Treasury Inspector General for Tax Administration

Semiannual Report to Congress

April 1, 2005 through September 30, 2005

TIGTA: Promoting integrity in America's tax system

What We Do:

- ✔ Oversee the IRS
- ✔ Investigate threats to the Federal tax system
- ✔ Audit the IRS
- ✔ Inform the Treasury Secretary, Congress, and the public

What We Do Not Do:

- ✘ Direct the IRS
- ✘ Investigate tax fraud
- ✘ Audit taxpayers
- ✘ Take direction from the IRS Commissioner

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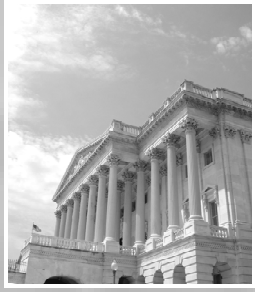

"Taxes are what we pay
for civilized society . . .
A penalty on the other hand
is intended altogether to prevent
the thing punished."

Oliver Wendell Holmes Jr.

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Inspector General's Message to Congress

I am pleased to submit the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress. TIGTA is one of the largest and most complex Inspector General operations in the Federal Government. TIGTA protects and promotes the fair administration of our Federal tax system. By doing so, it plays a critical role in ensuring the Internal Revenue Service (IRS) remains accountable for its actions. This report covers our work from April 1, 2005 to September 30, 2005.

When I arrived at TIGTA last December, there were many issues facing the IRS, several of which are addressed in this report; however, I identified four primary priority areas; 1) IRS' efforts to modernize technology; 2) TIGTA's ability to protect tax administration from corruption; 3) IRS' efforts to improve tax compliance; and, 4) IRS' use of private debt collection agencies. TIGTA's commitment to addressing these critical areas is summarized below:

IRS' Efforts to Modernize Technology - Modernizing the IRS' computer systems has been a persistent challenge for many years, and will likely remain a challenge for the foreseeable future. Through March 2005, the IRS has received appropriations of approximately $1.9 billion to support the Business Systems Modernization (BSM) program, and the Fiscal Year 2006 budget requested an additional $199 million. It is estimated that the BSM program will last up to 15 years and cost more than $8 billion. Although progress is being made, the modernization program is behind schedule, over budget, and is delivering less functionality than originally planned. The IRS must demonstrate that it can effectively manage the BSM program before the program's chances for success improve. TIGTA will continue to assess the IRS' efforts at managing the risks involved in this significant area.

Protecting Tax Administration from Corruption - Corruption jeopardizes faith in the tax administration system, therefore, it must be eliminated to protect the IRS, its employees, and facilities. The goal of TIGTA's investigations is to produce high quality products that promote IRS employee integrity, protect IRS employees and infrastructure, and defend the IRS against external attempts to corrupt tax administration. During this semiannual reporting period, TIGTA received 4,183 complaints of alleged criminal wrongdoing or administrative misconduct, opened 1,813 investigations, and closed 1,814 cases. TIGTA will continue to be diligent in conducting investigations and protecting the integrity of tax administration.

Improving Tax Compliance Initiatives – The IRS continues to face challenges in ensuring that taxes owed are paid on time. The importance of this issue cannot be overstated. The nation's ability to provide for the general welfare and protection of its citizens is based on the ability to

raise revenue through taxes. The widely recognized tax gap, which consists of the amount of taxes that are owed but not collected each year, is at a staggering level and threatens the integrity of the voluntary tax system. In the most recently updated estimate of the tax gap, released March 29, 2005, and developed for Tax Year 2001, the IRS estimates the annual gross tax gap to be between $312 billion and $353 billion. Audit and investigative work in this area continues to address the vulnerabilities at the IRS that contribute to the tax gap, and to identify opportunities and recommendations for improvement.

Use of Private Debt Collection Agencies – The passage of the American Jobs Creation Act of 2004 cleared the path for the IRS to initiate a delinquent tax debt collection effort through the use of private contractors. This is an important and highly visible initiative requiring TIGTA's oversight throughout the process. When fully implemented the IRS intends to have up to 12 private contractors handling delinquent tax debt collection cases. The Department of the Treasury estimated that the Federal Government could receive approximately $1.4 billion over the next 10 years from this program. While the use of private collection agencies could result in significant recoveries of unpaid taxes, the potential for abuse of taxpayers' rights exists. Private debt collectors who abuse their authority while collecting taxes will be investigated, and appropriate civil and criminal sanctions will be imposed as warranted. TIGTA plays a key role in ensuring that the IRS utilizes this new authority effectively, while ensuring that taxpayers' due process and privacy rights are protected.

In addition to our four priority areas, TIGTA continues to pursue oversight activities in areas such as the security of IRS employees, facilities, and information systems; the prevention of erroneous and improper payments by the IRS; the IRS' processing of tax returns and implementation of tax law changes; customer service; and the integration of performance and financial management at the IRS, to name a few. These are all important oversight activities that we pursue vigilantly. We are committed to helping the IRS overcome current and future challenges to ensure that the collection of tax revenue is done with efficiency, effectiveness, and integrity.

Sincerely,

J. Russell George

J. Russell George
Inspector General

TIGTA's Profile and Highlights

The Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of Treasury Department matters involving IRS activities, the IRS Oversight Board, and the IRS Office of Chief Counsel. Although we are placed organizationally in the Treasury Departmental Offices and report to the Secretary of the Treasury and to Congress, we function independently from the Departmental Offices and all other offices and bureaus within the Department.

Our work is devoted to all aspects of activity related to the Federal tax system as administered by the IRS. By identifying and addressing the IRS' management challenges, implementing the *President's Management Agenda* and the priorities of the Department of the Treasury, and overseeing the IRS as it strives to achieve its strategic goals, we protect the public's confidence in the tax system.

Our primary functional offices are the Office of Audit (OA) and the Office of Investigations (OI). Our Offices of Chief Counsel, Information Technology, and Management Services support OA and OI efforts (see organizational chart, next page).

TIGTA conducts audits and investigations designed to:

- Promote the economy, efficiency, and effectiveness of tax administration; and,
- Protect the integrity of tax administration.

TIGTA's Statutory Mandate

Protect against external attempts to corrupt or threaten IRS employees.

Provide policy direction and conduct, supervise, and coordinate audits and investigations related to IRS programs and operations.

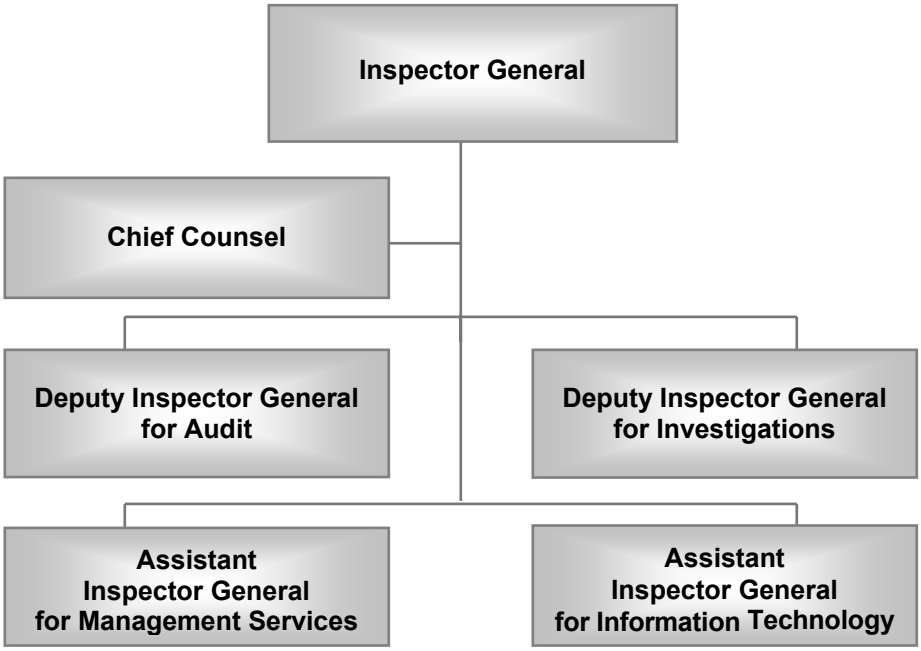
Review existing and proposed legislation and regulations related to IRS programs and operations and make recommendations concerning the impact of such legislation or regulations.

Promote economy and efficiency in the administration of tax laws.

Prevent and detect fraud and abuse in IRS programs and operations.

Inform the Secretary of the Treasury and Congress of problems and deficiencies identified and of the progress made in resolving them.

TIGTA's Organizational Structure



Authorities

TIGTA has all the authorities granted under the Inspector General Act of 1978, as amended.[1] TIGTA also has access to tax information in the performance of its tax administration responsibilities and the obligation to report potential criminal violations directly to the Department of Justice. TIGTA and the Commissioner of Internal Revenue have established policies and procedures delineating responsibilities to investigate potential criminal offenses under the internal revenue laws. In addition, the IRS Restructuring and Reform Act of 1998 (RRA 98)[2] amended the Inspector General Act of 1978 to give TIGTA statutory authority to carry firearms, execute and serve search and arrest warrants, serve subpoenas and summonses, and make arrests as set forth in Section 7608(b)(2) of the Internal Revenue Code (I.R.C.).

[1] 5 U.S.C.A. app. 3 (West Supp. 2004).

[2] Public Law No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

TIGTA Highlights

Statistics

The following table shows TIGTA's statistical highlights for this semiannual reporting period as well as all of Fiscal Year 2005.

TIGTA's Fiscal Year 2005 Accomplishments						
	Number of Audit Reports Completed	Cost Savings Identified	Increased/ Protected Revenue	No. of Investigations Opened	No. of Investigations Closed	Regulations/ Legislative Requests Reviewed
FY 2005	180	$46.7 million	$83.3 billion	3,513	3,468	287
April 1, 2005 to Sept. 30, 2005	121	$18.4 million	$71.3 billion	1,813	1,814	156

TIGTA: One of the Best Places to Work

Once again, TIGTA ranks as one of the "Best Places to Work in the Federal Government." The ranking is based on the 2004 Office of Personnel Management Federal Human Capital Survey. TIGTA ranked in the top 15 percent of the 218 surveyed Federal subagencies (which includes small and independent agencies). TIGTA received 1st place rankings in two categories, Pay and Benefits, and Work/Life Balance. Please visit the Web site at **http://www.bestplacestowork.org/** for more details.

"…Natural rights, so called,
are as much subject to taxation
as rights of less importance."

Benjamin N. Cardozo

Promote the Economy, Efficiency and Effectiveness of Tax Administration

TIGTA's Office of Audit strives to promote the economy, efficiency, and effectiveness of tax administration. We provide audit recommendations to improve IRS systems and operations, while ensuring fair and equitable treatment of taxpayers. Our comprehensive, independent performance and financial audits of IRS programs and operations focus on mandated reviews and high-risk challenges facing the IRS.

The IRS' implementation of audit recommendations results in cost savings and increased or protected revenue, reduction of taxpayer burden, and protection of: taxpayer rights and entitlements; taxpayer privacy and security; and IRS resources.

Each year, we identify and address the major management challenges facing the IRS. Audit emphasis is placed on statutory coverage required by RRA 98, as well as on areas of concern to Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders. The challenge areas for Fiscal Year (FY) 2005 are outlined in the following chart:

IRS' Major Management Challenges

- Systems Modernization
- Tax Compliance Initiatives
- Security of the IRS
- Integrating Performance and Financial Management
- Complexity of the Tax Law
- Providing Quality Customer Service Operations
- Erroneous and Improper Payments
- Processing Returns and Implementing Tax Law Changes
- Taxpayer Protection and Rights
- Human Capital

The following audit summaries highlight significant audits completed during this six-month reporting period and fall into the IRS' Major Management Challenges categories.

Systems Modernization

The IRS and its contractors have deployed much anticipated Business Systems Modernization (BSM) projects with the infrastructure needed to support them. In addition, the IRS has developed an Enterprise Architecture that includes all IRS business units, processes, programs, and operations, and provides details to

help guide current and future modernization initiatives. The BSM Program has also taken steps to improve its management processes.

BSM Program Synopsis

The BSM Program is a complex effort to modernize the IRS' technology and related business processes. According to IRS estimates, this $8 billion effort will involve integrating thousands of hardware and software components over 15 years. The Program is in its seventh year and has allocated approximately $1.9 billion for contractor and integrator activities. Additionally, the IRS has provided $213 million in funding to the Business Systems Modernization Office (BSMO) since FY 1999.

Since its inception, the Program has experienced management problems at both the program and project levels, as well as problems between the IRS and the PRIME contractor.[3]

Weaknesses continue to exist in requirements management, contract management, software testing, and security controls. As a result, BSM project accomplishments did not include all intended capabilities, were not delivered on schedule, and exceeded proposed costs. IRS management advised these changes were caused by factors outside their control, such as additional requirements and Congressional delays in passing legislation.

[3] The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies that assist the IRS in modernizing its computer systems and related information technology.

In January 2005, the IRS began taking over the role of systems integrator from the PRIME contractor due to reductions in funding by Congress for the BSM Program and concerns about the PRIME contractor's performance.

TIGTA's annual BSM Program assessments continue to cite four primary challenges the IRS and its contractors must meet to achieve Program success. They are:

1) implement planned improvements in key management processes and commit resources to enable success;
2) manage the increasing complexity and risks of the Program;
3) maintain continuity of strategic direction with experienced leadership; and,
4) ensure contractor performance and accountability are effectively managed.

Although the IRS has taken a number of actions in response to TIGTA's recommendations, recent findings show these four challenges remain.

The IRS agreed that it has a lot of work ahead on the Program and cited progress in four key areas that align with the four primary challenges. The ongoing issues will be balancing the scope and pace of projects consistent with capacity, ensuring the right people are in place before launching a project, and setting realistic delivery schedules and cost estimates. **Report Reference No. 2005-20-102**

The IRS has a unique opportunity during BSM efforts to develop and integrate adequate security controls effectively and efficiently. However, the IRS did not adequately consider security controls in the development phase for the five systems

TIGTA reviewed. In addition, documentation required in the development phase provided only general or outdated descriptions of security requirements and controls. Because many of its core systems are being rebuilt, security controls should be provided during the development phase and tested during the integration phase of modernization projects.

Waiting until after implementation to address security weaknesses will most likely cost significantly more and could result in system exploitation by unauthorized individuals or personnel. The lack of disaster recovery planning in the development phase could unnecessarily prolong the recovery from a natural disaster or terrorist attack. TIGTA believes the PRIME contractor focused on delivering systems that would function, but did not provide enough emphasis on security controls. In addition, the IRS was not sufficiently involved in the early development stages of the systems to ensure that the PRIME contractor developed security controls in compliance with IRS standards.

TIGTA recommended that the IRS ensure coordination between it and the PRIME contractor and revise guidance to require disaster recovery planning in the development phase of the system life cycle. The IRS should also ensure that audit trail data are retained and reviewed to detect unauthorized accesses. The IRS agreed with most of the recommendations and is taking action to address the conditions.
Report Reference No. 2005-20-128

The Customer Account Data Engine (CADE) is a critical building block in the IRS' modernization program. It will enable the development of subsequent modernized systems to improve customer service and compliance. The CADE will be implemented in a series of releases over several years, while, concurrently, the older Master File system will be phased out.

Tax Year (TY) 2004 return information was accurately and timely posted to CADE accounts. The IRS issued accurate refunds faster for those returns posted to the CADE than those posted to the Master File. The IRS also provided accurate refund information on these returns through its automated telephone service and its Web site. When tax returns did not meet CADE criteria, the account information was accurately transferred to the Master File. However, TIGTA identified employee actions that, coupled with CADE restrictions, caused accounts to be unnecessarily moved from the CADE to the Master File. The IRS immediately issued instructions to minimize these actions.

The successful implementation of the first two CADE releases is a noteworthy achievement, which includes accurate account postings, automated telephone and Web site service, and faster refunds. There is much to be done, however, and expanding the CADE will become more challenging as the IRS adds capabilities to handle more complex tax returns.
Report Reference No. 2005-40-109

TIGTA reviewed four business cases for Budget Years (BY) 2005 and 2006 and noted that all four business cases contained deficiencies; none of the four were in compliance with Office of Management and

Budget (OMB) and Clinger-Cohen Act[4] requirements; and, in some instances, the business cases did not comply with the IRS' Exhibit 300 *Business Case Guide*. As a result, senior IRS executives and Department of the Treasury and OMB officials should not rely on the data in these business cases to manage and fund projects.

The IRS prepares about 30 business cases each year to support funding for its major Information Technology (IT) investments. To make business cases more reliable and useful, the IRS should ensure existing guidance is followed in computing costs for IT projects and work performed by contractors is adequately reviewed before acceptance. In addition, the IRS should require a comprehensive evaluation of all vendor proposals and an assessment of three viable alternatives for IT investments. The IRS should also hold IT Project Managers accountable to ensure that all sections of a business case are consistent, accurate, and complete, and correct all software problems that lead to incorrect earned value[5] calculations. The IRS agreed with these recommendations and has taken action to change its BY 2007 submissions. **Report Reference No. 2005-20-074**

[4] Pub. L. No. 104-106, 110 Stat. 642 (codified in scattered sections of 5 U.S.C., 5 U.S.C. app., 10 U.S.C., 16 U.S.C., 18 U.S.C., 22 U.S.C., 28 U.S.C., 29 U.S.C., 31 U.S.C., 38 U.S.C., 40 U.S.C., 41 U.S.C., 44 U.S.C., 49 U.S.C., 50 U.S.C.).

[5] Earned value management is a method of analysis that provides management with an objective measurement of how well an IT investment in the development stage is progressing in terms of planned costs and schedule.

Tax Compliance Initiatives

The IRS recognized that underreporters account for the largest portion of the tax gap.[6] As a result, the IRS developed an extensive Employment Tax Strategy that addresses many facets of employment tax compliance. The seven-pronged approach includes Tip Income, Non-Filers, Workload Identification, Collection, Legislative Initiatives, Education, and Reporting Compliance.[7]

However, while approximately two-thirds of the Federal Government's revenue receipts are reported on Forms 941 (Employer's Quarterly Federal Tax Return), the IRS has not evaluated the extent of tax underreporting on these forms for at least 15 years. Currently, according to the IRS, there are 720,612 Forms 941 nationwide that do not balance with the Forms W-2 data for TY 2003. These inaccuracies could represent significant amounts of unpaid tax as the table below illustrates.

Results of Employment Tax Forms When Reviewed

IRS Function	Year	Returns Reviewed	Additional Tax Assessed
CAWR	TY 2002	58,416	$905,249,357
EXAMINATION	FY 2004	17,698	$422,264,000

Source: The Combined Annual Wage Reporting (CAWR) program is an IRS program that helps the Social Security Administration ensure all workers get credit for the wages they earn towards retirement benefits. Additionally this program can be used to identify unreported and unpaid tax.

TIGTA recommended that the IRS develop methodologies within the Employment Tax

[6] The tax gap includes nonfilers, underreporters of tax, and underpayers of tax.

[7] Reporting compliance can be measured by comparing the tax reported by a taxpayer with what should be reported.

Strategy to evaluate the extent of underreporting by employers. IRS management agreed with the recommendation and is taking steps to evaluate the extent of the problem.
Report Reference No. 2005-30-126

The IRS has not used State tax amnesty information as an ongoing tool to help ensure compliance with Federal tax laws. As a result, it is missing a unique opportunity to address noncompliant taxpayers who have acknowledged their noncompliance with tax laws to State governments and who also may owe Federal taxes. Although an IRS study included considerable analysis of tax amnesty data for individual taxpayers from two states, it did not fully explore the benefits of this information and its usefulness in IRS compliance programs.

Tax amnesty programs are designed to collect taxes owed from prior years and place those who previously avoided taxation on the tax rolls. Over the past 23 years, at least 41 states and two cities have collected more than $5.7 billion from tax amnesty programs. To encourage taxpayers to participate, these programs generally forgave all civil and criminal penalties. However, they differed as to whether all or a portion of the interest was forgiven.

TIGTA recommended that the IRS evaluate current Federal and State exchange programs to determine whether State tax amnesty information could be obtained and, if so, how this data could be used in IRS compliance programs. IRS management agreed with the recommendations and proposed corrective action.
Report Reference No. 2005-30-165

The IRS estimates it will achieve approximately $1.17 billion in additional revenues if additional funding for its proposed FY 2006 enforcement initiatives is approved. This would equate to a 4.4 to 1 return on the additional investment when the employees become fully productive in FY 2008. IRS officials believe the 4.4 to 1 return on investment is a conservative estimate, but TIGTA's analysis indicates the estimate may be too high. IRS revenue projections were based on historical averages that weighted data equally from years when IRS priorities and technology were substantially different than in recent years. In addition, business units did not always provide specific information to correlate revenue projections to the goals of the initiatives.

Furthermore, the IRS currently does not have a methodology to measure revenue resulting from any adopted initiatives, such as the results of increased investment in enforcement activities. The absence of such a measurement limits the IRS' estimating ability to assist in budgeting and resource allocation.

TIGTA recommended that the business units provide more information on the type of work expected to be completed by the additional staff to allow the IRS to more accurately project revenues. Additionally, the IRS should consider using a forecasting model that assigns greater weight to more recent years' data, such as exponential smoothing, when appropriate. The IRS should also develop a methodology to evaluate the results of increased investments in enforcement activities.

IRS management agreed to consider alternative methods to forecast revenue. However, IRS management does not plan to use data that is more specific to the initiatives, because it does not believe the investment of time and resources needed to generate refined estimates would be a prudent use of resources. TIGTA does not believe the use of more specific data would require more effort.
Report Reference No. 2005-10-159

Security of the IRS

Homeland Security Presidential Directive/HSPD-7, *Critical Infrastructure Identification, Prioritization, and Protection* dated December 17, 2003, established a national policy for Federal agencies to protect critical national infrastructure and key resources from terrorist attacks. HSPD-7 required all Federal agencies to develop plans to protect their critical infrastructure by July 31, 2004. The IRS timely provided the Department of the Treasury a list of 19 critical assets that had been identified in the latter part of 1998, in response to *The Policy on Critical Infrastructure Protection: Presidential Decision Directive (PDD-63),* dated May 1998.

Operational and technical controls for critical systems have not been adequately tested and prioritized. In addition, plans for correcting identified weaknesses are insufficient. TIGTA believes IRS management has been slow to accept responsibility for the security of its systems, and has not devoted sufficient attention to testing and correcting security weaknesses.

The Department of the Treasury also required all bureaus to update their lists of critical infrastructure by September 2005. At the time this audit was completed, the IRS was still in the process of performing the analysis necessary to identify its critical assets and expected to have it completed by the deadline. However, because the IRS does not have a process to regularly review its inventory of critical assets, TIGTA recommended that the IRS confirm at least annually the accuracy and completeness of its critical assets list. The IRS agreed with the recommendations and will ensure corrective action is taken.
Report Reference No. 2005-20-108

Integrating Performance and Financial Management

The IRS has made progress in improving its administration of the Earned Income Tax Credit (EITC) Program. The IRS developed the EITC Reform Initiative to address backlogs of EITC Program examinations, minimize taxpayer burden during the audit process, enhance compliance efforts, and pilot a certification process for higher-risk taxpayers. The IRS also established long-term performance goals and measures to evaluate its progress in improving the Program, and appointed an executive to head the EITC Office.

This executive however, faces the difficulty of holding accountable the functions that complete EITC Program work, since most of these functions do not report to the EITC Office. The EITC Office developed Service Level Agreements that document

and formalize the services being provided by the operating and functional divisions, as well as the support the EITC Office will provide to the respective divisions. TIGTA believes this mechanism will increase the accountability of functions with EITC Program responsibility. The IRS agreed that the EITC Office will regularly evaluate the effectiveness of the Service Level Agreements.
Report Reference No. 2005-40-133

The IRS does not have adequate means to evaluate the success of its Low Income Taxpayer Clinic (LITC) Grant Program. In FY 2004, the IRS provided $7.5 million in LITC funds to 134 clinics, yet it has not established performance measures to evaluate the success of the Program and does not visit prospective clinics before awarding grant funds. Information provided by the clinics was inconsistent and not validated. Some clinics did not timely submit required reports. Although clinics are prohibited from charging fees for preparing tax returns, two clinics appeared to be doing so. There were nine clinics that received IRS grants of more than $500,000, but were not in compliance with their own Federal tax obligations.

The LITC Grant Program offers assistance to low income taxpayers who are involved in tax controversies with the IRS and provides education about taxpayer rights and responsibilities to taxpayers for whom English is a second language. The following table shows the amount of grant funding for 1999 through 2005:

LITC Program Grant Funding, Clinics, and States Represented (1999 – 2005)

Year	Grant Funding	Number of Clinics	States/Territories Represented
1999	$1.5 million	34	19
2000	$4.4 million	70	33
2001	$6 million	102	39
2002	$7 million	127	43
2003	$7 million	138	49
2004	$7.5 million	134	51
2005	$8 million	145	51

Source: Internal Revenue Bulletins and News Releases.

To improve the LITC Grant Program, TIGTA recommended that the IRS establish program goals and performance measures, and visit prospective clinics before awarding grant funds. In addition, funding should be suspended or terminated for clinics not in compliance with reporting requirements. Finally, the IRS should establish procedures to check for tax compliance before awarding grant funds. IRS management generally agreed with TIGTA's recommendations.
Report Reference No. 2005-10-129

Providing Quality Customer Service Operations

The IRS is committed to providing excellent service to taxpayers and enforcing America's tax laws in a balanced manner. Its first strategic goal is to "improve taxpayer service." Taxpayers have several options when seeking assistance with tax issues, including face-to-face assistance at Taxpayer Assistance Centers (TAC), toll-free telephone assistance, and Internet assistance through the IRS Web site. The IRS is encouraging taxpayers to use self-services. The IRS believes its

toll-free service is the method preferred by the majority of taxpayers seeking assistance and provides efficient and cost-effective service.

Since the creation of the Field Assistance Office in October 2000, IRS focus on face-to-face service has changed, but key management information used to make decisions and support changes either is absent or based on incomplete data. The IRS does not have current data to support why its TACs are in their current locations or what services the TACs should provide. The IRS needs a management information system that will provide accurate and complete information for identifying the number and locations of the TACs, the numbers of the various types of services provided at the TACs, and the costs of the TACs. Without this capability, there is no assurance that the FY 2005 TAC Program budget of $159.2 million would be used most efficiently.

TIGTA recommended that the IRS take the following actions:

- enhance its management information system to capture the number of taxpayers served, the number and types of services provided, and related costs;
- develop a Service Delivery Plan for the short-term and long-term direction of the TAC Program; and,
- develop a process that includes routine assessments, ensuring optimal TAC locations and services.

IRS management agreed with these recommendations and is taking corrective action.

Report Reference No. 2005-40-110

During the 2005 Filing Season, the IRS made customer service improvements in several of its delivery channels. In the TACs, improvements were made in the tax return preparation process. The accuracy rate of tax returns prepared improved: 79 percent of returns tested were correctly prepared.

The IRS continued to improve toll-free telephone service access. Specifically, the IRS planned and met its 82 percent Customer Service Representative Level of Service goal for the 2005 Filing Season.[8] Assistors answered 14.8 million calls (4 percent more calls than planned), using 95 percent of the planned resources. The IRS also achieved 105 percent of its planned assistor services and 90 percent of its planned automated services.

While the IRS did improve during the 2005 Filing Season, TIGTA found some deficiencies. For 68 percent of the tax returns TIGTA observed being prepared at the TACs, assistors did not use the required tools to help ensure that taxpayers reported all required income and qualified for various deductions and credits. In addition, coordination did not exist between IRS offices for sharing best practices used in the Volunteer Income Tax Assistance Program.[9] TACs also did not assign a unique Electronic Filing Identification

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[8] Level of Service is the primary measure of providing taxpayers with access to a live assistor and has been consistent over the last three filing seasons.

[9] The Volunteer Income Tax Assistance Program provides Federal tax return preparation and *e-filing*, targeting underserved segments of individual taxpayers, including low-income, elderly, disabled, and limited-English-proficient taxpayers.

Number (EFIN),[10] as required, for electronically-filed tax returns.

Additionally, TAC assistors correctly answered only 66 percent of the 196 tax law questions TIGTA auditors asked during the 2005 Filing Season. This was a nominal improvement from 2004 results, but the IRS has not yet achieved its FY 2005 accuracy rate goal of 81 percent.

Several performance measures in toll-free telephone service also declined during the 2005 Filing Season. For 4.3 million tax law and 9.3 million account-related assistor-answered calls, the percentage of taxpayers who received services within 30 seconds (Assistor Response Level) decreased, and the average number of seconds taxpayers waited in the queue before receiving services (Average Speed of Answer) increased. In addition, the Secondary Abandon Rate (in which a taxpayer navigated the automated menu and then disconnected while waiting to speak to an assistor) increased from the 2004 Filing Season.

TIGTA recommended that the IRS develop a partnership between the TACs to share best practices and a process to ensure that each TAC is assigning a unique EFIN. TIGTA made no recommendations for the other weaknesses identified because they had already been outlined in prior reports. IRS management agreed with the recommendations provided.
Report Reference Nos. 2005-40-146, 2005-40-147, 2005-40-152, and 2005-40-155

[10] An EFIN is a number assigned by the IRS to identify which Electronic Return Originator originated the tax return.

Erroneous Payments

Refund fraud committed by prisoners is growing at an alarming rate. The number of false returns from prisoners identified by the IRS grew from 4,300 returns during Processing Year (PY)[11] 2002 to over 18,000 returns during PY 2004 – a 318 percent increase. Resources and incomplete and inaccurate prisoner data may be preventing the IRS from detecting more fraudulent prisoner returns. IRS Fraud Detection Centers (FDC) do not have the resources to physically screen all prisoner returns. During PY 2004, FDCs screened about 36,000 of the 455,000 prisoner refund returns.

TIGTA identified over 18,000 prisoners during Calendar Year 2003 who filed returns with a filing status of either "single" or "head of household" while claiming more than $19 million in EITC. In addition, TIGTA's analyses of the 2.8 million prisoner records on the 2004 prisoner data file identified about 550,000 records that were either incomplete or missing.

Prison officials expressed frustration with the IRS' inability to share information on prisoner refund fraud. This is because Internal Revenue Code (I.R.C.) § 6103 (2004) generally prohibits the IRS from sharing Federal tax information, except under limited circumstances. Two Members of Congress have called for more information sharing and better enforcement measures, such as allowing the IRS to share tax

[11] Processing year refers to the year in which taxpayers file their tax returns at the Submission Processing sites. Generally, returns for 2003 were processed during 2004, although returns for older years were also processed.

information with the State prisons, and one Member of Congress subsequently asked TIGTA to draft a legislative proposal to revise I.R.C. § 6103 (2004) to allow for this.

Both TIGTA and the IRS testified at a Congressional hearing[12] on prisoner refund fraud. IRS officials described several initiatives to enhance the detection of false refund returns that included:

- continuing coordination to acquire accurate prisoner information to maximize the effectiveness of IRS automated systems;
- conducting training sessions with IRS personnel by discussing expectations of the fraud program and how schemes are perpetrated, and sharing best practices with prisons;
- increasing efforts in working with State prisons to include routine liaison contacts to identify emerging activities involving refund fraud; and,
- assuring that all FDCs have procedures to coordinate fraud prevention efforts with prisons.

TIGTA discussed the results of its review with IRS officials during fieldwork, and they advised of their ongoing efforts to combat prisoner-related refund fraud. Accordingly, TIGTA made no recommendations; however, it plans to continue assessing the IRS' efforts on this important tax administration issue.

Report Reference No. 2005-10-164

In March 2004, at the IRS' request, TIGTA became involved with a potential fraud scheme. Fraudulent tax returns, using fictitious information on Schedule C (Profit or Loss From Business), were arriving in such large volumes that the IRS could not stop erroneous refunds from being issued. The individuals claimed the EITC, which increased the amount of the refunds they claimed. One IRS office stopped refunds on tens of thousands of potentially fraudulent returns and referred the scheme to its Criminal Investigation (CI) function. The CI function only accepts cases for which it can determine the perpetrator of the fraud and make an arrest. Therefore, it accepted only a small portion of these returns. There were approximately 70,000 tax returns with claims for refunds totaling more than $100 million that were not accepted for criminal prosecution.

While the 70,000 cases were eventually resolved, TIGTA is concerned that no formal agreement exists between IRS functions to resolve fraud cases. To avoid costly and time-consuming delays, an overall compliance strategy between IRS functions would have placed the IRS in a better position to handle large volumes of fraudulent Schedule C refund returns.

TIGTA recommended that the IRS develop an overall compliance strategy for Schedules C with fraudulent refunds, especially when large volumes of returns are involved. The IRS should also identify potential computerized methods to temporarily stop refunds for cases meeting the characteristics of this or other large Schedule C refund schemes. IRS management agreed with the recommendations and is taking corrective action.

Report Reference No. 2005-30-140
(Limited Official Use)

[12] See page 35.

Processing Returns and Implementing Tax Law Changes

The IRS provides tax benefits to taxpayers identified on the IRS Master File[13] as being in a Combat Zone. However, TIGTA identified a processing issue that affects the accuracy of the Combat Zone indicators and the overall effectiveness and efficiency of the Combat Zone program.

TIGTA results indicated that over 58 percent of the 520,000 taxpayers with an active Combat Zone indicator are incorrect (i.e., the taxpayers are no longer serving in a Combat Zone). An incorrect active Combat Zone status allows taxpayers to receive special tax treatment to which they are no longer entitled to receive, such as filing late, not being audited, or having collection action suspended.

[13] The Master File refers to the IRS Individual Master File database that maintains transactions or records of individual tax accounts.

To further help ensure that Combat Zone indicators are correct, TIGTA recommended that the IRS continue to work on perfecting the information used to update the Master File, develop a quality review program to ensure that the accounts being analyzed for inaccurate indicators by the new computer program are processed correctly, and conduct an account review on an annual basis. IRS management agreed with the recommendations and initiated corrective action.
Report Reference No. 2005-40-077

More improvements can be made to enhance the clarity and usefulness of math error notices and reduce unnecessary notices issued to individual and business taxpayers.

Many taxpayers who calculated their own estimated tax penalties received an unnecessary and confusing math error notice telling them they miscalculated the total balance they owed on their tax returns. As illustrated on the following page, instructions on TY 2004 U.S. Individual Income Tax Returns (Form 1040), Line 74 (Amount You Owe) tell taxpayers to, "Subtract Line 70 (Total Payments) from Line 62 (Total Tax)."

Taxpayers who followed these instructions and also entered an estimated tax penalty on the next line (Line 75) received a math error notice stating:

> *"We changed the refund amount on Line 72a or the amount you owe on Line 74 of your Form 1040 because the amount entered on your tax return was computed incorrectly."*

"Amount You Owe" Section of Form 1040 as currently formatted

	60	Advance earned income credit payments from Form(s) W-2			60
	61	Household employment taxes. Attach Schedule H			61
	62	Add lines 56 through 61. This is your **total tax** ▶			62
Payments	63	Federal income tax withheld from Forms W-2 and 1099	63		
	64	2004 estimated tax payments and amount applied from 2003 return	64		
If you have a qualifying child, attach Schedule EIC.	65a	**Earned income credit (EIC)**	65a		
	b	Nontaxable combat pay election ▶ 65b			
	66	Excess social security and tier 1 RRTA tax withheld (see page 54)	66		
	67	Additional child tax credit. Attach Form 8812	67		
	68	Amount paid with request for extension to file (see page 54)	68		
	69	Other payments from: a ☐ Form 2439 b ☐ Form 4136 c ☐ Form 8885	69		
	70	Add lines 63, 64, 65a, and 66 through 69. These are your **total payments** ▶			70
Refund	71	If line 70 is more than line 62, subtract line 62 from line 70. This is the amount you **overpaid**			71
Direct deposit? See page 54 and fill in 72b, 72c, and 72d.	72a	Amount of line 71 you want **refunded to you** ▶			72a
	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings			
	▶ d	Account number			
	73	Amount of line 71 you want **applied to your 2005 estimated tax** ▶	73		
Amount You Owe	74	**Amount you owe.** Subtract line 70 from line 62. For details on how to pay, see page 55 ▶			74
	75	Estimated tax penalty (see page 55)	75		

Source: 2004 Form 1040.

The problem occurred because IRS computers are programmed to include the amount of the estimated tax penalty (Line 75) in the calculation for Line 74. The return does not instruct taxpayers to include this line in their calculation. Because the amount calculated by IRS computers differed from the amount calculated by taxpayers (in accordance with instructions), an error notice was sent to them. Taxpayers received the notice even if they paid the proper amount (amount of tax owed plus estimated tax penalty). As of June 3, 2005, improper math error notices were sent to over 3,200 taxpayers who had completed their 2004 Forms 1040 and 1040A as instructed. Over 700 of these taxpayers had their returns prepared by paid tax preparers.

TIGTA recommended relocating the line for estimated tax penalty and adding better instructions to correct this problem. TIGTA also recommended that the IRS review the process for revising notices to ensure that they are accurate and consistently formatted, and that taxpayers' rights to appeal adjustments are clearly explained on all math error notices. IRS management generally agreed with the recommendations and initiated corrective actions. However, the IRS disagreed with the recommendations to make changes to Forms 1040 and 1040A, stating that there is not sufficient room on the forms to add text. TIGTA disagrees with the IRS' decision and believes that without the additional text, the instructions are incomplete.
Report Reference No. 2005-30-154

Taxpayer Protection and Rights

The IRS recognizes the growing challenge of identity theft and its effect on tax administration. Two primary types of identity theft that relate to tax are: (1) an individual who files a return using another person's name and Social Security Number (SSN) to steal a tax refund; and, (2) an individual using another person's name, SSN, or both to obtain employment.

The IRS has no corporate strategy to address identity theft issues. It does not have a consistent process to educate and assist taxpayers, and does not always take additional actions to deal with the individuals who have used another's name and/or SSN to file fraudulent tax returns or obtain employment. In addition, the IRS does not have comprehensive or centralized data on identity theft to determine its effect on tax administration. IRS management agreed with the recommendations presented in the report and has developed an Enterprise Identity Theft Strategy.
Report Reference No. 2005-40-106

Some concerns have been expressed by tax professionals and the National Taxpayer Advocate that new policies, programs, and structures initiated by the IRS since enactment of RRA 98 may be compromising the independence of the Office of Appeals. TIGTA found that the overall independence provided by the Office of Appeals' structure and processes appears to comply with the intent of RRA 98.

Survey results from taxpayers indicate that there has been an improvement in the overall perception of the Office of Appeals' independence. In addition, representatives from the American Bar Association, the American Institute of Certified Public Accountants, the National Association of Enrolled Agents, and the National Society of Accountants along with former IRS officials advised TIGTA that they believe the independence is generally very high. However, these tax professionals have concerns with independence of specific programs and initiatives – primarily to those involving high-dollar cases in which there appears to be coordination between the Office of Appeals and IRS compliance functions. TIGTA reviewed the programs and areas of concern. While there were some specific areas where clarification of procedures and guidance is needed, the actions taken to streamline processes and the coordination to ensure that taxpayers receive consistent treatment appear to be necessary for the Office of Appeals to effectively perform its function.

TIGTA recommended that the IRS clarify certain procedures related to coordinated issues. In addition, TIGTA recommended that IRS officials, with the exception of the IRS Commissioner and the Chief, Office of Appeals, avoid discussing the impact of specific court cases on Appeals Settlement Guidelines and revise policies and procedures to promote consistency. IRS management agreed with the recommendations and will take corrective action.
Report Reference No. 2005-10-141

Human Capital

The IRS first implemented its telework program (known as the Flexiplace Program) in 1995. Despite widespread participation in the IRS Flexiplace Program, the IRS has not implemented adequate policies or guidelines for the Program. Employee participation in the Program is not tracked, which makes it difficult for the IRS to accurately report to the Office of Personnel Management (OPM) on Program participation. Not tracking employee participation also makes it difficult for the IRS to ensure employees have the needed support and equipment to work successfully at alternate locations. It also limits the ability of the IRS to identify office space that is not needed for employees who telecommute most of the time.

Additionally, some IRS managers expressed concerns that the productivity of employees participating in the Flexiplace Program is reduced. Although IRS managers have received training on the provisions of the Union agreement related to the Flexiplace Program, the training did not address how to determine which employees are suited to work away from the office, how to assess employee performance, or the other challenges of managing employees working in remote locations. Surveys of IRS managers indicated that better equipment and telecommunications access would improve employee productivity. Furthermore, guidelines are needed to ensure that employees participating in the Flexiplace Program receive the correct locality pay.

TIGTA recommended that the IRS develop overall program guidelines that conform to the OPM guidelines, implement a system to accurately determine the number of employees participating in the Flexiplace Program, implement guidelines to assess employees' abilities to participate without a loss of productivity, and provide training to address productivity issues. Additionally, the IRS should determine what logistical support and equipment employees need, and ensure that employees get the proper equipment to enable employee productivity and security of sensitive data. IRS management agreed with the recommendations and proposed corrective action.

Report Reference No. 2005-10-107

The Federal Workforce Flexibility Act of 2004[14] requires agencies to regularly assess their training efforts to determine whether their training is contributing to the successful completion of the agencies' missions. The IRS has training assessment procedures; however, they were generally not followed by the IRS operating divisions that TIGTA reviewed.

In 24 (56 percent) of the 43 training courses sampled, there was no evidence that an assessment was performed to support changes or updates to the courses. The lack of documentation of the actions taken prevented verification of whether the IRS is taking steps to ensure that employees are getting the right training to perform their jobs effectively.

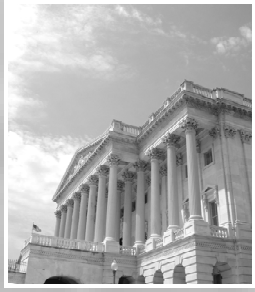
Additionally, the IRS' usage of the Integrated Training Evaluation and Measurement Services system is limited. This system gathers and analyzes training

[14] Pub. L. 108-411, 118 Stat. 2305 (2004).

data by providing four different types of assessments. The IRS paid almost $4 million over a seven-year period for this system. It should be used more effectively, or its use should be discontinued and replaced with a more cost-effective system.

TIGTA recommended that the IRS follow the assessment and documentation requirements to ensure that its employees have the knowledge and skills needed to successfully perform their jobs. In addition, the IRS should ensure that procedures are established to evaluate training in compliance with the Federal Workforce Flexibility Act of 2004. IRS management should also use the numeric scores from the Employee Satisfaction Survey to perform analyses in identifying problems or trends with training, and use this information in the training assessment and development process. IRS management agreed with the recommendations and will implement corrective action.

Report Reference No. 2005-10-149



"…Our Constitution
is in actual operation;
everything appears to promise
that it will last;
but nothing in this world is certain
but death and taxes."

Benjamin Franklin

Protect the Integrity of Tax Administration

The overall mission of TIGTA's Office of Investigations (OI) is to help protect the ability of the IRS to collect revenue for the Federal Government. To do this, we conduct investigations and proactive investigative initiatives to ensure the integrity of IRS employees, contractors, and other tax professionals; to ensure IRS employee and infrastructure security; and to protect the IRS against external attempts to corrupt tax administration.

OI's Primary Duties

- Investigate allegations of criminal violations that impact Federal tax administration, and serious administrative misconduct by IRS employees;
- Conduct proactive investigative initiatives to detect criminal and administrative misconduct in the administration of IRS programs;
- Operate a national complaint center, including a hotline and Web site, to process complaints of fraud, waste, abuse and misconduct involving IRS employees and programs;
- Operate a Criminal Intelligence Program to manage and coordinate threat information that could impact the security of IRS employees or its infrastructure; and,
- Investigate assaults and threats made against IRS employees, facilities, and information systems.

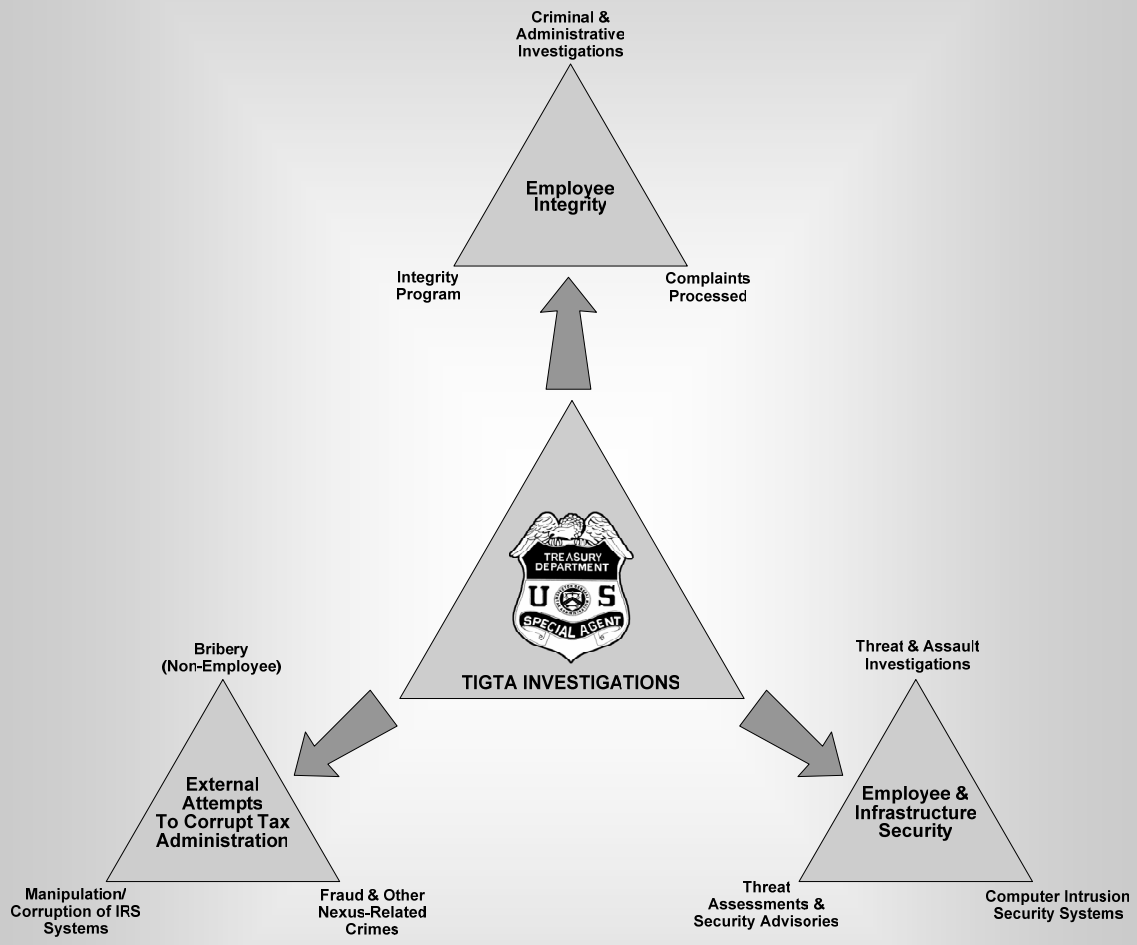
TIGTA's statutory responsibility includes not only the protection and detection of fraud, waste and abuse within the IRS, but also includes responsibility for the protection of the integrity of tax administration.

In recent years, the IRS has increasingly relied upon contractor support within all facets of its operation. With this change, schemes to defraud the IRS have evolved. TIGTA has responded to this challenge by placing a greater emphasis on the following activities:

- investigating fraud involving IRS procurements; and,
- conducting integrity and fraud awareness presentations for IRS employees and others, such as tax practitioners and community groups.

Recognizing the challenges of protecting Federal tax administration in today's modern environment, OI has three divisions dedicated to the technical support of TIGTA's investigative mission. They are: Strategic Enforcement, Forensic Science Laboratory, and Technical and Firearms Support. The performance of these divisions is featured throughout this chapter of our semiannual report.

TIGTA INVESTIGATIVE PERFORMANCE MODEL



TIGTA's Office of Investigations (OI) bases its performance measures on three primary areas of investigation: employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration. Each of these three areas is subdivided into three categories, all designed to support the agency's law enforcement goals.

Our strategy for ensuring employee integrity, employee and infrastructure protection, and protecting the IRS against external attempts to corrupt tax administration is to focus TIGTA special agents on high impact investigations that protect the ability of the IRS to collect the nation's tax revenue.

Employee Integrity

Employee misconduct undermines the IRS' ability to deliver taxpayer service, to enforce tax laws effectively, and to collect taxes owed. TIGTA investigates employee misconduct allegations, including extortion, theft, taxpayer abuses, false statements, and financial fraud, as well as contractor misconduct and wrongdoing. During the reporting period, we completed 952 employee integrity investigations.

TIGTA's investigative program related to employee integrity goes beyond mere response to complaints. We conduct proactive integrity initiatives designed to detect fraud in the ever-changing IRS operations and to identify internal control weaknesses that may have permitted the fraud to go undetected or unreported. Unauthorized access (UNAX) and disclosure of confidential taxpayer information continues to be a source for proactive integrity initiatives. TIGTA's Strategic Enforcement Division (SED) proactively detects IRS employees in violation of their duty to protect taxpayer information. During this reporting period, our UNAX Program led to the initiation of 259 investigations involving apparent unauthorized access of IRS computer systems.

OI Promotes Integrity

One of the many ways OI promotes integrity in the administration of the Internal Revenue Code is by administering a program of Integrity/Fraud Awareness presentations to IRS employees. These presentations help employees identify ways they can prevent fraud, waste, and abuse, and to report suspected misconduct to TIGTA.

TIGTA also conducts integrity and fraud awareness presentations to the tax practitioner community. TIGTA views the tax practitioner community as an important partner in ensuring integrity within Federal tax administration. While tax practitioners have no formal obligation to report wrongdoing, they are often in the best position to observe unethical conduct either inside the IRS or within their own profession. In either instance, the integrity of tax administration is jeopardized to the detriment of the honest tax practitioner.

During briefings at regional tax forums and national association conferences, OI emphasizes the integral role tax practitioners play in maintaining integrity within the tax system. We made 734 Integrity/Fraud Awareness presentations this semiannual reporting period.

The following cases are examples of IRS employee integrity investigations conducted during this reporting period.

Former IRS Data Transcriber Sentenced for Stealing more than $350,000 in Tax Refunds

A former IRS employee was sentenced in August 2005 for conspiracy, wire fraud, theft of Federal Government funds, money laundering, and false representation of a social security number. The former

employee stole tax refunds by routing them to bank accounts she controlled with another IRS employee and co-conspirators. The former employee diverted more than $350,000 and attempted to divert an additional $154,949 in tax refunds. She was sentenced to 70 months in prison, two years' probation, and was ordered to pay more than $363,000 in restitution.

Former IRS Procurement Official Sentenced for Theft of Government Property Totaling more than $23,000

A former IRS procurement official was sentenced in June 2005 for theft of government property. The former employee used a government purchase card to charge approximately $23,971 to pay for computer equipment and supplies for himself and for family members. He was sentenced to three years' probation and was ordered to pay more than $23,900 in restitution. He was also debarred for three years from participating in Federal Government procurement requirements.

IRS Employee Indicted for Destroying Taxpayer Records

An IRS employee was indicted in April 2005 for the removal and destruction of Government records and for attempting to do so. According to the indictment, the employee, who was responsible for processing taxpayer records filed with the IRS, allegedly removed and destroyed numerous taxpayer records in his custody. In addition, he attempted to remove and destroy numerous taxpayer records that included corrected Forms W-2 (Wage and Tax Statements) and letters from taxpayers and their representatives.

Former Revenue Officer Pleads Guilty to Unlawful Acts of Revenue Officers Including Accepting Checks and Gifts of more than $18,000

A former revenue officer pled guilty in July 2005 to unlawful acts of revenue officers. According to the plea agreement, the individual was assigned a collection investigation pertaining to a corporation and knowingly received illegal payment for the performance of a duty. The president of the corporation gave the former employee gifts, including checks totaling $18,665, which were used for personal expenses and the purchase of a Jeep.

Former IRS Tax Examining Assistant Sentenced for Unauthorized Disclosure of Tax Information

A former IRS employee was sentenced in July 2005 for unauthorized disclosure of returns and return information. According

Investigative Efforts Enhanced through Technology

TIGTA's investigative efforts are greatly enhanced by its Technical and Firearms Support Division and Forensic Science Laboratory. These programs provide technical expertise throughout our investigations. During the reporting period, the Technical and Firearms Support Division provided electronic or surveillance support in 150 investigative requests, while the Forensic Science Laboratory conducted 72 forensic examinations. Over the last fiscal year, TIGTA has invested substantially in the acquisition of cutting-edge technology, helping to ensure that our technical and forensic staff is able to deliver state-of-the-art results long into the future.

to the plea agreement, the former employee willfully disclosed returns and return information of taxpayers, including their names, addresses, and social security numbers. The individual disclosed this information to her daughter, who used it to locate the owner of unclaimed property and enter into a contingent fee agreement. The former IRS employee was sentenced to 30 days in prison, three years' probation, and was ordered to pay a $1,000 fine.

IRS Employee Pleads Guilty to Theft of more than $19,000 in Tax Remittances

An IRS employee pled guilty in April 2005 to theft and conversion of property of the United States. According to the plea agreement, the IRS employee stole 14 tax remittances totaling approximately $19,668 from the mailroom, and used the money to pay personal debts and expenses.

Employee and Infrastructure Security

The identification and investigation of potential and real threats to IRS employees and IRS data continues to be a challenge. The collection of revenue to fund Federal programs is integral to the overall function of the government. Threats and assaults against employees and facilities must be rigorously investigated to not impede efforts to collect tax revenue.

TIGTA operates a nationwide Criminal Intelligence Program (CIP) to protect the IRS from external threats from individuals, anti-government groups, and domestic terrorists. The CIP is designed to identify and neutralize threats, assaults, and violent acts targeted against IRS facilities, employees, and operations. Working with other Federal, State and local law enforcement agencies that have similar goals, TIGTA participates in FBI Joint Terrorism Task Forces throughout the country and assists the IRS in developing and enhancing its employee safety and infrastructure security programs. During this reporting period, we completed 200 investigations of threats and assaults directed at IRS employees and facilities, and issued 273 advisories notifying IRS management of potential threats.

TIGTA Bolsters Its Ability to Protect Continuity of TIGTA/IRS Operations in Emergencies

Events in recent years have demonstrated the need for all Federal agencies to plan for incidents that might challenge their ability to sustain operations. Whether the result of a terrorist attack or natural disaster, Government agencies are required to be capable of conducting continuous operations from a remote facility for up to 30 days. TIGTA has a robust Continuity of Operations Plan (COOP) to ensure that we are capable of rapid and appropriate response to events that would otherwise disrupt TIGTA or IRS operations.

TIGTA's COOP program includes participation in all Treasury Department Emergency Coordinators' meetings and all IRS Headquarters COOP exercises. Last year, we supported the IRS during the Forward Challenge Treasury Department-wide COOP exercise. In FY 2006, we will continue our participation in IRS Headquarters-level exercises, and we will expand our participation in nationwide COOP exercises scheduled by the IRS Commissioner's Senior Representatives.

The following cases are examples of IRS employee and infrastructure security investigations conducted during this reporting period.

Individual Sentenced for Soliciting to Murder IRS Employee

An Idaho businessman, under criminal investigation for Federal tax violations, solicited another person to murder an IRS Special Agent, an Assistant United States Attorney, and a Federal Judge who were assigned to the investigation. He was sentenced to 43 years in prison and three years' supervised release. He was also ordered to pay $720 in restitution to the IRS Special Agent, a $2,725 special assessment, and was fined $100,000.

Individual Arrested for Threatening to Murder IRS Employees

An individual was arrested in July 2005 for threatening to assault and murder Federal law enforcement officers and IRS employees. According to the criminal complaint, the individual contacted the IRS to discuss his tax issues and threatened to "put to death" any messenger, law enforcement agent, or agent of the IRS who touched his property or accounts. The individual also allegedly stated that an IRS employee who previously audited his tax returns, "… needs to be dead."

Individual Pleads Guilty to Threatening IRS Employee

An individual pled guilty in June 2005 to attempting to interfere with the administration of internal revenue laws. The individual used threats of force to intimidate an IRS employee who was acting in an official capacity.

Individual Indicted for Making Threats Against IRS Employees

An individual was indicted in May 2005 for obstructing and impeding the due administration of internal revenue laws by threats of force. According to the indictment, the individual allegedly made threats of physical violence against IRS employees, including threats involving a firearm.

IRS Contract Employee Sentenced for Computer Fraud and Ordered to pay $50,000 in Restitution

An IRS contract employee was sentenced in June 2005 for computer fraud. According to court documents, the contract employee intentionally accessed a protected IRS computer without authorization, causing damage. The contract employee was sentenced to two years' probation and was ordered to pay the costs associated with his probation and $50,000 in restitution to the IRS.

External Attempts to Corrupt Tax Administration

TIGTA is dedicated to investigating external attempts to corrupt or interfere with the administration of internal revenue laws. Examples of these attempts include bribes offered by taxpayers to compromise the integrity of IRS employees, the use of fraudulent IRS documentation to commit crimes, impersonation of IRS officials, and the corruption of IRS programs through procurement fraud. External attempts to corrupt tax administration impede the IRS' ability to collect revenue.

Since April 1, 2005, we have conducted 90 investigations into external attempts to manipulate or corrupt IRS systems and operations, and 266 investigations into external fraud and other related activities.

The IRS continues to place special emphasis on outsourcing activities traditionally performed in-house. To accomplish this goal, the IRS must rely heavily on contractor support. For example, the IRS depends on contractor lockbox facilities to collect 29 percent of all tax remittances. In Fiscal Year 2004, the IRS processed more than $237 billion in tax remittances through various Government-contracted facilities, all of which are commercial banking institutions. TIGTA investigations have identified numerous incidents of fraud within contracted lockbox operations.

With the IRS moving toward the privatization of its debt-collection activities through contracted Private Collection Agencies (PCAs), TIGTA anticipates providing oversight of PCAs using an investigative model similar to that used successfully with lockbox operations. TIGTA's Procurement Fraud Section (PFS) within our Special Inquiries and Intelligence Division (SIID) is committed to the identification and investigation of procurement fraud within the IRS. The PFS achieves its goals through proactive and reactive investigations, fraud awareness presentations, investigative initiatives, data analysis, and liaison. Agents within the PFS possess the specialized skills necessary to identify contract fraud, and to ensure that individuals and businesses responsible for such fraud are held accountable.

TIGTA's Contract Lockbox Investigations Prove Successful

TIGTA has a great deal of experience conducting investigations of the lockbox program and other contract fraud investigations. Lockbox employees are contract employees who work for a bank and have access to Federal tax returns and Federal tax remittances. From April 1, 2001, through September 30, 2005, TIGTA initiated 137 investigations involving lockbox theft that identified Theft/Embezzlements of approximately $4.1 million. Thirty-seven were accepted for prosecution in Federal and State courts. At the Pittsburgh (Mellon Bank) lockbox site, more than 70,000 tax remittances worth approximately $1.2 billion (affecting more than 58,000 taxpayers) were lost or destroyed. At the Richardson (Dallas) lockbox site, TIGTA's investigation identified 26 stolen tax remittances totaling more than $2.7 million. Previous experience with lockbox facilities has proven that the integrity of contract collection services is vulnerable without the proper investigative oversight only TIGTA can provide.

The following cases are examples of investigations of Lockbox fraud and other external attempts to corrupt tax administration conducted during this reporting period.

Two IRS Lockbox Employees Indicted for Stealing Tax Payments in Georgia

Two individuals were indicted for bank fraud, conspiracy, and aiding and abetting in April 2005. The individuals were employed at a Bank of America IRS lockbox facility in Georgia and allegedly stole money orders that were sent to the lockbox by taxpayers to pay their Federal income taxes. The individuals allegedly forged their names on 23 money orders, totaling more than $6,000, and negotiated them at check-cashing facilities and U.S. Postal Service offices.

Theft of Tax Remittance Checks And Conspiracy at IRS Dallas Lockbox Facility

On June 1, 2005, an individual was sentenced for aiding and abetting theft of Government property and illegal reentry after deportation. Court documents state the individual received tax remittance checks valued at more than $175,220, which were removed from the IRS Dallas lockbox by a former contract employee, and that he altered the payees and deposited and/or attempted to deposit the checks into bank accounts opened in the names of innocent individuals or assumed names. On July 28, 2004, he entered a plea of guilty to the above charges, which included a charge of illegal reentry after having been previously deported from the United States in 1998 for a similar type of conduct. As a result of this investigation, the individual was subsequently sentenced to eight years in prison, three years' supervised release, and ordered to pay approximately $13,000 in restitution. Upon release from custody, he will be turned over to U.S. Citizenship and Immigration Services authorities for possible deportation proceedings.

Additional Thefts of Tax Remittances at Dallas Lockbox Under Investigations

In a separate investigation, an individual was arrested in July 2005 for unlawfully receiving, concealing, and retaining stolen property of the United States. The criminal complaint alleged that the individual deposited two tax remittance checks totaling $58,390 into two bank accounts she opened at the same bank. The tax remittance checks had been mailed to the IRS Dallas lockbox by taxpayers.

Additional individuals were arrested in July 2005 for crimes involving conspiracy to commit bank fraud and theft of Government property related to the Dallas Lockbox. These criminal complaints alleged:

- A person arrested for theft of Government property deposited a $20,000 check into a bank account he opened. The check had been mailed by a taxpayer to the IRS Dallas lockbox as a tax payment.
- Another person arrested for conspiracy to commit bank fraud deposited a tax remittance check in the amount of $42,030 into a fraudulent bank account.

In furtherance of the fraudulent scheme, a $15,800 counterfeit check was allegedly created and drawn on the same bank account as the tax remittance check and then deposited into the fraudulent bank account by an unknown individual.

Individual Sentenced for Impersonating IRS Employee

An individual was sentenced in June 2005 for impersonating an IRS employee. The individual obtained money from four individuals by falsely assuming and pretending to be an IRS employee. The individual was sentenced to three years in prison, one year supervised release, and was ordered to pay restitution of $860 to the victims.

Strategic Enforcement Division Battles Network Intrusion

Individuals and anti-government groups are increasingly attempting to undermine the tax system by exploiting cyber-tools and electronic means as weapons. Through the operation of its System Intrusion Network Attack Response Team TIGTA's Strategic Enforcement Division (SED) works with the IRS to promote the security and integrity of all IRS computer systems by providing technical support, conducting criminal investigations, and participating in proactive initiatives. A cadre of dedicated computer specialists and criminal investigators rapidly responds to computer intrusion incidents, investigates IRS network problems when indicators of intentional disruption are present, and conducts recurring systems tests and scans to detect new vulnerabilities. Since April 1, 2005, TIGTA SED special agents and computer specialists have conducted nine computer security reviews/tests and 306 criminal investigations in areas where security potentially could be compromised.

Two Individuals Indicted for $200,000 Bribe

Two individuals were indicted in April 2005 for bribery, and aiding and abetting. According to the indictment, one individual, who was allegedly aided and abetted by others, offered an IRS Revenue Agent $200,000 to circumvent an IRS tax audit. The IRS Revenue Agent, who was convicted for his part in the bribery scheme, arranged to have a second individual receive the $200,000 from the first individual.

Individual Charged with Interfering with Tax Administration

An individual was charged in May 2005 with attempts to interfere with administration of internal revenue laws. The individual allegedly prepared fictitious IRS Forms 8300 (Report of Cash Payments Over $10,000 Received in a Trade or Business) that claimed Federal and State officials and employees, including an IRS employee, had engaged in suspicious cash transactions. The individual also allegedly submitted copies of the forms to the IRS and/or the Secretary of the Treasury, intending to cause the IRS to conduct investigations of the officials and employees as a means of retaliation. The individual also allegedly impeded an IRS Special Agent's efforts to conduct a criminal investigation of him when he submitted 10 fictitious Forms 8300 to the Special Agent, falsely claiming on each form that the Special Agent had engaged in suspicious transactions involving more than $2.7 million in cash.

Individuals Arrested for Perjury Involving False Reports Filed with IRS

Five individuals were arrested in August 2005 for allegedly filing false IRS Forms 8300 with the IRS. According to the indictments, the five individuals filed several Forms 8300 that wrongfully reported that others had engaged in suspicious transactions ranging from $105,069 to $500 million. Falsely reporting information to the IRS using Form 8300 can cause the IRS to unnecessarily investigate certain persons, which can be done to harass or retaliate against others, including Government officials.

Individual Sentenced for Mail Fraud Involving Fictitious Financial Instruments

An individual was sentenced in April 2005 for mail fraud. The individual used the United States Postal Service to send false and fictitious instruments to credit card companies, entitled "Sight Draft," "Sight Order," or "Money Order," to establish a credit line and to pay credit card bills. The individual sent the credit card companies sight drafts and money orders of more than $275,000 that were purportedly drawn on an account at the United States Treasury. The individual was sentenced to two years in prison, three years' supervised release, and was ordered to pay the credit card companies $192,096 in restitution.

Individual Indicted for Making False Statements on IRS Forms

An individual was indicted in April 2005 for false statements. The individual allegedly submitted three IRS Forms 2848 (Power of Attorney and Declaration of Representative) to the IRS to be permitted to represent taxpayers before the IRS. The individual allegedly claimed on the forms that he was a Certified Public Accountant (CPA) who was qualified to practice in Maryland, knowing that he was not qualified to practice as a CPA in any state.

TIGTA Leads Treasury-wide Land Mobile Radio Program

The Department of the Treasury has designated TIGTA to provide program management for its Land Mobile Radio Program. Supporting law enforcement personnel with Internal Revenue Service Criminal Investigation, the United States Mint, and the Bureau of Engraving and Printing, OI serves as the central coordination and management body for land mobile radio communications, operations, planning, and spectrum management Department-wide.

TIGTA's responsibilities under the Land Mobile Radio Program include:

- Manage the tactical wireless communications of the Treasury's Wireless Programs Office;
- Represent the Treasury at the Integrated Wireless Network (IWN), a Governmentwide initiative for interoperability between the Departments of the Treasury, Justice, and Homeland Security. This activity includes continuation of "Sector" support with the U.S. Immigration and Customs Service (formerly the U.S. Customs Service);
- Represent the Treasury at the Interdepartmental Radio Advisory Committee as a permanent member on that committee for Federal radio spectrum allocation;
- Represent the Treasury in Project *SafeCom*, a program designed to promote interoperability among Federal, State, and local government safety forces; and,
- Coordinate Treasury resources and conduct strategic planning for COOP.

The selection of TIGTA as the Department's Land Mobile Radio Program manager was the result of its longstanding expertise with IWN and communication technologies, and its favorable reputation in the law enforcement community.

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Congressional Testimony

Inspector General J. Russell George appeared before Congress five times during this semiannual reporting period. The following are summaries of his testimonies:

April 7, 2005

Mr. George appeared before the Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and related agencies on April 7, 2005. This hearing addressed the **IRS' Fiscal Year 2006 Budget Request**. Mr. George presented the major challenges facing the IRS and asked that Congress consider these challenges when determining the IRS' appropriation for FY 2006.

April 14, 2005

Later that month, on April 14, 2005, Mr. George appeared before the Senate Committee on Finance. The topic of his testimony was, ***The $350 Billion Question: How to Solve the Tax Gap***. Mr. George discussed the scope, size and nature of the tax gap issue as well as recommendations for closing the tax gap. Mr. George stressed finding the appropriate balance between enforcement, taxpayer rights, and customer service.

May 19, 2005

Appearing before the Joint Congressional Review of the Internal Revenue Service on May 19, 2005, Mr. George participated in a discussion of the **IRS' strategic plan and budget request.** The three primary goals of the IRS are to:

- Improve taxpayer service;
- Enhance enforcement of the tax law; and,
- Modernize the IRS through its people, processes, and technology.

Mr. George emphasized the need for resources to attain and maintain these goals.

May 25, 2005

Mr. George appeared before the Senate Committee on Finance on May 25, 2005 to discuss TIGTA's release of a report regarding the IRS' administration of certain **employment tax laws**. Specifically, the report focused on the fairness in the administration of self-employment tax laws. A comparison of the application of employment tax liabilities of sole proprietorships to the employment tax liabilities of single-shareholder S corporations revealed inequities. The different tax treatment has caused the S corporation form of ownership to become a multimillion dollar employment tax loophole for single-shareholder businesses. TIGTA will work with the IRS to identify and recommend solutions to this problem.

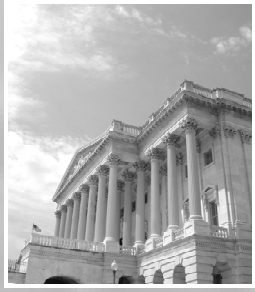
June 29, 2005

The final testimony of this semiannual reporting period was on June 29, 2005. Mr. George spoke before the House Ways and Means Subcommittee on Oversight. The purpose of this hearing was to examine **tax fraud being committed by prison inmates**. Mr. George explained that TIGTA is currently conducting an audit of the extent of prisoner refund fraud and IRS efforts to combat the fraud.

Mr. George also stated that while the IRS Criminal Investigations Division has taken steps to address this problem, the IRS is not solely responsible for confronting the problem. Much of the data submitted by Federal and State prison officials is inaccurate and incomplete. Prison officials should be required to transmit complete and accurate information on the prisoner population to the IRS.

"At this point during our review, we can confidently state that prisoner tax fraud is rising, prisoners file a disproportionately higher percentage of fraudulent returns than the general public, the IRS frequently pays refunds on tax returns despite identifying these returns as fraudulent, and the IRS lacks adequate data to ascertain the extent of the prisoner fraud problem."

J. Russell George, June 29, 2005



"Taxation is, in fact,
the most difficult
function of government
and that against which
their citizens are most apt
to be refractory."

Thomas Jefferson

Special Achievements

TIGTA Agent Receives H.I.R.E.Award

TIGTA Assistant Special Agent in Charge (ASAC) Ernest Valverde received the Hispanic Internal Revenue Employees (H.I.R.E.) Vice-President of the Year Award. The H.I.R.E. goals are to assist the IRS in the recruitment, hiring, training, career advancement and retention of Hispanics and all other employees, and to instill the highest degree of self-esteem and confidence in their abilities in an environment free from discriminatory practices. The award is given to the individual who contributes to the success of the organization by exemplifying its goals and putting forth a tireless effort in accomplishing those goals.

The award was presented on June 30, 2005, in Austin, Texas, during the H.I.R.E. National Training Conference Awards Banquet. ASAC Valverde is currently the Regional Vice-President for the Southeast Region covering Florida, Georgia, and Puerto Rico.

Pictured left to right are ASAC Valverde, Silvia Tovar, Past National President, and Henry Mendoza, Past National Vice-President.

TIGTA Employees Win PCIE Awards

The President's Council on Integrity and Efficiency (PCIE), which is comprised of Inspectors General appointed by the President, annually recognizes those in the Inspector General community who have made outstanding audit, inspection, or investigative achievements. TIGTA congratulates its two individuals and five teams that were selected as recipients of Awards for Excellence:

- Mr. Gerald Hurry, ASAC, Atlanta;
- Mr. Andrew Fried, Senior Special Agent, Strategic Enforcement Division, and the IRS Computer Network Team;
- Memphis Information Systems Program Team;
- Capital Expenditures – E300 Audit Team;
- Failure to Pay Penalty Team; and,
- Earned Income Tax Credit Audit Team.

Audit Statistical Reports

Reports With Questioned Costs

TIGTA issued five audit reports with questioned costs during this semiannual reporting period.[1] The phrase "questioned cost" means a cost that is questioned because of:

- an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds;
- a finding, at the time of the audit, that such cost is not supported by adequate documentation (an unsupported cost); or,
- a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable.

The phrase "disallowed cost" means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

Reports With Questioned Costs			
Report Category	**Number**	**Questioned Costs (in thousands)**	**Unsupported Costs (in thousands)**
1. Reports with no management decision at the beginning of the reporting period	4	$936	$684
2. Reports issued during the reporting period	5	$3,685	$2,597
3. Subtotals (Item 1 plus Item 2)	**9**	**$4,621**	**$3,281**
4. Reports for which a management decision was made during the reporting period[2]			
a. Value of disallowed costs	3	$829	$1
b. Value of costs not disallowed	0	$0	$0
5. Reports with no management decision at the end of the reporting period[2] (Item 3 minus Item 4)	**7**	**$3,792**	**$3,280**
6. Reports with no management decision within 6 months of issuance	4	$936	$684

[1] See Appendix II for identification of audit reports involved.
[2] Includes one report in which IRS management disallowed part of the questioned cost and has not made a decision on the remainder.

Reports With Recommendations That Funds Be Put To Better Use

TIGTA issued three reports with recommendations that funds be put to better use during this semiannual reporting period.[1] The phrase "recommendation that funds be put to better use" means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- reductions in outlays;
- deobligations of funds from programs or operations;
- costs not incurred by implementing recommended improvements related to operations;
- avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements;
- preventing erroneous payment of the following refundable credits: Earned Income Tax Credit and Child Tax Credit; or,
- any other savings that are specifically identified.

The phrase "management decision" means the evaluation by management of the findings and recommendations included in an audit report, and the issuance of a final decision concerning its response to such findings and recommendations, including actions concluded to be necessary.

Reports With Recommendations That Funds Be Put To Better Use

Report Category	Number	Amount (in thousands)
1. Reports with no management decision at the beginning of the reporting period	2	$294,700
2. Reports issued during the reporting period	3	$14,632
3. Subtotals (Item 1 plus Item 2)	**5**	**$309,332**
4. Reports for which a management decision was made during the reporting period a. Value of recommendations to which management agreed		
i. Based on proposed management action	2	$4,774
ii. Based on proposed legislative action	0	$0
b. Value of recommendations to which management did not agree	2	$262,458
5. Reports with no management decision at end of the reporting period (Item 3 minus Item 4)	**1**	**$42,100**
6. Reports with no management decision within 6 months of issuance	1	$42,100

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

Reports With Additional Quantifiable Impact On Tax Administration

In addition to questioned costs and funds put to better use, the Office of Audit has identified measures that demonstrate the value of audit recommendations to tax administration and business operations. These issues are of interest to IRS and Treasury executives, Congress, and the taxpaying public, and are expressed in quantifiable terms to provide further insight into the value and potential impact of the Office of Audit's products and services. Including this information also promotes adherence to the intent and spirit of the Government Performance and Results Act (GPRA).

Definitions of these additional measures are:

Taxpayer Rights and Entitlements at Risk: The protection of due process rights granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise when filing tax returns, paying delinquent taxes, and examining the accuracy of tax liabilities. The acceptance of claims for and issuance of refunds (entitlements) are also included in this category, such as when taxpayers legitimately assert that they overpaid their taxes.

Reduction of Burden on Taxpayers: Decreases by individuals or businesses in the need for, frequency of, or time spent on contacts, record keeping, preparation, or costs to comply with tax laws, regulations, and IRS policies and procedures.

Increased Revenue: Assessment or collection of additional taxes.

Revenue Protection: Proper denial of claims for refunds, including recommendations that prevent erroneous refunds or efforts to defraud the tax system.

Taxpayer Privacy and Security: Protection of taxpayer financial and account information (privacy). Processes and programs that provide protection of tax administration, account information, and organizational assets (security).

Inefficient Use of Resources: Value of efficiencies gained from recommendations to reduce cost while maintaining or improving the effectiveness of specific programs; resources saved would be available for other IRS programs. Also, the value of internal control weaknesses that resulted in an unrecoverable expenditure of funds with no tangible or useful benefit in return.

Protection of Resources: Safeguarding human and capital assets, used by or in the custody of the organization, from inadvertent or malicious injury, theft, destruction, loss, misuse, overpayment, or degradation.

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

The number of taxpayer accounts and dollar values shown in the following chart were derived from analyses of historical data, and are thus considered potential barometers of the impact of audit recommendations. Actual results will vary depending on the timing and extent of management's implementation of the corresponding corrective actions, and the number of accounts or subsequent business activities impacted from the dates of implementation. Also, a report may have issues that impact more than one outcome measure category.

Reports With Additional Quantifiable Impact On Tax Administration				
Outcome Measure Category	**Number of Reports[1]**	**Number of Taxpayer Accounts**	**Dollar Value (in thousands)**	**Other[6]**
Taxpayer Rights and Entitlements at Risk	8	2,318,624	$270,608	[7]
Reduction of Burden on Taxpayers	5	149,334		[8]
Increased Revenue	7	0	$71,347,729[2]	
Revenue Protection	3	520	$10,380	
Taxpayer Privacy and Security	1	93		
Inefficient Use of Resources	3	0	$9,942[3]	
Protection of Resources	3	0	$6,773[4]	[9]
Reliability of Management Information	9	437	$521,947[5]	[10]

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

[2] In one report (Reference No. 2005-30-073), IRS management did not agree that the reported benefit could be realized since backup withholding is already collected on cases meeting the criteria. In a second report (Reference No. 2005-30-080), IRS management did not concur with the reported benefit since it did not agree with the cause cited by TIGTA nor did it agree with the specific report recommendations. In a third report (Report No. 2005-40-106), IRS management believes that because of an incorrect assumption made by TIGTA, the reported benefit should be revised from $8.5 million to $676,000. In a fourth report (Report No. 2005-30-101), IRS management did not agree with the calculation of the reported outcome measure. In a fifth report (Report No. 2005-10-125), IRS management did not agree with the reported benefit because it believes that most of the penalties could be waived or abated due to the existing general reasonable cause standard. In a sixth report (Report No. 2005-30-142), IRS management stated that it could not measure the future value of the potential benefit. In a seventh report (Report No. 2005-30-139), IRS management did not agree that $10.8 million in revenue would be lost due to the lack of documentation to support penalty abatements.

[3] In one report (Reference No. 2005-30-049), IRS management believes that it achieved the benefits represented by the amount paid to the vendor. In a second report (Reference No. 2005-40-106), IRS management did not agree with the reported benefit because it was based on a recommendation to expand a current IRS compliance project.

[4] In one report (Reference No. 2005-40-148), IRS management disagreed that the deviations from required security procedures, which affected payments totaling $5.7 million, is a valid representation because no taxpayer was adversely affected and the deviations did not impact the timely and accurate processing of the payment. In a second report (Reference No. 2005-10-163), IRS management stated that it located all but four of the 111 missing pocket commissions noted in the report. Further, it believes, based upon available documentation and statements from its personnel that it is very likely that all unissued and inactive commissions were destroyed.

[5] In one report (Reference No. 2005-20-074), management disagreed that stakeholders should not rely upon the business case data and also did not agree that dollar cost savings could result from TIGTA's findings. In a second report (Report No. 2005-10-159), IRS management did not agree that the reported benefit would be realized by using exponential smoothing to forecast the return on additional investments in enforcement.

[6] Some reports contained other quantifiable impacts besides the number of taxpayer accounts and dollar value. These outcome measures are described in the footnote, below.

[7] Other measures of taxpayer rights and entitlements consist of 22,604 Notices of Federal Tax Lien in which taxpayers rights could be affected (Reference No. 2005-30-095).

[8] Other measures of taxpayer burden consist of two publications that did not adequately address a revision to the Additional Child Tax Credit requirement (Reference No. 2005-40-094). IRS does not believe the omitted information would cause military personnel to claim less than the total credit to which they are rightfully entitled.

[9] Other measures of protection of resources consist of 111 missing pocket commissions (Reference No. 2005-10-163).

[10] Other measures of reliability of management information consist of 19 Internal Revenue Manual Sections with prohibited references to Illegal Tax Protestor designations (Reference No. 2005-40-104), an accuracy rate involving taxpayer requests for information that was overstated by 6.13 percent (Reference No. 2005-10-166), and a total of 279 investigative equipment items not controlled or inaccurately shown on the Criminal Investigation Equipment Control System (Reference No. 2005-10-163).

Investigations Statistical Reports

Significant Investigative Achievements April 1, 2005 – September 30, 2005	
Complaints/Allegations Received by TIGTA	
Complaints Against IRS Employees	2,400
Complaints Against Non-Employees	1,783
Total Complaints/Allegations	**4,183**
Status of Complaints/Allegations Received by TIGTA	
Investigations Initiated	1,504
In Process within TIGTA[1]	211
Referred to IRS for Action	390
Referred to IRS for Information Only	908
Referred to a Non-IRS Entity[2]	5
Closed with no Referral	893
Closed with all Actions Completed	272
Total Complaints	**4,183**
Investigations Opened and Closed	
Total Investigations Opened	1,813
Total Investigations Closed	1,814
Financial Accomplishments	
Embezzlement/Theft Funds Recovered	$3,695,558
Court Ordered Fines, Penalties and Restitution	$5,244,312
Out-of-Court Settlements	0

[1] Complaints for which final determination had not been made at the end of the reporting period.
[2] A non-IRS entity includes other law enforcement entities or Federal agencies.

Note: The IRS made 104 referrals to TIGTA that would more appropriately be handled by the IRS, and therefore were returned to the IRS. These are not included in the total complaints/allegations shown above.

Status of Closed Criminal Investigations			
Criminal Referrals[1]	**Employee**	**Non-Employee**	**Total**
Referred – Accepted for Prosecution	26	76	**102**
Referred – Declined for Prosecution	398	291	**689**
Referred – Pending Prosecutorial Decision	8	42	**50**
Total Criminal Referrals	**432**	**409**	**841**
No Referral	527	471	**998**

[1] Criminal referrals include both Federal and State dispositions.

Criminal Dispositions[2]			
	Employee	**Non-Employee**	**Total**
Guilty	29	64	**93**
Nolo-Contendere (no contest)	0	3	**3**
Pre-trial Diversion	3	14	**17**
Deferred Prosecution[3]	0	1	**1**
Not Guilty	0	0	**0**
Dismissed[4]	2	12	**14**
Total Criminal Dispositions	**34**	**94**	**128**

[2] This chart includes statistics on final criminal dispositions during the reporting period. This data may pertain to investigations referred criminally in prior reporting periods and do not necessarily relate to the investigations referred criminally in the Status of Closed Criminal Investigations table above.
[3] Generally in a deferred prosecution, the defendant accepts responsibility for his/her actions, and complies with certain conditions imposed by the court. Upon defendant's completion of the conditions, the court dismisses the case. If the defendant fails to fully comply, the court reinstates prosecution of the charge.
[4] Court dismissed charges.

Administrative Dispositions on Closed TIGTA Investigations[5]	
	Total
Removed, Terminated or Other	276
Suspended/Reduction in Grade	83
Oral or Written Reprimand/Admonishment	97
Closed – No Action Taken	199
Clearance Letter Issued	120
Employee Resigned Prior to Adjudication	165
Total Administrative Dispositions	**940**

[5] This chart includes statistics on final administrative dispositions during the reporting period. This data may pertain to investigations referred administratively in prior reporting periods and does not necessarily relate to the investigations closed in the Investigations Opened and Closed statistics on page 42.

"…It was as true . . .

as taxes is.

And nothing's truer than them."

Charles Dickens

Appendix I
Statistical Reports - Other

Audit Reports With Significant Unimplemented Corrective Actions

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

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
093602	April 1999	10/01/05	***The Internal Revenue Service Needs To Improve Treatment of Taxpayers During Office Audits*** F-1, R-4, P-2. Ensure that all MACS data discs forwarded from the MACS Development Center to district offices are properly accounted for and secured.
2000-30-059	March 2000	09/15/05 09/15/05	***The Internal Revenue Service Can Improve the Estate Tax Collection Process*** F-2, R-2, P-1. Develop procedures to periodically reconcile tax liens on the ALS with information shown on the taxpayer accounts. F-2, R-3, P-1. Clarify procedures to employees that all estate tax liens should be recorded on the ALS.
2000-30-130	September 2000	10/15/05	***Opportunities Exist to Enhance the International Field Assistance Specialization Program*** F-2, R-1, P-1. Improve the management information system by linking the International Field Assistance Specialization Program indicator to specific issues listed in the International Case Management System.
2000-30-162	September 2000	11/15/06	***The Internal Revenue Service Needs to Better Address Bankruptcy Automatic Stay Violations*** F-1, R-2, P-1. Provide additional computer programming enhancements to improve the value of litigation transcripts.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2001-30-052	March 2001		***Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income***
		01/15/06	F-1, R-1, P-1. Ensure the prior recommendations are implemented. Establishing a formal program with goals, objectives, processes and measures could help ensure that sufficient management attention is devoted to improving the use of the Routine Exchange of Information Program for compliance.
		01/15/06	F-2, R-1, P-1. Identify the highest risk foreign sourced income documents and use them to coordinate with tax treaty partners to positively identify the U.S. taxpayers involved.
		01/01/07	F-3, R-1, P-1, P-2. Improve systems that process data the IRS receives on foreign sourced income.
2002-30-156	September 2002		***The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers***
		10/15/05	F-1, R-1, P-1. Ensure that the IRS initiate, as proposed in their response to our memorandum dated February 1, 2002, a regularly scheduled program for proposing penalties for Forms W-2 with inaccurate name/SSN combinations.
2003-20-049	February 2003		***Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement***
		12/15/05	F-2, R-5, P-2. Ensure that personnel in the Real Estate and Facilities area of the Agency-wide Shared Services are adequately trained regarding the requirements for issuing a contractor employee an IRS identification badge.
		10/15/05	F-3, R-1, P-1. Ensure that a consolidated or integrated system is implemented to effectively manage all background investigations and identification badges, incorporating the needs of all stakeholders and eliminating the use of stand-alone systems such as the Security Entry Tracking System and the Procurement Background Investigation Program.
		10/15/05	F-3, R-2, P-1. Ensure that until a single system is implemented, all COTRs are required to use the Procurement Background Investigation Program regardless of their organizational placement, and complete periodic reconciliations between the contractor employee background investigation information and the identification badge information at each IRS facility are conducted to detect the issuance of contractor employee identification badges without completion of required background investigations.
2003-10-054	March 2003		***The Internal Revenue Service Needs to Establish an Effective Process to Accurately Identify, Record, and Report Unemployment Trust Fund Administrative Expenses***
		10/01/07	F-1, R-3, P-1. Ensure that the ability to record and report trust fund administrative expenses, as currently envisioned in the IFS development plans, is properly implemented.
2003-10-094	March 2003		***Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayers' Accounts When Refund Fraud is Suspected***
		12/15/05	F-1, R-2, P-1. Ensure that regular reviews of the Questionable Refund Program are conducted to assess compliance with procedures and that feedback is provided regarding program effectiveness. Also, analyses of the FDCs' control listing data should be analyzed to ensure reviews are done and accounts are resolved.
2003-40-139	June 2003		***Opportunities Exist to Improve the Administration of the Earned Income Tax Credit***
		01/15/06	F-1, R-2, P-1. Establish a consistent method to measure progress toward the EITC Program's long-term goals.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2003-20-118	July 2003	01/15/08 12/15/06	***Security Over Computers Used in Telecommuting Needs to Be Strengthened*** F-1, R-6, P-1. Require front-line managers to periodically check their employees' laptop computers to ensure that sensitive data are being stored and encrypted properly. F-2, R-2, P-1, P-2. Consider installing personal firewall and IDS software on SDI laptop computers and require CSIRC to centrally monitor the generated logs.
2003-30-162	August 2003	08/15/05 11/15/05	***The Regulations for Granting Extensions of Time to File are Delaying the Receipt of Billions of Tax Dollars and Creating Substantial Burden for Compliant Taxpayers*** F-1, R-1, P-1. Revise the tax regulations applicable to individual taxpayers. F-1, R-3, P-1. Revise the tax package instructions.
2003-30-176	August 2003	11/15/05	***Interest Paid to Large Corporations Could Significantly Increase Under a Proposed New Revenue Procedure*** F-1, R-2, P-1. Gather pertinent information concerning the effected proposed procedure on reducing the length of examinations and interest costs by conducting a pilot program to demonstrate the actual benefits that could be achieved.
2003-40-180	August 2003	07/15/06	***More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance*** F-2, R-1, P-1. Improve the current management information system process to capture data sufficient to establish baselines and long-term measures and goals.
2003-10-201	September 2003	03/15/06	***Lead Development Centers Do Not Significantly Contribute to Increases in Legal Source Cases*** F-3, R-1, P-1. Ensure that the data in the LDC database are consistent and issue instructions on how to use the LDC database.
2003-10-212	September 2003	03/31/06	***Information on Employee Training Is Not Adequate to Determine Training Cost or Effectiveness*** F-3, R-2, P-1, P-2, P-3, P-4. Ensure that IRS training and financial systems can provide information needed for the IRS to assess its own training efforts.
2003-20-219	September 2003	01/01/06	***The Cost and Schedule Estimation Process for the Business Systems Modernization Program Has Been Improved, But Additional Actions Should Be Taken*** F-1, R-4, P-1. Ensure that the SEI is requested to conduct an independent review of the cost and schedule estimation system once the initial validation is complete, and policies and procedures are fully implemented.
2004-20-001	October 2003	12/31/10	***Risks Are Mounting As the Integrated Financial System Project Team Strives to Meet An Aggressive Implementation Date*** F-2, R-1, P-1. Ensure the disaster recovery environment is completely built-out and tested.
2004-40-004	October 2003	02/15/06 02/15/06	***The Selection of Earned Income Tax Credit Returns for Examination can Be Improved to Further Prevent Payment of Erroneous Claims*** F-1, R-1, P-1. Complete an analysis of the historical Dependent Database examination data to determine if there is a relationship between the direct examination time, rules identified, and disposition of examinations. F-1, R-2, P-1. Incorporate a cost benefit analysis into the Dependent Database Risk-Based Scoring Model.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2004-40-013	November 2003		***Improvements Are Needed in the Screening and Monitoring of E-File Providers to Protect Against Filing Fraud***
		01/01/07	F-1, R-2, P-1. Enhance the screening procedures for E-File Providers to include sending scanned fingerprints to the FBI electronically.
2004-30-038	January 2004		***Access to the Toll-Free Telephone System Was Significantly Improved in 2003, but Additional Enhancements Are Needed***
		12/15/05	F-3, R-1, P-1. Develop an Activity Based Costing system that reliably captures and reports both the total cost and the cost-per-call of providing services on each toll-free product line.
2004-30-068	March 2004		***Additional Efforts Are Needed to Improve the Bank Secrecy Act Compliance Program***
		02/15/06	F-2, R-1, P-1. Develop standard risk-based case selection criteria that would provide minimum requirements and parameters for case selection.
		04/15/06	F-2, R-2, P-1. Reinforce the importance of case documentation with specific instructions or case models and implement a centralized quality review process.
2004-40-098	May 2004		***Better Use of the National Account Profile During Returns Processing Can Eliminate Erroneous Payments***
		01/15/06	F-2, R-1, P-1. Conduct studies on the accuracy of EITC claims on tax returns for individuals that have been claimed for EITC purposes that are 20 or more years older than the primary taxpayer, or are listed as children that are up to 19 years older than the primary taxpayer.
2004-30-106	June 2004		***Changes to the Regulations for Granting Extensions of Time to File Corporate Tax Returns Are Needed to Alleviate Significant Problems With Administering the Tax Laws***
		10/15/05	F-1, R-1, P-1. Revise the tax regulations applicable to corporations to eliminate the requirement that corporations make tentative estimates of their tax liabilities to obtain an extension of time to file.
		10/15/05	F-1, R-2, P-1. Revise the tax regulations applicable to corporations to grant extensions of time to file only to payment-compliant corporations.
		10/15/05	F-1, R-4, P-1. Revise the tax regulations applicable to corporations to establish safeguards to protect reasonably compliant corporations from unwarranted assessments of the delinquency penalty.
		10/15/05	F-1, R-5, P-1. Revise the tax regulations applicable to corporations to provide for the assessment of the delinquency penalty on all taxes not paid by the normal tax return due date.
		10/15/05	F-1, R-7, P-1. Consider changing the regulations to eliminate the requirement that taxable corporations must apply to the IRS to receive extensions of time to file tax returns.
		10/15/05	F-1, R-8, P-1. Develop a legislative proposal for submission to the Treasury Department to change the Internal Revenue Code to require assessments of the higher interest and Failure to Pay penalties.
2004-30-127	August 2004		***The Return Delinquency Notice Program Could Be Used More Effectively to Promote Filing Compliance and Reduce the Tax Gap***
		01/15/07	F-2, R-1, P-1, P-2. Reevaluate the administrative dollar tolerance for freezing refunds to determine if it can be reset at a lower level.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2004-20-129	August 2004		***The Certification and Accreditation of Computer Systems Should Remain in the Computer Security Material Weakness***
		12/31/05	F-1, R-1, P-2. Keep the certification and accreditation of computer systems as part of the computer security material weakness until a sufficient number of systems have been certified and accredited.
		01/15/06	F-1, R-3, P-1. Establish a formal process to monitor accreditations and report noncompliance to ensure accreditations are completed.
2004-20-135	August 2004		***The Audit Trail System for Detecting Improper Activities on Modernized Systems Is Not Functioning***
		04/01/06	F-1, R-1, P-1. Ensure that Security Audit and Analysis System (SAAS) performance and functionality requirements are adequately tested and implemented so the IRS and TIGTA can perform queries and generate audit trail reports.
		12/15/05	F-1, R-2, P-1. Ensure alternatives are developed for reviewing audit trails for modernized application in the event that SAAS deficiencies cannot be corrected.
		10/15/05	F-2, R-1, P-1. Ensure that SAAS operating procedures are fully developed and finalized so that business units can conduct effective and efficient audit trail reviews of modernized applications.
2004-20-131	September 2004		***The Use of Audit Trails to Monitor Key Networks and Systems Should Remain Part of the Computer Security Material Weakness***
		01/01/06	F-2, R-2, P-1. Keep the audit trail area as part of the computer security material weakness until critical applications are removed from Tier 2 unconsolidated UNIX servers or consolidated into a more secure environment.
		03/01/06	F-2, R-4, P-1. Develop and implement a reasonable approach for reviewing audit trails over major applications.
2004-30-133	September 2004		***The Controls for Examination Processes for Industry Cases With International Transfer Pricing Issues Can Be Improved***
		10/15/05	F-1, R-1, P-1. Reemphasize the Transfer Pricing Compliance Directive and incorporate it into the Internal Revenue Manual.
2004-20-155	September 2004		***Computer Security Roles and Responsibilities and Training Should Remain Part of the Computer Security Material Weakness***
		10/15/05	F-1, R-1, P-1. Keep security roles and responsibilities as part of the computer security material weakness until corrective actions related to recommendations in a previous report have been addressed.
		10/15/05	F-2, R-1, P-1. Complete actions to correct weaknesses regarding segregation of duties and remove this area from the computer security material weakness.
		10/15/05	F-3, R-2, P-1. Establish a process to identify employees with key security responsibilities, monitor their participation in training courses, and follow up with managers, if necessary.
		P-1: 10/15/05 P-2: 11/01/05 P-3: 12/15/05	F-3, R-3, P-1, P-2, P-3. Ensure that employees with key security responsibilities are adequately trained to perform security duties and tasks.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2004-20-158	September 2004		***Network Access, System Access, and Software Configuration Should Remain Part of the Computer Security Material Weakness***
		10/15/05	F-1, R-1, P-1. Keep the network access control area as part of the computer security material weakness until the IRS can demonstrate a repeatable process for ensuring router configurations are secure.
		10/15/05	F-2, R-1, P-1. Keep any applications and system access as part of the computer security material weakness until the IRS has demonstrated an effective, repeatable process for testing and correcting vulnerabilities.
		P-1: 12/15/05 P-3: 12/31/10 12/31/10	F-2, R-4, P-1, P-3. Test operating system access controls on CI, Counsel, and Appeals function systems. F-2, R-5, P-1. Test access controls on key applications to ensure compliance with standards and ensure that vulnerabilities are timely corrected.
		10/15/05	F-3, R-1, P-1. Keep system software configuration as part of the computer security material weakness until configuration management procedures are implemented and working as intended in the UNIX environment.
2004-10-166	September 2004		***The Taxpayer Advocate Service Needs to Improve Case Management to Ensure Taxpayer Problems Are Resolved Timely***
		01/30/06	F-1, R-2, P-4. Provide training to case advocates on the requirement to develop and document case action plans at the beginning of each case.
		12/15/05	F-2, R-1, P-1. Alert TAS managers that case advocates are not closing cases after all actions are completed.
		06/30/06	F-3, R-1, P-4. Provide additional guidance to case advocates on communicating with IRS operating divisions to coordinate case resolution and set achievable deadlines for completing Operations Assistance Requests.
2004-10-182	September 2004		***The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing $84 Million Annually***
		10/15/05	F-1, R-2, P-1. Justify the funding request for space for anticipated new hires by maximizing the use of existing space to house the new employees and determine the funding request based on anticipated needs.
		10/01/06	F-2, R-3, P-1. Consider allocating rent funds to the operating divisions to help ensure more efficient use of space and more communication between the facility managers and the local operating divisions; consider incentives and consequences to ensure better cooperation.
		10/15/06	F-3, R-1, P-1. Require facility managers to report vacancies based on division requirements for telecommuting employees.
2005-40-015	December 2004		***Application of the Earned Income Credit Two-Year Ban Could Be More Consistent, Accurate, and Clear to Taxpayers***
		02/15/06	F-1, R-2, P-1. Consider using available data to identify Earned Income Credit (EIC) examination cases with apparent abuse before taxpayers are contacted.
2005-40-017	December 2004		***The Health Coverage Tax Credit Was Accurately Processed During the 2004 Filing Season***
		02/15/06	F-2, R-1, P-1. Review the issue of the Health Coverage Tax Credit disallowances and determine if action by Congress is necessary.
2005-40-025	January 2005		***Opportunities Exist to Improve Tax Software Packages***
		01/15/06	F-1, R-1, P-1. Develop procedures to ensure that electronic file specifications are reviewed for accuracy and consistency.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2005-40-026	February 2005		***Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.GOV Need Improvement***
		P-2: 04/01/06 P-4: 12/31/10 P-1, P-2: 12/31/10	F-1, R-1, P-2, P-4. Develop a process to ensure that only authorized personnel have access to IRS.gov content. F-1, R-2, P-1, P-2. Enhance the IRS' content management software application to provide the ability to identify specific content accessed or revised by individual users.
2005-10-035	February 2005		***Review of the Exempt Organizations Function Process for Reviewing Alleged Campaign Intervention by Tax Exempt Organizations***
		01/15/06 01/15/06	F-1, R-2, P-1. Ensure that time standards for accelerated case initiation are realistic for future election years based on available resources and priorities. F-1, R-4, P-1. Ensure that any future expedited review process is initiated early enough in an election year to ensure classification and examination actions are completed timely and consistently.
2005-10-037	February 2005		***The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented***
		02/14/05	F-3, R-1, P-1. Account for the HR Connect system costs and assess the likelihood of projected benefits based on the system's limitations, and an assessment of the economic systems life so that future decisions are based on correct information.
2005-20-024	March 2005		***The Disaster Recovery Program Has Improved, But It Should Be Reported as a Material Weakness Due to Limited Resources and Control Weaknesses***
		P-1, P-5: 12/31/10 P-2, P-4: 11/15/05 12/31/10	F-1, R-1, P-1, P-2, P-4, P-5. Report a disaster recovery program material weakness to the Department of the Treasury as part of the IRS' Federal Managers' Financial Integrity Act of 1982 annual evaluation of controls and include any new or currently underway activities in the corrective action plan. F-1, R-2, P-1. Implement procedures to analyze system weaknesses for systemic problems and elevate them as program-level weaknesses.
2005-40-039	March 2005		***The Earned Income Credit Recertification Program Continues to Experience Problems***
		12/15/05 02/15/06 02/15/06	F-1, R-3, P-1. Ensure that required quality reviews of non-examined closures are performed, the results are evaluated, and corrective actions are taken, if appropriate. F-3, R-1, P-1. Revise communications to taxpayers to specifically inform them when they are recertified and notify potentially eligible taxpayers subject to recertification that they may still be entitled to the income-only EIC. F-4, R-1, P-1. Change computer programming, where appropriate, so electronically filed returns claiming income-only EIC are not rejected because Forms 8862 are not filed.

Reference Number	Issued	Projected Completion Date	Report Title and Recommendation Summary *(F = Finding Number, R = Recommendation Number, P = Plan Number)*
2005-30-048	March 2005		***Stronger Sanctions Are Needed to Encourage Timely Filing of Pass Through Returns and Ensure Fairness in the Tax System***
		10/15/05	F-1, R-3, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend Internal Revenue Code (I.R.C.) § 6698 to increase the penalty for late-filed partnership returns from $50 per partner per month to $200 per partner per month.
		10/15/05	F-1, R-4, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6698 to remove the five-month limitation on the number of months of delinquency that the late-filing penalty is assessed on partnership returns.
		10/15/05	F-1, R-5, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6698 to make all requirements of the law applicable to S corporations as well as partnerships.
		10/15/05	F-1, R-6, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6721 to require the assessment of a $200 penalty per Schedule K-1 for the failure to timely provide Schedules K-1 to the IRS when a partnership or S corporation return is filed late.
		10/15/05	F-1, R-7, P-1. Develop a legislative proposal to be submitted to the Department of the Treasury that would amend I.R.C. § 6722 to require the assessment of a $200 penalty per Schedule K-1 for the failure to timely provide Schedules K-1 to payees when a partnership or S corporation return is filed more than seven days beyond the return due date.
		10/15/05	F-1, R-8, P-1. Conduct a study to determine whether fixed-dollar penalties set at a $200 level in I.R.C. § 6698, 6721, and 6722 will be effective in ensuring future compliance or whether other penalty types and/or higher amounts would be more effective.
2005-30-052	March 2005		***Procedures Regarding the Failure to Pay Tax Penalty Result in Inconsistent Treatment of Taxpayers and Hundreds of Millions of Dollars in Lost Revenue***
		01/15/06	F-1, R-1, P-1. Request programming changes that would cause accrued Failure to Pay (FTP) tax penalties to be assessed on a periodic basis.
		01/15/06	F-1, R-2, P-1. Request clarifying legislation regarding the need for separate notices to be issued to taxpayers each time FTP tax penalties are assessed and interest is charged on the penalties.
		01/15/06	F-1, R-3, P-1. Ensure that notices containing FTP tax penalty assessments include information informing taxpayers that interest is being charged on the FTP tax penalties until they are fully paid.
2005-30-053	March 2005		***Opportunities Exist to Improve the Effectiveness and Efficiency of the Automated 6020(b) Program***
		01/15/06	F-1, R-1, P-1. Replace the computer system supporting the Automated 6020(b) Program.
		01/15/06	F-2, R-1, P-1. Raise the dollar level of the risk-based criteria for stand-alone Taxpayer Delinquency Investigation (TDI) cases as a means of increasing the workload coming into the Automated 6020(b) Program with cases that would otherwise remain unworked in the Queue.
		01/15/06	F-2, R-2, P-1. Modify the programming to add TDIs involving excise tax returns to the Automated 6020(b) Program.
2005-10-070	March 2005		***The Human Resources Investment Fund is Not a Cost-Effective Method of Providing Tuition Assistance***
		04/15/06	F-2, R-1, P-1. Consider eliminating the Human Resources Investment Fund (HRIF) Program and provide tuition assistance through alternative means such as the Individual Development Plan process and the Career Transition Assistance Program.

Other Statistical Reports

The Inspector General Act of 1978 requires Inspectors General to address the following issues:

Access to Information
Report unreasonable refusals of information available to the agency that relate to programs and operations for which the Inspector General has responsibilities. As of September 30, 2005, there were no instances where information or assistance requested by the Office of Audit was refused.

Disputed Audit Recommendations
Provide information on significant management decisions in response to audit recommendations with which the Inspector General disagrees. As of September 30, 2005, there were no reports issued where a significant recommendation was disputed.

Revised Management Decisions
Provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. As of September 30, 2005, no significant management decisions were revised.

Audit Reports Issued in the Prior Reporting Period With No Management Response
Provide a summary of each audit report issued before the beginning of the current reporting period for which no management response has been received by the end of the current reporting period. As of September 30, 2005, there were no prior reports where management's response was not received.

Review of Legislation and Regulations
Review existing and proposed legislation and regulations, and make recommendations concerning the impact of such legislation or regulations. TIGTA's Office of Chief Counsel reviewed 156 proposed regulations and legislative requests during this reporting period.

"When there is an income tax,

the just man will pay more

and the unjust less

on the same amount of income."

Plato

Appendix II
Audit Products

April 1, 2005 – September 30, 2005

Inspector General Congressional Testimony	
Reference Number	**Hearing Title**
April 2005	
2005-OT-085	The Internal Revenue Service's Fiscal Year 2006 Budget Request
2005-OT-082	The $350 Billion Question: How to Solve the Tax Gap
May 2005	
2005-OT-092	Hearing Before the Joint Congressional Review of the Internal Revenue Service
2005-OT-099	S Corporation tax loophole
June 2005	
2005-OT-134	Tax Refund Fraud by Federal and State Prisoners

Audit Products	
Reference Number	**Report Title**
April 2005	
2005-1C-046	Report on Audit of Contractor's Compliance With Cost Accounting Standard 420, Accounting for Independent Research and Development and Bid and Proposal Costs
2005-1C-059	Audit of Fiscal Year 2005 Forward Pricing Direct Labor Rates
2005-20-071	The Chief Information Officer Is Taking Steps to Timely Complete Corrective Actions to Treasury Inspector General for Tax Administration Reports
2005-40-062	The Internal Revenue Service's Implementation of the Improper Payments Information Act Is Progressing
2005-10-076	Voucher Audit of the Treasury Information Processing Support Services Contract – TIRNO-00-D-00014
2005-30-073	The Small Business/Self-Employed Division Has Made Significant Changes to Enhance the Automated Substitute for Return Program, but Opportunities Exist for Further Improvement (Increased Revenue: $45 million) Note: monetary benefit projected over a five-year period.
2005-40-077	Taxpayers Identified As Serving in Combat Zones Were Properly Afforded Tax Benefits, but Account Identification and Maintenance Processes Need Improvement
2005-20-074	Business Cases for Information Technology Projects Need Improvement (Reliability of Information: $339.4 million in project costs not accurately reported)

May 2005	
2005-40-075	The Innocent Spouse Centralized Review Function Ensured Accurate Relief Determinations, but Improvements Could Increase Customer Service (Taxpayer Burden: 113 taxpayers burdened by unclear correspondence or not having all issues addressed)
2005-40-079	The Accounts Management Program Has Annual Performance Goals but Should Develop Long-Term Performance Goals
2005-20-061	The Business Systems Development Organization's Effective Process for Developing Information Systems Requirements Can Be Made More Efficient by Tracking and Analyzing Related Costs
2005-10-081	Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 1999 Through Fiscal Year 2004
2005-30-080	Actions Are Needed to Eliminate Inequities in the Employment Tax Liabilities of Sole Proprietorships and Single-Shareholder S Corporations (Increased Revenue: $61 billion) Note: monetary benefit projected over a five-year period
2005-20-083	While Many Improvements Have Been Made, Continued Focus Is Needed to Improve Contract Negotiations and Fully Realize the Potential of Performance-Based Contracting (Questioned Costs: $825,164; Reliability of Information: $268,000 in costs for additional staff because data needed to estimate sufficient time for contract negotiations were not available)
2005-10-089	Some Improvements Have Been Made to Better Comply With Freedom of Information Act Requirements (Taxpayer Rights and Entitlements: 2,282 incomplete or untimely IRS responses to FOIA, Privacy Act and I.R.C. Section 6103 requests)
2005-30-084	Performance Management in the Large and Mid-Size Business Division's Industry Case Program Needs Strengthening
2005-40-093	The Earned Income Tax Credit Income Verification Test Was Properly Conducted
2005-10-078	Improvements Are Needed in the Exempt Organizations Compliance Unit to Better Support the Exempt Organizations Function's Overall Strategic Goals (Reliability of Information: 432 cases corrected to include more descriptive disposal codes)
2005-30-086	Taxpayer Remittances Were Generally Safeguarded Within the Ogden Submission Processing Site; However, Some Security Vulnerabilities Exist
June 2005	
2005-30-072	Taxpayer Rights Are Being Protected When Levies Are Issued
2005-30-090	Changes to Processing Procedures and Line Descriptions on the Form 1040 Would Reduce Erroneous Claims for Some Refundable Credits (Revenue Protection: $3.9 million on 366 taxpayer returns) Note: monetary benefit projected over a five-year period.
2005-30-091	Fiscal Year 2005 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property (Taxpayer Rights and Entitlements: 17 taxpayers where the IRS did not comply with legal and internal procedures or where internal procedures can be improved regarding seizures)
2005-40-094	Forms, Publications, and Computer Programming Requests Were Adequately Addressed and Updated in Most Instances for the 2005 Filing Season (Taxpayer Burden: two publications did not adequately address revision to an Additional Child Tax Credit requirement)
2005-30-096	The Implementation of the Offer in Compromise Application Fee Reduced the Volume of Offers Filed by Taxpayers at All Income Levels
2005-30-095	Fiscal Year 2005 Statutory Review of Compliance With Lien Due Process Procedures (Taxpayer Rights and Entitlements: 22,604 Notices of Federal Tax Liens with potential violations of taxpayer rights)
2005-1C-063	Audit of Estimating System and Related Internal Controls
2005-1C-060	Incurred Costs Audit for Fiscal Year Ended March 31, 2003
2005-1C-064	Report on Audit of Indirect and Other Direct Cost System
July 2005	
2005-20-100	Security Controls for the Taxpayer Advocate Management Information System Could Be Improved
2005-40-104	Fiscal Year 2005 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations (Taxpayer Rights and Entitlements: 309 taxpayers improperly identified; Reliability of Information: 19 Internal Revenue Manual subsections with prohibited references to Illegal Tax Protester Designations)
2005-10-105	Alternate Strategies Are Needed for Upgrading Campus Facilities

2005-10-107	Improved Policies and Guidance Are Needed for the Telework Program
2005-1C-065	TIRNO-92-C-0014 Incurred Cost Audit for Fiscal Year 2001
2005-30-049	A Test of the Private Sector's Ability to Provide Tax Law Telephone Assistance Did Not Produce Sufficient Information to Support a Competitive Sourcing Decision (Inefficient Use of Resources: $675,140)
2005-20-097	Managers and System Administrators Need to Limit Employees' Access to Computer Systems
2005-1C-066	TIRNO-00-D-00018, TIRNO-99-D-00018, TIRNO-99-D-0001, TIRNO-02-K-00055, TIRNO-02-K-00051 Incurred Cost Audit for Fiscal Year 2002
2005-1C-067	Report on Audit of Purchasing System
2005-20-108	More Management Attention Is Needed to Protect Critical Assets
2005-40-109	Individual Income Tax Return Information Was Accurately and Timely Posted to the Customer Account Data Engine
2005-40-112	Fiscal Year 2005 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Taxpayer Rights and Entitlements: 82 taxpayers that may not have been properly notified of their rights)
2005-20-098	Mid-range Computer Storage Resources Need Better Administration to Ensure Effective and Efficient Utilization and Accurate Reporting (Funds Put to Better Use: $9,858,060; Inefficient Use of Resources: $766,765)
2005-40-111	Processing Changes Would Improve Service and Reduce Unnecessary Interest Paid on Refunds to Taxpayers That File Amended Individual Income Tax Returns (Funds Put to Better Use: $3,085,185; Taxpayer Burden: 144,524 taxpayers with case closing delays)
2005-40-110	The Effectiveness of the Taxpayer Assistance Center Program Cannot Be Measured
2005-40-106	A Corporate Strategy Is Key to Addressing the Growing Challenge of Identity Theft (Increased Revenue: $9 billion; Inefficient Use of Resources: $8.5 million) Note: monetary benefit projected over a five-year period.
2005-30-101	Compliance Opportunities Exist for the Internal Revenue Service to Use Foreign Source Income Data (Increased Revenue: $844.6 million) Note: $842 million of the monetary benefit was projected over a five-year period.
August 2005	
2005-10-124	Voucher Audit of the Treasury Information Processing Support Services Contract – TIRNO-00-D-00015 (Questioned Costs: $370,071)
2005-20-102	Annual Assessment of the Business Systems Modernization Program
2005-10-125	Additional Actions Are Needed to Ensure Section 527 Political Organizations Publicly Disclose Their Activities Timely and Completely (Increased Revenue: $17 million)
2005-30-126	Additional Work Is Needed to Determine the Extent of Employment Tax Underreporting
2005-30-130	The Small Business/Self-Employed Division Is Beginning to Address Challenges That Affect Corporate Return Examination Coverage
2005-30-123	The Strategy to Reemphasize Penalties in Corporate Examinations Could Be Enhanced
2005-10-135	Controls Over the Financial Activities of the Internal Revenue Service Oversight Board Need to Be Improved (Reliability of Information: $279,000 in budgeted expenditures were not properly classified or recorded)
2005-10-127	Opportunities Exist for the Employee Plans Function to Improve the Timeliness and Accuracy of Merit Closure Determination Letters
2005-30-132	Opportunities Exist to Improve the Efforts of the Taxpayer Education and Communication Organization to Assist Small Businesses in Understanding and Fulfilling Their Tax Obligations
2005-20-128	Security Controls Were Not Adequately Considered in the Development and Integration Phases of Modernization Systems
2005-40-133	Administration of the Earned Income Tax Credit Program Has Improved, but Challenges Continue

September 2005	
2005-40-137	Controls Over the Processing of the Mortgage Interest Credit Need to Be Improved (Revenue Protection: $6.48 million)
2005-10-138	The Office of Appeals Should Strengthen and Reinforce Procedures for Collection Due Process Cases (Revenue Protection: 154 cases in which the collection statue date was not recalculated; Taxpayer Rights and Entitlements: 8,678 Collection Due Process cases that could not be located or did not contain required documentation)
2005-30-140	Improved Internal Revenue Service Coordination Is Needed to Resolve Large Volumes of Fraudulent Schedule C Refund Returns
2005-30-136	Federal Tax Deposit Penalties Have Been Significantly Reduced, but Additional Steps Could Further Reduce Avoidable Penalty Assessments (Taxpayer Rights and Entitlements: 12,494 taxpayers can save $270 million in Failure to Deposit Penalties)
2005-40-146	Customer Accuracy at Taxpayer Assistance Centers Showed Little Improvement During the 2005 Filing Season (Taxpayer Burden: 42 taxpayers could have received incorrect responses to their tax law questions)
2005-10-145	Voucher Audit of the Treasury Information Processing Support Services Contract – TIRNO-00-D-00013 (Questioned Costs: $1,809)
2005-40-147	Coordination and Monitoring Are Needed for Continued Improvement in the Tax Return Preparation Process at the Taxpayer Assistance Centers
2005-1C-113	Report on Labor Cost Charging and Allocation
2005-10-141	The Overall Independence of the Office of Appeals Appears to Be Sufficient
2005-1C-114	Incurred Costs Audit for Fiscal Year 2000 TIRNO-92-C-00014, TIRNO-92-C-0014, TIRNO-99-R-0009, TIRNO-99-D-0001, and TIR-92-0014
2005-40-152	Electronic Tax Law Assistance Program Responses Are Timely and Generally Accurate
2005-1C-115	Incurred Costs Audit for Fiscal Year Ending September 30, 2002
2005-1C-116	Report on Audit of Billing System
2005-1C-117	Report on Audit of Forward Pricing Indirect Rates and Facility Capital Cost of Money Factors for Fiscal Years 2005, 2006, and 2007
2005-1C-118	Preaward Survey of Prospective Contractor's Accounting System
2005-1C-119	Report on Review of Fiscal Year 2002 Incurred Costs
2005-1C-120	Report on Audit of Compliance With Cost Accounting Standard 414 – Accounting for Cost of Money As an Element of the Cost of Facilities Capital
2005-10-149	The Internal Revenue Service Does Not Adequately Assess the Effectiveness of Its Training
2005-10-156	The Private Debt Collection Request for Quotation Outlines Adequate Procedures and Controls
2005-20-103	Controls Need to Be Strengthened to Ensure the Modernized e-File Project Meets Its Expectations
2005-10-153	The Department of the Treasury Needs to Improve Its Management of Employee Express System Funds (Funds Put to Better Use: $1,688,771)
2005-10-129	Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program (Protection of Resources: $667,800 in grants awarded to organizations that were not in compliance with Federal tax requirements.)
2005-40-155	Taxpayers Continued to Experience Improved Access to Toll-Free Telephone Service During the 2005 Filing Season
2005-40-157	Fiscal Year 2005 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results
2005-30-142	The Collection Field Function Needs to Improve Case Actions to Prevent Employers From Incurring Additional Trust Fund Tax Liabilities (Increased Revenue: $430 million)
2005-30-151	The Pre-Filing Agreement Program for Large Businesses Has Yielded Modest Results
2005-10-159	A Better Model Is Needed to Project the Return on Additional Investments in Tax Enforcement (Reliability of Information: difference of $182 million in projected revenues due to a more accurate forecasting model)

2005-30-131	More Effective Procedures Are Needed to Process Taxpayers' Claims That They Did Not Request Employer Identification Numbers Assigned to Them
2005-30-139	Collection Field Function Penalty Abatements Need Proper Documentation and Coding (Increased Revenue: $10.8 million for 7,315 abatements; Reliability of Information: 46 incorrectly coded abatements)
2005-30-150	Actions Are Needed to Ensure Corporations Receive Intended Tax Benefits for Reinvesting Foreign Earnings in the United States
2005-1C-121	Report on Audit of Budget System Review
2005-1C-122	Revised Fiscal Year 2005 Forward Pricing Proposal
2005-1C-167	Report on Preaward Survey of Prospective Contractor's Accounting System
2005-1C-168	Report on Audit of Billing System Internal Controls
2005-1C-172	Report on Accounting System Review
2005-1C-174	Report on Audit of Cost Accounting Standards 420, Accounting for Independent Research and Development Costs and Bid and Proposal Costs
2005-30-165	Information From State Tax Amnesty Programs Could Bolster Compliance Efforts and Ensure Federal Tax Obligations Are Also Met
2005-10-162	Voucher Audit of the Integration Support Contract – TIRNO-92-C-00014 (Questioned Costs: $2.4 million)
2005-10-158	The Indian Tribal Governments Office Can Improve the Effectiveness, Consistency, and Efficiency of Compliance Checks (Reliability of Information: five cases erroneously included in the count of completed compliance checks)
2005-10-166	The Tax Exempt and Governments Entities Division's Toll-Free Call Site Accuracy Rate and the Effectiveness and Efficiency of Call Site Operations Can Be Improved (Reliability of Information: the customer accuracy rate was overstated by 6.13 percent; Taxpayer Burden: 4,655 taxpayers could have received enhanced customer service if assistors more closely followed published guidance)
2005-40-148	Payments Made at the Taxpayer Assistance Centers Are Generally Timely and Accurately Processed (Taxpayer Privacy and Security: 93 accounts accessed by employees that received the taxpayers' payments; Protection of Resources: 219 payments totaling more than $5.7 million that contained at least one error)
2005-30-154	The Clarity of Math Error Notices Has Improved, but Further Changes Could Enhance Notice Clarity and Reduce Unnecessary Notices (Taxpayer Rights and Entitlements: the clarity of approximately 2.3 million notices could be enhanced)
2005-10-164	The Internal Revenue Service Needs to Do More to Stop the Millions of Dollars in Fraudulent Refunds Paid to Prisoners
2005-1C-169	Report on Audit of Forward Pricing Indirect Rates for Fiscal Years 2005 Through 2008
2005-1C-170	Report on Audit of Compliance With Cost Accounting Standard 403, Allocation of Home Office Expenses
2005-1C-171	Report on Audit of Compliance With Cost Accounting Standard 404, Capitalization of Tangible Assets
2005-1C-173	Report on Audit of Budget System Review
2005-1C-175	TIRNO-99-D-0005, Report on Compliance With Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance With the Office of Management and Budget Circular A-133, Fiscal Year 2004 (Questioned Costs: $91,837)
2005-1C-176	Report on the Audit of Adequacy and Compliance of Disclosure Statement Revision 15, Effective January 1, 2005
2005-1C-177	Final Voucher Audit Contract Number TIRNO-95-D-00061, Delivery Order Number 0011
2005-1C-178	Report on the Audit of Adequacy and Compliance of Disclosure Statement Revision Number 4, Effective January 1, 2005
2005-1C-179	Final Voucher Audit Contract Number TIRNO-95-D-00061, Delivery Order Number 0006
2005-1C-180	Final Voucher Audit Contract Number TIRNO-95-D-00061, Delivery Order Number 0002
2005-1C-181	Final Voucher Audit Contract Number TIRNO-95-D-00061, Delivery Order Number 0001
2005-20-185	Monitoring of PRIME Contactor Access to Networks and Data Needs to Be Improved

2005-20-143	The Computer Security Incident Response Center Is Operating As Intended, Although Some Enhancements Can Be Made
2005-20-144	Internal Penetration Test of the Internal Revenue Service's Networked Computer Systems
2005-10-160	The Indian Tribal Governments Office Should Reevaluate the Compliance Check Program to Make the Best Use of Its Limited Resources
2005-10-161	The Tax Exempt and Government Entities Division Is Making Progress to Detect and Deter Fraud Within Its Customer Base, but the Impact Cannot Be Determined at This Time
2005-10-163	Weaknesses in the Criminal Investigation Function's Controls Leave Investigative Equipment Vulnerable to Loss (Protection of Resources: controls over $383,400 in investigative equipment and 111 pocket commissions were not adequate; Reliability of Information: 279 investigative equipment items not controlled or inaccurately shown on the Criminal Investigation Equipment Control System.)
2005-10-182	The Initial Implementation of the End User Access System Was Not Effectively Planned and the Continued Implementation Needs to Ensure the Efficient Use of Resources
2005-10-183	The Planning and Implementation of Changes to the Recruiting and Hiring Process Could Be Improved
2005-20-184	Increased IRS Oversight of State Agencies Is Needed to Ensure Federal Tax Information Is Protected
2005-10-186	Statistical Portrayal of the Tax Exempt Bonds Office's Enforcement Activities From Fiscal Year 2002 Through Fiscal Year 2004
2005-20-187	Contracting for Information Technology Goods and Services Generally Provided Intended Benefits; However, Maintenance Contracts Were Not Always Supported

Appendix III
TIGTA's Statutory Reporting Requirements

TIGTA issued 29 audit reports required by statute dealing with the adequacy and security of IRS technology during this reporting period. In FY 2005, TIGTA completed its seventh round of statutory reviews that are required annually by the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). TIGTA also completed an annual review of the Federal Financial Management Improvement Act of 1996 (FFMIA). The following table reflects the status of the FY 2005 statutory reviews.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Enforcement Statistics Internal Revenue Code (I.R.C.) § 7803(d)(1)(A)(i)	Requires TIGTA to evaluate the IRS' compliance with restrictions under section 1204 of RRA 98 on the use of enforcement statistics to evaluate IRS employees.	***Reference No. 2005-40-157, September 2005*** IRS managers had appropriately not used records of tax enforcement results or production quotas or goals to evaluate manager performance for the Section 1204 first-line managers TIGTA statistically sampled. In October 2004, the IRS discontinued the waiver process which eliminated the control that had been established to ensure all Section 1204 managers required to conduct quarterly self-certifications were accurately identified and monitored.
Restrictions on Directly Contacting Taxpayers I.R.C. § 7803(d)(1)(A)(ii)	Requires TIGTA to evaluate the IRS' compliance with restrictions under I.R.C. § 7521 on directly contacting taxpayers who have indicated they prefer their representatives be contacted.	***Reference No. 2005-40-040, February 2005*** As in prior reviews, TIGTA could not determine whether IRS employees followed proper procedures to stop an interview if the taxpayer requested to consult with a representative. Neither TIGTA nor the IRS could readily identify cases where a taxpayer requested a representative or the IRS contacted the taxpayer directly and bypassed the representative. IRS management information systems do not separately record or monitor direct contact requirements, and Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Filing of a Notice of Lien I.R.C. § 7803(d)(1)(A)(iii)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6320 upon the filing of a notice of lien.	***Reference No. 2005-30-095, June 2005*** The IRS did not completely comply with the law. A review of a statistically valid sample of 150 cases identified seven for which the IRS correctly mailed the lien notices, but did not mail them timely within five business days, as required by I.R.C. § 6320. In addition, for another 35 cases, TIGTA could not determine if the IRS complied with the law because it did not provide proof or legible proof of timely mailing. Finally, in 11 of the 150 cases reviewed, the IRS did not follow its own internal guidelines when issuing lien notices, including the guidelines for notifying taxpayer representatives and resending notices when they are returned as undeliverable.
Extensions of the Statute of Limitations for Assessment of Tax I.R.C. § 7803(d)(1)(C) I.R.C. § 6501(c)(4)(B)	Requires TIGTA to include information regarding extensions of the statute of limitations for assessment of tax under I.R.C. § 6501 and the provision of notice to taxpayers regarding the right to refuse or limit the extension to particular issues or a particular period of time.	***Reference No. 2005-40-112, July 2005*** There was not always documentation in the related case files that taxpayers were advised of their rights regarding assessment statute extensions. In TIGTA's sample of 215 tax returns, 38 percent of the related case files reviewed did not contain any documentation to support that the taxpayers and/or their representatives had been advised of the taxpayers' rights regarding assessment statute extensions. In Calendar Year 2004, the IRS began revising the various consent forms to include a prominent statement informing taxpayers of their rights regarding assessment statute extensions.
Levies I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. § 6330 regarding levies.	***Reference No. 2005-30-072, June 2005*** The IRS has effective controls over the issuance of systemically generated and manually prepared levies in both the Automated Collection System and the Integrated Case Processing System to prevent a levy from being generated unless there were at least 30 days between the date taxpayers received notice of their appeal rights and the date of the proposed levy. A review of 60 systemically generated levies and 61 manually prepared levies showed that taxpayers received notification of their appeal rights at least 30 days prior to the levy.
Collection Due Process I.R.C. § 7803(d)(1)(A)(iii) and (iv)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6320 and 6330 regarding the taxpayers' rights to appeal lien or levy actions.	***Reference No. 2005-10-138, September 2005*** A significant portion of the Appeals Collection Due Process and Equivalent Hearing closed case files requested could not be located or did not contain sufficient documentation. As such, TIGTA could not determine if the IRS complied with legal guidelines and required procedures to protect taxpayer rights. Moreover, some Appeals determination letters did not contain clear and detailed explanations of the basis for the hearing officers' decisions and did not adequately communicate the results of the hearings to taxpayers. Some determination letters did not address the specific issues raised or tax periods discussed by the taxpayers in their hearing requests.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Seizures I.R.C. § 7803(d)(1)(A)(iv)	Requires TIGTA to evaluate the IRS' compliance with required procedures under I.R.C. §§ 6330 through 6344 when conducting seizures.	***Reference No. 2005-30-091, June 2005*** The IRS did not always comply with the legal provisions and internal procedures when conducting seizures. A review of a random sample of 50 of 375 seizures conducted between July 1, 2003 and June 30, 2004, identified 17 instances in 12 of the seizures in which the IRS did not fully comply with the I.R.C. While the review did not identify any instances where taxpayers were adversely affected, not following legal and internal guidelines could result in abuses of taxpayers' rights. In addition, there were three areas where internal guidelines for conducting seizures can be improved to help prevent possible abuses of taxpayers' rights. First, the Internal Revenue Manual (IRM) does not provide specific guidelines to address instances where additional property is identified for seizure while the authorized seizure is being conducted. In two instances, the seizure requests were made for a specific piece of property and approvals were granted. However, during the seizures, additional properties not included in the seizure requests were also seized. Second, the IRS' policy of limiting the minimum bid of seized property to no more than the taxpayer's tax liability plus the estimated expenses of the seizure and sale does not provide for the equitable preservation of the taxpayer's interest in the seized property. In two seizures, the minimum bids were established at the amount of the taxpayers' liabilities plus expenses, which were less than the calculated minimum bids using the standard formula by approximately $16,200 and $1,400. Finally, the IRM procedures are unclear with respect to charging the taxpayer's account for expenses incurred in obtaining title searches and encumbrance information reports. In two seizures, these types of expenses were charged to the taxpayers' accounts. In another instance, the taxpayer's account was not charged for all title searches conducted.
Taxpayer Designations – Illegal Tax Protester Designation and Nonfiler Designation I.R.C. § 7803(d)(1)(A)(v)	An evaluation of IRS' compliance with restrictions under section 3707 of RRA 98 on designation of taxpayers.	***Reference No. 2005-40-104, July 2005*** In general, the IRS is in compliance with the prohibition on using Illegal Tax Protester (ITP) or similar designations. The IRS has not reintroduced past ITP codes on the Master File and has not reassigned any similar ITP designations to formerly coded ITP taxpayer accounts. Although some references remain, the IRS has initiated steps to remove ITP references from the multiple subsections of the Internal Revenue Manual. However, IRS employees continue to use ITP or similar designations in isolated instances in case narratives.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Disclosure of Collection Activities With Respect to Joint Returns I.R.C. § 7803(d)(1)(B) I.R.C. § 6103(e)(8)	Requires TIGTA to review and certify whether the IRS is complying with I.R.C. § 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	***Reference No. 2005-40-041, February 2005*** This is the seventh year that TIGTA could not determine whether the IRS is complying with the statutory requirements for responding to written requests from joint filers, because both TIGTA and the IRS are still unable to readily identify joint filer requests received nationwide. IRS management has decided not to develop a new management control process to track joint filer requests. IRS management information systems do not separately record or monitor joint filer requests, and Congress has not explicitly required the IRS to do so. TIGTA does not recommend the creation of a separate tracking system.
Taxpayer Complaints I.R.C. § 7803(d)(2)(A)	Requires TIGTA to include in each of its *Semiannual Reports to Congress* the number of taxpayer complaints received and the number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA from taxpayers, IRS employees and other sources.	Statistical results on the number of taxpayer complaints received are shown on page 42.
Administrative or Civil Actions With Respect to the Fair Debt Collection Practices Act of 1996 I.R.C. § 7803(d)(1)(G) I.R.C. § 6304 Section 3466 of RRA 98	Requires TIGTA to include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of I.R.C. § 6304, including a summary of such actions, and any resulting judgments or awards granted.	***Reference No. 2005-10-051, March 2005*** There were no administrative or civil actions with respect to violations of fair tax collection practices in Calendar Year 2004.
Denial of Requests for Information I.R.C. § 7803(d)(1)(F) I.R.C. § 7803(d)(3)(A)	Requires TIGTA to include information regarding improper denial of requests for information from the IRS, based on a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 or 5 U.S.C. § 552(b)(7).	***Reference No. 2005-10-089, May 2005*** In 7.1 percent of the Freedom of Information Act (FOIA) and Privacy Act of 1974 (PA) cases sampled, the IRS did not provide complete responses and improperly withheld information from requestors. This represents a higher percentage of improper withholdings than reported in TIGTA's FY 2004 audit report (4.4 percent). In addition, the IRS improperly withheld information from requestors in 3.1 percent of the I.R.C. § 6103 cases sampled where information was denied or the IRS replied responsive records were not available. This represents a significantly lower percentage of improper withholdings than the 14.6 percent reported last year. The percentage of untimely responses to FOIA and PA requestors also significantly decreased to 13.1 percent of the cases in this year's sample, as compared with the untimely rates in previous audit reports. In previous years' audits, the percentage ranged from 20 to 43 percent.

Reference to Statutory Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
Adequacy and Security of the Technology of the IRS I.R.C. § 7803(d)(1)(D)	Requires TIGTA to evaluate the IRS' adequacy and security of its technology.	***Information Technology Reviews:*** Reference Number 2005-20-004, October 2004 Reference Number 2005-20-005, November 2004 Reference Number 2005-20-014, December 2004 Reference Number 2005-20-019, December 2004 Reference Number 2005-20-023, January 2005 Reference Number 2005-20-028, February 2005 Reference Number 2005-20-050, March 2005 Reference Number 2005-20-071, April 2005 Reference Number 2005-20-074, April 2005 Reference Number 2005-20-061, May 2005 Reference Number 2005-20-083, May 2005 Reference Number 2005-20-098, July 2005 Reference Number 2005-20-102, August 2005 Reference Number 2005-20-103, September 2005 Reference Number 2005-20-187, September 2005 ***Security Reviews:*** Reference Number 2005-20-027, January 2005 Reference Number 2005-20-036, February 2005 Reference Number 2005-20-038, February 2005 Reference Number 2005-20-024, March 2005 Reference Number 2005-20-042, March 2005 Reference Number 2005-20-069, March 2005 Reference Number 2005-20-097, July 2005 Reference Number 2005-20-100, July 2005 Reference Number 2005-20-108, July 2005 Reference Number 2005-20-128, August 2005 Reference Number 2005-20-143, September 2005 Reference Number 2005-20-144, September 2005 Reference Number 2005-20-184, September 2005 Reference Number 2005-20-185, September 2005
Federal Financial Management Improvement Act of 1996 31 U.S.C. § 3512	Requires TIGTA to evaluate the financial management systems to ensure compliance with Federal requirements, or establishment of a remediation plan with resources, remedies, and intermediate target dates to bring the IRS into substantial compliance.	***Reference No. 2005-10-068, March 2005*** TIGTA reviewed the IRS' remediation plan and identified that one intermediate target date was missed and six dates were extended. These delays could further hinder the IRS' ability to timely resolve the reported issues that cause its noncompliance with the FFMIA. TIGTA also identified that 45 remedial actions were canceled prior to completion in 2004. Most of the canceled actions were related to critical future releases of the Integrated Financial System and Custodial Accounting Project, both of which are key financial management projects. The IRS reported this action was taken because both projects were significantly behind schedule and faced funding shortfalls. The canceled remedial actions were replaced by two placeholder remedial actions to develop new plans. Until the IRS develops new remediation actions and milestones to replace these placeholders, TIGTA will be unable to reliably assess the IRS' progress in resolving many of the significant issues that cause its noncompliance with the FFMIA.

"There is nothing sinister
in so arranging one's affairs
as to keep taxes as low as possible.
Everybody does so,
rich and poor;
and all do right,
for nobody owes any public duty
to pay more than the law demands."

Learned Hand

Appendix IV
Section 1203 Standards

In general, the Commissioner of Internal Revenue shall terminate the employment of any IRS employee if there is a final administrative or judicial determination that, in the performance of official duties, such employee committed any misconduct violations outlined below. Such termination shall be a removal for cause on charges of misconduct.

Misconduct violations include:

- Willful failure to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;
- Providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;
- Violating, with respect to a taxpayer, taxpayer representative, or other employee of the IRS, any right under the Constitution of the United States, or any civil right established under Title VI or VII of the Civil Rights Act of 1964; Title IX of the Education Amendments of 1972; Age Discrimination in Employment Act of 1967; Age Discrimination Act of 1975; Section 501 or 504 of the Rehabilitation Act of 1973; or Title I of the Americans with Disabilities Act of 1990;
- Falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;
- Committing assault or battery on a taxpayer, taxpayer representative, or other employee of the IRS, but only if there is a criminal conviction, or a final judgment by a court in a civil case, with respect to the assault or battery;
- Violating the Internal Revenue Code of 1986, Treasury regulations, or policies of the IRS (including the Internal Revenue Manual) for the purpose of retaliating against, or harassing a taxpayer, taxpayer representative, or other employee of the IRS;
- Willfully misusing provisions of Section 6103 of the Internal Revenue Code of 1986 for the purpose of concealing information from a Congressional inquiry;
- Willfully failing to file any return of tax required under the Internal Revenue Code of 1986 on or before the date prescribed therefore (including any extensions), unless such failure is due to reasonable cause and not to willful neglect;
- Willfully understating Federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect; and,
- Threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

The Commissioner of Internal Revenue may mitigate the penalty of removal for the misconduct violations outlined above. The exercise of this authority shall be at the sole discretion of the Commissioner and may not be delegated to any other officer. The Commissioner, in his/her sole discretion, may establish a procedure that will be used to determine whether an individual should be referred to the Commissioner for determination. Any mitigation determination by the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.

"The hardest thing in the world
to understand
is the income tax."

Albert Einstein

Appendix V
Data Tables Provided by the IRS

The memorandum copied below is an IRS transmittal to TIGTA. The tables that follow the memorandum contain information exactly as provided by the IRS to TIGTA and consist of IRS employee misconduct reports from the IRS Automated Labor and Employee Relations Tracking System (ALERTS). Also, data concerning substantiated I.R.C. § 1203 allegations are included. IRS management conducted inquiries into the cases reflected in these tables.

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

HUMAN CAPITAL OFFICE

OCT 1 2 2005

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Terry P. Guidt
Acting Director, Workforce Relations Division

SUBJECT: Input for the Treasury Inspector General for Tax Administration (TIGTA) Semiannual Report to Congress

In response to your memorandum of August 9, 2005 to the Commissioner, I am providing the following information to you to meet your reporting requirements as defined in 26 U.S.C. §7803(d)(1)(E) and 26 U.S.C. §7803(d)(2)(A)(ii) for the period October 1, 2004 to September 30, 2005.

- Report of Employee Misconduct by Disposition Groups
- Report of Employee Misconduct – National Summary
- Summary of Substantiated Section 1203 Inquiries Record in ALERTS

The attached tables contain information concerning alleged misconduct reported to IRS managers, the disposition of the allegations that were resolved during the period, and the status of the inventory as of September 30, 2005. The tables contain information about alleged misconduct that was investigated by both TIGTA and IRS management. The IRS received these allegations from taxpayers, IRS employees and other sources, and recorded them in the Automated Labor and Employee Relations System (ALERTS).

The Summary of Substantiated §1203 Allegations contains information on the disposition of substantiated §1203 allegations. During the period IRS managers substantiated 167 §1203 allegations and removed 28 employees. In one of the removals IRS managers acted based on a TIGTA investigation. Seven employees retired or resigned prior to a final administrative action by management. The Commissioner mitigated proposed removals in 58 cases, including one case involving a TIGTA investigation. There are an additional 9 cases to be reviewed by the Commissioner for mitigation.

If you have any questions or need additional information, please call me at 622-6383, or a member of your staff may contact Christine Adams at 622-9363.

Attachments (3)

cc: Commissioner
Deputy Commissioner Services and Enforcement
Deputy Commissioner Operations Support
National Taxpayer Advocate
Chief, EEO & Diversity
Chief, Communications & Liaison
Associate Chief Counsel (GLS)
National President, NTEU

Report of Employee Misconduct for the Period April 01, 2005 to September 30, 2005 Summary by Disposition Groups (Table provided by the IRS)

Disposition	TIGTA Investigations	Administrative Cases	Employee Tax Matter Cases	Background Investigations	Total
Removal	50	114	28	3	**195**
Separation of Probationary Employees	2	268	14	12	**296**
Separation of Temporary Employees		2	4	2	**8**
Resignation/Retirement	70	206	81	23	**380**
Suspensions	71	224	96	3	**394**
Reprimands	106	469	522	6	**1,103**
Counseling		410	760	35	**1,205**
Alternative Discipline	12	95	40	2	**149**
Clearance	120	196	6		**322**
Closed Without Action	279	418	175	104	**976**
Closed Without Action (Caution Statement)	181	167	86	68	**502**
Forwarded to TIGTA		10			**10**
Suspended – Waiting Supplemental	3				**3**
Total	**894**	**2,579**	**1,812**	**258**	**5,543**

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

This report is being produced in accordance with 26 USC § 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999
Extract Date: Sunday, October 02, 2005 Report ID = T1R3a

Report of Employee Misconduct for the Period
April 01, 2005 to September 30, 2005
National Summary
(Table provided by the IRS)

Case Type	Opening Inventory	Conduct Cases Received	Cases Closed			Closing Inventory
			Conduct Issues	Duplicates	Non-Conduct Cases	
TIGTA Investigations ROI[1]	654	867	(894)	(10)	(0)	**617**
Administrative Case[2]	1,234	2,569	(2,579)	(26)	(5)	**1,193**
Employee Tax Compliance Case[3]	1,301	1,826	(1,812)	(93)	(0)	**1,222**
Background Investigations[4]	114	305	(258)	(0)	(0)	**161**
Total	**3,303**	**5,567**	**(5,543)**	**(129)**	**(5)**	**3,193**

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

This report is being produced in accordance with 26 USC § 7803(d)(2) and § 4(a)2 of Treasury Delegation Order 115-01, January 14, 1999
Extract Date: Sunday, October 02, 2005 Report ID = T1R1

[1] TIGTA Investigations (ROI) - Any matter involving an employee in which TIGTA conducted an investigation into alleged misconduct and referred a Report of Investigation (ROI) to IRS for appropriate action.
[2] Administrative Case - Any matter involving an employee in which management conducted an inquiry into alleged misconduct.
[3] Employee Tax Compliance Case - Any conduct matter that is identified by the Employee Tax Compliance program which becomes a matter of official interest.
[4] Background Investigations - Any matter involving an NBIC investigation into an employee's background that is referred to management for appropriate action.

Summary of Substantiated I.R.C. § 1203 Allegations Recorded in ALERTS for the Period April 01, 2005 to September 30, 2005 (Table provided by the IRS)

§ 1203 Violation	Removals[1]	Resigned/ Retired	Probation Separation	Removed On Other Grounds	Penalty Mitigated	In Personnel Process	Total
Seizure Without Approval	0	1	0	0	0	0	**1**
False Statement Under Oath	0	0	0	0	0	1	**1**
Constitutional & Civil Rights Issues	0	0	0	0	0	0	**0**
Falsifying or Destroying Records	0	0	0	0	0	0	**0**
Assault or Battery	0	0	0	0	0	0	**0**
Retaliate or Harass	0	0	0	0	0	0	**0**
Misuse of §6103	0	0	0	0	0	0	**0**
Failure to File Federal Tax Return	17	5	1	3	46	29	**101**
Understatement of Federal Tax Liability	10	1	0	3	25	23	**62**
Threat to Audit for Personal Gain	1	0	0	0	0	1	**2**
Totals	**28**	**7**	**1**	**6**	**71**	**54**	**167**

Source: Automated Labor and Employee Relations Tracking System (ALERTS) and § 1203 Review Board records.
Extract Date: Sunday, October 2, 2005

[1] The cases reported as "Removals" and "Penalty Mitigated" (see columns above) do not reflect the results of any third party appeal.

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

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www.treas.gov/tigta/

or Write:

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

Information is confidential and you may remain anonymous

DEPARTMENT OF THE TREASURY
Office of the Inspector General for Tax Administration
1125 15th Street, NW., Room 700A
Washington, DC 20005

This report, as well as complete copies of our audit reports, are available online at: ***http://www.treas.gov/tigta/***