

**HEARING BEFORE THE  
COMMITTEE ON APPROPRIATIONS  
SUBCOMMITTEE ON FINANCIAL SERVICES  
AND GENERAL GOVERNMENT  
UNITED STATES SENATE**

**“Review of the President’s Fiscal Year 2018 Funding  
Request for the Internal Revenue Service”**



**Testimony of  
The Honorable J. Russell George  
Treasury Inspector General for Tax Administration**

**July 26, 2017**

**Washington, D.C.**

TESTIMONY  
OF  
THE HONORABLE J. RUSSELL GEORGE  
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION  
*before the*  
COMMITTEE ON APPROPRIATIONS, SUBCOMMITTEE ON  
FINANCIAL SERVICES AND GENERAL GOVERNMENT  
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Internal Revenue Service”  
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Chairwoman Capito, Ranking Member Coons, and Members of the Subcommittee, thank you for the opportunity to testify on the Internal Revenue Service’s (IRS) Fiscal Year (FY)<sup>1</sup> 2018 budget request, our recent work related to the most significant challenges currently facing the IRS, and the Treasury Inspector General for Tax Administration’s FY 2018 budget request.

The Treasury Inspector General for Tax Administration (TIGTA) was created by Congress in 1998 to ensure integrity in America’s tax system. It provides independent audit and investigative services to improve the economy, efficiency, and effectiveness of IRS operations. TIGTA’s oversight activities are designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration. TIGTA plays the key role of ensuring that the approximately 85,000 IRS employees<sup>2</sup> who collected more than \$3.3 trillion in tax revenue, processed more than 244 million tax returns, and issued more than \$400 billion in tax refunds during FY 2016,<sup>3</sup> have done so in an effective and efficient manner while minimizing the risk of waste, fraud, and abuse.

TIGTA’s Office of Audit (OA) reviews all aspects of the Federal tax administration system and provides recommendations to: improve IRS systems and operations; ensure the fair and equitable treatment of taxpayers; and detect and prevent waste, fraud, and abuse in tax administration. The OA places an emphasis on statutory coverage required by the IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>4</sup> and

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<sup>1</sup> The Federal Government’s fiscal year begins on October 1 and ends on September 30.

<sup>2</sup> In FY 2016, the IRS employed, on average, approximately 85,000 people, including more than 16,000 temporary and seasonal staff.

<sup>3</sup> IRS, *Management’s Discussion & Analysis, Fiscal Year 2016*.

<sup>4</sup> Pub. L. No. 105-206, 112 Stat. 685.

other laws, as well as on areas of concern raised by Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders. The OA has examined specific high-risk issues such as identity theft, refund fraud, improper payments, information technology, security vulnerabilities, complex modernized computer systems, tax collection and revenue, and waste and abuse in IRS operations.

TIGTA's Office of Investigations (OI) protects the integrity of the IRS by investigating allegations of employee misconduct, external threats to employees and facilities, and other attempts to impede or otherwise interfere with the IRS's ability to collect taxes. The OI investigates misconduct by IRS employees which manifests itself in many ways, including extortion, theft, taxpayer abuses, false statements, financial fraud, and identity theft. The OI places a high priority on its statutory responsibility to protect all IRS employees located in approximately 540<sup>5</sup> offices. In the last several years, threats directed at the IRS have remained the second largest component of the OI's work. Physical violence, harassment, and intimidation of IRS employees continue to pose challenges to the implementation of a fair and effective system of tax administration. The OI is committed to ensuring the safety of IRS employees and of taxpayers who conduct business in IRS facilities. As will be discussed in more detail later in the testimony, over the past several years, the OI has been conducting an investigation of a massive IRS impersonation scam that has impacted over two million people.

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 I&E's work is not a substitute for audits and investigations. In fact, its findings may result in subsequent audits and/or investigations. Inspections are intended to monitor compliance with applicable law, regulation, and/or policy; assess the effectiveness and efficiency of programs and operations; and inquire into allegations of waste, fraud, abuse, and mismanagement. Evaluations, on the other hand, are intended to provide in-depth reviews of specific management issues, policies, or programs.

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<sup>5</sup> IRS, *Management's Discussion & Analysis, Fiscal Year 2016*.

## OVERVIEW OF THE IRS'S FY 2018 BUDGET REQUEST

The IRS is the largest component of the Department of the Treasury and has primary responsibility for administering the Federal tax system. The IRS's role is unique within the Federal Government in that it collects the revenue that funds the Government and administers the Nation's tax laws. It also works to protect Federal revenue by detecting and preventing the growing risk of fraudulent tax refunds and other improper payments.

The Department of the Treasury (Treasury) is in the process of developing a new strategic plan for FYs 2018–2022. The IRS will publish its FY 2018–FY 2022 strategic plan by June 2018, which will serve as a roadmap to guide future IRS operations. To achieve these goals, the proposed FY 2018 IRS budget requests appropriated resources of approximately \$11 billion.<sup>6</sup> The total appropriation amount is a decrease of \$260 million, or 2.3 percent below the FY 2017 enacted budget level of approximately \$11.2 billion.<sup>7</sup> A comparison of next year's request with the current budget is shown in Table 1.

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<sup>6</sup> The FY 2018 budget request also includes approximately \$122 million from reimbursable programs, \$30 million from non-reimbursable programs, \$526 million from user fees, and \$269 million in available unobligated funds from prior years for a total amount of \$11.9 billion in available resources.

<sup>7</sup> The FY 2017 enacted budget of \$11.2 billion includes \$290 million in Section 113 Administrative Provision funding in the following amounts: \$209 million in Taxpayer Services and \$81 million in Operations Support.

**TABLE 1**  
**Comparison of IRS FY 2018 Budget Request**  
**To FY 2017 Enacted Budget Level**  
*(in Thousands)*

<b>Appropriations Account</b>	<b>FY 2017 Enacted Budget</b>	<b>FY 2018 Request</b>	<b>\$ Change</b>	<b>% Change</b>
Taxpayer Services	\$2,365,554	\$2,212,311	(\$153,243)	-6.5%
Enforcement	\$4,860,000	\$4,706,500	(\$153,500)	-3.2%
Operations Support	\$3,719,446	\$3,946,189	\$226,743	6.1%
Business Systems Modernization	\$290,000	\$110,000	(\$180,000)	-62.1%
Total Appropriated Resources	\$11,235,000	\$10,975,000	(\$260,000)	-2.3%

*Source: IRS's FY 2018 Budget Request, Operating Level Tables and FY 2017 Enacted Budget.*

The three largest appropriation accounts are Taxpayer Services, Enforcement, and Operations Support. The Taxpayer Services account provides funding for programs that focus on helping taxpayers understand and meet their tax obligations, while the Enforcement account supports the IRS's examination and collection efforts. The Operations Support account provides funding for functions that are essential to the overall operation of the IRS, such as infrastructure and information services. Finally, the Business Systems Modernization account provides funding for the development of new tax administration systems and investments in electronic filing.

### **Appropriations Changes**

As shown above, the Taxpayer Services, Enforcement, and Business Systems Modernization appropriations decreased by \$153 million, \$154 million, and \$180 million, respectively, for an overall decrease of \$487 million compared to the FY 2017 level.

The IRS realigned approximately \$179 million and 266 Full-Time Equivalents (FTEs)<sup>8</sup> from the Business Systems Modernization appropriation to the Operations

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<sup>8</sup> A measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.

Support appropriation to address a backlog of deferred information technology hardware and software updates. The Business Systems Modernization appropriations request decreased by 62 percent from FY 2017.

As a result, the Operations Support appropriation request for FY 2018 increased by \$227 million compared to the FY 2017 level. The largest component of this increase is the realigned funds of \$179 million to address deferred information technology updates. Overall, the IRS's FY 2018 budget request reflects a total decline of appropriated resources of \$260 million compared to FY 2017.

## **CHALLENGES FACING THE IRS**

In this section of my testimony, I will briefly discuss several of the key challenges now facing the IRS as it administers our Nation's tax laws.

### **SECURITY OVER TAXPAYER DATA**

As cybersecurity threats against the Federal Government grow, protecting the confidentiality of taxpayer information will continue to be a top concern for the IRS. The increasing number of data breaches in the private and public sectors means more personally identifying information than ever before is available to unscrupulous individuals. Many of the data are detailed enough to enable circumvention of most authentication processes. For example, in March 2017, as a result of significant suspicious activity, the IRS announced that it was deactivating its online Data Retrieval Tool (DRT) to protect sensitive taxpayer data.

The DRT allows students and parents to access their adjusted gross income (AGI) information from the IRS to complete the Free Application for Federal Student Aid (FAFSA) by transferring the data directly into their FAFSA application form from the IRS website. Identity thieves used personal information of individuals that they obtained outside the tax system to start the FAFSA application process form in an attempt to secure the AGI tax information through the DRT. On March 3, 2017, the IRS reported that they disabled the DRT due to privacy concerns and to protect sensitive taxpayer data. As of April 25, 2017, the IRS reported that it identified approximately 8,000 suspicious returns with refunds issued totaling \$32 million that it was reviewing for fraud. In addition, as of May 16, 2017, the IRS reported it stopped 67,000 tax returns filed in 2017, before refunds were issued, that appeared to have been filed using stolen taxpayer identification information from the incident. According to the IRS, they confirmed that 31,000 of those tax returns were fraudulent because the true taxpayers

indicated they did not file them. The remaining 36,000 tax returns were still being evaluated to determine if they were fraudulent.

Recently, TIGTA Special Agents conducted search warrants and arrested two individuals for their use of stolen DRT information in furtherance of a Stolen Identity Refund Fraud scheme. TIGTA is conducting a joint investigation of this exploitation with IRS Criminal Investigation and the Department of Education Inspector General.

The risk of unauthorized access to tax accounts will continue to be significant as the IRS proceeds with its Future State initiative<sup>9</sup> which includes expansion of online tools it makes available to taxpayers. The IRS's goal is to eventually provide taxpayers with dynamic online tax account access that includes viewing their recent payments, making minor changes and adjustments to their tax accounts, and corresponding digitally with the IRS. Increased online access will increase the risk of unauthorized disclosure of tax data. As such, the IRS's processes used to authenticate individuals' identities must promote a high level of confidence that tax information and services are provided only to individuals who are entitled to receive them.

TIGTA reported in November 2015 that the IRS had not established effective authentication processes and procedures for its online services.<sup>10</sup> This includes not performing risk assessments when required or, when performed, not ensuring authentication processes and procedures are implemented that are commensurate with the assessed level of risk. For example, we reported that the IRS did not complete the required authentication risk assessment for its Identity Protection Personal Identification Numbers (IP PIN)<sup>11</sup> application. In March 2017, we further reported that the IRS also did not complete a sufficient risk assessment for the IP PIN application after discovering, on May 17, 2015, that this application had been breached by unauthorized users.<sup>12</sup>

In addition, we reported that the level of authentication that the IRS uses for its various services is not consistent, increasing the risk of unscrupulous individuals

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<sup>9</sup> Preparing the IRS to adapt to the changing needs of taxpayers is described generally as the IRS Future State initiative. A key part of this effort is for taxpayers to have a more complete online experience for their IRS interactions.

<sup>10</sup> TIGTA, Ref. No. 2016-40-007, *Improved Tax Return Filing and Tax Account Access Authentication Processes and Procedures Are Needed* (Nov. 2015).

<sup>11</sup> An IP PIN is a six-digit number assigned to taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their Social Security Numbers to file fraudulent Federal income tax returns.

<sup>12</sup> TIGTA, Ref. No. 2017-40-026, *Inconsistent Processes and Procedures Result in Many Victims of Identity Theft Not Receiving Identity Protection Personal Identification Numbers* (Mar. 2017).

accessing and obtaining personal taxpayer information and/or defrauding the tax system. This was one of the main factors in the Get Transcript breach in which hundreds of thousands of tax accounts were accessed by unauthorized users. We reported that the IRS assessed the risk of the Get Transcript application as required but concluded that the risk was low to both the IRS and taxpayers. As a result, the IRS implemented single-factor authentication to access the Get Transcript application. The IRS now knows that the authentication risk was in fact high to both the IRS and taxpayers and should have required multifactor authentication.

We have an ongoing review of the online Transcript Delivery System, which also provides access to tax return and tax account information, to assess whether authentication controls protect against unauthorized disclosure of tax information.<sup>13</sup> We expect to issue our final report in October 2017.

The IRS continues to take steps in response to TIGTA's recommendations to provide for more secure authentication, including strengthening application and network controls.<sup>14</sup> However, we remain concerned about the IRS's logging and monitoring abilities over all connections to IRS online systems. We are currently assessing the IRS's efforts to improve its authentication.<sup>15</sup> This includes evaluating whether the IRS has properly implemented secure eAuthentication in accordance with Federal standards for public access to IRS online systems and whether it has effectively resolved identified control weaknesses. We expect to issue the final report in September 2017.

### **PROVIDING QUALITY TAXPAYER SERVICE**

For the 2017 Filing Season, the IRS began accepting and processing individual tax returns on January 23, 2017, as scheduled at five Wage and Investment Division Submission Processing sites.<sup>16</sup> As of May 5, 2017, the IRS received approximately 138.9 million tax returns – 123.2 million (88.7 percent) were filed electronically and 15.7 million (11.3 percent) were filed on paper. The IRS has issued 101.6 million refunds totaling approximately \$281.7 billion.

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<sup>13</sup> TIGTA, Audit No. 201640032, *Review of the IRS's Transcript Delivery Service*, report planned for October 2017.

<sup>14</sup> TIGTA, Ref. No. 2016-20-082, *Improvements Are Needed to Strengthen Electronic Authentication Process Controls* (Sept. 2016).

<sup>15</sup> TIGTA, Audit No. 201720004, *Review of E-Authentication to IRS Online Services*, report planned for September 2017.

<sup>16</sup> IRS Submission Processing sites in Fresno, California; Kansas City, Missouri; and Austin, Texas, will process paper-filed and e-filed tax returns. Sites in Andover, Massachusetts, and Philadelphia, Pennsylvania, will process only e-filed tax returns.

Similar to prior filing seasons, the IRS was challenged with the implementation of new tax law changes. For the 2017 Filing Season, tax law changes include the continued implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010<sup>17</sup> (collectively referred to as the Affordable Care Act or ACA), and those provisions of the Protecting Americans from Tax Hikes Act of 2015<sup>18</sup> (PATH Act) specifically intended to reduce fraudulent and improper refundable credit claims. TIGTA has multiple reviews<sup>19</sup> to evaluate IRS actions to implement key provisions of the PATH Act.

Providing quality customer service that taxpayers expect will continue to present significant challenges for the IRS. At the same time the IRS is actively steering taxpayers to its website and other online tools to obtain assistance, the IRS is continuing to cut its traditional services. The IRS offers self-assistance options that taxpayers can access 24 hours a day, seven days a week. The IRS reports 329.4 million visits to IRS.gov this filing season, as of May 6, 2017, as well as continued increases in the use of various other social media channels (e.g., Twitter, Facebook, and YouTube).

However, the IRS continues to receive many more calls than could be answered. As of May 6, 2017, the IRS reports that 40.6 million call attempts were made to its various customer service toll-free lines during business hours from taxpayers seeking help to understand the tax law and meet their tax obligations. A total of 19.6 million calls were answered with automation, and telephone assistors answered nearly 11 million calls and provided a 78.9 percent Level of Service<sup>20</sup> with a 6.9 minute Average Speed of Answer. In comparison, the Level of Service for the 2016 Filing Season was 72 percent.

In addition to telephone assistance, many taxpayers also seek assistance from one of the IRS's 376 Taxpayer Assistance Center (TAC) walk-in offices. Although the IRS reported that it had 376 TACs for the 2017 Filing Season, 24 TACs were not open

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<sup>17</sup> Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

<sup>18</sup> Consolidated Appropriations Act of 2016, Pub. L. No. 114-113, Div. Q, (2015).

<sup>19</sup> TIGTA, Ref. No. 2017-40-042, *Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims* (June 2017), TIGTA, Audit No. 201640023, *Individual Taxpayer Identification Number Deactivation Process*, report planned for August 2017; TIGTA, Audit No. 201740005, *2017 Filing Season*, report planned for September 2017; TIGTA, Audit No. 201740031, *Implementation of Refundable Credit Integrity Provisions Phase 2*, report planned for October 2017.

<sup>20</sup> The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines.

because they had not been staffed. The IRS estimates that the number of taxpayers it will assist at its TACs will continue to shrink this fiscal year. The IRS plans to assist approximately 3.4 million taxpayers at the TACs in FY 2017, which represents an approximately 23.6 percent decrease from FY 2016.

However, the IRS has implemented initiatives in an effort to better assist those individuals seeking assistance from a TAC. For example, in Calendar Year 2015, the IRS began providing services at select TACs by appointment. For the 2017 Filing Season, the IRS has transitioned all TACs to appointment service. The IRS reports that, as of April 29, 2017,<sup>21</sup> IRS employees answered over 2.1 million calls from taxpayers seeking to make an appointment, resulting in approximately 945,000 that necessitated an appointment. The IRS notes that taxpayers who travel to a TAC without an appointment are assisted if there is availability. As of April 29, 2017, the IRS reported that they provided a walk-in exception to the requirement for an appointment to nearly 264,000 taxpayers.

The IRS also offers Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an assistor located at a remote TAC. For the 2017 Filing Season, the IRS is offering Virtual Service Delivery at 28 partner site locations, which represents a decrease from the previous year when this service was offered at 35 locations.<sup>22</sup> The IRS reports that as of April 29, 2017,<sup>23</sup> 1,673 taxpayers have used the service. Finally, the IRS has an initiative to co-locate staff with the Social Security Administration (SSA) to better assist taxpayers. For the 2017 Filing Season, the IRS has placed employees in four SSA locations. TIGTA is planning a follow-up audit to assess the IRS's efforts to expand customer service options to taxpayers seeking face-to-face assistance.

The IRS also continues to devote significant resources to assisting victims of identity theft. Tax-related identity theft occurs when an individual uses another person's name and Taxpayer Identification Number (TIN)<sup>24</sup> to file a fraudulent tax return. This adversely affects the ability of innocent taxpayers to file their tax returns and timely receive their tax refunds, often imposing significant financial and emotional hardship. Individuals can also learn that they are victims of employment-related identity theft if

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<sup>21</sup> For FY 2017 – October 1, 2016, through April 29, 2017.

<sup>22</sup> For the 2017 Filing Season, the IRS is no longer offering Virtual Service Delivery at IRS locations. Access to this service is only available through external partner locations.

<sup>23</sup> For FY 2017 – October 1, 2016, through April 29, 2017.

<sup>24</sup> A nine-digit number assigned to taxpayers for identification purposes. Depending upon the taxpayer, the number can be an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.

they receive a notification from the IRS of an income discrepancy between the amounts reported on their tax returns and the amounts employers reported to the IRS.

In July 2015, the IRS created the Identity Theft Victim Assistance (IDTVA) Directorate to combine into one directorate the skills of employees working tax-related identity-theft cases in multiple functions. In June 2017, we reported that the centralization of identity theft victim assistance reduced case closure time frames and tax account errors.<sup>25</sup> However, we also reported in March 2017 that the IRS did not consistently update the tax accounts of victims to ensure that IP PINs were generated as required.<sup>26</sup> We identified more than 2 million taxpayers for which the IRS did not update their tax accounts even though they confirmed that the taxpayer was in fact a victim of tax-related identity theft.

Our work has also identified that further improvements are needed by the IRS to improve its assistance to victims of employment identity theft. In August 2016, we reported that, during the period February 2011 to December 2015, the IRS identified almost 1.1 million taxpayers who were victims of employment-related identity theft, but were not notified of that fact.<sup>27</sup> During this audit, the IRS announced that it would reverse its existing position and would begin notifying victims of employment identity theft in January 2017. However, the IRS plans to limit its notification to only those newly identified victims and not include the almost 1.1 million identified prior to January 2017. TIGTA is currently conducting a review to assess the IRS's actions to notify victims of identity theft, and we plan to issue our draft report in November 2017.<sup>28</sup>

In June 2017, we further reported that the number of employment-related victims is significantly greater than what the IRS identified.<sup>29</sup> For example, IRS processes do not identify employment identity theft when processing paper tax returns. We reviewed a statistically valid sample of paper tax returns filed in Processing Year 2015 and projected that the IRS did not identify 272,416 victims of employment identity theft for the 685,737 paper tax returns filed by Individual Taxpayer Identification Number (ITIN)<sup>30</sup>

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<sup>25</sup> TIGTA, Ref. No. 2017-40-036, *Centralization of Identity Theft Victim Assistance Reduced Case Closure Time Frames and Tax Account Errors* (June 2017).

<sup>26</sup> TIGTA, Ref. No. 2017-40-026, *Inconsistent Processes and Procedures Result in Many Victims of Identity Theft Not Receiving Identity Protection Personal Identification Numbers* (Mar. 2017).

<sup>27</sup> TIGTA, Ref. No. 2016-40-065, *Processes Are Not Sufficient to Assist Victims of Employment-Related Identity Theft* (Aug. 2016).

<sup>28</sup> TIGTA, Audit No. 201740033, *Notification Letters to Victims of Employment Identity Theft*, report scheduled for November 2017.

<sup>29</sup> TIGTA, Ref. No. 2017-40-031, *The Number of Employment-Related Identity Theft Victims Is Significantly Greater Than Identified* (June 2017).

<sup>30</sup> The IRS created the ITIN to provide Taxpayer Identification Numbers, when needed for tax purposes, to individuals who do not have and are not eligible to obtain an SSN.

holders reporting wages in Processing Year 2015. The IRS agreed to establish processes to identify employment identity theft when processing paper tax returns.

Nonetheless, we have certain concerns with the IRS's response to our June 2017 report. Management did not agree to establish a process to notify the parents or legal guardians of 229,755 dependents whose Social Security Numbers (SSN) were used by an ITIN filer to gain employment. We believe the IRS has this capability and has taken this action in other instances. For example, the IRS issued letters to the parents or guardians of dependents involved in the Get Transcript breach to notify them of the risk to their dependents' Personally Identifiable Information.<sup>31</sup>

### **DETECTING AND REDUCING REFUND FRAUD**

For the 2017 Filing Season, the IRS transitioned fraud detection and selection capabilities from the Electronic Fraud Detection System (EFDS) to the Return Review Program (RRP). The IRS stated that the RRP provides real-time new and improved capabilities in its fraud detection and prevention processes. It should be noted that the IRS did not fully retire the EFDS, as it continues to use the EFDS case management functionality because the RRP does not have this capability. We have an ongoing review to ensure that the EFDS fraud detection capabilities were incorporated into the RRP.<sup>32</sup>

Refund fraud continues to evolve and become more sophisticated for both individual and business tax return filings. As such, the IRS will need to continue to adopt strategies to address the perpetrators of this crime. As of May 6, 2017, the IRS reported that it identified 195,941 tax returns with over \$2.1 billion claimed in fraudulent refunds and prevented the issuance of nearly \$2 billion of those refunds. The IRS continued to expand its processes to prevent fraudulent tax returns from entering the tax processing system. For example, as of May 15, 2017, the IRS locked approximately 33.9 million taxpayer accounts of deceased individuals. The locking of a tax account results in the rejection of an e-filed tax return and the prevention of a paper-filed tax return from posting to the Master File if the SSN associated with a locked tax account is used to file a tax return. According to the IRS, as of April 30, 2017, it rejected 24,474 fraudulent e-filed tax returns and, as of May 4, 2017, it stopped 4,672 paper-filed tax returns from posting to the Master File.

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<sup>31</sup> Any information that, either alone or in combination with other information, can be used to uniquely identify an individual.

<sup>32</sup> TIGTA, Audit No. 201740029, *Processing Year 2017 Fraud Detection Activities*, report planned for January 2018.

Unscrupulous individuals stealing identities to file individual and business tax returns for the sole purpose of receiving a fraudulent tax refund continue to be prevalent. Our ongoing audit work shows that the IRS is making progress in detecting fraudulent identity-theft tax return filings. Most recently, we reported in February 2017 that IRS efforts are resulting in improved detection of identity-theft individual tax returns at the time returns are processed and before fraudulent tax refunds are released.<sup>33</sup>

For the 2017 Filing Season, the IRS used 197 identity-theft filters to identify potentially fraudulent individual tax returns and prevent the issuance of fraudulent tax refunds. These filters incorporate criteria based on characteristics of confirmed identity-theft tax returns, including amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified by these filters were held during processing until the IRS could verify the taxpayer's identity. As of April 29, 2017, the IRS reported that it had identified and confirmed 75,797 fraudulent tax returns and prevented the issuance of \$581.6 million in fraudulent tax refunds as a result of its identity-theft filters.

However, the IRS recognizes that new identity-theft patterns are constantly evolving and that, as a result, it needs to continuously adapt its detection and prevention processes. These evolving identity-theft patterns affect not only individuals, but also businesses. The IRS defines business identity theft as creating, using, or attempting to use, a business's identifying information without authority, in order to claim tax benefits. In September 2015, we reported that the IRS recognized the growing threat of business-related identity theft and, in response, was implementing processes to detect identity theft on business returns at the time tax returns are processed.<sup>34</sup> For example, in response to TIGTA's recommendations, the IRS expanded its filters to identify business identity theft for the 2017 Filing Season and used 25 identity-theft filters to identify potentially fraudulent business tax returns and prevent the issuance of fraudulent tax refunds. As of June 1, 2017, the IRS reported that it had identified and confirmed approximately 4,000 fraudulent tax returns for Tax Years 2015 and 2016 and prevented the issuance of \$390 million in fraudulent tax refunds as a result of these business identity-theft filters. TIGTA is conducting a follow-up audit to assess the IRS's efforts to expand on its processes and procedures to detect business identity theft.<sup>35</sup>

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<sup>33</sup> TIGTA, Ref. No. 2017-40-017, *Efforts Continue to Result in Improved Identification of Fraudulent Tax Returns Involving Identity Theft; However, Accuracy of Measures Needs Improvements* (Feb. 2017).

<sup>34</sup> TIGTA, Ref. No. 2015-40-082, *Processes Are Being Established to Detect Business Identity Theft; However, Additional Actions Can Help Improve Detection* (Sept. 2015).

<sup>35</sup> TIGTA Audit No. 201740037, *Business Identity Theft Follow-Up*, report planned for May 2018.

Finally, refund fraud associated with the use of prisoner SSNs continues to remain a significant problem for tax administration. The IRS identified more than 24,000 fraudulent tax returns using a prisoner SSN in Calendar Year 2015. The refunds claimed on those tax returns totaled more than \$1.3 billion. Since 2005, my office has issued a number of reports that address the IRS's efforts to identify and prevent prisoner tax fraud. Although the IRS has taken a number of steps to improve its processes in response to TIGTA's recommendations, further improvements are needed in the IRS's identification of prisoner returns.

To combat refund fraud associated with tax returns filed using prisoner SSNs, the IRS compiles a list of prisoners (the Prisoner File) received from the Federal Bureau of Prisons and State Departments of Corrections. The Prisoner File is the cornerstone of the IRS's efforts to prevent the issuance of fraudulent refunds to individuals filing false tax returns using a prisoner SSN. To further its efforts to identify prisoner tax returns, the Bipartisan Budget Act of 2013,<sup>36</sup> enacted in December 2013, amended the Improper Payments Elimination and Recovery and Improvement Act<sup>37</sup> to authorize the IRS to use prisoner information provided by the Social Security Administration (SSA). The IRS is using the SSA prisoner file as part of the 2017 Filing Season prisoner identification process.

In July 2017, we reported IRS processes do not effectively ensure that the Federal Bureau of Prisons and the State Departments of Corrections comply with prisoner reporting requirements.<sup>38</sup> TIGTA identified 861 prisons that reported to the SSA but did not report to the IRS. TIGTA also identified 272,931 prisoners who were in Federal Bureau of Prisons or State Departments of Corrections but were not reported to the IRS. Approximately \$48 million in potentially fraudulent refunds were claimed by 16,742 individuals incarcerated in institutions that did not report to the IRS.

In addition, we identified that the IRS processes to validate and use prisoner data limits the ability to detect potentially fraudulent tax returns. For example, the IRS does not use prisoner records where the information provided by the reporting institutions for a prisoner is not valid to process tax returns. As such, any return filed using the mismatched prisoner information will not be evaluated for potential prisoner fraud. Our review of the 1.1 million records that the IRS identified as having a mismatch found

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<sup>36</sup> Pub. L. No. 113-67, § 204.

<sup>37</sup> Pub. L. No. 112-248, 126 Stat. 2390.

<sup>38</sup> TIGTA, Ref. No. 2017-40-041, *Actions Need to be Taken to Ensure Compliance with Prisoner Reporting Requirements and Improve Identification of Prisoner Returns* (July 2017).

471,864 (41 percent) contained a valid SSN (*i.e.*, SSN was issued by SSA) in IRS files, which could be indicative of a prisoner's use of a stolen SSN.

TIGTA also identified that the validation process incorrectly identified 4,158 prisoner records as not matching IRS records when in fact the information provided by the Federal Bureau of Prisons and State Departments of Corrections did match IRS records. As a result, any tax return filed using one or more of these prisoner identities will not be assigned a prisoner indicator or evaluated using the prisoner fraud filters. TIGTA identified 1,113 tax returns with refunds totaling more than \$1.7 million that were not identified as prisoner tax returns as a result of this error.

### **REDUCING REFUNDABLE CREDIT IMPROPER PAYMENTS**

Although refundable credits provide benefits to individuals, the unintended consequence of these credits is that they can result in the issuance of improper payments and can be the targets of unscrupulous individuals who file erroneous claims. Refundable credits can result in tax refunds even if no income tax is withheld or paid; that is, the credits can exceed an individual's tax liability. Consequently, they pose a significant risk as an avenue for those seeking to defraud the Government.

The IRS issued an estimated \$25 billion in potentially improper Earned Income Tax Credit (EITC),<sup>39</sup> Additional Child Tax Credit (ACTC),<sup>40</sup> and American Opportunity Tax Credit (AOTC)<sup>41</sup> payments in FY 2016. This represents a significant loss to both the Federal Government and taxpayers. TIGTA remains concerned with the IRS's inability to significantly reduce these payments.

In April 2017, we reported that the IRS concluded that the ACTC and AOTC presented a medium risk of improper payments for FY 2016.<sup>42</sup> However, the IRS's medium risk rating continues to be contrary to its own compliance data, which shows in fact that both the ACTC and AOTC programs present a high risk of improper payments. Our review of these revised assessments found that they still do not include the use of available IRS compliance data to quantify erroneous payments. Because the IRS does

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<sup>39</sup>The EITC was created in 1975 as part of the Tax Reduction Act of 1975 § 204, 26 U.S.C § 32. The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.

<sup>40</sup> The ACTC is intended to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.

<sup>41</sup> The AOTC is intended to help offset the costs of higher education for taxpayers, their spouses, and dependents who qualify as eligible students.

<sup>42</sup> TIGTA, Ref. No. 2017-40-030, *Revised Refundable Credit Risk Assessments Still Do Not Provide an Accurate Measure of the Risk of Improper Payments* (Apr. 2017).

not rate these programs as high risk, it is not required to establish a corrective action plan to reduce the improper payments.

Using the IRS's own compliance data, we computed the FY 2016 potential estimated improper payment rate for the ACTC and AOTC. We estimate that 25.2 percent (\$7.2 billion) of ACTC payments were improper<sup>43</sup> and 24.1 percent (\$1.1 billion) in AOTC payments were improper.<sup>44</sup> The IRS is not required to perform a risk assessment of the EITC because the EITC is designated as a high-risk program by the Office of Management and Budget. For FY 2016, the IRS estimates EITC payments totaling \$16.8 billion were issued improperly.

Congress enacted the PATH Act on December 18, 2015, which includes "program integrity provisions" intended to reduce fraudulent and improper EITC, Child Tax Credit,<sup>45</sup> ACTC, and AOTC payments. For example, one of the PATH Act's provisions is intended to ensure that the IRS has the information and time needed to verify the income of individuals claiming the EITC and ACTC before the related refund is issued. According to the House Committee on Ways and Means, these integrity provisions are projected to save roughly \$7 billion over 10 years by reducing fraud, abuse, and improper payments in refundable credit programs.

In September 2014,<sup>46</sup> we reported that the IRS has developed a strategy to reduce EITC improper payments. This strategy focuses on early intervention to ensure that individuals who claim the credit are in compliance with the EITC rules and includes education and outreach, enforcement actions, a paid tax return preparer compliance initiative, and legislative proposals. The IRS also performed compliance studies which found that EITC improper payments primarily result from two root causes – authentication and program design.

Authentication errors include errors associated with the lack of available data to which the IRS can verify self-employment income, authenticate qualifying children, and

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<sup>43</sup> We estimate that the potential ACTC improper payment rate for Fiscal Year 2016 is between 22.7 percent and 27.8 percent and the potential improper payment dollars is between \$6.5 billion and \$7.9 billion.

<sup>44</sup> We estimate that the potential AOTC improper payment rate for Fiscal Year 2016 is between 19.6 percent and 28.7 percent and the potential improper payment dollars is between \$900 million and \$1.3 billion.

<sup>45</sup> A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.

<sup>46</sup> TIGTA, Ref. No. 2014-40-093, *Existing Compliance Processes Will Not Reduce the Billions of Dollars in Improper Earned Income Tax Credit and Additional Child Tax Credit Payments* (Sept. 2014).

verify filing status. Verification errors relate to instances in which the IRS's is unable to identify underreporting and overreporting of income, and errors that arise when more than one individual can claim a qualifying child. Our analysis of Tax Year 2012 EITC claims, for which taxpayers claimed wages as the source of income to support the EITC, identified 676,992 tax returns for which third-party Forms W-2 were not sent to the IRS by the employer for either the taxpayer or spouse listed on the tax return. These tax returns claimed EITCs totaling more than \$1.7 billion.

However, as we continue to report, IRS compliance resources are limited and consequently, the IRS does not address the majority of potentially erroneous EITC claims. This is despite the fact that the IRS has established processes that identify billions of dollars in potentially erroneous EITC payments. Although the PATH Act gives the IRS more time to verify EITC and ACTC claims before refunds are issued, it did not expand the IRS's authority to systemically correct erroneous claims at the time tax returns are processed. Currently, under the Internal Revenue Code, the IRS's math error authority is limited to systemically addressing erroneous EITC claims to correct mathematical or clerical errors on such claims. For example, it can correct entries made on the wrong line on the tax return or mathematical errors made in computing income or the EITC. However, the majority of potentially erroneous EITC claims that the IRS identifies do not contain the types of errors for which it has math error authority. To address those potentially erroneous EITC claims identified that cannot be addressed using math error authority, the IRS must conduct an audit. The IRS estimated that it costs \$1.50 to resolve an erroneous EITC claim using math error authority compared to \$278 to conduct a pre-refund audit.<sup>47</sup>

The IRS, in conjunction with the Assistant Secretary of the Treasury for Tax Policy, has each year since FY 2013 set forth a legislative proposal requesting additional error correction authority as part of its annual budget submission. Such authority, if provided by law, would allow the IRS to correct, during processing, tax returns when the information provided by the taxpayer does not match the information contained in Government databases (e.g., income information reported on the tax return does not match Forms W-2 from the Social Security Administration). Without this additional error authority, billions of dollars in identified potentially erroneous claims will continue to go unaddressed each year.

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<sup>47</sup> Cost to use math error authority as of June 25, 2014, as provided by the IRS. The IRS provided the cost of a pre-refund audit based on FY 2010 financial data, which is the most current estimate available.

## **TAX COMPLIANCE**

Despite IRS efforts to reduce it, the Tax Gap remains a serious and persistent challenge. The IRS estimated that the average annual Tax Gap for Tax Years 2008 through 2010 to be \$458 billion. TIGTA reviews have identified several areas that have contributed to the IRS's inability to reduce the Tax Gap. For example, in September 2016 we reported that nearly \$9 billion in backup withholding tax was not withheld as required by payers<sup>48</sup> submitting information returns with missing or incorrect TINs based on our review of TY 2013 information returns.<sup>49</sup> Our review identified that the IRS's use of its authority provided by law has been extremely limited. IRS management speculated that the subsequent restructuring of the IRS in Calendar Year 1998, and other reorganizations that have followed, have resulted in unintended gaps in the enforcement of backup withholding as responsibilities were separated among multiple programs/organizations without adequate coordination. Enforcing payer backup withholding requirements is essential to ensuring that the Government is able to collect taxes on all appropriate income, particularly income that is not usually subject to withholding.<sup>50</sup>

In addition, employment tax noncompliance is steadily growing. As of December 2015, 1.4 million employers owed approximately \$45.6 billion in unpaid employment taxes, interest, and penalties. In March 2017, TIGTA reported that the Trust Fund Recovery Penalty (TFRP) is an enforcement tool the IRS can use to discourage employers from continuing egregious employment tax noncompliance and provides an additional source of collection for unpaid employment taxes.<sup>51</sup> In FY 2015, the IRS assessed the TFRP against approximately 27,000 responsible persons—38 percent fewer than just five years before as a result of a decline in the number of revenue officers. In contrast, the number of employers with egregious employment tax noncompliance (20 or more quarters of delinquent employment taxes) is steadily growing—it has more than tripled in a 17-year period.

We also reported in July 2017 that billions of dollars of potential employer underreported taxes are not being addressed because most discrepancy cases

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<sup>48</sup> "Payers" making certain payments to payees must withhold and pay to the IRS a specified percentage of those payments under certain conditions. For example, financial institutions (such as banks and brokerage firms) are payers that are required to withhold taxes.

<sup>49</sup> TIGTA, Ref. No. 2016-40-078, *Due to the Lack of Enforcement, Taxpayers Are Avoiding Billions of Dollars in Backup Withholding* (Sept. 2016).

<sup>50</sup> Examples include interest income, rents, royalties, and certain gambling winnings.

<sup>51</sup> TIGTA, Ref. No. 2017-IE-R004, *A More Focused Strategy Is Needed to Effectively Address Egregious Employment Tax Crimes* (Mar. 2017).

identified by the IRS are not worked.<sup>52</sup> Discrepancy cases result when employers' wage and withholding information reported on filed Forms W-3/W-2 do not match what was reported on the employers' employment tax return. Our analysis found that the IRS did not work discrepancy cases that had a potential underreported total tax difference of more than \$7 billion.<sup>53</sup> We plan to perform a separate review to assess the IRS's actions to resolve these cases.

### **TELEPHONE IMPERSONATION SCAM**

Since the fall of 2013, a significant amount of our OI workload has consisted of investigating a telephone impersonation scam in which over two million intended victims have received unsolicited telephone calls from individuals falsely claiming to be IRS or Treasury employees. The callers demand money under the pretense that the victim owes unpaid taxes. To date, over 10,800 victims have reported to TIGTA that they have been victims of this scam. Our investigations have determined that victims have paid almost \$58 million to the scammers.

The telephone impersonation scam continues to be one of TIGTA's top priorities; it has also landed at the top of the IRS's "Dirty Dozen" tax scams. The numerous complaints we have received about this scam have cemented its status as the largest, most pervasive impersonation scam in the history of our agency. It has claimed victims in every State.

Here is how the scam works: the intended victim receives an unsolicited telephone call from a live person or from an automated call dialer. The caller, using a fake name and sometimes a fictitious IRS employee badge number, claims to be an IRS or Treasury employee. The scammers use Voice over Internet Protocol technology to hide their tracks and create false telephone numbers that show up on the victim's caller ID system. For example, the scammers may make it appear as though the calls are originating from Washington, D.C., or elsewhere in the United States, when in fact they may be originating from a call center located in India.

The callers may even know the last four digits of the victim's SSN or other personal information about the victim. The caller claims that the intended victim owes the IRS taxes and that, if those taxes are not paid immediately, the victim will be arrested or charged in a lawsuit. Other threats for non-payment include the loss of a

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<sup>52</sup> TIGTA, Ref. No. 2017-40-038, *Case Selection Processes Result in Billions of Dollars in Potential Employer Underreported Tax Not Being Addressed* (July 2017).

<sup>53</sup> This includes Social Security tax, Medicare tax and Federal income tax.

driver's license, deportation, or loss of a business license. They often leave "urgent" messages to return telephone calls and they often call the victim multiple times.

According to the victims we have interviewed, these scammers often demand that the victims immediately pay the money using Apple iTunes® gift cards, Target gift cards, prepaid debit cards, wire transfers, Western Union payments, or MoneyGram® payments in order to avoid being immediately arrested. They are typically warned that if they hang up, local police will come to their homes to arrest them immediately. Sometimes the scammers also send bogus IRS e-mails to support their claims that they work for the IRS. By the time the victims realize that they have been scammed, the funds are long gone.

TIGTA has made several arrests in connection with this scam and has numerous investigations underway. In July 2015, in one of the largest prosecutions on this scam that we have had to date, an individual pled guilty to organizing an impersonation scam ring. He was sentenced to over 14 years of incarceration and ordered to forfeit \$1 million. In October 2016, after an extensive three-year investigation, TIGTA, the Department of Justice, and the Department of Homeland Security announced the indictment of 56 individuals and five call centers located in India.

In April 2017, ten individuals were charged in an indictment with conspiracy to commit wire fraud in connection with this scam. The defendants traveled to 30 different States to collect money wired by unsuspecting taxpayers. Eight of the 10 individuals were arrested by TIGTA special agents and our law enforcement partners. Using approximately 80 different false identities, the defendants and their coconspirators received monies totaling over \$8.8 million from more than 7,000 taxpayers.

Although the investigations and prosecutions have reduced the number of scam calls being placed by over 90 percent, we are still receiving reports that between 5,000 and 10,000 people are receiving calls each week. Fortunately, thanks to extensive public outreach efforts, some of which are described below, the vast majority of those called are now simply hanging up on the scammers.

In addition to the criminal prosecutions, to thwart scammers using robo-dialers, we have created and instituted an "Advise and Disrupt" strategy. The strategy involves cataloguing the telephone numbers that have been reported by intended victims. We then use our own automated call dialers to make calls to those telephone numbers to advise the scammers that their activity is criminal and to cease and desist their activity. Using this technique, we have placed more than 145,000 automated calls back to the scammers. We are also working with the telephone companies to have the scammers'

telephone numbers shut down as soon as possible. Of the 1,253 telephone numbers that have been reported by victims, we have successfully shut down 93 percent of them, some of them within one week of the numbers having been reported to us.

TIGTA is also publishing those scam-related telephone numbers on the Internet. This provides intended victims an additional tool to help them determine if the call is part of a scam. All they have to do is type the telephone number in any search engine, and the response will indicate whether the telephone number has been identified as part of the impersonation scam. These efforts are producing results; our data show that it now takes hundreds of calls to defraud one victim, whereas in the beginning of the scam it took only a double-digit number of attempts.

Further, TIGTA is engaged in public outreach efforts to educate taxpayers about the scam. These efforts include publishing press releases, granting television interviews, issuing public service announcements, and providing testimony to Congress. The criminals view this scam as they do many others; it is a crime of opportunity. Unfortunately, while we plan on arresting and prosecuting more individuals, the scam will not stop until people stop paying the scammers money. Our best chance at defeating this crime is to educate people so they do not become victims in the first place. Every innocent taxpayer we protect from this crime is a victory.

In 2015, a law was enacted that mandated the IRS's use of private collection agencies (PCAs) to collect certain "inactive receivables."<sup>54</sup> Certain inventories were specifically excluded from the definition of inactive receivables.<sup>55</sup> TIGTA initiated an audit soon after the enactment of the legislation to evaluate the IRS's establishment of policies, procedures, and other infrastructure necessary to operate this program, as well as to assess the IRS's efforts to mitigate risks to the program.<sup>56</sup> We have identified numerous concerns during our audit, including the IRS's lack of commitment to assisting taxpayers who may be concerned that the PCAs calling them are actually part of an impersonation scam, as well as our concerns related to the IRS's process for

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<sup>54</sup> Fixing America's Surface Transportation Act, Pub. L. No. 114-94, Div. C, Title XXXII, § 32102, 129 Stat. 1312, 1733-36 (2015), codified in Internal Revenue Code (I.R.C.) Section (§) 6306. The term "inactive receivables" means: receivables removed from active inventory due to inability to locate the taxpayer; inventory in which one-third of the collection statute of limitations has expired; or assigned inventory in which more than 365 days have passed since contact with the taxpayer occurred.

<sup>55</sup> I.R.C. § 6306(d) excludes inventory that is: subject to a pending or active offer-in-compromise or installment agreement; is classified as an innocent spouse case; or involves a taxpayer identified as deceased, under the age of 18, in a designated combat zone, a victim of tax-related identity theft, is currently under examination, litigation, criminal investigation, or levy, or is currently subject to a proper exercise of a right of appeal.

<sup>56</sup> TIGTA, Audit No. 201630029, *Planning and Implementation of the IRS's Private Debt Collection Program*, report scheduled for September 2017.

receiving taxpayer complaints about PCAs. In addition, TIGTA is planning a future audit related to the operations of the program, as well as a review evaluating the PCA contractors' performance.

TIGTA provided the IRS with insight on how the widespread IRS impersonation scam might impact the Private Debt Collection program. Specifically, based on what TIGTA learned during its investigation of the impersonation scam, we provided the IRS with different ways it could consider notifying taxpayers about the program and that their accounts have been assigned to the PCAs. In addition, we have provided integrity and safety briefings to the PCAs' employees. TIGTA will closely monitor incoming impersonation complaints involving the PCAs, and we will work to take appropriate action and notify the IRS, the PCAs, and the public if we identify an impersonation scheme growing within the Private Debt Collection program.

### **TIGTA BUDGET REQUEST FOR FY 2018**

As requested by the Subcommittee, I will now provide information on TIGTA's budget request for FY 2018.

TIGTA's FY 2018 proposed budget requests appropriated resources of \$161,113,000, approximately a 5 percent decrease from the FY 2017 enacted budget. TIGTA will continue to focus on its mission of ensuring an effective and efficient tax administration system in this lean budget environment. The FY 2018 budget resources requested include funding to support TIGTA's critical audit, investigative, and inspection and evaluation priorities, while still enabling it to maintain a culture that continually seeks to identify opportunities to achieve efficiencies and cost savings.

During FY 2016, TIGTA's combined audit and investigative efforts recovered, protected, and identified monetary benefits totaling over \$15.1 billion, including cost savings, increased revenue, revenue protection,<sup>57</sup> and court-ordered settlements in criminal investigations, and affected approximately 1.1 million taxpayer accounts. Based on TIGTA's FY 2016 budget of \$167 million, this represents a Return on Investment of \$90-to-\$1.

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<sup>57</sup> Recommendations made by TIGTA to ensure the accuracy of the total tax, penalties, and interest paid to the Federal Government.

### *TIGTA's Audit Priorities*

TIGTA's audit priorities focus on assessing key areas in which the IRS faces major risks, including the risk of unauthorized access to tax account information, identity-theft detection and prevention, customer service to taxpayers, the use of private debt collectors, and international tax compliance.

TIGTA will continue to provide oversight related to cybersecurity. The proliferation of data breaches reported in recent years and the types of information available on the Internet has compromised the effectiveness of controls used to authenticate individuals when they access their account information. Providing taxpayers with more avenues to obtain answers to their tax questions or access their own tax records online also creates more opportunities for exploitation by hackers and other fraudsters. TIGTA will evaluate the changes being considered for authenticating taxpayer access to their account information, the effectiveness of controls to mitigate external and internal threats to IRS systems, the security of data file transfers to third parties, and the effectiveness of controls to address cybersecurity incidents.

Stopping identity theft and refund fraud also continues to be a top priority for the IRS and for TIGTA in our oversight role. As identity-theft patterns are constantly evolving, the IRS needs to continuously adapt its detection and prevention processes. The risk for unauthorized access to tax accounts for the purpose of filing fraudulent tax returns will continue to grow as the IRS focuses its efforts on delivering taxpayers self-assisted interactive online tools. Tax account information obtained through unauthorized accesses, such as the Data Retrieval Tool breach, can be used to file fraudulent tax returns that more closely resemble a legitimate tax return, making it more difficult for the IRS to detect. TIGTA will continue to assess the IRS's efforts to detect refund fraud committed by identity thieves and authenticate individual taxpayers' identities at the time tax returns are filed and when services are provided.

Additionally, TIGTA will be auditing the IRS's implementation of the new legislative requirement to mandate the use of PCAs to collect inactive tax receivables. As mentioned previously, TIGTA has ongoing audit work to address the IRS's use of PCAs. Further, pursuant to I.R.C. § 306(j), TIGTA will also biannually provide an independent review of contractor performance.

International tax compliance also remains a significant area of concern. As the IRS noted in its most recent strategic plan, the evolution and proliferation of virtual commerce has expanded the exchange of goods, services, and currencies—real and virtual—across jurisdictions, further complicating tax administration. We will be

continuing to assess the IRS's compliance efforts in this area, including its use of the tools that the law provides to assist in its efforts. One of the most significant tools is the Foreign Account Tax Compliance Act,<sup>58</sup> which mandates reporting obligations for certain U.S. taxpayers with foreign accounts and also provides for the sharing of information between the U.S. and foreign financial institutions to ensure compliance with those obligations.

### *TIGTA's Investigative Priorities*

TIGTA's investigative priorities include investigating allegations of serious misconduct and criminal activity by IRS employees; ensuring that IRS employees are safe and that IRS facilities, data, and infrastructure are secure and not impeded by threats of violence; and protecting the IRS against external attempts to corrupt or otherwise interfere with tax administration.

IRS employees are entrusted with the sensitive personal and financial information of taxpayers. It is particularly troubling when IRS employees misuse their positions in furtherance of identity theft and other fraud schemes. TIGTA will continue to process and investigate complaints from taxpayers, the Congress, and IRS employees and managers, as well as continue to use sophisticated data mining tools to proactively search for internal and external criminal activity. This includes proactively reviewing the activities of the 56,000 IRS employees who access taxpayer accounts for an indication of unauthorized accesses that may be part of a larger identity-theft fraud scheme.

Between FYs 2011 and 2016, TIGTA processed 14,095 threat-related complaints and conducted 7,067 investigations of threats made against IRS employees. TIGTA will continue to aggressively investigate individuals who threaten the safety and security of the IRS and its employees.

The recent large-scale cybersecurity incidents in which criminals were able to obtain the information of hundreds of thousands of taxpayers from IRS systems continue to be a major investigative focus for our investigators. We are in the midst of a multi-agency investigation into these incidents and we are, as able, sharing what we are learning from these investigations with the IRS. As mentioned earlier in my testimony, TIGTA has received almost two million reports from taxpayers claiming that they were contacted by individuals impersonating IRS employees in an effort to defraud them.

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<sup>58</sup> Pub. L. No. 111-147, 124 Stat. 71 (2010).

TIGTA will continue to investigate these crimes against taxpayers and alert the public to this scam to ensure that taxpayers are not harmed by these criminals.

We at TIGTA take seriously our mandate to provide independent oversight of the IRS in its administration of our Nation's tax system. As such, we plan to provide continuing audit coverage of the IRS's efforts to operate efficiently and effectively and to investigate any instances of IRS employee misconduct or other threats to tax administration.

Chairwoman Capito, Ranking Member Coons, and Members of the Subcommittee, thank you for the opportunity to share my views.



## **J. Russell George**

### **Treasury Inspector General for Tax Administration**

Following his nomination by President George W. Bush, the United States Senate confirmed J. Russell George in November 2004, as the Treasury Inspector General for Tax Administration. Prior to assuming this role, Mr. George served as the Inspector General of the Corporation for National and Community Service, having been nominated to that position by President Bush and confirmed by the Senate

in 2002.

A native of New York City, where he attended public schools, including Brooklyn Technical High School, Mr. George received his Bachelor of Arts degree from Howard University in Washington, D.C., and his Doctorate of Jurisprudence from Harvard University's School of Law in Cambridge, MA. After receiving his law degree, he returned to New York and served as a prosecutor in the Queens County District Attorney's Office.

Following his work as a prosecutor, Mr. George joined the Counsel's Office in the White House Office of Management and Budget, where he was Assistant General Counsel. In that capacity, he provided legal guidance on issues concerning presidential and executive branch authority. He was next invited to join the White House Staff as the Associate Director for Policy in the Office of National Service. It was there that he implemented the legislation establishing the Commission for National and Community Service, the precursor to the Corporation for National and Community Service. He then returned to New York and practiced law at Kramer, Levin, Naftalis, Nessen, Kamin & Frankel.

In 1995, Mr. George returned to Washington and joined the staff of the Committee on Government Reform and Oversight and served as the Staff Director and Chief Counsel of the Government Management, Information and Technology Subcommittee (later renamed the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations), chaired by Representative Stephen Horn. There he directed a staff that conducted over 200 hearings on legislative and oversight issues pertaining to Federal Government management practices, including procurement policies, the disposition of Government-controlled information, the performance of chief financial officers and inspectors general, and the Government's use of technology. He continued in that position until his appointment by President Bush in 2002.

Mr. George also served as a member of the Integrity Committee of the Council of Inspectors General for Integrity and Efficiency (CIGIE). CIGIE is an independent entity within the executive branch, statutorily established by the Inspector General Act of 1978, as amended, to address integrity, economy, and effectiveness issues that transcend individual Government agencies and to increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General. The CIGIE Integrity Committee serves as an independent review and investigative mechanism for allegations of wrongdoing brought against Inspectors General.