

Treasury Inspector General for  
Tax Administration

FY 2016  
President's Budget

February 2, 2015

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## Section 1 – Purpose

### 1A – Mission Statement

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

### 1.1 – Appropriations Detail Table

Dollars in Thousands

Treasury Inspector General for Tax Administration Appropriated Resources	FY 2014		FY 2015		FY 2016		FY 2015 to FY 2016			
	Enacted		Enacted		Request		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Audit	349	60,850	349	61,572	358	65,100	9	3,528	2.58%	5.73%
Investigations	486	95,525	486	96,638	501	102,175	15	5,537	3.09%	5.73%
<b>Subtotal New Appropriated Resources</b>	<b>835</b>	<b>\$156,375</b>	<b>835</b>	<b>\$158,210</b>	<b>859</b>	<b>\$167,275</b>	<b>24</b>	<b>\$9,065</b>	<b>2.87%</b>	<b>5.73%</b>
<b>Other Resources:</b>										
Reimbursables	2	1,700	2	1,500	2	1,500	0	0	0.00%	0.00%
<b>Subtotal Other Resources</b>	<b>2</b>	<b>\$1,700</b>	<b>2</b>	<b>\$1,500</b>	<b>2</b>	<b>\$1,500</b>	<b>0</b>	<b>\$0</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Total Budgetary Resources</b>	<b>837</b>	<b>\$158,075</b>	<b>837</b>	<b>\$159,710</b>	<b>861</b>	<b>\$168,775</b>	<b>24</b>	<b>\$9,065</b>	<b>2.87%</b>	<b>5.68%</b>

### 1B – Vision, Priorities and Context

The Treasury Inspector General for Tax Administration (TIGTA), an independent office within the Department of the Treasury, was created by Congress as a part of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> with a statutory mandate to provide oversight by conducting independent audit, investigative, and inspections and evaluations services necessary to improve the quality and credibility of Internal Revenue Service (IRS) operations, including oversight of the IRS Chief Counsel and the IRS Oversight Board. TIGTA conducts independent reviews and provides an unbiased perspective for improving the economy, efficiency, and effectiveness of IRS programs. TIGTA makes recommendations designed to improve the administration of the Federal tax system; conducts administrative and criminal investigations of allegations of waste, fraud, and abuse; and helps to ensure that the IRS protects and secures taxpayers’ data. TIGTA also has the unique responsibility of protecting the IRS and its employees.

TIGTA continues to be committed to its vision and mission, and to accomplishing its strategic goals and objectives. TIGTA safeguards the integrity of and the public’s trust and confidence in Federal tax administration through the audits, investigations, and inspections and evaluations it conducts. This focus is a matter of extreme importance given the current economic environment and the increased emphasis by the Administration, Congress, and the American people on Federal Government accountability and its efficient use of resources. The American people must be able to trust that their Government is taking action to stop wasteful practices and ensure that every tax dollar is spent wisely.

<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685.

### **TIGTA 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 *Fiscal Year 2013 – 2016 Strategic Plan* guides program and budget activities and supports the Department of the Treasury's FY 2014-2017 Strategic Plan (the Plan), which includes Strategic Goal 2: "Fairly and effectively reform and modernize Federal financial management, accounting, and tax systems."

TIGTA's vision is specifically consistent with objective 3.2 of the Plan, "Improve the disbursement and collection of Federal funds and reduce improper payments made by the U.S. Government." Likewise, TIGTA's vision supports objective 3.3 of the Plan, "Pursue tax reform, implement the Patient Protection and Affordable Care Act (ACA)<sup>2</sup> and the Foreign Account Tax Compliance Act (FATCA),<sup>3</sup> and improve the execution of the Internal Revenue Code (IRC or tax code)."

### **TIGTA Strategic Goals**

Promote the economy, efficiency, and effectiveness of tax administration.

Protect the integrity of tax administration.

Continue to be an organization that values its people.

TIGTA's progress in meeting the strategic goal of valuing its people was demonstrated last year when the Partnership for Public Service announced the results of the 2014 *Best Places to Work* rankings. TIGTA placed 10th out of 315 agency subcomponents. The scoring index measured the performance of agency subcomponents related to employee satisfaction and commitment. Among all Treasury bureaus, TIGTA placed the highest in this ranking.

TIGTA's headquarters facility is in Washington, D.C., and TIGTA has 67 offices located throughout the United States and Puerto Rico. TIGTA is uniquely organized by function, to meet current tax administration challenges and to keep pace with emerging issues. These functions include:

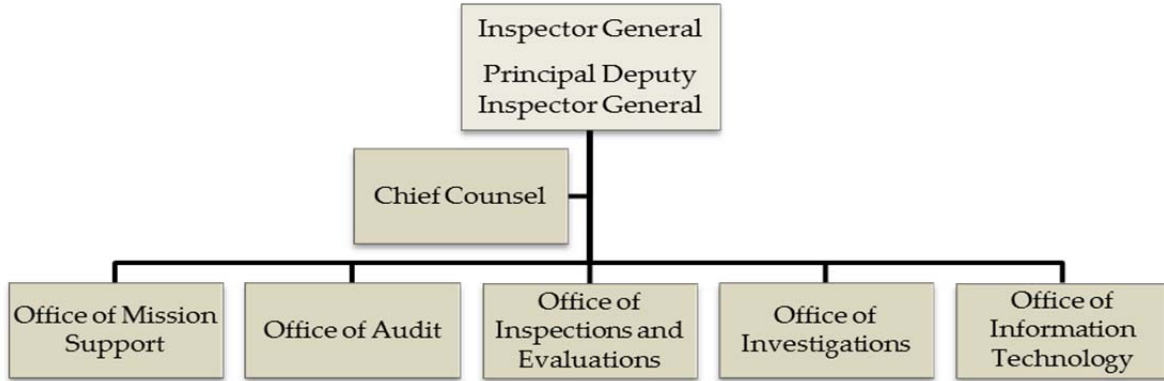
- Office of Audit (OA) – This Office conducts audits and issues reports that advise the American people, Congress, the Secretary of the Treasury, and IRS management of high-risk issues relating to the administration of IRS programs and operations. TIGTA's audit recommendations aim to improve IRS systems and operations, while emphasizing fair and equitable treatment of taxpayers.
- Office of Investigations (OI) – This Office investigates external threats of violence against IRS employees and facilities and internal allegations of criminal and administrative

<sup>2</sup> Pub. L. No. 111-148, 124 Stat. 119, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1012.

<sup>3</sup> Hiring Incentives to Restore Employment (HIRE) Act of 2010, Title V, Pub. L. 111-147, 124 Stat. 71.

misconduct by IRS employees and contractors. OI also conducts investigations to protect the IRS against bribery attempts; impersonations; and external, cyberbased, and often globally complex threats that would impede the IRS's ability to collect revenues and safeguard the processing of approximately 199 million returns annually.

- Office of Inspections and Evaluations (I&E) – This Office provides responsive, timely, and cost-effective inspections and evaluations of challenging areas in IRS programs. I&E's oversight activities are designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration.



### Key Accomplishments and Budget Savings

While the scope, complexity, and magnitude of the Nation's economy and deficit continue to present significant challenges, TIGTA remains one of the best investments in the Federal Government. In Fiscal Year (FY) 2014, through targeted and vigorous oversight efforts that addressed congressional concerns and audit and investigative priorities, TIGTA generated overall financial accomplishments of \$16.6 billion.

These financial accomplishments included:

- Increased and/or protected revenue in the amount of \$7.7 billion;
- Cost savings of \$8.7 billion
- Significant Investigative Accomplishments of \$.037 billion, and
- Other Financial Benefits of \$.119 billion.

### Return on Investment (ROI)



Figure 1: TIGTA's Return on Investment

Funding for TIGTA allows oversight efforts to continue, and in FY 2014, these efforts produced a return on investment (ROI) of \$106 for every \$1 invested (Figure 1). For example, during that period TIGTA issued audit reports with recommendations that potentially increased and/or protected revenue of \$7.7 billion. Increased/protected revenue includes the assessment or collection of additional taxes (increased revenue) and ensuring the accuracy of the total taxes, penalties, and interest paid to the Federal Government (revenue protection). TIGTA also issued

audit reports with recommendations that identified a potential \$8.7 billion in cost savings. The phrase “cost savings” includes questioned costs and funds put to better use.

Questioned costs are:

- Costs that cannot be reimbursed because such costs represent a violation of law, regulation, or contract;
- Expenditures that are not reasonable or necessary to accomplish the intended purpose; and
- Costs which are appropriate but for which the vendor cannot provide proof that the cost was incurred.

Funds put to better use means funds that could be used more efficiently or effectively if management took actions to implement and complete the recommendation, including but not limited to:

- Reductions in outlays;
- Avoidance of unnecessary expenditures noted in pre-award contract reviews; and
- Prevention of erroneous payment of refundable credits.

In addition to funds that could be put to better use, TIGTA’s investigative efforts resulted in \$15,319,984 in court-ordered fines, penalties, restitution, and recovery of embezzled/stolen funds.

To continue strengthening its oversight and issuing results-driven recommendations, TIGTA must:

- Adapt to the evolving nature of IRS operations and mitigate internal and external risks associated with security, modernization, tax compliance and the tax gap, tax-exempt organizations, offshore tax evasion, identity theft, procurement fraud, and the implementation of tax laws including ACA;
- Respond to threats and attacks against IRS employees, property, and sensitive information;
- Conduct comprehensive audits and inspections and evaluations that identify problems and include recommendations which result in higher revenue and less waste, fraud, and abuse; and
- Inform the American people, Congress, and the Secretary of the Treasury of the challenges confronting the IRS and its efforts to increase voluntary tax compliance, and to address identity theft and tax fraud.

### **FY 2016 Budget Request**

TIGTA’s FY 2016 budget request of \$167,275,000 represents an increase of 5.73 percent above the FY 2015 enacted budget. These resources will fund critical audit, investigative, and inspections and evaluations services to protect the integrity of the Nation’s system of tax administration.

In accordance with the requirements of Section 6(f)(1) of the Inspector General Act of 1978 (as amended),<sup>4</sup> TIGTA submits the following information related to its FY 2016 Budget Request:

- The aggregate budget request for TIGTA operations is \$167,275,000;
- The portion of the request needed for TIGTA training is \$1,766,000; and

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<sup>4</sup> 5 U.S.C. app. 3 § 6(f)(1).

- The portion of the request needed to support the Council of the Inspectors General on Integrity and Efficiency is \$451,000.

The amount requested for training supports TIGTA's training needs for FY 2016.

### **FY 2016 Priorities**

TIGTA's audit, investigative, and inspections and evaluations priorities include:

- Identifying opportunities to improve the administration of the Nation's tax laws and achieve program efficiencies and cost savings;
- Mitigating risks associated with: security over taxpayer data and employees; information systems modernization; identity theft; oversight of tax-exempt organizations; procurement fraud; tax compliance; the implementation of tax law changes; and human capital challenges facing the IRS in its domestic and/or international operations;
- Providing the IRS with the investigative coverage and the information necessary to mitigate threats against its employees, facilities, and data systems;
- Responding to domestic and foreign threats to and attacks against IRS employees, property, data infrastructure, and sensitive information;
- Rapidly and effectively responding to attempts to impersonate the IRS for fraudulent purposes;
- Improving the integrity of IRS operations by detecting and deterring waste, fraud, abuse, and misconduct, including the unauthorized disclosure of confidential taxpayer information by IRS employees;
- Conducting comprehensive audits and inspections and evaluations that provide recommendations for achieving monetary benefits; addressing erroneous and improper payments; and enhancing the service the IRS provides to taxpayers;
- Informing the American people, Congress, and the Secretary of the Treasury of problems on a timely basis once all facts are known;
- Overseeing the IRS's efforts to administer tax provisions of the ACA; and
- Overseeing the IRS's efforts in reducing tax noncompliance of U.S. businesses and individual taxpayers residing and working overseas.

### **Closing the Federal Tax Gap**

Increasing voluntary taxpayer compliance and reducing the tax gap remain the focus of many IRS initiatives. In FY 2012, the IRS updated its estimates of the tax gap. The gross tax gap - the difference between estimated taxes owed and taxes voluntarily paid on time - was \$450 billion in 2006, an increase from the \$345 billion estimated in 2001. Although the IRS reported that the tax gap is caused by both unintentional taxpayer errors and willful tax evasion or cheating, it does not have sufficient data to differentiate the amounts attributable to each. The IRS also reported that meaningful improvement in the voluntary compliance rate requires a long-term, focused effort involving taxpayer service, modernization, and enforcement. Tax compliance initiatives include the administration of tax regulations, the collection of the correct amount of tax from businesses and individuals, and the oversight of tax-exempt and government entities. TIGTA will continue to direct its efforts to reduce the tax gap. In FY 2014, TIGTA reported that the IRS could better use third-party data to detect potentially improper Simplified Employee Pension deductions and potentially realize \$29 million in revenue over five years.

## **Office of Audit**

The budget for OA provides funding for comprehensive and independent audits of IRS programs and operations that help promote sound administration of the Nation's tax laws. Audit coverage is determined by assessing the risks associated with the potential audit universe and identifying the highest priority audits to address major management challenges and key emphasis areas.

Sufficient funding will allow TIGTA to continue its oversight responsibilities and audit coverage of the major management challenges facing the IRS. Audit activities are also focused on assessing key areas in which the IRS faces major risks, including:

- Tax-exempt organizations;
- Identity theft detection and prevention;
- ACA implementation and administration; and
- International tax compliance.

The President signed into law significant changes to the Nation's health care system under the ACA. Multiple ACA provisions have been added to the IRC and existing provisions in the IRC have been amended. At least eight of those provisions require the IRS to build new processes in tax administration. These provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. They also impose penalties, administered through the IRC, for individuals and businesses that do not obtain health coverage for themselves or their employees. Other provisions raise revenue to offset the costs of health care reform. TIGTA's independent oversight plays a key role in ensuring that these provisions are implemented and administered in accordance with the law and the intent of Congress.

Beginning in 2014, most individuals are required to maintain minimum essential coverage. A penalty (Individual Shared Responsibility Payment) will be imposed on individuals who fail to have minimum essential coverage for themselves and their dependents. The penalty is assessed through the tax code and accounted for as an additional amount of Federal tax owed. In addition, some low-to middle-income individuals will be eligible to receive a refundable tax credit known as a Premium Tax Credit (PTC), intended to assist them with the cost of obtaining required health insurance coverage. Individuals will begin claiming the tax credit on their Tax Year (TY) 2014 tax returns.

FY 2016 will be a significant year for the IRS's implementation of ACA provisions. Due to delays in employer reporting requirements, tax returns processed in 2016 will be the first returns for which the IRS will have all the reporting information required under the ACA to verify related claims on the returns. TIGTA will continue to evaluate the effectiveness of IRS's processing of returns to verify compliance with the individual coverage mandate and the accuracy of PTC claims. The IRS will also continue to assess the reliability of the data it receives from the exchanges for use in verifying PTC claims and individual compliance with the requirement to have insurance coverage.

In addition, TIGTA will continue its assessment of IRS efforts to identify questionable PTC claims, including the IRS's continued development of systems to prevent, detect, and resolve fraud and abuse during ACA tax return processing. The IRS's ACA implementation plan, when fully developed and implemented is designed to leverage third party reporting from the exchanges and new computer analytical capability built into the Return Review Program.



The plan calls for the development of the ACA Validation Service, which will be used to identify improper ACA-related refunds. The ACA Validation Service will be designed to perform screening for improper refunds, and will identify fraudulent schemes that include multiple returns. Until these new systems are successfully developed, TIGTA remains concerned that the IRS's existing fraud detection system may not be capable of identifying ACA refund fraud or schemes prior to the issuance of tax refunds. Many of the ACA tax provisions on Health and Human Services (HHS) and IRS processes and procedures will also require continued coordination between TIGTA and HHS's Office of Inspector General during FY 2016.

OA has a continuing need to provide close oversight of the IRS's tax-exempt organization program. In FY 2013, TIGTA issued a report on the IRS's processing of applications from organizations claiming tax-exempt status under I.R.C. 501(c)(3) and I.R.C. 501(c)(4). This report highlighted ineffective management in this area and identified inappropriate practices by IRS employees who processed these cases. Congress has called for continuing oversight by TIGTA of the IRS's tax-exempt program to ensure that these problems have been corrected and will never happen again. In his February 5, 2014, congressional testimony before the House Ways and Means Committee, Subcommittee on Oversight, on the State of the IRS, the IRS Commissioner stated that the IRS has implemented all of the recommendations in TIGTA's audit report. The IRS has taken various actions, including establishing guidelines, training employees, and issuing proposed regulations. TIGTA will continue evaluating whether the IRS has the proper structure and processes in place to provide impartial and effective oversight for organizations seeking or operating under tax-exempt status.

### Office of Investigations

In FY 2014 through its investigative programs, OI sought to protect the IRS's ability to process 199 million tax returns and collect over \$3.1 trillion in annual revenue for the Federal Government by investigating IRS employee misconduct and criminal activity, threats to IRS employees and facilities, and attempts to impede or otherwise interfere with the IRS's collection efforts (Figure 2).



Figure 2: TIGTA's Protection of the Federal Tax System

Funding OI allows TIGTA to meet the significant challenges facing the IRS in the implementation of a fair and effective system of tax administration. IRS employees are entrusted with the sensitive personal and financial information belonging to the American taxpayers. Because the Federal tax system is based on voluntary compliance, it is also essential to the public's confidence that information given to the IRS for tax administration purposes be adequately safeguarded and kept confidential. Employee misconduct not only breaks the public's trust and confidence, but also undermines the IRS's ability to deliver taxpayer service, enforce tax laws effectively, and collect taxes owed.

TIGTA's OI places the highest priority on its statutory responsibility to safeguard approximately 95,000 IRS employees located in 670 facilities throughout the United States. Threats of physical

violence, harassment, and intimidation of IRS employees are criminal violations that OI aggressively investigates and refers for prosecution. As a result, IRS employees feel more secure in their work environment and can focus on performing their critical jobs. By maintaining a constant focus on the expanding threat environment, OI balances its attention on this critical area and its other investigative programs that help to protect the integrity of the Federal tax system.

### Emerging Issues

**ACA:** TIGTA anticipates a rise in the number of complaints and investigations because of the IRS's increased role in the ACA implementation. This budget request will allow TIGTA to investigate ACA-related allegations, timely respond to threats and assaults against IRS employees and facilities, and provide armed escorts to IRS employees who meet with potentially dangerous taxpayers. TIGTA anticipates an increase in:

- The number of threats against IRS employees and facilities as the IRS begins collecting ACA tax penalties that take effect in 2015;
- The number of ACA-related impersonation investigations by criminals attempting to fraudulently obtain personally identifiable information from unsuspecting taxpayers; and
- The number of employee integrity investigations, to ensure that IRS employees and contractors are appropriately safeguarding sensitive information from taxpayers' health insurers and prevent the potential for unauthorized access to, or disclosure of, confidential taxpayer information.

**International Cybercrimes and Identity Theft:** By the end of Calendar Year (CY) 2012, the IRS reported almost 1.8 million identity theft cases. Taxpayers who were victims of identity theft brought approximately 16 percent of these cases to the attention of the IRS, and the IRS detected about 84 percent. The tools and techniques used by the perpetrators of identity theft are such that they can be deployed from anywhere in the world, without regard to borders, using Internet-connected computers. The FY 2016 budget request includes resources needed to combat cybercriminals by funding a highly specialized group of criminal investigators with technical expertise in investigating electronic crimes, including computer intrusions and Internet-based fraud schemes.

The electronic system of tax administration that is conducted over IRS computer networks is targeted for malicious activity each day from network connections located throughout the world. Because many cybercriminals reside outside the United States, TIGTA special agents work with law enforcement personnel in foreign countries (Figure 3) to identify leads and execute search and arrest warrants. The FY 2016 resources will allow TIGTA to recruit and retain highly trained special agents that will support these critical international investigations.



Figure 3: Examples of countries linked to TIGTA cybercrimes investigations

## **Office of Inspections and Evaluations**

TIGTA's I&E provides a range of specialized services and products, including quick reaction reviews, onsite office inspections, and in-depth evaluations of a major function, activity, or program. Inspections:

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

Evaluations often result in recommendations to streamline IRS operations, enhance data quality, and minimize inefficient and ineffective procedures. In FY 2014, I&E produced 14 reports. Two inspections reviewed IRS expenditures under the American Recovery and Reinvestment Act of 2009.<sup>5</sup> Seven inspections reviewed deposits delivered by Submission Processing employees; physical controls at selected facilities; Submission Processing Centers' mailroom screening processes for hazardous materials; executive long-term taxable travel; compliance with U.S. Constitution training requirements; compliance with the Lautenberg Amendment;<sup>6</sup> and a follow-up review of controls over religious compensatory time. Finally, I&E produced a comprehensive evaluation of past audit recommendations that have not been implemented by the IRS.

I&E will provide oversight of the IRS's administration of the ACA and implementation of the FATCA. I&E provides TIGTA with additional flexibility, capacity, and capability to produce value-added products and services to improve tax administration. Inspections usually are more limited in scope and completed in a more compressed period of time than are traditional audits. The work of I&E complements the Offices of Audit and Investigations, and its findings may result in subsequent audits and/or investigations.

## **Office of Information Technology**

TIGTA's Office of Information Technology (OIT) provides cost-effective, timely Information Technology (IT) products and services that permit successful completion of TIGTA's business goals while meeting legislative mandates. By developing, providing, and supporting a wide variety of IT products and services, OIT facilitates the collection, management, analysis, and dissemination of information for the benefit of audit, investigative, legal, and management services.

TIGTA has no major IT investments based on the criteria of the Office of Management and Budget (OMB) and the Department of the Treasury. Several non-major investments, however, directly support the mission, strategy, and day-to-day operations of TIGTA.

These investments include:

- Secure IT Mobility;
- Server and Storage Infrastructure;

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<sup>5</sup> Pub. L. No. 111-5, 123 Stat. 115.

<sup>6</sup> 18 U.S.C. § 922(g)(9).

- Refreshed Applications and Collaboration Environment;
- IT Governance and Total Cost of Ownership; and
- Telecommunications Infrastructure.

TIGTA's Audit, Investigations, and Inspections and Evaluations functions rely heavily on the products and services provided by OIT to execute TIGTA's mission. Information Technology is the critical force that allows auditors, special agents, and inspectors and evaluators to accomplish their objectives within the staffing and physical constraints that might otherwise prevent their completion. As the demands on the organization grow, it becomes increasingly dependent on the use of technology. Those demands translate into the need for more and improved IT services and the skilled staff to provide those services to the organization.

In addition to auditing and reporting on the condition of IT security at the IRS, TIGTA, like all Federal agencies, faces its own challenges regarding compliance with the security mandates and recommendations of OMB, Department of Homeland Security, Executive Orders, and National Institute of Standards and Technology guidance. To prevent the compromise of the data obtained within the parameters of its jurisdiction, TIGTA must aggressively ensure that its own security posture is properly maintained. This requires training for staff that will allow them to be both knowledgeable in IT security and skilled in its practice.

### **Safeguarding the IRS and Providing Comprehensive Oversight**

TIGTA places its highest priority on ensuring the safety and security of IRS employees and facilities. TIGTA evaluates intelligence information regarding potential violent acts against the IRS and develops proactive leads from other law enforcement agencies and sources to mitigate potential threats.

As part of these improvements, the Threat Information and Critical Incident Response Center Initiative was created to ensure that threats against IRS personnel, facilities, or critical infrastructure are effectively and proficiently identified, investigated, and mitigated. Additionally, OI has established a Threat Information Notification System (TINS) to ensure the efficient and accurate distribution of threat-related information to all impacted stakeholders. The TINS protocol supports key personnel within TIGTA and the IRS, and provides for real-time information sharing to facilitate the protection of the IRS's most important resource, its employees.

TIGTA and the IRS are now better positioned to make decisive investigative and security decisions affecting IRS personnel, facilities, and critical infrastructure well into the future.

***Security for Taxpayer Data and Employees:*** The IRS faces the daunting task of securing its computer systems against the growing threat of cybercrimes. Effective information systems security is essential to ensure that data are protected against inadvertent or deliberate misuse, unauthorized disclosure, or destruction, and that computer operations supporting tax administration are secured against disruption or compromise. In addition to securing a vast amount of sensitive financial and personal data, the IRS must also protect approximately 95,000 employees and 670 facilities throughout the United States. These operating conditions are

challenging for the IRS and underscore the need for continued vigilance in the area of physical and personnel security.

In FY 2014, TIGTA issued a report noting that the IRS's network conversion to Internet Protocol version 6 (IPv6) introduces security risks if the conversion is not implemented and managed properly. The IRS controls were not established to ensure that all new IT purchases were IPv6 capable. Unsecured data and networks are vulnerable to unauthorized disclosure, which can lead to identity theft. Furthermore, security breaches can cause network disruptions and prevent the IRS from performing vital services such as processing tax returns, issuing refunds, and answering taxpayer inquiries.

To prevent the compromise of sensitive taxpayer information, TIGTA proactively identifies IRS employees who inspect tax information without authorization (commonly known as UNAX). The initial investigation into the allegation of UNAX by an IRS employee often leads to the discovery of other criminal violations, including fraud and identity theft. The importance of efforts to detect UNAX is often underestimated, because too often UNAX is seen as browsing by bored employees. IRS employees who are found to have committed UNAX violations may be subject to fines, imprisonment, and/or loss of their jobs. In FY 2014, TIGTA initiated 287 UNAX investigations, and closed 217 cases that resulted in adjudicated personnel actions against IRS employees.

Another significant oversight responsibility is TIGTA's review of the IRS's computer applications that contain sensitive information. The IRS currently has 132 application systems that process sensitive data. Eighty-three of those applications are considered to be at risk for UNAX. With the FY 2016 resources, TIGTA can ensure that these applications are evaluated properly. In addition, TIGTA can make necessary recommendations so the IRS can implement improvements to mitigate these risks.

TIGTA's outreach program continues to play an important role in its broader efforts to raise awareness, educate, and train IRS employees and tax practitioners about potential threats and crimes against the IRS and taxpayers. Every year, special agents conduct security awareness presentations to educate IRS employees of TIGTA's oversight responsibility and share information to help identify ways to prevent physical assaults and threats and deter waste, fraud, and abuse. In FY 2014, TIGTA provided 1,138 awareness presentations to 36,471 IRS employees and 23 awareness presentations to 3,074 tax practitioners and preparers.

***Fraudulent Claims and Improper Payments:*** The Improper Payments Information Act of 2002<sup>7</sup> defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (both overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. In FY 2014, TIGTA issued a report noting that the IRS developed a project to identify business taxpayers erroneously claiming the Advance Energy Credits; however, the IRS does not have a similar program for individual taxpayers. TIGTA's review identified over \$3 million in Advance Energy Credits claimed by individuals in TY 2011 who were potentially ineligible to receive the credit. TIGTA, in another report, indicated that by comparing third-party data to tax returns claiming a qualified retirement

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<sup>7</sup> Pub. L. No. 107-300, 116 Stat. 2350.

savings contribution credit, the IRS could have identified approximately \$53 million in potentially false or overstated credits and protected this revenue.

***Achieving Program Efficiencies and Cost Savings:*** During the fall of 2011 through the summer of 2012, numerous Department of the Treasury, OMB, Presidential Executive Orders, and other guidance documents were issued to ensure that the Federal Government acts as a good steward of taxpayer money by identifying opportunities to promote efficient and effective spending and eliminating excessive spending on conferences and travel. In FY 2014, TIGTA issued a report indicating that the IRS's inadequate management of software licenses has resulted in an estimated waste of \$11.6 million and overutilization of \$1.5 million in license and software subscription support fees.

***Advising Congress:*** In FY 2014, TIGTA provided three testimonies, over 30 briefings, and more than 15 official written responses to Congress on its audit, investigative, and inspections and evaluations activities. Through direct communication, TIGTA aims to address the interest of congressional committees on critical issues involving IRS programs and operations.

***Fraud and Electronic Crime:*** Historically, investigations and audits have shown that the sensitivity of the data the IRS collects makes it an attractive target for employees, hackers, and others residing throughout the world who could use the information to commit crimes involving fraud and identity theft. TIGTA's audit, investigative, and inspections and evaluations work provides coverage of this growing national and international problem, providing proactive prevention and detection efforts that are critically necessary in this highly vulnerable and ever-evolving area. As described in Homeland Security Presidential Directive 7, IRS operations that fund the Federal Government are part of the Nation's key resources and critical infrastructure, which provide essential services that underpin American society. Degradation of the public's trust in the tax system would lead to a decline in voluntary compliance and present a risk to national security.

***Promoting Efficient Spending and the Campaign to Cut Waste:*** TIGTA continues to uphold its commitment to promote efficient spending and cutting waste. All capital investments and major acquisitions undergo a rigorous review by TIGTA's Investment Review Board. This Board performs regular monitoring of capital investments and major acquisitions to ensure proper management of these investments. For FYs 2015 and 2016, TIGTA will continue to scrutinize its budget and identify areas for cost savings and efficiencies. For example, TIGTA will reduce costs by consolidating and reducing space. Additionally, in FY 2016, TIGTA will reduce the cost of background investigations of employees who hold positions that are designated as sensitive.

In order to maintain a highly skilled, proactive, and diverse Inspector General organization with a reputation of protecting and promoting fair tax administration, TIGTA's employees will require ongoing training to meet the challenge of staying abreast of changing IRS programs and priorities. In addition, TIGTA will ensure that its workforce receives training that strengthens the knowledge and skills it needs to continue to protect the public's and Congress's confidence in the tax system.

## Section 2 – Budget Adjustments and Appropriation Language

### 2.1 – Budget Adjustments Table

Dollars in Thousands

Treasury Inspector General for Tax Administration FY 2015 Enacted	FTE 835	Amount \$158,210
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$2,557
Pay-Raise	-	\$1,249
Pay Annualization	-	\$319
FERS Contribution Increase	-	\$426
Non-Pay	-	\$563
Efficiency Savings:	-	(\$84)
Personnel Security Background Investigations	-	(\$17)
Space Optimization	-	(\$67)
Subtotal Changes to Base	-	\$2,473
<b>Total FY 2016 Base</b>	<b>835</b>	<b>\$160,683</b>
Program Changes:		
Program Increases:	24	\$6,592
Enhance Capabilities to Protect the Tax Administration System Against Fraud & Cyberthreats	24	\$6,592
<b>Total FY 2016 Request</b>	<b>859</b>	<b>\$167,275</b>

### 2A – Budget Increases and Decreases Description

**Maintaining Current Levels (MCLs) ..... +\$2,557,000 / +0 FTE**

Pay-Raise +\$1,249,000 / +0 FTE

Funds are requested for the proposed January 2016 pay-raise.

Pay Annualization +\$319,000 / +0 FTE

Funds are requested for annualization of the January 2015 pay-raise.

FERS Contribution Increase +\$426,000 / +0 FTE

Funds are requested for increases in agency contributions to FERS based on updated actuarial estimates.

Non-Pay +\$563,000 / +0 FTE

Funds are requested for non-labor costs such as travel, contracts, rent, and equipment.

**Efficiency Savings ..... -\$84,000 / +0 FTE**

Personnel Security Background Investigations -\$17,000 / +0 FTE

TIGTA will generate a savings of \$17,000 from a reduction in the number of personnel investigations it will need to conduct based on the results of an ongoing position sensitivity designation review.

Space Optimization -\$67,000 / +0 FTE

TIGTA will achieve real property cost savings through the reduction of space, non-renewal of lease agreements, and/or the consolidation of existing space. TIGTA continues to implement

telework and office right-sizing measures in order to reduce its footprint. As a result, TIGTA will need less building space, generating a savings of \$67,000.

**Program Increases ..... +\$6,592,000 / +24 FTE**  
*Enhance Capabilities to Protect the Tax Administration System Against Fraud & Cyberthreats*  
*+\$6,592,000 / +24 FTE*

The threats to the Nation’s tax system are growing in complexity and sophistication. The IRS processes over \$3.1 trillion in Federal tax payments and it receives, processes, and stores 199 million tax returns for 145 million taxpayers. The IRS’s computer systems are accessed by roughly 95,000 IRS and contract personnel located throughout the United States and the world. For FY 2014, the IRS managed over \$2.6 billion in contracts to support its tax administration duties.

In FY 2012, the IRS estimated the gross tax gap, which is the difference between estimated taxes owed and taxes voluntarily paid on time, was \$450 billion in 2006. The tax gap is caused by both unintentional taxpayer errors and willful tax evasion or cheating, and the IRS does not have data to differentiate the amounts attributable to each. Still, a significant portion of revenue loss is caused by the intentional introduction of erroneous or false information into the tax system. Identity theft is the leading scam identified by the IRS, costing billions in lost revenue as well as personal hardships, and this criminal activity continues to evolve.

TIGTA developed this cross-functional initiative to enhance its capabilities to assess and protect the Federal tax system. TIGTA’s use of advanced analytics and cross-discipline approaches will assist the IRS to reduce the billions of dollars in revenue losses due to fraudulent payments, help prevent data loss, and identify and prevent procurement fraud. This cross-cutting initiative proposes to:

- Acquire advanced analytic tools that permit automated review of text-based and other data sources (e.g., e-mail, procurement documents, structured/unstructured data, other). Analytics will innovate the identification and correlation of meaningful indicators of employee fraud or misuse of taxpayer data.
- Acquire targeted data collection and assessment tools that support independent testing and analysis of system security controls across the spectrum of data loss prevention and external threat potentials.
- Establish a multi-discipline team to conduct risk assessments of emerging threats from domestic and international sources. This includes development of specialized skillsets necessary to effectively integrate cross-discipline/cross-jurisdictional approaches in preventing threats and countering them when they cannot be prevented.
- Establish centers of competency to build risk-specific capabilities while establishing cross-discipline teams that leverage those capabilities across the spectrum of risks that exist. This includes data science and Information Technology support personnel to develop and apply advanced analytic models in support of emerging threats.

Identity theft is associated with a potential \$3.6 billion in fraudulent tax refunds, as last reported by TIGTA for TY 2011. TIGTA has seen an increase in identity theft investigations involving IRS employees who have stolen and misused privileged taxpayer data, undermining public trust in the IRS. Many IRS employees are believed to be transmitting and perhaps disclosing taxpayer



information across the Internet. A targeted review of IRS e-mail over a short period of time generated hundreds of incidents where IRS employees sent taxpayer information to external parties. An expanded review could generate thousands of investigative leads to ensure taxpayer information is not being misused for criminal purposes.

Criminals are increasingly sophisticated in scamming American taxpayers. In the summer of CY 2013, US taxpayers were subjected to an extensive scam involving the impersonation of IRS employees and e-mail. To date, the TIGTA Hotline has received over 269,000 related contacts involving this activity where a caller or e-mail claims to represent the IRS, purportedly collecting tax from a recent audit. By e-mail and telephone calls originating from domestic and international locations, taxpayers were requested to submit a credit card or other payment under threats such as arrest, suspension of business or driver's license, and deportation. To date, over 2,400 taxpayers have been defrauded out of over \$13 million as a result of this impersonation scam.

These examples highlight challenges and consequences associated with protecting IRS systems and data, which is why TIGTA listed *Security for Taxpayer Data and IRS Employees* as its number one major management challenge for FY 2015. Innovative tools and approaches are needed to augment existing capabilities.

The IRS modernization continues at a pace where rigorous testing is needed to ensure appropriate security controls are being implemented. Weak security controls offer internal and external parties new opportunities to exploit the tax systems for illicit or inappropriate purposes. This initiative proposes an investment of \$6.6 million so TIGTA can develop innovative tools and approaches to help prevent and detect the flow of billions of dollars fraudulently obtained by criminals and employees, both domestically and internationally, and help ensure the security of IRS data for the goal of protecting our Nation's tax system. The ROI for this initiative is unknown at this time, as this initiative covers a broad spectrum of expanded capabilities from preventing revenue/data loss to identity theft. However, based upon TIGTA's prior year's (FYs 2010-2014) average ROI of about \$113 to every \$1 invested, we would expect this initiative to result in a contribution of about \$700 million annually in monetary impacts.

## 2.2 – Operating Levels Table

Dollars in Thousands

Treasury Inspector General for Tax Administration	FY 2014	FY 2015	FY 2016
Object Classification	Actual	Enacted	Request
11.1 - Full-time permanent	79,432	87,042	91,135
11.3 - Other than full-time permanent	269	588	590
11.5 - Other personnel compensation	7,648	8,374	8,405
<b>11.9 - Personnel Compensation (Total)</b>	<b>87,349</b>	<b>96,004</b>	<b>100,130</b>
12.0 - Personnel benefits	30,471	32,579	34,307
<b>Total Personnel and Compensation Benefits</b>	<b>\$117,820</b>	<b>\$128,583</b>	<b>\$134,437</b>
21.0 - Travel and transportation of persons	2,937	3,233	3,514
22.0 - Transportation of things	8	19	19
23.1 - Rental payments to GSA	9,440	9,115	9,221
23.2 - Rental payments to others	162	225	229
23.3 - Communication, utilities, and misc charges	1,554	1,795	1,829
24.0 - Printing and reproduction	4	7	7
25.1 - Advisory and assistance services	780	775	790
25.2 - Other services	1,064	695	708
25.3 - Other purchases of goods & serv frm Govt accounts	8,174	7,821	8,218
25.4 - Operation and maintenance of facilities	2	408	416
25.7 - Operation and maintenance of equip	2,292	909	926
26.0 - Supplies and materials	516	1,032	1,052
31.0 - Equipment	4,654	3,517	5,832
42.0 - Insurance claims and indemnities	2	51	52
91.0 - Confidential Expenditures	86	25	25
<b>Total Non-Personnel</b>	<b>31,675</b>	<b>29,627</b>	<b>32,838</b>
<b>Subtotal New Appropriated Resources</b>	<b>\$149,495</b>	<b>\$158,210</b>	<b>\$167,275</b>
<b>Budget Activities:</b>			
Audit	54,363	62,172	65,700
Investigations	96,848	97,538	103,075
<b>Total Budgetary Resources</b>	<b>\$151,211</b>	<b>\$159,710</b>	<b>\$168,775</b>
<b>FTE</b>	<b>742</b>	<b>837</b>	<b>861</b>

**2B – Appropriations Language and Explanation of Changes**

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION Federal funds</p> <p style="text-align: center;"><b>SALARIES AND EXPENSES</b></p> <p>For necessary expenses of the Treasury Inspector General for Tax Administration in carrying out the Inspector General Act of 1978, as amended, including purchase and hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services authorized by 5 U.S.C. 3109, at such rates as may be determined by the Inspector General for Tax Administration; [\$158,210,000] \$167,275,000, of which \$5,000,000 shall remain available until September 30, [2016] 2017; of which not to exceed \$6,000,000 shall be available for official travel expenses; of which not to exceed \$500,000 shall be available for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration[; and of which not to exceed \$1,500 shall be available for official reception and representation expenses]. (<i>Department of the Treasury Appropriations Act, 2015.</i>)</p>	

**2C – Legislative Proposals**

TIGTA has no Legislative Proposals.

## **Section 3 – Budget and Performance Plan**

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### **3A – Audit**

*(\$65,100,000 from direct appropriations, and \$600,000 from reimbursable resources):*

TIGTA identifies opportunities to improve the administration of the Nation’s tax laws by completing comprehensive and independent performance and financial audits of IRS programs and operations. TIGTA’s audit program incorporates both statutory audit requirements and specific audits identified through TIGTA’s risk-assessment process. TIGTA’s audit work is concentrated on high-risk areas and the IRS’s progress in achieving its strategic goals. TIGTA strategically evaluates IRS programs, activities, and functions so that resources are spent in the areas of highest vulnerability to the Nation’s system of tax administration. By focusing on the most critical areas, TIGTA identifies and recommends improvements that add value while addressing high-risk tax administration issues.

Each year, TIGTA identifies and addresses the major management and performance challenges and key issues confronting the IRS. OA identifies the major risks facing the IRS and annually proposes a national audit plan based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses. To keep apprised of operating conditions and emerging issues, TIGTA maintains liaison and consults on an ongoing basis with applicable stakeholders such as IRS executives, the IRS Oversight Board, the Department of the Treasury, the Government Accountability Office, and Congress.

TIGTA’s Annual Audit Plan communicates audit priorities to the IRS, Congress, and other interested parties. Many of the activities described in the Annual Audit Plan address the fundamental goals related to the IRS’s mission to administer its programs effectively and efficiently. Audits address a variety of high-risk issues such as identity theft, refund fraud, improper payments, tax-exempt organizations, security vulnerabilities, complex modernized computer systems, tax compliance, and waste and abuse in IRS operations. TIGTA’s audits and recommendations help:

- Promote the economy, efficiency, and effectiveness of IRS programs;
- Ensure the fair and equitable treatment of taxpayers; and
- Detect and deter waste, fraud, and abuse.

TIGTA’s recommendations not only result in cost savings, but also have other quantifiable impacts, such as the protection of existing revenue, increased revenue, and reduction of the number of fraudulent refunds and improper payments.

Recognizing the constantly evolving nature of the IRS’s goals, programs, and priorities, TIGTA often adjusts its oversight responsibilities. In addition to its coverage of the major management challenges facing the IRS, OA places importance on key emphasis areas based on their significance and impact on tax administration.

Specifically:

- ***Identity Theft Detection and Prevention*** – Identity theft continues to be a serious and growing problem that has a significant impact on tax administration. The IRS must make significant improvements in its ability to stop fraudulent payments and provide adequate taxpayer service to victims. Incidents of identity theft affecting tax administration have

continued to rise since CY 2011, when the IRS identified more than one million incidents of identity theft.

- ***Tax-Exempt Organizations*** – The IRS’s use of inappropriate criteria for selecting and reviewing applications for tax-exempt status is of continuing concern to both Congress and organizations seeking tax-exempt status. There have been a number of congressional hearings, as well as ongoing Federal investigations into this matter. The IRS will continue to face a high level of scrutiny in the exempt organizations area in FY 2015, and this area will be a continued area of focus for TIGTA.
- ***ACA Implementation and Administration*** – The ACA impacts individual and business taxpayers at all income levels, IRS compliance and enforcement programs, information reporting requirements, the administration of tax penalties, and information technology. The IRS’s ability to ensure accurate tax returns are filed and information reported is correct is dependent on the timely receipt of information from exchanges, insurance providers, and employers. A further challenge for the IRS is the fact that a number of the reporting provisions relating to insurance providers and employers have been delayed.
- ***International Tax Compliance*** – The tax compliance of business and individual taxpayers involved in international transactions remains a significant area of concern for the IRS. As the number and complexity of international transactions continues to grow, the IRS must focus its international efforts on ensuring compliance with the tax laws regardless of where the taxpayers reside. FATCA was enacted to combat tax evasion by U.S. persons holding investments in offshore accounts and is an important development in the IRS’s efforts to improve U.S. tax compliance involving foreign financial assets and offshore accounts.

In FY 2014, TIGTA issued 95 final audit reports that included potential financial benefits of approximately \$16.5 billion and affected over 3.6 million taxpayer accounts. TIGTA’s reports for FY 2014 addressed issues that included:

- ***Qualified Retirement Savings Contribution Credit*** – For TY 2011, TIGTA determined that taxpayers potentially made approximately \$53 million in improper claims for contributions made to a qualifying retirement account. Based on a comparison with third party data, these claims appear to be potentially either false or overstated. In the future, if the IRS identifies and addresses taxpayers who are potentially ineligible to receive the saver’s credit, it could recover approximately \$264 million over five years.
- ***IRS’s Award Program*** – Providing awards to employees with conduct issues, especially Federal tax compliance, appears to create a conflict with the IRS’s charge of ensuring the integrity of tax administration. While the IRS’s award program complied with Federal requirements, TIGTA found that between October 1, 2010 and December 31, 2012, more than 2,800 IRS employees who had been disciplined for conduct issues, including 1,100 employees with Federal tax compliance issues, had received \$2.8 million in monetary awards, over 27,000 hours in time-off awards, and 175 quality step increases.
- ***Small Purchase Card Procurements*** – TIGTA audit results confirmed that the IRS properly reported four instances of identified purchase card misuse. One such instance was confirmed as purchase card fraud and resulted in the cardholder’s resignation from the IRS. Action on the remaining three instances had not been completed.
- ***Advance Energy Credit*** – TIGTA found 1,149 individual taxpayers who reported more than \$3 million in advance energy credits for TY 2011 but who do not appear to have a business relationship with a manufacturer that was awarded the credit. While the IRS has a process to

identify business taxpayers who erroneously claim this credit, it does not have a similar process to identify individual taxpayers who erroneously claim the credit.

- ***Mainframe Software License Management*** – Inadequate software license management has resulted in an estimated waste of \$11.6 million and an overutilization of \$1.5 million in license and software subscription support fees. TIGTA found that the IRS needs to develop policies and guidance, define roles and responsibilities, and develop an enterprise-wide inventory to more effectively manage mainframe software spending.
- ***Taxpayers Rights in Bankruptcy Proceedings*** – TIGTA found that IRS Field Insolvency function specialists frequently did not follow the required procedures when working bankruptcy cases. Based on three random samples of closed cases reviewed, TIGTA found that the specialists did not always follow established procedures in 57 percent of the Chapter 7 cases, 50 percent of Chapter 11 cases, and 43 percent of Chapter 13 cases. While no violations of taxpayer rights and/or failures to protect the Government's interest were found, there is a higher risk that this could occur when procedures are not followed.

*Description of Performance:*

TIGTA uses two performance measures to gauge the success of the audit program. The first measure indicates that TIGTA's products are more likely to be used if they are delivered when needed to support congressional and IRS decision making. To determine whether products are timely, TIGTA tracks the percentage of products that are delivered on or before the date promised (contract date).

Additionally, TIGTA makes recommendations designed to improve the administration of the Federal tax system. The IRS must implement these recommendations to realize the financial or non-financial benefits. This second measure assesses TIGTA's effect on improving the IRS's accountability, operations, and services. Since the IRS needs time to act on recommendations, TIGTA uses the Department of the Treasury's Joint Audit Management Enterprise System to track the percentage of recommendations made four years ago that have been implemented, rather than the results of the activities during the fiscal year in which the recommendations are made. TIGTA tracks recommendations that have not been implemented by the IRS and has a formal process with the IRS to close out unimplemented recommendations where circumstances may have changed, or when the IRS has taken alternative corrective measures to address TIGTA's audit findings.

In FY 2014, the actual Percentage of Audit Products Delivered when Promised to Stakeholders was 65 percent against a full-year target of 65 percent. TIGTA achieved this target as a result of ongoing supervisory monitoring of the execution of audits to ensure timely audit products to stakeholders.

The actual Percentage of Recommendations Made That Have Been Implemented was 89 percent against a full-year target of 85 percent. TIGTA exceeded its target because of continued discussions with the IRS throughout the audit process, both on the findings and on potential recommended solutions, to ensure that feasible alternatives were identified. For FY 2014, TIGTA lowered its target for timely delivery of audit products to reflect increased vacancies resulting from the FY 2013 hiring freeze. The hiring freeze, which has delayed recruitment for key audit positions, requires TIGTA to utilize acting roles for frontline managers and executive-

level positions, resulting in extensive transition within TIGTA. For FY 2016, the target for percentage of audit products delivered when promised to stakeholders is 68 percent. The target for percentage of recommendations made that have been implemented is 85 percent.

### 3.1.1 – Audit Budget Activity Budget and Performance Plan

Dollars in Thousands

Audit Budget Activity								
Resource Level	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actuals	Actuals	Actuals	Actuals	Actuals	Enacted	Enacted	Request
Appropriated Resources	\$55,186	\$57,421	\$57,306	\$57,306	\$54,309	\$60,850	\$61,572	\$65,100
Reimbursable Resources	\$539	\$529	\$351	\$0	\$500	\$600	\$600	\$600
<b>Budget Activity Total</b>	<b>\$55,725</b>	<b>\$57,950</b>	<b>\$57,657</b>	<b>\$57,306</b>	<b>\$54,809</b>	<b>\$61,450</b>	<b>\$62,172</b>	<b>\$65,700</b>

Measure	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target
Percentage of Audit Products Delivered when Promised to Stakeholders	81.0	76.0	68.0	71.0	84.0	65.0	68.0	68.0
Percentage of Recommendations Made that Have Been Implemented	91.0	95.0	93.0	94.0	87.0	89.0	85.0	85.0

Key: DISC - Discontinued and B - Baseline

### 3B – Investigations

*(\$102,175,000 from direct appropriations, and \$900,000 from reimbursable resources):*

While most offices of Inspectors General focus primarily on waste, fraud, and abuse, TIGTA’s mission is more extensive. In addition to protecting the IRS’s ability to collect the majority of the revenue for the Federal Government’s operations, TIGTA also has the statutory responsibility of protecting the integrity of tax administration while protecting the IRS’s most valuable resource: its employees.

TIGTA’s investigative resources are allocated based upon a performance model that focuses on three primary areas of investigation:

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

The performance model (Figure 4) results in reliable statistical data that are used to make mission-critical decisions regarding staffing, budgeting, and training. The performance model utilizes a ratio of those investigations that have the greatest impact on IRS operations or the protection of Federal tax administration to the total number of investigations conducted.

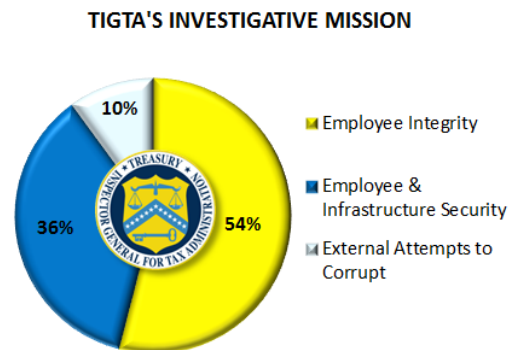


Figure 4: Investigative Performance Model

These performance measures guide OI's activities and help to demonstrate the value of investigative accomplishments to external stakeholders.

***Employee Integrity:*** IRS employee misconduct, real or perceived, erodes public trust and impedes the IRS's ability to enforce tax laws effectively. This misconduct manifests itself in a variety of ways, including misuse of IRS resources or authority, theft, fraud, extortion, taxpayer abuses, and unauthorized access to, and disclosure of, tax return information. In FY 2014, 54 percent of TIGTA's investigative body of work involved alleged employee misconduct. TIGTA's special agents possess the knowledge, skills, and expertise to investigate such matters. TIGTA's efforts convey a message to IRS employees that these types of activities will not go unchecked.

TIGTA promotes employee integrity by conducting proactive investigative initiatives to detect criminal activity and serious misconduct in the administration of IRS programs. In FY 2014, TIGTA initiated 41 proactive investigative initiatives to detect systemic weaknesses or potential IRS program vulnerabilities. A recent investigative focus identified seasonal IRS employees who continued to receive unemployment benefits after being recalled to work from furlough status by the IRS, resulting in numerous arrests, prosecutions, and terminations of IRS employees for this fraud.

TIGTA received 10,193 complaints, opened 2,964 investigations, and closed 3,054 investigations in FY 2014. During this time period, TIGTA referred for IRS action 1,343 cases of employee misconduct and 144 cases of all types of investigations were accepted for criminal prosecution. As a result of a TIGTA investigation into employee misconduct, a former IRS employee was sentenced to 57 months in prison for her role in an identity theft scheme.<sup>8</sup>

***Employee and Infrastructure Security:*** In FY 2014, TIGTA responded to 2,001 threat-related incidents. Tax revenue is critical to our Nation's infrastructure. Threats and assaults directed at IRS employees, facilities, data, and computer systems impede the effective administration of the Federal tax system. TIGTA has a statutory responsibility to identify, investigate, and respond to threats against IRS personnel and physical infrastructure (Figure 5).

TIGTA's authority to investigate threats and assaults is derived from the provisions of Title 26 U.S.C. § 7608(b), authority of internal revenue enforcement officers; RRA 98; the Inspector General Act of 1978, as amended, and the Inspector General Reform Act of 2008; and is further summarized in Treasury Order 115-01. All reports of threats, assaults, and forcible interference against IRS employees performing their official duties are referred to OI. TIGTA has the necessary authority to access taxpayer information in support of ongoing investigations, including tax matters related to threats and assaults involving the IRS.

To ensure IRS employee safety, OI 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. OI provides crucial intelligence to IRS officials to assist them in making proactive operational decisions about potential violence or other activities that could pose a threat to IRS systems, operations, and people.

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<sup>8</sup> N.D. Ga. Judgment filed June 5, 2014.



Over the past several years, the United States has experienced numerous violent incidents in schools, private offices, and public areas. These tragic events are unpredictable and result in numerous innocent people losing their lives or being severely injured. Despite the declining number of TIGTA special agents, TIGTA has processed over 13,392 threat-related complaints and investigated over 6,621 threats against IRS employees in FY 2010 through FY 2014.

TIGTA takes threats directed at the IRS and its employees very seriously. In March 2014, a Baton Rouge, Louisiana man was sentenced to two years of imprisonment for threatening to retaliate against a witness in a Federal trial involving an income tax preparation business.<sup>9</sup> The witness had testified in a Federal criminal case against the defendant's mother, who was subsequently convicted by a jury for 21 Federal felonies.<sup>10</sup> In another case, an individual was sentenced for threatening to assault and murder an IRS revenue agent, as well as the revenue agent's immediate family member, with the intent to interfere with the employee's official duties and to retaliate against the employee for performing his official duties.<sup>11</sup>

TIGTA's partnership with the IRS's Office of Employee Protection (OEP) to identify Potentially Dangerous Taxpayers (PDTs) is one example of TIGTA's commitment to collaborate with the IRS and protect IRS employees. If a taxpayer has been designated as potentially dangerous, TIGTA conducts a follow-up assessment of the taxpayer after five years and provides the IRS's OEP with information to determine if the taxpayer still poses a danger to IRS employees.

TIGTA's special agents are responsible for providing physical security, known as "armed escorts," to IRS employees in dangerous situations. TIGTA's special agents escort IRS employees when they require personal contact with a PDT. These armed escorts provide a safe environment for IRS employees to conduct tax administration activities.

***External Attempts to Corrupt Tax Administration:*** TIGTA is statutorily mandated to investigate external attempts to corrupt tax administration, which include criminal misconduct by nonemployees, such as attempted bribery of IRS employees and impersonation of the IRS. Many IRS employees are in direct contact with taxpayers and often encounter situations where a taxpayer may challenge the employees' integrity by offering a bribe. Bribery, or attempted bribery, of a public official is a criminal offense, and it is an attack on the integrity of the entire IRS organization and the Nation's system of tax administration. TIGTA is currently investigating nationwide IRS impersonations schemes in which criminals are pretending to be employees of the IRS and are attempting to collect phantom tax liabilities from innocent taxpayers. Since the scam was first reported in the summer of 2013, the TIGTA Hotline has received over 269,000 related contacts, and it is estimated that the scheme has resulted in over \$13 million in payments made by over 2,400 victims.

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<sup>9</sup> M.D. La. Judgment filed Apr. 3, 2014.

<sup>10</sup> *Id.*

<sup>11</sup> D R.I. Indictment filed Jan. 15, 2014.

## FY 2014 Investigative Activities (Assaults and Threats)

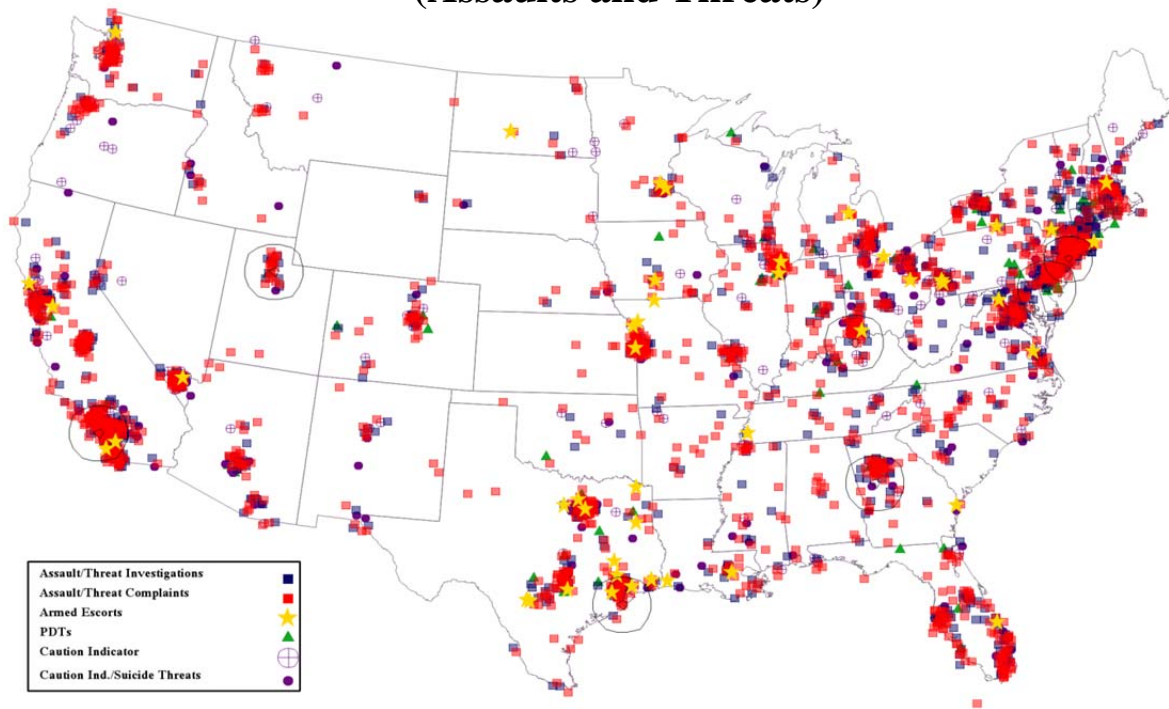


Figure 5: U.S. Map of Assaults and Threats

With adequate FY 2016 resources, TIGTA will have the necessary staffing to ensure these criminal acts are promptly investigated. Another key aspect of protecting the integrity of tax administration in today’s environment is the oversight and investigation of IRS procurement matters. On average, the IRS awards approximately 900 contracts each year, worth approximately \$31 billion in total contract value.<sup>12</sup> A 2014 Association of Certified Fraud Examiners report<sup>13</sup> estimated that five percent of an organization’s revenue is at risk of fraud on an annual basis. In the case of the IRS, this projection translates to approximately \$1.6 billion.

TIGTA focuses its contract fraud investigations on administrative, civil, and criminal violations. TIGTA’s contract fraud investigations add to the Nation’s treasury through court-ordered settlements and recoveries. With FY 2016 resources, TIGTA could proactively identify and address procurement fraud risks in IRS programs to help ensure that the IRS and taxpayers receive full value for the billions of contracting dollars spent.

### Description of Performance:

TIGTA’s investigative performance model is a ratio of those investigations that have the greatest impact on IRS operations or the protection of Federal tax administration to the total number of investigations conducted. These performance measures guide OI’s activities and help to demonstrate the value of investigative accomplishments to external stakeholders.

<sup>12</sup> The total dollar value of a contract over the life of the contract.

<sup>13</sup> Association of Certified Fraud Examiners, *Report to the Nations on Occupational Fraud and Abuse*, 2012.

The performance model provides reliable statistical data, which are used to make mission-critical decisions regarding investigative staffing, budgeting, and training.

The FY 2014 year-end results for the Percentage of Results from Investigative Activities were 92 percent, 13 percent above the target of 79 percent. This increase in investigative activities was due primarily to the finalization of a large number of cases opened in prior years that were accepted for prosecution with final legal action in FY 2014. With the FY 2015 budget request, TIGTA plans to continue backfilling more special agent vacancies and develop the new special agents' skills and abilities through training and mentoring programs striving to achieve a high level of performance. This approach supports maintaining a performance goal of 79 percent in FY 2015. The FY 2016 budget request will provide funding for TIGTA to enhance its performance of investigative activities and support increasing the performance goal to 81 percent for FY 2016.

### 3.1.2 – Investigations Budget and Performance Plan

Dollars in Thousands

<b>Investigations Budget Activity</b>								
<b>Resource Level</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
	<b>Actuals</b>	<b>Actuals</b>	<b>Actuals</b>	<b>Actuals</b>	<b>Actuals</b>	<b>Enacted</b>	<b>Enacted</b>	<b>Request</b>
Appropriated Resources	\$90,897	\$94,579	\$94,694	\$94,390	\$89,452	\$95,525	\$96,638	\$102,175
Reimbursable Resources	\$318	(\$442)	\$949	\$0	\$400	\$1,100	\$900	\$900
<b>Budget Activity Total</b>	<b>\$91,215</b>	<b>\$94,137</b>	<b>\$95,643</b>	<b>\$94,390</b>	<b>\$89,852</b>	<b>\$96,625</b>	<b>\$97,538</b>	<b>\$103,075</b>

<b>Measure</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Target</b>	<b>Target</b>
Percentage of Results from Investigative Activities	83.0	86.0	82.0	89.0	90.0	92.0	79.0	81.0

Key: DISC - Discontinued and B - Baseline

## **Section 4 – Supplemental Information**

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### **4A – Summary of Capital Investments**

#### **Secure Information and Technology (IT) Mobility**

The tax system is at risk for billions of dollars of fraudulent payments related to a variety of tax credits and identity theft. Threats against the tax system continue to demonstrate increased volume, velocity, and variety in the methods and types of endeavors. Perpetrators are increasingly more sophisticated in scamming American taxpayers, as evidenced by the IRS employee impersonation scam, e-mail phishing, and other approaches. TIGTA continues to make strategic investments to increase the agility and analytic capabilities of TIGTA employees, so that they can continue to work effectively wherever the need or threat dictates. The lease for the current inventory of laptops provided to all TIGTA employees will come to an end during FY 2016. Efforts to determine the type of devices or methodologies that will provide suitable access for employees based on their roles and responsibilities will determine the final configurations for deployment. Access to all of the TIGTA devices will be enabled with TIGTA-issued Homeland Security Presidential Directive-12 Personal Identity Verification cards, as has been the situation since FY 2013. The expectation is that other investments related to applications that will securely expose capabilities to the end user will greatly enhance the flexibility, responsiveness, collaboration, and effectiveness of the TIGTA workforce.

#### **Server and Storage Infrastructure**

TIGTA remains a leader in server virtualization. In FYs 2013 and 2014, TIGTA refreshed its server and storage area network with updated technology that is more energy efficient and cost-effective, and installed its host infrastructure in the IRS Enterprise Computing Center in Martinsburg, WV. TIGTA intends to use targeted investments in advanced data analysis and visualization tools to enhance its capabilities to protect the tax system. Refined data sets generated with these tools will be used by TIGTA auditors and criminal investigators to address risks to the tax system. These advanced analytic tools will permit automated review of various data sources, some of which were previously unavailable or unusable given the state of TIGTA's analytic capability. The data analytics capability will provide an innovative approach to the identification and correlation of meaningful indicators of employee or external fraud or misuse of taxpayer data. It is also expected to enable TIGTA to perform some predictive analytics that could lead to the identification of high-risk transactions and accounts that seek to subvert tax administration.

The overall expected benefits are the ability to:

- Better understand key relationships and develop models intuitively and quickly;
- Build better, more efficient models with a versatile toolset;
- More quickly and easily derive insights for better decisions;
- Allow for more self-sufficiency and automation for tedious manual tasks;
- Empower users of all skill levels with advanced analytics;
- Answer complex questions faster;
- Drive collaboration and information sharing; and
- Deliver self-service capabilities on an enterprise-wide level.

## **Refreshed Applications and Collaboration Environment**

TIGTA continues its leadership in its use of collaborative tools that enable capture, storage, editing, distribution, and collaboration across the enterprise. During FYs 2014 and 2015, TIGTA is conducting difficult and time-consuming surveys and analyses that lay out an updated path. This includes establishing security baseline configurations for server environment operating systems, Structured Query Language servers, SharePoint, and the introduction of Customer Relationship Management (CRM) as a platform replacing a mission critical TIGTA system. FY 2016 should see the advent of more complete and complex capabilities in CRM and the ability to leverage the features enabled by the new environments. TIGTA is building upon its experiences using the collaborative tools and intends to incorporate new capabilities and feature sets in the modernized environment. This budget will allow TIGTA to continue investing in more powerful and more robust capabilities.

## **IT Governance and Total Cost of Ownership**

In FY 2010, TIGTA established its current IT governance program. The program requires that all new IT requests pass through a Change Management Board chaired by the Chief Information Officer. Requests requiring cross-functional activity or support, presenting high risk or significant cost, among other factors, are elevated to the Program Management Board (PMB), chaired by the Associate Inspector General for Mission Support and with representatives from all of the TIGTA functional units. Requests must present a total cost picture, a business case, and a high-level work breakdown schedule that are adjusted for risks, to gain PMB approval to commence work. Projects involving substantial financial commitments or high mission visibility require approval from the Investment Review Board, composed of TIGTA's senior executives. Refinements to the process are ongoing as projects evolve and the knowledge and experience base of the PMB grows.

By the end of FY 2013, TIGTA had extended its new governance process to all TIGTA functional units, to help manage projects and priorities. Under TIGTA's program-management process, milestones for all projects are established and tracked. At any point, projects that have cost overruns, are behind schedule, or are not delivering at anticipated business performance levels, are analyzed for cause.

## **Law Enforcement Vehicles**

Effective FY 2014, TIGTA acquired its vehicles by lease through the General Services Administration. However, TIGTA will maintain ownership of approximately 10 surveillance/communications vehicles. These 10 vehicles will remain part of TIGTA's capital asset strategy. The vehicles will be used to support TIGTA's investigations and must meet the mission-critical need to conduct criminal law enforcement activities. TIGTA communications vehicles will also be used in support of TIGTA's Continuity of Operations (COOP) Program. COOP provides a mechanism for the organization to recover full operational capabilities following a critical incident, including the ability to communicate during a local or national emergency.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed and downloaded at:

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>

This website also contains a digital copy of this document.