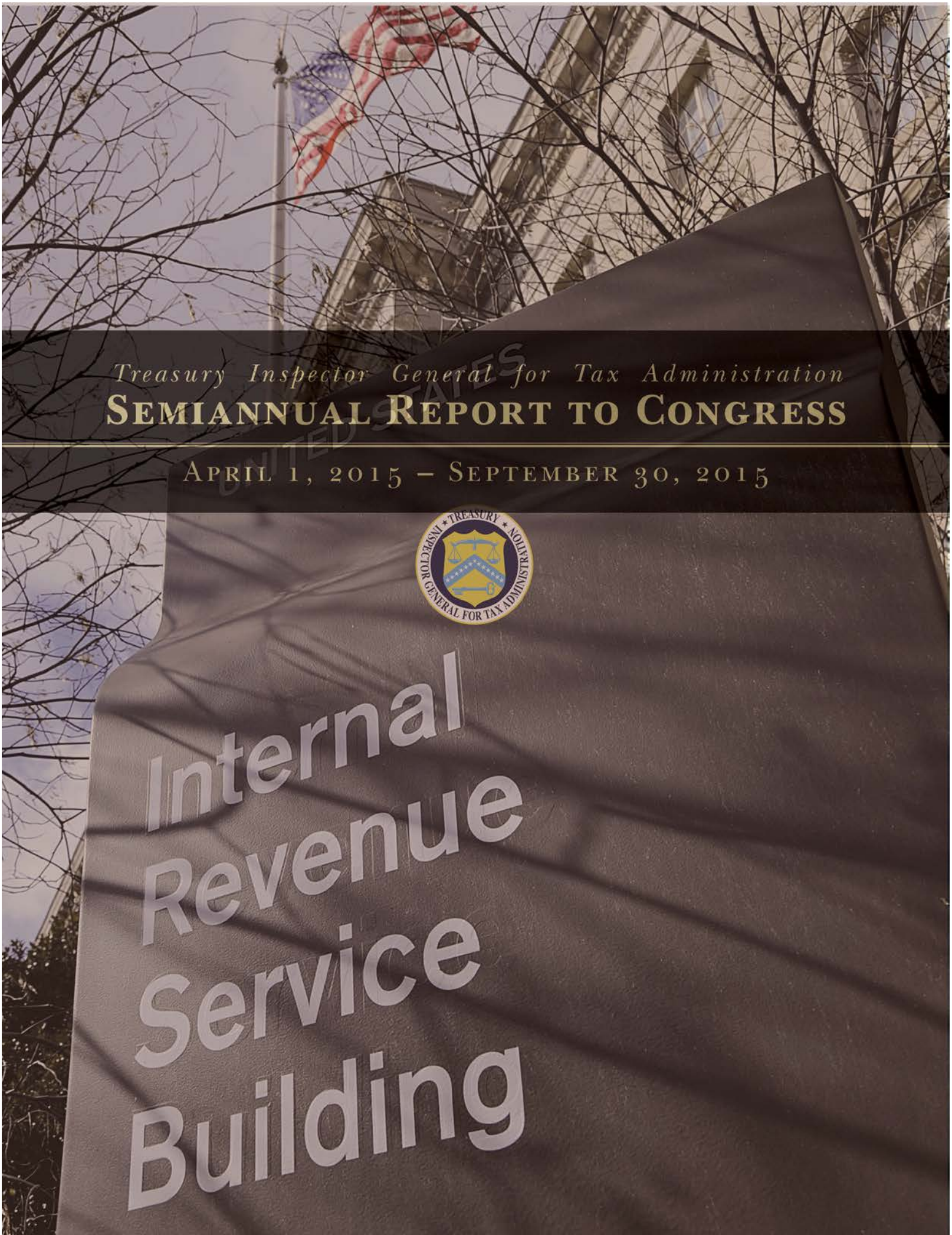


Treasury Inspector General for Tax Administration

Semiannual Report to Congress

April 1, 2015 – September 30, 2015

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 inspection and evaluation 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.

TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY

Inspector General's Message to Congress

I am pleased to submit this Semiannual Report to Congress, which highlights some of the most significant accomplishments of the Treasury Inspector General for Tax Administration (TIGTA) for the reporting period of April 1, 2015 to September 30, 2015. The many achievements of TIGTA in the pursuit of its mission to provide oversight of the Internal Revenue Service (IRS) and to protect the integrity of Federal tax administration are well represented by the compendium of audits, investigations, and inspections and evaluations summarized in this report.

During this reporting period, TIGTA's combined audit and investigative efforts have resulted in the recovery, protection, and identification of monetary benefits totaling over $4.9 billion. In addition, TIGTA's Office of Audit has completed 64 audits, and its Office of Investigations has completed 1,439 investigations.

Schemes involving tax fraud and identity theft continue to be among the most significant challenges to the integrity of the Federal tax system. In particular, the largest and most pervasive IRS impersonation scam in the history of this agency remains a substantial problem. TIGTA continues to receive reports of thousands of contacts every month in which scam artists make unsolicited calls to taxpayers, fraudulently claiming to be IRS officials and demanding that taxpayers send them cash via prepaid debit cards. As of September 30, 2015, more than 4,500 taxpayers have lost over $23 million as victims of this scam.

We have made significant progress in our investigation of this scam, resulting in the successful prosecution of several individuals associated with it over the past year. In July, one of the ringleaders was sentenced to more than 14 years in Federal prison. However, this is still a matter of high investigative priority for TIGTA, and we will not rest until all individuals associated with this fraud have been brought to justice. In the meantime, we are continuing to collaborate with other Federal agencies in an aggressive public outreach campaign to raise taxpayer awareness of the threat posed by this criminal enterprise.

TIGTA has investigated a number of other cases involving tax fraud and identity theft during this reporting period. For instance, as the result of an investigation worked jointly by TIGTA and the IRS, one individual was sentenced to 12 years in prison for posing as an IRS employee to illegally obtain and use the personal information of others to file false tax returns and claim fraudulent refunds. In another case, an IRS agent and a coconspirator pleaded guilty to fraud and

aggravated identity theft for using the personal records of taxpayers to file false and fraudulent tax returns and claim refunds to which they were not entitled.

Among the other major challenges currently confronting the IRS is the increasing role it is required to play in the implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (Affordable Care Act).[1] A special section of this report is devoted to our audit work during the reporting period to assess the efforts of the IRS in this regard.

For example, two separate TIGTA audits assessed the then-current status of the IRS's preparation for processing a refundable tax credit created by the Affordable Care Act and referred to as the Premium Tax Credit. Because of delays in receiving required enrollment data from some of the State Exchanges, the IRS was unable to ensure by the start of the 2015 Filing Season that all taxpayers claiming the credit had actually purchased insurance through an Exchange as required. Another of TIGTA's audit reports concluded that improvements are needed to ensure the accuracy of the fee allocation that the IRS calculates for health insurance providers under the Affordable Care Act.

Other noteworthy audits completed during the reporting period are summarized in these pages. Among these is TIGTA's review of a new IRS program to identify potential identity theft cases, known as the Return Review Program. Our auditors identified certain program-specific security issues that may not be effectively addressed in that program, and certain security vulnerabilities that need to be remediated.

I am proud of our employees and the work that they have done, and continue to do, in the vigorous pursuit of TIGTA's mission to promote integrity, economy, and efficiency in the administration of the Nation's tax system. The American public deserves no less.

Sincerely,

J. Russell George

J. Russell George
Inspector General

[1] Pub. L. No. 111-152, 124 Stat. 1029 (codified in scattered titles of the U.S.C.)

Table of Contents

Inspector General's Message to Congress 3

TIGTA's Profile 7
- Statutory Mandate 7
- Organizational Structure 8
- Authorities 8

TIGTA's Highlights 9
- Example of a High-Profile Case by the Office of Investigations 9
- Examples of High-Profile Reports by the Office of Audit 11

Promote the Economy, Efficiency, and Effectiveness of Tax Administration 13
- Audit Emphasis Areas for April 2015 through September 2015 13
- Security for Taxpayer Data and Employees 13
- Tax Compliance Initiatives 16
- Fraudulent Claims and Improper Payments 20
- Providing Quality Taxpayer Service Operations 21
- Globalization 24
- Human Capital 27

Affordable Care Act 29

Protect the Integrity of Tax Administration 37
- The Performance Model 37
- Performance Area: Employee Integrity 37
- Performance Area: Employee and Infrastructure Security 45
- Performance Area: External Attempts to Corrupt Tax Administration 47

Advancing Oversight of America's Tax System 57

Congressional Testimony 59

Audit Statistical Reports 61
- Reports With Questioned Costs 61
- Reports With Recommendations That Funds Be Put to Better Use 62
- Reports With Additional Quantifiable Impact on Tax Administration 63

Investigations Statistical Reports 66
- Significant Investigative Achievements 66
- Status of Closed Criminal Investigations 67
- Criminal Dispositions 67
- Administrative Dispositions on Closed Investigations 67

Inspections and Evaluations Statistical Reports 68
- Reports With Questioned Costs 68

Appendices

Appendix I – Statistical Reports – 69
Other Audit Reports With Significant Unimplemented Corrective Actions 69
Other Statistical Reports 73
Inspection Reports With Significant Unimplemented Corrective Actions 75

Appendix II – Audit Products 76

Appendix III – TIGTA's Statutory Reporting Requirements 79

Appendix IV – Section 1203 Standards 87

Appendix V – Implementing Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act 89

Appendix VI – Data Tables Provided by the Internal Revenue Service 90
Internal Revenue Service Memorandum 90
Reports of Employee Misconduct, Summary by Disposition Groups 91
Reports of Employee Misconduct, National Summary 93
Summary of Substantiated Internal Revenue Code Section 1203 Allegations Recorded in ALERTS 94

Glossary of Acronyms 95

TIGTA's Profile

The Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of the Department of the Treasury's matters involving activities of the Internal Revenue Service (IRS), 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.

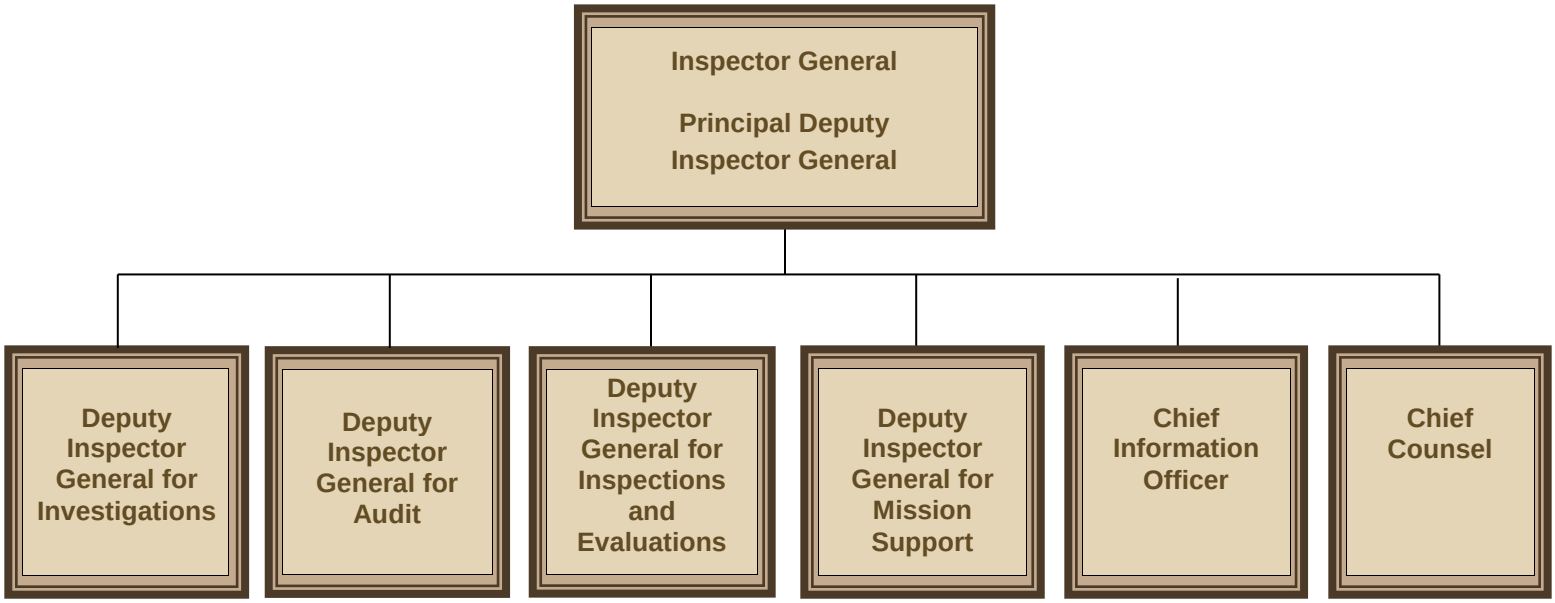
TIGTA's organizational structure is comprised of the Office of the Inspector General and six functional offices: the Office of Investigations; the Office of Audit; the Office of Inspections and Evaluations; the Office of Mission Support; the Office of Information Technology; and the Office of Chief Counsel (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** 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 (Inspector General Act).[2] In addition to the standard authority granted to Inspectors General, TIGTA has access to tax information in the performance of its tax administration responsibilities. TIGTA also reports potential criminal violations directly to the Department of Justice when TIGTA deems it is appropriate to do so. TIGTA and the Commissioner of Internal Revenue (the Commissioner) have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the Internal Revenue laws. In addition, the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)[3] amended the Inspector General Act to give TIGTA the statutory authority to carry firearms, execute search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Internal Revenue Code (I.R.C.) Section (§) 7608(b)(2).

[2] 5 U.S.C. app. 3 (amended 2008).
[3] 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

Example of a High-Profile Case by the Office of Investigations:

Leader of Telephone Impersonation Scheme Sentenced to Over 14 Years

On July 8, 2015, the United States Attorney's Office for the Southern District of New York announced the sentencing of Sahil Patel for his role in a massive impersonation scheme. Patel pled guilty in January 2015 to conspiracy to commit extortion, conspiracy to impersonate a Federal officer, conspiracy to commit wire fraud, and aggravated identity theft.[4]

According to the court documents, from at least December 2011 through at least November 2013, Patel, a citizen of India, knowingly conspired with others to commit extortion by falsely impersonating a Federal officer and demanding money under such false pretense. Victims were contacted by telephone and told they would be arrested or otherwise charged with crimes by agents of the Federal Bureau of Investigations (FBI) or the IRS if they did not make payments to Patel and his coconspirators. While Patel said he did not make any of the phone calls to victims, he admitted that he was aware his coconspirators were falsely representing themselves as Federal officers to obtain money.[5]

One of the victims received several telephone calls from two people claiming to be special agents with the FBI. The callers told the victim to make a payment in the amount of $583 by a specified date or be arrested on charges purportedly related to an overdue loan. The callers provided instructions to the victim for transmitting funds to them using an electronic money order. The victim followed the instructions, purchased a MoneyPak®, and provided the PIN to the callers. During an approximately eight-day period following the payment, 13 calls were placed to the victim from one of the same telephone numbers used in the initial contact.[6] The conspirators used the physical addresses of the FBI office and the U. S. Attorney's Office in New York for the subscriber information associated with the telephone numbers used to call the victim.[7]

Patel recruited others to obtain the prepaid debit cards to which the funds were then uploaded and subsequently withdrawn upon Patel's direction. Patel told one coconspirator that the transactions were related to a "telemarketing" or "debt collection" agency in India. Patel directed those assisting him to withdraw or convert funds into money orders within minutes of the upload to a prepaid debit card, because the debit card company would place the funds "on hold" about 20 minutes after they were

[4] S.D.N.Y. Change of Plea Transcript filed Feb. 5, 2015; S.D.N.Y. Indict. filed October 9, 2014.
[5] *Id.*
[6] S.D.N.Y. Crim. Complaint filed Nov. 13, 2013.
[7] *Id.*

uploaded. Patel would then transfer the funds from the money order to a separate bank account and destroy the money order receipts and any prepaid debit cards used to effect the transaction.[8]

Patel was sentenced to 175 months in prison, followed by three years of supervised release. The court further entered a forfeiture judgment in the amount of $1 million against Patel.[9]

[8] *Id.*
[9] S.D.N.Y. Forfeiture Judg. filed July 8, 2015.

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

Additional Actions to Enforce Payment Card Reporting Requirements Could Reduce the Tax Gap

Congress enacted legislation in an effort to narrow the Tax Gap[10] and increase voluntary compliance of businesses through information reporting. The legislation required information returns to be filed for reportable payment card transactions starting in Calendar Year (CY) 2012. The IRS developed Form 1099-K, *Payment Card and Third Party Network Transactions*, to be submitted to the IRS starting in CY 2012 for CY 2011 reportable payment transactions. Each year, payers are required to provide Forms 1099-K to the IRS, by February 28 if submitted by paper and by March 31 if submitted electronically.

The IRS recognizes the challenges associated with using Forms 1099-K to identify noncompliance with income reporting. To address these challenges, the IRS initiated pilot initiatives to identify payment card noncompliance. The IRS continues to use the results from these pilot initiatives to refine the criteria used to identify underreporting of payment card income.

TIGTA found that payers are not compliant with backup withholding requirements, which require a payer to withhold 28 percent of amounts reported on Forms 1099-K for payees that fail to provide a valid Taxpayer Identification Number (TIN). Our review of CY 2013 Forms 1099-K identified 10,216 with a missing TIN. These Forms 1099-K reported gross transactions totaling over $10.6 billion. As a result, payers were required to withhold almost $3 billion from these payees, yet no backup withholding was taken.

In addition, we identified that the TIN Matching Program, used by payers to verify a payee TIN, does not alert the payer when the TIN of a deceased individual is being used. Our review of CY 2013 Forms 1099-K found that the IRS received 2,933 Forms 1099-K with gross transactions totaling $543.9 million for which the payee TIN belonged to a deceased individual.

Lastly, Form 1099-K information should be included in the IRS's nonfiler identification efforts. Our review of CY 2013 Forms 1099-K identified 84,107 individuals for whom payers reported gross transactions on Forms 1099-K totaling nearly $9.1 billion but who did not file a tax return under the Social Security Number (SSN) listed on the Forms 1099-K. We also identified 443,528 businesses, for which payers reported gross transactions on Forms 1099-K totaling over $164.5 billion, that did not file a tax return under the Employer Identification Number (EIN) listed on the Forms 1099-K.

[10] The Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.

TIGTA made seven recommendations and IRS management agreed with six of the seven. The IRS did not agree to implement a computer programming change because it could not guarantee changes will be implemented, due to budgetary constraints and limited resources. However, TIGTA believes this change should be a priority.
Reference No. 2015-40-089

The Return Review Program Enhances the Identification of Fraud; However, System Security Needs Improvement

Tax fraud is a major challenge for the IRS. Undetected tax refund fraud, including identity theft, has a significant impact on tax administration. It may erode taxpayer confidence in our Nation's tax system and results in significant unintended Federal expenditures. In February 2009, the IRS initiated a new program called the Return Review Program (RRP).

The IRS initiated a pilot of the RRP Identity Theft Model. Processing only 32 days (one day per week for 32 weeks) during the duration of the pilot, the RRP identified 51,946 returns as potential identity theft cases. The IRS confirmed that 41,311 of the 51,946 returns involved identity theft. Of the confirmed identity theft cases, the IRS determined that 10,348 (25 percent), totaling $43 million in refunds, were not detected by the Electronic Fraud Detection System (EFDS) or the Dependent Database. In addition, IRS tests showed that eight million returns a day can be loaded in the RRP database as required.

Because the RRP was classified by the IRS as a Level 3 Federal Information Security Management Act (FISMA) system (*i.e.*, an information resource instead of a major system), RRP-specific security issues may not be effectively addressed. In addition, identified security vulnerabilities were not remediated. For example, the October 2014 network scans identified two RRP servers that were still vulnerable to the Heartbleed bug[11] six months after the vulnerability was announced.

TIGTA recommended that the IRS ensure that:

- IRS personnel completing the FISMA system classifications are familiar with the Act's requirements;
- Validations of system classification and reclassification are discussed, reviewed, and documented during the biweekly Cybersecurity management meeting; and
- All critical and high-risk RRP vulnerabilities are resolved.

IRS management agreed with the recommendations.
Reference No. 2015-20-060

[11] The Heartbleed bug allows anyone on the Internet to read the memory of the systems protected by the vulnerable versions of the OpenSSL software.

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. The Office of Audit places audit emphasis on statutory coverage required by RRA 98 and other laws, as well as areas of concern to Congress, the Secretary of the Treasury, the Commissioner, and other key stakeholders.

Audit Emphasis Areas for April 2015 through September 2015

- Security for Taxpayer Data and Employees
- Tax Compliance Initiatives
- Fraudulent Claims and Improper Payments
- Providing Quality Taxpayer Service Operations
- Globalization
- Human Capital

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

Security for Taxpayer Data and IRS 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.

Improvements Are Needed to Ensure That New Information Systems Deploy With Compliant Audit Trails and That Identified Deficiencies Are Timely Corrected

Audit trails are a key component of effective information technology security. Maintaining sufficient audit trails is critical to establishing accountability over users and their actions within information systems. Implementing audit trail solutions has long been a challenge for the IRS. The IRS reported audit trails as an area of material weakness in Fiscal Year (FY) 1997 and as a significant deficiency since FY 2012. To meet the required standards, the IRS established an office to coordinate an enterprise solution for resolving its audit trail deficiencies that would include processes for both legacy and newly deployed systems.

The IRS continues to make progress in implementing its enterprise solution to address its audit trail deficiencies. However, the IRS needs to strengthen controls in its new systems development and deficiency remediation processes to improve the number and quality of its audit trails.

TIGTA found that not all IRS systems in development in recent years had audit trail requirements that were adequately assessed prior to deployment. Of the systems for which an audit plan was completed during the development process, most were not transmitting audit trails in accordance with IRS requirements when deployed. Without fully operational audit trails, unauthorized accesses can be made within these systems and may not be detected. In addition, TIGTA found that system owners were not timely including identified audit trail deficiencies in plans of action and milestones, to ensure proper tracking and remediation. As a result, the deficiencies could persist indefinitely.

TIGTA recommended that the IRS:

- Ensure that the Enterprise Security Audit Trail (ESAT) checklist is amended to include an ESAT Office signature block, to indicate the project was evaluated for audit trail requirements prior to exiting Milestone 2, and that the checklist is then provided to the FISMA Certification Program Office as part of the security package;
- Clarify guidance that specifies preparing the interface control document is an integral task to sending audit trails to the Security Audit and Analysis System;
- Revise the program-level memorandum to clearly state that responsibility for audit trail controls reverts to the system owner once the ESAT office has approved the audit plan;
- Ensure that system owners timely create a plan of action and milestones for all identified information technology security weaknesses, including audit trail deficiencies;
- Issue an audit notification memorandum for deficiencies identified in previously completed audit plans if the system owner did not get one of the memoranda and there are no plans of action and milestones for the deficiencies; and
- Ensure that testers of security controls are instructed to appropriately test audit trail controls and report identified audit trail deficiencies.

IRS management agreed with all of the recommendations except the first one, with which it partially agreed. The IRS will amend the checklist to include a signature block

and provide it to the FISMA Certification Program Office, though not as a part of the security package.
Reference No. 2015-20-088

Inadequate Early Oversight Led to Windows Upgrade Project Delays

Operating systems are critical software on computers, which serve as a foundation to allow all other programs, software, and applications to run on the computers. When an operating system reaches its end of life, companies such as Microsoft stop supporting the system. That leaves the system vulnerable to attack. For the IRS, the use of outdated operating systems may expose taxpayer information to unauthorized disclosure, which can lead to identity theft. Further, network disruptions and security breaches may prevent the IRS from performing vital taxpayer services, such as processing tax returns, issuing refunds, and answering taxpayer inquiries.

The IRS was unable to upgrade all of its Windows® workstations from Windows® XP and all of its Windows® servers from Windows® Server 2003 by the Microsoft end of life deadlines. At the conclusion of our fieldwork, the IRS had not accounted for the location or migration status of approximately 1,300 workstations and had upgraded only about one half of its Windows® servers from the 2003 software versions to the 2008 release. Since April 2011, when the IRS initially started the Windows® workstation upgrade project, the IRS has spent approximately $128 million to upgrade the Windows® workstations and expects to spend on additional $11 million through the end of FY 2015. We found that the IRS did not follow established policies with respect to project management and provided inadequate oversight and monitoring of the Windows® XP upgrade early in its effort.

TIGTA recommended that the IRS:

- Ensure that all workstations have been adequately accounted for and upgraded to Windows® 7;
- Ensure that enterprise-wide information technology maintenance and upgrade efforts going forward follow the Enterprise Life Cycle, as prescribed by IRS policy, to mitigate potential delays and to ensure project transparency and accountability; and
- Require appropriate executive steering committees to oversee enterprise-wide information technology maintenance and upgrade efforts with regular project reviews and executive approvals.

IRS management agreed with two of the recommendations and partially agreed with TIGTA's recommendation that large-scale upgrade projects should follow the Enterprise Life Cycle. The IRS did not agree that all upgrade efforts need to have a set of well documented minimum project documentation requirements to ensure that effective project management is adhered to for projects of this size.
Reference No. 2015-20-073

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 budgetary pressure has led to a reduction of IRS resources in the enforcement area, thus impacting tax compliance. The continuing decline in the number of IRS personnel has contributed to a decrease in the number of examinations and an increase in the number of delinquent tax accounts that are assigned to an inactive status.

Improvements Can Be Made to Educate and Notify Taxpayers of Required Minimum Distribution Requirements From Individual Retirement Arrangements

An Individual Retirement Arrangement (IRA) is a key method for individuals to save for retirement. Some types of IRAs require taxpayers to begin withdrawing a minimum amount when they reach age 70½. When taxpayers do not make these withdrawals, there is a loss of revenue to the Government because taxpayers are sheltering IRA funds from taxation.

In response to prior TIGTA recommendations, the IRS developed a broad-based strategy that focuses on educating tax preparers and individuals about IRA rules and notifying potentially noncompliant taxpayers of the minimum distribution requirement. This is a significant improvement from our prior reporting. However, the IRS could take further steps to improve its strategy.

As part of its strategy, the IRS developed educational materials for taxpayers and tax preparers. However, TIGTA believes that taxpayers required to take distributions could benefit from more direct methods of communication. For example, informing taxpayers when they reach the age of 70½ that they are required to take a distribution could raise awareness and prevent significant penalties associated with noncompliance.

As part of its strategy, the IRS also sent notices to nearly 1,500 potentially noncompliant taxpayers. The IRS is still in the process of evaluating the results of the sample of notices it distributed. TIGTA found that, if the IRS expands its notice program, the IRS could enhance the methodology it currently uses and identify substantially more potentially noncompliant taxpayers. Expanding the number of taxpayers notified could increase revenue to the Federal Government.

TIGTA recommended that the IRS: (1) directly communicate with taxpayers required to take a distribution and inform them about the distribution rules using easily understood language and (2) if the notice program is expanded, modify the methodology for issuing the required minimum distribution notice to identify additional potentially noncompliant taxpayers.

In its response, IRS management partially agreed with the first recommendation and agreed with the second recommendation. The IRS stated that it recently added small business IRAs to its sample notice population. However, due to budget limitations the IRS does not plan to expand its use of notices. In addition, the IRS agreed that direct communication with taxpayers reaching the age of 70½ would be helpful, but that it will

not be implementing this program due to budget constraints. The IRS did not agree to inform estates of distribution rules associated with IRA inheritances. TIGTA continues to believe it would be beneficial to inform estates of inherited distribution requirements.
Reference No. 2015-10-042

Review of the Internal Revenue Service's Process to Address Violations of Tax Law by Its Own Employees

Twice a year, the IRS's Employee Tax Compliance Branch uses a screening process to identify potential employee tax noncompliance. TIGTA found that potential employee tax noncompliance cases the IRS identified were forwarded to managers and Labor Relations Office personnel for further examination. More than 1,000 cases of potential employee tax noncompliance are referred each year.

TIGTA reviewed records for cases closed in FYs 2004 through 2013 (prior to the term of the current Commissioner). IRS records for this period show that 1,580 employees were willfully tax noncompliant. While RRA 98 states that the IRS shall terminate employees who willfully violate tax law, it also gives the Commissioner the sole authority to mitigate penalties. Over the 10-year period for which TIGTA reviewed records, 620 employees (39 percent) who had been willfully tax noncompliant resigned, retired, or were terminated. With respect to the other 960 employees (61 percent) who had been willfully tax noncompliant, their proposed terminations were mitigated to lesser penalties such as suspensions, reprimands, or counseling.

TIGTA's review of a judgmental sample of 34 cases of willful tax violations found that employees with similar violations received different disciplines. In cases that were mitigated, the files included mitigating factors as well as evidence that violations of tax law were willful; however, the basis for the Commissioner's decision to mitigate was not clearly identified in the case files. Some of these employees had significant and sometimes repeated tax noncompliance issues and a history of other conduct issues. Moreover, management had concluded that the employees were not credible. Nonetheless, the proposed terminations were mitigated by the Commissioner. These cases included willful overstatement of expenses, claiming the First-Time Homebuyer Tax Credit without buying a home, and repeated failure to timely file required Federal tax returns.

TIGTA recommended that the Commissioner amend existing policy on how § 1203 cases are handled to include a requirement to document the analysis of evidence and the basis for the decision of whether or not to mitigate the penalty to something less than termination.

IRS management agreed with TIGTA's recommendations.
Reference No. 2015-10-002

Automated Underreporter Program Tax Assessments Have Increased Significantly; However, Accuracy-Related Penalties Were Not Always Assessed When Warranted

The Automated Underreporter Program matches taxpayer income and deductions submitted on information returns by third parties (*e.g.,* employers, banks, brokerage firms) against amounts reported by taxpayers on their individual income tax returns, to identify discrepancies. Each year, the Automated Underreporter Program routinely identifies more than 20 million individual tax returns with discrepancies and, when warranted, assesses additional taxes as well as interest and penalties.

TIGTA found that Automated Underreporter Program tax assessments have increased significantly in recent years, from $4.24 billion in FY 2006 to $7.81 billion in FY 2013, an increase of 85 percent. During FY 2013, the Automated Underreporter Program also assessed approximately $708 million in accuracy-related penalties. However, TIGTA found that such penalties were not always assessed when warranted. For instance, the Automated Underreporter Program's system does not apply the negligence penalty provided for by law unless the taxpayer has repeated the same type of income omission within four consecutive tax years. Additionally, TIGTA's review of FY 2012 closed cases found that examiners were incorrectly waiving accuracy-related penalties, which resulted in about $3.25 million in lost penalty revenue. TIGTA also found that, due to an inaccurate programming condition, approximately $2.66 million in accuracy-related penalties were not assessed.

Also, after an in-depth study, a number of revisions were made to the notice which alerts taxpayers that additional taxes may be owed as a result of underreporting. Although the revised taxpayer notice was implemented in FY 2013, the IRS has not evaluated, or established plans to evaluate, the effectiveness of the revised notice on reducing taxpayer underreporting.

TIGTA recommended that the IRS:

- Implement controls to ensure that accuracy-related penalties are assessed when warranted and waived only in accordance with applicable policies and procedures;
- Address system issues to ensure that accuracy-related penalties are accurately assessed when warranted;
- Continue to research and take action on cases that TIGTA has identified as having potentially inaccurate accuracy-related penalty amounts;
- Address negligence when it occurs rather than when a taxpayer repeats noncompliance; and
- Evaluate the effectiveness of the revised taxpayer notice.

In response to the report, IRS management agreed with four of the five recommendations. The IRS disagreed with the recommendation that it should address negligence when it occurs and stated that it will continue its current policy of waiting until taxpayers repeat noncompliance. TIGTA contends this policy may contribute to

further noncompliance and that addressing negligence when it occurs would promote fair and consistent treatment of all taxpayers.
Reference No. 2015-30-037

Most Federal Employee/Retiree Delinquency Initiative Cases Are Resolved With the Collection of Revenue; However, Some Program Improvements Can Be Made

Like all taxpayers, Federal employees and retirees have a legal obligation to pay their taxes. However, Federal employees and retirees are held to a higher ethical standard for a number of reasons, including that they draw their compensation and funds from Federal taxes. In FY 1993, the IRS developed the Federal Employee/Retiree Delinquency Initiative (FERDI) program to promote Federal tax compliance among current and retired Federal civilian and military employees, as well as military reservists. The IRS identified 304,665 Federal employees and retirees who owed approximately $3.54 billion in unpaid taxes at the end of FY 2014.

Generally, the IRS is successful at collecting revenue by closing most FERDI cases as fully paid or with an installment agreement. TIGTA identified two ways in which the FERDI program can be improved. The first involves the Federal Payment Levy Program (FPLP), one of the key collection tools used for the FERDI program, which allows the IRS to levy up to 15 percent of certain Federal payments, including wages, to delinquent taxpayers. Federal payments for certain Federal employees are excluded from the FPLP due to legal or policy constraints (*e.g.*, bankruptcy or military service men and women in combat zones), but the IRS excludes certain other Federal payments from the FPLP without a legal or articulated policy basis. TIGTA forecasts that expanding the FPLP to include more Federal payments could potentially increase revenue by approximately $18.3 million over the next five years.

The second improvement opportunity involves the IRS's policy of handling many FERDI cases manually. In addition to the FPLP, FERDI cases are excluded from other IRS Automated Collection System (ACS) tools that can systemically identify taxpayer assets for levy, in favor of manual handling. Moving FERDI cases to the ACS's systemic levy process, when the FPLP levy attempts fail or the FPLP levy will not fully pay the amount owed, could result in potential benefits such as faster case resolutions and smaller manual inventory sizes.

TIGTA recommended that the IRS continue to identify and expand the use of the FPLP to other Federal payments, including military retirement payments, and consider applying ACS systemic levies to FERDI taxpayers.

In response to the report, IRS officials agreed with the recommendation to expand the use of the FPLP to other Federal payments, including military retirement payments, and plan to work with the appropriate agencies to make the necessary programming changes. IRS officials disagreed with the recommendation to apply ACS systemic levies to FERDI taxpayers because they believe that the majority of manually worked FERDI cases will be included in the FPLP after the programing changes. TIGTA believes that the IRS could further reduce ACS manual inventory by moving FERDI

cases to the ACS systemic levy process when FPLP levies do not fully resolve the delinquency.
Reference No. 2015-30-051

Fraudulent Claims and Improper Payments

Improper payments have been an issue for Federal agencies for many years, and numerous efforts have been made to identify, measure, and reduce them. These efforts include laws specifically addressing improper payments, an Executive Order,[12] and guidance by certain oversight agencies, such as the Office of Management and Budget. The Improper Payments Information Act of 2002[13] requires Federal agencies, including the IRS, to estimate the amount of improper payments they make each year and report to Congress on the causes of, and the steps taken to reduce, improper payments, as well as to address whether they have the information systems and other infrastructure needed to reduce improper payments.

Processes Are Being Established to Detect Business Identity Theft; However, Additional Actions Can Help Improve Detection

Identity theft affects not only individuals, but businesses as well. The IRS defines business identity theft as creating, using, or attempting to use businesses' identifying information without authority to claim tax benefits.

TIGTA found that the IRS recognizes that continued efforts are needed to develop and implement systemic processes to detect identity theft. To date, the IRS has taken actions that include defining business identity theft, creating procedures for IRS employees to follow when they are made aware of a potential business identity theft situation, and conducting a Business Identity Theft Project to detect potential business identity theft relating to corporate tax returns.

The IRS maintains a list of suspicious EINs that have been determined to be associated with fictitious businesses. Our analysis of business returns filed during Processing Year (PY) 2014 identified 233 tax returns that were filed using a known suspicious EIN. Of these, 97 claimed refunds totaling over $2.5 million.

In addition, TIGTA determined that processing filters could be developed to identify returns containing certain characteristics that could indicate potential identity theft cases. TIGTA also found that State information sharing agreements do not address business identity theft, but only the detection of individual identity theft.

Finally, TIGTA determined that actions are needed to better promote awareness of business identity theft. Although the IRS offers some outreach information through its tax forums, the information is limited.

[12] Exec. Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, 74 Fed. Reg. 62201 (2009).
[13] Pub. L. No. 107-300, 116 Stat. 2350.

TIGTA made five recommendations and IRS management agreed with all the recommendations.
Reference No. 2015-40-082

Review of the Electronic Fraud Detection System

Implemented in 1994, the EFDS remains the IRS's primary frontline system for detecting fraudulent returns. The system is designed to maximize fraud detection at the time tax returns are filed to reduce the issuance of questionable refunds and maximize revenue protection.

The IRS is developing the RRP to replace the EFDS due to the latter's fundamental limitations in technology and design. However, the IRS has not set a termination date nor established a retirement plan for the EFDS. If the IRS does not efficiently transition to the RRP so that it can retire the EFDS, the estimated additional operation and maintenance expenses of running the EFDS could cost taxpayers approximately $18.2 million per year.

The EFDS project team has taken steps to mitigate the risks associated with technical obsolescence. For example, the workload management system web release addressed concerns stemming from the client-server platform. However, a risk management plan and requirements plan were not updated. Additionally, the IRS did not use the required repository for managing the testing of system requirements.

TIGTA recommended that the IRS:

- Develop a system retirement plan for the EFDS and retire the EFDS after confirming that the RRP effectively identifies, at a minimum, all issues currently identified by the EFDS;
- Update the risk management plan to reflect the current organizational structure, management process methodology, documentation requirements, and mitigation strategy;
- Update the requirements plan to reflect the current activities, methods, and techniques that are used to perform and support requirements development and requirements management; and
- Ensure that contractors have software licenses to use the required repository and verify that guidance is followed.

IRS management agreed with the recommendations.
Reference No. 2015-20-093

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. Effective taxpayer

service also reduces unintentional noncompliance and shrinks the need for further collection activity.

Additional Documentation Is Needed to Support Office of Appeals Penalty Abatement Decisions

The Office of Appeals (Appeals) has the authority to abate certain taxpayer penalties when the abatement has been denied by other IRS functions. In FY 2013, Appeals abated approximately $127 million in penalties. It is important that Appeals personnel apply a consistent methodology when deciding whether or not to abate penalties, so as to promote fair and impartial resolutions for taxpayers.

TIGTA found that, in most cases, Appeals properly accepted cases in which the IRS operating divisions had previously denied the taxpayer's request for abatement and sufficiently documented the reasons for penalty abatements in case files. However, TIGTA found that 59 of 140 sampled penalty appeal cases were not abated in accordance with Appeals criteria, either because operating divisions had not denied the abatement or because case files did not support the abatement. Based on these results, TIGTA estimates that in FY 2013, the decisions in 1,411 penalty appeal cases and more than $39 million in penalty abatements did not comply with Appeals criteria.

In 57 cases, TIGTA could not determine the justification Appeals personnel used to abate the penalties. For example, Appeals used its authority to abate penalties based on the hazards of litigation, which reflects uncertainty about the court's decision if the taxpayer were to take his or her case to trial. However, for some cases, Appeals did not document how it arrived at its determination by outlining the hazards of litigation.

TIGTA also identified a small number of other processing errors and control weaknesses affecting taxpayer accounts. For example, Appeals managerial case review policy does not specify that high-dollar abatements by appeals officers and settlement officers must be reviewed by a manager. Specifically, in four cases appeals officers abated a total of more than $580,000 in penalties without managerial approval. Appeals officers did not violate IRS policy because they have been delegated the authority to abate unlimited penalty amounts without managerial approval.

TIGTA recommended that Appeals provide training to its personnel regarding the requirements that they clearly document the reasons for abatement decisions, and that it review the delegated settlement authority of appeals officers to determine whether changes are needed to address the risk of allowing unlimited abatements without managerial approval.

IRS management agreed with the recommendations.
Reference No. 2015-10-059

Taxpayer Online Account Access Is Contingent on the Completion of Key Information Technology Projects

The IRS has made progress in providing taxpayers with online customer service options. However, it needs to prioritize the completion of key information technology

projects that are required to provide the electronic platform for developing future projects that will provide taxpayers with dynamic online access capabilities. Although the Commissioner noted that the IRS expects to deliver these capabilities in three to five years, and IRS stakeholders continue to emphasize the importance of providing taxpayers with online account access, additional funding needs to be committed to fully complete the key information technology projects.

The Service on Demand Initiative is the IRS's latest attempt to deliver such capability and contains specific projects that will provide online account access options. This initiative identified 71 projects to improve customer service, but does not adequately emphasize dynamic online account access when assigning a priority rank to these projects. For example, TIGTA determined that 12 of the 71 projects directly address providing taxpayers with dynamic online account access or improved digital communication.

However, five of these 12 projects are not included in the top 20 that the Service on Demand team is emphasizing as the most important. Three of these five projects would improve the IRS's ability to address the continued challenge of tax-related identity theft.

Lastly, leading practices of successful State agencies would assist the IRS in developing a long-term online strategy. Online account access is a service that taxpayers already receive from some State tax agencies.

TIGTA recommended that the IRS reprioritize the 71 Service on Demand projects to align with the Commissioner's long-term vision for modernizing taxpayer service.

IRS management agreed with the recommendation.
Reference No. 2015-40-053

Preparer Tax Identification Numbers Are Not Revoked for Unsuitable Tax Return Preparers

Effective September 2010, the IRS issued regulations requiring preparers to register for a Preparer Tax Identification Number (PTIN) to be used to sign all tax returns that they prepare. This number allows the IRS to administer its preparer program and match preparers to the tax returns they submit to the IRS.

Our review identified that the Return Preparer Office (RPO) has established processes and procedures to ensure that individuals assigned a PTIN are at least 18 years of age, are not using identifying information associated with a deceased individual, and are correctly reporting professional credentials. In addition, the RPO ensures that individuals participating in the new Annual Filing Season Program meet educational requirements and consented to be subject to the duties and restrictions of practicing before the IRS under Treasury Department Circular 230. This voluntary program was initiated in an effort to ensure that unlicensed tax return preparers have a basic competency level and adhere to professional standards.

However, the RPO does not revoke the PTINs of tax return preparers who are not compliant with their tax filing and payment obligations. In January 2015, the RPO identified 19,496 preparers with PTINs who were potentially noncompliant with these

obligations. These preparers had over $367 million in tax due as of January 26, 2015. In addition, the RPO identified 3,055 preparers who failed to file required tax returns for one or more tax years. The RPO identified eight tax return preparers who failed to file required tax returns for five years.

In addition, our review of PTIN holders, as of September 30, 2014, identified 3,001 preparers who self-reported a felony conviction on their application. Of these, 87 reported a crime related to Federal tax matters.

Lastly, processes do not ensure that PTINs assigned to prisoners or individuals barred from preparing tax returns are revoked. Specifically, the RPO did not revoke the PTINs assigned to 65 of 445 confirmed prisoners and to 15 of 87 individuals who the IRS identified as barred from preparing tax returns.

TIGTA recommended that the IRS:

- Complete tax compliance checks by timely issuing inquiry letters to preparers identified as noncompliant with Federal tax laws and take appropriate actions to revoke PTINs when warranted;
- Assess all self-reported felony convictions and revoke PTINs when warranted;
- Ensure that review processes are followed to revoke PTINs for incarcerated and enjoined tax return preparers; and
- Complete the prisoner check quarterly and revoke prisoners' PTINs as warranted.

IRS management agreed with three recommendations and partially agreed with the other. In response to the second recommendation, the IRS stated that it plans to continue assessing self-reported felony convictions of enrolled agents and Annual Filing Season Program applicants. TIGTA believes that the IRS should assess the self-reported felony convictions of all tax return preparers who disclose this information on their PTIN application and revoke PTINs when warranted.
Reference No. 2015-40-075

Globalization

The scope, complexity, and magnitude of the international financial system 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. To address the International Tax Gap, the IRS developed an international tax strategy plan with two major goals: (1) to enforce the law to ensure that all taxpayers meet their obligations and (2) to improve service to make voluntary compliance less burdensome.

Improvements Are Needed to Verify Taxpayer Claims for Exemption From United States Social Security Taxes Under Totalization Agreements

In an effort to eliminate dual taxation with respect to Social Security taxes, the United States has entered into international agreements, called Totalization Agreements, with 24 foreign countries. These agreements coordinate the Social Security coverage and taxation of American citizens and resident aliens who are employed in those foreign countries, as well as resident aliens in the United States who may be subject to U.S. Social Security and Medicare taxes. I.R.C. § 3101(c) provides relief from U.S. Social Security and Medicare taxes in cases covered by an international agreement.

The IRS cannot readily identify American citizens and resident aliens working in a foreign country, or resident aliens working in the United States, who may have improperly claimed exemption from U.S. Social Security taxes under a Totalization Agreement. TIGTA selected a stratified statistical sample of 160 taxpayers who did not pay U.S. Social Security taxes. Based on this sample, TIGTA found 29 taxpayers who appeared to not have met the Totalization Agreement criteria for exemption from U.S. Social Security taxes. This number included American citizens or resident aliens who worked oversees during Tax Year (TY) 2012 but did not appear to have met the five-year period for coverage by a foreign country's social security system, and resident aliens who worked in the United States during TY 2012 but appeared to have exceeded the five-year period for coverage by a foreign country's social security system. As a result, TIGTA found that these taxpayers potentially owe $822,367 in U.S. Social Security and Medicare taxes, or $16.9 million when the sample is projected to the population.

TIGTA also identified 23 resident aliens who appeared to either work for an American-based employer or to have been hired by a foreign employer while living in the United States. These taxpayers potentially owe $51,008 in U.S. Social Security and Medicare taxes, a number which increases to $4.3 million when the sample is projected to the entire population.

Additionally, TIGTA determined that, while the Social Security Administration receives Certificates of Coverage from foreign countries, the IRS does not have formalized procedures to obtain these certificates, in order to identify noncompliant taxpayers.

TIGTA recommended that the IRS coordinate with the Social Security Administration to periodically acquire Certificate of Coverage data, and that it request from Totalization Agreement countries data related to foreign social security taxes paid. TIGTA also recommended that the IRS use the data thus obtained to identify noncompliance with payment of U.S. Social Security and Medicare taxes.

IRS management agreed with the recommendations.
Reference No. 2015-30-056

Improvement Is Needed in Compliance Efforts to Identify Unsupported Claims for Foreign Tax Credits

The United States generally taxes U.S. citizens and resident aliens on their worldwide income and foreign persons on their U.S. source income. The Foreign Tax Credit (FTC) is intended to reduce the double taxation burden that would otherwise occur when foreign source income is taxed by both the United States and the foreign country from which the income is derived. The FTC can significantly affect the amount of taxes paid by individuals on U.S. tax returns. In TY 2013, taxpayers claimed more than $16.7 billion in FTCs.

The IRS does not have sufficient controls and processes in place to identify erroneous FTC claims. TIGTA's analysis of paper and electronically filed individual tax returns for TYs 2010 through 2012 determined that the IRS potentially:

- Improperly allowed $94.9 million in FTCs on 65,499 tax returns;
- Allowed taxpayers to file 16,058 tax returns that claimed nearly $2.9 million in FTCs as both a deduction and a credit on the same foreign taxes paid;
- Allowed nearly $40 million in erroneous FTCs on 188,102 tax returns when third-party information return documents did not support the FTCs claimed; and
- Incorrectly transcribed the FTC on 4,806 taxpayer accounts.

Further analysis of those tax returns with improperly allowed FTCs determined that 197,263 (73 percent) were prepared by paid tax preparers, with exceptions totaling approximately $98.2 million. In addition, the IRS failed to refer to international examination specialists 1,161 examination cases that potentially met mandatory FTC referral criteria. The IRS also did not monitor or track assessments made on FTC cases.

TIGTA recommended that the IRS:

- Establish controls to ensure that the Form 1116, *Foreign Tax Credit*, is attached to Forms 1040, *U.S. Individual Income Tax Return*, or Forms 1040NR, *U.S. Nonresident Alien Income Tax Return*, for taxpayer FTC claims when required;
- Ensure that any training materials and additional guidance related to FTCs are updated and that employees comply with the updated guidance;
- Develop a compliance strategy to address the risks identified with taxpayer FTC issues;
- Capture and maintain key FTC statistics;
- Improve education, outreach, and enforcement activities to correct the paid preparer issues related to the FTC; and
- Revise the Internal Revenue Manual (IRM) and the Specialist Referral System User Guide to clearly define the referral criteria that will be followed to ensure that tax returns in the Examination function inventory with FTCs are referred as required.

IRS officials agreed with five of TIGTA's recommendations and have taken or plan to take corrective actions. In addition, the IRS partially agreed with the remaining recommendation to identify and track key FTC statistics. The IRS has implemented a

system to assist in identifying potential noncompliance and trends involving international issues, including the FTC. However, further enhancements to gather statistics are not possible due to current budget and resource restrictions.
Reference No. 2015-30-052

Human Capital

Human Capital is the Federal Government's most critical asset, making the strategic management of human capital a key ongoing challenge facing the IRS. Budget reductions in recent years have caused the IRS to reduce staffing, which may have unforeseen implications on the IRS's ability to carry out its mission in future years. Additionally, the anticipated retirements and reduction in the number of employees possessing unique skills and institutional knowledge is particularly challenging as the number of tax returns the IRS processes continues to rise.

Review of Controls Over Health Benefit Elections

The Federal Employees Health Benefits (FEHB) Program is the largest employee-sponsored group insurance program in the world, covering more than eight million Federal employees, former employees, family members, and former spouses. In FY 2014, the IRS stated that it made contributions of approximately $605 million toward employee enrollments. This audit was initiated based on a referral from TIGTA's Office of Investigations on potential control weaknesses related to adding and removing dependents from IRS employees' FEHB plans.

TIGTA found that the IRS did not always obtain information necessary to provide reasonable assurance that eligibility determinations are correctly made. However, the vast majority of employee health benefit elections were processed so they became effective in the correct pay period.

Based on two randomly selected samples of Standard Forms 2809, *Health Benefits Election Form* (herein referred to as Election Forms), benefits generally went into effect timely. However, in both samples, TIGTA determined that the IRS had processed Election Forms that did not include all of the information needed to support the requested action. For example, 23 percent of paper Election Forms reviewed by TIGTA that were submitted during Open Season, or by employees who were hired or first became eligible outside of Open Season, did not include responses to questions about whether the employees or their dependents were covered under another health plan. If covered by another FEHB plan, the employee would not be eligible for additional coverage under the FEHB Program.

In addition, the IRS processed several Election Forms involving the addition of foster children, or the addition of disabled children age 26 or over who were incapable of self-support because of a physical or mental disability that had begun before their 26th birthday, without all required supporting documentation. As a result, the IRS did not have assurance that these dependents were eligible for IRS-funded health benefits.

TIGTA recommended that IRS management implement program controls to (1) provide reasonable assurance that complete and sufficient documentation is obtained from employees to support eligibility determinations and (2) develop procedures to track and monitor requests for support to the IRS Human Capital Office.

IRS management agreed with the recommendations.
Reference No. 2015-10-074

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)[14] 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 presents 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 multiyear 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 the formation of a joint working team focused primarily on Premium Tax Credits (PTC). We plan to closely coordinate or perform work jointly with the HHS OIG to review those processes that are highly interdependent between the HHS and the IRS.

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: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims

As of March 26, 2015, the IRS has processed nearly 1.4 million tax returns that reported approximately $4.4 billion in PTCs that were either received in advance or claimed at the time of filing. Taxpayers claimed more than $240 million in additional PTCs and reported receiving more than $572 million in excess Advance Premium Tax Credit (APTC) payments.

The Affordable Care Act requires Marketplaces (also referred to as Exchanges) to provide the IRS with information regarding individuals who are enrolled in an Exchange on a monthly basis (referred to as Exchange Periodic Data). Exchanges are where individuals can purchase insurance and receive assistance with paying their premiums. During the CY 2014 health insurance enrollment period, the District of Columbia and 14 States operated their own Exchanges, while the remaining 36 States partnered with the Federal Exchange.

The IRS anticipated that the first Exchange Periodic Data submission, covering the period January through May 2014, would be received in June 2014. However, the IRS did not receive the required Exchange Periodic Data from all of the Exchanges by the start of the filing season (January 20, 2015). For example, the IRS did not receive

[14] Pub. L. No. 111-152, 124 Stat. 1029 (codified in scattered titles of the U.S.C.).

Exchange Periodic Data for approximately 1.7 million (40 percent) of the approximately 4.2 million Federal Exchange enrollment records and did not receive the Exchange Periodic Data from six of the 15 State Exchanges.

Because of incomplete and unreported data from the Exchanges, the IRS was unable to ensure that taxpayers claiming the PTC actually purchased insurance through an Exchange and properly reconciled APTCs received. However, the IRS has developed processes to identify erroneous PTC claims. Our review of these processes determined that 79 of the 80 reject code conditions and 16 of the 20 PTC error codes were working as intended. IRS management agreed that not all of the reject codes are functioning as intended and plans to correct the programing for PY 2016.

This report was prepared to provide interim information. Therefore, no recommendations were made in the report.
Reference No. 2015-43-057

Affordable Care Act: Assessment of Internal Revenue Service Preparation for Processing Premium Tax Credit Claims

The Affordable Care Act created a refundable tax credit, referred to as the PTC, to assist individuals with the cost of their health insurance premiums. Individuals may elect to receive the PTC in advance as partial payment for their monthly premiums (referred to as the APTC) or to receive the PTC as a lump sum credit on their annual Federal income tax return. Beginning in January 2015, individuals are required to reconcile the APTC with the actual amount of PTC to which they are entitled and can claim additional PTC on their annual tax return beginning with TY 2014.

The IRS did not receive all required enrollment data from the Exchanges prior to the January 20, 2015 start of the 2015 Filing Season. For example, the Centers for Medicare and Medicaid Services indicated that it would not send approximately 1.7 million (40 percent) of the approximately 4.2 million Federal Exchange enrollment records to the IRS until mid-February. In addition, six of the 15 State Exchanges (including the District of Columbia) had not provided enrollment data to the IRS as of January 20, 2015. The IRS indicated that data from four of the six State Exchanges would be provided in mid-February but could not provide a time frame for when the remaining two State Exchanges would provide the required enrollment data.

In response to the delays in receiving required Exchange Periodic Data submissions, the IRS developed contingency plans to improve its ability to ensure the accuracy of PTC claims. However, without the required enrollment data from the Exchanges, the IRS was unable to ensure that all taxpayers claiming the PTC bought insurance through an Exchange as required.

In addition, TIGTA's review of the I.R.C. and the HHS regulations found that the guidance does not fully address repayment of the APTC received during the months in which an enrollment inconsistency is being resolved if the individual is ultimately determined to not qualify for insurance through the Exchange. Such individuals are not entitled to the PTC. Furthermore, procedures have not been established for the

Exchanges to notify the IRS when an individual is determined to be ineligible subsequent to enrollment.

TIGTA recommended that the IRS revise computer programming business requirements to use Forms 1095-A, *Health Insurance Marketplace Statement*, in conjunction with monthly data provided by the Exchanges, to verify claims for the PTC. In addition, the IRS should work with the Exchanges to establish procedures to ensure that the IRS receives notification when an individual is determined to be ineligible subsequent to enrollment.

The IRS did not agree to revise computer programming to use Forms 1095-A in conjunction with monthly data and partially agreed to work with the Exchanges to identify individuals who are found to be ineligible to use the Exchange.
Reference No. 2015-43-043

The Affordable Care Act: Improvements Are Needed to Ensure the Accuracy of the Allocation of the Health Insurance Provider Fee

Section 9010 of the Affordable Care Act imposes an annual fee on health insurance providers (referred to as Covered Entities). The IRS calculates the fee amount for each Covered Entity based on its portion of market share premiums. For Fee Year[15] 2014, the total aggregate amount of the fee was $8 billion.

The IRS used third-party data to the extent that such data were available to identify the Covered Entities required to file Form 8963, *Report of Health Insurance Provider Information*. However, third-party data were not available for all Covered Entities that are required to file. For example, our analysis of third-party data showed that 665 (53.9 percent) of the 1,233 providers that were listed on Forms 8963 were not included in premium information from third-party sources.

Our review also revealed that regulations do not provide a process for the IRS to correct the health insurance provider fee for all Covered Entities once the final fee letters are distributed. As of October 22, 2014, TIGTA identified Covered Entities that had filed Forms 8963 after the IRS made the final fee calculation for Fee Year 2014. The Covered Entities reported more in net premiums but were not assessed their respective portions of the fee.

In addition, TIGTA found that 143 of 477 Covered Entities filed a Form 8963 late. However, as of February 13, 2015, the IRS had not assessed the failure to report penalty against any of the 143 Covered Entities.

TIGTA recommended that the IRS work with the Department of the Treasury to amend the regulations to provide a reconciliation process that ensures the fee is accurately allocated among Covered Entities.

The IRS disagreed with this recommendation, stating that providing a reconciliation process would result in adjustments to the fee for the entire population of Covered Entities that are subject to the fee and would lead to a lack of certainty and finality as to

[15] The calendar year in which the fee must be paid to the Government.

their fee liability. However, the IRS indicates that it plans to continue to review the effectiveness of the current administrative process over the next three years and evaluate with the Department of the Treasury the potential costs and benefits to the Government and Covered Entities to determine whether to amend the regulations to provide a reconciliation process.
Reference No. 2015-43-049

Affordable Care Act Coverage Data Repository: Risks With Systems Development and Deployment

The IRS is developing the Coverage Data Repository (CDR) to help implement the Affordable Care Act, and it will be the IRS's sole authoritative source of all Affordable Care Act data for health care-related functions and services. During the 2015 Filing Season, the IRS will receive Exchange Periodic Data from the Exchanges, store the data in the CDR, and use the data to verify the accuracy of the PTCs claimed by taxpayers.

TIGTA found that risks could not be effectively mitigated by CDR testing processes. Interagency testing with the Federal and State Exchanges was not completed. As of November 21, 2014, the IRS had only received Exchange Periodic Data from three States. Subsequent to our fieldwork, the IRS received additional data, but it still had not received all required Exchange Periodic Data submissions from the Exchanges as of January 20, 2015, the start of the 2015 Filing Season.

Release-level testing was completed, but not prior to initiating interagency testing with the Centers for Medicare and Medicaid Services. During project-level testing, system developers did not always demonstrate CDR functionality to business owners and did not maintain complete records verifying business participation. The CDR was deployed before responsible officials completely assessed security risks and authorized the system to operate. The CDR Application Audit Plan was not implemented as needed to support the IRS's program and policy to mitigate risks for unauthorized access to taxpayers' records.

TIGTA recommended that the IRS:

- Ensure that interagency testing with Exchanges is completed;
- Ensure that future Affordable Care Act projects complete release-level testing before starting interagency testing;
- Verify that CDR 2.0 functionality has been adequately demonstrated to Affordable Care Act business owners;
- Ensure that sufficient evidence is maintained to verify adequate business owner participation;
- Ensure that authorizing officials evaluate and accept CDR risks prior to deployment; and
- Ensure that the CDR Application Audit Plan is completed, approved, sufficiently tested, and implemented.

In management's response to the report, the IRS agreed with two of TIGTA's recommendations, disagreed with three, and partially agreed with another. The IRS did

not concur either with TIGTA's recommendations to strengthen systems testing practices or with TIGTA's assessment of the process applied to demonstrate and verify system functionality for the CDR. Because the IRS plans to rely on the CDR as its sole authoritative source for all Affordable Care Act data, TIGTA maintains that improvements are needed to ensure adequate risk mitigation practices in each of these areas.

Reference No. 2015-23-041

Affordable Care Act Information Sharing and Reporting Project

The Information Sharing and Reporting (IS&R) system handles data requests and sends responses by communicating with other IRS systems. Affordable Care Act Release 5.0 was deployed in a controlled launch on January 5, 2015, with full deployment on January 12, 2015.

TIGTA found that, while Affordable Care Act IS&R Release 5.0 was deployed in time for the 2015 Filing Season, lapses occurred in risk and requirements management. TIGTA noted instances in which IS&R Project management did not timely begin initial monitoring efforts of risks and issues, update the risk management system, or resolve its risks and issues. For example, in seven instances, between six and 391 days elapsed from the estimated closure date to the actual date the risks and issues were closed, and in six instances it took between 29 and 79 days from the date the risks were identified to the date the risks were initially discussed by management in status meetings.

TIGTA also determined that the IS&R Project did not adequately maintain a central repository of system requirements. Specifically, it took several attempts for IS&R Project management to identify a complete inventory of system requirements. In addition, TIGTA determined that § 508 requirements were not included in the requirements repository. Finally, TIGTA was unable to verify the traceability of system requirements because the testing team did not maintain a current requirements traceability matrix.

TIGTA recommended that the IRS:

- Ensure that the IS&R Project Risk Management Plan is updated to establish time frames to effectively identify and monitor risks and issues and to clearly reflect its high-priority risk and issue elevation process;
- Ensure that only in-scope requirements are included in requirements traceability documentation when release-level testing is conducted for future releases;
- Ensure that written procedures to track and control functional and nonfunctional requirements throughout the development process at the IS&R Project and release levels are implemented for future releases; and
- Standardize guidelines to ensure that there is complete requirements traceability throughout the development life cycle.

IRS management agreed with the recommendations and plans to update the Project Risk Management Plan, implement changes to its high-impact risk and issue elevation process, and include only in-scope requirements in its documentation. While the IRS also highlighted its established guidance on tracking and controlling requirements and requirements traceability, TIGTA believes that the guidance in the current version of the IRM needs to be more specific.
Reference No. 2015-23-062

Affordable Care Act Verification Service: Security and Testing Risks

Starting with TY 2014 individual income tax returns, the ACA requires taxpayers to file new forms (*e.g.*, Form 8962, *Premium Tax Credit*, and Form 8965, *Health Coverage Exemptions*) to report that they have qualifying health care coverage, are eligible for a health coverage exemption, or make a shared responsibility payment. To process the new forms, the IRS developed the ACA Verification Service (AVS).

The ACA security authorization was signed and the AVS was placed into production on January 20, 2015, prior to the completion of the security assessment. The authorizing official made the decision based on results of security testing that had been completed, the Cybersecurity organization's memorandum concurring with the authorizing official's granting of an update to the current security authorization, and the urgent need to deploy ACA Release 5.0 at the start of the 2015 Filing Season, the authorizing official signed the authorization pending the completion of testing and the completion of documents for the security authorization package. The Cybersecurity organization completed the security assessment in May 2015. AVS testing delays prevented the completion of security testing and the completion of documents needed for the security authorization package prior to deploying the AVS into production.

In addition, delays in testing extended the test period. Testing delays were caused by late code deliveries, changes in the test environment, and time needed to correct defects. Testing delays also caused the AVS to be submitted for the Final Integration Test program approximately one week before the start of the 2015 Filing Season, increasing the risk that defects would not be corrected prior to production.

Finally, test results from designated sources did not match the test results reported in the project-level and release-level draft End-of-Test Completion Reports. Discrepancies identified were due to clerical errors and the use of the Implementation and Testing organization's internal tracking system instead of using only the mandated tools. TIGTA recommended that the IRS ensure that:

- AVS security vulnerabilities be corrected prior to the next filing season;
- Security testing and security authorization packages be completed prior to authorizing and placing systems into production;
- ACA developers be notified in advance when changes to the development, test, and production environments are made; and

- Testing organizations use only the information from the designated tools for documenting requirements, test results, and defects to prepare the End-of-Test Completion Report.

IRS management agreed with two of the four recommendations and partially agreed with the remaining two. For vulnerabilities that cannot be corrected prior to the next filing season, the IRS plans to continue following established procedures for addressing the vulnerabilities. When security testing and security authorization packages cannot be completed prior to system deployment, the IRS plans to exercise risk-based decision making with appropriate governance approvals and documentation.
Reference No. 2015-23-081

TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY

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 can undermine the integrity of the Nation's voluntary tax system.

The Performance Model

The Office of Investigations 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.

The Office of Investigations has adopted 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.

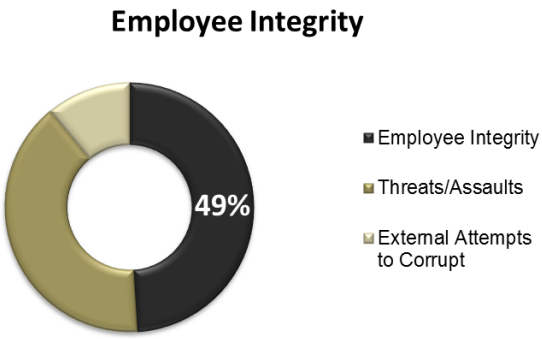
Employee misconduct undermines the IRS's ability to deliver taxpayer service, to enforce tax laws effectively, and to collect taxes owed to the Federal Government. External threats against the IRS impede its ability to fairly and efficiently carry out its role as the Nation's revenue collector. Individuals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

TIGTA investigates these serious offenses and refers its investigations to the Department of Justice for prosecution when warranted.

Performance Area: Employee Integrity

In order for the country's tax system to succeed, taxpayers must have confidence in the fair and impartial administration of Federal tax laws and regulations. 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 49 percent of OI's work. The following cases represent OI's efforts to ensure employee integrity during this six-month reporting period:



IRS Special Agent Pleads Guilty in Tax Refund Scheme

IRS Special Agent Donald Centreal Smith and coconspirator Gary Gene Collins each pled guilty in June 2015 to his respective role in a tax refund scheme.[16] In the Northern District of Alabama, Smith entered a guilty plea to conspiracy, wire fraud, and aggravated identity theft on June 15, 2015,[17] and Collins pled guilty to conspiracy and wire fraud on June 30, 2015.[18] Both were initially charged in April 2015 with a variety of criminal violations associated with the tax refund scheme.[19]

According to the court documents, Smith began his employment with IRS Criminal Investigation (IRS-CI) as a trainee in 2005 and became a special agent with IRS-CI in 2007. He was assigned to the Birmingham, Alabama field office. Co-defendant Collins, an Alabama resident, and Smith were friends. From about September 2011 through October 2013, Smith and Collins unlawfully conspired with each other in devising a scheme to make fictitious and fraudulent claims in the form of income tax returns filed with the IRS.[20]

As part of the conspiracy, Smith formed SMBG LLC in 2011 and Red Alliance LLC in 2012. Smith and Collins then opened two bank accounts at Regions Bank, one in the name of Red Alliance and another in the name of Red Alliance dba True Tax Enterprise.[21]

Between June and October 2012, Smith and Collins electronically filed approximately 19 fraudulent personal income tax returns with the IRS, knowingly using the identification of others without lawful authority. The personal identification information (*i.e.,* names, dates of birth, and SSNs) contained in the false tax returns came into Smith's possession by virtue of his employment as a special agent. Specifically, Smith had obtained the information several years earlier through investigations involving tax preparer fraud that he had conducted and prosecuted in his capacity as an IRS special agent. Smith retrieved the personal identifying information from the criminal case files, shared the information with Collins, and used the identifying information from the criminal files to prepare and file most of the false and fraudulent personal tax returns.[22]

[16] N.D. Ala. Plea Agr. Smith filed June 15, 2015; N.D. Ala. Plea Agr. Collins filed June 25, 2015.
[17] N.D. Ala. Plea Agr. Smith filed June 15, 2015.
[18] N.D. Ala. Plea Agr. Collins filed June 25, 2015.
[19] N.D. Ala. Indict. filed Apr. 30, 2015.
[20] N.D. Ala. Plea Agr. Smith filed June 15, 2015; N.D. Ala. Plea Agr. Collins filed June 25, 2015.
[21] N.D. Ala. Indict. filed Apr. 30, 2015.
[22] N.D. Ala. Plea Agr. Smith filed June 15, 2015; N.D. Ala. Plea Agr. Collins filed June 25, 2015.

The false returns directed the refunds to be deposited into the two specific bank accounts earlier established by Smith and Collins at Regions Bank, which were opened with Collins's SSN, date of birth, and home address.[23]

Smith and Collins requested, through the filing of these 19 false claims, Federal tax refunds totaling $65,308.00. Before the scheme was detected, the IRS paid $12,908.94 in refunds. Smith and Collins converted these funds to their own use.[24]

One victim attempted to file her 2011 return and was informed that a return had already been submitted in her name using her personal information, and that the false return generated a refund that had been deposited into an account at Regions Bank. The victim went to Regions Bank and reported the fraud to the bank security officer. The security officer investigated the account and discovered two bank accounts receiving refunds in the name of Red Alliance on which the account holders were Smith and Collins. The security officer placed a "no post" on the accounts.[25]

Collins called Regions Bank after discovering the "no post" order on the accounts and spoke with the bank security officer. The security officer agreed to remove the "no post" if Collins provided a copy of the tax return filed on behalf of the reporting victim. The security officer never heard from Collins. Collins also made several calls to Smith that same day.[26]

On two subsequent dates following the contact with Regions Bank, Smith searched a restricted and confidential Treasury database looking for Bank Secrecy Act information and records relating to himself, Red Alliance, the EIN associated with Red Alliance, and the reporting identity theft victim. A search of Smith's IRS workspace revealed handwritten notes associated with 18 of the fraudulent returns and a detailed spreadsheet containing the personal identifying information of individuals identified during the two prior criminal tax cases Smith had investigated.[27]

The men could face up to 20-years imprisonment.[28] Sentencing for both is scheduled for October 14, 2015.[29]

Former IRS Employee Sentenced for Wire Fraud and Aggravated Identity Theft in Connection With Refund Scheme

On August 26, 2015, in the Western District of Texas, former IRS employee Kenneth Goheen was sentenced for wire fraud and aggravated identity theft relating to a tax

[23] N.D. Ala. Indict. filed Apr. 30, 2015.
[24] N.D. Ala. Plea Agr. Smith filed June 15, 2015; N.D. Ala. Plea Agr. Collins filed June 25, 2015.
[25] *Id.*
[26] *Id.*
[27] N.D. Ala. Plea Agr. Smith filed June 15, 2015.
[28] N.D. Ala. Plea Agr. Smith filed June 15, 2015; N.D. Ala. Plea Agr. Collins filed June 25, 2015.
[29] N.D. Ala. Crim. Docket filed Apr. 30, 2015.

refund scheme.[30] Goheen was initially charged with the offenses in April 2015,[31] and pled guilty in June 2015.[32]

According to the court documents, Goheen was employed by the IRS in Austin, Texas, until February 7, 2015. Goheen held a position as a tax examining technician in the department responsible for assisting individuals in obtaining an Individual Tax Identification Number (ITIN). An ITIN is a tax processing number available only to certain nonresident and resident aliens, their spouses, and dependents who cannot obtain an SSN. Some applicants go through individuals authorized by the IRS to assist with the ITIN process, but other applicants provide original documents directly to the IRS for authentication and review. The IRS then establishes an ITIN for the individual, allowing the filing of Federal tax returns. While working in the ITIN department, Goheen had access to individuals' identification documents and the IRS computer systems that assign ITINs.[33]

Between about March 25, 2013 and January 1, 2015, Goheen devised a scheme to defraud the Government and obtain money by means of fraudulent pretenses. Specifically, in furtherance of his scheme, Goheen used identification documents submitted by legitimate applicants, without their authorization or knowledge, and caused the IRS to establish ITINs in their names. He then filed false tax returns with the IRS using the ITINS and obtained tax refunds in the names associated with the fraudulent ITINs.[34]

Goheen prepared and filed at least 51 Federal income tax returns in the names of at least 24 individuals, causing the Department of the Treasury to issue a minimum of $124,852.48 in fraudulent tax refunds. The refund checks were mailed to mailboxes established by Goheen in either his name or the names of other individuals, using copies of passports in the names of the other individuals.[35]

Goheen established several bank accounts, most via the Internet, using means of identification of other individuals without their consent or knowledge, and deposited at least $119,734.02 from the fraudulently obtained tax refunds into the accounts. Goheen further converted the funds to his personal use by paying, among other things, living expenses, personal debts, mortgage loans, and his tuition at Texas State University.[36]

Goheen was sentenced to 24 months and one day in prison, followed by three years of supervised release. He was further ordered to pay $104,292.02 in restitution to the IRS and forfeit over $20,000 from multiple accounts.[37]

---

[30] W.D. Tex. Judgment filed Aug. 26, 2015.
[31] W.D. Tex. Info. filed Apr. 22, 2015.
[32] W.D. Tex. Report and Recommendation of the United States Magistrate Judge filed 6/3/15.
[33] W.D. Tex. Info. filed Apr. 22, 2015.
[34] *Id.*
[35] *Id.*
[36] *Id.*
[37] W.D. Tex. Judgment filed Aug. 26, 2015.

Former IRS Employee Pleads Guilty in Stolen Identity Refund Scheme

On June 1, 2015, in the Western District of Missouri, Central Division, former IRS employee Demetria Brown pled guilty to wire fraud and aggravated identity theft.[38] Brown was indicted for the offenses in a 22-count indictment in October 2013.[39]

According to the court documents, Brown knowingly and willfully devised a scheme to defraud and obtain money from the IRS and the Missouri Department of Revenue (MDOR) by means of materially fraudulent representations. Brown worked for the IRS in St. Louis, Missouri, and lived in Fairview Heights, Illinois, at all times relevant to the charges.[40]

As part of her scheme, Brown obtained the personal identifiers (including names, SSNs and dates of birth) of individuals without their consent or knowledge and completed fraudulent U.S. individual tax returns and Missouri State tax returns using those identifiers. Brown added false information to the returns, such as addresses, places of employment, wages earned, and taxes withheld, and claimed refunds that were, in fact, not due.[41]

Using a false identity, Brown established an account with an Internet service provider and an e-mail address in order to submit these false returns to the IRS and MDOR. In furtherance of her scheme, Brown opened nominee bank accounts with at least six financial institutions in five different States and used the bank information to direct the fraudulent refund payments to accounts that she controlled.[42] Over a four-year period, 29 fraudulent State income tax refunds were deposited into accounts opened by Brown in the names of her three children. Brown was listed as the custodian on each account.[43]

Brown admitted that she had been preparing and electronically filing fraudulent Federal and State returns using the e-mail address she had established and her home computer. The IRS determined that Brown had filed in excess of 120 fraudulent Federal tax returns.[44] Through her scheme, Brown unlawfully acquired approximately $326,260 ($211,474 from the IRS and $114,786 from the MDOR).[45]

Sentencing has not been scheduled.

[38] W.D. Mo. C.D. Plea Agr. filed June 1, 2015.
[39] W.D. Mo. C.D. Indict. filed Oct. 2, 2013.
[40] *Id.*
[41] *Id.*
[42] *Id.*
[43] W.D. Mo. C.D. Plea Agr. filed June 1, 2015.
[44] *Id.*
[45] W.D. Mo. C.D. Indict. filed Oct. 2, 2013.

IRS Employee Pleads Guilty in One Million Dollar Identity Theft Conspiracy

On August 12, 2015, in the Eastern District of California, IRS employee Viririana Hernandez pled guilty to conspiracy to commit wire fraud, bank fraud, and mail fraud, as well as to aggravated identity theft.[46] Hernandez and three coconspirators were initially charged with the offenses in July 2014.[47]

According to the court documents, Hernandez, along with Daniel Miranda, Jr., Roberto Martinez, Jr., and Lilliana Gonzales, knowingly engaged in an identity theft conspiracy, using the personal information of victims obtained through various methods, including IRS personnel records. Hernandez had been employed by the IRS in Fresno, California, since 2006. During her employment, she worked in a variety of administrative positions, some allowing her access to human resources files on other IRS employees.[48]

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.[49]

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 this 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, Hernandez subsequently used it to purchase three Gucci watches at Macy's totaling $3,348.89.[50]

[46] E.D. Cal. Plea Agr. filed Aug. 12, 2015.
[47] E.D. Cal. Indict. filed July 17, 2014.
[48] *Id.*
[49] *Id.*
[50] *Id.*

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 which they then returned 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.[51]

In total, the conspiracy involved at least 160 victims and fraudulent attempts to obtain over one million dollars in goods and services.[52] All three of Hernandez's coconspirators have also pled guilty to conspiracy and aggravated identity theft and have sentencing dates in November and December 2015.[53]

Hernandez could face a maximum sentence of 30 years in prison on the conspiracy charges, plus a mandatory two-year sentence for each of the two counts of aggravated identity theft.[54] Her sentencing is scheduled for November 2, 2015.[55]

IRS Employee Indicted in False Tax Return Scheme

On April 24, 2015, in the Eastern District of New York, IRS employee James Brewer was charged in a 28-count indictment with filing false tax returns, aiding in the preparation of false tax returns, wire fraud, mail fraud, aggravated identity theft, and perjury.[56]

According to the indictment, Brewer was an IRS revenue officer assigned to the Edison, New Jersey, IRS office. As a revenue officer, Brewer was responsible for collecting money owed to the IRS and securing Federal tax returns from taxpayers who failed to file them. In connection with their employment, IRS employees are prohibited from preparing tax returns for profit and from operating an outside business without prior written approval from IRS management. In addition to the criminal charges, Brewer violated these regulations by preparing fraudulent Federal tax returns for taxpayers in exchange for a fee and by operating a personal business selling items through eBay without proper approval.[57]

Between 2010 and 2014, Brewer prepared six fraudulent tax returns for five different individuals. These returns contained false statements relating to dependents, filing status, itemized deductions, business profits or losses, and residential energy credits. Additionally, Brewer knowingly used the identities (names and SSNs) of others for dependent claims on the returns without lawful authority or authorization to do so,

[51] *Id*.
[52] *Id.*
[53] E.D. Cal. Crim. Docket filed July 17, 2014.
[54] E.D. Cal. Plea Agr. filed Aug. 12, 2015.
[55] E.D. Cal. Crim. Docket filed July 17, 2014.
[56] E.D. N.Y. Indict. filed Apr. 24, 2015.
[57] *Id.*

knowing the identities belonged to actual persons. These false statements on the tax returns either caused the clients to receive a refund when they otherwise would not have or caused inflated refunds. Brewer earned money preparing the returns by diverting a portion of the taxpayers' refunds to bank accounts within his control. In some cases, the taxpayers believed Brewer had prepared their tax returns as a favor and were unaware Brewer had diverted or attempted to divert a portion of their refunds to his bank accounts.[58]

In furtherance of his scheme, for TYs 2011, 2012, and 2013, Brewer made fraudulent claims on his own tax returns, which had been filed jointly with his current wife, claiming fraudulent dependents, underreporting the gross receipts of his eBay business, claiming false deductions, and failing to report money earned from preparing tax returns for others. By making these false claims, Brewer fraudulently reduced his taxable income and increased the amount of his tax refunds. Brewer filed seven fraudulent returns, including two of his own, electronically from Staten Island, New York.[59]

Further, Brewer perjured himself by knowingly making false declarations to the U.S. Tax Court in 2012, while under oath. Brewer had falsely claimed the First-Time Homebuyer Credit on his 2008 Federal return. This credit was established for people who purchased a new home in 2008, 2009, or 2010; however, taxpayers who owned a principal residence during the three years prior to the date of purchase of the new home were not eligible for the $7,500 tax credit. Brewer did not meet the eligibility conditions for the credit because he owned and used his Staten Island property as his principal residence until he and his wife at the time purchased a home in Avenel, New Jersey, in 2008. After Brewer was notified that the IRS had disallowed the credit, he appealed the decision and a trial was held in U.S. Tax Court. During the trial, Brewer lied, testifying under oath that he did not live in his Staten Island residence for any part of the three years prior to his purchase of the Avenel home.[60]

In a detention hearing on May 6, 2015, the judge determined that there was a serious risk Brewer would not appear at future hearings, indicating a variety of reasons related to the charges, including Brewer's conduct history and that no credible sureties were presented to assure his appearance. Therefore, Brewer was remanded into custody.[61]

IRS Employee Indicted for Providing Fraudulent Documents in Connection With Her Tax Returns

In the Eastern District of Pennsylvania, IRS employee Shirley McElhaugh was indicted on April 14, 2015, for attempting to interfere with the administration of the Internal Revenue laws.[62]

[58] *Id.*
[59] *Id.*
[60] *Id.*
[61] E.D. N.Y. Detention Order filed May 6, 2015.
[62] E.D. Penn. Indict. filed Apr. 14, 2015.

According to the court documents, McElhaugh was employed by the IRS as a contact representative at all times relevant to the indictment. Around 2009, the IRS conducted an examination of McElhaugh's 2006 and 2007 Federal income tax returns and disallowed charitable contributions she had claimed, resulting in a tax deficiency of approximately $16,920 for the two years. McElhaugh filed a petition in the U.S. Tax Court challenging the results of the IRS examination. McElhaugh subsequently endeavored to obstruct the due administration of the Internal Revenue laws by submitting fraudulent documentation to the IRS Office of Chief Counsel in support of her claimed charitable contributions, knowing the documents were false and did not accurately report her contributions for the tax years in question.[63]

Employee Integrity Projects

As part of its employee integrity focus, TIGTA conducts proactive investigative initiatives to detect misconduct in the administration of IRS programs. During this reporting period, TIGTA initiated 28 proactive projects 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 962 threat-related incidents.

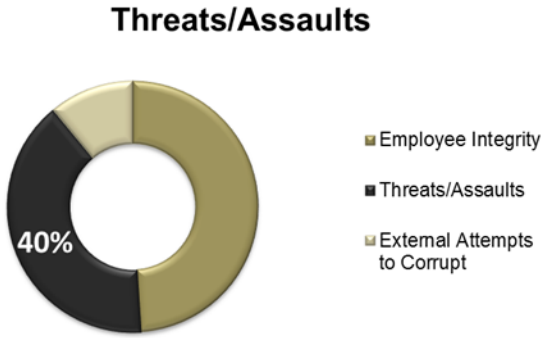
Contact with the IRS can be stressful and emotional for taxpayers. While the majority of taxpayer contacts are routine, some may become confrontational and even violent. TIGTA's special agents are statutorily mandated to provide physical security, known as "armed escorts," to IRS employees who have face-to-face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

The Office of Investigations 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. It also provides 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 people.

The investigative information sharing between OI and the IRS Office of Employee Protection (OEP) to identify potentially dangerous taxpayers is one example of TIGTA's commitment to protecting IRS employees. Taxpayers who meet OEP criteria are

[63] *Id.*

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 40 percent of OI's work. The following cases represent OI's efforts to ensure the safety of IRS employees during the reporting period:

Florida Man Sentenced for Threatening to Blow up the Miami IRS Office

On September 14, 2015, in the Southern District of Florida, Morris Whitehead was sentenced for making a threat to damage or destroy a building by means of fire or explosives.[64] Whitehead was indicted for the offense in May 2015.[65]

According to the court documents, Whitehead intentionally conveyed false information through the telephone concerning an attempt to unlawfully damage or destroy the IRS office in Miami, Florida.[66]

Specifically, on April 20, 2015, the FBI office in Miami received a call from an individual who claimed the Miami IRS building should be evacuated within two hours because it was going to go up in smoke.[67]

Subsequent investigation of the threat identified the originating telephone number, but the subscriber said she had loaned the phone to someone else—an individual later identified as Whitehead. Agents arrested Whitehead after he admitted he was the one who made the bomb threat regarding the IRS building. He further indicated that if he had wanted to follow through with the threat, he would have lit the building on fire rather than use a bomb.[68]

Whitehead was sentenced to 12 months and one day in prison, followed by three years of supervised release. While on supervised release, Whitehead will be required to live in a residential treatment center for eight months and participate in mental health and substance abuse treatment programs.[69]

[64] S.D. Fla. Judgment filed Sept. 17, 2015.
[65] S.D. Fla. Indict. filed May 4, 2015.
[66] *Id.*
[67] S.D. Fla. Crim. Complaint filed Apr. 22, 2015.
[68] *Id.*
[69] S.D. Fla. Judgment filed Sept. 17, 2015.

Mississippi Woman Indicted for Assaulting Special Agent

On May 19, 2015, in the Northern District of Mississippi, Veronica Lloyd, of Enid, Mississippi, was indicted for forcible interference with the due administration of the Internal Revenue laws.[70] Knowingly and intentionally, by force and threats of force, Lloyd endeavored to intimidate and impede an officer of the United States acting in an official capacity. Specifically, on or about May 12, 2015, Lloyd assaulted and attempted to assault a Department of the Treasury special agent by charging her with a dangerous weapon, *i.e.,* a shovel, and verbally accosting the special agent while she was engaged in the course of her official duties.[71]

Lloyd could face up to three years imprisonment and a $5,000 fine.[72] Additional legal action is pending.

Performance Area: External Attempts to Corrupt Tax Administration

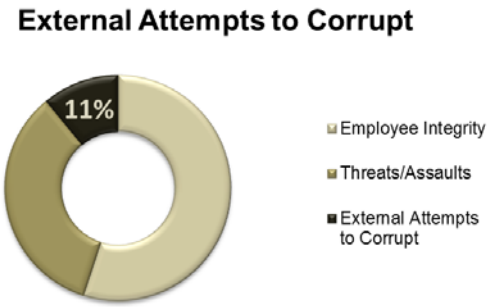
TIGTA also investigates external attempts to corrupt or impede tax administration. Individuals may interfere with the IRS's ability to collect revenue for the United States in many ways, for instance by: filing false or frivolous documents against IRS employees; impersonating IRS employees or misusing IRS seals; 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 also undermine the public's confidence in fair and effective tax administration.

For example, IRS employees who have contact with the public frequently receive frivolous correspondence and threatening letters. 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 but is also a criminal act. TIGTA special agents investigate these acts of retaliation and work with the Department of Justice to prosecute such acts which interfere with or impede Federal tax administration.

Individuals may also impersonate the IRS or its employees to obtain Personally Identifiable Information (PII)[73] 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. 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

[70] N.D. Miss. Indict. filed May 19, 2015; N.D. Miss. Crim. Cover Sheet filed May 19, 2015.
[71] *Id.*
[72] N.D. Miss. Notice of Penalties filed May 19, 2015.
[73] PII is any information that, by itself or in combination with other information, may be used to uniquely identify an individual. Examples of PII are names, addresses, and SSNs.

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.



During this reporting period, investigations into attempts to corrupt or impede tax administration accounted for 11 percent of OI's work.

IRS Impersonation Scam

Between October 2013 and September 30, 2015, TIGTA logged more than 722,000 contacts from taxpayers who reported that they had received telephone calls from individuals who claimed to be IRS employees. The impersonators told the victims that they owed additional tax and that, if they did not immediately pay, they would be arrested, lose their driver's licenses, or face other consequences. More than 4,500 victims reported that they had paid the impersonators a total of over $23 million dollars. Because of the complexity of their operations, scams such as these are not typically resolved quickly. The Office of Investigations is diligently working to identify the perpetrators so they can be referred to the Department of Justice for prosecution.

Corrupt Interference

The following cases represent OI's efforts to address and deter external attempts to corrupt tax administration during this six-month reporting period:

Twelve-Year Prison Sentence for Perpetrator of Stolen Identity Refund Scheme

On June 15, 2015, in the Northern District of New York, Anas Khalid Wilson was sentenced for his role in a stolen identity refund scheme. Wilson pled guilty in December 2014 to theft of Government property and aggravated identity theft.[74]

According to the court documents, Wilson devised a scheme to defraud the IRS by filing tax returns containing false and fraudulent information using PII acquired under false pretenses.[75]

Wilson represented himself to be an IRS agent and Government employee in order to illegally obtain and use the identities of others to file false tax returns and claim fraudulent refunds. In addition to falsely representing himself as an IRS employee (which Wilson has never been), he advised the individuals that they were eligible for a fictitious stimulus program, knowing such program did not exist.[76]

[74] N.D.N.Y. Judgment filed June 22, 2015.
[75] N.D.N.Y. Crim. Complaint filed May 13, 2013.
[76] N.D.N.Y. Change of Plea Transcript filed Jan. 16, 2015.

One of the victims indicated that Wilson came to her home and told her she may be eligible for a Federal stimulus payment since she was unemployed and was not required to file a tax return. The victim had been receiving Social Security disability payments and had not worked for several years. Wilson presented himself as an IRS agent who helped people in her situation file for stimulus payments. Wilson requested the individual's name, SSN, date of birth, and address in order to check her eligibility for the fictitious program, which she provided. He subsequently entered the information into his laptop computer and told the victim she would be receiving $500 in the mail. In furtherance of his scheme, Wilson told the victim that if she provided him with information for additional people with similar circumstances (*i.e.*, people not required to file a tax return because they were either unemployed or disabled), he would pay her $100 for every ten eligible names she provided. Believing Wilson was a legitimate Government employee, the victim agreed to help him. She provided him with approximately 30 names, mostly of friends and relatives.[77]

Wilson filed a total of 205 separate false tax returns requesting refunds totaling $414,886. The majority of the fraudulent tax returns were electronically filed in the names of people in Utica, New York. Others were filed for people in Georgia, Kentucky, Maryland, Michigan, New Jersey, South Carolina, and Virginia. Each contained false information concerning income received and eligibility for the Earned Income Tax Credit. The fraudulent tax refunds were directed to bank accounts established in other individuals' names. Wilson then directed these individuals to withdraw the funds from their accounts and provide him with the money. In return he promised to pay them for their services. Wilson directed the individuals to open business accounts at specified banks. He further instructed them never to withdraw more than $10,000 per day. Wilson paid travel expenses for the individuals when they conducted banking transactions and would pick up proceeds the same day as the withdrawal.[78]

Wilson was sentenced to 144 months in prison, followed by three years of supervised release. He was ordered to pay $1,431 in restitution and to forfeit $414,000.[79] Wilson is appealing his sentence.[80]

The investigation was worked jointly by agents from TIGTA, IRS-CI, and the Defense Criminal Investigative Service.

Man Sentenced to More Than Six Years in Prison for Interference With the IRS

Scott Bodley was sentenced on May 12, 2015, in the Western District of Wisconsin, for corruptly endeavoring to obstruct and impede the due administration of the Internal Revenue laws, filing fictitious instruments, making false statements, committing fraud in

[77] N.D.N.Y. Crim. Complaint filed May 13, 2013.
[78] *Id.*
[79] N.D.N.Y. Judgment filed June 22, 2015.
[80] N.D.N.Y. Crim. Docket filed June 26, 2013.

connection with Federal income tax returns, and attempting to evade tax.[81] Earlier this year, a jury found Bodley guilty of all charges included in a 26-count indictment.[82]

According to the court documents, Bodley corruptly endeavored to obstruct and impede the due administration of the Internal Revenue laws through a variety of methods. As part of these attempts to interfere, Bodley sent letters to the IRS threatening to file criminal charges or liens against IRS employees, a U.S. District Court Judge, and a Department of Justice attorney. In some of the correspondence, Bodley used the alias "Hunter Haplo," a private attorney at the firm of Hunter, Veritas & Haplo.[83]

In furtherance of his corrupt interference, Bodley knowingly submitted numerous other fraudulent documents to the IRS, including fictitious bonded promissory notes and fictitious money orders ranging in amounts from $300 to $70 million as purported payment of debts for himself and others. Such debts related to Federal tax liabilities, frivolous return penalties, credit card bills, home mortgage bills, traffic fines, and State court judgments. Bodley also mailed other packages of false documents to the IRS, which generally included a Form 1040 tax return; Forms 1099-OID, *Original Issue Discount*, reporting payments of original issue discount income; a Form 1040-V, *Payment Voucher*; a Form 56, *Notice Concerning Fiduciary Relationship*; and a Form 1096, *Annual Summary and Transmittal of U.S. Information Returns*. All were false and contained fraudulent statements related to the withholding and payment of Federal income taxes for Bodley and others.[84]

Additionally, Bodley failed to file his Federal returns or pay Federal income taxes from 1999 through 2009. He filed false forms with his employers claiming he was exempt from income tax withholding, thereby willfully attempting to evade and defeat his tax due and owing.[85]

Bodley was sentenced to 78 months in prison, followed by three years of supervised release. He was ordered to pay $32,077.49 in restitution to the IRS and submit to financial monitoring during his supervised release.[86] Bodley filed a notice of appeal on May 13, 2015.[87]

New Jersey Attorney/CPA Sentenced in an Extortion Scheme

On April 27, 2015, Thomas G. Frey was sentenced in the District of New Jersey for his role in an extortion conspiracy.[88] Frey was charged with conspiracy to extort under fear of economic harm, attempted extortion, and wire fraud in August 2011.[89]

[81] W.D. Wis. Judgment filed May 14, 2015.
[82] W.D. Wis. Verdict filed Feb. 6, 2015.
[83] W.D. Wis. Indict. filed May 16, 2013.
[84] *Id.*
[85] *Id.*
[86] W.D. Wis. Judgment filed May 14, 2015.
[87] W.D. Wis. Notice of Appeal filed May 13, 2015.
[88] D. N.J. Judgment filed Apr. 29, 2015.
[89] D. N.J. Indict. filed Aug. 2, 2011.

According to the court documents, Frey was a licensed attorney in the State of New Jersey and a Certified Public Accountant operating in New Jersey at all times relevant to the extortion conspiracy. In 2011, Frey, and coconspirator Robert Cusic, Jr., a mortgage broker, devised a scheme to obtain legal fees and property from victims through extortion with the wrongful threat of economic harm.[90]

The four victims of the conspiracy owned and rented real estate investment properties in New Jersey. Two of them were also police officers. A third (unindicted) conspirator, an attorney, had represented the victims in matters related to the purchase and sale of their investment properties since approximately 2003, and Cusic had served as the victims' mortgage broker in the past.[91]

In late 2010 or early 2011, one of the victims was informed that a group of investors was interested in the purchase of some of the investment properties. Four properties were subsequently sold to a company named 135 Easton Avenue LLC. The unindicted attorney represented the seller in this transaction. Cusic acted as an agent of the purchasing company; Frey held an interest in the purchasing company and also invested a portion of the purchase price.[92]

As part of their scheme to defraud the victims, Frey, Cusic, and the third conspirator falsely represented to the victims that they were the subjects of criminal investigations, principally by the IRS, related to their investment properties. To facilitate their scheme, Cusic indicated that two IRS special agents had approached him at one of the properties regarding investigations of police officers for mortgage fraud. Cusic said the agents had provided him with their business cards at that time. Frey told the victims he knew one of the special agents and said if the two IRS criminal investigators were involved, then the U.S. Attorney's Office must also be involved in the case. Frey offered to call the special agents to inquire about the nature of the IRS's investigation and advised that to retain him they should bring an initial retainer fee of $10,000. Frey later told the victims that his purported legal and accounting services would cost them up to $20,000 each.[93]

In a meeting with the victims, Frey falsely informed them that he had spoken to one of the special agents and confirmed there was an open criminal investigation on three of the four individuals. Frey showed those present at the meeting the special agents' business cards and falsely stated that the agents had given him these cards when he was at the investment property. In fact, Frey had represented another individual who was the subject of an IRS criminal investigation several years earlier and had obtained the two special agents' cards at that time. Frey falsely indicated that the victims' 2007 and 2008 personal Federal tax returns had prompted the IRS problems and indicated the victims' "way out" was to amend their returns. Frey said he would forward the amended returns to one of the special agents with whom he had a working relationship,

[90] *Id.*
[91] *Id.*
[92] *Id.*
[93] *Id.*

and the agent would convert the IRS inquiry from a criminal investigation to a civil matter.[94]

In subsequent contacts, Frey continued to pressure the victims, telling them that if they engaged him, he would "put the brakes on" the criminal investigation. If they did not, he would not speak to the special agent again on their behalf and the criminal investigation would proceed. Additionally, Frey instructed the victims to distance themselves from the investment property by hiring Cusic's property management company to collect the rent. Frey then followed with mention of similar situations in which one of his clients was sentenced to six months in prison and another was serving a year and a day in prison.[95]

One of the victims contacted the IRS and learned that neither of the two special agents mentioned were investigating them. Two of the victims coordinated future meetings and conversations with law enforcement and monitored such meetings. In one such meeting, Frey accepted $10,000 from one of the victims for the initial retainer fee. The others were to provide tax documentation and fees at a later date. When one of the victims delayed subsequent meetings, Frey said that the IRS was "going gangbusters" against the individuals because they had not retained him. He claimed that the delay made the individual look like a noncompliant taxpayer and that the IRS was getting ready to subpoena the victims' bank records. Frey indicated that the two victims who were police officers were particularly vulnerable. Cusic supported and reiterated the false statements in separate conversations, and the third conspirator also urged the victims to engage Frey, stating that Frey expected them (the victims) to be arrested soon.[96]

Frey, Cusic, and the third individual knowingly and intentionally conspired with each other in their false and fraudulent representations when, in fact, the IRS was not investigating the victims and neither of the special agents had participated in an investigation of the victims, had ever approached Cusic about the victims, or had any contact with Frey since the previous investigation and prosecution of his client.[97]

Frey was sentenced to 27 months in prison, followed by three years of supervised release. Frey was also ordered to pay a fine of $25,000, complete 300 hours of community service,[98] and repay legal fees provided by the court.[99]

[94] *Id.*
[95] *Id.*
[96] *Id.*
[97] *Id.*
[98] D. N.J. Judgment filed Apr. 29, 2015.
[99] D. N.J. Crim. Docket filed Aug. 2, 2011.

Man Found Guilty of Impersonating an IRS Employee With the Intent to Harass

On August 28, 2015, in the Northern District of California, a jury found Douglas York guilty of false impersonation of a Federal employee.[100] York was indicted for the offense in April 2015[101] and arrested in May 2015.[102]

According to the court documents, York falsely pretended to be an officer or employee of the United States, specifically an agent of the IRS engaged in the investigation of tax records. Without disclosing his true identity, and with intent to threaten and harass a specific person, York made a telephone call and left a voice mail for the victim indicating that he was from the IRS and was calling about a tax audit.[103]

In a trial memorandum, the Government alleges that York made an interstate communication for the purpose of harassment, *i.e*., a telephone call originating in California and utilizing an application called "Spoofcard," whose servers were located in New Jersey. In the communication, York failed to truthfully identify himself and also used a voice alteration feature to further conceal his identity.[104] The voice mail left for the victim represented that Judy Smith from the IRS was calling and stated that a tax audit was going to be requested for years 2005, 2006, and 2007. The caller requested a return call to the number listed on the caller ID and further said if the victim could not be reached, the IRS would be checking into his past and looking into his records.[105]

The Government alleged it was York's purpose to annoy and harass the victim with the voice mail, as well as with other continued instances of harassment. Among other things, York incessantly called the victim over the course of several months, placed a phony advertisement for the sale of a car on Craigslist with the victim's address listed, and posted a sign on the victim's street claiming he was a child predator.[106]

York could face up to three years in prison and a $250,000 fine.[107] Sentencing is scheduled for December 14, 2015.[108]

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, "*TIGTA & You: Protecting Clients and Taxpayers.*"

[100] N.D. Cal. Verdict Form filed Aug. 28, 2015.
[101] N.D. Cal. Indict. filed Apr. 22, 2015.
[102] N.D. Cal. Crim. Docket filed Apr. 22, 2015.
[103] N.D. Cal. Superseding Indict. filed July 9, 2015.
[104] N.D. Cal. United States' Trial Memorandum filed July 9, 2015.
[105] N.D. Cal. Superseding Indict. filed July 9, 2015.
[106] N.D. Cal. United States' Trial Memorandum filed July 9, 2015.
[107] N.D. Cal. Superseding Indict. filed July 9, 2015.
[108] N.D. Cal. Crim. Docket filed Apr. 22, 2015.

The presentations informed tax preparers of TIGTA's role in protecting the integrity of tax administration, differentiating between TIGTA's jurisdiction and the IRS's, identifying various forms of preparer misconduct, and identifying common IRS impersonation scams.

These outreach efforts are important due to the influence that tax preparers have on tax compliance and noncompliance. Tax preparers can either assist in the enforcement of tax administration by ensuring taxpayers' compliance with the Internal Revenue laws or they can impede it. The following cases represent OI's efforts to protect tax administration from unscrupulous tax preparers during this six-month reporting period:

Pennsylvania Tax Preparer Found Guilty in Extortion Scheme

On June 11, 2015, in the Middle District of Pennsylvania, at the conclusion of a four-day trial, a jury found Maria Colvard guilty of aiding and abetting in extortion, aiding and abetting false personation of an employee of the United States, and aiding and abetting in interference with commerce by threats.[109] Colvard and co-defendant Merarys Paulino were indicted in June 2013.[110] Paulino entered a guilty plea to the extortion charge in October 2013.[111] Colvard initially entered into a plea agreement for the false personation and interference with commerce charges in January 2015,[112] but subsequently withdrew her plea in February 2015.[113]

According to the court documents, Colvard was the owner/operator of Tax Max LLC, with locations in Chambersburg and Hanover, Pennsylvania.[114] Between February and May 2013, Colvard obstructed and affected the commerce of her competitor, Cristina's Tax Service, by extortion with the use of fear and threats, including the fear of economic loss.[115] The operator of Cristina's Tax Service, Cristina Gutierrez, was previously employed by Colvard in Colvard's tax preparation business.[116]

As part of the extortion scheme against her business competitor, Colvard obtained and conspired to obtain property from Cristina's Tax Service by the wrongful use of fear. She did so by aiding, counseling, and inducing Paulino into representing herself as an employee of the United States, specifically, a criminal investigator with the IRS named "LaBella Williams." Under the false pretense of her employment with the IRS, and purportedly on behalf of the United States, Paulino demanded the client list of Cristina's Tax Service, sums of money, and the closure of the business.[117]

Colvard's sentencing has not been scheduled.[118]

---

[109] M.D. Pa. Verdict filed June 12, 2015.
[110] M.D. Pa. Indict. filed June 5, 2013.
[111] M.D. Pa. Crim. Docket filed June 5, 2013.
[112] M.D. Pa. Plea Agr. filed Jan. 6, 2015.
[113] M.D. Pa. Crim. Docket filed June 5, 2013.
[114] M.D. Pa. Motion to Withdraw Guilty Plea filed Jan. 22, 2015.
[115] M.D. Pa. Superseding Indict. filed Nov. 6, 2013.
[116] M.D. Pa. Motion to Withdraw Guilty Plea filed Jan. 22, 2015.
[117] M.D. Pa. Superseding Indict. filed Nov. 6, 2013.

IRS Enrolled Agent Sentenced for Corrupt Interference With the IRS

On June 19, 2015, in the Central District of California, Richard Schultz was sentenced for obstructing and endeavoring to obstruct the administration of the I.R.C.[119] Schultz was initially charged with the offense in February 2015[120] and pled guilty in March 2015.[121]

According to the court documents, Schultz was an enrolled agent for Optima Tax Relief (Optima) in Santa Ana, California. As an enrolled agent, Schultz represented Optima's clients before the IRS. The IRS had placed levies on the accounts of a number of Optima's clients in an effort to collect back taxes from them.[122]

From approximately December 2012 to June 2013, Schultz corruptly endeavored to obstruct and impede the due administration of the I.R.C. by creating false levy releases for eight to 10 Optima clients. In connection with his fraudulent activities, Schultz used valid levy releases previously issued by the IRS and altered them by whiting out the true taxpayer's information and adding the new taxpayer's information. Schultz then sent the falsified levy releases to the Optima clients and advised them that the releases were valid. As a result, the clients forwarded the false levy releases to their financial institutions, who in turn released the IRS levies on the applicable accounts. Schultz's actions in creating and sending false IRS levy releases impeded the IRS in the collection of outstanding tax liabilities from the Optima clients.[123]

Schultz was sentenced to two years of supervised probation, plus 180 hours of community service. He was further ordered to notify the IRS Office of Practitioner Enrollment of his conviction. Schultz is forbidden from engaging in any business involving tax services, including tax preparation and/or tax representation, without prior written approval from his probation officer.[124]

[118] M.D. Pa. Crim. Docket filed June 5, 2013.
[119] C.D. Cal. Judgment filed June 22, 2015.
[120] C.D. Cal. Info. filed Feb. 10, 2015.
[121] C.D. Cal. Crim. Docket filed Feb. 10, 2015; C.D. Cal. Crim. Minutes Change of Plea filed Mar. 27, 2015.
[122] C.D. Cal. Plea Agr. filed Feb. 10, 2015.
[123] *Id.*
[124] C.D. Cal. Judgment filed June 22, 2015.

TAXES ARE WHAT WE PAY FOR A CIVILIZED SOCIETY

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. The work of I&E 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 report highlights one of the significant activities that I&E engaged in during this six-month reporting period:

Compendium of Unimplemented Corrective Actions

The Inspector General Act requires each Inspector General to issue semiannual reports to Congress and include "an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed." TIGTA's recommendations stem from audits, inspections, and evaluations that have been performed pursuant to the Inspector General Act. The Compendium of Unimplemented Corrective Actions (Compendium) highlighted for IRS management those significant recommendations that are unimplemented, as shown in the September 2014 Semiannual Report.[125]

[125] The Compendium starts with the significant unimplemented corrective actions as reported in the September 2014 Semiannual Report. The Compendium updates the Semiannual Report to reflect changes and closures through February 15, 2015.

The Compendium correlates the significant unimplemented corrective actions according to Major Management Challenge. It also lists open unimplemented corrective actions from the September 2014 Semiannual Report and reflects any changes since the end of that reporting period through February 15, 2015. Appendix II of the Compendium includes a hierarchical list of the 10 most important unimplemented corrective actions and a list of the significant unimplemented corrective actions for which the original completion date was rescheduled to a new fiscal year.

The Compendium is part of TIGTA's strategy to promote a strong internal control environment in the IRS. In this regard, TIGTA collaborated with IRS managers and executives responsible for audit follow-up. Its goal was to assist IRS management in monitoring the agency's internal controls and to promptly correct agreed-to deficiencies. Implementing corrective actions will correct control weaknesses, thereby increasing effectiveness and efficiency, reducing vulnerabilities, and mitigating risks.

Congressional Testimony

On June 2, 2015, Inspector General J. Russell George testified before the Senate Committee on Finance to discuss the "Internal Revenue Service Data Breach Affecting Taxpayer Information." In May 2015, the IRS announced that criminals had used taxpayer-specific data acquired from non-IRS sources to gain unauthorized access to information on approximately 100,000 tax accounts through the IRS's Get Transcript application.[126] The proliferation of data breaches reported in recent years and the types of information available on the Internet has resulted in a degradation of the controls used to authenticate individuals accessing personal data in some systems.

The expansion of e-commerce services often conflicts with the tenets of strict security standards. Providing taxpayers more avenues to obtain answers to their tax questions or to access their own tax records online also creates greater risk to an organization and provides more opportunities for exploitation by hackers and other fraudsters. Since FY 2011, TIGTA has designated the security of taxpayer data as the top concern facing the IRS, based on the increased number and sophistication of threats to taxpayer information and the need for the IRS to better protect taxpayer data and improve its enterprise security program. The Inspector General assured the committee that TIGTA continues to investigate this incident and to coordinate with other Federal law enforcement agencies.

Additionally, the Inspector General addressed the ongoing phone impersonation scam plaguing the country. The phone impersonation scam is one of TIGTA's top priorities, and it has also landed at the top of the IRS's "Dirty Dozen" tax scams this year. It has proven to be a surprisingly effective and fast way to steal taxpayers' money. In this fast-paced electronic environment, the victims' money can be gone before they ever realize that they have been scammed. The number of complaints we have received about this scam makes it the largest, most pervasive impersonation scam in the history of our agency. It has claimed thousands of victims with reported losses totaling almost $19 million to date.

On June 25, 2015, Timothy P. Camus, Deputy Inspector General for Investigations, testified before the House Oversight and Government Reform Committee to provide a progress report on TIGTA's efforts to recover former IRS Exempt Organization Division Director Lois Lerner's missing e-mails. This was a follow-up to a hearing conducted on February 26, 2015. Whereas the February hearing was to provide as much information as possible on the progress of our e-mail recovery efforts without compromising the integrity of TIGTA's ongoing investigation into the circumstances surrounding the IRS's loss of data, the hard drive crash, and the manner in which the IRS handled its electronic media, this update was to discuss in full detail the investigation that TIGTA conducted on the incident.

[126] Information available on the Get Transcript application can include account transactions, line-by-line tax return information and income reported to the IRS.

TIGTA investigated six possible sources in an effort to recover the missing e-mails: (1) Ms. Lerner's crashed hard drive; (2) the backup (disaster recovery) tapes: (3) a decommissioned IRS e-mail server; (4) the backup tapes for the decommissioned e-mail server; (5) Ms. Lerner's BlackBerry; and (6) loaner computers that may have been assigned to Ms. Lerner while her laptop was being repaired. Given that Ms. Lerner's hard drive could not be recovered, and the 422 tapes most likely to have contained Ms. Lerner's e-mails from 2010 and 2011 were erased in March 2014, we were unable to recover all of the missing e-mails. A comparison of the IRS e-mail transaction logs to the IRS's production to the Congress revealed that there could be as many as 23,000 to 24,000 additional missing e-mails. As a result of its investigation, TIGTA was successful in recovering over 1,000 e-mails that the IRS did not produce to the Congress, the Department of Justice, or TIGTA. The investigation also revealed that prior to our investigation and our efforts to recover Ms. Lerner's missing e-mails, the IRS did not search for, review, or examine the two separate sources of backup tapes, the server hard drives, or the loaner laptops that ultimately produced new, previously undisclosed e-mails.

On August 26, 2015, the Inspector General testified before Senator Kelly Ayotte of the Senate Budget Committee in Manchester, New Hampshire. Also on the panel was Commissioner John A. Koskinen. The focus of the hearing was on identity theft and how the IRS deals with fraudulent returns and revenues lost due to lack of fraud detection. Mr. George reported that in PY 2014 the IRS detected and prevented approximately $24.3 billion in identity theft refund fraud. It also expanded the number of filters used to detect identity theft refund fraud at the time tax returns are processed from 80 filters during 2013 to 114 during 2014. By increasing these filters, the IRS prevented the issuance of approximately $5.5 billion in fraudulent tax refunds.

TIGTA has previously identified large volumes of undetected potentially fraudulent tax returns that have resulted in tax refunds issued to identical addresses or deposited into identical bank accounts. In response, the IRS has developed and implemented a clustering filter. The IRS reports that, as of early October 2014, it had identified approximately 517,000 tax returns and prevented the issuance of approximately $3.1 billion in fraudulent tax refunds by using this tool.

The Inspector General stated for the record that TIGTA remains concerned about the ever-increasing attempts to defraud taxpayers through identity theft and other scams. Because of the importance of these issues, we plan to provide continuing audit coverage of the IRS's efforts to prevent tax-related identity theft and will continue to investigate any instances of attempts to corrupt or otherwise interfere with the Nation's system of tax administration.

Audit Statistical Reports
Reports With Questioned Costs

TIGTA issued three audit 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 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[127] (in thousands)**	**Unsupported Costs (in thousands)**
1. Reports with no management decision at the beginning of the reporting period	8	$44,373	$0
2. Reports issued during the reporting period	3	$1,288	$0
3. Subtotals (Item 1 plus Item 2)[128]	**11**	**$45,660**	**$0**
4. Reports for which a management decision was made during the reporting period			
a. Value of disallowed costs	1	$406	$0
b. Value of costs not disallowed	1	$87	$0
5. Reports with no management decision at the end of the reporting period (Item 3 minus Item 4)	**9**	**$45,167**	**$0**
6. Reports with no management decision within six months of issuance	7	$44,285	$0

[127] "Questioned costs" includes "unsupported costs."
[128] Difference in amount due to rounding.

Reports With Recommendations That Funds Be Put to Better Use

TIGTA issued one audit report during this semiannual reporting period with the recommendation that funds be put to better use.[129] 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	1	$18,200
3. Subtotals (Item 1 plus Item 2)	**1**	**$18,200**
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	1	$18,200
ii. Based on proposed legislative action	0	$0
b. Value of recommendations to which management did not agree	0	$0
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

[129] See Appendix II for identification of audit report 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 cost while maintaining or improving the effectiveness of specific programs; resources saved would be available for other IRS programs. Also, the value of internal control weaknesses that resulted in an unrecoverable expenditure of funds with no tangible or useful benefit in return.

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

Protection of Resources: Safeguarding human and capital assets, used by or in the custody of the organization, from 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[130]**	**Number of Taxpayer Accounts**	**Dollar Value (in thousands)**
Increased Revenue	8	2,360,561	$1,781,268
Revenue Protection	3	1,403	$3,123,302
Reduction of Burden on Taxpayers	2	24,237	$1
Taxpayer Rights and Entitlements at Risk	4	7,293	$3,892
Taxpayer Privacy and Security	1	0	$0
Inefficient Use of Resources	0	0	$0
Reliability of Management Information	5	4,807	$0
Protection of Resources	0	0	$0

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

- Questioned Costs: Reference Number 2015-20-033;
- Increased Revenue: Reference Numbers 2015-30-037, 2015-43-049, 2015-30-052, 2015-30-056, and 2015-40-090;
- Revenue Protection: Reference Numbers 2015-10-059, 2015-30-066, and 2015-40-089; and
- Reliability of Information: Reference Numbers 2015-30-052 and 2015-40-089.

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

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

- Increased Revenue: Reference Number 2015-30-056;
- Taxpayer Privacy and Security: Reference Number 2015-30-084;
- Taxpayer Rights and Entitlements: Reference Number 2015-30-084: and
- Reliability of Information: Reference Numbers 2015-10-077, 2015-10-076, and 2015-40-089.

Investigations Statistical Reports

Significant Investigative Achievements April 1, 2015 – September 30, 2015	
Complaints/Allegations Received by TIGTA	
Complaints against IRS Employees	2,582
Complaints against Non-Employees	3,247
Total Complaints/Allegations	**5,829**
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	954
In Process within TIGTA[131]	670
Referred to IRS for Action	611
Referred to IRS for Information Only	1,366
Referred to a Non-IRS Entity[132]	1
Closed with No Referral	749
Closed Associated with Prior Investigation	1,253
Closed with All Actions Completed	225
Total Complaints	**5,829**
Investigations Opened and Closed	
Total Investigations Opened	1,385
Total Investigations Closed	1,439
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	0
Contract Fraud and Overpayments Recovered	0
Court Ordered Fines, Penalties and Restitution	$25,885,582
Out-of-Court Settlements	0
Potentially Compromised by Bribery	0
Tax Liability of Taxpayers Who Threaten and/or Assault IRS Employees	$1,634,336
IRS Assets and Resources Protected Against Malicious Loss	$99,292
Seizures, Returns Compliance Program, and Asset Forfeitures	$1,029,170
Government Property Recovered	$5,318
Total Financial Accomplishments	**$28,653,698**

[131] Complaints for which final determination had not been made at the end of the reporting period.
[132] 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	23	31	**54**
Referred – Declined for Prosecution	242	134	**376**
Referred – Pending Prosecutorial Decision	23	43	**66**
Total Criminal Referrals[133]	**288**	**208**	**496**
No Referral	**335**	**542**	**877**

Criminal Dispositions[134]			
Criminal Disposition	**Employee**	**Non-Employee**	**Total**
Guilty	14	39	**53**
Nolo Contendere (no contest)	4	2	**6**
Pre-trial Diversion	5	0	**5**
Deferred Prosecution[135]	2	2	**4**
Not Guilty	0	0	**0**
Dismissed	2	3	**5**
Total Criminal Dispositions	**27**	**46**	**73**

Administrative Dispositions on Closed Investigations[136]	
Administrative Disposition	**Total**
Removed / Terminated	14
Suspended / Reduction in Grade	63
Resigned / Retired / Separated Prior to Adjudication	73
Oral or Written Reprimand / Admonishment	100
Clearance Letter / Closed, No Action Taken	102
Alternative Discipline / Letter with Cautionary Statement / Other	117
Non-Employee Actions[137]	385
Total Administrative Dispositions	**854**

[133] Criminal referrals include both Federal and State dispositions.
[134] 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.
[135] 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.
[136] 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.
[137] 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.)*
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.
2013-40-009	Fraudulent Claims and Improper Payments	December 2012	01/15/16	***Many Taxpayers Are Still Not Complying With Noncash Charitable Contribution Reporting Requirements*** F-1, R-2. Capture the contribution date, donee signature and/or acknowledgement date, Declaration of Appraiser, and type of property donated from Forms 8283, *Noncash Charitable Contributions*, and develop processes to use the information to ensure that taxpayers are meeting the requirements for claiming deductions for noncash charitable contributions.
2013-20-108	Security for Taxpayer Data and Employees	September 2013	02/25/16	***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.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No.)*
2013-40-122	Fraudulent Claims and Improper Payments	September 2013	06/15/17	***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.
2013-40-123	Fraudulent Claims and Improper Payments	September 2013	12/15/15	***The Law Which Penalizes Erroneous Refund and Credit Claims Was Not Properly Implemented*** F-1, R-1. Develop processes and procedures to enable Campus Operations to assess the erroneous refund penalty for disallowed credit claims that are excessive and do not have a reasonable basis.
2014-20-002	Achieving Program Efficiencies and Cost Savings	February 2014	01/25/16 01/25/16	***The Internal Revenue Service Should Improve Mainframe Software Asset Management and Reduce Costs*** 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.
2014-10-033	Providing Quality Service Operations	June 2014	12/15/15 12/15/15 12/15/15	***The Taxpayer Advocate Service Can Improve the Processing of Systemic Burden Cases*** F-1, R-1. Reissue guidance to explain the requirement to only contact authorized representatives when applicable, and emphasize this in future training. F-1, R-3. Review the results of sample findings and incorporate lessons learned into future training. F-3, R-2. Reemphasize the importance of ensuring the accuracy of criteria, primary core issues, and relief codes to personnel to improve the accuracy of information that is used to make managerial decisions and what is reported to Congress and the public.
2014-43-043	Implementing the Affordable Care Act and Other Tax Law Changes	July 2014	02/15/16 02/15/16	***The Affordable Care Act: An Improved Strategy Is Needed to Ensure Accurate Reporting and Payment of the Medical Device Excise Tax*** F-2, R-2. Establish a process for paper-filed Forms 720, *Quarterly Federal Excise Tax Return*, to math verify the accuracy of the medical device excise tax amount and correspond with taxpayers on the corrected taxable amount. F-2, R-3. Initiate a process to correspond with taxpayers to obtain missing taxable sales or tax amounts during the processing of paper-filed Forms 720 reporting the medical device excise tax.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No.)*
2014-40-084	Modernization	September 2014	01/15/16 01/15/16 01/15/17 10/15/15	***A Service-Wide Strategy Is Needed to Increase Business Tax Return Electronic Filing*** F-1, R-1. Develop a Service-wide strategy that outlines specific efforts the IRS will initiate to advance the e-filing rate of business tax returns. F-1, R-3. Evaluate the feasibility of providing business filers with the option of Free Fillable Forms. F-2, R-1. Develop a less burdensome electronic signature process for businesses e-filing employment tax returns using the Modernized e-File system. F-4, R-1. Work with the Department of the Treasury Office of Tax Policy to consider a legislative proposal to revise current requirements and/or create new requirements for e-filing of business tax returns that would increase the overall e-filing rate.
2014-20-088	Modernization	September 2014	03/25/17 10/25/15	***The Information Reporting and Document Matching Case Management System Could Not Be Deployed*** F-1, R-2. Ensure that the Information Reporting and Document Matching Case Management (IRDMCM) System requirements are completely identified. F-1, R-3. Ensure that case management capabilities of Entellitrak, or its replacement solution, are thoroughly assessed to ensure that it satisfies the IRDMCM System requirements and meets stated business needs.
2015-30-005	Tax Compliance Initiatives	December 2014	11/15/15 11/15/15 11/15/15	***The Fresh Start Initiatives Have Benefited Many Taxpayers, but Additional Monitoring and Evaluation Is Needed*** F-1, R-1. Ensure that new Notices of Federal Tax Lien (NFTL) are filed for the 524 taxpayers who defaulted on their Direct Debit Installment Agreements after their NFTLs were withdrawn. F-1, R-2. Establish controls to ensure that new NFTLs are filed on taxpayers who default on their Direct Debit Installment Agreements. F-1, R-3. Assess the long-term revenue protection impact of the Fresh Start Initiative that increased the minimum dollar threshold for NFTL determinations in Field Collection.
2015-40-012	Fraudulent Claims and Improper Payments	February 2015	06/15/16 06/15/16	***Processes Do Not Ensure That Corporations Accurately Claim Carryforward General Business Credits*** F-1, R-1. Verify whether the 3,285 corporate filers TIGTA identified as having a questionable carryforward amount are entitled to claim the carryforward amount. F-4, R-1. Verify whether taxes were affected for the 1,411 corporate filers TIGTA identified as having an incorrect Eligible Small Business designation.
2015-40-023	Tax Compliance Initiatives	March 2015	04/15/16	***Processes Are Needed to Link Third-Party Payers and Employers to Reduce Risks Related to Employment Tax Fraud*** F-2, R-1. Develop processes and procedures to ensure that Form 8655 authorization information captured in the IRS's systems is accurate and correct the errors associated with the 11 Forms 8655 TIGTA identified.

Reference Number	IRS Management Challenge Area	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding No., R = Recommendation No.)*
2015-40-024	Providing Quality Service Operations	March 2015	10/15/15 11/15/15	***Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds*** F-1, R-1. Complete an analysis of identity theft case reassignments and revise inventory management processes to reduce the number of times cases are reassigned. F-3, R-1. Develop processes and procedures to accurately calculate the average time it takes to fully resolve taxpayer accounts affected by identity theft. The time should be based on the average period between the date the IRS receives the taxpayers' tax returns and the date the tax refunds are issued.
2015-33-019	Implementing the Affordable Care Act and Other Tax Law Changes	March 2015	11/15/16 10/15/15	***The Affordable Care Act: Processes Have Been Implemented to Administer the Patient-Centered Outcomes Research Fee, but Controls Need Improvement to Ensure Filing Compliance*** F-1, R-2. Based on the National Association of Insurance Commissioners and Department of Labor database analysis results, identify a population of Form 720 Patient-Centered Outcomes Research (PCOR) fee nonfilers to send notices. Based on the response to these notices, determine if additional enforcement actions are required for these potential Form 720 nonfilers. F-2, R-1. Issue alerts during the third quarter of each fiscal year to remind Submission Processing function employees, when processing the Form 720 with a PCOR fee, to use caution when transcribing the average number of lives covered to avoid inadvertently recording the digits after decimal places.
2015-10-025	Tax Compliance Initiatives	March 2015	03/15/16 01/15/17	***Status of Actions Taken to Improve the Processing of Tax-Exempt Applications Involving Political Campaign Intervention*** F-1, R-1. Assess the timing and execution of training on political activities and incorporate any "lessons learned" into future training plans. The review should include, but not be limited to: • Completing training on political activities earlier in the election cycle so employees can effectively apply it. • Reviewing the methodology used to determine training attendance and requiring employees who miss more than the allotted time to retake the missed segments. • Evaluating all phases of the political campaign intervention training as outlined in IRS policy to gather credible data to improve training, which should in turn lead to improved job performance. F-1, R-2. If the Optional Expedited Process for I.R.C. § 501(c)(4) organizations becomes a permanent process, the IRS should consider providing this option to additional organizations with similar political campaign intervention limitations.

Other Audit Reports With Significant Unimplemented Corrective Actions
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.	TIGTA has experienced difficulties in obtaining documentation for cases selected for review in the ongoing audit, *IRS's Use of Civil Forfeiture Authority in Structuring Cases* (Audit # 201530030). These difficulties include IRS delays in providing documents requested and the IRS's heavily redacting documents or withholding documents. The IRS has asserted that a substantial portion of the documents that TIGTA requested is grand jury material. TIGTA requested assistance from the Department of Justice, Executive Office of U.S. Attorney, in making a determination as to whether all the information that the IRS has withheld is covered by grand jury secrecy provisions. In addition, TIGTA elevated this issue to the Commissioner of Internal Revenue and the IRS is working with the appropriate Assistant U.S. Attorneys' offices to identify grand jury material in the documents requested by TIGTA. We received a production of material in bulk on September 29, 2015, and although TIGTA is still evaluating the material, TIGTA continues to have concerns with the IRS's production and whether the IRS has provided all requested material not protected by Rule 6(e). Additionally, although TIGTA has asked on numerous occasions, the IRS has not identified what type of material has been omitted from the IRS's document production as being deemed grand jury material and the basis for claiming that such material is protected by Rule 6(e) (*e.g.,* the case went before a grand jury or a grand jury subpoena was used to obtain the material). TIGTA estimates that its audit has been delayed five months due to these issues.

Disputed Audit Recommendations Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees.	As of September 30, 2015, there were no instances in which 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, 2015, 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, 2015, there were no prior reports for which 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 146 proposed regulations and legislative requests during this reporting period.

Inspection Reports With Significant Unimplemented Corrective Actions

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

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	1/15/2017 1/15/2016	**The Internal Revenue Service Needs to Improve the Comprehensiveness, Accuracy, Reliability, and Timeliness of the Tax Gap Estimate** F-2, R-1, P-1. The Director, Office of Research, Analysis and Statistics (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.

Appendix II

Audit Products
April 1, 2015 – September 30, 2015

Audit Products	
Reference Number	**Report Title**
April 2015	
2015-10-002	Review of the Internal Revenue Service's Process to Address Violations of Tax Law by Its Own Employees
2015-30-028	Required Actions Were Not Always Completed Prior to Closing Defunct Corporation Cases As Currently Not Collectible
2015-40-026	Efforts Are Resulting in the Improved Identification of Fraudulent Tax Returns Involving Identity Theft
2015-40-044	Assessment of Internal Revenue Service Compliance With the Improper Payment Reporting Requirements in Fiscal Year 2014
May 2015	
2015-20-031	Planning Decisions for Customer Account Data Engine 2 Transition State 2 Should Be Effectively Linked to Actions Needed to Address the Internal Revenue Service's Financial Material Weakness
2015-20-033	The Integrated Enterprise Portal Is Operating As Designed; However, Increased Contract Oversight Is Necessary (Questioned Costs: $405,679)
2015-20-034	Final Integration Test Planning and Preparation
2015-30-035	Reduced Budgets and Collection Resources Have Resulted in Declines in Taxpayer Service, Case Closures, and Dollars Collected
2015-40-038	Tax Examiners Do Not Have the Tools or Expertise to Authenticate Documents Certified by a Foreign Issuing Agency
2015-30-037	Automated Underreporter Program Tax Assessments Have Increased Significantly; However, Accuracy-Related Penalties Were Not Always Assessed When Warranted (Increased Revenue: $ 676,212,392 impacting 1,965,772 closed automated underreporter cases)
2015-43-043	Affordable Care Act: Assessment of Internal Revenue Service Preparation for Processing Premium Tax Credit Claims
2015-30-050	Fiscal Year 2015 Mandatory Review of Disclosure of Collection Activities on Joint Returns
2015-30-036	Seizure Sale Procedures Were Not Always Followed and Can Be Improved
2015-10-045	Review of Fair Tax Collection Practices Violations During Fiscal Year 2014
2015-10-042	Improvements Can Be Made to Educate and Notify Taxpayers of Required Minimum Distribution Requirements From Individual Retirement Arrangements (Increased Revenue: $ 646,910,000 impacting 133,246 taxpayer accounts)
2015-40-053	Taxpayer Online Account Access Is Contingent on the Completion of Key Information Technology Projects
2015-43-057	Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims

June 2015	
2015-23-041	Affordable Care Act Coverage Data Repository: Risks With Systems Development and Deployment
2015-30-048	Fiscal Year 2015 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Burden: $1,181; Taxpayer Rights and Entitlements: 24 taxpayer accounts impacted)
2015-43-049	The Affordable Care Act: Improvements Are Needed to Ensure the Accuracy of the Allocation of the Health Insurance Provider Fee
2015-30-058	Fiscal Year 2015 Statutory Review of Compliance With Legal Guidelines When Issuing Levies (Taxpayer Rights and Entitlements: 1,127 taxpayer accounts impacted)
2015-30-055	Fiscal Year 2015 Statutory Review of Compliance With Notice of Federal Tax Lien Due Process Procedures (Taxpayer Burden: 24,237 taxpayer accounts impacted)
2015-30-051	Most Federal Employee/Retiree Delinquency Initiative Cases Are Resolved With the Collection of Revenue; However, Some Program Improvements Can Be Made (Increased Revenue: $18,323,510)
July 2015	
2015-1C-039	Proposed Amounts on Unsettled Flexibly Priced Contracts for Fiscal Year 2008 (Questioned Costs: $420,257)
2015-1C-046	Supplement to the Contractor's Corporate Headquarters' Proposed Amounts on Unsettled Flexibly Priced Contracts for Fiscal Year 2008
2015-1C-040	Proposed Amounts on Unsettled Flexibly Priced Contracts for Fiscal Year 2008 (Questioned Costs: $461,653)
2015-20-060	The Return Review Program Enhances the Identification of Fraud; However, System Security Needs Improvement
2015-30-061	Fiscal Year 2015 Statutory Review of Restrictions on Directly Contacting Taxpayers
2015-40-063	Limited Progress Has Been Made to Eliminate the Unnecessary Use of Social Security Numbers in Taxpayer Correspondence
2015-30-052	Improvement Is Needed in Compliance Efforts to Identify Unsupported Claims for Foreign Tax Credits (Increased Revenue: $134,900,000 impacting 253,601 taxpayer accounts; Reliability of Information: 4,806 taxpayer accounts impacted)
2015-30-056	Improvements Are Needed to Verify Taxpayer Claims for Exemption From United States Social Security Taxes Under Totalization Agreements (Increased Revenue: $105,985,023 impacting 1,427 taxpayer accounts and 1,947 resident aliens)
2015-10-070	Review of the Internal Revenue Service's Purchase Card Violations Report
2015-10-059	Additional Documentation Is Needed to Support Office of Appeals Penalty Abatement Decisions (Revenue Protection: $34,200,409 impacting 1,403 Appeals cases)
August 2015	
2015-30-066	The Examination and Automated Underreporter Functions Did Not Always Ensure That Accuracy-Related Penalty Abatements Were Appropriate (Revenue Protection: $119,992,165)
2015-1C-047	Report on the Contractor's Proposed Amounts on Unsettled Flexibly Priced Contracts for Fiscal Year 2008
2015-23-062	Affordable Care Act Information Sharing and Reporting Project
2015-10-068	Review of the Office of Appeals Collection Due Process Program (Increased Revenue: 5,875 taxpayer accounts impacted; Taxpayer Rights and Entitlements: 5,104 taxpayer accounts impacted)
2015-10-065	The Internal Revenue Service Has Extended Its Estimated Federal Financial Management Improvement Act Remediation Date to November 2020
2015-30-067	Fiscal Year 2015 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations
2015-30-069	More Information About Payment Options in Redesigned Notices Contributes to More Cases Closing, but More Analysis and Collaboration With Stakeholders Are Needed

2015-10-074	Review of Controls Over Health Benefit Elections
2015-40-075	Preparer Tax Identification Numbers Are Not Revoked for Unsuitable Tax Return Preparers
2015-30-071	Fiscal Year 2015 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute
2015-40-080	Results of the 2015 Filing Season (Taxpayer Rights and Entitlements: $3,892,318 impacting 1,034 tax accounts)
September 2015	
2015-20-079	Stronger Access Controls and Further System Enhancements Are Needed to Effectively Support the Privacy Impact Assessment Program
2015-1C-064	Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 for Fiscal Year Ended September 30, 2014
2015-30-072	Planned Improvements Have Not Been Made to Manage and Track Correspondence With International Taxpayers
2015-40-082	Processes Are Being Established to Detect Business Identity Theft; However, Additional Actions Can Help Improve Detection
2015-1C-086	Fiscal Year 2015 Mandatory Annual Audit Requirement 6, Labor Floor Checks
2015-20-087	Improvements Are Needed to Ensure That External Interconnections Are Identified, Authorized, and Secured
2015-10-077	To Avoid Duplication, the Internal Revenue Service Should Make Use of Federal Protective Service Risk Assessments (Reliability of Information: three risk assessments)
2015-30-083	Fiscal Year 2015 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2015-20-088	Improvements Are Needed to Ensure That New Information Systems Deploy With Compliant Audit Trails and That Identified Deficiencies Are Timely Corrected
2015-30-084	Fiscal Year 2015 Statutory Review of Compliance With the Freedom of Information Act (Taxpayer Rights and Entitlements: 346 Freedom of Information or Privacy Act requests and 4 I.R.C. § 6103 requests; Taxpayer Privacy and Security: 3 Freedom of Information or Privacy Act requests and I.R.C. § 6103 requests)
2015-30-078	Improvements Are Needed in Resource Allocation and Management Controls for Audits of High-Income Taxpayers
2015-40-090	Employers Who Do Not Comply With Requests to Provide Complete and Accurate Wage Documents Are Not Always Assessed Penalties (Increased Revenue: $190,800,000 impacting 640 tax accounts)
2015-10-076	Review of the Deposit and Posting of Payments by Bond Issuers to Resolve Tax-Exempt Bond Compliance Issues (Reliability of Information: 15 manual payment entries)
2015-30-085	The Internal Revenue Service Has Made Progress in Implementing the Foreign Account Tax Compliance Act
2015-40-089	Additional Actions to Enforce Payment Card Reporting Requirements Could Reduce the Tax Gap (Revenue Protection: $2,969,109,626; Reliability of Information: 2,933 Forms 1099-K impacted)
2015-20-092	Treasury Inspector General for Tax Administration – Federal Information Security Modernization Act Report for Fiscal Year 2015
2015-20-073	Inadequate Early Oversight Led to Windows Upgrade Project Delays
2015-23-081	Affordable Care Act Verification Service: Security and Testing Risks
2015-20-093	Review of the Electronic Fraud Detection System (Funds Put to Better Use: $18,200,000)
2015-20-094	Annual Assessment of the Internal Revenue Service Information Technology Program

Appendix III
TIGTA's Statutory Reporting Requirements

TIGTA issued 15 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2015, TIGTA will complete its 14th round of statutory reviews that are required annually by the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). It will also complete its annual review of the Federal Financial Management Improvement Act (FFMIA) of 1996, the Office of National Drug Control Policy (ONDCP) Detailed Accounting Submission and Assertions, the Government Charge Card Abuse Prevention Act of 2012, Executive Order 13520 – Reducing Improper Payments and Eliminating Waste in Federal Programs, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The following table reflects the FY 2015 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. 2015-30-083, September 2015** There were instances of noncompliance with RRA 98 § 1204 requirements. TIGTA identified instances of noncompliance with each subsection of the law. In addition, TIGTA identified three IRS policy violations. In these instances, managers did not identify employee self-assessments containing records of tax enforcement results information and return them to be corrected as required. TIGTA also noted 33 managers were missing from the Fiscal Year 2014 § 1204 manager listing and eight employees/managers did not complete the mandatory § 1204 training.

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 they prefer their representatives be contacted.	**Ref. No. 2015-30-061, July 2015** For this review, TIGTA analyzed how well Small Business/Self-Employed Division's Field Collection function has ensured that its personnel are appropriately complying with the direct contact provisions during interactions with taxpayers and/or their representatives. A review of a statistically valid sample of case histories of 96 taxpayers determined that revenue officers followed the direct contact provisions of I.R.C. § 7521. However, in the IRS's database which tracks taxpayer and tax practitioner complaints, there were 29 allegations that IRS employees violated I.R.C. § 7521. In nine of these cases, the IRS took disciplinary action against the employee.
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. 2015-30-055, June 2015** TIGTA reviewed a statistically valid sample of 133 *Notices of Federal Tax Lien* for the 12-month period beginning July 1, 2013, and ending June 30, 2014, 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, for six of the 36 sample cases for which the taxpayers had an authorized representative, the IRS did not notify the representative of the lien filing.
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. 2015-30-071, August 2015** The IRS is required by law to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties. TIGTA's review of a statistical sample of 60 closed taxpayer audit files with assessment statute extensions found that the IRS is generally compliant with I.R.C. § 6501(c)(4)(B).

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. 2015-30-058, June 2015** The IRS is generally protecting taxpayers' rights when issuing systemic and manual levies in cases for which additional assessments were not included in the levy. However, a review of statistical samples of taxpayers' cases that were worked in the ACS and that had additional tax assessed included in the systemic (30 taxpayers) and manual (30 taxpayers) levies determined that there were 12 taxpayers with systemic and six taxpayers with manual levies who did not 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. 2015-10-068, August 2015** This year's audit identified 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 addition, TIGTA continued to identify errors relating to the determination of the Collection Statute Expiration Date on taxpayer accounts.
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. 2015-30-048, June 2015** TIGTA reviewed a random sample of 50 of the 425 seizures conducted from July 1, 2013, through June 30, 2014, to determine whether the IRS complied with legal and internal guidelines when conducting each seizure. TIGTA identified 28 instances in which the IRS did not comply with a particular requirement in the I.R.C., RRA 98, or the Internal Revenue Manual. For example, the sale of seized property was not always properly advertised, and the amount of the liability for which seizures were made was not always correct on the notice of seizure provided to the taxpayers.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation I.R.C. § 7803(d)(1)(A)(v)	Requires an evaluation of the IRS's compliance with restrictions under RRA 98 § 3707 on the designation of taxpayers.	**Ref. No. 2015-30-067, August 2015** The IRS has not reintroduced past Illegal Tax Protestor codes or similar designations on taxpayer accounts. However, TIGTA found that out of approximately 4.8 million records and cases, there were four instances in which employees referred to taxpayers as "Tax Protestor," "Constitutionally Challenged," or other similar designations in case narratives in the Appeals Centralized Database System.
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. 2015-30-050, May 2015** 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 the IRS or TIGTA from taxpayers, IRS employees, and other sources.	Statistical results on the number of taxpayer complaints received are shown on page 66.

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. 2015-10-045, May 2015** Two Fair Tax Collection Practices violations were identified in IRS records that were closed in Fiscal Year 2014. Both employees were revenue officers performing collection work. In both instances, the employees were disciplined for their actions, consistent with IRS guidelines. In addition, TIGTA identified one case that was miscoded and should have been evaluated as a potential Fair Tax Collection Practices violation but was not. This case involved a revenue officer performing collection work who denied a taxpayer the right to consult with his or her power of attorney. The employee was evaluated for unprofessional conduct and misuse of authority and was disciplined consistent with IRS guidelines.
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. 2015-30-084, September 2015** TIGTA reviewed a statistically valid sample of 65 information requests from a population of 2,809 Freedom of Information Act/Privacy Act information requests and found eight for which the IRS improperly withheld information from the requestors. The IRS also improperly withheld information for four of the 55 I.R.C. § 6103 information requests reviewed. In addition, TIGTA found that the Disclosure Office does not have direct control over how other IRS functions process I.R.C. § 6103 information requests, nor does it regularly assess the quality of disclosure responses throughout the IRS.

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 IRS's adequacy and security of its technology.	***Information Technology Reviews:*** Ref. No. 2015-20-031, May 2015 Ref. No. 2015-20-033, May 2015 Ref. No. 2015-20-034, May 2015 Ref. No. 2015-23-041, June 2015 Ref. No. 2015-23-062, August 2015 Ref. No. 2015-23-081, September 2015 Ref. No. 2015-20-093, September 2015 ***Security Reviews:*** Ref No. 2015-20-060, July 2015 Ref. No. 2015-20-073, September 2015 Ref. No. 2015-20-079, September 2015 Ref. No. 2015-20-087, September 2015 Ref. No. 2015-20-088, September 2015 Ref. No. 2015-20-091, September 2015 Ref. No. 2015-20-092, September 2015 Ref. No. 2015-20-094, September 2015
Federal Financial Management Improvement Act of 1996 (FFMIA) 31 U.S.C. § 3512	Requires TIGTA to evaluate the IRS 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. 2015-10-065, August 2015** Since TIGTA's last report on IRS compliance with the FFMIA, the IRS has made progress in addressing aspects of its FFMIA material weakness, but revised its FFMIA compliance date from 2014 to 2020. Specifically, the IRS anticipates it will be unable to fully address the unpaid tax assessments material weakness until implementation of the Customer Account Data Engine 2 Transition State 2 (CADE 2 TS2) release plan in November 2020. While TIGTA has significant concerns that the IRS does not include CADE 2 TS2 actions in its remediation plan, TIGTA found that the IRS did not miss any intermediate target dates for actions the IRS did include in its remediation plan.
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. 2015-10-010, December 2014** Nothing came to TIGTA's attention that caused it 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 the ONDCP's established criteria.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
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. 2015-10-021, January 2015** The IRS identified and reported 11 instances of confirmed purchase card misuse pending final agency action. TIGTA's independent review identified one additional case of potential purchase card misuse pending a TIGTA investigation. TIGTA also determined that the IRS established policies and controls designed to mitigate the risk of fraud and inappropriate Government travel and purchase charge card practices. In Fiscal Year 2014, the IRS implemented five recommendations from two prior TIGTA reports of the IRS's charge card programs. One recommendation remains open. **Ref. No. 2015-10-070, July 2015** The IRS identified and reported 10 instances of confirmed purchase card misuse and no potential instances of purchase card misuse pending final agency action. TIGTA identified one additional instance of confirmed purchase card misuse and five additional instances of purchase card misuse pending investigation or final agency action. The 11 confirmed purchase card misuse cases were all related to restricted or prohibited items with purchases collectively totaling approximately $700.
Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*	Requires TIGTA to assess the IRS's compliance with Executive Order 13520 on an annual basis.	**Ref. No. 2015-40-009, December 2014** The IRS is not in compliance with certain requirements of Executive Order 13520 for Fiscal Year 2013. The IRS has not established annual improper payment reduction targets as required. Nonetheless, the IRS is making some progress related to its inability to comply with the requirement. The IRS has obtained approval from the OMB to establish and report supplemental measures in lieu of annual reduction targets.

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. 2015-40-044, April 2015** The IRS provided all required improper payment information to Treasury for inclusion in the *Department of the Treasury Agency Financial Report Fiscal Year 2014* with the exception of reporting an overall Earned Income Tax Credit improper payment rate below 10 percent. The IRS is unlikely to achieve an improper payment rate below 10 percent without expanded authorities to address identified erroneous claims. In addition, although the IRS completed risk assessments of the 23 program fund groups identified by Treasury, the risk assessment process still does not provide a valid assessment of improper payments in IRS programs.

Appendix IV
Section 1203 Standards

In general, the Commissioner of Internal Revenue shall terminate 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 (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, 2015 Through September 30, 2015

Peer Reviews Conducted of TIGTA's Office of Audit:

A peer review is currently being performed of the TIGTA Office of Audit by the Department of Homeland Security Office of Inspector General (OIG).
.

Peer Reviews Conducted by TIGTA's Office of Audit:

A peer review was conducted by the TIGTA Office of Audit of the Department of Housing and Urban Development OIG. A final report was issued September 30, 2015.

No Peer Review Conducted of TIGTA's Office of Investigations:

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

Peer Reviews Conducted by TIGTA's Office of Investigations:

A peer review was conducted by the TIGTA Office of Investigations of the Department of Transportation OIG, Office of Investigations. A final report has not been issued.

No Peer Review Conducted of TIGTA 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 by TIGTA Office of Inspections and Evaluations:

No peer reviews were conducted by the TIGTA Office of Inspections and Evaluations 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, 2015 through September 30, 2015. 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 6, 2015

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 22, 2015, I am providing the following information to meet your reporting requirements as defined in 26 U.S.C. section 7803(d)(1)(E) and 26 U.S.C. section 7803(c)(2)(A)(ii) for April 1, 2015, through September 30, 2015.

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

The attached tables contain information about:

- Alleged misconduct reported to IRS managers
- Disposition of the allegations resolved during the period
- Status of the inventory as of September 30, 2015

The tables contain information about alleged misconduct that both TIGTA and IRS management investigated. The IRS received these allegations from taxpayers, IRS employees, and other sources, and recorded them in ALERTS.

The Summary of Substantiated Section 1203 Allegations contains information on the disposition of substantiated Section 1203 allegations. During this period, IRS managers substantiated 60 Section 1203 allegations and removed six employees as a result. Three employees retired or resigned before a final administrative action by management. In two of the removals, IRS management considered information in a TIGTA investigation. The Commissioner mitigated proposed removals in six cases. The remaining 45 substantiated allegations are still in the adjudication process.

2

If you have any questions, please contact Sheila Barbee, Acting Associate Director, Employee Conduct and Compliance Office at (202) 317-6929.

Attachments (3)

cc: John A. Koskinen, Commissioner of Internal Revenue
John M. Dalrymple, Deputy Commissioner for Services and Enforcement
Jeffrey Tribiano, Deputy Commissioner for Operations Support
Nina Olson, National Taxpayer Advocate
Susan Green, Acting Executive Director, Equity, Diversity and Inclusion
Terry Lemons, Chief, Communications & Liaison
Mark Katzer, Associate Chief Counsel (GLS)
Daniel T. Riordan, Chief Human Capital Officer

The Following Tables Are Provided by the IRS.

Reports of Employee Misconduct Summary by Disposition Groups

Period Covering April 1, 2015 through September 30, 2015

Disposition	TIGTA Report of Investigation	Administrative Case	Employee Tax Compliance Case	Employee Character Investigation	Totals
REMOVAL (PROBATION PERIOD COMPLETE)	21	57	5	0	**83**
REMOVAL AT OPM DIRECTION	0	0	0	3	**3**
PROBATION/SEPARATION	1	64	0	0	**65**
SEPARATION OF TEMP	0	5	0	0	**5**
RESIGN.,RET., ETC. (SF50 NOTED)	5	12	6	0	**23**
RESIGN. RET., ETC. (SF50 NOT NOTED)	30	87	19	2	**138**
SUSP., 14 DAYS OR LESS	43	124	45	2	**214**
SUSP., MORE THAN 14 DAYS	29	32	11	0	**72**
INDEFINITE SUSPENSION	3	14	0	0	**17**
REPRIMAND	48	160	70	0	**278**
ADMONISHMENT	34	146	207	1	**388**
WRITTEN COUNSELING	40	149	137	4	**330**
ORAL COUNSELING	0	25	7	0	**32**
A D: IN LIEU OF REPRIMAND	6	15	8	0	**29**
A D: IN LIEU OF SUSPENSION	11	19	12	0	**42**
CLEARANCE LETTER	66	103	5	0	**174**
CWA CAUTIONARY LTR	77	137	60	48	**322**
CWA LETTER	61	86	19	1	**167**
TERMINATION FOR ABANDOMENT OF POSITION	0	60	0	0	**60**
CASE SUSPENDED PENDING EMPLOYEE RTD	0	0	0	0	**1**
CLOSED – SUPPLEMENTAL REQUESTED	1	0	0	0	**1**
FORWARDED TO TIGTA	0	3	0	0	**3**
Total	**476**	**1,298**	**612**	**61**	**2,447**

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

Note: Columns containing numbers of two or less 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, 2015.

Reports of Employee Misconduct National Summary

Period Covering April 1, 2015 through September 30, 2015

Inventory Case Type	Open Inventory	Conduct Cases Received	Cases Closed			Ending Inventory
			Conduct Issues	Cases Merged with Other Cases	Non-Conduct Issues	
ADMINISTRATIVE CASE	437	1,842	1,619	20	75	565
EMPLOYEE CHARACTER INVESTIGATION	16	78	66	0	0	28
EMPLOYEE TAX COMPLIANCE CASE	459	794	667	30	0	556
TIGTA REPORT OF INVESTIGATION	495	620	607	5	0	503
Total	**1,407**	**3,334**	**2,959**	**55**	**75**	**1,652**

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 an NBIC 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.

Extract Date: October 1, 2015.

Summary of Substantiated I.R.C. Section 1203 Allegations Recorded in ALERTS

Period Covering April 1, 2015 through September 30, 2015

§ 1203 Violation	*Removals	*Resigned/ Retired	*Penalty Mitigated	In Personnel Process	Total
§ 1203(b)(1) Willfull Unauth Seiz TP	0	0	0	0	**0**
§ 1203(b)(2) False Statement Under Oath	0	0	0	0	**0**
§ 1203(b)(4) Concealed Work Error	0	0	0	0	**0**
§ 1203(b)(5) Assault or Battery	0	0	0	0	**0**
§ 1203(b)(6) IRC/IRM/Reg Viol-Retal	0	0	0	0	**0**
§ 1203(b)(8) Willful Untimely Return	0	3	4	19	**27**
§ 1203(b)(9) Willful Understated Tax	5	0	0	26	**33**
§ 1203(b)(10) Threat of Audit/Personal	0	0	0	0	**0**
Total	**6**	**3**	**6**	**45**	**60**

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

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

*These cases are included in the totals of Table above entitled “Reports of Employee Misconduct Summary by Disposition Groups.”

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

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: October1, 2015.

Glossary of Acronyms

ACA	Affordable Care Act
ACS	Automated Collection System
APTC	Advance Premium Tax Credit
AVS	ACA Verification Service
CDR	Coverage Data Repository
EFDS	Electronic Fraud Detection System
EIN	Employer Identification Number
ESAT	Enterprise Security Audit Trail
FBI	Federal Bureau of Investigations
FEHB	Federal Employees Health Benefits
FERDI	Federal Employee/Retiree Delinquency Initiative
FISMA	Federal Information Security Management Act
FPLP	Federal Payment Levy Program
FTC	Foreign Tax Credit
FY	Fiscal Year
HHS	Department of Health and Human Services
I&E	Office of Inspections and Evaluations
I.R.C.	Internal Revenue Code
IRA	Individual Retirement Arrangement

IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigation
IS&R	Information Sharing and Reporting
ITIN	Individual Tax Identification Number
MDOR	Missouri Department of Revenue
OA	Office of Audit
OEP	Office of Employee Protection
OI	Office of Investigations
OIG	Office of the Inspector General
PTC	Premium Tax Credit
PTIN	Preparer Tax Identification Number
PY	Processing Year
RPO	Return Preparer Office
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
RRP	Return Review Program
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
TY	Tax Year

ACRONYMS USED EXCLUSIVELY IN TABLES AND APPENDICES	
CADE 2 TS2	Customer Account Data Engine 2 Transition State 2
FFMIA	Federal Financial Management Improvement Act
IPERA	Improper Payments Elimination and Recovery Act of 2010
IRDMCM	Information Reporting And Document Matching Case Management
NFTL	Notice of Federal Tax Lien
ONDCP	Office of National Drug Control Policy
PCOR	Patient-Centered Outcomes Research
RAS	Office of Research, Analysis and Statistics
RCT	Religious Compensatory Time
VCR	Voluntary Compliance Rate

Call our toll-free hotline to report waste, fraud or abuse:

1-800-366-4484

By Web:
www.treas.gov/tigta/

Or Write:
Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, DC 20044-0589

Information you provide is confidential and you may remain anonymous

Department of the Treasury

Office of the Inspector General for Tax Administration
1401 H Street, NW., Suite 469
Washington, DC 20005

This report and complete copies of TIGTA audit reports are available online at: http://www.treas.gov/tigta/