikes a balance in addressing the critical needs of the Nation's system of tax administration. The FY 2013 request represents an overall increase of 1.41 percent above the FY 2012 enacted budget and includes \$324,000 needed to support the Council of the Inspectors General on Integrity and Efficiency. However, TIGTA's budget request reduces existing programs by \$2,306,000 below the FY 2012 enacted level. These cuts reflect the tough choices that the Nation currently faces. TIGTA is reviewing all of its functions in an effort to reduce only those programs that will have the smallest impact on its critical mission.

The FY 2013 budget request includes an additional \$4,500,000 for 29 FTEs for oversight of the IRS's implementation of the Affordable Care Act tax provisions. This funding will support auditors, evaluators, and special agents specifically to provide oversight of Affordable Care Act issues. The oversight of the implementation of this law is a significant priority for TIGTA.

As such, TIGTA has developed a multi-year oversight strategy that includes audit, evaluations, and investigative resources to assess, and to proactively detect and deter efforts to impede, the IRS's implementation of the Act.

⁷⁹ A measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.





Audit Statistical Reports Reports With Questioned Costs

TIGTA issued two audit reports with questioned costs during this reporting period.⁸⁰ The phrase “questioned costs” means costs that are questioned because of:

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

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

Reports With Questioned Costs			
Report Category	Number	Questioned Costs⁸¹ (in thousands)	Unsupported Costs (in thousands)
1. Reports with no management decision at the beginning of the reporting period	8	\$193,480	\$82,147
2. Reports issued during the reporting period	2	\$7,432	\$0
3. Subtotals (Item 1 plus Item 2)	10	\$200,912	\$82,147
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	0	\$0	\$0
b. Value of costs not disallowed	0	\$0	\$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	10	\$200,912	\$82,147
6. Reports with no management decision within six months of issuance	8	\$193,480	\$82,147

⁸⁰ See Appendix II for identification of audit reports involved.

⁸¹ “Questioned costs” includes “unsupported costs.”



Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued three audit reports during this reporting period with the recommendation that funds be put to better use.⁸² The phrase “recommendation that funds be put to better use” means funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

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

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

Reports With Recommendations That Funds Be Put to Better Use		
Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	0	\$0
2. Reports issued during the reporting period	3	\$123,692
3. Subtotals (Item 1 plus Item 2)	3	\$123,692
4. Reports for which a management decision was made during the reporting period ⁸³		
a. Value of recommendations to which management agreed		
i. Based on proposed management action	3	\$31,945
ii. Based on proposed legislative action	0	\$0
b. Value of recommendations to which management did not agree	1	\$91,747
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	0	\$0
6. Reports with no management decision within six months of issuance	0	\$0

⁸² See Appendix II for identification of audit reports involved.

⁸³ Includes one report in which the IRS partially agreed with the values associated with the recommendations.



Reports With Additional Quantifiable Impact on Tax Administration

In addition to questioned costs and funds put to better use, the Office of Audit has identified measures that demonstrate the value of audit recommendations to tax administration and business operations. These issues are of interest to IRS and the 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.

Definitions of these additional measures are:

Increased Revenue: Assessment or collection of additional taxes.

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

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

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

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

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

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



overstatements or understatements of amounts recorded on the organization's documents or systems.

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

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

Reports With Additional Quantifiable Impact on Tax Administration			
Outcome Measure Category	Number of Reports⁸⁴	Number of Taxpayer Accounts	Dollar Value (in thousands)
Increased Revenue	1	0	\$98,500
Revenue Protection	1	0	\$543
Reduction of Burden on Taxpayers	3	302,622	\$0
Taxpayer Rights and Entitlements at Risk	1	477	\$285
Taxpayer Privacy and Security	0	0	\$0
Inefficient Use of Resources	0	0	\$0
Reliability of Management Information	6	613,747	\$6,105
Protection of Resources	0	0	\$0

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

- Reliability of Management Information: Reference Numbers 2012-40-008 and 2012-30-026.

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

- Reliability of Management Information: Reference Number 2012-30-026.

⁸⁴ See Appendix II for identification of audit reports involved.



Investigations Statistical Reports

Significant Investigative Achievements	
October 1, 2011 – March 31, 2012	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,123
Complaints against Non-Employees	2,010
Total Complaints/Allegations	4,133
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,374
In Process within TIGTA ⁸⁵	318
Referred to IRS for Action	322
Referred to IRS for Information Only	712
Referred to a Non-IRS Entity ⁸⁶	4
Closed with No Referral	1,009
Closed with All Actions Completed	326
Total Complaints	4,065
Investigations Opened and Closed	
Total Investigations Opened	1,696
Total Investigations Closed	1,632
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	\$1,008,217
Court Ordered Fines, Penalties, and Restitution	\$5,748,826
Out-of-Court Settlements	0
Total Financial Accomplishments	\$6,757,043

⁸⁵ Complaints for which final determination had not been made at the end of the reporting period.

⁸⁶ A non-IRS entity includes other law enforcement entities or Federal agencies.



Status of Closed Criminal Investigations			
Criminal Referrals⁸⁷	Employee	Non-Employee	Total
Referred – Accepted for Prosecution	26	46	72
Referred – Declined for Prosecution	284	196	480
Referred – Pending Prosecutorial Decision	21	59	80
Total Criminal Referrals	331	301	632
No Referral	409	591	1,000

Criminal Dispositions⁸⁸			
	Employee	Non-Employee	Total
Guilty	12	40	52
Nolo Contendere (no contest)	2	0	2
Pre-trial Diversion	3	0	3
Deferred Prosecution ⁸⁹	2	2	4
Not Guilty	0	0	0
Dismissed ⁹⁰	2	5	7
Total Criminal Dispositions	21	47	68

Administrative Dispositions on Closed TIGTA Investigations⁹¹	
	Total
Removed, Terminated or Other	315
Suspended/Reduction in Grade	108
Oral or Written Reprimand/Admonishment	115
Closed – No Action Taken	72
Clearance Letter Issued	76
Employee Resigned Prior to Adjudication	68
Non-Internal Revenue Service Employee Actions ⁹²	456
Total Administrative Dispositions	1,210

⁸⁷ Criminal referrals include both Federal and State dispositions.

⁸⁸ Final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in previous reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.

⁸⁹ 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.

⁹⁰ Court dismissed charges.

⁹¹ 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.

⁹² Administrative actions taken by the IRS against non-IRS employees.



Appendix I

Statistical Reports - Other

Audit Reports With Significant Unimplemented Corrective Actions

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

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



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2009-10-121	Improving Performance and Financial Data for Program and Budget Decisions	September 2009	12/15/12	<i>The Taxpayer Advocate Service Should Reevaluate the Roles of Its Staff and Improve the Administration of the Taxpayer Advocacy Panel</i> F-2, R-1, P-1. Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.
2009-40-130	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	02/15/14	<i>Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs</i> F-1, R-2, P-1. Refocus the Modernized Submission Processing Concept to include implementing a process to convert paper-filed tax returns prepared by individuals using a tax preparation software package into an electronic format.
2010-40-005	Providing Quality Taxpayer Service	December 2009	08/15/12 08/15/12	<i>Individual Taxpayer Identification Numbers Are Being Issued Without Sufficient Supporting Documentation</i> F-3, R-1, P-1. Ensure that the data on the Real-Time System are accurate and validate the records that indicate an agent submitted the application to ensure that the Individual Taxpayer Identification Number Program has accurate and reliable data to oversee the Program. F-3, R-2, P-1. Develop procedures and internal controls to monitor the Real-Time System to ensure that information entered is accurate.
2010-20-027	Taxpayer Protection and Rights	March 2010	09/15/12 09/15/12 09/15/12 09/15/12	<i>Additional Security Is Needed For Access to the Registered User Portal</i> F-1, R-1, P-1. Require suitability checks on delegated users who e-file tax returns or access the e-Services incentive products and disable the principal consent feature on e-Services which allows a user to propagate his or her privileges to other users. F-1, R-3, P-1. Enhance the e-file application on the Third Party Data Store to post the complete results of the Automated Suitability Analysis Program's spouse tax compliance check. F-1, R-5, P-1. Make passwords more difficult to guess by unauthorized individuals and decrease the use of SSNs as usernames. F-1, R-6, P-1. Implement a control to allow users to answer a series of challenge questions to unlock their accounts.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2010-30-032	Taxpayer Compliance Initiatives	March 2010	09/15/12	Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement F-1, R-1, P-1, P-2. Submit a request to revise the computer programming to allow taxpayers only one additional automatic skip per 12-month period and include only individual taxpayers in the processing routine.
2010-40-043	Taxpayer Compliance Initiatives	March 2010	10/15/12	A Service-wide Strategy Is Needed to Address Growing Noncompliance With Individual Retirement Account Contribution and Distribution Requirements F-1, R-1, P-1. Ensure that a Service-wide strategy is developed to address retirement provision noncompliance.
2010-40-045	Security of the IRS	March 2010	07/15/14	Telephone Authentication Practices Need Improvement to Better Prevent Unauthorized Disclosures F-3, R-1, P-1. Incorporate available technology to authenticate callers in the Queue as part of the development of the Authentication Retention Project.
2010-20-044	Modernization of the IRS	May 2010	05/15/12 11/15/14	Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program F-1, R-2, P-1. Ensure that information technology equipment energy use is measured in order to determine the energy efficiency and savings from implementing energy improvements. F-1, R-5, P-1. Ensure that energy audits are performed at the data centers.
2010-20-056	Modernization of the IRS	June 2010	04/01/12	Additional Efforts Are Needed to Implement the Electronics Stewardship Program and Maximize the Energy Efficiency of Desktop Computer Equipment F-2, R-2, P-1. Develop a tracking system to support the ongoing review of IRS efforts in acquiring electronic products of which at least 95 percent are Electronic Product Environmental Assessment Tool-registered.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2010-30-061	Taxpayer Compliance Initiatives	June 2010		<i>Plans Exist to Engage the Tax Preparer Community in Reducing the Tax Gap; However, Enhancements Are Needed</i>
			01/15/14	<u>F-1, R-1, P-1.</u> Update the existing IRS Strategic Plan and ensure that strategic plans have all of the information in the plans as required by the Government Performance and Results Act of 1993 and Office of Management and Budget Circular A-11 (Preparation, Submission, and Execution of the Budget).
			01/15/14	<u>F-2, R-1, P-1.</u> Define and include in the IRS Strategic Plan sufficient measures that will provide data that can be used to monitor the IRS's efforts to achieve objectives aimed at strengthening partnerships with tax practitioners and paid preparers.
2010-20-084	Security of the IRS	August 2010		<i>More Actions Are Needed to Correct the Security Roles and Responsibilities Portion of the Computer Security Material Weakness</i>
			08/01/12	<u>F-1, R-1, P-1.</u> Update the Internal Revenue Manual (IRM) to include all information technology security roles in existence at the IRS and the related responsibilities for each of these roles; establish recurring processes and communications to ensure that security roles and responsibilities in the IRM are periodically reviewed and updated and alignment between the IRM and the training curriculum is maintained; and establish a process to periodically collect, update, and review security role-related procedures and guidelines to ensure that day-to-day procedures align with current IRS policy.
			10/15/12	<u>F-2, R-1, P-1.</u> Develop an effective and repeatable method to identify all IRS and contract employees performing in established information technology security roles; include all IRS and contract employees performing in information technology security roles in the population for potential selection in the compliance assessments; and develop adequate procedures to validate compliance with current security role-related responsibilities through compliance assessments that incorporate supporting evidence of proper execution of assigned responsibilities.
			09/30/12	<u>F-3, R-1, P-1.</u> Ensure that adequate and accurate metrics are established that assess progress and can be analyzed to develop actions to further improve implementation of security roles and responsibilities policy.
2010-30-104	Taxpayer Compliance Initiatives	September 2010	06/15/13	<i>Currency Report Data Can Be a Good Source for Audit Leads</i> <u>F-1, R-1, P-1.</u> Explore the feasibility of making greater use of Currency Transaction Reports to pursue additional nonfilers and underreporters for audit.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2010-40-108	Providing Quality Taxpayer Service	September 2010	01/15/13	<p><i>Toll-Free Telephone Access Exceeded Expectations, But Access for Hearing- and Speech-Impaired Taxpayers Could Be Improved</i></p> <p>F-1, R-1, P-1. Revise the various taxpayer instructions, including notices, for calling the IRS to clearly explain that the Tele-Typewriter/Telecommunications Device (TTY/TDD) number is for hearing- and speech-impaired individuals.</p>
2010-40-121	Taxpayer Compliance Initiatives	September 2010	06/15/12 09/30/12 06/15/12	<p><i>Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States</i></p> <p>F-1, R-3, P-1. Determine whether it would be feasible to require payers issuing multiple Forms 1042-S, <i>Foreign Person's U.S. Source Income Subject to Withholding</i>, to issue a single summary Form 1042-S at the end of the calendar year to simplify reporting for the United States business and third-party payer and decrease taxpayer burden.</p> <p>F-2, R-1, P-1. Use the Foreign Country Codes on Form 1040NR, <i>U.S. Nonresident Alien Income Tax Return</i>, to ensure that the correct tax rate has been applied.</p> <p>F-3, R-2, P-1. Clarify instructions on what constitutes United States source income in United States Tax Guide for Aliens (Publication 519) and Withholding of Tax on Nonresident Aliens and Foreign Entities (Publication 515) in regard to income from multi-level marketing companies.</p>
2010-40-127	Taxpayer Compliance Initiatives	September 2010	06/15/12 P1: 04/15/13 P2: 09/15/12 09/15/12	<p><i>It Will Take Years to Implement the Return Preparer Program and to Realize Its Impact</i></p> <p>F-1, R-1, P-1. Provide sufficient resources to verify professional credentials for all attorneys and Certified Public Accountants applying for a Preparer Tax Identification Number (PTIN).</p> <p>F-1, R-2, P-1, P-2. Establish controls to ensure that PTIN applicants with domestic addresses are United States citizens or legal aliens, and the SSN of the PTIN applicant is not the SSN of a deceased person.</p> <p>F-1, R-3, P-1. Complete the study comparing the four preparer programs to gain an understanding of the basis for the requirements and if they should apply to each program; to ensure consistencies in the requirements and suitability testing among the programs; and to identify any overlaps, including user fees, among the programs.</p>



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2011-40-014	Taxpayer Protection and Rights	January 2011	01/15/13 09/15/12	<i>The Income Verification Express Services Program Needs Improvements to Better Protect Tax Return Information</i> F-1, R-1, P-1. Develop and enforce minimum requirements for the Income Verification Express Services (IVES) Program that would help to ensure that participants are suitable to have a working relationship with the IRS and receive taxpayer information from the IVES Program. F-1, R-3, P-1. Within one year of revising Form 13803, <i>Income Verification Express Services (IVES) Application</i> , contact and obtain a completed Form 13803 from all current IVES Program participants.
2011-20-012	Security of the IRS	February 2011	07/01/12	<i>Additional Security Is Needed for the Taxpayer Secure E-mail Program</i> F-1, R-1, P-1. Continue the acquisition of a data leakage prevention system to ensure full deployment by April 2012.
2011-40-023	Erroneous and Improper Payments and Credits	February 2011	09/15/13 09/15/13	<i>Reduction Targets and Strategies Have Not Been Established to Prevent the Issuance of Billions of Dollars in Improper Earned Income Tax Credit Payments Each Year</i> F-1, R-1, P-1. Establish quantifiable reduction targets and strategies to meet those targets. F-2, R-1, P-1. Use the National Research Program sample to estimate instances where the IRS incorrectly pays less in EITC than the taxpayer claims (underpayments).
2011-30-020	Taxpayer Protection and Rights	March 2011	06/15/12 01/15/13 09/15/12	<i>Taxpayer Payments Were Improperly Transferred to the Excess Collection File</i> F-1, R-2, P-1. Request revisions to Form 8758, <i>Excess Collections File Addition</i> , to include a dedicated line for managerial approval (signature) and date for all transfers of \$100,000 or more. F-2, R-1, P-1. Request programming changes to systemically issue Letter 2765C when taxpayers submit payments after the Assessment Statute Expiration Date in advance of an examination adjustment or with an amended return. F-2, R-2, P-1. Request revisions to Letter 2765C to clarify how to file a claim for refund and include Form 843, <i>Claim for Refund and Request for Abatement</i> , when Letter 2765C is sent to the taxpayers.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2011-41-035	Recovery Act	March 2011		Administration of the First-Time Homebuyer Credit Indicates a Need for Improved Controls Over Refundable Credits
			04/15/12	<u>F-2, R-1, P-1.</u> Develop a method similar to that used by TIGTA to identify improper claims for purchases from related persons and conduct examinations as appropriate to ensure that the Credits are recovered.
			04/15/12	<u>F-3, R-1, P-1.</u> Perform a review of the claims with invalid addresses that TIGTA identified and correspond with taxpayers in order to validate the home purchases.
			04/15/12	<u>F-4, R-1, P-1.</u> Modify the programming for the filter to identify taxpayers who did not purchase a home so that it identifies all claims meeting the specified criteria.
			04/15/12	<u>F-5, R-1, P-1.</u> Identify those claims for which valid acquisition dates were not supplied and initiate post-refund examinations (including the use of soft notices) to ensure that refunds for the invalid claims are recovered.
2011-30-039	Human Capital	May 2011	04/15/12	Challenges Remain to Balance Revenue Officer Staffing With Attrition and Workload Demands <u>F-1, R-1, P-1.</u> Establish rules for optimizing staffing levels for Revenue Officers to address Collection's potentially collectible inventory.
2011-20-046	Security of the IRS	May 2011		Access Controls for the Automated Insolvency System Need Improvement
			01/15/13	<u>F-1, R-1, P-1.</u> Identify incompatible duties and implement policies to segregate those duties; issue a memorandum to program managers requiring them to adhere to the new policy when assigning duties and approving Automated Insolvency System (AIS) access privileges; and designate a limited number of employees to perform the User Administrator duties.
			06/15/12	<u>F-1, R-3, P-1.</u> Define and document user requirements for the AIS users based on employee job functions and position descriptions.
			06/15/12	<u>F-1, R-4, P-1.</u> Create and implement a role-based access control scheme for the AIS based on the documented user requirements defined by the Directors, and remove the User Administrator privilege from the Developer privilege level.
			06/15/12	<u>F-3, R-1, P-1.</u> Submit a work request for the AIS to be configured to report users' changes to cases using the Proof of Claim, Letter, Payment Plan, Attorney/Trustee Information, and Refund screens.



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2011-40-058	Providing Quality Taxpayer Service	July 2011	01/15/13	<p><i>Taxpayers Do Not Always Receive Quality Responses When Corresponding About Tax Issues</i></p> <p><u>F-1, R-3, P-1.</u> Complete the study of the interim letters to ensure that they: are strategically timed; alert taxpayers of delays and provide taxpayers with an accurate status and time period for case resolution; provide taxpayers with sufficient information to deter them from using other channels to contact the IRS regarding their case; and are clear and concise.</p>
2011-10-075	Erroneous and Improper Payments and Credits	August 2011	06/15/12	<p><i>Controls Over the Purchase Card Program Were Not Effective in Ensuring Appropriate Use</i></p> <p><u>F-4, R-1, P-1.</u> Review the current span of control and collaborate with the Business Organizations to identify relevant factors in support of their program activities to develop policy on span of control.</p>
2011-30-084	Taxpayer Compliance Initiatives	September 2011	05/15/12	<p><i>Additional Steps Are Needed to Better Ensure Audits Are Expanded to Prior and/or Subsequent Year Returns When Substantial Taxes May Be Owed</i></p> <p><u>F-1, R-2, P-1.</u> Provide information to tax compliance officers that focus on improvement in the use of the IRS's automated information systems to enhance the quality of their required filing checks.</p>
2011-10-098	Security of the IRS	September 2011	10/15/12 08/15/12	<p><i>The IRS Adequately Prepared for and Responded to the Austin Incident</i></p> <p><u>F-1, R-1, P-1.</u> Ensure that lessons learned relative to the Business Resumption Plans are applied to the development of the new continuity plans.</p> <p><u>F-2, R-1, P-1.</u> Ensure that the lessons learned document and the Incident Management Plan template are updated to reflect the required provisions that emergency procurements include compliance with the Federal Acquisition Regulation and other applicable procurement procedures and policies, including required security provisions.</p>
2011-10-107	Human Capital	September 2011	12/15/12	<p><i>The Administration of Recruitment and Retention Incentives Has Improved, but Additional Actions Should Be Taken</i></p> <p><u>F-2, R-1, P-1.</u> Develop a methodology to assess the impact of the use of recruitment and retention incentives in helping IRS management meet long-term workforce planning goals.</p>



Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding Number (No.), R = Recommendation No., P = Plan No.)
2011-20-111	Security of the IRS	September 2011		<i>Continued Centralization of the Windows Environment Would Improve Administration and Security Efficiencies</i>
			07/01/12	<u>F-1, R-1, P-1.</u> Establish an enterprise-wide Active Directory governing body that finalizes and enforces IRS Activity Directory forest design criteria; develop standards; oversee trusts; and ensure that unauthorized forests or domains are not implemented in the IRS.
			11/01/12	<u>F-1, R-2, P-1.</u> Ensure that the planned shutdown of the Business Systems Modernization forest is completed once the Systems, Applications, and Products Secure Network Communications solution is in place.
			05/01/13	<u>F-2, R-1, P-1.</u> Ensure that standards and processes are developed and implemented enterprise-wide to prevent servers and workstations from being connected to the network without the proper authorization and required compliance documentation.
			10/02/12	<u>F-2, R-2, P-1.</u> Ensure that scanning tools are used to locate unauthorized servers, workstations, and domains on the IRS network, and adequate procedures are developed and implemented to ensure that they are removed.
2011-30-112	Taxpayer Compliance Initiatives	September 2011		<i>Reducing the Processing Time Between Balance Due Notices Could Increase Collections</i>
			01/15/13	<u>F-1, R-1, P-1.</u> Consider reducing the time between each notice by seven days.
			01/15/13	<u>F-2, R-1, P-1.</u> Consider establishing a business rule to address taxpayers with multiple balance due modules entering the notice stream at the same time.
2011-40-115	Implementing Major Tax Laws Changes	September 2011		<i>Affordable Care Act: The Number of Taxpayers Filing Tanning Excise Tax Returns Is Lower Than Expected</i>
			06/15/12	<u>F-1, R-1, P-1.</u> Perform further analyses of the data sources used, including the records with incomplete address information, and determine whether a large portion of tanning businesses was not identified.
			06/15/12	<u>F-1, R-2, P-1.</u> Monitor the results from the notices sent to taxpayers who could potentially owe the tanning tax and, if results warrant, consider obtaining additional data sources for compliance use.
2011-20-127	Modernization of the IRS	September 2011		<i>The Customer Account Data Engine 2 Program Management Office Implemented Systems Development Guidelines; However, Process Improvements Are Needed to Address Inconsistencies</i>
			02/01/13	<u>F-1, R-2, P-1.</u> Ensure that the IRM includes detailed instructions on how to develop a Program-level test plan.



Other Statistical Reports

<p style="text-align: center;">The Inspector General Act of 1978 requires Inspectors General to address the following issues:</p>	
Issue	Result for TIGTA
<p>Access to Information</p> <p>Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.</p>	<p>As of March 31, 2012, there were no instances where information or assistance requested by the Office of Audit was refused.</p>
<p>Disputed Audit Recommendations</p> <p>Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.</p>	<p>As of March 31, 2012, there was one instance where significant recommendations were disputed: Designated Payment Codes Are Inaccurate and Ineffective (Reference No. 2012-30-026)</p>
<p>Revised Management Decisions</p> <p>Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.</p>	<p>As of March 31, 2012, no significant management decisions were revised.</p>
<p>Audit Reports Issued in the Prior Reporting Period With No Management Response</p> <p>Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.</p>	<p>As of March 31, 2012, there were no prior reports where management's response was not received.</p>
<p>Review of Legislation and Regulations</p> <p>Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.</p>	<p>TIGTA's Office of Chief Counsel reviewed 266 proposed regulations and legislative requests during this reporting period.</p>



Appendix II

Audit Products

October 1, 2011 - March 31, 2012

Audit Products	
Reference Number	Report Title
October 2011	
	N/A
November 2011	
2012-10-006	Internal Revenue Service Diversity Demographics Compare Favorably With Other Federal Agencies' Senior Executive Service Ranks
2012-30-007	Revenue Officers Took Appropriate Levy Actions but Face Challenges and Delays Bringing Taxpayers Into Compliance
December 2011	
2012-1C-002	Contractor Financial Risk Assessment
2012-1C-003	Contractor's Fiscal Year 2007 Incurred Cost Proposal (Questioned Costs: \$15,732)
2012-1C-004	Follow-Up Review on Questioned Intercompany Work Orders Costs and Other Direct Costs
2012-1C-005	Pre-Award Accounting System Survey
2012-40-008	Eliminating the Automatic Mailing of Tax Packages Achieved Significant Savings, Although Some Taxpayers Were Burdened (Reliability of Information: \$2,078,618 in overestimated printing and postage savings for mailing tax packages)
2012-40-010	More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed to Ensure All Are Complying With the New Preparer Regulations
2012-13-009	Affordable Care Act: The Office of Appeals Planning Efforts for the Health Care Reform Legislation
January 2012	
2012-40-001	Analysis of Internal Revenue Service Employees' Use of Tax Preparation Assistance
2012-30-012	Procedures Are Needed to Improve the Accounting and Monitoring of Restitution Payments to Prevent Erroneous Refunds
2012-30-011	Opportunities Exist to Identify More Taxpayers Who Underreport Retirement Income
2012-10-018	Independent Attestation Review of the Internal Revenue Service's Fiscal Year 2011 Annual Accounting of Drug Control Funds and Related Performance
February 2012	
2012-41-013	The Internal Revenue Service Disallowed Erroneous First-Time Homebuyer Credits Totaling \$1.6 Billion; However, Its Examination Resources Could Have Been Used More Effectively (Funds Put to Better Use: \$114,954,194; Taxpayer Burden: \$12,808 taxpayers impacted; Taxpayer Rights and Entitlements: \$285,338 and 477 taxpayers impacted)
2012-30-014	Criminal Investigation Can Take Steps to Strengthen Oversight of Its Undercover Operations
2012-40-015	Procedures Need to Be Updated to Ensure Proper Determinations of Tax Relief for Taxpayers Affected by Disasters (Reliability of Information: 597,513 taxpayer accounts)



	with an erroneous disaster relief indicator)
2012-30-020	Improvements Are Needed to Ensure the Business Master File Case Creation Nonfiler Identification Process Is Working Effectively
2012-1C-016	Fiscal Year 2005 Incurred Cost Audit, Federal Sector – Civil Home Office
2012-1C-017	Fiscal Year 2006 Incurred Costs
2012-1C-022	Pre-Award Accounting System Audit
2012-1C-023	Pre-Award Accounting System Review
2012-1C-024	Independent Audit of Contractor's Pre-Award Accounting System
2012-1C-025	Information Technology System General Internal Controls
2012-40-021	The Volunteer Program Management Information System Has Improved, but Better Controls Are Needed to Ensure Data Reliability
March 2012	
2012-40-028	The Internal Revenue Service Is Not in Compliance With All Improper Payments Elimination and Recovery Act Requirements
2012-20-019	The Computer Security Incident Response Center Is Effectively Performing Most of Its Responsibilities, but Further Improvements Are Needed
2012-1C-032	Final Incurred Cost Proposal for Fiscal Year Ending April 1, 2005 (Questioned Costs: \$7,416,602)
2012-30-026	Designated Payment Codes Are Inaccurate and Ineffective (Reliability of Information: 676,593 taxpayer payments with no Designated Payment Code and 70,213 taxpayer payments with an inaccurate Designated Payment Code)
2012-30-030	Actions Can Be Taken to Reinforce the Importance of Recognizing and Investigating Fraud Indicators During Field Audits (Increased Revenue: \$98,500,000)
2012-10-027	Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed (Reliability of Information: 15,701 tax-exempt organizations excluded from the automatic revocation process, 25 Black Lung Trusts excluded from the automatic revocation process, 495 tax-exempt organizations with incomplete address information, and 13 tax-exempt organizations with inaccurate return filing requirements; Taxpayer Burden: 279,593 taxpayers impacted)
2012-20-029	Virtual Server Technology Has Been Successfully Implemented, but Additional Actions Are Needed to Further Reduce the Number of Servers and Increase Savings (Funds Put to Better Use: \$7,727,650)
2012-10-031	Citibank Purchase Card and Fleet Card Rebates Were Maximized and Are Now Properly Allocated (Funds Put to Better Use: \$1,009,822; Reliability of Information: \$3,696,450 Purchase and Fleet Card rebate amounts that could not be independently validated)
2012-30-033	Increasing Requests for Offers in Compromise Have Created Inventory Backlogs and Delayed Responses to Taxpayers (Taxpayer Burden: 10,221 taxpayers impacted)
2012-40-036	Interim Results of the 2012 Filing Season



Appendix III

TIGTA's Statutory Reporting Requirements

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

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics I.R.C. Section (§) 7803 (d)(1)(A)(i)	Requires TIGTA to evaluate the IRS's compliance with restrictions under RRA 98 § 1204 on the use of enforcement statistics to evaluate IRS employees.	Audit fieldwork in progress.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	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.	Audit fieldwork in progress.
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	Draft report issued in March 2012.



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Extensions of the Statute of Limitations for Assessment of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501(c)(4)(B)	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.	Audit fieldwork in progress.
Levies I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. § 6330 regarding levies.	Audit planned – not yet started.
Collection Due Process I.R.C. § 7803(d)(1)(A)(iii) and (iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding taxpayers' rights to appeal lien or levy actions.	Audit fieldwork in progress.
Seizures I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS's compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.	Audit in report writing phase.
Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation I.R.C. § 7803(d)(1)(A)(v)	An evaluation of the IRS's compliance with restrictions under RRA 98 § 3707 on designation of taxpayers.	Audit in report writing phase.



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Disclosure of Collection Activities With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)	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.	Audit planned – not yet started.
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each of its Semiannual Reports to Congress 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.	Statistical results on the number of taxpayer complaints received are shown on page 67.
Administrative or Civil Actions With Respect to the Fair Tax Collection Practices Act of 1996 I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 RRA 98 § 3466	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.	Draft report issued in March 2012.
Denial of Requests for Information I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)	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).	Audit fieldwork in progress.



Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p>Adequacy and Security of the Technology of the IRS</p> <p>I.R.C. § 7803(d)(1)(D)</p>	<p>Requires TIGTA to evaluate the IRS's adequacy and security of its technology.</p>	<p>Information Technology Reviews: Ref. No. 2012-20-029, March 2012</p> <p>Security Reviews: Ref. No. 2012-20-019, March 2012</p>
<p>Federal Financial Management Improvement Act of 1996 (FFMIA)</p> <p>31 U.S.C. § 3512</p>	<p>Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements or the establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.</p>	<p>Audit fieldwork in progress.</p>
<p>Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions</p> <p>National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled <i>Drug Control Accounting</i>, dated May 1, 2007.</p>	<p>Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.</p>	<p>Ref. No. 2012-10-018, January 2012 Nothing came to TIGTA's attention that caused TIGTA to believe that the assertions in the Detailed Accounting Submission and Performance Summary Report were not appropriately presented in all material aspects in accordance with ONDCP-established criteria. The IRS reported that it expended \$66.5 million on ONDCP-related activities and completed 927 ONDCP-related investigations in FY 2011. The IRS also reported that it participated in 435 ONDCP-related cases that resulted in convictions, with an 88.1 percent conviction rate.</p>



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





Appendix IV

Section 1203 Standards

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

Misconduct violations include:

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

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





Appendix V

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

Inspector General Peer Review Activity October 1, 2011 Through March 31, 2012

Last Peer Review Conducted on TIGTA's Office of Investigations

As part of the three-year cycle of independent peer reviews, on September 12, 2011, Social Security, Office of the Inspector General, began its review of TIGTA's Office of Investigations. The review was completed November 4, 2011, and stated:


In our opinion, the system of internal safeguards and management procedures for the investigative function of the TIGTA, in effect for the period ending on June 30, 2011, complies with the quality standards established by the Council of the Inspectors General on Integrity and Efficiency, the Quality Standards of Investigations, and any applicable Attorney General's Guidelines. These safeguards and procedures provide reasonable assurance of conforming to professional standards in the conduct of its investigations.





Appendix VI Data Tables Provided by the IRS

The memorandum copied below is the IRS's transmittal to TIGTA. The tables that follow the memorandum contain information that the IRS provided to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period from October 1, 2011 through March 31, 2012. Also, data concerning substantiated RRA 98 §1203 allegations for the same period are included. IRS management conducted inquiries into the cases reflected in these tables.



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

HUMAN CAPITAL OFFICE

April 9, 2012

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Phyllis Brown *Phyllis Brown*
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 February 16, 2012, to the Commissioner, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period of October 1, 2011, to March 31, 2012.

- Report of Employee Misconduct by Disposition Groups;
- Report of Employee Misconduct – National Summary; and,
- Summary of Substantiated Section 1203 Inquiries Recorded in Automated Labor and Employee Relations Tracking System (ALERTS).

The attached tables contain information concerning alleged misconduct reported to Internal Revenue Service (IRS) managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of March 31, 2012. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations Tracking System (ALERTS).

The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During this period, IRS managers substantiated 125 §1203 allegations and removed nine employees. Nine employees retired or resigned prior to a final administrative action by management.

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If you have any questions, please contact me, or a member of your staff may contact Julia Caldwell at (202) 622-6383.

Attachments (3)

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



Reports of Employee Misconduct for the Period October 1, 2011 through March 31, 2012 Summary by Disposition Groups (Tables Provided by the IRS)

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	37	61	6	4	108
Separation of Probationary Employees	2	57	3	24	86
Separation of Temporary Employees		2		2	4
Resignation/Retirement	51	89	37	7	184
Suspensions	128	249	92	2	471
Reprimands	123	376	540	12	1,051
Counseling	41	206	892	22	1,161
Alternative Discipline	31	63	31	2	127
Clearance	80	133	10		223
Closed Without Action	163	201	105	58	527
Closed Without Action (Caution Statement)	135	158	159	78	530
Forwarded to TIGTA		16	0		17
No Action on Appeal			0		1
Suspended – Waiting Supplemental	2				2
Termination for Abandonment of Position		10			10
Termination for Other Than Job Abandonment		3			3
Case Suspended Pending Employee Return to Duty		1	0		2
Prosecution Pending for TIGTA Report of Investigation (ROI)	9				9
Total	802	1,625	1,878*	211	4,516

Notes:

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

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

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

Extract Date: Monday, April 02, 2012

Report ID = T1R3a



Reports of Employee Misconduct for the Period October 1, 2011 through March 31, 2012 National Summary (Tables Provided by the IRS)

Inventory Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Issues	
TIGTA Investigations ROI ⁹³	544	697	(802)	(4)	(0)	435
Administrative Case ⁹⁴	546	1,673	(1,625)	(19)	(7)	568
Employee Tax Compliance Case ⁹⁵	592	1,850	(1,878)	(26)	(0)	538
Background Investigations ⁹⁶	142	151	(211)	(1)	(0)	81
Total	1,824	4,371	(4,516)	(50)	(7)	1,622

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

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

Extract Date: Monday, April 02, 2012

Report ID = T1R1

⁹³ TIGTA Investigations (ROI) - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred an ROI to IRS for appropriate action.

⁹⁴ Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.

⁹⁵ Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.

⁹⁶ Background Investigation - Any matter involving a National Background Information Center investigation into an employee's background that is referred to management for appropriate action.



Summary of Substantiated I.R.C. Section 1203 Allegations Recorded in ALERTS for the Periods October 1, 2011 through March 31, 2012 (Tables Provided by the IRS)

§ 1203 Violation	Removals	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated ⁹⁷	In Personnel Process	Total
Seizure Without Approval	0	0	0	0	0	0	0
False Statement Under Oath	0	0	0	0	0	0	0
Constitutional & Civil Rights Issues	0	0	0	0	0	0	0
Falsifying or Destroying Records	0	0	0	0	0	0	4
Assault or Battery	0	0	0	0	0	0	0
Retaliate or Harass	0	0	0	0	0	0	1
Misuse of § 6103	0	0	0	0	0	0	0
Failure to Timely File/ Under-statement of Tax Liability	8	8	0	17	50	36	119
Threat to Audit for Personal Gain	0	0	0	0	0	0	1
Total	9*	9*	0	19*	51*	37*	125

Notes:

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

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

Extract Date: Monday, April 02, 2012

⁹⁷ The cases reported as "Removals" and "Penalty Mitigated" do not reflect the results of any third party appeal.



Glossary of Acronyms

ACA	Patient Protection and Affordable Care Act
AIS	Automated Insolvency System
ALERTS	Automated Labor and Employee Relations Tracking System
AUR	Automated Underreporter
CI	Criminal Investigation
CICT	Criminal Intelligence and Counterterrorism
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CLC	Constitutional Common Law Court
COTR	Contracting Officer's Technical Representative
CPE	Continuing Professional Education
CSIRC	Computer Security Incident Response Center
CY	Calendar Year
DOL OIG	Department of Labor, Office of Inspector General
EDI	Equity, Diversity, and Inclusion
EITC	Earned Income Tax Credit
FFMIA	Federal Financial Management Improvement Act of 1996
FLETA	Federal Law Enforcement Training Accreditation
FTB	Franchise Tax Board
FTE	Full-time Equivalent



FY	Fiscal Year
I&E	Inspections and Evaluations
IPERA	Improper Payments Elimination and Recovery Act of 2010
IRA	Individual Retirement Arrangement
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IVES	Income Verification Express Services
NASBA	National Association of State Boards of Accountancy
OA	Office of Audit
OFDP	Office of Online Fraud Detection and Prevention
OI	Office of Investigation
OIC	Offer in Compromise
ONDCP	Office of National Drug Control Policy
PCIE	President's Council on Integrity and Efficiency
PII	Personally Identifiable Information
PTIN	Preparer Tax Identification Number
RA	Revenue Agent
ROI	Report of Investigation
RRA 98	IRS Restructuring and Reform Act of 1998
SES	Senior Executive Service



SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TINS	Threat Information Notification System
TIRC	Threat Information and Critical Incident Response Initiative
TNT	Trinitrotoluene
TTY/TDD	Tele-Typewriter/Telecommunications Device
TY	Tax Year
UNAX	Unauthorized Access
VoIP	Voice over Internet Protocol



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