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

Redaction Legend:
2F=Law Enforcement risk circumvention of Agency statute
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 second annual Compendium of Unimplemented Corrective Actions as of September 30, 2014, 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 as shown in the September 30, 2014, Semiannual Report. The Compendium correlates the significant unimplemented corrective actions by Major Management Challenge. The Compendium lists open unimplemented corrective actions from the September 30, 2014, Semiannual Report and reflects any changes in the interim through February 15, 2015.

Additionally, we have included a hierarchical list of the 10 most important unimplemented corrective actions in Appendix II. We have also included a list of the significant unimplemented corrective actions where the original completion date has been rescheduled into a new fiscal year.

The Compendium is part of TIGTA’s strategy to promote a strong internal control environment in the IRS. In this regard, TIGTA collaborated with IRS managers and executives responsible for audit follow-up. 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.

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1 The Compendium starts with the significant unimplemented corrective actions as reported in the September 30, 2014 Semiannual Report. The Compendium updates the Semiannual Report to reflect changes and closures through February 15, 2015.
2 The hierarchical list was determined by the Office of Audit. The criteria to create the ranking was (1) centrality to achieving the core mission and objectives of the IRS; (2) materiality to the revenue collected or the budget; and (3) sensitivity of the issue to the reputation of the IRS.
Compendium of Unimplemented Corrective Actions

Background

Departmental and agency management have the responsibility for establishing and maintaining adequate systems of management controls. The Federal Managers’ Financial Integrity Act of 1982\(^3\) amended the Accounting and Auditing 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 Circular A-50\(^4\) 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, Department of the Treasury Directive 40-03\(^5\) 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).\(^6\) 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 four-year period of Fiscal Year (FY) 2011 through FY 2014, TIGTA issued 481 reports and the Government Accountability Office (GAO) issued 85 reports with a combined total of 1,608 recommendations. Altogether, there were 1,956 planned corrective actions due during the time period; according to the IRS, more than 97 percent of the planned corrective actions were completed on time within the period.

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\(^3\) 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.


\(^5\) Department of the Treasury, TD 40-03 (revised), Treasury Audit Resolution, Follow-Up, and Closure (Feb. 2001).

\(^6\) 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 is found in IRM 1.4.2 (Dec. 14, 2012). The Audit Process for General Accountability Office (GAO) and Treasury Inspector General for Tax Administration (TIGTA) is 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),\(^7\) 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. Corrective actions closed between October 1, 2014 and February 15, 2015 are not included in the compendium as unimplemented.

\(^7\) Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the areas of highest vulnerabilities to the Nation’s tax system. For FY 2015, the top management and performance challenges, in order of priority, are: 1) Security for Taxpayer Data and IRS Employees; 2) Implementing the Affordable Care Act and Other Tax Law Changes; 3) Tax Compliance Initiatives; 4) Fraudulent Claims and Improper Payments; 5) Achieving Program Efficiencies and Cost Savings; 6) Modernization; 7) Providing Quality Taxpayer Service Operations; 8) Globalization (no unimplemented corrective actions outstanding); 9) Taxpayer Protection and Rights (no unimplemented corrective actions outstanding); and 10) Human Capital.
## Glossary of Terms and Abbreviations

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<td>Affordable Care Act</td>
<td>ACA</td>
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<td>Automated Insolvency System</td>
<td>AIS</td>
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<td>Bring Your Own Device</td>
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<td>Customer Account Data Engine 2</td>
<td>CADE 2</td>
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<td>Earned Income Tax Credit</td>
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<td>Internal Revenue Manual</td>
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<td>Major Management Challenge</td>
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Security for Taxpayer Data and Internal Revenue Service Employees

The IRS is the Nation’s Federal tax administrator. During FY 2013, the IRS:

- Collected more than $2.8 trillion in gross taxes;
- Processed more than 240 million Federal tax returns and supplemental documents;
- Provided more than 120 million refunds, which totaled more than $364 billion; and
- Received and processed almost 2.1 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 relies extensively on its computer systems to support both its financial and mission-related operations. Effective information systems security is essential to ensure that data are protected against inadvertent or deliberate misuse, improper disclosure or destruction, and that computer operations supporting tax administration are secured against disruption or compromise. Protecting the confidentiality of this sensitive information is paramount. Otherwise, taxpayers could be exposed to the loss of privacy and to financial loss and damages resulting from identity theft or other financial crimes.

According to an Office of Management and Budget (OMB) report to Congress, threats to Federal information—whether from insider threat (e.g., mistakes, as well as fraudulent or malevolent acts by employees or contractors), criminal elements, or nation states—continue to grow in number and sophistication, creating risks to the reliable functioning of our Government. The IRS faces the daunting task of securing its massive computer systems against this growing threat. According to the Department of Homeland Security’s U.S. Computer Emergency Readiness Team, Federal agencies reported 60,753 cyberattacks in FY 2013, an increase of about 26 percent from FY 2012.

Computer security has been problematic for the IRS since 1997. In April 2014, the GAO reported that the IRS is making progress in addressing information security control weaknesses; however, the GAO noted that weaknesses remain that could affect the confidentiality, integrity, and availability of financial and sensitive taxpayer data.

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10 GAO-14-405, IRS Needs to Address Control Weaknesses That Place Financial and Taxpayer Data at Risk (Apr. 2014).
TIGTA also continues to identify significant security weaknesses in this area. During a review to determine whether closed corrective actions to security weaknesses and findings reported by TIGTA have been fully implemented, we found that eight of the 19 planned corrective actions had not been fully implemented and should not have been closed. These planned corrective actions involved systems containing taxpayer data. TIGTA also reported that taxpayer and other sensitive information may be at risk due to a lack of background investigation requirements in five contracts for courier, printing, document recovery, and sign language interpreter services. For example, in one printing services contract, the IRS provided the contractor a computer disk containing 1.4 million taxpayer names, addresses, and Social Security Numbers; however, none of the contractor personnel who worked on this contract were subject to a background investigation. By allowing contractor personnel access to taxpayer data and other sensitive information without the appropriate background investigation, the IRS exposes taxpayers to increased risk of fraud and identity theft.

Beyond safeguarding a vast amount of sensitive financial and personal data, the IRS must also protect more than 92,000 people working in more than 650 facilities nationwide. Physical violence, harassment, and intimidation of these employees pose significant challenges to the implementation of a fair and effective system of tax administration.

The IRS has approximately 25,000 frontline employees who have direct contact with taxpayers and their representatives. While the IRS has programs that focus on employee protection, including the Potentially Dangerous Taxpayer and Caution Upon Contact programs, the IRS has not developed sufficient procedures to enable frontline employees to readily identify whether a taxpayer representative has been designated as a Potentially Dangerous Taxpayer or Caution Upon Contact. The safety of frontline employees, others working in the same facilities, and taxpayers is at risk when these employees unknowingly meet with potentially dangerous taxpayer representatives.

In the last four years, threats directed at the IRS have become the second largest component of the workload of TIGTA’s Office of Investigations. Between FYs 2011 and 2013, TIGTA processed more than 8,200 threat-related complaints. This resulted in nearly 4,000 threat investigations that required the prompt response of TIGTA special agents to mitigate those threats and

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determine whether criminal prosecutions of the perpetrators making the threats were warranted. The continuing public debate surrounding the Patient Protection and Affordable Care Act (ACA)\textsuperscript{14} and increased scrutiny over Federal Government spending and management could fuel threats against the Federal Government, including IRS employees and facilities.

The significant unimplemented recommendations for this MMC follow.

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): The Directors of Collection Policy, Filing and Payment Compliance and Advisory, Insolvency, and Quality, should identify incompatible duties and implement policies to segregate those duties.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): A role-based access control system is currently being developed which will define the roles of users and designate specific access privileges to their defined AIS profiles.

STATUS: A work request was input to allow capture of information. Based on workload, the request is scheduled to be completed.

ORIGINAL PLANNED COMPLETION DATE: 01/15/2012
AGREED-TO COMPLETION DATE: 11/15/2016
BETTER COST-BENEFIT ANALYSIS AND SECURITY MEASURES ARE NEEDED FOR THE BRING YOUR OWN DEVICE PILOT

REPORT NO.: 2013-20-108
DATE ISSUED: 09/24/2013

BACKGROUND: The IRS has not completed a full cost-benefit analysis for the Bring Your Own Device (BYOD) pilot. While the IRS did prepare a simple cost analysis that compared the estimated cost of BYOD to the cost of the IRS’s existing BlackBerry® and cell phone programs prior to starting the BYOD pilot, the analysis was not updated with complete information on assumptions and costs. Consequently, as the pilot expanded, IRS managers relied on the original assumptions and cost projections in the analysis, which did not provide a sufficient basis for informed decision making.

FINDING (F-2): Because the BYOD pilot takes place in the production environment, standard security controls should apply. The IRS allows BYOD devices access to resources on the IRS network in addition to providing e-mail access, increasing the risk that the privacy and integrity of taxpayer data could be compromised.

RECOMMENDATION (F-2, R-4): The Chief Technology Officer should provide periodic refresher training for BYOD participants that clearly explain the risks associated with personal mobile devices, how these can potentially expose the IRS network to unauthorized accesses and malware, the consequences of such breaches, and how to prevent or reduce the possibility of causing such a security breach.

PLANNED CORRECTIVE ACTION (F-2, R-4, P-1): The IRS agrees with this recommendation contingent on funding. If the decision is made to continue the existing technology demonstration or expand the program, the IRS will develop security training materials for BYOD participants that clearly explain the additional security threats associated with personal mobile devices and IRS data, as well as best practices to mitigate these threats and reduce risk to agency information and resources.

ORIGINAL PLANNED COMPLETION DATE: 02/25/2015
Implementing the Affordable Care Act  
and Other Tax Law Changes

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Correctly implementing tax law changes remains a significant challenge because the legislative actions generating the changes often occur late in the year, shortly before the filing season begins. As a result, the IRS must often act quickly to assess the changes and determine the necessary actions to ensure that all legislative requirements are satisfied. Errors in the IRS’s tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, and/or result in incorrect taxpayer notices.

The ACA represents the largest set of tax law changes in more than 20 years and presents a continuing challenge for the IRS as provisions take effect. Changes in the implementation of ACA tax provisions could result in increased demand for customer service assistance resulting in more contacts with the IRS. Depending on the nature of any changes, the IRS’s strategy and plans to provide adequate customer service could be affected. This is particularly important because beginning in January 2015, the IRS will take the lead in providing ACA-related customer service to taxpayers.15

The ACA provision which imposed an excise tax on medical devices became effective in Calendar Year 2013. Manufacturers, producers, and importers are responsible for collecting the excise tax and filing Form 720, Quarterly Federal Excise Tax Return. The IRS is attempting to develop a compliance strategy to ensure that businesses are compliant with medical device excise tax filing and payment requirements. However, the IRS still cannot identify the population of medical device manufacturers registered with the Food and Drug Administration that are required to file a Form 720 and pay the medical device excise tax.16

TIGTA remains concerned about the protection of confidential taxpayer data that will be provided to the Federal and State Health Insurance Exchanges. We determined that the steps the IRS took to provide assistance to the Exchanges were helpful; however, additional procedures are needed to provide greater assurance that Federal tax information is protected prior to its release. IRS procedures do not require the Exchanges to submit an initial independent Security Assessment Report that could help evaluate risk levels at the individual agencies and be used to prioritize on-site reviews. Without sufficient and complete information regarding the status of required security controls, the IRS

might approve the release of Federal tax information to an environment that puts the information at risk of unauthorized disclosure or misuse.\textsuperscript{17}

The ACA provides for a refundable tax credit, the Premium Tax Credit, to offset an individual’s health insurance expenses. Like other refundable credits, the Premium Tax Credit carries a risk for improper payments. The IRS informed us that two new systems are under development that will address ACA tax refund fraud risk. However, until these new systems are successfully developed and tested, TIGTA remains concerned that the IRS’s existing fraud detection system may not be capable of identifying ACA refund fraud or schemes prior to the issuance of tax refunds.

The significant unimplemented recommendation for this MMC follows.

BACKGROUND: The IRS’s role with respect to the ACA is to implement and administer the ACA provisions that have an impact on tax administration. The IRS’s implementation plan for ACA Exchange provisions includes providing information that will support the Department of Health and Human Services and the Exchanges in three main areas: (1) eligibility and enrollment; (2) developing calculations for the maximum Advance Premium Tax Credit; and (3) reconciling Premium Tax Credits with reported taxable income. While the Department of Health and Human Services is leading development efforts for ACA policy provisions, the legislation requires the IRS to build new computer applications, modify existing systems, create or revise business processes and fraud detection systems, and deploy and test new interagency communication portals to support ACA operations.

FINDING (F-4): The IRS’s current IRM does not address management’s responsibility for managing, monitoring, and mitigating fraud risk with the development of new information technology systems for the ACA. Further, the ACA Program has not yet completed a fraud mitigation strategy to guide ongoing systems development.

RECOMMENDATION (F-4, R-1): The Chief Technology Officer should ensure that the IRM is updated to provide specific guidance on how IRS management is to effectively manage, monitor, and mitigate fraud risk for information technology systems.

PLANNED CORRECTIVE ACTION (F-4, R-1, P-1): Analysis is already occurring in the implementation of the ACA, and the IRS agrees that the appropriate IRM sections should be up to date to ensure that fraud risk is considered in developing requirements and systems capabilities as part of every legislative implementation project.

STATUS: An extension is needed to research, analyze, and create examples to help guide development of new code for the various systems.

ORIGINAL PLANNED COMPLETION DATE: 09/25/2014
AGREED-TO COMPLETION DATE: 10/25/2015
Tax Compliance Initiatives

Increasing budgetary pressure has led to a reduction of IRS resources in the enforcement area, which has impacted tax compliance. Since FY 2010, the number of enforcement personnel has decreased by 20 percent, from 17,206 in FY 2010 to 13,696 at the end of FY 2013. The decline in IRS personnel has contributed to a decrease in the number of examinations and an increase in the number of delinquent tax accounts that are assigned to an inactive status. Although we identified some positive indicators in compliance activities, the negative trends are cause for concern, especially given that diminished enforcement could also affect voluntary compliance over time.\(^{18}\)

**Businesses and Individuals**

The underreporting of individual and corporate income, employment, and estate taxes, at $376 billion a year, accounts for the largest portion of the $450 billion Tax Gap, which is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year. The IRS addresses this gap by attempting to identify questionable tax returns when they are received and processed and by conducting examinations of tax returns filed to determine if any adjustments to the information reported on the tax returns are needed. In addition, the IRS issues notices and contacts taxpayers to collect the delinquent taxes. If necessary, the IRS takes enforcement action, such as filing liens and seizing assets, to collect the taxes.

The IRS Commissioner testified in May 2014 that the IRS expects the Federal Government will lose almost $3 billion in revenue in FY 2014 as a result of key enforcement programs operating well below historical levels. This includes the IRS performing 100,000 fewer individual audits and significant declines in audits of high-wealth individuals, businesses, and partnerships.

TIGTA recently reviewed the IRS’s Delinquent Return\(^{19}\) Refund Hold Program (Program) that addresses taxpayer filing compliance by delaying issuance of a taxpayer’s income tax refund for up to six months while the IRS investigates a return delinquency on another tax year. The refund can be used to offset any balance due on a taxpayer’s delinquent return. The Program helps to reduce the Tax Gap by increasing revenue at a lower cost and in a shorter time period than assigning a return delinquency to a revenue officer who attempts to obtain the delinquent return. As part of the Program, the IRS holds refunds that meet certain criteria, including a specific dollar threshold.

Program results show that taxpayers whose refunds are held are significantly more likely to resolve return delinquencies on previous tax years than taxpayers

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\(^{19}\) A tax return is delinquent if a taxpayer does not file the return with the IRS by the due date (including extensions) for any year in which a filing requirement exists.
whose refunds are not held. In Calendar Year 2012, the Program collected nearly $242 million which was applied to balances due on delinquent returns. Because of limited resources, the IRS has been unable to expand the Program’s use, even though there could be tangible benefits in doing so. In the current budget environment, lowering the threshold and expanding the Program represents an opportunity to increase both taxpayer filing compliance and revenue dollars at a lower cost than traditional collection programs, such as assigning cases to revenue officers in the field.20

**Tax-Exempt Entities**

In its most recent Strategic Plan, the IRS noted the complexity of tax laws related to the administration of tax-exempt and government entities. While these entities are not subject to Federal income tax, they represent a significant aspect of tax administration with approximately 2.5 million entities holding $18 trillion in assets. The IRS’s prior use of inappropriate criteria for selecting and reviewing applications for tax-exempt status has been a significant concern to Congress and to organizations seeking tax-exempt status. There have been a number of congressional hearings and investigations into this matter. It is likely that the IRS will continue to receive scrutiny in the exempt organizations area in FY 2015, and its actions will be reviewed by TIGTA.

Similar to for-profit employers, tax-exempt organizations with compensated employees are required to pay payroll taxes that are withheld from employees’ wages “in trust” for the Federal Government as well as other applicable Federal taxes. Payroll taxes required to be withheld from employees and matched by the tax-exempt organization generally consist of income taxes and Old Age, Survivors, and Disability Insurance, commonly referred to as Social Security and Medicare taxes. TIGTA found that more than 64,200 tax-exempt organizations accumulated nearly $875 million in Federal tax debt as of June 16, 2012. While some organizations owed minor amounts, approximately 1,200 tax-exempt organizations owed more than $100,000 each.21 We reviewed a judgmental sample of 25 Internal Revenue Code Section 501(c)(3) tax-exempt organizations that appeared to have significant Federal tax noncompliance.22 The IRS tried to resolve the tax liabilities and collection action has been taken on all 25 tax-exempt organizations and most officers of the organizations that we reviewed.

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22 These 25 organizations had Federal tax debt totaling more than $25 million, incurred delinquencies in five or more tax periods, and accepted funding from Medicare, Medicaid, and Government grants. These organizations are not representative of all delinquent organizations but appear to be among the worst examples of the more than 64,200 tax-exempt organizations with delinquent Federal taxes. Thus, the results from these 25 cases cannot be projected to the more than 64,200 tax-exempt organizations with delinquent Federal taxes.
We recommended the IRS periodically complete analyses to identify and evaluate tax-exempt organizations with significant unpaid payroll and other Federal taxes and that receive funding from Government grants and pay large salaries to executives and officers to determine if there are any tax-exempt issues that may warrant examinations.

The significant unimplemented recommendations for this MMC follow.
THE CORRESPONDENCE AUDIT SELECTION PROCESS COULD BE STRENGTHENED

REPORT NO.: 2013-30-077  
DATE ISSUED: 08/27/2013

BACKGROUND: The IRS relies heavily on the correspondence audit process to address individuals suspected of underreporting their income tax liabilities. This reliance will likely continue in the coming years because correspondence audits result in significant additional tax assessments, which helps decrease the Tax Gap and increase compliance. They also are more economical than other types of audits.

IRS statistics show that in FYs 2008 through 2012 the IRS conducted about 5.7 million correspondence audits and recommended approximately $40.4 billion in additional taxes. This represents about 76 percent of all audits the IRS conducted of individual tax returns and 56 percent of the estimated $72.5 billion in recommended additional taxes from those audits.

FINDING (F-1): TIGTA evaluated a statistical sample of 102 single-year correspondence audits of individual tax returns closed between April 1, 2010, and March 31, 2011, in which each of the taxpayers involved agreed that they understated their tax liabilities by at least $4,000. Similar tax issues also existed for the prior and/or subsequent tax years tax returns filed by 43 of the 102 taxpayers. Yet, IRS records showed that 32 of the 43 taxpayers’ prior and/or subsequent tax year returns were not audited. Had the prior and/or subsequent tax returns for these 32 taxpayers been audited for the similar tax issues, TIGTA estimates the potential additional tax, penalty, and interest assessments would range from $2,343 to $18,874.

RECOMMENDATION (F-1, R-1): The Director, Campus Compliance Services, Small Business/Self-Employed Division, should develop and implement procedures in the IRM that instruct how current year correspondence audit results are to be used in deciding whether the prior and/or subsequent year tax returns warrant an audit. To ensure that the instructions are properly followed, the procedures should include instructions for monitoring how well current year correspondence audit results are used in deciding to audit prior and/or subsequent year tax returns.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS will develop an IRM section that will address the duties and responsibilities of the Workload Selection and Delivery Analysts, the case selection and delivery process, and the role of the Correspondence Exam Tax Examiners. The IRM will include the handling of prior and subsequent year returns on Discretionary cases that are delivered by the Campus Reporting Compliance and monitoring actions.

STATUS: The Small Business/Self-Employed Division Campus Reporting Compliance has developed the draft IRM to address the duties and responsibilities of Workload Selection and Delivery for Correspondence Exam. Form 1767, Publishing Service Requisition, has been completed and the IRM...
Compendium of Unimplemented Corrective Actions

has been numbered (4.19.25). Additional time is needed for clearance and formal publishing.

ORIGINAL PLANNED COMPLETION DATE: 09/15/2014
AGREED-TO COMPLETION DATE: 06/15/2015
**Compendium of Unimplemented Corrective Actions**

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<th>CONTRACTOR EMPLOYEES HAVE MILLIONS OF DOLLARS OF FEDERAL TAX DEBTS</th>
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<tr>
<td>REPORT NO.: 2013-10-082</td>
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<td>DATE ISSUED: 08/30/2013</td>
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<td><strong>BACKGROUND:</strong> Federal agencies of the U.S. Government contract with independent contractor companies to accomplish Government business. Because Federal contractors and their employees are frequently paid in whole or in part from funds appropriated by Congress, it is imperative that these entities and their employees remain in full compliance with all Federal tax laws. The IRS collected about $2.4 trillion in Federal taxes in FY 2011 and employed approximately 93,000 Federal employees. In addition to Federal employees, the IRS also maintains a contractor employee workforce, many of whom work side by side with IRS employees. As of June 2012, there were approximately 14,500 IRS contractor employees assigned to active contracts who had “staff-like” access (unescorted access) to IRS facilities and/or access to sensitive but unclassified data in IRS information systems.</td>
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<td><strong>FINDING (F-1):</strong> Although the IRS has controls to prevent contractor employees who have Federal tax debts or who have not filed required Federal tax returns from obtaining staff-like access, TIGTA found weaknesses in the IRS’s existing practices that allowed contractor employees with Federal tax debts and instances of nonfiling to go undetected after staff-like access was initially granted.</td>
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<td><strong>RECOMMENDATION (F-1, R-1):</strong> The IRS Chief Human Capital Officer should establish and implement policies and procedures to require that contractor employee background investigation revalidations, which occur when a contractor employee has had two-years or more break in service, require a tax compliance component.</td>
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<td><strong>PLANNED CORRECTIVE ACTION (F-1, R-2, P-1):</strong> The IRS currently conducts a tax check during the pre-screening phase and as part of the reinvestigation process conducted every five years. The IRS will incorporate tax compliance checks during the revalidation process.</td>
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<tr>
<td><strong>STATUS:</strong> A new proposed IRM policy has been drafted and awaiting final approval.</td>
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<td><strong>ORIGINAL PLANNED COMPLETION DATE:</strong> 02/15/2014</td>
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<tr>
<td><strong>AGREED-TO COMPLETION DATE:</strong> 05/15/2015</td>
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<tr>
<td><strong>RECOMMENDATION (F-1, R-3):</strong> The IRS Chief Human Capital Officer should ensure that any contractor employees we identified in this report as potentially noncompliant are further evaluated and that any contractor employees who are not tax compliant are promptly brought into compliance or removed from IRS contracts (including removal of access to IRS facilities, information systems, and taxpayer data).</td>
</tr>
</tbody>
</table>
PLANNED CORRECTIVE ACTION (F-1, R-3, P-1): The IRS secured additional information on the contractor employees identified in this report as potentially noncompliant and has begun reviewing the 691 records to determine if they are still active contractor employees and whether they are still potentially noncompliant. The IRS plans to carefully evaluate each of these cases and refer them for additional action as appropriate.

STATUS: The Human Capital Officer and Agency-Wide Shared Services have reviewed the 691 records that were identified by TIGTA twice since the issuance of TIGTA’s final report to determine if those contractor employees are still active and noncompliant. No action has been taken pending final approval of a new policy.

ORIGINAL PLANNED COMPLETION DATE: 02/15/2014

AGREED-TO COMPLETION DATE: 05/15/2015
THE ONLINE PAYMENT AGREEMENT PROGRAM BENEFITS TAXPAYERS AND THE INTERNAL REVENUE SERVICE, BUT MORE COULD BE DONE TO EXPAND ITS USE

REPORT NO.: 2013-30-121  
DATE ISSUED: 09/27/2013

BACKGROUND: In July 2006, the IRS’s Small Business/Self-Employed Division, in partnership with the Wage and Investment Division, implemented an Online Payment Agreement (OPA) web application (or program) accessible through IRS.gov, the IRS’s public Internet site. The OPA program, developed at a cost of $2.9 million, allows individual taxpayers or their authorized tax representatives to apply for a payment agreement over the Internet. When introduced, the IRS Commissioner stated that the OPA program would reduce taxpayer burden by providing the convenience of online service during extended hours and weekends to set up a payment agreement. The OPA program would also virtually eliminate the need for interaction with a customer service representative and eliminate most paper processing.

FINDING (F-1): The OPA program has not achieved its goals or the cost savings outlined in the OPA Baseline Business Case used to support the program’s implementation. The OPA program Baseline Business Case included projected goals for the number of taxpayers expected to use the OPA program and the cost savings it would achieve beginning with FY 2007. However, Small Business/Self-Employed Division managers did not establish a process to measure the OPA program results against these goals and project cost savings to effectively determine how well the program is performing. Additionally, since November 2008, the IRS has not performed any studies or valuations of the OPA program or the installment agreement program to determine the reasons why taxpayers and tax practitioners chose to use the OPA program, submit the Form 9465, Installment Agreement Request, or use the IRS toll-free number system to establish an installment agreement. Without a process in place to measure the OPA program’s performance against the anticipated results, managers do not have complete information to make decisions about changes needed to improve the OPA program to increase performance.

RECOMMENDATION (F-1, R-1): The Deputy Commissioner for Services and Enforcement should begin measuring OPA program performance results against OPA program goals and manage the program to achieve those goals.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): A comprehensive review of the installment agreement program, including the OPA program, has been initiated. The review will include an analysis of the projections and assumptions used in the Baseline Business Case, the OPA system, and taxpayer behavior. Based on the results of the review, the OPA program goals will be reassessed for use in measuring and managing the program.

ORIGINAL PLANNED COMPLETION DATE: 05/15/2015
FINDING (F-2): OPA program promotion and outreach efforts can be refined to increase awareness of the program. The IRS has promoted the OPA program through various means. Despite these efforts, the IRS has been unable to significantly increase OPA program use or achieve its goals. Even when taxpayers and tax practitioners become aware of the OPA program, they may encounter barriers to the successful completion of streamlined installment agreements. TIGTA’s review identified several barriers that may impact taxpayer and tax practitioner decisions to use the OPA program. Because the promotion efforts to date have been ineffective and barriers have not been addressed, many taxpayers and tax practitioners are still unaware of the OPA program as an effective tool to establish their payment agreements.

RECOMMENDATION (F-2, R-2): The Deputy Commissioner for Services and Enforcement should perform an evaluation of installment agreement programs, including the OPA program, to identify barriers to using the OPA program and determine the reasons taxpayers used the methods they did to establish their payment agreements.

PLANNED CORRECTIVE ACTION (F-2, R-2, P-1): A comprehensive review of the installment agreement program, including the OPA program, has been initiated. The review will include an analysis of the projections and assumptions used in the Baseline Business Case, the OPA system, and taxpayer behavior. Based on the results of the review, the OPA program goals will be reassessed for use in measuring and managing the program.

ORIGINAL PLANNED COMPLETION DATE: 05/15/2015
A Simplified Employee Pension is a retirement plan that allows self-employed taxpayers to make contributions toward their own and their employees’ retirement without getting involved in a more complex qualified plan. Under a Simplified Employee Pension, self-employed taxpayers make contributions to a traditional Individual Retirement Arrangement established for each eligible employee (employees own and control their Simplified Employee Pension Individual Retirement Arrangement). Employers create Simplified Employee Pensions by executing a formal written agreement that provides benefits to all eligible employees and can satisfy this requirement by adopting an IRS model Simplified Employee Pension using Form 5305-SEP, Simplified Employee Pension – Individual Retirement Accounts Contribution Agreement. Use of Form 5305-SEP does not require prior IRS approval.

FINDING (F-3): Because taxpayers claim deductions for contributions to other types of self-employed retirement plans on the same tax return line as Simplified Employee Pension plans, TIGTA expanded its review to determine how the IRS could use third-party data to identify potential improper deductions.

RECOMMENDATION (F-3, R-1): The Director, Compliance, Wage and Investment Division, should work with the Department of the Treasury to assess whether

PLANNED CORRECTIVE ACTION (F-3, R-1, P-1): Although contributions for qualified retirement plans are not reported on Form 5498, such plans are subject to reporting on Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan, when plan assets exceed $250,000 or the plan is reporting for its final year. As part of the auditing standards, in addition to addressing large, unusual, or questionable items, examiners are required to inspect all related returns of the taxpayer and ensure that the taxpayer is in compliance with all filing requirements. Because the Automated Underreporter program is not an audit program, the level of complexity affecting qualified plans is comparatively high, and the volume of affected taxpayers is relatively low, the IRS does not believe there are gains to be made by imposing additional reporting
requirements on these plans. The IRS will determine if procedures can be revised to improve the examination referral process when returns identified by the Automated Underreporter program are found to have questionable qualified plan issues.

ORIGINAL PLANNED COMPLETION DATE: 04/15/2015
THE INTERNAL REVENUE SERVICE NEEDS TO IMPROVE THE COMPREHENSIVENESS, ACCURACY, RELIABILITY, AND TIMELINESS OF THE TAX GAP ESTIMATE

REPORT NO.: 2013-IE-R008  
DATE ISSUED: 08/21/2013

BACKGROUND: The Tax Gap is defined as the difference between the true tax liability in any year and the amount of tax that is paid voluntarily and on time. The IRS’s most recent Tax Gap estimate was $450 billion for Tax Year 2006. The Tax Gap estimate is a widely used measure in tax policy and administration. Some officials state that the absolute number is unimportant because the estimate is a significant amount. However, an important consideration for concern about accuracy is the relationship between the different forms of noncompliance and the types of tax. Further, as Congress considers tax reform, it is important that the Tax Gap estimate reflects as accurately as possible the many forms and areas of noncompliance so that tax policy options can be considered.

FINDING (F-2): The IRS develops the Tax Gap estimates in accordance with its own policies and procedures, but adoption of some aspects from the OMB Standards and Guidelines for Statistical Surveys may be helpful.

RECOMMENDATION (F-2, R-1): The Director, Office of Research, Analysis and Statistics, should develop processes and procedures to ensure compliance with applicable OMB standards to improve the overall confidence that can be placed in the accuracy and reliability of the Tax Gap estimate. This includes developing a method to estimate the total costs for performing each Tax Gap estimate and study. This information will assist decision makers in determining the methods used and frequency of future studies.

PLANNED CORRECTIVE ACTION (F-2, R-1, P-1): The IRS agrees to ensure compliance with OMB’s Standards and Guidelines for Statistical Surveys and develop a method for estimating research costs of estimating the Tax Gap.

ORIGINAL PLANNED COMPLETION DATE: 01/15/2017

RECOMMENDATION (F-2, R-2): The Director, Office of Research, Analysis and Statistics, should issue a published report to explain the methods, assumptions, and premises used to develop the Tax Gap estimates. Further, the report should also include comments about the confidence of the reliability and accuracy of the estimate and comparisons with previous estimates. The report should specifically state instances where no estimates have been developed and whether the absence of an estimate could affect the final estimate and the Voluntary Compliance Rate. Finally, the report should be subject to peer review.

PLANNED CORRECTIVE ACTION (F-2, R-2, P-1): Documentation regarding the methods, assumptions, and premises used to develop estimates in the Tax Gap are available on IRS.gov. The IRS agrees to supplement these documents
with a comprehensive official IRS report. The IRS remains committed to continuing its efforts to seek peer review.

**ORIGINAL PLANNED COMPLETION DATE:** 01/15/2016

**FINDING (F-4):** There are two concerns about the accuracy and reliability of the Tax Year 2006 corporate underreporting gap estimate. Both concerns relate to using recommended tax from operational examination as the basis for projecting the Tax Gap.

**RECOMMENDATION (F-4, R-2):** The Director, Office of Research, Analysis and Statistics, should consider conducting a National Research Program review on small corporations filing Form 1120, *U.S. Corporation Income Tax Return*, with total assets of less than $10 million. This will allow the IRS to more accurately model the small corporate Tax Gap by using random sample results partnered with the Detection Control Estimation method. Subsequently, the IRS could use the results of the National Research Program to better calibrate the yield curve analysis results used to estimate the small corporate Tax Gap in future years.

**PLANNED CORRECTIVE ACTION (F-4, R-2, P-1):** The IRS is currently engaged in a Form 1120 reporting compliance study of Tax Year 2010 returns and it is anticipated that this study will provide valuable insights on the compliance behavior of the largest subpopulation of C corporations. The IRS agrees to consider the feasibility of conducting additional NRP studies of small corporations.

**ORIGINAL PLANNED COMPLETION DATE:** 01/15/2016
Fraudulent Claims and Improper Payments

Improper payments by Federal Government agencies have been an issue for many years, and numerous efforts have been made to identify, measure, and reduce them. These include laws specifically addressing improper payments, an Executive Order,23 and guidance by certain oversight agencies, such as the OMB. The Improper Payments Information Act of 200224 requires Federal agencies, including the IRS, to estimate the amount of improper payments made each year and report to Congress on the causes of and the steps taken to reduce improper payments, as well as to address whether they have the information systems and other infrastructure needed to reduce improper payments. TIGTA reported that the IRS continued to not provide all required improper payments information to the Department of the Treasury for inclusion in the Department of the Treasury Agency Financial Report for FY 2013 as required by the Act.25

The Earned Income Tax Credit (EITC) remains the largest refundable credit26 based on the total claims paid, and it continues to be vulnerable to a high rate of noncompliance, including incorrect or erroneous claims caused by taxpayer error or resulting from fraud. The IRS estimates that 24 percent of all EITC payments made in FY 2013, or $14.5 billion, were paid in error.27 TIGTA continues to report that the IRS does not have effective processes to ensure that claimants qualify for these credits at the time tax returns are processed and prior to issuance of fraudulent tax refunds. In addition, the IRS estimates that it has paid between $124 billion and $148 billion in improper EITC payments in FYs 2003 through 2013.28

The IRS’s compliance resources are limited and additional alternatives to traditional compliance methods have not been developed. Consequently, the IRS does not address the majority of potentially erroneous EITC claims. This is despite the IRS having processes that successfully identify billions of dollars in potentially erroneous EITC payments. Statutory requirements further limit the IRS’s ability to ensure that EITC claims are valid before they are paid. The Internal Revenue Code requires the IRS to process tax returns and pay any related tax refunds within 45 days of receipt of the tax return or the tax return due date, whichever is later. Because of this requirement, the IRS cannot conduct extensive eligibility checks similar to those that occur with other Federal

26 A refundable credit allows taxpayers to reduce their tax liability to below zero and thus receive a tax refund even if no income tax was withheld or paid.
27 The estimated EITC improper payment range for FY 2013 was from 22 to 26 percent and from $13.3 billion to $15.6 billion.
28 Department of the Treasury Performance and Accountability Reports for FYs 2003 through 2010 and Department of Treasury Agency Financial Reports for FYs 2011 through 2013.
programs that typically certify eligibility prior to the issuance of payments or benefits.\textsuperscript{29}

Another significant and growing problem with an increasingly significant impact on tax administration is identity theft. Identity theft for the purpose of committing tax fraud occurs when an individual uses another person’s name and Taxpayer Identification Number (generally a Social Security Number) to file a fraudulent tax return to obtain a fraudulent tax refund. The IRS has described identity theft as the number one tax scam for 2014. The IRS has made this issue one of its top priorities and has made some progress; however, significant improvements are still needed.

The IRS continues to expand identity theft filters to identify fraudulent tax returns at the time the returns are processed. As of April 30, 2014, the IRS reported that it identified and confirmed 236,313 fraudulent tax returns and prevented the issuance of nearly $1.2 billion in fraudulent tax refunds as a result of identity theft filters. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer’s identity. However, verifying whether the returns are fraudulent will require additional resources. Without the necessary resources, it is unlikely that the IRS will be able to work the entire inventory of potentially fraudulent tax returns it identifies. The net cost of failing to provide the necessary resources is substantial, given that the potential revenue loss to the Federal Government of these tax fraud-related identity theft cases is in the billions of dollars annually. Less easy to quantify is the erosion in taxpayer confidence concerning the security of the system of tax administration when they do not receive the assistance that they seek to regain the integrity of their identities.

To provide relief to victims of identity theft, the IRS began issuing Identity Protection Personal Identification Numbers (IP PIN) to eligible taxpayers in FY 2011. Use of an IP PIN provides relief to taxpayers because it allows the IRS to process tax returns without delay and helps prevent the misuse of taxpayers’ Social Security Numbers on fraudulent tax returns. However, TIGTA determined that the IRS did not provide an IP PIN to 532,637 taxpayers who had an identity theft indicator on their tax account indicating that the IRS resolved their case. The IRS also did not provide an IP PIN to 24,628 taxpayers who were potential victims because their Personally Identifiable Information had been lost by the IRS or breached/stolen from the IRS. IRS officials stated they did not provide an IP PIN because these individuals have not been a victim of tax-related identity theft. However, it should be noted that this position is not consistent with actions the IRS takes to proactively provide an IP PIN to taxpayers who have an increased exposure to the possibility of identity theft. Finally, IRS programming errors resulted in 32,274 taxpayers not timely receiving an IP PIN.\textsuperscript{30}


TIGTA’s Office of Investigations focuses its limited resources on investigating identity theft characterized by any type of IRS employee involvement, the misuse of client information by tax preparers, or the impersonation of the IRS through phishing schemes and other means. In the late summer of 2013, TIGTA became aware of numerous complaints from around the country about suspicious callers claiming to be IRS employees collecting taxes from recent IRS audits. The callers demanded that the tax payments be made to prepaid debit cards and threatened arrest, suspension of business or driver’s licenses, and even deportation if the callers’ demands were not met. In many cases, the callers became hostile and insulting. As of August 2014, the TIGTA Hotline received more than 120,000 reports related to this scam, and it is estimated that the scheme has resulted in more than $7 million in payments made by the victims. TIGTA special agents are actively investigating this criminal activity.

Although the IRS is continuing to make changes to its processes to increase its ability to detect, prevent, and track fraudulent tax returns and improve assistance to victims of identity theft, there is still significant work to be done to address this growing and difficult problem.

The significant unimplemented recommendations for this MMC follow.

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31 Phishing is an attempt by an individual or group to solicit personal and financial information from unsuspecting users in an electronic communication by masquerading as trustworthy entities such as government agencies, popular social websites, auction sites, online payment processors, or information technology administrators.
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 with 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, Wage and Investment Division, should at a minimum capture the contribution date, donee signature and/or acknowledgement date, Declaration of Appraiser, and type of property donated from Forms 8283, Noncash Charitable Contributions, and develop processes to use the information to ensure that taxpayers are meeting the requirements for claiming deductions for noncash charitable contributions.

PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): Additional data will be transcribed from Form 8283 to capture the contribution date, presence of the donor signature and/or acknowledgement date, Declaration of Appraiser, and type of property donated. The transcribed data will be available for use by the IRS’s existing compliance systems to ascertain taxpayer compliance with reporting requirements.

STATUS: A request for programming changes were denied in Processing Year 2014 due to a lack of Information Technology resources and funding. A request for programming changes was not submitted for Processing Year 2015. However, programming changes have been requested for Processing Year 2016 and implementation is contingent on resources and funding.

ORIGINAL PLANNED COMPLETION DATE: 01/15/2014
AGREED-TO COMPLETION DATE: 01/15/2016
Compendium of Unimplemented Corrective Actions

DETECTION HAS IMPROVED; HOWEVER, IDENTITY THEFT CONTINUES TO RESULT IN BILLIONS OF DOLLARS IN POTENTIALLY FRAUDULENT TAX REFUNDS

REPORT NO.: 2013-40-122
DATE ISSUED: 09/20/2013

BACKGROUND: Identity theft continues to be a serious and growing problem which has a significant impact on tax administration. Identity theft for the purpose of tax fraud occurs when an individual uses another person’s name and Taxpayer Identification Number (generally a Social Security Number) to file a fraudulent tax return to obtain a fraudulent tax refund. Unscrupulous individuals are stealing identities at an alarming rate for this purpose.

FINDING (F-1): TIGTA’s analysis identified 141,062 tax returns filed by individuals using an Individual Taxpayer Identification Number that had characteristics of IRS confirmed identity theft tax returns for Tax Year 2011.

RECOMMENDATION (F-1, R-1): To reduce the potential for tax filing fraud, the Commissioner, Wage and Investment Division, should implement a process to deactivate Individual Taxpayer Identification Numbers assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): An implementation team is addressing the deactivation process for Individual Taxpayer Identification Numbers issued prior to 2013, and is developing an enterprise-wide process to accomplish that objective.

ORIGINAL PLANNED COMPLETION DATE: 06/15/2017
THE LAW WHICH PENALIZES ERRONEOUS REFUND AND CREDIT CLAIMS WAS NOT PROPERLY IMPLEMENTED

REPORT NO.: 2013-40-123
DATE ISSUED: 09/26/2013

BACKGROUND: In its September 30, 2005, Semiannual Report to Congress, TIGTA reported that certain tax refund schemes were overwhelming IRS resources to the point at which the IRS was unable to prevent the issuance of erroneous refunds. The Joint Committee on Taxation expressed a similar concern, stating that the filing of refund claims that have no reasonable basis in law creates unnecessary burden on both taxpayers and the IRS by straining resources and impeding effective tax administration.

FINDING (F-1): The IRS has not developed processes and procedures to enable those functions (Campus Operations) that disallow the majority of individual tax credits to assess the Erroneous Claim for Refund or Credit penalty. In addition, IRS management could not provide support for its decision to forego the processes and procedures necessary for Campus Operations to assess the penalty.

RECOMMENDATION (F-1, R-1): The Commissioner, Small Business/Self-Employed Division, and the Commissioner, Wage and Investment Division, should develop processes and procedures to enable Campus Operations to assess the erroneous refund penalty for disallowed credit claims that are excessive and do not have a reasonable basis.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): A cross-functional team of affected stakeholders will determine the operational and procedural changes needed to integrate assessment of the erroneous refund penalty into the campus environment. Consideration will be given to the administrative policy, available resources, funding needs, and opportunity costs associated with the redirection of compliance resources. The corrective action will be closed upon presenting the team’s findings and recommendations to the Deputy Commissioner for Services and Enforcement.

STATUS: Due to a recent Tax Court decision, the IRS has requested additional time to complete their analysis.

ORIGINAL PLANNED COMPLETION DATE: 10/15/2014
AGREED-TO COMPLETION DATE: 09/15/2015
PROCESSES FOR ENSURING COMPLIANCE WITH QUALIFYING ADVANCED ENERGY PROJECT CREDIT REQUIREMENTS CAN BE STRENGTHENED

DATE ISSUED: 02/06/2014

BACKGROUND: Section 1302 of the American Recovery and Reinvestment Act of 2009 (the Recovery Act)32 established the Qualifying Advanced Energy Project Credit (hereafter referred to as the Advanced Energy Credit) under Internal Revenue Code Section (§) 48C. The credit was intended to encourage development of a manufacturing base to support renewable energy industries. Manufacturers selected are eligible to receive a credit equal to 30 percent of the cost, limited to the amount awarded, for a project that establishes, expands, or re-equips a manufacturing facility for the production of certain types of property, including those designed to produce energy from renewable sources such as the sun and wind. For those manufacturers awarded the credit, Internal Revenue Code § 48C and IRS Notice 2009-72, Qualifying Advanced Energy Project Credit, contain specific requirements that the manufacturers must meet to be eligible to claim the credit for income tax purposes.

FINDING (F-1): TIGTA found that although the IRS has processes to ensure manufacturer compliance with agreement, certification, and placed-in-service requirements, similar processes were not in place to verify compliance with the provision to notify the IRS of significant changes in project plans. Processes had not been established to verify manufacturer compliance with project specifications such as the physical location of the project.

RECOMMENDATION (F-1, R-2): The Commissioner, Large Business and International Division, should develop a process to ensure manufacturer compliance with project specifications including that projects are placed into service at the locations specified in the manufacturer’s agreement.

PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): The IRS agrees to develop a process to ensure that projects are placed into service at the locations specified in the manufacturer’s agreement.

ORIGINAL PLANNED COMPLETION DATE: 03/15/2015

FINDING (F-2): The IRS developed a Compliance Initiative Project that focuses on compliance of business taxpayers claiming the credit. This initiative involves identifying business taxpayers reporting an Advanced Energy Credit basis and/or credit amount on an electronically filed Form 3468, Investment Credit. While the IRS developed a Compliance Initiative Project to evaluate compliance of business taxpayers claiming the credit, the process does not include individual taxpayers reporting the credit.

RECOMMENDATION (F-2, R-1): The Commissioner, Large Business and International Division, should ensure a process to identify and verify that individual taxpayer tax returns claiming Advanced Energy Credits are valid.

PLANNED CORRECTIVE ACTION (F-2, R-1, P-1): The findings from an analysis conducted will be used to determine whether a compliance strategy is warranted to address and prevent any individual taxpayers’ improper or fraudulent claims for Advanced Energy Credits.

ORIGINAL PLANNED COMPLETION DATE: 03/15/2016

RECOMMENDATION (F-2, R-2): The Commissioner, Large Business and International Division, should verify whether the 1,149 individual taxpayers for Tax Year 2011 TIGTA identified as not related to a manufacturer of an awarded advanced energy project are entitled to receive the Advanced Energy Credit.

PLANNED CORRECTIVE ACTION (F-2, R-2, P-1): The IRS will conduct an analysis based on the available data to assess individual taxpayer compliance risks associated with Advanced Energy Credits. The IRS analysis of this population shows that the credits claimed are not equally distributed. For example, of the 1,149 individual taxpayers identified by TIGTA, 168 claimed credits of roughly $2.8 million while the remaining majority of individual taxpayers claimed credits of approximately $230,000. The IRS agreed to consider this population, make an appropriate risk assessment, and determine those specific taxpayers to pursue to determine if their claims for the credit were indeed erroneous.

ORIGINAL PLANNED COMPLETION DATE: 06/15/2015
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 is spending every tax dollar wisely. This challenge has become even more pressing in recent years as the IRS has struggled to maintain key taxpayer service and enforcement operations while operating with a reduced budget and smaller staff.

While the IRS has taken steps to improve program effectiveness and reduce costs, progress in this area will continue to be a major challenge in FY 2015. Recently, TIGTA reported that the IRS incurred unnecessary costs as a result of storing records past due for disposal. As of June 2013, the IRS had 238,523 cubic feet of records past due for disposal on which it was obligated to pay ongoing monthly storage costs. We calculated the excess cost paid from the start of FY 2011 through March 2014, and determined that the IRS had to pay more than $700,000 in excess storage costs related to these records. While these unnecessary expenditures are not a significant portion of the approximately $15 million the IRS spends annually on storage costs for tax records, the current IRS budget environment makes it a priority to find any cost savings.

In the same audit, we found that the IRS did not perform a sufficient review of National Archives Records Administration invoices for $30.8 million in tax record storage services before certifying them for payment. Specifically, we did not identify any evidence that the IRS performed a review of available supporting information or compared the charges to any internal IRS records prior to certifying the invoices for payment.33

We also found that the IRS does not effectively manage server software licenses and is not adhering to Federal requirements and industry best practices. Until the IRS addresses these issues, it will continue to incur increased risks in managing software licenses. TIGTA estimates that the amount wasted because of the inadequate management of server software licenses is in the range of $81 million to $114 million based on amounts spent for licenses and annual license maintenance that were not being used at the time of a compliance review.34

TIGTA also reported that the IRS could reduce its paper return processing costs by more than $17 million annually if the same electronic filing requirement that currently applies to paid preparers who file individual tax returns was also applied to paid preparers filing business tax returns. Paid preparers who file 11 or more individual returns are required to file the returns electronically. Federal law

currently prohibits the IRS from creating requirements for businesses to electronically file. Legislation would be needed in order for an electronic filing requirement to be implemented.\textsuperscript{35}

The significant unimplemented recommendations for this MMC follow.

THE DATA CENTER CONSOLIDATION INITIATIVE HAS MADE SIGNIFICANT PROGRESS, BUT PROGRAM MANAGEMENT SHOULD BE IMPROVED TO ENSURE THAT GOALS ARE ACHIEVED

REPORT NO.: 2013-20-013
DATE ISSUED: 06/10/2013

BACKGROUND: In February 2010, the OMB established the Federal Data Center Consolidation Initiative as a Governmentwide initiative designed to reduce the energy and real estate footprint of Federal data centers while increasing efficiency, strengthening the overall Government security posture, and promoting Green Information Technology by reducing the total number of Federal data centers. The Initiative’s guidance required agencies to inventory their data center assets, develop consolidation plans, and integrate those plans into agency FY 2012 budget submissions. The Federal Data Center Consolidation Initiative would reduce the number of data centers across the Government and assist agencies in applying best practices from the public and private sector.

The OMB provided updated guidance in July 2011. This guidance required agencies and all subordinate organizations to complete all missing elements of their respective consolidation plans and submit them to the General Services Administration. The plans were required to include a full master plan schedule which identifies, by quarter, the data centers to be closed through FY 2015. The plans were also to reflect challenges experienced to date and integrate lessons learned.

FINDING (F-1): The IRS’s Chief Technology Officer set a Data Center Consolidation Initiative goal for the IRS to reduce its baseline data center space by 50 percent by the end of FY 2015. While the IRS has exceeded its goals in the first two years for reducing data center space and improving the energy efficiency of its data centers, management of the project needs to be improved to ensure that the IRS meets its goals by the end of FY 2015. The IRS’s Information Technology organization management did not provide sufficient resources to the Data Center Consolidation Initiative Project Management Office for project planning and to ensure that the team could efficiently identify the best way to accomplish the Data Center Consolidation Initiative goals. Two years of the IRS’s five-year Data Center Consolidation Initiative have elapsed without a clear plan for how the data center space reduction goals will be accomplished.

RECOMMENDATION (F-1, R-3): The Chief Technology Officer should ensure that the Enterprise Computing Center-Detroit is consolidated into the Martinsburg and Memphis Enterprise Computing Centers (ECC).

PLANNED CORRECTIVE ACTION (F-1, R-3, P-1): The IRS will ensure that the ECC-Detroit computing assets are consolidated into an appropriate facility.

ORIGINAL PLANNED COMPLETION DATE: 04/25/2015
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<th>THE INTERNAL REVENUE SERVICE SHOULD IMPROVE MAINFRAME SOFTWARE ASSET MANAGEMENT AND REDUCE COSTS</th>
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<td>REPORT NO.: 2014-20-002</td>
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<td>DATE ISSUED: 02/20/2014</td>
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**BACKGROUND:** Mainframe computing assets play a critical role in the daily operations of the IRS and the administration of the tax code. The IRS mainframe computing environment provides the processing for mission-critical tax processing systems, including the Individual Master File, Business Master File, CADE 2, and Integrated Data Retrieval System. The IRS Information Technology organization has two sections of employees who manage the capacity of the mainframes: the International Business Machines (IBM) Corporation platform section and the Unisys Corporation platform section. The IRS runs approximately 200 different software products in its mainframe environment. The IRS purchases software and support for its mainframe environment through 12 vendor contracts—one contract for the Unisys mainframe computers and 11 contracts for the IBM mainframe computers.

**FINDING (F-1):** The IRS is not adequately performing mainframe software license management and is not adhering to Federal requirements and recommended industry best practices. The IRS does not have enterprisewide or local policies, procedures, and requirements for mainframe software license management and does not have a centralized, enterprisewide organizational structure for managing mainframe software licenses.

**RECOMMENDATION (F-1, R-2):** The Chief Technology Officer should develop an enterprisewide organizational structure to manage mainframe software assets and licenses.

**PLANNED CORRECTIVE ACTION (F-1, R-2, P-1):** IRS will clarify the enterprisewide organizational structure, including roles and responsibilities, in the Internal Revenue Manual for mainframe software asset and license management.

**STATUS:** User and Network Services developed a document which will become the new Enterprise Asset Management IRM. Additional time is needed for finalization and approval.

**ORIGINAL PLANNED COMPLETION DATE:** 07/25/2014

**AGREED TO COMPLETION DATE:** 07/25/2015
RECOMMENDATION (F-1, R-4): The Chief Technology Officer should develop detailed standard operating procedures for using mainframe software licensing tools to manage software licenses.

PLANNED CORRECTIVE ACTION (F-1, R-4, P-1): IRS will enhance standard operating procedures for using existing and/or other toolsets, as appropriate, to manage software licensing for the enterprise.

STATUS: The Enterprise Software Governance Board Working Group has requested that the Enterprise Software Governance Board allow them to stand up a full time project with dedicated resources from across Information Technology and IRS.

ORIGINAL PLANNED COMPLETION DATE: 09/25/2014
AGREED TO COMPLETION DATE: 01/25/2016

RECOMMENDATION (F-1, R-7): The Chief Technology Officer should maintain data in the inventory system that the IRS can use to more effectively review mainframe software licensing agreements, purchases, deployment, usage, and other related aspects of mainframe licensing to identify additional savings in software spending.

PLANNED CORRECTIVE ACTION (F-1, R-7, P-1): While the IRS is currently maintaining a software inventory, it will enhance this process by leveraging tools. Based on experience, there is no single tool that can discover, track and manage software license deployment and usage. As such the IRS will identify and implement a standard, enterprise toolkit, which may include multiple tools, towards this recommendation. Data collected via the toolkit will be consolidated and maintained in a central repository.

STATUS: The Enterprise Software Governance Board Working Group has requested that the Enterprise Software Governance Board allow them to stand up a full time project with dedicated resources from across Information Technology and IRS.

ORIGINAL PLANNED COMPLETION DATE: 09/25/2014
AGREED TO COMPLETION DATE: 01/25/2016
Modernization

The Business Systems Modernization Program (Modernization Program) is a complex effort to modernize IRS technology and related business processes. The IRS’s modernization efforts continue to focus on core tax administration systems designed to provide taxpayers and IRS employees with more sophisticated tools. These efforts will provide the foundation for implementing a real-time tax system and reducing improper payments and fraudulent refunds. They will also provide the technology infrastructure and architecture that will enable taxpayers and other stakeholders the capability to securely access tax account information. The complexity of these efforts continues to pose significant technological and business challenges for the IRS. For FY 2015, the IRS requested $330 million to modernize its business systems.

In February 2013, the GAO reported that it removed the Modernization Program from its High-Risk List because of the IRS’s progress in addressing the significant weaknesses in information technology and financial management capabilities and commitment to sustaining progress in the future. Although the GAO removed the Modernization Program from its High-Risk List, we believe the program remains a high risk and MMC for the IRS because of the need for improvements in information technology practices and performance.

The IRS considers the Customer Account Data Engine 2 (CADE 2) program critical to the IRS mission. It is the IRS’s most important information technology investment. The CADE 2 system provides for a centralized database of individual taxpayer accounts. Once implemented, it will allow IRS employees to view tax data online and provide timely responses to taxpayers.

Over the past several years, TIGTA has reported on the progress of CADE 2 implementation. In September 2012, we reported that the IRS had data integrity checks in place at several levels of the CADE 2 database. Despite these controls and their data integrity testing efforts, the IRS could not ensure that the data on the CADE 2 database were consistently accurate and complete at the data field level. This is due to the complexity of many of the data transformation rules and embedded business logic contained within certain data fields. In September 2013, we reported that the CADE 2 database could not be used as a trusted source for downstream systems. The IRS applied a total of 2.4 million data corrections to the CADE 2 database as a result of data validation tests. At that time, the IRS was unable to evaluate 431 CADE 2 database columns of data for data accuracy. However, we reported in September 2014 that the IRS’s data validation efforts were efficiently performed due to adequate planning and

37 TIGTA, Ref. No. 2012-20-109, The Customer Account Data Engine 2 Database Was Initialized; However, Database and Security Risks Remain, and Initial Timeframes to Provide Data to Three Downstream Systems May Not Be Met (Sept. 2012).
resource coordination. Still, while a large percentage of the data fields are validated periodically with automated tools, the IRS has no documented plan to ensure that data fields validated using other means are validated periodically.\textsuperscript{39}

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 present a major challenge for the IRS.

The significant unimplemented recommendation for this MMC follows.

\textsuperscript{39} TIGTA, Ref. No. 2014-20-063, \textit{Customer Account Data Engine 2 Database Validation Is Progressing; However, Data Coverage, Data Defect Reporting, and Documentation Need Improvement} (Sept. 2014).
Compendium of Unimplemented Corrective Actions

REPEATED EFFORTS TO MODERNIZE PAPER TAX 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: The IRS continues to receive large numbers of paper-filed individual income tax returns despite a continued growth in electronic filing (e-file). 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. As of May 1, 2009, the IRS had received 40.6 million paper-filed tax returns, representing 30.9 percent of the 131.6 million individual income tax returns received. The IRS recognizes that even though it is getting closer to meeting its 80 percent e-file goal, paper-filed tax returns will continue to present a challenge in the foreseeable future.

FINDING (F-1): The IRS will still need to develop a process to convert 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 (2-D) 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 agrees with this recommendation. The Wage and Investment Division will pursue the implementation of processes that use scanning technology Optical Character Recognition and 2-D bar coding. It should be noted that there are budget and information systems prioritization constraints that may impact IRS’s ability to implement this recommendation.

STATUS: Wage and Investment Submission Processing has submitted annual budget initiative requests to fund and implement 2-D bar coding of paper returns; however funding has not been approved.

ORIGINAL PLANNED COMPLETION DATE: 01/15/2011
AGREED TO COMPLETION DATE: 10/15/2015
Providing Quality Taxpayer Service

Providing quality customer service to taxpayers is the IRS’s first step to achieving compliance with tax laws. An important component of this involves answering taxpayers’ questions to assist them in correctly preparing their tax returns, because providing them with accurate information reduces the incidence of taxpayer errors and the subsequent need to send notices and correspondence when taxpayers make errors. Further, quality taxpayer service can also reduce unintentional noncompliance and shrinks the need for future collection activity.

In the past, TIGTA has evaluated the IRS’s efforts to provide quality customer service and made recommendations for areas of improvement. Although the IRS has implemented certain procedures to better assist taxpayers, budget reductions pose a significant challenge and continue to force the IRS to cut service to taxpayers. As demand for taxpayer services continues to increase, resources devoted to customer service have decreased, thereby affecting the quality of customer service that the IRS is able to provide.

TIGTA has seen a decline in the IRS’s ability to provide a sufficient level of customer service in each of the channels that taxpayers use, including telephone, face-to-face assistance at Taxpayer Assistance Centers and Volunteer Program sites, and correspondence. Despite the various options, most taxpayers continue to use the telephone as the primary method to make contact with the IRS. The IRS continues to struggle in providing high-quality customer service over the telephone. There are long customer wait times, customers abandoning calls, and customers redialing the IRS toll-free telephone lines for service. For the 2014 Filing Season, as of May 3, 2014, approximately 65 million taxpayers contacted the IRS by calling the various toll-free telephone assistance lines seeking help to understand the tax laws and meet their tax obligations. As of May 3, 2014, IRS assistors answered approximately 11 million calls compared to more than 15 million calls answered at the same time the previous year. IRS numbers continue to show a decline in the total number of taxpayers who contact the IRS who are actually assisted. As of March 8, 2014, the number of taxpayers actually assisted had dropped from 56.1 percent to 51.6 percent as of the same time the previous year. Additionally, each year, many taxpayers seek assistance from one of the IRS’s 388 Taxpayer Assistance Centers. However, the IRS estimates that the number of taxpayers it will assist at its Taxpayer Assistance Centers will decline this fiscal year. The IRS assisted more than 6.5 million taxpayers in FY 2013 and plans to assist 5.6 million taxpayers in FY 2014, which is 14 percent fewer than in FY 2013. The IRS indicated that budget cuts and its strategy of not offering services at the Taxpayer Assistance Centers that can be obtained through other service channels (such as the IRS’s website) resulted in the reduction of the number of taxpayers the IRS planned to assist at the Taxpayer Assistance Centers. As part of the service reductions in FY 2014, the Taxpayer Assistance Centers no longer

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prepared tax returns, did not answer any tax law questions after the filing season ended, and no longer answered taxpayers’ tax refund inquiries unless the taxpayer had waited more than 21 days for a refund.\textsuperscript{41}

The IRS’s ability to process taxpayer correspondence in a timely manner has also declined. The backlog of paper correspondence inventories has substantially increased. The over-age inventory rose from 181,000 at the end of 2010 to almost 1.2 million at the end of 2013.

The significant unimplemented recommendation for this MMC follows.

CASE PROCESSING DELAYS AND TAX ACCOUNT ERRORS INCREASED HARDSHIP FOR VICTIMS OF IDENTITY THEFT

REPORT NO.: 2013-40-129  
DATE ISSUED: 09/26/2013

BACKGROUND: The Federal Trade Commission reported that identity theft was the number one complaint in Calendar Year (CY) 2012. Government documents/benefits fraud was the most common form of reported identity theft:

- Government documents/benefits fraud increased 27 percent since CY 2010.
- Florida is the State with the highest per capita rate of reported identity theft complaints, followed by Georgia and California.

Identity theft affects the IRS and tax administration in two ways—the filing of fraudulent tax returns (refund fraud) and misreporting of income (employment-related fraud). Both can potentially harm taxpayers who are victims of the identity theft.

FINDING (F-2): The Global Report is the IRS’s authoritative source for identity theft management information and is used to make decisions about strategies and resources needed to address the growing identity theft epidemic. It includes statistics from 20 IRS functions that work identity theft cases. The report provides key statistics on the number of identity theft open and closed cases, incidents, affected taxpayers, and the amount of fraudulent refunds the IRS identified. In addition, the Global Report is used to provide key statistical information on identity theft cases in briefings to Congress. Analysis of the CY 2012 Global Report identified that the Accounts Management function’s open case inventory was overstated by 95,429 cases.

RECOMMENDATION (F-2, R-1): The Deputy Commissioner for Operations Support and the Commissioner, Wage and Investment Division, should develop a standard format for information provided for inclusion in the Global Report to ensure consistency. The information reported should reflect unique taxpayers.

PLANNED CORRECTIVE ACTION (F-2, R-1, P-1): The IRS will develop a template for functional areas to use when reporting inventory for the Global Report. The template will ensure inventory is captured consistently and will also improve the audit trail for submitted information. The IRS will also work with functional areas to report inventory at the entity (taxpayer) level as opposed to the module level.

AGREED TO COMPLETION DATE: 03/15/2015
Globalization

The scope, complexity, and magnitude of the international financial system presents significant enforcement challenges for the IRS. The number of taxpayers conducting international business transactions continues to grow as technological advances provide opportunities for offshore investments that were once only possible for large corporations and wealthy individuals.

As this global economic activity increases, so do concerns regarding the International Tax Gap. While the IRS has not developed an accurate and reliable estimate of the International Tax Gap, non-IRS sources estimate it to be between $40 billion and $133 billion annually. 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.

International tax noncompliance remains a significant area of concern for the IRS. However, the IRS’s collection efforts need to be enhanced to ensure that delinquent international taxpayers become compliant with their U.S. tax obligations. TIGTA found that the IRS has not provided effective oversight to International Collection (part of the Small Business/Self-Employed Division), which contributed to several control weaknesses in the program. For example, International Collection does not have adequate policies and procedures, position descriptions, or the training needed to ensure that international revenue officers can properly work International Collection cases. Additionally, the IRS does not have a specific inventory selection process that ensures that the International Collection cases with the highest risk and most collection potential are worked by the revenue officers.

The Foreign Account Tax Compliance Act is an important development in the IRS’s efforts to improve U.S. tax compliance involving foreign financial assets and offshore accounts. The Foreign Account Tax Compliance Act was enacted to combat tax evasion by U.S. persons holding investments in offshore accounts. Under the Foreign Account Tax Compliance 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.

TIGTA reported that there are some barriers for the IRS in ensuring the tax compliance of real estate sales transactions subject to the Foreign Investment in

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42 The International Tax Gap consists of 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.


Real Property Tax Act of 1980.\textsuperscript{45} The intent of this Act is to ensure that foreign sellers of U.S. real estate pay income taxes on any gains resulting from the sale of the property. However, under existing law, it is difficult for the IRS to ensure that many of the real estate transactions involving foreign sellers are in compliance with the Act. TIGTA’s review of Form 1099-S, \textit{Proceeds From Real Estate Transactions}, revealed that approximately 53 percent of the real estate sales reported may not have properly complied with the Act. In addition, TIGTA identified various internal control weaknesses in the IRS’s processing of Foreign Investment in Real Property Tax Act withholding payments and withholding credits claimed by foreign sellers on their income tax returns. These internal control weaknesses resulted in the issuance of erroneous refunds and balance due notices.\textsuperscript{46}

There are no significant unimplemented recommendations for this MMC.

\textsuperscript{46} TIGTA, Ref. No. 2014-30-051, \textit{Additional Actions Are Needed to Help Ensure Taxpayer Compliance With the Foreign Investment in Real Property Tax Act} (Sept. 2014).
Taxpayer Protection and Rights

The IRS must ensure that tax compliance activities are balanced against the rights of the taxpayers to receive fair and equitable treatment. In June 2014, the IRS updated Publication 1, *Your Rights as a Taxpayer*. In this publication, the IRS outlines the rights of the taxpayer and the processes for examination, appeals, collection, and refunds.

The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998.47 The following audits related to taxpayer rights provisions are mandated to be completed annually by TIGTA: Notices of Levies; Restrictions on the Use of Enforcement Statistics to Evaluate Employees; Fair Debt Collection Practices Act48 Violations; Notices of Liens; Seizures; Illegal Tax Protestor Designations; Statute of Limitations for the Assessment of Additional Taxes and Penalties; 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 is documenting its protection of taxpayer rights. However, during the review of the IRS’s use of enforcement statistics to evaluate employees, TIGTA found instances of noncompliance with the IRS Restructuring and Reform Act of 1998 Section 1204 requirements.49 Specifically, TIGTA identified instances of noncompliance with each subsection of the law: Section 1204(a), which prohibits the IRS from using any record of tax enforcement results to evaluate employees or to impose or suggest production quotas or goals; Section 1204(b), which requires that employees be evaluated using the fair and equitable treatment of taxpayers as a performance standard; and Section 1204(c), which requires each appropriate supervisor to self-certify quarterly whether records of tax enforcement results were used in a prohibited manner. Use of records of tax enforcement results may create the misperception that safeguarding taxpayer rights is secondary to IRS enforcement results.

In addition, TIGTA reported that complaints against tax return preparers are not always timely processed.50 TIGTA’s review of 8,354 complaints received in Calendar Years 2012 and 2013 identified that work on 47 percent of the complaints had yet to be initiated as of September 11, 2013. Nearly one-half of these complaints had been in the IRS’s inventory for at least 60 business days.

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Additionally, processes do not ensure that complaints are accurately and consistently worked. TIGTA’s review of a statistically valid sample of 73 complaints found that, for 25 complaints worked, the risk-ranking process used by case processors to rank, score, and prioritize the complaints was insufficient because each case processor applied the risk-ranking elements differently. Tax return preparers serve a critical role in tax administration. Because of this critical role, identifying problem preparers through the complaint process is an essential component of the IRS’s oversight responsibilities. Unqualified or unethical tax return preparers can negatively impact taxpayers, as well as tax revenue, if the tax returns they prepare are incorrect and/or fraudulent.

There are no significant unimplemented corrective actions for this MMC.
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 one-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 one-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.51 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.

The significant unimplemented recommendations for this MMC follow.

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FOLLOW-UP REVIEW OF CONTROLS OVER RELIGIOUS COMPENSATORY TIME

REPORT NO.: 2011-IE-R004
DATE ISSUED: 06/23/2011

BACKGROUND: Title 5 United States Code Section 5550a, and its implementing regulations provide that employees of an executive agency may modify their work schedules to work compensatory time in order to take time off because of personal religious beliefs that require abstention from work during certain periods of the workday or workweek. The time off from work is referred to as religious compensatory time (RCT), and this benefit allows employees to participate in religious observances without using annual leave or leave without pay. Although the U.S. Office of Personnel Management has the authority to prescribe regulations related to the use of RCT, each executive agency head also has the authority to prescribe regulations related to the use of RCT that provide for such exceptions as may be necessary to efficiently carry out the mission of the agency or agencies involved. Each agency should have adequate controls in place to ensure that an employee’s request for RCT is for a religious purpose, and an employee is allowed to accumulate only the RCT hours required to make up for previous or planned absences from work for religious observances.

FINDING (F-1): Based on a previous TIGTA recommendation, the IRS revised its Internal Revenue Manual to specify advanced RCT balances should be repaid before approving employees’ voluntary requests to earn overtime, compensatory time, or credit hours. However, the IRS and National Treasury Employees Union did not agree on this requirement and it was not included in the IRS and the National Treasury Employees Union 2009 National Agreement II. As a result, this requirement does not apply to bargaining unit employees. The IRS identified 40 employees who either had advanced (negative) RCT balances outstanding for at least 120 days, or had advanced RCT balances of 80 hours or more. Analysis of the employees’ time and attendance records from January 2008 to July 2010 revealed that 35 of 40 employees (nearly 88 percent) earned overtime, compensatory time, or credit hours despite having advanced RCT balances.

RECOMMENDATION (F-1, R-2): The IRS Human Capital Officer should modify the IRS RCT procedures to require that all employees (bargaining unit and non-bargaining unit) submit written requests to earn or use RCT, and develop a standard form for requesting, authorizing, and documenting the use of RCT.

PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): The revised IRM 6.550.1 states that an employee should submit a written request to take compensatory time off for a specific religious observance. The IRM also states that the manager and employee must establish a plan that documents when the religious compensatory time will be worked, showing the dates and times the employee is requesting to be absent for the religious observance and the dates and times the employee will work to repay the religious compensatory time used.
STATUS: IRS negotiated the requirement that all employees (bargaining unit and non-bargaining unit) submit written requests to earn or use RCT, and develop a standard form for requesting, authorizing, and documenting the use of RCT. A tentative agreement has been reached; however, the National Treasury Employees Union has not agreed to allow IRS to use a new RCT Agreement Form with this provision. The negotiations are still ongoing over the use of the new form and until an agreement is reached, no changes can be implemented.

ORIGINAL PLANNED COMPLETION DATE: 9/30/2014
AGREED-TO COMPLETION DATE: 10/15/2015
BACKGROUND: Telework is a work flexibility arrangement under which an employee performs the duties and responsibilities of his or her position from an approved worksite other than the location from which the employee would otherwise work. Telework does not include work in other Government offices, taxpayer or customer sites, or training sites. Telework provides a number of benefits including reduced energy consumption and traffic congestion, competitive hiring and retention, cost savings such as real estate, and support for emergency preparedness and continuity of operations. Telework also improves employee job satisfaction and the ability to manage work life obligations.

FINDING (F-1): The IRS does not require teleworkers to work when the office is closed for an emergency on unscheduled telework days.

RECOMMENDATION (F-1, R-1): The IRS Human Capital Officer should revise the IRS’s telework policy to indicate that a non-bargaining unit employee with an approved telework agreement can be expected to telework outside his or her normal telework schedule in the case of an emergency situation.

PLANNED CORRECTIVE ACTION (F-1, R-1, P-1): The IRS believes it is important to treat all IRS employees consistently, particularly in these very challenging times when employees are being asked to do more with less. To implement mandatory telework during emergency situations for bargaining-unit employees — who make up 80% of the current IRS workforce — requires negotiation with the National Treasury Employees Union. Changes to telework requirements for bargaining-unit employees will be addressed with the National Treasury Employees Union in upcoming term negotiations, which begin in the fall of 2013. Implementation of this recommendation for all employees, both bargaining and non-bargaining, will be contingent on the outcome of these negotiations so that all employees may be treated equally. If successful, the IRS will revise telework policies and agreements accordingly upon completion of negotiations.

STATUS: IRS negotiated mandatory telework during emergency situations for bargaining unit employees with the National Treasury Employees Union and a tentative agreement has been reached. However, an agreement on the use of the new Telework Agreement Form with the new provision has not been reached. The negotiations are still ongoing over the use of the new form.

ORIGINAL PLANNED COMPLETION DATE: 10/15/2014

AGREED-TO COMPLETION DATE: 10/15/2015

RECOMMENDATION (F-1, R-2): The IRS Human Capital Officer should require that telework agreements include specific language on whether the employee is expected to telework when the office is closed due to an emergency.
PLANNED CORRECTIVE ACTION (F-1, R-2, P-1): The IRS believes it is important to treat all IRS employees consistently, particularly in these very challenging times when employees are being asked to do more with less. To implement mandatory telework during emergency situations for bargaining-unit employees — who make up 80% of the current IRS workforce — requires negotiation with the National Treasury Employees Union. Changes to telework requirements for bargaining-unit employees will be addressed with the National Treasury Employees Union in upcoming term negotiations, which begin in the fall of 2013. Implementation of this recommendation for all employees, both bargaining and non-bargaining, will be contingent on the outcome of these negotiations so that all employees may be treated equally. If successful, the IRS will revise telework policies and agreements accordingly upon completion of negotiations.

STATUS: IRS negotiated mandatory telework during emergency situations for bargaining unit employees with the National Treasury Employees Union and a tentative agreement has been reached. However, an agreement on the use of the new Telework Agreement Form with the new provision has not been reached. The negotiations are still ongoing over the use of the new form.

ORIGINAL PLANNED COMPLETION DATE: 10/15/2014
AGREED-TO COMPLETION DATE: 10/15/2015
### Unimplemented Corrective Actions Where the Original Completion Date Is Rescheduled for Completion in a New Fiscal Year

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<td>F-1, R-1. Establish and implement policies and procedures to ensure that contractor employee tax compliance is continually monitored, similar to the way IRS Federal employee tax compliance is monitored.</td>
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<td>F-1, R-2. Establish and implement policies and procedures to require that contractor employee background investigation revalidations, which occur when a contractor employee has had two years or more break in service, requires a tax compliance component.</td>
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<td>F-1, R-3. Ensure that any contractor employees we identified as potentially non-compliant are further evaluated and that any contractor employee who are not tax compliant are promptly brought into compliance or removed from IRS contracts.</td>
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<td>F-1, R-1. Develop and implement procedures in the Internal Revenue Manual that instruct how current year correspondence audit results are to be used in deciding whether the prior and/or subsequent year tax returns warrant an audit.</td>
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| 2011-IE-R004     | Human Capital                 | 09/30/2014               | 10/15/2015               | Follow-up Review of Controls Over Religious Compensatory Time  
F-1, R-2. The IRS Human Capital Officer should modify the IRS RCT procedures to require that all employees (bargaining unit and non-bargaining unit) submit written requests to earn or use RCT, and develop a standard form for requesting, authorizing, and documenting the use of RCT. |
F-1, R-1. The IRS Human Capital Officer should revise the IRS’s telework policy to indicate that a non-bargaining unit employee with an approved telework agreement can be expected to telework outside his or her normal telework schedule in the case of an emergency situation.  
F-1, R-2. The IRS Human Capital Officer should require that telework agreements include specific language on whether the employee is expected to telework when the office is closed due to an emergency. |
| 2013-40-009      | Fraudulent Claims and Improper Payments | 01/15/2014               | 01/15/2016               | Many Taxpayers Are Still Not Complying With Noncash Charitable Contribution Reporting Requirements  
F-1, R-2. The Commissioner, Wage and Investment Division, should at a minimum capture the contribution date, donee signature and/or acknowledgement date, Declaration of Appraiser, and type of property donated from Forms 8283, Noncash Charitable Contributions, and develop processes to use the information to ensure that taxpayers are meeting the requirements for claiming deductions for noncash charitable contributions. |
F-1, R-2. The Chief Technology Officer should develop an enterprise-wide organizational structure to manage software assets and licenses.  
F-1, R-4. The Chief Technology Officer should develop detailed standard operating procedures for using mainframe software licensing tools to manage software licenses.  
F-1,R-7. The Chief Technology Officer should maintain data in the inventory system that the IRS can use to more effectively review mainframe software licensing agreements, purchases, deployment, usage and other related aspects of mainframe licensing to identify savings in software spending. |
TIGTA analyzed all the significant unimplemented corrective actions and created a hierarchical list of the top 10. The purpose of this was to identify for IRS management those unimplemented corrective actions that are considered to be of higher risk.

Legend:
Green shading denotes a completed corrective action after September 30, 2014 Semiannual Report issuance.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Report Title/Number</th>
<th>Issue Date</th>
<th>Recommendation Description</th>
<th>PCA Description</th>
<th>Planned Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DETECTION HAS IMPROVED; HOWEVER, IDENTITY THEFT CONTINUES TO RESULT IN BILLIONS OF DOLLARS IN POTENTIALLY FRAUDULENT TAX REFUNDS</td>
<td>9/20/2013</td>
<td>To reduce the potential for tax filing fraud, the Commissioner, Wage and Investment Division, should implement a process to deactivate IRS Tax Identification Numbers (ITINs) assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement.</td>
<td>(F-1, R-1, P-1)</td>
<td>6/15/2017</td>
</tr>
<tr>
<td></td>
<td>Report # 2013-40-122</td>
<td></td>
<td>A team is addressing the deactivation process for ITINs issued prior to 2013, and is developing an enterprise-wide process to accomplish that objective.</td>
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<td>2</td>
<td>DETECTION HAS IMPROVED; HOWEVER, IDENTITY THEFT CONTINUES TO RESULT IN BILLIONS OF DOLLARS IN POTENTIALLY FRAUDULENT TAX REFUNDS</td>
<td>9/20/2013</td>
<td>The Commissioner, Wage and Investment Division, should continue to analyze characteristics of fraudulent tax returns resulting from identity theft to refine and expand identity theft filters used to detect and prevent the issuance of fraudulent tax refunds resulting from identity theft. This should include using the characteristics of questionable IITN application data.</td>
<td>(F-2, R-1, P-1)</td>
<td>Action Complete 10/15/2014</td>
</tr>
<tr>
<td></td>
<td>Report # 2013-40-122</td>
<td></td>
<td>The Taxpayer Protection Program identified opportunities for improvement. The IRS will continue to evaluate the feasibility and impact of changes to the Dependent Database filters and ITIN Real-Time System. The IRS will prepare a risk assessment that will address mitigating controls that can be implemented in the event the requested programming changes are not funded.</td>
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<td>3</td>
<td>THE CORRESPONDENCE AUDIT SELECTION PROCESS COULD BE STRENGTHENED</td>
<td>8/27/2013</td>
<td>The Director, Campus Compliance Services, Small Business/Self-Employed Division, should develop and implement procedures in the Internal Revenue Manual (IRM) that instruct how current year correspondence audit results are to be used in deciding whether the prior and/or subsequent year tax returns warrant an audit.</td>
<td>(F-1, R-1, P-1) The IRS will develop an IRM section that will address the duties and responsibilities of the Workload Selection and Delivery Analysts, the case selection and delivery process, and the role of the Correspondence Exam Tax Examiners.</td>
<td>6/15/2015</td>
</tr>
<tr>
<td>4</td>
<td>THE LAW WHICH PENALIZES ERRONEOUS REFUND AND CREDIT CLAIMS WAS NOT PROPERLY IMPLEMENTED</td>
<td>9/26/2013</td>
<td>The Commissioner, Small Business/Self-Employed Division, and the Commissioner, Wage and Investment Division, should develop processes and procedures to enable Campus Operations to assess the erroneous refund penalty for disallowed credit claims that are excessive and do not have a reasonable basis.</td>
<td>(F-1,R-1, P-1) A cross-functional team of affected stakeholders will determine the operational and procedural changes needed to integrate assessment of the erroneous refund penalty into the campus environment. The corrective action will be closed upon presenting the team’s findings and recommendations to the Deputy Commissioner for Services and Enforcement.</td>
<td>09/15/2015</td>
</tr>
<tr>
<td>5</td>
<td>THE DATA CENTER CONSOLIDATION INITIATIVE HAS MADE SIGNIFICANT PROGRESS, BUT PROGRAM MANAGEMENT SHOULD BE IMPROVED TO ENSURE THAT GOALS ARE ACHIEVED</td>
<td>6/10/2013</td>
<td>The Chief Technology Officer should ensure that the ECC-Detroit is consolidated into the Martinsburg and Memphis ECCs.</td>
<td>(F-1,R-3, P-1) By citing specific locations in the recommendation, the IRS’s ability to make the best decision as to where the ECC-Detroit computing assets should be located is limited. The IRS will ensure the ECC-Detroit computing assets are consolidated into an appropriate facility.</td>
<td>4/25/2015</td>
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<td>6</td>
<td>MILLIONS OF DOLLARS IN POTENTIALLY IMPROPER SELF-EMPLOYED RETIREMENT PLAN DEDUCTIONS ARE ALLOWED</td>
<td>3/20/2014</td>
<td>The Director, Submission Processing, Wage and Investment Division, should enhance existing validation programs to identify taxpayers whose Simplified Employee Pension or other retirement plan deductions are potentially improper based on other information reported on their individual tax return.</td>
<td>(F-1, R-1, P-2)</td>
<td>Action completed 10/15/2014</td>
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<td>7</td>
<td>MILLIONS OF DOLLARS IN POTENTIALLY IMPROPER SELF-EMPLOYED RETIREMENT PLAN DEDUCTIONS ARE ALLOWED</td>
<td>3/20/2014</td>
<td>The Director, Compliance, W&amp;I Division, should work with the Department of the ******** ** ******* ** ******* ********* ** ********* *********** ******* ** ******* *********** *********** ********* **** ** ****.</td>
<td>(F-3, R-1, P-1)</td>
<td>4/15/2015</td>
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<td>8</td>
<td>LATE LEGISLATION DELAYED THE FILING OF TAX RETURNS AND ISSUANCE OF REFUNDS FOR THE 2013 FILING SEASON</td>
<td>9/30/2013</td>
<td>The Commissioner, Wage and Investment Division, should initiate a program to recover the more than $58 million from the 42,961 taxpayers who received education credits for students who were of an unlikely age to be eligible for the credits.</td>
<td>(F-2, R-2, P-1)</td>
<td>Action completed 1/15/2015</td>
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<td>9</td>
<td>PROCESSES FOR ENSURING COMPLIANCE WITH QUALIFYING ADVANCED ENERGY PROJECT CREDIT REQUIREMENTS CAN BE STRENGTHENED</td>
<td>2/6/2014</td>
<td>The Commissioner, Large Business and International Division, should develop a process to ensure that changes in projects are fully evaluated for significance and a determination is made as to whether forfeiture of the credit is required.</td>
<td>(F-1, R-1, P-1)</td>
<td>Action completed 2/15/2015</td>
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<tr>
<td></td>
<td>Report # 2014-40-011</td>
<td>2/15/2015</td>
<td>The IRS agrees to ensure that changes in projects are fully evaluated for significance and determination as to whether forfeiture of the credit is required.</td>
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<td>10</td>
<td>PROCESSES FOR ENSURING COMPLIANCE WITH QUALIFYING ADVANCED ENERGY PROJECT CREDIT REQUIREMENTS CAN BE STRENGTHENED</td>
<td>2/6/2014</td>
<td>The Commissioner, Large Business and International Division, should ensure a process to identify and verify that individual taxpayer tax returns claiming Advanced Energy Credits are valid.</td>
<td>(F-2, R-1, P-1)</td>
<td>3/15/2016</td>
</tr>
<tr>
<td></td>
<td>Report # 2014-40-011</td>
<td>3/15/2016</td>
<td>An analysis will determine whether a compliance strategy is needed for individual taxpayers’ fraudulent claims for Advanced Energy Credits.</td>
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