

*First Edition*



# Treasury Inspector General for Tax Administration



*“Taxes are what we pay for a  
civilized society”*

– Oliver Wendell Holmes

## Semiannual Report to the Congress

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**October 1, 1998 – March 31, 1999**

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***...the 105<sup>th</sup> Congress created a statutory Inspector General, specifically for oversight of the Internal Revenue Service***

“The Treasury Inspector General for Tax Administration shall exercise all duties and responsibilities of an Inspector General of an establishment with respect to the Department of the Treasury and the Secretary of the Treasury on all matters relating to the Internal Revenue Service. The Treasury Inspector General for Tax Administration shall have sole authority under this Act to conduct an audit or investigation of the Internal Revenue Service Oversight Board and the Chief Counsel for the Internal Revenue Service.”

...Section 1103 of Public Law 105-206, The Internal Revenue Service Restructuring and Reform Act of 1998, enacted July 22, 1998...

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INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 30, 1999

MEMORANDUM FOR SECRETARY RUBIN

FROM:

Lawrence W. Rogers

Acting Treasury Inspector General for Tax Administration

SUBJECT:

Treasury Inspector General for Tax Administration Semiannual  
Report to the Congress

It was an honor to serve as the Treasury Department's Transition team leader, and recently as Acting Treasury Inspector General, to establish the new Office of the Inspector General for Tax Administration (TIGTA). I want to acknowledge the highly dedicated and professional people of the former Internal Revenue Service (IRS) Office of Chief Inspector. Since the Inspection Service was created in 1952, they have served with honor and distinction in their contributions to the IRS, the Department and the taxpayers. They also demonstrated that same commitment and dedication to duty during the recent transition to the newest statutory Office of Inspector General.

I also would like to thank Nancy Killefer, Assistant Secretary for Management and Chief Financial Officer, and Charles O. Rossotti, Commissioner of the IRS, for their assistance and stewardship in completing the transition to begin business as the Office of Treasury Inspector General for Tax Administration on January 18, 1999.

The executives, managers and staff of the TIGTA faced great challenges in making vast changes in independence, organization, procedures, and restructuring in a short time. A significant amount of senior management and staff were diverted from their usual work conducting audits and investigations to implementing the legislative requirements of the IRS Restructuring and Reform Act of 1998. The result was the newest and third largest Inspector General in the Federal Government.

I am pleased and proud to provide our first Semiannual Report for you to transmit to the Congress. This report includes the accomplishments of the TIGTA since January 18, and the IRS Inspection Service from October 1, 1998, through January 17, 1999.

I can report that the entire staff of the TIGTA looks forward to working with you and the Departmental Officials to insure the highest degree of independence while working closely with the IRS as we watch over the nation's tax administration system.

Attachment



**Office of The Treasury Inspector General  
for Tax Administration**

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## Office of The Treasury Inspector General for Tax Administration

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### Recent Legislation Created the Newest Statutory Inspector General

In July 1998, the Congress passed the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA98), and created the newest statutory Office of Inspector General, the Treasury Inspector General for Tax Administration (TIGTA).

This latest amendment to the Inspector General (IG) Act of 1978 added the TIGTA to execute all duties and responsibilities of an Inspector General with respect to the Department and the Secretary of the Treasury on all matters relating to the Internal Revenue Service (IRS), including those of the IRS Oversight Board and the IRS Office of Chief Counsel.

This change in the IG Act, effective January 18, 1999, transferred to TIGTA, all the powers and responsibilities of the former IRS Office of Chief Inspector, except for conducting background checks of and providing physical security to IRS employees.

Treasury Order 115-01, dated January 14, 1999, delineates the specifics of the authorities granted to the TIGTA by law and those delegated by the Secretary of the Treasury. Treasury Directive 27-14, dated January 15, 1999, describes the organization and functions of the TIGTA. A TIGTA organizational chart is appended to this report.

### Information About The Treasury Inspector General for Tax Administration

The TIGTA is organizationally placed within the Department of the Treasury, but is independent of the Department and all other offices and agencies within the Department.

Under supervision of the TIGTA are a Deputy, three Assistant Inspectors General (Audit, Investigations, and Management

Services), an Office of Counsel and an immediate staff.

The TIGTA provides leadership and coordination and recommends policy for activities designed to:

- promote economy, efficiency, and effectiveness in the administration of the internal revenue laws; and,
- prevent and detect fraud and abuse in the programs and operations of the IRS and related entities.

The TIGTA is responsible for:

- conducting and supervising independent and objective audits and investigations relating to IRS programs and operations;



*Senate Finance Committee Conducted  
Hearings of IRS Activities*

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- protecting the IRS against external attempts to corrupt or threaten its employees;
- reviewing and making recommendations regarding existing and proposed legislation and regulations relating to the programs and operations of the IRS;
- recommending actions to resolve fraud and other serious problems, abuses and deficiencies in the programs and operations of the IRS; and,
- informing the Secretary and the Congress of these problems and the progress made in resolving them.

As of March 27, 1999 (pay period ended date), the TIGTA staff totaled 980 as follows:

<b>Audit</b>	393
<b>Investigations</b>	455
<b>Information Technology</b>	90
<b>Other</b>	42

### Authorities

The Treasury Inspector General for Tax Administration (TIGTA) has all the authorities granted under the Inspector General Act of 1978. In addition, the TIGTA has access to tax information in the performance of its responsibilities and the authority to report criminal violations directly to the Department of Justice. The TIGTA and the Commissioner of IRS have established policies and procedures delineating responsibilities to investigate offenses under the internal revenue laws.

The TIGTA provides a program of comprehensive Audit and Investigative services of IRS operations and activities. This includes a national integrity program emphasizing deterrence and detection approaches to assist IRS in ensuring the highest degree of integrity and ethics in its workforce.

Resources from the TIGTA Offices of Audit, Investigations and Information Technology are jointly utilized to:

- inform IRS executives and managers of the importance of established internal controls both to protect Government assets and revenue from fraud and to protect IRS employees from temptations;
- proactively identify additional violators of fraud based on profiles of existing crimes;
- identify for investigation, suspicious instances of computer browsing through comparisons against established computerized patterns; and,
- report to the Secretary of the Treasury, the IRS Commissioner, and the IRS Oversight Board, internal control weaknesses that resulted in fraud, along with recommendations to correct the deficiencies.

In addition to these duties and responsibilities, the RRA98 amended the IG Act of 1978, 5 USC, Appendix 3, Section 8D to give TIGTA statutory authority to carry firearms and enforce the provisions of Title 26, USC Section 7608(b)(2). These functions include the law enforcement authority to execute and serve search warrants, serve subpoenas, and make arrests.

The TIGTA also has responsibility for investigating allegations of misconduct on all IRS employees, including the IRS Chief

Counsel and the IRS Oversight Board. Previously, these responsibilities were split between the IRS Inspection Service and the Treasury Inspector General, generally based on the grade level of the employees.

**Information About Our Clients, Taxpayers and the Internal Revenue Service**

The Internal Revenue Service (IRS) collects over \$1.7 trillion annually, or approximately 95 percent of the budget needed to fund the nation's government. This is no small achievement, since it requires the processing of over 200 million returns, issuing over 80 million refunds, distributing over 1 billion forms and publications, and servicing over 110 million taxpayers.

As of March 27, 1999 (pay period ended date), IRS employed 116,391 permanent and temporary employees as follows:

<u>Description</u>	<u>Number</u>
<b>Support Services</b>	7,320
<b>Submission Processing</b>	28,606
<b>Customer Service</b>	29,302
<b>Taxpayer Advocate</b>	615
<b>Criminal Investigations</b>	4,455
<b>Examination</b>	20,652
<b>Research/Statistics of Income</b>	831
<b>Information Systems</b>	7,195
<b>Collections</b>	10,134
<b>Legal Services</b>	2,615
<b>Appeals</b>	2,161
<b>Employee Plans/Exempt Organizations</b>	2,015
<b>International</b>	490
<b>Total</b>	<b>116,391</b>

IRS must continually strive to achieve these tasks while maintaining the highest level of integrity and assuring taxpayer privacy. The IRS must enforce tax laws to ensure that all parts of the taxpaying public pay the proper amount of tax.

In addition to these daily challenges, the IRS entered Fiscal Year (FY) 1999 facing some of the most extensive and complex legislation since the Tax Reform Act of 1986. The Taxpayer Relief Act of 1997 imposed numerous tax law changes and will require extensive reprogramming of systems, changes to forms and instructions, and training for IRS employees.

When fully implemented, the IRS Restructuring and Reform Act of 1998 (RRA98) will result in enhanced taxpayer protection and rights and organizational changes intended to achieve a more efficient and responsive IRS.

*During congressional hearings, several taxpayers testified to unfair and unreasonable treatment by IRS employees.*

RRA98 was passed, due in part to congressional hearings which focused on the misuse of enforcement statistics and abusive treatment of taxpayers. Several taxpayers testified to unfair and unreasonable treatment by IRS employees. The new legislation also mandates a change in the basic way the IRS does business.

Commissioner Rossotti describes the changes as serving taxpayers better by building a new IRS. In the months since passage of RRA98, the Commissioner has been moving to make major changes to modernize the IRS. The concept for modernizing the Internal Revenue Service is much more than changing the organization structure. It is a complete change in how the IRS does business. The IRS must shift its focus from internal operations to the taxpayer's point of view.

It is important to recognize the unparalleled enormity of what the IRS will undergo as a result of this legislation. The five major efforts involved in implementing the concept are to:

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- reorganize around the needs of its customers, the taxpayers;
- improve business practices from customer education to filing assistance to collection;
- establish clear responsibilities and management roles for each division with accountability for meeting the needs of that group of taxpayers;
- establish necessary measures for organizational performance that balances business results, customer satisfaction, and employee satisfaction and productivity; and,
- replace outdated computer systems with new systems that will support the new mission and goals.

Further complicating IRS' tax administration duties is the upcoming century date change and how it will affect IRS computer systems. Like the rest of private industry and government, IRS is preparing its systems for the Year 2000 (Y2K).

Every aspect of tax administration could be affected by the century date change since all IRS functions rely to some degree on automated computer processes.

To assist the IRS in meeting these challenges, as well as many other crucial tax administration initiatives, TIGTA has developed comprehensive Audit and Investigation programs for FY 1999.

### The TIGTA Audit Program

The Assistant Inspector General for Audit heads the TIGTA Office of Audit and has established a comprehensive method of strategic evaluation of IRS programs, activities and functions to expend TIGTA's Audit function resources in the areas of highest vulnerability to the nation's tax system.

The Office of Audit promotes the sound administration of the nation's tax laws by conducting a number of comprehensive, independent performance and financial audits of IRS programs, operations, and activities to:

- assess efficiency, economy, effectiveness and program accomplishments;
- ensure compliance with applicable laws and regulations; and,
- prevent, detect, and deter fraud, waste, and abuse.

*The TIGTA recently advised the House Ways and Means Committee on the most significant tax administration vulnerabilities.*

In a January 20, 1999, letter, the Office of Audit advised the Chairman, Subcommittee on Oversight of the House of Representatives Committee on Ways and Means, of the most serious management issues facing IRS.

The TIGTA reported that the greatest collective risks to tax administration are the 1999 and 2000 income tax filing seasons due to several convergent factors. During that period, the IRS must address the year 2000 date change challenge, major changes in the tax law, and replacement of major components of the tax processing system.

In addition, the IRS will face the challenge of the consolidation of the mainframe computer operations of its 10 current processing service centers nationwide (methodologies that began in 1961) into two computing centers. The most significant management issues facing the IRS include:

- processing returns and implementing tax law changes during the tax filing season;

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- progressing in its Year 2000 compliance efforts;
- implementing the IRS Restructuring and Reform Act of 1998 -
  - Taxpayer Protection and Rights
  - Information Technology Investment Management
  - Quality Telephone and Walk-In Customer Service
- minimizing tax filing fraud and protecting the revenue;
- implementing the Government Performance and Results Act;
- selecting and controlling tax returns for examination; and,
- managing its finances.
- protect IRS employees against external attempts to corrupt or threaten its employees;
- promote the efficient and effective administration of the tax laws; and,
- detect and deter fraud and abuse in IRS programs and operations.

The Office of Investigations is committed to ensuring that complaints or allegations of criminal misconduct and serious administrative wrongdoing are independently and objectively investigated.

Investigations that result in administrative violations are referred to IRS management officials for appropriate action. Investigations involving apparent criminal offenses are presented to U.S. Attorney offices for prosecutive merit and determination.

The Office of Investigations program activities are designed to protect the integrity of the IRS. The Office of Investigations discharges this responsibility through proactive and reactive investigative programs.

The Office of Audit's program supports initiatives involving information technology programs, Year 2000 conversion plans, financial reviews, tax filing season activities, Government Performance and Results Act (GPRA) implementation, taxpayer protection and rights, and other critical IRS activities.

Details of these and other program activities can be found in the Office of Audit section of this report (begins on page 9).

### The TIGTA Investigation Program

The Assistant Inspector General for Investigations heads the TIGTA Office of Investigations and conducts investigations and probes to provide IRS and Treasury management with independent investigative products that:

*The investigative program activities are designed to protect the integrity of the IRS and to protect IRS employees against external attempts to corrupt or threaten them when carrying out their responsibilities.*

In addition, the Office of Investigations is committed to providing the highest priority in terms of the responsiveness in investigating threats and assaults against IRS employees.

The Office of Investigations has placed increased emphasis on investigating allegations of serious administrative misconduct involving IRS employees. Section 1203 of RRA98 established a mandatory penalty of removal for IRS

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employees who commit certain acts or omissions in the performance of the employee's official duties. Included in the list of standards are falsifying or destroying documents to conceal mistakes; willful failure to obtain required approvals authorizing seizure of taxpayer assets, making false statements under oath, etc. For a complete list of the Section 1203 violations, see Appendix V.

The Office of Investigations reviews allegations of taxpayer abuse received by TIGTA and makes a determination whether there is sufficient information to warrant the initiation of an investigation. To ensure that discipline relative to violations of the new law is consistent at all levels within the IRS, an IRS Review Board was established to review all cases where there has been a determination that a violation of Section 1203 has occurred.

In addition, the Office of Investigations investigates other prohibited activities specified in RRA98 and the IG Act, including those relating to the use of enforcement statistics for performance evaluations and the setting of performance goals by IRS management officials.

Details of these and other TIGTA investigative program activities are located in the Office of Investigations section of this report (begins on page 23).

### The TIGTA National Integrity Program

The TIGTA National Integrity Program is managed by the Office of Investigations, with support from the Office of Audit and TIGTA's Office of Information Technology.

The National Integrity Program was established in 1994, to aggressively detect wrongdoing within the IRS. Established on the premise that a proactive approach would identify areas of fraud that would otherwise go undetected, the first segment of the

National Integrity Program involves sharing with IRS executives and managers identified areas of weak internal controls and the resulting employee fraud that occurred.

One goal is to foster an understanding of the importance of established internal control systems, both to protect the Government from losses, and employees from temptations.

*Proactive detection focuses on profiling known crimes and computer browsing patterns and using computer applications to identify additional indicators of similar violations.*

The second segment of the proactive National Integrity Program involves two avenues:

- evaluating actual instances of criminal activity, developing a computer "profile" of the improper transactions, and matching that profile against massive volumes of other account transactions to identify other violators; and,
- matching predefined scenarios of computer browsing activities against the IRS' millions of audit trail transactions recorded on its Integrated Data Retrieval System and other computer databases.

These national integrity projects were included in Computer Matching Act agreements approved by the Treasury Department's Data Integrity Board and announced in the *Federal Register*.

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In addition, internal control weaknesses that permitted the employee fraud to go undetected are reported to IRS executive management with recommendations for corrective actions.

Details of these and other program activities can be found in the National Integrity Program section of this report (begins on page 31).

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## Treasury Inspector General for Tax Administration Office of Audit

### INTRODUCTION

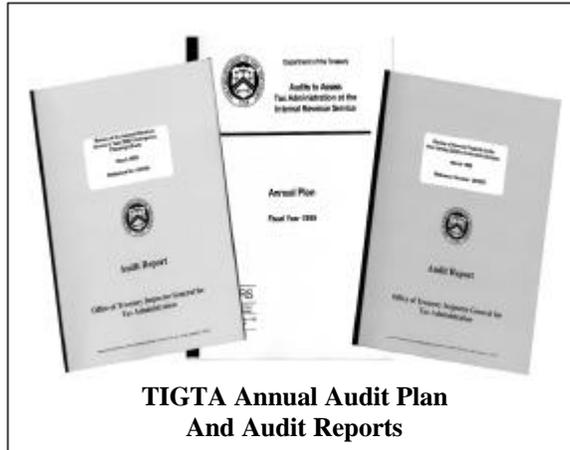
The Assistant Inspector General for Audit (AIGA) is under the general supervision of the TIGTA. The AIGA oversees the Office of Audit and is responsible for the development and execution of the nationwide audit program for Internal Revenue Service (IRS) activities and operations, including the activities of the IRS' Oversight Board and Office of Chief Counsel.

The mission of the Office of Audit is to promote the sound administration of the nation's tax laws by conducting comprehensive, independent performance and financial audits of IRS programs and operations to:

- assess efficiency, economy, effectiveness and program accomplishments;
- ensure compliance with applicable laws and regulations; and,
- prevent, detect, and deter fraud, waste and abuse.

Audit recommendations are made to:

- improve tax administration services;
- strengthen controls over IRS programs and operations; and,
- timely report on program and operational deficiencies.



**TIGTA Annual Audit Plan  
And Audit Reports**

In addition, the Office of Audit works with the Office of Investigations, as appropriate, in response to allegations of misconduct, fraudulent activities, waste, and abuse.

The Office of Audit also participates with the Office of Investigations in the TIGTA National Integrity

Program. (See the National Integrity Program section of this report for information on joint audit and investigations efforts involving proactive integrity projects.)

### AUDIT PLANNING

To accomplish its mission, the Office of Audit developed and published an annual audit plan, which describes the audit focus and direction for FY 1999. The FY 1999 plan includes both mandatory audits required by Federal statute or regulation and discretionary audit work approved by the AIGA.

#### ***Mandatory Audit Coverage***

Mandatory audit coverage includes information technology, taxpayer protection and rights, contracting and the Government Performance and Results Act (GPRA). See Appendix VI for a listing of mandatory audit requirements and TIGTA's status of work on these audits.

Additionally, the Office of Audit is planning to implement a multi-year audit approach to reviewing IRS' implementation of GPRA. This Act is intended to improve the quality

and delivery of government services. The Act also holds federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement.

For FY 1999, the Office of Audit plans to perform high level assessments in the areas of IRS' strategic planning process, GPRA communication and training process, and performance measure validity (customer satisfaction, employee satisfaction, and business results). The results of these assessments will be used to determine the number of individual audits needed to thoroughly evaluate IRS' implementation of GPRA.

The Office of Audit is also responsible for conducting reviews on the financial operations of the IRS. In FY 1999, the Office of Audit staff will perform audit tests in support of the audit of IRS financial statements. This assignment is part of a training effort with the General Accounting Office (GAO), which has exercised its authority to conduct the audit and opine on the IRS financial statements for FY 1999. Involvement will better position the Office of Audit to eventually assume responsibility from GAO for auditing the IRS financial statements. In addition, at the request of the Department's Assistant Secretary for Management/Chief Financial Officer, the Office of Audit is separately assessing the design of and monitoring progress on the IRS action plan that is addressing IRS' long-standing problems with financial management.

### ***Discretionary Audit Coverage***

Discretionary audit work is dependent on the resources remaining after staff has been assigned to accomplish the mandatory audit requirements. The Office of Audit's planned discretionary work was identified through a comprehensive, high-level risk assessment

process, which was designed to prioritize workload by focusing on the areas of greatest risk to IRS.

Each year, the Office of Audit solicits input and suggestions for audit coverage from the Commissioner and IRS executives. Those suggestions are then incorporated into the audit plan development process. In the future, audit requests also may originate from the Congress and the IRS Oversight Board.

This process applies risk factors to key audit areas in IRS, and documents and summarizes results to aid the Office of Audit management in selecting areas for coverage. Risk factors are the criteria used to identify the relative significance of, and the likelihood that, conditions or events may occur that adversely affect the organization. Some of the factors used in evaluating the risks associated with IRS' auditable areas include: impact of new programs; tax law changes; adequacy and effectiveness of internal controls; prior audit findings; and, stakeholder concerns.

### ***Follow-up on Audit Reports with Unimplemented Corrective Actions***

Due to the large number of previously issued audit reports with unimplemented corrective actions (See Appendix III), we are developing a strategic approach in our Fiscal Year 2000 audit plan to review the status of each of these recommendations to determine if:

- the time frame for implementation of the corrective action seems reasonable;
- the pending corrective action item should be closed due to changing conditions that have mitigated the need for additional action; or,
- a follow-up audit is warranted to assess the status of IRS' implementation of the corrective action.

**SIGNIFICANT AUDIT RESULTS**

During this reporting period, the Office of Audit initiated the majority of its in-process audits after formulating an annual audit plan which was based largely on the recently developed risk assessment process. The majority of those final audit reports will be issued in the remaining six months of FY 1999.

The Office of Audit also lost the availability of some of its senior management and staff from time normally expended on managing and conducting audits, to activity involving the legislative requirements of RRA98, including planning and preparation for the new TIGTA mandated annual reviews and the IRS' preparations for implementing the many provisions of RRA98.

With the remaining direct staff resources available, the Office of Audit issued 27 audit reports covering topics such as Year 2000 Conversion, Filing Season Readiness, and Information Technology.

Audit resources were focused in the areas having the most significant and inherent risks to IRS. The results of the most significant reviews are discussed in the following sections.

The Y2K century date change (CDC) is one of the most critical problems facing business and government data processing organizations. The Y2K problem is extremely critical for IRS, because the CDC could affect every aspect of tax administration. Virtually all IRS functions, to some degree, rely on automated computer processes.

To maximize system-processing capabilities and to preserve data storage space, many date fields in IRS' system programs and applications have been limited to a two-digit representation (i.e., 98 for 1998).

IRS estimates the cost for Y2K changes will be approximately \$850 million through FY 1999. These costs include updating and testing over 80 mainframe computers (Tier I computers), 75,000 computer application programs, 1,400 minicomputers (Tier II computers), and 100,000 desktop computers (Tier III computers), as well as data communications networks comprising more than 50,000 individual product components.

IRS management estimates 50 million lines of programming code need to be reviewed for possible changes. If mission critical code is not Y2K compliant, IRS systems may not run, causing the processing of tax returns to slow down or stop.

As a result, taxpayers may not receive timely refunds or notices, and account adjustments may not be processed. As the Year 2000 approaches, it is imperative that all major tax-processing systems be Y2K compliant to avoid processing shutdowns.

The Office of Audit has conducted several reviews to assess IRS efforts for ensuring that all IRS systems (Tier I, II, and III) and programs are Y2K compliant, including project management, inventory and tracking, and software and hardware issues.

**Year 2000 (Y2K) Compliance Progress**

December 1999						
Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8			
12	13	14	15			
19	20	21	22			
26	27	28	29			

January 2000						
Su	Mo	Tu	We	Th	Fr	Sa
						1
	2	3	4	5	6	7
	9	10	11	12	13	14
	16	17	18	19	20	21
	23	24	25	26	27	28
	30	31				

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In-process reviews include:

- Preparation of Tier II Systems (minicomputer) for CDC;
- Management Controls for Oversight of IRS CDC;
- Y2K Conversion Efforts – Tier III (desktop computers);
- Y2K End-to-End Systems Integration Test II and III;
- Effectiveness of Y2K Testing Efforts; and,
- Y2K External Trading Partner Issues – Phase II.

Highlighted final audit reports include:

### ***Follow-Up Review of Corrective Actions Resulting from Audit's Phase III Code Review (Report No. 090102)***

TIGTA auditors conducted an on-line review of IRS' Y2K conversion and testing to determine the effectiveness of efforts in converting those application components that comprise the bulk of the tax processing systems. (Report No. 083605). As the Y2K situation is extremely critical, this follow-up audit was completed in October 1998 to determine if the corrective actions, identified in the June review, were completed.

During the follow-up review, the Office of Audit analyzed 32 corrective actions that were identified in the previous report, and identified three significant areas warranting additional attention.

The original audit identified 42 components where the date field was defined as a character rather than as a numeric field. IRS was advised that greater adherence and

clarification were needed to IRS programming standards to avoid any risk that this programming error could affect future IRS processing.

At the time of the October 1998 follow-up review, the CDC Project Office had not implemented a change in IRS' programming standards.

The Office of Audit's report noted two additional areas requiring further IRS action. Specifically, the CDC Project Office should:

- coordinate the development and issuance of documented procedures for recompiling all IRS programs after the related system macros are modified; and,
- develop a more aggressive schedule for ensuring the development of test deliverables for all commercial-off-the-shelf (COTS) products.

The Office of Audit recommended that the CDC Project Office review the original recommendations and coordinate the development and issuance of all documented procedures for recompiling all IRS programs after related system macros are modified.

Also, the testing and certification of all COTS products should be made a priority because of the potential impact these products could have on the comprehensive testing effort currently underway.

IRS management agreed with the recommendations and has completed the corrective action on all reported audit issues. One action included hiring an outside consultant to review 100 percent of the programming code questioned.

***Evaluation of the Service's Efforts  
to Implement Year 2000  
Compliance for External Trading  
Partners  
(Report No. 091303)***

In 1996, IRS established the CDC Project Office with an objective to ensure that all systems are Y2K compliant. This requires close coordination with many External Trading Partners (ETPs)—organizations that exchange data with IRS—including state, local, and foreign governments; banks; and other Federal agencies. The CDC Project Office has encountered delays in completing several ETP activities.

The Office of Audit evaluated IRS' efforts to implement Y2K compliance of the external data exchanges. The Office of Audit reported the CDC Project Office has made considerable progress in completing an inventory of external data exchanges and communicating IRS' Y2K format changes with ETPs.

The Office of Audit recommended that IRS management continue its efforts to ensure that IRS systems meet Y2K compliant standards and that discrepancies in the inventory of externally exchanged data files and data exchanges are corrected.

IRS management was responsive to the findings during this on-line review and has initiated corrective action.

***Review of Phase 4 Year 2000  
Conversion and Testing  
(Report No. 090403)***

Based on prior audit recommendations (Report No. 083605), IRS initiated actions to improve its Y2K certification efforts and improve the accuracy of its Applications Program Registry (APR) data. The APR contains inventory data on the phase, number and status of Y2K programs by linking the standardized project name and phase with

IRS' Integrated Network and Operations Management System (INOMS). INOMS tracks Automated Data Processing equipment used throughout IRS.

IRS also is working toward being classified as a Capability Maturity Model Level 2 organization to institutionalize effective management processes for software projects, which will allow for repetition of successful practices developed on earlier projects.

The Office of Audit reported that IRS needs to continue with its efforts to improve the accuracy of the APR, ensure developers and testers document test activities and give greater consideration to how Y2K programming changes will affect hardware capacity and system performance.

In addition, the Office of Audit noted the CDC Project Office has not established controls to verify the accuracy of Y2K compliance certifications. Since these certifications are not validated, the CDC Project Office is unable to fully assess the risk that exists for programs that are not Y2K compliant. IRS management agreed with the findings and has initiated corrective action.

***Review of the Service's Year 2000  
Non-Information Technology  
Project  
(Report No. 090503)***

Although Y2K conversion efforts primarily focus on information systems, there are numerous facility systems and personal property items that use microchips, software, firmware, or other mechanisms for controlling time and date logic that could be impacted by the CDC. These systems comprise the Non-Information Technology (Non-IT) environment.

The Office of Audit reported that IRS has initiated steps to prepare its Non-IT environment for Y2K. However, a significant amount of work must still be completed to

ensure Non-IT equipment becomes Y2K compliant. In addition, the CDC Project Office needs to enhance its program management efforts to better direct and coordinate Non-IT conversion activities.

The Office of Audit recommended that the CDC Project Office define and document the requirements for all phases of IRS' Non-IT conversion process; require supporting functions to provide detailed work breakdown schedules; and, determine whether the process used to certify investigative equipment was appropriate.

Also, IRS' Office of Management and Finance, in conjunction with the functional area chiefs, should ensure all IRS occupied buildings are prioritized for conversion. IRS management agreed with the findings and has initiated corrective action.

***Review of the Service's Efforts to Prepare Its Tier II Infrastructure for the Year 2000 (Report No. 091206)***

This report included the results of the Office of Audit's review of IRS' efforts to prepare its Tier II (minicomputer) infrastructure for the CDC.

Although the majority of IRS' tax processing occurs at the Tier I (mainframe computer) level, there is a significant amount of processing at the minicomputer level. As a result, some minicomputer systems feed data to the mainframe computer systems.

The report recommended that IRS better focus, manage, and control its CDC effort to assure business continuity. Critical improvements are needed for: planning and coordination of the conversion effort; inventory management; and, contingency planning. In addition, IRS management needs to ensure consistency between Y2K needs and the INOMS instructions to improve

the accuracy and completeness of the inventory.

The Office of Audit identified that the platform inventory is complete, but nearly half of the 837 platforms reviewed were recorded inaccurately. The COTS software inventory also was incomplete and inaccurate. Approximately 28 percent of the 411 products were not recorded on INOMS, and 22 percent were recorded with the incorrect version.

During the audit, IRS management addressed the issues that the Office of Audit presented. However, the final report was issued without IRS management's response to all reported issues.

Subsequent to the issuance of the final report, IRS management provided a response and has initiated corrective action on all reported audit issues.

***Review of the Internal Revenue Service's Effectiveness in the Monitoring and Reporting of Year 2000 Funds (Report No. 092204)***

The CDC Project Office established a Budget Office to obtain, distribute and manage Y2K appropriated funds. The Budget Office is responsible for managing Information Systems (IS) and non-IS funds for the CDC project and to track budgetary information for the CDC Project Office, IRS executives, and other internal and external stakeholders.

The Budget Office also is responsible for monitoring and reporting the availability and use of congressionally mandated funds; unobligated funds transferred from expired IRS accounts; and, supplemental full time equivalents (FTEs) from within IRS' operational budget.

IRS has been effective in accounting for its Y2K funds. However, more attention is needed in the identification of decreased funding requirements and the recording of

Y2K payroll expenditures. While the Budget Office uses a working budget report and biweekly budget meetings for monitoring and assessing additional budget needs, IRS management must become more proactive in identifying unused funds.

In addition, IRS needs to ensure that complete and accurate information is recorded and reported for Information Systems' FTEs expended on Y2K efforts. Further, time charges to the Y2K Project Cost Accounting Subsystem (PCAS) codes are not complete, accurate, or properly classified.

The Office of Audit recommended that IRS improve its monitoring procedures of available funds and ensure that appropriate PCAS codes are used and that time charges are accurately and completely reported. IRS agreed with the findings and has initiated corrective action.

***Review of the Internal Revenue Service's Year 2000 Efforts to Inventory Telecommunications and Commercial Off-the-Shelf Products (Report No. 092402)***

The CDC Project Office has the responsibility for controlling IRS' Y2K effort to inventory, convert, upgrade, or replace computer-related equipment and software so that all automated data processing functions continue uninterrupted into Y2K.

The Office of Audit review was conducted to provide a preliminary assessment of the adequacy of IRS efforts in two areas: the inventory of telecommunications equipment; and, the inventory of system software and COTS products. Technical expertise for this review was acquired under contract.

The review by the Office of Audit indicated that CDC still has significant work to accomplish to complete the telecommunications inventory and to

reexamine the completeness of the COTS product inventory.

To minimize risks associated with inaccurate or incomplete inventories, the Office of Audit recommended that CDC Project Office management improve its guidance on how these products are to be reported in the inventory and to re-examine the completeness of its COTS inventory. In addition, an independent verification of the INOMS inventory of COTS products should be conducted for all Tier I (mainframe) computer systems. IRS management agreed with the recommendations and initiated appropriate corrective actions.

***Review of the Internal Revenue Service's Year 2000 Contingency Planning Efforts (Report No. 092705)***

The Y2K problem is complicated by the size, complexity, and interdependencies of the IRS' computer systems. The consequences of system failures and the absolute deadline make it a critical task for an organization as large and as reliant on computers as the IRS. Because of the enormity of the task, there is risk that all systems will not be converted in time.

The Office of Audit's review of IRS' contingency plans indicated that IRS has not devoted sufficient emphasis to Y2K contingency planning. The database used for tracking the conversion process was inaccurate and has not improved. The unreliable data hinders IRS management's ability to monitor conversion progress and prepare contingency plans for systems at risk of not meeting the conversion deadlines. Even when the data did identify systems at risk, IRS management did not follow its own processes and did not ensure that contingency plans were timely developed. In addition, IRS had not properly coordinated the Y2K

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contingency planning efforts with its overall contingency planning efforts for disasters and other types of failures.

The Office of Audit recommended the following corrective actions:

- review Y2K inventory files on a recurring basis;
- establish validity checks;
- establish procedures to identify and monitor components and systems that have not completed the Y2K milestones;
- establish procedures to identify “at risk” systems during the certification process;
- adhere to the formal Contingency Request Memorandum process;
- assign responsibility for the IRS’ overall contingency management strategy; and,
- consider monitoring the status of contingency planning as part of the Y2K report.

The Office of Audit did not agree that IRS management’s response adequately addressed the problems and corrective actions and included “auditor comments” in the final report transmittal to the Commissioner.

### ***Filing Season Readiness***

IRS’ 1999 and 2000 filing seasons will be impacted by numerous organizational and legislative changes. Legislation enacted in 1997 and 1998 in the Taxpayer Relief Act, Balanced Budget Act, and RRA98 is the most extensive and complicated legislation IRS has faced since the Tax Reform Act of 1986.

The 1999 and 2000 filing seasons will be further complicated by ongoing efforts to meet Y2K deadlines, consolidate IRS mainframe processing to two sites, and

implement National Performance Review recommendations.

In light of these changes, the Office of Audit conducted reviews to assess IRS’ ability to timely and effectively process returns, issue refunds, and answer taxpayer questions.

In-process reviews include:

- Information Systems’ Quality Assurance Over Key Tax Laws for 1999 Filing Season;
- Walk-In Assistance On-Line - 1999 Filing Season;
- Toll-Free Services During the 1999 Filing Season;
- Early Implementation of Tax Laws – 1999 Filing Season;
- 1999 Filing Season Readiness – Individual Master File;
- Taxpayer Assistance on Key Tax Laws – 1999 Filing Season; and,
- Implementation of Legislative Provisions – Year 2000 Filing Season, Individual Master File/Non-Individual Master File.

Highlighted final audit reports include:

### ***Executive Compilation and Interpretation of the 1998 Filing Season (Report No. 091903)***

The Office of Audit evaluated the 1998 filing season in terms of the progress IRS was making to become a “customer focused” organization based on the IRS Commissioner’s concept for modernizing IRS and on IRS’ Customer Service Task Force report, “Reinventing Service at the IRS.”

Success of the 1998 filing season was determined by how IRS prepared for and met

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the needs of taxpayers in the areas of: processing tax returns (both paper and electronic individual tax returns); issuing timely refunds; providing customer assistance at walk-in sites; and, through the expansion of toll-free telephone service.

The review showed that IRS had a successful 1998 filing season. This success included significant increases in the number of returns filed electronically, implementation of a number of tax law changes, and significant improvements in customer service through the expansion of toll-free telephone service and the introduction of Saturday walk-in service. In addition, IRS was able to process returns accurately and issue refunds timely.

The number of electronic returns filed far surpassed the 1998 goals, which can be attributed to the extensive efforts by IRS to encourage taxpayers to file electronically.

These accomplishments proved to be significant in meeting taxpayer needs and improving customer service to meet the IRS Commissioner's goal of providing first-rate service to taxpayers. However, the audit results indicated that improvements can be made in electronic filing, simplification of return filing, improving customer service and in meeting the challenges for the 1999 filing season.

The RRA98 goal of 80 percent of tax returns to be electronically filed by the year 2007 poses a difficult challenge and will require elimination of barriers, such as the additional costs to electronically file and the requirements to mail in signature documents and Form W-2 statements.

In response to the Office of Audit's report, IRS agreed to explore: the possibility of providing a simpler tax form for millions of taxpayers; raising the dollar tolerance on interest and dividends for submitting a separate schedule; and, establishing a taxpayer profile database. The IRS responded that unless it gets Congressional approval, it

could not implement the Office of Audit's recommendation to use "whole dollars only" for all tax return entries to reduce processing errors and taxpayer burden. The Office of Audit added an "auditor comment" to the final report recommending IRS seek the legislative approval necessary for the change.

Although IRS is taking several actions next filing season to enhance electronic filing, IRS management did not agree that the Office of Audit's recommendation to encourage increased Telefile usage would provide a strong incentive for more taxpayers to use the System.

Also, the Commissioner did not agree that the IRS should implement a structured process to quickly identify and react during the filing season to taxpayer and IRS processing problems. The Office of Audit remains concerned that IRS does not have an adequate process to quickly identify and react to processing problems during the filing season.

### ***Information Technology***

Modernization of IRS' computer systems and security of taxpayer information have been major concerns over the past several years. Prior efforts to modernize antiquated tax systems fell short of what is required to prepare IRS for the next century.

RRA98 requires TIGTA to evaluate the adequacy and security of IRS technology on an ongoing basis.

Reviews performed in this area focused on assessing IRS' progress in implementing its modernization initiatives, including procurement practices to support modernization efforts, and evaluating Information Systems' success in meeting the business needs of operational functions.

In-process reviews include:

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- Integrated Submission and Remittance Processing (ISRP) System – Phase III;
- Readiness for Service Center Mainframe Consolidation;
- Telecommunications Costs and Capacities for Mainframe Consolidation;
- Office of Systems Standards and Evaluation;
- Operational Security Controls;
- Logical Access and Security Controls; and,
- Telecommunications Security of IRS Computer Systems.

Highlighted final audit reports include:

***Review of the Integrated Submission and Remittance Processing (ISRP) System Software Development and Pilot Activities (Report No. 090903)***

The Integrated Submission and Remittance Processing (ISRP) System will replace IRS' primary data input systems for processing paper tax returns and remittance processing—the Distributed Input System and the Remittance Processing System. This replacement is critical because IRS' existing computer systems are 13 and 20 years old, respectively, and neither is capable of processing dates beyond the year 1999.

The ISRP systems development project is one of four critical Information Systems' projects monitored monthly by the Commissioner's Year 2000 Executive Steering Committee. This review focused on IRS' mission-critical need for Y2K compliant systems to process taxpayers' paper tax returns.

In January 1998, the Office of Audit issued a report on the Initial System Development Activities of the ISRP System (Report No. 082204). This report identified IRS' aggressive rollout schedule, the absence of contingency plans, and increased development risks for the Residual Remittance Processing System (RRPS) functionality.

The primary objective of this review was to determine if the decisions and activities regarding the design, development, and installation of the ISRP pilot systems were complete and reliable.

The Office of Audit reported mixed results on the pilot system, and risks remain for successful implementation of a nationwide production system. Specifically, the RRPS demonstrated inconsistent reliability as a production system, and neither ISRP subsystem conclusively demonstrated anticipated productivity gains.

There are additional system design, project scheduling and resource allocation risks, which management must continue to monitor and address to ensure successful nationwide implementation before January 1, 2000.

The Office of Audit findings and recommendations were presented to IRS management during the progress of this on-line review. Any recommendations that were not immediately addressed by IRS management during the review were subsequently resolved or acknowledged by IRS management during pilot operations.

***Management Oversight Should Be Strengthened to Improve Administration of the Treasury Information Processing Support Service (TIPSS) Contract (Report No. 090205)***

The Treasury Information Processing Support Services (TIPSS) contract consists of multiple

contracts to support IRS' tax system modernization efforts.

While TIPSS is assisting IRS in acquiring information technology services, there is minimum incentive for the contractor to control costs because TIPSS is a cost-plus-fixed-fee contract. Therefore, it is imperative that the contract be effectively administered to allow the Service to monitor and evaluate the contractor's progress.

The Office of Audit reported that not all controls were effective to ensure services were received in accordance with contract provisions.

In particular the auditors noted that:

- 84 percent of contractor task orders were issued without defining the contractor's cost, which may lessen the contractor's motivation to perform the task order as efficiently as possible;
- contractor performance is not being timely evaluated each quarter by the Contracting Officer Technical Representatives; and,
- contractors were invoicing IRS for significantly fewer hours than were originally contracted for under a term contract.

Under a term contract there is an opportunity to renegotiate the contract when it appears the full number of hours will not be needed.

However, the report noted that for eight completed term-type task orders, the contractors invoiced IRS for fewer hours than contracted. This process allowed approximately \$490,000 in fixed fees associated with the original contract costs to remain obligated to the contract. Approximately \$3,517,000 had not been deobligated on 28 task orders that had been completed for over one year.

Management agreed with the findings and has initiated corrective action.

***Evaluation of the Service's Efforts to Acquire a new Federally Funded Research and Development Center (FFRDC) Contractor (Report No. 091502)***

IRS has undertaken a complete redesign and modernization of its computer-based information processing system. To assist with the modernization efforts, IRS is soliciting a prime systems integration (PRIME) contractor and another Federally Funded Research and Development Center (FFRDC) contractor to manage the overall modernization efforts. By establishing a FFRDC, IRS can obtain technical assistance without any organizational conflicts of interest, either real or apparent.

The PRIME contract and the new FFRDC contract will be used in conjunction with several other contracts to implement the planned modernization. The PRIME contractor will implement the modernization blueprint, and the new FFRDC contractor will validate the approach of the PRIME contractor to ensure it is consistent with the modernization blueprint.

The report noted that although IRS is soliciting contractors to assist with its modernization efforts, additional emphasis is needed to define the interrelated roles of the various contractors to ensure all contractors remain free from potential conflicts of interest. To do so, IRS needs to clearly define the responsibilities of all contractors involved in the modernization efforts.

In addition, procurement personnel need to take action to ensure the FFRDC will be free from organizational conflicts of interest.

Management agreed with the findings and has initiated corrective action.

### ***Taxpayer Protection and Rights***

RRA98 will result in enhanced taxpayer protection and rights, as well as organizational changes intended to achieve a more efficient and responsive IRS.

In-process reviews include:

- Impact of Examination Quality on Taxpayer Rights and Burden; and,
- Protecting the Privacy of Tax Account Disclosures.

Highlighted final audit reports include:

#### ***Review of Taxpayer Requests for Disclosure of Tax Information (Report No. 090804)***

In FY 1997, IRS received over 1.1 million requests for tax return information from the public. Requests were made for photocopies of tax returns or for transcripts of tax return information.

Beginning in October 1994, IRS offered to provide taxpayers with transcripts of return information free of charge as an alternative to providing photocopies of returns at a cost to the taxpayer of \$14. However, providing transcripts of return information has made IRS extremely vulnerable to unauthorized disclosure of tax return information.

The Office of Audit recommended that IRS implement the following corrective actions:

- processing controls need to be improved;
- requirements for the release of tax return transcripts need strengthening; and,
- written requests from taxpayers need to be properly maintained.

Management agreed with the findings and has initiated corrective actions.

#### ***IRS Employee Outside Employment Requests (Report No. 091804)***

The Office of Audit presented control issues that were identified during separate integrity reviews in two regions.

Not all employee requests for permission to engage in employment outside the IRS were properly received, approved, and/or monitored by IRS management as required to prevent conflicts of interest between the IRS employees' official duties and their outside employment. Also, abuses of outside employment authorizations were not detected.

The Office of Audit identified one IRS employee who was preparing tax returns for compensation and referred 56 other IRS employees to the Office of Investigations as possible browsers of tax records for either their outside employers or their spouses' employers. Based on these referrals, two employees resigned, and IRS management removed one employee and took other disciplinary action on other employees.

To improve the internal control weaknesses, the Office of Audit recommended that:

- national guidelines be updated and clarified;
- a one-time resubmission of all outside employment requests be made to enable a national clean-up of Labor Relations' and managers' records;
- employees be reminded that unauthorized research of the tax records of their outside employers, or the tax records of their spouses' employers, will subject them to disciplinary action; and,

- the Totally Automated Personnel System and Outside Employment System be implemented in each Labor Relations office that has these systems.

Management agreed with the recommendations and has initiated corrective actions.

***Follow Up Review of Parent and Dependent Duplicate Exemption Claims***  
***(Report No. 091000)***

The Office of Audit issued an audit report in 1996 (Report No. 063502) advising IRS management that action was needed to reverse the continuous and costly problem of duplicate use of Social Security Numbers (SSNs).

IRS management agreed with the auditors' recommendations to minimize both taxpayer burden and the impact on IRS' resources, and to segment the condition for control and aggressive management. As a result, IRS management placed the Duplicate Dependents Project in its FY 1996 Research Plan.

Since the date this issue was reported, IRS management efforts have shown some positive results in identifying potential solutions for the duplicate SSN problem. However, the initial results are not complete, and IRS management intends to continue testing.

One test IRS management conducted was correspondence examinations on a nationwide sample of repeat taxpayers (those in both the Tax Year 1995 and 1994 duplicate SSN populations). These examinations resulted in approximately \$3.2 million in adjustments to taxpayers' accounts.

IRS management agreed with the facts presented in this follow-up report.

***Review of Special Projects in the New Jersey District Collection Division***  
***(Report No. 093307)***

In FY 1998, the Office of Audit performed two audits in the New Jersey Collection Division that focused on the use of Collection performance measures, statistics, and the use of seizure authority. The Office of Audit concluded that the focus on collection productivity, from a national perspective, had created an overall climate that potentially sets the stage for miscommunications to employees and managers at all levels of the organization.

The reports also indicated that the New Jersey District's strong focus on achieving organization productivity goals created an atmosphere that impacted front-line collection operations in a manner that placed taxpayers' rights at risk. Facts identified in the Liquor License Project contributed to this conclusion.

Based on the results of the two audits, the Office of Audit conducted this review of special projects in the Collection Division. The objective was to determine whether projects were established based on sound evidence and support, controlled to ensure that project objectives were achieved, and monitored to ensure that taxpayers' rights were protected.

IRS has a legitimate need to assist taxpayers in voluntarily meeting their tax obligations by tailoring efforts to the needs of market groups, as well as developing methods to enforce payment when other alternatives are unsuccessful.

The Office of Audit reported that special projects were used to help the New Jersey District Collection Division achieve statistical goals, while resulting in mistreatment of taxpayers. During the audit, the Acting District Director suspended activity on all Collection Division special projects. All

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special projects have now been closed and the TIGTA Office of Investigations is conducting inquiries into some of the report findings.

To strengthen the use of special projects in a manner consistent with both sound tax administration and concern for taxpayers, the Office of Audit recommended that the District Director approve all levy and seizure actions on special project cases. The Office of Audit also recommended that Collection management certify that all legal and procedural requirements are met prior to seizure or levy.

IRS management also should ensure that enforcement actions taken on special project cases:

- are consistent with enforcement actions taken on non-project cases;
- have a sound basis for initiation; and,
- are properly reauthorized when there are changes in objectives, scope, or project duration.

Finally, special projects should be adequately documented, and District Counsel should review and approve all locally developed notices used on special projects.

IRS management agreed with the findings and has initiated corrective action.

**Treasury Inspector General for Tax Administration  
Office of Investigations**

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**INTRODUCTION**

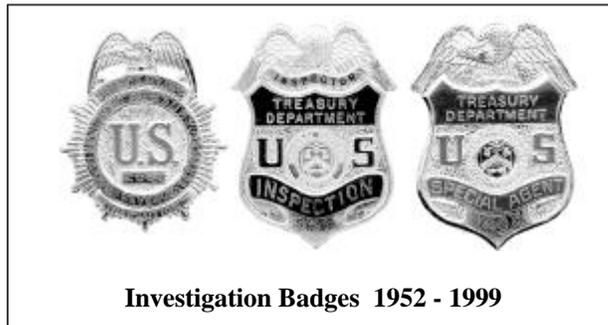
The TIGTA Office of Investigations is responsible for the development and execution of the nationwide investigative programs relating to oversight of activities of the Internal Revenue Service (IRS) and its operations.

The Office of Investigations is responsible for protecting the integrity of the IRS and for protecting employees of the IRS and related entities against external attempts to corrupt or threaten them when carrying out their responsibilities. This includes investigating allegations of criminal wrongdoing and serious administrative misconduct by IRS employees.

Other areas of responsibility include:

- administering programs to protect IRS employees from violence;
- operating a national complaints center, including a hotline, to receive and process allegations of fraud, waste or abuse; and
- providing forensic examination of documentary evidence.

**INVESTIGATIVE ACTIVITIES**



**Investigation Badges 1952 - 1999**

The Office of Investigations focuses on investigating allegations of serious administrative or criminal misconduct which may involve IRS employees, such as bribery, financial fraud, false statements, computer violations,

disclosure of tax information, and abuse of taxpayer rights. During this reporting period, the Office completed 438 employee misconduct investigations.

The Office of Investigations also investigates individuals who attempt to interfere with or corrupt the administration of the federal income tax system, to include investigations of bribery, assault, threat, theft, and embezzlement. During this six-month reporting period the Office of Investigations completed 859 investigations involving these types of allegations.

TIGTA special agents routinely conduct integrity awareness presentations for IRS employees and various professional organizations. These presentations are designed to heighten awareness of integrity and to provide a deterrent effect against fraud and abuse involving IRS programs and operations. During this six-month period the Office of Investigations conducted 409 presentations for 13,241 individuals.

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### ***Taxpayer Rights and Protection***

The IRS Restructuring and Reform Act of 1998 (RRA98) created new and important taxpayer rights and protections and also provided for mandatory termination of employment for certain acts or omissions by IRS employees. During this reporting period all IRS employees received mandatory training on the RRA98, Section 1203, conduct provisions.

There were no terminations under Section 1203 during this reporting period. See Appendix V for a summary of Section 1203 standards. During this six-month reporting period, TIGTA did not investigate any allegations of unauthorized requests by the IRS Oversight Board for return information and/or contacts relating to specific taxpayers.

Between July 22, 1998 (the enactment date of RRA98) and March 31, 1999, TIGTA initiated 47 investigations relating to alleged "1203" violations. Of these, 32 are currently ongoing, and 15 have been closed and referred to the IRS for administrative adjudication.

In addition, TIGTA received 238 information items that TIGTA provided to IRS managers for actions as they deemed appropriate. These information items are complaints or allegations where TIGTA determined that an investigation was not warranted.

To receive complaints of wrongdoing by IRS employees, TIGTA also has established a toll-free telephone number and has published this telephone number in IRS Publication 1 (Your Rights as a Taxpayer) which is provided to taxpayers who are likely to have direct contact with IRS employees. TIGTA also established a national complaint center to receive and process allegations of fraud, waste, abuse and other forms of wrongdoing.

### ***Threats and Assaults***

The Office of Investigations is committed to providing the highest priority in terms of responsiveness and investigative emphasis to threats and assaults against IRS employees. To further ensure the safety of IRS employees and prevent violent situations from occurring, the Office of Investigations has developed an employee protection program to identify individuals who may pose a threat to the safety of IRS employees. During this six-month period, the Office of Investigations completed 353 threat and assault investigations.

### ***Bribery***

Bribery of IRS employees is a major concern for the IRS. As a result of frequent contacts IRS employees have with taxpayers, their positions and responsibilities make them potential targets for bribery attempts. The success of TIGTA's bribery program is dependent upon quality referrals and the cooperation of IRS employees. To enhance both of these aspects, TIGTA special agents take every opportunity to develop solid relationships with employees. In addition, TIGTA special agents frequently provide bribery awareness presentations to these employees. During this six-month reporting period, the Office of Investigations completed 43 bribery investigations. Examples are located in the Significant Criminal and Administrative Investigations section of this report.

### ***Forensic and Technical Services***

Criminal investigations often depend upon the forensic analysis of evidence. Fingerprint and

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handwriting technology, photography, and chemical analysis are just a few of the laboratory tools that assist TIGTA special agents in identifying subjects.

The TIGTA Forensic Science Laboratory (FSL) supports field investigations through timely processing of documentary, physical, and chemical evidence. As the FSL moves toward accreditation and expanded service to field agents, additional personnel are being hired. During this six-month period, the FSL received 79 case submissions, issued 63 reports of laboratory examination, and evaluated over 2,400 items of physical evidence.

During this reporting period the FSL evaluated the broad array of physical evidence encountered by TIGTA special agents. Some examples of the more significant laboratory examinations conducted during this reporting period include:

- handwriting and latent print examinations of stolen remittance checks, totaling \$35,718, resulted in eliminating suspicion of a suspect;
- handwriting examinations on collection closing documents totaling over \$222,000, resulted in an IRS revenue officer being identified as the author of eight of the nine signatures, despite his denials to the contrary;
- preserving and significantly improving readability of facsimile copies related to an IRS contract fraud investigation; and,
- handwriting examinations of letters sent to a news publisher describing threats to kill IRS agents and Federal judges. A suspect was identified as the author of these letters.

TIGTA also conducts forensic computer analysis of seized computers for evidentiary purposes. Computer technology has rapidly become a tool for criminal activity, used in frauds against businesses, financial institutions and the IRS.

The Technical Services Section provides expertise to TIGTA special agents in the use of technical and electronic investigative equipment, including on-site assistance during investigations.

### **SIGNIFICANT CRIMINAL AND ADMINISTRATIVE INVESTIGATIONS**

The following are brief synopses of some of the significant investigations conducted by TIGTA special agents during this reporting period.

#### ***Assault/Threat Investigations***

##### ***Three Individuals Involved In Threats To Kill High Level Government Officials, Including IRS Employees***

On July 1, 1998, as part of a multi-agency task force, TIGTA special agents participated in the arrest of three individuals who were members of a separatist group and charged them with terrorism and use of weapons of mass destruction. During a jury trial, two subjects were found guilty; the third subject was found not guilty. On February 5, 1999, the guilty subjects were each sentenced to 24 years imprisonment and 5 years-supervised release.

The individuals had sent threatening e-mail to the President, the IRS Commissioner, and other high level Government officials. The e-mail stated that IRS employees and their

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families were targeted for destruction through the use of non-traceable, personal delivery systems, which would inject bacteria and/or viruses for the purpose of killing and causing great suffering.

One of the subjects, an alleged chemist, purchased the materials needed to make the device and talked about making or obtaining botulism, HIV, anthrax, or rabies to be used as the infectious disease/toxin in the delivery device.

### ***Individual Threatens to Use Explosive Devices on IRS Building***

An individual entered a plea of guilty to possession of an explosive device, which was to be used to burn an IRS District office. TIGTA special agents acted as members of a task force in the investigation of the suspect, who was allegedly a member of a militia group. The subject told an informant that they should burn the local IRS District office. Based upon the threat against IRS property and the potential for the loss of life, the task force acted quickly to effect the arrest of the suspect.

## ***Bribery Investigations***

### ***Two Co-Conspirators Enter a Plea of Guilty in Bribery Case***

After attending a TIGTA Bribery Awareness Presentation, an IRS revenue agent reported a bribe overture by a taxpayer purported to be involved in an illegal drug trafficking ring. During a subsequent meeting, the taxpayer gave the revenue agent \$1,000 to eliminate a \$70,000 tax liability. Subsequently, six other members of the drug ring also offered bribes to the revenue agent.

On November 5, 1998, TIGTA special agents arrested all seven subjects. Two of the subjects entered a plea of guilty to the

charges. Trials are pending for the other five subjects.

### ***Former IRS Employee Found Guilty of Accepting Bribes***

On December 21, 1998, a former IRS employee was found guilty of accepting bribes from a taxpayer. The taxpayer was also found guilty and sentenced on August 26, 1998, for his guilty plea to bribery and conspiracy. In a separate civil settlement agreement entered into between the IRS and the taxpayer, it was agreed that more than \$5 million in taxes and penalties would be paid to the IRS by the convicted taxpayer.

When confronted by TIGTA special agents, an IRS employee confessed that he received a total of \$150,000 and ten automobiles from a taxpayer, whose corporations' assets totaled over \$225 million. The total value of the bribe, including the automobiles, amounted to approximately \$175,000. In addition, while the IRS employee was cooperating with TIGTA special agents, the taxpayer offered him another \$150,000 to fraudulently dispose of other IRS audits involving several of his related companies.

The revenue agent subsequently cooperated with the TIGTA special agents and admitted to accepting an additional \$67,500 in bribes and numerous gifts during his 30-year career with the IRS. He also provided information relative to corruption within the IRS district by identifying other revenue agents and managers who were involved in corrupt dealings during this time frame.

### ***Two Former IRS Employees Sentenced for Preparing and Filing Fraudulent Tax Returns***

On January 20, 1999, two former IRS employees were found guilty of bribery and conspiracy. One of the employees was sentenced to 21 months incarceration, three years probation, and ordered to pay \$279,313

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in restitution. The second employee received one-year incarceration, three years probation and ordered to pay \$72,785 in restitution.

The TIGTA investigations determined that the two employees conspired with numerous individuals to prepare and file fraudulent Federal income tax returns and IRS audit reports in a scheme to generate fraudulent tax refunds or to eliminate existing tax liabilities. Also, the employees took steps to prevent the fraudulent tax returns from being audited. Both employees often demanded and received bribes of up to one-half of each fraudulent refund. The potential loss to the government in this scheme was estimated at \$500,000.

### ***Taxpayer Sentenced for Bribing an IRS Employee***

On October 30, 1998, a taxpayer, who admitted paying an IRS employee in exchange for having fraudulent refunds generated to him by the IRS employee, was sentenced to four months incarceration, four months home detention and three years supervised probation. The taxpayer was also ordered to make restitution to the IRS in the amount of \$16,887. This investigation was the result of a joint TIGTA Audit/Investigations Integrity Project, which was referred to the Office of Investigations for investigation.

### ***IRS Employee Pleads Guilty to Bribery and Preparing a False Report***

On November 30, 1998, an IRS employee entered a plea of guilty to bribery and preparing a false report. The employee also resigned from his IRS position. TIGTA initiated the investigation after an attorney reported that an IRS employee had offered to reduce his tax liability by \$100,000 for a \$25,000 fee.

During a meeting between the IRS employee and the attorney, the IRS employee gave the

attorney a “revised” audit report that indicated he and his wife owed \$161,000 in taxes, interest, and penalties for 1995 and 1996, a reduction of around \$105,000.

In a second meeting, the attorney met with the IRS employee and gave him an envelope that contained the “revised” audit report signed by him and his wife, a check for the amount shown on the audit report, and \$15,000 cash. TIGTA special agents arrested the IRS employee at the end of the meeting.

### ***Disclosure/Improper Computer Access Investigations***

#### ***IRS Employee Sentenced for Bribery and Unauthorized Disclosure of Tax Information***

On January 25, 1999, the first IRS employee indicted for violating the Taxpayer Browsing Protection Act was convicted of bribery, unauthorized disclosure of tax return information and unauthorized inspection of tax returns. The employee was sentenced to imprisonment and supervised probation.

The investigation resulted from information received by TIGTA from an agent investigating an ongoing fraud scheme involving an individual who was using the identities of others to obtain fraudulent loans and credit cards. An informant revealed that the subject had obtained this information from an IRS employee. The subject subsequently entered into a plea agreement with the U.S. Attorney’s office and offered to cooperate with TIGTA regarding the IRS employee’s involvement in the scheme.

The fraudulent scheme resulted in the processing of 13 loan and credit card applications using the names and Social Security Numbers of nine individuals, and a loss of over \$238,000 to five financial institutions.

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### ***IRS Employee Sentenced for Disclosing Confidential Information***

On January 12, 1999, an IRS employee was sentenced to thirty days incarceration, five years probation, and fined \$5,000 for disclosing confidential tax information to a third party. This investigation was initiated after a taxpayer reported to TIGTA that she was contacted by a third party and accused of using the third party's child as a dependent on her Federal tax returns. The third party allegedly demanded \$500 or she would report the taxpayer to the IRS. The third party claimed that the friend who gave her this information worked for the IRS.

After TIGTA special agents confronted the employee with the evidence, the employee admitted accessing the taxpayer's account and disclosing the information to the third party. The employee also admitted to providing TIGTA special agents with a false affidavit and providing false information during an official investigation.

### ***Theft/Embezzlement Investigations***

#### ***IRS Employee Pleads Guilty to Theft of IRS Tax Remittances***

On October 8, 1998, an IRS employee entered a plea of guilty to the theft of IRS tax remittances. The IRS employee sold four tax remittance checks, totaling \$455,483, which the IRS employee had stolen, to an undercover operative. One of the four stolen tax remittance checks was for \$442,000.

An IRS service center and an IRS lockbox site were also experiencing a rash of stolen checks. In an effort to identify those service center employees who were stealing checks, a TIGTA undercover investigation was initiated.

As a result of the undercover operation, three IRS employees were identified as having sold twelve stolen taxpayer remittances valued at approximately \$685,000 to the undercover operative. Action relative to the other IRS employees is pending.

#### ***Two Individuals Sentenced for Embezzlement***

As a result of a proactive initiative by TIGTA to detect thefts of taxpayer remittances sent to contract lockbox facilities, two individuals were identified as being involved in a conspiracy to steal approximately \$17,000 in such remittances.

As a result of the TIGTA investigations, both individuals entered a plea of guilty to one count of conspiracy relating to these thefts, with one being sentenced to four months in prison and three years probation, and the second, three years probation.

Both individuals were also ordered to make restitution of \$6,000.

### ***False Statements Investigations***

#### ***IRS Employee Pleads Guilty To Making False Statements During IRS Audit***

On January 11, 1999, an IRS employee entered a plea of guilty to false statements, relating to statements she made, and altered documents she submitted, during an audit of her U.S. Individual Income Tax Return. The audit resulted in adjustments of \$24,565 and additional taxes in the amount of \$12,032. Prior to being confronted by TIGTA special agents about her actions, the IRS employee filed a petition in U.S. Tax Court, contesting the proposed IRS assessment. The IRS employee resigned after she became aware of the pending criminal investigation.

***IRS Employee Resigns After Making False Statements to Supervisors***

On November 1, 1998, an IRS criminal investigator resigned her position after a TIGTA investigation determined that she misused a government owned vehicle and provided false statements to her supervisors. The IRS criminal investigator reported to TIGTA that a taxpayer had threatened her relative to her position as a federal law enforcement officer.

The TIGTA investigation disclosed that the IRS criminal investigator was involved in a domestic dispute with another individual. The IRS criminal investigator, accompanied by her husband, whom she had “deputized as a federal agent,” used her assigned IRS enforcement vehicle to confront the individual. Information was received from a local police officer that the information the IRS criminal investigator had provided to her supervisor relative to the incident was in conflict with the facts and circumstances regarding the alleged threat.

***Impersonation Investigations***

***Individual Sentenced for Impersonating a Treasury Agent***

On January 29, 1999, an individual was sentenced to two months incarceration and six months probation for impersonating a Treasury agent. TIGTA received information that an individual, identifying himself as a Treasury employee by using a blue and gold Treasury badge and other government identification, attempted to purchase a law enforcement vehicle purportedly for the Treasury Department.

The individual tried to take possession of the vehicle, advising he needed to get “communications and law enforcement

equipment installed” and that the federal government would pay for the automobile later. The individual also attempted to purchase five “police package” vehicles, at the government price, from an out-of-state automobile dealership.

***Taxpayer Sentenced to 40 Months Incarceration for Impersonating an IRS Employee***

On October 21, 1998, a taxpayer entered a plea of guilty to impersonation and credit card fraud and was sentenced to 40 months incarceration. The individual, who worked at an auto parts store, used his position to steal credit information from customers who charged their purchases with a credit card. The individual would then call the customer at home and pose as an IRS official to get additional biographical and financial information. Through this scheme, the individual was able to charge more than \$180,000 to the victims’ accounts.

***Other Investigations***

***Improper Use of Enforcement Statistics by IRS Personnel***

Based on referrals from the Office of Audit, TIGTA initiated 167 investigations of alleged improper use of enforcement statistics by personnel in the IRS Collection function. Such activities, if proven, would be in violation of provisions of the Taxpayer Bill of Rights.

Of these investigations, 158 (including 13 special project investigations and 145 investigations on individual IRS employees), were referred to a special IRS adjudicative panel. Four cases are pending prosecutive consideration. The remainder were closed as preliminary inquiries because records reviews disproved the alleged

## Semiannual Report to the Congress

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questionable actions. Twelve senior managers and National Office Collection employees received reprimands as a result of the investigations.

The adjudicative panel has to date reported 80 administrative actions on IRS field level personnel which included 8 reprimands and/or admonishments. The remainder were closed without action.

### ***Scheme Involving Misuse of EINs***

Through a proactive initiative, TIGTA uncovered a scheme involving individuals who misused IRS issued Employer Identification Numbers (EINs) as Social Security Numbers (SSNs) on applications for credit to create new credit identifiers and defraud creditors.

Unfortunately, knowledge of this scheme has become widespread throughout the country through newspaper advertisements and the use of the Internet. Working with the Federal Trade Commission (FTC), the Better Business Bureau, and the State Attorney General offices, TIGTA developed valuable leads on individuals who continue to promote this illegal scheme.

TIGTA also participated with the FTC in providing presentations on the EIN scheme to other law enforcement agencies and U.S. Attorney's offices. Additionally, TIGTA participated in national news conferences with the FTC to heighten the public's awareness and knowledge of the scheme.

Suspects used this scheme to purchase various items, including furniture, automobiles and houses. In one case, an individual used this scheme to obtain a \$300,000 home mortgage. This individual was subsequently prosecuted.

The EIN issuance process was created to ensure that taxpayers/businesses had a unique number enabling them to file their tax returns, which enhances future compliance efforts.

Abuse of this process can adversely affect the administration of our nation's tax system.

### ***Individual Pleads Guilty to Mail Fraud***

On January 12, 1999, an individual entered a guilty plea to conspiracy to commit mail fraud. Sentencing is pending. Based on information developed in a previous investigation, TIGTA special agents identified this individual who conspired with others in a mail fraud scheme to defraud restaurant owners.

The mail fraud scheme involved the mailing of hundreds of fraudulent IRS forms to owners of various restaurants requesting money purportedly owed to the IRS. As a result of search warrants, TIGTA determined the individuals involved in this scheme planned to mail over 2,000 of these fraudulent IRS forms to various ethnic restaurant owners throughout the United States.

### ***IRS Employee Receives 30-Day Suspension For Violating IRS Employee Rule Of Conduct, Purchase Of Government Property***

On October 21, 1998, an IRS employee was suspended for 30 days for violating IRS Employee Rules of Conduct, section 233, relating to her husband's "business purchase" of government property at an IRS Collection seizure sale.

In her official IRS capacity, the employee maintained an IRS Collection seizure sale mailing list that contained the address of her husband's automobile towing company.

The IRS employee's husband attended the official IRS seizure sale and purchased a Chevrolet Corvette. The IRS employee recorded the IRS sale documents and personally identified all bidders. However, she failed to notify the senior revenue officer that her husband was a registered bidder.

**Treasury Inspector General for Tax Administration  
National Integrity Program**

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**INTRODUCTION**

The National Integrity Program supplements the TIGTA's Audit and Investigation activities and focuses on deterring and detecting material fraud in IRS programs and operations. Strong emphasis is directed at assisting IRS executives and management officials in maintaining a high degree of employee honesty and integrity.

The program is based on identification and matching of criteria developed from prior fraudulent activity found during audits and investigations.

***Integrity Deterrence Presentations  
To IRS Executives and Managers***

The deterrence segment is focused around development of top quality integrity awareness presentations for sharing by high level Audit and Investigation officials with IRS executives and managers. The presentations focus on both ethics and integrity and include examples of weak internal controls and the resulting employee fraud that occurred.

The goal of the presentations is to foster an understanding by IRS executives and managers (owners of the internal control systems) of the importance of established safeguards over assets and revenue, to both protect the Government from losses and employees from temptations.

***Proactive Detection of Employee  
Fraud***

The detection segment is focused on proactively evaluating actual instances of proven (adjudicated) employee criminal activity by building a computer "crime profile" of the transactions and patterns that were used to commit the crime, and computer matching that profile against massive volumes of taxpayer account transactions to identify additional potential violators.

These proactive national integrity projects are included in Computer Matching Act agreements approved by the Treasury Department's Data Integrity Board and advertised in the Federal Register.

Internal control weaknesses are reported by the Office of Audit to IRS management, along with recommendations for correcting the deficiencies.

***Establishment of Central Case  
Development Center***

The Centralized Case Development Center (CCDC) was established when IRS was directed by the Treasury Department to transfer from IRS operations management the responsibility to detect and investigate unauthorized accesses to taxpayer accounts (UNAX). This transfer of responsibility was based on a new law, the Taxpayer Browsing Protection Act, effective August 5, 1997.

## Semiannual Report to the Congress

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This law makes it a criminal offense for IRS employees, other federal employees, state employees, and contractors, to willfully inspect or disclose federal tax returns or return information without proper approval.

The program is an intense, collaborative effort among Audit, Investigations and Information Technology functions, and has yielded significant results in terms of identifying and investigating fraudulent activities and reporting weaknesses in systems and controls to the Commissioner of the IRS. CCDC also executes an aggressive integrity program to detect fraud and abuse in IRS computer systems and operations and to detect and investigate unauthorized accesses to taxpayer records by IRS employees.

The two principal components of CCDC's operation are: (1) the National Integrity Projects; and, (2) the UNAX Detection Program.

### **NATIONAL INTEGRITY PROJECTS**

Proactive integrity projects are a key part of this program. Projects are initiated from information developed during a successful investigation. The methodology of that crime becomes the basis for development of computer database applications that will identify other individuals who may be perpetrating the same crime. Developed applications successfully identifying additional suspects are then duplicated nationwide.

#### ***Significant National Integrity Project Cases***

##### ***IRS Employee Indicted for Improper Computer Access and Disclosure***

On October 27, 1998, a ten-year IRS employee was indicted for improper computer access and disclosure. The IRS employee was

also terminated from employment for the improper accesses.

The TIGTA investigation disclosed that the IRS employee made over 1,000 improper accesses to the Integrated Data Retrieval System (IDRS) accounts of 13 taxpayers, including his girlfriend and her estranged husband.

This case had a significant impact on the IRS both internally and externally. Extensive publicity regarding the case sent a strong and important message to IRS employees and to the public that this type of improper activity by IRS employees is illegal and will not be tolerated by the IRS and/or the United States Government.

##### ***IRS Employee Enters a Plea of Guilty to Making Improper Accesses of Taxpayer Accounts***

On February 1, 1999, a former IRS employee entered into a one-year pre-trial diversion agreement with the U.S. Attorney's Office by pleading guilty to computer fraud. Based on information received through a TIGTA integrity initiative it was determined that the IRS employee made 506 unauthorized accesses to 24 friends' and relatives' accounts utilizing IDRS during a 5-year period. The employee resigned during the investigation.

### **UNAX DETECTION PROGRAM**

In March 1998, CCDC developed an electronic audit trail analysis application to detect potential unauthorized accesses to taxpayer records on IRS systems and began making criminal investigative referrals to Investigations offices.

CCDC also established the detection and programming requirements for IRS to develop the Audit Trail Lead Analysis System (ATLAS). ATLAS is a new national,

## Semiannual Report to the Congress

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centralized UNAX lead identification system designed to replace the antiquated IRS Electronic Audit Research Log (EARL), that was previously dispersed among the 10 IRS service centers.

The UNAX detection program has yielded significant results since assumption of the program in 1997. Since that time over 6,000 leads of potential unauthorized access to tax information by IRS employees have been identified through the computer-based detection program (EARL/ATLAS) or UNAX referrals from TIGTA special agents.

Analysis of these leads by CCDC analysts has resulted in 76 referrals during the six-month reporting period to Investigations' field offices for UNAX violations of the Computer

Crimes and Taxpayer Browsing Protection Acts.

Of the 76 referrals, nine investigations have been completed as follows:

- two are pending Criminal and Administrative actions;
- six are pending Administrative action; and,
- one has Administrative action completed, with a suspension from duty as the penalty.

The remaining 67 investigations are pending completion of field work.

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## Semiannual Report to the Congress

### Appendix I Statistical Report Tables

#### Audit Reports With Questioned Costs

One audit report with questioned costs was issued during this semiannual reporting period.

The term “questioned cost” means a cost that is questioned because of (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation (“unsupported cost”); or (3) a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable. The term “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

<b>Audit Reports w/Questioned Costs (10/01/98 – 03/31/99)</b>			
<b>Report Category:</b>	<b>Number<sup>2</sup></b>	<b>Questioned Costs<sup>1</sup> (In Thousands)</b>	<b>Unsupported Costs (In Thousands)</b>
1. For which no management decision had been made by the beginning of the reporting period.	0	0	0
2. Which were issued during the reporting period.	1	\$490	0
3. Subtotals (Item 1 plus Item 2)	1	\$490	0
4. For which a management decision was made during the reporting period.	1	\$490	0
- dollar value of disallowed costs	1	\$490	0
- dollar value of costs not disallowed	0	0	0
5. For which no management decision has been made by the end of the reporting period (Item 3 minus Item 4)	0	0	0
6. For which no management decision was made within six months of report issuance.	0	0	0

<sup>1</sup> “Questioned Costs” includes “Unsupported Costs”

<sup>2</sup> See Appendix IV for identification of Audit Reports involved.

## Semiannual Report to the Congress

### Appendix I Statistical Report Tables

#### **Audit Reports With Recommendations That Funds Be Put To Better Use**

Four reports with recommendations that funds be put to better use were issued during this semiannual reporting period. The term “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 (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements; or (5) any other savings which are specifically identified. The term “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.

<b>Reports w/Recommendations That Funds Be Put to Better Use (10/01/98 – 3/31/99)</b>	<b>Number<sup>2</sup></b>	<b>Amount (In Thousands)</b>
<b>Report Category</b>		
1. For which no management decision has been made by the commencement of the reporting period.	0	0
2. Which were issued during the reporting period.	4	\$22,027 <sup>1</sup>
3. Subtotals (Item 1 plus Item 2)	4	\$22,027
4. For which a management decision was made during the reporting period.	4	\$22,027
▪ Dollar value of recommendations that were agreed to by management		
- Based on proposed management action	4	\$22,027
- Based on proposed legislative action	0	0
▪ Dollar value of recommendations that were not agreed to by management	0	0
5. For which no management decision has been made by the end of the reporting period. (Item 3 minus Item 4)	0	0
6. For which no management decision was made within six months of issuance.	0	0

<sup>1</sup> \$505,000 of the total was not included in a corresponding audit report; however, based on our recommendation, this is the amount of the 15 Full Time Equivalent (FTEs) put to better use by terminating the program. Management agreed with the recommendation. In an additional audit report, \$18 million in dollar value was calculated using average costs to process Forms 941 as determined by IRS. Actual costs may be lower due to anticipated decrease in amount of processing time for more simple returns associated with the recommendation. Additional costs of alternative processing of these taxpayer accounts is unknown and therefore not factored in this amount. Average processing costs and total number of taxpayer accounts was disclosed in the audit report, but the dollar value was not specifically included.

<sup>2</sup> See Appendix IV for identification of Audit Reports involved.

**Audit 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 additional measures that demonstrate the value of audit recommendations on tax administration and business operations. These issues are of interest to IRS and Treasury executives, the Congress, and the taxpaying public, and should be expressed when possible in quantifiable terms to provide further insights to the value and potential impact of the Office of Audit's products and services. Including this information also advances adherence to the intent and spirit of the Government Performance and Results Act (GPRA).

Definitions of these additional measures are:

1. **Taxpayer Rights and Entitlements at Risk:** The protection of due process (rights) that is granted to taxpayers by law, regulation, or IRS policies and procedures. These rights most commonly arise in the performance of 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, relating to instances when taxpayers have a legitimate assertion to overpayments of tax.
2. **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.
3. **Increased Revenue or Revenue Protected:** Assessment or collection of additional taxes (increased revenue), or proper denial of claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system (revenue protection).
4. **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. This measure will often be expressed as a value of the entity or program affected by the issue(s) described in the audit report.
5. **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.

## Semiannual Report to the Congress

### Appendix I Statistical Report Tables

#### **Audit Reports With Additional Quantifiable Impact on Tax Administration**

The number of taxpayer accounts, hours, and dollar values shown in this 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 applicable from the dates of implementation. Also, a report may have issues that impact more than one outcome measure category.

<b>Reports With Additional Quantifiable Impact on Tax Administration (10/01/98 – 3/31/99)</b>	<b>Number of Reports in Category<sup>5</sup></b>	<b>Number of Taxpayer Accounts</b>	<b>Number of Hours</b>	<b>Dollar Value (In Thousands)</b>
1. Taxpayer Rights and Entitlements at Risk	1	9,125		
2. Reduction of Burden on Taxpayers	2	9,053,000 <sup>1</sup>	5,800,000 <sup>2</sup>	
3. Increased Revenue or Revenue Protected	2			\$57,200 <sup>3</sup>
4. Protection of Resources	1			\$706
5. Reliability of Management Information	1			\$20,200 <sup>4</sup>

#### Explanatory Notes

<sup>1</sup> 53,000 pertained to erroneous notices scheduled for issuance due to misapplied payments to 1995 and/or 1996 taxpayers' accounts. An unknown number of these notices may not have been received by taxpayers due to subsequent IRS efforts or undeliverable mail.

<sup>2</sup> The number of taxpayer accounts associated with the recommendation (9,000,000) was disclosed in the audit report, but the hours of burden were not specifically included. The hours were calculated using the IRS standard for preparing and filing Schedule B of Form 1040.

<sup>3</sup> \$54 million of the total represents the amount of refunds that were erroneously scheduled for issuance due to a processing control weakness that affected the taxpayers' 1995 and/or 1996 accounts. An unknown number of these refunds may not have been received by the taxpayers due to subsequent IRS controls or undeliverable mail, and an additional unknown portion of this amount most likely would have been or will be recovered through subsequent IRS or taxpayer efforts.

<sup>4</sup> Dollar value represents overstatements of benefits from a new system, which may result in corresponding understatements of budget for processing returns and remittances in Fiscal Years 1999 and 2000

<sup>5</sup> See Appendix IV for identification of Audit Reports involved.

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## Semiannual Report to the Congress

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### Appendix II Statistical Report Tables

#### Investigative Results

##### Investigations Opened and Closed

Total Cases Opened	1,464
Total Cases Closed	1,297

#### Financial Accomplishments

Bribe Payments (Seized/Recovered)	\$317,524
Embezzlement/Theft Funds (Recovered)	\$28,855
Fines Ordered by Court	\$5,255,820
Restitution Ordered by Court	\$6,782,748

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## Semiannual Report to the Congress

### Appendix II Statistical Report Tables

#### Status of Closed Criminal Investigations October 1, 1998 – March 31, 1999

	Employee Subject	Non-Employee Subject	TOTAL <sup>1</sup>
Referred – Accepted for Prosecution	26	101	127
Referred – Declined for Prosecution	145	217	362
No Referral <sup>2</sup>	343	408	751
Referred - Pending Prosecution Decision	26	71	97

#### Criminal Dispositions <sup>3</sup> October 1, 1998 – March 31, 1999

	Employee Subject	Non-Employee Subject	TOTAL <sup>1</sup>
Guilty	23	149	172
Nolo-Contendere	0	12	12
Pre-Trial Diversion	4	40	44
Not Guilty	1	6	7
Dismissed	2	12	14

<sup>1</sup> The above statistics include both Federal and State dispositions.

<sup>2</sup> Includes investigations in which the allegation was disproved and/or insufficient evidence was obtained.

<sup>3</sup> Due to the time involved in criminal adjudication, there is most often no correlation between the data reflected as "Referred – Accepted for Prosecution" in **Criminal Status** and **Criminal Disposition** charts.

## Semiannual Report to the Congress

### Appendix II Statistical Report Tables

The following tables summarize the number of complaints received by TIGTA and various components within the IRS and the status and dispositions of serious allegations against IRS employees. [IRC 7803 (d) (2) (A) (i – iv)]

#### **Complaints/Allegations Received by TIGTA and IRS October 1, 1998 – March 31, 1999**

	<b>TIGTA Cases</b>	<b>TIGTA Information Items</b>	<b>TOTAL</b>
<b>Number of Complaints Received by TIGTA</b>	<b>1,464</b>	<b>1,160</b>	<b>2,624</b>
Complaints Against IRS Employees	574	548	1,122
TIGTA Proactive Cases on IRS Employees	113		113
Complaints Against Non-Employees	720	612	1,332
Other Proactive TIGTA Initiatives	57		57

	<b>TOTAL</b>
<b>Number of Complaints Received by IRS <sup>4</sup></b>	
Customer Feedback System (CFS) <sup>5</sup>	<b>1,789</b>
Problem Resolution Program (PRP) <sup>6</sup>	<b>119,567</b>
EEO Informal Complaints	<b>314</b>
EEO Formal Complaints	<b>395</b>
Other Employee Misconduct	<b>340</b>
<b>TOTAL</b>	<b>122,405</b>

<sup>4</sup> The IRS provided the counts of taxpayer complaints from three systems/methods: CFS; Automated Labor and Employee Relations Tracking System (ALERTS); and, an inquiry sent to all District Directors and Regional Chiefs who report to Regional Commissioners to determine whether there are local systems for maintaining information on taxpayer complaints. The TIGTA Office of Investigations cannot validate the counts provided by IRS; thus, there is no assurance that duplicate counts do not exist within the IRS systems/methods or between the case counts reported by the IRS and the Office of Investigations. While the IRS currently does not have a centralized system for gathering RRA98 required data (and is aware of that), the TIGTA Office of Audit reported that the IRS is in the process of making significant changes to its "complaint processing system" (including centralizing/integrating the process and validating information to be reported to TIGTA). Through its mandatory audit process, the Office of Audit will continue to monitor the development of the IRS' taxpayer complaint reports system.

<sup>5</sup> The CFS captures data on allegations of inappropriate behavior in the treatment of taxpayers, which may include rudeness, overzealousness, excessive aggressiveness, discriminatory treatment and the like.

<sup>6</sup> The PRP database does not distinguish between complaints, inquiries, problems or issues. For instance, some taxpayers may only wish to have a problem resolved or an inquiry responded to, rather than having a "complaint" about an IRS process or system.

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Appendix II  
Statistical Report Tables

**Administrative Status and Dispositions on Closed TIGTA Investigations <sup>7</sup>**  
**October 1, 1998 – March 31, 1999**

Removed, Terminated, or Other	39
Suspended/Reduction in Grade	42
Oral or Written Reprimand/Admonishment	50
Closed – No Action Taken	118
Clearance Letter Issued	27
<b>TOTAL DISPOSITIONS</b>	<b>276</b>
Employee Resigned Prior to Adjudication	30

<sup>7</sup> Cases which were referred and/or cases on which action was taken by the IRS during this reporting period. Additionally, TIGTA referred 355 cases during this six-month period that remain pending administrative adjudication by the IRS.

## Semiannual Report to the Congress

### Appendix III Statistical Report Tables

#### Audit Reports With Unimplemented Corrective Actions

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

(F = Finding Number, R = Recommendation Number, P = Plan Number)

Reference Number	Issued	Report Title and Recommendation Summary
041403	January 1994	<i>Review of the Nonresident Alien Information Documents</i>  <u>F-1, R-2, P-1.</u> Management should ensure that obvious noncompliance with applicable tax laws and regulations is identified during processing.
061610	January 1996	<i>IRS' Efforts in Monitoring Trust Fund Recovery Penalty Assessments Need Improvement</i>  <u>F-2, R-3, P-1.</u> IRS should automate the processing of adjustments resulting from payments or credits on related Trust Fund Recovery (TFR) accounts, as part of the Service's modernization efforts. <u>F-4, R-1, P-1.</u> The Chief Financial Officer and Assistant Commissioner (Collection) need to define accounts receivable as it relates to Trust Fund Recovery assessments and management should make the necessary changes to ensure TFR assessments are accurately represented.
060402	January 1996	<i>Review of the Early Intervention Contact Processing</i>  <u>F-2, R-1, P-2.</u> Early Intervention should consider alternate methods to obtain the most current taxpayer locator information.
064102	May 1996	<i>Review of the Preparer Program</i>  <u>F-1, R-1, P-1.</u> Associate the preparer Taxpayer Identification Number (TIN) with each individual return in the audit stream.
064008	June 1996	<i>The Financial Accounting and Reporting of Collection's Seized Assets Could Be Improved</i>  <u>F-2, R-1, P-3.</u> Management should incorporate a systemic interface between the Automated Work Control System seizure module and the general ledger as part of Revenue Accounting Control System replacement.

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## Semiannual Report to the Congress

### Appendix III Statistical Report Tables

#### Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
065002	July 1996	<p><i>Review of the Validity of Assessments</i></p> <p><u>F-1, R-1, P-1.</u> The Service should review a sample of “No Change” and abated Combined Annual Wage Reporting (CAWR) and Social Security Administrative (SSA) Penalty cases after the processing season to evaluate causes of unproductive cases and identify where additional program improvements can be made.</p> <p><u>F-1, R-3, P-1.</u> The Service should continue pursuing the capability to access SSA data via computer to enable quick, economical processing of CAWR and SSA penalty cases.</p>
065503	August 1996	<p><i>Review of The Employment Tax Nonfiler Program</i></p> <p><u>F-2, R-1, P-1.</u> When W-3 information is received from SSA, match the employer identification number and name control to those on the business master file (BMF).</p> <p><u>F-2, R-2, P-1.</u> When the Service Center Unpostable function cannot perfect an Employer Identification Number (EIN) name from Form W-3, initiate Collection contact with the employer to secure any delinquent returns rather than terminating processing of those Form W-3 with unperfected EINs.</p> <p><u>F-2, R-3, P-1.</u> Establish a Form W-2/BMF cross-check of EINs that appear on Forms W-2 attached to electronically filed Forms 1040.</p>
066401	September 1996	<p><i>Follow-up Review of Information Security Over Small Scale Computer Systems</i></p> <p><u>F-1, R-1, P-24.</u> Require Regional Commissioners to conduct another self-assessment and certification of systems, to be followed by a validation.</p> <p><u>F-1, R-2, P-2.</u> Include in the upcoming FY 97 Business Master Plan, quantifiable measures for achieving computer security.</p> <p><u>F-1, R-3, P-9.</u> Develop a plan, to be endorsed by the Senior Council for Management Control, that will budget for the costs identified, including the purchase of hardware or software packages that can provide adequate security, to correct the conditions within two years.</p>
071404	February 1997	<p><i>Productivity of the Underreporter Program</i></p> <p><u>F-1, R-1, P-1.</u> A Gross Assessment Method should be used to calculate the Underreporter Program productivity.</p>

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## Semiannual Report to the Congress

### Appendix III Statistical Report Tables

#### Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
		<p><u>F-2, R-1, P-1.</u> A Gross Assessment Method should be used to calculate yield to cost ratios, determine productivity rankings, and select inventory for the Underreporter Program.</p> <p><u>F-3, R-1, P-1.</u> Actual site costs should be used when calculating productivity to increase the accuracy of productivity rankings and obtain a more precise measurement of efficiency.</p>
071304	March 1997	<p><i>Quality of Information Document Processing</i></p> <p><u>F-1, R-1, P-3, P-4.</u> Review IRS reports (Martinsburg Computing Center Report 405-02-12) to determine whether large variances exist between processing years in the volume and dollars of information documents.</p>
072002	March 1997	<p><i>Review of National Office Examination Planning</i></p> <p><u>F-2, R-1, P-2.</u> Examination should request that an indicator be used in the Audit Information Management System database which would identify when Midwest Automated Compliance System was used to assist in case selection.</p>
072208	April 1997	<p><i>Review of Service Efforts to Ensure Compliance of Taxpayers Receiving Foreign Sourced Income</i></p> <p><u>F-1, R-1, P-1, P-2.</u> The Assistant Commissioner (International) should work in coordination with the Executive Officer for Customer Service to measure the overall impact of Foreign Information Returns Program (FIRP) documents and the role FIRP should pay in relation to overall compliance efforts.</p> <p><u>F-2, R-1, P-1.</u> The Service should commit to the development of a system to process foreign information records received magnetically in the standard Organization for Economic Cooperation and Development format.</p> <p><u>F-2, R-4, P-1, P-2, P-3.</u> The Assistant Commissioner (International) should coordinate efforts with the Executive Officer for Customer Service and the National Director, Submission Processing to ensure that late filed and prior year FIRP documents are processed and available for inclusion in the Information Returns Program initiative, when it becomes operational.</p>

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## Semiannual Report to the Congress

### Appendix III Statistical Report Tables

#### Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
072703	April 1997	<p><i>Assessment of the Telephone Routing Interactive System (TRIS)</i></p> <p><u>F-2, R-1, P-1.</u> The TRIS Project Office and Customer Service need to aggressively pursue a methodology for surveying taxpayers who do not complete the TRIS applications.</p>
072303	April 1997	<p><i>A Review of Cyberfile</i></p> <p><u>F-1, R-2, P-1.</u> Management is to ensure that IRS guidelines are strengthened to specify project management procedures regarding tracking funds paid to vendors for services and vendor purchases/leases of IRS-funded equipment.</p>
073604	June 1997	<p><i>Review of the Employee Tax Compliance Program</i></p> <p><u>F-1, R-1, P-1.</u> On at least a one-year test basis, IRS management should direct the Automated Underreporter sites to select and screen all cases of potential underreporting of income by its employees.</p>
073804	July 1997	<p><i>Review of the Inventory Delivery System (IDS) Development</i></p> <p><u>F-2, R-3, P-1.</u> Review and update the sampling plan to ensure it includes standards for each critical decision by which actual results can be measured and a subsequent determination made on the effectiveness of decisions at each sampling point.</p> <p><u>F-2, R-4, P-1.</u> Review and update the sampling plan to ensure it includes criteria for the evaluation of each sampled account within a sub-group to ensure consistency.</p> <p><u>F-2, R-6, P-1.</u> The results of the Self-Monitoring Program should be included as one of the factors for determining whether and when IDS features should be scheduled for national implementation.</p>
075404	September 1997	<p><i>Review of the Office of Disclosure</i></p> <p><u>F-3, R-2, P-2.</u> The Office of Disclosure should ensure that all requests for tax checks, both internally and externally, are properly tracked and controlled.</p> <p><u>F-3, R-3, P-2.</u> The Office of Disclosure should take appropriate measures to ensure sensitive data maintained on the inventory control system is properly protected.</p>

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## Semiannual Report to the Congress

### Appendix III Statistical Report Tables

#### Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
075008	September 1997	<p><i>Review of the Controls Over the Service's ADP Resources</i></p> <p><u>F-2, R-1, P-1.</u> National Office management needs to perform periodic summary level comparisons, by type of asset, between the Integrated Network and Operations Management System (INOMS) Property Management System and the administrative general ledger.</p> <p><u>F-3, R-1, P-1.</u> Recommend the Service migrate towards having all telecommunication assets on the INOMS database.</p>
080303	November 1997	<p><i>Implementation of the Taxpayer Bill of Rights 2 (TBOR2)</i></p> <p><u>F-1, R-1, P-1.</u> Alternative methods of obtaining feedback from taxpayers about how they were treated should be considered, rather than relying solely on employees and managers for input.</p> <p><u>F-1, R-2, P-1, P-2.</u> Form 10004 should be redesigned to capture more specific information that can be used for analysis to identify trends for corrective action.</p>
081004	December 1997	<p><i>Taxpayer Walk-in Program for the 1997 Filing Season</i></p> <p><u>F-2, R-1, P-2.</u> Develop a customer-based strategy and a related program with applicable goals/measures to evaluate performance of the Walk-In Program.</p>
082204	January 1998	<p><i>Review of the Initial System Development Activities on the Integrated Submission and Remittance Processing System</i></p> <p><u>F-3, R-1, P-1.</u> Ensure that the pilot's evaluation plan contains sufficient measures and data capture to develop quantitative support for projected productivity increases if labor savings are claimed as a cost benefit.</p> <p><u>F-3, R-5, P-1.</u> Assess the risks associate with not having the systems developer under contract during the year 2000.</p>

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## Semiannual Report to the Congress

### Appendix III Statistical Report Tables

#### Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
083008	April 1998	<p><i>Review of the Service's Electronic Federal Tax Payment System (EFTPS) Implementation and Enhancements</i></p> <p><u>F-4, R-2, P-1.</u> IRS management should provide a process for electronic submission of authorization data to eliminate manual transcription.</p> <p><u>F-4, R-5, P-1.</u> For the long-term, management should use the authority given by TBOR2 for alternative forms of authorizations to reengineer the enrollment and authorization processes, substantially reduce, and perhaps eliminate paper enrollments and authorizations.</p> <p><u>F-5, R-1, P-2.</u> Provide options for EFTPS information for business and individual taxpayers on Automated Call Director menus at all IRS toll-free sites.</p>
083322	May 1998	<p><i>Math Error Processing for Revenue Protection Issues</i></p> <p><u>F-1, R-1, P-2.</u> Implement the remaining provisions of new laws designed to combat filing fraud.</p> <p><u>F-2, R-2, P-1.</u> Change math error notices and Integrated Data Retrieval System correspondence dealing with invalid TINs.</p> <p><u>F-3, R-1, P-2.</u> Send notices to taxpayers who used invalid TINs on their previous returns for themselves and their spouses.</p> <p><u>F-5, R-1, P-1.</u> Develop programming to automate the research or prior year return data when dependent and Earned Income Credit TINs are invalid or missing.</p> <p><u>F-6, R-1, P-3.</u> Develop a job aid or guide for Code &amp; Edit function.</p> <p><u>F-6, R-2, P-1.</u> Develop an error code for returns without dependents but claiming Child and Dependent Care Credit.</p> <p><u>F-6, R-3, P-1.</u> Develop an error code for missing provider TINs.</p> <p><u>F-9, R-1, P-2.</u> Provide more training for Error Correction function.</p> <p><u>F-9, R-2, P-1.</u> Develop an error code to identify returns claiming Head-of-Household filing status when no valid dependent TIN is present.</p> <p><u>F-10, R-1, P-1.</u> Include an informal checklist in Revenue Protection Strategy math error notices.</p>

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## Semiannual Report to the Congress

### Appendix III Statistical Report Tables

#### Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
083605	June 1998	<p><i>Review of the Service's Year 2000 Conversion and Testing for Phase III</i></p> <p><u>F-1, R-1, P-1, P-7, P-9.</u> Ensure that all Phase III components are reviewed to identify and schedule the required work to make them Y2K compliant.</p> <p><u>F-3, R-1, P-1.</u> Develop a quality assurance process throughout the duration of the Y2K effort.</p> <p><u>F-4, R-1, P-3.</u> Ensure the accuracy of the Application Program Registry (APR) inventories including recertification of the APR.</p> <p><u>F-4, R-2, P-1.</u> All component inventories should be on the APR and INOMS.</p> <p><u>F-6, R-1, P-1.</u> The Century Date Change Project Office should ensure the accuracy of INOMS.</p> <p><u>F-6, R-2, P-1.</u> Ensure that programmers document and follow prescribed unit test procedures.</p> <p><u>F-6, R-3, P-1.</u> Reemphasize the importance of the IRS' organizational goal of meeting a Level II of the Capability Maturity Model.</p>
084407	July 1998	<p><i>Use of Seizure Authority in the Collection Field Function</i></p> <p><u>F-1, R-1, P-2.</u> Make permanent the interim procedure requiring division level approval of all seizures, and director level approval of all residence, perishable goods, and household goods seized.</p> <p><u>F-1, R-2, P-3, P-4, P-6.</u> Communicate new and enhanced seizure procedures to revenue officers, group managers and Special Procedures Function at future training sessions.</p> <p><u>F-2, R-1, P-1.</u> Establish a dollar threshold on the value of assets and/or the amount of liability.</p> <p><u>F-3, R-1, P-2, P-3.</u> Develop a document for taxpayers that explains what constitutes reasonable attempts to contact the taxpayer prior to taking seizure action and provide procedures for those situations when personal contact cannot be made with the taxpayer.</p> <p><u>F-4, R-1, P-2, P-3, P-4.</u> Clarify the Internal Revenue Manual to specify that seizure should be pursued only after reasonable alternatives have been considered and investigated.</p> <p><u>F-6, R-2, P-2.</u> Communicate to all Collection managers and Revenue Officers the need to adhere to both the letter and intent of legal and procedural requirements on the notice of intent to levy.</p> <p><u>F-7, R-1, P-2.</u> Develop a checklist that contains seizure and sale procedures to meet the legislative mandates of the IRS Restructuring and Reform Act of 1998.</p>

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## Semiannual Report to the Congress

### Appendix III Statistical Report Tables

#### Audit Reports With Unimplemented Corrective Actions

Reference Number	Issued	Report Title and Recommendation Summary
084303	July 1998	<i>Examination Division's Use of Performance Measures and Statistics</i> <u>F-1, R-1, P-2.</u> Examination needs to place more emphasis on quality case work and less emphasis on production goals. <u>F-2, R-1, P-4.</u> Address the appropriateness of actions taken by managers and employees to achieve goals and measures.
084803	July 1998	<i>Review of the Integration Support Contract (ISC)</i> <u>F-1, R-1, P-2.</u> Ensure that in-depth analysis of contractor labor hours and costs is performed prior to payment of the invoices. <u>F-3, R-1, P-1.</u> Establish a database to capture all the equipment and information provided to the vendor under the life of the contract.
085812	September 1998	<i>Readiness for Service Center Mainframe Consolidation</i> <u>F-2, R-1, P-1.</u> Develop a contingency plan to provide needed staffing for critical positions at all affected sites. <u>F-4, R-1, P-1.</u> Revise the Program Management Plan (PMP) to document the change in accountability and oversight authority for consolidation. Also ensure that controls and oversight normally provided by the Government Program Management Office are incorporated into the PMP. <u>F-5, R-1, P-1.</u> Ensure security and disaster recovery risks are mitigated through a proactive approach. <u>F-7, R-1, P-1, P-2.</u> The Program Management Office (PMO) should baseline all automation readiness date and augmentation activities and identify critical interim dates with matching percentage of completion milestones and measure progress according to the revised 1998 migration scheduled. <u>F-10, R-1, P-1.</u> Ensure vendor site surveys are completed and issued within the 15-day requirement per the Service Center Support System contract. <u>F-11, R-1, P-4, P-5.</u> The PMO should provide additional resources to adequately define and validate the delivery order requirements and to coordinate with Procurement until all requirements are definitized for price negotiations.

### **Access to Information**

The Inspector General Act requires Inspectors General to report on unreasonable refusals of information available to the agency which relate to programs and operations for which the Inspector General has responsibilities. There were no instances to report where information or assistance requested by the TIGTA or the former Inspection Service were unreasonably refused.

### **Audit Reports Issued in Prior Reporting Period With No Management Response**

The Inspector General Act requires 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. There are no prior reports to be cited in this reporting period where management's response was not received.

### **Revised Management Decisions**

The Inspector General Act requires Inspectors General to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. There were no such decisions during this six-month reporting period.

### **Disputed Audit Recommendations**

The Inspector General Act requires Inspectors General to provide information on significant management decisions in response to audit recommendations, with which the Inspectors General disagree. As of March 31, 1999, there were no significant recommendations that were disputed.

### **Review of Legislation and Regulations**

The Inspector General Act requires Inspectors General to review existing and proposed legislation and regulations. Between January 18 (effective date of TIGTA organization) and March 31, 1999, TIGTA's Counsel Office reviewed more than 45 items, including proposed legislation, draft regulations, proposed testimony, and draft executive orders.



## Semiannual Report to the Congress

### Appendix IV

### TIGTA Audit Report Listing

**October 1, 1998 Through March 31, 1999**

Reference Number	Issued	Report Title
090102	October 1998	<b>Follow-Up Review of Corrective Actions Resulting from Internal Audit's Year 2000 Phase III Code Review</b>
090403	October 1998	<b>Review of Phase IV Year 2000 Conversion and Testing</b>
690100	October 1998	<b>Review of Business Resumption Plan Implementation at the Philadelphia Service Center</b>
690200	October 1998	<b>Review of the Collection Field Function Pennsylvania District</b>
090205	November 1998	<b>Management Oversight Should Be Strengthened to Improve Administration of the Treasury Information Processing Support Service (TIPSS) Contract</b>  <i>Questioned Costs:</i> \$ 490,000 <i>Funds Put To Better Use:</i> \$ 3,517,000 <i>Protection of Resources:</i> \$ 706,000
090302	November 1998	<b>Review of Contractor Activities on the Year 2000 Project</b>
090503	November 1998	<b>Review of the Service's Year 2000 Non-Information Technology Project</b>
090602	November 1998	<b>Employer Identification Numbers and Related Filing Requirements</b>  <i>Funds Put To Better Use:</i> \$18,000,000
090700	November 1998	<b>Review of the Service's Process for Reconciling General Ledger Accounts to Subsidiary Accounts External to RACS</b>
090804	November 1998	<b>Review of Taxpayer Requests for Disclosure of Tax Information</b>
090903	November 1998	<b>Review of the Integrated Submission and Remittance Processing (ISRP) System Software Development and Pilot Activities</b>  <i>Taxpayer Burden</i> 53,000 taxpayer accounts <i>Protection of Revenue</i> \$54,000,000 <i>Reliability of Management Reports:</i> \$20,200,000
091206	November 1998	<b>Review of the Service's Efforts to Prepare its Tier II Infrastructure for the Year 2000</b>
091303	November 1998	<b>Evaluation of the Service's Efforts to Implement Year 2000 Compliance for External Trading Partners</b>
091502	November 1998	<b>Evaluation of the Service's Efforts to Acquire a new FFRDC</b>
190200	November 1998	<b>Review of the Property Assets Tracking System in the Cincinnati Service Center, Covington Host Site</b>

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## Semiannual Report to the Congress

### Appendix IV

### TIGTA Audit Report Listing

Reference Number	Issued	Report Title
091000	December 1998	<b>Follow-Up Review of Parent and Dependent Duplicate Exemption Claims</b> <i>Increased Revenue: \$ 3,200,000</i>
091402	December 1998	<b>Duplicate Form 941 Return Filings</b> <i>Funds Put To Better Use: \$ 5,000</i>
091603	December 1998	<b>Review of the Offers-In-Compromise Program</b>
091701	December 1998	<b>Employment Tax Adjustment Program</b> <i>Funds Put To Better Use: \$ 505,000</i>
091903	December 1998	<b>Executive Compilation and Interpretation of the 1998 Filing Season</b> <i>Taxpayer Burden: 9,000,000 taxpayers and 5,800,000 hours</i>
092000	December 1998	<b>Review of 1999 Filing Season Readiness to Process Business Master File Returns with Tax Law Changes</b>
091804	January 1999	<b>IRS Employee Outside Employment Requests</b>
092204	January 1999	<b>Review of the IRS's Effectiveness in the Monitoring and Reporting of Year 2000 Funds</b>
092402	February 1999	<b>Review of the Internal Revenue Service's Year 2000 Efforts to Inventory Telecommunications and Commercial Off-the-Shelf Products</b>
092802	March 1999	<b>Follow-up Review of Selected Publishing Services Activities in the Internal Revenue Service's National Office</b>
092705	March 1999	<b>Review of the Internal Revenue Service's Year 2000 Contingency Planning Efforts</b>
093307	March 1999	<b>Review of Special Projects in the New Jersey District Collection Division</b> <i>Taxpayer Rights and Entitlements at Risk: 9,125 taxpayers at risk</i>

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**Section 1203 Standards**

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

Acts or Omissions are:

(1) willful failure to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;

(2) providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;

(3) with respect to a taxpayer, taxpayer representative, or other employee of the IRS, the violation of –

- any right under the Constitution of the United States, or
- any civil right established under –
  - (i) title VI or VII of the Civil Rights Act of 1964,
  - (ii) title IX of the Education Amendments of 1972,
  - (iii) the Age Discrimination in Employment Act of 1973,
  - (iv) the Age Discrimination Act of 1975,
  - (v) section 501 or 504 of the Rehabilitation Act of 1973, or
  - (vi) title I of the Americans with Disabilities Act of 1990;

(4) falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;

(5) 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;

(6) violations of the Internal Revenue Code of 1986, Department of Treasury regulation, 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;

(7) willful misuse of the provisions of section 6103 of the Internal Revenue Code of 1986 for the purpose of concealing information from a congressional inquiry;

(8) willful failure to file any return of tax required under the Internal Revenue Code of 1986 on or before the date prescribed therefor (including any extensions), unless such failure is due to reasonable cause and not to willful neglect;

(9) willful understatement of Federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect; and,

**Section 1203 Standards**

(10) threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

In general, the Commissioner of Internal Revenue may take a personnel action other than terminate for an act or omission 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 sole discretion may establish a procedure which will be used to determine whether an individual should be referred to the Commissioner for a determination by the Commissioner. Any determination of the Commissioner in these matters may not be appealed in any administrative or judicial proceeding.

## Mandated TIGTA Reporting Requirements

Shortly after the July 22, 1998, passage of the legislation that created the TIGTA, the former IRS Internal Audit staff began planning the audit work on these mandatory audits. All mandatory audits are ongoing as of March 31, 1999.

Reference to Mandated Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Restrictions on the Use of Enforcement Statistics</b> IRC § 7803(d)(1)(A)(i)	An evaluation of the compliance of the IRS with restrictions under Section 1204 of RRA98 on the use of enforcement statistics to evaluate IRS employees.	Audit fieldwork in process.
<b>Restrictions on Directly Contacting Taxpayers</b> IRC § 7803(d)(1)(A)(ii)	An evaluation of the compliance of the IRS with restrictions under Section 7521 of RRA98 on directly contacting taxpayers who have indicated that they prefer their representatives be contacted.	Audit fieldwork in process.
<b>Filing of a Notice of Lien</b> IRC § 7803(d)(1)(A)(iii)	An evaluation of the compliance of the IRS with required procedures under IRC § 6320 upon the filing of a notice of lien.	Audit fieldwork in process.
<b>Seizures and Levies</b> IRC § 7803(d)(1)(A)(iv)	An evaluation of the compliance of the IRS with required procedures under subchapter D of chapter 64 for seizure of property for collection of taxes, including required procedures under IRC § 6330 regarding levies.	Audit fieldwork in process.
<b>Taxpayer Designations – Illegal Taxpayer Designation and Nonfiler Designation</b> IRC § 7803(d)(1)(A)(v)	An evaluation of the compliance of the IRS with restrictions under RRA98 section 3707 on designation of taxpayers.	Audit fieldwork in process.

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**Appendix VI**

Reference to Mandated Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<b>Disclosure of Collection Activities with Respect to Joint Returns</b>  IRC § 7803(d)(1)(B) IRC § 6103(e)(8)	Review and certify whether or not the IRS is complying with IRC 6103(e)(8) to disclose information to an individual filing a joint return on collection activity involving the other individual filing the return.	Audit fieldwork in process.
<b>Extensions of the Statute of Limitations for Assessment and Collection of Tax</b>  IRC § 7803(d)(1)(C) IRC § 6501	Include information regarding extensions of the statute of limitations for assessment and collection of tax under IRC § 6501 and the provision of notice to taxpayers regarding requests for such extension.	The effective date for this provision is January 1, 2000. Therefore, the audit is scheduled to start in Fiscal Year 2000.
<b>Adequacy and Security of the Technology of the IRS</b>  IRC § 7803(d)(1)(D)	An evaluation of the adequacy and security of the technology of the IRS.	Audit fieldwork in process.
<b>Complaints and Allegations of Employee Misconduct and Terminations and Mitigation for Certain Proven Violations Committed by IRS Employees</b>  IRC § 7803(d)(1)(E) IRC § 7803(d)(2)(A)	List any terminations or mitigation under section 1203 of the Restructuring Act (Section 1102(a) of RRA98).	Audit fieldwork in process.

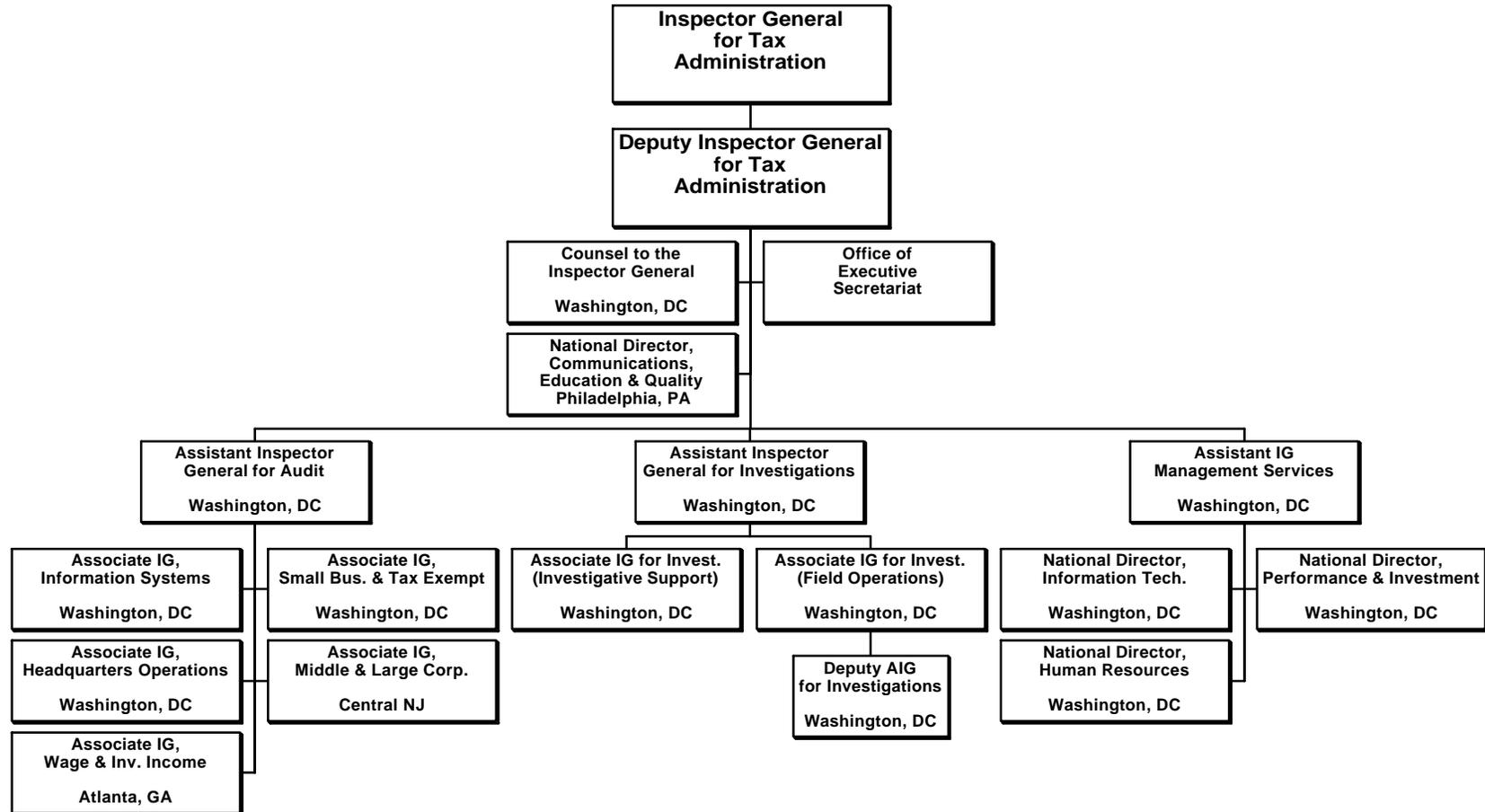
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**Appendix VI**

Reference to Mandated Coverage	Explanation of the Provision	Comments/TIGTA Audit Status
<p><b>Denial of Requests for Information on the Basis of the Freedom of Information Act (FOIA) or IRC Section 6103</b></p> <p>IRC § 7803(d)(1)(F) IRC § 7803(d)(3)(A)</p>	<p>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 IRC section 6103 or section 552(b)(7) of title 5, US Code.</p>	<p>Audit fieldwork in process.</p>
<p><b>Administrative or Civil Actions with Respect to the Fair Debt Collection Act</b></p> <p>IRC § 7803(d)(1)(G)(i)(ii) IRC § 6304 Section 3466 of RRA98</p>	<p>Include information regarding any administrative or civil actions with respect to violations of the fair debt collection provision of IRC section 6304, including a summary of such actions, and any resulting judgments or awards granted.</p>	<p>Audit fieldwork in process.</p>



**Organizational Chart**



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## ACRONYMS

AIGA	Assistant Inspector General for Audit	IG	Inspector General
AIGI	Assistant Inspector General for Investigations	INOMS	Integrated Network and Operations Management System
ALERTS	Automated Labor and Employee Relations Tracking System	IRC	Internal Revenue Code
APR	Applications Program Registry	IRS	Internal Revenue Service
ATLAS	Audit Trail Lead Analysis System	ISC	Integration Support Contract
BMF	Business Master File	ISRP	Integrated Submission and Remittance Processing System
CAWR	Combined Annual Wage Reporting	Non-IT	Non Information Technology
CCDC	Centralized Case Development Center	PCAS	Project Cost Accounting Subsystem
CDC	Century Date Change	PRIME	Prime Systems Integration Contractor
CFS	Customer Feedback System	RACS	Revenue Accounting Control System
COTS	Commercial-Off-The-Shelf	RRA98	Restructuring and Reform Act of 1998
EARL	Electronic Audit Research Log	RRPS	Residual Remittance Processing System
EIN	Employer Identification Number	SSN	Social Security Number
EFTPS	Electronic Federal Tax Payment System	TBOR2	Taxpayer Bill of Rights 2
ETP	External Trading Partner	TFR	Trust Fund Recovery
FFRDC	Federally Funded Research and Development Center	TIGTA	Treasury Inspector General for Tax Administration
FIRP	Foreign Information Returns Program	TIN	Taxpayer Identification Number
FSL	Forensic Science Laboratory	TIPSS	Treasury Information Processing Support Services
FOIA	Freedom of Information Act	TRIS	Telephone Routing Interactive System
FTC	Federal Trade Commission	UNAX	Unauthorized Accesses to Taxpayer Accounts
FTE	Full Time Equivalent	Y2K	Year 2000
FY	Fiscal Year		
GPRA	Government Performance and Results Act		
IDS	Inventory Delivery System		
IDRS	Integrated Data Retrieval System		



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**Appendix IX**

<b>IG Act Section</b>	<b>Description</b>	<b>Report Page Number</b>
Sec 4(a)(2)	Review of Legislation and Regulations	<b>A-III-9</b>
Sec 5(a)(1)	Significant Problems, Abuses, & Deficiencies	<b>4, 11</b>
Sec 5(a)(2)	Rec. w/Respect to Significant Problems, Abuses & Deficiencies	<b>11</b>
Sec 5(a)(3)	Rec Described in Previous Semiannual Rpts on Which Corrective Actions Have Not been Completed	<b>A-III-1</b>
Sec 5(a)(4)	Matters Referred to Prosecutive Authorities	<b>A-II-2</b>
Sec 5(a)(5) & 6(b)(2)	Summary of Instance Where Information Was Refused	<b>A-III-9</b>
Sec 5(a)(6)	List of Audit Reports	<b>A-IV-1</b>
Sec 5(a)(7)	Summary of Particularly Significant Reports	<b>11</b>
Sec 5(a)(8)	Statistical Table: Total Number of Audit Reports and Total Dollar Value of Questioned Costs	<b>A-I-1</b>
Sec 5(a)(9)	Statistical Table: Total Number of Audit Reports & Total Dollar Value of Recom. That Funds Be Put to Better Use	<b>A-I-2</b>
Sec 5(a)(10)	Audit Recommendations More Than 6 Months Old for Which No Mgmt Decision Has Been Made	<b>A-III-9</b>
Sec 5(a)(11)	Significant Mgmt Decisions That Were Revised During the Reporting Period	<b>A-III-9</b>
Sec 5(a)(12)	Significant Mgmt Decisions With Which the TIGTA Disagreed	<b>A-III-9</b>
<b>IRC 7803(d)</b>	<b>Additional Duties of the TIGTA:</b>	
(1)(A)(i)	Restrictions on use of tax enforcement results to evaluate or impose quotas or goals	<b>A-VI-1</b>
(1)(A)(ii)	Restrictions on directly contacting taxpayers who have indicated they prefer their representatives be contacted.	<b>A-VI-1</b>
(1)(A)(iii)	Procedures for filing a notice of a lien under Code Sec 6320	<b>A-VI-1</b>
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(1)(A)(v)	Restrictions on designating taxpayers as illegal tax protesters.	<b>A-VI-1</b>
(1)(B)	The Secretary is complying with the 6103 requirements on jointly filed returns.	<b>A-VI-2</b>
(1)(C)	Information regarding extensions of the statute of limitations under Code Sec 6501.	<b>A-VI-2</b>
(1)(D)	An evaluation whether IRS technology is adequate and secure.	<b>A-VI-2</b>
(1)(E)	Information regarding any termination/mitigation procedures enacted in RRA Sec 1203.	<b>A-VI-2</b>
(1)(F)	Improper denial of request for info from the Service based on IRC 6103 or FOIA exemptions	<b>A-VI-3</b>
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(1)(G)(i)	Summary of above actions initiated since the date of the last report.	<b>A-VI-3</b>

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**Semiannual Report to the Congress**

**Appendix IX**

(1)(G)(ii)	Summary of above judgments or awards granted as a result of such actions.	<b>A-VI-3</b>
(2)(A)(i)	The number of taxpayer complaints received during the reporting period.	<b>A-II-1</b>
(2)(A)(ii)	Number of employee misconduct and taxpayer abuse allegations received by IRS or TIGTA.	<b>A-II-1</b>
(2)(A)(iii)	Summary of the status of serious complaints and allegations.	<b>A-II-2, 3</b>
(2)(A)(iv)	Summary of the disposition of serious complaints and allegations, fines, restitutions and administrative sanctions including Department of Labor actions and statements.	<b>A-II-1</b>
(3)(A)	Audits of the Service's denial of information to taxpayers under IRC 6103 and FOIA exemptions.	<b>A-VI-3</b>
(3)(B)	Maintain a toll-free Hot Line telephone number for taxpayers to confidentially register complaints.	<b>23, 24</b>
IRC 6103(h)(5)	Unauthorized requests by the Oversight Board for return information and/or contacts relating to specific taxpayers.	<b>24</b>
<b>Memorandum dated October 7, 1998, from key House of Representative members, including the House Majority Leader and the Chairman, Committee on Government and Oversight</b>	<b>Formally Requested Government Performance and Results Act (GPRA) Input for Semiannual Reports</b>	
	Submission of the IG's GPRA review plan.	<b>9</b>
	Findings and recommendations from GPRA reviews.	<b>5, 9, A-I-3</b>

**Treasury Inspector General for Tax Administration**

**March 31, 1999**







# Treasury Inspector General for Tax Administration

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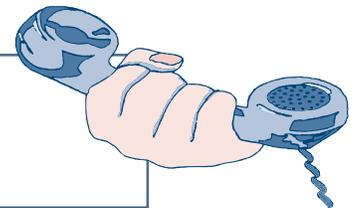
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