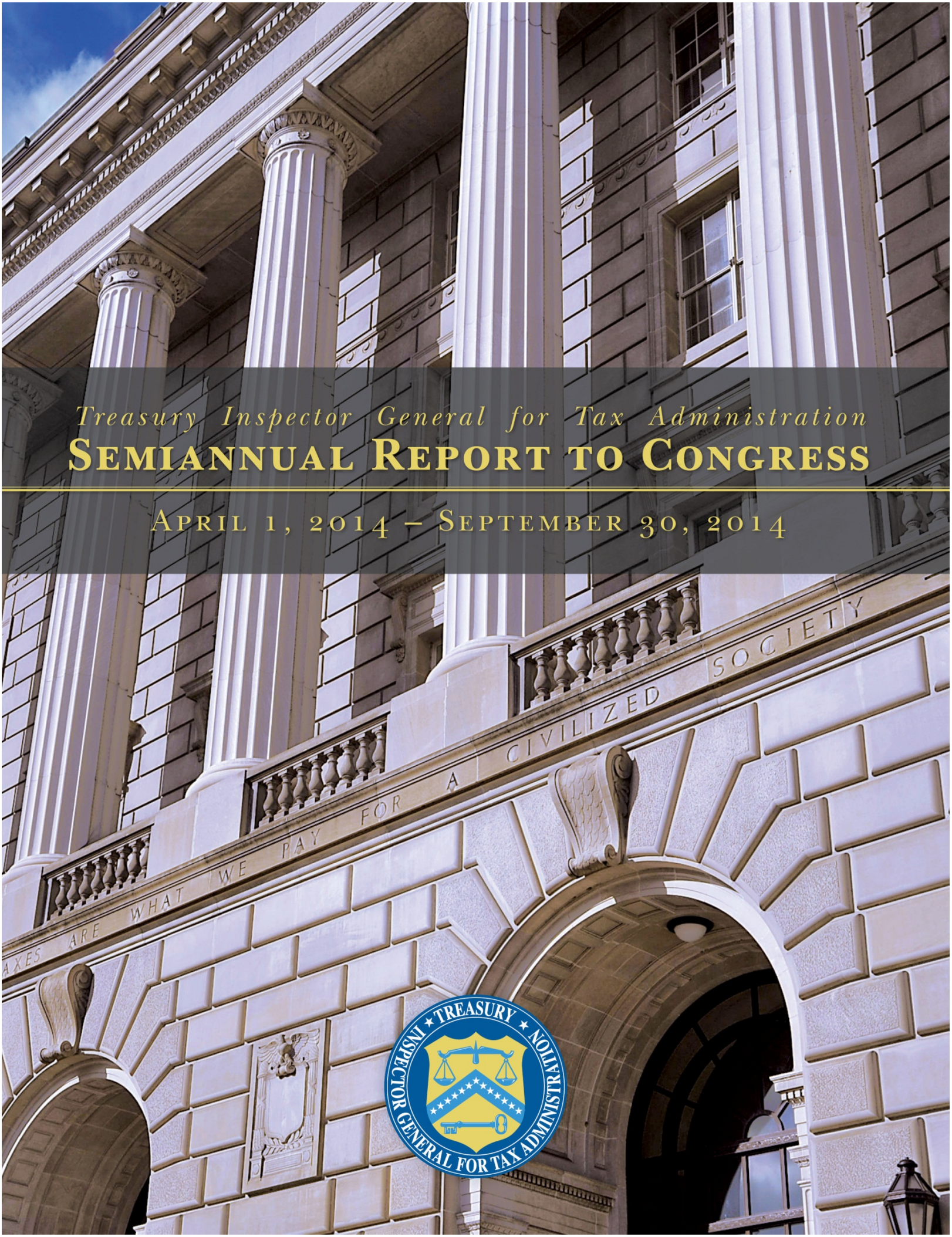


Treasury Inspector General for Tax Administration

Semiannual Report to Congress

April 1, 2014 – September 30, 2014

Treasury Inspector General for Tax Administration (TIGTA)

TIGTA's Vision

Maintain a highly skilled, proactive, and diverse Inspector General organization dedicated to working in a collaborative environment with key stakeholders to foster and promote fair tax administration.

TIGTA's Mission

Provide quality professional audit, investigative, and inspections and evaluations services that promote integrity, economy, and efficiency in the administration of the Nation's tax system.

TIGTA's Core Values

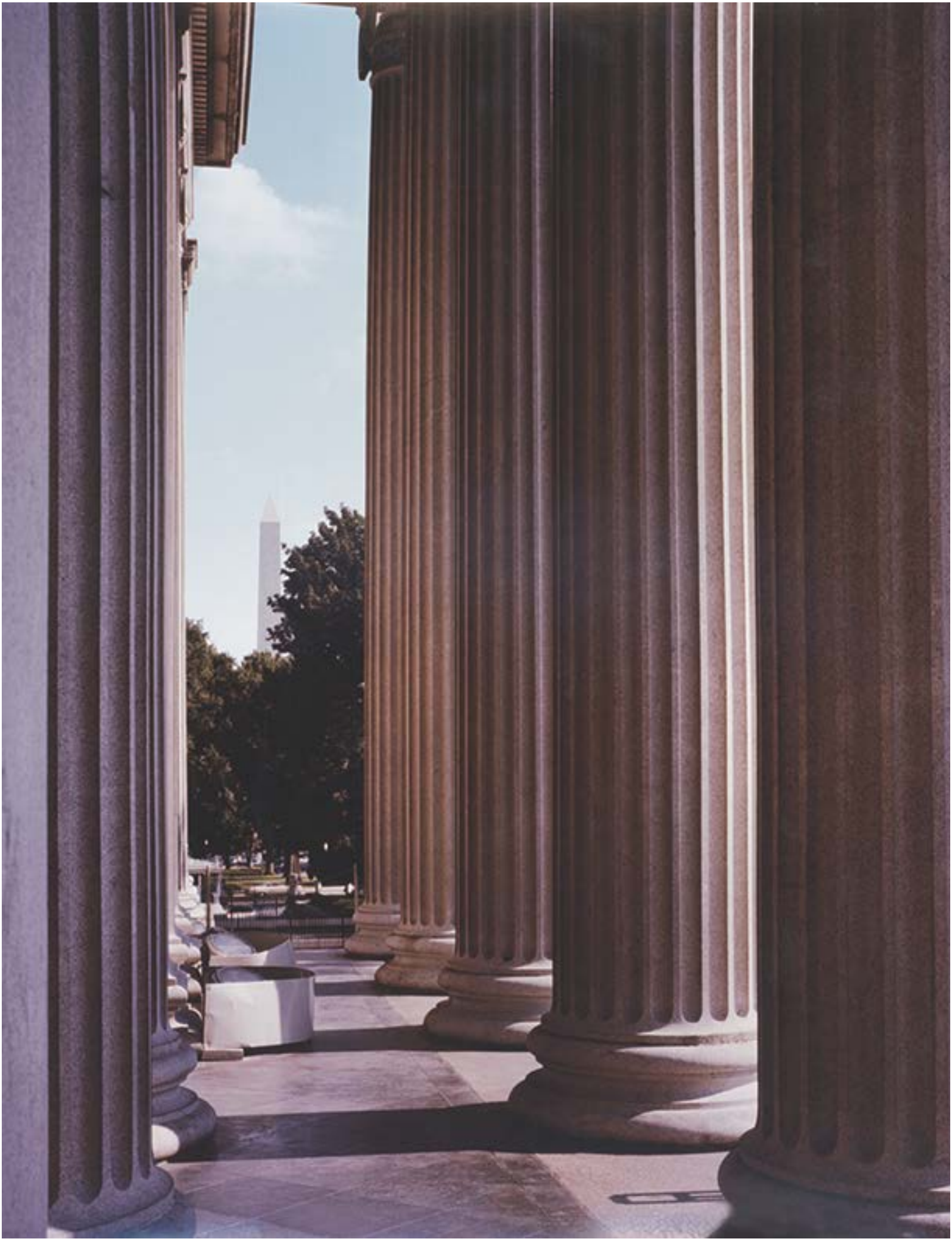
Integrity – Maintain the highest professional standards of integrity, personal responsibility, independence, objectivity, and operational excellence in pursuit of TIGTA's mission.

Organizational Innovation – Model innovative practices in organizational structure, operational programs and processes, audit, investigative, and inspection and evaluation methodologies, and the application of advanced information technology.

Communication – Achieve effective organizational approaches and solutions by encouraging open, honest, and respectful communication among TIGTA's executives, employees, offices, and functions, as well as between TIGTA and its external stakeholders.

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

Commitment to Collaboration – Establish and maintain collaborative and professional relationships with other Government and non-Government stakeholders.



Inspector General's Message to Congress

It is once again an honor to submit this Semiannual Report to Congress, summarizing the accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of April 1, 2014 to September 30, 2014. This report highlights TIGTA's most notable audits, investigations, and inspections and evaluations completed during the reporting period, as we continue our efforts to protect the integrity of Federal tax administration. During this reporting period, TIGTA's Office of Audit has completed 75 audits, and its Office of Investigations has completed 1,636 investigations. In sum, TIGTA's combined audit and investigative efforts have recovered, protected, and identified monetary benefits totaling $16.6 billion.

We remain steadfast in our efforts to ensure that the Internal Revenue Service (IRS) carries out its responsibilities to the American taxpayer fairly and efficiently. One of the most critical challenges currently confronting the IRS is the implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (Affordable Care Act or ACA), which represents the largest set of tax law changes in more than 20 years. Accordingly, this Semiannual Report contains a special section describing our audit work this reporting period assessing the IRS's initial efforts to implement the ACA's tax provisions.

For instance, one TIGTA audit examined the adequacy of safeguards to protect the confidentiality of Federal tax information that the IRS sends to Federal and State Insurance Exchanges. The Federal tax information helps Insurance Exchanges to validate an individual's eligibility for health insurance coverage and to set the maximum amount of advance premium tax credit, if any, that may be provided.

Another report assesses the IRS's efforts to ensure the accurate reporting and payment of the ACA's medical device excise tax. In this audit, we identified discrepancies totaling almost $117.8 million between the amount of the medical device excise tax captured by the IRS and the amount TIGTA calculated to be due.

Moving forward, as the law's implementation involves and requires the cooperation of a number of Federal agencies that must develop and implement new programs, our work on ACA implementation will also be coordinated with other Inspectors General. Both the Department of Health and Human Services (HHS) Office of the Inspector General (OIG) and TIGTA have developed a multi-year strategy to assess ACA implementation. We plan to closely coordinate, or perform work jointly, with the HHS OIG to review those processes that are highly interdependent between HHS and the IRS.

Meanwhile, these pages also reflect our work auditing other critical areas of tax administration. This report presents our latest findings on the security of taxpayer data and the IRS's customer service efforts, for example. Other areas we reviewed include international and domestic collections, and the IRS's modernization.

TIGTA's Office of Investigations (OI) continues its efforts to protect the integrity of the Federal tax system, including the rapid escalation of a telephone scam that involves criminals impersonating IRS employees. As of this writing, TIGTA has received reports of over 154,000 contacts by individuals posing as IRS employees in an attempt to extort money; reported taxpayer monetary losses to these criminals exceeded $9 million.

Impersonation of the IRS falls within the investigative jurisdiction of TIGTA, and TIGTA is conducting a thorough investigation into this matter. In the meantime, all taxpayers should remain vigilant to avoid becoming a victim of this scam. The most effective way for individuals to report suspicious contacts and losses is by filling out the "IRS Impersonation Scam" form on TIGTA's website, www.treasury.gov/tigta.

OI is also persisting in its efforts to protect taxpayers from threats within the system, notably corrupt IRS employees. During this reporting period, as a result of TIGTA's investigative efforts, one IRS employee pled guilty to charges of filing false tax returns and another was sentenced for conspiracy to commit passport fraud.

I look forward to working with Congress, the Administration, the IRS, and all of TIGTA's employees as we work tirelessly to ensure that our Nation's tax administration system is efficient, effective, and fair.

Sincerely,

J. Russell George
Inspector General

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TIGTA's Profile

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

TIGTA oversees 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 Department of the Treasury.

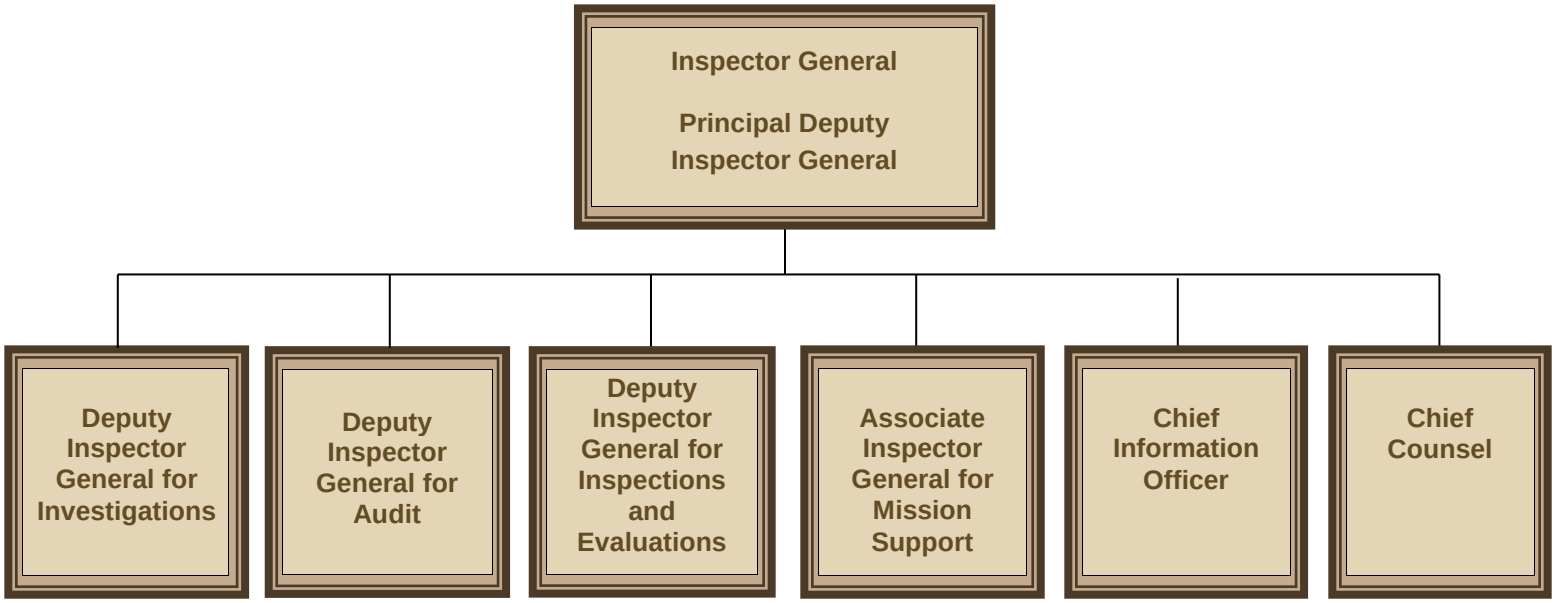
TIGTA's organizational structure is comprised of the Office of the Inspector General and six functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; the Office of Information Technology; and the Office of Chief Counsel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

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

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** the economy and efficiency in the administration of tax laws.
- **Prevent** and detect waste, fraud, and abuse in IRS programs and operations.
- **Inform** the Secretary of the Treasury and Congress of problems and deficiencies identified and of the progress made in resolving them.

Organizational Structure



Authorities

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

[1] 5 U.S.C. § 3.
[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:

IRS Employee Sentenced for Orchestrating Identity Theft Refund Scheme Using Taxpayer Records

On June 5, 2014, in the Northern District of Georgia, IRS Tax Examining Technician[3] Missy Sledge was sentenced for aggravated identity theft and mail fraud. Sledge pled guilty to the offenses in February 2014.[4]

According to court documents, as part of her official IRS duties, Sledge had access to taxpayers' personal identifiers, including names, Social Security Numbers (SSN), dates of birth, and addresses, as well as information about tax professionals. Sledge used this access in furtherance of an identity theft scheme that included the filing of fraudulent tax returns and the subsequent theft of refunds.[5] With information from IRS computer systems, Sledge provided taxpayers' personal information to her coconspirators.[6]

It was part of the scheme that others would file fraudulent tax returns with the IRS, using the stolen identities of various taxpayers. Sledge used her IRS computer to review the fraudulent returns submitted, to determine if she could release fraudulent tax refunds from those returns. Sledge would release the fraudulent refund, once identified, for payment. Sledge further assisted those involved in the scheme to impersonate either the taxpayers or their authorized representatives, so that the taxpayers' addresses of record could be changed to a fictitious address accessible to Sledge or others involved in the scheme. Sledge then caused the IRS to mail refunds in the taxpayers' names to the fictitious address, to be intercepted or stolen.[7]

On May 21, 2013, an individual was arrested in Texas and was found to be in possession of an IRS refund check in the amount of $595,901.97, along with three pages of internal IRS documents containing tax information for one of the identity theft victims. A review of IRS systems revealed Sledge made accesses to this taxpayer's account, as well as to the taxpayer's accountant's information, on seven dates between February 2013 and May 2013. The victim was due a large refund because she had overpaid her estimated taxes. One of the perpetrators used the accountant's information and Government-issued representative number to impersonate the tax practitioner in a telephone communication with the IRS on

[3] N.D. Ga. Crim. Compl. filed Nov. 25, 2013.
[4] N.D. Ga. Judgment filed June 5, 2014.
[5] N.D. Ga. Indict. filed Dec. 10, 2013.
[6] N.D. Ga. Crim. Compl. filed Nov. 25, 2013.
[7] N.D. Ga. Indict. filed Dec. 10, 2013.

March 5, 2013, in order to change the address on record from a North Carolina address to an address in Atlanta, Georgia. Sledge then released the $595,901.97 refund to the fictitious address.[8]

On May 23, 2013, an e-mail was sent from Sledge's IRS e-mail account containing the personal information for two other taxpayers, a married couple. The e-mail included the taxpayers' names, SSNs, dates of birth, address, and tax preparer's information. A subsequent telephonic address change was made, changing the address of record from the taxpayers' Massachusetts address to a Georgia address, and a refund in the amount of $961,779.33 was paid on or about May 31, 2013. Review of the IRS systems identified accesses to the taxpayers' accounts by Sledge on May 23, 2013, and again in June 2013.[9]

Multiple communications on dates between May 2013 and September 2013 were identified to and from Sledge's IRS e-mail account that relayed taxpayer information and/or internal IRS documents for up to 56 taxpayers to Sledge's coconspirators. Text messages containing taxpayer information and discussing the theft of Government funds were also identified. In one message that she sent to an individual she was trying to recruit as a coconspirator, Sledge told the recipient that she had a business proposition for him and indicated she had a plan to change the addresses so checks would come to him. Sledge offered to split the scheme proceeds three or four ways, depending on the number of people involved. Sledge said she would give him all the information needed to get the address changed without any problems or questions and said, "All of this money is just sitting here for the taking."[10]

Sledge was sentenced to 57-months imprisonment, followed by five years of supervised release. Sledge was also ordered to pay restitution to the IRS in the amount of $501,048.40.[11]

Former Orthodontist Sentenced for Interference With the IRS and False Claims for Refunds

On April 21, 2014, in the Northern District of New York, Glenn R. Unger was sentenced for obstructing and impeding the IRS, submitting false claims for refunds, tax evasion, and submitting fictitious obligations.[12] A jury found Unger guilty of the offenses on October 21, 2013.[13]

According to court documents, Unger, a former orthodontist, corruptly obstructed and impeded the due administration of Internal Revenue laws through fraudulent and

[8] N.D. Ga. Crim. Compl. filed Nov. 25, 2013.
[9] *Id*.
[10] *Id.*
[11] N.D. Ga. Judgment filed June 5, 2014.
[12] N.D. N.Y. Judgment filed Apr. 24, 2014.
[13] N.D. N.Y. Verdict filed Oct. 21, 2013.

obstructive acts from at least 2007 through 2011. Unger filed 14 false and fraudulent claims with the IRS requesting refunds totaling approximately $36 million. One of the primary tax schemes Unger used was the 1099-Original Issue Discount (OID) Scheme.[14] The IRS notified Unger in several letters that his returns were frivolous and subject to a $5,000 penalty per frivolous return. Subsequently, the IRS assessed multiple frivolous filing penalties against Unger. Additionally, the IRS assessed Unger for taxes he owed on income for Tax Years (TY) 2005 and 2006.[15]

When Unger was contacted by the IRS Revenue Officer assigned to collect the taxes due and owing, he submitted documentation with constitutional arguments meant to impede and impair the IRS from collecting his taxes due. After unsuccessful attempts to collect the taxes, penalties, and interest from Unger, the IRS filed a tax lien against him in the amount of $116,410.43.[16] Unger subsequently filed false documentation with the Saratoga County Clerk's Office, specifically a "Presentment by Notary Public of Certificate for Filing," attempting to release the Federal tax lien and indicating the matter had been resolved.[17]

From the late 1990s through at least the middle of 2006, Unger practiced as an orthodontist at Columbia County Orthodontics in Chatham, New York. In the spring of 2006, Unger approached a nearby orthodontist and requested that he complete the orthodontic care for approximately 80 of Unger's patients. Unger failed to reveal that all of those patients had prepaid for their services. After the orthodontist requested payment for the work, Unger attempted to pay off the debt with a false "Secured Promissory Note." The note was for the amount of $200,000 and claimed that it would pay the Secretary of the Treasury the full amount, and that the same amount would then be paid to the orthodontist as the "fiduciary" on the note. When the orthodontist attempted to deposit the note at his bank, he found it was worthless. Unger also filed the fictitious promissory note, along with other documents, with the Albany County Clerk's Office in an apparent attempt to have a public filing which reflected the purported payment to the other orthodontist.[18]

Unger was sentenced to a total term of imprisonment of 97 months, followed by three years of supervised release. Unger was ordered to pay $200,000 in restitution and all taxes, penalties, and interest due to the IRS.

[14] 1099-OID schemes involve the filing of fake information returns, such as Form 1099 OID, to justify false refund claims on corresponding tax returns.
[15] N.D. N.Y. United States Trial Memorandum filed Oct. 2, 2013.
[16] *Id.*
[17] N.D. N.Y. Indict. filed Dec. 19, 2012.
[18] N.D. N.Y. United States Trial Memorandum filed Oct. 2, 2013.

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

Amended Tax Return Filing and Processing Needs to Be Modernized to Reduce Erroneous Refunds, Processing Costs, and Taxpayer Burden

Taxpayers can file Form 1040X, *Amended U.S. Individual Income Tax Return*, to correct previously filed income tax returns. Claims filed on an amended tax return can relate to any item of income, loss, exclusion, deduction, or credit and may result in a tax refund. Our review of a statistical sample of 259 amended tax returns claiming tax refunds of $500 or more in Fiscal Year (FY) 2012 identified 44 tax returns (17 percent) for which the IRS had issued potentially erroneous tax refunds totaling $103,270. The errors we identified on the 44 tax returns included mathematical errors by both taxpayers and the IRS employees responsible for processing the amended tax returns, as well as claims for deductions and/or credits for which the IRS did not receive third-party information substantiating the validity of the deduction or credit claimed.

The verification processes used for original tax returns are not used to process amended tax returns. As a result, the IRS did not identify the errors associated with the 44 tax returns that contained potentially erroneous claims for refunds. Additionally, the IRS requires amended tax returns to be filed on paper. Electronically filed (e-filed) returns benefit the IRS and taxpayers because both processing costs and error rates are lower than those for paper returns.

Based on the sample results, TIGTA estimates that the IRS may have issued more than $439 million in potentially erroneous tax refunds claimed on 187,421 amended returns in FY 2012. As such, the IRS could issue more than $2.1 billion in potentially erroneous tax refunds claimed on amended tax returns over the next five years. Additionally, TIGTA estimates that the IRS could have potentially saved more than $17 million in processing costs during FY 2012 if it had allowed taxpayers to e-file their amended tax returns.

TIGTA recommended that the IRS revise Form 1040 to enable taxpayers to amend their original tax returns using this form, expand e-filing to include amended tax returns, and conduct a review of the 44 amended tax returns identified for which potentially erroneous refunds were issued, in order to determine the proper tax liability.

In their response to the report, IRS officials agreed with two of the three recommendations and disagreed with one. Although the IRS disagreed with the recommendation to revise Form 1040, it plans to consider changing the format and appearance of Form 1040X. The IRS also plans to consider e-filing of amended returns, based on available funding and resources. The IRS reviewed the 44 potentially erroneous refund returns and generally agreed that procedures were not correctly followed for those identified as having processing errors.
Reference No. 2014-40-028

Declining Resources Have Contributed to Unfavorable Trends in Several Key Automated Collection System Business Results

The Automated Collection System (ACS) has an integral role in the IRS's efforts to collect unpaid taxes and secure unfiled tax returns. The ACS is responsible for answering incoming taxpayer calls and working the inventory of taxpayer delinquent accounts. The ACS's work with delinquent taxpayers is a major factor in determining the IRS's overall success in meeting the Collection Program's mission.

The IRS places a high priority on answering incoming telephone calls because it believes that communication with taxpayers helps resolve delinquencies and brings taxpayers into compliance with their tax obligations. Since FY 2010, 39 percent of the ACS workforce has been lost due to attrition or reassignment. Because resources are needed to answer telephone calls, fewer resources are available to work inventory. However, the IRS's overall collection inventory practices were not changed and new inventory continued to be sent to the ACS without interruption, even though inventory was infrequently worked.

The combination of fewer resources and the business need to continue answering telephone calls has contributed to unfavorable trends in several ACS business results over the past four years. Our review of ACS business results for FYs 2010 through 2013 determined that: the inventory is growing, since new inventory is outpacing case closures; the inventory is aging, since the inventory is taking longer to close; revenue has declined; more cases have been closed as Currently Not Collectible; and more cases have been transferred to the Queue,[19] which further reduces the probability of collection.

We also determined that fewer enforcement actions (liens and levies) were taken. To collect delinquent taxes, ACS contact representatives file liens against taxpayers' assets (such as property) and issue levies against taxpayers' wages and bank accounts. In April 2011, the IRS changed its procedures for processing ACS systemic lien determinations. A lien determination is the decision-making process on whether or not to file a Notice of Federal Tax Lien to protect the Government's interest. ACS management changed the criterion for which a lien determination is required. Since the procedural change, as of December 2013, balance due accounts for 118,116 taxpayers had been transferred to the Queue without a Notice of Federal Tax Lien to protect the Government's interest on more than $2.8 billion in tax liabilities. Many of these cases will remain in the Queue and will never be worked. IRS management did not study the impact this policy change would have on tax administration before implementing it.

TIGTA recommended that the IRS: re-examine the ACS's role in the collection workflow process, including inventory delivery to the ACS as well as case retention criteria, and align ACS resources accordingly; request a study to determine the impact

[19] An automated holding file for unassigned inventory of delinquent cases for which the collection function does not have enough resources to immediately assign for contact.

of the policy change to not require Notice of Federal Tax Lien determinations on certain unpaid balances; and establish performance metrics for ACS call data to measure the impact that answering taxpayer calls has on compliance business results.

IRS officials agreed with the recommendations and plan to take corrective action.
Reference No. 2014-30-080

Promote the Economy, Efficiency, and Effectiveness of Tax Administration

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

The IRS's implementation of audit recommendations results in:

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

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

Audit Emphasis Areas for April 2014 Through September 2014

- Security for Taxpayer Data and Employees
- Implementing the Affordable Care Act and Other Tax Law Changes
- Tax Compliance Initiatives
- Modernization
- Providing Quality Taxpayer Service Operations
- Achieving Program Efficiencies and Cost Savings

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

Security for Taxpayer Data and Employees

The IRS faces the daunting task of securing its massive computer systems against the growing threat of cyberattacks. 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.

Some Contractor Personnel Without Background Investigations Had Access to Taxpayer Data and Other Sensitive Information

IRS policy requires contractor personnel to undergo background investigations if they will have or require access to Sensitive But Unclassified (SBU) information, including taxpayer information. Taxpayer and other SBU information may be at risk due to a lack of background investigation requirements in five contracts. For example, in one printing services contract, the IRS provided the contractor with a compact disk containing 1.4 million taxpayer names, addresses, and SSNs; however, none of the contractor personnel who worked on this contract were subject to a background investigation.

In addition, TIGTA found 12 contracts for which IRS program and procurement office staff correctly determined that contractor personnel required background investigations because they would have had access to SBU information. However, not all contractor personnel underwent an interim access approval or had a final background investigation prior to beginning work on the contract.

Further, TIGTA identified 20 contracts for which the IRS did not require all individuals with access to SBU information to sign a nondisclosure agreement. The purpose of the nondisclosure agreements is to make contractor personnel aware of their responsibilities for maintaining the confidentiality of taxpayer information and to deter noncompliance by explaining consequences related to violations. Without these signed agreements, the IRS may be unable to hold contractors accountable for failure to properly use and protect SBU information. In June 2013, after the period covered by our audit, the IRS issued more explicit guidance indicating that all contractor personnel who require or have access to SBU information shall complete, sign, and submit an approved nondisclosure agreement.

TIGTA recommended that the IRS:

- Establish clear policies and procedures to assure that the types of service contracts identified in this review have appropriate security provisions and that associated contractor personnel have interim access approvals or final background investigations prior to beginning work on the contract;
- Evaluate and, if feasible, implement enhanced security requirements policies and procedures for emergency procurements;
- Train program office and procurement staff on contractor security requirements and the necessity for contractor personnel to sign nondisclosure agreements prior to working on a contract;
- Consider implementing a policy to ensure that contracts include requirements for contractors to provide a level of detail in their invoices that allows for proper receipt and acceptance; and
- Work with the Department of the Treasury Security Office to review the waiver currently in place that exempts expert witnesses from the background

investigations and determine if the waiver is still appropriate in the current security environment.

IRS management agreed with four of the five recommendations. The IRS disagreed with the recommendation regarding the waiver and believes its current review of employee qualifications is sufficient to address any related security risks. TIGTA believes that waiving the requirement for a background investigation presents a security risk.
Reference No. 2014-10-037

Implementing the Affordable Care Act and Other Tax Law Changes

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

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

Key Tax Provisions Were Implemented Correctly for the 2014 Filing Season

The closure of Government operations between October 1 and October 16, 2013 reduced the time the IRS had to implement tax law changes and bring tax return processing systems online. As a result, the IRS delayed the start of the filing season from January 21 to January 31, 2014.

As of May 2, 2014, the IRS had received more than 135.5 million tax returns. Of those, more than 117 million (86.4 percent) were e-filed and nearly 18.5 million (13.6 percent) were filed on paper. The e-file volume was 2.9 percent higher than the volume for the same period in the 2013 Filing Season. The IRS had issued more than 99.9 million refunds totaling nearly $269.5 billion as of May 2, 2014.

The IRS reported that it had identified and confirmed 236,313 fraudulent tax returns involving identity theft as of April 30, 2014. Overall, the IRS identified 268,233 tax returns with more than $1.48 billion claimed in fraudulent refunds and prevented the issuance of more than $1.32 billion (88.9 percent) of the fraudulent refunds it identified. The IRS also identified 63,087 potentially fraudulent tax returns filed with prisoner SSNs for screening.

Our review of those tax provisions that created additional taxes or modified existing tax provisions for the 2014 Filing Season found that the key provisions were correctly implemented. However, we did identify a problem in which some taxpayers' nonrefundable credit claims were being improperly reduced due to IRS employee error.

The IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week. However, the IRS did not always ensure that these self-help tools were updated with the most current tax information before the start of the filing season. In addition, the number of taxpayers assisted at IRS Taxpayer Assistance Centers and over the telephone continues to decline.

Finally, TIGTA found that some taxpayers and tax return preparers continue to misuse the split refund option to direct a portion of a tax refund to a preparer for payment of services. TIGTA also found that some paid tax return preparers continue to be noncompliant with the Earned Income Tax Credit (EITC) due diligence requirements, but the number has decreased substantially when compared to previous filing seasons.

TIGTA recommended that the IRS:

- Review the tax returns in which it appears that the split refund option was used inappropriately to direct a portion of the tax refund to the tax return preparer;
- Implement computer programming to systemically ensure that taxpayers' claims for nonrefundable credits are allowed when applicable;
- Ensure that EITC due diligence penalties are assessed on all paid tax return preparers who do not comply with the due diligence requirements; and
- Ensure that YouTube videos are updated with the most current tax information.

IRS management agreed with or partially agreed with three of the four recommendations. While the IRS agreed to implement corrective action regarding the EITC due diligence penalties, it did not agree to pursue due diligence penalties on those preparers who provide a Form 8867 that is incomplete. Additionally, the IRS did not agree to take corrective action regarding the computer programming. The IRS indicated that computer programming is subject to the availability of limited funding; hence, its completion cannot be reasonably assured.
Reference No. 2014-40-077

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 Gap[20] remain the focus of many IRS initiatives. Although the IRS reported that the Tax Gap is caused by both unintentional taxpayer errors and willful tax evasion or cheating, it does not have sufficient data to distinguish the amounts attributable to each. The IRS also reported that a meaningful improvement in the voluntary compliance rate requires a long-term, focused effort involving taxpayer service, modernization, and enforcement.

[20] 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.

Some Tax-Exempt Organizations Have Substantial Delinquent Payroll Taxes

While tax-exempt organizations are generally not required to pay income taxes, they are generally required to pay other taxes, such as payroll taxes. IRS records indicate that, while a majority of tax-exempt organizations pay their Federal taxes, there is a small percentage that are not paying their taxes. More than 64,200 tax-exempt organizations (3.8 percent) owed nearly $875 million of Federal tax debt as of June 16, 2012. While some organizations owed minor amounts, approximately 1,200 tax-exempt organizations owed more than $100,000 each. Unpaid taxes were often associated with multiple tax periods. For example, nine organizations each had Federal tax debt spanning 10 or more years that collectively totaled more than $5.5 million.

TIGTA reviewed 25 organizations—each of which was tax-exempt under I.R.C. § 501(c)(3)—that appeared to be among the worst examples involving unpaid Federal tax (but not representative of the population of all tax-exempt organizations with unpaid tax). These organizations generally received Government payments of $148 million over a three-year period, including Medicare, Medicaid, and Government grants; had annual revenue of almost $167 million; and owned assets of more than $97 million, but continually failed to remit payroll and other taxes, including penalties and interest, totaling more than $25 million.

The Internal Revenue Code does not authorize the IRS to revoke tax-exempt status based on an organization's failure to pay payroll taxes, and most of the organizations that TIGTA reviewed were still recognized by the IRS as tax-exempt as of May 2013. The Exempt Organizations function had completed several examinations, but was generally not aware of the behavior of the organizations because another IRS business unit is responsible for collecting the delinquent tax debt.

TIGTA recommended that the IRS:

- Determine what information or systems are available from collection cases that would be useful in identifying tax-exempt organizations potentially abusing the tax system;
- Periodically complete analyses to identify for examination (if necessary) tax-exempt organizations that potentially abuse their tax-exempt status; and
- Work with the Department of the Treasury to evaluate whether a legislative proposal is warranted to strengthen the IRS's ability to enforce payroll tax noncompliance by tax-exempt organizations.

IRS management agreed to apprise the Department of the Treasury of our third recommendation, but disagreed with the first two recommendations. TIGTA believes that the Exempt Organizations function should do more to oversee tax-exempt organizations that repeatedly fail to remit payroll taxes, which include Medicare, Social Security, and Federal income taxes withheld from employees. This is particularly

important since these organizations have the benefit of charitable status, and the Government has paid them millions of dollars of Medicare and Medicaid funds. **Reference No. 2014-10-012**

Expansion of the Delinquent Return Refund Hold Program Could Improve Filing Compliance and Help Reduce the Tax Gap

The IRS has the authority to delay issuing income tax refunds for up to six months while it investigates return delinquencies from other tax years. By holding refunds, the IRS encourages taxpayers to take action and resolve their delinquent filing obligations earlier. In Calendar Year (CY) 2012, the IRS's Delinquent Return Refund Hold Program (Program) collected nearly $242 million, which was applied to balances due on delinquent returns.

TIGTA compared delinquent return data for a population of refund hold cases with a certain dollar amount above the threshold criteria to a population of cases with a certain dollar amount below the threshold criteria (*i.e.,* refunds were not held for these cases). This comparison shows that the Program significantly increased taxpayer filing compliance by successfully prompting taxpayers to resolve return delinquencies from previous tax years. Specifically, 88 percent of delinquencies associated with the held refunds were subsequently resolved, compared with less than one percent of delinquencies associated with cases for which refunds were not held.

In a prior report,[21] TIGTA recommended that the IRS re-evaluate the administrative dollar tolerance for holding refunds, to determine whether the dollar threshold could be reset at a lower level. Upon evaluation, the IRS proposed lowering the Program threshold and determined that a tolerance change could have resulted in approximately 50,000 additional refund returns held during FY 2009, adding potential revenue of $21 million. In the current budget environment, lowering the threshold and expanding the Program represents an opportunity to increase both taxpayer filing compliance and revenue dollars at a lower cost than traditional collection programs, such as assigning cases to revenue officers in the field. Further, such efforts could have a direct positive impact on lowering the Tax Gap.

TIGTA recommended that the IRS consider opportunities to expand the use of the Program as resources become available, and that it develop specific performance measures to compare actual results with management's goal to improve filing compliance.

The IRS agreed with the recommendations. However, management did not commit to a specific corrective action plan to expand the Program and agreed only to explore the development of performance measures, with implementation dependent on the availability of resources. **Reference No. 2014-30-023**

[21] TIGTA, Ref. No, 2004-30-127, *The Return Delinquency Notice Program Could Be Used More Effectively to Promote Filing Compliance and Reduce the Tax Gap* (Aug. 2004).

Additional Actions Are Needed to Ensure That Improper Fuel Tax Credit Claims Are Disallowed

Taxpayers are allowed to claim a fuel tax credit on their individual tax returns to offset the amount of any Federal taxes paid on fuel used for off-highway business purposes, such as farming or commercial fishing. In Processing Years (PY) 2011 through 2013, approximately $694 million in fuel tax credits were claimed by individual taxpayers. A significant number of claims for these credits are potentially improper. For several years, the IRS has included fuel tax credit scams on its annual list of the "Dirty Dozen" tax scams.

Our evaluation of data from PYs 2011 through 2013 indicates that a total of 4,004 Forms 1040, *U.S. Individual Income Tax Return*, claiming a fuel tax credit at or above the threshold amount for manual screening were not properly coded for review, and credits totaling approximately $47.2 million may have been erroneously released to taxpayers. Furthermore, there were 198,395 returns with fuel tax credit claims below the manual screening threshold amount that were questionable because they did not report any business income to support the business use of the fuel. These lower claim amounts are generally not selected for review under current IRS policy. As a result, approximately $120.5 million in questionable fuel tax credit claims may have been allowed in the three years reviewed.

TIGTA's evaluation indicates that a combination of factors caused the IRS to release the questionable claims and that the IRS can take actions at the processing and examination levels to better ensure that fuel tax credit claims are refunded only when appropriate. Without improved controls and processes to prevent the issuance of questionable refunds, millions of dollars in Federal tax revenue will be lost each year.

TIGTA recommended that the IRS:

- Use systemic controls to ensure that all Forms 1040 filed claiming a fuel tax credit at the threshold amount or above are manually reviewed prior to refund issuance;
- Consider lowering the systemic threshold amount for selecting and reviewing Forms 1040 that claim a fuel tax credit but report only wage income; and
- Provide managers and examiners with additional training and procedures to determine acceptable supporting documentation for fuel tax credit claims.

IRS officials agreed with the recommendations and stated that they have taken or plan to take appropriate corrective action.
Reference No. 2014-30-067

Modernization

The Business Systems Modernization Program is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system. The IRS's modernization efforts are expected to provide the foundation for implementing a real-time tax system, reducing improper payments and fraudulent refunds, and providing the technology infrastructure and architecture that will enable taxpayers and other stakeholders to securely access tax account information.

Customer Account Data Engine 2 Database Validation Is Progressing; However, Data Coverage, Data Defect Reporting, and Documentation Need Improvement

There is a significant effort underway to ensure the accuracy of individual taxpayer account data on the Customer Account Data Engine 2 (CADE 2) database. This effort is an important part of the implementation of the CADE 2 database because inaccurate data could delay this database from becoming the authoritative source of data, thereby increasing the cost of implementation.

Data validation efforts were efficiently performed due to adequate planning and resource coordination. The IRS identified the data fields to be verified and the manner in which each would be validated. While a large percentage of the data fields are validated with automated data compare tools, there is no documented plan to ensure that data fields validated using other means are validated periodically.

The IRS developed a Data Quality Scorecard to track progress in meeting data quality success criteria. However, the processes needed to effectively perform these activities were not sufficiently documented. As a result, some of the metrics were initially reported incorrectly.

TIGTA recommended that:

- Data validation test results be maintained and available for data fields not validated by automated data compare tools;
- Data validation plans include periodically validating the data fields that are not validated with automated data compare tools;
- All data sampling processes be completely documented;
- Details needed for determining the Data Quality Scorecard metrics be completely documented;
- All documentation needed to verify the data in the Data Quality Scorecard be stored for future reference;
- Automated data compare tools identify and report on data fields, not field identifier numbers; and
- Automated data compare tool reports clearly identify counters and align with data validation metrics.

The IRS agreed with six of the report's seven recommendations. The IRS disagreed with the recommendation to ensure that automated data compare tools identify and report on data fields, not field identifier numbers.
Reference No. 2014-20-063

The Information Reporting and Document Matching Case Management System Could Not Be Deployed

The Information Reporting and Document Matching (IRDM) legislation requires third-party payors to submit information returns to the IRS showing the amount of revenue earned by businesses. The legislation requires these payors to report information to the IRS for three issues that contribute to the Tax Gap. The three transaction types involve merchant payment cards, cost basis for securities, and certain Government payments.

The IRDM Case Management System requirements were not sufficient for the successful deployment of the System. User Acceptance Testing generated a high number of problem tickets, 50 percent of which were to clarify requirements and business rules. After a year of User Acceptance Testing, IRS officials acknowledged that the IRDM Case Management System could not effectively process business cases containing underreported income and could not be deployed into the IRS production environment.

In the absence of an IRDM Case Management System, thousands of business taxpayer cases containing underreported income could not be processed. The IRS spent approximately $8.6 million from FYs 2009 through 2013 on developing the IRDM Case Management System. Unprocessed 2011 cases could have potentially resulted in assessed taxes of $54.9 million.

TIGTA recommended that the IRS:

- Ensure that requirements management processes for future IRDM Case Management System development are performed in accordance with established guidelines;
- Ensure that IRDM Case Management System requirements are completely identified; and
- Assess Case Management capabilities and act promptly to implement an IRDM case management application to avoid losing significant tax assessment revenue in the future.

IRS management agreed with two of the recommendations. The IRS partially agreed with the third recommendation stating that, while it is currently determining how Case Management capabilities can meet business needs, significant budget constraints could affect future work on the IRDM Case Management System.
Reference Number: 2014-20-088

A Service-Wide Strategy Is Needed to Increase Business Tax Return Electronic Filing

While e-filing of business tax returns continues to increase, the e-filing rate still lags behind that of individual tax returns. Since RRA 98 went into effect, the IRS has focused most of its efforts on increasing the e-filing rate of individual tax returns. These efforts have resulted in considerable growth in the e-filing of individual tax returns, which was at an 81 percent rate in PY 2012, compared to a 41 percent rate for business tax returns in TY 2012.

Employment tax returns provide the most significant opportunity for growth in business e-filing. For TY 2012, more than 21.1 million employment tax returns (71 percent) were paper-filed. Stakeholders have cited a burdensome electronic signature process as one of the barriers to e-filing employment tax returns.

Processes have not been established to consistently ensure compliance with e-filing requirements and assessment of penalties. A Federal mandate was enacted in January 2012 requiring paid preparers who file 11 or more individual returns to e-file. A similar requirement for paid preparers who file business returns would result in an increase of e-filed business returns. Our review of TY 2012 business tax returns found that the IRS could increase its e-filing rate by 23.8 percent and reduce paper return processing costs by more than $17 million annually if a similar e-filing requirement applied to paid preparers filing business tax returns.

TIGTA recommended that the IRS:

- Develop a business tax return e-filing Service-wide strategy;
- Continue to expand the types of business tax returns that can be e-filed;
- Evaluate the possibility of providing business filers with the option of Free Fillable Forms;[22]
- Develop a less burdensome electronic signature process for employment tax returns;
- Evaluate the feasibility of using the Electronic Federal Tax Payment System to e-file employment tax returns;
- Develop processes and procedures to consistently identify business filers that are not compliant with the e-filing requirements;
- Develop processes and procedures to consistently assess penalties; and
- Work with the Department of the Treasury to consider a legislative proposal to revise current requirements and/or create new requirements for the e-filing of business tax returns.

IRS officials agreed with five recommendations and disagreed with three recommendations. TIGTA believes it is important to consistently identify all

[22] Fillable forms are online versions of IRS paper forms designed for filers comfortable with preparing their own tax returns. This option allows filers to prepare, print, and e-file a free Federal tax return.

businesses that do not meet the e-filing requirements as outlined in the law and take the necessary actions to ensure future compliance.
Reference No. 2014-40-084

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. Answering taxpayers' questions to assist them in correctly preparing their returns reduces the need to send notices and correspondence when taxpayers make errors. Taxpayer service also reduces unintentional noncompliance and shrinks the need for future collection activity.

The Taxpayer Advocate Service Can Improve the Processing of Systemic Burden Cases

Congress established the Office of the Taxpayer Advocate to assist taxpayers who experience difficulties resolving their tax problems with the IRS or receiving timely and appropriate responses to their inquiries. Many of these taxpayer issues fall under the category of systemic burden, which involves instances in which an IRS process, system, or procedure has not operated as intended.

The Taxpayer Advocate Service (TAS) properly exercised its authorities when taking account-related actions to assist taxpayers. However, TIGTA's review of TAS's handling of a statistical sample of cases found several areas in which taxpayer service could be improved. Specifically, TIGTA found that in more than one-half of the cases TAS personnel bypassed taxpayers' authorized representatives, made unauthorized disclosures to third parties, or made numerous processing errors.

To help keep its workload manageable, TAS has policies in place establishing which types of cases it will accept and which it will refer to other IRS functions. However, TIGTA found that TAS often accepted cases that its policies noted should have been referred to other IRS functions. Accepting these cases increases TAS's workload; nonetheless, it is within TAS's discretion to do so.

TIGTA recommended that the Office of the Taxpayer Advocate:

- Reissue guidance to TAS personnel explaining the requirement to contact only authorized representatives;
- Review the potential unauthorized disclosures of tax return information;
- Provide training regarding its systemic burden case acceptance criteria;
- Consider developing a new or revising an existing criteria code for cases in which TAS exercised its discretion and accepted cases that did not meet its systemic burden acceptance criteria; and
- Reinforce the importance of ensuring that all actions taken on cases are accurate.

IRS management agreed with the recommendations, except for the one regarding developing new or revising existing acceptance case criteria. TAS believes that all cases in the TIGTA sample met TAS case criteria and were appropriately accepted because of the discretion TAS has in accepting cases. TIGTA continues to believe that none of the 23 cases it noted met TAS systemic burden case acceptance criteria or any of the specific exceptions mentioned in management's response to this report.
Reference No: 2014-10-033

Identity Protection Personal Identification Numbers Are Not Provided to All Eligible Taxpayers

To provide relief to victims of identity theft, the IRS began issuing Identity Protection Personal Identification Numbers (IP PIN) to eligible taxpayers in FY 2011. Use of IP PINs provides relief to taxpayers because it allows the IRS to process tax returns without delay and help prevent the misuse of taxpayers' SSNs on fraudulent tax returns.

For PY 2013, the IRS issued over 770,000 IP PIN notices to taxpayers for use in filing their tax returns. This number increased to over 1.2 million for PY 2014. In addition, taxpayers who used their IP PINs to file their tax returns claiming a refund in PY 2013 had their returns processed in a time frame similar to that experienced by the general population of return filers claiming a refund.

Although the program has been expanded, the IRS did not provide IP PINs to 532,637 taxpayers who had identity theft indicators on their tax accounts indicating that the IRS had resolved their cases. The IRS also did not provide IP PINs to 24,628 taxpayers whose Personally Identifiable Information (PII) had been lost, breached, or stolen.

Furthermore, IRS programming errors resulted in 32,274 taxpayers not receiving an IP PIN timely. Other programming errors resulted in the IRS issuing 13,220 IP PIN notices to deceased taxpayers. Sending unnecessary IRS notices to surviving spouses and grieving families adds to their burden. TIGTA also identified that the IP PIN notice issued to 759,446 taxpayers for PY 2013 did not provide taxpayers adequate instructions on how to use the number and the importance of using it on a tax return. For example, the notice did not provide information regarding the effect on the processing of the taxpayer's tax return and the issuance of any refund due if the IP PIN is not used.

TIGTA recommended that the IRS:

- Ensure that IP PINs are consistently issued to victims of identity theft;
- Revise IP PIN issuance criteria to make eligible those taxpayers who have had their PII lost, breached, disclosed, or stolen, and who have authenticated themselves;
- Ensure that finalized IP PIN criteria are provided to the Applications Development function prior to each filing season, and establish a process to ensure that IP PIN criteria are accurately programmed by the Applications Development function; and
- Revise the notice used to issue the IP PIN to clearly detail the effect on the processing

of a recipient's tax return, and issuance of any refund due, when the number is not included on a filed tax return.

IRS management agreed with the recommendations. However, its corrective action for one of the recommendations does not adequately address the concerns raised. The IRS indicates that individuals whose PII was compromised are eligible to receive an IP PIN. However, the IRS website for its online IP PIN application has not been updated to inform these individuals of this option.
Reference No. 2014-40-086

Achieving Program Efficiencies and Cost Savings

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

Controls Over Records Storage Costs Could Be Improved

TIGTA identified two areas in which controls over records storage costs could be improved. Specifically, TIGTA found that, as of June 2013, the IRS had 238,523 cubic feet of records past due for disposal, for which it was obligated to pay ongoing monthly storage costs. As a result, unnecessary costs of over $700,000 were incurred for those records. During our audit, the IRS took a number of actions to address the volume of records past due for disposal and to minimize future costs. The IRS reduced its volume of records past due for disposal from 238,523 cubic feet as of June 2013 to 16,013 cubic feet as of March 2014.

TIGTA also found that the review process and documentation supporting records storage service invoices were not sufficient to reasonably validate the charges billed for the services. For example, TIGTA's review of the invoice certification process from May 2013 through March 2014 did not identify any evidence that the IRS performed a review of supporting information available from the National Archives and Records Administration, or in any way compared the invoiced charges to IRS internal records, prior to certifying the invoices for payment. During this period, the IRS paid the National Archives and Records Administration $30.8 million for storage services. The IRS acknowledged that the approach used to certify these invoices needed improvement and advised TIGTA that it is in the process of addressing this issue by developing additional guidance specifically focused on reviewing and validating invoice charges.

TIGTA recommended that the IRS continue to carefully monitor the volume of records past due for disposal and address any delays in the timely destruction of those records, ensure that established procedures to verify invoice charges are adhered to prior to

certifying payment, and review the validity of the charges TIGTA identified as not supported by required documentation.

IRS management agreed with two of the recommendations, but disagreed with the recommendation that it review the validity of all charges identified as not supported by required documentation. TIGTA believes that the $30.8 million paid for records storage service charges that were not supported by required documentation represents a material amount warranting further review by the IRS.
Reference No. 2014-10-074

The Internal Revenue Service Should Improve Server Software Asset Management and Reduce Costs

Software licenses are legal rights to use software in accordance with terms and conditions specified by the software copyright owner. Our review of 23 server software products revealed that the IRS is not adequately managing server software licenses. The IRS does not have enterprise-wide or local policies, procedures, and requirements for managing server software licenses and does not have a centralized, enterprise-wide organizational structure for managing server software licenses.

Additionally, the IRS does not have an enterprise-wide inventory of license purchase and deployment data on server-based software, or any specialized software license management tools for developing and maintaining such an enterprise-wide inventory. TIGTA estimates that the amount wasted because of inadequate management of server software licenses is in the range of $81 million to $114 million, based on amounts spent for licenses and annual license maintenance that were not being used at the time of a compliance review. This range could be lower or higher depending on the extent to which the IRS had used the licenses prior to the compliance review. However, the IRS does not know if the software licenses were ever used. In addition, for some software, more licenses were deployed than purchased. TIGTA estimates the value of these overdeployed licenses to be in the range of $24 million to $29 million.

TIGTA recommended that the IRS incorporate server software license management in the enterprise-wide software management program currently under development.

IRS management agreed with the recommendation.
Reference No. 2014-20-042

Affordable Care Act

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (Affordable Care Act or ACA)[23] contains an extensive array of tax law changes. The Affordable Care Act provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. They also impose penalties, administered through the tax code, on individuals and businesses that do not obtain health care coverage for themselves or their employees. The Affordable Care Act represents the largest set of tax law changes in more than 20 years and poses a significant challenge to the IRS.

With the development and implementation of new programs by the Department of Health and Human Services (HHS) and the IRS to fulfill the requirements of the Affordable Care Act, both the HHS Office of the Inspector General (OIG) and TIGTA have developed multi-year strategies to assess Affordable Care Act implementation. These strategies include continuing the ongoing coordination between the HHS OIG and TIGTA to help ensure that our work is complementary, and forming a joint working team focused primarily on Premium Tax Credits.[24] We plan to closely coordinate with the HHS OIG to review those processes that are highly interdependent between HHS and the IRS, or to perform work jointly where appropriate.

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

Affordable Care Act: Expanded Guidance Provided Assistance to the Exchanges, but Greater Assurance of the Protection of Federal Tax Information Is Needed

The Affordable Care Act authorizes States to create marketplaces, called "Exchanges," to simplify the search for health coverage by providing multiple options in one place. Eligible taxpayers who purchase health insurance through an Exchange may qualify for and request a refundable tax credit to assist with paying their health insurance premiums. The Affordable Care Act also authorizes the IRS to disclose limited tax return information to the Exchanges when an applicant seeks financial assistance. To protect the confidentiality of the Federal tax information disclosed to the Exchanges, the IRS has established safeguards that the Exchanges must employ.

The IRS provided staff dedicated to facilitating the readiness of the Exchanges to receive Federal tax information and meet the October 1, 2013, deadline for enrollment for health insurance. TIGTA observed the Office of Safeguards' on-site reviews of two Exchanges and found its on-site testing procedures to be generally adequate.

[23] The Patient Protection and Affordable Care Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (codified in scattered titles of the U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.
[24] A refundable credit to assist eligible individuals with paying their health insurance premiums.

However, additional procedures are needed to provide greater assurance that Federal tax information will be protected prior to approving its release. Specifically, IRS procedures did not require the Exchanges or other agencies to submit an initial independent security assessment report that could help to evaluate risk levels and the status of required security controls. The current documentation on which the Office of Safeguards bases its approval for release of Federal tax information does not provide sufficient evidence that required controls have been implemented. TIGTA also found deficiencies in procedures related to obtaining signed systems security authorizations and ensuring the timely on-site reviews of agencies that have deployed new systems.

TIGTA recommended that the IRS ensure that policy and procedures are revised so that independent assessments of security controls and signed system security authorizations are received and reviewed before the IRS approves the release of Federal tax information, and that on-site reviews of agencies that have deployed new systems are prioritized according to risk and scheduled timely.

IRS management agreed with our recommendations and plans to take appropriate corrective actions.
Reference Number: 2014-23-070

Affordable Care Act: Despite Initial Challenges, the Internal Revenue Service Successfully Implemented the Branded Prescription Drug Fee

The Affordable Care Act imposes an annual fee on pharmaceutical manufacturers and importers based on branded prescription drug sales made to specified Government agencies. The fees collected under the branded prescription drug fee program are to be transferred to the Medicare Part B Trust Fund, which is used to subsidize a portion of the Medicare Part B program.

The IRS successfully implemented the branded prescription drug fee through collaborative efforts with various third parties and an alternative approach to calculate and assess the fee. The alternative approach was needed after the IRS learned that the purchasing Government agencies' branded prescription drug sales data would not be available until after the legislative deadline for calculating the annual fee. The IRS developed a new reporting form (Form 8947, *Report of Branded Prescription Drug Information*) and instructions. TIGTA reviewed a judgmental sample[25] of 15 Forms 8947 (representing more than 80 percent of the sales volume used to calculate the fee) for CYs 2011 and 2012 and independently calculated the fee assessments. TIGTA determined that the IRS's calculation, assessment, and collection of the fees were all accurate for our sampled cases.

TIGTA identified one area requiring management's attention. From TIGTA's sample of 15 cases, TIGTA determined that some covered entities incorrectly interpreted the

[25] A judgmental sample is a non-statistical sample, the results of which cannot be used to project to the population.

temporary regulations. Changes to Form 8947 and its instructions should help clarify these issues and reduce the burden on taxpayers.

TIGTA recommended that IRS management revise sections of Form 8947 and its instructions to clarify certain issues.

IRS management agreed with the recommendations and plans to revise sections of Form 8947 and its instructions to clarify taxpayers' understanding and reduce taxpayer burden.
Reference Number: 2014-33-032

Affordable Care Act: An Improved Strategy Is Needed to Ensure Accurate Reporting and Payment of the Medical Device Excise Tax

The Affordable Care Act includes a tax provision that provides for an excise tax for medical devices sold beginning January 1, 2013. Manufacturers, producers, and importers are responsible for collecting the medical device excise tax and must file a Form 720, *Quarterly Federal Excise Tax Return*.

Our review found that both the number of Forms 720 filed that reported the medical device excise tax and the amount of the associated revenue reported are lower than estimated. The IRS is attempting to develop a compliance strategy to ensure that businesses are compliant with medical device excise tax filing and payment requirements and has taken several measures to advise medical device manufacturers of the new excise tax. However, the IRS cannot identify the population of medical device manufacturers registered with the Food and Drug Administration that are required to file a Form 720 and pay the excise tax.

In addition, processing controls do not ensure the accuracy of medical device excise tax figures reported on paper-filed Forms 720. Our analysis of 5,107 Forms 720 processed for the quarters ending March 31 and June 30, 2013, identified discrepancies in the amount of the medical device excise tax and/or the taxable sales amount captured from 276 paper-filed tax returns. TIGTA identified medical device excise tax discrepancies totaling almost $117.8 million when comparing the excise tax amount captured by the IRS from the Form 720 to the excise tax amount calculated by TIGTA.

Finally, the IRS erroneously assessed 219 failure-to-deposit penalties totaling $706,753 against businesses that filed Forms 720 for the quarters ending March 31 and June 30, 2013, which was designated a penalty-relief period. The IRS had reversed 133 of the 219 penalty assessments. When TIGTA alerted the IRS of the remaining 86 penalties, IRS management reversed the penalties and issued apology letters to the affected taxpayers.

TIGTA recommended that the IRS continue to refine its compliance strategy to include actions that can be taken to identify noncompliant manufacturers, establish a process to verify the accuracy of the medical device excise tax amount for paper-filed Forms 720,

and initiate a process to correspond with taxpayers to obtain missing taxable sales or tax amounts.

IRS management agreed with the recommendations and plans to take appropriate corrective actions.
Reference Number: 2014-43-043

Affordable Care Act: Accuracy of Responses to Exchange Requests for Income and Family Size Verification Information and Maximum Advance Premium Tax Credit Calculation

As of March 31, 2014, the IRS had received more than 27 million Income and Family Size Verification information requests and more than 11 million Advance Premium Tax Credit requests. Based on the information furnished by the Exchange, our review of the IRS's response to 101,018 Income and Family Size Verification requests received by the IRS between October 1 and October 4, 2013, showed that the IRS had provided accurate responses for 100,985 of the 101,018 requests (99.97 percent).

TIGTA identified 33 requests for which the IRS incorrectly notified the Exchange that it could not provide tax information for the individuals for whom the Exchange was requesting information, because the IRS was unable to match the names on the applications to IRS data records. These responses were incorrect because the names of the individuals used on the applications were in fact available in IRS data records. This oversight resulted from a computer programming error in which the IRS data used to provide information in response to Exchange requests did not always contain the most recent name shown on the individual's tax account.

In addition, TIGTA reviewed the IRS's responses to 120,824 Advance Premium Tax Credit requests received between October 1 and October 14, 2013. This review, based on information furnished by the Exchange, showed that the IRS had accurately calculated the maximum monthly Advance Premium Tax Credits for all 120,824 requests.

TIGTA recommended that the IRS ensure that data records used to provide responses to Exchange requests accurately reflect an individual's most recent name, as contained in IRS tax data.

IRS management agreed with the recommendation and has already implemented programming modifications.
Reference Number: 2014-43-044

Protect the Integrity of Tax Administration

TIGTA is statutorily mandated to protect the integrity of Federal tax administration. TIGTA accomplishes its mission through the investigative work conducted by the Office of Investigations (OI). Through its investigative programs, OI protects the integrity of the IRS and its ability to collect revenue owed to the Federal Government by investigating violations of criminal and civil law that adversely impact Federal tax administration as well as administrative misconduct by IRS employees, all of which undermine the integrity of the Nation's voluntary tax system.

TIGTA special agents are authorized to execute and serve search warrants and arrest warrants; serve subpoenas and summonses; and make arrests without a warrant for any offense against the United States that is related to Internal Revenue laws and is committed in a special agent's presence, or for any felony cognizable under such laws if there are reasonable grounds to believe that the person to be arrested has committed, or is committing, any such felony.

The Performance Model

OI accomplishes its mission objectives through the hard work of its employees and a performance model that focuses OI's resources on three primary areas of investigative responsibility:

- Employee integrity;
- Employee and infrastructure security; and
- External attempts to corrupt tax administration.

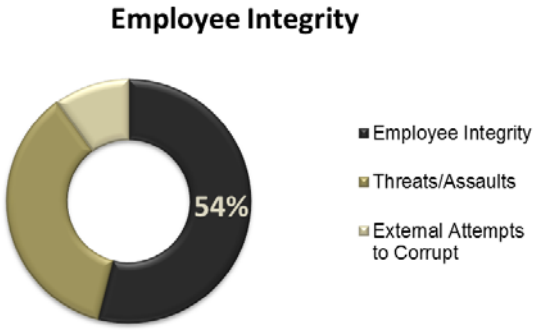
OI utilizes performance measures that identify the percentage of results derived from investigative activities that most accurately align with the strategic goals of the organization and that provide the greatest impact on the protection of the integrity of Federal tax administration.

Employee misconduct undermines the IRS's ability to deliver taxpayer service, to enforce tax laws effectively, and to collect taxes owed to the Federal Government. External threats against the IRS impede its ability to fairly and efficiently carry out its role as the Nation's revenue collector. Individuals who attempt to corrupt or otherwise interfere with tax administration negatively impact the IRS's ability to collect revenue.

TIGTA refers its investigations to the Department of Justice for prosecution when warranted.

Performance Area: Employee Integrity

Taxpayers must have confidence in the fair and impartial administration of the Federal tax system. IRS employee misconduct, whether real or perceived, can erode the public's trust and impede the IRS's ability to effectively enforce tax laws. Employee misconduct can take many forms, such as the misuse of IRS resources or authority, theft, fraud, extortion, taxpayer abuse, unauthorized access to, and disclosure of, tax return information, and identity theft.



During this reporting period, employee integrity investigations accounted for 54 percent of OI's work. The following cases represent OI's efforts to ensure employee integrity during this six-month reporting period:

IRS Employee Pleads Guilty to Filing a False Federal Tax Return

On June 17, 2014, in the Eastern District of Pennsylvania, IRS employee Lora Lewis pled guilty to filing false Federal tax returns.[26] Lewis was charged with the offense on April 15, 2014.

According to court documents, Lewis, while employed as an IRS contact representative in Philadelphia, Pennsylvania, made various false claims on her tax returns for TYs 2007 through 2011. During TYs 2007 through 2011, Lewis received unemployment compensation while employed full time at the IRS, but did not report such compensation on her tax returns. During the same tax years, Lewis filed her returns claiming "Head of Household" status, thereby increasing her standard and other deductions by $16,059 in total. She also claimed EITCs each year, totaling $11,961, to which she was not entitled. Other facts related to the offense include the following:

- In TY 2008, Lewis claimed the $7,500 First Time Homebuyers Credit, even though she did not purchase a home.
- In TYs 2009 through 2011, Lewis claimed education credits to which she was not entitled, totaling $5,600.
- In TYs 2008, 2010, and 2011, Lewis received distributions from her Thrift Savings Plan in the amount of $8,144, but did not report the distributions as income and repay such funds.
- In TYs 2008 through 2011, Lewis claimed Individual Retirement Account (IRA) deductions in the amount of $5,000, thereby lowering her taxable income each year, knowing that she did not have an IRA.

[26] E.D. Pa. Crim. Docket filed Apr. 15, 2014.

- In 2009, Lewis claimed on her income tax return that she purchased an automobile, although she did not.[27]

Former IRS Employee Sentenced for Conspiracy to Commit Passport Fraud

On April 11, 2014, in the Southern District of Texas, former Internal Revenue Service (IRS) employee Temi Russell was sentenced for conspiracy to commit passport fraud.[28] Russell pled guilty to the offense in April 2013.[29] From October 11, 2007 through September 2, 2010, Russell and a coconspirator, Nyle Churchwell, worked at a Federal building in Houston, Texas.[30] Russell was an IRS Tax Examiner and Churchwell was a Senior Fraud Adjudication Manager for the Houston Passport Agency.[31] Russell introduced another coconspirator, Lorna Brown, to Churchwell.[32]

As part of the scheme, Brown, who was found guilty of aiding and abetting in this matter,[33] brought non-U.S. citizens to the passport office to get false U.S. passports.[34] Russell and Churchwell assisted applicants with false passport applications. Churchwell then approved false passports knowing that the documents and witness information submitted was false.[35] After the passports were processed, Russell would pick up and deliver them to the subjects.[36] Russell was sentenced to five years of probation, including six months of home detention, and was fined $1,000.[37]

Spotlight on Integrity

The Federal tax system is based on voluntary compliance and, as such, it is critical that taxpayers have confidence, not only in the security of the sensitive personal and financial information furnished to the IRS, but also in the integrity of the IRS employees who access, use, and review the information for tax administration purposes.

Identity Theft and the Insider Threat

It is particularly troubling when IRS employees, who are entrusted with the sensitive personal and financial information of millions of taxpayers, misuse their positions in furtherance of identity theft and other fraud schemes. This breach of trust erodes the

[27] E.D. Pa. Info. filed Apr. 15, 2014.
[28] S.D. Tex. Judgment filed Apr. 11, 2014.
[29] S.D. Tex. Plea Agr. filed Apr.5, 2013.
[30] S.D. Tex. Plea Agr. filed Apr. 5, 2013; S.D. Tex. Superseding Indict. filed Sept. 5, 2012.
[31] S.D. Tex. Superseding Crim. Indict. filed Sept. 5, 2012.
[32] S.D. Tex. Plea Agr. filed Apr. 5, 2013.
[33] S.D. Tex. Order for Presentence Investigation and Disclosure & Sentencing Dates filed Sept. 5, 2012; S.D. Tex. Superseding Crim. Info. filed Aug. 23, 2012.
[34] S.D. Tex. Plea Agr. filed Apr.5, 2013.
[35] S.D. Tex. Superseding Crim. Indict. filed Sept. 5, 2012.
[36] S.D. Tex. Plea Agr. filed Apr. 5, 2013.
[37] S.D. Tex. Judgment filed Apr. 11, 2014.

public's confidence in the IRS. TIGTA proactively reviews the activities of IRS employees who access taxpayer accounts for any indication of unauthorized accesses that may be part of a larger fraud scheme. The following cases represent OI's efforts to investigate identity theft committed by IRS employees during this six-month reporting period:

IRS Data Entry Clerk Sentenced for Identity Theft Scheme Using IRS Documents

On July 7, 2014, in the Eastern District of California, IRS employee Monica Hernandez was sentenced for making and subscribing a false income tax return, wire fraud, and aggravated identity theft.[38] Hernandez pled guilty to the offenses in January 2014.[39] According to court documents, at all times relevant to the offenses, Hernandez was employed as a part-time data entry clerk at the IRS Fresno Service Center in Fresno, California. As part of her duties, Hernandez regularly handled and processed tax returns on behalf of the IRS by entering taxpayers' tax information into the IRS computer system. During the course of her IRS employment, Hernandez stole tax information in order to file fraudulent tax returns and claim large tax refunds.

Specifically, Hernandez stole taxpayers' Forms 1099-B, which list income received and moneys withheld from interest and dividend earnings. Hernandez then falsified and forged the Forms 1099 to reflect her personal information and filed her own tax returns claiming the information from the forged 1099s in the form of excessive withholdings.[40] Between 2007 and 2009, Hernandez filed three false tax returns for herself using this method and obtained refunds from the IRS in the amount of $175,144.[41]

Starting on or around February 2010, Hernandez began to file a new series of fraudulent tax returns, falsely claiming excessive withholdings. However, this time she used the personal information belonging to other individuals, rather than her own, to obtain the large refunds. Hernandez initially acquired the identification information of some of the individuals, including deceased persons, from sites on the Internet. She also used the identity of a relative to file one false return and subsequently opened a bank account in the relative's name in order to deposit the fraudulently obtained refund check.[42]

In continuance of her scheme, Hernandez illegally acquired and removed 68 separate tax returns from the IRS Service Center in Fresno, California. These returns had been received by the IRS, but had not yet been entered into the IRS computer system. The stolen tax returns contained the names, SSNs, addresses, and other pertinent data associated with the taxpayers. Hernandez then proceeded to file fraudulent tax returns electronically for her own benefit, using the identification of some of these taxpayers, and claimed excessive withholdings from dividends and interest income in order to

[38] E.D. Cal. Judgment filed July 8, 2014.
[39] E.D. Cal. Plea Agr. filed Jan. 3, 2014.
[40] *Id.*
[41] E.D. Cal. Indict. filed Apr. 14, 2011.
[42] E.D. Cal. Plea Agr. filed Jan. 3, 2014.

increase the amount of the refunds. Hernandez filed approximately 10 tax returns, in which she attempted to claim refunds totaling $1,745,013.[43]

Hernandez was sentenced to 53-months imprisonment, followed by three years of supervised probation. Additionally, Hernandez was ordered to pay restitution to the IRS in the amount of $175,144.[44]

IRS Employee Arrested in $1 Million Identity Theft Conspiracy

On July 18, 2014, IRS employee Viririana Hernandez and coconspirators Roberto Martinez, Jr. and Lilliana Gonzales were arrested in Fresno, California.[45] The three, along with co-defendant Daniel Miranda, Jr., were indicted in the Eastern District of California on July 17, 2014, for conspiracy, wire fraud, bank fraud, and aggravated identity theft. Miranda was also charged with mail fraud.[46]

According to court documents, the four engaged in an identity theft conspiracy using the personal information of victims obtained through various methods, including IRS personnel records. Hernandez has been employed by the IRS in Fresno since 2006, working in a variety of administrative positions, some allowing her access to human resources files on other IRS employees. From at least June 2012 through at least January 2014, Hernandez, Miranda, Martinez, and Gonzales conspired to defraud retail merchants, cardholders, and banks to obtain money, services, and property under fraudulent pretenses. As part of the conspiracy, Hernandez mined IRS databases for personal information, such as dates of birth and SSNs belonging to current and former IRS workers, and made such information available for use by the other conspirators. By October 2012, defendant Miranda possessed the personal information of approximately 288 current and former IRS employees. The defendants also obtained personal information through a number of employment applications for a franchise restaurant.[47]

Once in possession of some initial personal information, the conspirators sought to obtain additional information, including details of credit cards and other financial accounts. They then used the personal information to fraudulently open new financial accounts in the victims' names or to fraudulently gain access to the victims' existing financial accounts, often by adding themselves as authorized users. The conspirators made a myriad of fraudulent purchases using this method of access to their victims' bank and store credit accounts. The defendants also used their wrongful access to get cash advances from ATMs and in-person bank transactions. On at least two occasions, the victim's personal data, including name, date of birth, address, and specific store credit account information was sent via text to IRS employee Hernandez. On one such occasion, the same day that she received the victim's account information by text,

[43] *Id.*
[44] E.D. Cal. Judgment filed July 8, 2014.
[45] E.D. Cal. Executed Arrest Warrants for Viririana Hernandez, Roberto Martinez, Jr., and Lilliana Gonzales filed July 23, 2014.
[46] E.D. Cal. Indict. filed July 17, 2014.
[47] *Id.*

Hernandez subsequently used it to purchase three Gucci watches, totaling $3,348.89, at Macy's. [48]

To avoid detection and maximize the amount of money, goods, and services they could obtain, the conspirators often made numerous purchases on the accounts in a short amount of time, before their fraud was discovered and the accounts were suspended. They also used the victims' accounts to purchase gift cards or to purchase merchandise and then return the merchandise for store credit. This allowed the defendants to continue to use gift cards or store credit even if a victim had cancelled access to the credit card.[49]

In total, the conspiracy involved at least 160 victims and fraudulent attempts to obtain over $1 million in goods and services. The defendants, if convicted, could face a maximum sentence of 30 years in prison. [50]

Employee Integrity Projects

TIGTA ensures IRS employee integrity by conducting proactive investigative initiatives to detect misconduct in the administration of IRS programs. During this reporting period, TIGTA initiated 28 proactive investigations to detect systemic weaknesses or potential IRS program vulnerabilities.

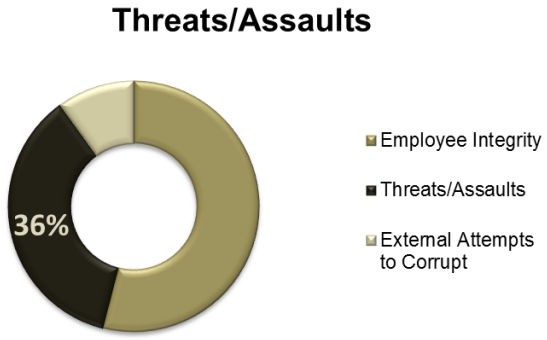
Performance Area: Employee and Infrastructure Security

Collecting taxes is a critical function of the Federal Government. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective administration of the Federal tax system and the IRS's ability to collect tax revenue. All reports of threats, assaults, and forcible interference against IRS employees performing their official duties are referred to OI. During this six-month reporting period, OI responded to 994 threat-related incidents.

Contact with the IRS can be stressful and emotional for taxpayers. While the majority of taxpayer contacts are routine, some may become confrontational and even violent. TIGTA's special agents provide physical security, known as "armed escorts," to IRS employees who have face-to-face contact with taxpayers who may pose a danger to them, to ensure that these employees have a secure environment in which they can perform their critical tax administration functions. During this six-month reporting period, OI conducted 33 armed escorts for IRS employees.

[48] *Id.*
[49] *Id.*
[50] *Id.*

OI provides investigative information to the IRS Office of Employee Protection (OEP) to identify potentially dangerous taxpayers (PDT). Taxpayers meeting the IRS PDT criteria are designated as potentially dangerous. Five years after this designation has been made, TIGTA conducts a follow-up assessment of the taxpayer so that OEP can determine if the taxpayer still poses a danger to IRS employees.



During this six-month reporting period, threat and assault investigations accounted for 36 percent of OI's work. The following cases represent OI's efforts to ensure the safety of IRS employees during the reporting period:

Rhode Island Man Found Guilty for Threatening to Murder an IRS Employee and Family Member

On May 23, 2014, in the District of Rhode Island, Andrew Calcione was found guilty in a bench trial[51] for retaliating against a Federal official with threats and for threatening the official's family member.[52]

According to court documents, Calcione knowingly and intentionally threatened to assault and murder an IRS Revenue Agent, as well as the Revenue Agent's immediate family member. Calcione made such threats with the intent to impede, intimidate, and interfere with the official duties of the IRS employee and to retaliate against the employee on account of the employee's performance of official IRS business.[53]

An IRS examination of Calcione's 2008–2010 Federal tax returns had resulted in an estimated tax liability of $300,000. Calcione previously operated his own insurance and financial services business in Rhode Island, but the Rhode Island Department of Business Regulation had taken action against his Insurance Producer's License. A few days after Calcione was contacted by the IRS Revenue Agent regarding the ongoing examination of his tax returns, Calcione left a voice mail message that contained threatening statements on the Revenue Agent's business telephone. The threat was clear, unambiguous, and frighteningly detailed. In summary, Calcione said he was going to show up where the Revenue Agent lived the next time he called. The message further contained a threat to torture the Revenue Agent, rape and kill his wife, then murder his child in front of him, all before ultimately killing the Revenue Agent.[54]

[51] D. R.I. Docket filed Jan. 15, 2014.
[52] D. R.I. Indict. filed Jan. 15, 2014.
[53] *Id.*
[54] D. R.I. Government's Pretrial Memorandum filed Apr. 30, 2014.

Performance Area: External Attempts to Corrupt Tax Administration

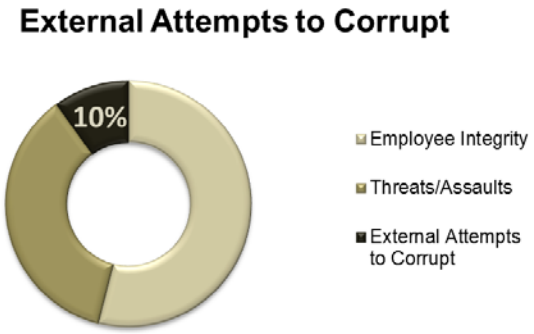
TIGTA also investigates external attempts to corrupt or impede tax administration. These crimes include: impersonating IRS employees or misusing the IRS emblems or seals; filing false or frivolous documents against IRS employees; using fraudulent IRS documentation to perpetrate criminal activity; offering bribes to IRS employees to influence their tax cases; or committing fraud in contracts awarded by the IRS to contractors. These attempts to corrupt or otherwise interfere with tax administration not only inhibit the IRS's ability to collect revenue, but they also undermine the public's confidence in fair and effective tax administration.

For example, individuals may impersonate the IRS or its employees to obtain Personally Identifiable Information (PII) from unsuspecting taxpayers or to defraud them out of their money. These individuals may claim to be IRS employees on the telephone or may misuse IRS logos, seals, or symbols to create official-looking letters and e-mails they send to taxpayers. The taxpayers are often told they owe money to the IRS that must be paid through a pre-loaded debit card or wire transfer. Sometimes taxpayers are tricked into providing their PII, which the impersonator uses to commit identity theft. TIGTA aggressively investigates these criminal activities to ensure that taxpayers maintain confidence in the integrity of Federal tax administration.

In a current nationwide impersonation scam investigation, as of September 22, 2014, OI has received over 154,000 reports from taxpayers who were contacted by individuals impersonating IRS employees. More than 1,600 individuals have provided their PII to these criminals and/or paid them more than $9 million.

Also, individuals with personal vendettas against the IRS sometimes file false liens or other financial encumbrances against IRS employees in retaliation. The filing of an invalid lien in retaliation against a Government employee not only creates personal financial troubles for the targeted employee, it is also a criminal act. TIGTA special agents investigate these acts of retaliation and work with the Department of Justice to prosecute such acts that interfere with or impede Federal tax administration.

During this reporting period, investigations into attempts to corrupt or impede tax administration accounted for 10 percent of OI's work. The following cases represent OI's efforts to investigate and deter external attempts to corrupt tax administration during this six-month reporting period:



Oregon Man Sentenced for Making False Claims and Retaliating Against Federal Officials

On April 16, 2014, in the District of Oregon, Mark Ellis was sentenced for making false claims to the IRS and retaliating against a Federal law enforcement officer.[55] Ellis pled guilty to the offenses in August 2013.[56]

According to court documents, Ellis, a resident of Bend, Oregon, used and promoted illegal debt termination programs in an attempt to fraudulently cancel his and others' debts, including home mortgages and credit card bills, and to falsely obtain tax refunds to which he and others were not entitled. Specifically, Ellis purchased and used trusts to illegally hide income and assets from the IRS, and filed false Forms 1099-OID (known as IRS Original Issue Discount forms) and false Federal tax returns, causing the IRS to issue him a tax refund in the amount of $311,459.56.[57]

In retaliation against Federal officials, Ellis filed several false liens in public records against the real and personal property of former Secretary of the Treasury Timothy Geithner and two other Federal employees on account of the performance of their official duties, knowing such liens contained false and fictitious representations.[58]

Ellis was sentenced to 12-months and one-day imprisonment and was ordered to pay restitution to the IRS in the amount of $311,459.56. He was further ordered to submit true and accurate returns for TYs 2004 through 2013 and pay all associated taxes due.[59]

Ohio Accountant Pleads Guilty to Impeding the Internal Revenue Laws and Schemes to Defraud His Clients

On June 10, 2014, in the Eastern District of Pennsylvania, accountant Andrew Zelenkofske entered a guilty plea for interfering with the administration of the Internal Revenue laws, wire fraud, mail fraud, and engaging in monetary transactions in property derived from specified unlawful activity.[60] Zelenkofske was charged with the offenses on January 9, 2014,[61] and June 3, 2014,[62] in associated cases.

According to court documents, from approximately 2009 through 2013, Zelenkofske engaged in various schemes to defraud individuals to obtain money by means of false and fraudulent pretenses and representations, and to obstruct the due administration of the Internal Revenue laws.[63]

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[55] D. Or. Judgment filed Apr. 18, 2014.
[56] D. Or. Plea Agr. filed Sep. 11, 2013.
[57] D. Or. Indict. filed Feb. 20, 2013.
[58] *Id.*
[59] D. Or. Judgment filed Apr. 18, 2014.
[60] E.D. Pa. Crim. Docket filed June 3, 2014; E.D. Pa. Crim. Docket filed Jan. 9, 2014.
[61] E.D. Pa. Indict. filed Jan. 9, 2014.
[62] E.D. Pa. Info. filed June 3, 2014.
[63] E.D. Pa. Indict. filed Jan. 9, 2014; E.D. Pa. Info. filed June 3, 2014.

Zelenkofske, a resident of Ohio, provided tax and accounting services to individuals, including the preparation of Federal and State income tax returns. Some of Zelenkofske's clients were Pennsylvania residents. In November 2013, Zelenkofske had a power of attorney to represent a Pennsylvania couple before the IRS. After the IRS issued a levy to a financial firm in the amount of $91,193.53 for taxes owed by the couple, Zelenkofske corruptly endeavored to impede the Internal Revenue laws by transmitting, via e-mail, a falsified IRS Form 668-D, *Release of Levy*, purportedly removing the levy from the couple's account. Zelenkofske did so knowing the IRS had not authorized the release of the levy.

Prior to this, around April 2011, Zelenkofske devised a scheme to defraud another Pennsylvania client, a senior citizen with little experience managing financial matters. Zelenkofske falsely represented that the client owed the IRS a substantial amount of taxes and directed the client to send him multiple payments for the purported taxes. Zelenkofske kept all of the money received from the victim and used it for his own personal and business expenses, defrauding the client of approximately $237,050.

Zelenkofske also identified start-up businesses as investments for his clients and business associates. In 2003, Zelenkofske recruited four individuals to invest in a start-up retailer in Philadelphia, Pennsylvania called Five Below, Inc. Zelenkofske and the other four individuals each contributed $40,000 towards the investment. In 2010, when Five Below issued a dividend check in the amount of $704,556.58 to the investors, Zelenkofske received and deposited the check as the managing member of the holding company, but concealed the payment from the other investors, representing that he did not receive it. When confronted about the dividend payment, Zelenkofske admitted its receipt and entered into an agreement to repay the four victims approximately $563,520. He repaid a portion of the debt, leaving the victims defrauded of approximately $137,254.[64]

In another scheme, Zelenkofske solicited and received $650,000 from individuals for a purported investment opportunity in a biotechnology company. Rather than using the funds as he represented, Zelenkofske used the money to finance his own personal and business expenses, including $200,000 which he used for an investment in the start-up company in his own name.[65]

New Jersey Man Pleads Guilty to Forging Documents to Interfere With the IRS

On April 22, 2014, in the District of New Jersey, Charles Jarvis pled guilty to interfering with the administration of the Internal Revenue laws.[66]

According to the criminal Information filed on the same date, Jarvis, a resident of Toms River, New Jersey, corruptly endeavored to impede and impair the administration of the

[64] E.D. Pa. Info. filed June 3, 2014.
[65] E.D. Pa. Indict. filed Jan. 9, 2014.
[66] D. N.J. Application for Permission to Enter Plea of Guilty filed Apr. 22, 2014; D.N.J. Crim. Docket filed Apr. 22, 2014.

Internal Revenue Code by forging documents purported to be from the IRS. Jarvis did so to facilitate a real estate transaction and evade a Federal tax lien.

In 2012, Jarvis and his spouse filed joint income tax returns with the IRS for TYs 2009 and 2010 and incurred a tax liability of approximately $76,676 due to insufficient withholdings. In October 2012, the IRS filed a tax lien against Jarvis and his spouse, which applied to all property and rights to property belonging to the two. Earlier in 2012, Jarvis's spouse had inherited her mother's entire estate, including a parcel of property in Ocean County, New Jersey. Jarvis's spouse contracted to sell the property in November 2012, but was unable to transfer the title to the buyer due to the IRS tax lien. Charles Jarvis forged a "Notice of Tax Lien Release" and a letter purportedly from the IRS in an effort to facilitate the sale, despite his spouse's and his outstanding tax debt. He then e-mailed the forged IRS documents to the attorney handling the sale, who, in turn, provided the documents to the title company. Based on the false representations in the forged IRS documents, the transaction was closed and the title was transferred to the buyer.[67]

California Man Found Guilty for Retaliating Against IRS Employees

On May 27, 2014, in the Eastern District of California, James O. Molen was found guilty on all counts of a 2012 indictment.[68] The five-count indictment charged Molen with retaliating against Federal officers, corruptly impeding the due administration of the Internal Revenue laws, and contempt of court.[69]

According to court documents, from 2003 to 2010, Molen, a resident of Chico, California, corruptly endeavored to impede the due administration of the Internal Revenue laws by recording liens against Federal judges and Executive Branch employees, making false and frivolous statements to the IRS, and offering a fictitious instrument as payment to the IRS, among other things.

Molen retaliated against two IRS revenue officers by filing false liens and encumbrances against their personal property in public records. Molen did so because of the revenue officers' performance of their official duties, knowing the liens and encumbrances were false and fictitious. Additionally, Molen filed Uniform Commercial Code Financing Statements with the California Secretary of State, purporting to secure debts owed by the same two IRS revenue officers.[70]

The contempt of court charges against Molen stemmed from a 2007 civil judgment, wherein he was permanently forbidden from filing any documents or instruments that purported to create a nonconsensual encumbrance against a Government employee.[71]

[67] D.N.J. Info. filed Apr. 22, 2014.
[68] E.D. Cal. Verdict filed May 27, 2014.
[69] E.D. Cal. Indict. filed July 12, 2012.
[70] *Id.*
[71] E.D. Cal. Order filed Feb. 26, 2007 Re: 2:06-cv-00a614-LKK-KJM.

Molen knowingly and willfully disobeyed this order by filing documents against the IRS revenue officers in February 2010.[72]

Tax Preparer Outreach

In addition to promoting employee integrity, TIGTA is also committed to educating tax preparers on integrity. During this semiannual reporting period, TIGTA special agents provided integrity presentations to tax preparers at IRS tax forums nationwide. The focus of these presentations was, "*Doing the Right Thing: Integrity, TIGTA, and You.*"

The presentations informed tax preparers of TIGTA's role in investigations of alleged misconduct by tax preparers, how to recognize and report misconduct committed by IRS employees or paid preparers, and when to report potential risks to IRS employee safety.

Investigative Support

Criminal Intelligence & Counterterrorism Group

OI established a Criminal Intelligence Program (CIP) to identify, assess, and investigate criminal activities of individuals or groups who seek to impact the safety of IRS employees or otherwise interfere with the administration of the Internal Revenue laws. The Criminal Intelligence & Counterterrorism Group (CICT) spearheads the agency's program. Members of CICT participate in various task forces to facilitate the timely receipt of criminal intelligence information. The team consists of special agents and analysts who evaluate information concerning potential threats against IRS employees, facilities, and infrastructure and provide it to the appropriate stakeholders within TIGTA, the IRS, and the Department of the Treasury.

CICT undertakes investigative initiatives to identify individuals who could commit violence against IRS employees, or who could otherwise pose a threat to IRS employees, facilities, or infrastructure.

CICT provides crucial intelligence to IRS officials to assist them in making proactive operational decisions about potential violence or other activities that could pose a threat to IRS systems, operations, and employees. To augment the timely distribution of critical threat information to the appropriate parties, CICT developed the Threat Information Notification System (TINS). TINS alerts key personnel to threats and incidents that have been reported and streamlines the process for coordinating information between OI, the IRS, and the Department of the Treasury, so a threat mitigation strategy can be developed.

[72] E.D. Cal. Indict. filed July 12, 2012.

Advancing Oversight of America's Tax System

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

This function 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 Governmentwide or multi-agency issues; and
- Develop recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective procedures.

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

Compliance With Constitution Day Training Requirements

This report presented the results of our inspection to determine whether the IRS complied with the requirements of the Consolidated Appropriations Act of 2005[73] to provide training materials on the U.S. Constitution to newly hired employees and to all IRS employees each year on September 17th, designated as Constitution Day and Citizenship Day.[74]

We found that the IRS complied with the requirements of the Consolidated Appropriations Act of 2005 by providing training and educational materials about the

[73] Pub. L. No. 108-447, 118 Stat. 2809 (2004).
[74] Pub. L. No. 108-447, div. J, tit. I, § 111, 118 Stat. 2809, 3344-3345 (2004).

Constitution to new employees as part of their orientation process and to all employees each year on September 17th.

While the IRS met the requirements of the law, it has the opportunity to relate the training material more to its mission, as some other Federal agencies have done. For example, the IRS might elaborate on how its taxing authority is derived from the Constitution.

The IRS agreed to the facts in the draft report.
Reference No. 2014-IE-R007

Internal Revenue Service's Compliance With the Lautenberg Amendment

This report presented the results of our inspection to determine whether the IRS has policies and procedures in place to identify law enforcement officers (special agents) convicted of, or who pled no contest to, a misdemeanor crime of domestic violence, which under U.S. law prohibits any person from possessing a weapon or ammunition.

We found that the IRS has adequate controls in place to help ensure compliance with the Lautenberg Amendment,[75] which prohibits any person convicted of a misdemeanor crime of domestic violence from possessing firearms or ammunition, and therefore bars a person with such a conviction from employment with the IRS as a special agent. The controls include a prescreening process and background investigation for new law enforcement applicants, and periodic background investigations for existing special agents. Any discrepancies and potentially unfavorable information found as a result of the background investigation are reported to the appropriate IRS offices for review and administrative or disciplinary action, as deemed necessary.

The IRS agreed with the observations in the draft report.
Reference No. 2014-IE-R008

Follow-up Review of Controls Over Religious Compensatory Time

This report presented the results of our inspection to determine whether IRS controls have significantly reduced the number of employees who have excessive religious compensatory time (RCT) balances, and to determine whether additional controls are required to deter or prevent the misuse of RCT. Executive agency employees are allowed to work additional hours and then use that time for personal religious beliefs that require the employees' absence from work. The time worked and then taken is referred to as RCT. This benefit allows employees to participate in religious observances without using annual leave or leave without pay.

The IRS has implemented corrective actions that have improved controls over the use of RCT. Between June 2010 and November 2013, the IRS reduced the number of employees with RCT balances and those with excessive RCT balances by

[75] 18 U.S.C. § 922(g)(9).

approximately 51 and 68 percent, respectively.[76] Overall, the percentage of IRS employees with RCT balances has been reduced to less than one percent of all employees. Additionally, we found that between FYs 2009 and 2013, the IRS reduced the costs of payments to employees who separated with RCT balances by approximately 39 percent. For the same time period, the debts owed to the IRS by former employees who separated with advanced RCT balances decreased by 28 percent.

Although there were improvements in controls over the use of RCT, we identified a relatively small number of employees with high balances for both advanced RCT and advanced sick leave. While an employee can accumulate both advanced RCT and advanced sick leave, high balances of both could indicate that managers and employees are using RCT to circumvent Federal Government and agency leave policies and procedures by authorizing advanced RCT in lieu of sick leave. In such cases, IRS managers should investigate the issue further, as required by IRS policies and procedures. In the event that the activity may require a more thorough investigation, or is potentially criminal, TIGTA's OI should be contacted.

The IRS agreed with the results of our draft report and provided additional information related to previous TIGTA recommendations.
Reference No. 2014-IE-R009

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act)[77] 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. However, with its more than 50 tax provisions, the Recovery Act posed especially significant challenges to the IRS, as the Nation's tax collection agency and administrator of the tax laws.

Funding for Recovery Act-related activities expired September 30, 2013. TIGTA completed audits/inspections/evaluations initiated prior to the funding expiration and issued the following significant report related to the IRS's efforts to implement Recovery Act tax provisions during this six-month reporting period:

Overview of TIGTA's Oversight of the American Recovery and Reinvestment Act of 2009

This report summarized I&E's evaluation of TIGTA's challenges and successes in carrying out its responsibilities of overseeing the IRS's implementation of the Recovery Act. I&E worked with all of TIGTA's functions to ensure that it captured everyone's

[76] The IRS defines an excessive RCT balance as 80 or more hours, either positive (earned) or negative (advanced) leave.
[77] Pub. L. No. 111-5, 123 Stat. 115.

efforts; I&E also worked with the Recovery Accountability and Transparency Board (Board)[78] staff to ensure reports referenced in the capstone report matched what is shown on Recovery.gov.

TIGTA's successful implementation of the Recovery Act was a full team effort by the Inspector General, TIGTA executives, and the entire chain of agency managers and staff. From the inception of the Recovery Act through September 30, 2013, TIGTA accomplished the following:

- Completed 28 Recovery Act-related investigations, including two that resulted in successful prosecutions;
- Issued 42 Recovery Act-related audits and inspections and evaluations reports (36 completed and published, six completed and not published) that contained recommendations for better use of funds totaling approximately $7.6 billion; and
- Completed training sessions for approximately 1,650 individuals explaining the impact of the Recovery Act.

Evaluation Number IE-12-017-A

[78]The Recovery Act established the Board. Pub. L. No. 111-5, § 1521, 123 Stat. 115, 289 (2009). The mission of the Board is to promote accountability by coordinating and conducting oversight of Recovery Act funds to prevent fraud, waste, and abuse, and to foster transparency of Recovery Act spending by providing the public with accurate, user-friendly information.

TIGTA's International Programs

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

The United States taxes U.S. individuals and businesses on their worldwide income and taxes foreign persons on their U.S. source income. International tax administration can be divided into four general areas:

- U.S. business cross-border;
- Foreign business in the U.S.;
- Individual cross-border; and
- Foreign person with taxable U.S. income.

The tax law for cross-border transactions and investments can be highly complex and specialized.

The President, the Secretary of the Treasury, and the IRS Commissioner have placed an emphasis on international tax compliance. Also, business tax reform discussions include potential substantive changes to intercompany transfer pricing policy. In addition, the IRS is implementing the Foreign Account Tax Compliance Act (FATCA)[79] to help prevent U.S. taxpayers from hiding assets offshore.

The Internal Revenue Service Needs to Enhance Its International Collection Efforts

International tax noncompliance remains a significant area of concern for the IRS. The IRS's collection efforts need to be enhanced to ensure that delinquent international taxpayers become compliant with their U.S. tax obligations. Our review found that the IRS has not provided effective management oversight to international collection, contributing to several control weaknesses in the program. Most notably, international collection does not have:

- Adequate policies and procedures, position descriptions, or the training needed to ensure that international revenue officers can properly work international collection cases;
- A specific inventory selection process that ensures that the international collection cases with the highest risk are worked;
- Performance measures and enforcement results reported separately from domestic collection; and

[79] Pub. L. No. 111-147, Subtitle A, 124 Stat. 71, 96-116 (2010) (codified in scattered sections of 26 U.S.C.).

- A process to measure the effectiveness of the Customs Hold[80] as an enforcement tool.

TIGTA recommended that the IRS:

- Develop a formal international collection strategic plan;
- Update international collection guidance to provide specific policies and procedures for international revenue officers;
- Evaluate and update the current international revenue officer position descriptions;
- Develop a formal international collection training plan using subject matter experts to develop and teach international specific courses;
- Evaluate the international collection inventory selection criteria;
- Develop separate performance measures and track specific enforcement results for international collection; and
- Continue to pursue direct access to the Customs Hold information.

IRS officials agreed with the recommendations. However, while the IRS has implemented some corrective actions to improve the selection of international collection inventory, develop separate performance measures, and track enforcement results, TIGTA does not believe that the corrective actions completed by the IRS have fully addressed the recommendations.
Reference No. 2014-30-054

Additional Actions Are Needed to Help Ensure Taxpayer Compliance With the Foreign Investment in Real Property Tax Act

Congress enacted the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA)[81] to provide Federal tax rules for the sale of U.S. real property by foreign persons. There are some barriers for the IRS in ensuring that real estate sales transactions comply with FIRPTA.

TIGTA's review of real estate transaction data reported to the IRS revealed that there may be noncompliance with FIRPTA filing requirements. TIGTA also found that the IRS did not always ensure compliance with FIRPTA filing requirements when a request for reduced withholding was filed and the FIRPTA withholding tax was still owed.

Additionally, TIGTA identified various internal control weaknesses in the processing of FIRPTA withholding payments and FIRPTA withholding credits claimed by foreign

[80] A notification to the Department of Homeland Security that, according to IRS records, a taxpayer owes Federal taxes. If the taxpayer should return to the United States or Commonwealth Territories without having paid the total amount due, he or she could be interviewed by a Customs and Border Protection Officer at the time of entry. The IRS will then be advised of the taxpayer's arrival and will be provided with information enabling it to contact the taxpayer regarding payment of his or her outstanding tax liability.
[81] Enacted as Subtitle C of Title XI (the Revenue Adjustments Act of 1980) of the Omnibus Reconciliation Act of 1980, Pub. L. No. 96-499, 94 Stat. 2599, 2682 (Dec. 5, 1980).

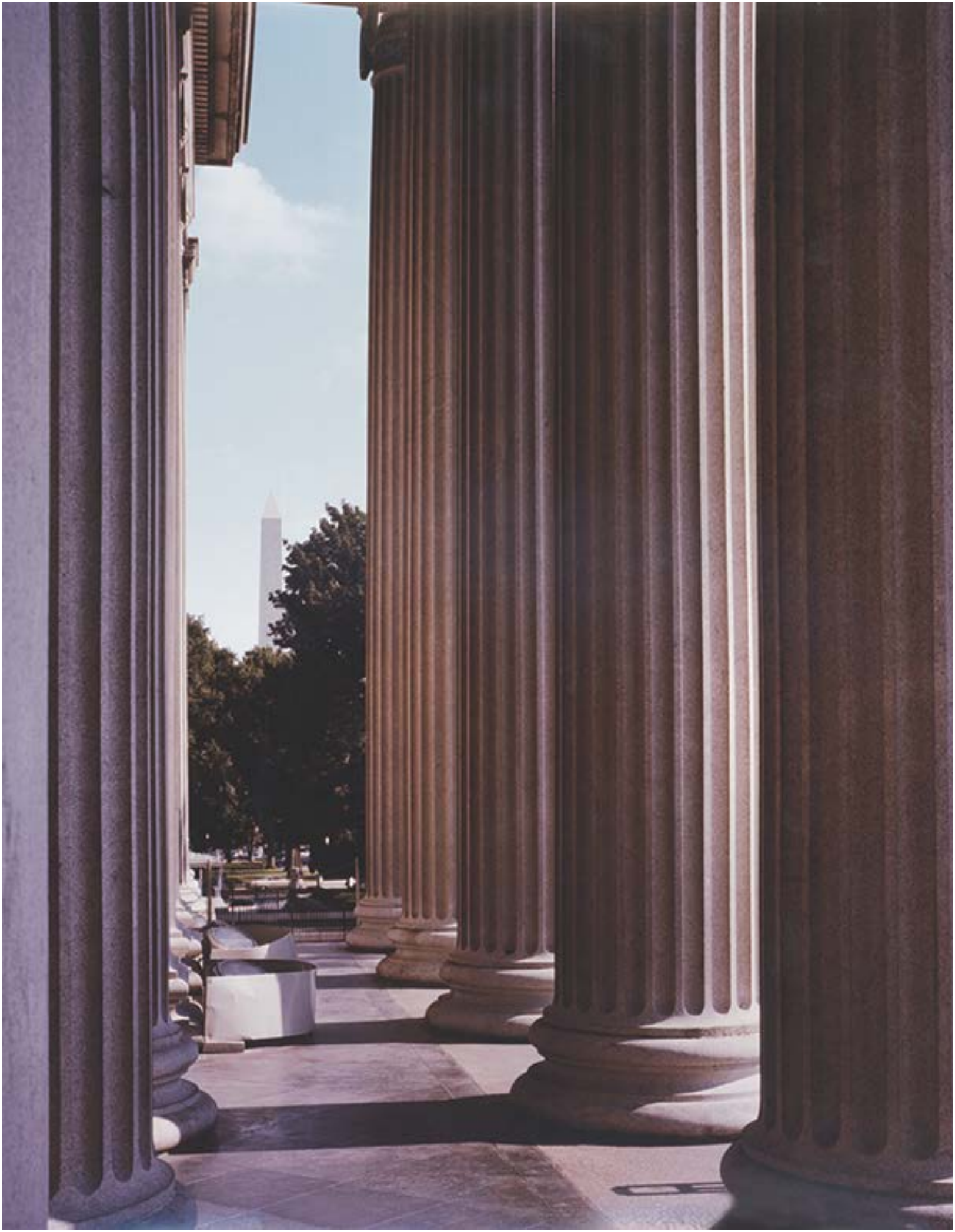
sellers on their income tax returns. These internal control weaknesses resulted in the issuance of erroneous refunds and balance due notices. For instance, we identified 32 of 509 refunds, totaling approximately $1.5 million, that were erroneously issued to the buyer during TYs 2010 through 2012.

TIGTA recommended that the IRS revise the Form 1099-S, *Proceeds From Real Estate Transactions*, to more easily identify real estate transactions subject to FIRPTA and consider legislative changes to reduce barriers to the effective administration of FIRPTA. TIGTA also made several recommendations to improve controls over the processing of FIRPTA transactions.

IRS management agreed with the recommendations, except for one recommendation intended to help it validate affidavits of non-foreign status. TIGTA continues to believe that the IRS should follow through on this recommendation.
Reference Number: 2014-30-051

International Visitors

In April 2014, TIGTA hosted a delegation from the country of Mongolia, consisting of the Vice-Minister of the Ministry of Finance and the Director of Fiscal Policy and Management. The purpose of the visit was to discuss the role TIGTA plays as an investigative and audit function, and its relationship with the IRS.



Congressional Testimony

During this reporting period, Inspector General J. Russell George testified before Congress on one occasion.

On April 30, 2014, Mr. George testified before the Senate Committee on Appropriations, Subcommittee on Financial Services and General Government, regarding the FY 2015 budget requests of TIGTA and the IRS, and about TIGTA's recent work related to the most significant challenges facing the IRS. The following is a summary of the Inspector General's testimony.

Providing effective taxpayer services while operating with a reduced budget is a significant challenge facing the IRS. In the past, TIGTA has evaluated the IRS's efforts to provide quality customer service and has made recommendations for areas of improvement. Although the IRS has implemented certain procedures to better assist the American taxpayer, funding reductions pose a significant challenge. These budget constraints continue to require the IRS to cut service to taxpayers, which makes it difficult for the IRS to effectively assist taxpayers. As demand for taxpayer services continues to increase, resources devoted to customer service have decreased, thereby affecting the quality of customer service that the IRS is able to provide. For example, we have seen a decline in the IRS's ability to provide a sufficient level of customer service in each of the ways that taxpayers interact with the IRS: namely by telephone, walk-in, and correspondence.

Implementing the tax law changes associated with the ACA will also present many challenges for the IRS in the coming years. For example, the ACA provides for a refundable tax credit, known as the Premium Tax Credit, to offset an individual's health insurance expenses. Like other refundable credits, there is a risk for improper payments with the Premium Tax Credit. As such, TIGTA is evaluating the accuracy of the data that the IRS provides to HHS for use in enrolling individuals and calculating the Advance Premium Tax Credit. [82] We also plan to assess the protection of Federal tax data provided to the Exchanges.[83]

In addition, TIGTA is concerned that the potential for refund fraud and related schemes could increase as a result of processing ACA Premium Tax Credits unless the IRS builds, implements, updates, and embeds ACA predictive analytical fraud models into its tax filing process. We also anticipate a significant increase in the number of ACA-related impersonation attempts as the IRS begins its role in ACA compliance activity. Accordingly, TIGTA has implemented a multi-year oversight strategy that includes audits, evaluations, and investigative resources to assess and to proactively deter

[82]The results of this audit have since been reported in TIGTA, Ref. No. 2014-43-044, *Affordable Care Act: Accuracy of Response to Exchange Requests for Income and Family Size Verification Information and Maximum Advance Premium Tax Credit Calculation* (July 2014).
[83]The results of this audit have since been reported in TIGTA, Ref. No. 2014-23-070, *Affordable Care Act: Expanded Guidance Provided Assistance to the Exchanges, but Greater Assurance of the Protection of Federal Tax Information Is Needed* (September 2014).

efforts to impede the IRS's implementation of the ACA. This strategy also includes coordination with other agencies, including the HHS Office of Inspector General.

Another serious challenge confronting the IRS is the Tax Gap. The most recent IRS assessment is that the gross Tax Gap is about $450 billion dollars annually. Most of this amount, $376 billion dollars, is attributable to taxpayers underreporting their tax liabilities. Moreover, the scope, complexity, and magnitude of the international financial system also present significant enforcement challenges for the IRS. The number of taxpayers conducting international business transactions continues to grow as technological advances provide opportunities for offshore investments that were once possible only for large corporations and wealthy individuals. As this global economic activity increases, so do concerns regarding the International Tax Gap. While the IRS has not developed an accurate and reliable estimate of the International Tax Gap, non-IRS sources estimate it to be between $40 billion and $133 billion annually. The IRS also currently faces the challenge of implementing FATCA, which was enacted to combat tax evasion by U.S. persons holding investments in offshore accounts.

Tax fraud-related identity theft continues to be a growing problem that results in billions of dollars in improper payments. For TY 2011, TIGTA identified 1.1 million undetected returns that claimed potentially fraudulent refunds totaling $3.6 billion dollars. While this is a decrease of $1.6 billion dollars from the prior year, indicating that the IRS is making progress, significant improvements are still needed. In fact, we reported that the impact of identity theft on tax administration continues to be significantly greater than the amount the IRS detects and prevents.[84] Without the necessary resources, it is unlikely that the IRS will be able to work the entire inventory of potentially fraudulent tax returns it identifies. If the IRS does not work the remainder of the potentially fraudulent tax returns it identifies, the refunds for those returns will be issued. The net cost of failing to provide the necessary resources is substantial, given that the potential revenue loss to the Federal Government of these tax fraud-related identity theft cases is billions of dollars annually.

[84] TIGTA, Ref. No. 2013-40-122, *Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds* (Sep. 2013).

Audit Statistical Reports

Reports With Questioned Costs

TIGTA issued one audit report with questioned costs during this semiannual reporting period.[85] 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 Costs[86] (in thousands)**	**Unsupported Costs (in thousands)**
1. Reports with no management decision at the beginning of the reporting period	9	$45,293	$928
2. Reports issued during the reporting period	1	$8	$0
3. Subtotals (Item 1 plus Item 2)[87]	**10**	**$45,302**	**$928**
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	1	$1	$0
b. Value of costs not disallowed	1	$928	$928
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	**8**	**$44,373**	**$0**
6. Reports with no management decision within six months of issuance	7	$44,364	$0

[85] See Appendix II for identification of audit reports involved.
[86] "Questioned costs" includes "unsupported costs."
[87] Difference in amount due to rounding.

Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued six audit reports during this semiannual reporting period with the recommendation that funds be put to better use.[88] 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 deemed 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	6	$8,733,317
3. Subtotals (Item 1 plus Item 2)	**6**	**$8,733,317**
4. Reports for which a management decision was made during the reporting period a. Value of recommendations to which management agreed		
i. Based on proposed management action	3	$150,445
ii. Based on proposed legislative action	0	$0
b. Value of recommendations to which management did not agree	3	$8,582,872
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

[88] See Appendix II for identification of audit reports involved.

Reports With Additional Quantifiable Impact on Tax Administration

In addition to questioned costs and funds put to better use, the Office of Audit has identified measures that demonstrate the value of audit recommendations to tax administration and business operations. These issues are of interest to executives at the IRS and the Department of the Treasury, Members of 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: Ensuring the accuracy of the total tax, penalties, and interest paid to the Federal Government.

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

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

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

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

Reliability of Management Information: Ensuring the accuracy, validity, relevance, and integrity of data, including the sources of data and the applications and processing thereof, used by the organization to plan, monitor, and report on its financial and operational activities. This measure will often be expressed as an 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 accidental 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 Reports[89]**	**Number of Taxpayer Accounts**	**Dollar Value (in thousands)**
Increased Revenue	4	1,490	$198,791
Revenue Protection	7	187,421	$5,201,455
Reduction of Burden on Taxpayers	4	836,294	$5,241
Taxpayer Rights and Entitlements at Risk	8	598,310	$379
Taxpayer Privacy and Security	3	1,400,322	$0
Inefficient Use of Resources	3	0	$106,720
Reliability of Management Information	6	54,828	$132,660
Protection of Resources	1	0	$13,200

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

- Revenue Protection: Reference Numbers 2014-40-028, 2014-40-041, 2014-30-052, and 2014-30-067;
- Reliability of Information: Reference Numbers 2014-10-031 and 2014-10-073; and
- Inefficient Use of Resources: Reference Numbers 2014-20-042 and 2014-20-088.

[89] See Appendix II for identification of audit reports involved.

Investigations Statistical Reports

Significant Investigative Achievements April 1, 2014 – September 30, 2014	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,456
Complaints against Non-Employees	3,391
Total Complaints/Allegations	**5,847**
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,026
In Process within TIGTA[90]	558
Referred to IRS for Action	687
Referred to IRS for Information Only	890
Referred to a Non-IRS Entity[91]	0
Closed with No Referral	1,001
Closed Associated with Prior Investigation	1,439
Closed with All Actions Completed	246
Total Complaints	**5,847**
Investigations Opened and Closed	
Total Investigations Opened	1,496
Total Investigations Closed	1,636
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	$0
Contract Fraud and Overpayments Recovered	$0
Court Ordered Fines, Penalties and Restitution	$11,988,534
Out-of-Court Settlements	$0
Total Financial Accomplishments	**$11,988,534**

[90] Complaints for which final determination had not been made at the end of the reporting period.
[91] A non-IRS entity includes other law enforcement entities or Federal agencies.

Status of Closed Criminal Investigations			
Criminal Referral	**Employee**	**Non-Employee**	**Total**
Referred – Accepted for Prosecution	34	32	**66**
Referred – Declined for Prosecution	279	147	**426**
Referred – Pending Prosecutorial Decision	23	30	**53**
Total Criminal Referrals[92]	**336**	**209**	**545**
No Referral	**481**	**554**	**1,035**

Criminal Dispositions[93]			
Criminal Disposition	**Employee**	**Non-Employee**	**Total**
Guilty	34	26	**60**
Nolo Contendere (no contest)	0	0	**0**
Pre-trial Diversion	10	0	**10**
Deferred Prosecution[94]	0	0	**0**
Not Guilty	1	0	**1**
Dismissed	4	4	**8**
Total Criminal Dispositions	**49**	**30**	**79**

Administrative Dispositions on Closed Investigations[95]	
Administrative Disposition	**Total**
Removed / Terminated	**38**
Suspended / Reduction in Grade	**85**
Resigned / Retired / Separated Prior to Adjudication	**88**
Oral or Written Reprimand / Admonishment	**144**
Clearance Letter / Closed, No Action Taken	**146**
Alternative Discipline / Letter with Cautionary Statement / Other	**219**
Non-Employee Actions[96]	**322**
Total Administrative Dispositions	**1,042**

[92] Criminal referrals include both Federal and State dispositions.
[93] Final criminal dispositions during the reporting period. These data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.
[94] Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon the defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.
[95] Final administrative dispositions during the reporting period. These data may pertain to investigations referred administratively in prior reporting periods and do not necessarily relate to the investigations closed in the Investigations Opened and Closed table. These data, as reported, reflect a change in the way administrative dispositions were previously categorized.
[96] Administrative actions taken by the IRS against non-IRS employees.

Inspections and Evaluations Statistical Reports

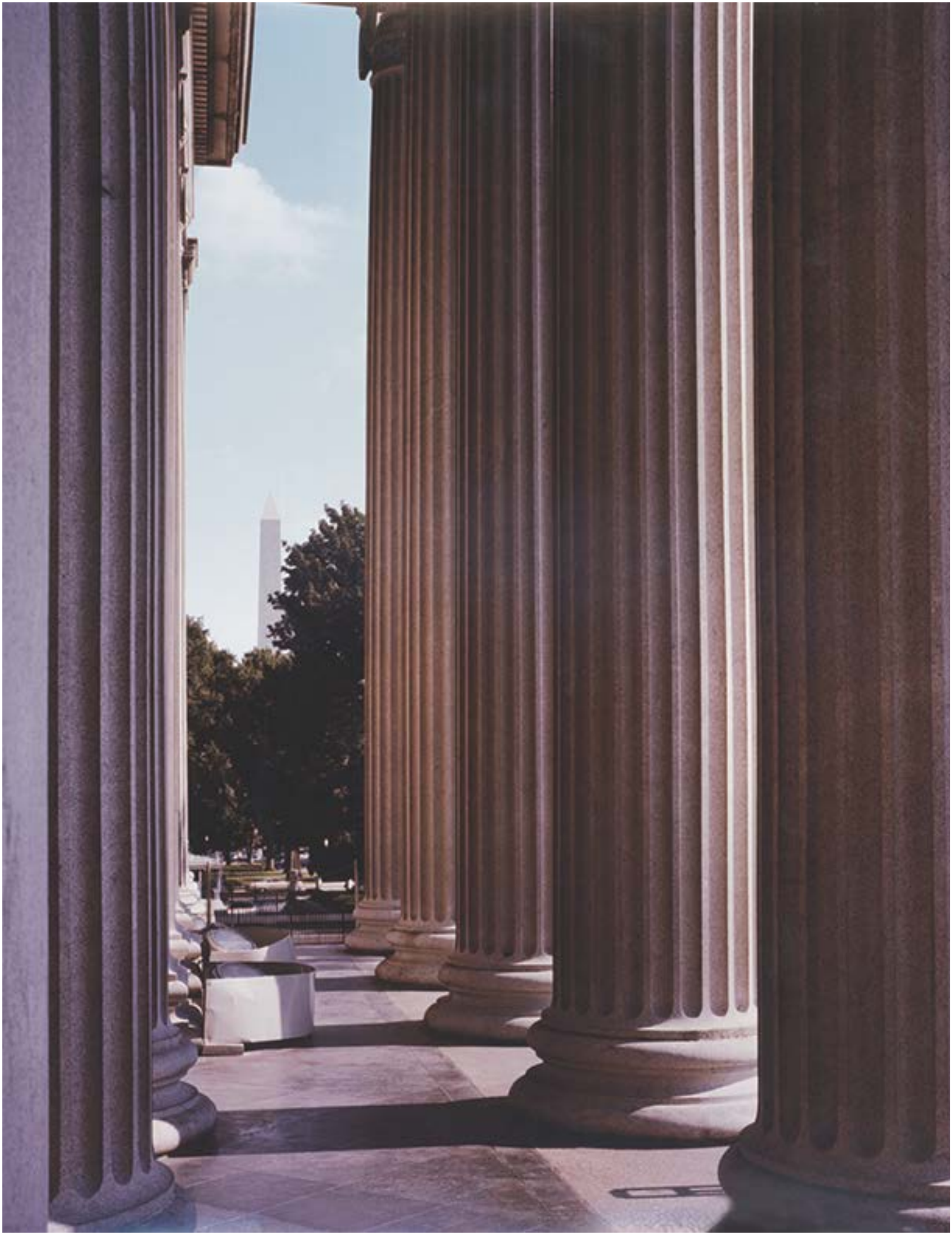
Reports With Questioned Costs

TIGTA issued no inspection reports with questioned costs during this semiannual reporting period. 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 inspection, 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.

Report With Questioned Costs			
Report Category	**Number**	**Questioned Costs**	**Unsupported Costs**
1. Reports with no management decision at the beginning of the reporting period	0	$0	$0
2. Reports issued during the reporting period	0	$0	$0
3. Subtotals (Item 1 plus Item 2)	**0**	**$0**	**$0**
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)	**0**	**$0**	**$0**
6. Reports with no management decision within six months of issuance	0	0	0



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 No., R = Recommendation No.)*
2009-40-130	Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	September 2009	10/15/15	***Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs*** F-1, R-2. 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.
2010-20-027	Taxpayer Protection and Rights	March 2010	01/15/15 01/15/15	***Additional Security Is Needed For Access to the Registered User Portal*** F-1, R-5. Make passwords more difficult to guess by unauthorized individuals and decrease the use of Social Security numbers as usernames. F-1, R-6. Implement a control to allow users to answer a series of challenge questions to unlock their accounts.
2010-20-044	Modernization of the IRS	May 2010	11/15/14	***Implementing Best Practices and Additional Controls Can Improve Data Center Energy Efficiency and the Environmental and Energy Program*** F-1, R-5. Ensure energy audits are performed at the data centers.
2011-20-046	Security of the IRS	May 2011	11/15/16	***Access Controls for the Automated Insolvency System Need Improvement*** F-1, R-1. Identify incompatible duties and implement policies to segregate those duties, issue a memorandum to program managers requiring them to adhere to the new policy when assigning duties and approving Automated Insolvency System access privileges, and designate a limited number of employees to perform the User Administrator duties.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No.)*
2011-40-058	Providing Quality Taxpayer Service	July 2011	01/15/15	***Taxpayers Do Not Always Receive Quality Responses When Corresponding About Tax Issues*** F-1, R-3. 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.
2012-40-010	Tax Compliance Initiatives	December 2011	07/15/16	***More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed to Ensure All Are Complying With the New Preparer Regulations*** F-3, R-1. Implement a process to identify a tax return that is submitted with a Preparer Taxpayer Identification Number that is being used by someone other than the authorized preparer.
2013-40-009	Fraudulent Claims and Improper Payments	December 2012	11/15/14	***Many Taxpayers Are Still Not Complying With Non-cash Charitable Contribution Reporting Requirements*** F-1, R-2. Capture the contribution date, donee signature and/or acknowledgement date, and Declaration of Appraiser, and type of property donated from Forms 8283 and develop processes to use the information to ensure that taxpayers are meeting the requirements for claiming deductions for non-cash charitable contributions.
2013-40-022	Fraudulent Claims and Improper Payments	February 2013	01/15/15	***Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved*** F-1, R-5. Assess the value of the Information Referral (Form 3949-A) program once the IRS implements the corrective actions resulting from the previous TIGTA report, reassess the emphasis placed on the program, and prioritize it as needed.
2013-20-013	Achieving Program Efficiencies and Cost Savings	June 2013	04/25/15	***The Data Center Consolidation Initiative Has Made Significant Progress, but Program Management Should Be Improved to Ensure Goals Are Achieved*** F-1, R-3. Ensure that the Detroit Enterprise Computer Center is consolidated into the Martinsburg and Memphis Enterprise Computing Center.
2013-30-077	Tax Compliance Initiatives	August 2013	06/15/15	***The Correspondence Audit Selection Process Could Be Strengthened*** F-1, R-1. Develop and implement procedures in the Internal Revenue Manual that instruct how current year correspondence audit results are to be used in deciding whether the prior and/or subsequent year tax returns warrant an audit.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No.)*
2013-10-082	Tax Compliance Initiatives	August 2013	2/15/15 11/15/14 11/15/14	***Contractor Employees Have Millions of Dollars of Federal Tax Debts*** F-1, R-1. Establish and implement policies and procedures to ensure that contractor employee tax compliance is continually monitored, similar to the way IRS Federal employee tax compliance is monitored. F-1, R-2. Establish and implement policies and procedures to require that contractor employee background investigation revalidations, which occur when a contractor employee has had two-years or more break in service, requires a tax compliance component. F-1, R-3. Ensure that any contractor employees we identified as potentially noncompliant are further evaluated and that any contractor employees who are not tax compliant are promptly brought into compliance or removed from IRS contracts.
2013-20-108	Security for Taxpayer Data and Employees	September 2013	02/25/15	***Better Cost-Benefit Analysis and Security Measures Are Needed for the Bring Your Own Device Pilot*** F-2, R-4. Provide periodic refresher training for Bring Your Own Device participants that clearly explain the risks associated with personal mobile devices.
2013-23-119	Implementing Major Tax Law Changes	September 2013	10/25/15	***Affordable Care Act: Improvements Are Needed to Strengthen Systems Development Controls for the Premium Tax Credit Project*** F-4, R-1. Ensure that the Internal Revenue Manual is updated to provide specific guidance on how IRS management is to effectively manage, monitor, and mitigate fraud risk for information technology systems.
2013-30-121	Tax Compliance Initiatives	September 2013	05/15/15 05/15/15	***The Online Payment Agreement Program Benefits Taxpayers and the Internal Revenue Service, But More Could Be Done to Expand Its Use*** F-1, R-1. Measure Online Payment Agreement (OPA) program performance results against OPA program goals and manage the program to achieve those goals. F-2, R-2, P-1. Perform an evaluation of installment agreement programs, including the OPA program to identify barriers to using the OPA program and determine the reasons taxpayers used the methods they did to establish their payment agreements.
2013-40-122	Fraudulent Claims and Improper Payments	September 2013	06/15/17 10/15/14	***Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds*** F-1, R-1. Implement a process to deactivate Individual Taxpayer Identification Numbers assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement. F-2, R-1. Continue to analyze characteristics of fraudulent tax returns resulting from identity theft to refine and expand identity theft filters used to detect and prevent the issuance of fraudulent tax refunds resulting from identity theft.
2013-40-123	Fraudulent Claims and Improper Payments	September 2013	10/15/14	***The Law Which Penalizes Erroneous Refund and Credit Claims Was Not Properly Implemented*** F-1, R-1. Develop processes and procedures to ensure Campus Operations assess the erroneous refund penalty for disallowed credit claims that are excessive and do not have a reasonable basis.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No.)*
2013-40-124	Tax Compliance Initiatives	September 2013	01/15/15 10/15/14	***Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season*** F-2, R-2. Initiate a program to recover the more than $58 million from the 42,961 taxpayers who received education credits for students who were of an unlikely age to be eligible for the credits. F-3, R-3. Initiate a program to correct the 239 taxpayer accounts where the IRS incorrectly recorded the transfer of the net Homebuyer Credit repayment obligation in the case of a divorce.
2013-40-129	Providing Quality Taxpayer Service	September 2013	03/15/15	***Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft*** F-2, R-1. Develop a standard format for information provided for inclusion in the Global Report to ensure consistency.
2014-40-011	Fraudulent Claims and Improper Payments	February 2014	02/15/15 03/15/15 03/15/16 06/15/15	***Processes for Ensuring Compliance With Qualifying Advanced Energy Project Credit Requirements Can Be Strengthened*** F-1, R-1. Develop a process to ensure that changes in projects are fully evaluated for significance and a determination is made as to whether forfeiture of the credit is required. F-1, R-2. Develop a process to ensure manufacturer compliance with project specifications including that projects are placed into service at the locations specified in the manufacturer's agreement. F-2, R-1. Ensure a process to identify and verify that individual taxpayer tax returns claiming Advanced Energy Credits are valid. F-2, R-2. Verify whether the 1,149 individual taxpayers for Tax Year 2011 TIGTA identified as not related to a manufacturer of an awarded advanced energy project are entitled to receive the Advanced Energy Credit.
2014-20-002	Achieving Program Efficiencies and Cost Savings	February 2014	01/25/15 01/25/16 01/25/16	***The Internal Revenue Service Should Improve Mainframe Software Asset Management and Reduce Costs*** F-1, R-2. Develop an enterprise-wide organizational structure to manage mainframe software assets and licenses. F-1, R-4. Develop detailed standard operating procedures for using mainframe software licensing tools to manage software licenses. F-1, R-7. Maintain data in the inventory system that the IRS can use to more effectively review mainframe software licensing agreements, purchases, deployment, usage, and other related aspects of mainframe licensing to identify additional savings in software spending.
2014-20-016	Security of Taxpayer Data and Employees	February 2014	11/15/14 11/25/14	***Planning Is Underway for the Enterprise-Wide Transition to Internet Protocol Versions 6, but Further Actions Are Needed*** F-1, R-3. Ensure that procurement policy and procedures are updated to align with the Federal Acquisition Regulation and establish a control that prohibits purchase of any equipment or software that is not IPv6 capable in order to ensure that the agency does not waste valuable resources buying products that will not work on the converted network. F-2, R-1. Take a more proactive role of adhering to the Enterprise Life Cycle process and meeting project milestone deadlines to ensure the timely completion of key Enterprise Life Cycle deliverables, artifacts, and processes for the critical 2014 enterprise-wide transition to IPv6.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No.)*
2014-10-008	Tax Compliance Initiatives	March 2014		***Millions of Dollars in Potentially Improper Self Employed Retirement Plan Reductions Are Allowed***
			10/15/14	F-1, R-1. Enhance existing validation programs.
			04/15/15	F-1, R-2. Initiate actions to determine whether the taxpayers TIGTA identified who claimed potentially improper Simplified Employee Pension and other retirement plan deductions in Tax Year 2011 should be assessed additional tax.
			04/15/15	F-3, R-1. Work with the Department of the Treasury to assess whether it would be cost effective to recommend legislative changes.

Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:	
Issue	**Result for TIGTA**
Access to Information Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities.	As of September 30, 2014, there were no instances where information or assistance requested by the Office of Audit was refused.
Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.	As of September 30, 2014, there were no instances where significant recommendations were disputed.
Revised Management Decisions Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	As of September 30, 2014, there were no significant revised management decisions.
Audit Reports Issued in the Prior Reporting Period With No Management Response Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period.	As of September 30, 2014, there were no prior reports where management's response was not received.
Review of Legislation and Regulations Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations.	TIGTA's Office of Chief Counsel reviewed 139 existing or proposed regulations and legislative requests during this reporting period.

Inspection Reports With Significant Unimplemented Corrective Actions

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (F = Finding No., R = Recommendation No., P = Plan No.)
2011-IE-R004	June 2011	10/15/2015	**Follow-up Review of Controls Over Religious Compensatory Time** F-1, R-2, P-1. The IRS Human Capital Officer should modify the IRS religious compensatory time (RCT) procedures to require that all employees (bargaining unit and non-bargaining unit) submit written requests to earn or use RCT, and develop a standard form for requesting, authorizing, and documenting the use of RCT.
2013-IE-R006	July 2013	10/15/2015 10/15/2015	**Review of the Implementation of the Telework Enhancement Act of 2010** F-1, R-1, P-1. The IRS Human Capital Officer should revise the IRS's telework policy to indicate that a non-bargaining unit employee with an approved telework agreement can be expected to telework outside his or her normal telework schedule in the case of an emergency situation. F-1, R-2, P-1. The IRS Human Capital Officer should require that telework agreements include specific language on whether the employee is expected to telework when the office is closed due to an emergency.
2013-IE-R008	August 2013	1/15/2015 1/15/2017 1/15/2016 1/15/2015 1/15/2015 1/15/2015	**The Internal Revenue Service Needs to Improve the Comprehensiveness, Accuracy, Reliability, and Timeliness of the Tax Gap Estimate** F-1, R-1, P-1. The Director, Office of Research, Analysis and Statistics (RAS), should conduct a study to determine the feasibility of providing interim updates to Tax Gap estimates. More frequent updates would facilitate tax system decision making and assist the Department of the Treasury in monitoring the Agency Priority Goal for increasing voluntary compliance. F-2, R-1, P-1. The Director, Office of RAS, should develop processes and procedures to ensure compliance with applicable Office of Management and Budget (OMB) standards to improve the overall confidence that can be placed in the accuracy and reliability of the Tax Gap estimate. This includes developing a method to estimate the total costs for performing each Tax Gap estimate and study. This information will assist decision makers in determining the methods and frequency of future studies. F-2, R-2, P-1. The Director, Office of RAS, should issue a published report to explain the methods, assumptions, and premises used to develop the estimates. Furthermore, the report should also include comments about the confidence of the reliability and accuracy of the estimate and comparisons with previous estimates. The report should specifically state instances where no estimates have been developed and whether the absence of an estimate could affect the final estimate and the Voluntary Compliance Rate (VCR). Finally, the report should be subject to peer review. F-3, R-1, P-1. The Director, Office of RAS, should develop the capability to estimate the Tax Gap for the informal economy. The information developed can then be used by tax policy decision makers and tax administration officials to develop strategies to improve voluntary compliance. F-3, R-2, P-1. The Director, Office of RAS, should perform a study to determine the feasibility to estimate the Tax Gap for offshore tax evasion. The information developed can then be used by tax policy decision makers and tax administration officials to develop strategies to improve voluntary compliance. F-4, R-1, P-1. The Director, Office of RAS, should consider changing the estimation model for large corporations from using recommended tax to using tax assessments from operational examinations to more clearly reflect the noncompliance found and ultimately sustained on large corporate examinations.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary (*F = Finding No., R = Recommendation No., P = Plan No.*)
		1/15/2016	F-4, R-2, P-1. The Director, Office of RAS, should consider conducting an NRP review on small corporations filing Form 1120, U.S. Corporate Income Tax Return, with total assets of less than $10 million. This will allow the IRS to more accurately model the small corporate Tax Gap by using a random sample results partnered with the DCE method. Subsequently, the IRS could use the results of the NRP to better calibrate the yield curve analysis results used to estimate the small corporate Tax Gap in future years.
2014-IE-R006	December 2013	11/15/2014 11/15/2014	**Review of Section 1603 Grants In Lieu of Energy Investment Tax Credit** F-1, R-1, P-1. We recommended that the Commissioners for the Small Business/ Self-Employed Division and Large Business and International Division evaluate the feasibility of establishing an indicator on taxpayers' accounts for taxpayers that received Recovery Act Section 1603 grants. This indicator could be established and updated based on the Section 1603 grant recipient file sent by the Department of the Treasury quarterly and annually. This indicator would provide permanent notice on the IRS files that this taxpayer has received a Section 1603 grant and therefore caution should be taken in processing any amended returns that claim the ITC. F-1, R-1, P-2. We recommended that the Commissioners for the Small Business/ Self-Employed Division and Large Business and International Division evaluate the feasibility of establishing an indicator on taxpayers' accounts for taxpayers that received Recovery Act Section 1603 grants. This indicator could be established and updated based on the Section 1603 grant recipient file sent by the Department of the Treasury quarterly and annually. This indicator would provide permanent notice on the IRS files that this taxpayer has received a Section 1603 grant and therefore caution should be taken in processing any amended returns that claim the ITC.

Appendix II
Audit Products
April 1, 2014 - September 30, 2014

Audit Products	
Reference Number	**Report Title**
	April 2014
2014-40-028	Amended Tax Return Filing and Processing Needs to Be Modernized to Reduce Erroneous Refunds, Processing Costs, and Taxpayer Burden (Revenue Protection: $2,199,421,265 and 187,421 taxpayer accounts impacted; Funds Put to Better Use: $17,061,129)
2014-20-021	Used Information Technology Assets Are Being Properly Donated; However, Disposition Procedures Need to Be Improved
2014-10-030	Better Adherence to Requirements Is Needed to Justify and Document Noncompetitive Contract Awards (Protection of Resources: $13,200,000; Reliability of Information: $14,900,000)
2014-10-026	Status of Implementation of the Federal Financial Management Improvement Act
	May 2014
2014-10-031	Improvements Are Needed in Documentation and Data Accuracy for the Employment Tax Study (Reliability of Information: 6,321 data elements impacted)
2014-30-023	Expansion of the Delinquent Return Refund Hold Program Could Improve Filing Compliance and Help Reduce the Tax Gap (Increased Revenue: $105,000,000)
2014-33-032	Affordable Care Act: Despite Initial Challenges, the Internal Revenue Service Successfully Implemented the Branded Prescription Drug Fee (Taxpayer Burden: five taxpayer accounts impacted)
2014-30-034	Trust Fund Recovery Penalty Actions Were Not Always Timely or Adequate
2014-10-036	Review of Fair Tax Collection Practices Violations During Fiscal Year 2013
2014-1C-019	Independent Audit of the Contractor's Asset Management's Incurred Costs for Fiscal Year Ended December 31, 2005 (Questioned Costs: $8,431)
2014-1C-024	Independent Audit of the Contractor's Fiscal Year 2006 Incurred Cost Proposal
	June 2014
2014-10-025	Implementation of Fiscal Year 2013 Sequestration Budget Reductions
2014-10-033	The Taxpayer Advocate Service Can Improve the Processing of Systemic Burden Cases (Taxpayer Rights and Entitlements: 9,399 taxpayer accounts impacted; Taxpayer Burden: 56,393 taxpayer accounts impacted; Reliability of Information: 54,305 taxpayer advocate service cases impacted)
2014-40-038	Processes to Determine Optimal Face-to-Face Taxpayer Services, Locations, and Virtual Services Have Not Been Established
	July 2014
2014-40-041	Processes Were Not Established to Verify Eligibility for Work Opportunity Tax Credits (Revenue Protection: $3,177,543)
2014-43-044	Affordable Care Act: Accuracy of Responses to Exchange Requests for Income and Family Size Verification Information and Maximum Advance Premium Tax Credit Calculation

2014-10-012	Some Tax-Exempt Organizations Have Substantial Delinquent Payroll Taxes
2014-10-037	Some Contractor Personnel Without Background Investigations Had Access to Taxpayer Data and Other Sensitive Information (Taxpayer Privacy and Security: 1,400,000 taxpayer accounts impacted)
2014-43-043	The Affordable Care Act: An Improved Strategy Is Needed to Ensure Accurate Reporting and Payment of the Medical Device Excise Tax (Reliability of Information: $117,760,374 and 276 taxpayer accounts impacted; Taxpayer Rights and Entitlements: $378,835 and 86 taxpayer accounts impacted)
2014-30-046	Fiscal Year 2014 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns
2014-1C-035	Incurred Cost Proposal for Fiscal Year 2007
2014-1C-039	Incurred Cost Proposal for Fiscal Year 2006
2014-10-048	Review of the Internal Revenue Service's Purchase Card Violations Report
2014-1C-040	Incurred Cost Proposal for Fiscal Year 2008
2014-1C-045	Incurred Cost Proposal for Fiscal Year 2009
2014-1C-047	Incurred Costs Audit for Calendar Year 2005
2014-1C-010	Independent Audit of the Contractor's Federal Sector Consolidated Services for Fiscal Year Ending March 31, 2007
August 2014	
2014-30-053	Fiscal Year 2014 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 14 taxpayer accounts impacted)
2014-40-057	The External Leads Program Results in the Recovery of Erroneously Issued Tax Refunds; However, Improvements Are Needed to Ensure That Leads Are Timely Verified
2014-40-056	Processes Do Not Ensure That Complaints Against Tax Return Preparers Are Timely, Accurately, and Consistently Processed
2014-30-052	Delinquent Taxes May Not Be Collected Because Required Research Was Not Always Completed Prior to Closing Some Cases As Currently Not Collectible (Revenue Protection: $55,271,241)
2014-40-065	Better Worker Identification Data Are Needed for the Voluntary Classification Settlement Program
2014-30-050	Return Preparer Coordinators Could Improve the Selection of Problematic Paid Preparers for Further Enforcement Actions
2014-30-060	Fiscal Year 2014 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations
2014-10-049	Review of the Office of Appeals Collection Due Process Program (Taxpayer Rights and Entitlements: 17,204 taxpayer accounts impacted; Increased Revenue: 1,490 taxpayer accounts impacted)
2014-30-066	Fiscal Year 2014 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute
September 2014	
2014-40-058	Processes Are Needed to More Effectively Address Potentially Erroneous Excess Social Security Tax Credit Claims (Funds Put to Better Use: $64,538,560)
2014-30-051	Additional Actions Are Needed to Help Ensure Taxpayer Compliance With the Foreign Investment in Real Property Tax Act (Revenue Protection: $58,591,066; Taxpayer Burden: $5,240,550 and 7,230 taxpayer accounts impacted; Reliability of Information: 247 taxpayer accounts impacted)
2014-30-061	Fiscal Year 2014 Statutory Review of Compliance With Notice of Federal Tax Lien Due Process Procedures

2014-30-062	Trends in Compliance Activities Through Fiscal Year 2013
2014-30-054	The Internal Revenue Service Needs to Enhance Its International Collection Efforts
2014-40-076	Processes Are Needed to Ensure That Letters and Notices Are Written in Compliance With the Plain Writing Act (Inefficient Use of Resources: $299,334)
2014-20-069	Progress Has Been Made; However, Significant Work Remains to Achieve Full Implementation of Homeland Security Presidential Directive 12
2014-30-068	Field Collection Could Work Cases With Better Collection Potential
2014-20-059	The Office of Safeguards Should Improve Management Oversight and Internal Controls to Ensure the Effective Protection of Federal Tax Information
2014-20-085	Increased Support Is Needed to Ensure the Effectiveness of the Final Integration Test
2014-23-070	Affordable Care Act: Expanded Guidance Provided Assistance to the Exchanges, but Greater Assurance of the Protection of Federal Tax Information Is Needed
2014-30-079	Fiscal Year 2014 Statutory Review of Restrictions on Directly Contacting Taxpayers
2014-30-064	Fiscal Year 2014 Statutory Review of Compliance With the Freedom of Information Act (Taxpayer Rights and Entitlements: 353 information requests; Taxpayer Privacy and Security: 14 responses to information requests)
2014-20-083	The Internal Revenue Service Should Implement an Efficient Internal Information Security Continuous Monitoring Program That Meets Its Security Needs
2014-30-080	Declining Resources Have Contributed to Unfavorable Trends in Several Key Automated Collection System Business Results (Revenue Protection: $2,805,666,079)
2014-10-074	Controls Over Records Storage Costs Could Be Improved (Funds Put to Better Use: $701,097)
2014-30-081	Improvements Are Needed to Ensure That the Search and Seizure Warrant Process Is Adequately Documented and That Evidence Is Properly Secured
2014-40-077	Key Tax Provisions Were Implemented Correctly for the 2014 Filing Season
2014-30-055	Fiscal Year 2014 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2014-10-075	Wireless Telecommunication Device Inventory Control Weaknesses Resulted in Inaccurate Inventory Records and Unsupported Service Fees (Funds Put to Better Use: $2,183,220)
2014-30-078	Fiscal Year 2014 Statutory Review of Compliance With Legal Guidelines When Issuing Levies (Taxpayer Rights and Entitlements: 13,989 taxpayers impacted)
2014-20-092	The Internal Revenue Service Does Not Adequately Manage Information Technology Security Risk-Based Decisions
2014-20-087	While the Data Loss Prevention Solution Is Being Developed, Stronger Oversight and Process Enhancements Are Needed for Timely Implementation Within Budget (Taxpayer Privacy and Security: 308 tax accounts impacted)
2014-20-090	Treasury Inspector General for Tax Administration – Federal Information Security Management Act Report for Fiscal Year 2014
2014-40-086	Identity Protection Personal Identification Numbers Are Not Provided to All Eligible Taxpayers (Taxpayer Rights and Entitlements: 557,265 taxpayer impacted; Taxpayer Burden: 772,666 taxpayers impacted)
2014-40-084	A Service-Wide Strategy Is Needed to Increase Business Tax Return Electronic Filing (Increased Revenue: $38,853,050; Funds Put to Better Use: $85,204,985)
2014-20-042	The Internal Revenue Service Should Improve Server Software Asset Management and Reduce Costs (Inefficient Use of Resources: $97,800,000)
2014-40-091	Prisoner Tax Refund Fraud: Delays Continue in Completing Agreements to Share Information With Prisons, and Reports to Congress Are Not Timely or Complete
2014-30-067	Additional Actions Are Needed to Ensure That Improper Fuel Tax Credit Claims Are Disallowed (Revenue Protection: $71,727,828)

2014-30-082	Improvements Are Needed to Ensure That Procedures Are Followed During Partnership Audits Subject to the Tax Equity and Fiscal Responsibility Act of 1982 (Taxpayer Rights and Entitlements: 1,696 Tax Equity and Fiscal Responsibility Act of 1982 audits)
2014-30-089	Further Actions Are Needed to Resolve Millions of Dollars of Frozen Credits in Taxpayer Accounts (Revenue Protection: $7,600,000)
2014-10-073	Controls Over Outside Employment Are Not Sufficient to Prevent or Detect Conflicts of Interest (Reliability of Information: 20,678 employment accounts and 2,656 IRS employees impacted)
2014-40-093	Existing Compliance Processes Will Not Reduce the Billions of Dollars in Improper Earned Income Tax Credit and Additional Child Tax Credit Payments (Funds Put to Better Use: $8,563,627,665)
2014-20-063	Customer Account Data Engine 2 Database Validation Is Progressing; However, Data Coverage, Data Defect Reporting, and Documentation Need Improvement
2014-20-088	The Information Reporting and Document Matching Case Management System Could Not Be Deployed (Inefficient Use of Resources: $8,620,851; Increased Revenue: $54,937,820)
2014-23-072	Affordable Care Act: Improvements Are Needed to Strengthen Security and Testing Controls for the Affordable Care Act Information Returns Project
2014-20-071	Information Technology: Improvements Are Needed to Successfully Plan and Deliver the New Taxpayer Advocate Service Integrated System
2014-20-095	Annual Assessment of the Internal Revenue Service Information Technology Program
2014-20-094	While the Financial Institution Registration System Deployed on Time, Improved Controls Are Needed

Appendix III

TIGTA's Statutory Reporting Requirements

TIGTA issued 21 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2014, TIGTA completed its 15th round of statutory reviews that are required annually by RRA 98. It also completed its annual reviews of the Federal Financial Management Improvement Act (FFMIA) of 1996, the Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The following table reflects the FY 2014 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (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.	**Ref. No. 2014-30-055, September 2014** The IRS is generally ensuring that its managers do not use Records of Tax Enforcement Results and/or production goals or quotas to evaluate employees. However, the IRS was not in full compliance with RRA 98 § 1204 during FY 2013 and some IRS business units need to be more diligent. In addition, TIGTA determined that changes to a human resources computer system resulted in 466 Section 1204 managers not being listed on the FY 2013 Section 1204 Manager Listing, as well as eight employees missing the mandatory record of tax enforcement results training in FY 2013.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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 that they prefer their representatives be contacted.	**Ref. No. 2014-30-079, September 2014** The IRS has a number of policies and procedures in place to help ensure that taxpayers are afforded the right to designate an authorized representative to act on their behalf in dealing with IRS personnel in a variety of tax matters. For this review, TIGTA analyzed how well the Small Business/Self-Employed Division's Examination function has ensured that its personnel are appropriately including taxpayers' representatives in its audit activities. A review of a statistical sample of 96 tax return audits closed in FY 2013 showed that tax compliance officers are generally involving the authorized representatives in case activities.
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.	**Ref. No. 2014-30-061, September 2014** TIGTA reviewed a statistically valid sample of 133 *Notices of Federal Tax Lien* forms for the 12-month period beginning July 1, 2012, and determined that the IRS timely and correctly mailed the taxpayers the notices of lien filing and appeal rights, as required by I.R.C. § 6320(a). However, the IRS did not always follow internal procedures for undelivered lien notices. Procedures require address verification and, if applicable, resolution of the undelivered lien notices within 14 calendar days of receipt.
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.	**Ref. No. 2014-30-066, August 2014** The IRS is required to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties. Based on the results of this review, TIGTA believes that the IRS is generally compliant with legal requirements as we identified only a few instances in which the audit files lacked documentation that the taxpayer or the taxpayer's representative were properly notified of the taxpayer's rights.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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.	**Ref. No. 2014-30-078, September 2014** The IRS is protecting taxpayers' rights when issuing systemic and manual levies in cases for which additional assessments were not included in the levy. TIGTA reviewed statistical samples of systemic and manual levies issued by the Automated Collection System and the Integrated Collection System and determined that controls ensured that taxpayers were given notice of their appeal rights at least 30 calendar days prior to issuance of the levies. However, a review of random statistical samples of 30 Automated Collection System and 30 Integrated Collection System taxpayers with additional assessments found that taxpayers did not always receive a new notice of intent to levy after an additional assessment was made on a tax period listed on the levy.
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.	**Ref. No. 2014-10-049, August 2014** This year's audit continues to identity the same deficiencies in the IRS's processing of Collection Due Process cases as previously reported. Specifically, the Office of Appeals did not always classify taxpayer requests properly and, as a result, some taxpayers received the wrong type of hearing. In its two statistically valid samples, TIGTA identified eight taxpayer cases that were misclassified. This is an increase from the six misclassified in the prior year's review. TIGTA also found that Appeals personnel did not always document their impartiality statement in final hearing notification letters issued to taxpayers. TIGTA identified that in 23 of the 132 taxpayer cases reviewed, the IRS did not have the required impartiality statement documented in the waiver and withdrawal letters sent to taxpayers.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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.	**Ref. No. 2014-30-053, August 2014** TIGTA reviewed a random sample of 50 of 580 seizures conducted from July 1, 2012, through June 30, 2013, to determine whether the IRS complied with legal and internal guidelines when conducting each seizure. In the majority of the seizures reviewed, the IRS followed all guidelines. However, in 14 seizures, TIGTA identified 19 instances in which the IRS did not comply with a particular I.R.C. requirement. While not following legal and internal guidelines could result in the abuse of taxpayers' rights, we did not identify any instances in which taxpayers were adversely affected.
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.	**Ref. No. 2014-30-060, August 2014** The IRS has not reintroduced past Illegal Tax Protester codes or similar designations on taxpayer accounts. However, TIGTA found in one instance the IRS used the phrase "Tax Defier" in the Internal Revenue Manual.
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.	**Ref. No. 2014-30-046, July 2014** IRS procedures provide employees with sufficient guidance for handling joint filer collection activity information requests. However, TIGTA could not determine whether the IRS fully complied with I.R.C. § 6103(e)(8) requirements when responding to written collection activity information requests from joint filers. IRS management information systems do not separately record or monitor joint filer requests and there is no legal requirement for the IRS to do so. Further, TIGTA does not recommend the creation of a separate tracking system.
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 59. .

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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.	**Ref. No. 2014-10-036, May 2014** Two Fair Tax Collection Practices Act violations were identified for cases on the IRS Human Capital Officer Workforce Relations' Automated Labor and Employee Relations Tracking System that were closed in FY 2013. Both employees were revenue officers performing collection work, and each case involved the revenue officers contacting taxpayers directly, instead of contacting the taxpayer's power of attorney, as required. The IRS took administrative action of at least admonishment against both employees.
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).	**Ref. No. 2014-30-064, September 2014** TIGTA reviewed a statistically valid sample of 62 Freedom of Information Act/Privacy Act information requests from a population of 2,973 requests and found seven in which taxpayer rights may have been violated because the IRS improperly withheld or failed to adequately search for and provide information to the requestors. The IRS also did not meet requirements because it failed to adequately search for and provide information in eight of 53 sampled I.R.C. § 6103 information requests. Additionally, sensitive taxpayer information was inadvertently disclosed in response to 13 of the Freedom of Information Act/Privacy Act and one of the I.R.C. § 6103 information requests reviewed.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)	Requires TIGTA to evaluate the adequacy and security of the IRS's technology.	***Information Technology Reviews:*** Ref. No. 2014-20-002, February 2014 Ref. No. 2014-30-021, April 2014 Ref. No. 2014-20-085, September 2014 Ref. No. 2014-10-075, September 2014 Ref. No. 2014-20-042, September 2014 Ref. No. 2014-20-063, September 2014 Ref. No. 2014-20-071, September 2014 Ref. No. 2014-20-088, September 2014 Ref. No. 2014-20-094, September 2014 ***Security Reviews:*** Ref. No. 2014-IE-R004, December 2013 Ref. No. 2014-20-016, February 2014 Ref. No. 2014-40-020, March 2014 Ref. No. 2014-10-037, July 2014 Ref. No. 2014-20-069, September 2014 Ref. No. 2014-20-059, September 2014 Ref. No. 2014-20-070, September 2014 Ref. No. 2014-23-072, September 2014 Ref. No. 2014-20-083, September 2014 Ref. No. 2014-20-087, September 2014 Ref. No. 2014-20-092, September 2014 Ref. No. 2014-20-095, September 2014
Federal Financial Management Improvement Act of 1996 (FFMIA) 31 U.S.C. § 3512	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.	**Ref. No. 2014-10-026, April 2014** The IRS has continued to take action on internal control weaknesses that affect its financial reporting. For example, the IRS closed seven of 11 open remediation actions during FY 2013 and did not miss any intermediate target dates on its remediation plans related to the unpaid tax assessments material weakness. However, in December 2013, the Government Accountability Office reported that because of the material weakness in the IRS's internal controls over unpaid tax assessments and the associated system deficiencies, IRS financial management systems did not comply with the Federal financial management systems requirements. The unpaid tax assessments material weakness affects the IRS's ability to accurately quantify the amount of unpaid tax assessments owed to the IRS.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions National Drug Enforcement Policy 21 U.S.C. § 1704(d) and the Office of National Drug Control Policy Circular entitled *Drug Control Accounting*, dated May 1, 2007.	Requires TIGTA to authenticate the IRS's ONDCP detailed accounting submission and assertions.	**Ref. No. 2014-10-015, January 2014** 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 fairly presented in all material respects in accordance with ONDCP-established criteria.
Government Charge Card Abuse Prevention Act of 2012 Pub. L. No. 112-194 (October 2012).	Requires TIGTA to report on IRS progress in implementing purchase and travel card audit recommendations.	**Ref. No. 2014-10-014, January 2014** TIGTA found that the IRS properly reported four instances of identified purchase card misuse. TIGTA's independent review identified one confirmed violation of purchase card fraud, during the reporting period that resulted in the resignation of the responsible card holder. In addition, TIGTA identified two potential purchase card violations pending final agency action and one potential purchase card violation pending investigation. **Ref. No. 2014-10-048, July 2014** TIGTA found that the IRS identified and reported two instances of confirmed purchase card misuse and three instances of purchase card misuse pending investigation. However, TIGTA's independent review identified three additional cases of confirmed purchase card misuse during the reporting period that resulted in an agency action. The five confirmed purchase card misuse cases all related to prohibited purchases for nominal sums, totaling approximately $300. In addition to the three cases pending investigation identified by the IRS, TIGTA identified two additional purchase card misuse cases pending final IRS action and one pending TIGTA investigation.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Improper Payments Elimination and Recovery Act of 2010 (IPERA) 31 U.S.C. § 3321	Requires TIGTA to assess the IRS's compliance with improper payment requirements.	**Ref. No. 2014-40-027, March 2014** The IRS continues not to provide all required IPERA information to the Department of the Treasury for inclusion in the *Department of the Treasury Agency Financial Report Fiscal Year 2013*. For the third consecutive year, the IRS did not publish annual reduction targets or report an improper payment rate of less than 10 percent of the Earned Income Tax Credit. Additionally, although risk assessments were performed for each of the programs that the Department of the Treasury required the IRS to assess, the risk assessment process still does not provide a valid assessment of improper payments of tax administration. As such, the Earned Income Tax Credit remains the only revenue program fund to be considered at a high risk for improper payments. IRS management has indicated that the IRS and the Department of the Treasury are in continued discussions with the Office of Management and Budget to obtain its approval to develop supplemental measures that are appropriate to gauge the impact of the Earned Income Tax Credit compliance and outreach efforts in lieu of developing error reduction targets.

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 I.R.C.), 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 I.R.C. for the purpose of concealing information from a congressional inquiry;
- Willfully failing to file any return of tax required under the I.R.C. on or before the date prescribed therefore (including any extensions), unless such failure is due to reasonable cause and not to willful neglect;
- Willfully understating Federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect; and
- Threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

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

Appendix V

Implementing Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act Inspector General Peer Review Activity April 1, 2014 Through September 30, 2014

Last Peer Review Conducted of TIGTA Office of Investigations:

The U.S. Department of Health and Human Services, Office of Inspector General conducted a peer review of the TIGTA Office of Investigations during this reporting period. A final report has not been issued.

No Peer Review Conducted by TIGTA Office of Investigations:

No peer reviews were conducted by the TIGTA Office of Investigations during this reporting period.

No Peer Review Conducted of TIGTA's Office of Inspections and Evaluations

No peer reviews were conducted of the TIGTA Office of Inspections and Evaluations during this reporting period.

No Peer Review Conducted of TIGTA Office of Audit:

No peer reviews were conducted of the TIGTA Office of Audit during this reporting period. In accordance with the three-year cycle, no external peer review was required during this reporting period.

Appendix VI
Data Tables Provided by the IRS

The memorandum copied below is the IRS's transmittal to TIGTA. The tables that follow the memorandum contain information that the IRS provided to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS) for the period from April 1, 2014 through September 30, 2014. 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, DC 20224

October 7, 2014

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Lia Colbert
Director, Workforce Relations Division

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

In response to your memorandum on July 24, 2014, to the Commissioner, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period April 1, 2014, to September 30, 2014.

- 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 September 30, 2014. 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 61 §1203 allegations and removed seven employees. Three employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 19 cases.

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If you have any questions, please contact me, or a member of your staff may contact Sheila Barbee at 202-317-6289.

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 April 1, 2014 through September 30, 2014 Summary by Disposition Groups (Tables Provided by the IRS)

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Totals
REMOVAL (PROBATION PERIOD COMPLETE)	41	40	6	0	**87**
REMOVAL AT OPM DIRECTION	0	0	0	5	**5**
PROBATION/SEPARATION	1	102	0	1	**104**
SEPARATION OF TEMP	0	15	0	0	**16**
RESIGN.,RET., ETC. (SF50 NOTED)	15	12	8	0	**35**
RESIGN. RET., ETC. (SF50 NOT NOTED)	31	84	33	1	**149**
SUSP., 14 DAYS OR LESS	75	131	111	3	**320**
SUSP., MORE THAN 14 DAYS	34	38	35	0	**107**
INDEFINITE SUSPENSION	0	2	0	0	**2**
REPRIMAND	48	172	139	0	**359**
ADMONISHMENT	57	165	313	2	**537**
WRITTEN COUNSELING	54	189	129	0	**372**
ORAL COUNSELING	0	35	13	0	**48**
A D: IN LIEU OF REPRIMAND	3	14	9	2	**28**
A D: IN LIEU OF SUSPENSION	15	23	31	0	**69**
CLEARANCE LETTER	95	117	10	0	**222**
CWA CAUTIONARY LTR	99	133	75	69	**376**
CWA LETTER	66	74	26	2	**168**
TERMINATION FOR ABANDOMENT OF POSITION	0	53	0	0	**53**
CASE SUSPENDED PENDING EMPLOYEE RTD	0	0	0	0	**0**
CLOSED – SUPPLEMENTAL REQUESTED	1	0	0	0	**1**
FORWARDED TO TIGTA	0	4	0	0	**4**
Total	**635**	**1,403**	**939**	**85**	**3,062**

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

Notes: Columns containing numbers of two or fewer and protected by I.R.C. § 6103 are annotated with a zero.

A D is an abbreviation for "Alternative Discipline."

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: October 1, 2014

Reports of Employee Misconduct for the Period April 1, 2014 through September 30, 2014 National Summary (Tables Provided by the IRS)

Inventory Case Type	Open Inventory	Conduct Cases Received	Cases Closed			Ending Inventory
			Conduct Issues	Cases Merged with Other Cases	Non-Conduct Issues	
ADMINISTRATIVE CASE	457	1,877	1,746	33	57	498
EMPLOYEE CHARACTER INVESTIGATION	16	97	92	2	0	19
EMPLOYEE TAX COMPLIANCE CASE	551	1,681	1,459	323	0	450
TIGTA REPORT OF INVESTIGATION	613	771	777	10	0	597
Total	**1,637**	**4,426**	**4,074**	**368**	**57**	**1,564**

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

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

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

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

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

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: October 1, 2014

Summary of Substantiated I.R.C. Section 1203 Allegations Recorded in ALERTS for the Period April 1, 2014 through September 30, 2014 (Tables Provided by the IRS)

§ 1203 Violation	Removals	Resigned /Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated	In Personnel Process	Total
§ 1203(b)(10) Threat of Audit/Personal	0	0	0	0	0	0	**0**
§ 1203(b)(1) Willfull Unauth Seiz TP	0	0	0	0	0	0	**0**
§ 1203(b)(2) False Statement Under Oath	0	0	0	0	0	0	**0**
§ 1203(b)(3) Civ Rights/Const Viol	0	0	0	0	0	1	**1**
§ 1203(b)(4) Concealed Work Error	0	0	0	1	2	0	**3**
§ 1203(b)(5) Conviction Assault Batt	0	0	0	0	0	0	**0**
§ 1203(b)(6) IRC/IRM/Reg Viol-Retal	0	0	0	0	0	0	**0**
§ 1203(b)(8) Willful Untimely Return	4	0	0	0	7	13	**25**
§ 1203(b)(9) Willful Understated Tax	3	0	0	0	10	16	**32**
Total	**7**	**3**	**0**	**2**	**19**	**30**	**61**

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

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

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

Extract Date: October 1, 2014

Glossary of Acronyms

ACA	Affordable Care Act
ACS	Automated Collection System
CADE 2	Customer Account Data Engine 2
CICT	Criminal Intelligence & Counterterrorism Group
CIP	Criminal Intelligence Program
CY	Calendar Year
EITC	Earned Income Tax Credit
FATCA	Foreign Account Tax Compliance Act
FIRPTA	Foreign Investment in Real Property Tax Act of 1980
FY	Fiscal Year
HHS	Department of Health and Human Services
HHS OIG	Department of Health and Human Services Office of the Inspector General
I&E	Office of Inspections and Evaluations
I.R.C.	Internal Revenue Code
IP PIN	Identity Protection Personal Identification Number
IRA	Individual Retirement Account
IRDM	Information Reporting and Document Matching
IRS	Internal Revenue Service
N/A	Not Applicable

OA	Office of Audit
OEP	Office of Employee Protection
OI	Office of Investigations
OID	Original Issue Discount
OIG	Office of the Inspector General
PDT	Potentially Dangerous Taxpayers
PII	Personally Identifiable Information
PY	Processing Year
RCT	Religious Compensatory Time
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
SBU	Sensitive But Unclassified
SSN	Social Security Number
TAS	Taxpayer Advocate Service
TIGTA	Treasury Inspector General for Tax Administration
TINS	Threat Information Notification System
TY	Tax Year

ACRONYMS USED EXCLUSIVELY IN APPENDICES	
ALERTS	Automated Labor and Employee Relations Tracking System
DCE	Detection Controlled Estimation
FFMIA	Federal Financial Management Improvement Act of 1996
IPERA	Improper Payments Elimination and Recovery Act of 2010
ITC	Investment Tax Credit
NRP	National Research Project
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
OPA	Online Payment Agreement
RAS	Research, Analysis and Statistics

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Washington, DC 20044-0589

Information you provide is confidential and you may remain anonymous

Department of the Treasury

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