

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



OFFICE OF INSPECTIONS AND EVALUATIONS

Compendium of Unimplemented Recommendations

March 21, 2014

Evaluation Number: IE-13-012

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1=Tax Return/Return Information

2f=Law Enforcement risk circumvention of Agency statute

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Introduction

Purpose

The Inspector General Act requires each Inspector General to issue semiannual reports to Congress and include “an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.” The Treasury Inspector General for Tax Administration’s (TIGTA) recommendations stem from audits and evaluations that have been performed pursuant to the Inspector General Act of 1978 (Pub. L. No. 95-452), as amended.

Attached is the first annual Compendium of Unimplemented Recommendations as of September 30, 2013, prepared by TIGTA. This Compendium provides additional information to fulfill the requirements of the Inspector General Act of 1978, as amended, to prepare semiannual reports summarizing the activities of TIGTA that include an identification of each significant recommendation on which corrective action has not been completed.

The Compendium highlights for Internal Revenue Service (IRS) management those significant recommendations that are unimplemented past the date agreed upon by the IRS and TIGTA. Corrective actions are being reported as past due if they have not been completed within one year of the original planned date or the extended plan date established by September 30, 2012. When implemented, recommendations have the potential to result in cost savings and improvements to program efficiency and effectiveness.

This Compendium is issued in conjunction with the Semiannual Report to Congress April 1, 2013–September 30, 2013, and as a separate report to the IRS. The Compendium lists open unimplemented corrective actions from the September 30, 2013 Semiannual Report and reflects any changes in the interim through January 31, 2014. It is part of TIGTA’s strategy to promote a strong internal control environment in the IRS. In this regard, TIGTA collaborated with IRS managers and executives responsible for audit follow-up. The goal is to assist IRS management in monitoring the agency internal controls and to promptly correct agreed-to deficiencies. Implementing corrective actions will correct control weaknesses, thereby increasing effectiveness and efficiency, reducing vulnerabilities, and mitigating risks.

Background

Department and agency management have the responsibility for establishing and maintaining adequate systems of management controls. The Federal Managers' Financial Integrity Act of 1982¹ amended the Accounting and Budget Procedures Act of 1950 by requiring the Comptroller General to include standards to ensure the prompt resolution of all audit findings.

Office of Management and Budget (OMB) Circular A-50² states that audit follow-up is an integral part of good management and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Likewise, Treasury Directive 40-03³ establishes the departmental policies for audit resolution, follow-up, and closure.

The IRS policies and procedures for audit follow-up and closure are found in the Internal Revenue Manual (IRM).⁴ The IRS is responsible for implementing corrective actions and determining whether the actions are effective in correcting a deficiency.

For context, the IRS expends significant agency resources to improve management controls by implementing planned corrective actions. More specifically, for the three-year period of Fiscal Year (FY) 2011 through FY 2013, TIGTA issued 377 reports and the Government Accountability Office (GAO) issued 66 reports with a combined total of 1,255 recommendations. Altogether, there were 1,546 planned corrective actions due during the time period; over 90 percent of the planned corrective actions were completed on time within the period.

¹ 31 U.S.C. §§ 1105, 1113, and 3512. The Federal Managers' Financial Integrity Act (FMFIA) requires that agency management establish and maintain effective internal controls to achieve the objectives of: 1) effective and efficient operations, 2) reliable financial reporting, and 3) compliance with applicable laws and regulations. The FMFIA also requires the head of each executive agency to report annually to the President and Congress on the effectiveness of the internal controls and to identify any material weaknesses in those controls. Reporting material weaknesses under the FMFIA is not limited to weaknesses over financial reporting.

² OMB, OMB Circular No. A-50 Revised, *Audit Followup* (Sept. 1982).

³ Department of the Treasury, TD 40-03 (revised), *Treasury Audit Resolution, Follow-Up, and Closure* (Feb. 2001).

⁴ The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities. The Resource Guide for Managers: Monitoring and Improving Internal Control are found in IRM 1.4.2 (Dec 14, 2012). The Audit Process for Government Accountability Office (GAO) and Treasury Inspector General for Tax Administration (TIGTA) are found in IRM 11.5.1 (Aug 21, 2006).

Organization of the Compendium

The Compendium is organized by the TIGTA-identified Major Management Challenges (MMC),⁵ in the priority order as determined by the Inspector General. Each MMC section has an overview of the challenge followed by the specific significant unimplemented corrective actions. This includes a summary of the report, the recommendations, and the scheduled completion date of the unimplemented corrective actions.

⁵ The MMCs as identified by TIGTA ranked in order are: Security for Taxpayer Data and IRS Employees; Implementing the Affordable Care Act and Other Tax Law Changes; Tax Compliance Initiatives; Modernization; Fraudulent Claims and Improper Payments; Providing Quality Taxpayer Service Operations; Human Capital (no unimplemented corrective actions outstanding); Globalization (no unimplemented corrective actions outstanding); Taxpayer Protection and Rights; and Achieving Program Efficiencies and Cost Savings.

Glossary of Terms and Abbreviations

| | |
|--|--------|
| Affordable Care Act | ACA |
| Automated Insolvency System | AIS |
| Compliance Assurance Process | CAP |
| Customer Account Data Engine 2 | CADE-2 |
| Department of Health and Human Services | HHS |
| Earned Income Tax Credit | EITC |
| Electronic Tax Administration and Refundable Credits | ETARC |
| Exempt Organizations | EO |
| Federal Agency Delinquency | FAD |
| Federal, State, and Local Government | FSLG |
| Financial Crimes Enforcement Network | FINCEN |
| Financial Management Service | FMS |
| Fiscal Year | FY |
| Foreign Account Tax Compliance Act | FATCA |
| Government Accountability Office | GAO |
| Integrated Automation Technologies | IAT |
| Internal Revenue Manual | IRM |
| Internal Revenue Service | IRS |
| Large Business and International | LB&I |
| Major Management Challenge | MMC |
| Memorandum of Understanding | MOU |
| Modernization and Information Technology Services | MITS |
| Office of Management and Budget | OMB |
| Preparer Tax Identification Number | PTIN |
| Privacy Impact Assessments | PIA |
| Privacy Impact Assessment Management System | PIAMS |
| Real Estate and Facilities Management | REFM |
| Registered User Portal | RUP |
| Return Preparer Office | RPO |
| Small Business/Self-Employed | SB/SE |
| Social Security Administration | SSA |
| Social Security Number | SSN |
| Taxpayer Advocate Service | TAS |
| Treasury Inspector General for Tax Administration | TIGTA |
| Unified Work Request | UWR |
| Wage and Investment | W&I |

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Security for Taxpayer Data and Employees

The Internal Revenue Service (IRS) is the Nation's Federal tax administrator. During Fiscal Year (FY) 2012, the IRS:

- Collected more than \$2.5 trillion in gross taxes;
- Processed more than 237 million Federal tax returns and supplemental documents;
- Provided more than 123 million refunds, which totaled more than \$373.4 billion; and
- Received and processed more than 2.2 billion information returns.

To receive, format, process, and maintain this information in electronic format, the IRS employs 178 computer system applications for use by IRS employees.

The IRS's task is to secure its computer systems against the continuing threat of cyberattacks. Effective information systems security becomes essential to ensure that data are protected against inadvertent or deliberate misuse, improper disclosure, or destruction. Likewise, computer operations supporting tax administration require security against disruption or compromise. For reference, in a March 2012 Office of Management and Budget (OMB) report to Congress,⁶ there were more than 43,000 reported incidents affecting Federal agencies.

According to the Government Accountability Office (GAO), during FY 2012, the IRS continued to make important progress in addressing its deficiencies in internal control. Specifically, based on the IRS's success in addressing numerous deficiencies in its information security controls over its financial reporting systems, the GAO considers information security, previously reported as a long-standing material weakness, to be a significant deficiency that warrants the attention of those charged with governance of the IRS.⁷

Beyond safeguarding a vast amount of sensitive financial and personal data, the IRS must also protect approximately 90,000 employees and contractors working in approximately 630 facilities throughout the country. The IRS has enhanced security nationwide, including acquiring new or additional guard services at IRS facilities. Additionally, the IRS obtained the services of an outside consultant to provide an independent review of its physical security. However, the Treasury Inspector General for Tax Administration (TIGTA) determined that the IRS did not receive the in-depth, independent assessment regarding the security posture of its facilities as required by the contract, and the contractor declined to provide a validation of the acceptability of the IRS's security posture.⁸

⁶ OMB, *Fiscal Year 2011 Report to Congress on the Implementation of the Federal Information Security Management Act of 2002* (Mar. 2012).

⁷ GAO, GA0-13-120, *Financial Audit: IRS's Fiscal Years 2012 and 2011 Financial Statements* (Nov. 2012).

⁸ TIGTA, Ref. No. 2012-10-075, *An Independent Assessment of Facility Physical Security Was Not Performed in Compliance With Contract Requirements* (July 2012).

During the last three years, threats to the IRS have increased 24 percent. Physical violence, harassment, and intimidation of IRS employees continue to pose significant challenges to the implementation of a fair and effective system of tax administration. During FYs 2011 through 2013, TIGTA evaluated in excess of 8,000 threat-related complaints. This resulted in the initiation of almost 4,000 threat investigations over the three-year period that required TIGTA Special Agents to promptly respond to mitigate those threats and to determine whether criminal prosecutions of the perpetrators making the threats were warranted.

Additionally, the ongoing public debate regarding the health care law and continued concern over the country's economy could fuel threats against the Federal Government, including IRS employees and facilities. These are challenging operating conditions for the IRS that underscore the need for continued vigilance in the area of physical and personnel security.

The specific significant unimplemented recommendations for this Major Management Challenge (MMC) follow.

TELEPHONE AUTHENTICATION PRACTICES NEED IMPROVEMENT TO BETTER PREVENT UNAUTHORIZED DISCLOSURES

REPORT NO.: 2010-40-045
DATE ISSUED: 03/31/2010

BACKGROUND: In February 2009, the Federal Trade Commission reported that for the ninth year in a row identity theft was the number one consumer complaint nationwide. TIGTA conducted the audit to determine whether current procedures to authenticate taxpayers who call the toll-free telephone lines reduce the risk of unauthorized disclosure of taxpayer Personally Identifiable Information.

FINDING (F-3): Adopting industry best practices could improve the customer service experience, reduce operating costs, and increase the number of calls assistors answered. Callers to the IRS toll-free account lines are required to answer at least five but as many as seven questions before the assistor can discuss account information. Taxpayers must be authenticated each time they are transferred to a different assistor to ask an account question. The IRS has a future strategy to reduce the number of times a caller is authenticated; it is called Authentication Retention. It will enable automatic identification over the telephone for account-related callers by verification of specific shared secrets. Authentication Retention is one of the initiatives of the IRS's Taxpayer Assistance Blueprint Phase 2 report issued in FY 2007.

Authenticating callers in the queue increases the number of calls the IRS can answer. As the IRS answers more calls, the Level of Service provided to taxpayers increases. If 50 percent of the callers were authenticated while waiting to speak to an assistor, the projected labor cost savings the IRS could realize totals 136,654 minutes of assistor time, or 2,278 hours per week. The projected five-year (FYs 2010 through 2014) productivity gain from authenticating callers while they wait to speak with an assistor would equal 496 full-time equivalents,⁹ or approximately \$30.3 million. The IRS could also increase productivity by answering 1,180,306 additional calls per year because assistors would spend approximately one minute less talking with callers and the reason they called could be immediately addressed when the call is answered.

RECOMMENDATION (F-3, R-1): Incorporate available technology to authenticate callers in the queue as part of the development of the Authentication Retention Project.

PLANNED CORRECTIVE ACTION (F-3, R-1, P-1): The IRS agreed with this recommendation. The IRS will submit a Unified Work Request (UWR) by January 15, 2011, to incorporate available technology to authenticate callers prior to their reaching an assistor. Because the requested action will be subject to funding and resource prioritization by Modernization and Information

⁹ A measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.

Technology Services (MITS) organization, submission of the UWR will complete the corrective action.

STATUS: Funding to support programming changes to authenticate callers in the queue is still being prioritized by the MITS organization; therefore, this action is extended until decisions pertaining to budget and resources can be resolved. There is no workaround for this action.

AGREED-TO COMPLETION DATE: 07/15/2014

ACCESS CONTROLS FOR THE AUTOMATED INSOLVENCY SYSTEM NEED IMPROVEMENT

REPORT NO.: 2011-20-046
DATE ISSUED: 05/16/2011

BACKGROUND: Bankruptcy petitions filed in Federal courts were up 32 percent in Calendar Year 2009 compared to Calendar Year 2008. The IRS receives notification of a bankruptcy case because taxpayers are required to list their creditors and liabilities when filing for bankruptcy protection. The IRS inputs the taxpayers' sensitive information into its Automated Insolvency System (AIS) to track the legal requirements for engaging with taxpayers and to protect the Government's financial interest. Unauthorized access to the AIS could jeopardize taxpayers' legal rights. The objective of the review was to determine whether the IRS implemented access controls for the AIS to protect taxpayers' personal data and to ensure that the Government's interest is protected when taxpayers file for bankruptcy.

FINDING (F-1): Employees have excessive privileges on the AIS caused by two primary reasons. First, managers did not ensure that duties were adequately segregated among employees to prevent and detect unauthorized activities. TIGTA found duties assigned to employees that cause a conflict of interest and violate the IRS's security requirement to ensure that duties are adequately segregated among different employees to detect errors and fraud. The second reason for employees' excessive AIS privileges is because of the inadequate role-based access control scheme that was developed for the AIS. The IRS created the same four general access levels used in the previous Informix-based AIS and four new special access levels when it converted the system into its Oracle-based version.

RECOMMENDATION (F-1, R-1): Identify incompatible duties and implement policies to segregate those duties, issue a memorandum to program managers requiring them to adhere to the new policy when assigning duties and approving AIS access privileges, and designate a limited number of employees to perform the User Administrator duties.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS concurred with this recommendation. A role-based access control system is currently being developed that will define the roles of users and designate specific access privileges to their defined AIS profiles. Once this process is established, a memorandum will be issued to all managers requiring them to adhere to the new policy regarding segregation of duties. The Collection Policy Office and the MITS organization are reprogramming the AIS to allow users to reset their passwords instead of requiring User Administrator password resets. This enhancement would dramatically reduce the number of User Administrators required.

STATUS: A work request was input for the password reset feature. In addition, a work request was input for AIS role-based access. This feature will allow the Small Business/Self-Employed (SB/SE) Division to customize access to AIS modules and options based on requirements specific to the user.

AGREED-TO COMPLETION DATE: 05/15/2015

**CONTINUED CENTRALIZATION OF THE WINDOWS® ENVIRONMENT
WOULD IMPROVE ADMINISTRATION AND SECURITY EFFICIENCIES**

REPORT NO.: 2011-20-111

DATE ISSUED: 09/23/2011

BACKGROUND: The IRS operates a large computer network that includes about 6,000 servers and 110,000 workstations using Windows® operating systems provided by the Microsoft Corporation. Proper implementation of Microsoft Windows technology simplifies system administration and provides methods to strengthen and consistently secure computer systems. Federal regulations and IRS enterprise architecture security principles require authentication management. The overall objective of this review was to determine whether the IRS has structured its Windows environment to provide efficient and secure management of Windows servers.

FINDING (F-2): Not all Windows servers and workstations connected to the network reside in authorized domains. The IRS did not ensure that all Windows operating system computers connected to its network were authorized and compliant with security policy, putting the IRS at risk of security breaches. While the IRS has created standards to prevent unauthorized computers from being connected to the network, it had not established a central controlling authority to enforce compliance with its policy.

RECOMMENDATION (F-2, R-1): Ensure that standards and processes are developed and implemented enterprise-wide to prevent servers and workstations from being connected to the network without the proper authorization and required compliance documentation.

PLANNED CORRECTIVE ACTION (F-2, R-1, P-1): The IRS agreed with the recommendation. The IRS will ensure that standards and processes are developed and implemented enterprise-wide to prevent servers and workstations from being connected to the network without proper authorization and required compliance documentation.

STATUS: The Enterprise Services organization has assumed the lead for the development of the Active Directory governing body which is a key part of this corrective action. Additional stakeholders have led the reevaluation of the scope; additional time is needed to implement the solution and the supporting security policy.

AGREED-TO COMPLETION DATE: 02/01/2014

IMPROVEMENTS ARE NEEDED TO ENSURE THE EFFECTIVENESS OF THE PRIVACY IMPACT ASSESSMENT PROCESS

REPORT NO.: 2013-20-023

DATE ISSUED: 02/27/2013

BACKGROUND: The IRS has not established effective processes to ensure that Privacy Impact Assessments (PIA) are completed timely, updated, and made publicly available and that privacy policies are posted on public websites for all required systems and collections of information. Further, in December 2011, the IRS implemented the Privacy Impact Assessment Management System (PIAMS) to automate the process of completing the PIAs in a more efficient and less time-consuming way. However, several key processes were not effectively automated. For example, privacy analysts must view numerous individual screens rather than scrolling through the information seamlessly, responses in the system are not grouped by topic or subject matter, and the automated e-mail notification function is not consistent.

FINDING (F-1): The IRS has not established an effective process to ensure that a PIA is completed for all required computer systems that store or process Personally Identifiable Information. TIGTA determined that a PIA had not been completed for 184 systems and collections of information that required a PIA. The IRS did not update the PIAs every three years as required. The IRS had not established an effective process to ensure that PIAs were completed for customer surveys when necessary. The IRS does not have an effective process to ensure that PIAs that contain taxpayer information are posted to its public website, as TIGTA identified 80 PIAs with taxpayers' Personally Identifiable Information that the IRS had not posted. The IRS has not completed the PIAs for its SharePoint sites, and the IRM incorrectly states that SharePoint sites do not require a PIA. The IRS has not established an effective process to ensure compliance with the OMB's third-party website requirement and to ensure that its privacy notice and a link to its privacy policy are posted on public websites used by IRS officials. Management has not ensured that complete and up-to-date written guidelines in the form of standard operating procedures have been prepared for the privacy compliance analysts who perform assessment, review, and processing of the PIAs.

RECOMMENDATION (F-1, R-1): The Director, Privacy, Governmental Liaison and Disclosure, should investigate all 184 information systems and collections of information identified and coordinate with system owners to complete the required PIAs.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS agreed with this recommendation. The list provided by TIGTA requires some additional analysis, as not all systems or applications listed on the IRS As-Built Architecture require a PIA. The IRS will determine which of these 184 systems require a PIA and coordinate with the system owners to ensure that the PIAs are received in the Office of Privacy Compliance by the implementation date.

AGREED-TO COMPLETION DATE: 03/15/2014

RECOMMENDATION (F-1, R-2): The Director should establish a) an annual reconciliation process in which the PIA inventory is reconciled with all information systems and collections of information in the current production environment; b) the completion of the planned revisions to the Major Change Determination template, which will help facilitate the annual reconciliation process; and c) a process to identify all completed and approved PIAs that have not been updated within three years and coordinate with system owners to review and update these PIAs as required.

PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): The IRS agreed with this recommendation. The IRS has already begun work on a PIA inventory reconciliation process and has completed the planned revisions to the Major Change Determination template. The IRS is adding to the PIAMS a process for identifying future PIAs that are not updated within three years. The IRS is also working on a manual process to identify older PIAs not yet in the PIAMS that need to be updated. Once the IRS identifies those PIAs that have not been updated for three years, the IRS will coordinate with the system owners to ensure that they complete a PIA in the PIAMS by the implementation date.

AGREED-TO COMPLETION DATE: 03/15/2014

RECOMMENDATION (F-1, R-9): The Director should ensure that current and complete standard operating procedures are established for all PIA processing procedures, including reviewing and approving PIAs, updating PIAs, and reconciling PIAs to other IRS system inventories.

PLANNED CORRECTIVE ACTION (F-1, R-9, P-1): The IRS agreed with this recommendation. The IRS has developed standard operating procedures for the PIA review process and is currently drafting comprehensive PIA processing procedures.

AGREED-TO COMPLETION DATE: 02/15/2014

Implementing the Affordable Health Care Act and Other Tax Law Changes

Each filing season tests the IRS's ability to implement tax law changes made by Congress. Correctly implementing late tax law changes remains a significant challenge because the IRS must often act quickly to assess the changes and determine the necessary actions to ensure that all legislated requirements are satisfied. In addition, the IRS must often create new or revise existing tax forms, instructions, and publications; revise internal operating procedures; and reprogram computer systems to accurately and timely process tax returns affected by the new tax law changes.

Sometimes, despite all of its efforts, the IRS may have to delay the processing of some tax returns or quickly correct computer programming if early processing errors surface. Effective implementation of tax-related provisions of the Patient Protection and Affordable Care Act (ACA)¹⁰ and changes to tax laws will continue to challenge IRS resources.

Affordable Care Act

The ACA contains an extensive array of tax law changes that will present a continuing source of challenges for the IRS in the coming years. While the Department of Health and Human Services (HHS) will have the lead role in the policy provisions of the ACA, the IRS will administer the law's numerous tax provisions. The IRS estimates that at least 42 provisions will either add to or amend the Internal Revenue Code, and at least eight provisions will require the IRS to build new processes that do not exist within the current tax administration system. Some examples of new IRS responsibilities resulting from the ACA include:

- Providing tax credits to businesses and individuals to assist in covering the cost of health coverage;
- Administering the mandate for individuals to purchase health coverage or be subject to a penalty on their individual Federal tax returns;
- Administering multiple tax provisions designed to raise revenues to offset the cost of health care reform; and
- Protecting additional data entrusted to the IRS from the risk of loss or identity theft.

Results of TIGTA audits illustrate the need for continued oversight of the IRS's administration of many of these tax-related provisions. TIGTA recently reported that the IRS did not require sufficient information to determine whether taxpayers claiming Small Business Health Care Tax Credits filed required employment

¹⁰ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

taxes when these taxpayers entered into a contractual relationship with professional employment organizations to manage human resources.¹¹ TIGTA also determined that the IRS did not take adequate steps to ensure that taxpayers potentially liable for the indoor tanning excise tax were aware of the new tax law, particularly after the number of taxpayers filing tax returns reporting the excise tax for tanning services was much lower than expected.¹²

TIGTA also reported that taxpayers erroneously received millions of dollars in Adoption Credits. More specifically, a provision in the ACA increased the Adoption Credit and made the tax credit refundable.¹³ Although the IRS requires taxpayers to attach documentation to their tax returns supporting Adoption Credit claims, it does not have the authority to deny the credits if documentation is not provided. As a result, tax returns without required documentation must be sent to the Examination function. As of December 23, 2011, the IRS had received 101,627 Adoption Credit claims totaling more than \$1.2 billion for FY 2010. We reported that 4,258 taxpayers received almost \$49.3 million in Adoption Credits without sufficient supporting documentation.¹⁴ Of these 4,258 taxpayers, TIGTA estimated that 953 tax returns claiming more than \$11 million in Adoption Credits were erroneous.

Other Tax Law Changes

More than 1.5 million taxpayers who purchased a home between April 9 and December 31, 2008, and claimed the First-Time Homebuyer Credit (Homebuyer Credit), were required to begin repaying the credit on their Tax Year 2010 tax return. The credit is intended to be repaid over 15 years, in equal annual installments. However, the IRS experienced difficulties in implementing the repayment process.

As of May 2, 2012, the IRS had inaccurately processed 66 percent (3,819 of 5,756) of taxpayer accounts for which the taxpayer filed a joint tax return with his or her spouse when the Homebuyer Credit was claimed but the ownership of the property was later transferred as part of a divorce settlement. As a result of incorrectly overstating the new Homebuyer Credit repayment obligation, the IRS incorrectly assessed more than \$650,000 in additional tax for 136 tax accounts. The IRS also understated the net Homebuyer Credit repayment obligation for

¹¹ TIGTA, Ref. No. 2011-40-103, *Affordable Care Act: Efforts to Implement the Small Business Health Care Tax Credit Were Mostly Successful, but Some Improvements Are Needed* (Sept. 2011).

¹² TIGTA, Ref. No. 2011-40-115, *Affordable Care Act: Number of Taxpayers Filing Tanning Excise Tax Returns Is Lower Than Expected* (Sept. 2011).

¹³ A refundable tax credit is a tax credit that is treated as a payment and can be refunded to the taxpayer. Refundable credits can create a Federal tax refund that is larger than the amount a person actually paid in taxes during the year.

¹⁴ TIGTA, Ref. No. 2012-40-065, *Processes to Address Erroneous Adoption Credits Result in Increased Taxpayer Burden and Credits Allowed to Nonqualifying Individuals* (June 2012).

3,683 taxpayers and erroneously reduced the amount these taxpayers were required to repay by more than \$13.1 million.¹⁵

The unimplemented corrective actions for this MMC follow.

¹⁵ TIGTA, Ref. No. 2012-40-119, *The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season* (Sept. 2012).

REPEATED EFFORTS TO MODERNIZE PAPER RETURN PROCESSING HAVE BEEN UNSUCCESSFUL; HOWEVER, ACTIONS CAN BE TAKEN TO INCREASE ELECTRONIC FILING AND REDUCE PROCESSING COSTS

REPORT NO.: 2009-40-130
DATE ISSUED: 09/10/2009

BACKGROUND: In Calendar Year 2008, the IRS received 156.3 million individual income tax returns, of which 66.4 million (42.5 percent) were paper-filed. Actions can be taken including mandating electronic filing (e-filing) for paid preparers and developing processes to convert paper returns into an electronic format that would significantly reduce paper filings, processing costs, and error rates, with the added benefit of faster tax refunds and more accurate tax returns for taxpayers.

FINDING (F-1): Federal law currently prohibits the IRS from requiring e-filing of individual income tax returns. In order for a Federal mandate of individual e-filing to be implemented, Congress would have to change the law to accommodate this requirement. While mandating e-filing for paid preparers will significantly reduce the number of paper returns received by the IRS, it will not eliminate paper returns. In Calendar Year 2008, taxpayers submitted 36.5 million paper returns, of which 13.2 million (36.2 percent) were prepared using an electronic tax preparation software package yet mailed to the IRS as a paper tax return. The IRS will still need to develop a process to convert these residual paper returns into an electronic format. Refocusing the Modernized Submission Processing concept to pursue successful processes followed by States that use scanning technology, including the use of optical character recognition and two-dimensional barcodes, could provide the IRS with an option to convert paper-filed tax returns into an electronic format, thereby reducing processing costs associated with paper-filed tax returns.

RECOMMENDATION (F-1, R-2): Refocus the Modernized Submission Processing concept to include implementing a process to convert paper-filed tax returns prepared by individuals using a tax preparation software package into an electronic format. To reduce implementation costs, the concept should include having these tax returns mailed to one tax processing center.

PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): The IRS agreed with this recommendation. The Wage and Investment (W&I) Division will pursue the implementation of processes that use scanning technology. Two-dimensional bar coding will be a project proposal for the 2012 Modernization Vision and Strategy planning cycle. In the meantime, a new proposal will be submitted to enhance legacy systems with two-dimensional barcode capabilities. Detailed requirements and timetables for that proposal are being developed with a targeted implementation date of January 2011. It should be noted that there are budget and information systems prioritization constraints that may affect the IRS's ability to implement this recommendation.

STATUS: The IRS's request to TIGTA to close this planned corrective action, based on the absence of approved funding, has been deferred pending the outcome of legislation and budget decisions. Also, note that enhancing the legacy system with two-dimensional barcode capabilities is no longer a relevant interim action as they are not enhancing legacy due to the Modernized e-File System releases.

AGREED-TO COMPLETION DATE: 02/15/2014

AFFORDABLE CARE ACT: WHILE MUCH HAS BEEN ACCOMPLISHED, THE EXTENT OF ADDITIONAL CONTROLS NEEDED TO IMPLEMENT TAX-EXEMPT HOSPITAL PROVISIONS IS UNCERTAIN

REPORT NO.: 2012-13-070
DATE ISSUED: 06/21/2012

BACKGROUND: The ACA contains provisions that affect the IRS and tax-exempt hospital organizations. The IRS has made progress establishing controls to assess tax-exempt hospital organization compliance. However, additional work will be required once legal guidance is published. Until guidance is published, the public cannot be assured that the IRS has implemented all controls to ensure compliance with ACA provisions designed to protect those served by tax-exempt hospitals.

FINDING (F-1): Formal agreements have not been negotiated regarding data needs for the annual report to Congress. Exempt Organizations (EO) function management stated that the IRS will be responsible for submitting to the Department of the Treasury information for the annual report to Congress on the level of charity care, bad debt expense, and unreimbursed costs of means-tested and non-means-tested government programs. The HHS will provide this information to the IRS for the annual report. EO function management has set a goal of August 2012 for submitting information to the Department of the Treasury for the first report. In order to meet this timeline, the IRS needs to receive input from the HHS in July 2012. If the data are not received timely or in a proper format, the report to Congress could either be late or contain inaccurate information on the level of charity care, bad debt expenses, and the unreimbursed costs of means-tested and non-means-tested government programs.

RECOMMENDATION (F-1, R-1): Establish a Memorandum of Understanding (MOU) with the HHS that takes into consideration when information should be received and the proper format of the data to ensure that the data will be timely and usable for the annual report to Congress.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): IRS management plans to work with the Department of the Treasury to establish an MOU with the HHS that takes into consideration when information should be received and the proper format of the data to ensure that the data will be timely and usable for the annual report to Congress.

STATUS: The IRS continues to work with the HHS to determine/identify data needs and availability, which must be outlined in the MOU. Upon completion and IRS and HHS executive approval, the IRS will move forward with the MOU.

AGREED-TO COMPLETION DATE: 03/15/2014

Tax Compliance Initiatives

Increasing the Voluntary Compliance Rate of approximately 83 percent is a Department of the Treasury Agency Priority Goal.¹⁶ Therefore, improving taxpayer compliance is an ongoing challenge. Tax compliance initiatives include the administration of tax filing and the reporting and payment compliance for businesses, individuals, and tax-exempt and government entities. Therefore, increasing the Voluntary Compliance Rate and reducing the Tax Gap¹⁷ are the focus of many IRS programs and initiatives. For noncompliant taxpayers, the IRS conducts programs and activities to assist and enforce compliance with the tax laws.

Although the IRS reports that the Tax Gap is caused by both unintentional taxpayer errors and willful tax evasion, the IRS has insufficient data to distinguish the amounts attributable to each. The IRS also reported that a meaningful improvement in the Voluntary Compliance Rate requires a long-term, focused effort involving taxpayer service, modernization, and enforcement. The IRS's strategy for reducing the Tax Gap is largely dependent on funding for additional compliance resources and legislative changes. In its FY 2013 budget submission, the IRS requested a 7.6 percent increase in enforcement funds over its FY 2012 enacted level.

Business and Individuals

The IRS estimated the gross Tax Gap for Tax Year 2006 to be approximately \$450 billion. The underreporting of taxes, which is comprised of four major components (individual income tax, employment tax, corporate income tax, and estate and excise taxes), was estimated at \$376 billion and accounted for the largest portion (approximately 84 percent) of the Tax Gap. The underpayment of taxes was approximately 10 percent, and the nonfiling of taxes was approximately 6 percent. The IRS will need to address the following impediments to more effectively address the Tax Gap:

- **Incomplete compliance research** that does not identify all the sources of noncompliance so that IRS resources can be targeted properly.
- **Insufficient compliance strategies** that do not always address the areas of highest risk of noncompliance. The IRS reported that it is working to reengineer examination and collection procedures based on improved data from its National Research Project study of individual taxpayers.
- **Incomplete document matching programs** because the IRS does not have reliable third-party data for all taxpayer sectors and for all types of tax returns, most notably income earned by the self-employed. The IRS

¹⁶ Reference to the Administration goal to increase the voluntary compliance rate is available at http://goals.performance.gov/goal_detail/TREAS/333#Progress_and_Next_Steps (last visited Mar. 14, 2013).

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

reported that, without these data, it cannot easily detect errors or potential fraud except through expensive and intrusive examinations.

- **Insufficient enforcement resources** to handle a growing caseload. The IRS has identified noncompliance and potential fraud cases it did not have the resources to work, allowing billions of dollars to be fraudulently refunded each year.

Tax-Exempt Entities

The IRS's challenge related to tax-exempt and government entities is providing assistance to those entities that provide a societal benefit while ensuring that the entities remain in compliance with the tax laws associated with their tax-exempt status. Legislative changes and judicial decisions contribute to a constantly changing environment affecting today's nonprofit and tax-exempt organizations. The Pension Protection Act of 2006¹⁸ mandates that tax-exempt organizations file certain information electronically with the IRS. Previously, these organizations were not required to file an annual information return unless their gross receipts exceeded certain dollar thresholds. It further requires the IRS to publish and maintain a list of organizations whose tax-exempt status has been automatically revoked.

TIGTA reported that the EO function educated tax-exempt organizations on the requirements of the act and identified and informed organizations that their tax-exempt status had been automatically revoked. However, the EO function did not identify all organizations that should have been informed about their revocations and did not clearly inform organizations on how to regain their tax-exempt status if they were still operating.¹⁹ TIGTA also reported that while the EO function has greatly improved its timeliness with regard to acknowledging complaints against tax-exempt organizations, referrals were not always controlled or processed timely. If referrals are not properly accounted for or worked timely, the EO function may not identify tax-exempt organizations that are potentially in violation of Federal tax law or have referrals ready when new examination cases are needed.²⁰

Tax Return Preparers

Every year, more than half of all taxpayers pay someone else to prepare their Federal income tax returns. During the 2012 Filing Season,²¹ the IRS processed approximately 71 million individual Federal income tax returns prepared by paid tax return preparers.

¹⁸ Pub. L. No. 109-280, 120 Stat. 780.

¹⁹ TIGTA, Ref. No. 2012-10-027, *Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Has Been Automatically Revoked, but Improvements Are Needed* (Mar. 2012).

²⁰ TIGTA, Ref. No. 2012-10-058, *Implementing Better Management Controls Would Improve the Exempt Organizations Function's Ability to Oversee and Timely Process Referrals* (June 2012).

²¹ The period from January 1 through April 15 when most individual income tax returns are filed.

In December 2009, the IRS announced a suite of proposed reforms to improve oversight of the return preparer community. In September 2010, TIGTA reported that it will take years for the IRS to implement the Return Preparer Program and to realize its impact.²² In December 2011, TIGTA reported that improvements are ongoing to ensure that the preparer registration process has effective controls and system validations.²³ However, in March 2012, a suit was filed against the IRS by three independent tax preparers on the grounds that the IRS did not have the authority to regulate tax preparers. A judge concurred with the plaintiffs.²⁴ As of November 2013, the case is in Appellate Court.²⁵

The specific significant unimplemented recommendations for this MMC follow.

²² TIGTA, Ref. No. 2010-40-127, *It Will Take Years to Implement the Return Preparer Program and to Realize Its Impact* (Sept. 2010).

²³ TIGTA, Ref. No. 2012-40-010, *More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed to Ensure All Are Complying With the New Preparer Regulations* (Dec. 2011).

²⁴ Loving v. IRS, 917 F. Supp.2d 67 (D.D.C. 2013). The Government filed a motion to suspend the injunction pending appeal. The U.S. District Court for the District of Columbia denied the motion but then modified the terms of the injunction. See Loving v. IRS, 920 F. Supp.2d 108 (D.D.C. 2013). On February 25, 2013, the Government filed a motion for a stay pending appeal. On March 27, 2013, the U.S. District Court for the District of Columbia denied the motion for stay.

²⁵ See Government Files Brief in D.C. Circuit Court in Return Preparer Oversight Case, Tax Notes Today, 2013 TNT 62-20 (Apr. 3, 2013); Loving v. IRS, No. 13-5061 (D.C. Cir.).

PLANS EXIST TO ENGAGE THE TAX PREPARER COMMUNITY IN REDUCING THE TAX GAP; HOWEVER, ENHANCEMENTS ARE NEEDED

REPORT NO.: 2010-30-061

DATE ISSUED: 06/10/2010

BACKGROUND: Paid preparers prepare more than half of all individual tax returns filed and have a great deal of influence on taxpayer compliance levels. These preparers have a professional obligation to represent their clients effectively and play an important role in ensuring that taxpayers comply with the Nation's tax laws. Adherence to standards and the preparation of accurate tax returns have a significant effect on taxpayer compliance and the efforts to reduce the Tax Gap.

FINDING (F-1): The IRS developed a Strategic Plan for FYs 2009–2013 to improve oversight of tax administration. It includes two key objectives and several strategies that pertain to reducing the Tax Gap by engaging the tax preparer community. However, actions were not taken to ensure that previously omitted key components were included in the existing Strategic Plan. Without these components, it is unclear how the IRS will effectively monitor its performance and adherence to the requirements for strategic plans.

RECOMMENDATION (F-1, R-1): Update the existing IRS Strategic Plan and ensure that strategic plans have all of the information in the plans as required by the Government Performance and Results Act of 1993²⁶ and OMB Circular A-11 (Preparation, Submission, and Execution of the Budget).²⁷

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS will ensure that future strategic plans incorporate the requirements in Department of the Treasury guidance, which includes both the Government Performance and Results Act of 1993 and OMB Circular A-11.

STATUS: While IRS management agreed with TIGTA's recommendation, the IRS did not address modifying its current Strategic Plan to include omitted key components required by the Department of the Treasury. TIGTA previously reported these omissions during a 2007 review,²⁸ and the IRS responded it would ensure consistency with Department of the Treasury guidance in developing its next Strategic Plan. However, the current management response is similar to its 2007 response, and TIGTA continues to believe the current Strategic Plan should be updated to ensure that the IRS is compliant with the Government Performance and Results Act of 1993. TIGTA followed up with IRS management to provide them the opportunity to reconsider their response; however, TIGTA was advised that their position remained the same.

²⁶ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

²⁷ OMB, OMB Circular No. A-11 (revised), *Preparation, Submission and Execution of the Budget*.

²⁸ TIGTA, Ref. No. 2007-10-140, *The Development of Specific Long-Term Measures and Targets Improved the Internal Revenue Service's Strategic Plan (2005–2009)* (Aug. 2007).

AGREED-TO COMPLETION DATE: 06/30/14

FINDING (F-2): The IRS needs performance measures in order to monitor efforts that engage the tax preparer community. The IRS's FYs 2009–2013 Strategic Plan does not contain sufficient measures that will be useful for monitoring its performance in achieving its goals and objectives to engage the paid preparer community. Also, the plans of the IRS business divisions and functional offices did not always include outcome measures, baselines, or targets that could be used to measure whether actions taken would achieve desired objectives in the IRS Strategic Plan.

RECOMMENDATION (F-2, R-1): Define and include in the IRS Strategic Plan sufficient measures that will provide data that can be used to monitor the IRS's efforts to achieve objectives aimed at strengthening partnerships with tax practitioners and paid preparers to ensure effective tax administration.

PLANNED CORRECTIVE ACTION (F-2, R-1, P-1): Include in the IRS Strategic Plan measures to assess progress in achieving the expected goals and objectives that support the IRS Strategic Plan.

STATUS: While IRS management agreed with the recommendation, the planned corrective actions did not address modifying its current Strategic Plan.

AGREED-TO COMPLETION DATE: 06/30/14

MORE TAX RETURN PREPARERS ARE FILING ELECTRONICALLY, BUT BETTER CONTROLS ARE NEEDED TO ENSURE ALL ARE COMPLYING WITH THE NEW PREPARER REGULATIONS

REPORT NO.: 2012-40-010
DATE ISSUED: 02/20/2011

BACKGROUND: The e-file mandate is helping the IRS with its goal to electronically receive 80 percent of individual tax returns by Calendar Year 2012. More than 79 percent of tax returns were e-filed in Calendar Year 2011 as of June 9, 2011. However, the continued use of multiple preparer identification numbers makes it difficult to match all tax returns to the preparers.

FINDING (F-3): The IRS does not have system validations to prevent the unauthorized use of a Preparer Tax Identification Number (PTIN). The PTIN is required on every tax return prepared by a paid preparer. *** **

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PLANNED CORRECTIVE ACTION (F-3, R-1, P-1): *** ** ** **^
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AGREED-TO COMPLETION DATE: 07/15/14

A CONCERTED EFFORT SHOULD BE TAKEN TO IMPROVE FEDERAL GOVERNMENT AGENCY TAX COMPLIANCE

REPORT NO.: 2012-30-094
DATE ISSUED: 09/05/2012

BACKGROUND: Federal agencies are exempt from paying Federal income taxes; however, they are not exempt from meeting their employment tax deposits and related reporting requirements. As of December 31, 2011, 70 Federal agencies with 126 delinquent tax accounts owed approximately \$14 million in unpaid taxes. In addition, 18 Federal agencies had not filed or were delinquent in filing 39 employment tax returns. Federal agencies should be held to the same filing and paying standards as all American taxpayers. TIGTA reviewed the effectiveness of the IRS's process to collect delinquent taxes and secure delinquent tax returns from Federal agencies as well as followed up on the effectiveness of the corrective actions taken in response to the prior TIGTA report.²⁹

FINDING (F-1): Corrective actions on previously identified internal control weaknesses have not been fully implemented. The corrective actions the IRS took in response to the prior TIGTA report did not fully address previously identified internal control weaknesses. Specifically, a process to resolve aged Federal agency delinquent tax accounts has not been fully developed. TIGTA analyzed 132 aged Federal agency delinquent tax accounts from the December 2008 Federal Agency Delinquency (FAD) List. As of December 31, 2011, TIGTA identified 40 aged Federal agency delinquent tax accounts totaling approximately \$2.6 million that were still open after three years. In addition, FAD Program employees suspended collection actions for 34 of the 40 aged delinquent tax accounts totaling approximately \$2.4 million. Management information reports do not provide sufficient details about the causes of Federal agency delinquencies in order to be effectively used to enhance outreach and educational efforts. A lack of control over processing Federal agency cases permitted the use of enforcement actions that violated IRS policies. In addition, limited procedures concerning the timeliness of case processing resulted in delayed case resolution.

RECOMMENDATION (F-1, R-4): Ensure that FAD Program employees adhere to procedures when processing delinquent Federal agency cases.

PLANNED CORRECTIVE ACTION (F-1, R-4, P-1): The IRS agreed with this recommendation and will update the IRM to provide specific guidance on when employees need to make referrals to the Federal, State, and Local Government (FSLG) Office and take the appropriate actions, when required. The updated IRM will be used for training and program reviews.

²⁹ TIGTA, Ref. No. 2007-10-166, *Efforts to Collect Delinquent Employment Taxes Owed by Government Entities Could Be Improved* (Aug. 2007).

STATUS: The SB/SE Division is working to establish revised guidelines and procedures to improve the overall effectiveness of the program. Due to suggested process changes that are still being considered, the planned date for revising the IRM and implementation of new guidelines will be delayed.

AGREED-TO COMPLETION DATE: 04/15/2014

RECOMMENDATION (F-1, R-5): Establish timeliness standards for FAD Program employees to follow when processing Federal agency delinquency cases.

PLANNED CORRECTIVE ACTION (F-1, R-5, P-1): The IRS agreed with this recommendation. Specific timeline guidelines will be discussed with Collection Policy, SB/SE Division, and the FSLG Office and updated in the IRM. Timely actions include when to refer cases to the FSLG Office to request a compliance visit.

STATUS: The Chief Financial Officer and the FSLG Office are collaborating to establish guidelines to improve the overall effectiveness of the program. The Chief Financial Officer has drafted recommendations which include revising the FAD process into a streamlined process. Due to the Chief Financial Officer's recommended changes, which still are being discussed, the planned date of revising the IRM and implementation of new guidelines will be delayed. FAD Program employees will be trained on revised procedures after the IRM is published.

AGREED-TO COMPLETION DATE: 04/15/2014

ACTIONS ARE NEEDED TO ENSURE AUDIT RESULTS POST TIMELY AND ACCURATELY TO TAXPAYER ACCOUNTS

REPORT NO.: 2012-30-097
DATE ISSUED: 09/07/2012

BACKGROUND: This audit was initiated to determine whether the Centralized Case Processing function controls at the Memphis, Tennessee, Campus are ensuring that SB/SE Division Field audits are timely and accurately processed, and the statutory period for assessing taxes is protected. TIGTA identified several control issues that adversely affected the ability of the SB/SE Division to timely and accurately post audit results to taxpayer accounts and protect the statutory period for assessing tax deficiencies. These issues increased the risk of 1) allowing noncompliant taxpayers to avoid paying taxes they otherwise owe, 2) creating unnecessary burden on taxpayers by posting inaccurate tax assessments, and 3) compromising the integrity of the tax system.

FINDING (F-1): Controls need strengthening over assessment statutes and the processing of audit results. TIGTA analyzed FY 2011 audit closures and found 229 audits with deficiencies totaling \$4.9 million that had soon-to-expire assessment statute expiration dates that were not controlled in accordance with established procedures. TIGTA also found that procedures were not followed to expedite the processing of 891 of 1,377 large dollar audits so actions could be initiated to collect the \$100,000 or more that the taxpayers agreed they owed. This, in turn, cost the Federal Government approximately \$324,000 of lost interest revenue. In addition, TIGTA identified three audits with deficiencies totaling approximately \$134,000 that were incorrectly posted to taxpayer accounts *** ***** ***** ***** * * * 1 ***** ***** ***** ***** .

RECOMMENDATION (F-1, R-1): Develop and implement additional procedures to ensure that all audits entering the Campus Case Processing operation with short statute expiration dates and large dollar assessment amounts are timely and accurately assigned.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-2): The IRS agreed with this recommendation. In addition, a new pop-up box will be implemented in the Integrated Automation Technologies (IAT) tool that will identify a case with an assessment of \$100,000 or more when the case is initially assigned by the clerical team.

STATUS: The Office of Research requires additional time to calculate the monetary benefits.

AGREED-TO COMPLETION DATE: 05/15/2014

RECOMMENDATION (F-1, R-2): Conduct a cost-benefit analysis to determine whether it would be beneficial to develop and implement systematic controls to ensure that the required quick assessments are performed on large dollar audits.

PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): The IRS agreed with this recommendation and will work with the SB/SE Division Research function to

determine a reasonable sample review once the IAT tool that identifies cases over \$100,000 is implemented. The sample will be reviewed to determine if further systematic controls are needed.

STATUS: Because of the delay in the implementation of this IAT tool due to systemic issues, the cost-benefit analysis will also be delayed. The SB/SE Division Research function will be engaged to determine a reasonable sample review as soon as the IAT tool is implemented.

AGREED-TO COMPLETION DATE: 05/15/2014

ACTIONS CAN BE TAKEN TO REINFORCE THE IMPORTANCE OF RECOGNIZING AND INVESTIGATING FRAUD INDICATORS DURING OFFICE AUDITS

REPORT NO.: 2013-30-020
DATE ISSUED: 03/13/2013

BACKGROUND: Tax fraud is a deliberate and purposeful violation of Internal Revenue laws by those who do not file and properly report their income and expenses. Tax fraud requires both an underpayment and fraudulent intent, and it can be considered one of the most egregious forms of noncompliance.

According to the IRM, the discovery and development of fraud is the result of effective investigative techniques. The investigative techniques employed by examiners are designed to disclose not only errors in accounting and application of tax law but also irregularities that indicate the possibility of fraud. At a minimum, the IRM indicates that examiners should exercise sound judgment and follow up on all fraud indicators by performing necessary investigative techniques, such as interviewing the taxpayer or substantiating information obtained from the taxpayer with third parties. The IRM emphasizes that fraud will not ordinarily be discovered when examiners readily accept the completeness and accuracy of the records presented and the explanation offered by the taxpayer. It is necessary for examiners to explore records and to probe beneath the surface to validate information provided and statements made in order to evaluate the credibility of evidence and testimony provided by the taxpayer.

FINDING (F-1): TIGTA reviewed a statistical sample of 100 office audits, closed between October 2009 and September 2010, which involved high income and sole proprietor taxpayers agreeing that they owed additional taxes of at least \$10,000. The review identified 26 audits with fraud indicators that were not recognized and investigated in accordance with some key IRS procedures and guidelines. TIGTA's evaluation indicates that a combination of factors caused the quality problems and that actions can be taken at the examiner and first-line manager levels to better ensure that fraud indicators are recognized and properly investigated.

RECOMMENDATION (F-1, R-1): The Director, Exam Policy, SB/SE should standardize the process for office audit examiners' documentation of fraud consideration by developing and implementing a specific job aid that requires examiners to acknowledge which indicators, if any, were considered during the audit.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS will review the IRM and relevant forms and make necessary revisions to standardize the process for office audit examiners' documentation of fraud consideration. Because a significant amount of guidance already exists, the IRS does not believe it is necessary to develop an additional job aid.

AGREED-TO COMPLETION DATE: 09/15/2014

RECOMMENDATION (F-1, R-1): The Director, Exam Policy, SB/SE, should develop additional criteria and guidance for when a discussion should be held between the examiner and first-line manager about the potential fraudulent activity of the taxpayer to cover instances other than omissions of income.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS will provide additional guidance emphasizing when a discussion should be held between the examiner and first-line manager about potential fraudulent activity of the taxpayer by issuing a joint memorandum from the Directors, Examination Policy and Fraud/Bank Secrecy Act, to all Examination function compliance employees highlighting fraud awareness, responsibilities, and proper involvement of managers and fraud technical advisors. However, due to the factual nature of tax fraud cases, the IRS does not believe it is appropriate to provide additional specific criteria for when a discussion must be held between the examiner and front-line manager.

AGREED-TO COMPLETION DATE: 03/15/2014

THE COMPLIANCE ASSURANCE PROCESS HAS RECEIVED FAVORABLE FEEDBACK, BUT ADDITIONAL ANALYSIS OF ITS COSTS AND BENEFITS IS NEEDED

REPORT NO.: 2013-30-021

DATE ISSUED: 02/22/2013

BACKGROUND: Increasing voluntary taxpayer compliance and reducing taxpayer burden have been the focus of many IRS initiatives. The IRS's Large Business and International (LB&I) Division has developed initiatives through its issue management strategy to consider new ways of reducing cycle time, improving currency, lessening taxpayer burden, and improving efficiency. Examples of initiatives that became LB&I Division programs include the Prefiling Agreement, the Limited Issue Focused Examination, and Fast Track Appeals.

During December 2003 and January 2004, the LB&I Division conducted a business process review for its issue management strategy that included participation from external stakeholders to represent taxpayers' and practitioners' perspectives. The business process review evaluated opportunities to leverage previous examination reengineering efforts as well as the increased corporate governance requirements brought about by the Sarbanes-Oxley Act of 2002.³⁰

As part of the business process review, a working group of LB&I Division officials and external stakeholders created an alternative compliance concept. The concept was discussed by external stakeholders (e.g., taxpayers, Tax Executives Institute, Securities and Exchange Commission), internal stakeholders (e.g., IRS Commissioner, Counsel, National Treasury Employees Union), and LB&I Division officials and ultimately the Compliance Assurance Process (CAP) was created. The CAP is a cooperative effort between the IRS and taxpayers to conduct real-time audits of businesses with assets of \$10 million or more, with a goal of determining the correct tax treatment of material activity prior to the filing of the tax return.

FINDING (F-1): Despite the fact that the CAP pilot program ran for six calendar years and the permanent program is in its second calendar year of operation, the LB&I Division has yet to develop and implement a plan to thoroughly evaluate CAP data. The TIGTA analysis found that the CAP audits are consuming substantially more staff hours than those under the traditional audit process. This makes the hourly rate for the CAP approximately a third of the hourly rate examiners generated from traditional audits, \$2,939 versus \$8,448, respectively.

³⁰ Pub. L. No. 107-204, 116 Stat. 745.

RECOMMENDATION (F-1, R-1): The Commissioner, LB&I Division, should ensure that an evaluation plan is developed and implemented to thoroughly assess the CAP. At a minimum, the evaluation plan should include clearly stated objectives that measure success against well-defined standards and detailed steps for verifying that sufficient benefits are being realized in relation to the costs being incurred.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS agreed with this recommendation and will continue to develop and implement an evaluation plan for the CAP, including performance indicators and cost-benefit analyses.

AGREED-TO COMPLETION DATE: 04/15/2014

FINDING (F-2): TIGTA found that the CAP has not yet been reviewed as a potential new user fee source. There are a number of reasons to review the CAP as a potential new source of user fees that include ensuring the IRS is complying with Federal Government policy pertaining to user fees.

RECOMMENDATION (F-1, R-1): Once revised IRS-wide user fee guidelines are implemented, the Commissioner, LB&I Division, should ensure that the guidelines are used to evaluate the CAP as a potential new user fee source.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS agreed with this recommendation and they will continue to develop and implement an evaluation plan for the CAP, including performance indicators and cost-benefit analyses.

AGREED-TO COMPLETION DATE: 04/15/2014

Modernization

The Business Systems Modernization Program (Modernization Program) is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system. The IRS originally estimated that completion of the Modernization Program would take up to 15 years and incur contractor costs of approximately \$8 billion. The Modernization Program was funded for \$330.2 million for FY 2012 and the President's Budget request for FY 2013 was also \$330.2 million. The Modernization Program's goals include:

- Issuing refunds, on average, five days faster than current legacy systems;
- Offering e-filing capability for individuals, large corporations, small businesses, tax-exempt organizations, and partnerships, with dramatically reduced processing error rates;
- Delivering web-based services for tax practitioners, taxpayers, and IRS employees;
- Implementing data analytics to reduce improper payments and fraudulent refunds; and
- Providing IRS customer service representatives with faster and improved access to taxpayer account data with real-time data entry, validation, and updates of taxpayer addresses.

The IRS's modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and IRS employees. These efforts will provide the foundation for implementing a real-time tax system, reducing improper payments and fraudulent refunds, and providing the technology infrastructure and architecture that will enable taxpayers and other stakeholders the capability to securely access tax account information. These complex efforts continue to pose significant technological and business challenges for the IRS.

Since January 2012, the IRS has implemented daily updating of taxpayer accounts and daily processing of returns; however, the implementation of the Customer Account Data Engine 2 (CADE-2) relational database designed to replace the 1960s-era Individual Master File is at risk of not meeting time frames for providing data to other systems. Additionally, while the IRS has upgraded the Modernized e-File system to accept and process more than 125 new individual tax forms, performance issues threaten goals to retire the legacy e-filing system and have delayed the implementation of employment-related business forms. Modernizing legacy tax administration systems to receive and process CADE-2 data and to process new legislative changes, such as the ACA, will continue to be a major challenge for the IRS.

The IRS has identified and reported the Modernization Program as a material weakness since 1995. However, in a June 2011 memorandum to the Department of the Treasury, the IRS Commissioner stated that the previously identified internal and management control issues have been fully addressed and that the Modernization Program no longer warranted being identified as a material weakness. The Department of the Treasury agreed to downgrade the material weakness. While we support the IRS's decision, we believe the Modernization Program remains a MMC, and the IRS should continue to stress improvements in its overall processes and performance.

The unimplemented corrective actions for this MMC follow.

IMPLEMENTING BEST PRACTICES AND ADDITIONAL CONTROLS CAN IMPROVE DATA CENTER ENERGY EFFICIENCY AND THE ENVIRONMENTAL AND ENERGY PROGRAM

REPORT NO.: 2010-20-044
DATE ISSUED: 03/31/2010

BACKGROUND: Federal agencies have been directed to improve their energy efficiency and reduce greenhouse gas emissions. IRS management indicated the agency's overall energy program has consistently met standards set forth in all pertinent executive orders and legislative mandates. However, while data centers typically consume more energy than other types of buildings, the IRS has not yet fully implemented most data center best practices. In January 2007, Executive Order 13423, *Strengthening Federal Environmental, Energy, and Transportation Management*, was enacted to strengthen the environmental, energy, and transportation management of Federal agencies.

FINDING (F-1): Data center energy efficiency best practices need to be implemented. The IRS does not have policies and procedures for improving energy efficiency in the data centers or for implementing data center energy efficiency best practices. Additional actions at the data centers to implement best practices will further improve the IRS's energy efficiency. Industry guidelines suggest that implementing best practices to improve airflow management can reduce data center cooling by up to 50 percent. Based on data for the Enterprise Computing Center – Martinsburg and Enterprise Computing Center – Memphis, we estimate that the IRS could potentially realize savings of \$793,218 per year and \$3,172,872 over four years for both sites. The potential for energy savings is much higher because our estimates do not include the data centers at the nine IRS campuses, for which energy consumption information was not available.

RECOMMENDATION (F-1, R-2): Ensure that information technology equipment energy use is measured in order to determine the energy efficiency and savings from implementing energy improvements.

PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): Due to the complexity and scale of effort needed for data center submetering, the Real Estate and Facilities Management (REFM) organization will identify one campus and one computing center, perform an analysis examining resources and engineering efforts needed for submetering, and undertake submetering efforts in these locations. The REFM organization will analyze costs, benefits, and other considerations surrounding submetering at the specified locations. Based on observed costs and benefits, and any additional analysis conducted, the REFM organization will assess the feasibility of moving forward with submetering at other facilities and provide a recommendation as to moving forward or not. The REFM organization will subsequently provide TIGTA with a report and recommendations detailing the analysis and findings.

STATUS: Following TIGTA's audit, the REFM organization committed to install submetering at the Kansas City and Memphis data centers. While the REFM organization has undertaken these efforts as promised, it is also including submetering in additional data center renovation projects. As the REFM organization and Information Technology organization consolidate other IRS data centers and make them more efficient, the REFM organization is concurrently incorporating submetering. In regards to the Kansas City data center, submetering was completed in October 2012 and is now operational. The Supervisory Control and Data Acquisition metering system at Memphis was projected to be completed in early 2013. However, it could not be engineered until after the new Uninterruptible Power Supply system was installed. The Uninterruptible Power Supply installation was delayed due to technical complications and then put on hold for four months during the filing season. After the Uninterruptible Power Supply became operational in June 2012, work on the Supervisory Control and Data Acquisition began and is currently underway. However, it will encounter another delay in early 2013 in order to accommodate the 2013 Filing Season. As a result, the REFM organization plans to install the new Supervisory Control and Data Acquisition by July 2013. Following implementation of submetering at Memphis, the REFM organization will prepare an analysis of the costs, benefits, and efforts that were required. To allow sufficient time for the REFM organization to complete installation of submetering at Memphis and conduct the analysis, the REFM organization would like to extend this planned correction action to September 30, 2013.

AGREED-TO COMPLETION DATE: 07/30/2014

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| <p>RECOMMENDATION (F-1, R-5): Ensure that energy audits are performed at the data centers.</p> |
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PLANNED CORRECTIVE ACTION (F-1, R-5, P-1): The REFM organization will ensure that audits are completed timely and tracked, as required by the Energy Independence and Security Act (EISA) of 2007,³¹ and include provisions to assess data centers with regards to industry best practices.

AGREED-TO COMPLETION DATE: 11/15/2014

³¹ Pub. L. 110-140, 121 Stat. 1492.

Fraudulent Claims and Improper Payments

The Improper Payments Information Act of 2002³² 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. The Administration has emphasized the importance of reducing improper payments. On November 20, 2009, the President signed Executive Order 13520,³³ which included a strategy to reduce improper payments by increasing transparency, holding agencies accountable, and creating strong incentives for compliance. In addition, the Improper Payments Elimination and Recovery Act of 2010³⁴ placed additional requirements on Federal agencies to reduce improper payments. Erroneous and improper payments issued by the IRS generally involve improperly paid refunds, tax return filing fraud, or improper payments to vendors or contractors.

Refundable Credits

The IRS administers numerous refundable tax credits. These refundable credits allow individual taxpayers to reduce their tax liability to below zero and thus receive a tax refund even if no income tax was withheld or paid. Two significant refundable credits are the Earned Income Tax Credit (EITC) and the Additional Child Tax Credit. During Tax Years 2006 through 2009, taxpayers claimed almost \$470 billion in refundable credits. Due to post-refund examinations, taxpayers were required to repay more than an estimated \$2.3 billion in erroneous credits. By the end of December 2011, the IRS had recovered an estimated \$1.3 billion, of which more than 70 percent was collected through refund offsets. Refunds for the Additional Child Tax Credit processed in FY 2010 totaled \$28.3 billion, and TIGTA reported that the IRS paid \$4.2 billion for this credit in Processing Year 2010 to individuals who were not authorized to work in the United States. Taxpayers also repeatedly claimed erroneous Additional Child Tax Credits after being disallowed the credit in the previous year. TIGTA determined that the IRS could have saved an additional \$108 million by reviewing claims made by taxpayers who were previously disallowed the credit. In addition, the IRS could have prevented issuance of approximately \$419 million in erroneous Additional Child Tax Credit refunds had it reviewed the Additional Child Tax Credit at the same time the EITC was being reviewed.³⁵

Fraudulent Payments

Identity theft is escalating and poses significant challenges for the IRS. In Calendar Year 2011, the IRS identified more than 1.1 million incidents of identity

³² Pub. L. No. 107-300, 116 Stat. 2350.

³³ Exec. Order No. 13,520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, 74 Fed. Reg. 62201 (2009).

³⁴ Pub. L. No. 111-204, 124 Stat. 2224.

³⁵ TIGTA, Ref No. 2012-40-105, *Expansion of Controls Over Refundable Credits Could Help Reduce the Billions of Dollars of Improperly Paid Claims* (Aug. 2012).

theft that affected the Nation's tax system.³⁶ The IRS has increased its efforts against refund fraud and identity theft. These efforts include designing new identity theft screening filters that the IRS believes will improve its ability to identify false tax returns before they are processed and before fraudulent refunds are issued. As of April 19, 2012, the IRS reported that it has stopped the issuance of \$1.3 billion of potentially fraudulent tax refunds as a result of the new identity theft filters. However, TIGTA determined that the impact of identity theft on tax administration is significantly higher than the amount the IRS detects and prevents. Our analysis of Tax Year 2010 tax returns identified more than \$5.2 billion in tax refunds issued to individuals filing tax returns with characteristics of identity theft cases confirmed by the IRS.³⁷

Contract and Other Payments

The IRS expends approximately \$2.1 billion annually on contracts with vendors, an area which continues to experience several risks for fraud and abuse. Previous TIGTA investigations and audits have identified millions of dollars in questioned costs and several instances of contractor fraud. During FYs 2010 and 2011, TIGTA's criminal investigative efforts contributed to court-ordered civil settlements which required Government contractors to pay \$156 million and \$113 million, respectively, to the Department of the Treasury. These payments were the result of Federal procurement law violations that occurred with work contracted with multiple Federal agencies, including the IRS. During these investigations, two recurring trends emerged: contracting officer's representatives were frequently overwhelmed by their workloads, and current business practices limit the IRS's ability to identify anomalies warranting additional review.

TIGTA performed an assessment of the IRS's controls over contract invoice review, approval, and payment processes to identify whether improper payments were made to contractors. TIGTA reported that the IRS did not have documentation supporting \$384,430 of the invoiced labor hours that were paid. Applying the results to the population of labor charges, we estimate a total of \$927,992 may have been erroneously paid.³⁸

Another TIGTA review identified that the IRS is not always charging other entities for the full costs of the work performed on reimbursable agreements. We identified more than \$28 million in costs incurred by the IRS that were not reimbursed. When the IRS is reimbursed less than the cost of performing

³⁶ This includes incidents in which taxpayers contacted the IRS alleging that they were victims of identity theft as well as instances where the IRS identified identity theft. Many of the taxpayers that the IRS identified were not aware they were victims of identity theft because they either did not file tax returns or did not have filing requirements.

³⁷ TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

³⁸ TIGTA, Ref. No. 21012-11-101, *Deficiencies Continue to Exist in Verifying Contractor Labor Charges Prior to Payment* (Aug. 2012).

reimbursable work, it must fund this work using its own operating budget, thereby reducing the funds available for tax administration.³⁹

The unimplemented corrective actions for this MMC follow.

³⁹ TIGTA, Ref. No. 2011-10-076, *The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in Reduced Funds Available for Tax Administration* (July 2012).

REDUCTION TARGETS AND STRATEGIES HAVE NOT BEEN ESTABLISHED TO REDUCE THE BILLIONS OF DOLLARS IN IMPROPER EARNED INCOME TAX CREDIT PAYMENTS EACH YEAR

REPORT NO.: 2011-40-023
DATE ISSUED: 02/07/2011

BACKGROUND: The GAO has listed the EITC Program as having the second highest dollar amount of improper payments of all Federal programs. The IRS has made little improvement in reducing EITC improper payments since 2002, when it was first required to report estimates of these payments to Congress. The IRS continues to report that 23 percent to 28 percent of EITC payments are issued improperly each year. In FY 2009, this equated to \$11 billion to \$13 billion in EITC improper payments.

FINDING (F-1): Information required by Executive Order 13520 was not included in the report to TIGTA. Executive Order 13520 requires the IRS to intensify its efforts and set targets to reduce EITC improper payments. Further, it requires the IRS to provide TIGTA with its plans and supporting analysis for meeting those targets. The IRS's report to TIGTA did not include any quantifiable targets to reduce EITC improper payments.

RECOMMENDATION (F-1, R-1): Establish quantifiable reduction targets and strategies to meet those targets.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS's return preparer initiative is its most promising avenue to substantially reduce erroneous EITC payments. Sixty-six percent of all EITC tax returns and most EITC tax returns with errors are prepared by tax return preparers. The IRS is in the first year of a three-year ramp-up of this initiative. After the program is fully established, the IRS will have a baseline against which it can set meaningful reduction targets.

STATUS: IRS actions taken to reduce improper EITC payments have not resulted in significant improvement. The IRS also states that it is moving beyond traditional compliance methods (audits) to address EITC improper payments. TIGTA disagrees. As detailed in TIGTA's report, the IRS has developed processes to successfully identify billions of dollars in erroneous EITC payments. However, despite TIGTA's December 2008 recommendation to develop alternatives to traditional compliance, the IRS has not developed or proposed alternatives. As such, the majority of the potentially erroneous EITC claims identified continue to be paid in error. In addition, the IRS notes that its focus on tax return preparers will serve to improve EITC tax returns and further reduce EITC errors. TIGTA agrees that the regulation of tax return preparers will have some impact on reducing EITC improper payments. Nonetheless, the IRS report does not provide details on when or how the IRS plans to measure the impact of the tax return preparer strategy on EITC improper payments. As TIGTA notes in its report, the IRS has just begun implementing the tax return preparer strategy and does not anticipate the strategy will be fully implemented until 2014. Using IRS estimates for FY 2009, it is likely that the IRS will have issued anywhere

from \$55 billion to \$65 billion in improper payments by FY 2014. The IRS also notes that it partially agreed with four of the previous recommendations TIGTA cited in its report. However, the majority of the recommendations will not be implemented until 2013. The loss of billions of dollars in improper EITC payments annually calls for more aggressive and immediate actions to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse. Executive Order 13520 requires the IRS to intensify its efforts and set targets to reduce EITC improper payments. The IRS has not met this requirement and, as a result, the risk remains high that no significant improvement will be made in reducing improper EITC payments.

AGREED-TO COMPLETION DATE: 09/15/2014

THERE ARE BILLIONS OF DOLLARS IN UNDETECTED TAX REFUND FRAUD RESULTING FROM IDENTITY THEFT

REPORT NO.: 2012-42-080
DATE ISSUED: 07/19/2012

BACKGROUND: Undetected tax refund fraud results in significant unintended Federal outlays and erodes the confidence in our Nation's tax system. Our analysis of tax returns using characteristics of IRS-confirmed identity theft identified approximately 1.5 million undetected tax returns with potentially fraudulent tax refunds totaling in excess of \$5.2 billion. TIGTA estimates that the IRS could issue \$21 billion in potentially fraudulent tax refunds resulting from identity theft over the next five years. The overall objective of this review was to evaluate the effectiveness of the IRS's efforts to identify and prevent fraudulent tax refunds resulting from identity theft.

FINDING (F-3): Limiting the number of tax refunds that can be deposited to the same tax account can potentially minimize losses associated with fraud. Of the approximately 1.5 million tax returns TIGTA identified, TIGTA found that 1.2 million used direct deposit to obtain tax refunds totaling approximately \$4.5 billion. As of February 16, 2012, the IRS has provided TIGTA with approximately 5,000 debit cards confiscated during an investigation of a Tampa, Florida, scheme. However, the IRS is unable to determine the amount of fraudulent tax refunds that were deposited to these debit cards. The inability of the IRS to ensure the accuracy of direct deposit account information increases the ease with which individuals can receive fraudulent tax refunds. The IRS has not developed sufficient processes to ensure tax refunds are deposited to an account in the name of the filer.

RECOMMENDATION (F-3, R-3): The Commissioner, Wage and Investment Division, should develop processes to identify and quantify direct deposits of tax refunds to accounts associated with a debit card as well as the ability to associate tax refunds deposited to a debit card to a specific tax account.

PLANNED CORRECTIVE ACTION (F-3, R-3, P-1): Concurrent with IRS discussions with the FMS regarding limits and restrictions on direct deposit, the IRS will evaluate programming that can be implemented to quantify the number of direct deposits and associate refunds sent to the bank accounts and debit cards.

AGREED-TO COMPLETION DATE: 10/15/2014

DEFICIENCIES CONTINUE TO EXIST IN VERIFYING CONTRACTOR LABOR CHARGES PRIOR TO PAYMENT

REPORT NO.: 2012-11-101
DATE ISSUED: 09/19/2012

BACKGROUND: TIGTA is required to monitor the IRS's implementation of American Recovery and Reinvestment Act (Recovery Act) of 2009⁴⁰ provisions. The overall objective of this review was to assess the IRS's controls over contract invoice review, approval, and payment processes and to identify improper payments of Recovery Act funds made to contractors. The IRS received an appropriation of \$203 million in Recovery Act funds. TIGTA determined that the IRS did not have documentation supporting \$394,430 of the invoiced labor hours that were paid. When labor hours are not adequately verified, there is no assurance that Recovery Act funds are being used for authorized purposes.

FINDING (F-1): TIGTA's review determined that the IRS did not administer procurements funded by the Recovery Act in accordance with OMB Recovery Act guidance, relevant Federal Acquisition Regulation provisions, and IRS policies and procedures. TIGTA determined that contracting officer's technical representatives, who were responsible for the oversight of Recovery Act procurements, did not always ensure that documentation was received supporting billed labor charges. The unsupported labor charges related to work performed by both prime contractor employees and subcontractors used by the prime contractor. TIGTA identified that the IRS did not have documentation supporting \$394,430 in labor charges. When TIGTA brought this concern to IRS management's attention, the IRS responded that although it receives invoices totaling subcontractor labor charges, it did not ensure that supporting documentation was obtained for these charges prior to payment. For the unsupported labor charges relating to the prime contractor employees, the IRS incorrectly identified these individuals as subcontractors and, as such, no support was obtained. This is not in compliance with IRS internal guidance, which states that an invoice by itself is not sufficient documentation to support charges.

RECOMMENDATION (F-1, R-2): Ensure the validity of all labor charges for the procurement in which TIGTA identified as having a total of \$394,430 in unsupported labor charges. Actions should be initiated to recover any funds identified as being paid erroneously.

PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): The IRS agreed with this recommendation. The Office of Procurement Policy's Cost and Price Branch will review the labor charges associated with the TIRNO-06-D-0000 task order to ensure that all labor charges associated with the identified procurement are valid.

AGREED-TO COMPLETION DATE: 07/15/2014

⁴⁰ Pub. L. No. 111-5, 123 Stat. 115.

MANY TAXPAYERS ARE STILL NOT COMPLYING WITH NONCASH CHARITABLE CONTRIBUTION REPORTING REQUIREMENTS

REPORT NO.: 2013-40-009
DATE ISSUED: 12/20/2012

BACKGROUND: IRS controls are not sufficient to ensure that taxpayers are complying with noncash charitable contribution reporting requirements. Statistical samples of Tax Year 2010 tax returns that claimed more than \$5,000 in noncash charitable contributions showed that approximately 60 percent of the taxpayers did not comply the noncash charitable contribution reporting. These taxpayers claimed noncash contributions totaling approximately \$201.6 million.

FINDING (F-1): An analysis of statistical samples of large dollar noncash charitable contributions claimed on Tax Year 2010 returns shows that the IRS does not effectively identify claims when the required information is not provided or is incomplete. Approximately 60 percent of individuals in the TIGTA statistical samples did not comply with the reporting requirements. These individuals claimed approximately \$201.6 million in noncash charitable contributions. TIGTA estimates that more than 273,000 taxpayers claimed approximately \$3.8 billion in potentially unsubstantiated noncash contributions in Tax Year 2010, resulting in an estimated \$1.1 billion in revenue loss to the Federal Government.

RECOMMENDATION (F-1, R-2, P-1): The Commissioner, W&I Division, should
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PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): * * * * *
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AGREED-TO COMPLETION DATE: 11/15/2014

FURTHER EFFORTS ARE NEEDED TO ENSURE THE INTERNAL REVENUE SERVICE PRISONER FILE IS ACCURATE AND COMPLETE

REPORT NO.: 2013-40-011
DATE ISSUED: 12/18/2012

BACKGROUND: Despite increased efforts by the IRS to improve the accuracy of the Prisoner File, some prisoner information contained in the file is inaccurate, the file contains incomplete records, and not all facilities that house prisoners reported prisoners. As such, controls used to ensure that the IRS identifies fraudulent refunds on tax returns prepared by prisoners are not fully effective.

FINDING (F-1): Not all prisoner information contained in the Prisoner File is accurate, some records are incomplete, and the file does not contain information from all prisons. As a result, controls used to ensure that the IRS identifies fraudulent refunds on tax returns prepared by prisoners are not fully effective. The majority of the inaccuracies identified are attributed to the misinformation on and misidentification of the individual prisoners.

RECOMMENDATION (F-1, R-1): The Commissioner, W&I Division, should ensure the validation and verification of future IRS Prisoner Files include: ** *
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PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS is planning new programming that will encompass the Prisoner File. Evaluation of that programming will take place in April 2014.

AGREED-TO COMPLETION DATE: 04/15/2014

NOTE: TIGTA officials disagreed that the programming changes, as designed, would correct the deficiencies found.

TAXPAYER REFERRALS OF SUSPECTED TAX FRAUD RESULT IN TAX ASSESSMENTS, BUT PROCESSING OF THE REFERRALS COULD BE IMPROVED

REPORT NO.: 2013-40-022
DATE ISSUED: 02/20/2013

BACKGROUND: TIGTA determined that both SB/SE Division and W&I Division screeners improperly screened Forms 3949-A, *Information Referrals*. While improvements to the processes and better communication with the Accounts Management function will reduce the number of referrals the divisions receive, other issues affect the screeners' ability to research and identify referrals worthy of examination. Neither division has a routine review process to evaluate screened referrals not selected for examination. Routine checks of screened work would identify potential areas for improvement. In addition, the SB/SE Division does not have specific guidelines for screeners. More detailed guidelines would allow SB/SE Division screeners to be more consistent when evaluating referrals.

FINDING (F-1, R-5, P-1): The SB/SE and W&I Divisions spent approximately \$211,041 to screen the 102,465 Forms 3949-A received for FY 2012 and assessed more than \$29 million. The divisions should reevaluate the Form 3949-A program's effectiveness once corrective actions are complete and determine how much of their limited resources they should devote to the program. Increased efficiency may make it more cost efficient for the divisions to place a higher priority on these referrals.

RECOMMENDATION (F-1, R-5, P-1): The Commissioner, W&I Division, should assess the value of the Form 3949-A program once the IRS implements the corrective actions resulting from the previous TIGTA report,⁴¹ reassess the emphasis placed on the program, and prioritize it as needed.

PLANNED CORRECTIVE ACTION (F-1, R-5, P-1): IRS management will assess the value of the Form 3949-A program once the Accounts Management function implements the correction actions resulting from the previous TIGTA audit report.

AGREED-TO COMPLETION DATE: 01/15/2015

⁴¹ TIGTA, Ref. No. 2012-40-106, *The Process for Individuals to Report Suspected Tax Law Violations Is Not Efficient or Effective* p. 3 (Sept. 2012).

Providing Quality Taxpayer Service

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

Service challenges are present in several IRS components. For example, although the number of identity theft cases is increasing, TIGTA found that the IRS is not effectively providing assistance to victims of identity theft. For instance, identity theft cases are not worked timely and can take more than a year to resolve. Additionally, communications between the IRS and victims are limited and confusing, and victims are asked multiple times to substantiate their identity, thereby increasing the burden to these taxpayers. Finally, IRS guidelines are inconsistent, and not all functions within the IRS have guidelines for handling identity theft issues. In response in November 2011, the IRS established a Taxpayer Protection Unit to manage identity theft cases. However, during the 2012 Filing Season, taxpayers found it difficult to reach employees in this unit. The unit received more than 86,000 calls during the filing season, but was only able to answer about 21,000 of these calls. The average wait time for taxpayers was almost one hour.

Taxpayer demand for IRS assistance is significant. The IRS assisted approximately 2 million individuals at its walk-in Taxpayer Assistance Centers during the 2012 Filing Season. In addition, more taxpayers are calling the IRS's toll-free telephone lines every year, with approximately 90 million calls attempted to the various toll-free telephone assistance lines during the 2012 Filing Season. However, as a result of budget constraints, tax return preparation was provided only on a limited number of days per week, and the IRS did not provide the planned extended hours for the Taxpayer Assistance Centers. Additionally, a reduction in funding for toll-free telephone and correspondence services resulted in a Level of Service goal for FY 2012 of 61 percent, compared to the 70 percent the IRS achieved in FY 2011.

Furthermore, our review of the Taxpayer Advocate Service's (TAS) toll-free telephone lines determined that the TAS does not have a formalized process to track or analyze the calls received by the ASK-TAS1 toll-free line to assess the effectiveness of its outreach efforts in generating cases meeting TAS case criteria. Taxpayers specifically requesting TAS assistance have several telephone options, including the ASK-TAS1 toll-free line staffed by TAS personnel. Additional documentation and analysis are necessary to evaluate the

impact of the ASK-TAS1 toll-free line and ensure that proposed changes to the line provide the expected benefits without adversely affecting taxpayers.

The unimplemented corrective actions for this MMC follow.

THE TAXPAYER ADVOCATE SERVICE SHOULD REEVALUATE THE ROLES OF ITS STAFF AND IMPROVE THE ADMINISTRATION OF THE TAXPAYER ADVOCACY PANEL

REPORT NO.: 2009-10-121
DATE ISSUED: 09/29/2009

BACKGROUND: The Taxpayer Advocacy Panel (Panel) was established in Calendar Year 2002 to listen to taxpayers, identify “grass roots” issues, and make recommendations for improving the customer service provided by the IRS. The overall objective of this review was to determine whether the Panel is operating in accordance with its charter and whether the Panel and the TAS are using resources efficiently to promote improvements in IRS customer service.

FINDING (F-2): The TAS’s extensive level of involvement with the Panel raises concerns about the ability of the Panel to provide independent advice to the IRS. According to the charter, the TAS provides support services to the Panel. While some of the technical duties performed by the TAS may be considered “support” or liaison work, some of it may be seen as unintentionally influencing the Panel to select issues to work and/or determine potential recommendations. The Federal Advisory Committee Act of 1972⁴² stipulates that advisory committees must be free from inappropriate influence by the appointing authority or special interests. However, the Federal Advisory Committee Act does not outline specific steps that must be taken to ensure that this occurs. Consequently, each agency is responsible for developing specific operating procedures to ensure that its advisory committees can operate independently from the agencies they serve. Therefore, the National Taxpayer Advocate should revise the charter to clarify the TAS’s support role and establish additional guidance to ensure that the integrity of the Panel’s independence is maintained.

RECOMMENDATION (F-2, R-1): Reevaluate the roles of the staff assigned to assist the Panel and establish guidance to ensure that the Panel functions independently.

PLANNED CORRECTIVE ACTION (F-2, R-1, P-1): Include guidance on the liaison role of the Taxpayer Advocacy Panel (TAP) staff in the by-laws and the IRM.

STATUS: Finalizing draft by-laws for the TAP program was delayed to address changes required to reflect a refocus and reorganization of the TAP program for 2012 and 2013. This process includes the following steps and projected completion dates: Executive Director of Systemic Advocacy Review and Comments, 12/30/2012; National Taxpayer Advocate Review, 3/15/2013; Final Corrections made, 5/30/13; and Issue IRM, 8/15/2013.

AGREED-TO COMPLETION DATE: 09/30/2014

⁴² Pub. L. 92-463.

TAXPAYERS DO NOT ALWAYS RECEIVE QUALITY RESPONSES WHEN CORRESPONDING ABOUT TAX ISSUES

REPORT NO.: 2011-40-058
DATE ISSUED: 07/06/2011

BACKGROUND: In November 1998, the IRS issued Policy Statement P-6-12 requiring employees to initiate a response to taxpayer correspondence within 30 calendar days. Although most responses to taxpayers' correspondence that we tested were accurate, most responses were not timely. When taxpayers' issues are not addressed timely, taxpayers are mailed interim letters. However, none of the systemically issued interim letters provide taxpayers with any information specific to their accounts, and the content is not clear regarding what taxpayers need to do.

FINDING (F-1): Most taxpayers do not receive quality responses to their correspondence. Although the majority of responses to the taxpayers' correspondence tested were accurate and addressed all issues, not all taxpayers received responses as required, and most responses were not timely. Two statistical samples and one judgmental sample from three IRS functions showed that most taxpayers do not receive quality responses to their correspondence.

- Of 73 correspondence cases sampled from the Accounts Management function, only 14 taxpayers received timely and accurate responses.
- Of 48 correspondence cases sampled in the Automated Underreporter Program, all 48 taxpayers received accurate responses, but only 27 taxpayers received their responses timely.
- Of 73 correspondence cases from the Field Assistance Office, only six taxpayers received timely and accurate responses.

In addition, interim letters, required to be sent to taxpayers if a response cannot be issued within the 30 calendar days, were not always issued. Not all procedures are being followed. Cases are not properly categorized, suspended, or linked, and the quality review process does not ensure that all procedures were followed. Finally, the IRS is not following Policy Statement P-6-12 guidelines and has not implemented any measures or processes to monitor and evaluate Policy Statement P-6-12 correspondence to ensure that taxpayers receive timely responses to their correspondence.

RECOMMENDATION (F-1, R-3): Complete the study of the interim letters to ensure that they are strategically timed, alert taxpayers of delays and provide taxpayers with an accurate status and time period for case resolution, provide taxpayers with sufficient information to deter them from using other channels to contact the IRS regarding their case, and are clear and concise.

PLANNED CORRECTIVE ACTION (F-1, R-3, P-1): IRS management agreed with this recommendation and will complete a four-phase study of internal letters. After gathering more detailed data on the current process, the IRS plans to develop new or revised interim letters using the plain language guidelines and

modify the timing of interim letters to ensure that the IRS provides taxpayers with sufficient information in a timely manner.

STATUS: Phase I has been completed without the use of a special telephone number due to lack of availability. Contact Analytics data were collected and analyzed to provide business units with justification of needed corrective action. A call was set up with business units to discuss the data analysis. The business units requested additional data and analysis, which required significantly more time than anticipated. Once revisions are in place, the new letters will be evaluated for effectiveness.

AGREED-TO COMPLETION DATE: 01/15/2015

Human Capital

Human capital is the Federal Government's most critical asset, making strategic management of human capital a top priority of the IRS. Continued focus by IRS management on human capital will remain important because the IRS is facing several key challenges.

First, a wave of anticipated retirements presents a critical challenge in the human capital area. More than a third of all executives and almost 20 percent of nonexecutive managers are currently eligible for retirement, according to IRS data. By the end of FY 2017, nearly 70 percent of all IRS executives and nearly half of the IRS's nonexecutive managers are projected to be eligible for retirement. Overall, about 40 percent of the IRS's employees will be eligible to retire within five years. In FY 2013, the IRS experienced significant changes in its most senior executive leadership.

Further, the IRS's challenge of having the right people in the right place at the right time is made more difficult by many complex internal and external factors. Budget constraints have resulted in fewer personnel to accomplish the IRS's mission. Specifically, the IRS's workforce shrank by about 10,000 employees between the end of FY 2010 and the end of FY 2012. This reduction in employees possessing unique skills and institutional knowledge is particularly challenging as the number of tax returns the IRS processes continues to rise and the number of identity theft fraud cases the IRS works is also increasing. The IRS will also be required to implement provisions related to the ACA using its own operating budget in the future, further stretching its limited resources.

TIGTA reported that outstanding corrective actions in response to human capital audits require a continued focus by IRS management.⁴³ For example, TIGTA has found that the IRS needs to develop an agencywide strategy for integrating new employees into the workforce because some best practices that would help new employees become more productive were not fully implemented.

With a shrinking workforce and budget, the IRS will be challenged to successfully achieve its mission of providing America's taxpayers with top-quality service by helping them understand and meet their tax responsibilities and enforcing the law with integrity and fairness.

There are no significant unimplemented corrective actions for the Human Capital MMC this reporting period.

⁴³ TIGTA, Ref. No. 2013-10-017, *Improvements Have Been Made to Address Human Capital Issues, but Continued Focus Is Needed* (Jan. 2013).

Globalization

The IRS has significant compliance enforcement challenges caused by the scope, complexity, and magnitude of the international financial system. At the end of Calendar Year 2012, foreign business holdings and investments in the United States were \$25.5 trillion, an increase of nearly \$135 billion over Calendar Year 2011, while U.S. business and investments abroad grew to more than \$21.6 trillion, an increase of nearly \$1.5 billion during the same period.⁴⁴ The number of taxpayers conducting international business transactions continues to grow as technological advances provide opportunities for offshore investments that were once only possible for large corporations and wealthy individuals.

As advancing technology continues to allow more cross-border transactions, the IRS is increasingly challenged by a lack of information reporting on many of them. In addition, the varying legal requirements imposed by different jurisdictions lead to the creation of complex business structures that are not easy to understand, making determination of the full scope and effect of cross-border transactions extremely difficult.

As this global economic activity increases, so do concerns regarding the International Tax Gap.⁴⁵ While the IRS has not developed an accurate and reliable estimate of the International Tax Gap, non-IRS sources estimate it to be between \$40 billion and \$133 billion annually. To address the International Tax Gap, the IRS developed an international tax strategy plan with two major goals: 1) enforce the law to ensure that all taxpayers meet their obligations and 2) improve service to make voluntary compliance less burdensome.

The IRS currently faces the challenge of implementing the Foreign Account Tax Compliance Act (FATCA).⁴⁶ The FATCA was enacted to combat tax evasion by U.S. persons holding investments in offshore accounts. Under this act, a U.S. taxpayer with financial assets outside the United States will be required to report those assets to the IRS. In addition, foreign financial institutions will be required to report to the IRS certain information about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. The IRS is developing a new international system, the Foreign Financial Institution Registration System, to support the requirements of FATCA. This system is intended to register foreign financial institutions to assist in achieving the primary objective of the FATCA which is the disclosure of U.S. taxpayer foreign accounts. TIGTA reviewed the development of this system and

⁴⁴ Bureau of Economic Analysis, Department of Commerce.

⁴⁵ Taxes owed but not collected on time from a U.S. person or foreign person whose cross-border transactions are subject to U.S. taxation.

⁴⁶ Pub. L. No. 111-147, Subtitle A, 124 Stat 71, *96-116 (2010)(codified in scattered sections of 26 U.S.C.).

reported that the program management control processes did not timely identify or communicate system design changes to ensure its successful deployment.⁴⁷

Concerns about the International Tax Gap have also led to increased enforcement efforts on international information reporting requirements and increased assessments of related penalties. For example, the IRS has automated the penalty-setting process for Form 5471, *Information Return of U.S. Persons With Respect to Certain Foreign Corporations*, which has resulted in a total of \$215.4 million in late-filed Form 5471 penalty assessments during FYs 2009 through 2012.⁴⁸

In addition, the IRS established the International Campus Compliance Unit to expand audit coverage of tax returns with international aspects and to increase compliance among international individual taxpayers. For FY 2011 through March 13, 2013, the Campus Compliance Unit conducted almost 18,000 audits and assessed approximately \$36 million in additional tax. Despite its accomplishments, TIGTA found that the Campus Compliance Unit has no specific performance measures for its operations.⁴⁹

There are no significant unimplemented corrective actions for the Globalization MMC this reporting period.

⁴⁷ TIGTA, Ref. No. 2013-20-118, *Foreign Account Tax Compliance Act: Improvements Are Needed to Strengthen Systems Development for the Foreign Financial Institution Registration System* (Sept. 2013).

⁴⁸ TIGTA, Ref. No. 2013-30-111, *Systemic Penalties on Late-Filed Forms Related to Certain Foreign Corporations Were Properly Assessed, but the Abatement Process Needs Improvement* (Sept. 2013).

⁴⁹ TIGTA, Ref. No. 2013-30-113, *The International Campus Compliance Unit Is Improving Individual Tax Compliance* (Sept. 2013).

Taxpayer Protection and Rights

The IRS must ensure that tax compliance activities are balanced against the rights of taxpayers to receive fair and equitable treatment. The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998.⁵⁰ The following audits related to taxpayer rights provisions are mandated annually: Notices of Levies; Restrictions on the Use of Enforcement Statistics to Evaluate Employees; Fair Debt Collection Practices Act Violations; Notices of Liens; Seizures; Illegal Protestor Designations; Assessment Statute of Limitations; Collection Due Process Appeals; Denial of Requests for Information; Restrictions on Directly Contacting Taxpayers Instead of Authorized Representatives; and Separated or Divorced Joint Filer Requests.

In general, the IRS has improved its compliance with these statutory taxpayer rights provisions and in documenting that taxpayer rights were protected. However, TIGTA continues to identify the same deficiencies in the IRS's processing of collection due process cases. TIGTA reported in July 2012⁵¹ that the Office of Appeals did not always classify taxpayer requests properly and, as a result, some taxpayers received the wrong type of hearing. TIGTA also identified an increase in errors relating to the determination of the collection statute expiration date on taxpayer accounts. In addition, TIGTA reported that Appeals personnel continue to fail to document their impartiality in all cases. These deficiencies may result in taxpayers not receiving their full rights during an appeal hearing. As previously noted, the IRS is seeing a significant growth in identity theft cases. Identity theft remains the single largest type of complaint submitted to the Federal Trade Commission's Consumer Sentinel Network.⁵² The Federal Trade Commission estimates that as many as nine million Americans have their identities stolen each year. Identity theft affects the IRS and tax administration in two ways—fraudulent tax returns and misreporting of income.⁵³ Both can potentially harm taxpayers who are the victims of identity theft.

⁵⁰ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered section of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁵¹TIGTA, Ref. No. 2012-10-077, *Office of Appeals Errors in the Handling of Collection Due Process Cases Continue to Exist* (July 2012).

⁵² The Federal Trade Commission's Consumer Sentinel Network is an investigative cybertool and complaint database, restricted to law enforcement use, which provides civil and criminal enforcement organizations immediate and secure access to identity theft and other consumer complaints.

⁵³ The Federal Trade Commission's Identity Theft website, *What is Identity Theft?*, <http://www.consumer.ftc.gov/media/video-0023-what-identity-theft> (last visited Dec 13, 2013).

suitability checks on delegated users will, consequently, eliminate the need to disable the e-Services principal consent feature.

STATUS: The ETARC organization originally submitted a work request for this recommendation in FY 11. The ETARC organization was dissolved in 2011. The Return Preparer Office (RPO) submitted a new work request on July 17, 2012. The work request includes enhancements to ensure that the system will not allow delegated users to have e-Services and e-file application permissions until suitability is in “pass” status. In addition, the RPO identified key statistics on Delegated Users and Principal Consents suitability statuses. There are 76.7 percent of registered Delegated Users with access to e-Services products that have a PTIN and are subject to suitability checks. The RPO identified 1,330 registered individuals of 22,039 (Delegated Users and Principal Consents) who do not have a PTIN and can currently access the e-Services incentive products.

AGREED-TO COMPLETION DATE: 10/15/2015

RECOMMENDATION (F-1, R-3): To reduce the risk of human error and the amount of time needed for manually conducting a tax compliance check for an e-file applicant’s spouse, the Chief Technology Officer should enhance the e-file application on the Third-Party Data Store to post the complete results of the Automated Suitability Analysis Program’s spouse tax compliance check.

PLANNED CORRECTIVE ACTION (F-1, R-3, P-1): The IRS agreed with this recommendation. The IRS checks the tax compliance of the associated primary or secondary SSNs of the jointly filed returns of e-file principals and responsible officials. An e-file applicant’s spouse would only be checked for joint tax compliance and does not go through any other suitability check because they are not listed in any roles on the e-file application and not subject to participation rules. Because the requested action will be subject to funding and resources prioritization by the MITS organization, submission of the work request will complete the corrective action.

STATUS: The RPO submitted a new work request on July 17, 2012. The work request includes programming changes to the Third-Party Data Store so that complete results of the Automated Suitability Analysis Program’s spouse tax compliance check are posted. The RPO is requesting an extension to allow for processing and approval of the new work request.

AGREED-TO COMPLETION DATE: 10/15/2015

RECOMMENDATION (F-1, R-5): To make passwords more difficult to guess by unauthorized individuals and to decrease the use of SSNs as usernames, the Director should:

Request the Chief Technology Officer to enhance the identification and authorization component of the RUP to require passwords to contain a mix of lowercase and uppercase letters, set the password length to 12 characters, and prevent the use of SSNs as usernames.

Obtain the required thorough assessment, recommendation, and approval from the Cybersecurity office and approval from the Designated Approval Authority to deviate from the IRS password expiration and history requirements.

PLANNED CORRECTIVE ACTION (F-1, R-5, P-1): Password Complexity: The IRS agreed with two of the three components of the first portion of the recommendation. The IRS agreed to prevent the use of SSNs as usernames and to require passwords to contain a mix of lowercase and uppercase letters. The IRS disagreed with the recommendation to increase the password length to 12 characters. IRM 10.8.1, Information Technology (IT) Security, Policy and Guidance, revised July 31, 2009, established a required minimum password length of eight characters for all systems except the Windows operating system. Therefore, the RUP remains in compliance with the minimum password length requirement.

For the second portion of the recommendation, the IRS stated that, *** **

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AGREED-TO COMPLETION DATE: 09/15/2014

RECOMMENDATION (F-1, R-6): To prevent hackers from forcing their way into the RUP, the Director, ETARC, should request the Chief Technology Officer to implement a control to allow users to answer a series of challenge questions to unlock their accounts.

PLANNED CORRECTIVE ACTION (F-1, R-6, P-1): The IRS agreed with this recommendation. The IRS will submit a UWR by January 15, 2011, requesting programming modifications to include a series of challenge questions to unlock a user account. Because the requested action will be subject to funding and

resource prioritization by the MITS organization, submission of the UWR will complete the corrective action. Furthermore, other resource issues need to be evaluated to address additional costs (staff telephones and/or enhancement to the application) associated with implementing this corrective action.

STATUS: Planned corrective action was extended due to the RUP migration and the e-Services reengineering taking priority. In the interim, a new UWR will be submitted to obtain a more current cost estimate. Past work requests were deemed “Not Mission Critical” and not driven by legislative need.

AGREED-TO COMPLETION DATE: 09/15/2014

Achieving Program Efficiencies and Cost Savings

Given the current economic environment and the increased focus by the Administration, Congress, and the American people on Federal Government accountability and efficient use of resources, the American people must be able to trust that their Government is taking action to stop wasteful practices and ensure that every tax dollar is spent wisely. During the Fall of 2011 through Summer 2012, numerous Department of the Treasury, OMB, Presidential executive orders, and other guidance documents were issued to ensure that the Government is a good steward of taxpayer money by identifying opportunities to promote efficient and effective spending and eliminating excess spending on conferences and travel.

This management challenge is even more compelling given the IRS's FY 2012 budget, which was reduced more than \$300 million from FY 2011, approximately a 2.5 percent cut. As a result, the IRS reduced its administrative costs, offered early outs and buy outs, and made difficult decisions in taxpayer service and enforcement operations.

While the IRS has made progress in using its data to improve program effectiveness and reduce costs, this area continues to be a major challenge. In a recent audit, we assessed the IRS's progress in achieving real estate cost savings to meet the President's FY 2012 Federal real estate cost savings goals. On June 10, 2010, President Obama directed Government agencies to eliminate excess properties and achieve \$3 billion in savings by the end of FY 2012. Our review found that the IRS achieved some cost savings in support of the President's goal. However, these efforts are impeded by the lack of an established policy and effective strategy on implementing workstation sharing by IRS employees who telework. A policy requiring employees who telework to share workstations would allow the IRS to further reduce its long-term office space needs and achieve additional cost savings. This would allow the IRS to reduce its office space needs by almost 1 million square feet, resulting in potential rental savings of approximately \$111.4 million over five years.⁵⁴

There are no significant unimplemented corrective actions for the Achieving Program Efficiencies and Cost Savings MMC this reporting period.

⁵⁴ TIGTA, Ref. No. 2012-10-100, *Significant Additional Real Estate Cost Savings Can Be Achieved by Implementing a Telework Workstation Sharing Strategy* (Aug. 2012).